

# Alternative routes

## How alternative finance providers are plugging the funding hole left by the banks.

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**John Davies,**  
Chairman of the AABF

approach their traditional bank that almost certainly isn't structured to look after the 'S' in SME.

Research by Just Cashflow shows that 30 percent of SMEs that get turned down by their bank simply give up looking for finance and shelve their plans. When asked why, a staggering 66 percent say they simply weren't aware of alternative finance providers.

This was one of the drivers behind the formation of the Association of Alternative Business Finance (AABF) – alternative lenders coming together to boost awareness and to provide reassurance to business looking for other sources of funding. This reassurance is provided by members' commitment to the Association's four key principles of security, fairness, transparency and responsibility. The detail behind these commitments strongly mirrors the Lending Standard Board's Standards for Business Customers.

### BANK REFERRALS

John Davies, Chairman of the AABF, says the obvious time to be made aware of other forms of finance is when your bank turns you down: "This was the thinking behind the launch in 2016 of the Government mandated Bank Referral Scheme that facilitates high street banks passing on turned down businesses (with their permission) to alternative finance platforms," he explains.

"It's a very good idea but something clearly isn't working as currently only

around 800 business a year are benefiting from this scheme – a drop in the ocean. Alternative lenders are well positioned to take advantage of new technology and to take the time to understand exactly what business customers need."

John is concerned that the raft of 'new' banks expect customers to do everything digitally through their phones and shout about being able to approve finance the same day: "Someone running a small business has be jack of all trades – HR manager one moment, marketing manager the next and sometimes finance manager," he continues.

"When the finance hat goes on it's important you can speak to someone who can take the time to understand your business and can provide the most suitable finance facility. I increasingly see a 'one size fits all' approach with predominantly capital interest loans offered that often are not best suited to SMEs looking for working capital.

"Any good economist will explain to you how it is very difficult for a growing company to both create additional free flow cash to be able to service the interest and the capital while at the same time generate profit for capital repayments.

"SMEs are vital to the UK's future success and equally vital are traditional banks and alternative lenders working closely together to provide them with the appropriate finance they need to fund their different stages of development."

**A**CCCESS to capital is a critical factor for SME growth. And there is some good news. Regardless of how the Brexit conundrum is resolved, SMEs will continue to be a vital part of our economy, accounting for around 60 percent of all private sector jobs and 47 percent of revenue.

SMEs aren't going to be faced with the situation they found themselves in after the 2007 Financial Crisis when for various reasons banks stopped lending to them. That particular crisis led to a strong, vibrant and innovative alternative finance sector becoming well established in the UK.

The not so good news is that the vast majority of SMEs still first logically

### FOLK MUSIC

Lower monthly repayments and a relationship with an organisation that makes the effort to understand her business were two of the main reasons pub company boss Lesley Humphrys opted for a FOLK2FOLK loan.

Humphrys runs the Toastie Taverns chain of 24 public houses in the North west of England and she has successfully refinanced a £705,000 loan on 13 of her properties.

One of the reasons Humphrys has turned to peer-to-peer lending platforms for funding is that bank finance has

all but dried up. "If you take the pub industry in general, it doesn't have a very good reputation and pubs have been closing at a steady rate – because it is seen as a declining market, nobody really wants to lend.

"Once upon a time, you used to have that with the banks: you'd go to lunch and you'd talk about the business and its needs. But since the financial crisis, that approach has disappeared. To me, though, it looks like the P2P lenders are going back to the old banking relationships. I have tried looking for bank finance, but all the red tape around it is extremely difficult to deal

with, even if someone is willing to lend."

One of the key advantages of working with FOLK2FOLK was being able to have meetings in person, she adds. "It is vitally important that the lending platform understands what we are doing: and in this way FOLK2FOLK was happy with our business plan, numbers and performance.

"One of the biggest challenges in the industry is that pubs need to evolve because the customer base is changing. But having that three-year timeframe to repay gives us the certainty to be able to meet the challenges we are currently facing."

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## PET PROJECT

Liberis Finance recently helped Diva Pets to invest in new products, services and staff training to grow its dog grooming and pet supply business with its alternative funding solution – the Business Cash Advance.

Wayne Briscoe, business owner, opened the Doncaster-based store in 2012 after spotting a gap in the market and when a well-located retail outlet became available. Wayne used his background in construction for the shopfitting and tapped into his wife’s expertise as a dog groomer and veterinary nurse to help get their first customers through the door.

“As with any business, we had to put in months of perseverance without making so much as a penny,” says Wayne. “We just had to stick to our guns, but in time it really paid off. The last few years have been chock-a-block and we have now been rated as the number one dog groomer in Doncaster.”

Liberis’ Business Cash Advance provides funding from between £2.5K and £300,000 and payments are linked directly to the business’ cashflow – they happen as a small pre-agreed percentage of customer card takings.

“We’ve expanded our range to include certain products that help set us apart from our competitors. While dog grooming is our bread and butter, the pet supplies area of the business is a key area of growth and the ability to capitalise on it has been very beneficial,” he explains.

Wayne has also invested in a jacuzzi spa hydro bath and electric grooming table, and is hoping to continue growing Diva Pets with further investments in ultrasound scanning, micro-chipping, breeding, and even artificial insemination.

Wayne says the process of accessing funding through Liberis is very straightforward: “Banks make you jump through numerous hoops and don’t seem to favour those that don’t carry debt. With the new ‘myLiberis’ dashboard, applying for funds takes no more than 20 minutes and, most importantly, payments work with our business’ cashflow rather than a large lump sum at the end of the month.”



## GOING ELECTRIC

SME finance provider Simply has completed a £130,000 deal to enable a taxi firm in Scotland to buy two more electric Tesla ‘Model X’ cars to add to its green fleet of four executive private hire vehicles.

Capital Cars, based in Gorgie Road in Edinburgh, is one of the largest fully-licensed private hire taxi companies in the capital. It provides a range of services from airport transfers to luxury chauffeur trips and exclusive tours of Scotland.

Stephen Rose, director, Capital Cars says the fact that Simply is able to arrange funding in such a short space of time is very valuable: “We hope to buy more electric cars in the future to extend our fleet in line with customer demand.”

