



# **Embedded finance:**

**The hidden enabler in commerce**





# Introduction

The evolution of commerce has been dramatic.

More people than ever are starting a business. The shift towards ecommerce has also accelerated in the last 18 months<sup>1</sup>. As lockdowns relax and consumers start to return to physical outlets, merchants will continue to rely on the innovations - from contactless to embedded finance - that saw them through the pandemic.

As commerce goes digital, new requirements for business financing are also emerging. Merchants now expect financing to reach them where they operate and need it, embedded within their normal payment flows.

In this paper, we set out to investigate how online businesses seek and obtain finance today. We commissioned a survey of 500 UK decision makers within businesses that sell online. We also conducted qualitative interviews with merchants we have financed through our partnership with Shopify.

We found that technology platforms and payment service providers play an increasingly important role in supporting growth through business finance embedded in their core solutions. Fast, fair embedded finance can unlock significant potential for merchants.



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# Finance isn't keeping up with changing entrepreneurship

There is less information available about these enterprises for traditional lenders to use for risk assessment and that creates a barrier to funding.

While there are more entrepreneurs today than 20 years ago, their turnover is smaller and the average company lifespan is shorter. More entrepreneurs are taking the plunge<sup>2</sup>:

	Late 1990s	Today
<b>Incorporated firms</b>	1m	4m
<b>Avg. annual revenue</b>	£1m	£0.5
<b>Start-ups</b>	100-200k	500-600k

The entrepreneurs we talked to are typical of this profile. **On average they have been trading for less than four years**, with 1 in 5 trading for less than two years<sup>3</sup>:



Whilst all the businesses we spoke with sold online, many pursued omni-channel strategies where they combined online with physical outlets:

- 26%** also sold in fixed retail outlets
- 22%** also sold in pop-up shops / fairs / exhibitions





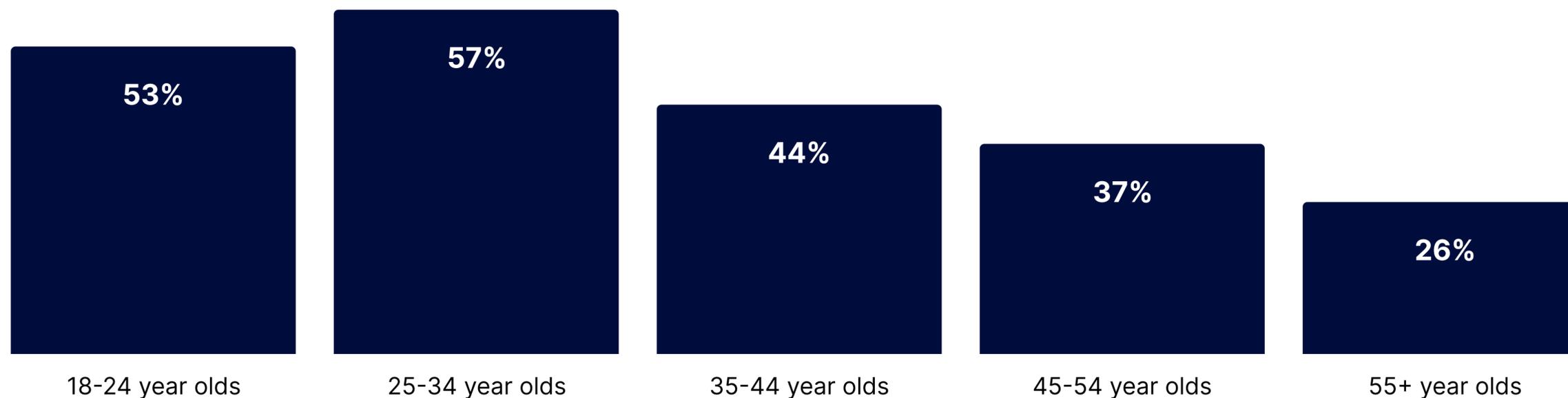
## Most merchants need finance at some point

According to the British Business Bank, 3 in 5 merchants reported seeking some form of external financial support in the three years leading up to 2020, compared to 2 in 5 for the three years to 2019<sup>4</sup>.

Our research found that, for merchants that trade online, the proportion seeking capital for their business in the last 3 years is overall slightly lower at 2 in 5 firms<sup>5</sup>.

Interestingly, over half of entrepreneurs aged 18-34 have sought capital. The merchants we spoke to in this age group often needed finance to start and grow their business, and expected financing options which were easily accessible online in their day-to-day applications<sup>6</sup>.

**Q: “Have you needed finance for your business in the last 3 years?” % answering “Yes”**





# Finance creates a positive impact

Embedded finance give merchants an easy route to funding, and the benefits of raising finance are clear and often impact multiple aspects of a business<sup>7</sup>:

**Q: “Which of the following, if any, have you experienced after raising new finance?”** (Tick all that apply)

**39%** Improved sales and productivity

**38%** Improved productivity from new equipment

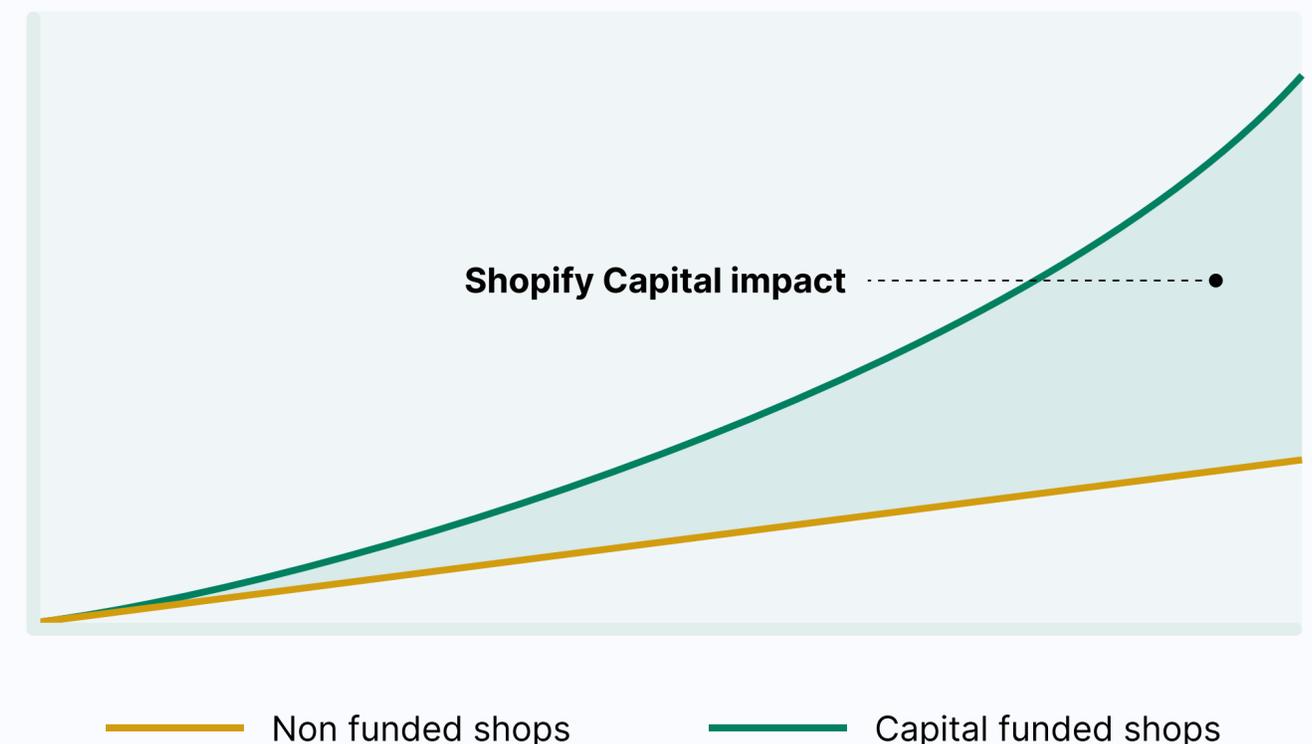
**28%** Supported new staff recruitment

**24%** Improved customer satisfaction

## Case study: **Shopify Capital** helps merchants grow **36% faster**

Shopify provides an all-in-one platform for entrepreneurs to start, run and grow a business, and powers 1.7 million businesses worldwide. As part of its mission to make commerce better for everyone, Shopify has offered Shopify Capital since 2016.

In a study published July 2021<sup>8</sup>, Shopify found that merchants that received funding through Shopify Capital on average experienced **36% higher sales** in the following six months compared to their peers.



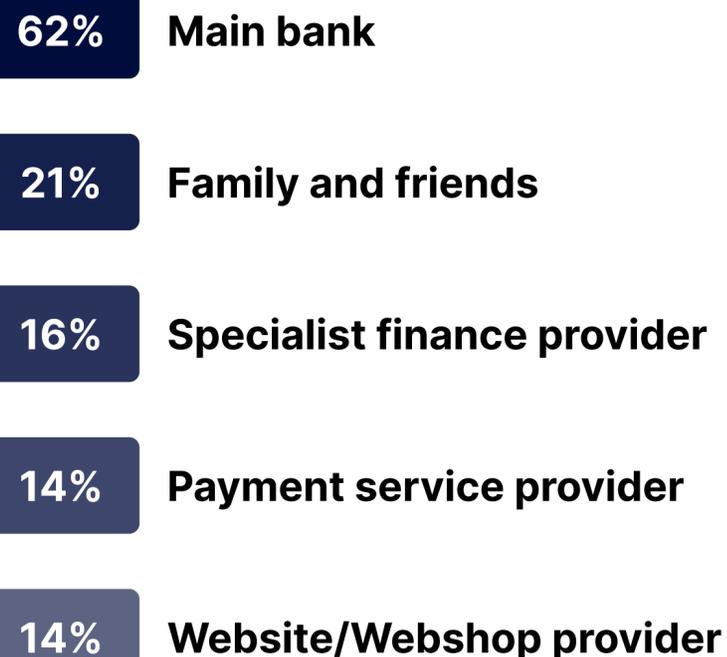
\*For details on metric definitions and methodology, refer to (8).



# Traditional finance providers are not always fit for purpose

Currently the main bank is still the first choice for merchants seeking finance<sup>9</sup>:

**Q: “Who did you apply for financing from?”**  
(Tick all that apply)



**However, traditional providers struggle to serve this new breed of merchants**

The challenge facing ecommerce businesses is that many of them have not been trading for more than 2 years. Traditional finance providers will often look for a minimum of two sets of filed accounts (~3 years of trading) and historic profitability. They may also look for a strong credit record, and assets on balance sheet.

This aligns with research conducted by the British Business Bank that shows the rejection rate for SMEs that have been trading for less than 2 years is 3 times higher compared to all businesses<sup>10</sup>.

And even for those businesses that have been trading for more than 2 years, growth trajectory is not a significant factor in consideration by traditional finance providers who may, therefore, offer less funds than are actually needed. Respondents also said that the user experience could be outdated, and decision times slow.



# Today's merchants have new business partners

The traditional perception of the bank manager and accountant being the most important partners for a business is changing.

After staff and customers, today's online entrepreneur considers a payment service provider as their number one business partner, pushing their bank and accountant down the list. With their heightened understanding of online businesses, these organisations are well-placed to deliver a superior embedded finance service for modern entrepreneurs<sup>11</sup>:

**Q: "Aside from your staff and customers, what are the most important relationships for running your business?"**

(Tick up to three)

**41%** Payment service provider

**37%** Website/Webshop provider

**37%** Suppliers

**34%** Bank

**23%** Accountant

Payment service providers and website/ webshop providers are well-placed to offer an embedded finance solution at the point where merchants need financing.

First, they understand their merchants well. Merchants believe that their payment service provider understands their business better than their bank; 65% of merchants think their payment provider understands their business well or the best compared to 58% who think their bank understands their business well or the best. Not surprisingly, the website or webshop provider also ranks higher than their bank.

Second, they have capabilities that enable them to deliver a seamless experience. They often have robust, real-time data on merchants' seasonality and sales, and can therefore deliver tailored, pre-approved offers in-application when merchants need it. They also usually have the information required for merchants to obtain financing and can sometimes entirely remove the need for additional onboarding.



# Speed is as important as price for merchants

Q: "What, if anything, was most important to you when selecting a finance provider?<sup>12</sup>" (Tick up to three)

**43%**

said **speed is important** when selecting a finance provider

**41%**

**Flexibility** is important when selecting finance provider

**41%**

**Price** is important when selecting finance provider

Business owners that received finance in the past three years needed it for a variety of reasons<sup>13</sup>. It is clear that for most of them, any delay in receiving finance could undermine on-going performance as well as long-term success.

Q: "What did you need financing for?"  
(Tick all that apply)

**43%**

**To cover business costs**

**34%**

**To buy equipment**

**32%**

**For materials/supplies**

**23%**

**For marketing and sales**

**21%**

**To cover staff costs**

**15%**

**For staff recruitment**

**15%**

**To move to new premises**

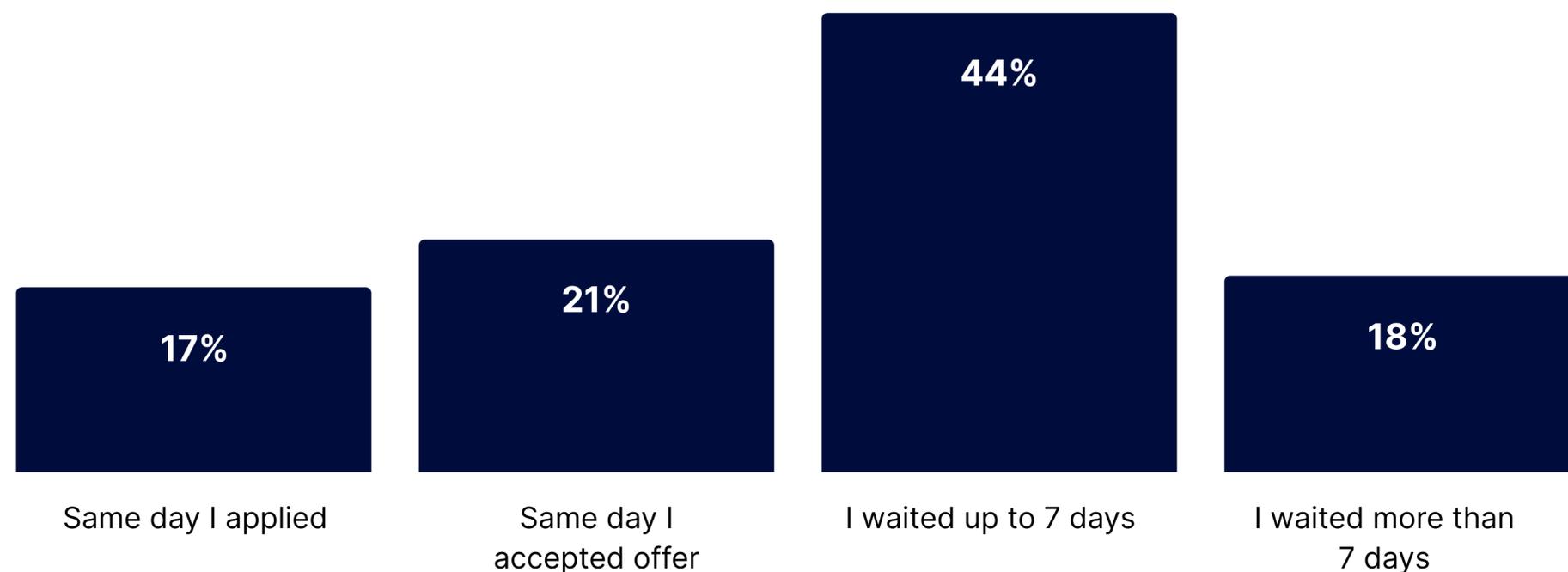


# Reality does not always meet funding expectation

Ecommerce businesses typically look for much faster funding times than traditional businesses. 39% of ecommerce businesses in our survey chose a financing provider that would fund them within 1 week, compared to only 8% of businesses outside of ecommerce<sup>14</sup>.

In the fast-changing online environment, obtaining business finance same-day instead of waiting for weeks can mean the difference between being first to market or losing customers and share to competitors. Embedded finance speeds up the funding process because it is available at point of need and does not involve a cumbersome application process.

**Q: "How fast did you get the funds?"**





## Repayment flexibility also crucial

More than a quarter of entrepreneurs experienced sleepless nights due to worries about regular repayments<sup>15</sup>. Not surprisingly in such an uncertain world, entrepreneurs are looking for reassurance before committing to finance and associated repayments. Where finance is embedded within existing payment service providers, repayments can be flexible, adding to the sense of comfort of operating within a trusted environment.

### Potential drivers of uncertainty which fuel a demand for flexibility:

Supply chain disruption

Seasonality

Government-enforced lockdowns

Inventory shortfall

Staff shortages

Q: "How would you prefer to repay financing?"

**44%**

said they would be interested in  
**flexible repayment options**





# Conclusion

Commerce is changing fast, and embedded business finance has emerged to serve a new breed of digitally-native merchants.

During the pandemic, we've seen merchants and consumers adapt with lightning speed to entirely new norms. It's crucial that this wave of entrepreneurs is powered by fair and easy access to finance embedded within their normal flows.

Why? Because access to fast and fair business finance accelerates growth and unlocks potential. Merchants are the drivers of economic growth, and bring communities together across the world.

That's why we at YouLend are excited to power embedded finance for the next generation of technology platforms and payment service providers.



# Appendix

## Methodology

500 Senior Decision Makers in businesses trading online, with 1-100 employees were surveyed by Censuswide, July 2021. Additional publicly available data was sourced for this report.

Censuswide abides by and employs members of the Market Research Society which is based on the ESOMAR principles.

## Sources

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