7 major marketing challenges faced by the alternative finance sector

By Neil Edwards

Alternative finance has enjoyed an explosion of growth in recent years. In the UK, it has grown by 250% in the last 12 months and some observers are saying it will be a $1 trillion industry globally by 2025.

Formed by the confluence of the banking crisis, a low interest rate environment for investors and a surge in the development of online technologies that allow supply to be matched with demand, peer-to-peer platforms are popping up all over the place offering everything from equity, loans and cashflow finance to foreign exchange.

Now, as we approach the end of the banking crisis and the novelty of early adoption wears off, the players within the sector face a different set of challenges to secure their longevity.

I see them as follows:

1. Giving customers a real reason to choose them

The banking crisis is coming to an end. The banks are re-entering the market and while net lending by banks to SMEs in the UK is down, the confidence amongst SMEs that their banks will support them is on the increase.

A recent survey of 500 SMEs in the UK by our client, Platform Black, showed that 71% were confident of their ability to raise the finance they need over the next 12 months. This means that alternative lenders can no longer centre their propositions on 'we will lend to you because your bank can't or won't'.

The offer must now be manifestly better than that offered by the bank, whether it be in the speed of decision, cost of finance, ease of the application process or suitability of the product to its purpose. Loyalty to the banks might have been stretched by the crisis, but ultimately, going to the bank doesn't require much thought or research.

Alternative finance must secure its long-term competitive advantage and become the lender of first resort in its niches.

2. Staying true to the values of 'peer-to-peer'

Many forms of alternative finance are built on peer-to-peer principles. Peer-to-peer has been designed for businesses, by businesses and most platforms, being developing SMEs themselves, have SME cultures. The freedom of thinking that comes with being an SME allows them to be fast to market and entrepreneurial. They haven't been constrained by legacy systems, burdensome regulation or a mindset that says 'we do it like this, because we've always done it like this'.

Now, as the industry matures and these businesses get bigger, the challenge is to make the SME culture sustainable.

As borrowing demand goes up, so does the demand for liquidity and many of the platforms are turning to institutional money to make sure they have it in sufficient quantity. This is a logical step as their propositions fall at the first hurdle if they have to decline business on the grounds of capacity.

Nevertheless, it also brings with it a risk. Institutions will want to impose rules on how their money is used.

In many respects, the growth in alternative finance has been a revolution against the old guard and many of the early adopters have seen themselves as combatants in the cause. The brands risk losing the sense of revolution that appealed to these early adopters if borrowing through a peer-to-peer lender becomes borrowing from an institution in another guise.

For practical reasons, the purist's view of peer-to-peer might need to be compromised, but its essence needs to be retained.

3. The banks stealing their idea

The banks are taking notice of the alternative lenders. No longer are they regarded as a mere irritation, they are now seen as serious competition. While the banks systems and cultures might make them slow to react, react they will.

Barclays has already gone public in saying that it is looking at launching a peer-to-peer proposition to bring customers with money together with those that want it. The banks have a significant advantage over the new entrants in that they have huge customer bases of lenders and borrowers at their disposal and deep insight into their credit histories.

How long will it be before we see the first acquisition of a peer-to-peer lender by a bank?

The alternative finance market must not ignore this and needs to work hard to make sure the reasons to choose it are sufficiently differentiated and understood.

4. Building awareness, understanding and trust on a significant scale

There will always be an early adopter somewhere willing to try something new - be it for curiosity or desperation. For alternative lenders to become mainstream, they need to be attracting the mass market and this requires a significant and relentless commitment to marketing.

Businesses and their decision makers take comfort in the crowd. They want to know that the finance providers they choose are robust and there for the long term, not simply esoteric.

For this, they look to peer group recommendations and their own perceptions of the acknowledged market leaders.

Word of mouth is important, and alternative finance providers are achieving great advocacy from the customers they have, but word of mouth marketing is going to take a long time to percolate the mass market in sufficient numbers.

Perceived market leadership comes from omnipresence: editorials, social media, search engines, direct marketing - and dare I say the word - advertising.

Alternative finance providers need broad scale awareness amongst a relevant target audience as the foundation for improved understanding of what they do - and a belief in the market that they can deliver it.

5. Influencing the influencers

Tempting, isn't it? Get a bunch of accountants and finance brokers on-board and they will open up their client basis and do your marketing for you.

The reality is very different. Few accountants will introduce in scale and most will be cautious about giving advice. Moreover, accountants will only take serious note when their clients start asking about alternative finance in sufficient quantities, so there is no short-cut to developing the awareness understanding and trust described in the earlier point.

Brokers are a different breed. They need to earn commission to survive and will guide their customers to where the best commission opportunities lie. The rub is that attractive commissions can only be offered at a cost to the customer, which can undermine one of the principle tenets of the proposition.

Creativity needs to be applied to commission schemes, most probably by relating them to recurring business and life-time value. The marketing challenge then becomes one of persuading introducers to see these long-term benefits. The cost of acquisition via introducers is much higher than it seems.

The other significant community of influencers is the media. Newspapers, websites, television and radio are consumed by millions of people every day and have a strong pull on their buying habits.
To date, the media has been hungry for news about peer-to-peer and non-bank lending. It too has enjoyed the rebellion against the banks and has wanted to report on how entrepreneurs are helping themselves. As alternative finance moves into its next phase, the industry and its players need to keep these journalists on-side: keeping them informed and keeping them writing.

6. Keeping hold of the 'hot' money

Institutional money has been relatively easy to attract in a low rate environment, but its stickiness is untested when interest rates are higher. We can be sure that it will move on quickly if yields drop, either through reduced margins or sustained default. Retail money is likely to be less hot than institutional money and a base of retail investors will provide stability.

Developing a proposition for retail investors, for example a fund matched to pools of debt, should be high on the product development list.
Investors, whether institutional or retail, who have a good experience will be likely to re-invest and deposit more next time.

7. Keeping the customers they've got

Costs of acquisition are high in any new product as the journey from initial awareness to sign-up is often a long one. After spending marketing money to persuade a customer to give the service a go, it is desirable, if not essential, to keep the customer using the service to generate the return on investment.

Repeat loans and renewed facilities increase the lifetime value.
Loyalty appears to be high in alternative finance and many users are returning because they find the service meets their needs and the brand promise is being delivered.

The industry needs to maintain this, which means action on two fronts:

- Creating a marketing programme aimed at retention. This means regular communication to maintain contact and make the customer feel he or she is part of something. This needs to be combined with regular offers of additional assistance where it is appropriate to do so.
- Avoiding complacency on customer service. Businesses are turning to alternative finance providers because they are tired of being treated like a number by their banks. As non-bank lenders get bigger, their people and systems will come under strain too. There's no easy answer to this other than remembering why they were created in the first place. Customer service needs to stay as the first item on the agenda in every team meeting.

The challenges are not insurmountable

The advantages to lenders and borrowers in alternative finance means success is assured for the platforms with the vision, strategy and resources to exploit them.

For borrowers, the low rates, convenience and transparency, coupled, for some, with the very fact that it's not a bank, will continue to attract the eyeballs and ears of business owners. For lenders, the high returns and diversification offered by a new asset class will remain a magnet, even in a higher interest rate environment. Those that do succeed will create high barriers to entry for new players as they will have a significant head start in brand, liquidity and operational infrastructure.

The waters ahead are unchartered, but undeniably exciting.

About the Author

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