ENTREPRENEUR WATCH: STRUCTURED CAPITAL IN A RISING RATES ENVIRONMENT

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Following 24 months of increased government spending as a response to the COVID-19 pandemic, combined with the reopening of the economy and pent-up consumer demand, inflation has risen rapidly across the West, sparking the conversation of rising rates at central banks internationally. With the Bank of England already pushing through one incremental rate increase, with more expected to follow, and the Federal Reserve announcing similar plans, we can only assume that the European Central Bank may follow suit sooner than originally anticipated. These increases likely come as negative news for SMEs as many still try to navigate the "new normal" following the economic pressures of the pandemic. This will likely be exacerbated by the withdrawal of short-term financing measures, such as the Coronavirus Business Interruption Loan Scheme in the UK, leaving potential funding gaps for SMEs.

The imminent rise of rates is also expected to put additional pressure on entrepreneurs with companies that are already highly leveraged or require additional growth funding following the pandemic. With the cost of debt increasing, and predicted slower economic expansion, it is more important than ever for entrepreneurs to review their capital structures and find flexible funding solutions to fit their specific needs. As a result, structured capital solutions that offer full alignment with businesses' growth objectives, whilst not imposing too restrictive operating conditions, are likely to increase in relevance.

Along these lines, finding a financing partner that can structure tailored solutions which do not overburden capital structures, can position businesses for growth with a lower sensitivity to the upcoming rate rises. Likewise, finding a financing partner that can offer a pan-regional approach, with wide network benefits and value creation expertise from operational enhancement to digitalisation and branding, can allow entrepreneurs to improve their market positioning, in turn creating more resilient companies. In a rising rates environment, cementing market leadership and a solid brand, with a supportive and loyal customer base, helps to smooth trading in periods where price elasticity is needed.

The last 24 months have been unprecedented, and although there is 'light at the end of the tunnel', we are unlikely to be 'out of the woods' just yet. The ripple effects of COVID-19 are expected to continue to ensue for months to come, from changes to monetary policy to supply and demand disruption. As the cost of debt increases, entrepreneurs should ensure they choose the right type of funding at the right price to achieve their growth expectations. In combination with securing the right partner, this should give entrepreneurs the support and expertise needed to navigate the new economic landscape.

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