



'Build, Buy, or Partner' and Beyond

How Alternative Lending Is Reshaping Small Business Banking

16 May 2016 By: Jacob Jegher, Ian Benton

The alternative lending industry has sprung up during a highly favorable credit environment and a period of economic growth, and there are already signs that contraction is ahead. However, no matter what happens in the near-term and what the industry eventually looks like, the alternative lending industry is here to stay. That's because players like OnDeck, Kabbage, and hundreds of others have revealed significant gaps in how banks serve small business customers. They have carved out a market based on smarter credit decisioning, speedier access to funds, a sleek user experience, and contextual marketing. And banks have taken notice, with a number of partnerships beginning to form that will define how the credit needs of this growing segment are met in the future. Banks looking to compete will need to solve their own "build, buy, or partner" equation soon or risk losing out on a tremendous opportunity for lending revenue, as well as the small business relationship as a whole.

Key questions discussed in this report:

- Are alternative lenders poised to disrupt lending as we know it? What is the threat and opportunity?
- Why have alternative lenders grown so quickly?
- What advantages and gaps have they exploited?
- How can banks build, buy, or partner with alternative lenders to address the market?

Companies Mentioned: American Express, AvidXchange, BancAlliance, BBVA, Behalf,Bill.com, BlueVine, Bond Street, CAN Capital, Etsy, Fundation, Funding Circle, ING, Intuit, JPMorgan Chase, Kabbage, Lending Club, OnDeck, PayPal, Prosper, Square, Twitter, UPS, Wells Fargo, Yelp, Yodlee

The small business data in this report is based primarily on information collected in a random-sample panel consisting of 1,000 small and micro businesses in a February 2016 online survey. Javelin defines micro businesses as those with annual revenue between \$100,000 and \$1,000,000 and small businesses as those with revenue between \$1,000,000 and \$10,000,000.

The consumer data in this report is based primarily on information collected a random-sample panel of 8,525 consumers in an April/May 2015 online survey.

Supplemental data on the size of the small business bank lending market and the alternative finance market were sourced from FDIC call reports and an April 2016 report by the Cambridge Centre for Alternative Finance, respectively.

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