Something doesn't add up

By David Grosse, managing director of Number Eight

David Grosse

Every month I write about the problems that exist in the world of business finance, but always with a glass-half-full attitude. I aim to paint a picture that is based on cold, hard facts and my first-hand experiences, without a pair of rose-coloured spectacles in sight.

Sadly, even for the most optimistic among us, it's proving increasingly hard to stay positive for those business owners that are still searching for the help and advice they require before committing to any form of debt finance.

The challenge ahead

As we near the end of another year, my concern for business owners who are looking to access some form of funding has increased tenfold. In 2017 I predicted the world of business finance would encounter much change, and that before the end of 2022, business owners and lenders would be faced with more ups and downs than an Alton Towers roller coaster ride.

My principle concern has always been the ability of both businesses and lenders to evolve and survive, but cracks are beginning to show and seemingly without any concern from the government or those driving our marketplace.

Competitiveness versus best-fit finance

The bravado and chest-beating of some of the lending fraternity is symptomatic of a common commercial trend for competitiveness, rather than a commitment to offering the best financing options.

Funding Circle continues to lead the race in terms of brand awareness and market share. Not a day goes by without me seeing or hearing about them in my office and living room, but at what cost to them as an organisation and to those that are drawn in by their attractive 1.9% per annum interest rate offering?

Those lenders that follow in their wake are now starting to bolt on new products to enable a broader offering compared to the single loan product available from Funding Circle. In addition, the lenders are tweaking their criteria to include and/or remove personal guarantee and others are introducing longer repayment terms. This is all great news!

I am convinced that those who evolve the quickest will be the ones that are still around in five years' time. But when I receive a call or an e-mail from a lender offering various commission incentives, trips to exotic ski resorts or an iPad, I'm left wondering about the genuine focus on businesses and what their needs are.

Clearly, the incentives are given to try and tempt the broker market to push more enquires their way, but is this acceptable and best practice for a market focused on lending? I know we live in a dog-eat-dog commercial world, but I question any mindset that puts landing a sale in front of delivering best-fit finance for UK businesses.

The end of traditional lending

The phrase "alternative lender" crops up on a regular basis, and even though some lenders may not like the label, it's exactly what they are. High street banks will always be seen and remembered for being traditional lenders. Back in the day, the bank door would have been open, and the bank manager would be there ready to serve. A business owner knew exactly who to talk to and exactly where to go when funding was needed. There was an almost perfect harmony between the bank and business owners that existed even in times of change or challenge. Now that bank offering has all but disappeared, who has moved in to serve and service? The British Business Bank? The Bank Referral Scheme? The three designated online broker platforms? The mind boggles!

An advisory process is crucial

There are multiple alternative options out there, and the landscape is rich with new open doors, but there's a gaping hole that needs to be bridged by a national advisory infrastructure that is focused on serving the UK SME marketplace and ensuring that each business owner can be guided carefully up the path and through the correct funding door.

Conversely, what happens if something goes wrong? If, for example, a loan repayment is missed due to, say, the non-payment of an invoice? Other than an organised credit control department or, in a worst-case scenario, a quick call to a friendly and super-eager insolvency contact, who is on the ground to help and nurture that business?

Can you imagine if the accountants and the solicitors removed themselves from the high street and instead started to offer a faceless platform and telephone service? How would businesses cope? It simply won't happen!

Invest in people

As I highlighted in my October article, technology has its place in our market but we cannot – and must not – remove the basic advisory process that can only be fully delivered in person. Regardless of the price, investing in those that have the experience and expertise to serve and service businesses to the level needed is crucial. It's not merely a nice thing to have, it's a necessity.

The negative knock-on effect of this faceless online marketplace of ours is already causing concerns and, at the moment, I can only imagine what will happen during the next 12 months unless some changes are made to the current tech-driven access-to-finance mindset.

David Grosse, founder and managing director, Number Eight Business Finance
tel: +44 (0) 2382 146797
e-mail: david@numbereightbf.com
www.numbereightbf.com