Funding Awareness Survey

2017

A 360° view of the commercial finance market

Hilton-Baird
Financial Solutions

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Introduction

It is often said that businesses have never had so many options when it comes to choosing a new funding facility. Whether looking to a buy plant and machinery, finance expansion or just improve cash flow, nowadays there is a wide range of facilities available to consider.

Unfortunately, this doesn't necessarily make the task of securing funding any more straightforward for businesses – whatever their size. If anything, it becomes more difficult for decision makers to keep up with the latest products, know how they work and identify which funders would best suit their company.

The first objective of this research was therefore to discover how aware businesses are of the existence of the different funding options – not only their understanding of the way facilities work, but also in terms of the product they first think of to overcome specific cash flow problems.

The second objective was therefore to discover just how accurate funders' perceptions are, by comparing what they thought businesses would say with their actual responses.

Due to the growing role of asset based finance within the wider commercial finance sector, whereby advances made to businesses have increased by 41% in the five years to Q4 2016 and the value of asset based finance accounted for 15% of GDP in 2015, the research focuses on funders from within this sector and also explores businesses' perceptions and understanding of this product.

"While the commercial finance sector has a good perception of what businesses know and think, its view is inherently biased."

It additionally delved into what businesses look for from their funding, particularly how much of a role service, cost and flexibility can play in attracting a business to one facility over another.

While the commercial finance sector has a good perception of what businesses know and think, its view is inherently biased.

This is because funders' perceptions are built from within the sector and based on discussions with only a small proportion of the 4.9 million small and medium sized businesses which operate in the UK today.

However subconscious it might be, this bias has more of an effect than we might realise; whether it's the language used, the assumptions made, the channels we used to communicate with businesses and the way products and services are actually sold.

It made for a truly interesting piece of research, and one that we hope will give businesses and funders alike the insight that's required to help even more companies secure the funding they require in the coming months and years.

Thank you to everyone who took part.

Evette Orams, Managing Director
Hilton-Baird Financial Solutions

Awareness of funding products

With so many funding products to choose from nowadays, it's obvious that businesses are unlikely to have a comprehensive understanding of each and every funding product that exists.

We asked respondents to rank their awareness and understanding of different funding methods out of 5 to identify where any potential gaps in knowledge need to be addressed.

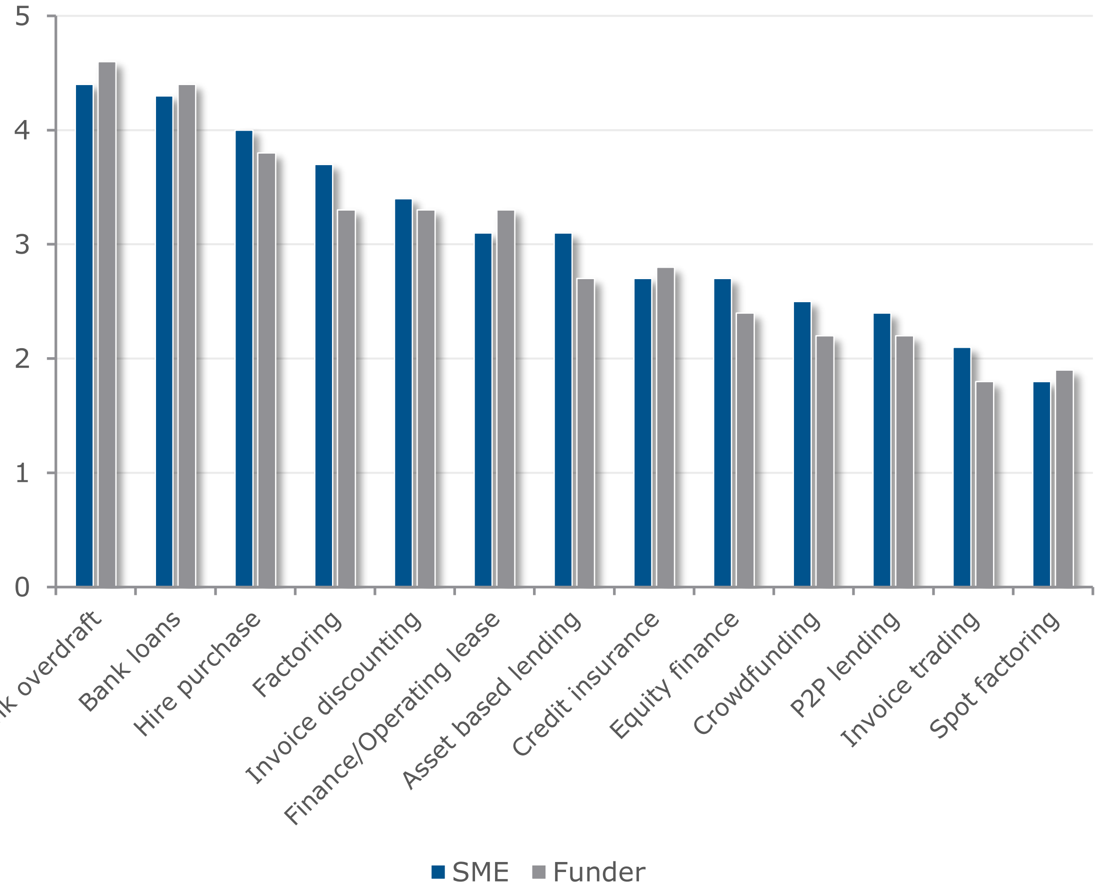
The results were in many ways unsurprising, with traditional funding methods such as bank overdrafts and bank loans ranked highest – both with an average score of more than 4 out of 5.

It was encouraging to note that funders, overall, were very accurate with their predictions as to how well businesses know these funding products.

Interestingly, businesses said they had a better understanding than funders had anticipated for eight of the 13 products, including factoring, invoice discounting and asset based lending.

The results also found that, unsurprisingly, businesses were most lacking in knowledge of some of the newer funding products on the market, such as spot factoring, invoice trading, P2P lending and crowdfunding.

How would you describe your awareness and understanding of the following funding methods out of 5 (5 being the highest)?



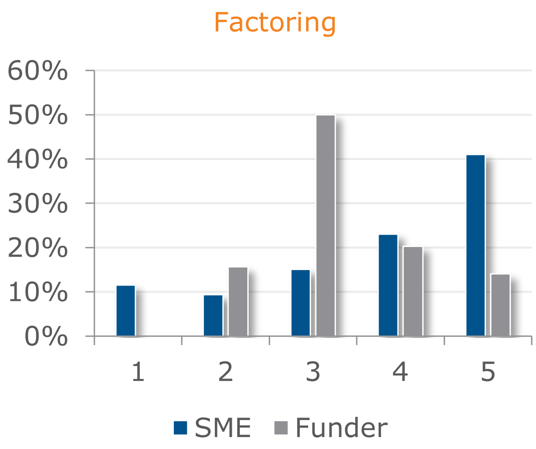
If we delve deeper into the asset based finance products, we can see that businesses' understanding of factoring, invoice discounting and asset based lending is quite varied and evenly spread.

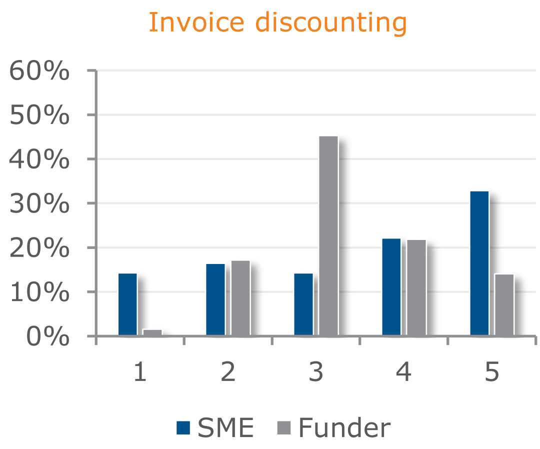
It is interesting to note that, for all three, funders had expected a far higher concentration to be around the 3 out of 5 mark, and considerably underestimated the proportion of businesses who rate their awareness as only 1 out of 5.

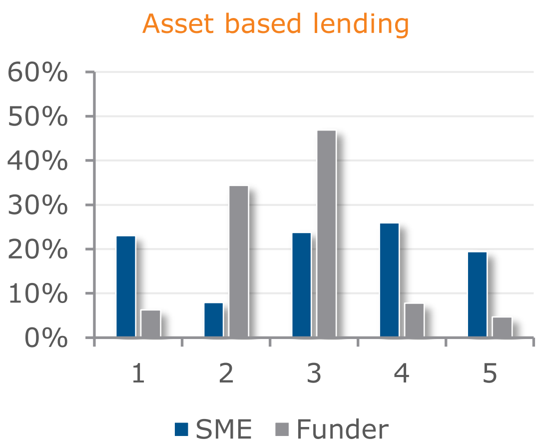
This suggests funders assume that the vast majority of businesses have at least a basic understanding of asset based finance, which isn't necessarily the case.

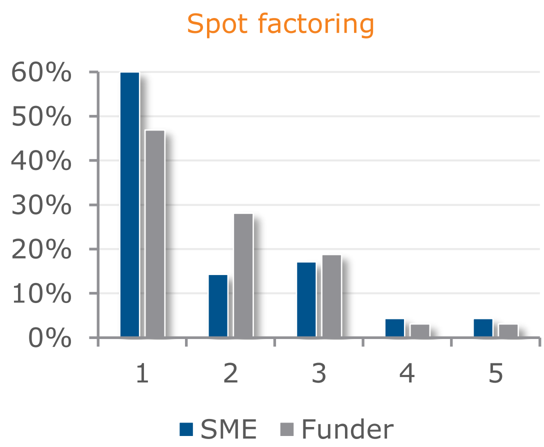
When it comes to spot factoring, a far higher proportion of businesses rate their level of awareness and understanding as only 1 or 2 out of 5.

Funders were more accurate in their expectations around this product, but still underestimated the proportion of businesses with limited insight.









Overcoming common cash flow challenges

While a business's understanding of different products will play a part in their selection, it is interesting to see which products businesses first think of when faced with a specific cash flow challenge.

Overall, the results show that businesses tend to lean towards what they know and feel most comfortable with – namely traditional products such as loans and overdrafts.

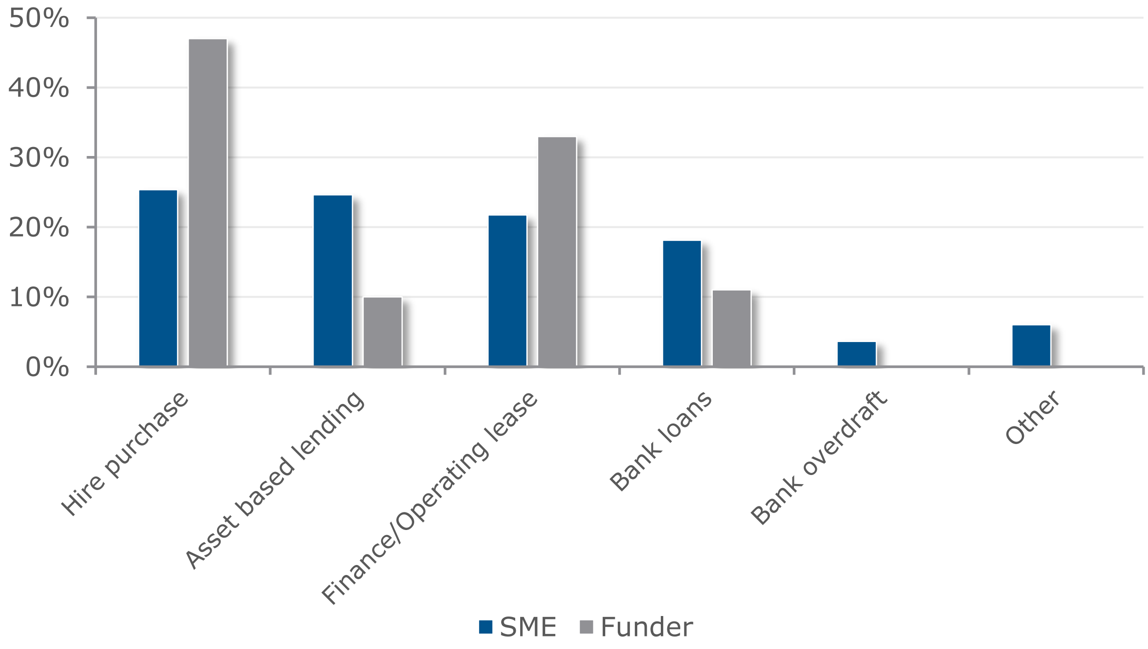
However, it is also clear that businesses tend to consider a much wider range of products to overcome each cash flow challenge than funders had anticipated.

This is likely to be a direct consequence of their limited experience and understanding of each product's pros and cons, and crucially the way they work.

For instance, when faced with the challenge of buying new plant and machinery outright, funders expected the majority to choose specialist asset finance products such as hire purchase and finance/ operating leases, which are specifically designed to help businesses overcome the cash flow hurdles associated with buying new plant and machinery.

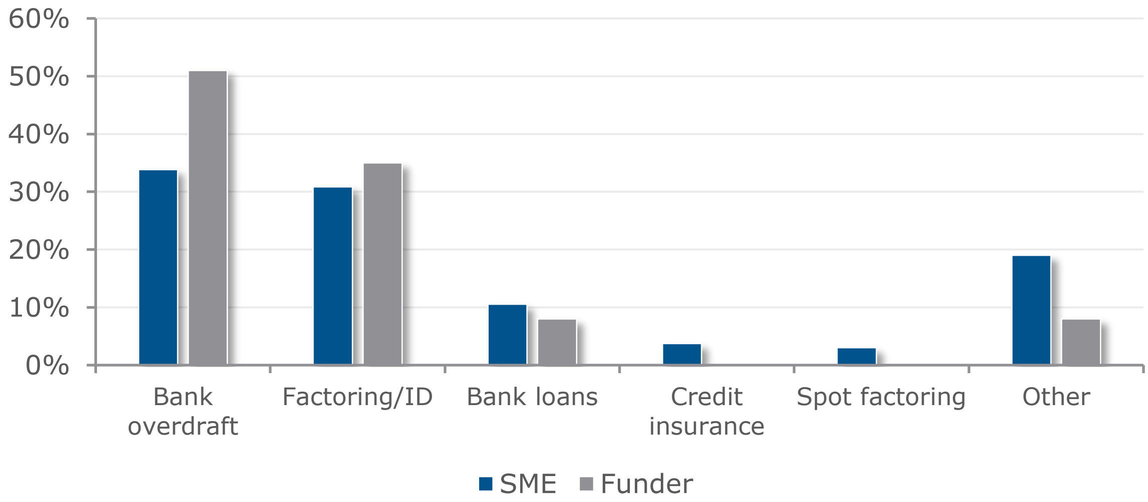
However, the proportion of businesses which would first think of these products was similar to those looking at asset based lending and bank loans.

Buying new plant and machinery



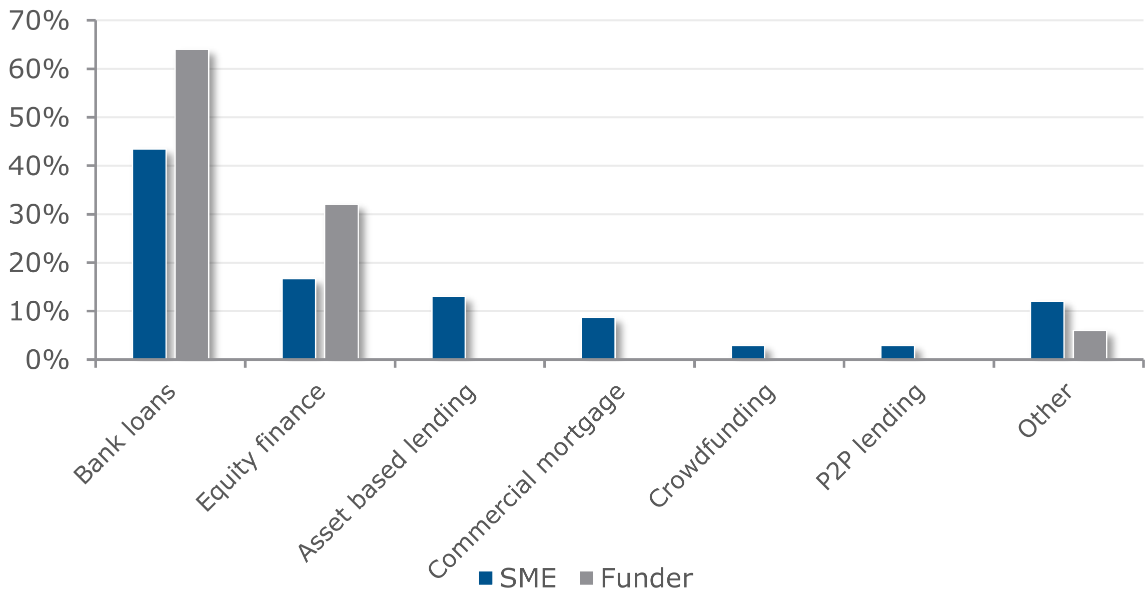
There is a similar picture when businesses are faced with the cash flow implications of fulfilling new and existing orders on credit terms. Overdrafts were viewed more favourably than factoring or invoice discounting for this purpose, with 4% even suggesting credit insurance would be their first port of call.

Fulfil new and existing orders on credit terms



Again, when it comes to financing the purchase of a business, funders would expect the vast majority to be focused on bank loans and equity finance, but businesses actually consider a far wider spread of products.

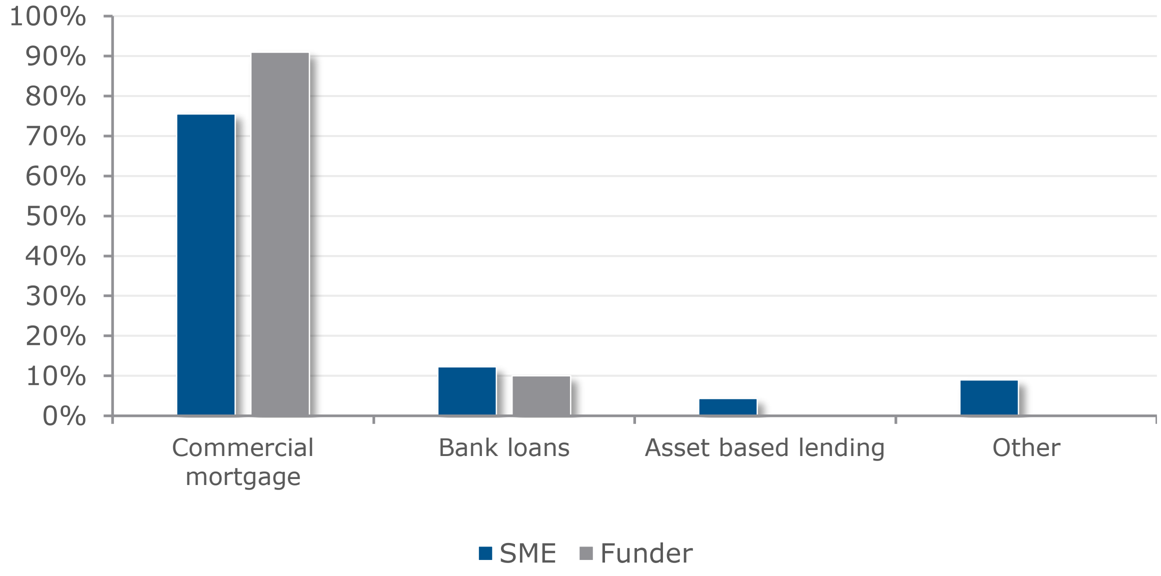
Buy a business



Buying commercial property was a more obvious choice for businesses, with 76% saying they would first think of a commercial mortgage to finance the purchase.

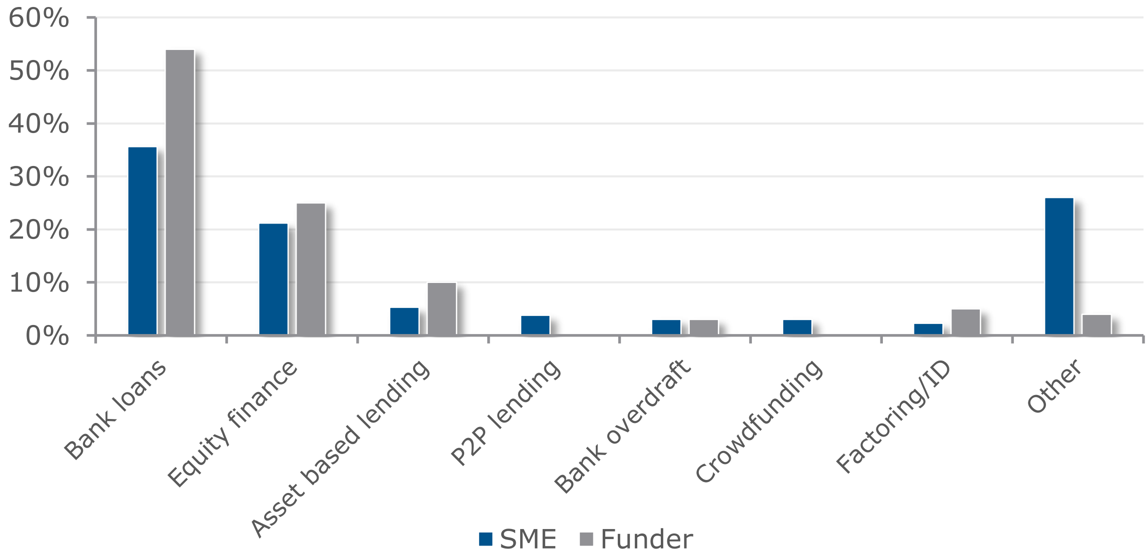
Bank loans and asset based lending were also considered by businesses as a means to access the funding that would be required.

Buy commercial property

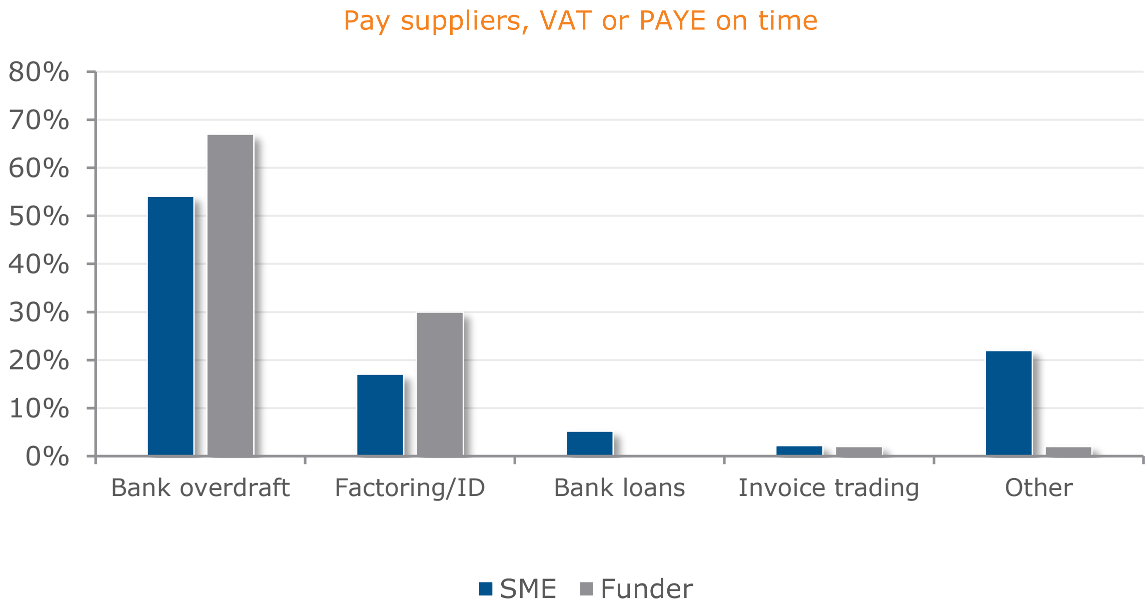


As funders expected, bank loans and equity finance are the two most popular funding methods for financing an MBI or MBO. However, a further 15% of businesses would consider asset based lending, P2P lending, their overdraft or crowdfunding.

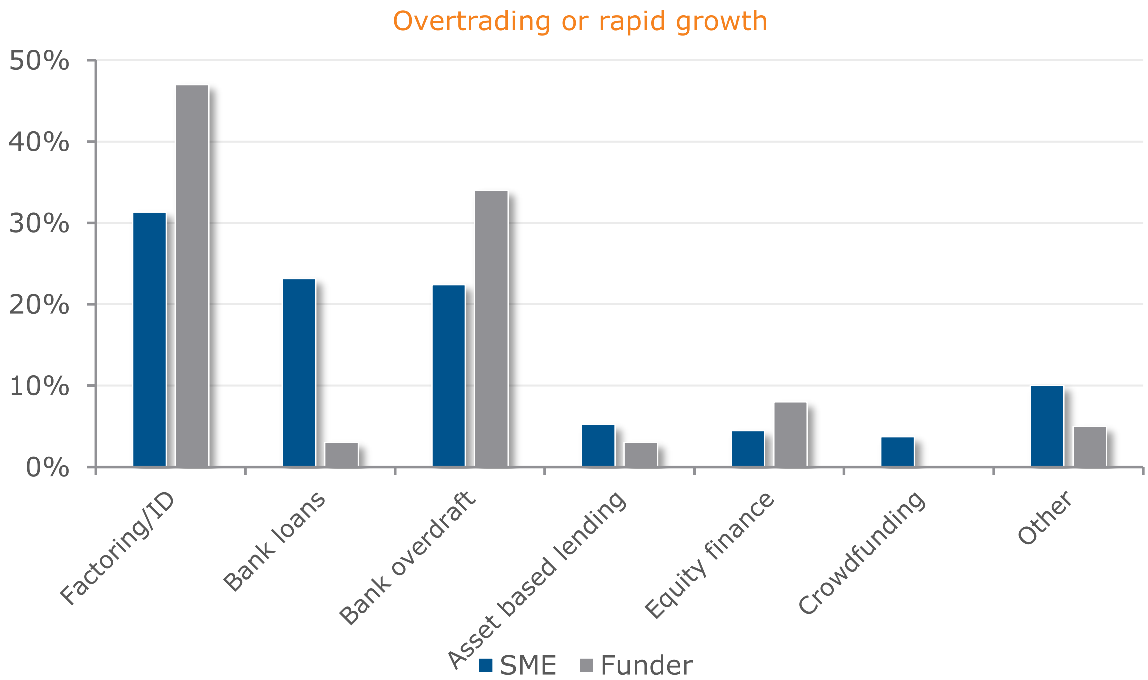
Finance an MBI/MBO



More than two-thirds of businesses would first think of an overdraft, factoring or invoice discounting to overcome the challenge of paying suppliers, VAT or PAYE on time, in line with funders' expectations. A further 5% would first look to a bank loan when faced with this challenge.

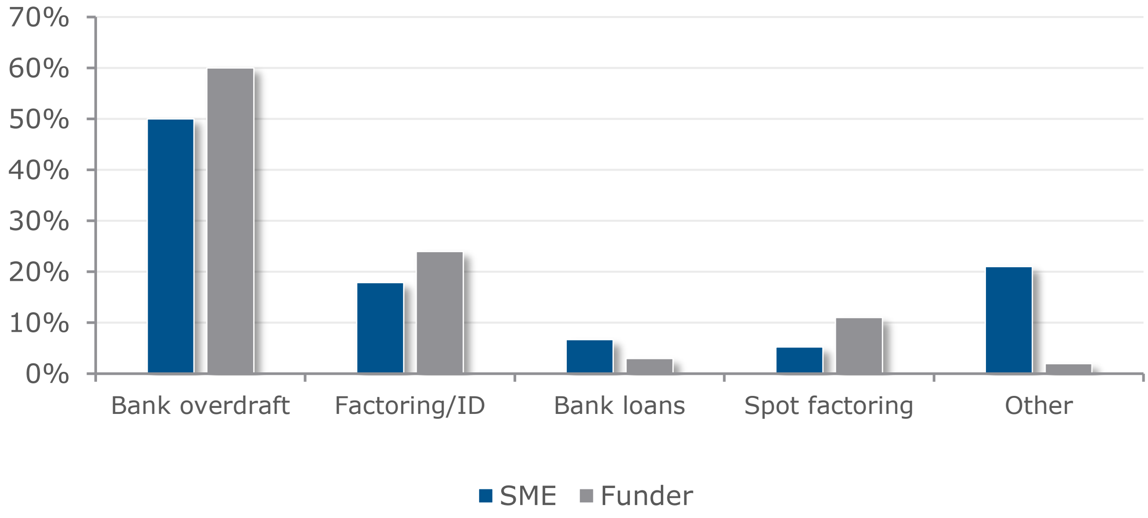


While funders had overwhelmingly expected businesses to first think of factoring, invoice discounting or a bank overdraft to overcome the challenges associated with overtrading or rapid growth, businesses are in fact just as likely to first think of a bank loan.



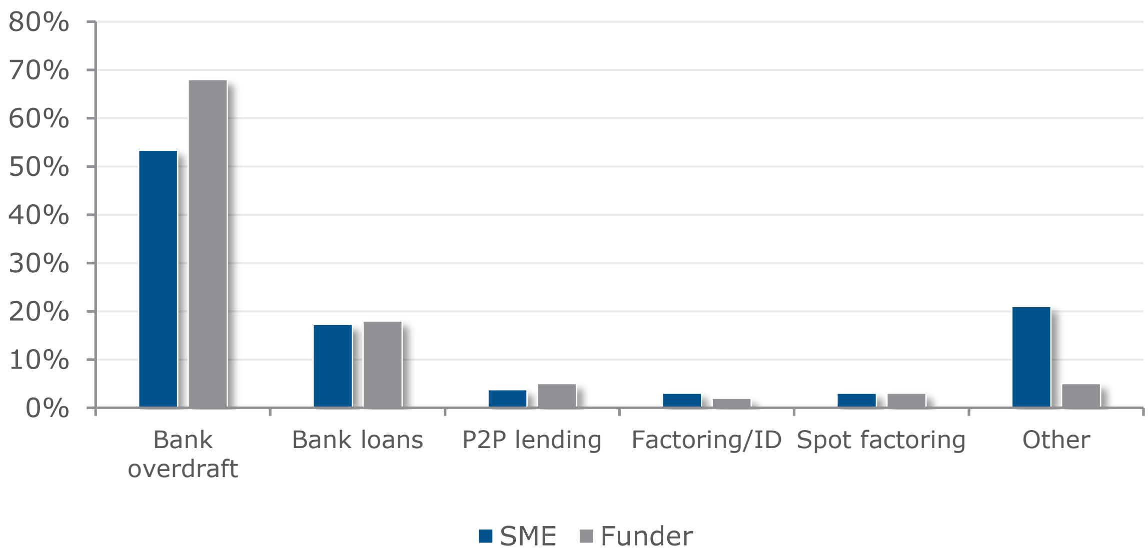
Funders had, however, been much more accurate with their predictions for how businesses would choose to solve the cash flow challenges caused by spikes in seasonal demand. Overdrafts and factoring or invoice discounting are by far the most popular funding methods in these circumstances.

Spikes in seasonal demand



It was a similar story when predicting how businesses would look to cope with unexpected costs. Overdrafts and bank loans were the most popular – with 53% first thinking of their overdraft above all else.

Unexpected costs



The search for funding

The awareness and understanding that businesses have of different funding products and the ways in which they can help to overcome various cash flow challenges will largely be determined by the source of advice and support that companies seek.

We therefore asked respondents for insight into the different places they typically turn when searching for a new funding facility.

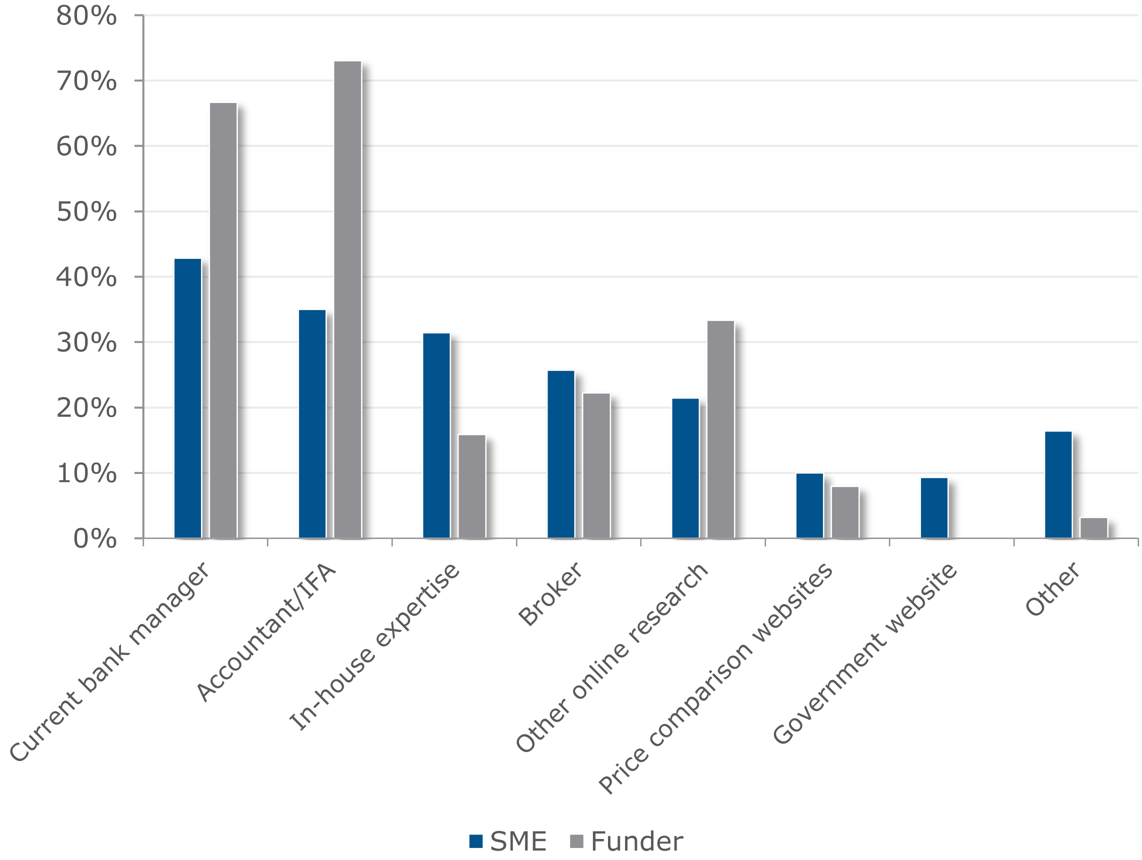
The results demonstrated that businesses use a wide range of channels in their funding search, which isn't a surprise in itself given their lack of expert knowledge into the products which are available.

Although a business's current bank manager is the most common port of call, it is interesting that fewer than half of companies would turn here when looking for a new facility. This clearly surprised funders, who expected a far higher proportion to pursue this avenue.

Similarly, only 35% would go to an accountant or IFA during their search – less than half the proportion funders had expected – while online research was also less relied on than anticipated.

Instead, a higher proportion of businesses than expected rely on their in-house expertise and the knowledge of a broker to identify the most suitable facility for their requirements. Use of price comparison websites and even government websites were also more commonplace than expected.

Where do you typically turn when searching for new funding?



Important features of a new facility

There's much more behind a business's decision to use a new funding product than solely the amount of funding the facility provides access to. But what is the most important factor that persuades a company to opt for one facility over another?

We asked businesses to select the primary factor behind their buying decision, and surprisingly it wasn't the level of funding the facility would provide.

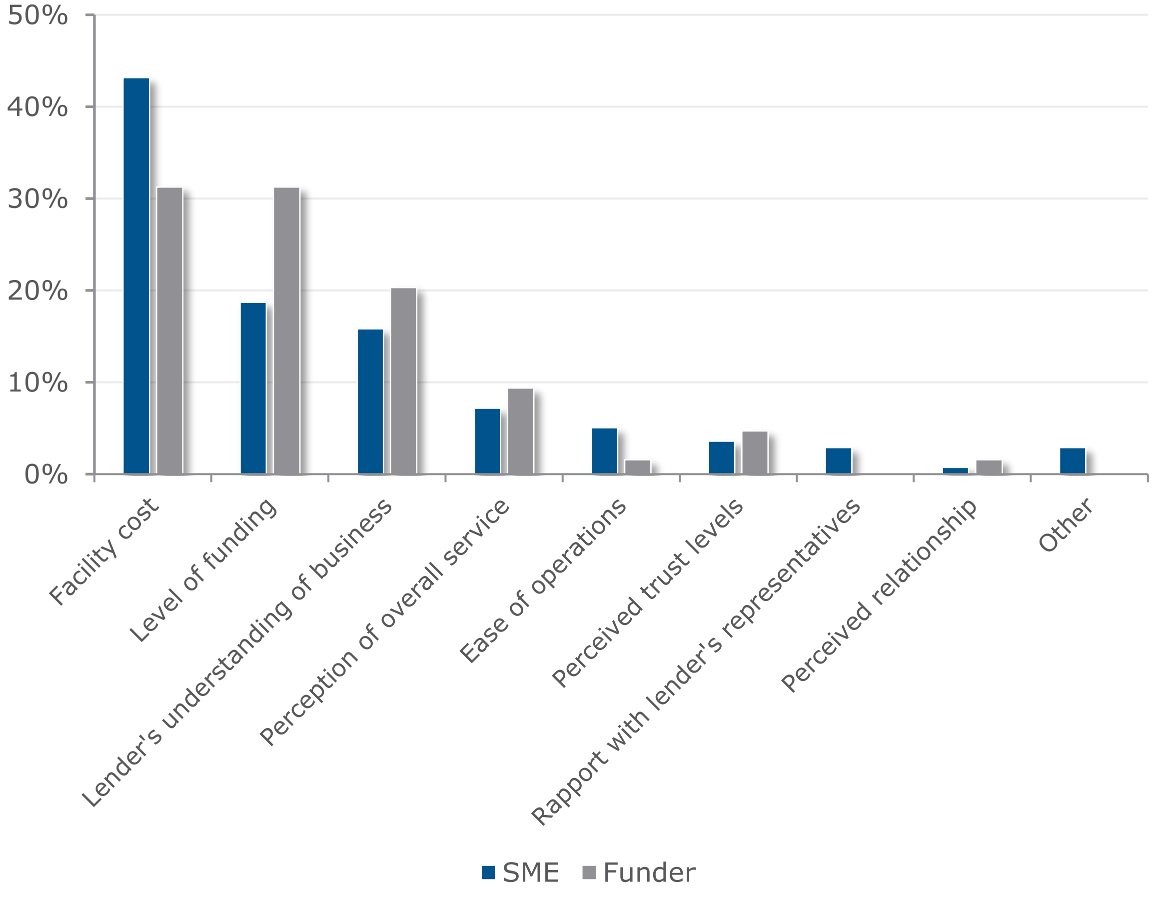
Indeed, only 19% said that this was most important to them, with more than double that – 43% - preferring to look at the facility's cost.

This took funders by surprise, who had expected the same proportion to make their decision primarily on cost as the number citing funding levels as the key factor.

It was interesting too to note that the third most important factor behind any decision was the lender's understanding of the business – although still not as high as funders had expected.

What really stands out is the fact so few businesses – only 7% – would cite the funder's service as the primary factor. With service so important in all aspects of business, it's no surprise funders expected this figure to be higher.

What is the key factor when you make a decision to buy or start using any form of commercial finance?



Objectives when reviewing existing funding

It was interesting to explore whether cost is also the primary factor when businesses come to review existing finance arrangements.

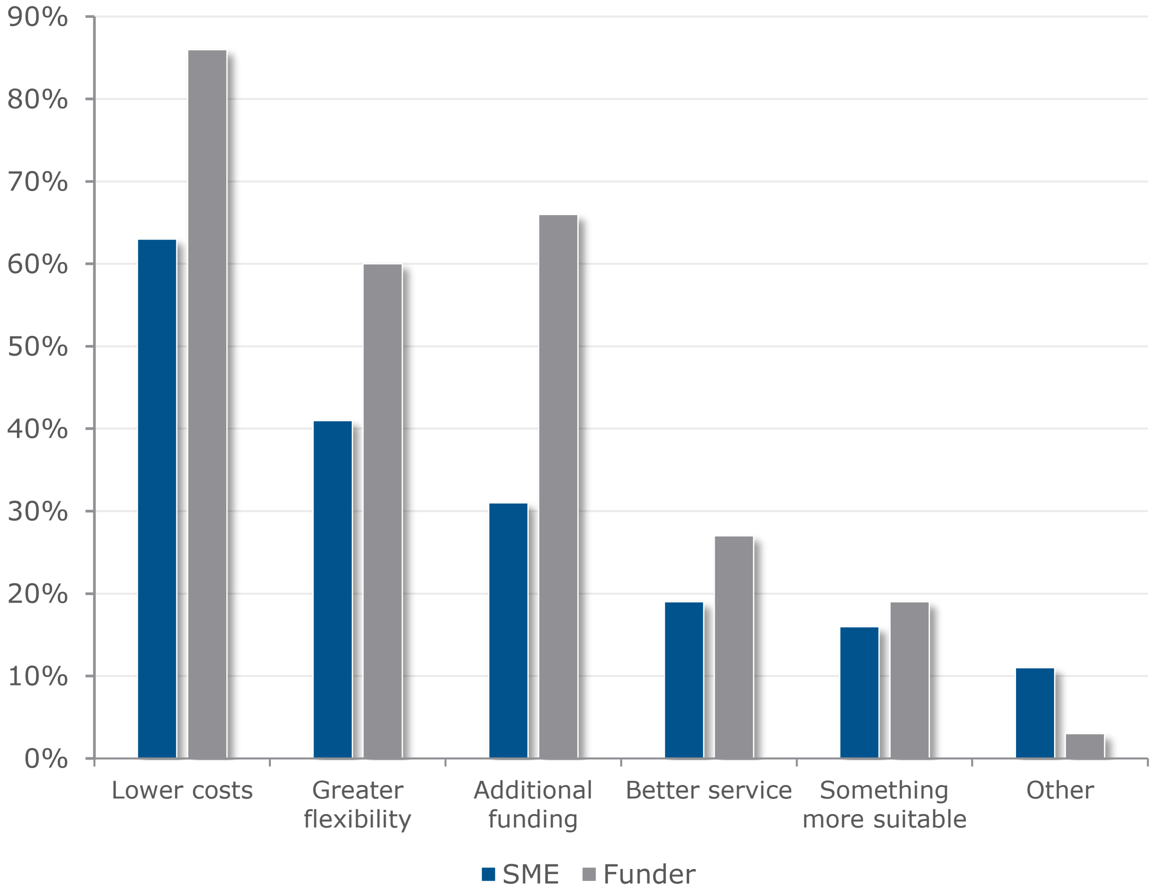
Funders themselves expected 86% of businesses to be hoping to secure lower costs when reviewing their existing funding facilities. Although it was far lower than expected, at 63% it was nevertheless the biggest goal when businesses look to switch facilities.

Interestingly, securing greater flexibility was also a key goal when businesses benchmark, ahead even of accessing additional funding.

Fewer than one in five, meanwhile, were looking to improve on the existing levels of service they receive.

Another interesting finding is that funders expect businesses to be looking to secure a far greater number of things when reviewing their existing facilities. Yet the results indicated that businesses are typically only looking to improve on a couple of factors.

When reviewing your existing funding facilities, which of the following are you hoping to secure?



Features of asset based finance

We took this a step further by asking businesses which specific features of asset based finance appeal to them. Funders in this sector will typically have their own perceptions about what's important to a business, which often drives the messages that are used to encourage companies to explore this funding product, so it's important to see whether any disparity exists.

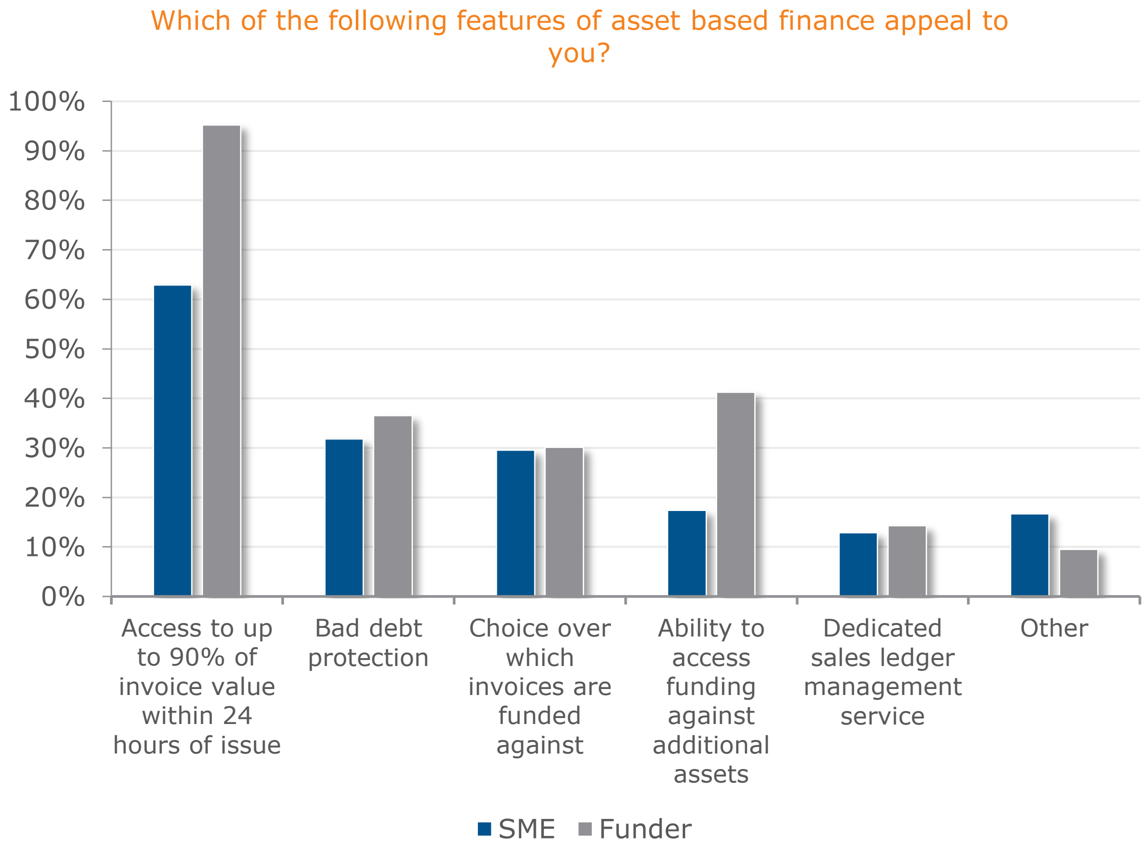
What came out of the research was that businesses are typically interested in a wide range of asset based finance features.

For instance, rather than being solely interested in the benefit of being able to access up to 90% of an invoice's value within 24 hours of its issue, almost one in three were also interested in the prospect of bad debt protection and also having the choice over which invoices are funded.

This is encouraging given the shift in the sector away from full-turnover facilities towards more flexible options, and also the availability of non-recourse facilities, which incorporate bad debt protection.

Almost two-thirds of all businesses, which includes those with and without a current requirement for asset based finance, were attracted to the ability to access the value of invoices inside 24 hours. However, this was much lower than funders had anticipated.

Only 13% of businesses said that a dedicated sales ledger management service appeals to them.



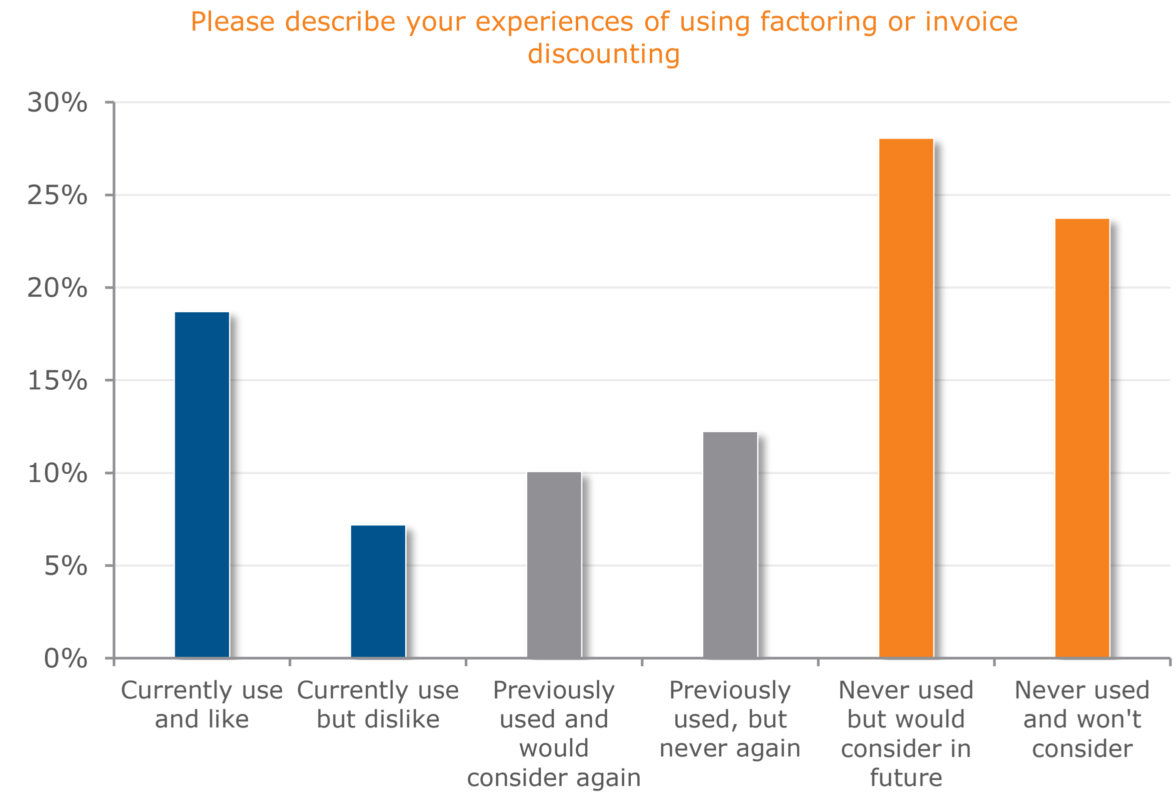
Experience of using asset based finance

In order to gain further insight into the profile of our respondents in the context of their awareness, understanding and perception of asset based finance, we asked for their experience of using its products such as factoring and invoice discounting.

Almost half of respondents (48%) either use or have previously used invoice finance, with the majority of those liking the product and/or would consider using it again if the need arose in the future.

What's perhaps more interesting is that over half of businesses have never used invoice finance. While the majority of those are open to exploring its benefits, it is interesting that 46% of businesses who have never used invoice finance – and 24% of total respondents – wouldn't consider it.

Ultimately, it's down to the sector itself to really understand why this number is so high, and how it can better communicate the benefits of what is unquestionably an outstanding tool for businesses to keep cash flowing at all stages of their evolution.



Key conclusions

After analysing the results of this survey, there are a number of conclusions and lessons we can draw which, if learnt from, can increase the number of businesses who are able to access the funding they require.

Businesses have a wide but shallow understanding of funding products

While businesses typically have a good level of awareness and understanding of a range of funding products, it is quite basic.

This is reflected in the funding products businesses said they first think of when faced with different cash flow challenges, with a wide spread of products considered even when bespoke products exist to help businesses overcome a particular issue.

More information and insight is therefore needed to help businesses understand the options which exist, and how each one can help with specific cash flow challenges.

The strongest understanding is of more traditional and established products such as loans and overdrafts, whereas newer products such as spot factoring and P2P lending aren't as well-known currently.

Businesses look in a range of places

When searching for a new facility, businesses look in a wide range of places.

Bank managers and accountants or IFAs aren't as heavily relied on as expected, with many businesses relying on in-house expertise, brokers and online research to find the most suitable facility for their requirements.

Cost is still cited as a big factor

Many businesses still place cost as the primary factor when choosing to start using a finance product, ahead of even the volume of funding that facility will release. It is also the main consideration when businesses review their existing facilities.

It's vital that the bigger picture is considered. Whilst cost is of course important, the overall benefit of that facility is paramount as businesses must have the right service and relationship that supports them with their plans, as well as the flexibility to allow them to achieve their objectives.

Limited knowledge of asset based finance

Businesses have a varied awareness and understanding of asset based finance products such as factoring, invoice discounting and asset based lending. Indeed, it's quite an even spread between those with very little knowledge and those who class themselves as experts.

Combined with the fact such a large number of businesses have had no past experience of using asset based finance, this shows the potential for this product to support even more businesses with their cash flow requirements in the coming months and years, provided funders can offer facilities at the right cost and deliver outstanding service.

A wide range of features appeal

It isn't just the fact asset based finance can release up to 90% of an invoice's value inside 24 hours that most appeals to businesses. Instead, the likes of bad debt protection and the ability to choose which invoices are funded are key benefits of asset based finance.

Funders must therefore continue to provide products that deliver what businesses want, and additionally tailor facilities to their specific requirements.

About Hilton-Baird Financial Solutions

Established in 1997, Hilton-Baird Financial Solutions has helped thousands of businesses to conquer their cash flow challenges by introducing the most suitable funding solutions on the market.

Totally independent, and with expertise across the commercial finance market and specialist knowledge of the invoice finance sector, our access to a multitude of banks, independent funders and invoice finance companies means we can objectively find businesses the solution that fits, giving it the foundations to grow and reach its full potential.

We recognise that every business is unique. As such, we work closely with our clients to fully understand their unique funding needs and challenges so that we can identify the most appropriate facility.

Our affiliations to the leading asset based finance industrial bodies – the Asset Based Finance Association (ABFA), the National Association of Commercial Finance Brokers (NACFB) and the Finance and Leasing Association (FLA) – ensure we maintain the highest level of standards, making us the ideal partner for businesses and funders alike to work with in order to realise their objectives.

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