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What’s stifling startup growth?

We are currently experiencing a small business boom in the UK. The number of new small businesses registered in the third quarter of 2020 rose 30% compared with 2019 – the largest increase since 2012. On top of that, driven by the pandemic, e-commerce revenues across Europe jumped by 30% to a record $465B in 2021, a number which is expected to reach almost $570B by the end of 2025.

This level of entrepreneurism, particularly in the e-commerce sector, is terrifically exciting to see, but many of these businesses will have their growth and potential put at risk simply because of funding issues.

Are banks really helping startups?

As many startup businesses will tell you, legacy banking providers are simply not keeping up with current business realities, particularly as challenger banks lack credit offerings. Right now, the situation can be keenly felt by a large and growing number of entrepreneurs. As I write this, many of these newly-formed e-commerce businesses will be grappling with how best to tailor their activity to meet the demands of the period considered to be the most profitable for retailers and e-commerce businesses – Black Friday and The Golden Quarter.

Preparations for this peak seasonal trading period will already be well underway and planning an effective strategy to maximise all opportunities has become essential. Thanks to supply chains snare ups as a result of Brexit, Covid and floods in Europe and China, there is a risk shipments will be delayed and the Golden Quarter demoted to Silver or Bronze. If this is to be avoided, businesses will need to borrow in order to secure their future success. Sadly, the way legacy banks lend will simply not work for the new breed of digital entrepreneurs. Banks are inflexible about their requirements for personal guarantees and credit checks and they remain insistent on compounding interest. This puts up huge barriers for digital-first entrepreneurs who need financing that works as flexibly as they do.

Although the positive impact of challenger banks can be keenly felt in personal banking, their reach is not yet making the same difference when it comes to business banking, particularly when it comes to serving the needs of the growing number of digital-first small businesses. This needs to change.

Let’s face it – legacy banks don’t really understand the needs of digital entrepreneurs, and their dated infrastructure is not up to the standards required to help e-commerce businesses grow. It is no surprise to hear that 82% of business owners say they are unhappy with their bank. Our economy is changing, with digital native businesses contributing an ever-increasing share to overall GDP. It is in everyone’s interest to ensure these businesses are successful, yet time and again we see their need for flexible finance is not met.

Most of the new breed of startups simply need working capital to scale, whether for inventory, operating expenses or marketing. These young, fast-moving businesses are continually facing an uphill struggle to raise equity to enable faster growth, when the solution is already staring us in the face.

Change is coming

There is no reason why the technology being deployed to power e-commerce businesses should not also be used to provide fast and fair funding. We already have the infrastructure in place to make this happen and alternative lenders are now using real-time data provided by their clients across APIs to offer bespoke credit and other novel banking services.

For startups, particularly in the e-commerce space, there is already a buzz around revenue based financing and other forms of alternative funding. The appeal of an instant cash structure is obvious – it allows founders to act on immediate growth opportunities instead of waiting around for equity capital to arrive (or not).

Right now, in tandem with shaking up business banking, we need a complete reinvention of fundraising for business founders. Small businesses need agile, effective funding so they can grow their business and grow their economy. Banks should take heed.

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