

# FUNDING GROWTH WITH ALTERNATIVE LENDING

Walker Morris research into what SMEs really want from their lenders.



# INTRODUCTION

## SME growth fundamental to UK economic recovery

Following an uphill battle for businesses across all industries over the last 18 months, the UK is poised for economic growth in the post-pandemic boom.

Representing 99.8% of Europe's businesses and accounting for two-thirds of total employment<sup>1</sup>, the SME market – often referred to as the backbone of the UK economy – will be fundamental to this growth. But with more than three quarters (77%) of businesses unable to secure traditional bank financing, the need for alternative finance to fuel their expansion is greater than ever.

## Our research

We surveyed over 500 early-stage innovative start-ups, established successful start-ups and growing small to medium businesses, targeting C-suite and finance directors exclusively. We wanted to understand more about their funding plans and what they are looking for from their lenders.

## What are SMEs' perceptions of alternative lending?

Yet our research reveals that although 40% of SMEs have plans to grow over the next 12 months, almost half of these (45%) cite concerns about using alternative finance providers, despite being refused funding by traditional lenders.

These concerns are of course based on SME's impressions of alternative lenders, and by no means the reality of alternative finance. We know alternative finance is a vast and rapidly growing market, and this is precisely why Walker Morris established its own full-service Alternative Lending Group. Our team of experts is dedicated to helping alternative lenders right across their life cycle.

We ensure our clients have their house in order across all legal aspects of trading, so their customers can trust their processes too.

<sup>1</sup> AltFi, 22 January 2021

Contact Mark or James from our Alternative Lending Team or **visit our website here.**



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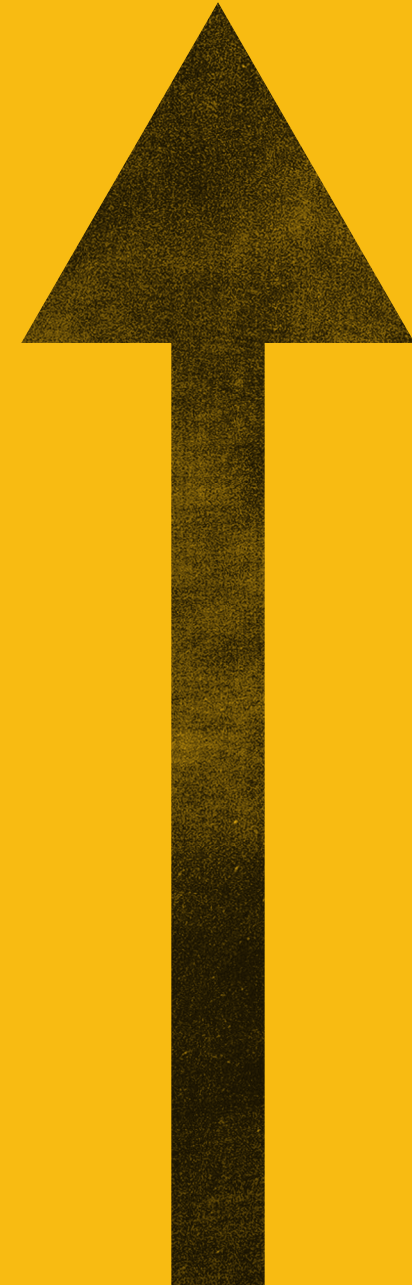
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# PREPARING FOR GROWTH



The pandemic spurred record lending to SMEs in 2020, hitting £54 billion in the first nine months of the year as 1.5 million businesses drew on government-backed loans<sup>2</sup>, but many businesses now require additional finance to enable them to invest in growth.

Encouragingly, almost 40% of the 500+ SMEs we surveyed planned to grow in the next 12 months and a third planned to use alternative lenders.

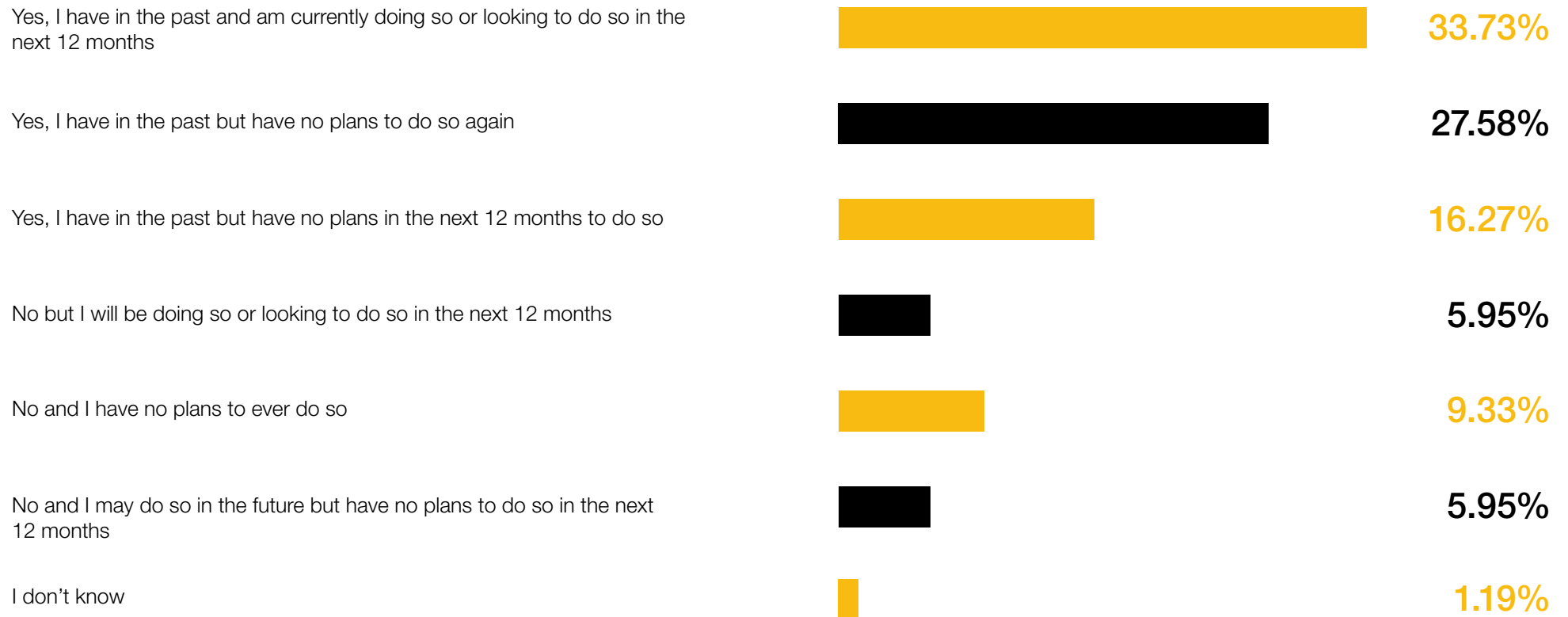
Those that have used alternative finance have done so either because options for using traditional forms of lending were closed to them and/or they liked the innovative digital platforms.

More than half (51%) of SMEs currently seeking funding will use it to grow through acquisition and/or to support investment in new technology and systems (52%), with 46% looking to invest in real estate.

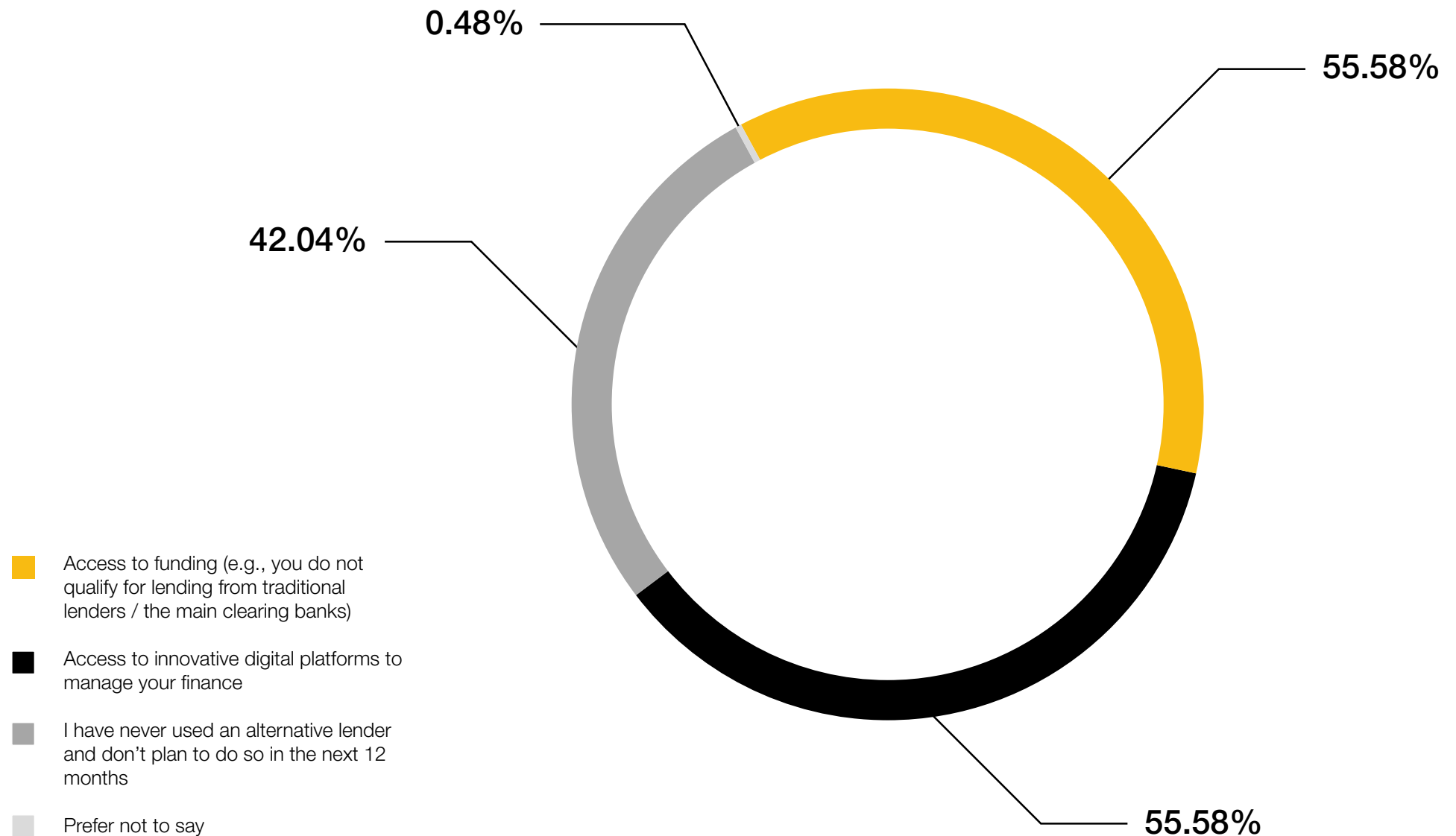
Respondents showed a fairly even split between the different types of funding they were planning to use. The most popular being business-to-business and peer-to-peer lending. But the results also demonstrated a healthy appetite for challenger banks and fintech platforms.

<sup>2</sup> The Times, 8 January 2021

**Q. Thinking about your business, have you ever used or would you consider using alternative sources of finance, e.g., the alternative lending market?**








**Q. What are the main reasons you have used an alternative finance platform, or plan to in the next 12 months?**

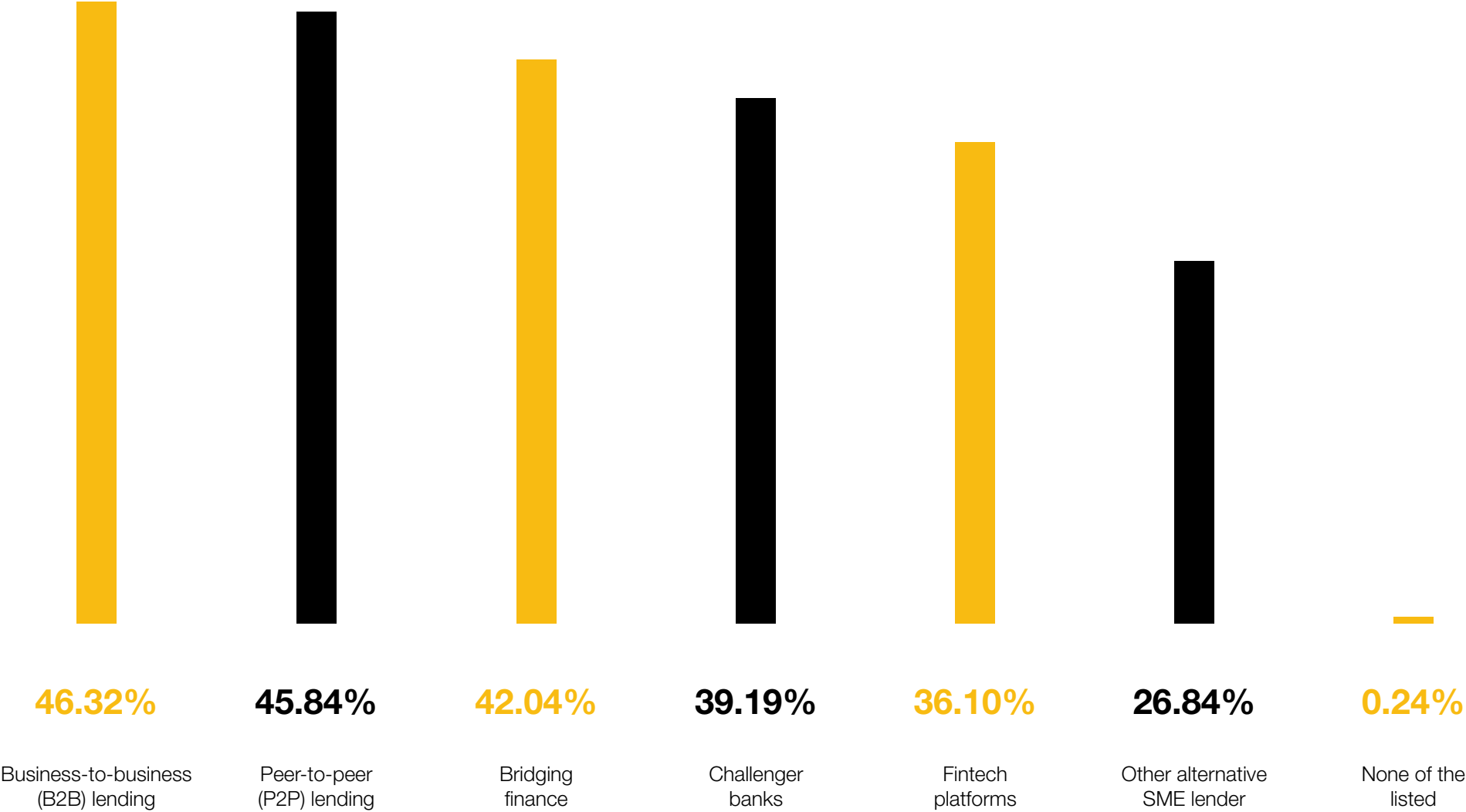


Q. If you are currently using (or seeking) funding for your business, what do (or would) you use it for?



	To use as working capital	54.17%
	To support investment in new tech and/or systems	51.98%
	Acquisition of a business	51.19%
	Real estate	46.23%
	N/A I am not currently using (or seeking) funding for my business	0.20%

Q. Which of the following have you used – or are you planning to use – for your business, if any?





# BARRIERS TO USING ALTERNATIVE LENDERS



However, even though three quarters (77.2%) of our respondents said their credit rating meant traditional lenders weren't an option, many SMEs still had concerns about using alternative lenders.

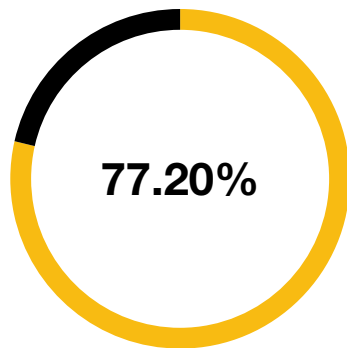
62.5% said lack of regulation would stop them from using alternative lenders. More than half said they had experienced unexpected terms and conditions from alternative lenders. For example unexpected changes in interest rates, unexpected covenants and increase in repayment levels or requirements for company director guarantees.

The research found the top three barriers for SMEs seeking finance from an alternative lender are:

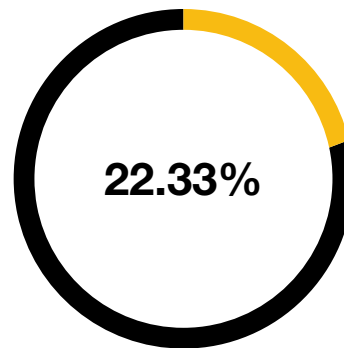
- Concerns over changes in market dynamics and the potential impact on the customer (SME)
- Unregulated lending / potential regulatory loopholes
- Higher interest rates / perceived as not competitive against bank lenders



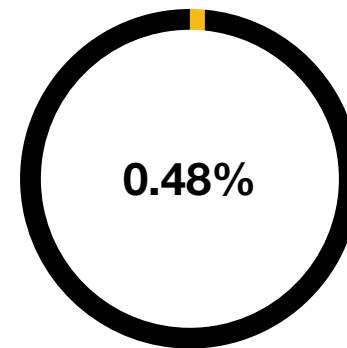
Q. Has the credit rating of your business affected your ability to secure funding with a traditional lender / meant that your only choice is to choose an alternative lender?



Yes

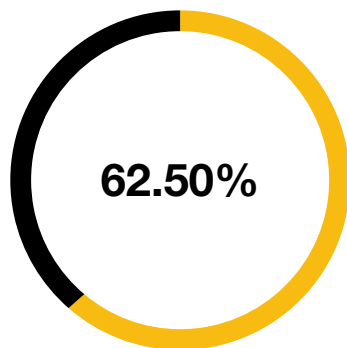


No

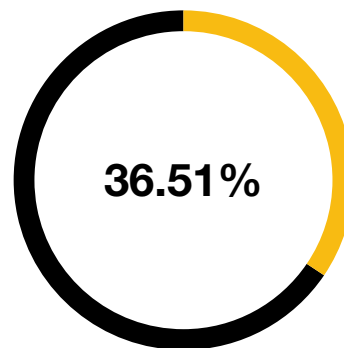


Prefer not to say

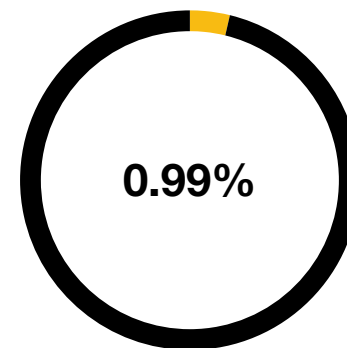
Q. Consumer lending through alternative lenders is regulated but lending for limited companies is currently unregulated. Would this stop you from seeking funding with an alternative lender or challenger bank?



Yes

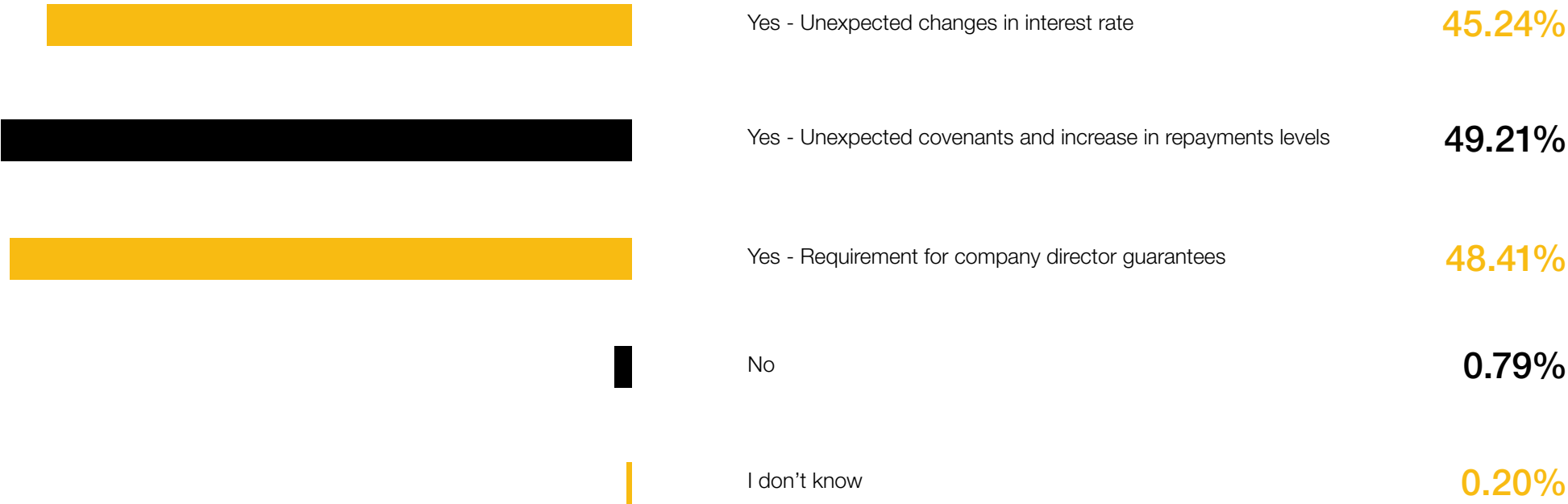


No

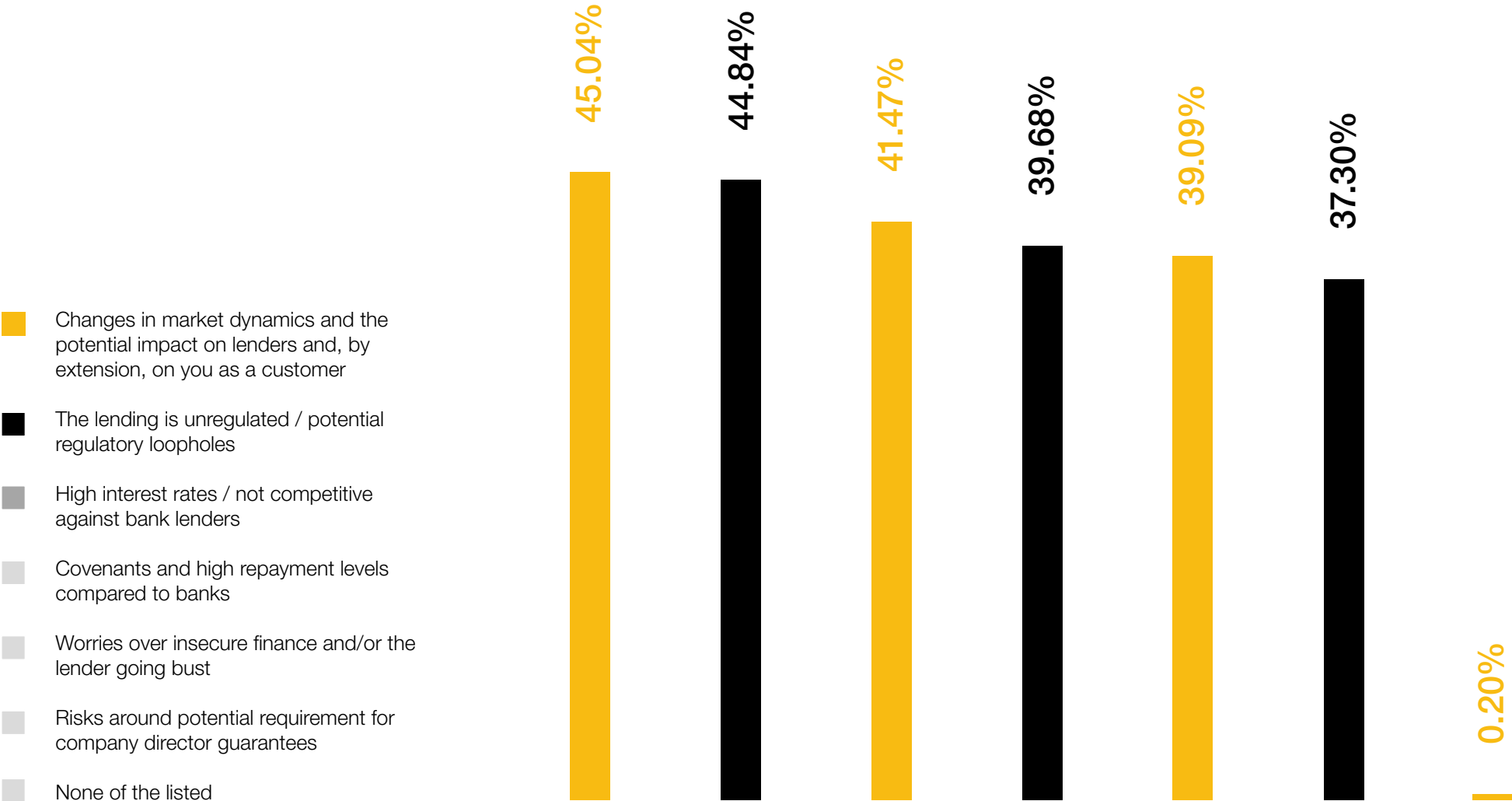


I don't know

Q. Have you ever been caught out with unexpected terms and conditions or costs when lending from an alternative lender – if so, in what way?



Q. Which of these would concern you about using alternative lenders to finance your business, if any?



# WHAT SMEs WANT FROM THEIR LENDERS

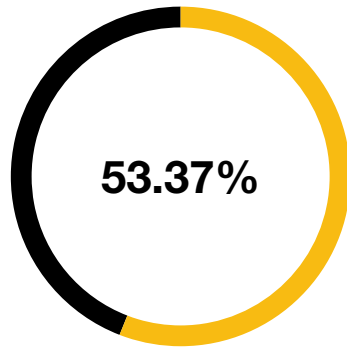


This new research demonstrates the scale of the opportunity for alternative lenders as economic recovery gets underway – the UK's alternative lending market is now worth a record £6.26 billion, with the European market doubling last year to over €6.6bn<sup>3</sup> – however, there is clearly more to be done to reassure SMEs that alternative finance is a viable option for them.

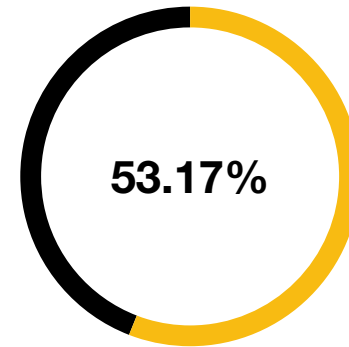
There are some clear areas of opportunity for alternative lenders. The SMEs responded resoundingly positively to having a tailored product/service, competitive rates and accessing innovative digital platforms. Interestingly though, although digital platforms are clearly a draw, 47% still wanted face-to-face interaction, demonstrating the need for a hybrid service model.

<sup>3</sup> AltFi, 6 October 2021

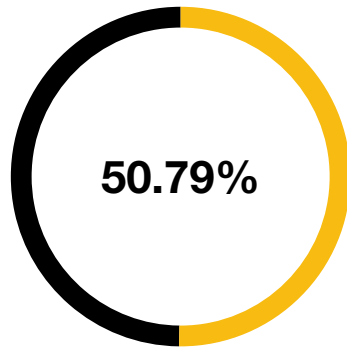
Q. What would encourage you to use alternative lenders more, or in preference of traditional banks, if anything?



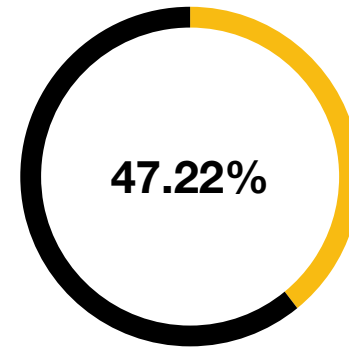
A product/service that is tailored to my business/sector



Access to innovative digital platforms to manage your finance and make it more streamlined and efficient



Funding with competitive rates



Face to face interaction

# THE NEED FOR SPECIALIST ADVICE

SMEs value specialist advice with over 90% consulting legal counsel and over half (56.94%) seeking external lawyers.



Q. Have you sought – or are you currently seeking – legal counsel on matters relating to securing funding?





## How Walker Morris can help

At Walker Morris, we advise both lenders and corporate organisations seeking finance.

Our Financial Services Group has more than two decades at the heart of the alternative lending sector, working nationally and internationally with some of the biggest names in the industry, and can provide the expertise, experience and knowledge that finance providers can rely on.

We offer a full service that help alternative lender clients raise and deploy capital. We help alternative lenders right across their life cycle:

- set-up and structuring
- getting the proper authorisations
- perfecting their documentation
- raising finance
- setting up their customer facing documentation
- structuring, negotiating and documenting relationships with key third parties and support functions
- implementing new technology
- managing compliance, regulatory and IP issues
- helping them manage their loan books
- the day to day support needed by any growing corporate clients (from employment advice to purchasing a new office space).



[walkermorris.co.uk](http://walkermorris.co.uk)

WM CONTACTS

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