



Finance: an SME issue

A report by Duologi, a provider of innovative finance solutions to the retail sector

Introduction

The SME market is a vast and varied one. Accounting for over 99% of all private sector companies in the UK, small and medium-sized businesses employ over 16 million workers and cover every major industry – from construction and financial services to law and tourism.

Key amongst these – and rarely out of the news agenda – is retail. Currently there are 168,490 registered SME retailers in the UK, making up 10% of the entire business landscape and remaining the largest single-sector employer.

And, despite figures suggesting that retail SME numbers are growing, it's an extremely tough sector in which to do business. Key challenges, caused ostensibly by difficult market conditions and evolving consumer habits, continue to plague even established players, driving down profitability and shaking up the retail landscape for good.

Take the enormous growth of eCommerce, for example. One in every five pounds is now spent online, with the UK the most advanced digital shopping market in the world – above both the USA and Germany.

This is in addition to extra pressures heaped on retailers by the rapidly-changing expectations of today's "always-on" consumer who craves, above all else, a seamless, flexible and convenient shopping experience – and will only remain loyal to the brands that provide it.

Moreover, store closures have soared throughout the high street; nearly 3,000 stores shut their doors in the first half of 2019 alone. As a result, the face of British retail is changing – quickly – and leaving many struggling brands fighting to stay both commercially viable and relevant in the coming years. But what's behind the headlines?

How are SME retailers feeling about their prospects? What do they really see as their biggest challenges and opportunities for the future?

How do they feel about the new technology on the market that should – in theory – help them to boost bottom lines? And what effect do they think Brexit will have on their business?



Perhaps most importantly, what can retailers do right now to ensure that all aspects of their business model are configured to ensure growth and stability?

Of course, there is no silver bullet, but one useful approach lies in payments. To survive in future, retailers must offer unique points of difference, particularly as online and in-store experiences continue to merge. Choice is king in this emerging landscape.

Consumers will only remain loyal to brands that provide a great service, whilst allowing them the flexibility to shop where, when, and – most importantly – how, they want. As such, providing frictionless, cashless purchases will increasingly come to the fore as they are built on what consumers crave: convenience.

Point-of-sale (POS) finance—a model that enables buyers to defer and spread their payments over a specific period of time - is a powerful way to offer this flexibility. It allows shoppers to access the funds they need to purchase items both online and in-store.

A range of options, such as 0% interest, means that customers can pay for items in a way that suits them. Decisions on applications can also be processed in the same time that it takes to authorise a debit card payment - around four seconds.

Our previous [research](#) found that 27% of consumers had never used credit to buy anything, yet 78% of people said they would consider it in future. POS finance, then, provides a clear way for retailers to create purchase opportunities and drive brand loyalty by offering a streamlined journey for their customers.

The following report has been put together to highlight the current issues facing the diverse SME retail market by taking a deep-dive into their hopes and fears for the future. It will also look at the role that point-of-sale finance and innovative payment solutions can play in helping business to thrive.

Importantly, SME businesses are a key part of the future of the retail industry. Large retailers are undoubtedly vital but it's not just about the big guns. It's therefore not just about catering to those big guns. We must ensure that businesses of all shapes and sizes prosper in the coming years, so providing them with a good service will be incredibly important for the UK economy as we move into a post-Brexit world and beyond.



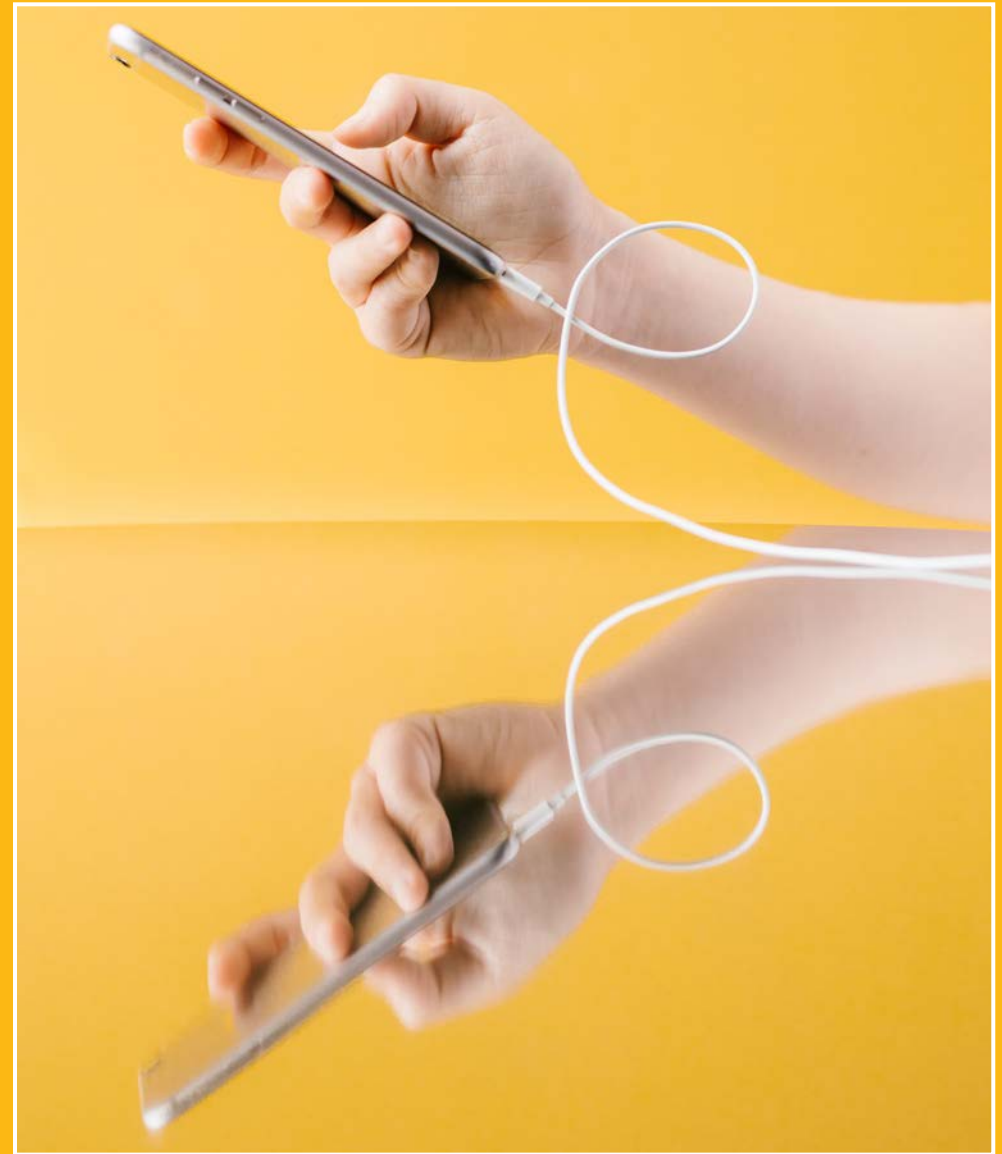
**Michael Bevan,
CEO of Duologi**

About Duologi

Duologi is building a new kind of payments business for a digitally-led world. The company exists for three reasons: to make it easier for people to purchase the goods and services they need to keep moving their lives forward; to help businesses grow by giving their customers an alternative way to pay and the tools to sell more smartly; and to bring businesses fresh ideas and solutions to help them think forward and succeed in the future.

Founded in 2017, Duologi is backed and supported by Oaktree Capital – one of the largest investment management firms in the world. It's one of the fastest-growing point-of-sale payment solutions provider in the UK market.

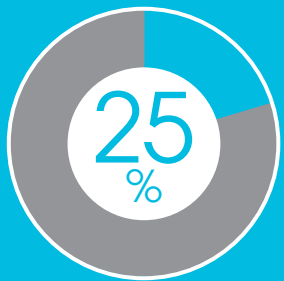
Today, the Duologi team is drawn from money specialists, technologists, digital marketing experts and data analysts from a wide variety of backgrounds with a shared passion to help move forward a finance industry that (let's face it) has become a bit stale.



Key findings

We surveyed 500 SMEs across a range of retail sectors about their concerns for the future of their business and their knowledge and understanding of POS finance solutions. The retailers sold products worth more than £250 (a recommended minimum price for implementation of a POS finance solution).

The key findings are highlighted below:



25% of SME retailers still missing out on finance opportunity



SME retailers feel let down by current finance offerings



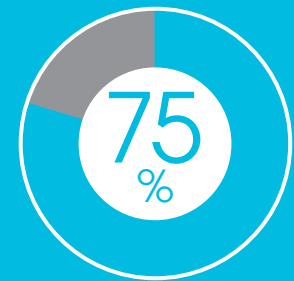
Less than half of SME retailers confident they will be thriving in 2030



Brexit biggest future challenge for 26% of SME retailers



Consumers 10% more likely to buy on retail finance vs. two years ago



75% of SME retailers offer finance – but only 10% see the value in it

Sections

1. **What do SME retailers see as their biggest challenges in future?**
 - a. How does this differ per retail sector?
 - b. Do retailers see POS finance as a means to grow their business?

2. **Retail finance: where do we stand?**
 - a. How many retailers offer POS finance?
 - b. Of those that do – why?
 - c. Of those that don't - have they ever considered it/what's stopping them?
 - d. Myth busting and case studies

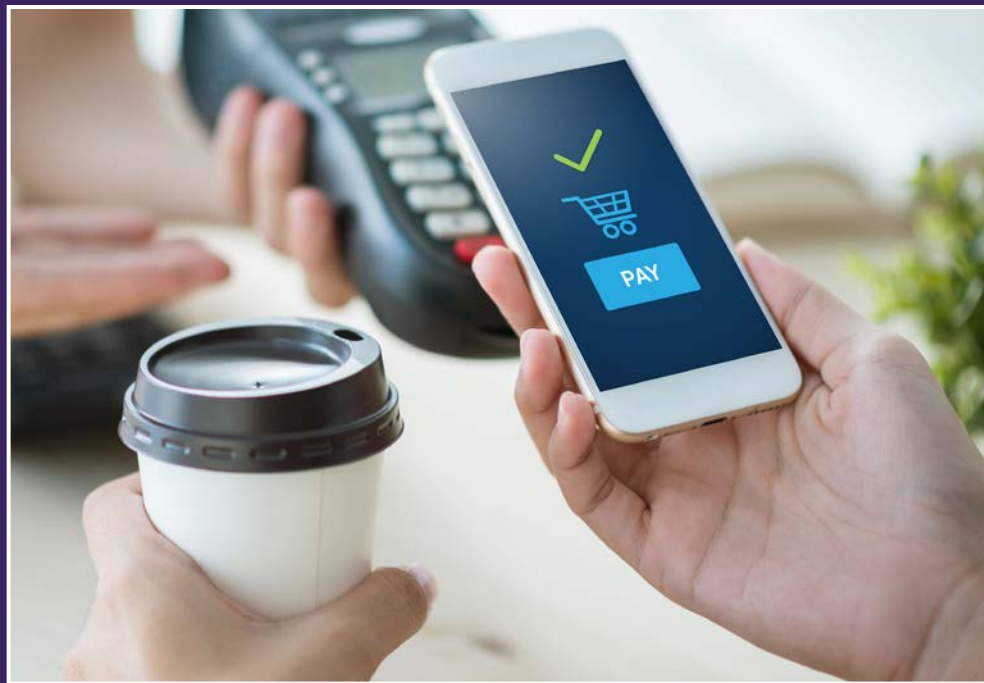


Section one

What do SME retailers see as their biggest challenges in future?



The retail market is changing and evolving at an unprecedented pace. And it's something that SME retailers are acutely aware of.



What do you see as the biggest challenge facing the future of your business in the next 12 months?



When asked to name their single biggest challenge for the future, more than a quarter of the SME retailers we surveyed said that Brexit presents the most significant threat. This was reflected in the fact that only 38% of retailers say they currently feel prepared for Brexit.

At the time of writing – ahead of the extended 31st October 2019 deadline for the UK's exit from the EU, and in the midst of preparation for a potential no-deal outcome – the future of European relationships and, importantly, trading arrangements are unclear.

Just as in other sectors, therefore, retail is bracing itself for a heavy and far-reaching impact, but a largely unknown one. As such, it's unsurprising that the matter is at the forefront of many decision-makers' minds.

A further 24% cited a need to keep up with new technologies. Having an online presence is just one part of this story. From checkout-free shopping, voice search, virtual reality and even drone delivery services, big-name retailers such as Amazon are trialing a plethora of forward-thinking innovations to meet the expectations of the Millennial and Gen-Z cohorts.

But keeping pace is a daunting prospect for one in four SMEs; particularly for those that may already be struggling to implement digital processes on a large scale.

Indeed, one in 10 retailers said they worry that they simply cannot keep pace with the demands of the industry. Only 54% feel confident that their business is prepared for the future and just 46% said that they think their business will be thriving in 2030.

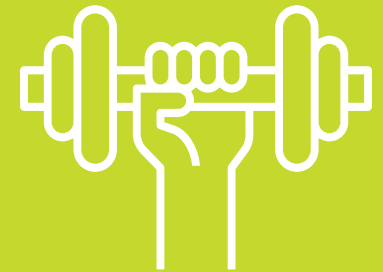
On average, only 12% said that they are concerned about the decline of the high street, with one in 10 highlighting their biggest challenge as Amazon increasingly stealing market share.



What does this look like across retail sectors?

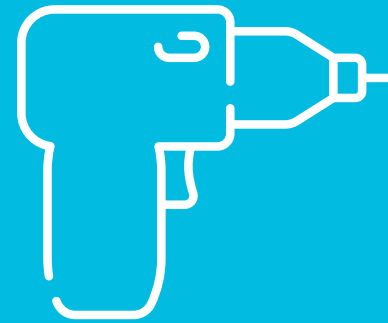
What do you see as the biggest challenge facing the future of your business in the next 12 months?

	Fashion (including shoes)	Jewellery	Home & DIY	Sports & Leisure
Uncertainty caused by Brexit	18%	19%	35%	21%
Keeping up with new technologies	45%	53%	3%	57%
Bigger players like Amazon stealing my customers	9%	6%	21%	7%
Hiring and retaining the best staff	6%	6%	9%	3%
Meeting my customers' needs	8%	6%	10%	7%
The reduction of my margins	3%	5%	9%	2%
The move to digital-only brands	4%	4%	2%	
The decline of the high street	8%		9%	3%



What do you see as the biggest challenge facing the future of your business in the next 12 months?

	Electricals	Health & Beauty	Entertainment
Uncertainty caused by Brexit	18%	16%	17%
Keeping up with new technologies	53%	53%	52%
Bigger players like Amazon stealing my customers	8%	9%	10%
Hiring and retaining the best staff	4%	4%	6%
Meeting my customers' needs	4%	6%	6%
The reduction of my margins	2%	4%	4%
The move to digital-only brands	2%	5%	2%
The decline of the high street	8%	2%	3%



Some striking differences can be seen when considering these challenges through the lens of different retail sectors. Perhaps unsurprisingly, 53% of electrical businesses highlighted a concern that they would not be able to keep up with new technologies in the future – but this was fewer than the 57% of sports and leisure retailers that cited this as their greatest worry.

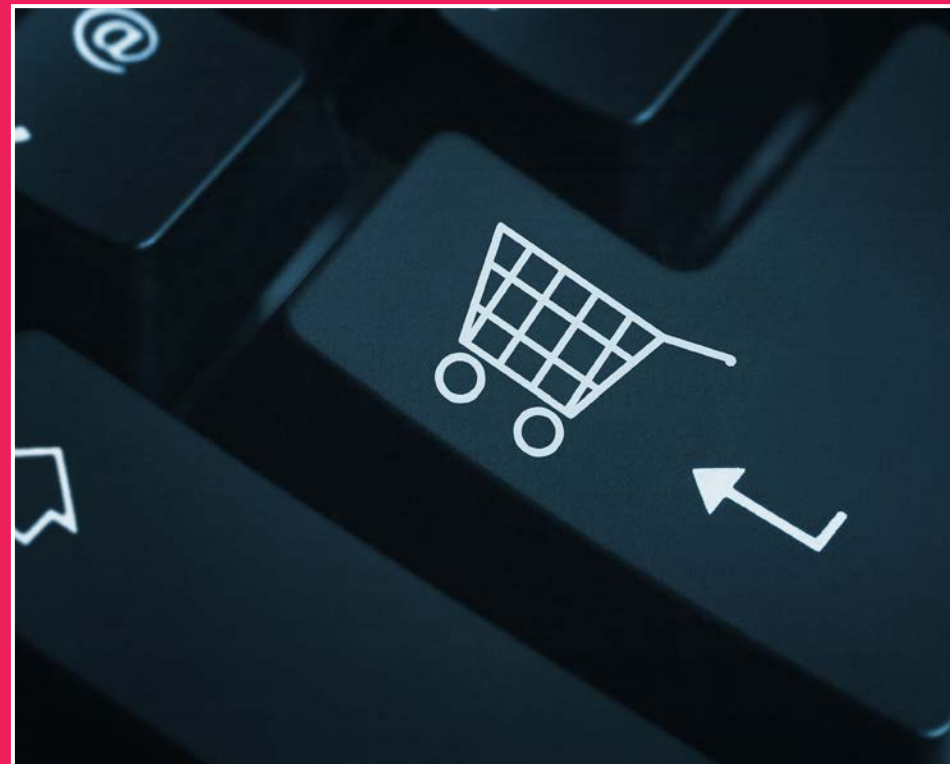
Home and DIY retailers, meanwhile, stated that they more worried about Brexit than tech innovation. This is perhaps understandable given how heavily the sector depends on a thriving housing market - something that has already taken a dip following a tumultuous few months in Parliament.

What's the solution?

Clearly, the problems of SME retailers are multifaceted and cannot possibly have one simple solution. However, innovative and varied finance options offer a number of clear benefits – ones that forward-thinking businesses should be taking advantage of.

POS finance helps retailers to both attract new customers and convert existing ones who may have otherwise been unable to complete a purchase. A lack of payment options has, in some cases, been shown to reduce online sales by up to 30%, whilst customers are empowered to increase their basket size when they know that they can pay gradually, or at a time that best suits them.

As such, enabling customers to spread the cost of their purchase over a longer term, with no interest to pay at the end, should ultimately increase both sales volumes and average order size.



Then there's customer experience to think about. Flexible finance solutions put the customer first, enabling them to pay for goods and services in a more flexible and customer-centric way. Offering a good solution can be a way for retailers to demonstrate that they understand their needs and the challenges they face.

Point of sale finance: are retailers aware of the opportunity?

However, despite the fact that offering retail finance can boost customer spend, build basket size, increase brand loyalty, attract impulse shoppers and drive return visits, it seems that many SME retailers do not currently see its potential return on investment.

10
%

I think offering point-of-sale finance offers an opportunity to grow my business

I think offering point-of-sale finance makes customers more likely to return to my business

11
%

Nine in 10 retailers don't see POS finance as a way to grow their business, with a further 89% stating that they don't see the value in POS finance when it comes to driving return visitors.

Why might this be?



Section two

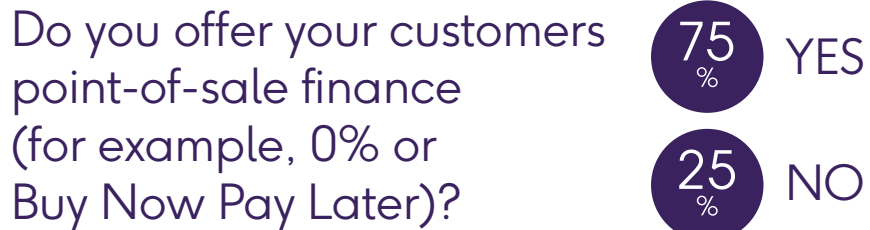
Retail finance: the state of play



Finance uptake amongst retailers

Our findings show that three-quarters of SME retailers currently offer their customers a finance option. That means one in four – approximately 42,000 - businesses are missing out on the opportunities that finance presents and failing to take advantage of this key growth area.

Given that a quarter of those surveyed also fear they will be unable to keep up with future consumer demands, this is concerning.



What are consumers saying?

As we have seen, future success in retail is based – almost exclusively - on giving customers what they want. Staying on top of consumer trends is therefore key.

As such, we asked 1,000 shoppers about their views on POS finance – two years on from when the same research was carried out in 2017 – and compared the data. We found an important uptick in the number of consumers that would be willing and able to use finance as a way to purchase goods and services.

When you don't have the available funds for something you really want or need, would you usually:

	2017	2019
Not buy it	13%	12%
Save up for it	49%	46%
Put it on a credit card	26%	23%
Ask the retailer if they have finance available / use POS	6%	16%
Get a bank loan	2%	1%
Other	4%	2%

Would you consider buying / using POS finance in the future?

	2017	2019
YES	78%	83%
NO	22%	17%

When asked how they would pay for goods or services, should they not have the funds readily available, consumers showed a clear move towards POS finance as an option – an increase of 10%. And, when asked whether they would be willing to use this payment option in future, the data showed a 5% rise – from 78% to 83%.

That's more than eight in 10 shoppers who would be prepared to buy from a store, who may have otherwise been unable or unwilling to make a purchase.

Clearly, consumer demand for finance is increasing and, with retailers also feeling the pressure to keep pace with the demands of this ever-changing industry, there seems to be a disconnect.

So what's holding more retailers back from offering finance?



What does the retail finance market currently look like amongst SMEs?

Three-quarters of SME retailers offer POS finance to their customers, but only one in 10 think that it offers a good opportunity to grow their business. These figures seem at odds and suggest a number of key things.

First, companies that do offer POS finance are not receiving ROI from it.

Second, companies that don't offer POS finance are unaware of its potential to drive growth.

Third, companies that don't offer POS finance don't want to – for a specific reason.

To look at these three assumptions in more depth, we can split SME retailers into three key cohorts.

Cohort one: retailers that already offer finance



What made you offer finance in the first place?



Amongst the 75% of SME retailers that offer finance, there is a certain degree of awareness that offering finance can bring benefits.

However, there is also a clear “push” from consumers. More than a quarter (27%) of retailers said that they think their customers simply expect finance in the current climate, with another 28% saying that customers were directly asking them to provide it in their business.

Only half of retailers offer finance because they feel it makes good business sense – suggesting that there is more education needed in this area. Evidently, there is a need to reconcile consumer demand for finance with a feeling amongst retailers that it offers them little in terms of ROI.

What are retailers saying?

H2O Hot Tubs sells a range of luxury hot tubs and spas across the UK, both to dealerships and direct to end-users. All items in the company's range are manufactured to the highest standard – making them a relatively costly purchase.

The team soon realised that, in order to stay competitive in the ever-saturated marketplace, they needed to offer 0% finance to customers that allowed them to spread the cost of their hot tub over an extended period.

“

Paul, at H2O Hot Tubs, said:

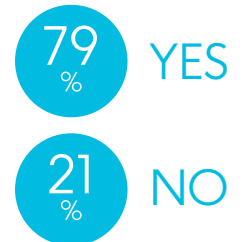
“The market is changing. All our customers now expect hot tub sellers to provide a 0% finance option that allows them to space out payment over longer period of time. If you don't offer that facility, you're just not competitive.”



Cohort 2: Retailers that don't currently offer finance – but would consider it



Have you considered offering finance to your customers?



Amongst those that don't offer finance, eight in 10 have considered it. But what's holding them back?

Every retailer we surveyed would be a good candidate for POS finance. The results therefore suggest a number of key shortcomings on the part of the finance sector when it comes to providing a service that retailers can get on board with – and an inability to prove the value of a payments partner in a retailers' business.

What has stopped you from offering finance to your customers?

31
%

I wasn't convinced that it would drive ROI for my business

It was too much hassle

25
%

22
%

I was disappointed by the proposal I received from the lender

It was too expensive

20
%

20
%

I thought the system was too complex or longwinded

I didn't feel that the solution was bespoke enough

18
%



The above problems fall into three main areas:

1.

Disillusionment with the lender: over a fifth said that they have been disappointed or let down by the finance offer they have been given. This is reflected in the fact that a further 18% did not believe the offer was bespoke enough for their business.

2.

Cost: almost a third of SME retailers said that they were unconvinced that finance would drive return on investment for their business. A further 20% also said it was too expensive. Given that finance drives on average 40% growth for retailers, it seems that lenders are falling short in convincing SME retailers that finance can work for their business.

3.

Complexity: Above all else, SMEs need a straightforward solution. That's why it's imperative that finance works well for retailers – and works first time round.

What are retailers saying?

This feeling of disillusionment was evident when we spoke with **Scotia Cabins**.

Scotia Cabins supplies and installs luxurious BBQ cabins, garden studios and self-catering accommodation across Scotland. The business started trading in 2015.

The company found that a key barrier to growth was that many customers were unable to pay for their products outright. Providing a finance option therefore became increasingly necessary, but this came with its own frustrations. For example, the team found that many of the finance services on the market were neither easy to use, nor accessible to their potential customers.

“

Caroline at Scotia Cabins said:

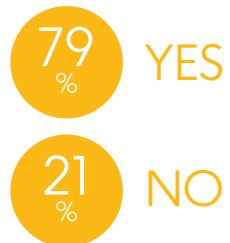
“Before we started working with Duologi, it annoyed us to have to refer customers to the traditional banks, where the only people gaining anything is the lender...the process has to be honest, straightforward, quick and simple. It needs to make life easy.

With a million and one things to do in business, the less complicated a process is, the better.”

Cohort three: Retailers that do not currently offer finance – but won't consider doing so



Have you considered offering finance to your customers?



Amongst those who do not offer finance, 21% say they would not consider doing so in the future. But why is this?

All respondents showed an awareness of POS finance and were not concerned about its cost implications. Let's look at the other key reasons for their unwillingness to offer finance solutions in more detail and bust what are clearly some of the most common myths around the service.



Why have you NOT considered offering finance to your customers?

54
%

I don't think it would be suitable for my business model

I don't believe there is a demand for it amongst my customer base

31
%

23
%

I think it will be too much hassle

I don't want to deal with banks or other lenders

23
%

8
%

I would be worried about fraud

My business doesn't offer high-enough priced items

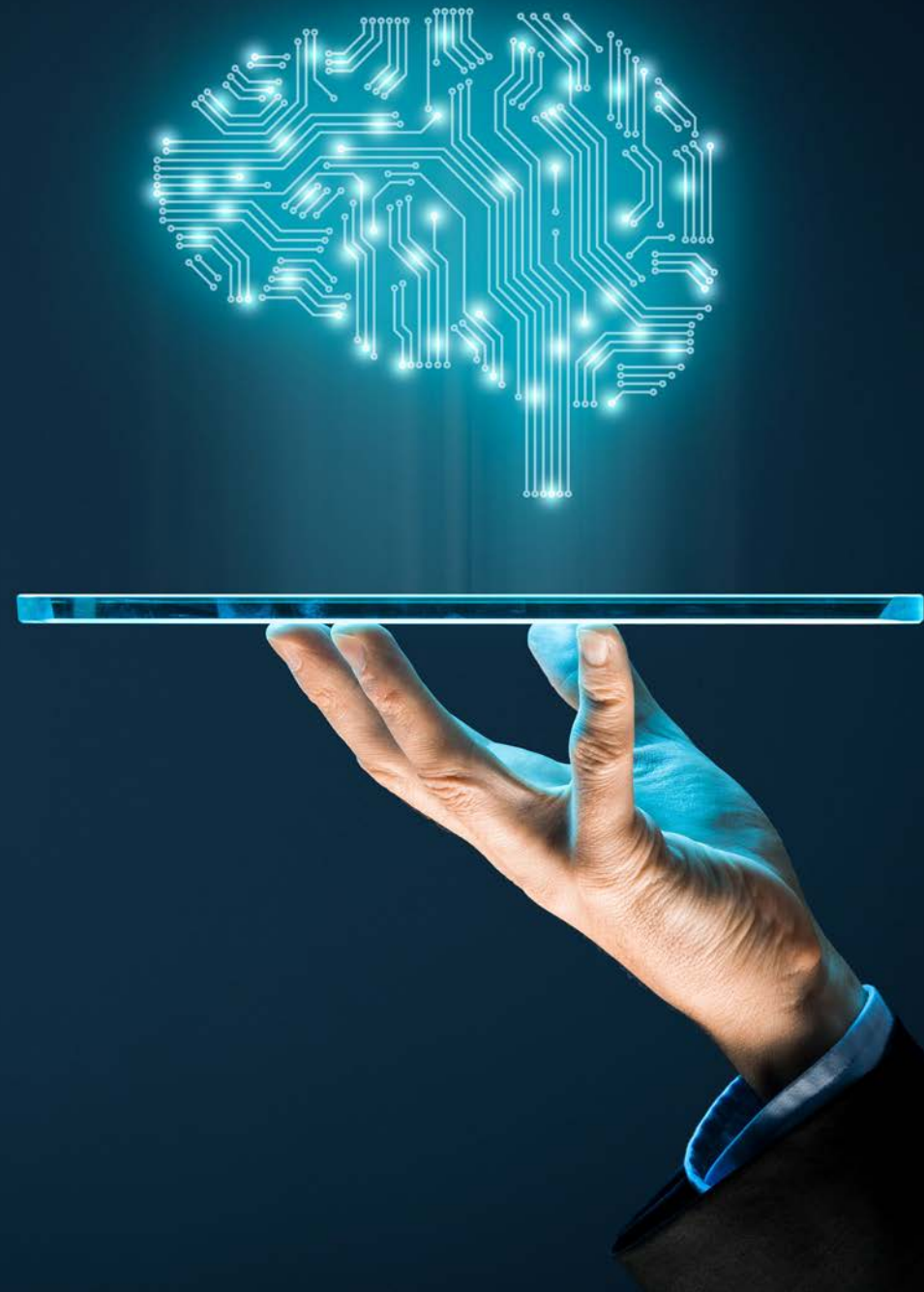
8
%

0
%

I wasn't aware of it

I think it will be too expensive

0
%



Myth Busting

“I didn’t think there would be demand”

1

Our data shows that 83% of consumers would be interested in paying on finance in the future. This has increased by 5% since when we carried out the same research in 2017, suggesting that finance is rapidly growing in demand amongst consumers.

Retailers can therefore ensure they are staying ahead of this growing trend by offering consumers more flexible ways to pay.

“My business doesn’t offer high-enough priced items”

2

All the retailers we spoke to say that their minimum transaction value is £250 – suggesting that this isn’t the case. Perhaps they have never been offered a service which is bespoke enough to their business, which is why they don’t think it would fit in to their business model well enough.

This is a clear shortcoming on the part of the finance sector which may be too focused on gaining market share than providing customers with a tailored service offering.

“I don’t want to deal with banks or other lenders”

3

This is understandable. Recent statistics from AXA, for example, show that only 58% of SMEs would trust a bank to lend to them competitively, highlighting a severe lack of trust in the sector towards traditional institutions.

However, smarter fintech brands can help make the process easier as they can work differently and more flexibly to ensure that solutions are bespoke.



If the UK economy is to thrive in future, a strong retail sector is vitally important. Retail makes up a significant part of the SME market, so it's vital that the sector feels empowered to excel as we move into 2020 and beyond.

However, overall retailers appear to be unaware of the business-boosting opportunity that POS finance offers. We know that 34% of people would be more likely to spend with a business that offers POS finance options.

If a company didn't offer flexible finance options, a fifth of consumers said they would be more likely to go elsewhere. A further 26% of people would be likely to spend more than originally planned if they found they could access a good amount of credit from a merchant. But these benefits are not universally understood.

Retailers are also being let down by finance providers due to complex, non-tailored products that do not offer the kind of bespoke service they need to run their business in a profitable and efficient way. POS finance offers a way to ensure retailers are fighting fit for the future. And they deserve better.

Contact Us

To find out more about how Duologi's forward thinking and bespoke POS finance can help grow your business, contact us today or visit www.duologi.com. sales@duologi.com 0345 5211 881

