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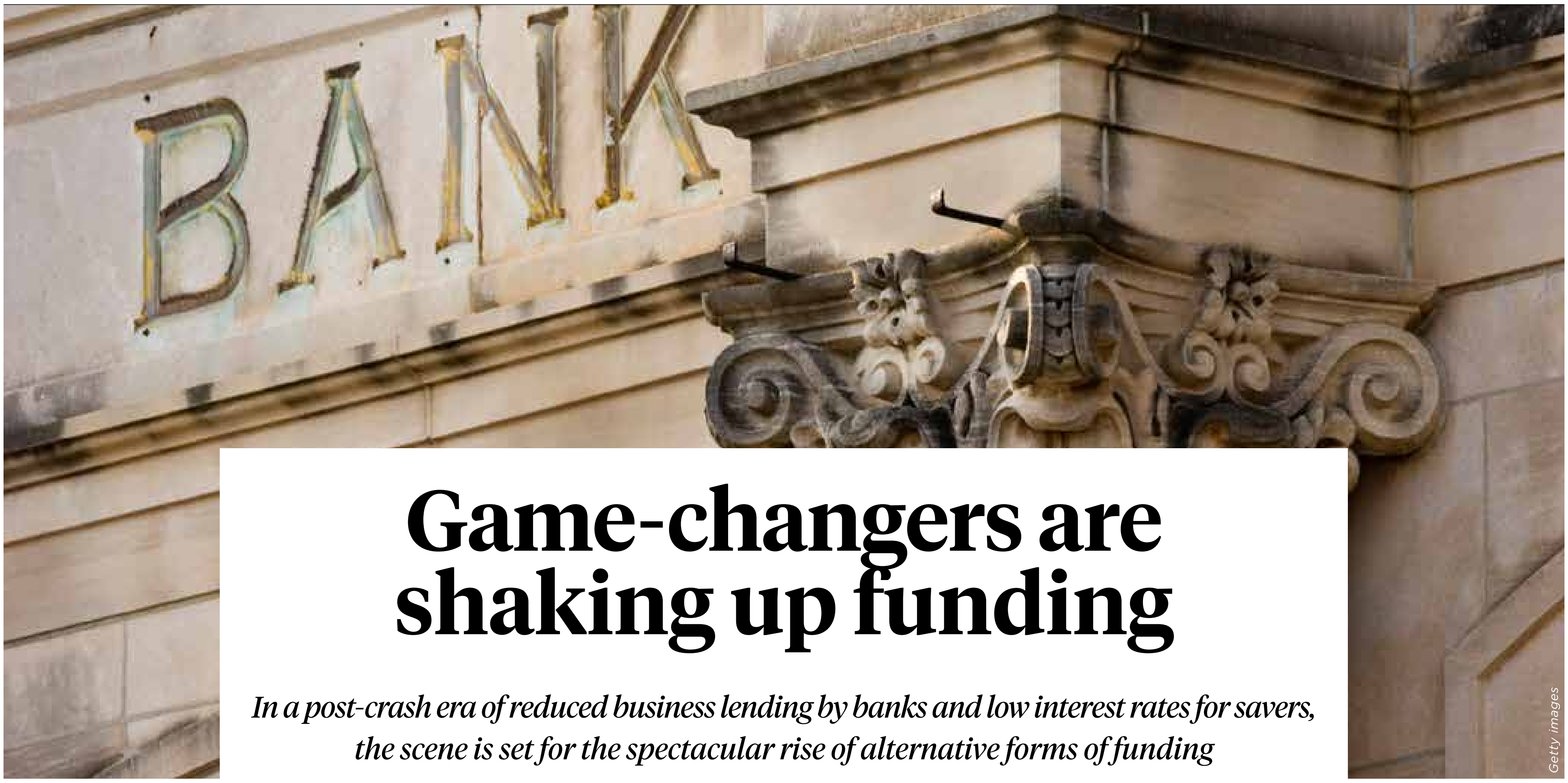

Getty images

Game-changers are shaking up funding

In a post-crash era of reduced business lending by banks and low interest rates for savers, the scene is set for the spectacular rise of alternative forms of funding

◆ OVERVIEW

● JAMES HURLEY

When Samir Desai and James Meekings set up a business lending website in 2010, not even all those in their own sector were convinced.

The two young entrepreneurs claimed they could instigate a revolution in the way small companies secure loans by using the web to allow them to tap ordinary people's savings, bypassing banks in the process.

The method they would use, peer-to-peer lending, wasn't their invention. Zopa was the world's first example of the approach, linking consumer borrowers with consumer lenders seeking better returns.

Zopa's founder, Giles Andrews, had looked at using peer-to-peer to back private companies, but concluded it was a bad move; the lack of reliable credit information on small businesses meant the risks were simply too high.

The high street banking giants that control the best part of 90 per cent of loans to small and medium-sized companies agreed; they were publicly sceptical about Mr Desai and Mr Meekings' plans, and privately scathing.

Five years on and the pair appear to have been vindicated to an extent even they couldn't have hoped for when they began their venture, Funding Circle.

Almost £600 million has been lent through the platform, it is regulated by the Financial Conduct Authority, and the government and local authorities use it to lend public money to small companies.

Remarkably, even the banks are on side as Funding Circle has referral partnerships with Santander and Royal Bank of Scotland, who pass on small businesses they aren't willing to back.

The platform's rapid journey from naive upstart to the heart of the establishment makes it one of the most prominent examples of what has arguably been the fastest growing sector in the UK during the economic downturn.

The UK's alternative finance industry was worth £1.74 billion by last year, encompassing peer-to-peer lending, but also other methods such as crowdfunding and online invoice trading – up from only £267 million in 2012.

The growth has been fuelled by an era in which low interest rates have frustrated savers, while the banking sector has withdrawn billions of pounds worth of credit from businesses.

The sector is still minute compared to the size of the overall small business bank lending market, at approximately 2 per cent of its size, but the progress has been remarkable, says Stian Westlake, executive director of policy and research at Nesta.

> Lack of a physical branch network or the need to hold regulatory capital against lending are among the reasons peer-to-peer platforms can attract capital by offering consumer lenders generous returns

"Given how young these models are and their current growth rate, in a few years they could become a really important source of funding," he says.

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The growth and depth of the UK's alternative finance and broader financial technology or fintech sector is currently unmatched anywhere in the world.

With success comes increased scrutiny and observers expect that many forms of alternative finance, particularly peer-to-peer and equity crowdfunding, will soon experience growing pains.

Lack of a physical branch network or the need to hold regulatory capital against lending are among the reasons peer-to-peer platforms can attract capital by offering consumer lenders generous returns.

What's less commonly mentioned is the fact that borrowing from Funding Circle and a number of similar platforms that have emerged, is relatively expensive for small businesses and the platforms are very picky about who they accept.

Chances are that if a bank doesn't want your business, a peer-to-peer lender won't either. It's understandable that a nascent industry is nervous about bad credit risks, but it does rather undermine some of the hype that has surrounded the sector as being a panacea for those who are fed up with banks.

Indeed, Adam Tavener, chairman of pensionledfunding.com and co-founder of Alternative Business Funding, a finance portal for small companies, says conversion rates can be as low as 30 per cent.

"Alternative finance is going to be a game-changer, but not overnight," he says. "I am nervous about some of the hyperbole surrounding the sector."

Mr Westlake says a government-mandated scheme that will force high street banks to refer customers they reject for loans to the alternative finance sector will provide the young platforms with an intriguing challenge.

They will need to attract investors with a higher risk appetite, he says, or find new ways to assess credit.

There's another looming challenge linked to the industry's success, too. Institutions have seen the returns that are to be had from backing small businesses and are muscling in on the action.

While Mr Westlake expects failure of some of the weaker players in the industry is inevitable, he points out that most of the leading platforms are well capitalised, with powerful backers. "The prospects for the industry are good," he insists.

There's also plenty of untapped potential custom. With the sector generating plenty of column inches, it's easy to forget many small-business owners haven't even heard of most forms of alternative finance, let alone used one. Nesta research suggests less than one in ten companies has attempted to secure capital from a non-bank funder.

Alternative funders have already proved that banks needn't be the only game in town; now they need to demonstrate that they're here to stay – and get the word out.

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Getty Images

Manifesto pledges to help smaller businesses

The major political parties are out to get votes and in return are promising to boost funding for small and medium-sized businesses

◆ POLITICS

● KATHRYN HOPKINS

As the general election approaches, all political parties are desperately trying to persuade small and medium-sized enterprises (SMEs) across the country they are the ones who can help them.

While the coalition government has focused heavily on this sector, including launching the Funding for Lending scheme (FLS) to boost the supply of credit to SMEs, as well as implementing the Business Bank, not everything has been successful. There's still a lot of room for improvement in terms of access to finance and helping small businesses to export abroad.

Phil Orford, chief executive of the Forum of Private Business, says: "We believe that the next government must put in place further measures in order to truly support small businesses. As our members tell us on a weekly basis, the growth of UK SMEs continues to be undermined by the spiralling cost of doing business, suffocating red tape, a lack of confidence and bullying tactics from big businesses.

"As such, we are calling on political parties to put small business interests at the heart of their election manifestos and for the next government to put the backbone of the British economy – small business – at the top of the political agenda."

When it comes to helping SMEs access finance, it is fair to say the FLS has not been a great success despite changes made by the Bank of England and Treasury so it focuses on businesses instead of households.

This is highlighted by the fact that the latest figures from the Bank revealed net lending to SMEs through the FLS, which provides cheap credit to lenders on the condition they pass on attractive borrowing costs to businesses seeking loans, dropped by more than £800 million in the final quarter of 2014.

> **All three parties are keenly aware that accessing finance is still a huge problem for SMEs**

In order to thaw the frozen credit routes, the Federation of Small Businesses (FSB) has called on the next government to increase competition in the banking sector by lowering barriers to entry and making it easier to switch between financial providers.

It also wants it to provide long-term backing for the Business Bank so it has the means to identify and tackle market failures and promote alternative sources of finance, including peer-to-peer lending and pension-led funding, which have become increasingly popular over the last couple of years as the traditional lending paths remain largely blocked.

"Access to finance remains a concern for many small firms, with the recession painfully highlighting the deficiencies in the UK finance market," according to John Allan, the national chairman of the FSB.

"At the heart of the problem is the overly concentrated nature of banking provision, with four banks accounting for 85 per cent of small-business lending. As well as posing risks to financial stability, the high level of concentration restricts competition and choice."

All three parties are keenly aware that accessing finance is still a huge problem for SMEs. In February, Prime Minister David Cameron unveiled government plans to plug a £1-billion finance gap to help firms grow and to create something similar to Germany's Mittelstand.

When it is fully up and running, the so-called Help to Grow scheme will choose 500 fast-growing companies each year and enable them to become mid-market players through loans and private funding, which will be issued by the Business Bank.

In its business manifesto, launched at the end of March, Labour pledged to increase competition with at least two new challenger banks on the high street as well as to create a British Investment Bank along with a network of regional banks to boost lending for small businesses to grow.

The Liberal Democrats, meanwhile, want to ensure that the state-owned banks support lending to business, as well as supporting more diversity in the banking system, with a wide range of mutuals, co-operatives, credit unions and peer-to-peer lenders, and lower barriers to market entry for banks.

When it comes to alternative sources of finance, Adam Tavener, co-founder of Alternative Business Funding and chairman of pensionledfunding.com, believes the coalition government has been highly proactive and effective in the area, albeit "rather late in the day".

The result of this shift can be seen in the Small Business, Enterprise and Employment Act, which received Royal Assent last week. Key measures contained in it force high street banks to refer SME applicants they have turned down for finance to platforms designed to signpost them to suitable alternative funders.

"Whoever wins the election, it is vital that this direction of travel is maintained. The inherently dangerous situation caused by consolidation and retrenchment of the big players has been recognised at ministerial level, and they have acted to diversify the sources of finance available to SMEs," says Mr Tavener.

"A reliance on four main providers of funding to a sector which produces half the nation's GDP is insanely risky, and thus the initiatives to encourage a thriving SME finance ecosystem and a collaborative approach are both logical and economically prudent."

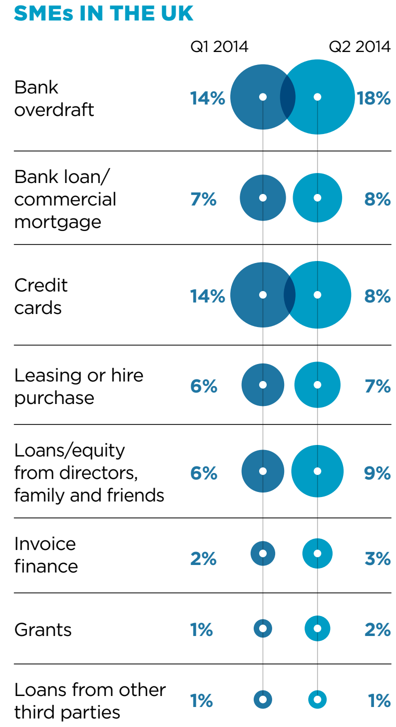
Another vital area where SMEs need more support is exporting. Experts are concerned that many SMEs are not trying hard enough, if at all, to break into new growth markets as the eurozone, the UK's main trading partner, struggles to recover and problems in Greece flare up again, increasing fears that it could leave the European Union.

The CBI, which represents tens of thousands of businesses across the country, says that while the UK's export performance has improved, it has not matched its ambitions against a tough economic backdrop and argues it is vital for the next government to redouble efforts in its first 100 days in power.

"Sustainable future economic growth will rest on businesses investing and exporting more, not on consumer spending and debt. While the onus is on businesses to be ambitious, the government has an integral role in supporting firms to get into new markets and nurturing industries with the greatest potential," the CBI says.

"An exports strategy must also address key underlying drivers of export performance, such as increasing aviation capacity, signing free-trade agreements and improving access to finance, particularly for medium-sized businesses. And, given that the impression created about the UK's openness to migration matters hugely to foreign firms looking to trade with British

TYPES OF FUNDING USED BY SMEs IN THE UK



Source: BDRC 2014

UK SME finance

8% of SMEs rated access to finance as a major obstacle to their business in the second quarter of 2013, compared with 12% in Q1 2013

20% only used core products, such as loans, overdrafts and/or credit cards, in the first half of 2014, down from 29% in 2011

Source: BDRC 2014

businesses, a pragmatic position on migration should be seen as integral."

Tackling late payments and reforming the hugely unpopular business rates system are the other most important issues for SMEs across the country. In terms of what can be done on late payments, the Conservatives say they will force big businesses to be open about payment terms, while Labour has pledged to implement stronger requirements for large firms to report on their record on late payment, including the action they have taken to compensate their suppliers.

On business rates, which are still based on 2008 property valuations, Labour would cut them this year and then freeze them in 2016 for more than 1.5 million business properties. George Osborne, the Chancellor, last month launched a review of the business rates system, with findings due to be released ahead of next year's Budget.

In his final Budget speech before May's general election, Mr Osborne, who has been Chancellor since 2010, said the current business rates system has not kept pace with the needs of a modern economy and changes to our town centres, and needs far-reaching reform.

The FSB has also called for the creation of the Small Business Administration (SBA), similar to that in the United States, to act as an anchor for small-business policy across government. This is something that a Labour government would introduce to "co-ordinate work across government to benefit smaller businesses and cut unnecessary regulation".

John Longworth, director-general of the British Chambers of Commerce, concludes: "The decisions taken during the term of the next Parliament will have a profound impact on our ability to grow businesses here at home and trade across the world.

"For the life of the Parliament and beyond, we need a business plan for Britain – with government across the UK focusing their attention on creating the best possible environment for growth, aspiration and enterprise."

FIVE TOP FINANCE OPTIONS

1 INNOVATE UK GRANTS

The former Technology Strategy Board is now called Innovate UK, but the grant system has continued unaffected. There is £150,000 to £10 million for research and development grants for businesses with truly groundbreaking ideas. There are four funds – agri-tech, biomedical, energy, and industrial-biotechnology. Levels vary, but 60 per cent of project costs can be covered.

2 REGENERATION GRANTS

Businesses in the South West can apply for funding from the South-West Investment Group or SWIG. This non-profit company was set up 25 years ago by Cornwall County Council to fill the funding gap for small firms in the region. There are business loans, micro-credit and startup loans, with advice thrown in.

3 HORIZON 2020

The European Union's flagship fund boasts a barely believable Ð80 billion, available between 2014 and 2020. There is a long list of schemes open to applications, including green vehicles (Ð30 million), better use of antibiotics (Ð1 million), breaking optical transmission barriers (Ð500,000) and EU prize for women innovators (Ð180,000).

4 LOTTERY MONEY

The National Lottery is a font of funding for a vast variety of non-profit organisations. For example, National Lottery co-funded Creative Scotland backs arts, screen and creative projects by individuals and companies. The latest round of open project funding saw 61 awards from £1,500 to £100,000. Recipients included the Hebridean Celtic Festival, Glasgow International Jazz Festival and Ullapool Book Festival.

5 EZBOB

In March the EU agreed a new £40-million fund of loan guarantees for British small and medium-sized enterprises. Orange Money, which trades as Ezbob, will be doing the work on behalf of the European Investment Fund. Over the next two years, more than 3,000 companies are expected to benefit from this EU support. Business looking for funding should visit everline.com and ezbob.com.

ENTERPRISE INVESTMENT SCHEME

Steve Lindsey, founder of Lontra

"The EIS is wonderful – it is fantastic for investors. Not enough people know about it and not enough companies use it, which is a real shame." Steve Lindsey is a first-rate inventor and entrepreneur, but if he wanted to quit and become an ambassador for the government's Enterprise Investment Scheme, he'd be hired in a second.

Mr Lindsey is a serial EIS user. He's just closed his fifth funding round for his compressor-blade maker Lontra, three of which have relied on the scheme. "All of our non-execs are now investors," he says. "They came on board for their technical skills, but found the opportunity and the EIS to be really attractive."

The EIS offers tax relief for investors. There is income tax relief, capital gains tax exemption and, if the investment loses money, the losses can be offset. "EIS is free from inheritance tax," adds Mr Lindsey. "A father of one of our board members invested because he was worried about inheritance tax. It's an extra carrot to attract high-net-worth individuals."

Lontra is a high-tech superstar, with an eye-catching new design for water and air compressors. The firm is hoping to shake up a £19-billion industry. "We have won grants for R&D," reports Mr Lindsey. "That is another benefit of the EIS. It can be used for match-funding for grants. You can effectively double your money."

There are other advantages. "Our EIS investors come with contacts and skills. We've found a lot of our investors through word of mouth," he says. And EIS investors can be friendlier than venture capitalists. "We turned away a few VCs who wanted special shares, with anti-dilution and ratchet clauses. We prefer a fair and flat structure, so all shareholders have the same shares and rights."

Lontra used the EIS to research and manufacture. It is now raising cash to expand. "Articles like this are so important," says Mr Lindsey. "So many more businesses should be using the EIS."

Selling abroad makes businesses stronger

As UK exports show worrying signs of a slowdown, the government is anxious for smaller businesses to venture overseas

◆ EXPORTING

● CHARLES ORTON-JONES

"We used to do a million a year in Libya. Now it's down to a third of that." Andrew Graham's sales agents were in Benghazi, currently the scene of a bitter war between Islamic State and the displaced government. Yet the sales agents still sell his designer wallpaper. "Our partners are now living between Turkey and Libya. They are finding it very hard," he says.

It's remarkable they are selling anything at all. But even in the hardest times people still want quality wallpaper, it seems. Mr Graham's company, Graham & Brown, is a third-generation family firm based in Blackburn. It sells wallpaper to more 75 countries, including China, Russia and former Soviet states. Libya is a challenge, but not insurmountable.

So how do you trade in a war-ravaged nation? Mr Graham reveals his secret:

> The latest trade figures show a UK trade deficit of 5.5 per cent of GDP in 2014, the worst since annual records began in 1948

"Credit insurance. It is a big deal. We are relatively small, so we don't have so much turnover that we can afford to lose money in certain markets." Normally he gets credit insurance from Coface. "They are very good for stable markets, such as the European Union." But less so for emerging markets. "For Libya and other markets where there is political uncertainty, such as Nigeria and Russia, commercial credit insurers won't operate. That is why the government scheme, UK Export Finance, is so useful," he says.

UK Export Finance insures exporters against buyers who fail to pay or merely pay slowly. "It is semi-commercial. You still buy it," says Mr Graham. "You pay a higher rate than normal, but they will provide credit insurance."

Use of commercial and state-backed credit insurance has helped Graham & Brown to move into difficult markets. The firm is 70 years old, but only began exporting 15 years ago. "Exporting makes your business stronger. It pays to go further as the European economies are quite static," says Mr Graham.

The government is keen for other UK small and medium-sized firms to do likewise. Export levels are depressed. The latest trade figures show a UK trade deficit of 5.5 per cent of GDP in 2014, the worst since annual records began in 1948. To close this gap, more British firms need to export. UKTI was one of the few state bodies to get a rise in funding in the latest Budget, with a windfall earmarked for firms looking to crack China. A big part of this drive is educating mid-sized firms about the funding they can rely on when going overseas.

The options are numerous. Invoice finance is popular. Banks and specialist finance houses will turn unpaid invoices, assets or inventory into cash within 24 hours. This takes the pain of collecting invoices from overseas buyers out of the equation.

Supply chain finance provides payments during a hold-up for both buyers and sellers.

Letters of credit are available. The buyer's bank pays if their client can't. Opinions vary. "We found letters of credit too cumbersome," reports Mr Graham.

UK Export Finance does more than provide credit insurance. It will insure investments. This will pay out in case of extra-legal events, such as war or forced nationalisation. It can secure confirmations of letters of credit and raise contract bonds.

The UKTI programme Passport to Export offers a one-stop shop for would-be exporters. It offers an assessment of your readiness to export, workshops on stages of exporting, help with market research and advice on what other assistance you can receive.

Foreign currency hedging is vital. There are more tools than ever, but they come with a warning. Victor Golovtchenko, chief analyst at foreign exchange research organisation Forex Magnates, says: "Companies such as Interactive Brokers, Saxo Bank and TD Direct Investing make the currency futures markets widely accessible to any type of investors at reasonable costs.

"The main challenge for SMEs is now in finding savvy-enough financial executives to take the appropriate hedging decisions that reduce the volatility of the company's exposure to the foreign exchange market."

An overlooked tool is private equity (PE). Scottish PE house Dunedin helps its portfolio firms export. Partner Dougal Bennett says: "We have the contacts in overseas markets. We know the pitfalls." In 2012, Dunedin backed oil and gas industry manufacturer Premier Hytemp in a £34.5-million management buyout. Dunedin has helped the firm focus on expanding into export markets.

"We have worked closely with various agencies to smooth over paperwork for shipping to France and Romania," says Mr Bennett. The knowledge a private equity investor brings has helped Premier Hytemp to access funds to invest in machinery. "Writing the cheque is just the start for us. We can help firms turbo-charge their exporting," he adds.

But companies wanting to check out export markets can get funding via the Tradeshow Access Programme. If you create a stand at an exhibition, UKTI will fund half.

For growth, you can't beat export. "Get a plane and see your market," urges Mr Graham. He's walking the walk. If he can sell to Libya, during the Gaddafi years and their aftermath, anything is possible.

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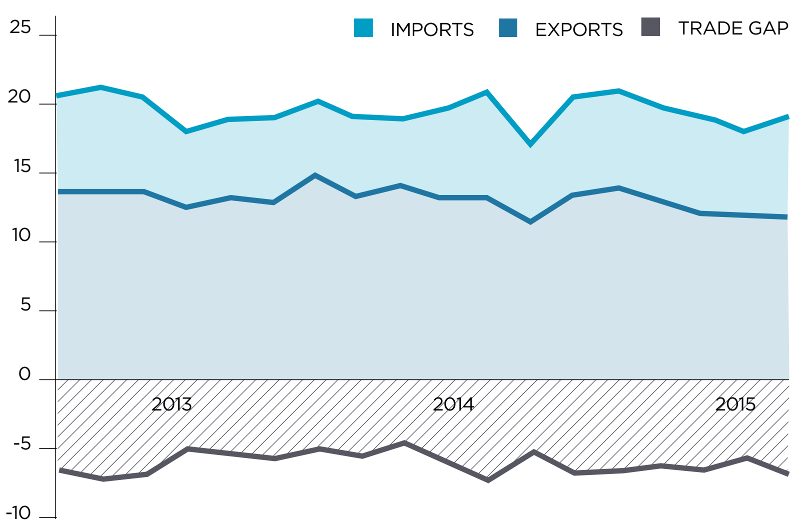
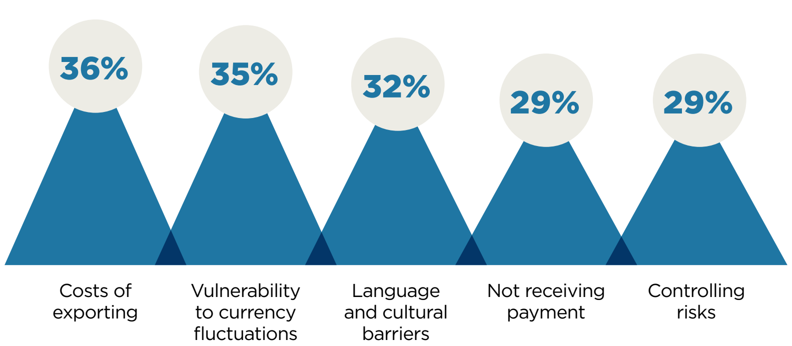
TOTAL MONTHLY UK TRADE WITH EU MEMBERS (£ billions)

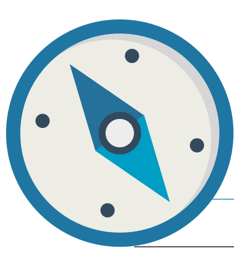


Source: HM Revenue & Customs Overseas Trade Statistics, February 2015

SMEs CONCERNS OVER EXPORTING



Source: *Exports Survey*, 2013



1 in 5

UK SMEs currently export; however, businesses are 11% more likely to survive if they trade overseas

Source: CBI 2014

14%

of UK e-commerce SMEs made no sales to foreign debit or credit cards in 2014

Source: Worldpay

28%

of UK SMEs who are not exporting say there is no market for their products abroad

19%

of UK SMEs who are not exporting believe their business is too small to sell overseas

Source: Barclays

COMMERCIAL FEATURE

BACKING UK BUSINESS WITH TRANSPARENT TRANSACTION COSTS...

Too many businesses are in the dark over bank debit and credit card transaction charges, says ***Annecto UK***

Kevin Hayler
Managing director

In theory, British retailers ought to be celebrating. New European Union rules are being introduced to slash the cost of debit and credit card payments. The European Commission is claiming the measures will lead to savings of €6 billion a year across the EU.

Yet for many British retailers the plan is doing the opposite. Fees are rising. And for a lot of small and medium-sized enterprises (SMEs) the reasons aren't clear why or what they can do about it.

Here's what's happened. Under the old system there was a variety of charges and fees across the EU. This hurt retailers and consumers. So the EU stepped in to cap fees for debit cards at 0.2 per cent of transaction value and 0.3 per cent for credit cards. The debit card cap recently came into force. The credit card cap will be implemented by October or November.

The caps are beneficial in most European countries. But in Britain, the effects are less helpful. The old fee was typically 8p per debit card transaction, no matter the size, paid by the retailer to the card issuer. Banks would add on a margin on top for handling the transaction, typically around 7p, leading to a total flat fee of 15p per sale.

Under the new rules, Visa now charges 0.2 per cent for debit card transactions and then banks are adding their own percentage margin, of anything up to 0.9 per cent. This may mean total fees are higher to retailers than before.

Worse, some banks are using the change to introduce additional fees, such as an "authorisation fee", which can be as high as almost 4p per transaction. The net result is that many British retailers will suffer under the new system.

The problem has triggered a warning from the European consumer protection watchdog that urged the Commission to monitor banks to see if they increase account and service fees to compensate for lost revenue.

> **"Annecto UK offers clients up-front cash in return for repayment via an agreed deduction percentage of future transactions**

A key part of the problem is that many retailers are unaware of the reason their charges have changed. And have no idea how their banks are behaving. "Some smaller firms are in the dark," says Kevin Hayler, managing director of independent payment provider Annecto UK. "The banks may have a statement posted on their website, but no context or explanation. They may not realise their bank is using the new rules to increase their margins."

Not all payment providers are taking advantage. Annecto UK is clear that it will be introducing no extra costs as it implements the changes. Mr Hayler explains: "We will have to switch to the new fee structure mandated by the EU. It can't be avoided. But our margins will not change. We will give customers the choice of fixing the margin at a pence-per-transaction rate or as a remaining percentage. Any reductions in fees will be passed on as a soon as possible, unlike a number of banks.

"And I can confirm there will be no new charges added. We are being totally clear about what we are doing. Our customers are being kept completely up to date and well informed."

The reason? "Our ethos at Annecto UK is different. We champion independent small and medium sized firms. We think it is our job to find savings and to pass them on to the customers."

It was this belief that motivated Mr Hayler to found Annecto UK in 2012. He had forged a career in the payments industry, including eight years at Barclaycard and three years running the SME portfolio for Bank of Scotland Merchant Services. "I saw the way the market worked and realised I could do so much better. The payments industry clearly needed a challenger," he says.

Annecto UK would offer lower prices, newer technology and a more personal level of service. Everything, in short, to provide a superior package, helping SMEs process payments across all sales channels.

For in-store transactions, Annecto UK supplies retailers with the latest chip-and-PIN machines, connected to a super-fast network. For sales made over the phone, there is a Virtual Terminal, allowing payments to be made securely and with no integration, making it ideal for firms with tighter IT budgets. Annecto UK also offers a range of e-commerce solutions for the ever-growing online segment.

Smaller firms need advice on payment systems, so Annecto UK runs workshops for new and existing customers. These cover basic payment processes through to the best way to handle new payment technologies.

Funding is part of the equation, so Annecto UK offers clients up-front cash in return for repayment via an agreed deduction percentage of future transactions. It's an established version of factoring, which unlocks 100 per cent of monthly turnover. The advance is usually repaid in seven to nine months. "There are no security and no upfront costs," says Mr Hayler. "The key is that repayment varies according to transaction levels, so it really suits small firms."

As a firm devoted to payments processing, Annecto UK is at the forefront of new technologies. It can help clients understand the opportunities brought by things such as tablet payments and digital wallets.

"This episode of EU fee capping really emphasises why we are different," says Mr Hayler. "Banks just aren't being clear with their clients about what is going on. By contrast we are being totally transparent. This legislation was introduced to cut costs to independent business and we are honouring that intention.

"The difference in behaviour comes down to attitude. We are on the side of independent businesses. We are sticking with that mantra."

To find out how Annecto UK can help your business, contact 0800 1310049 or visit Annectouk.co.uk

FAQs

What are your technical support hours?
8am-11pm Monday-Saturday, or 10am-5pm Sunday and bank holidays.

Where is Annecto based?
We're a UK-based business with customer service managers located throughout the country.

Can I switch supplier if I'm already in a contract?
Yes and we can support you in doing so.

Will changing supplier affect my banking relationship?
No, card processing is a completely separate entity to your banking needs.

I don't have time to deal with paperwork, can you help?
Yes, we can complete all the paperwork on your behalf.

The new darlings of the inve

Tax changes and developing investment channels have focused the investor spotlight on startups, so much so the moneymen are

◆ **ENTREPRENEURS**

● **DAN MATTHEWS**

Circumstances have never been better for people investing in UK startups. Soaring numbers of new businesses means there is greater choice than ever before, while new investment platforms and helpful tax treatments make the whole the process more profitable and less risky than it was a few short years ago.

The Seed Enterprise Investment Scheme (SEIS) and its big brother the Enterprise Investment Scheme (EIS) are two newish examples. There are venture capital trusts, social investment tax relief and a host of other goodies designed to make new businesses a better bet.

But that's not all. The government-backed Start Up Loans programme allows new businesses to access small loans at low rates with generous payment terms up to five years. Private investors can get in on the act through crowdfunding websites.

Historically, startups in need of money went to "friends, family and fools", or possibly a bank, but never to someone offering cash for equity. The reason – if it isn't too obvious – is because the value of most startups is very low.

> "Institutional investors look favourably on crowdfunding as a great source of early market validation

But today, as long as a startup can convince people it will be enormously successful in future, based on the idea, management credentials, support and so on, it can get the dough it needs without diluting its stock.

Cambridge University figures show investment-based crowdfunding platforms raised £84 million last year, compared with £28 million during the previous 12 months.

Peer-to-peer lending or crowdlending is another burgeoning avenue of funding for startups. Its popularity is soaring, with £1.3 billion lent in 2014 compared with £480 million the year before, according to statistics from innovation charity Nesta.

"This is likely to continue to explode over the next few years," says Andrew Davies, co-founder of marketing software firm Idio, which has raised seed and Series A funding totalling nearly £6 million.

"In fact, institutional investors look favourably on crowdfunding as a great source of early market validation. If you can raise money through crowdsourcing platforms, it demonstrates a certain level of market demand," he says.

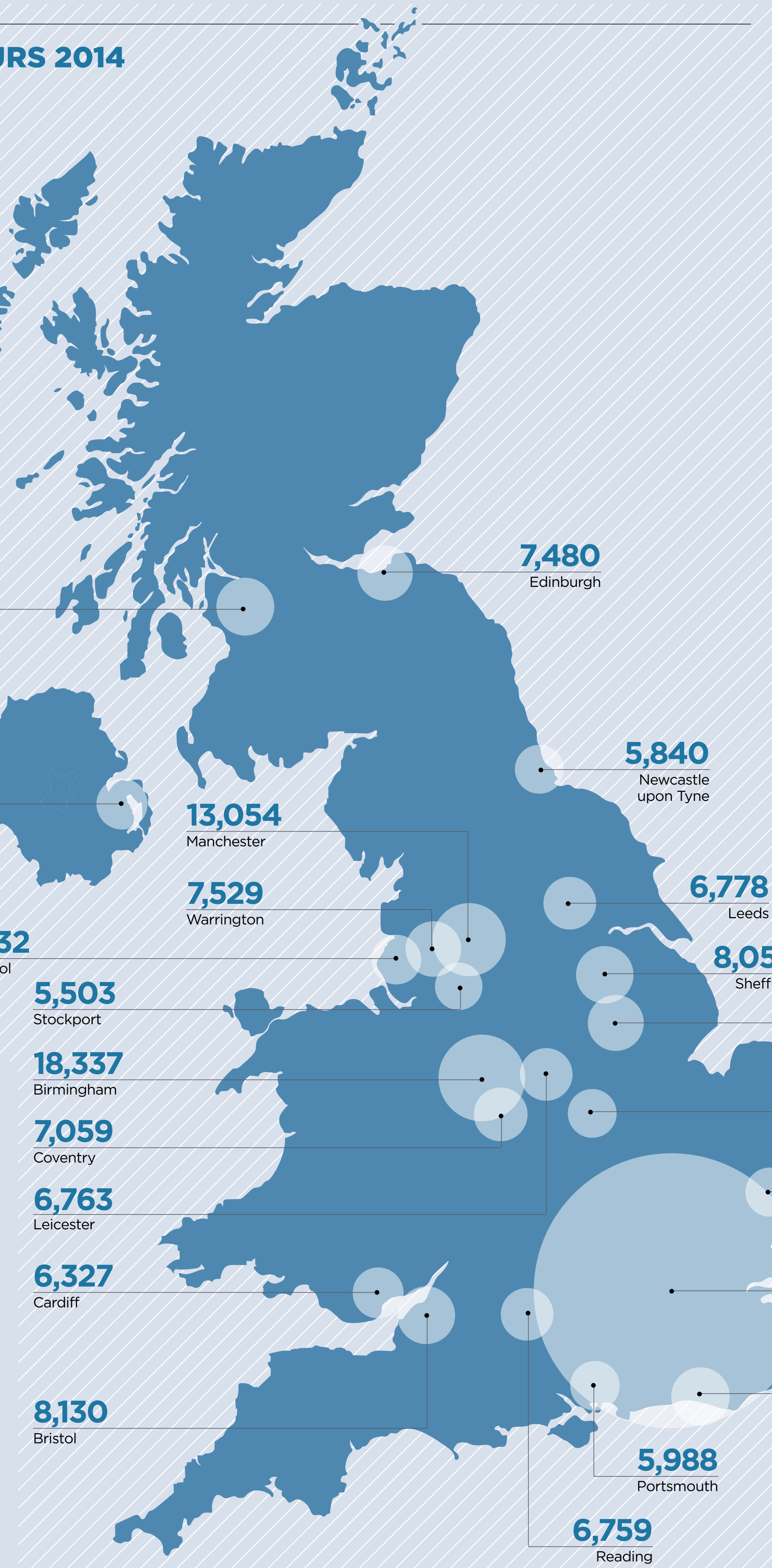
Startups are suited to crowdfunding because there's only one pitch to write, instead of tailored pitches for multiple investors, and, if successful, businesses can forever more point to a crowdfunding round as evidence of the business' validity in its market.

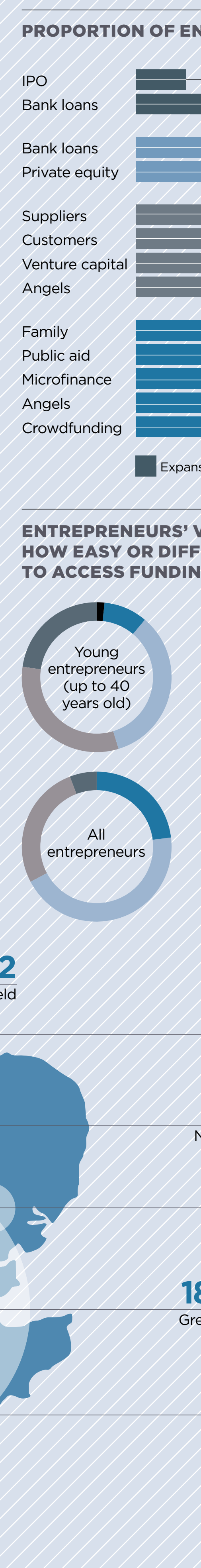
The crowd is an evermore popular route to drumming up returns for new businesses, but lone wolves are waking up to startups and are also speculating liberally.

Lending through the crowd is seen as an investment that complement people's pensions and ISAs, whereas businesses angels and venture capitalists, who take on giant lumps of risk on their own, are out to make big returns quickly.

"The environment for private investors today presents more opportunities than ever before," says Jonathan Snade, a specialist at law firm Thomas Eggar in advising growth businesses on funding options.

UK ENTREPRENEURS 2014



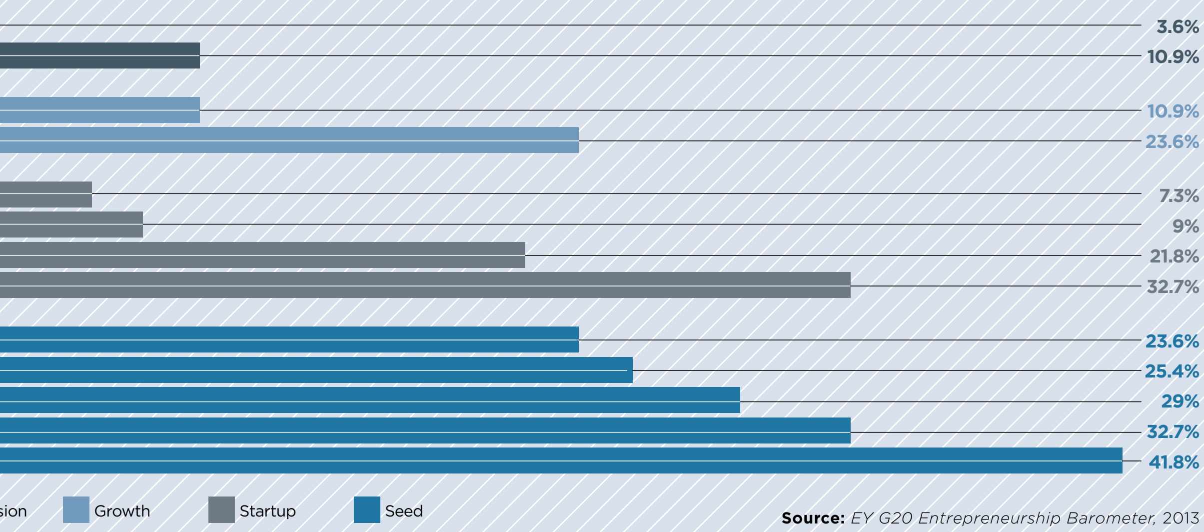


Source:

estment world

ploughing more cash than ever into new ventures

ITREPRENEURS CITING IMPROVEMENT IN ACCESS TO FUNDING INSTRUMENTS



Source: *EY G20 Entrepreneurship Barometer, 2013*

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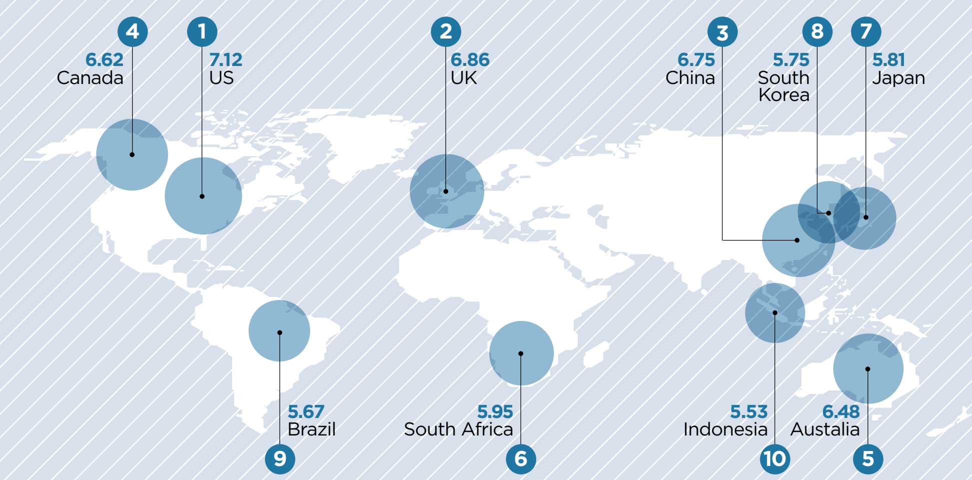
Source: *EY G20 Entrepreneurship Barometer, 2013*

TOP TEN ACCESS TO FUNDING



Source: *EY G20 Entrepreneurship Barometer, 2013*

"A combination of numerous factors has led to this development – tax incentive schemes, the desire of private individuals to diversify their investment portfolios, savings accounts and property assets, an increase in early-stage businesses, a rise in entrepreneurship, and the explosion of crowdfunding platforms."

Ian Thomas, managing director at Turquoise, an investment bank focusing on cleantech, adds: "Business angel investment and crowdfunding are very active at present, especially in the startup arena. Venture capital is also expanding in many sectors, particularly internet, digital and financial technology."

What unifies investors is the desire to find viable businesses with ambitious plans and plenty of scope to grow. Startups should refine their idea, assemble a reliable team and invest in marketing materials.

Businesses that can put together an attractive package for investors, mixing security and copious opportunities for profit, will not find themselves short of demand. It's a sellers' market far detracted from the scepticism of the dotcom bust years.

> "We now have investors who truly understand the economics and potential of startups in the market

"The main difference now is the increased awareness and experience of everyone – entrepreneurs and investors alike," says Ben Grech, co-founder of UniPlaces, a two-year-old startup which has already earned an investment of around £1.5 million from Octopus Ventures.

"Not only has the vast amount of technological advancements dramatically reduced the costs of launching a new product, we now have investors who truly understand the economics and potential of startups in the market," he says.

"Some recent IPOs [stock market initial public offerings] of UK and wider-EU companies have also paved the way for a more receptive funding market. I think we are over the 'dotcom' phase. The companies around nowadays are applying technology to disrupt markets in new ways – many using it to facilitate the offline world."

Climate-KIC UK provides an acceleration programme turning startups into investible businesses and of the six startups that have completed the organisation's programme, five have received funding of £1 million or more.

Andrew Burford, Climate-KIC UK's head of entrepreneurship, points to a variety of funding options for startups, sometimes from unusual sources. "We are seeing a number of social impact funds, British Gas has one, for example. These are very useful as part of the overall investment scene," he says, describing the various alternative sources of investment he has come across.

"We are seeing reasonably active family offices, for instance high-net-worth investors from families such as the Rothschilds, for example. These aren't run like a venture capital business and behave differently to angel investors. They might invest more ethically, for example, and will pick investments not just for the financial return, but also for the social value."

But remarkably, given all this, the UK still has some way to go before it can call itself a world-leading home for investors.

Dan Wagner, chief executive of Powa Technologies, says he looked across the Atlantic to fund his business.

"I believe the UK investment environment has improved tremendously, but still has a long way to go to catch up with the US," he says. "Powa Technologies was valued at £1.78 billion last year after a series of investments, including a $96.7-million Series A round, the largest ever secured by a UK tech startup – but all the money came from the US."

7,641
Nottingham

5,813
Northampton

5,878
Chelmsford

34,671
eater London

8,344
Brighton

art Up Britain

THE STAG'S HEAD

- **A traditional public house and restaurant with accommodation**
- **Funded by Liquid Finance in November 2013 and August 2014**
- **£25,000 funding with an approximate six months recoup time**
- **Funding used to ease transition between employment of chefs and to refresh signage and areas of the building, including the bar, kitchen and some bedrooms**
- **Turnover improving following deficit attributed to an underperforming chef**

BACKGROUND
The Stag's Head in Maidwell, Northamptonshire, is a traditional pub in a rural setting. The current licensee, Robert Willoughby, has been in charge for the past 14 years. The business employs five full-time staff with an extra nine part-time and has a fluctuating turnover of around £420,000 a year.

Like all pubs, there are cycles in the business with good and bad years. However, it faced a specific challenge with a drop in sales in its most profitable area – the restaurant.

FUNDING REQUIREMENT
At The Stag's Head, the chef is the highest paid employee so when food sales struggled, due to the chef underperforming, Mr Willoughby had to replace him. Despite taking some time to find a new chef, a business cash advance from alternative lender Liquid Finance provided what the pub needed to help it get through this challenging period.

Mr Willoughby looked at getting a bank loan, but decided it would not suit his needs. Instead he opted for a business cash advance.

"I really like the concept of the Liquid Finance cash advance and it suited my needs very well," he says. "You get a cash lump sum to help your business grow and then you pay it back through a percentage of your card takings. They don't take too big a bite, if you only process £50 through your card machine, then they only take a percentage of the total."

HOW FUNDING WORKS
Liquid Finance uses the company's card payment history to calculate an advance. Liquid finance applied a factor rate "fee" to the advance and purchases at an agreed daily percentage of the business's future card receivables until the advance, plus fee, is repaid.

Pricing is bespoke to match the needs of the business. Funding is provided within as little as five days from application to cash in the bank and daily batch settlements are automated.

"Banks tend to look at things differently and don't always see the positives in a business; they assess risk differently. A Liquid Finance cash advance is more concentrated and should be used to sort out a specific opportunity or threat," says Mr Willoughby.

RESULT
"It helped me think outside the box and to manage money in advance," Mr Willoughby concludes. As a result of the funding, turnover at The Stag's Head is improving and important facilities have been upgraded.

COMMERCIAL FEATURE

DELIVERING FINANCE THAT FITS

*Leading asset finance provider **Lombard** is proud of the strong relationship it has developed with its customers and has a rich history of helping businesses achieve their goals with its extensive suite of products*

The way businesses finance growth is changing all the time, meaning more choice for owners and executives than ever before. In this environment, lenders are competing to differentiate themselves from the pack and provide tailored services that overcome client challenges.

Lombard, an award-winning* provider of asset finance, takes an entrepreneurial approach to these challenges. We take time to identify the right funding solution that will help our customers obtain the tools necessary to get the job done.

These solutions help customers to acquire the vehicles, machinery, office IT equipment, technology and green energy they need to operate effectively – and to grow their businesses. We are proud of our track record and long list of satisfied customers.

Our flexibility and depth of industry-sector knowledge means we can provide relevant finance to businesses in most sectors, but we focus on manufacturing, commercial transportation, agriculture and technology, and have specialist teams that operate within green energy, marine and aviation. As a result we can assess client needs and deliver the finance that fits.

PRODUCTS AND SERVICES DRIVE BUSINESSES FORWARD

As the UK's largest asset finance provider with the longest history (our origins date back to 1861), Lombard is steeped in experience and has the breadth of facilities to cater to a broad range of business customers from small and medium-sized enterprises to FTSE 100 companies.

At Lombard, we believe that it is important to truly understand what are our customers' business requirements and long-term goals. To do this, we have invested in our teams and established dedicated sector specialists in key areas such as manufacturing, agriculture, commercial transportation, technology and green energy or renewables.

> **"These solutions help customers to acquire the vehicles, machinery, equipment and technology they need to operate effectively – and to grow their businesses**

Asset finance is a flexible form of funding where the asset is used as security, helping businesses to release working capital that can be invested in growth or other business requirements. It lets businesses invest without taking money out of the cash-flow cycle.

It's an increasingly popular form of funding in an economy where the latest equipment, vehicles and technology can be the difference between competing businesses.

Asset finance is an umbrella term for a range of specific facilities catering for the financial needs of businesses in different industries, regardless of size or stage of growth.

We offer, for example, hire purchase agreements allowing customers to rent an asset with the option to buy it at the end of an agreed term; operating leases for high-value or specialist equipment; and contract hire for vehicles which can include a service and maintenance element.

There are a number of solutions offered by asset finance which are designed to meet specific needs. For example, using hire purchase enables a business to spread the cost of a purchase over an agreed period, at the end of which the business takes ownership. In a similar way, an operating lease provides the benefit of funding an asset for a fixed period, perhaps for a specific contract, without the risk of being left with an asset that is not needed once the contract ends.

So whether working on as a single product or in conjunction with other funding options, asset finance can be used by small, medium and large enterprises within their portfolio of funding solutions.

Whatever the customer needs, Lombard has the expertise to tailor our comprehensive range of asset finance solutions to match client companies' aspirations providing the funding for businesses to acquire the assets needed for growth without placing undue strain on your bank balance.

RELATIONSHIP APPROACH TO CUSTOMER NEEDS

Lombard can offer tailored services and competitive rates, but unlike some other finance providers, we can also offer a strong working relationship with our customers. Our support won't end when you sign on the dotted line.

As part of the Royal Bank of Scotland, we can connect customers with a range of quality banking services that will aim to help your business grow while aiming to protect it from unexpected surprises, as well as invoice finance to help to improve cash flow by advancing payments on invoices.

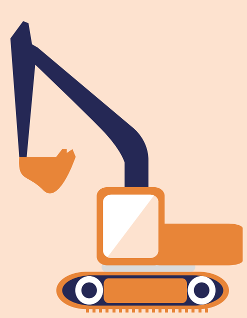
In addition, consultancy services are offered by the bank's Mentor division to ensure that businesses comply with regulatory and compliance obligations such as employment law, health and safety, and environmental management (fees apply).

We take a relationship approach to our business and work with customers as they grow to keep the products and services they rely on relevant, beneficial and optimised for the next level of growth. Customers with questions or who want to find out more can contact us by phone, e-mail and even through social media.

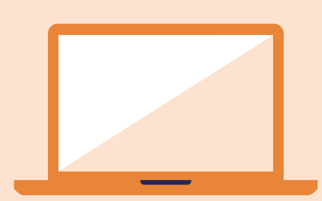
*Winner of Best Leasing & Asset Finance Provider, Business Moneyfacts Awards 2009-2015

Credit: Globe boo

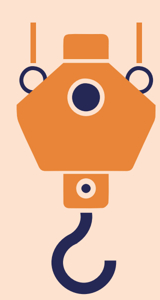
13% rise in new asset finance lending to £25.4 billion in 2014, the strongest rate of growth for at least seven years



£1 of every £4 spent on machinery, equipment and purchased software in the UK was funded using asset finance



21% rise in new lending for plant and machinery to £5.4 billion in 2014, while IT equipment finance increased by nearly 50% in January 2015 compared with the same month in 2014



The percentage of UK investment in machinery, equipment and purchased software financed by FLA members reached its highest level for three years in 2014

Source: Finance and Leasing Association 2015

COMMERCIAL FEATURE

ly valve. Image taken by Martin Avery at Bonds Foundry in Durham, winner of the professional category of the EEF photography competition 2014 sponsored by Lombard, Canon and the ERA Foundation

Case Study: Redford Flowers

Anatomy of the deal
· Customer industry: horticulture.
· Finance agreed: asset finance; hire purchase.
· Purpose of the deal: to purchase machinery.

Deal highlights
· Some £400,000 of funding enabled Redford Flowers to make significant energy and efficiency savings.
· The business will benefit from improved budgeting due to the cost efficiency of using wood pellets rather than fossil fuels, and also from money generated by renewable heat income.
· Cash-flow benefits provided by hire purchase funding.

Redford Flowers was founded in 1970 by husband and wife team Peter and Angela Redden. Today the business is run from ten-acre Sycamore Farm in Lincolnshire and the couple's son Simon is in charge.

It grows between eight and ten million flower stems each year, including lilies, irises and tulips, and supplies wholesalers who in turn sell to supermarkets and florists across the UK.

Having spent time in Holland studying the practices of other growers, Simon decided to invest in new production processes that would increase efficiency and reduce costs.

One of Redford's biggest costs was the oil in the heating system that keeps bulbs at a constant temperature. After conducting research Simon concluded that a biomass boiler would provide significant savings over fossil fuel burners.

He also identified areas of the business ripe for automation, so he took steps to acquire an automated bunching machine at a cost of £50,000 and a £350,000 biomass boiler.

"I recognised that introducing green energy and automation into the business would have a positive impact on our bottom line. Using asset finance meant this investment could be managed efficiently," he says.

Having been introduced to Lombard through Redford's bank NatWest, Simon agreed a hire purchase arrangement on a five-year term. Security for the deal came from the boiler itself, meaning no other collateral was required.

"As the security is actually in the boiler, using asset finance has meant there was no requirement to offer land and buildings as additional security, and there are also cash-flow benefits to us as a business," he adds.

Acquiring the assets through hire purchase alleviated pressure on cash flow, while the lack of a requirement for additional security helped to give Simon pace of mind. In another benefit, repayments are being offset against regular renewable heat income (RHI) payments.

RHI is payable for 20 years, meaning that at the end of the hire purchase term the payments become an additional income stream for the business. As a result of the investment, Redford expects to reduce its energy bill by more than a third.

Redford's example demonstrates how businesses can use asset finance to invest in growth while reducing costs in the long term. It's a win-win that other businesses have the opportunity to replicate, making them more efficient while shrinking their environmental footprint for generations to come.

It's no wonder Lombard enjoys a great relationship with its customers and has a long list of success stories in which it has made a major impact on the continued growth and successes achieved.

Consider the example of Irwin Mitchell, one of the largest and most respected law firms in the UK, with expertise in everything from family law to corporate cases. When the firm needed to upgrade its technology, it turned to Lombard Technology Services for an innovative cash-generating solution.

Lombard provided a £280,000 facility to support the acquisition of new laptops on three-year residual leases. It paid Irwin Mitchell for a stake in the value of the equipment at the end of the period, meaning the customer's total rental costs were less than they would have been paying for the computers upfront.

Andrew Merrick, chief financial officer of Irwin Mitchell, says: "Working with Lombard Technology Services has been a seamless process. They have delivered an innovative solution with this financing package which reduces our expenditure on assets that are essential to the day-to-day service we deliver to our clients."

Another happy customer is Tony Lee of A L Lee & Sons, who agreed a deal to purchase machinery using an asset finance facility from Lombard. The Cambridgeshire-based farming business farms around 10,000 acres of land, of which 2,000 acres are devoted to potatoes.

The business wanted to meet growing demand from customers and had to invest in new equipment to help it achieve its goal. After taking time to get to know the business and understand its needs, Lombard initially funded three new potato grading systems in a £3.6-million facility.

> "At Lombard we have been working actively to raise awareness of asset finance and to highlight that it provides a form of funding which is readily available. Between January 2014 and December 2014, we approved nine out of every ten applications for lending with figures based on finance applications approved by our credit team
> Ian Isaac, Lombard

Owner Tony Lee says: "We've worked with Lombard for a number of years and financed a range of machinery with them. It's an affordable way to invest in equipment which helps us grow and develop. Thanks to Lombard, we have been able to fulfil our orders and service our customers more efficiently."

Highland Experience Tours provides tours between Edinburgh and Loch Ness. Incorporated in 2005 with a single vehicle, it now offers a variety of mini-bus and mini-coach tours, with trips ranging from one day to more than a week.

To cater for growing demand, the company wanted to expand its fleet. Short-term hire agreements were eating into profits, so the business agreed a £373,000-hire-purchase agreement and funding with Lombard, enabling it to acquire three Plaxton Cheetah buses.

"We were looking to grow the company and needed support to get the high-quality product we wanted. The agreement with Lombard has meant we have been able to add significant carrying capacity to our fleet," says Michael Bremner, Highland Experience Tours' managing director.

These are just a handful of Lombard's many happy customers. We are spreading the message that we want to lend money – indeed we want to lend more – so get in touch to start discussing your financial goals.

To find out more about how Lombard can help you finance eligible assets call 0800 502402
Text Relay 18001 0800 502 402
www.lombard.co.uk
Security may be required. Product fees may apply

Lombard

COMMERCIAL FEATURE

GETTING TO KNOW YOU

A bespoke personal banking service should not be reserved for big corporations only, says ***Shawbrook Bank***

SHAWBROOK BANK

High street banks get a lot of criticism from small and medium-sized firms. Top of the list is the demise of the human element.

The complaint is valid and not just because a personal touch is friendlier. Banks can only offer the right advice and make the right decisions when they understand their clients thoroughly. The remote and formulaic processes at big banks aren't just cold, they are bad commerce.

Shawbrook Bank was launched in 2011 to bring the personal service enjoyed by large enterprises to the SME (small and medium-sized enterprise) market. "We offer a very non-box tick approach," says Shawbrook's Kieran McSweeney, managing director, Wholesale Finance. "We look beyond the balance sheet to the business itself.

"We want to know about the people running it, its history, the business plan and everything else. We develop a deep relationship over time – that's our ethos."

There are material ways Shawbrook makes sure this thinking is hard-wired into the bank. Take asset finance. A typical high street bank will allocate more than 50 businesses to each account manager. At Shawbrook the number is typically fewer than 20 clients per account manager. It means the manager can really get to know each customer.

Speed is taken very seriously. "Businesses need to know that the person they are talking to is someone who deeply understands their business and therefore can be confident they can articulate the banks strategy, and be able to deliver a positive final decision," says Mr McSweeney.

"At high street banks, such sector expertise, supported by bespoke underwriting and a focus on quick execution, is rare."

This personal approach strips out a lot of pointless meetings. John Onslow, managing director of Shawbrook's Business Credit division, says: "When people first come to us we can give them a high indication of terms at the outset, even before due diligence. And, provided everything checks out, we have a 100 per cent record of delivering on what we said we would do.

> **We develop a deep relationship over time – that's our ethos**

"That plays out fantastically well in an uncertain world. A high street bank can put clients through a tortuous process and at the end deny approval as someone higher up says they don't like the sector. That's not what you get from us."

The institutions who work with Shawbrook support this claim. *The Business Money Intermediary Index* survey reports feedback from intermediaries on lenders' performance on a range of criteria. Shawbrook Business Credit (formerly Centric Commercial Finance) has been rated number one for the past three years, from a field of 24 lenders.

In 2014 Shawbrook won 22 business awards across its operating divisions, many voted for by peers and industry intermediaries, validating its decision to operate in carefully chosen markets, providing specialist underwriting with a focus on relationships, innovation and talent while treating customers with respect, good sense, thoughtful judgment and care.

The fresh offering is resonating with SMEs, demonstrated by Shawbrook's strong performance. Last year lending reached £2.3 billion. The range now covers commercial mortgages, asset finance, business credit, secured lending and consumer lending, administered by more than 460 staff in six UK offices.

Clients are perhaps the strongest barometer. Jon Newey, chief executive of Domus, a £20-million-turnover ceramic tile maker, uses Shawbrook Business Credit's lending facility for working capital.

"We paid off our previous Shawbrook facility and went into the market to find best terms on a new one," says Mr Newey. "Shawbrook still came out best overall in terms of speed, alignment to the business and cost. Once again the team quickly delivered a tailored invoice discounting line and cash-flow facility, and I look forward to working together in the future."

The age of personal banking for SMEs isn't over – it may just be starting.

For more information visit Shawbrook.co.uk

"Shawbrook still came out best overall in terms of speed, alignment to the business and cost," says Jon Newey, chief executive of Domus Tile Group

Strengthening UK's business backbone

The UK's medium-sized businesses are the backbone of the economy: despite making up less than 2 per cent of all companies, they generate almost a quarter of private-sector GDP and employ one in every six people

OPINION COLUMN

JOHN CRIDLAND
CBI director-general

Britain's medium-sized businesses (MSBs) are entrepreneurial firms, normally with a turnover of between ten and one hundred million pounds, so they are already well up-and-running businesses, but generally not household names. They are companies such as Daisy Group, a business communications provider, which has already grown considerably to become a larger "M"; international architects Benoy; and pharmaceutical manufacturer Aesica.

Established, thriving firms, MSBs are sometimes referred to as gazelle companies because of their huge potential to spring into rapid growth. Indeed, recent research by Millward Brown for the CBI, on the outlook for MSBs, showed 82 per cent of the 200 firms surveyed were confident the next five years would bring further growth.

But one of the biggest challenges these firms face is securing growth capital to invest in things such as new machinery, training or IT systems, to enable them to continue to innovate and boost their productivity. That's because, despite it still being really important to growing firms, since the financial crisis the UK has rebalanced away from traditional bank debt due to balance sheet restructuring and regulatory change.

Despite the encouraging increase in short-term alternative finance, the lack of long-term growth capital and difficulties in accessing trade finance, are impacting on medium-sized businesses' ability to grow.

In the same way that the profile of alternative finance has increased, the CBI wants to see politicians getting behind a UK market for privately placed debt, which the Breedon Review estimates could unlock around £15 billion of funds across the UK economy. The next government should build on the positive tax changes for private placements announced in the Autumn Statement by lowering the threshold to £5 million and clarifying that they will apply to loans as well as bonds. And, we need to fast-track industry efforts to standardise the documentation for this new market.

Equity can be the best source of growth capital for firms with riskier business models, but has long been underutilised in the UK. Some 81 per cent of small and medium-sized businesses with direct experience of it would recommend equity to another business. But only 1 per cent of smaller businesses use external equity, and only 18 per cent and 5 per cent of medium-sized businesses use private and public equity respectively.

The government should also look at how it can use the tax system to boost the use of equity finance by growing businesses. At the same time, the British Business Bank should offer a public-facing one-stop shop to help businesses navigate different financing options.

The UK rightly has an ambitious exports target of £1 trillion by 2020, the majority of which will have to be tapped from high-growth markets by ambitious medium-sized firms. But two thirds of global trade finance providers (69 per cent) say complex anti-money laundering regulations and "know your customer" requirements are acting as a major barrier to firms getting the trade finance. Of course, we need a robust anti-money laundering regime, but the government must make sure its application is not overly cumbersome and complex for growing businesses.

We also need to look at how growing businesses are supported in their everyday operations. Infrastructure, such as transport, energy and broadband, is the hard-wiring of our economy, but we're still not investing enough to support the UK's growth ambitions. The majority of the £466 billion investment needed by 2020 to keep our infrastructure up to date needs to come from the private sector. But investors are being held back by uncertainty over the future pipeline of projects.

That's why we're calling on the next government to establish an independent infrastructure body to determine future investment needs and look at innovative solutions, such as "bundling" smaller projects together, to create an attractive proposition for institutional investors.

With the right support, many of the UK's medium-sized firms can become internationally renowned brands of the future, boosting jobs and growth across the country.

Creative nation needs crucial funding lifeline

Lenders need to understand the nature of creative industries and support their potential for economic growth

◆ **CREATIVE INDUSTRIES**

● **CATHERINE WHEATLEY**

After her debut at this year's London Fashion Week and a successful pop-up venture in New York, Charli Cohen's luxury sportswear brand has the makings of a British fashion winner.

Three years since starting her company with fabric supplies and a mentoring package donated by Lycra, she has an annual turnover of more than £100,000 and a thriving export business that accounts for more than two thirds of her sales.

But like many young entrepreneurs working in fashion and other creative industries, Charli (pictured), 25, from Reigate, Surrey, has tackled some tough funding challenges on the road to commercial success.

"British designers are amazingly creative, but it's hard getting investment for projects where making samples, taking orders, manufacturing a collection and getting paid by stores with 90-day terms can take up to a year," she says. "Bank funding was never an option."

Instead, Charli has pursued a range of alternative finance routes. She secured a £9,000 government startup loan and raised around £30,000 on Kickstarter, the crowdfunding website. She secured sponsorship for her London Fashion Week collection from soya milk manufacturer Alpro and fashion app The Edit.

"The sponsorship worked because brands want the profile that comes with being linked to young designers," she says. "But it would be helpful for fashion startups to have access to a factoring service to fund cash flow. Most existing providers won't even look at very small businesses."

Britain's creative industries, from fashion to music, animation, film, broadcast and video gaming, make a vital contribution to the national economy. Official statistics show they account for £36 million of gross value added, around 10 per cent of exports and 1.5 million jobs. Orders worth more than £100 million were placed during London Fashion Week 2015, according to the British Fashion Council, while viewers in 196 countries watched catwalk shows via live streaming.

But business agencies, lenders and financial advisers must take steps to secure the creative sector's future growth amid increasing global competition, employers' group, the CBI, warns. For example, more than 40 per cent of jobs in Britain's gaming sector moved overseas between 2008 and 2011 after companies were lured abroad by generous tax breaks.

"These firms are huge contributors to the economy," says Tom Thackray, head of enterprise at the CBI. "If we want a private sector-led recovery then our creative businesses are a great opportunity to secure that growth, and export British goods and services to the world."

Britain's fashion and creative industries are defined by collaboration and inclusiveness thanks to a history of international trading and a stable multicultural population. Their international influence is magnified by London's reputation as a leading financial centre and a global tourism destination, attracting new visitors and potential trading partners every year, according to Mr Thackray. "British creativity has a reputation for flair and quality, and our language helps us reach a global audience," he says.

Last year the Creative Industries Council (CIC), a joint initiative between business and government, launched Create UK, a strategy for promoting growth and development across the sector by doubling exports to £31 billion by 2020 and ensuring more startups survive beyond their first year. The initiative aims to support fledgling firms by providing information about alternative funding sources and advice on how to present a business case to potential investors.

There are also plans to assist banks and advisers by providing market intelligence to help assess ventures whose main assets are intellectual property that is often not patented.

"It is important to make free business and financial mentoring available to fashion graduates, and to demystify business planning, the basics of starting a business and the support available," says Caroline Rush, chief executive of the Fashion Council and a member of the CIC.

Create UK has called on the British Business Bank to drive forward these measures by co-ordinating sources of information and advice, administering finance schemes and developing new funding platforms, including the provision of asset finance.

"We would like to see the Business Bank take more initiative to fill the gap and signpost alternative sources of finance," the CBI's Mr Thackray says.

Wendy Malem, director of the Centre for Fashion Enterprise, a London-based incubator that offers advice, premises and funding to promising ventures, recognises the financial challenges facing young fashion entrepreneurs, from escalating business rates to a lack of project-based funding.

"Lenders should make it their business to understand that fashion and other creative businesses are not like other sectors. It takes five years to build an identity. They have an order book, but they need the money to fund the production," she says.

At the moment, many fledgling fashion firms are funding growth with a mixture of industry awards, loans and sponsorship. Take Holly Jayne Smith, 24, who won a £1,000 British Council award for her womenswear collection at Graduate Fashion Week, the annual showcase for design students. Now she is working on the collection she recently presented at London Fashion Week in studios provided by Birmingham City University.

> **"Lenders should make it their business to understand that fashion and other creative businesses are not like other sectors"**

"There is help available from the industry, but I have wanted to steer clear of banks because I can't forecast what I'll be doing next year," she says.

Mark Newton-Jones, Mothercare chief executive and chairman of Graduate Fashion Week, says young entrepreneurs who showcase at the event need more support to translate ideas into profit. "Graduate Fashion Week attracts 30,000 visitors and has launched famous names such as Stella McCartney and Julien Macdonald. But it is a charity and gets no support from the government. Britain has a great talent for fashion and we need more help to provide mentoring," he says.

With the right support, British fashion entrepreneurs can drive economic growth, according to Ms Malem. "The key thing is finding the golden balance between commercialism and creativity," she concludes.

£26bn

contributed to UK GDP in 2014 by the British fashion industry

Source: British Fashion Council/Oxford Economics

1 in 12

British jobs were in the creative sectors in 2013

Source: Department for Culture, Media & Sport

The crowd is getting a piece of the action

Equity crowdfunding is a democratisation of investing and, although a relative newcomer, it is a valuable source of alternative finance

◆ CROWDFUNDING

● JAMES HURLEY

Equity finance is as old as the merchant adventurers who used it to fund far-flung trading expeditions as long ago as the 16th century, but 500 years on it is the poor relation in UK small-business finance.

For the vast majority of owner-managers, self-sufficiency is the order the day. For those feeling particularly brave, an approach to a high street bank might be in order. But the idea of selling a stake in their venture fills most with horror.

Recent research by the British Business Bank underscores this. While half of all UK small and medium-sized enterprises use bank debt, less than 1 per cent of small firms finance themselves using equity from external providers, one of the lowest proportions in Europe.

However, there are tentative signs that attitudes are beginning to change and the growth of equity crowdfunding is the driving force behind the reassessment.

Online sites, which allow private companies to sell stakes in their ventures to the public, sometimes for as little as £10, are one of the fastest growing forms of alternative finance, up by 410 per cent between 2012 and last year, according to Nesta, the innovation charity.

Luke Lang, co-founder of the country's leading crowdfunding platform, Crowdcube, says the rapidly emerging sector is opening up equity finance to a much wider group of companies, as well as a new type of investor.

"Greater accessibility has inspired tens of thousands of investors who can invest as little or as much as they want," says Mr Lang.

Equity crowdfunding is beginning to provide a serious competitive challenge to the traditional ways in which small and early-stage companies find investors, he adds, including angel networks, government funds and venture capital firms.

Jeff Lynn, founder of another leading equity crowdfunding platform, Seedrs, says the sector is formalising a process that has traditionally existed for smaller companies only in "informal and inefficient forms".

"[It was] a cheque from an uncle, a few investors clubbing together. In many ways equity crowdfunding is just giving formality and efficiency to that process," says Mr Lynn.

However, he also believes the growth in the sector is a sign of a broader recognition that equity is often the most appropriate form of capital for small businesses, especially early-stage ones.

"When a venture is just starting, it's inherently very high risk, but it also has the potential to be high return. Debt, such as a bank loan, doesn't work for that kind of business – the lender bears all the risk, but gets none of the upside, so the only way to make it economic is to charge exorbitant interest rates, which in turn will bankrupt the company. Equity, by contrast, shares both risk and reward, and so works well for small businesses."

> "Greater accessibility has inspired tens of thousands of investors who can invest as little or as much as they want

The first businesses to use the method were, as expected, internet and technology startups, but Mr Lynn says it is increasingly being discovered by other industries and more mature companies.

"The trend of the types of companies we are seeing certainly seems to be broadening. We are seeing more and more in the way of consumer products, food and beverage, services businesses, and even entertainment assets," he says.

Seedrs has been successfully used by everything from a dairy startup, raising money to buy manufacturing equipment to establish the first Northern Irish blue cheese-making facility, to an independent film producer.

There's a similar "cocktail of curious, innovative and ingenious companies" raising money on Crowdcube, says Mr Lang, including an invention to thwart Somali pirates, roll-up shoes for women to carry in their hand bags when they're tired of high heels and a subterranean farm growing salad in a vast disused Second World War bomb shelter under Clapham, south London.

However, he also points out that companies that would normally be prime candidates for traditional venture capital or angel money are turning to equity crowdfunding, including Cell Therapy, which has developed regenerative medicines and was founded by a Nobel prize winner.

"We're seeing a growing trend towards deals with venture capital involvement and accomplished entrepreneurs with track records of delivering exits," he says.

Despite the meteoric growth of the sector, the numbers involved are still quite small. In the first half of 2014, £24 million was raised across 101 crowdfunded equity investments, according to Beauhurst data, or only 2.2 per cent of total UK equity investment during the six-month period

While it has proved an invaluable tool for many small and early-stage companies, crucially it remains unclear whether it can deliver sufficient returns for investors.

Adam Tavener, chairman of pensionledfunding.com and co-founder of Alternative Business Funding, a finance portal for small companies, says this is one of the reasons the jury is still out on whether equity crowdfunding will be a sustainable part of the alternative finance industry in a decade's time.

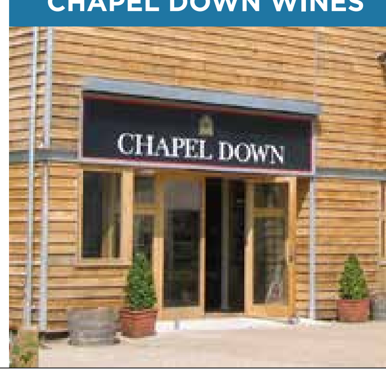
There are also question marks over whether the platforms can make enough money to ensure their own operations are viable in the long run, he adds.

"There's a high cost per acquisition for the platforms," says Mr Tavener. "It's not clear who, if anyone, is making a sustainable amount of money from equity crowd-

ALTERNATIVE VALUE

The alternative finance market reached an estimated £1.74 billion in 2014, according to the *UK Alternative Finance Industry Report.*

CHAPEL DOWN WINES



Technology startups may have been the first to take to it, but Kent-based Chapel Down is an example of how equity crowdfunding has caught the imagination of a far broader group of entrepreneurs.

The winemaker secured £4 million from 1,400 private investors last year through Seedrs, in one of the UK's largest crowdfunding campaigns.

The new funds are intended to be used to plant more vines, build a new winery and a brewery, construct new distribution and storage facilities, and set up a visitor attraction.

The 13-year-old business is quoted on the ISDX smaller companies market and its move made it the first listed company to use crowdfunding.

Frazer Thompson, Chapel Down's chief executive, says crowdfunding brings benefits beyond the finance, namely lots of new small shareholders who become advocates for his brand and product.

"We strongly believe that raising funds through a crowdfunding campaign was the perfect way to enable our current customers to become shareholders easily as well as recruiting new customers," he says.

THREE LEADING PLATFORMS

crowdcube
The first equity crowdfunding platform out of the blocks, Exeter-based Crowdcube claims that since it was launched in 2010, it has helped 219 companies raise a combined £73 million, although this includes debt as well as equity.

SEEDRS
The first crowdfunder to be regulated, Seedrs aims to provide protection for investors' interests after a successful fundraising as well as before it. The platform was launched in 2012 and has successfully funded more than 180 deals.

SYNDICATE ROOM Intelligent Equity Crowdfunding
It may have launched less than two years ago, but Syndicate Room has already helped 30 companies raise more than £20 million by insisting that only deals where professional backers are willing to participate on equal terms are suitable opportunities for the crowd.

CROWDFUNDING MARKET PLATFORMS 2014

		Average growth rate '12/'14
P2P* business lending	£749m	+250%
P2P* consumer lending	£547m	+108%
Invoice trading	£270m	+174%
Equity crowdfunding	£84m	+410%
Community shares	£34m	+95%
Rewards crowdfunding	£26m	+206%
Pension-led funding	£25m	+5%
Debt-based securities	£4.4m	+117%
Donation crowdfunding	£2.0m	+77%

* Peer-to-peer

Source: *UK Alternative Finance Industry Report*, 2014

funding at the moment. Besides, there are other forms of alternative finance that are providing at least as much, and often much more, funding for small companies, but getting nowhere the same level of attention."

Unsurprisingly, he includes his own business, which releases money from company owners' pensions to invest in their businesses, in that assessment, but also methods such as online invoice trading, and advancing cash against credit and debit card sales.

Gonçalo de Vasconcelos, co-founder of Syndicate Room, another equity crowdfunding platform, has aired concerns about whether some lax practices in the industry could be leaving investors with a raw deal.

The Syndicate Room takes a different approach to rivals, in that the crowd only ever invests alongside professional investors and on the same terms. Mr de Vasconcelos believes this results in a better standard of company getting funded and a more equitable deal for small investors.

By contrast, he claims small investors are getting too little protection elsewhere. *Caveat emptor* – let the buyer beware – may apply, but he argues that if returns don't materialise, the crowd will eventually walk away.

He accuses some fundraising companies of being guilty of setting "outrageous" valuations, platforms of allowing businesses to give an inferior class of share to small investors and even of deleting negative user comments about investment pitches, potentially leaving would-be backers in the dark.

However, Mr Lynn and Mr Lang both remain bullish about crowdfunding's future.

Mr Lang says he is confident that investors will begin to see returns soon, "maybe as early as this year", although Mr Lynn argues that for now it's premature to be worrying about the lack of exits.

"We wouldn't expect to see significant exits for at least a few more years. For a business to produce meaningful returns tends to take five to seven years at least," he says.

"This is a sector that has a sustainable future. Investing the equity of early-stage businesses dates back to the 16th century and, in various forms, it has been a key part of how businesses start and has been highly lucrative for investors ever since then.

"Equity crowdfunding is just the democratisation of this process, taking it out of the hands of a few rich men and letting all sorts of people participate."

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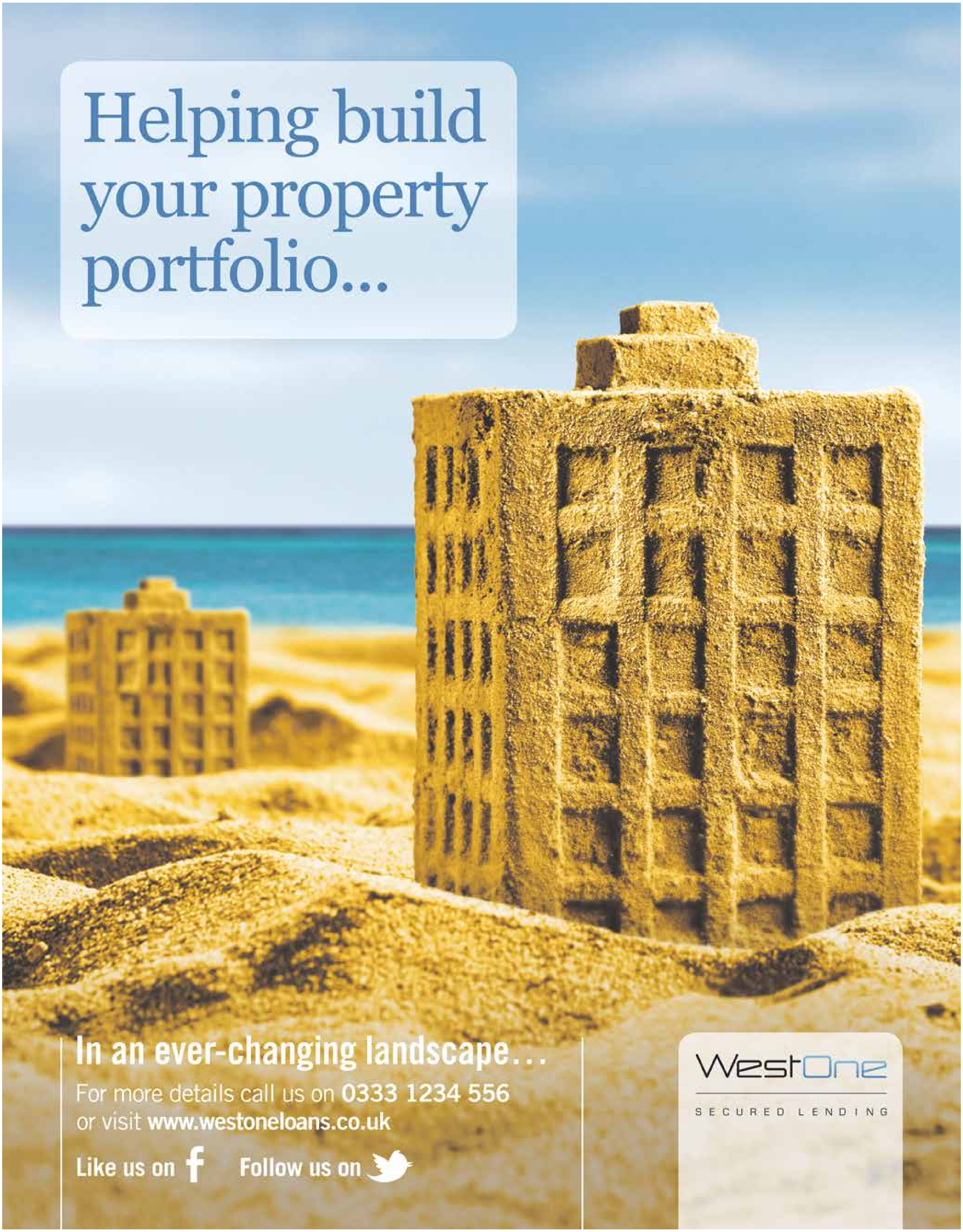

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