FUND THE GAP

FINANCING THE FUTURE OF UK SMES

praetura

FUND THE GAP

praetura

ABOUT PRAETURA

Praetura Group is an award-winning specialist finance company supporting UK SMEs with equity and debt finance. Within the Praetura Group is the Lending Division, which offers a wide variety of SME finance solutions including asset finance, asset-based lending and invoice finance. The Praetura Lending Division is made up of five businesses based in four offices across the North of England. These include Praetura Asset Finance, Kingsway Finance, Praetura Commercial Finance, Praetura Invoice Finance and Zodeq. The team has now grown to over 130 experienced professionals who support UK SMEs with the finance they need to succeed.

What sets Praetura apart is a commitment to **more than money**. This is a willingness to go the extra mile for clients, brokers and advisers. Praetura knows it takes more than just capital to build a great business. SMEs need funding on the right terms and at the right time, as well as the support of those who understand and empathise with the challenges they face. The team have now lent over £882m since inception, supported over 6,250 businesses across 80 industries and funded over £4.6bn worth of assets.

praetura ASSET FINANCE kingsway FINANCE praetura COMMERCIAL praetura INVOICE FINANCE Zodeq

ABOUT THE RESEARCH

The way we fund SMEs has changed. Business leaders are having to navigate an increasingly complex map of choices around how they fund their ambitions. The Praetura team have canvassed the UK's lending landscape to better understand how the land lies in 2023. The has involved surveying and interviewing over 400 business owners, directors, finance brokers, advisers and stakeholders to discover their thoughts and opinions on the industry's past, present and future. Together with its partners, Praetura wants to help build a better finance sector to enable UK SMEs to get the funding they need to succeed.

WRITTEN BY

Theo Watt
Jen Bellamy
Ben Davies

DESIGNED BY

Emma Ashdown
Louise Poole
Scott Mellor (video)

WITH THANKS TO CONTRIBUTORS AND PARTNERS

Addleshaw Goddard LLP
AFS Group
Alpha Asset Finance
Anglo Scottish Asset Finance
BankiFi
BDO
British Business Bank
Charles & Dean Finance
Christie Finance
Clearwater International
Cornwood Finance
Cowgills
Dame Teresa Graham
Dow Schofield Watts
Endless LLP
EY
Federation of Small Business
Foresight Group
Fresh Thinking Advisory
Grant Thornton UK LLP
Good Business Charter
Insider
Kroll
Leonard Curtis Business Solutions Group
MAF Finance Group
NACFB
Oasthouse Engineering
OH Works
Parkinson Business Finance
PMD Business Finance
ReSolve
Responsible Finance
Reward Finance Group
Rural Finance
Shoosmiths
TheBusinessDesk.com
TSF Finance
Wiseman Finance

DAME TERESA GRAHAM DBE

FOREWARD

There are some hard truths that we all must face when it comes to UK SMEs accessing finance.

We celebrate our five million SMEs contributing £2.2 trillion to the economy, but the reality is that more than half of that comes from 29,000 high growth companies who only represent 0.6% of the population. Whilst we celebrate this small few, the vast majority of SMEs are struggling to grow at a meaningful rate.

The common problems limiting SMEs' potential are access to markets, talent, infrastructure and other known issues, but we rarely talk about patient capital and leadership.

Patient capital is finance on their terms, from a provider who takes time to understand their needs and puts their goals first. Whilst this may seem like customer service common sense in the finance sector, many SMEs are still unaware of the instruments available to them beyond a simple overdraft. And whilst there is much more competition within the banking sector for SMEs, not all new entrants offer the full range of products that SMEs need.

In terms of leadership, this is a slightly more nuanced issue. Anyone can start a business in the UK with no training. I've seen people lose their business, and it's awful because they lose much more than that. It's a far more traumatic and personal experience at the owner-operator level. Whilst we say economic churn is good and presents real opportunity, an education that actually reaches our SME leaders is essential for solving avoidable business failure.

DAME TERESA GRAHAM DBE

Chair of SME Advisory Group for UK Finance & Chair of the Administrative Burdens Advisory Board at HMRC

FACING FUNDING CHALLENGES

The biggest challenge facing UK SMEs is servicing demand not creating it.

They are almost twice as likely to list rising costs and access to finance as their major challenges, compared to business development.

68% of SMEs and their brokers see **rising costs as one their biggest challenges**

46% of SMEs and their brokers see **access to finance as one of their biggest challenges**

24% of SMEs and their brokers see **business development and sales as one of their biggest challenges**

Please note, questions within this research often permitted more than one response and as such the sum of percentages may exceed 100%.

LACK OF CAPITAL LIMITS SME AMBITIONS. THE THREE MAIN REASONS FOR NEW FUNDING ARE:

71% to **fuel growth or expansion**

61% to **create working capital**

60% to **acquire a new asset or piece of equipment**

LOOKING FOR THE RIGHT LENDER

Mainstream funders don't take the time to understand SMEs.

27% of SMEs and their brokers think institutional lenders (such as high street banks) take the time to understand their business.

38% Small businesses are 38% more likely to suggest institutional funders don't take the time to understand their business compared to medium and large organisations.

68% of SMEs suggest that banks support SMEs less than they have in previous years.

MISMATCHED LENDING CRITERIA, RISK AND FINANCIAL HISTORY ARE THE THREE MOST LIKELY REASONS AN SME IS TURNED DOWN FOR FUNDING FROM AN INSTITUTIONAL LENDER.

71% of SMEs didn't meet the lending criteria.

56% of SMEs were deemed too risky.

44% of SMEs had unsuitable financial history.

66% of SMEs use brokers and advisers to navigate the increasingly complex set of finance options available.

54% of SMEs turn to brokers or advisers when they've been turned down for funding by an institutional lender, more than any other source.

MORE THAN 1 IN 4 SME leaders say many new finance innovations and technologies support SMEs with day-to-day operations tasks but don't help them secure funding.

SPEED, A GOOD RELATIONSHIP, CERTAINTY OF FUNDING DELIVERY, SUPPORT THROUGH CHALLENGES AND ACCESS TO DECISION MAKERS ARE ALL PRIORITIES FOR SME-LENDER PARTNERSHIPS OVER PRICE AND TERMS.

81% of SMEs and their brokers value fast response times and deal completions.

compared to **55%** who priortise rates and cost.

SECTION ONE

THE STATE OF THE LENDING LANDSCAPE

WHAT ARE SMES FACING?

INTRODUCTION

FUND THE GAP

PEADAR O'REILLY

CEO OF PRAETURA'S LENDING DIVISION

FUND THE GAP: THE CHANGING FACE OF SME FINANCE POST 2008

In 2008, the global economy collapsed to the surprise of the entire finance industry. But whilst Northern Rock, Lehman Brothers and subprime mortgages dominated our headlines, the Global Financial Crisis (GFC) triggered a series of events that would fundamentally and permanently change the way SMEs access finance.

During the decade that followed, slow economic growth and market volatility was coupled with a shift in the finance sector status quo. The close relationship between the "high street bank manager" and many SMEs suffered as part of wider institutional structural change.

The individuals representing institutional funders, who understood their customers intimately and who provided the gateway to both accessing and explaining credit facilities, were becoming less and less prominent. This development was a direct consequence of the regulatory changes, a reduced risk appetite and a drive for greater efficiency.

A FRACTURED LANDSCAPE AND GROWING INNOVATION

More sizeable businesses continued to leverage their scale and attract traditional institutional lenders. Less established or smaller organisations were increasingly considered too risky with a distinct funding gap growing, especially for the sub £10m annual turnover SMEs.

Meanwhile, the fallout from the GFC also provided a catalyst for significant innovation. Technological and digital advancements gave rise to nascent opportunities and challenges across the UK SME landscape. The growing complexity of customer requirements and a large underserved market sparked a wave of financial innovation and proliferation of non-bank specialist lenders.

FERTILE GROUNDS FOR THE GROWTH OF ALTERNATIVES

A well established financial sector combined with a robust regulatory environment (considered a "safe market" for new opportunities and expansion) acted as a vibrant environment for seismic changes. The UK's stable legal system and robust precedents regarding collateral security led to global asset managers demonstrating a desire to fund the growth of specialist lenders in the UK, including asset-based lenders, neo-banks, fin-techs and others.

Key legislation, such as data access through open banking and the government guaranteed deposit contribution schemes encouraged new competition within the system where the incumbent senior banks dominated. Instead of the financial markets facing a lack of competition in amongst an oligopoly, there was suddenly a growing alternatives sector creating real choice for the first time.

A MATURING MARKET COLLABORATING WITH WHOLESALERS AND BROKERS

More recently asset and sales finance providers for SMES have now matured and often work in collaboration with wholesale funders. Today the market services millions of SMEs as an essential part of their operation.

The greater variety of lenders in conjunction with a lack of knowledge has led to an increased requirement for the broker market to help SMEs navigate the optimal structure for them.

The void created by the reduced prominence of the "high street bank manager" relationship has been filled by the broker market. Whilst this incurs a cost to the recipient of finance, it provides a vital service as the gateway to the finance market when funding is not readily available from the institutional funders.

The asset finance market reached a record high in 2022, with an increase in new business of 11% to £22.1 billion (British Business Bank 2023). Whilst strides have been made in the industry, many SMEs unfortunately still lack financial support as a consequence of inertia generated by a lack of understanding of what is available to them beyond their retail bank. Scores of businesses who warrant funding do not receive the capital they need. At Praetura, we want to play our part in solving this issue.

THE SME BUSINESS POPULATION ACROSS THE UK

The country's 5.5 million private sector businesses are dispersed far and wide across the UK, but there are some areas with higher density levels of SME businesses than others.

At the top of the tree is London with 1,452 businesses per 10,000 adults. At the bottom is the North East of England with less than half London's figures (704 businesses per 10,000 adults).

Joining London with higher than average numbers are the South West, the South East and the East of England with 1,152, 1,134 and 1,075 business per 10,000 adults respectively.

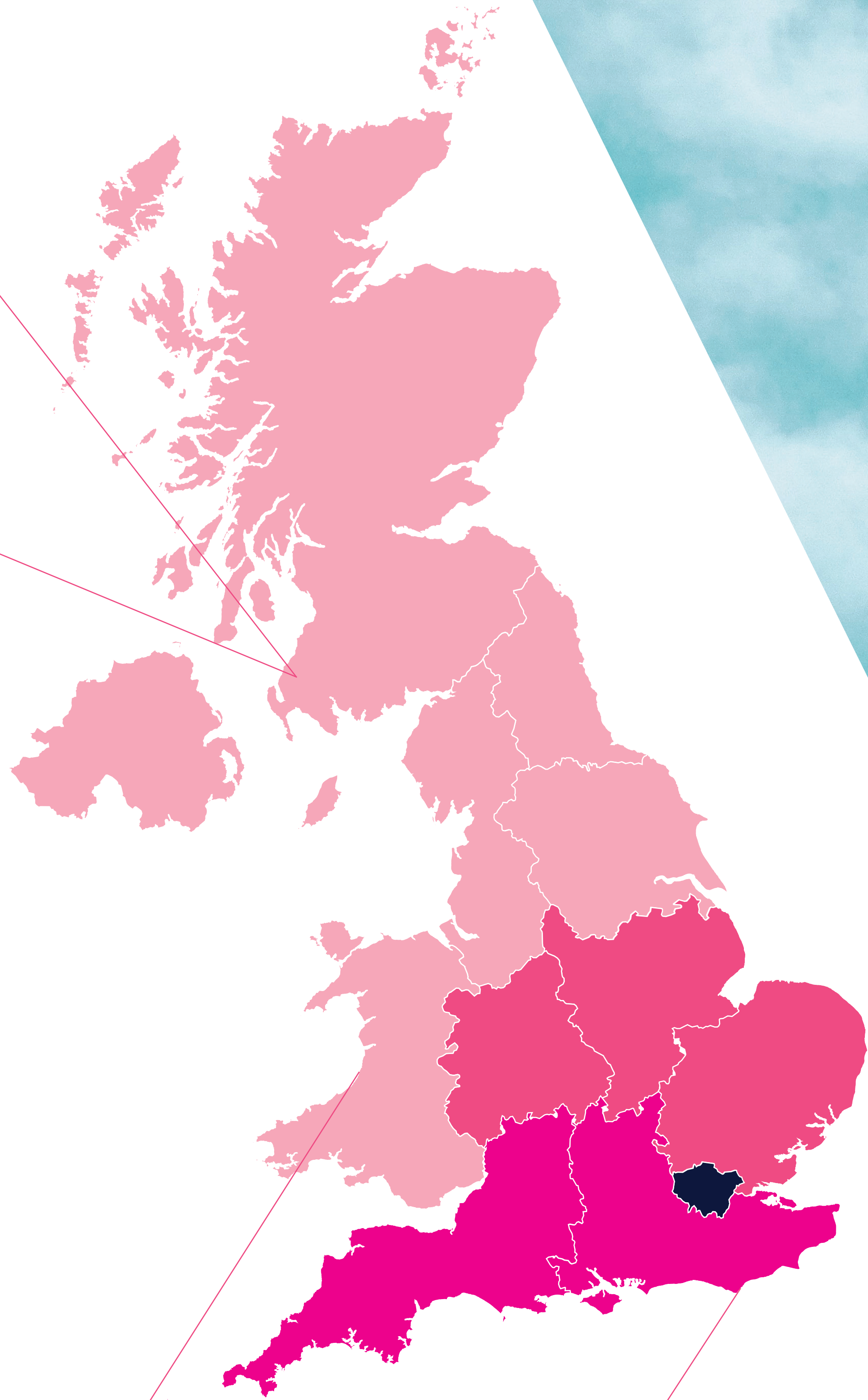
Towards the lower levels are the parts of the UK outside of England – Scotland with 749, Wales with 839 and Northern Ireland with 855, just under the North West of England (861) and Yorkshire (862).

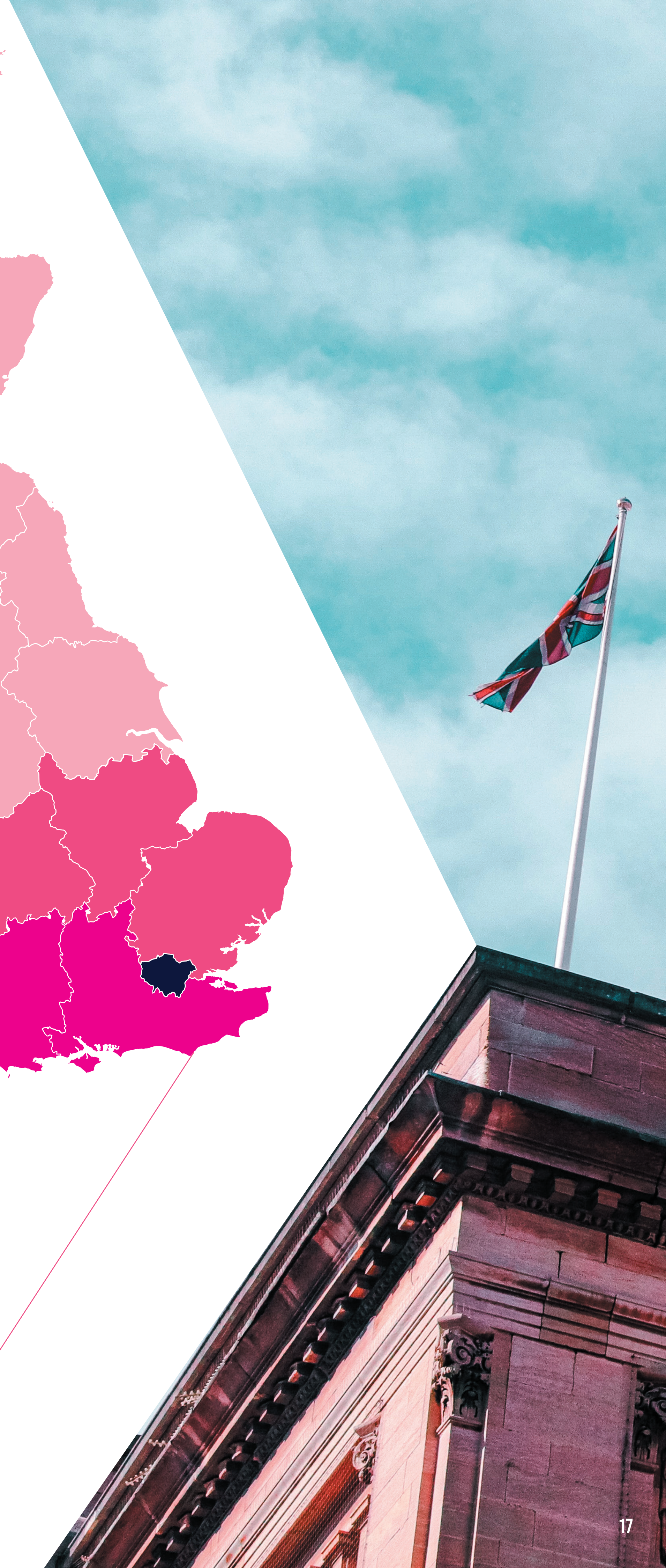
The average across England, Scotland, Wales and Northern Ireland is 1,014 per 10,000 resident adults.

Number of private sector businesses in the UK per 10,000 adults, by region:

LONDON	1,452
SOUTH WEST	1,152
SOUTH EAST	1,134
EAST OF ENGLAND	1,075
EAST MIDLANDS	929
WEST MIDLANDS	913
YORKSHIRE & THE HUMBER	862
NORTH WEST	861
NORTHERN IRELAND	855
WALES	839
SCOTLAND	749
NORTH EAST	704

Although Wales and Northern Ireland are towards the bottom of this table, when looking at which areas saw the largest increases in business populations between 2021 and 2022, Wales is at the top of the list (+5.6%) and Northern Ireland is second (+3.6%). The regions with the steepest declines in business population were Yorkshire and the Humber (-6.7%), the East of England (-4.4%) and the South East of England (-3.6%).





BUSINESS DENSITY RATES

- 700 - 899
- 900 - 1099
- 1100 - 1299
- 1300 - 1499

*Data from the British Business Bank's Small Business Finance Markets Report 2022/23. Source BEIS business population estimates 2022.

UK SMES - INDUSTRY SECTORS

In 2022 there were approximately 5.5 million SMEs registered in the UK, across 16 different industry sectors.

Construction was the sector with the largest number of businesses; over 150,000 more than Science & Tech in second place, and almost 367,000 more than the 547,190 in Wholesale & Retail Trade - the third largest industry sector.

Here's the full breakdown of the number of small and medium enterprises in the UK, by sector...

CONSTRUCTION
914,175

PROFESSIONAL, SCIENTIFIC & TECHNICAL
761,735

WHOLESALE & RETAIL TRADE
547,190

ADMINISTRATIVE & SUPPORT SERVICE
471,710

OTHER SERVICE ACTIVITIES
354,770

HUMAN HEALTH & SOCIAL WORK
340,505

TRANSPORTATION & STORAGE
338,345

INFORMATION & COMMUNICATION
334,245

EDUCATION
307,840

ARTS, ENTERTAINMENT & RECREATION
274,430

MANUFACTURING
242,915

ACCOMMODATION & FOOD SERVICE
220,340

AGRICULTURE, FORESTRY & FISHING
148,250

REAL ESTATE
129,695

FINANCIAL & INSURANCE
83,155

PRODUCTION
31,955

*Production activities refers to enterprises in mining and quarrying, electricity, gas, steam and air conditioning supply, water supply, sewerage, waste management and remediation activities sectors.

Data from a report conducted by the UK Department for Business, Energy and Industrial Strategy published in October 2022.

FUNDING OPTIONS

WHAT FUNDING OPTIONS ARE OUT THERE TO HELP UK SMES?

When it comes to finance resources for small and medium-sized businesses, there is not a 'one size fits all' solution. Instead, there are a range of options available to service a variety of circumstances.

However, not all small business owners or directors are aware of the full range of options that are available.

In a recent talk at the NACFB's Commercial Finance Expo, Martin McTague, National Chair of the Federation of Small Businesses, claimed the level of financial literacy was low, with 85% of SMEs borrowing exclusively from high street banks. According to a survey of intermediaries released in March 2023 by Ipsos UK for the British Business Bank, the demand for finance is constrained, with 70% of SMEs lacking awareness of their available financing options.

Here's a list of the different funding options available to SMEs in the UK:

- BANK LOANS AND OVERDRAFTS
- GOVERNMENT GRANTS AND SUPPORT PROGRAMMES
- VENTURE CAPITAL AND ANGEL INVESTMENT
- LEVERAGED LOANS
- CROWDFUNDING
- PEER-TO-PEER LENDING
- PROPERTY/COMMERCIAL MORTGAGES
- ASSET FINANCE
- ASSET REFINANCE
- COMMERCIAL LOANS
- INVOICE FINANCE
- ASSET-BASED LENDING (ABL)

The last five in the list above fall into the category known as 'specialist debt' finance, which is largely the field that the alternative lending sector work in, providing different lending parameters and risk profiles to the traditional high street banking options.

DEBT FUNDING OPTIONS EXPLAINED...

Here's a quick overview of the five main areas of debt funding available to SMEs

ASSET FINANCE

If you are looking for funding to purchase new equipment, upgrade existing machinery or acquire new (or second-hand) vehicles, asset finance could help.

Through either hire purchase or lease agreements, businesses can invest in new resources without having to pay for everything upfront. Instead, the funding is paid back with fixed monthly instalments over a set period of time. With hire purchase agreements, the asset is yours at the end of the term (after paying an 'option to purchase' fee). With leasing, you can either enter a secondary rental period at the end of the term or return the asset to the finance company to be sold to a third party.

Asset finance is available for 'hard assets', such as vehicles, construction equipment or engineering and manufacturing machinery. It is also available for 'soft assets' such as office furniture, IT equipment, solar panels and scaffolding.

The security to the lender for hard assets is based on the value of the equipment, whereas with soft assets it is largely based on the director's guarantees.

ASSET REFINANCE

Asset refinance is a way to raise working capital by using the assets your business already has and unlocking the value of them (whilst still being able to use them).

In essence, this is a way to release equity from a company's vehicles and equipment, and it's possible to do this whether the assets are owned outright or are currently being financed. The funds raised through the 'release' might be used to provide a cash flow cushion, plug a specific financial gap, fund a particular project or help a company expand. There are no restrictions on what the funds raised through asset refinance can enable a business to do.

Asset refinance can also be used as a tool to consolidate debts, by combining multiple hire purchase or lease agreements into one monthly payment. This can often reduce the monthly outgoings as well as any surplus equity to provide an injection of working capital.

As with asset finance, the security to the lender is based on the value of the assets being refinanced.

COMMERCIAL LOANS

Sometimes referred to Professional Loans (the latter being available for specific industry sectors including solicitors, accountants, doctors, architects and vets), a term loan is exactly what it says on the tin – a loan with set repayments over a set period of time (or term).

The security to the lender with commercial loans is taken through director's guarantees, and apart from it needing to be a 'valid business reason', there are no restrictions regarding the use of funds or which sectors can or cannot apply for a commercial loan.

Funds can be used to plug a cash flow gap, acquire new premises, upgrade office equipment, enable expansion plans, or as a way to purchase intangible assets that cannot be funded with asset finance. Typically commercial loans are used to fund expansion plans or for investment purposes.

INVOICE FINANCE

Invoice finance is a funding tool that helps to improve cash flow by providing the majority of the value of a company's outstanding invoices upfront (typically ranging from 70-90%), rather than waiting for them to be paid (and coping with the consequences of late payments and unpaid invoices).

This is both a flexible and scalable funding option, which allows firms to cover expenses, pay suppliers promptly and invest in growth opportunities. The relationship between the business and their funder is ongoing throughout the life of the facility, allowing for quicker access to increased funding levels. The security to the lender is based on the credit worthiness of the SME's clients that are regularly invoiced.

There are two key types of invoice finance – invoice factoring and invoice discounting.

Invoice factoring is ideal for newer businesses needing funding as well as sales ledger management and credit control, with the funder also providing the back office support of producing customer statements and chasing overdue or unpaid invoices.

Invoice discounting provides the working capital funding, with the credit control and sales ledger management retained within the business. This facility can be offered on a disclosed or confidential basis, with the lending levels usually being higher with invoice discounting facilities compared to factoring ones.

ASSET-BASED LENDING

The 'full ABL package' typically combines a range of different funding options to provide the capital needed to fund specific projects; whether that is a management buy-out, a management buy-in, a new growth strategy or a company diversifying into a different market.

Asset-based lending solutions are designed to unlock optimal levels of working capital, with invoice discounting usually at the core of the 'package'. This is then supplemented by other funding solutions including loans against stock, plant and machinery, property and cash flow loans. Facilities will be specifically structured to the needs of each business, using the resources they have at their disposal to provide the necessary collateral.

Because invoice discounting is at the heart of these facilities, as with invoice finance on its own, the relationship between the business and funder is ongoing. ABL solutions are designed to have the potential to expand as a company grows, with access to increased funding available to support sustained growth where required.

CHALLENGING TIMES

THE STATE OF THE SME FUNDING LANDSCAPE IN THE UK

SMALL BUSINESSES ARE RESILIENT, BUT ARGUABLY NOW MORE THAN EVER, THEY NEED FUNDING SUPPORT TO HELP THEIR BUSINESSES NOT JUST SURVIVE BUT THRIVE.

SMEs have been described as the backbone of the UK economy, and particularly in recent times, they have had many obstacles placed in their path.

The global pandemic forced this nation's army of small businesses to face unprecedented challenges, but there has been little respite or ceasefire since then. Instead, the challenges keep coming; there were supply chain issues and the costs of raw materials soaring as a consequence of the pandemic. Then Russia's invasion of Ukraine set energy prices rocketing, with barriers erected by Brexit to deal with, plus rising interest rates and spiralling inflation on top of that.

Small businesses are resilient, but arguably now more than ever, they need funding support to help them not just survive but thrive.

AN ECO-SYSTEM THAT UNDERPINS THE UK ECONOMY

At the beginning of 2022, there were an estimated 5.5 million private sector businesses in the UK, with a workforce of 16.4 million, including 4.4 million working proprietors.

Collectively, micro, small and medium sized employers had an employed workforce of 12.3 million, contributing just over £1.8 trillion to UK turnover over the course of 2021.

LENDING LEVELS ARE RISING, BUT THE NUMBER OF SMALL COMPANIES USING EXTERNAL FINANCE IS DROPPING

According to data from the Bank of England, 2022 saw **gross bank lending rise significantly by 12.8% to £65.1 billion.** The figure is higher than every year between 2012 and 2019 (but remained below the record high of £105 billion in 2020, which was largely driven by government-backed Covid-19 loans).

But, the number of smaller businesses accessing external finance fell by 11%. Only a third of smaller business accessed external finance in Q3 2022, compared to 44% in Q3 2021, suggesting the increase in gross lending was being determined by larger average loan sizes. Smaller businesses holding large deposits and facing higher borrowing costs all put downward pressure on demand, reflected in the 33% of smaller businesses estimated to be using external finance, the lowest share since the data series began in 2011.

The proportion of smaller firms using a combination of government-backed and non-government-backed repayable finance decreased sharply in 2022 to 12% (from 26% the previous year). Yet, those solely relying on non-government-backed external finance increased from 15% in 2021 to 23% in 2022.

When looking specifically at the reasons for seeking finance, the British Business Bank's Finance Survey's results showed the predominant reason was to help with working capital and cash flow requirements at 53% (compared to 87% the year before). Investing in business growth and the purchase of fixed assets were the next 'most popular' reasons (both at 27%), followed by looking for finance to help with recovery (23%) and 7% for refinancing.

A DIVERSIFYING LENDING LANDSCAPE

Another change in 2022 saw **lending levels of specialist and challenger banks reach a record high of £35.5bn.** This was a 55% share of the market, overtaking the 'big five' major UK banks who traditionally dominate smaller business lending.

Looking at specific types of lending, while the flows of finance are not directly comparable, the data does show that bank lending is still the single largest form of external finance for smaller businesses.

However, **a higher proportion of SMEs are now considering more than one provider.** The British Business Bank's Business Finance Survey, undertaken in Q4 2022, showed that in 2020, a significant proportion of smaller firms would only consider one provider (75%), but this figure dropped to 65% in 2021 and decreased further in 2022 to 59%.

Possibly working in tandem with these numbers is the data stating that the number of SMEs reporting obtaining the full amount of finance requested from their initial provider dropped to 64% in 2022, from a historical norm of 80%. This could also explain why an increasing number of SMEs are now seeking finance from multiple providers (32%).

The asset finance market reported a large increase in new business in 2022, rising by 11% to £25bn, according to Finance and Leasing Association data (the highest level on record and 9% above the pre-pandemic total in 2019). Invoice and asset-based lending saw the value of advances continuing to recover as they neared pre-covid levels, however, the number of SMEs using this type of finance is still 11% below pre-2020 figures.

OBSTACLES IN THE WIDER ECONOMY ARE CREATING BARRIERS TO BUSINESS

Results from the SME Finance Monitor show that the two primary barriers to business for SMEs in Q2 2022 were 'increasing costs' (rising from 34% in Q4 2021 to 40% in Q2 2022) and the 'current economic climate' (30% in Q2 2022, compared to 21% in Q3 2021), followed by concerns about legislation (20%), supply chain issues (19%) and increasing concerns about staff (13%).

These results differ from the views of intermediaries, who saw the lack of awareness of finance options available as the greatest obstacle for SMEs, followed by access to the supply of finance.

A TENTATIVE RETURN TO GROWTH AT THE START OF 2023

In the first quarter of 2023, SMEs reported a return to growth, in the NatWest Purchasing Managers Index (PMI) released in April 2023, after a reduction in business activity in the second half of 2022. This was principally due to the service economy recording the fastest rate of expansion since April 2022, in contrast to manufacturing SMEs' output stagnating during March and construction companies indicating a decline in business activity.

Results from the same survey showed business expectations continuing to improve, with overall optimism regarding the growth outlook reaching its highest levels in 11 months.

With inflation and energy prices hopefully having peaked, businesses can now look to invest in the future and grow, instead of simply persisting to exist. The commercial finance industry plays a crucial role in supporting small and medium sized business across the UK, to both educate and facilitate, and to allow businesses to fulfil their potential.

Data from the British Business Bank's Small Business Finance Markets Report 2022/23, released in March 2023 and the NatWest Sustainable Business Tracker report released in April 2023.

MARTIN McTAGUE, NATIONAL CHAIR, FEDERATION OF SMALL BUSINESSES

"One myth of the SME landscape is the impact of equity. A disproportionate amount of media and government campaigns focus on a tiny segment of the market focused in equity and rapid scale ups. A high profile exit may be celebrated in the media, but for the average business leader, an MBO or Employee Ownership Trust in ten years' time is a far more likely end goal. Whilst these anomalous few can create significant value quickly, incrementally moving productivity in the majority will create far greater economic gains. Inefficiencies around capital are a key lever we could be better utilising.

Understanding challenges around late payments, financial miseducation, access to the right kind of patient capital or access to risk capital for growth is what really limits our SME populations. It is this 'engine of the UK' that we need focus on to create change.

To make a real impact on SMEs, you need to understand how their needs change over time. The 150,000 members who make up the Federation of Small Businesses goes from sole traders to executives running substantial 200+ person enterprises. The reality is that the vast majority of SMEs are unaware of the financial instruments available to them and are often charged inflated capital rates due to their inability to articulate their financial needs. These challenges will be solved through better industry collaboration and more accessible, tailored SME education."

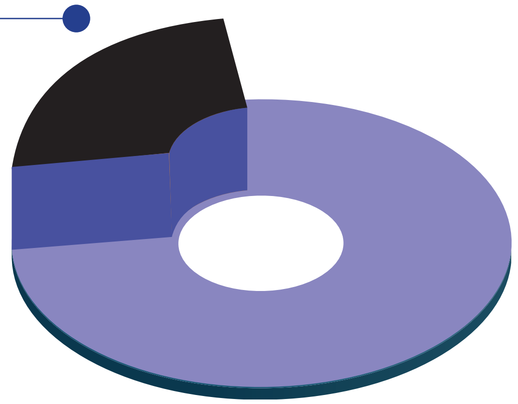
SECTION TWO

FINDING FINANCE

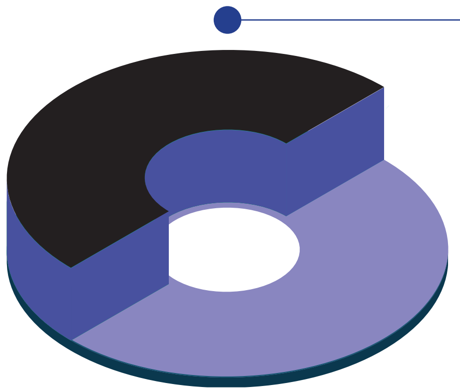
WHAT DO SMES NEED?

THE FUNDING LANDSCAPE IS MORE DIFFICULT THAN IT WAS FIVE YEARS AGO. SMES ARE ON THE MOVE AND CONSIDERING NEW WAYS TO FINANCE THEIR FUTURE.

59% of SMEs and their brokers agree it's become more difficult for SMEs to find funding in the last five years.



26% of **small businesses** are more likely to suggest it's become more difficult to find funding in the last five years compared to medium and large organisations. This view is most common across all areas but particularly businesses in the South West.



47% of SMEs have been with their bank for less than five years, suggesting they changed their lead bank in search of a finance partner that better met their needs.

SHAUN WATTS, DIRECTOR, CHRISTIE FINANCE

CHRISTIE FINANCE
Part of the Christie & Co Network

"We have found application processes continually changing since the pandemic within a volatile market of increasing interest rates, fluctuating business costs, government-backed financial support and varying consumer appetite in some sectors driven by increased cost-of-living and a reduction in disposable income. We work closely with our key funding partners to ensure a 'path of least resistance' for proposals by obtaining additional information and seeking to fully understand not only the immediate client needs, but their longer-term ambitions and future finance requirements. This has enabled us to deliver more complete proposals driving a more efficient and informed underwriting process, so we are able to secure the desired outcome for the client tailored to their needs and tied in with their longer-term business goals. We are seeing a further trend of transacting more deals which historically would have been picked up the client's incumbent bank – predominately driven by our ability to deliver in a timely manner without the need for additional security or impacting on existing lines of credit. This access to finance has been demonstrated during recent corporate disposal in the dental and pharmacy sector, where competitive bidding processes drove the need for unsecured funding over traditional commercial debt, with the potential to refinance once initial trading periods have been completed."

INSTITUTIONAL FUNDERS AREN'T TAKING THE TIME TO UNDERSTAND SMES.

Do you think the institutional lenders you work with take the time to understand your business?

27%

Only 27% of SMEs and their brokers think institutional lenders (such as high street banks) take time to understand their business.

38%

Small businesses are 38% more likely to suggest institutional funders don't take the time to understand their business compared to medium and large organisations.

OAKLEY HAYWARD, OH WORKS

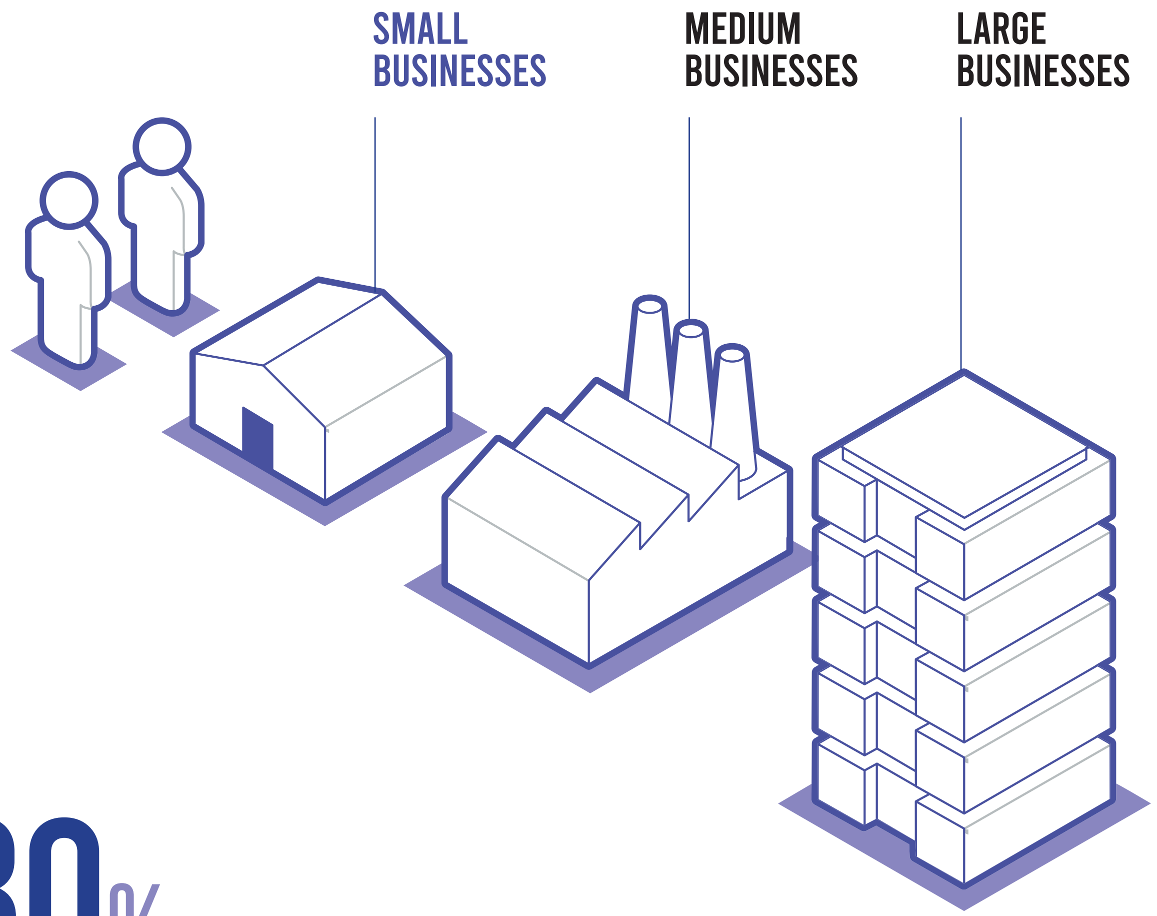
oh works

"I like dealing with people; I like to see who I'm dealing with. We were given the name of a broker by one of our clients and they do our finance now. I've met the director, he's come to our site, so I feel like there's a partnership. You definitely would not get that with a big bank.

Because I'm young, a lot of people don't put their full trust into our ideas, and we haven't had that once with our broker. They see the idea and want to see if they can make it happen for us.

We're definitely not treated like we're just another number to their list; we're treated very fairly, dealt with very quickly and they really do go above and beyond."

A LACK OF CAPITAL IS CURBING SMES' AMBITIONS BY NOT HELPING THEM GROW OR ACQUIRE NEW ASSETS. IT'S ALSO LIMITING THEIR ABILITY TO ACCESS ADDITIONAL WORKING CAPITAL TO HELP THEM ACHIEVE THEIR ASPIRATIONS.



30%

Small businesses are 30% more likely to rely on new funding to acquire a new asset or piece of equipment compared to medium and large organisations.

71% of SMEs looking for funding want it to fuel growth or expansion

61% of SMEs looking for funding want it to create working capital

60% of SMEs looking for funding want it to acquire a new asset or piece of equipment

39% of SMEs looking for funding want it to fuel growth or expansion

8% of SMEs looking for funding want it to spark innovation

12% of SMEs looking for funding want it to employ new staff or to retain current team members

14% of SMEs looking for funding want it to improve operational efficiencies

23% of SMEs looking for funding want it to support daily operations

MARTIN GRAY, MANAGING DIRECTOR (ADVISORY), KROLL

"With over geared balance sheets, depressed market valuations and a high interest rate environment, the strategy to unlock the growth potential of a business may need to be a combination of both debt and equity investment, with the mezzanine debt and equity markets playing a key role in the long-term support of SMEs.

This can ensure businesses are optimally funded, with sufficient liquidity headroom for downside protection. Ultimately, good performing SME businesses need financial support to unlock their growth potential. The challenge for the borrower is sourcing the appropriate lender and funding structure whilst the challenge for the lender is making the right informed decision in a challenging and evolving market."

THE MARKET'S CRITERIA REMAINS TOO STRINGENT AND RISK AVERSE, IT'S LIMITING HOW SMES ARE ABLE TO OPERATE. LENDERS NEED TO CONSIDER MORE THAN JUST FINANCIAL HISTORY TO HELP MORE BUSINESSES GET FUNDING. THERE IS ALSO A CLEAR MISEDUCATION IN THE MARKET DUE TO SO MANY BEING TURNED DOWN BASED ON FACTORS THAT COULD'VE BEEN ASSESSED BEFORE APPLICATION, HIGHLIGHTING THE NEED FOR BROKERS AND ADVISERS IN A COMPLEX INDUSTRY.

With so many headwinds in the market and unique events in recent years, fewer and fewer SMEs have 'perfect' financial history and their future performance cannot be completely attributed to their past.

If you have ever been turned down for funding by an institutional lender, what was the reason?

75% of **SMEs** who've been turned down for funding by an institutional lender were told that their business didn't meet the lending criteria.

56% of **SMEs** who've been turned down for funding by an institutional lender were told that their business was deemed too risky.

44% of **SMEs** who've been turned down for funding by an institutional lender were told that it was because of the company's financial history.

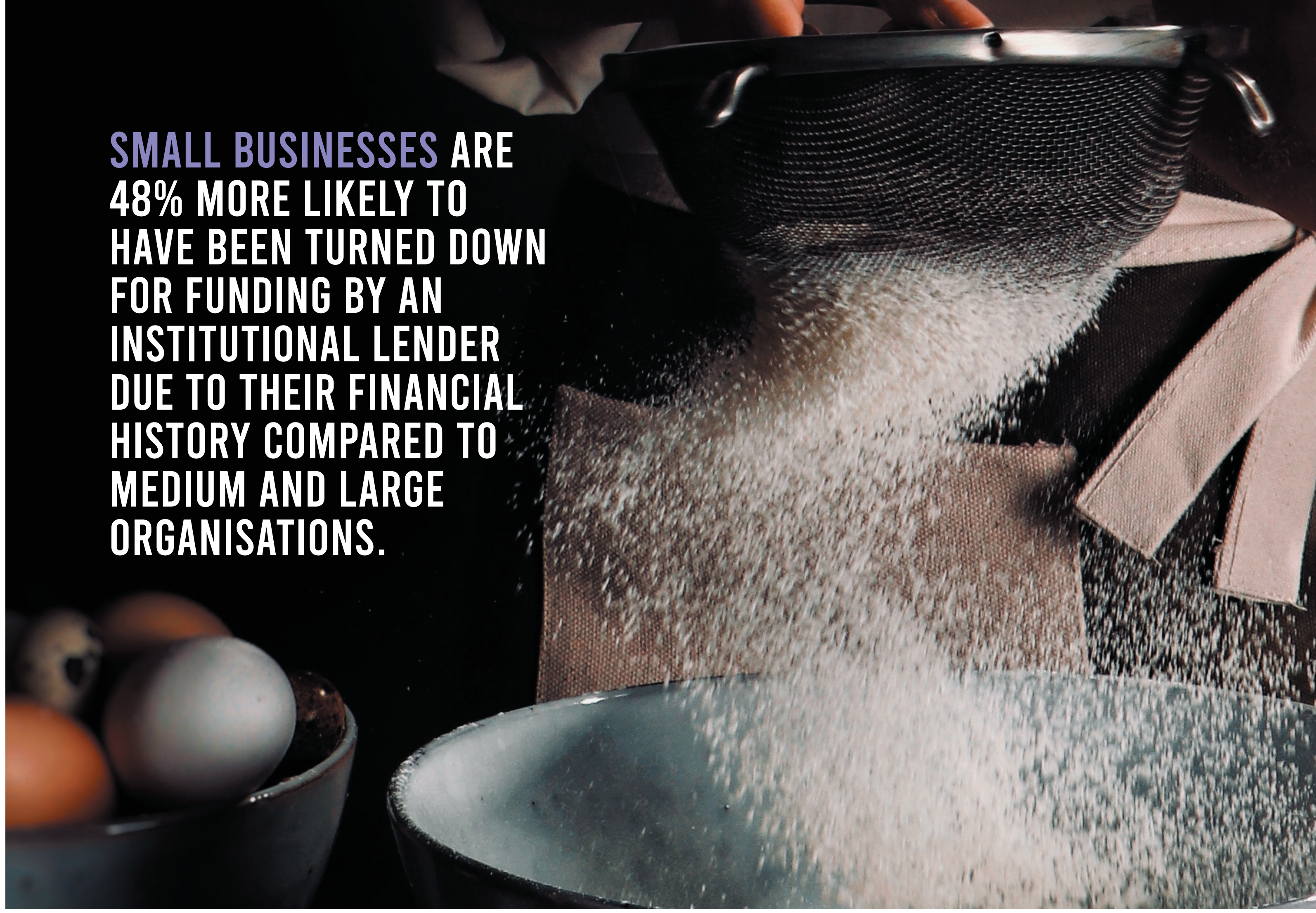
37% of **SMEs** who've been turned down for funding by an institutional lender were told that they didn't have enough collateral.

31% of **SMEs** who've been turned down for funding by an institutional lender were told that their debt utilisation was too high.

25% of **SMEs** who've been turned down for funding by an institutional lender were told that there was no flexibility in terms.

19% of **SMEs** who've been turned down for funding by an institutional lender were told they had poor cash flow.

15% of **SMEs** who've been turned down for funding by an institutional lender were not given a reason.



SMALL BUSINESSES ARE 48% MORE LIKELY TO HAVE BEEN TURNED DOWN FOR FUNDING BY AN INSTITUTIONAL LENDER DUE TO THEIR FINANCIAL HISTORY COMPARED TO MEDIUM AND LARGE ORGANISATIONS.

SARAH SHEERAN, SENIOR FUNDING PARTNER, TSF FINANCE

"Algorithm based lending decisions are an increasingly popular method of determining creditworthiness. However, this approach is restricting businesses who have been affected by extenuating circumstances (Covid being the most common), which has temporarily impacted their creditworthiness.

Therefore, it is important to consider alternative methods for assessing creditworthiness. Incorporating a human element to pragmatically evaluate a borrower's overall financial stability and potential for future income growth can help to determine whether any past shortcomings will significantly impact the business's ability to service a loan. This will ensure that all deserving businesses have access to loans."

MIKE DALZELL, CREDIT & RISK DIRECTOR, PRAETURA ASSET FINANCE

"It is vital that there is space within the SME funding landscape for lenders to look at things from a different perspective. So many declines from the more stringent institutional lenders can come from a business not being able to tick a certain number of boxes, with no questions about why they can't tick that box being asked, and no other circumstances being considered.

This industry needs funders that will look at the whole picture and take all the nuances into account to be able to base part of their credit decisions on serviceability ratios; to factor in the cash generation projections from new equipment that's assisting with new contracts; and to not give a straight 'no' to a new-start business because there's no history to look back at because they're new.

'Knowledge is power' as the well-known quote states. We need to ask questions to be able to make informed and commercially minded decisions. This also applies when it is a decline. We need to share the reasons, so that the SME clients are fully informed."

THE ALTERNATIVE LENDER ECOSYSTEM IS HELPING UNDERSERVED SMES WHO AREN'T BEING SUPPORTED. SPECIALIST LENDERS, BROKERS AND ADVISERS REMAIN MORE POPULAR THAN OTHER BANKS, SUGGESTING THE FUNDING PROCESS PUSHED THEM TO LOOK ELSEWHERE.

Search engines are important earlier on in the lending journey but clearly aren't as useful as advice from experts when an SME has been let down. Business support services are not very prominent in the funding journey; brokers and advisers are still filling this gap.

IF YOU HAVE EVER BEEN TURNED DOWN FOR FUNDING BY AN INSTITUTIONAL LENDER, WHERE DID YOU LOOK FOR FUNDING AFTERWARDS?

54% of SMEs who've been turned down for funding by an institutional lender went to a broker or adviser for support.

26% of SMEs who've been turned down for funding by an institutional lender went to another institutional lender.

13% of SMEs who've been turned down for funding by an institutional lender went to a search engine.

51% of SMEs who've been turned down for funding by an institutional lender went to a specialist lender.

17% of SMEs who've been turned down for funding by an institutional lender asked their business network for advice.

6% of SMEs who've been turned down for funding by an institutional lender went to business support services (e.g. the government).

3% of SMEs who've been turned down for funding by an institutional lender searched through direct marketing.

EMPOWERING UNDERSERVED SMES: THE RISING IMPACT OF THE UK ALTERNATIVE LENDER ECOSYSTEM

JUSTIN FORD,
GROUP OPERATIONS DIRECTOR,
AFS GROUP

The UK's alternative lender ecosystem has emerged as a crucial lifeline for underserved SMEs that have been facing challenges in obtaining funding from traditional high street lenders. Specialist lenders and brokers have become more popular than conventional banks, presenting a compelling case for the growth of alternative lending to businesses over the last decade.

One of the primary drivers behind this trend is the continued mistrust of high street lenders and traditional banking institutions among SMEs. According to Praetura's research, a significant portion of SMEs (54%) who were turned down for funding by institutional lenders sought support from specialist brokers. This indicates that the funding process has pushed these business owners to seek alternative options, ultimately leading them to the expert guidance and tailored solutions offered by brokers and alternative lenders.

Furthermore, the personal banking experiences of commercial borrowers play a pivotal role in shaping their expectations during the application process. The current generation of business owners demand an easy and intuitive application process, aligning with their time-poor nature. This demand makes brokers invaluable, as they assist in accessing the best rates without adding excessive administrative burden on these busy entrepreneurs.

The growth of alternative lending to businesses over the last decade has been remarkable, and a crucial factor behind this surge is the increased awareness of alternative lenders among SMEs.

The rise of challenger banks has played a significant role in raising awareness, subsequently reducing wariness around using non-traditional funding sources.

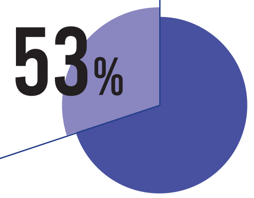
Another crucial aspect contributing to the popularity of alternative lenders is the evolving landscape of traditional banks. With numerous bank branches closing and a shift towards automated advice, the personalised touch SMEs seek is lost. Business owners often prefer to discuss their options with experts, and brokers are filling this gap.

While search engines play a critical role earlier in the lending journey, they are not as reliable as expert advice when SMEs have faced rejections from institutional lenders. The statistics further support this claim, with only 13% of SMEs turning to search engines for support after being turned down for funding. This starkly contrasts with the substantial 54% who sought assistance from brokers, underscoring the vital role these experts play in the funding journey.

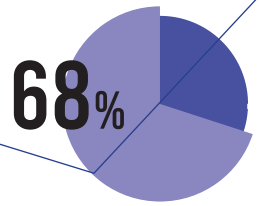
In conclusion, the UK's broker ecosystem has proven to be a beacon of hope for underserved SMEs who seek financial support. The increased awareness of alternative lenders, coupled with the personalised and efficient services offered by brokers, has contributed to the significant growth of this sector over the last decade. As SMEs continue to face hurdles with traditional high street lenders, the alternative lending landscape is poised to play an even more crucial role in empowering and supporting these businesses in the years to come.

COMPLEXITY, LACK OF SUPPORT, FADING BANKER RELATIONSHIPS AND UNMET NEEDS CHARACTERISE THE FUNDING LANDSCAPE. MANY FINTECH INNOVATIONS SOLVE DAY-TO-DAY CHALLENGES BUT NOT CORE ISSUES AROUND FUNDING.

MANY SMES LET DOWN BY THE MAINSTREAM:



say that bank to SME relationships aren't as clear as they have been in previous years.



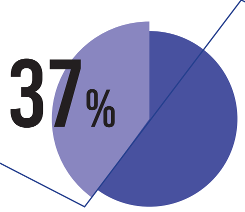
suggest that banks support SMEs less than they have in previous years.

DAVID PARKINSON, MANAGING DIRECTOR, PARKINSON BUSINESS FINANCE

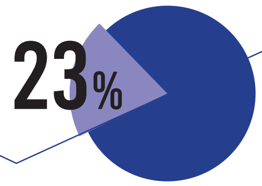
"Alternative lenders are well placed to fill the funding requirements of the SME sector created by the stringent lending requirements of mainstream banking. Working with SMEs on a day-to-day basis, I see that the big banks have far less appetite to provide conventional overdraft facilities and continue to focus on more profitable credit-facilities for larger companies.

Independents have faster response times and simply less hoops to jump through with tedious tick box exercises. Ultimately it's a 'can do' attitude that's helping specialist lenders get ahead and increase market share. For our clients, we see them working in tandem with high street banks as this also helps us to not 'put all their eggs in one basket'. I encourage our clients to look at additional credit lines as to not create an over reliance on a single financial institution."

FUNDING NEEDS REMAIN UNMET FOR SMALL BUSINESSES:



Small businesses are 37% more likely to still struggle to access alternative lenders when a high street bank has turned them away when compared to medium and large organisations.



Businesses that have been with their bank more than five years are 23% more likely to struggle to access alternative lenders when a high street bank has turned them away, compared to those who have been with their bank less than five years.

Long standing bank relationships can limit access to alternatives.

TOM BARNWELL, PARTNER, CLEARWATER INTERNATIONAL

"The onus is on businesses who are raising debt to make it as easy as possible for a funder to understand the organisation, what funding is needed, why it's needed and how it will be used. The credit bar is higher, and funders are being more selective, meaning that borrowers may need to approach a broader pool of funders to achieve success. This applies to both the number of funders and type of funders approached.

High-quality information maximises the likelihood of a successful outcome, and it is a misconception that only large businesses are equipped to provide information of a high calibre. Yes, scale brings a level of professionalism, but that's not to say there aren't small businesses with excellent information and high-quality metrics.

In addition, the change in base rates in reaction to UK political events and wider geo-political shocks has dramatically increased the cost of funds holistically. In turn, that has focused the credit decision makers' minds on the ability of businesses to service debt, so the importance of cash flow has never been greater. To some extent, there has been a return to old-fashioned lending disciplines. The first question often asked now is, 'is the business generating sufficient cash to service its debt?' We've seen this in multiple sectors and right the way across the SME scale."

OLIVER COLE, MANAGING DIRECTOR, CORNWOOD FINANCE

"Working in the SME market we are seeing first hand the ongoing challenges that our clients are facing from the likes of inflation, rising interest rates and the general economic landscape.

We have been working closely with our clients to help support their ongoing funding requirements and are well placed to offer them a 'whole of market' approach with our access to multiple lenders who are available to support all types of transactions and assets.

The benefit of working with a broker is that we can find a suitable home for every type of asset, regardless of age, use, type etc. With direct access to underwriters we can focus on supporting our clients with quick and reasonable decisions.

There are many funding options out there and we feel it is important to be transparent with our clients, fully understanding their requirements and providing funding options to suit their individual circumstances.

We have seen an ongoing change in appetite from lenders and we have had to adapt to their changing appetite to ensure we continue to deliver the best solutions for our clients. Using a broker should simplify the route to finance for SME clients."

BROKERS HELP BREAK DOWN GROWING CHALLENGES:

66% use brokers to help navigate an increasingly complex set of finance options.

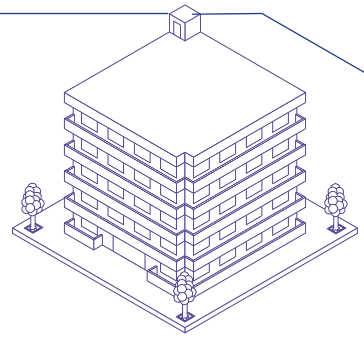
54% say that the length of time to secure funding is challenging for SMEs.

53% say that accessing funding is more complicated than it was in previous years.

49% say that accessing funding is more volatile than it was in previous years.

15%

Small businesses are 15% more likely to suggest accessing finance is more complicated than it was previously, when compared to medium and large organisations.



kingsway FINANCE

A Praetura Group Company

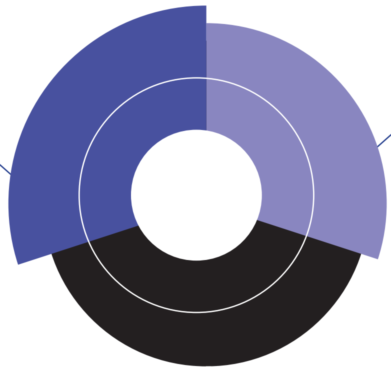
MIKE DAY, SALES DIRECTOR, KINGSWAY FINANCE

"I believe the broker's role is vital in this sector and the role that they play to guide SMEs through the myriad of options available to them is invaluable. Arguably taking over the place in the market where the old-fashioned local branch Bank Manager used to sit – good brokers know their clients well, they know the industry well and provide a vital link between businesses and lenders. Kingsway Finance has been operating for over 25 years, and that is in no small part down to how closely we work with brokers and advisers to help SMEs".

INNOVATION NEEDS TO FOCUS MORE ON ACCESS TO FUNDING:

27%

say many new finance innovations and technologies support SMEs with day-to-day operations tasks but don't help them secure funding.



26%

would like to see more finance innovations or technology designed to help SMEs find funding instead of just reducing admin time.

BRAD O'HARA, MANAGING DIRECTOR, ALPHA ASSET FINANCE

ALPHA www.alphaassetfinance.com

"As a national brokerage we have implemented and invested heavily in A.C.E. (a secure online platform), so that clients can see exactly where their deal is in the finance process (eight touch points along the journey), plus multiple security innovations, including biometric ID verification and open banking, to protect our clients, our brokers, appointed representatives, lenders and suppliers. So, in essence, these processes do help them secure funding while helping to reduce fraud.

Unfortunately in our world, where new technologies are concerned, there is no one size fits all as there are too many variables. Tech could ultimately be like trying to put a square peg in a round hole. Personal interaction and face-to-face contact are both crucial and key to understanding every part of the client's needs, so that brokers can listen and understand and provide options that potentially tech would not be able to translate."

FINTECH ON A PEDESTAL: WHY DIGITISATION WON'T REPLACE TRADITIONAL BANKS

BANKiFi

MARK HARTLEY, FOUNDER & CEO BANKIFI

Mark Hartley is the founder and CEO of the Manchester-based fintech company BankiFi, which works with major banks on open banking solutions for SMEs. But even he believes there is a hysteria surrounding the fintech sector, which has garnered a reputation as a solution to all banking issues, including funding SMEs.

"There's a lot of fintech hyperbole. We live in an age where people will lay claim to things that are self-fulfilling. Are fintechs really solving the funding gap for small businesses? I would say not," says Mark, who believes calls to move towards completely digital SME lending are flawed.

He adds: "Digital only propositions are scary when you think about it. When you borrow money, if you make it too easy, it's a scary thing for a business to do. If you can borrow £50k or £100k in three or four clicks, I think more people would argue they would rather get validation from a human, whether that's from speaking to a broker or the organisation you're borrowing from.

"Small business customers want a hybrid model of digital plus human interaction. That might be relationship management or telephone banking but when you're borrowing money, and it has penalties or some form of recourse, I think a lot of people will be reticent to borrow money in three or four clicks, as it's a big decision that many haven't made before.

"What technologists always forget is Joe Public doesn't adopt tech anywhere near as quick as people would like to believe. We still haven't got 100% adoption of internet and mobile banking, so why do we think the small business that still writes cheques would ever go anywhere near an AI-based, robotic machine learning algorithm to decide whether they need a loan."

So where then lies the disconnect between business consumers and banks? Clearly there are issues surrounding the length of time it takes to obtain funding (credit decisions can take, on average, around 90 days). As others have pointed out, there hasn't been the same lending appetite among banks, due to the risk attached to some SMEs and a ramping up of regulation.

Despite these points, banks still play a vital role in the SME lending ecosystem. This is particularly true for SMEs in less challenging circumstances, SMEs who have less of a requirement for alternative finance or SMEs who are simply emotionally wedded to their bank. To this end, it's clear the majority of banks would still benefit from taking advantage of more recent innovations, which have made the availability of rich and real-time data more accessible.

Mark says: "The dynamism of data you can now get hold of through innovation and technology is great, but it's important to have checks and balances on both sides of the equation that involve human interaction to make both the lender and borrower comfortable.

"We need to get the best of the traditional models with the enhancements of new technologies which make lending easier, cheaper, faster and more accessible. This will have to involve the traditional banks, as opposed to being done by the challenger banks or fintech companies only."

As per Mark's comments, rather than replacing banks with new technologies like artificial intelligence, there is a human layer that you simply cannot just strip out, which is what Praetura Group has set out to achieve with Praeview, which uses decision-making technology to speed up lending decisions and reduce the manual load on brokers.

It's also the reason BankiFi works so closely with traditional banks, building and providing technological solutions that complement banks' telephone banking and relationship management offerings – rather than seeking to replace these human touchpoints altogether.

As Mark puts it: "The fintech industry has got a big role to play and there have been interesting advancements, such as the removal of paper and real-time data, but there's no way we should ever move towards a fully digitised, fintech-based relationship between borrowers and lenders. There has to be at least a light human touch."

SPEED, A GOOD RELATIONSHIP, CERTAINTY OF FUNDING DELIVERY, SUPPORT THROUGH CHALLENGES AND ACCESS TO DECISION MAKERS ARE ALL PRIORITIES IN AN SME-LENDER RELATIONSHIP OVER PRICE AND TERMS. WHILST A TRUSTED BRAND PLAYS A ROLE, MORE THAN TWO THIRDS OF BUSINESS DON'T CONSIDER THIS WHEN CHOOSING A LENDER.

In addition to capital, what else do you look for in a lender?

81% of SMEs and their brokers want fast response times and deal completions.

75% of SMEs and their brokers want strong personal relationships.

62% of SMEs and their brokers want certainty of funding delivery.

60% of SMEs and their brokers want support during challenging economic times.

58% of SMEs and their brokers want the ability to support with future funding needs.

56% of SMEs and their brokers want access to decision makers.

55% of SMEs and their brokers priortise a lender's rates and cost.

45% of SMEs and their brokers look for flexible terms.

28% of SMEs and their brokers look for a trusted brand.

ENDLESS

RICHARD HARRISON, PARTNER, ENDLESS LLP

"The most important aspect of choosing the right funder is finding a partner you trust to work closely together with you, the major shareholder, if there is a bump in the road or the investment strategy evolves from what was originally envisaged."

DAVID FOSTER, MANAGING DIRECTOR, ANGLO SCOTTISH ASSET FINANCE

AngloScottish ASSET FINANCE

"The figures shown in this report about what SMEs consider to be important (fast response time, certainty of decision and access to decision makers) highlight exactly why brokers play such a pivotal role in helping SMEs gain access to funding. In fact, the role of the broker is paramount to the customer journey and their success at accessing vital funds quickly.

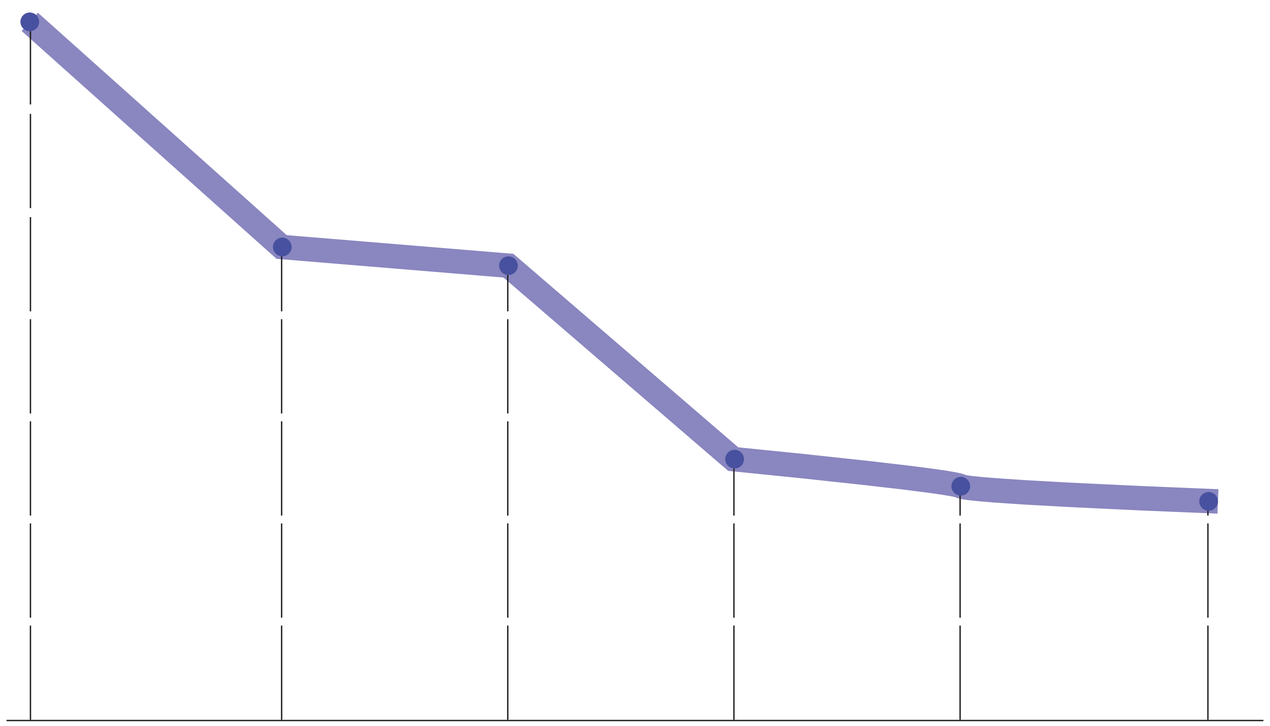
The experience and resources brokers provide allow for many more finance proposals from SMEs to be approved by funders. We understand the requirements of each funder and know exactly how to identify strengths in our customers, allowing us to 'package' the deal correctly for a much higher chance of success in a much shorter time frame than if the customer interacted directly with the funders.

Our industry is incredibly close. Funders and brokers have worked hand in hand for many years, creating successful relationships that are mutually beneficial. Our SME customers are able to leverage these relationships to their own advantage, replicating the traditional close-knit relationship that business owners used to have with their local bank managers in years gone by.

The relatively low figures of SMEs and brokers looking for a trusted brand from their lenders was initially surprising, but on consideration it perhaps represents the hard work of the regulatory bodies, trade bodies and funders themselves to improve the industry in giving both SMEs and brokers more protection in the services offered and reassurance that funders have their customers' and partners' best interests in mind."

AN SME'S BIGGEST CHALLENGE IS SERVICING DEMAND, NOT CREATING IT. CONTROLLING COSTS, ACCESS TO FUNDING AND ACCESS TO TALENT ARE MORE THAN TWICE AS LIKELY TO BE LISTED AS ONE OF AN SME'S BIGGEST CHALLENGES, COMPARED TO THREAT FROM COMPETITION, BUSINESS DEVELOPMENT AND CHANGING LEGISLATION.

What are your company's biggest challenges?



68% rising costs.

46% access to finance.

42% access to talent.

24% business development and sales.

23% competitors and competing industries.

21% changes in government and international legislation.

SUE CHAPMAN, MANAGING DIRECTOR, MAF FINANCE GROUP

maf. finance group

"Controlling costs is becoming so difficult for so many of our clients. Covid is rarely mentioned, but the aftermath of this isn't forgotten with many clients having drawn CBILS and Bounce Back Loans to stay afloat. Now faced with increasing interest rates, higher material costs and in many cases significantly higher energy bills, implementing strong cost controls is essential and managing cash flow remains critical for every business. We are seeing evidence of some clients moving into distress, and we are giving every support we can to help them stay ahead either through restructuring their existing debt or refinancing their assets to inject cash.

At the same time, we are seeing more and more funders 'batten down the hatches' to ensure they minimise their future bad debt positions. Knowing our customers and being able to demonstrate that by putting together a full and concise credit risk assessment and giving funders access to a full suite of information enables them to recognise where they can lend support. Understanding the credit appetites of our funders is part of our job to help our SME clients, as our objective is to have an appetite to say yes, which means we don't have to say no to a client with a great business plan.

Talent development may need attention, and if any business is to thrive, this should be at the heart of it – SME or broker. At MAF Finance Group we are huge supporters of the incredible work undertaken by the Leasing Foundation which empowers our young finance professionals to be a force for good."

VIEWS
FROM THE INDUSTRY

MARTIN GRAY

MANAGING DIRECTOR (ADVISORY), KROLL

KROLL

COPING WITH COVID AFTERMATH

"Increased flexibility and forbearance throughout the Covid years allowed for greater liquidity support from HRMC. At the height of the pandemic, HMRC was owed c.£70bn in overdue and non-current debt from UK corporates and individuals. And while this stood at just under £45bn in June 2023, the normalised figure for overdue debt owed to HMRC is more commonly between c.£16-£17bn. To lower this debt, HMRC will likely increase the pressure to UK corporates and the SME market. The issue for SMEs is they've had to weather various storms, from inflation and Brexit to the war in Ukraine, leading to them having more highly geared balance sheets, which have been built up over recent years.

Unfortunately, this is hindering good trading businesses. An additional concern is that a proportion of this debt is deemed to be "short term", which is again adding increased pressure on liquidity."

BRETT MARSDEN

CORPORATE FINANCE ASSOCIATE DIRECTOR, COWGILLS

cowgills

SEEING PAST CBILS

THE HIGH STREET BANKS CHECK OUT AND GAPS START TO FORM

"SME lending was supported by the speedy processing of CBILS and Bounce Back Loans. The process was quite simplistic and efficient. If the business met the criteria, typically supported by an advisor, a CBILS loan was provided. Often with cash flow lends, the financial due diligence process is quite in-depth, and this shift to normality has caused challenges in the SME market for businesses trying to get funding post CBILS whether this be to further support growth, or refinance the CBILS facility upon the interest rate and capital repayments kicking in.

Within the £0.75m to £2m cash flow lending bracket, there is a big supply and demand gap. There are only a handful of active lenders within that criteria and the cost of capital for the borrower can be very expensive. CBILS provided a quick and cheap solution. However, now that it has stopped, it is clear to see that SMEs are struggling, and need support, with the reality of refinancing on much higher interest rates, more robust lending processes and a high inflationary environment."

CLAIRE ALVAREZ, PARTNER, FORESIGHT GROUP

Foresight

PRIVATE EQUITY SEES AN OPPORTUNITY IN A CHALLENGING MARKET

BUT WE NEED EDUCATION

"Although there are reports of a decline in private equity and venture capital investments, and signs of the main clearing banks tightening lending, we see this as an opportunity for private equity and venture capital to bridge the funding gap, enabling companies to get to their next phase of growth.

In our experience, growth companies may not believe they are eligible for private equity or venture capital funding and more awareness needs to be created. More founders and management teams need to be exposed to investors to increase awareness of how investors not only invest capital but provide operational insight, guidance, expertise and connections. Across the UK, our team attends and hosts events and workshops educating founders and management teams on these topics. We are also associated with various initiatives to help drive this.

In challenging macro-economic environments, the hands-on support, operational guidance, and connections that investee companies receive - in addition to the equity invested - can make all the difference to a growth company achieving its business ambitions."

HAROLD BRAKO, PARTNER AT ADDLESHAW GODDARD LLP

ADDLESHAW GODDARD

STRUGGLING SMES ASK FOR HELP TOO LATE

AND LOW LEVEL FRAUD IS A RESULT OF DESPERATION

"From a financial litigation point of view, my team work where issues have arisen. Ultimately the one consistent scenario I see is that directors often engage with support too late. Despite turbulence in recent years, many are simply heads down and haven't adapted to tighter economic conditions. Ultimately, lower liquidity is leading to greater business failure. I see so many SMEs accidentally commit minor fraud to simply manage outgoings. After working on one of the largest fraud cases in the industry, Arena TV, you realise these cases get headlines but are an anomaly and a result of years of 'almost too much liquidity in the market'. The big high profile cases are the tip of the iceberg compared to those struggling day-to-day to manage their liabilities. Often this desperation causes poor financial decisions and this can lead to a good company's downfall."

ROB JONES, INVESTMENT DIRECTOR, FORESIGHT GROUP

Foresight

MORE CHOICE ACROSS THE MARKET

"Today, we are seeing more, and a broader range of, alternative lenders than ever before. These are providing more flexible, and arguably more, commercial terms which focus on headroom and the needs of a transaction. Alternative lenders have increased and diversified their offerings. Many are providing 'over lends' or small cash flow facilities, in addition to asset-based facilities. A common theme we've seen, is many alternative lenders are now providing multiple products across each facility, for example, across stock, debtors, trade and terms. As there is some sign of the main clearing banks tightening lending, we see real opportunity for the alternative finance market to plug a gap and grow market share. In tougher economic environments, where a more commercial lens is needed, alternative lenders, who are typically able to provide more flexibility, may have a competitive edge and be more widely adopted by ambitious founders and management teams wanting to achieve their ambitions."

praetura COMMERCIAL

DON'T HIDE YOUR HEADWINDS

NICOLA WOODHAMS
RELATIONSHIP DIRECTOR

Praetura Commercial Finance Relationship Director Nicola Woodhams delves into why the turbulent times we face in 2023 shouldn't cause communication shutdown with your finance partner.

The UK's collective commercial outlook is looking pretty challenging for everyone. Whether you're in haulage or hospitality, we're all facing familiar foes.

Energy prices, labour shortages, rising rates, record inflation, and supply chain challenges are just a few of the macro-economic malfunctions we're confronted with. Recently, Fiverr research suggested that one in five UK SMEs have lost over £100,000 due to macro-economic pressure. More worryingly, 92% suggested they were fearful about the future, which is having a tangible knock-on effect on confidence-led decision making.

Troubling times put huge pressure on business leaders, but this is not a challenge they need to face alone.

The 'funding traditionalists' would lead you to believe that your bank or finance provider was the last person you told when you are dealing with corporate turbulence. But those challenging conversations with finance providers should be a thing of the past. Nowadays, any lender worth their salt knows that businesses don't move in a straight line and face bumps in the road. Any lender who's paying attention also understands that as their clients grow, they grow too. Working with our professional partners and introducers, we believe in acting as a finance partner not just another supplier.

When faced with a challenge, speak to your finance partner and broker as early as you can. The earlier we find out your plans have changed, the earlier we can start planning how we can help. We've got tools at our disposal to help pivot round your problems.

We don't simply look to collect and wash our hands of the client when the going gets tough. We work with a network of trusted advisers to deliver the best result for the business.

Part of what makes up our 'more than money' promise can't be included in a brochure. We constantly canvas the economic climate and the news to understand how it may affect our portfolio.

For example, when the pandemic hit, we brought together our clients and worked with their brokers to help them through the furlough process and applications for CBILS.

Our team have been through multiple economic cycles and know how this can put stress on your business. Whatever the issue, we will put an internal team on the case to help you. A partner helps you through the good and the bad, working in tandem with you for the best outcome. The important thing is to tell us early and bring us on the journey.

HEADROOM BRINGS FINANCIAL FREEDOM

TOM O'DELL
SALES DIRECTOR

Praetura Commercial Finance Sales Director Tom O'Dell offers advice for your SME clients and dives into the overlooked power of headroom in your facilities.

The UK economy continues to battle a series of economic headwinds. Growth is difficult to predict and often underwhelming. Input price pressures and productivity challenges continue to push core inflation upwards and, combined with interest rate rises, we continue to see a volatile trading environment for UK SMEs.

Thought leaders define this period as one where resilience and adaptability are king.

As such, each SME's ability to pivot and grasp opportunities will be the ultimate differentiator between who will survive and who will thrive through this next chapter.

Being nimble is not a new idea. Many will point to examples where 'a pivot' is more obvious, such as significant changes to the marketing strategy. However, to be truly adaptable, the entire organisation must remain responsive. And that actually starts (and ends) with the finance department.

But how do MDs and FDs stay agile when it comes to funding?

HEADROOM CAN BE THE FUEL THAT DEVELOPS RELATIONSHIPS WITH KEY STAKEHOLDERS

Headroom in cash flow is the single most powerful tool to enable opportunities to be grasped. It can be the antidote to unforeseen cash flow pressures and provides both options and opportunities.

For example, headroom can help ensure a key supplier is paid early or support a customer trying to make ends meet through more lenient terms. Deepening and improving existing relationships for the future will pay dividends down the line.

HEADROOM CAN BE USED TO WEATHER STORMS

Profitable businesses can often fail due to a lack of available cash flow. Increased headroom de-risks a business from this challenge but also helps MDs and FDs make better long-term strategic decisions versus decisions dictated by near sighted cash flow demands. More widely, it allows finance departments to exert choice and control over their day-to-day operations.

HEADROOM ALSO ALLOWS BUSINESSES TO MAKE QUICK AND BOLD DECISIONS TO TAKE ADVANTAGE OF OPPORTUNISTIC MOVES

Ultimately, the ability to act quickly, making purchase decisions about strategically valuable assets, can be a big advantage for a business. Being in the right place at the right time with access to capital can help strengthen a company's market position during what is a challenging time for many.

At Praetura, headroom is a key part of how we underwrite a new deal. The more headroom we can provide, the more power we are giving management teams to deliver on their plans. Of course, it's not completely altruistic. Headroom reduces risk in our own facilities, but we come at this question from management's side of the table first – what do they need to succeed?

To really get under the skin of this, we perform a greater level of due diligence at the early stages of a deal than most. We do this by bringing in underwriters as early as possible, so that we can give real, deliverable terms with excess headroom quickly. It also means that, where appropriate, we say 'no' faster for the benefit of the business. Unfortunately, too many lenders present terms and then look at the detail afterwards, creating uncertainty on a transaction that all parties thought was completing. Or, even worse, walking away at the eleventh hour, leaving companies scrambling.

WHEN CONSIDERING OPPORTUNITIES, WE WILL LOOK TO THE WHOLE OF THE BALANCE SHEET TO MAXIMISE FUNDING (AND THEREFORE HEADROOM)

We do this by leveraging our ABL expertise, providing facilities against plant, stock, property and cash flow as well as the more traditional book debt advance (invoice discounting). In so doing, we ensure that our clients use the right form of funding for the right reasons. For example, would a revolving inventory facility to fund a working capital need suit a company better than an amortising loan that uses cash over time?

Where feasible, we will also collaborate with our other Praetura Group partners to ensure the funding provided is right for that business. It's about viewing the business as a whole and using tools like headroom to help it reach its goals.

The SME finance landscape has changed significantly in the last few decades, and our approach to debt has become more nuanced. We see lending as a partnership not just a transaction, and greater headroom can often act as a great 'prevention over cure' tool for finance departments.

SPOTLIGHT ON INVOICE FINANCE

LAURA WILSON, BUSINESS DEVELOPMENT MANAGER

praetura INVOICE FINANCE

Invoice finance is an industry I've worked in for over 10 years. I've seen it develop, I've seen things change and seen some things stay the same, but for those wanting to know more about invoice finance, we'll start with the basics...

WHAT IS INVOICE FINANCE?

Put simply, invoice finance is a working capital solution to unlock funds that are tied up in invoices. It gives businesses access to that cash faster to help them grow their business, take on new projects and win new work, whilst being able to pay wages, rent and other overheads in the short term.

AN ALTERNATIVE TO THE OVERDRAFT

It's similar to an overdraft in that it gives you access to additional funds, but invoice finance will typically give you a much bigger facility while taking less security than would be required for an overdraft.

Usually with an overdraft a lot of the banks would want property as security, whereas with invoice finance, it's secured against the debtor book, which is the invoices. Ultimately, we are buying those invoices from the client. We make an initial payment to the client of 80-90 per cent of the value of those invoices and that helps businesses with their cash flow. Facilities can be confidential too.

MORE OF A RELATIONSHIP THAN A TRANSACTION

Invoice finance is not as transactional as other forms of finance. If you get a term loan or asset finance, you sign the documents, you keep up-to-date with your payments and you won't hear from the funder. But with invoice finance, it's more of a relationship from the outset; we're receiving information on a regular basis, we're staying in touch and we're seeing how that business is performing. This makes it easier to offer more funding when it's needed quickly too. We've got all the information, so there's no big application process to start again - it can be done in a matter of days.

HELPING BUSINESSES GROW

There is no hard and fast rule for when invoice finance is an ideal funding option for an SME, but I would say it's more suited to a growing business. Nine out of ten deals that we look at (at Praetura Invoice Finance) are coming to us because they're growing, or there's something going on within that business: either they've gone through some sort of restructure, they've bought another business, there's a takeover, they've won new contracts, or they're really going places and that's why there's always a demand for the cash, which is why there's a need for an invoice finance facility.

From relatively young businesses all the way through to well-established businesses, invoice finance could be what's needed. It's not possible to pinpoint a 'perfect time' – it's usually if the business needs capital. It's always worth having a conversation as to whether invoice finance is the right solution for the situation.

If it's a new-start business, there are going to be liabilities that need paying week in, week out before you start being paid for the work that you are doing. Some new-start businesses have people that can put a £50,000 or £100,000 float in to help, but others don't have that. For those that don't, an invoice finance facility can act as the float. For more established businesses there may be a trigger event. We have a client who was supplying goods to a well-known supermarket and then, all of a sudden, because they grew to a certain level, how they were classified as a supplier changed, and their invoice payment terms were changed from 14 to 60 days. Yet in that extended period, they still had to pay their staff, the overheads on their premises, the finance on their vehicles and all the other outgoings, and that's where invoice finance helped.

Invoice finance can be used at all stages of a business's life cycle, so long as the business in question is raising invoices to other businesses for either a product it has sold or a service it has delivered. That can cover manufacturing, engineering, aviation, transport and a whole host of different sectors, but the principles are always the same; you have to be doing something for someone that you're raising an invoice for.

SUPPORT CONTINUES AND GROWS AS BUSINESSES GROW

The flexibility that invoice finance facilities have allows for funding support to grow with the business, especially when presented with new opportunities. For example, at Praetura Invoice Finance, we have a client who we started working with last year. They work on interior fitouts for airlines, so their debtors include Jet2 and EasyJet. We've grown with them as their business has grown, with the facility increasing from an initial £750,000 to a million pounds. Recently, the director was presented with an opportunity to buy another business in the aviation sector: a business going through a lot of challenges and crying out for new ownership. So, we did what we do – we helped. We were able to lend an additional £100,000 through an overpayment facility and worked with fellow Praetura Lending Division company Kingsway Finance to facilitate a commercial loan for another £100,000, which provided 50% of the funds required for the acquisition within a matter of days.

THE EVOLUTION CONTINUES

The perception of invoice finance has certainly changed over the years. Back in the day, there was a stigma attached to it, with people using it, or thinking of it as a last resort, to pump some cash into a business when it was on its knees to try and save it. But it's being used much more now as a funding tool to fuel growth and being used by businesses right at the very beginning of their journey.

Now there are more options. Where the relationship-first approach from the banks is waning, there are alternative lenders filling that space and providing a service where they have dedicated contacts and direct access to decision makers, with funders who have a vested interest in helping businesses grow.

But what invoice finance is for - providing a working capital solution to plug a cash-flow gap - has not changed.

A PROACTIVE AND REACTIVE FORM OF FUNDING

THREE KEY WAYS INVOICE FINANCE HELPS GROWING SMES

1. IT PLUGS A CASH FLOW GAP
2. IT'S FLEXIBLE
3. IT'S INTERACTIVE

FINANCING THE RECRUITMENT INDUSTRY

PAUL COONEY
MANAGING DIRECTOR

HOW ZODEQ SOLVES FINANCING ISSUES FOR RECRUITERS WITH BESPOKE SOLUTIONS

Finance is a crucial component for success in the recruitment industry, largely due to the nature of the business and the importance of maintaining cash flow month in and month out.

As a result of this, invoice finance is typically the finance of choice, as it allows a recruiter to release a percentage of cash from an invoice as soon as it has been raised. This is particularly useful for those recruiting temporary roles, who will be invoicing clients on a monthly basis whilst paying candidates weekly.

No two recruiters are the same, therefore no two invoice finance arrangements can be the same. Invoice finance specialist and Praetura Group business, Zodeq, looks at the best ways in which to solve financing issues for the recruitment industry to ensure a bespoke solution is found for each and every client.

Some of the most common problems that Zodeq identify are...

ISSUES WITH A CURRENT FINANCE FACILITY

Issues with an existing facility could be due to any number of reasons, but Zodeq predominantly sees low levels of commerciality and a lack of appetite to increase specific debtor funding limits from a provider. This ultimately leads to the agency experiencing stunted growth.

Zodeq takes a rather different approach when providing a finance facility, instead working with recruiters on an individual basis, to identify their needs and goals to offer the most appropriate, bespoke and flexible solution to enable the business to run as efficiently as possible and grow.

UNCLEAR AND COSTLY PRICING STRUCTURES

A number of finance providers will charge more than five different fees on standard invoice finance facilities (some even more so), leading to high costs for an agency that is very unclear about what exactly they're paying for and why.

From the outset, Zodeq is committed to providing a simple, clear and, of course, understandable pricing structure to allow clients clear visibility of exactly what their facility costs them, allowing for a more accurate budget. All fees are agreed with prospective clients prior to the facility commencing.

It's important that agencies ensure they fully understand all fees before they commit to commencing a facility with a provider. And don't forget to read the small print!

LACK OF KNOWLEDGE

Often it is the case that an existing funder does not have a deep and extensive knowledge of the recruitment industry, and with the sector having evolved massively over the past decade, this can ultimately cause issues.

One of the biggest areas is in the growing use of RPO (Recruitment Process Outsourcing), MSP (Managed Service Provider) and Neutral Vendor arrangements, particularly with large buyers of temporary labour such as local councils, supermarkets, logistics companies, NHS Trusts and private hospitals.

Zodeq has been nimble footed in adapting its financing options in line with the sector's changes, ensuring a seamless finance process for agencies that have previously experienced funding issues.

POORLY MANAGED SALES LEDGERS

A common issue seen amongst recruiters is a sales ledger that has been managed incorrectly, causing overdue invoices as well as allocation and housekeeping issues. Ultimately this leads to funding restrictions, significantly more work and increases the risk of unhappy clients.

Zodeq has solved this for agencies that have transferred their funding facility by providing an initial flexibility on their financing. This includes funding overdue invoices that are ultimately payable, as well as actively working on the sales ledger to ensure it is accurate and operating to terms.

PAYROLL ISSUES

Many of Zodeq's clients have engaged with the business, having previously experienced issues with their payroll due to poor management. These issues led to errors with workers' pay as well as falling foul of HMRC regulations.

Efficient and effective payroll is absolutely fundamental for any recruitment industry, which is why Zodeq takes on this time-consuming (yet critical) task to ensure it is managed professionally and accurately.

WHAT DOES THIS LOOK LIKE IN PRACTICE?

CASE STUDY: NUE CARE STAFFING SOLUTIONS

THE CLIENT

Offering a full spectrum of temporary healthcare services, Nue Care Staffing Solutions has particular expertise in secure environments. The agency prides itself on transparency throughout the hiring process, taking the time to truly understand a client's requirements and matching them to the suitable clinician candidate.

THE ISSUE

Like many recruitment agencies, Nue Care was faced with the issue of payment terms; specifically, the payment terms of the agency's clients in relation to the payment needs of their staff were poles apart. Ultimately this meant that maintaining cash flow proved to be a significant challenge.

Furthermore, having waited six weeks for their bankers to review their proposal, their facility was declined by the bank's credit team just five days before the business had highly important bills to pay.

THE SOLUTION

Zodeq was introduced to Nue Care via an independent advisor who was well-versed with their expertise and knowledge in their field.

After initial conversations between Nue Care and the team at Zodeq, they identified that invoice finance would be the ideal solution. With some urgency required for this facility because of payments falling due, Zodeq found a solution very quickly, approving a £250k facility within three working days.

THE RESULTS

In its time working with Nue Care, Zodeq has supported the agency in overcoming all its finance and cash flow challenges, which has proven invaluable to the longevity of the business.

Without the confines of cash flow restrictions, the business has been able to grow and expand exponentially.

"From our initial dealings with Paul, to the current levels of support we receive from Gareth and Amanda, the service has been seamless and faultless. All the team at Zodeq are supportive, friendly, knowledgeable, and available. I wouldn't hesitate to recommend Zodeq, ahead of all other solutions."
Jamie Laurie, Director,
Nue Care Staffing Solutions

FINANCE FOR A CHANGING AGRICULTURAL WORLD

HELEN GAINES, BUSINESS DEVELOPMENT MANAGER, RURAL FINANCE

The agricultural industry in the UK is a cornerstone of the economy, contributing £11.2bn (0.5% GDP)*, utilising 71% of the country's land area and employing just under half a million people. In the past two years this industry has faced some turbulent times. Among them, Brexit, war in Ukraine (resulting in rocketing energy, feed and fertiliser costs), bird flu outbreak and now inflation at an all-time high. Throughout all of this Rural Finance Limited, the UK largest agricultural brokerage, has supported this industry with finance and continues to do so. However, broker networks and the agricultural industry face other challenges in obtaining alternative financial solutions for a changing agricultural world.

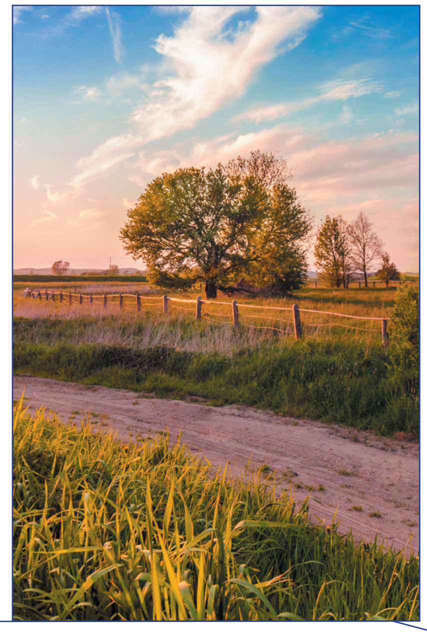
WHAT IS SUSTAINABLE FARMING?

Sustainable farming is all about ensuring that the farm has the measures in place to be here in generations to come. This means we are seeing farmers embracing diversification, innovation, and automation. There have been changes to regulations in recent years which farmers have had to adopt, and the National Farmers Union have set an ambitious target of achieving net zero emissions in British farming by 2040, which has also focused farmers' attention to the environment that they work and live in.

THE CHANGING LANDSCAPE OF AGRICULTURE

There has been a surge in technical equipment having integrated features such as electronic eyes for monitoring crops and weeds, inter-row cultivation tools, and GPS (steering, crop yield and mapping those areas most efficient for utilising fertilisers as well as weed, disease and insect control etc.). We have seen a growing interest in the utilisation of robotic equipment both in livestock and cropping enterprises. These maintain the timeliness of activities, accurate work, and reduce labour requirements.

Farmers have been looking to diversify their income streams, taking advantage of government initiatives such as tree planting (to reduce their carbon footprint), cover crops incorporated into cropping rotations, manure and slurry protection from the leaching of the nutrients etc. as well as introducing totally different enterprises such as holiday accommodation (hobbit homes, glamping pods and old farm building conversions into holiday cottages).



RURAL FINANCE - BRIDGING THE GAP

Agricultural brokers like Rural Finance have bridged the gap between farmers and financial institutions, enabling them to secure the necessary funding for their operations. With high street banks closing their doors, customers are forced to find alternative financial support and advice. Rural Finance brokers have become vital to hundreds of agricultural customers, giving support and finding the right financial solution.

The focus on green and sustainable eco farming has happened relatively quickly in the world of agriculture. This quick change comes with some challenges for brokers and their agricultural customers. Banks often do not adjust their credit policies as quickly as the advances are happening. This can lead to blocking or delays to obtaining crucial financial support. We find that in some instances there lacks an understanding and knowledge of technological and green advances, which makes banks nervous to lend. Ideally, we would see a drive from the banks to gain knowledge in these areas to proactively enable us to support the changing farming landscape.

THINKING OUTSIDE THE BOX FOR SUSTAINABLE FINANCE

To support farmers in achieving their sustainability and diversification goals and net zero emissions, it is essential for funders to think outside the box. Traditional farming models may not be suitable for the unique challenges faced by the agricultural industry. Innovative funding mechanisms, such as supporting grants, low interest loans, or partnerships between financial institutions and agricultural businesses can help drive the adoption of environmentally friendly practices and technologies.

CONCLUSION

Access to finance is crucial for the success and growth of the UK's agricultural industry. Agricultural brokers like Rural Finance play a vital role in facilitating this access, bridging the gap between farmers and financial institutions. However, challenges such as slow credit appetite adjustments, lack of expertise within banks and reactive approaches to market developments remain significant obstacles. To support farmers in adopting sustainable practices and achieving net zero emissions, funders must think creatively and provide tailored financial solutions. By addressing these challenges and embracing innovative financing approaches, the agricultural industry can thrive and contribute to a greener and more sustainable future.

*Source - Agriculture in the UK Evidence Pack, Department for Environment Food & Rural Affairs, September 2022 update.

DECISIONS THAT LOOK TO THE FUTURE FIRST

Oasthouse Engineering are an ambitious SME with over 20 years' experience supporting the UK's food and beverage market with labelled, sleeved and digitally printed canning solutions. Over the years the team has grown to 21 employees supplying over 60 million cans a year.

A GAP IN THE MARKET

The company had identified a gap in the market that nobody was fulfilling in the UK. Due to the minimum order quantity from wholesale suppliers of digitally printed cans being 350,000, smaller businesses were missing out by not having the necessary product, means or finances to fulfil a minimum order, so the option of digitally printed cans was not possible. Oasthouse wanted to change this and started looking to invest in a new machine that would bridge this supply gap by providing bespoke digitally printed cans for the smaller SMEs across the country, including craft breweries, gravy producers and coffee manufacturers, to help them get their products to market and grow their businesses.

NEW MACHINERY - THE FIRST OF ITS KIND IN THE UK

From research conducted at a variety of international trade shows, Oasthouse sourced the machine that would provide the solution they were looking for (which would also be the first of its kind in the UK).

But when it came to sourcing funding, when they went to their bank, the bank said no.

When they went to other funding outlets, they also said no.

After talking with their broker, Ian Micklewright from Shiremark Leasing and Consultants, they were introduced to the team at Praetura Asset Finance. Directors Ric Simmons and Mike Dalzell travelled to Rotherham to meet Sam and Karl Morris, the business owners, to learn more about Oasthouse and the company's plans for the future.

Oasthouse's Managing Director, Karl Morris, said: "Eventually we were put in touch with Praetura, and honestly it was the first sensible conversation we had. They've backed us all the way. This new machine will give Oasthouse longevity in the market, with digitally printed cans being fully recyclable, which gives the supplier sustainability."

Ric Simmons, Managing Director at Praetura Asset Finance, continued: "Taking the time to meet Karl and Sam, to understand their business, hear their enthusiasm and their ambition made a real difference. Other funders had said no, and it's possible that they said no because they were trying to underwrite based on past serviceability.

But Oasthouse were wanting to do something new, something innovative and something different to before. So we looked at how the future of the business will service the debt, rather than judging on past performance."

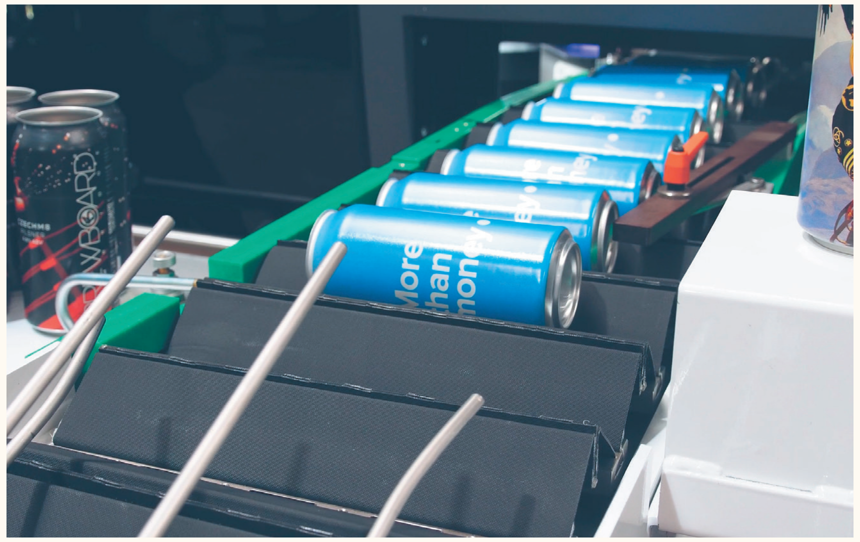
ASSET FINANCE FUNDING PROVIDED THE SOLUTION

A brand new Hinterkopf D240.2 printing machine has now been installed in Oasthouse's warehouse in Rotherham and production has begun, thanks to asset finance funding totalling £1.7 million through a hire purchase facility over a 60 month term.

Oasthouse now have the ability to print one design on thousands of cans, or thousands of cans each with individual designs.

A growing SME helping other small businesses to grow.

OASTHOUSE



THE RISE OF THE RESILIENT: ARE TODAY'S ENTREPRENEURS AND MANAGEMENT TEAMS READY FOR ANYTHING?

The Covid-19 pandemic, ongoing geopolitical uncertainty, inflation, the cost-of-living crisis, the cost of energy... business owners and management teams have had to deal with numerous headwinds in a short period. Since the early days of the pandemic, there has been very little let up which has had an unprecedented impact on SMEs. Many haven't survived, others have managed to weather the storm and there are those that have found growth and success.

CBILS, the Recovery Loan Scheme and flexibility from HMRC has played a part in helping SMEs, and there's no doubt many businesses would have failed had it not been for this support. Nonetheless, SMEs who have faced a tumultuous few years are feeling more confident than before about their ability to overcome future challenges.

It's an observation that is worth unpicking and one EY's Strategy and Transactions Partner, Ben Wildsmith, has noticed over the past 12 months. Ben, who is involved across the transaction market, including debt advisory, M&A, and restructuring, has much to say on this topic. He is seeing management teams feeling fatigued and being on a state of high alert as they are constantly dealing with one challenge after another.

Ben says: "Management teams have had to be resilient. They've had to re-budget on a weekly basis, deal with government changes and consumer spending, and as a result they've become better equipped to deal with change. Although it's worth noting that HMRC, banks and creditors have shown considerable flexibility in supporting SMEs and have needed to be much more lenient as key stakeholders. Albeit this leniency is changing and there is an increasing change or reversal in approach." This, Ben goes on to explain, has had a couple of effects on SMEs. Firstly, many have become better at adapting to repeated headwinds and relying less on others to make decisions. However, that's not necessarily a positive thing. According to Ben, "this reduced sensitivity to stress and distress can lead to a blindness of issues and red flags being overlooked despite how prepared some SMEs think they are."

But repeated headwinds have meant other SMEs can seize opportunities as they arise, with some more willing to take on risk, thanks to a more emboldened attitude.

So how bad is the bad news if management teams are, as Ben explains, feeling more prepared? "We seem to be skirting on recession, but I think it's not going as deep or happening as fast as anyone expected. Therefore, whilst not pleasant, it's a more manageable environment," explains Ben. "Businesses are monitoring the situation very carefully, but from our discussions with SMEs, many have more debt than they would like because of the pandemic and, as a result, a one percent change in interest rates can make a significant difference to cashflow."

Asked how the situation has changed Ben's work at EY from a lending perspective, Ben says that both he and his colleagues are spending much more time in the preparing stage of an engagement, in order for SMEs to take on debt or a investment, especially in light of the importance to demonstrate strength and resilience. Access to funding is increasingly getter harder.

He adds: "In today's environment, businesses need to be much more match fit, with clarity around the business plan and a transaction ready mindset for when the money is available, not just when it is needed. If you're raising equity or debt, you need to get your 'house in order' much faster so transactions can go through on a timely basis. That's probably the biggest change from two or three years ago. Being 90% ready instead of 80%."

Despite SMEs feeling more resilient, Ben's comments highlight that education and good advice are still worth their weight in gold to SMEs, which is being recognised by more and more businesses. Ben goes on to say that a greater number of SMEs are willing to invest more in advice if it means unlocking high growth and gaining greater access to more flexible lending. It's likely that a sense of resilience has played a part in this.

EY Building a better working world

BEN WILDSMITH, PARTNER, EY

UNDER THE SKIN
OF THE UNDERWRITERS

Kim Anthon, Credit Manager at Kingsway Finance gives an insight from her side of the underwriting desk.

Contrary to popular belief, as an underwriter, I don't like declining deals - quite the opposite is true.

Yes, we have to be risk aware, but we are commercially aware at the same time. We are a business, we are here to do deals and here to help other businesses with our funding facilities. But we obviously can't say yes to everything, or we wouldn't have a business ourselves!

PROCESSES ARE CHANGING, BUT THE PRINCIPLES REMAIN THE SAME

Advances in technology have changed the way we as a business and as underwriters work. We are most definitely now saving trees! We used to be very paper-based and we would print everything in order to review it. But we have adapted (probably accelerated by the pandemic and us all having to work from home), and we have now streamlined that operation.

With the introduction of new technology, such as the Praeview tech platform that was built in-house by the Praetura Group, we now have access to all the relevant reports and information that we could need (such as Companies House, Experian and Credit Safe) all in the one place. Specifically from the operational side of things, the new technology is helping to make various processes quicker, whether that is loading proposals at the beginning, or arranging pay-outs at the end. But in terms of underwriting the deal and who makes the decision, that's not down to the technology, that's down to people – the underwriters, as it always has been at Kingsway (and across the whole of the Praetura Group) and how it always will be.

We don't rely on credit scores and algorithms. We never have and we never will because numbers and scores on reports cannot tell you the full story, only people can.

Looking at what we call a 'storybook lend', one where explanations to specific details need to be given and understood before a decision is made, if you were solely basing that decision on credit scoring, there could be a high percentage of deals that never make it to an underwriter's desk because the system has decided that they are too weak. But that has never been how we have underwritten deals and it never will be. We will always take the time to consider a deal thoroughly, looking at historical circumstances and future plans, as well as the current situation.

BROKERS REPLACING THE 'OLD-FASHIONED BANK MANAGER'

Coming from a corporate banking background (prior to joining Kingsway nine years ago), I can see the difference between how the banks operate compared to the alternative finance market, where brokers play an important role. The wealth of help and support out there and the difference between the way that help is offered is very noticeable, particularly the willingness to find and provide the funding, whether that's for an SME, a partnership or a sole trader. The level of support offered by the brokers reminds me of the relationships that businesses used to have with their bank manager, but that was a very long time ago. Bank branches now are closing left, right and centre and it is not always easy to get in touch with a relationship manager, if you are lucky enough to have one.

For a small business owner to have any relationship or traction with a bank is hard, unless you are of a significant size. The alternative finance market plugs a massive hole for small end SMEs, and the broker network – in terms of knowing where to go and offering the right advice – is an invaluable part of that.

IT'S GOOD TO TALK

At Kingsway Finance, as an underwriting team we are accessible; we work closely with the sales and operations teams and we are available to speak to brokers and answer their questions (or ask questions of our own) to help speed the process along. It is still the Business Development Manager's role to build and manage the relationship with the brokers, but we can add value to that relationship when a broker has access to us.

Working closely with the other departments within the business helps us to give quicker decisions too. Quite often a broker will be in touch with their BDM to talk about a specific client to see whether it is something we would consider. The BDM can then quickly talk that through with us to find out if it's something we have an appetite for, and any additional information we might need, or we can speak directly to the broker if that is something they would prefer. Being able to have those conversations with brokers really helps us as underwriters. This is especially true on the more complicated deals, where the broker has met the customer and therefore understands the situation and can articulate it better over a phone call, rather than going back and forth on email. Plus, they have direct access to the decision makers.

Functioning as 'one big team' in this way really helps to speed things up. We are accessible to the sales team and we are accessible to the brokers. That level of collaboration and interaction can only benefit the SME clients we are here to help.

TELL US SOMETHING WE DON'T KNOW!

When considering my 'top tip' for brokers when it comes to helping their SME clients, it would be to tell the underwriters something they don't know. There's not much point copying and pasting something from the client's website - we can see that for ourselves. Similarly, don't just quote turnover, profit and balance sheet numbers - we can see that for ourselves in the financials. Instead, please add some 'meat to the bones'. If profit has dipped, tell us why it dipped. If profit has increased, tell us why it increased. Please give us the good, the bad and the ugly! If there have been extenuating circumstances, tell us. If they are fixing something or changing something, tell us how they are fixing it or why they are changing it.

If we can see how well the broker understands their customer, that gives us confidence in the information we are reading. Anything a broker can do to demonstrate that they understand the business and can explain trends, patterns and anything that jumps out really makes a difference. This once again speeds the whole process up. It cuts down on the to-ing and fro-ing asking additional questions if you have all the information in the first place.

As a funder, we want to write business, we want to help SMEs with the funding we have available, and we want to be giving acceptances rather than declines.

FOR BOTH PARTIES, BROKERS AND FUNDERS, UNDERSTANDING THE CUSTOMER AND THEIR BUSINESS IS HUGELY IMPORTANT. NUMBERS CAN'T TELL US THE FULL STORY, ONLY PEOPLE CAN DO THAT, AND IT IS PEOPLE NOT COMPUTERS WHO SHOULD BE MAKING THE DECISIONS.

kingsway FINANCE

ADVICE FOR SMES FROM PRAETURA ASSET FINANCE'S MANAGING DIRECTOR RIC SIMMONS

ASSESS YOUR CONTRACTS

We've seen a lot of proposals come through to us from businesses that are waking up to the fact that several of their clients aren't making them much money but are taking up an inordinate amount of time. At a time when SMEs are facing continued headwinds, it is incredibly important to step back and look at the bigger picture. By focusing on the clients and contracts that are profitable, you can make a significant difference to your business.

DON'T IGNORE SUSTAINABILITY

It's never been more important to take additional steps towards sustainability. As well as looking at what the future holds from a purely business perspective, there is a mounting expectation for SMEs to be clear on their ESG policy. For instance, what steps are you taking towards quantifying your carbon output? Having an ESG plan can have an incredibly positive impact on the future of your business, so it is worth getting ahead of the curve now and doing your research.

LOOK BEYOND TURNOVER

It is so easy to be blinded by profitability, but this must feed through into the cash flow of your business, as that is the lifeblood of your SME. This may mean looking at a refinance deal to inject some cash into your business to ensure that you remain sustainable from a cash flow perspective. When looking to inject additional cash, it often helps to speak to a broker. When you go direct to a lender, you are limited to the products that specific lender provides.

UNLOCK HIDDEN VALUE

It still surprises me how many SMEs are unaware that they can unlock the value in their assets by way of asset refinance. This is a straightforward way to inject additional cash into your business. As this is based on the underlying value of an asset, this type of finance enables asset finance lenders like ourselves to take a more commercial view. As with my earlier point, it's important not to pigeonhole yourself only to the finance products or lenders you know about.

FOLLOW PRAETURA ASSET FINANCE ON LINKEDIN FOR MORE ADVICE FROM RIC SIMMONS

praetura ASSET FINANCE

RIC SIMMONS

AVOIDING FAILURE: ADVICE FOR SMES REQUIRING FUNDING IN TURNAROUND SCENARIOS

Grant Thornton

PHILIP STEPHENSON, PARTNER, ADVISORY, GRANT THORNTON UK LLP

Philip Stephenson heads up Grant Thornton's restructuring practice in the North-West and advises businesses facing stress and, in the worst case, failure. Here he shares his advice for SMEs requiring funding in a turnaround scenario.

FIRSTLY, MAKE SURE ALL OPTIONS ARE CONSIDERED

In a turnaround situation, businesses often believe that sourcing more debt is the only option. This is often not the case and there may be other self-help remedies that can be employed as part of a suite of measures to reduce the funding requirement. These considerations are still appropriate even if it is established that additional funding is required as lenders will want to understand what steps have been taken by the management team.

When it comes to additional funding, it is key that the business considers all funding options as it may be that a different funding structure is more appropriate in the circumstances. It is likely that any new finance will be more expensive, as lenders will want to ensure their pricing is reflective of the additional risks associated with a turnaround scenario, but this increased cost may also bring other benefits including increased flexibility. The key to a successful debt raise in these situations is preparation and ensuring that the business is able to articulate clearly its credit story, especially what is going to change in the future. It is also important to have a plan B in place in the event the debt raise is not successful.

DON'T BE AFRAID OF FINDING FUNDING FROM A NAME YOU DON'T KNOW

Many SMEs who have been with a clearing bank or major lender for a long time may be reluctant to change to a funder they have not immediately heard of; however, in the spirit of taking an eyes wide-open approach, it is important to put any preconceptions to the side. It is often the case that a more specialist independent lender has the right product for a business at this point in its life cycle. Again, businesses should consider all options but they should also do their homework on the lender to ensure that they fully understand its offering and credentials in similar situations.

SEEK OUT PROFESSIONAL ADVICE

In a turnaround situation, it is important for management teams to continue being hands-on with the day-to-day running of the company. In these instances, working with a proactive adviser is incredibly important. The advisor's primary role, along with providing you with sound and independent advice, is to take some of the strain off both yourself and your finance team and ultimately steer you away from failure. So let somebody who frequently deals with these funders and situations lead the interaction with your incumbent and any new lenders.

BE PREPARED TO ANSWER SOME UNCOMFORTABLE QUESTIONS

Some of the SMEs we work with are looking for finance after the relationship with their existing lender comes to a natural end. This could be a clearing bank who is no longer comfortable lending to a particular sector. In these cases, it is only natural for an incoming funder to ask questions that a business owner may find uncomfortable. This is all part of their due diligence process, and it is important that you – the business owner – answer with as much honesty as possible. This will not only shorten the due diligence process but also avoid information coming out further down the process which may impact a funder's view of the opportunity.

MANAGE YOUR EXISTING LENDER OUT SMOOTHLY

Depending on the circumstances, there may be a tendency among SMEs to feel frustrated or aggrieved by an existing lender who does not wish to continue to support, or who may even be reducing existing facilities. It is important to remember that decisions are seldom personal and that your priority when switching from your incumbent lender to a new funding partner should be to keep all stakeholders confident throughout the process. You have to consider the importance of stakeholder management and allow for a smooth transition while taking on board the fact that your previous lender may simply not be right for you going forward. You also do not know what the future may hold. We have seen on a number of occasions SMEs returning back to their original lender once turnaround has been affected. Our advice is, therefore, never to burn any bridges!

UNDERSTANDING THE EMOTION OF THE DEAL: THE UNCONSCIOUS GULF SEPARATING SMALL AND MID-MARKET BUSINESSES

WHEN YOU REMOVE OFFICE SIZE, HEADCOUNT AND TURNOVER, WHAT SEPARATES A SMALL BUSINESS FROM A LARGE ONE? FOR ANDREW PEPPER, A PARTNER AND THE HEAD OF RESTRUCTURING AT RESOLVE, THE KEY THEME THAT IS OFTEN OVERLOOKED IS EMOTION AND THE IMPACT IT CAN HAVE.

Emotion can drive many SME decisions, and this is particularly true for owners who are involved in day-to-day operations and who have built their SME from the ground up. Sometimes this can influence decisions for the better and sometimes it can be a barrier.

This is something Andrew, whose role is to save businesses from administration and engineer positive outcomes, is all too aware of. The passion that business owners feel for their business is a demonstrably strong force, but there are times when emotion and passion can circumvent logic – particularly when it comes to decisions around borrowing.

Andrew explains: "Many SMEs are still guided by quasi single owners who believe their business is their back pocket. If they pay 30 grand for an audit or 15 grand for advice, that's stopping their wife, husband or children having the cash. That's very emotive.

"That business owner wants to do the best thing, but they're so emotionally wedded to the business. This is their baby, and they can't stop thinking about five years ago when they were doing this in their kitchen, and this compromises their ability to take on risk."

FAMILY-RUN BUSINESSES VERSUS CORPORATES

Andrew goes on to explain that this is especially true of family-run businesses: "If a family-run business has a money issue, you need to understand what's going on in the family otherwise you will provide a logical answer that will never be accepted. You need to understand what's driving a decision or lack of decision, and the emotional triggers."

By contrast, large firms are often better at separating emotion from logic. They also have the right governance in place to make sound business decisions based on facts.

That said, Andrew goes on to explain that those same larger corporate entities can also suffer from being too logic-based when they should be driven more by the passion that drove success in the first place. In short, it's a balancing act between the two forces.

Equally, there are many successful SME entrepreneurs who can and do take emotion out of the equation instead of letting their heart get the better of their head. At the same time, the conversation is far from a binary one. It's not always emotion versus logic.

EMOTION ISN'T BINARY, IT'S MORE NUANCED THAN THAT

While the debate is nuanced, emotion is a theme that continues to crop up in the SME finance world, with no definitive answer, given it is human nature for owner operators to be protective over the SME they've spent painstaking weeks, months and years building.

And while this isn't a new conversation, it's interesting to explore this in the context of the current landscape – namely, the difficulty SMEs are currently having accessing finance and the impact the past several years of volatility have had on businesses.

Reflecting on the earlier point, being too emotional when making decisions can result in some SMEs accessing support too late. In the case of those that do access funding, Andrew explains that part of his role is to provide a sounding board as well as being able to help an SME understand the myriad of funding routes and options available to them.

This has shed further importance on relationship management, Andrew adds, given the complexity of some lending products can, in cases, cause discomfort for an SME's FD.

Andrew says: **"Large businesses are often more concerned by an interest rate, facility size or ease of access to money, whereas more commonly the smaller players are asking who their relationship manager is going to be. They want someone who can deliver and sort out their problems, and when that happens, they're more used to paying for this."**

As with much of the SME finance space, it all comes down to insight. The main observation being that SMEs who are informed – e.g. those who have grown bigger or been around for longer – are less susceptible to emotion because they have the facts, experience and even governance structures in place to make more logical decisions.

Nonetheless, there will always be opportunities when emotion risks overriding logic, and that is when better education, advice and an independent sounding board is paramount.

ANDREW PEPPER, PARTNER & HEAD OF RESTRUCTURING

RE|SOLVE

IS THE DEAL RIGHT FOR YOUR BUSINESS? FIVE CRUCIAL POINTS TO DEMAND FROM YOUR ABL LENDER BEFORE YOU SIGN

Businesses have an array of reasons for seeking funding. But what's true for all is the knowledge that a well-structured deal, which takes into account a business's unique needs and plans, is the difference between success and failure.

The risk of not obtaining the right funding or having a lender that doesn't work with your best interests at heart can be detrimental. But if you've never taken funding before or have limited insight, how can you know if a deal is right for you?

Before making a lending decision, all lenders undertake a process of due diligence to weigh up the viability of a deal. However, the same approach should also be factored in by businesses looking for funding. All SMEs will agree that a deal needs to feel right. But instinct aside, there are several crucial points that you, as a business owner or executive, should demand to help you obtain the funding you need.

1. A CLEAR RISK PROCESS FROM THE START

It's important that every business knows where they stand, including what the protocols are if things don't go to plan. Any funder you work with should be clear and frank about what their risk process is from the start. They should be able to tell you exactly what sorts of deals they are able to fund.

This is also an opportunity to be clear about your situation. If a transaction has known risks attached because of the nature of your business or the sector you occupy, you want the peace of mind that you're working with a lender that is comfortable about your situation. In these instances, they may be able to draw on examples of similar deals in the past. You may even find that you need a smaller or larger facility than you originally envisaged.

2. A BESPOKE DEBT STRUCTURE AND WILLINGNESS TO PIVOT

One of the many things we're proud of at Praetura Commercial Finance is our ability to mix and match the funding we provide, based on our clients' needs. For instance, using a commercial loan for an MBO but invoice finance to free up the capital needed to expand quickly.

It may sound like a cliché but there is no one size fits all approach to lending. Any lender worth their salt should take the time to get to know their client and the sector they operate in. Situations can also change rapidly. For instance, the pandemic caused many businesses to completely rethink their strategy and pivot quickly to prevent going under. A supportive and experienced funder is one that can pivot with you – in good times as well as challenging periods.

3. ATTENTION TO DETAIL AND NO JUDGEMENT PRE-DEAL

Due diligence is more than a necessary evil. It's a chance for a client and lender to build a level of trust that protects each party. To this end, you shouldn't see this as an opportunity to be tripped up. Providing you're working with the right lender, being truthful and open about your business and position is the best and only way to obtain a funding facility that works for you.

Equally, there should be no judgement pre-deal. A supportive lender should be helping to plug holes in your knowledge and making you comfortable with the lending process and your liabilities thereafter, rather than using information against you. At all times, you should feel comfortable with your lender. You should also be able to ask questions freely without being made to feel like you are wasting time.

STUART BATES,
FOUNDER &
COMMERCIAL DIRECTOR

praetura
COMMERCIAL

4. PROOF POINTS AND CASE STUDIES

Most businesses will have done their research on a potential lender. The obvious place to start is a lender's website which, in most cases, will be a shop front of deals and case studies. But in the spirit of due diligence, you should be pushing your lender for more details and proof points to help you decide if a deal is right. How big is their loanbook? What other businesses have they funded outside of what's online? What do they provide beyond funding? How easy is it to speak to a decision maker? These are all factors to consider.

5. A DEEPER UNDERSTANDING OF YOUR BUSINESS OR SECTOR

When you receive funding, you're entering into a potentially long-term business contract and relationship. Trust is a significant part of the process, but there's also got to be a mutual understanding of each other's businesses and goals. This is incredibly valuable and conducive to your ongoing relationship and can make it easier to have difficult decisions down the line, although you'd hope this is never the case.

We always ask businesses to take us on their journey, but it's as important for any lender to show willingness from their side. If possible, ask for your lender to conduct a site visit or meet face-to-face several times before signing a contract to ensure you're on the same page. Gestures like these may seem unimportant to some but they can have significant benefits and contribute to the relationship.

WHAT DO LENDERS EXPECT IN RETURN?

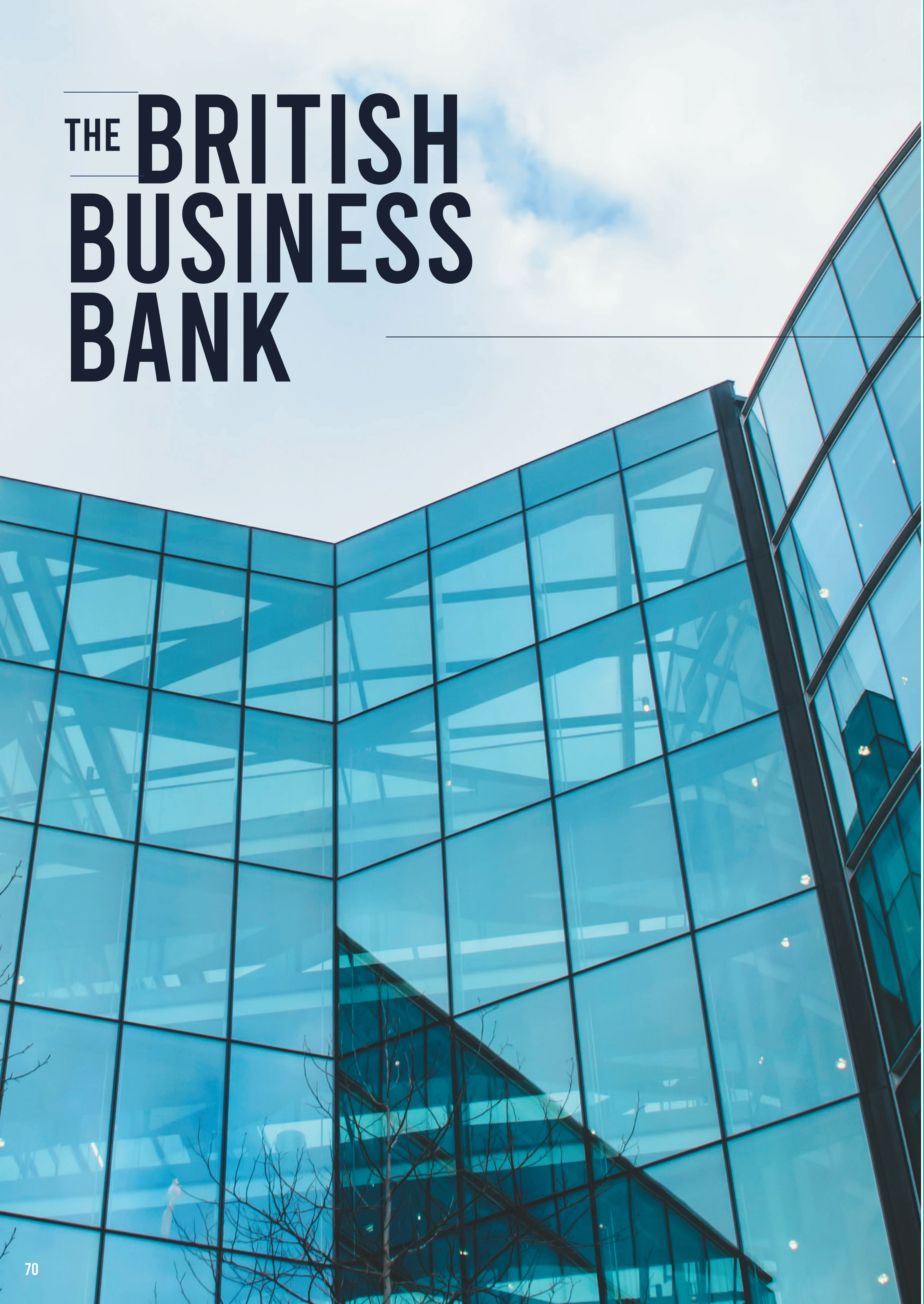
Lending works both ways, so as much as you should be demanding certain things of a lender, you should also do what you can to ensure the process runs smoothly. For starters, be open and forthcoming with information to avoid delays and speed up early and essential stages like due diligence. In addition, be clear about your aims, objectives and ambitions for the future.

Follow this advice and the other points raised above and it's likely you will have a much greater chance of finding the funding you need and a lender you gel with.

SECTION THREE

BUILDING A BETTER FINANCE SECTOR

CHALLENGES AND TRENDS FROM INDUSTRY INSIDERS



THE BRITISH BUSINESS BANK

WHAT THE BRITISH BUSINESS BANK IS DOING TO SUPPORT DEBT MARKETS FOR UK SMALLER BUSINESSES

MATT ADEY, DIRECTOR OF ECONOMICS, BRITISH BUSINESS BANK

DEBT OPTIONS PLAY AN ESSENTIAL ROLE IN THE OPERATION OF MANY BUSINESSES.

They can be used both for working capital – typically through an overdraft facility – or to fund longer-term investment through products such as hire purchase, loans or leasing facilities. The British Business Bank supports debt finance for smaller businesses of all sizes and at all stages of development – from first-time entrepreneurs to established companies looking for liquidity, to fast-growing businesses seeking high levels of bespoke venture debt.

Part of our remit is advising the Government on markets for smaller business finance, and we produce several reports a year which examine how well those markets are serving the country's 5.5m smaller businesses. This gives us a strong insight into how debt finance is being accessed by businesses and provided by banks and other lenders.

THE CURRENT STATE OF THE MARKET

It will come as a surprise to no-one that the current economic landscape is having a marked impact on UK smaller businesses. With growth stalled amid high inflation and rising interest rates, small and micro businesses have been most adversely affected, in part because they are less able to absorb costs or pass them on to customers than their larger counterparts.

As a consequence, there has been a decrease in smaller businesses' willingness to take on debt finance, dropping from 36% of smaller businesses in 2021 to 31% in 2022, with new loan applications reaching the lowest on record in December 2022. Again, this has been more marked for the smallest businesses.

The decrease is mainly due to businesses not being willing to borrow for growth, as working capital has remained steady Even though demand for finance is already subdued, approvals have also been falling.

THE NUMBER OF APPROVALS OF SMALL BUSINESS LOAN APPLICATIONS BY THESE BANKS WAS ALSO AT A RECORD LOW IN 2022, SHOWING AN 80% FALL FROM 2021, WITH A DROP IN VALUE OF 59% TO £2.9BN – AGAIN, THE LOWEST ON RECORD.

While some of this fall may be due to increasing risk profiles of applications, the changes in the economic outlook and lenders' concerns are likely to have been factors as well.

Despite some of the more eye-catching falls in numbers, some grounds for cautious optimism remain. Challenger banks appear to be stepping in where the 'Big 5' have drawn back, with the former's share of lending in 2022 reaching a record high of 55% of the market, meaning over the longer term we may see greater choice and diversity of finance available in the market.

Smaller business growth also rebounded somewhat in 2022, having reached record lows in the previous year, although it remains below pre-pandemic levels. Official forecasts also now predict that the UK economy will avoid recession, albeit narrowly.

HOW THE BRITISH BUSINESS BANK IS ACTING THROUGH THE MARKET TO SUPPORT CUSTOMERS

We are committed to supporting access to debt finance for businesses and remain able to act countercyclically to provide that support. This part of our mandate is increasingly significant in the current climate.

UNLOCKING POTENTIAL

Our Start Up Loans programme provides vital finance and support for the very smallest businesses and entrepreneurs, with loan sizes of between £500 and £25,000 per individual. Often, these are businesses that might have struggled to get finance through more traditional routes. Free post-loan support and mentoring for all applicants helps increase their chances of success. Since the SUL programme's inception in 2012, it has provided more than 100,000 loans.

For a sustainable and prosperous UK economy to continue to grow, businesses right across the UK need to thrive. Our new Nations and regions funds, launching this year, will deliver a £1.6bn commitment of new funding through investment strategies that best meet the needs of the businesses in their localities.

These are being launched following the success of our Northern Powerhouse, Midlands Engine and Cornwall & Isles of Scilly Investment Funds over the last few years. The new funds will be composed of both debt and equity finance and seek positive returns for the taxpayer.

DRIVING SUSTAINABLE GROWTH

One or our main programmes to support smaller business lending is the Recovery Loans Scheme (RLS), launched in April 2021 after the closure of the Government's Covid-19 emergency loan schemes. Supporting term loans, asset finance facilities, overdrafts and invoice finance of up to £2m per business, RLS is designed to support their access to finance as they look to invest and grow and aims to improve the terms on offer to borrowers. Under the scheme, the British Business Bank provides the lender with a 70% guarantee against the outstanding balance of the facility, with the borrower always remaining 100% liable for the debt.

FUND THE GAP

BACKING INNOVATION AND GROWTH

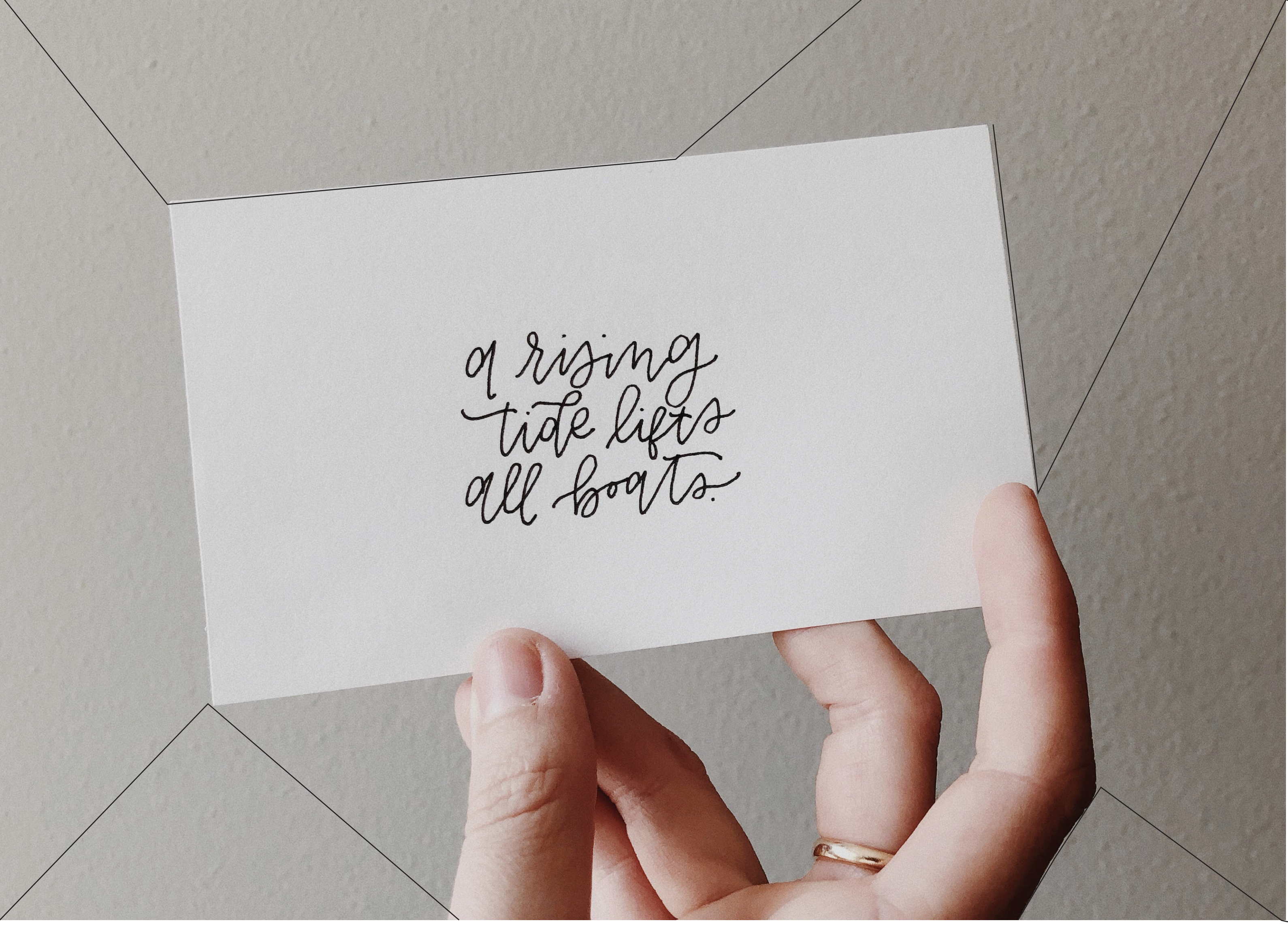
Through our British Business Investments subsidiary, we support established as well as emerging managers raising debt funds that lend to smaller, generally higher growth, companies with revenues of up to £100 million. These funds provide a range of products, including senior loans, unitranche facilities, mezzanine capital and venture debt.

The UK Government was one of the early investors in debt funds, providing capital to qualified alternative lenders in the aftermath of the financial crisis at a time when the major banks had scaled back lending. Since then, we have closely monitored the growth and performance of the resulting portfolio of loans, which has been successful.

WHOLESALE FINANCE

The Bank provides the ENABLE Guarantee programme to banks which lend to viable smaller businesses operating in the UK. This programme provides guarantees on portfolios of loans (rather than individual loans like RLS) to encourage additional lending to smaller businesses. A similar programme, ENABLE Build, operates exclusively for banks providing finance to smaller housebuilders. A third programme, ENABLE Funding, improves the provision of asset and lease finance to smaller UK businesses by enabling their finance providers to gain cost-efficient access to funding.

Through these programmes we are continuing to support the UK's smaller businesses, especially important in difficult economic times. We will continue to identify and tackle areas of the market where intervention is required so these businesses have the best chance of succeeding and growing in the future.



WHY NATIONS, LIKE BUSINESSES, NEED A CLEAR STRATEGY

PAUL GOODMAN
CHAIR | NACFB

NACFB
HELPING FUND UK BUSINESS

In the corporate world, the formula for success has been meticulously dissected, analysed, and interpreted countless times. Business magnates and thought leaders have consistently championed the quintessential element that underpins lasting success: a clear, coherent strategy. Yet, while businesses have been immersing themselves in strategy development sessions and painstaking SWOT analyses, there's a more colossal entity that stands to benefit from similar discipline - the nation itself.

Emerging from a series of once-in-a-generation events and transitions, the UK's need for a comprehensive industrial strategy is more pronounced than ever. While tactical measures can offer momentary respite, they are but sticking plasters to deeper systemic issues. The UK's path forward should not just be a series of reactive steps; it needs a grand vision - a clear path etched for businesses to confidently stride down, invigorated by the promise of a nation that knows where it's headed.

BEYOND BUZZWORDS AND BATTLEFIELDS

When we utter the word 'strategy', the images that traditionally flood our minds are those of boardrooms brimming with charts, or military generals hovering over a map. But to pigeonhole strategy into mere corporate lingo or to confine it to military manoeuvres is to misinterpret its depth and richness.

So, what exactly is strategy? At its core, strategy is the art and science of making informed decisions today that pave the way for a desired future. It's a harmonious blend of foresight, objectives, and the means to achieve them. It's not merely a plan, but a coherent framework that defines what an entity (be it a business or a nation) stands for, where it aims to go, and how it intends to get there.

Strategy is decidedly not a one-off activity, a checklist, or a short-term gambit. Nor is it a reaction to immediate challenges. Those are tactics - useful, but not a substitute for the broader vision. Imagine playing chess and focusing only on the next move without any consideration for the endgame; you might capture a piece or two, but you're unlikely to checkmate your opponent.

On a micro level, such as in a small enterprise or a local community, a strategy might involve identifying core strengths, understanding the desires of stakeholders, and charting a roadmap for growth or improvement over a set period. This strategic approach provides clarity and purpose, ensuring every decision and action aligns with the overarching goals.

When we extrapolate this to a macro or national scale, the intricacies grow, but the foundational principles remain unchanged. A national strategy involves gauging the collective aspirations of its citizens, recognising global trends and threats, and formulating policies that steer the nation towards a brighter, more prosperous future. It's about setting priorities, making trade-offs, and building bridges to the future while understanding the historical and cultural underpinnings that define a country.

In essence, the need for strategy, be it in a startup or a sovereign state, springs from the same human desire: to shape the future, rather than be shaped by it. It's the compass that guides entities through the uncertain voyage of time, ensuring that every tactical decision made en route is in service of the grander vision.

SHAPING THE CONVERSATION

Whilst the NACFB can and does champion tactical initiatives - such as the call for a rejuvenated Bank Referral Scheme or enhanced incentives for SME housebuilders - there's an underlying sentiment that's hard to ignore. These tactical proposals, as crucial as they are, must be components of a larger, holistic vision. Standalone initiatives can bring about change, but for that change to be transformative and lasting, it needs to be anchored within a comprehensive national industrial strategy.

There's a broad consensus among stakeholders regarding the pillars of a successful industrial strategy. These pillars have been distilled into five critical themes: skills, which dictate the workforce's proficiency; infrastructure, laying the foundation for commerce; finance, the lifeblood of enterprises; innovation, the engine of growth; and the overarching business environment that determines the ease of operations and growth.

It's within this context that the role of the intermediary comes into sharp focus. The potential of intermediary-led lending, as championed by the NACFB, isn't an isolated lever for progress. It's a piece of the larger puzzle. To truly harness the transformative power of intermediary-led lending, we cannot be content with merely elevating a single vessel. The NACFB's mission is grander: to aid decision-makers in grasping the broader vision, ensuring that as the harbour swells, every vessel, big or small, is buoyed by the rising tide.

The UK's future is shimmering with promise. By embracing a comprehensive industrial strategy, we are not merely responding to challenges but forging a path where innovation, collaboration, and strategic vision converge, leading the nation towards increased prosperity.

MORE THAN OUR MANDATE: LOOKING BEYOND THE BANKS

PRAETURA COMMERCIAL FINANCE MD LISA WOOD DISCUSSES HOW HER CAREER HAS BEEN DRIVEN BY A WANT TO LEND ON HER OWN TERMS...

Lisa Wood started her career in banking. With a clear gift for underwriting and strategy, she quickly excelled to senior positions in Manchester's flourishing finance industry.

On advice from early mentors, she surrounded herself with interesting people who she could learn from. Spending time at a number of reputable companies, she gained insight into how hundreds of businesses operated. Spurred on by SME leaders and their passion for their work, she helped orchestrate and fund an array of deals, transactions and arrangements of varying size, complexity and sector.

But despite her progression, the industry around her was changing. Whereas once a Finance Manager was given a degree of flexibility in their lending mandate, increasingly many banks were becoming process driven in their decision making. Discounting the nuances around a potential deal, she saw more and more SMEs' ambitions quashed by an increasingly convoluted funding landscape.

"The 2008 recession saw trust in banks suffer its worst hit to date. What many don't realise is that the banks also lost trust in their business clients. The damage it did to the relationship with our customers has never truly been repaired. As banks became more risk averse, SMEs faced an increasingly volatile economy. That's where the gap began," says Lisa.

"Over the last 20 years, we've seen businesses operate in ways we could've never imagined. Global rapid growth, cyclical changes, innovative revenue models and other new norms were established. And all this change scared a recently scorched banking sector.

"Unfortunately, tick box exercises for finance only work in a benign economy. Now it's adaptability not stability. That's the real hallmark of an SME's ability to succeed."

An increasingly archaic approach to risk wasn't the only thing frustrating Lisa. She also witnessed a growing distance between the client and the financier.

AN SME'S ROUTE TO FINANCE IS THE LIFEBLOOD OF THEIR OPERATIONS. WITHOUT APPROPRIATE FUNDING, THEIR OPERATIONS ARE STIFLED AND UNABLE TO REACH THEIR POTENTIAL.

"Whereas once routes to finance were simple to navigate, a shift in the banks' approach let down more and more SMEs. Unfortunately, their reduced risk appetite was amplified by a lack of client ownership and ease of communication. The banks' transactional view on lending was the catalyst to the challenges we see in the market today. The focus was drawing further and further away from the relationship. This led to the increased demand for a relationship led, independent offering such as that provided by Praetura.

WE FOUNDED PRAETURA COMMERCIAL FINANCE ON THE PRINCIPLE OF RELATIONSHIP-LED LENDING.

Working with an SME as a finance partner, not just a lender. One single point of contact throughout their relationship, direct access to decision makers, access to a variety of products and an underwriting process that looked at the business in a holistic way. These attributes were not new to finance; they used to be mainstays of the business-to-bank relationship pre-2008. Frustrated by the system ourselves, we knew we could grow a company with other bright, passionate people who wanted to help SMEs." Lisa adds: "Taking time to visit a client, working with them through hurdles and focusing on total client lifetime were the core ideals we founded Praetura Commercial Finance on. You grow, we grow. You succeed, we succeed. Working with Nicola, Peadar, Stuart and the wider team, we wanted to bring together those who'd faced economic cycles before and learnt the skills to help our clients. Whilst we're not an adviser, if we saw a problem, we looked for solutions.

BY ENGAGING WITH CLIENTS, WE SAW ISSUES EARLIER AND HELPED THEM ADAPT.

"We assessed deals based on product, market and most importantly management. By combining a prudent and data-driven approach to risk with a clear SME-first mindset, we won favour with our clients particularly in times of difficulty. For example, during the pandemic we advised and supported our portfolio when they needed it most. Calls at all times of the day, support with CBILs applications. Whatever it was, we were there to help.

"We've seen the same clients throughout their journey. MBOs, MBIs, growth, acquisitions all came back time and time again. Transaction upon transaction, as we offered a clear proposition they could trust with certainty of capital. "We now work with our other Praetura Group businesses to offer even more funding solutions, with an active introducer, broker and adviser base running in tandem, so our clients get the best foundation possible.

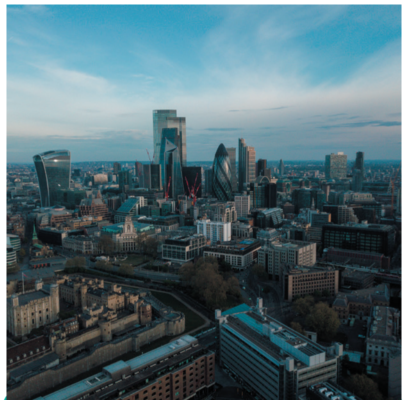
"When we first started, people thought we wouldn't last. But last year, we passed our £100m loanbook milestone with £550m AUM as a group. Praetura proudly do not box tick, and we plan to keep it that way."

LISA WOOD, FOUNDER & MANAGING DIRECTOR

praetura COMMERCIAL

THE CHANGING FACE OF ADVICE: SUPPORTING SMES WITH SUB-£10M DEBT RAISES

OLIVER REECE, MANAGING DIRECTOR, FRESH THINKING ADVISORY



Advice is a core part of the external finance journey, but the amount an SME borrows often determines the quality and availability of that advice.

Research shows that SMEs borrowing less than £3m will often be guided by commercial brokers while ticket sizes above £10m are commonly the territory of larger advisory firms. But what if you sit somewhere in between?

In this space lenders will often have sophisticated requirements but borrowers may be approaching the market for the first time. A growing number of specialist advisory firms are now looking more closely at this sub-£10m category, where businesses have had distinct difficulty accessing specialised financial advice when raising debt.

Oliver Reece, Managing Director at Fresh Thinking Advisory, says there are scores of interesting businesses in this bracket needing specialist advice due to the complexity of the debt market and challenges faced by SMEs in the sub-£10m space. Nonetheless, the issue facing these SMEs are that many are not always finding that advice.

ACCESSING DEBT FINANCE – DO SMES KNOW WHERE TO GO?

Having been a lender at Barclays and then a number of private debt funds, Oliver explains that he has worked with debt requirements from sub-£1m to over £100m, but his real passion is working with SMEs – first as a lender then as an advisor.

Among the many things he has seen in that time is a lack of awareness about the different types of funding solutions available to SMEs, not least in the ever-expanding debt financing space.

"There is significantly less exposure to debt markets for those businesses looking to raise less than £10m," Oliver says. "They're not aware of the different products out there, which is where good advice becomes essential to ensure SMEs in this space are able to meet their potential."

As Oliver points out, there is no shortage of businesses with interesting opportunities and challenges in this part of the market. Provided they have the right funding structure and advice, many can attain superior growth.

There are a large number of lenders seeking to fund these businesses but, unfortunately, a simple lack of experience in this type of transaction means many of these businesses are not able to access the funding they need alone, which is where the likes of Fresh Thinking Advisory are providing a service.

SOME SMES SIMPLY AREN'T LENDER READY

According to Oliver, one of the key frustrations faced by lenders is the readiness of SMEs when applying for finance – a point echoed by Shoosmiths Partner Natalie Barnes (later in this white paper). Oliver uses the example of the SME that sends their lender a very good 60-page business plan, not knowing that less than five out of those 60 pages will make the difference to how the lender views the opportunity. There may also be key information missing.

"The problem is the business often won't have been through a process like this before and therefore won't speak the lenders' language," says Oliver. "That's where we will add a lot of value as an advisor; by helping a business to better understand how it can appeal to lenders and helping to funnel this into a format that the lender will be able to assess and move forward with quickly."

Oliver goes on to explain that an SME undertaking an acquisition or M&A transaction will likely go to an M&A advisor, who will present the range of available routes. However, an SME that's just looking for funding for growth, overheads or staff increases will likely speak to their trusted advisors such as an accountant, their FD or a tax advisor, who provide a great service but may not be as experienced in how to successfully access the range of options in the more specialised debt market. This is where a good debt advisor can provide a complementary service that benefits all parties.

The issue with this is SMEs that aren't seeking the right advice can find themselves running into dead ends. "They ask the bank for funding, the bank says no, then they assume they can't get funding. That's it. There are very few people to challenge that conclusion," adds Oliver.

DEBT GETS A BAD NAME – A STRONG ECOSYSTEM COUNTERACTS THAT

Another prevalent theme among SMEs that haven't had much exposure to corporate debt in the past is that without the correct context they are often put off by the rhetoric around debt more generally, with previous teachings having strong emotional ties for them.

"If the business owner hasn't had corporate debt before, there's a natural kind of negative connotation around putting a facility in place. You think personal debt, you think credit cards - you think equity sounds a better option because it's not debt," explains Oliver. Again, this puts forward the importance of SMEs having the right advice in place, particularly when looking to preserve value.

What's interesting, however, is the regional differences. Speaking from his experience of the North, Oliver goes on to add that there is a lot of trust in the North's lending ecosystem, where reputation and good faith has been built up over many years between lenders and advisors. This has helped to cultivate a very tight knit financial community, which can provide comfort and confidence to borrowers. But what about SMEs who fall outside of those catchment areas, or don't readily have access to these relationships?

Ultimately, the ongoing health of the debt space depends on the ability of SMEs everywhere – especially in this underserved £3m-£10m part of the SME spectrum – to access the advice needed to unlock the alternative debt market in the first place. And from there, the funding that will fuel their growth.

"THE CHALLENGE IS THAT THE QUALITY OF ADVICE MANY SMES ARE GETTING AROUND DEBT FUNDING SIMPLY ISN'T FIT FOR PURPOSE"

PHIL TARIMO, HEAD OF DEBT ADVISORY, DOW SCHOFIELD WATTS

Dow Schofield Watts
Una Validiores

"We're seeing an inevitable trend where the likes of Praetura Commercial Finance and other alternatives are better aligned and better suited to SMEs' funding needs. In the banks' defence they haven't just reduced their appetite for funding SMEs for the sake of it. The reality is there are all manner of regulatory hurdles and costs that have forced all banks to flow down the same stream towards the lowest common denominator, as lending to SMEs is no longer sufficiently profitable.

There is, however, an issue around SMEs being aware of the alternatives and having the confidence to venture into what is an unknown space, especially as it's often far easier to just hope your bank delivers. We have this in-built preconception that the chief executive or founder of an SME is going to know everything. It's the same with CFOs in that if they've done one refinancing with a new lender in their career that's great. But to have done two or three or more is a rare beast, so there's a lack of experience in many SMEs. But it works both sides as well.

In the banks and larger institutions, you'll have a relatively small group of people (e.g. in a structured finance team) with the expertise to assess, structure and deliver more complex funding requests, whilst straightforward (generally smaller and fully secured) requests will be dealt with by either commercial managers or call centre teams using highly restrictive criteria (owing to the lack of specialist expertise). As a result, many SMEs fall through the cracks and get put in the 'too difficult' box, and the banks' focus moves elsewhere.

Naturally, this points to the importance of finding good debt advisory advice. But SMEs do need to work hard to find this advice. When we set up Deloitte Debt Advisory in 2005, there were only three small debt advisory teams in London; debt advisory didn't exist other than that. Now everyone is calling themselves a debt advisor when the reality is the majority of people haven't ever worked for a financial institution, let alone at a senior level; they're rebadged corporate financiers or accountants who know how to manage auction processes but not how to structure and negotiate detailed lending facilities. One of the reasons for setting up DSW debt advisory was to bring this unique level of senior lending experience to SMEs, as we've all individually lent hundreds of millions in our banking careers. I'd say a big part of the challenge is that the quality of advice many SMEs are getting around debt funding simply isn't fit for purpose and ends up being far more costly in the long run."

PHIL TARIMO

WHY WE DESPERATELY NEED TO ADDRESS OUR INDUSTRY'S SME KNOWLEDGE GAP

So many SMEs are driven by confidence, explains Natalie Barnes, a Partner at the legal firm Shoosmiths, who supports businesses towards the end of a lending transaction.

"SMEs often have multiple funding options available, and confidence in a lender will be at the heart of their decision making. This can create a challenge for independent lenders - SMEs know what they're getting with big banks and trust naturally follows; they don't have the same confidence in non-mainstream lenders who might actually provide a better option for their business," adds Natalie.

"It's about having the confidence to go with the right lender for your business, which might be a non-mainstream lender, and that often depends on having great brokers."

This is far from the biggest issue facing the SME funding landscape, but it does reflect a growing knowledge gap that – together with things like drawn out lending processes – is somewhat hindering the industry.

Put simply, many SMEs – particularly those who have never taken external finance before – often don't know where to start in the process. For instance, what separates a good lender from a bad one?

Outside of the lenders themselves, Natalie is among a growing number of people who feel there needs to be more support for SMEs during the actual deal process, particularly around documentation and forecasts, given the influence these have on lending decisions.

One of the common frustrations Natalie sees is around timeframes. To use an example: an SME needs a finance facility with a relatively inflexible deadline, be that to make payroll or capitalise on an MBO. However, because of the lengthy amount of time taken ahead of both an SME and lender's solicitors being involved, the final completion stages often must be rushed and squeezed into unrealistic timeframes, which creates tension and pressure.

So what is holding matters up in the initial stages? For Natalie, a major factor is many SMEs' ability to gather the correct financial benchmarks, documents and forecasts commonly required by lenders, particularly among businesses that don't have a CFO in place.

"The Broker market has definitely benefited from a bombardment of information requests that most people don't know how to deal with," says Natalie. Nonetheless, a degree of hand holding is still needed in some cases to help make up for this knowledge gap.

"Cost wise, can a lot of businesses afford to put someone in with this skillset? Lenders could help here by having a pool of resource and finding people who know how to work with lenders in order to get to the information that's required quickly and sensibly," says Natalie. "Most businesses can't afford to spend money to get money."

While not conclusive, barriers like these could be one reason why some SMEs try to avoid taking finance.

What therefore rings true is the need for greater education across the industry when it comes to SME finance access. Money Saving Expert, for instance, has turned much of the population on to areas like the energy price cap, stocks and shares ISAs and the difference between fixed rate and tracker mortgages. In turn, this has made individuals far more confident about managing their personal finances.

However, as many owner-operator SMEs know, there is seldom a go-to manual for SME finance, particularly when you haven't got the internal resource or level of financial know-how needed to navigate an increasingly expansive lending landscape, occupied not only by banks but a growing number of specialist independent lenders offering very different solutions. This has created the need for the industry to work together to help close the knowledge gap.

"PUT SIMPLY, MANY SMES – PARTICULARLY THOSE WHO HAVE NEVER TAKEN EXTERNAL FINANCE BEFORE – OFTEN DON'T KNOW WHERE TO START IN THE PROCESS."

NATALIE BARNES
PARTNER,
SHOOSMITHS

SHOOSMITHS

THE ROLE OF THE INTERMEDIARY: WHY FACE-TO-FACE LENDING LEADS TO BETTER FUNDING OUTCOMES

UK SMEs face a more challenging time in sourcing finance given the economic uncertainty and complex route many must take; that said, finance is out there if you prepare in the right way and have an expert navigator on the journey with you.

Whilst we have seen the rise of data-driven lending to make more informed lending decisions and offer more tailored products, often the proposal has a wrinkle of some sort and so we need to get under the bonnet - for me this is a contact sport; face to face engagement is more likely to return better results.

SEEMINGLY, GONE ARE THE DAYS OF YOUR BANK MANAGER SIMPLY AGREEING YOUR OVERDRAFT INCREASE. NOW IT IS ALL ABOUT GETTING A FULL UNDERSTANDING OF THE BUSINESS, ITS PEOPLE, ITS ENVIRONMENT, AND ITS FINANCIAL POSITION TO BETTER FACILITATE THE PROCESS.

Presenting the business in the right way to the right panel of funders that best fit the individual circumstances is essential. So too is taking the guidance of an expert. There are a wide range of financing options available to SMEs, so it is important to understand what is out there and what is the best fit for their specific needs.

Using an intermediary (this could be a commercial finance broker or debt advisory specialist) to help plot the journey is increasingly the most successful route. They are best placed to fit the solution to the problem and the right one will be taking the time to get to know the business and its needs, as well as keeping abreast of the funding landscape.

Leonard Curtis

KNOWING WHO NOT TO TALK TO IS AS IMPORTANT AS SPEAKING TO THE RIGHT PEOPLE.

Speed of response, certainty of completion as well as the flexibility or creativity of the solution are as important now as they ever were. What is often missing though is the hard work of planning and preparation before exploring the market.

Getting an information pack to hand, updating the financials, ensuring that a cash flow forecast is prepared and is robust with sensible assumptions is essential to the process.

IT ISN'T FAIR TO SIMPLY BLAME A FUNDER FOR A LACK OF APPETITE OR FOR NOT MEETING THEIR CRITERIA. THE ROLE OF THE INTERMEDIARY IS TO PROBLEM SOLVE, NOT ORDER TAKE.

Forward with purpose is the strapline of Leonard Curtis and is particularly apt here. Our people and reputation often put us in the right place to deliver practical business solutions. It is best we start planning early; don't wait until you need the financing before you start to think about it! The better prepared we all are the more options we can evaluate.

With careful planning and preparation, SMEs can successfully navigate the complex route to finance and secure the capital they need to grow and succeed.

GARY CAIN, HEAD OF FUNDING
LEONARD CURTIS BUSINESS SOLUTIONS GROUP

WILL BRAZEL,
REGIONAL SALES DIRECTOR
praetura
ASSET FINANCE

RELATIONSHIPS MATTER

According to the annual survey results from the National Association of Commercial Finance Brokers, lending to small businesses via brokers jumped 10% to £45 billion in 2022. In the same survey, data from commercial lenders stated that 70% of their new business in 2022 came via the broker channel.

Because of this, and as the spectrum of the commercial finance industry continues to diversify and grow, the role of the broker in assisting SMEs is arguably becoming increasingly important to help business owners navigate the range of funding options available to them.

THE ROLE OF THE RELATIONSHIP BETWEEN BROKERS AND FUNDERS IS FUNDAMENTAL TO ENHANCING THE RELATIONSHIP BETWEEN A BROKER AND THEIR CLIENT.

The customer's route to funding in an increasing number of cases is via a broker. As the broker is the intermediary it is part of their role to match that customer with an appropriate lender. Within that, it is the broker's job to understand the customer's needs as well as the funder's appetite, not just the funding they offer but the parameters they work within and the information they require.

The dynamic here is fundamental to the client's experience; if the broker does not understand how the funder works, the route to a decision could be long-winded. The same is true if the funder does not understand how the broker works.

The optimal result for all parties here only comes by committing time to the broker-funder relationship. The better those relationships are, the better the outcome for the SME clients.

IT TAKES TIME, BUT IT'S WORTH IT!

Relationships do not form overnight, so incremental progress is key to building a strong and trusting partnership. Only over time can we as a funder build a reputation for being easy to work with, commercial in our decision-making and delivering consistently in good time. A big part of this is also being able to say no quickly, or even recommending a different funding solution which would be more suitable for the client.

In a transactional sense, I find the best way to build the relationship is in evidencing the ability to deliver. For example, starting with a phone call about a potential deal and an indication that we'd be supportive, followed by an approval being issued and an efficient and prompt pay-out. That is where trust in deliverability is built, which incidentally results in a happy customer and broker.

MAKE IT PERSONAL

The way to forge stronger relationships between funders and their brokers is to make it personal. I have a genuine interest in the brokers I work with and get on well with them (most of the time!), which helps me enjoy the job that little bit more. It also allows for more frank conversations. Nurturing the relationship allows for a better understanding of each party's strengths, weaknesses, and areas of expertise.

The little things help too: always being available at the end of a phone and always being happy to talk a deal through goes along way. I think making sure to ask the questions that I think we will need answers to in the early stages is also important, which can save the frustrating back and forth between funder-broker-customer. This in turn helps the broker-client relationship and helps get funding in place quicker.

TEAMWORK MAKES THE DREAM WORK

Our team are here to act as an additional resource to the broker; be it the operations team who are on hand to assist with raising e-docs, liaising with suppliers or speaking with other funders on behalf of clients (to name just a few examples), or underwriters making client visits with the sales team or broker where there is a benefit in doing so.

There are many occasions where we are asked to consider a refinance or capital raising exercise, with a very brief outline of the requirement and a list of equipment. From there, we can jump in and get the additional information we need directly from the client, if that's easier for the broker, be it over the phone or in-person. The benefit of this is two-fold; we as the funder have the benefit of seeing the customer face-to-face, which generally has a positive impact on the process, and secondly it frees up time for the broker who can spend more time generating new business.

TIMES ARE CHANGING

Just in the six years I have been at Praetura Asset Finance, there has been significant change. There are more brokers and more funders than ever before, which makes for a competitive environment. Not to mention more modern approaches to financial decision making and the advent of artificial intelligence. In my opinion, there will always be space for the personal touch, particularly in the way Praetura works, so now more than ever, the value in investing in the relationship between brokers and funders is huge. The better those relationships are, the better the outcome for SMEs to get the right funding, at the right time and in the right way.

FUNDING FUTURES

As a funder, we want to continue to help more brokers assist their SME clients. We want our funding to help their clients' businesses grow and we want to play a role in their successes. We are committed to offering 'more than money' and the relationships we build with brokers and clients is fundamental to that.

BROKERS, LOOK FOR FUNDING PARTNERS WHO:

- will take the time to invest in you and your clients.
- are approachable and contactable.
- are honest, pragmatic and have a good grip on what they as a funder will or won't do.

Brokers should also take the time to invest in the relationship with the funder too. This will reap huge benefits for your clients, and happy clients mean repeat business.

TO BE, OR NOT TO BE?

MIKE GEDDES, GROUP COMPLIANCE DIRECTOR, AFS GROUP

Hamlet was contemplating life, but now many lenders and credit brokers working within the SME finance sector are posing the same question about remaining regulated by the Financial Conduct Authority (FCA).

The Consumer Credit Act (CCA) has been in place since the 70s and whilst the Act has been amended over the years, its purpose remains fundamentally the same: to provide protection to retail customers. However, nuances within the Act mean some SME lending falls within the regulations.

Up until the FCA taking control in 2014, the CCA was overseen by the Office of Fair Trading (OFT) who were a passive regulator, meaning a lot of SME lending was effectively self-regulated - not a bad thing when standards are high and on the whole they were. So, whilst lenders and credit brokers expected the FCA to make changes, maybe they were not prepared for the changes that would ensue.

To judge the impact, you need to understand the backdrop. Finance for business lending isn't a regulated activity, meaning you don't need to be authorised to function as a lender or a credit broker. The regulated activity relates to the party you lend to or act as a credit broker for. The Financial Services & Marketing Act (FSMA) states that regulated lending and credit broking takes place when you are dealing with a regulated party, those being Individuals, sole traders and partnerships of three or less. If you intend to offer regulated finance to any of these parties or credit broking on behalf of them, then you need to be authorised.

To further complicate things, the FSMA created exemptions that mean the finance offered to some regulated parties isn't regulated, so a lender that only offers exempt products doesn't need to be authorised. However, if you are acting as a credit broker in respect of those exempt products unlike the lender, the act of credit broking for a regulated party remains within the regulations, despite the agreement being unregulated. Confused? You should be.

THE IMPACT OF THE FCA

Authorised lenders and credit brokers always had CCA rules to comply with; they now must also comply with the regulators Principles of Business. These principles impact not only the regulated activity of the firm but also their unregulated activity. The principles are aimed at driving a positive culture and ensuring firms treat all their customers fairly. The principles are very subjective, meaning the majority of fines levied by the regulator relate to breaches of the principles of business not breaches of the rules.

Motor Finance – the regulator voiced concerns over pricing models where the credit broker controlled pricing. To address this the FCA banned discretionary commission models for motor finance products. However, the underlying problem was the ability for dealerships to dictate the finance the consumer could access. Removing discretionary pricing did not address the problem, as dealers continue to dictate the lender the consumer can access and therefore the rates and commission. Furthermore, independent credit brokers are no longer able to reduce the commission they earn to win deals. As a direct result of the new rules, in many cases rates have increased and competition has been removed, with brokers exiting the market because dealerships won't allow the consumer to use a lender not on their panel.

Principal & Appointed Representative (AR) Regime - a recent focus of the regulator has been the Principal & AR regime. They highlighted concerns around the level of due diligence, monitoring and oversight that principals were undertaking and introduced increased requirements and higher costs. Whilst this should have had a positive impact, many of the firms it impacted simply adapted their model to working with self-employed agents, sidestepping the new rules, expectations and costs, meaning the problems remain.

The Consumer Duty – arguably the biggest change to regulation for many years, the new principle has placed a huge obligation on lenders and credit brokers. However, the existing rules around exemptions have left many lenders and credit brokers confused as to their obligations, meaning credit brokers are concerned that they may no longer be able to offer some exempt products to regulated clients.

TO BE, OR NOT TO BE?

So, we come back to the original question - It will simply come down to whether the income generated from regulated activity covers the costs and the work required to meet the regulators' expectations?

Why should we be worried? Many businesses start life as sole traders or small partnerships, and if lenders and credit brokers decide being regulated is too complicated and costly, UK businesses could be fundamentally undermined. The sector accepts the need for standards and rules, but the rules need to reflect the risk. If the regulator fails to acknowledge this, we run the risk that small businesses simply will not have access to the funding they require.

AFTER A 15-YEAR BOOM, WHERE IS THE ALTERNATIVE FINANCE SPACE HEADED NOW?

KERRY BAILEY, BUSINESS RESTRUCTURING PARTNER, BDO LLP

Prior to the 2008 financial crash, business owners facing the prospect of insolvency or financial challenges tended to have one or two ports of call for SME finance after exhausting the major banks. Then everything changed, explains BDO's Business Restructuring Partner Kerry Bailey.

As banks became more and more guarded, a new wave of lenders arose, able to fill the funding gap left by the banks and later laying the foundations for the vast alternative finance space we know today. With that came the rise of challenger banks, who've also contributed significantly to the alternative lending space with a nimbleness not always associated with household clearing banks.

"Pre-Covid, there was this huge boom in ABL specialists offering SMEs access to finance. Traditionally, before the challenger banks were in the market, everything was very much centred around the clearing banks and a small number of other lenders," adds Kerry. "But the market has evolved so much that you've got a whole spectrum of challenger banks and lenders in various tiers, based on affordability, risk appetite and other factors."

THE RISE OF ALTERNATIVE ROUTES: ABL'S RAPID EXPANSION

It's not just challenger banks, of course. It was during the period following the 2008 financial crash that institutions such as Praetura Commercial Finance and its contemporaries emerged, offering SMEs alternative routes. As Kerry points out: "ABL developed as a lending product from invoice financing and debt factoring to more sophisticated forms of ABL packages, covering stock, property trade debtors..."

THE IMPACT OF COVID, FROM DISRUPTION TO NORMALISATION

Born out of necessity more than anything else, SMEs have – over the years – benefitted from this expansion of the ABL market as well as a low Bank of England base rate.

Elsewhere, much of the alternative finance market has been itself driven by events. Outside of the financial crash, few events have impacted the market like Covid, which saw a wave of government-backed Bounce Back Loans and the rise of CBILs, delivered by a vast number of independent lenders. This, explains Kerry, naturally saw traditional ABL products dip significantly. But now the market appears to have normalised again, where are we headed now?

15 YEARS AFTER THE 2008 CRASH, WHERE ARE WE HEADED?

Casting an eye to the future, Kerry believes we'll see fewer and fewer new lenders entering the space now. Kerry says: "I think there will possibly be a slowdown in the number of new entrants into market in terms of new lenders. I wouldn't say the market is saturated but there has been such a surge that I think a new entrant would find it difficult because the market is now covered."

Despite this, one newer trend, adds Kerry, is the rise of private equity houses 'buddying up' with ABL lenders in special situations, where there is an issue, liquidity event or high-risk opportunity. By drawing on the knowledge of ABL players and others in the alternative space, private equity houses are taking advantage of higher risk but potentially high reward situations.

Above all, outside of lenders, the ultimate winner of this 15-year boom has been SMEs, who have benefitted from a proliferation of funding options not previously available. In Kerry's own words, levels of insolvency have been falling as a result of businesses having more choice when it comes to funding.

THE PARADOX OF CHOICE IN SME FINANCE

"Growing our business from Yorkshire and interacting with thousands of SMEs has given us a unique view of the challenges they face when it comes to finance.

Ultimately, whilst greater choice in finance options has been a real benefit to the SME population, this choice brings complexity. The broker market plays a key role in helping SMEs navigate this landscape but finding the right broker is also a challenge in itself. Advice has become so specialist nowadays, the 'general' SME looking for 'capital' often struggles to find the appropriate support. We still see a lot of wastage in this space so expect there's still work to be done.

Choice has led to further issues for SMEs. Many mainstream banks struggle to respond in a timely manor to the accelerated timeframes many smaller companies now need to operate on. Transactions and other commercial activities can suffer from lengthy processes typically found in traditional banking.

On the other hand, faster neo-banks often struggle to match the capacity and limits offered by the high street lenders, so SMEs again must expend time and cost making these decisions to find the best fit.

The reality is most SMEs will go to their bank first. But what happens when they're turned away? Independent referrals was a promise made some years ago but this market didn't materialise and fulfil its promises. Whilst some work has been done to support these refused SMEs, this is still an area with untapped potential where we could support more businesses with access to finance."

NICK SMITH,
GROUP MANAGING DIRECTOR,
REWARD FINANCE GROUP

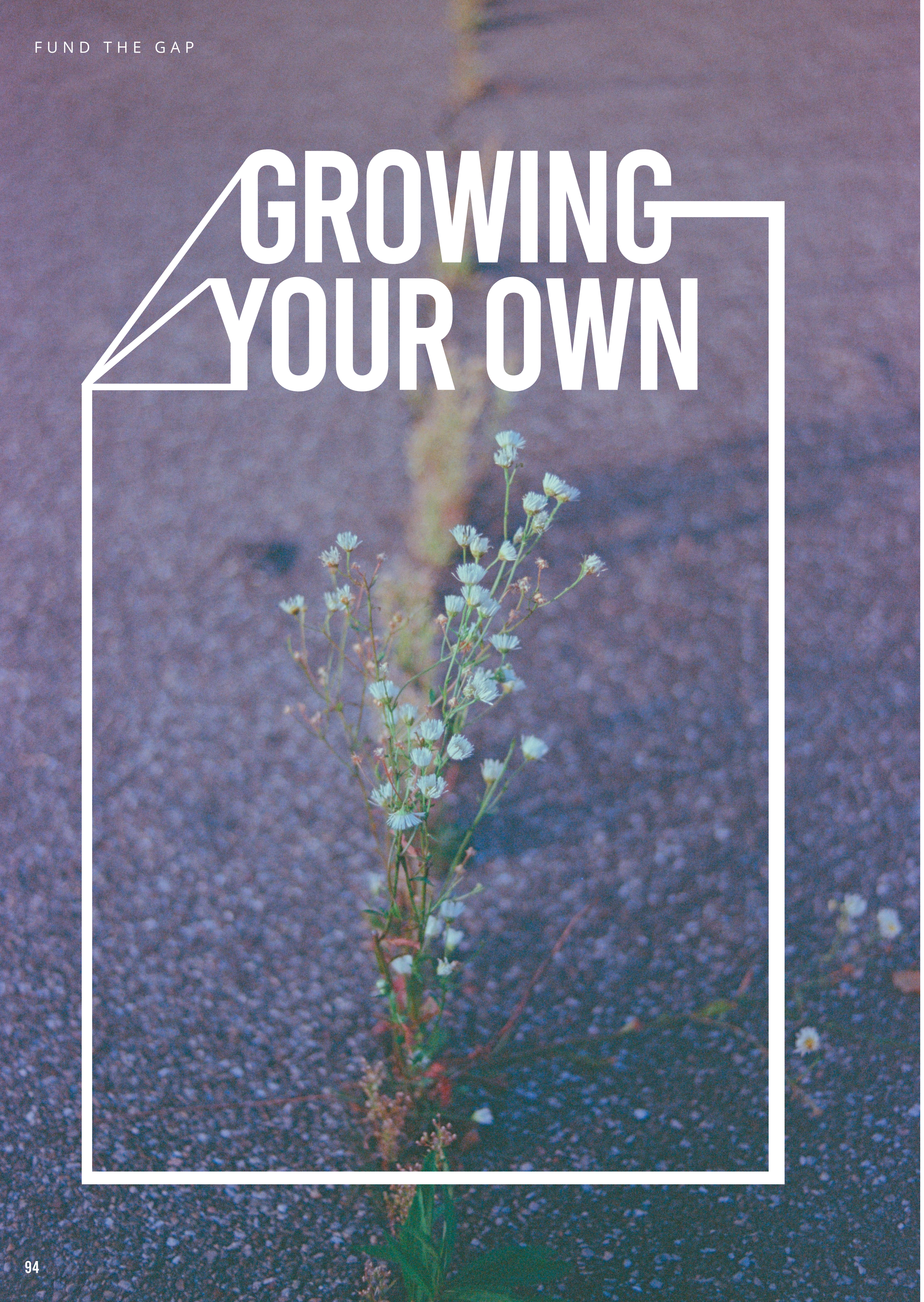
Reward
finance group

SECTION FOUR

FUND THE GAP

FINANCING IN THE FUTURE

WHAT'S THE OUTLOOK FOR THE COMING YEARS?



GROWING YOUR OWN

FUND THE GAP

LOOKING FOR THE NEXT GENERATION OF TALENT IN THE SME LENDING SECTOR

When considering the financial services sector, there are traditional stereotypes that many often think of: the bank manager, the accountant, the data analyst… but it is also a sector which is expanding and increasingly striving to innovate. For this to happen, recruitment strategies need to adjust accordingly too.

An ever-adapting industry that needs an ever-adapting attitude to attracting new talent.

The total number of people employed in financial services in the UK is approximately 1.1 million. If related professional services are included, the number then rises to more than 2.3 million. It is a resilient sector with the numbers holding around these levels for over a decade, but it is a sector that's growing. Last summer job vacancies for the UK financial sector were the highest on record, a trend which is expected to continue. This is especially true within the sphere of specialist finance for SMEs, where a new wave of independent finance companies are challenging the stereotypes.

CHALLENGING THE STEREOTYPES

Back in 2013 when Praetura Asset Finance (PAF) was co-founded by the Praetura Group, it was the first independently owned asset finance funder to enter the UK marketplace in 15 years. The challenge was to 'do things differently' and forge a new era for SME funding. One of the ways the team at PAF started to do things differently was by looking at how to bring talent into their company from a different angle by establishing a graduate business development programme within their formative years.

"Expertise, knowledge and experience are very important facets for any team, particularly when you're a funder striving to work in partnership with brokers and their SME clients: to offer advice and information as well as funds. But if you're looking for longevity in the market you can't rely only on employing those who have experience. You've also got to look to teach a new generation the knowledge and build up that level of expertise from within. This is why our graduate training programme was established and why we now have apprentices joining our team too: building the foundations to spur on a new generation of talent for the financial services sector."

praetura ASSET FINANCE

RIC SIMMONS, MANAGING DIRECTOR, PRAETURA ASSET FINANCE

Over the past ten years, Praetura's Lending Division has grown significantly (starting with Praetura Asset Finance and now comprising five companies with a lending book in excess of £350 million). During that time the graduate training programme has also expanded across the whole of the Praetura Group. This is now called the Summit Programme and it encompasses a range of roles including business development, underwriting and accounts.

SPEAKING FROM EXPERIENCE

An early pioneer on Praetura's Graduate Programme was Hannah Goodall, who joined the Group in 2019 as a graduate Business Development Manager with Kingsway Finance.

Hannah shared with us her thoughts about the experience, key highlights, and advice for both graduates and businesses considering going down the graduate training route...

THE APPEAL

A graduate scheme particularly appealed to me because of the time it gave you - time to learn all aspects of the business, sitting with different departments such as the operations team or credit, so that you're understanding what the processes are, why they're done and how everything works. In essence I was allowed to learn about the business first before my role as part of the sales team.

Another really important factor for me was the support. I think personally I would have struggled going into that kind of role without the support the scheme offered. Without the graduate scheme there would have been more pressure, but with it I was able to relax a little knowing that everyone was invested in my learning.

I had looked at other graduate schemes, but many seemed very intense and really corporate. Yes this was obviously a corporate role at Praetura, but it was more than that; it focused on the people and the relationships between different departments and different companies. And it was more personal, not regimented. It was training that worked with your abilities while allowing your skills and your personality to develop.

THE ASSISTANCE

Being on Praetura's Summit Scheme has massively helped my career already and I think the confidence it's given me is the main thing. By the time I was 'out on the road' travelling to meet brokers I was confident and comfortable, and that's because I had been given the time to learn so much about the company, what we offer, how we offer it and how that helps both brokers and their SME clients.

The level of learning and development is not something I think I would have got if I had gone for an entry level role without the structure of the grad scheme. I don't think I would have felt as invested in, which probably would have impacted negatively on my confidence to be able to do the role. Being on a scheme like Summit, there's a different level of expectation and I felt like the team, through their help and their teaching, were invested in my success as much as I was invested in wanting to be a success.

I was 24 when I joined, and I was at a bit of an in-between stage: my further education had ended but I wasn't sure if I was quite ready for the big world of scary corporations. The grad scheme was an ideal stepping-stone to the next stage of my career.

I feel like my professional and my personal growth have gone hand in hand over the last four years and that is down to the people here and this organisation.

I have also been able to learn from observations of the range of ways that people from other divisions across the Group approach different situations and conversations, and how to tailor your pitch dependent on who you're talking to. Knowing your audience is one of the key skills I have learnt.

Being able to pass that knowledge on is also key. There is now a mentorship element to my role, as alumni of the graduate scheme are now helping to train the new people that join the programme, helping it to adapt and develop. So there are different layers to the graduate programme as more people go through it.

THE FUTURE

What has really surprised me about the SME funding sector is how relationship based it is and how heavily it revolves around the service it provides and the people providing it. It is very different to what my perceptions of the industry were. From the outside looking in, you can understand how people could assume it's computers and algorithms making the decisions, but when it works best is when it's led by relationships: the relationships between SME clients and their brokers and the brokers and their SME funders. It all revolves around that, which is why I believe investing in the people working in this sector is so important and a graduate training programme is a really valuable way to do that.

The fact that we are directly helping businesses to survive, grow and thrive is very rewarding. We're doing something that makes a difference. Having a graduate training programme and bringing through the next generation of talent that way can really make a difference too.

It's also worth noting that this is a two-way street: graduates on a training programme will teach businesses new ways to do things too. So, it's not just a case of graduates learning from a company. The new generation of talent in this industry, through graduate schemes, will be able to teach businesses new ways to look at things and new ways to do things as well.

TOP TIPS

If I could look back on my own journey and advise new graduates thinking about what career path to take, my top three tips would be:

HANNAH GOODALL, REGIONAL SALES DIRECTOR

1. TRAVEL FIRST

I think what you gain in terms of your growth, without even realising it from travelling, teaches you so much and prepares you in so many areas of your life.

2. DON'T PANIC

It doesn't matter how many times you get rejected because when you find what fits you, whether that's a graduate scheme, entry level role or something else, you'll be so glad you got rejected when you get the job you really want!

3. TRUST YOUR GUT

If it doesn't feel right, don't force it. It is important to consider the culture of a company as well as the specifics of a role. Make sure it's the right fit for you.

THE ROLE FOR EDUCATION AND SUPPORT TO ATTRACT SME LEADERS FROM A VARIETY OF BACKGROUNDS

HAROLD BRAKO, PARTNER & HEAD OF MANCHESTER OFFICE, ADDLESHAW GODDARD LLP

ADDLESHAW GODDARD

"My role as AG's Manchester office head, lead partner in AG's DE&I initiative, and co-head of our Financial Services Sector, has given me a unique overall view point of the different markets.

From that vantage point it is clear that better education for leaders is needed based on their sector, background and company size. This education needs to be tailored to their challenges.

Leaders are time poor and may be from a variety of backgrounds. We can't just presume they know it all simply because they own the company. I have been involved in and admired mentorship schemes that have helped solve some of these problems but this is only the beginning.

'AG Elevate' has helped us offer pro-bono support to budding young businesses at a critical point in their growth, and some of our sponsored businesses have now become substantial scaled up companies.

We're keen to expand this in the future to help more entrepreneurs from a variety of backgrounds."

FUND THE GAP

The alternative finance industry has benefited from an incredible influx of new talent. Whereas once we'd lose out on top performers to the accountancy big four, the advisory sector and established institutions, we are witnessing a growing trend of talent turning to our industry where they can make a real impact and bring different skill sets to enhance our industry.

This inflow of talent has added a vibrancy to the sector, whereby these new recruits benefit enormously by learning from those with multi-economic cycle experience and engrained skill developed through years in the industry. And even more encouragingly, we are seeing a vastly more diverse demographic choosing to have a meaningful career in the finance sector.

Specifically at Praetura we have benefited from the work our People team have done in collaboration with the senior leadership team, such as launching our successful graduate and trainee scheme.

Despite the technical nature of our industry, this sector is largely people-driven, and most failures stem from when industry leaders forget that. When we started Praetura we wanted to create a business where people were only limited by their aspirations, and it's a vision we will continue to work towards."

PEADAR O'REILLY
CEO, PRAETURA LENDING

RUTA MAKUNAITE
TECHNOLOGY DIRECTOR
praetura

THE FUTURE OF FUNDING THROUGH TECH ENHANCED LENDING.

FASTER LENDING DECISIONS THAT KEEP RISK EXPERTS AT THE HEART OF THE DECISION-MAKING PROCESS

For years the debate surrounding tech's place in alternative finance has waged on. But with advancements in AI and better access to data, more conversations are playing out around tech.

Praetura's Director of Technology, Ruta Makunaite, is an advocate for using tech to bring about efficiencies in the lending journey, with the aim of speeding up lending decisions. But Ruta has also worked in the industry long enough to know there are a unique set of challenges specialists lenders face.

One of the biggest limitations concerns artificial intelligence and its parameters. It is one of the reasons why lenders have not embraced AI in the same way that other industries have, such as cybersecurity and, to some extent, traditional banking.

For Ruta, many of the barriers preventing the widespread adoption of AI in lending come down to the need for nuance and human common sense.

"You can't make a nuanced decision with machine learning," says Ruta. "Lenders want to be able to see all the information and understand if the facts outweigh any red flags. An AI model will deem this a bad idea or make a reckless decision. AI doesn't have the same level of common sense."

That said, tech that empowers rather than replaces those closely involved in the lending journey can have significant advantages, particularly when it comes to the speed of lending decisions.

Earlier this year, Praetura Group released Praeview, a powerful tool that draws on sophisticated decision-making technology and over 25 years of SME lending data. Pronounced preview, the platform is designed to provide same day lending decisions – often within hours – and onward risk monitoring. Instead of replacing decision makers, the tech removes much of the manual burden and is even capable of plugging into systems used by brokers to create a more seamless experience for everyone.

Praeview works across four key stages. The journey begins with the Connect stage, which accelerates the loan application process by integrating with brokers, banking institutions and technical partners and accessing multiple data sources in real-time to give an indicative lending decision. This is followed by the Inform, Assess and Monitor stages, where capabilities range from assessing the likelihood of loss or default to bespoke reports which aid human monitoring of customer relationships.

So far, the technology has been incredibly valuable to our Praetura lending businesses. By drawing on key sources to summarise data faster, we have been able to make lending decisions in a quarter of the time it took previously. This has freed up our decision makers, so that they can spend more time with the businesses we fund and use their experience to put together bespoke funding packages and facilities for each SME.

This is fundamentally different from trying to solve problems by replacing everyone with AI, adds Ruta. Just because the data around SMEs is of higher quality now, it does not mean that AI can replace experienced lending professionals who have years of experience and past case studies to draw on – and nor should it.

As Ruta explains: "We deal with slightly trickier situations in the alternative lending space compared to the B2C lenders and banks. We're always looking for a reason to lend, rather than a reason not to lend, which is more the case for big banks."

Ruta goes on to explain that the data that feeds banks can be more black and white, whereas it's up to those in the alternative finance space to dig a bit deeper into the responses from credit agencies and various other data sources. And, in some cases, this even extends to finding new data sources that are unique to your corner of the market. "You have to build clever ways to better understand businesses and get your own data," adds Ruta, while laying out a key argument for tech adoption.

On the subject of B2C lending, Ruta predicts that a growing willingness to embrace tech and move faster with the times will likely see B2B lending processes fall more in line with the B2C sector. Ruta says: "I think we will see a more B2C-like experience soon, where more of the lending journey takes place online with support through finance experts running in tandem. It's likely that we will see a larger degree of change between businesses that have invested in tech and those siding with tradition."

But again, tradition needn't be a dirty word. As we know in this sector, face-to-face contact, relationship management and site visits are all part and parcel of the lending journey. It's just that where actual lending decisions are concerned, it makes sense that both lenders and brokers are empowered by tech rather than opposing its use for fear that it will replace specialists.

FIND OUT MORE
AT PRAEVIEW.COM

praeview

LENDERS WITH A MISSION... THE IMPACT OF THE RISE OF COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

Just in case you have never heard of them before, Community Development Financial Institutions (CDFIs) are mission-driven lenders. Having a social purpose is their priority motivation (rather than profit distribution) with their focus being to tackle financial exclusion, to serve the underserved, with Environmental, Social and Governance (ESG) factors embedded into everything that they do.

CDFIS PLAY A VITAL AND INCREASING ROLE TURNING A "NO" FROM BANKS AND OTHER LENDERS INTO A "YES"

"They believed in me" is what CDFI customers often say about their experience with a community lender. Looking at lending to businesses in particular; whether that is a self-employed electrician who needs money to fix their van, a community enterprise that tackles food waste in need of new premises, or a local bakery seeking cash flow support to cope with rising prices, CDFIs are making a difference.

IN 2022 CDFIS LENT £248M TO 95,000 CUSTOMERS,

A 20% INCREASE IN LENDING AND 22% GROWTH IN CUSTOMER NUMBERS

It is possible to further unleash the power and impact of this sector within the finance industry through greater access to appropriate and flexible capital, policy changes to improve the operating environment for CDFIs and by increasing awareness that they exist.

CDFIS ARE A COILED SPRING

Twenty CDFIs lend to small businesses across the regions of the UK. They are a proven route for getting funding to SMEs where it will have the biggest impact and concentrate their lending in the most deprived areas of the UK. 99% of the SMEs CDFIs' funding supports have been unable to access finance from other sources.

£81M LENT TO 3,230 SMALL BUSINESSES AND START-UPS

50% OF BUSINESSES SUPPORTED WERE BASED IN THE UK'S 35% MOST DISADVANTAGED AREAS

Responsible Finance's Impact Report highlights the growing role for CDFIs and the increasing number of ways they are making a difference. They make strong reliable partners because they have unique reach into underserved markets, they have a track record, measure their results and are focused on getting the very best outcome for their customers.

The next step? To help increase the support that CDFIs can offer SMEs there are three next steps for policymakers, banks and stakeholders:

1. **Help CDFIs scale up their capacity**
2. **Increase investment in CDFIs**
3. **Boost awareness and understanding of CDFIs**

CDFIS IN ACTION... ENABLING AN ETHICAL AND SUSTAINABLE SCHOOL UNIFORM COMPANY TO GROW

Sean Murphy is the managing director and co-founder of Etika Clothing. His Gateshead-based firm wants every child in the UK to have the opportunity to wear an ethical uniform.

Murphy's long career in Fair Trade, international development, change management and social enterprise had opened his eyes to the dark underbelly of the textile industry: "Many of the clothes we wear come through modern day slavery in the garment industry, with atrocious conditions where most uniforms are made, including in Pakistan, the Philippines and Bangladesh, where a building full of garment factories collapsed in 2013, killing 1,134 people."

His work led to a meeting with entrepreneur and campaigner, Padma Kapoor, and a visit to her factory in Gujarat, India.

"It was even better than all the factories I had visited in my time at Traidcraft. Padma and I realised we could create a unique ethical manufacturing partnership between the UK and India, with full transparency of the supply chain." Kapoor's factory already supplied Armani and JoJo Maman Bébé, and she became a shareholder and director of Etika Clothing.

It's a clean and direct supply line from India to the UK," Murphy adds, "with no-one else taking money out. So the quality is amazing – it's second to none – we have 100% certainty that our uniforms are made in a factory with safe working conditions. We also have full transparency with a clear breakdown of product and labour costing. This ensures that salaries are above the regional average with built in bonuses to guarantee our workforce are a valued link in our supply chain."

Launched in 2019, the business currently supplies uniforms to 20 primary schools. "I thought our USP would be about ethics, which it is," Murphy adds, "but strangely it's also about customer service. Parents are fed up of the stress caused by everyone ordering uniforms at the same time and then waiting for them to be personalised and delivered. Because of our structure, we can get orders out much faster than people are used to, complete with embroidered logos of each individual school. They seem to think it's a dark art, but to us it's the best way to do business."

A £20,000 Small Loan Fund investment in April 2022 from CDFI NEL Fund Managers helped Etika enhance its business development activity and employ a skilled team to meet growing demand. Murphy says NEL "offered the right financial option for our particular needs and the investment team worked closely with us."

Business partner and co-founder David Beavis concurs, pointing out the funding came with valuable business support too.

Murphy and Beavis expect to create several new jobs as the business expands to become a national brand – in 2022 it started working with its first London school on top of 20 primary schools in and around the north-east. The firm works with local councils and subsidises uniforms for children living in lower-income or financially vulnerable households, so everyone can wear an ethical uniform. It also partners with schools to run workshops to help children gain a better understanding of injustices in the garment manufacturing industry; and works with several charities in India to provide employment opportunities for vulnerable women who are survivors of domestic abuse. They are paid to make Etika's packaging for orders: reusable cotton bags from supply overstocks and material donated by corporates.

"It's easy to despair at practices endemic in modern business. But despair alone doesn't cure anything. Etika is the antidote to slavery-dependent, throwaway, fast fashion. It's a thriving firm on course to double turnover and create more jobs in the UK and India, with ambitions to transform and disrupt football kits and workwear as well as school uniforms. "The schools and parents believe in us. And NEL believed in us when we needed investment," says Murphy.

THEODORA HADJIMICHAEL, CEO, RESPONSIBLE FINANCE

Responsible Finance — We are the voice of the Responsible Finance industry

FROM CARD TERMINAL ADVANCES TO LOWERING THE BARRIERS TO GREENER CHOICES: HOW BROKERS ARE HELPING TO CLOSE THE GAP AND SPARK OPPORTUNITIES FOR UK SMES

TOM PERKINS, DIRECTOR AND CO-FOUNDER, CHARLES & DEAN FINANCE

The funding landscape has changed significantly over the past several years with greater competition among lenders and more independent players in the market, but so too has the role of brokers, with some corners of the profession diversifying and providing more value than before – to their clients and the market.

Tom Perkins is the director and co-founder of Charles & Dean Finance, a brokerage based in London and the Lincolnshire town of Stamford. Like many brokers, he is attuned to the challenges facing SMEs, including high interest rates.

What Tom is also seeing is a funding landscape that's becoming more complicated, leaving less industrious parts of the SME market to turn to quick, self-serve solutions, which are often expensive and not geared to their ambitions. One example of this is the media industry. It's something that Tom, along with the team at Charles & Dean, is trying to change with better education about the sector and its opportunities.

A LANDSCAPE THAT SUITS SOME SECTORS BETTER THAN OTHERS

As Tom explains: "There are production companies that need to make regular capital investments into lenses, sound technology and other specialised equipment, but these industries find it harder to access finance from generalist asset finance lenders. What we're trying to do is educate those generalist funders more on these asset types to get them more comfortable with disposal routes and to look at these businesses as if they were in construction or farming."

Outside of TV and film, Tom also points out that hospitality companies are struggling, due to SMEs falling between the cracks of the criteria needed for a business loan, with many unable to demonstrate three years of profitable trading, due to significantly scaling back operations during the pandemic.

Tom says: "If you're a restaurant, a pub, a hair salon or a business on the high street, you may know what your aspirations are, but you'll often have no idea about how to achieve these goals through funding, so the value of us being a conduit between SMEs and a lending landscape that's growing more complex is only increasing."

WE'VE HAD TO SKILL UP IN RESPONSE

With many SMEs struggling for finance, Tom describes how Charles & Dean have invested more time in educating themselves around new products to provide a better level of service to businesses who are 'used to being told no'.

Using bars as an example, Tom says: "We skilled up around a new product called Merchant Cash Advance (MCA) last year, which effectively advances funds against a business's card terminal takings. If a business were to take £100,000 a month from card terminal takings, we could, in effect, advance anywhere between 100 to 200 per cent of that average monthly card taking position because a proportion of every pound made from a transaction is shared between the merchant (e.g. Stripe) and the funder."

But aside from skilling up on new products, as brokers have previously done with lending routes such as invoice finance, how else are brokers pivoting to address the funding gap?

HAVING AN IMPACT AT A LOCAL COUNCIL LEVEL

Like every part of the SME space, ESG is becoming an increasingly large focus, with businesses all too aware that they need to invest time and effort into new skills, equipment and carbon offsetting.

Tom and the Charles & Dean team have approached this new challenge by taking a local government approach. Inspired by various government-backed clean air schemes around the country, Tom pitched to his local councillor to secure a pot of funding which could be deployed into businesses to help them go green.

The result proposed is a £1m government-backed funding scheme that would enable local businesses in the South Kesteven district of Lincolnshire to make capital investments into green equipment, such as having electric vehicle charging points on their premises, by accessing up to a 30% local government grant with matched funding through asset finance or a loan.

"Effectively what we're doing is bringing the barrier to entry down for businesses wanting to go green. Any business that has an aspiration to go green is facing up to the reality that they may like to be more environmentally friendly, but this may not be business critical, given the cost of operating a business right now."

DISTILLING THE INFORMATION TO THE SME MARKET

As well as being a conduit between SMEs and lenders, Tom believes there is an opportunity for brokers to increase awareness of public funding opportunities and work with government at all levels to ensure that SMEs are supported, especially when their goals (e.g. investment in ESG) are in the national interest.

Above all, however, what's clear is that the role of brokers is changing, with more brokers educating themselves on more complex lending products – including those that traditionally fall outside their focus – to help move with the times. That more brokers are using this knowledge to educate lenders, e.g. on the merits of lending to certain sectors they may not have previously considered, is also a positive in the bid to close the funding gap.

THE RISE OF ELECTRIC VEHICLE FINANCE: EMPOWERING THE TRANSITION TO A SUSTAINABLE FUTURE

LEE WISEMAN,
MANAGING DIRECTOR,
WISEMAN FINANCE

As the global drive towards sustainability gains momentum, one of the most significant and visible shifts is the increasing adoption of electric vehicles (EVs). These innovative and eco-friendly vehicles not only contribute to reducing carbon emissions but also offer a more cost-effective alternative to traditional petrol or diesel-powered cars. To facilitate this transition and make EVs accessible to a wider audience, the world of finance has responded with tailored solutions, opening up exciting possibilities for consumers.

THE GROWING DEMAND FOR ELECTRIC VEHICLES

Electric vehicles have undergone a remarkable transformation in recent years. Advances in technology have resulted in longer battery range, improved charging infrastructure, and a broader choice of models available to consumers. These developments, coupled with heightened awareness of climate change and increasing government support, have fueled the demand for EVs.

A PARADIGM SHIFT IN AUTOMOTIVE FINANCING

As electric vehicles have gained traction, traditional financing models have had to evolve to accommodate this burgeoning market. Recognising the unique financial considerations associated with EVs, specialised financing solutions have emerged, enabling individuals and businesses to transition to electric mobility seamlessly. Wiseman Finance Ltd is a commercial finance broker and in the past 12 months we have seen a spike in businesses opting for electric vehicles over and above traditional types of vehicles.

ELECTRIC VEHICLE FINANCE OFFERS BENEFITS SUCH AS:

Affordability: Purchasing vehicles involves a significant upfront cost. However, vehicle finance options, including lease agreements and financing plans, allow individuals and businesses to spread out the cost over time. This makes EVs more accessible and attractive to a wider range of consumers.

Tax Incentives: Many countries offer tax incentives and subsidies to promote the adoption of electric vehicles. Finance experts are well-versed in understanding the intricacies of these incentives and can guide customers to maximise their financial benefits.

Lower Running Costs: Electric vehicles have lower operational expenses when compared to their fossil fuel counterparts. Savings on fuel, maintenance, and reduced carbon emissions contribute to substantial cost savings over the lifetime of an electric vehicle. Electric vehicle finance providers take into account these potential savings, offering tailored financial solutions that align with the overall cost-effectiveness of EVs.

Environmental Impact: Financing electric vehicles not only benefits the buyer but also contributes to the broader goal of reducing carbon emissions. By promoting the switch to electric mobility, finance providers play a pivotal role in shaping a sustainable future.

THE ROLE OF ELECTRIC VEHICLE FINANCE PROVIDERS

As the demand for electric vehicles rises, specialised finance providers have emerged to cater to this evolving market. Companies such as Wiseman Finance have recognised the need for expert guidance in navigating the intricacies of electric vehicle finance. By collaborating with automotive manufacturers, dealerships, and financial institutions, these providers offer comprehensive finance solutions that meet the unique requirements of customers seeking to embrace electric mobility.

THE FUTURE OF ELECTRIC VEHICLE FINANCE

The popularity of electric vehicle finance is set to grow as the automotive industry transitions towards an electrified future. Increasing competition among finance providers will likely result in more flexible terms, reduced interest rates, and innovative solutions that cater specifically to the needs of electric vehicle owners. Additionally, advancements in technology, such as vehicle-to-grid integration and battery leasing, will further reshape the landscape of electric vehicle finance.

CONCLUSION

Electric vehicle finance has emerged as a crucial enabler in the transition towards a more sustainable future. By addressing the unique financial considerations associated with electric vehicles, finance providers are playing a pivotal role in making EVs accessible and affordable to a wider audience. As the popularity of electric vehicles continues to rise, innovative financing solutions will drive further growth, making electric mobility the norm rather than the exception.

The future is bright for electric vehicle finance, and together, we can accelerate the transition to a cleaner and greener transportation ecosystem.

HOW THE ALTERNATIVE FINANCE INDUSTRY CAN HELP FUND THE GREEN REVOLUTION FOR SMES

SUPPORTING THE IMPLEMENTATION OF GREEN ENERGY PROJECTS WITH ASSET FINANCE

Businesses looking to create a renewables infrastructure have several options available to support the development and implementation of green energy projects, a challenge many businesses are facing with commitments to reach net zero.

One way for businesses to do this is to consider investing in hydrogen, gas and electric trucks, which carry many benefits over traditional diesel or gasoline powered vehicles.

There's also the option of green energy projects for business premises to consider too, with solar panels, LED lighting, heat pumps and charging points becoming more popular as the move to zero emissions gathers momentum.

Implementing an infrastructure that focuses on renewables features a number of benefits for businesses, including...

TOM BROWN, DIRECTOR,
PMD BUSINESS FINANCE

POSITIVE ENVIRONMENTAL IMPACT:

Using renewable energy helps reduce greenhouse gas emissions and dependence on fossil fuels, thus contributing to mitigating climate change and promoting environmental sustainability. Businesses can demonstrate their commitment to corporate social responsibility and sustainable practices. We've seen businesses win more orders due to these credentials. Some of our haulage clients have been approached by their clients asking them to adapt to their principles or risk losing the business.

TAX INCENTIVES AND CREDITS:

Many governments offer tax incentives, grants, and credits to businesses that invest in renewable energy technologies. These financial incentives can significantly offset the initial costs of adopting renewable energy solutions. As an example, under current tax policy, any renewable energy acquisitions attract a 100% first year corporation tax write-off. For an asset costing £200,000 it could result in a tax saving of £50,000 (based on the current, main Corporation Tax rate of 25%).

LONG-TERM SUSTAINABILITY:

Renewable energy sources are inherently sustainable since they rely on naturally replenished resources. Businesses that use renewable energy can plan for a more stable and sustainable future with reduced reliance on finite fossil fuels.

COMMUNITY SUPPORT:

Businesses that invest in renewable energy can gain support and appreciation from the local community. Projects that benefit the environment and the community can enhance the company's relationships with stakeholders.

STABLE ENERGY COSTS:

Unlike conventional fossil fuels, renewable energy sources are not subject to the price volatility associated with geopolitical tensions or fluctuating global oil prices. This stability provides businesses with more predictable and manageable energy costs.

USING ASSET FINANCE TO FUND YOUR GREEN GOALS

Business owners have lots to think about when it comes to renewables infrastructure. They should carefully evaluate the terms, potential savings, payback periods and overall return on investment. There is also the question of funding for these kinds of projects.

CASE STUDY

After a large supermarket chain put pressure on a Northwest based haulage supplier, their management team decided to purchase a new fleet of hydrogen gas trucks to service the account. This investment in new technology has now paid significant returns. The business is now attracting further contracts from other large buyers looking at reorganising their supply chain procurement to greener SME providers.

The change towards a more sustainable future will need both SMEs and the finance sector to work together to find the best solutions for green growth. Asset finance is a simple and effective way to achieve this.

ONE OF THE MOST EFFECTIVE WAYS TO FINANCE THESE PROJECTS IS THROUGH ASSET FINANCE. USING ASSET FINANCE TO FUND GREEN PROJECTS PROVIDES BUSINESS OWNERS WITH A VARIETY OF BENEFITS. THIS INCLUDES:

1. **Preservation of working capital:** Asset finance allows businesses to preserve their working capital by spreading the cost of purchasing hydrogen, gas and electric vehicles over time. Instead of making a large upfront payment, businesses can make regular payments, which helps maintain cash flow for other essential operations. Solar, LED, heat pumps and charging points can also be financed through asset finance.

2. **Access to state-of-the-art technology:** These vehicles, especially in the commercial transportation sector, often come with advanced technology and features. Asset finance allows businesses to access the latest models without requiring a substantial upfront investment, ensuring they stay competitive and up-to-date with industry trends. The benefit of LED, heat pumps and solar is made over time so paying monthly matches savings against investment.

3. **Fixed payments:** Asset finance typically involves fixed monthly payments, which makes budgeting and financial planning more predictable. Businesses can better manage their expenses and avoid unexpected fluctuations in acquisition costs.

4. **Tax benefits:** Businesses may be able to claim tax deductions for the interest paid on the financing, reducing their overall tax liability. Currently 100% first year tax allowances are available which is an attractive incentive.

5. **Early access to electric vehicles:** As these vehicles become more popular, demand may outstrip supply, leading to waiting lists or delayed availability. Asset finance can help businesses secure these vehicles promptly, allowing them to benefit from reduced operating costs and environmental advantages sooner.

6. **Flexible financing options:** Asset finance providers often offer various financing options, including lease agreements, hire purchase, and operating leases. This flexibility allows businesses to choose the financing option that best aligns with their financial needs and operational requirements.

Investment in new technology can be expensive, as reflected in the cost of electric vehicles compared to their fossil fuel powered equivalents. There's also added complications as lenders look to lend against new technology. With the technology being so new, it's difficult to understand the residual future value of these kinds of assets, especially vehicles. In the short term, this may impact with lenders looking for higher deposits and lower balloon payments.

The right broker and lender partnership is required to help spend time with the SME to understand how best they can help them meet their green goals. Market pressures from large buyers are often creating the need for better green credentials across all industries and we expect this trend to continue.

ANOTHER ACRONYM?

GEORGIA BRIGHT, GROUP PEOPLE & TALENT PARTNER

praetura

The business world is littered with different acronyms that we all use, with many specific to the different industries that we work in. But the new acronym on the block is one that applies to us all, one that is becoming increasingly important and one that will play a pivotal role in how businesses progress and grow over the coming months and years.

E.S.G.

ENVIRONMENTAL | SOCIAL | GOVERNANCE

Does your business have an ESG policy? If not, my advice would be to think about starting one as soon as you possibly can... future employees, future suppliers, future investors and future customers will judge you by this.

At Praetura, ESG underpins our core value of always doing the right thing. As well as adhering to transparent and responsible business practices, our mission is to continue making positive changes that benefit our people, our local communities, and the industries we support.

THE GOOD BUSINESS CHARTER

The GBC is an accreditation which recognises responsible business practices through 10 key components:

1. REAL LIVING WAGE
2. FAIRER HOURS AND CONTRACTS
3. EMPLOYEE WELLBEING
4. ETHICAL SOURCING
5. COMMITMENT TO CUSTOMERS
6. ENVIRONMENTAL RESPONSIBILITY
7. PAY FAIR TAX
8. DIVERSITY AND INCLUSION
9. PROMPT PAYMENT TO SUPPLIERS
10. EMPLOYEE REPRESENTATION

Praetura is an accredited member of the Good Business Charter and a supporter of the Good Employment Charter, and this provides a framework for our promises and goals.

Having a framework to work from is helpful but implementing the practices to really make a difference is the real key.

BE AN E.S.G. CHAMPION

When thinking about starting or improving your ESG policy, here are some key areas to consider:

LOOKING AT YOUR CARBON FOOTPRINT...

...don't just think about it, take the time to analyse it. We recently partnered with the East Lancashire Chamber of Commerce to assess our offices and evaluate our carbon footprint. The team from the Environment Committee on our Employee Task Force are now using that data to explore ways to reduce this and implementing schemes to help including:

- RECYCLING PLAN ACROSS OUR OFFICES
- PAPER REDUCTION PROCESSES
- CYCLE 2 WORK SCHEME
- ELECTRIC CAR SALARY SACRIFICE SCHEME

LOOKING AFTER YOUR PEOPLE...

...to simplify, this is about being thoughtful and fair. Having realistic expectations from your employees so their work and home lives are balanced, paying them fairly with contracts that are reasonable and applying the same principles to the suppliers that you use.

Employee representation is important, so the views from all levels of a business are heard. The Wellbeing Committee on our Employee Task Force have made a difference with a number of different initiatives including:

- TEAM WELLBEING EVENTS
- AWARENESS DAYS
- INCLUSION CALENDAR
- INTRODUCING A MENOPAUSE POLICY
- DIVERSITY DATA GATHERING
- MENTORING SCHEMES ACROSS THE BUSINESS

LOOKING AFTER YOUR COMMUNITY...

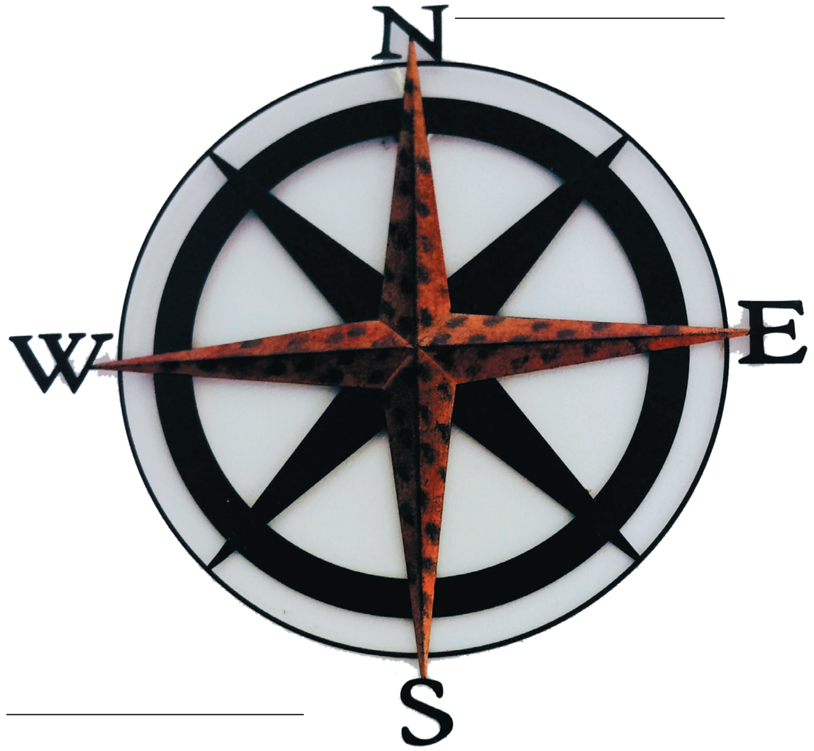
...be a force for good where your offices are too. A good business reputation is not built on profits alone, and how you work within your community regardless of whether they may or may not be potential customers is important. Another of the key groups that's part of our Employee Task Force is the Community Committee and over the last year a number of different projects have been implemented including:

- CHARITY COMMITMENT TO RAISE OVER £10,000 IN 2023 FOR THE CHARITY OUR PEOPLE VOTED FOR: THE CHRISTIE
- VOLUNTEER DAYS AS PART OF OUR EMPLOYMENT POLICY
- GETTING INVOLVED IN LOCAL STEERING GROUPS, INCLUDING THE WIBF NETWORK (WOMEN IN BANKING AND FINANCE)
- WORKING WITH THE TALENT TAP, A SOCIAL MOBILITY CHARITY, TO HOST A GROUP OF STUDENTS ON A TWO-WEEK WORK EXPERIENCE RESIDENCY TO ENCOURAGE MORE DIVERSITY THROUGHOUT THE FINANCE SECTOR IN THE FUTURE

A NORTHERN PERSPECTIVE

MICHAEL TAYLOR, EDITOR, NORTH WEST, THEBUSINESSDESK.COM

TheBusinessDesk.com



MICHAEL TAYLOR FROM THEBUSINESSDESK.COM GIVES HIS THOUGHTS ON THE KEY ISSUES TO BETTER ADDRESS THE SME LANDSCAPE FOR SMES

All attempts to better address the funding landscape tend to settle on a key issue: the need for a clear, direct, industrial strategy that prioritises areas where stats support can partner with academic research, skills programmes and cluster development.

It might seem like a grander ambition when set against some of the more granular analyses outlined in the impressive Invest North research recently undertaken, but it speaks to a desperate need for certainty and support in a volatile uncertain world.

A POLITICAL TAKE

To be political for a moment, an industrial strategy was dumped by the government elected on the slogan of Get Brexit Done, because it seemed a bit too socialist and a 'five-year plan'.

And yet, it is precisely what the capitalist west relied upon to set about the reconstruction of Germany after the Second World War, and to then reintegrate East Germany after the Berlin Wall came done.

For me, it comes at a critical time in our politics nationally, but also in our city regions, like Manchester, Liverpool and Leeds.

London has long been synonymous with "Big Business", but what can we expect from the Manchester of the future under the third term of Mayor Andy Burnham? The Manchester skyline may be crowded with more cranes than any other UK city, but how do we address true regional imbalances?

The late Lord Bob Kerslake's 2070 Commission found a 'huge gulf' between the UK's best and worst performing towns and cities. Money flows into them matter.

THE BIG QUESTION

The question I keep coming back to is whether Greater Manchester and the other city regions have the means to drive its own destiny. Even though the city region has the most advanced devolution deal of any of the UK's cities, how do we use this to deliver a fundamental shift in decision making outside of London, and pass these devolved powers and self-determination to people across the North? What are the levers that the Mayor can pull? And what are the limits?

PROFESSIONAL SERVICES PERCEPTIONS

Going all the way back to 2000 when I moved back North, I've worked closely with the region's extensive professional services sector, which I believe has consistently been underappreciated and misunderstood. Is it truly a participant in the local industrial strategy? Or does the emphasis on health innovation, advanced manufacturing, digital, and working towards becoming carbon neutral, drown out the innovation that financial and professional sectors are contributing? And what complementary skills does the region need from the professions in order to bring the strategy to life? That's before we've even started asking questions to the local SME finance providers about what they need to do to make all of this happen.

RESEARCH WITH RECOMMENDATIONS

For our part, at TheBusinessDesk.com we have conducted our own research in a soul searching exercise called Invest North.

In its conclusions, Northern businesses have set out a 12-point Industrial Strategy which they believe will drive up productivity, unlock billions in private investment and improve the long-term economic environment. I genuinely believe anyone grappling to understand the issues of SME funding would welcome these insights. Partly because the Invest North report is a confident, pragmatic statement about the opportunities and investable propositions that are ready to be unlocked, but also because it helps finance providers to know more of an economic road map.

THE INVEST NORTH PROJECT

The private sector-led initiative presents a strong and unified business voice that has engaged with Northern leaders and policymakers over several months. It also builds on work done previously, including the Convention of the North and the Northern Powerhouse Independent Economic Review.

The Invest North project was led by TheBusinessDesk.com in partnership with Northern Powerhouse Partnership, Squire Patton Boggs, Phoenix Group and Lloyds Bank, supported by the Northern Powerhouse Investment Fund, Curveblock and Influential. The report reflects the visions and views from 11 roundtables which took place across the originally-established Local Enterprise Partnership (LEP) areas.

These deliberations ultimately produced 12 specific policy recommendations deemed necessary to ensure a more interconnected North that can take advantage of the synergies of collaboration between its city regions and wider places. These proposed reforms focussed on four prime capabilities of sectors to drive prosperity: energy and net zero, manufacturing and materials, digital and culture and health innovation (alongside cross-cutting proposals).

It has honed in on measures that set the challenge that if both regional and national decision-markers undertake these certain specific industrial policy recommendations alongside greater access to private capital and key interventions to improve productivity, then that will improve the lives of those in our places, benefitting communities across the North of England.

Alex Turner, joint managing director of TheBusinessDesk.com commented on the report:

"The recommendations from Invest North show businesses aren't looking for handouts but for a handover of more powers to local leaders to enable responsive, timely and targeted action"

THE NORTH WEST'S CHANGING FUNDING LANDSCAPE

THE REGION'S FUNDING LANDSCAPE IS UNRECOGNISABLE COMPARED TO WHERE IT WAS JUST 10 YEARS AGO.

In the mid-1970s, Peter Rickitt brought 'merchant banking' or 'corporate finance' to Manchester. Other names from the 1980s and 1990s were Alan Benzie of KPMG, Peter Longinotti of PwC , Alan Dean and Richard Bailey of Rothschild, Andy Holt of DLA and Paul Lee of Addleshaws.

Insider established its Dealmakers awards in 1994 and the professional and financial sector was very different back then. In 1994 when Dealmakers launched the Big Four were the Big Six, namely Arthur Andersen, Ernst & Young, Coopers and Lybrand, Deloitte & Touche, KPMG, Peat Marwick and Price Waterhouse.

The private equity community was small and dominated by 3i with Phil Goodwin at the helm. Neither PE investment, large scale M&A or IPOs were much of a thing then either until deals like Norweb and Manweb and the flotation of De Vere hotels. What was more common in those days was MBOs which led to the emergence of more CF houses.

Some of the biggest deals since then have been the £8.8bn merger of the North of England Building Society and Northern Rock in 1994; the £1.8bn acquisition of Norweb and the £1.1bn acquisition of Manweb in 1996; and the 2013 acquisition of Stansted by Manchester Airport. Following 3i were Natwest Development Capital (later Bridgepoint) and Barclays Private Equity (later Equistone).

Today, Manchester has the second largest private equity community in Europe. There are around 30 PE houses in Manchester. Our region is rich in both Private Equity and Venture Capital. The banks are active in the deals market and so are alternative debt funds. Asset-based lending and invoice finance has also come to the fore. IPOs are done out of Manchester and corporate finance is also growing across Liverpool and Lancashire.

Houses like Praetura ensure that companies in the region have funding options and the firepower to grow and become success stories.

Whilst still more needs to be done to support SMEs with access to finance, the myriad of options and instruments now available from firms flourishing in the region is a real positive marker for our future prospects. Whereas once debt was seen as a one-dimensional transaction, so many now use a more nuanced and often creative way to solve problems for their clients.

insider

SIMON KEEGAN
EDITOR, INSIDER NORTH WEST

CONCLUSION

FUNDING THE GAP

HOW DO WE FUND THE GAP?

FUND THE GAP

Whilst the world of SME finance is unrecognisable compared to just fifteen years ago, the mainstream banks continue to play a significant role within the funding landscape, having been pivotal to the rise of the alternative finance sector.

Post the 2008 recession mainstream lenders understood that their continued ability to service the sub £10m turnover SMEs was challenging. Yet their mandates to support UK enterprise and support businesses continues to be fulfilled via senior funding facilities supporting the non-bank institutions.

Forward-thinking institutions, like NatWest, now fund a significant number of trusted non-bank lenders through a multitude of product offerings including revolving credit facilities, securitisation warehouses and a number of other structures.

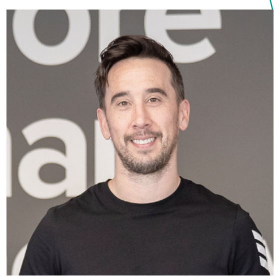
The non-bank lenders have the experience and operational infrastructure to service the needs of the SME market with products suitable for their businesses. However, the mainstream banks provide vast amounts of senior funding to these lenders to service the SME market, without which only a small fraction of the capital deployed each year would be achievable. These hugely impactful relationships between the banks and non-bank lenders have been pivotal to service a market that's becoming increasingly difficult for them to access.

Now well established, the senior funding through the banks has significantly improved the UK economy. Alignment of values through these partnerships helped navigate this section of the UK economy through COVID, where an unprecedented level of forbearance was necessary. Acting in unison allowed the sector to provide a lifeline to the market during a time where on-mass defaults could've crippled the economy for decades to come. The continued funding they provided during that unprecedented time will continue to protect our economy's resilience to future challenges.

A deepening of these partnerships and further innovation in the way we support our SMEs will be a critical factor in our shared future prosperity. Improving SME education in a complex landscape is now essential. The market will continue to mature, and specialists will naturally enhance their offering through better people and advances in technology; however, the finance sector and the wider UK economy faces a far larger challenge.

Many businesses still don't get access to the right funding for them or access to any funding at all due to a lack of education. Challenging economic conditions, the growing complexity of finance products available and a general lack of awareness has led to unnecessary business failure or bad actors taking advantage of the all-in cost of credit where the price paid doesn't reflect the actual risk taken by the parties involved. This presents real challenges, as the information is available but often simply isn't accessed or presents itself in a non-digestible way. Both industry and government need to work together to upskill our business community and help reach stretched business owners who aren't engaged.

Whilst many complain that SMEs can't access the mainstream as easily as they once did, it is through these new models that we will see the industry right itself and meet the UK's capital appetite for the future. This innovation needs to be paired with accessible education in order to promote positive and practical adoption. If not, it cannot reach its promised potential.



DANNY SUMMERS, CFO, PRAETURA GROUP

praetura

HOW CAN HELP UK SMES ACCESS FINANCE?

Based on our findings and commentary from across the lending landscape, we outline the six key areas the industry needs to focus on to help UK SMEs get access to the finance they need to succeed.

COLLABORATION

The entire finance ecosystem needs to collaborate to help SMEs find the right finance for them. This includes brokers, specialist lenders, institutional lenders, mainstream banks, and fintechs.

EDUCATION

As our finance system becomes increasingly complex, SMEs need to be supported through more accessible education to help them make the right choices. This can come in the form of finance resources or advice from experts.

INNOVATION

Many SMEs' finance needs are still underserved by the finance market due to their inflexibility or inappropriate terms. Financial instruments which better match their needs will be essential to help fill this gap.

TRANSPARENCY

Complexity combined with a growing funding gap is creating a need for greater transparency. This transparency will create trust and stronger working relationships between SMEs and their finance partners.

DIVERSITY

Attracting new talent to the finance industry is essential if the sector is to progress alongside our SME clients and benefit from diversity of thought.

ACCESSIBILITY

SMEs are looking to attain finance in a variety of ways through a number of different channels. The finance sector needs to remain available across multiple touch points in order to serve the whole market. This includes in person, over the phone or via digital channels.

praetura

MORE THAN MONEY

praetura ASSET FINANCE

kingsway FINANCE

praetura COMMERCIAL

praetura INVOICE FINANCE

Zodeq

praetura

FUND THE GAP

praetura.co.uk