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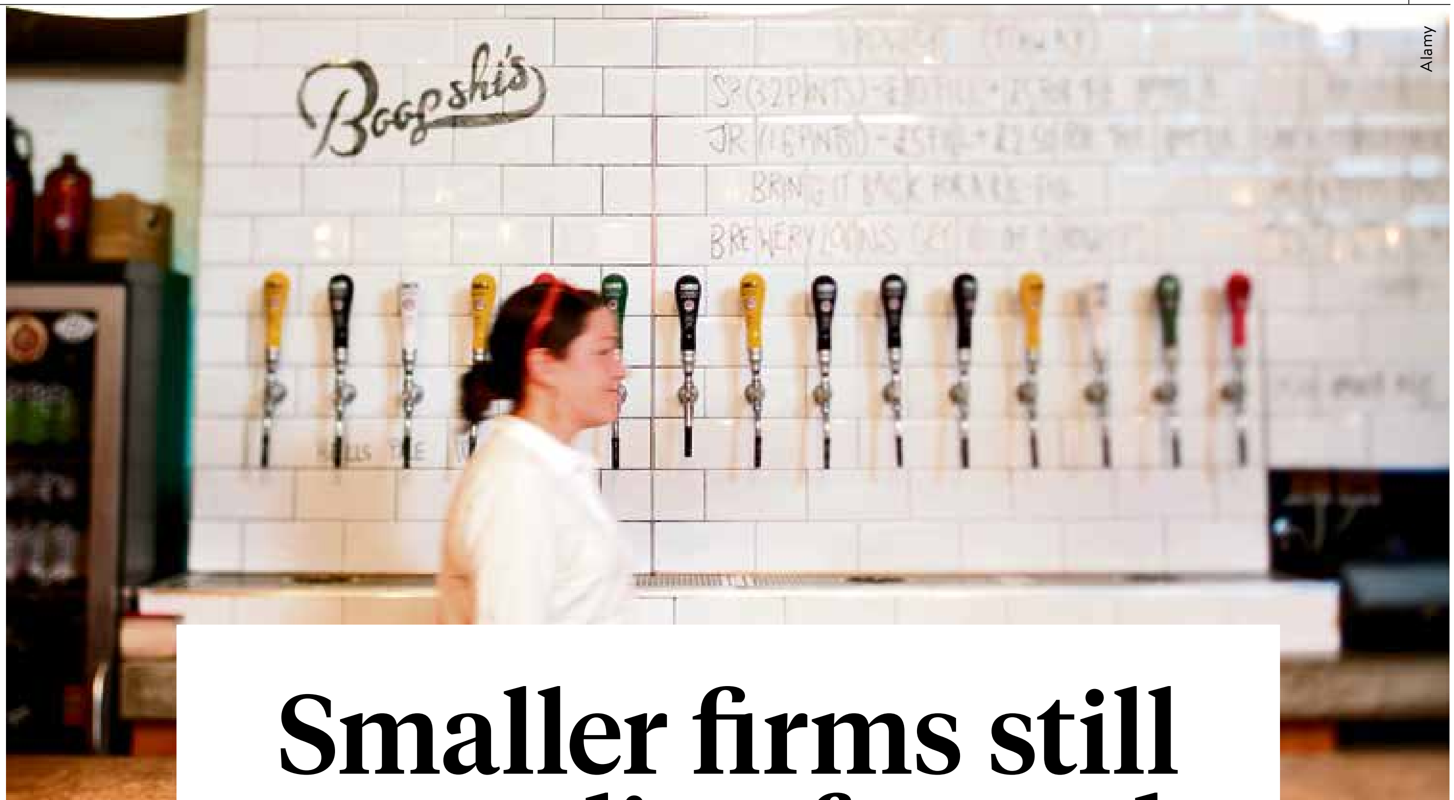


Alamy

Camden Town Brewery raised £2.75 million via Crowdcube in 2015, before being sold to AB InBev for a reported £85 million

Smaller firms still struggling for cash

As the world economy flirts with an ugly slowdown, go-ahead British firms are eager to finance growth and buck the global economic trend

OVERVIEW
KATHRYN HOPKINS

A lot has changed since the coalition government came to power back in 2010, but there is one issue that is still a concern for many firms across the country.

It is that some British businesses, especially small and medium-sized enterprises (SMEs), are still struggling to access the funds they so desperately need in order to grow from the traditional lending routes since the financial crisis struck in 2008.

While there had been some promising signs last year that the traditional frozen lending routes had started to thaw, the latest available figures show 2015 ended on a negative note.

According to data from the British Bankers' Association, net lending to businesses – the amount of new loans paid out compared with the amount paid off by customers – slumped by £2.7 billion in December.

While it does not break down the data by company size, similar figures from the Bank of England showed that net lending to SMEs fell by £300 million in December, after a modest rise the previous month.

"The sharp fall in lending at the end of last year was a timely reminder that accessing finance remains a major issue for businesses," says Suren Thiru, UK economic adviser at the British Chambers of Commerce.

"Young, high-growth firms in particular are still facing a real struggle to get the finance they need to reach their full potential. More must be done to improve SME access to non-equity finance and to ensure that the British Business Bank has sufficient funding to help support some of our most promising young firms on their growth journey."

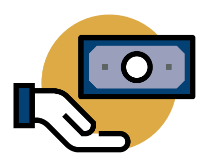
The fall in net lending at the end of last year came despite the introduction of the Bank of England and Treasury's Funding for Lending Scheme (FLS) in 2012, which was originally designed to encourage banks and building societies to boost their lending to both households and businesses.

At the end of 2013, it was altered to focus mainly on business lending after borrowing by households recovered much more quickly than had been expected by policymakers.

Further alterations were made to the flagship lending scheme to include asset-based lenders and most recently chancellor George Osborne announced in the Autumn Statement that the scheme would be extended for another two years.

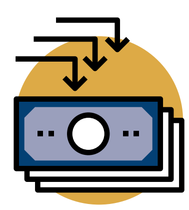
"Now that credit conditions for households and large businesses have improved, it is right that we focus the scheme's firepower on small businesses, which are the lifeblood of our economy," Mr Osborne said.

The FLS extension was announced alongside a package of measures to help boost lending to SMEs, including guaranteeing up to £500 million of bank lending to these firms, which the government is no doubt hoping will kick-start a fresh wave of corporate borrowing in 2016.



£2.7bn
reduction in net borrowing by UK companies in December 2015

Source: British Bankers' Association



36%
of UK SMEs were using external finance as of November 2015, equal to 1.6 million

Source: BDRC Continental

But while everyone waits for bank lending to businesses to get back on track this year, the ever-growing army of alternative funders, including crowdfunding, peer-to-peer lending and pension-led funding among others, is gathering pace and is set to expand further in 2016.

For example, Funding Circle, the peer-to-peer lender, which was set up by three Oxford University graduates to capitalise on the high street banks' failure to lend to SMEs, recently reported that it passed the £1-billion lending milestone.

According to Samir Desai, its chief executive, more than half of this was lent in 2015 and investors are on track to lend a further £1 billion over the next 12 months, as marketplace lending proves to be the preferred option for small businesses looking to access finance.

Apart from whether funds are available from banks and alternative lenders, there are also several factors at play this year, which will impact SMEs' decision to borrow money in the first place as well as choosing what to do with it.

The first is the prospect of policymakers at the Bank of England voting to lift interest rates from the record low of 0.5 per cent, where they have stood still since the depths of the downturn in 2009.

While there has been a succession of mixed signals on the timing of the first increase from the Bank of England, the latest steer from governor Mark Carney is that Britain is not ready for one.

As a result of comments by Mr Carney and some of his fellow dovish colleagues on the Monetary Policy Committee, analysts are predicting that a small rise would come at the end of 2016, while others believe that 2017 is much more likely.

Other factors at play, according to recent research from the Federation of Small Businesses, include the rollout of pension auto-enrolment and the new national living wage. Its members are also deeply worried about proposed mandatory quarterly tax reporting, which in its current form will add to the administrative burden of small firms and the self-employed.

2016 will certainly be an interesting year.

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Alternative goes mainstream

British businesses, especially startups and smaller firms hungry for growth capital, are increasingly turning to alternative forms of funding to get quick and ready cash

ALTERNATIVE FINANCE
CATHERINE WHEATLEY

New year honours for the co-founders of two pioneering alternative finance firms, Zopa's Giles Andrews and Funding Circle's Samir Desai, shows just how firmly established the sector has become.

More startups and expanding firms than ever are turning to peer-to-peer lending, equity crowdfunding and invoice trading to secure finance for growth. Last year, the total value of loans and investments made on these web-based platforms to business and consumers rose almost 90 per cent to more than £3 billion, according to a report by innovation charity Nesta and the University of Cambridge.

"Peer-to-peer finance is entering a new phase," says Nesta's Peter Baeck, the report's co-author. "After the crash, it was an alternative to scarce bank funding. But the market has evolved and now it's the first choice for some entrepreneurs because it can be cheaper and faster than traditional debt and equity arrangements."

> The market has evolved and now it's the first choice for some entrepreneurs because it can be cheaper and faster than traditional debt and equity arrangements

The alternative finance tag has been attached to a growing collection of business models, from pension-led funding to challenger banks as the market has expanded. "Banks themselves are starting to get into the space, which is a sign it has become more mainstream," says Mr Baeck. Both Goldman Sachs and Hargreaves Lansdown are expected to unveil lending platforms this year.

Peer-to-business crowdlending sites, such as Funding Circle, ThinCats and RateSetter, which offer debt finance, make up the biggest slice of the sector and accounted for 3.2 per cent of all commercial lending last year. Small businesses raised almost £150 billion in 2015 by making requests directly to thousands of potential lenders, according to Nesta.

Typically, loans of between £5,000 and £3 million can be arranged within a week. Like banks, crowdlending platforms check companies' creditworthiness, but they also calculate risk based on cash flow and even social media presence. Fees at around 5 per cent of the amount borrowed and interest rates at 7-10 per cent can be higher than bank charges.

Both government and institutions have thrown their weight behind the peer-to-business sector. The Business Finance Partnership and the British Business Bank has made a total of £60 million of small-business loans available via Funding Circle. Meanwhile, both Santander and RBS direct startups to Funding Circle when they are unable to offer commercial finance. Since 2014, crowdlenders have been regulated by the Financial Conduct Authority.

Last year, chancellor George Osborne gave the clearest signal yet that the sector has matured when he announced plans for the innovative finance Isa (individual savings account). From this April, investors will receive tax-free interest on loans arranged via peer-to-business platforms.

"The new Isa is an important moment for the industry as it shows we have support from the government. It can only raise the profile of peer-to-peer lending and mean more businesses will look to our platforms to grow their businesses," says Christine Farnish of the Peer-to-Peer Finance Association, the industry's trade organisation.

Equity crowdfunding, via platforms such as Crowdcube, Seedrs and SyndicateRoom, was among the fastest-growing sources of alternative finance for small firms over the past 12 months, Nesta's research found. Businesses raised around £332 million in 2015, up a massive 295 per cent on the previous year, although around a quarter went to real estate ventures.

Typically, entrepreneurs pitch their idea directly to thousands of potential equity investors, who put in anything from £10 to £100,000. Raising finance can take days or months, depending on the reception; colourful, high-profile firms tend to attract most attention. Fees are around 7 per cent of funds raised.

"There has been a conscious shift towards the crowd among entrepreneurs. Customers become evangelical shareholders and it helps differentiate these companies from their competitors. Venture capitalists have embraced it too because they understand the business benefits," says Crowdcube co-founder Luke Lang.

JustPark

Anthony Eskinazi, chief executive of parking space allocation service JustPark, which raised £3.7 million on Crowdcube in 2015

Last year, JustPark, an app and website that matches drivers with spare parking spaces, raised £3.7 million on Crowdcube in Britain's largest crowdfunding deal. The firm had already received backing from Index Ventures and BMWi, the car giant's venture arm.

In another sign that the market has matured, British crowdfunded companies achieved exits for the first time last year. E-Car Club, an electric-car sharing company that raised £100,000 on Crowdcube in 2013, was acquired by the rental group Europcar, while Mill Residential, a real estate investment trust that had secured equity investments worth more than £2 million on SyndicateRoom, floated on the London Stock Exchange AIM market.

Seasoned ventures are also starting to use equity crowdfunding platforms to offer investors mini-bonds at a fixed interest rate. Last year, the Eden Project in Cornwall raised £1.5 million while Hugh Fearnley-Whittingstall's River Cottage achieved £1 million in loan funding.

Invoice trading platforms, including MarketInvoice and Platform Black, are the third key source of alternative finance for small businesses. Last year, firms raised around £325 million, up 20 per cent on 2014. Typically, firms with an established client base, but an irregular cash flow, auction some or all of their invoices at a discount to either institutional clients or individuals and receive funds within 24 hours instead of waiting 30 or even 90 days for payment. In a vote of confidence in the sector, the British Business Bank has invested £40 million in small business invoices via MarketInvoice.

The platform's founder Anil Stocker urges more growing firms to consider alternative lending sources. "When most businesses think of finance, they still think only of their bank – that's a culture we need to break," he says. "It's just a matter of awareness – and that takes time."

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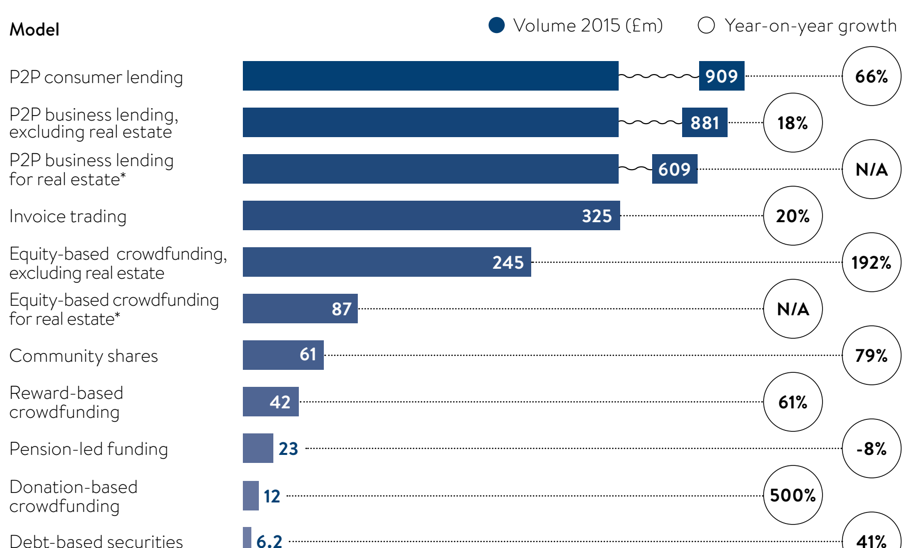
UK ALTERNATIVE FINANCE INDUSTRY 2015



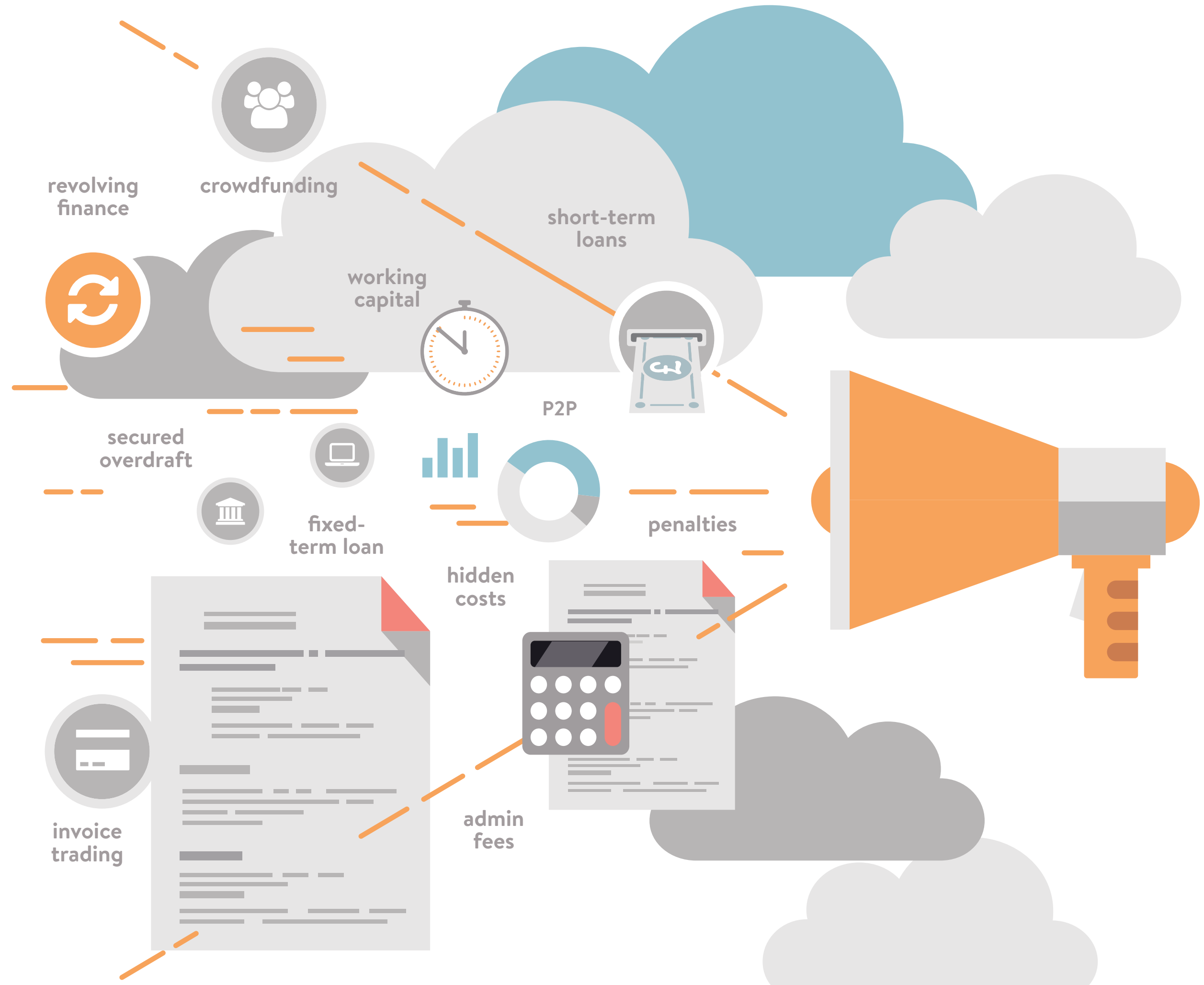
*Real estate was not separated from main data in 2014

Source: Nesta/Cambridge 2016

COMMERCIAL FEATURE

FIND THE SIGNAL IN THE NOISE

How to navigate the alternative finance sector successfully to secure the right funding for your business



Since the 2008 financial crisis, the UK business lending landscape has changed considerably. Bank lending to small and medium-sized businesses (SMEs) has reduced dramatically and overdrafts for SMEs have been withdrawn at a rate of £5 million a day since 2011. This has starved businesses of the vital finance they need to grow, damaging the economy in the process.

Ironically, there is liquidity in the market to fund lending; it has just been unable to find a route to borrowers. This liquidity, combined with the lending drought, has fuelled the growth of the alternative finance (AltFi) sector. AltFi lenders offer a different range of finance products, frequently using technology and data to make lending decisions, typically via online platforms, with a seamless customer experience and in a fraction of the time it takes traditional lenders to arrive at a decision.

AltFi has seen exponential growth and is projected to hit £12.3 billion in 2020 – ten times higher than in 2014 – and the sector has clear UK government support via the British Business Bank, which has so far invested £60 million in the AltFi sector to facilitate lending to SMEs.

You may have heard about AltFi and maybe even considered taking advantage of the benefits it can provide. However, this is a noisy sector, with hundreds of providers and products each promising a unique proposition. Essentially, most AltFi products fall into three broad categories:

- Peer-to-peer (P2P) business lending – an online marketplace where investors are matched with borrowers and the provider merely acts as an intermediary.
- Crowdfunding – where a large number of investors invest in a company, typically taking a share of the business they lend to.
- Invoice trading – where you sell your invoice to a lender at a discount to accelerate your cash flow.

So what are the key considerations when contemplating AltFi solutions?

DO YOU REALLY NEED TO BORROW?

Knowing why you need to borrow may sound obvious; you may be in growth mode and have to buy more stock, hire more staff or fund new contracts. However, it may also be due to issues with working capital because your customers aren't paying you quickly enough. In that case, the first question to ask is whether you can get these payments back on track, rather than borrowing money.

> Innovative solutions, such as Verus360's online revolving finance, give businesses much greater flexibility and address a range of funding needs with cost-effective finance

MATCH YOUR FINANCE TO YOUR NEEDS

Make sure that you get the right finance for your business. Certain types of finance align well to certain types of needs; for example, lease finance to fund vehicles or machinery. But taking out a long-duration, fixed-term loan may not be suitable to meet short-term borrowing and vice versa. Innovative solutions, such as Verus360's online revolving finance, give businesses much greater flexibility and address a range of funding needs with cost-effective finance.

HOW MUCH DOES YOUR BORROWING REALLY COST?

Borrowing money is one of the most critical business decisions you will make, so it's vital that you understand the true costs involved. Our research has shown that 40 per cent of UK businesses are unsure what they're paying for their finance. The headline rate can often seem attractive, but there may be additional costs, such as penalties if you go over your agreed limit, non-utilisation fees and administration fees which make the total cost of borrowing far higher. Verus360 has decided to take a stand against these hidden costs by offering flexible business funding, and charging interest only on the funds businesses use and for the time they use them.

MAKE YOUR FINANCE FACILITY WORK FOR YOU

Ask how your loan will operate, and work out how much time it will take to apply for and manage the money. Lending platforms, such as Verus360's, connect securely to a business's accounts software to offer a credit facility that's similar to a secured overdraft. A business can apply online, get a decision within the hour, and access funds within days, making the offering more responsive to customers and driving greater choice.

WHAT IS AT RISK IF YOU BORROW?

Some lenders offer unsecured loans, others take security against the business via an industry-standard debenture, while others take it via a personal guarantee from individual directors. You need to have peace of mind about the security that you provide; Verus360 doesn't ask for personal guarantees.

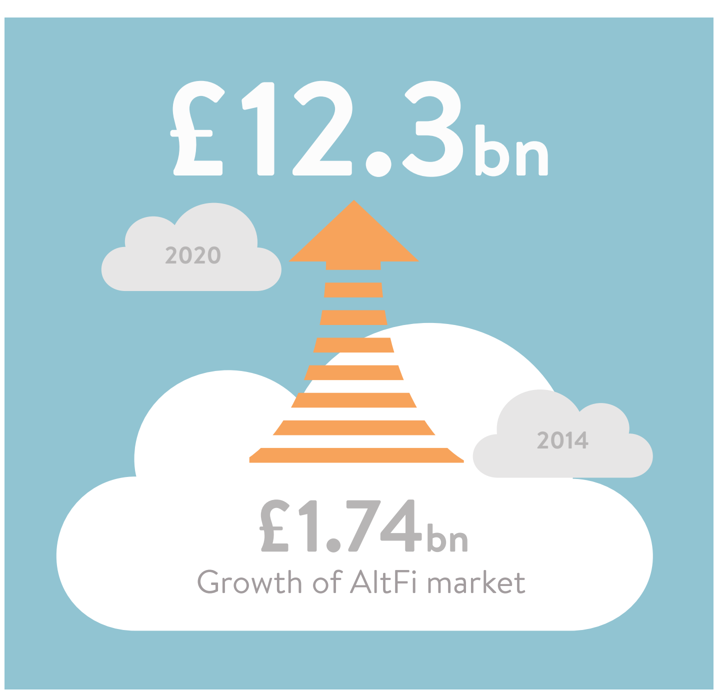
MAKE YOUR DATA WORK HARDER FOR YOU

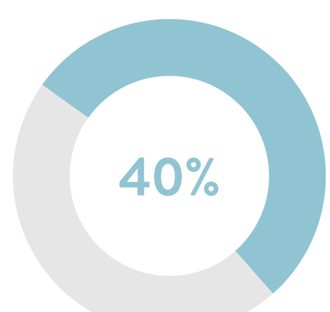
Technology and data are revolutionising the customer experience. Online accounts analysis enables AltFi firms to offer businesses fast access to finance as well as playing back valuable data on business performance. Verus360's platform provides a personalised dashboard for its customers with valuable business information. Businesses that can capitalise on the competitive advantage this data provides will be able to grow faster.

AND THE FUTURE?

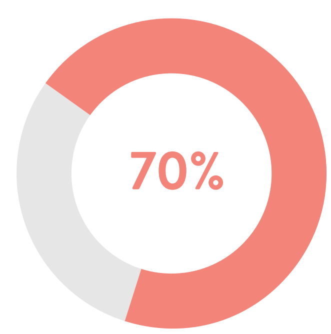
SMEs are the lifeblood of the UK economy and deserve better. The positive reaction to Verus360's pay-as-you-use finance and transparent pricing is clear evidence that businesses are looking for fairer funding. How quickly "fair" becomes the norm for business borrowers remains to be seen.

Tony Morgan, CEO Verus360
www.verus360.com





of SMEs lack clarity on the total cost of finance



of SMEs turned down by banks do not consider AltFi

Hold tight for more business disruption

The alternative finance industry looks set to go from strength to strength to become a tried-and-tested means of business funding

FUTURE OF FUNDING
JAMES HURLEY

London may claim to be the capital of the global alternative finance industry, but until recently there was a self-styled Chinese peer-to-peer platform whose loan book dwarfed the activity all of its British counterparts combined.

Ezubao used money from an estimated one million Chinese consumers to lend billions of dollars, ostensibly to borrowers including students and small businesses.

The platform's remarkable growth was reflected in its operators' largesse, spending big on state television advertising and sponsorship slots, and handing out millions of dollars to staff and telling them to spend it on flashy accoutrements so the company appeared even more successful.

Sadly, it was all too good to be true. According to the Chinese authorities, Ezubao was in fact an enormous, $8-billion Ponzi fraud. Some 95 per cent of investments turned out to be fake and the site's operators tried to cover their tracks by literally burying loan contracts in the ground.

The collapse of the house of cards has at least as serious ramifications as Bernie Madoff's infamous $64.8-billion Ponzi fraud. While most of Madoff's victims were wealthy, experienced investors, Ezubao took much of its money from the man and woman in the street.

It's enough to send a shiver through Britain's alternative finance community, where reputable peer-to-peer platforms have also been experiencing remarkable, if hopefully more sustainable, growth.

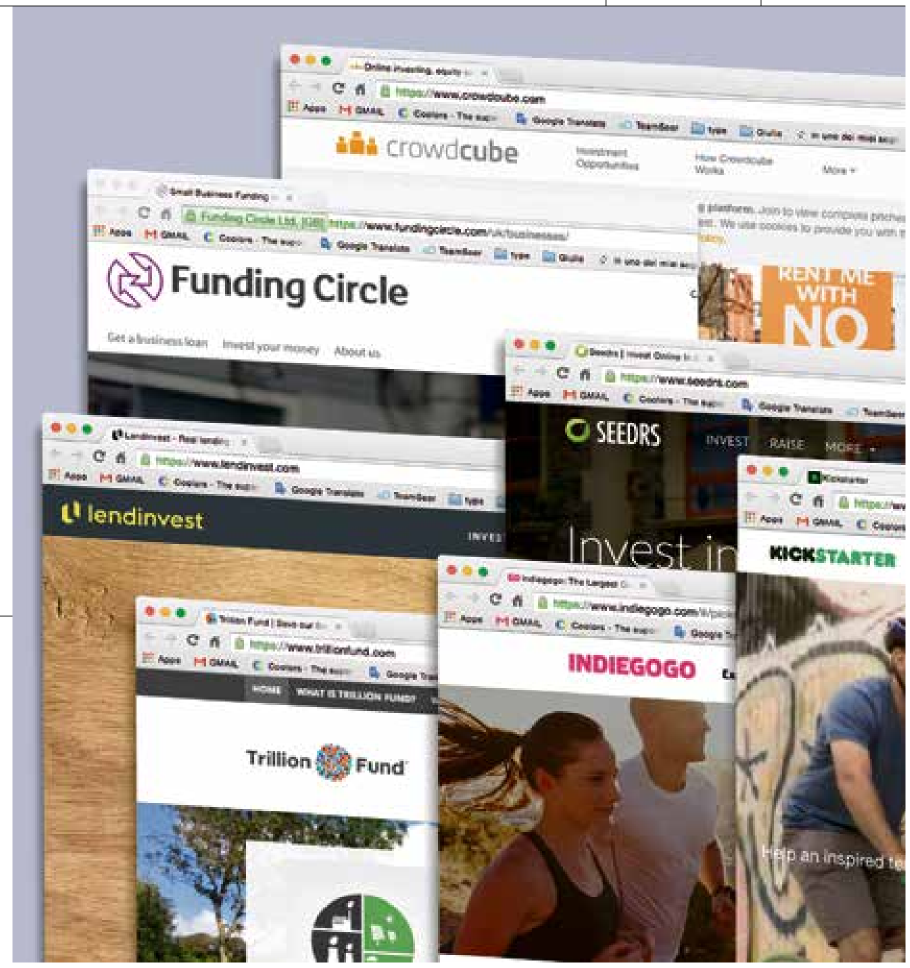
> “Equity crowdfunding has increasingly attracted professional business angels, while the leading peer-to-peer platforms are taking money from big institutions and local authorities alongside ordinary punters

As one platform entrepreneur put it to me, the Ezubao collapse provokes two fears: on one hand, that a smaller failure in the UK could badly damage the reputation of the sector; or that spooked regulators might radically toughen up the rules governing the alternative finance industry to avoid something similar happening here.

The former concern appears to be shared by many across the sector. A survey by innovation charity Nesta of leading alternative finance providers found that the potential collapse of one or more of the well-known platforms due to malpractice was seen as the "highest risk to future growth", identified as "high or very high risk" by more than half of the platforms surveyed.

As a forthcoming Nesta report will warn, a platform collapse in the UK would also pose the first real test of the regulation of online alternative finance and requirement of platforms to have facilities in place to run down loans in case a platform stops doing business.

However, for Andrew Holgate, managing director of business lending for peer-to-peer lending platform Assetz Capital, it's less the prospect of a platform failure and more the associated regulatory response that could yet prove the industry's largest hurdle. "The biggest potential challenge we have as a sector is having regulation come in that prevents us continuing to be a viable and cost-effective alternative to banks," he says.



UK's largest alternative finance platforms

Nesta estimated that the peer-to-peer lending and crowdfunding sectors delivered £3.2 billion in finance to consumers and small businesses throughout 2015. That has all been achieved from scratch in about five years.

Yet for all of its remarkable successes, Nesta's executive director of policy and research Stian Westlake says we'll only be certain alternative finance is here to stay when it's shown that peer-to-peer loan platforms can provide returns over the long term and equity crowdfunders can point to some big exits.

"The sector needs to prove itself through a business cycle – that's how we'll know for sure that the credits of the lenders are good enough and, at the other end of the cycle, what the returns of equity crowdfunding successes are," she says.

The industry has certainly come a long way from its origins in directly linking up ordinary lenders and investors with small companies and consumer borrowers.

According to Nesta, that is rarely how the leading platforms operate in practice now. Instead, equity crowdfunding has increasingly attracted professional business angels, while the leading peer-to-peer platforms are taking money from big institutions and local authorities alongside ordinary punters.

Some fear that this means the "crowd" will be squeezed out of the best deals, undermining one of the key selling points of alternative finance that it opened finance up to the masses.

INVOICE FINANCE AND ASSET-BASED LENDING


Shutterstock

Much of the attention in the alternative finance sector is going to peer-to-peer lenders and equity crowdfunders, but there's another, much older, area of non-bank small business finance that has also grown in importance in recent years.

The invoice finance and asset-based lending industry is somewhat unfashionable, as well as poorly understood by the majority of business owners, but it provides a vital source of funding.

Asset-based lending sees lending secured against companies' assets including plant, machinery and invoices. It was once seen as a last resort, but as bank finance and overdrafts became scarcer following the 2008 financial crisis, it has been gradually moving towards the mainstream.

Large independent providers such as Investec and GE Capital have become significant lenders against machinery, while Bibby, a family-owned business best known for its shipping operation, is one of the country's largest providers of cash secured against invoices.

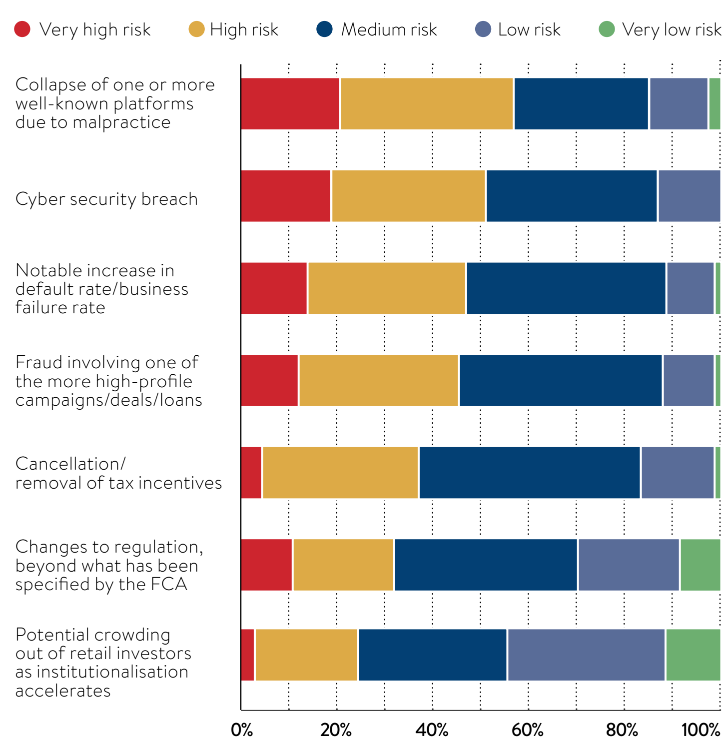
But invoice finance is itself being disrupted by a new breed of online players. This form of lending sees cash advanced against a company's order book, meaning businesses that have to wait a long time to be paid by customers can ease their cash flow by selling their sales ledgers in return for a discount.

The problem, according to a handful of emerging online platforms determined to change the sector, is that traditionally this can be expensive, complex and involves a variety of opaque fees. Established lenders in the sector are responding and beginning to simplify their contracts and fees, and provide more flexible products.

Leading newcomer MarketInvoice uses a peer-to-peer platform to link wealthy private investors up with small companies eager to release cash from their invoices. Unlike traditional players, MarketInvoice allows companies to sell individual invoices instead of locking them into long, restrictive contracts, which demand the whole order book is given to the finance provider.

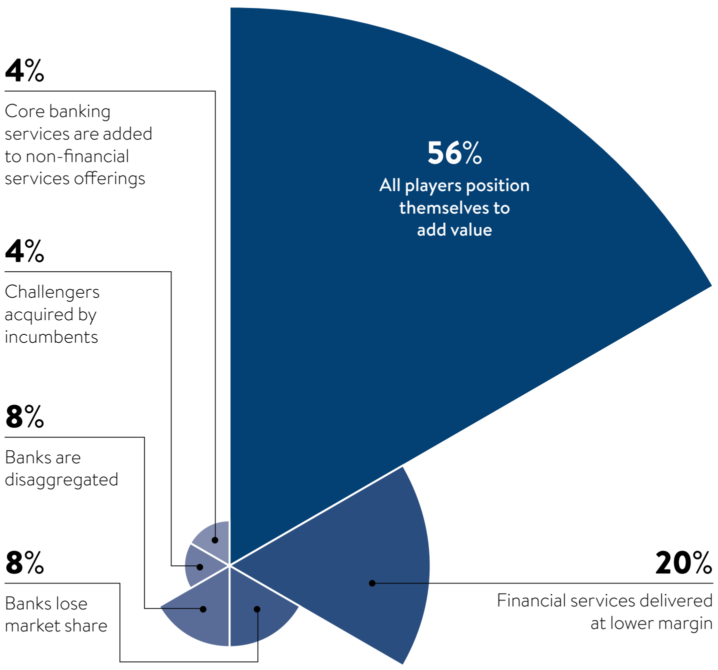
Other online invoice trading platforms, employing a similar approach, have since sprung up.

RISK TO THE CONTINUED GROWTH OF ALTERNATIVE FINANCE



Source: Nesta/Cambridge 2016

HYPOTHETICAL BANKING FUTURE



Source: Accenture/CB Insights 2014

Mr Holgate says: "Another big challenge is how institutional investors sit alongside retail investors to keep the 'peer' in peer-to-peer."

Assetz Capital is keen to see a model develop that gives retail investors "modest returns with great safety while providing the risk-taking institutional money with higher returns and the principal risk of any losses in return". Mr Holgate says: "We believe this will become the model in the future as peer-to-peer becomes a large-scale funder approaching or even outpacing banks."

Mr Westlake says all the major future trends forecast in the sector are signs of an increasingly mature industry. Namely, a greater proportion of investment coming from institutions rather than individuals, fewer platform startups and more consolidation, and the leading platforms increasingly striking out abroad.

Rhydian Lewis, chief executive of peer-to-peer lender RateSetter, believes establishing trust is now the sector's primary challenge. "There's no point shouting out that you can be trusted, you need to show you can deliver and keep delivering," he says.

To that end, Adam Tavener, chairman of both Clifton Asset Management and Alternative Business Funding, wants to see more transparency. "Alternative finance positions itself as a feisty David to the main banks' Goliath, but not all the products offered are reasonably priced or fairly described," he says.

"In order to build trust and therefore the normalisation of use of our sector, we should beware of opportunistic models that are designed to exploit a perceived desperation of business owners who cannot get funded by their bank."

There are still plenty of reasons to be optimistic, however. Mr Lewis says the Financial Conduct Authority (FCA) has done a good job to date. "We have been fully regulated since April 2014," he says. "The FCA worked constructively with us to put in place a regulatory framework that struck the right balance between protecting consumers while supporting innovation and growth."

As banks find small-business lending increasingly unattractive thanks to regulatory demands on capital ratios, Anil Stocker, founder of invoice trading platform MarketInvoice, predicts that peer-to-peer will become the norm. "In time, peer-to-peer lending, whether through invoices, property, term loans or whatever, should be the cheapest way for businesses to borrow – we're getting there already," he says.

The forces that have driven the remarkable growth of the sector aren't going away any time soon, adds Emanuela Vartolomei, chief executive of All Street, a crowdfunding analyst firm.

"Much of the public focus on [alternative finance] tends to be on technology developments, some of which have been amazing. For us, however, it is much wider than that," he says.

"People are moving from being passive purchasers of financial services to active participants in the financial system. We see this trend intensifying, and those alternative finance players who engage and support mass participation will achieve the most success."

Mr Tavener says: "If we can drop the evangelical hype that all too often surrounds it, I think the sector is well placed to mature and become a permanent part of the SME [small and medium-sized enterprise] funding landscape, and will continue to deliver innovation well into the future."

Or as Assetz Capital's Mr Holgate concludes: "The disruption has only just begun."

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How funding can lead to explo

Hotshot companies need liquid cash – here's how ten of Britain's fastest growers got the capital they needed

10 STARTUP STORIES
CHARLES ORTON-JONES

01 ADYEN

SECTOR: **Online payments technology**
FUNDING: **Series B**

What's it like to raise a quarter of a billion dollars in one go? Pieter van der Does can tell you. In December 2014 he rustled up $250 million in a giant series B round valuing his company Adyen at $1.5 billion. The round was led by General Atlantic, with support from Felicis Ventures and Temasek Holdings. "We did it in a month," says Mr van der Does. "We did a single trip to the US, one to the East coast, one to the West. We had a deck and negotiated with two companies." A little later Iconiq, backed by Facebook founder Mark Zuckerberg and Twitter founder Jack Dorsey, joined. The deal was simple, says Mr van der Does, because he didn't need the money. "It is when you desperately need money it is difficult," he says. Adyen was profitable and growing fast. The deal gives the company the balance sheet to win contracts with blue-chip brands. "$50 million doesn't impress them," he says. "$250 million will." Furthermore, the huge sum means he won't need to raise funds again. His tip? Give all shareholders than same class of shares. No milestones or preference shares. "We are all equal. What is good for one is good for all," says Mr van der Does.

02 GIGACLEAR

SECTOR: **Broadband technology**
FUNDING: **Euro-loan**

Getting fast broadband in some rural areas can be a joke. Anything over 8Mbps is considered a distant dream – which is where Gigaclear comes in. This young company specialises in installing blistering broadband into the trickiest of territories. For example, the village of West Haddon in Northamptonshire has just had the Gigaclear treatment, giving households 750Mbps downloads. It beats central Tokyo. Gigaclear got the money to expand via a European Investment Bank (EIB) loan of €25 million (£18 million) to add to almost £50 million it raised through private equity. So how did founder Matthew Hare get the EIB cash? "We started with an application form," he says. "Then the EIB did due diligence, which took two days. Because we had already raised investment from private equity, we had the documentation, which saved time." The EIB money is a loan, not a grant, but is thought to be at preferential rates. The EIB reserves these loans for infrastructure projects which will improve Europe's business capabilities. The cash means Gigaclear can accelerate its fibre-to-the-house programme to 60,000 homes by the end of the year.

03 CARWOW

SECTOR: **Car retail**
FUNDING: **Seed, series A and B**

The classic way to fund a startup is through seed funding, followed by further rounds of venture capital as the business grows. Carwow is a textbook case. James Hind launched Carwow in 2013 as a concept allowing car dealerships to bid for the right to sell a vehicle to a consumer. He got up and running with £230,000 in funds from friends and family. Then came seed finance of £1.3 million in February 2014 led by Balderton Capital, with Episode 1 Ventures, Samos Investments and angel investors, including the founder of Zoopla, taking part. In December 2014 came the series A round with £4.6 million. Then in January this year a series B raised £12.5 million, led by Accel, which backs Dropbox and Spotify. Carwow now has one million registered users and has sold half a billion pounds-worth of cars. "My tip is drum up competition," says Mr Hind. "You want multiple offers so VCs [venture capitalists] need to improve their terms." Competition also meant he could pick the VC houses he liked, rather than the one offering the most cash. The VC money, mostly spent on marketing, has made Carwow one of the outstanding dotcoms of recent years.

04 FC LASER

SECTOR: **Laser-cutting engineering**
FUNDING: **Government grants**

Grants are a vanishing concept. In ye olde days, students would get cash in hand from the state no question asked. No more. But it is possible for businesses to land a grant. Just ask Danny Fantom, managing director of FC Laser. He bagged no fewer than three grants to buy hardware for his company. "I started my business in 2012," he says. "The first round of Regional Growth Fund [RGF] helped me purchase my first laser. Lombard, part of RBS, handled the transaction. The process was extremely easy. It came to down to how many jobs I could create." The £54,000 helped Fantom buy a Bystronic laser machine. In 2013 he got £66,000 for a second machine. "That round of RGF went through local government bodies. They took 10 per cent of the money and cost me 4 per cent in admin costs. I was not happy." Third round was with Lombard again and secured him £82,000. And the jobs? "We now employ 31 staff and five apprentices," says Mr Fantom proudly. It is vital to note the grant only part-funded the machines which retail at more than £300,000. The rest is funded in instalments. "We did £2.7 million last year and this year will do £3.2 million," adds Mr Fantom.

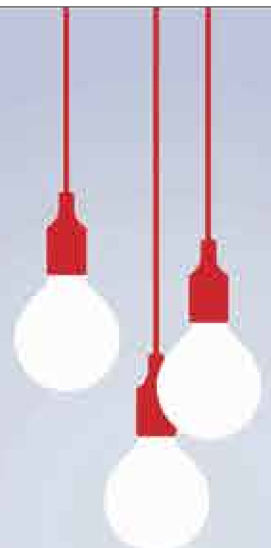
05 ARGON

SECTOR: **Food**
FUNDING: **Pension-led**

Pension-led funding is one of the most obscure types of finance. "I'll be honest, I'd never even heard of it," recalls Andrew Gidden, who recently used the method for his chocolate bar company Argon. Mr Gidden founded Argon in 2009, making the Giddy brand for supermarkets. It was a smash hit from day one. The only problem was lack of growth capital. "Banks didn't want to know, no matter what growth or profit I showed," he says. Solution? "A leaflet landed on my door about pension-led funding. I called the number." Pension-led funding meant Mr Gidden could borrow from his own pension funds as a loan. He then pays back with interest. "It was a risk, but I didn't have a choice," he says. Besides, he had solid orders from retailers. He saw it as a safe bet. The deal, arranged by Clifton Asset Management, allowed Giddy to soar. "We are even expanding to Australia with the money," says Mr Gidden. "If you have an idea you really believe in, then pension-led funding is a no-brainer."

sive growth and stellar success

to expand business and thrive



06 GOOD & PROPER TEA

SECTOR: **Beverages**
FUNDING: **Kickstarter and Crowdcube**

Kickstarter is a weird sort of cash cow. Members of the public throw money at projects for little in return. Film-maker Martin Durkin is currently using Kickstarter to fund *Brexit: The Movie*, with backers getting a credit at the end of the film or an invitation to the premiere. Emilie Holmes used Kickstarter for her premium tea concept Good & Proper Tea. "I had no confidence it would work," she says. "Why would people give me money for no rewards?" For £15 in cash supporters got two packs of tea. Bigger donors got their names painted on her van. Top prize of £1,000 was free use of the van. "It went to a school sports day," says Ms Holmes. The cash rolled in, she hit her target and the business was launched. Round two was Crowdcube. This website swaps shares in the business for cash. "We targeted £140,000 and hit £180,000, which was our cap," says Ms Holmes. She gave away 18.7 per cent of the business. Costs were £2,500 in fees and 5 per cent of funds raised to Crowdcube. Good & Proper Tea now has its first shop in London's Old Street, with a second to come. An online venture sells teas around the world.

07 HECK SAUSAGES

SECTOR: **Food**
FUNDING: **Self-funded and venture capital**

It is vital to consider the downside to funding. And who better to offer a warning than Andrew Keeble, who endured a miserable experience with his wife Debbie with their first company. Their brand, Debbie & Andrew's, was sold to a large food manufacturer in 1999 and the couple were unhappy with becoming employees under a five-year earn-out. "We lost control over what went into the sausages and we felt very uncomfortable. We felt like we were misleading customers," says Mrs Keeble. So for their new business, premium sausage brand Heck, the Keebles self-funded with a quarter stake sold to Panoramic Growth Equity. "Private equity can be called 'vulture capital'," says Mr Keeble. "Not for us – it's been positive." Panoramic has introduced structure to the business, including monthly board meetings, and contributed a chairman. This time the Keebles plan to keep control. "We may buy back the Panoramic share in a few years' time." The deal has certainly worked. Heck should grow sales from £5.7 million last year to a forecast £16 million this year.

08 HOPSTER

SECTOR: **Media**
FUNDING: **Angel, British Business Bank**

Traditional TV is dead to kids. They watch what they want on tablets or phones. The challenge for parents is to police this viewing. It's a few clicks from *Peppa Pig* to a jihadi beheading on YouTube. Hopster is an app for young children that offers only wholesome, vetted, ad-free content on tablets and phones for £3.99 a month. Founder Nick Walters won Great British Startup Entrepreneur of the Year last year for his idea. Hopster is now the top-grossing kids' app in the UK. "Our first funding came from family and personal friends. We raised a few tens of thousands, which takes you further than you think. Technology is so cheap these days," he says. A later angel round paid for the launch. Mr Walters pitched at a London Business Angels event in a seven-minute speed pitch. He closed with ten investors and then got match funding from the government's angel co-fund, part of the British Business Bank. A third round, led by Sandbox & Co, has taken Hopster to the mass market. This method means handing over equity. "You have to ask whether you want 100 per cent of something smaller or a smaller percentage of something big," says Mr Walters. Now he's using the funding to expand globally to 80 territories.

09 TALON OUTDOOR

SECTOR: **Billboard advertising**
FUNDING: **Self-funded**

Not all businesses rely on external funding to succeed, so it's worth mentioning a star performer which is growing gangbusters the organic way. Eric Newnham bought Talon Outdoor in 2012. The company makes it easy for advertisers to buy space on billboards. Since then he's grown billings to £107 million, with £8 million in fees, landing Talon inside the top ten in *The Sunday Times Fast Track 100* rankings. "Not all businesses are heavy on cash," says Mr Newnham. "We don't have physical assets. It is a people business." It's not that he disapproves of equity funding or other methods; far from it. Mr Newnham doubles up as a successful investor in startups through Ballpark Ventures, which injects £50,000 to £100,000 in early-stage companies in deals of £450,000 in total. "Startups need cash. With Talon we used the proceeds from my previous business I sold. What you don't want to do is run out of money. There needs to be some safety in what you are doing," he says. The key to success is founders who can work together. "Ideas don't have to be original. It's the team that matters. You can't do it if you don't get along.

10 SMARTER

SECTOR: **Internet of things technology**
FUNDING: **Invoice discounting**

Technology has radically improved the way companies can improve their cash flow. One of the best examples is the new generation of internet-based invoice discounting platforms. MarketInvoice was the pioneer here, launching in 2011 and having funded more than £500 million to date. Users range from blue chips to startups who value the ability to turn outstanding invoices into quick cash. Inventor Christian Lane uses invoice discounting to keep his "connected kitchen" startup cash liquid. "We have no funding," reports Mr Lane. "So being able to use an invoicing scheme has been a real lifesaver." His company Smarter makes an internet-connected kettle which can be boiled via a smartphone app. It launched in 2013 and became a media sensation. "It was a bit gimmicky, but we knew that we had a real business on our hands," he says. Now Mr Lane is launching a fridge webcam, so users can view its contents from anywhere in the world and a Fitbit- connected coffee machine. He says banks offer cheaper terms for invoice discounting, but MarketInvoice is more flexible. Distribution companies hand over cash in bulk, so the method is essential. "It's helped us invest in software and staff, and funded our production. We wouldn't be where we are without it."

COMMERCIAL FEATURE

ON YOUR MARKS...

Ambitious for growth, but stuck? Help is at hand, which won't cost you a penny, but could make you a fortune

GET SET FOR GROWTH

ACCESSING MONEY AND MARKETS

Steve Crawford had a rather good idea. He'd launched his first Chicken & Blues restaurant in 2013 in Boscombe, Dorset and it was a big hit. His 48-hour chicken marinade and three-stage cooking process won him a loyal customer base across the region. So he set out to grow the concept across the South West. The only question was how to do it?

Like many other ambitious business owners who find themselves beyond their natural skillset and entrepreneurial comfort zone, Steve didn't have all the answers. But, unlike many of these hampered entrepreneurs, rather than figure it all out alone, he and his business partners contacted GetSet for Growth, a fully funded business support service that was established to help businesses just like Chicken & Blues.

Steve worked closely with GetSet's team of advisers to complete an analysis of the market. Together they ran through his numbers, looked at potential expansion strategies and made an application for finance to help fund this growth. Chicken & Blues have since gone on to open two additional restaurants, creating more than 17 new local jobs and delivering strong sales after their first year.

This is just one of a long list of GetSet success stories, where highly skilled advisers are able to offer support and guidance to ambitious, but stuck, businesses.

So why is it that, as a nation, we still struggle to get businesses on to and up the growth escalator, and 94 per cent of our businesses are sole trader, micro or small organisations?

The Department of Business, Innovation & Skills *2014 Small Business Survey* found that despite 73 per cent of UK small and medium-sized enterprises (SMEs) claiming aspirations for growth, only 28 per cent feel confident about entering new markets, and almost half have had difficulties in accessing finance.

The view of small firms is that finance is hard to obtain. Information is opaque. A recent report by the British Chambers of Commerce found access to finance is still a barrier for 60 per cent of British businesses looking to grow through exports. And research into women in business by Enterprising Women identified there is a perceived element of gender discrimination in finance. It's a huge, growth-stifling problem.

Customer acquisition and retention is another minefield. A string of research emphasises British firms struggle with vital tasks such as building a strong sales pipeline, knowing how to define and segment the market and competition, and how to identify the best channels and tactics to engage prospects. Professional, practical advice can go a long way to remedying this.

"The problem is that many business owners never look for help," says YTKO Group's chief executive Bev Hurley. "They are missing out. While some 'business support' for established businesses is of limited quality due to lack of first-hand experience, as GetSet's parent company, we have over 30 years' experience working in the private sector for thousands of companies of different sizes in a variety of industries and sectors. We have seen all the issues and challenges that SMEs come across as they try to grow and we've experienced them ourselves on our own growth journey. We've 'got the T-shirt'."

GetSet's methodology is unique. Unlike traditional business support approaches, GetSet doesn't look at individual business areas in isolation.

> Companies can get access to a fully-funded, practical, market-led approach to growth

"We learnt long ago that you can't treat finance and marketing as separate issues; they are intrinsically linked. For example, take a company that is struggling with cash flow. We take the time to understand why it is an issue. Maybe they have poor credit control, their pricing structure is wrong or they have a poor sales pipeline. Real investigation and a different approach may solve the issue without recourse to finance," says Ms Hurley.

"On the other hand, companies often go chasing new customers to make more money, without first considering their resource capacity within their growth strategy. If they are at maximum output already, securing new customers will likely put the business under significant strain. In that case, they may need to raise finance to build spare capacity before expanding their customer base.

"It's about looking at each business's growth opportunity from an holistic and strategic perspective, as well as looking under the bonnet at where the barriers are and helping the owner or management team overcome them."

The government, recognising that ambitious British firms need help, has committed to funding GetSet across five regions in the UK, through its Regional Growth Fund.

"Because we are fully funded, our service is free to users," says GetSet's Ms Hurley. "Companies can register with us and get access to a practical, market-led, robust approach to investment readiness and growth."

GetSet has a strong pedigree too. Its first pilot project in Cornwall, building on YTKO's successful private sector experience, was supported by the European Regional Development Fund. It has also received private sector backing from J.P. Morgan, initially in Bournemouth and most recently to bring the service to East-London businesses.

"The government's backing is not given easily," says Ms Hurley, "but the evidence of success from over 1,000 businesses has shown that GetSet works. I hope that after reading this, businesses will take action and get registered with GetSet. There's no reason not to – our service is fully funded and we have so much to offer to help businesses achieve their growth goals."

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Breeding a rare beast

No doubt all startups want to make it big and exit with pockets full of cash, but few manage billion-dollar status

SUCCESS

Alamy

According to Gervais Williams at fund managers Miton, the "big daddy" of British unicorns is semiconductor intellectual property business ARM. Initially a Cambridge-based subsidiary of Acorn computers, the BBC computer manufacturer, it was demerged and listed in 1998, joined the FTSE 100 in 1999 and now has a market capitalisation of £13.6 billion. "It's a proper unicorn," says Mr Williams. "Its billions came not from VC backing, but much more from a plc that incubated a small opportunity over many years and it didn't quite matter whether markets were up or down. It's a nice model and one that could be used more."

FAILURE

According to Judith MacKenzie at fund managers Downing, WANdisco was an early-stage big data software provider, listed on AIM in 2012, that received too much funding. She claims there are hundreds of "money pits" propped up by investors' desire to succeed, so they end up bankrolling projects for too long. "WANdisco was once a darling for the market, reaching £15 a share. It's now around £2," says Ms MacKenzie. "Even last year they only managed to book around $15 million in sales, but racked up another loss of around $40 million. These types of companies are clearly speculative and could come right, but often at a cost to private investors."

UNICORNS
SAM SHAW

Never mind the unicorn being an historic and heraldic symbol of Scotland, it seems the mythical beast renowned for its beauty, power and chivalry is now more commonly associated with Silicon Valley.

Defined as a private company valued at more than $1 billion, predominantly US-based and where technology reigns, unicorns are no longer the stuff of legend.

Uber, Airbnb, Snapchat, Pinterest, Dropbox – these are all names we know and value. Apart from the occasional Uber driver, they are far from legends. Yet what they have served to do is set a bar so difficult to clear that it both inspires and disheartens at the same time.

Aileen Lee of seed-stage fund Venture Cowboys once said: "The tech news may make it seem like there's a winner being born every minute, but the reality is the odds are somewhere between catching a foul ball at a major league baseball game and being struck by lightning."

With such success surrounding private companies, what is the incentive to list on the public markets?

Companies need cash to fund growth. While one common fundraising route is through selling equity stakes privately to venture capital (VC) and private equity backers or publicly via the stock market, a market listing is not a one-way bet.

Danny Cox, chartered financial planner at Hargreaves Lansdown, says: "The core downsides of selling equity in a company are the potential loss of control and loss of future earnings."

Mr Cox says most companies raise money via an initial public offering (IPO) because they believe it will help to grow their value faster and to the extent that the seller's remaining equity will be worth more than their previous and larger holding.

According to EY, IPO activity on London's main market and AIM fell 46 per cent last year, with only 62 deals compared to 2014's 114 IPOs. Proceeds also declined by 37 per cent to $15 billion against such headwinds as nervousness surrounding the general election, the slowdown in Chinese growth and tumbling oil prices.

Worldpay, however, bucked the trend in October. The largest listing of the year, valuing the online payment platform at £4.8 billion, renewed the markets' faith in UK fintech and it is hoped this enthusiasm will continue.

> This is where the greater appeal lies – investing in companies that will be acquired by a leviathan

With a booming housing market post-credit crunch, it's no surprise Rightmove is among the UK's biggest IPO success stories, according to Gervais Williams, managing director and fund manager at Miton. He runs more than £1 billion and boasts a long history of investing in smaller companies.

From a market capitalisation of £621 million in December 2008, not only a one-time unicorn, Mr Williams says Rightmove is also the "gorilla" of online housing retailers, dominating without a complete monopoly, and is now just over £3.5 billion in size.

Chasing Rightmove's tail with their recent flotations, Countrywide, Foxtons and Zoopla have all enjoyed mixed levels of success though none opened to retail investors.

Mr Cox says: "Few companies offer shares in IPOs to the retail investor. However, particularly where a company is looking to reinforce or enhance its brand with the public, a retail offering helps to do this – more commonly this is with high street names."

Apart from the vagaries and volatility of the stock market, valuing a company for flotation is very difficult; the company must strike a balance between obtaining good value for the shareholder selling, yet make the offer attractive to potential buyers.

Much of the hype around IPOs was born out of the tech bubble – the days of dotcom millionaires launching startups with much fanfare, yet coming to market far too early.

"Even recently we've seen some of the biotechs come in at quite an early stage and, although some of them have done well, I think the willingness to support those highly speculative companies is becoming more unsettled given the substantial market risks out there," says Mr Williams.

It's not just about technology. He describes how premium drink mixer startup Fever-Tree listed in 2014 with private equity backing and has since raised additional capital to scale up the business.

"It has grown like a weed since issue. It came to market with a market capitalisation of £200 million and has seen its share price rise so that is now £766 million. This is a fairly forward-looking valuation as even now it is still only doing £71 million of turnover," adds Mr Williams.

Head of Downing Ventures, the eponymous investment firm's VC unit, Matt Penneycard is frustrated by the unicorn concept. He says: "We don't have IPOs in the same way in this country. There's absolutely not a viable public exchange for these sorts of tech companies. There may be in the future, but we just don't have a version of Nasdaq."

Racing past their herd are the "four horsemen" – Google, Apple, Amazon and Facebook. With combined market capitalisations comparable to the GDP of Australia and each having a highly acquisitive strategy, Mr Penneycard says this is where the greater appeal lies – investing in companies that will be acquired by a leviathan.

Hargreaves Lansdown points to Google's acquisition in 2014 of DeepMind, which develops artificial intelligence for computer games, last year's purchase by Apple of VocalIQ, which develops technology to improve natural dialogue between humans and computers, and now Microsoft's latest purchase. Keen on TouchType for its swipe technology SwiftKey, the £174-million acquisition demonstrates a growing trend for VC-backed success.

Silicon Valley's interest in British startups certainly appears to be gaining traction.

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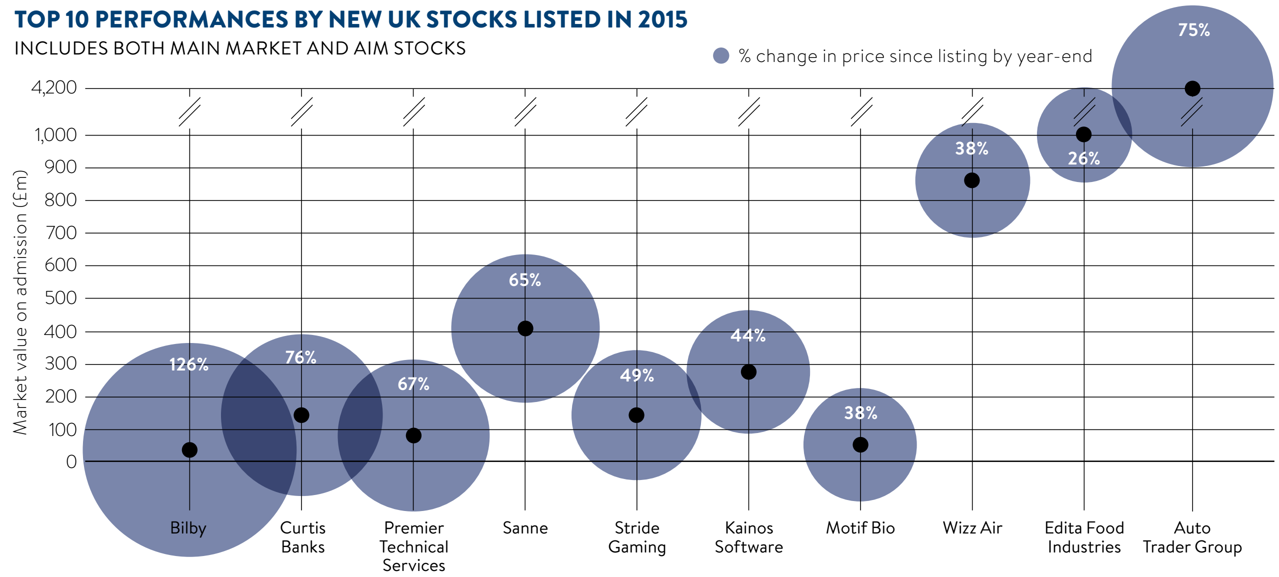
TOP 10 PERFORMANCES BY NEW UK STOCKS LISTED IN 2015

INCLUDES BOTH MAIN MARKET AND AIM STOCKS



Source: Beauhurst 2016

Get cash flowing when invoices

The age-old problem of late payment can stunt business growth, but there are ways of easing the pain and getting

INVOICING
DAN MATTHEWS

The problem of late payment is as old as invoices. Ever since the first time a trader handed a supplier a credit note instead of cash in return for goods or services, people have been chasing each other, sometimes literally, to get debts paid.

Over the years the system has formalised. Today if you request payment from a business customer at the point of exchange they will tell you to get out of their office. Agree terms – 30 or 60 days, say – but insist they are always met and you'll be labelled a nag.

Sadly for suppliers late payment isn't frowned upon in the corporate world; in fact, for many businesses it's integral to their financial planning. As a result, suppliers everywhere are routinely left waiting anxiously for money to arrive.

Their terms might specify 30 days, but they know it could be 60, 90, 120 or even longer. In reality, there is very little they can do about it. The power is with the client; make them angry and they'll dump you for someone else.

The law is just as toothless in this area. Notionally, suppliers can fine late payers and charge them percentage interest as debts drag on. But almost no one has the guts to enforce the rules, the rational being that late-paying customers are better than no customers at all.

Yet while business owners have to wait for what is rightfully theirs, many of their own costs are payable up front or in arbitrarily short timeframes. Fail to meet payroll every month and your business is insolvent. Utilities are turned off if you don't pay bills and the taxman is not famed for his flexibility.

In short, maintaining cash flow is a top-three headache for almost all businesses. Historically, firms have had a few options to ease the pain. They could invoice on time and send friendly reminders for prompt payment, they could energetically pursue buyers with good track records or they could accept their predicament and use an invoice finance service.

> Invoice finance companies buy your invoices subject to checks, releasing cash to you quickly and charging a fee in return

Invoice finance companies buy your invoices subject to checks, releasing cash to you quickly and charging a fee in return. The practice is relatively common, but some customers complain the charges are high and you have to sign over your debtor book lock, stock and barrel for an agreed period, usually 12 months.

Good payers are lumped in with bad ones and you get charged regardless, so unless you only work with bad ones, you'll pay over the odds for the service.

But in the last few years a new option has emerged, made possible by the rise of peer-to-peer services and pioneered by companies in Britain. It's called invoice trading and allows everyday investors to bid to buy invoices in an auction.


MarketInvoice

Anil Stocker (left) and Ilya Kondrashov, co-founders of MarketInvoice, which has traded a total of £618 million in invoices since its inception in 2011

The crowd element of the service drives up competition for invoices, thereby driving down the cost to invoice owners. Once registered, businesses can select the bills they want to finance on a piecemeal basis, submitting only those they know won't be settled any time soon.

One of the first businesses to offer this new service is MarketInvoice, launched in the UK in 2011. Its co-founder Anil Stocker says the process is simpler and cheaper than traditional invoice finance, which is a major draw for time-pressed small businesses.

Investors on the platform can bid to acquire up to 90 per cent of each invoice. Investors get an interest payment and MarketInvoice gets a fee, typically amounting to 2-3 per cent of the invoice value.

"Cash flow, or lack of it, is one of the major hindering factors of business growth," says Mr Stocker. "Even great businesses, with excellent products and a full order book can come unstuck because of cash-flow problems.

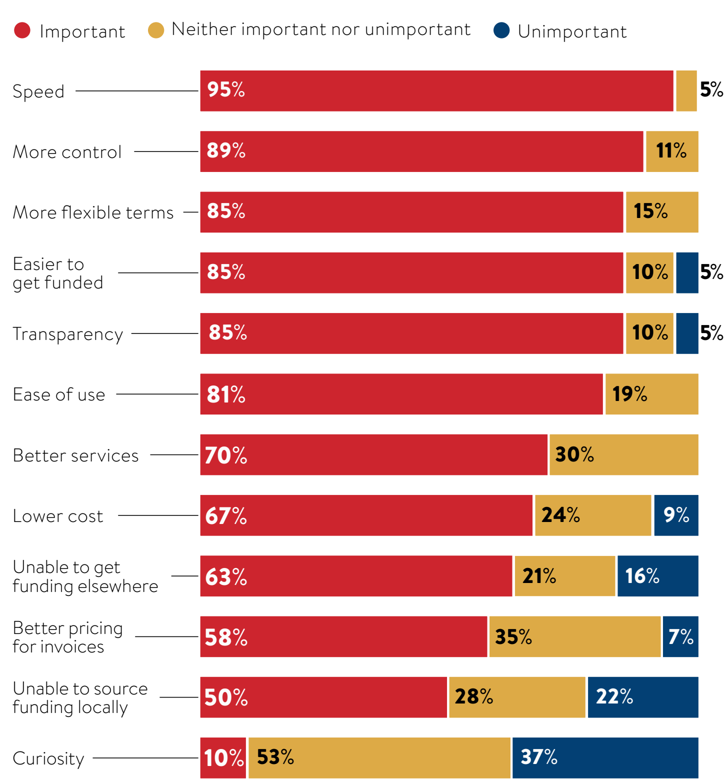
"The primary reason is that a small business usually has to pay its own suppliers up front. Lack of cash flow can cause business failure, but more likely lack of cash flow just slows the whole business down. Want to hire new staff? Wait 90 days. Want to launch a new product? Wait 90 days. Want to invest in research and development? Wait 90 days."

More invoice trading services have sprouted across Britain to cater for growing demand. Businesses appreciate the simplicity of the platforms – they can usually sign up within hours if not minutes – and the flexibility to dip in and out when needed.

Ruth Chamberlain, UK manager of new platform Investly, argues invoice trading has scope to boost the country's economic output by allowing money to flow quicker around the system.

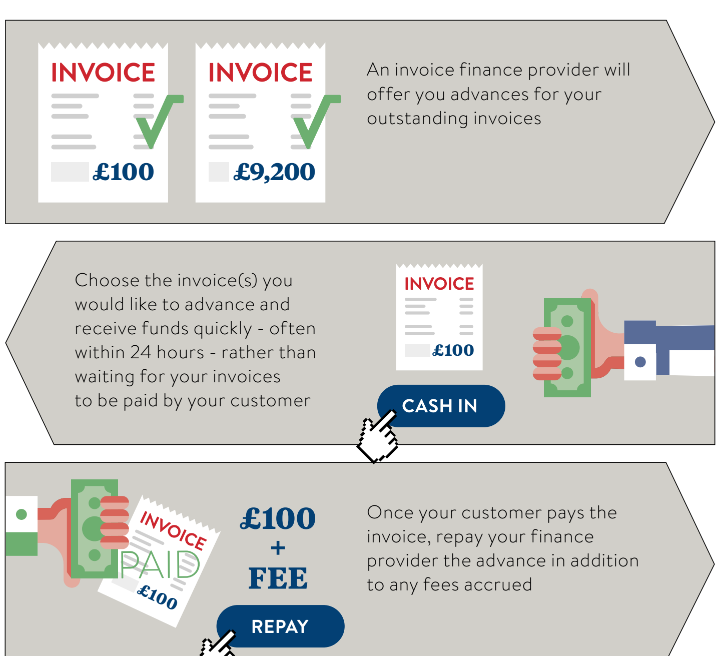
"Invoice trading has the potential to eradicate late-payment terms by simply making the timeframe of an invoice irrelevant," she says. "It will help strengthen businesses across the country, which will ultimately aid the economy and make Britain stronger."

FACTORS IN DECIDING TO CHOOSE INVOICE TRADING IN THE UK



Source: Nesta/Cambridge 2014

TYPICAL INVOICE TRADING PROCESS



are paid too late

cash flowing to resume expansion plans

CASE STUDY: ALES BY MAIL

Ales by Mail takes the best craft beers and ale, and delivers them straight to your door. Founder Paul Kruzycki started the business six years ago with just £800 investment. That bought him a website, space in a warehouse and 48 bottles of beer. Now, Ales by Mail is a marketplace vendor for Amazon and provides more than 500 product lines to the retail giant.

Mr Kruzycki was referred to MarketInvoice when the offer from Amazon first came through. It was a good opportunity for business, but he nearly had to turn it down. "It represented a massive potential uplift in our turnover, but when the dust settled, we realised it was going to be a tough one," he says.

Amazon's payment terms were much longer than the 30 days Mr Kruzycki had agreed with his brewery suppliers. So despite an undeniably valuable deal, it had the potential to punch a gaping hole in his business' cash flow.

In order to maintain a steady trajectory of growth, he approached MarketInvoice to advance Ales by Mail's outstanding invoices. By financing their incoming payment, Mr Kruzycki and his business were able to bridge the funding gap left by Amazon's payment terms. "It's allowed us to release funds tied up in long payment periods. Now we purchase more stock and explore new markets," he says.

After using MarketInvoice last year, Ales by Mail's growth was up 65 per cent in 2015 compared with the previous 12 months. "MarketInvoice was just very quick and efficient, and I'd recommend it to anyone," Mr Kruzycki concludes.

There are, however, one or two significant catches. A big one is that the arrangement is contingent on clients paying within agreed parameters of lateness, if at all. If the deal stipulates 90 days and the client fails to settle in that timeframe, then the supplier becomes liable for the debt.

The money advanced to you at the start of the deal is called in and you're back to square one or worse you have spent the money and have no means to settle. Paul Haydock, chief executive of invoice finance business DueCourse, points to another problem that companies can become over-reliant on the finance and start to struggle without it.

But, as Mr Haydock says, these risks are more than made up for by the benefits. "Banks aren't lending to growing businesses like they used to and it takes on average 72 days for invoices to be paid. About half of all UK invoices are currently overdue, so the situation is pressing," he says.

Sharon Argov, chief executive of Fundbird, says: "Invoice finance is attractive to investors as it usually offers a high return and it is attractive to small businesses looking for finance because they can have the cash in their account so quickly at a more competitive rate than the traditional payers are offering.

"Technology has spurred this revolution in finance and I don't see it slowing down, only developing and becoming more sophisticated. The next generation of business owners might even bypass traditional financial services altogether."

But one glaring issue with invoice trading remains, as it does with any form of invoice-based finance, and it's this: relieving the pain of late payment doesn't solve the problem. In fact, it could make a lasting solution less likely. Detractors argue it excuses late payers and kicks the issue into the long grass.

> Late payment and the potentially terminal cash-flow problems it causes is the scourge of suppliers

Small businesses everywhere will be asking, "Why should I have to pay to have my invoices settled?" And they would have a point. Indeed, from the moment an invoice is submitted under agreed terms, the money is no longer the client's but the supplier's. Why should they be penalised for receiving their own money in a timely fashion?

It's a situation that leaves a bitter taste in the mouth of Martin Campbell, managing director of Ormsby Street, who runs a credit checking tool for small businesses called CreditHQ. "Invoice trading is needed because many companies just aren't honest about when they pay their invoices. But invoice trading in reality only addresses the symptom, not the cause of late invoice payment and poor cash flow," he says.

"It's unfair the cost of invoice financing generally falls on the supplier and it doesn't seem right that a small business should have to spend their precious time and resources seeking credit for invoices which often should have been paid months previously."

Mr Campbell points to some slow progress in the war against late payments. The government has started naming and shaming the worst offenders, and from April any employer with more than 250 people will have to disclose payment terms as well as their real payment performance in terms of lateness and fines owed.

"In itself this probably won't have much tangible impact on whether businesses pay their invoices on time or not," he adds. "But it does mean that late invoice payment is higher up the business agenda and will hopefully encourage small businesses to use the tools available to protect themselves."

Late payment and the potentially terminal cash-flow problems it causes is the scourge of suppliers. Invoice trading is one of the more potent weapons in the small-business armoury, capable as it is of eradicating its worst symptoms.

But it is an anaesthetic not an antidote. Like a child with a grazed knee, small businesses will be glad to have the option of the sticking plaster, but they would rather avoid the pain altogether.

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Being a dragon without having millions

The rise of peer-to-peer lending and crowdfunding has opened up opportunities for smaller investors to get a piece of the action alongside the big players

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INVESTMENT
JOHN STEPEK

Fancy yourself as a bit of a venture capitalist? For some individual investors, the most exciting thing about the rapid growth in the alternative finance sector is the opportunity to enjoy potentially better returns while investing in small and medium-sized businesses at key points in their development.

Yet even if you can't think of anything worse than being a panellist on TV's *Dragons' Den*, there are plenty of alternative finance options that might suit your needs. Just as with any other investment, there are risks involved and this should all be considered as part of a balanced portfolio. But given its rapid growth and steady move towards mainstream status, it's also a sector that every investor should at least be aware of when allocating their assets.

As with mainstream investment options, there are two main ways to invest in a business. You can lend money to it or you can buy a stake in the company itself. Let's start with the lending option. The volume of loans made to British businesses, as opposed to consumers, via peer-to-peer (P2P) lending platforms has grown strongly in the last year, according to the Liberum AltFi Volume Index UK, more than doubling to around £2.4 billion.

These platforms are, of course, not banks themselves. They simply exist as marketplaces where business that need money come together with investors who are willing to lend them that money in exchange for interest payments. Broadly speaking, loans are conducted via auctions as potential lenders make offers to potential borrowers. By taking the middleman – the bank – out of the process, both lender and borrower can get a better deal, and the platform takes an arrangement fee.

The biggest player in Britain's dedicated P2P business loans sector, as opposed to the consumer sector where Zopa and RateSetter dominate, is Funding Circle, which has funded over £1-billion-worth of small-business loans since launch. The attraction to investors is clear. As of the start of February 2016, Funding Circle estimates you can make an annual return of 7.1 per cent before tax, but after the company's 1 per cent fee and estimated bad debts.

Now, clearly the main risk with lending via any of these platforms is that the companies to which you lend your money could go bust and fail to repay. Bad debt levels have been pretty benign so far, but P2P is a relatively new sector and the vast majority of platforms were launched after the financial crisis of 2008, so have not yet been tested during a full-blown recession. To spread this credit risk, Funding Circle recommends that you lend money to at least 100 businesses, with no more than 1 per cent of your total capital in each one. With a minimum loan per business of £20, this would suggest that you need £2,000 to be fully diversified. The platform provides an autobid facility, which will automatically split your funds across a range of businesses.

Another significant player in the market, having enabled more than £150 million in secured loans, is ThinCats. It has a minimum loan size of £1,000, which arguably means it is more suitable for investors with larger portfolios.

> "By taking the middleman – the bank – out of the process, both lender and borrower can get a better deal, and the platform takes an arrangement fee

Other platforms to investigate include those in the P2P real estate loans sector, such as LendInvest, Wellesley & Co and Landbay. For now, returns made on these loans will be taxed as income, but later this year, the new innovative finance Isa or individual savings account launches, which will allow loans issued via P2P lenders to be contained within an Isa wrapper, shielding them from tax and therefore making them more attractive returns for most investors.

If you're looking for an alternative way to invest in the sector, you could consider an investment trust, which is a stock-exchange listed company that invests in other businesses. For example, one of the older trusts in this relatively young sector P2P Global Investment, listed under ticker P2P, both lends money on peer-to-peer platforms across the UK, US and Europe, and also owns equity stakes in several of the platforms themselves. Other options include Funding Circle's recently launched Funding Circle SME Income Fund, under the ticker FCIF, which invests in small-business loans made by Funding Circle in the UK and US.

A higher-risk option is to buy stakes in small companies, with the goal of finding promising minnows that grow into massive players in their fields. This is known as crowdfunding, where companies sell stakes in themselves to private investors via a crowdfunding platform.

The sector is a lot smaller than P2P lending, but it's growing fast. Clearly, investing in the equity of small companies is highly risky as they fail regularly and even experienced "angel" investors regularly have to write off investments. Of course, the potential rewards are commensurate with the risks; back a successful company at the right stage of its development and you can easily make multiples of your original investment. But again, if you intend to put money into companies via these platforms, then you need to ensure that you diversify your investments and you also need to make sure that it forms just a small component of your overall portfolio.

It's also worth remembering that the danger of a company going bust isn't the only risk you might encounter. Investments in these sorts of businesses are illiquid. If you invest in a FTSE 100 stock, you get a minute-by-minute update of exactly what your investment is worth. With crowdfunding, even if a company is doing well, there's no way to know for sure how much you might fetch for your stake or how long it might take you to sell it on if you need access to your money quickly.

You also have no idea how long it might take for your investment to come good and achieve a profitable exit, perhaps via a stock market listing or a takeover. There's also the risk of dilution, the danger that a company has to raise more capital further down the line, diluting the stake held by earlier shareholders. So it's important to be aware of all these potential pitfalls.

However, from the point of view of pure satisfaction, crowdfunding can also be far more engaging than investing via the stock market and it's also one of the few ways that a small investor can easily invest in very early-stage companies. Two of the biggest players in the market are Crowdcube and Seedrs. You can invest sums starting from £10 on each platform, so it's possible to build up a diversified portfolio with a relatively small total investment.

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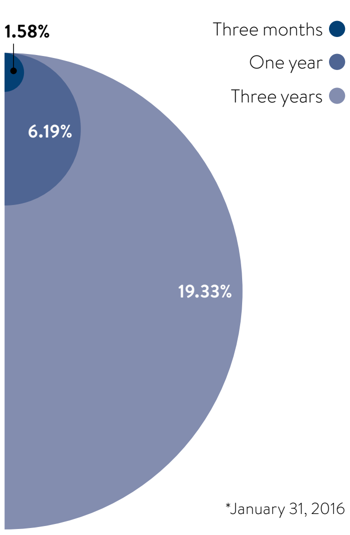
ABSOLUTE RETURNS* FROM INVESTING IN ALTERNATIVE FINANCE

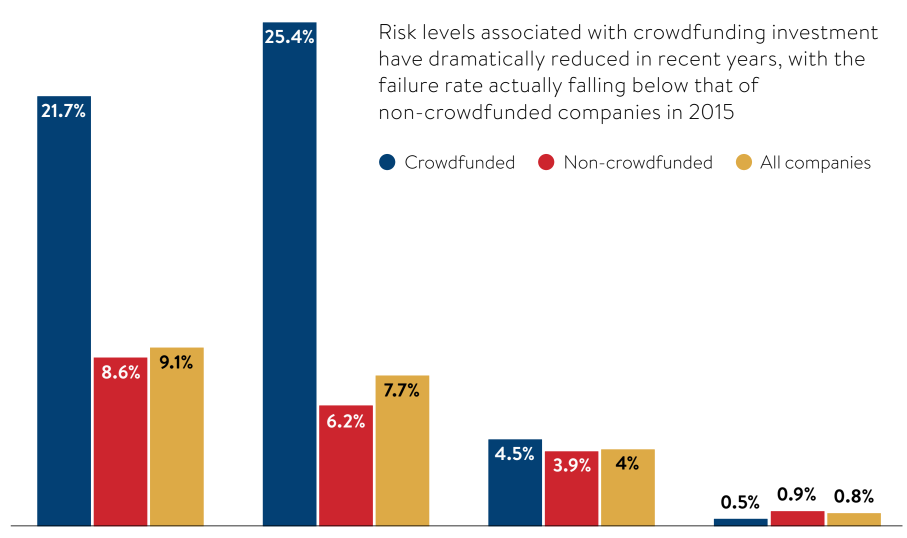
Liberum AltFi Returns Index calculates returns based on aggregated data from the four largest UK platforms: Zopa, Funding Circle, RateSetter and MarketInvoice



*January 31, 2016

Source: AltFi Data

FAILURE RATE OF COMPANIES BY INVESTOR TYPE AT SEED STAGE



Source: Beauhurst 2016

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