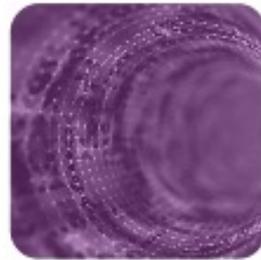


4. The general context



This chapter presents

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year-ending Q4 2017 (YEQ4 17).



Key findings

4 in 10 SMEs (42% in 2017, excluding Starts) had grown in the previous 12 months and overall this has varied little since 2013 (39-42%). Larger SMEs were more likely to have grown, and this proportion is now higher than in 2013 (59% of SMEs with 50-249 employees grew in 2017, compared to 54% in 2013).

Most SMEs were profitable (82% in 2017, excluding DK) and this proportion has increased steadily over time (from 69% in 2012). Unlike other metrics there was relatively little difference in profitability by size of SME (81-88%) albeit larger SMEs made higher profits.

Almost all SMEs held some credit balances and the average amount held in 2017 was £37,000, back to levels seen in 2015:

- On average, SMEs held the equivalent of a quarter of their turnover in credit balances (23%)
- A quarter of SMEs (25%) held more than £10,000 in credit balances and most of them said that this reduced their need for finance, the equivalent of 13% of all SMEs having a lower need for finance due to credit balances held.

A quarter of SMEs with employees (23%) have staff from overseas: 22% from the EU and 4% from further afield:

- Amongst the largest SMEs, 55% employ overseas staff
- 4 in 10 of employers of overseas staff (41%) were concerned about the impact on their business of any future change to migration rules
- This is the equivalent of 1 in 10 of all employers (9%), increasing to 31% of all those with 50-249 employees.



16% of SMEs trade internationally, with 11% importing and 10% exporting:

- The majority of exporters (62%) said that exports made up 25% or less of their total sales. The proportion of 'heavy exporters', where exports account for 50% or more of turnover was 23%, up from 13% in 2015 and back to levels seen in 2013
- A quarter of exporters (26%) do all or most of their trade with the EU (with little variation by size) while 18% do no trade at all (more common amongst smaller exporters).



This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 18,012 interviews conducted in the year ending Q4 2017 (that is Q1 to Q4 of 2017). Since the survey started in 2011, SMEs have faced a range of trading challenges and analysis of this data over time provides an indication of how

SMEs have managed as conditions have changed. For example, in 2016, the Q1 and Q2 interviews were completed prior to the EU referendum result being known, while the Q3 and Q4 interviews were conducted in the months immediately afterwards and in 2017 the Q2 interviews were being conducted during and immediately after the General Election.

Profitability

In Q4 2017, 75% of SMEs reported making a profit in their most recent 12 month trading period. The proportion unable or unwilling to give an answer has varied over time, so the table below also reports the proportion that made a profit once these ‘don’t know / refused’ answers had been excluded, which over recent quarters has been a stable 8 in 10 SMEs:

Business performance last 12 months									
Over time	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2015	2016	2016	2016	2016	2017	2017	2017	2017
Unweighted base:	5003	4500	4500	4500	4500	4500	4507	4505	4500
Made a profit	75%	75%	74%	76%	74%	75%	78%	76%	75%
Broke even	9%	10%	12%	11%	14%	11%	8%	9%	11%
Made a loss	8%	8%	6%	7%	7%	7%	7%	7%	7%
DK/refused	8%	7%	7%	6%	6%	7%	7%	9%	7%
Median profit made	£9k	£8k	£8k	£8k	£9k	£10k	£9k	£9k	£9k
Made profit (excl DK)	81%	81%	80%	81%	78%	81%	84%	83%	81%

Q241 All SMEs/ * All SMEs making a profit and revealing the amount

Note that because consistently unprofitable SMEs tend to go out of business, there will be an element of ‘survivorship bias’ in the profit figures, potentially underestimating the proportion of unprofitable businesses in the population.



For the period YEQ4 2017, 76% of all SMEs had been profitable (82% once the DK answers were excluded), increasing slightly by size of SME as the table below shows. The median profit, where made, was £10k, and the median loss £2k. Both increased by size of SME:

Business performance last 12 months		0	1-9	10-49	50-249
YEQ4 17 – all SMEs	Total	emp	emps	emps	emps
<i>Unweighted base:</i>	18,012	3607	5804	5801	2800
Made a profit	76%	75%	77%	81%	80%
Broke even	10%	10%	8%	5%	5%
Made a loss	7%	7%	7%	5%	7%
DK/refused	8%	7%	9%	9%	8%
<i>Made profit (excl DK)</i>	82%	81%	84%	88%	87%
<i>Median profit made*</i>	£10k	£8k	£14k	£56k	£263k
<i>Median loss made*</i>	£2k	£2k	£6k	£14k	£147k

Q241 All SMEs/ * All SMEs making a profit/loss and revealing the amount

Amongst SMEs with employees, 85% reported making a profit YEQ4 2017 (excluding the DK and refused answers).



There has been relatively little variability in overall levels of profitability over recent quarters and larger SMEs remained consistently more likely to be profitable than smaller ones, as the table below shows:

Made a profit in last 12 months

Over time	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Row percentages	2015	2016	2016	2016	2016	2017	2017	2017	2017
By date of interview	2015	2016	2016	2016	2016	2017	2017	2017	2017
All SMEs	81%	81%	80%	81%	78%	81%	84%	83%	81%
0 employee	81%	80%	79%	79%	77%	80%	83%	82%	79%
1-9 employees	82%	84%	80%	86%	81%	84%	83%	85%	85%
10-49 employees	88%	87%	88%	90%	87%	90%	87%	89%	88%
50-249 employees	93%	94%	87%	87%	87%	87%	91%	83%	86%

Q241 All SMEs excluding DK

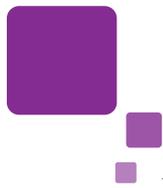
By sector, once the DK answers were excluded, the proportion reporting a profit YEQ4 2017 ranged from 77% for Transport to 86% for Construction:

Business performance last 12 months

YEQ4 17 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop / Bus	Hlth SWrk	Other Comm
Unweighted base:	1202	1501	3200	1800	1200	2004	3603	1502	2000
Made a profit	75%	76%	79%	73%	70%	71%	79%	78%	73%
Broke even	8%	8%	9%	11%	10%	13%	8%	12%	9%
Made a loss	10%	8%	4%	8%	9%	8%	7%	4%	10%
DK/refused	8%	8%	8%	8%	11%	7%	6%	6%	8%
Made profit (excl DK)	81%	83%	86%	79%	78%	77%	84%	83%	79%
Median profit made*	£8k	£10k	£9k	£13k	£11k	£8k	£10k	£7k	£9k
Median loss made*	£2k	£2k	£1k	£2k	£5k	£2k	£2k	£2k	£2k

Q241 All SMEs/ * All SMEs making a profit/loss and revealing the amount

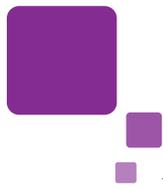
Median profits reported for YEQ4 2017 varied slightly, between £7-13k by sector, with little change over time. Reported median losses for YEQ4 2017 were £2k overall and for almost all sectors.



The table below takes a longer term view of profitability (back to 2012 and excluding DK/refused answers) by key demographics. This shows that an increasing proportion of SMEs reported making a profit between 2012 (69%) and 2017 (82%), both overall and across all key demographic groups, led by the 0 employee SMEs. In 2012, 74% of Permanent non-borrowers made a profit, compared to 66% of non PNBs. Since then the gap between them has narrowed (although profitability has improved overall for both groups) and in 2017 there was no difference between the two groups:

Made a profit in last 12 months						
Over time (excl DK)						
By date of interview – row percentages	2012	2013	2014	2015	2016	2017
All	69%	70%	77%	80%	80%	82%
0 emp	67%	69%	75%	79%	79%	81%
1-9 emps	72%	75%	81%	82%	83%	84%
10-49 emps	80%	81%	86%	87%	88%	88%
50-249 emps	81%	84%	88%	90%	89%	87%
Minimal external risk rating	83%	83%	84%	84%	86%	88%
Low	81%	84%	82%	87%	86%	90%
Average	71%	73%	80%	82%	82%	84%
Worse than average	63%	65%	72%	76%	77%	78%
Agriculture	74%	73%	79%	78%	77%	81%
Manufacturing	69%	74%	80%	81%	81%	83%
Construction	67%	68%	78%	80%	81%	86%
Wholesale/Retail	67%	70%	74%	79%	82%	79%
Hotels & Restaurants	59%	65%	73%	75%	79%	78%
Transport	65%	66%	76%	78%	78%	77%
Property/ Business Services	73%	73%	80%	81%	81%	84%
Health	70%	69%	76%	78%	77%	83%
Other	66%	73%	67%	83%	79%	79%
PNBs	74%	73%	80%	82%	80%	83%
All excl PNBs	66%	69%	74%	78%	80%	82%

Q241 All SMEs excl DK



Sales growth

From Q4 2012, all SMEs that had been trading for 3 years or more were asked about their growth in the previous 12 months. Those that had grown by 20% or more were asked whether they had also achieved this level of growth in each of the previous 2 years (also known as scaleup growth).

As the table below shows, the proportion of SMEs (excluding Starts) reporting that they had grown at all in the previous 12 months has typically been around 4 in 10 in recent quarters, with the exception of Q2 2017 (46%):

Growth achieved in last 12 months

All SMEs excluding Starts By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	4203	3729	3686	3703	3665	3742	3716	3602	3649
Grown by more than 20%	12%	10%	9%	7%	8%	6%	9%	10%	10%
Grown but by < 20%	28%	33%	31%	32%	31%	32%	37%	31%	32%
Grown	40%	43%	40%	39%	39%	38%	46%	41%	42%
Stayed the same	49%	46%	49%	51%	52%	48%	44%	47%	49%
Declined	11%	10%	11%	10%	10%	14%	10%	12%	10%

Q245a All SMEs trading for 3 years or more excl DK

For the period YEQ4 2017:

- 9% of SMEs (excluding Starts) said they had grown by 20% or more in the previous 12 months while 33% had grown but by less than 20%
- This means that for YEQ4 2017, 42% of SMEs (excluding Starts) reported having grown at all in the previous 12 months
- 47% had stayed the same size and 11% had got smaller.



The table below shows how these growth patterns varied by SME demographics. Larger SMEs remained more likely to report growth than smaller ones, while those trading for less than 10 years remained more likely to have grown than those trading for longer:

Business Growth	Further analysis (excluding Starts) YEQ4 2017
Size of SME	<p>The proportion of SMEs that had grown by 20% or more varied relatively little by size of SME (8-11%).</p> <p>Larger SMEs were more likely to have grown by up to 20% and so were more likely to have grown overall:</p> <ul style="list-style-type: none"> • 39% of 0 employee SMEs reported having grown at all • 47% of those with 1-9 employees reported having grown • Over half of those with 10-49 (56%) or 50-249 (59%) employees reported having grown
Risk rating	<p>The proportion growing by 20% or more varied little by risk rating (8-9%).</p> <p>46% of those with a minimal risk rating had grown at all. There was little difference in growth between those with a low risk rating (43% had grown), an average risk rating (40%) or a worse than average risk rating (42%).</p>
Age of business	<p>The proportion of SMEs achieving 20%+ growth declined by age of business, from 15% of those trading for 2-5 years to 6% of those trading for 15+ years.</p> <p>Overall growth was also higher for younger businesses: 53% of those trading for 2-5 years and 50% of those trading for 6-9 years had grown, compared to 41% of those trading 10-15 years and 34% of those trading for more than 15 years.</p>
Sector	<p>SMEs in the Other Community sector along with those in Property/Business Services and Manufacturing were the most likely to report 20%+ growth (10%). For other sectors the proportion varied from 4-9%.</p> <p>Those in Wholesale/Retail and Hotels and Restaurants were the most likely to report overall growth (both 45%), compared to 36% in the Transport sector. For other sectors, growth varied from 40-43%.</p>
Appetite for finance	<p>Those who reported a borrowing event in the 12 months prior to interview were slightly more likely to have grown in the previous year (48%), compared to 41% of Would-be seekers and 41% of Happy non-seekers.</p> <p>Permanent non-borrowers (with no immediate appetite for finance) were slightly less likely to have grown (40%) than those who did not meet the definition (44%).</p>



The table below takes a longer term view of growth by key demographics. This shows a consistent 4 in 10 having grown in each period, due to the relatively consistent growth performance of 0 employee SMEs. Larger SMEs were consistently more likely to have grown than smaller ones, and the proportion of these larger SMEs reporting growth has also increased since 2013:

Growth achieved in last 12 months					
All SMEs over time (excluding Starts)					
By date of interview – row percentages	2013	2014	2015	2016	2017
All	40%	42%	39%	40%	42%
0 emp	38%	39%	36%	37%	39%
1-9 emps	43%	48%	45%	48%	47%
10-49 emps	49%	55%	56%	55%	56%
50-249 emps	54%	61%	57%	55%	59%
Minimal external risk rating	36%	44%	38%	45%	46%
Low	40%	40%	39%	43%	43%
Average	35%	38%	37%	37%	40%
Worse than average	44%	45%	41%	41%	42%
Agriculture	40%	40%	31%	36%	40%
Manufacturing	44%	46%	45%	45%	41%
Construction	35%	37%	35%	36%	41%
Wholesale/Retail	38%	46%	43%	47%	45%
Hotels & Restaurants	37%	43%	45%	44%	45%
Transport	35%	38%	35%	39%	36%
Property/ Business Services	44%	42%	41%	41%	43%
Health	40%	45%	38%	34%	43%
Other	44%	45%	41%	42%	42%
PNBs	38%	40%	37%	39%	40%
All excl PNBs	41%	43%	41%	41%	44%

Q245a All SMEs excl DK



Scaleup growth

In 2017, 9% of SMEs (excluding Starts) reported that they had grown by 20% or more in the previous 12 months. This proportion was unchanged from 2016 but somewhat lower than seen in previous years (13% in 2014).

Amongst those who reported for YEQ4 2017 that they had grown by 20% or more, almost 6 in 10 (57%) went on to report that they had also achieved this level of growth for each of the two previous years. Those with 1-9 employees were the most likely to report such growth (64%).

This is the equivalent of 4% of all SMEs (excluding Starts) achieving 3 years of 20%+ growth, also known as 'scaleup' growth.

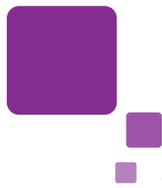
- There was relatively little variation by size (4% for 0 employee SMEs and those with 50-249 employees and 6% for the 1-9 and 10-49 employee bands)
- There was also little variation by sector (3-5%)
- PNBs were no more or less likely to have achieved scaleup growth (4%) than non-PNBs (5%)
- Those using external finance were no more or less likely to have achieved scaleup growth (5%) than non-users (4%)
- SMES trading 2-5 years were the most likely to be scaleups (9%) compared to 4% of those trading 6-15 years and 3% of older SMEs

Past and future growth comparisons

The Monitor records both *past* growth and *future* growth expectations. This allows a comparison to be made between growth expectations recorded and growth subsequently achieved, albeit that these are based on **different** samples of SMEs and so is not a direct comparison between prediction and achievement.

The table below shows the proportion of SMEs 3+ years old that predicted they would grow in

the first time period, and compares it to the proportion of SMEs 3+ years old that reported having achieved growth in the second period. Since this analysis started, the predictions made have typically proved to be very close to the growth figures subsequently reported (by a different sample of SMEs). The growth achieved more recently, from Q2 2017, exceeded the predictions made in 2016, due to the performance of those with 0-9 employees.



Back in Q3 2016, 37% of SMEs 3+ years old *predicted* that they would grow in the next 12 months. In Q4 2017 more, 42%, (of a *different* sample of such SMEs) reported that they *had* grown in the previous 12 months:

Growth predictions against expectations

All SMEs excluding Starts By date of interview	All SMEs		0-9 emps		10-249 emps	
	Predicted growth	Achieved growth	Predicted growth	Achieved growth	Predicted growth	Achieved growth
Predicted Q3 13/Achieved Q4 14	41%	42%	40%	41%	61%	56%
Predicted Q4 13/Achieved Q1 15	44%	41%	43%	40%	65%	61%
Predicted Q1 14/Achieved Q2 15	43%	36%	42%	35%	68%	59%
Predicted Q2 14/Achieved Q3 15	49%	40%	48%	39%	67%	54%
Predicted Q3 14/Achieved Q4 15	41%	39%	39%	39%	69%	52%
Predicted Q4 14/Achieved Q1 16	39%	44%	38%	43%	64%	53%
Predicted Q1 15/Achieved Q2 16	38%	39%	36%	38%	65%	57%
Predicted Q2 15/Achieved Q3 16	40%	39%	38%	38%	67%	55%
Predicted Q3 15/Achieved Q4 16	44%	38%	43%	38%	61%	53%
Predicted Q4 15/Achieved Q1 17	43%	38%	42%	38%	60%	53%
Predicted Q1 16/Achieved Q2 17	39%	46%	38%	46%	57%	58%
Predicted Q2 16/Achieved Q3 17	37%	41%	36%	40%	60%	56%
Predicted Q3 16/Achieved Q4 17	37%	42%	36%	41%	57%	59%
Predicted Q4 16/Achieved Q1 18	42%		41%		61%	

Q225a and Q245a All SMEs trading for 3 years or more excl DK

SMEs with 10-249 employees have typically been more likely to predict growth than to achieve it, although the latest data showed prediction and achievement in line (57% v 59%).



Financial Risk Profile

The main assessment of financial risk is the external risk rating supplied for the sample by ratings agencies Dun & Bradstreet and Experian. They use a range of business information to predict the likelihood of business failure and their ratings have been combined to a common 4 point scale from minimal to worse than average risk of failure. Although not all

SMEs receive this external risk rating, most do (86%) and it is commonly used and understood by lenders. It has thus been used in this report for all risk related analysis.

The overall risk profile over recent quarters is shown below with typically just under half of SMEs having a worse than average risk rating:

External risk rating

All SMEs (where provided) over time

By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	4546	4139	4093	4111	4108	4175	4112	4140	4181
Minimal risk	7%	6%	8%	8%	6%	7%	5%	7%	6%
Low risk	16%	13%	16%	14%	16%	15%	14%	17%	16%
Average risk	28%	28%	32%	30%	27%	35%	33%	34%	30%
Worse than average risk	48%	53%	44%	48%	51%	42%	48%	42%	49%

All SMEs where risk rating provided



Looking over the longer term, the proportion of SMEs with a worse than average risk rating dropped to just below 50% for 2014 and has remained there since. The proportion with a minimal or low external risk rating increased over time from 16% in 2012 to 25% in 2015, before declining slightly (21% in 2017):

External risk rating						
(Where provided) over time						
By date of interview	2012	2013	2014	2015	2016	2017
Unweighted base:	18,270	18,183	18,330	18,301	16,451	16,608
Minimal risk	5%	6%	7%	8%	7%	6%
Low risk	11%	10%	15%	17%	15%	15%
Average risk	31%	29%	32%	29%	29%	33%
Worse than average risk	53%	54%	45%	46%	49%	45%

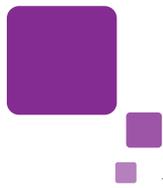
All SMEs where risk rating provided

The overall YEQ4 2017 ratings are shown below by size of SME, and continue to report a better risk profile for larger SMEs. 82% of SMEs with 50-249 employees had a minimal or low risk rating compared to 14% of those with 0 employees:

External risk rating		0	1-9	10-49	50-249
YEQ4 17 - all SMEs where rating provided	Total	emp	emps	emps	emps
Unweighted base:	16,608	3062	5179	5624	2743
Minimal risk	6%	4%	10%	23%	39%
Low risk	15%	10%	24%	50%	43%
Average risk	33%	35%	29%	21%	14%
Worse than average risk	45%	50%	37%	7%	4%

All SMEs where risk rating provided

Amongst SMEs with employees, 42% had a minimal or low external risk rating, 27% an average risk rating and 31% a worse than average risk rating.



The risk profile of all SMEs is driven by the ratings for 0 employee SMEs. The table below shows the proportion with a worse than average risk rating over time, in each size band:

- Amongst the 0 employee SMEs the proportion with a worse than average risk rating has varied over time (50-60%) but in 2017 was at the lower end of this range.
- The proportion of 1-9 employee SMEs with this rating appears to have stabilised from 2014 onwards at around a third.
- Amongst those with 10-49 and 50-249 employees there has been a more consistent decline over time in the proportion with a worse than average risk rating and they remained the least likely to have this rating.

Worse than average risk rating						
Over time						
Row percentages	2012	2013	2014	2015	2016	2017
Total	53%	54%	45%	46%	49%	45%
0 employee	58%	60%	50%	52%	56%	50%
1-9 employees	43%	43%	37%	34%	35%	37%
10-49 employees	17%	17%	11%	9%	7%	7%
50-249 employees	13%	15%	9%	6%	5%	4%

All SMEs where risk rating provided



An analysis for YEQ4 2017 by sector shows that SMEs in Agriculture remained much more likely than other sectors to have a minimal or low risk rating (46% YEQ4 2017) while those in Transport (13%) and Construction (15%) remained the least likely to have such a rating:

External risk rating

YEQ4 17	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	1079	1402	2945	1682	1094	1809	3368	1363	1866
Minimal risk	29%	7%	3%	9%	3%	4%	5%	12%	6%
Low risk	17%	19%	12%	21%	25%	9%	14%	26%	14%
Average risk	24%	35%	31%	27%	26%	31%	40%	30%	36%
Worse than average risk	30%	39%	54%	43%	46%	56%	42%	32%	43%
Total Min/Low	46%	26%	15%	30%	28%	13%	19%	38%	20%

All SMEs where risk rating provided



Credit balances

Almost all SMEs reported holding some credit balances. In 2017, 4% did not hold any, and this proportion has changed relatively little over time, nor has it varied much by size of SME, or risk rating.

Between 2012 and 2015 the average credit balance held increased from £25,000 to £39,000. It was somewhat lower for 2016 as a whole (£30,000) but was back to £37,000 for 2017:

Credit balances held						
Over time – all SMEs	2012	2013	2014	2015	2016	2017
<i>Unweighted base:</i>	15,020	14,752	13,039	13,182	10,730	10,950
None	4%	4%	5%	3%	3%	4%
Less than £5,000	66%	64%	58%	55%	57%	51%
£5,000 to £10,000	14%	15%	17%	18%	18%	19%
£10,000 to £50,000	11%	12%	14%	17%	15%	17%
More than £50,000	5%	4%	6%	7%	6%	8%
<i>Average balance held</i>	£25k	£24k	£31k	£39k	£30k	£37k

Q244 All SMEs excluding DK/refused

The median value of credit balances held remained at just over £2,000 for YEQ4 2017. This amount continued to vary by size of SME, and for YEQ4 2017 was:

- £2,000 for 0 employee SMEs
- £6,000 for 1-9 employee SMEs
- £34,000 for 10-49 employee SMEs
- £177,000 for 50-249 employee SMEs.

The median value of credit balances varied little by sector (£2-4k).



New analysis has looked at the amount of credit balances held as a percentage of the annual turnover of the SME, using the mid-points of the bands in which this information was collected. In 2016, 62% of SMEs provided figures for both turnover and credit balances and in 2017 the proportion was 58% (ranging from 59% of those with 0 employees to 51% of those with 10-249 employees).

As the table below shows, in both 2016 and 2017, on average SMEs held credit balances of the equivalent of 23% of their turnover:

% credit balances to turnover		
Over time – all SMEs	2016	2017
<i>Unweighted base:</i>	9725	9795
<5%	20%	25%
5-10%	21%	21%
11-20%	42%	37%
21-50%	8%	8%
More than 50%	9%	9%
<i>Average percentage held</i>	23%	23%

Q244 / Q9 All SMEs excluding DK/refused

The average proportion of credit balances held declined slightly by employee size:

- 0 employee SMEs held the equivalent of 24% of their turnover in credit balances, unchanged from 2016
- 1-9 employee SMEs held the equivalent of 21% of their turnover in credit balances, also unchanged from 2016
- 10-49 employee SMEs held the equivalent of 20% of their turnover in credit balances, slightly lower than the 22% reported in 2016
- 50-249 employee SMEs held the equivalent of 17% of their turnover in credit balances, also slightly lower than the 19% reported in 2016.



The table below shows the proportion of SMEs holding more than £10,000 in credit balances, and how this has changed over time. In 2012, 16% of SMEs held £10,000 or more in credit balances, increasing steadily to 24% in 2015 and stable since (25% in 2017).

Larger SMEs remained much more likely to hold such sums. All size bands have seen an increase in £10,000+ credit balances over time, including an almost doubling in the proportion of 0 employee SMEs holding such sums (10% to 18%):

£10,000+ Credit balances held						
Over time – all SMEs						
Row percentages	2012	2013	2014	2015	2016	2017
All SMEs	16%	17%	20%	24%	22%	25%
0 employee	10%	10%	14%	17%	14%	18%
1-9 employees	32%	33%	38%	41%	41%	44%
10-49 employees	66%	66%	68%	70%	72%	73%
50-249 employees	77%	80%	82%	81%	82%	90%

Q244 All SMEs excluding DK/refused

The next chapter reports on the use of external finance amongst SMEs. The table below shows the proportion of SMEs using external finance (or not) who also held £10,000 or more in credit balances:

£10,000+ Credit balances held						
Over time – row percentages						
	2012	2013	2014	2015	2016	2017
All SMEs	16%	17%	20%	24%	22%	25%
SMEs who use any external finance	18%	20%	23%	27%	27%	31%
SMEs who use core finance	18%	20%	22%	27%	26%	30%
SMEs who use no external finance	14%	14%	19%	22%	19%	22%

Q244 All SMEs excluding DK/refused

This shows that over time, those using external finance became more likely to also hold £10,000 or more in credit balances (from 18% of those using external finance in 2012 to 31% in 2017) and this was also true for those using core finance (loans, overdrafts and/or credit cards). There was a smaller increase amongst those not using external finance (14% to 22%) who are also typically smaller SMEs.



From Q3 2015, all SMEs holding £10,000 or more of credit balances were asked whether holding such balances meant that the business had less of a need for external finance. 8 in 10 SMEs with such credit balances agreed that it did, with the largest SMEs slightly less likely to agree (76% for those with 50-249 employees).

The table below shows that this was the equivalent of 13% of all SMEs saying their need for external finance was lower due to the credit balances they held:

Impact of £10k+ of credit balances		0	1-9	10-49	50-249
YEQ4 2017 – all SMEs	Total	emp	emps	emps	emps
<i>Unweighted base:</i>	18,012	3607	5804	5801	2800
£10k+ reduces need for external finance	13%	10%	21%	34%	37%
£10k+ does not reduce need for finance	3%	2%	5%	7%	12%
Hold less than £10k of credit balances	47%	53%	32%	12%	4%
No credit balances/DK/Refused	37%	35%	42%	48%	47%

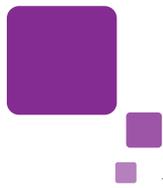
Q244x All SMEs

Those currently using external finance were slightly more likely to say that it reduced their need for further finance (17%) than those not currently using finance (11%).



The table below shows the actual use of external finance amongst those who held £10,000 or more in credit balances, over time. Between 2012 and 2015, SMEs with £10,000 or more of credit balances became less likely to use any external finance *at all* (51% to 44%) but the proportion increased again slightly for 2017 (49%):

Use of finance over time						
Over time						
All with £10k+ in credit balances	2012	2013	2014	2015	2016	2017
Unweighted base:	6296	6319	5926	6376	5228	5804
Use any external finance	51%	52%	44%	44%	46%	49%
• Use core finance	41%	40%	32%	35%	36%	38%
Do not use finance	49%	48%	56%	56%	54%	51%



How SMEs are managed

Interviews were conducted with the main financial decision maker. In almost all cases, this person was also the owner, managing director, or senior partner.

A series of questions collected information about the structure and control of the business. Those reported below (including planning, trading internationally, and having someone in charge of the finances who was qualified) reflect their contribution to other areas of analysis such as applications for finance. From Q1 2016, SMEs have also been asked whether

the business has ‘a mentor who provides help and advice’.

The table below shows that the proportion of SMEs undertaking any business planning varied between 52-60% over recent quarters (currently 55% for Q4 2017), while the proportion of SMEs trading internationally returned to previous levels (15%) after a dip in the latter half of 2016. 34% reported innovative activity, up from 30% in Q2 2017, while a steady 1 in 10 had a business mentor:

Business formality elements

Over time – all SMEs By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Unweighted base:	5003	4500	4500	4500	4500	4500	4507	4505	4500
Planning (any)	56%	54%	52%	57%	58%	60%	54%	59%	55%
- Produce regular management accounts	42%	41%	39%	45%	41%	48%	41%	42%	40%
- Have a formal written business plan	33%	32%	29%	33%	38%	32%	28%	33%	32%
International (any)	18%	15%	15%	12%	13%	16%	16%	17%	15%
- Export goods or services	11%	10%	9%	7%	7%	11%	10%	11%	9%
- Import goods or services	13%	10%	10%	8%	10%	10%	12%	12%	10%
Innovation (any)	38%	36%	37%	37%	36%	38%	30%	34%	34%
-New product or service (last 3 yrs)	16%	14%	15%	13%	14%	13%	12%	15%	16%
-Improved aspect of business	34%	31%	32%	34%	33%	35%	26%	29%	29%
Mentors	-	13%	10%	12%	11%	12%	10%	10%	11%
Have qualified person in charge of finances	24%	23%	22%	23%	25%	26%	21%	23%	26%

Q223/251 All SMEs

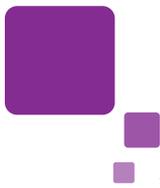


The table below provides further analysis by key demographics for YEQ4 2017:

Business Formality Further analysis YEQ4 2017

Planning	<p>57% of all SMEs planned, increasing by size of business from 52% of those with 0 employees to almost all, 93%, of those with 50-249 employees.</p> <p>Older SMEs were somewhat less likely to plan: 64% of Starts and 61% of those trading for 2-5 years planned compared to 53-55% of older SMEs.</p> <p>Those with a minimal (63%) or a low (64%) risk rating were more likely to plan, compared to 52% of those with an average rating and 58% of those with a worse than average risk rating.</p> <p>64% of SMEs in the Hotels & Restaurant sector and 65% of SMEs in the Wholesale/Retail sector planned, compared to 52% of those in Construction. Amongst other sectors 54-59% planned.</p>
International	<p>16% of all SMEs were international, increasing by size of business from 14% of those with 0 employees to 31% of those with 50-249 employees.</p> <p>There was no consistent pattern by age of SME (13-18%).</p> <p>Those with a minimal risk rating were the most likely to be international (22%) decreasing by risk rating to 15% of those with a worse than average risk rating.</p> <p>SMEs in the Wholesale/Retail and Manufacturing sectors (both 27%) were the most likely to be international, with those in Construction (5%) the least likely. Amongst other sectors 7-21% were international.</p>
Innovation	<p>34% of all SMEs had innovated, increasing by size of business from 31% of those with 0 employees to 60% of those with 50-249 employees.</p> <p>There was no consistent pattern by age of business. Those trading 2-5 years were the most likely to have been innovative (41%) and those trading for 6-9 years were the least likely (30%).</p> <p>Those with a minimal risk rating (40%) were more likely to have innovated, while those with an average rating were the least likely (31%).</p> <p>SMEs in Manufacturing (44%) and Wholesale/Retail (42%) were the most likely to have innovated, with Construction (27%) the least likely. Amongst other sectors 30-39% had innovated.</p>

Continued



Continued

Financial specialist 24% of SMEs had a financially qualified person looking after their finances. This became more likely as business size increased: 20% of 0 employee SMEs had a financial specialist compared to 32% of those with 1-9 employees, 48% of those with 10-49 employees and 70% of those with 50-249 employees. There was less variation by age of business (21-26%).

31% of those with a minimal and 30% of those with a low risk rating had a financial specialist, compared to 25% of those with an average rating and 21% of those with a worse than average risk rating.

Those in Wholesale/Retail (30%), Hotels and Restaurants and Property/Business Services (both 29%) were the most likely to have a financial specialist, compared to 18% in Construction. Amongst other sectors the proportion varied from 20-24%.

Mentors A new question from Q1 2016 asked whether the business was using a mentor for business help and advice. YEQ4 2017, 11% of SMEs did.

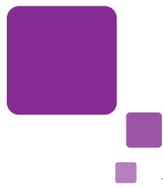
By size, the use of mentors increased from 9% of those with 0 employees and 14% of those with 1-9 employees, to around a fifth of larger SMEs (23% for those with 10-49 employees and 22% for those with 50-249 employees).

The presence of mentors decreased somewhat by risk rating: from 13% of those with a minimal risk rating and 12% of those with a low risk rating, to 11% of those with either an average or a worse than average risk rating.

There was no variation by age of business (10-11%), and relatively little variation by sector (8-14%).

The smallest SMEs remained less likely to undertake any of these activities. For YEQ4 2017, excluding the 0 employee SMEs saw the proportion of SMEs (with employees) who:

- Plan increase from 57% to 73%
- Trade internationally increase from 16% to 22%
- Innovate increase from 34% to 44%
- Have a mentor increase from 11% to 16%
- Have a qualified person in charge of the finances increase from 24% to 35%



Taking a longer term view back to 2012:

- The proportion that plan has varied relatively little over time (54-57%)
- The proportion of SMEs that were international has been somewhat higher since 2014 (with more exporters and more importers)
- The proportion of SMEs that had been innovative has declined somewhat over the period (from 40% to 34%)
- The proportion with a financial specialist has changed relatively little:

Business formality elements						
Over time – all SMEs						
By date of interview	2012	2013	2014	2015	2016	2017
Unweighted base:	20,055	20,036	20,055	20,046	18,000	18,012
Planning (any)	55%	55%	54%	54%	55%	57%
- Produce regular management accounts	41%	42%	42%	41%	41%	43%
- Have a formal written business plan	33%	32%	32%	32%	33%	31%
International (any)	10%	13%	16%	17%	14%	16%
- Export goods or services	6%	8%	10%	10%	8%	10%
- Import goods or services	7%	9%	11%	12%	10%	11%
Innovation (any)	40%	38%	37%	37%	36%	34%
-New product or service (last 3 yrs)	17%	16%	16%	15%	14%	14%
-Improved aspect of business	35%	33%	34%	33%	32%	30%
Have qualified person in charge of finances	25%	26%	27%	26%	23%	24%

Q223/251 All SMEs

Occasional questions have been asked (starting in Q1 2014) about whether the business holds intellectual property or other knowledge assets on its balance sheet such as patents, copyrights, trademarks or goodwill (in H1 2014, 6% did). When the questions were asked again for 2015 there was little change: 5% held intellectual property or other knowledge assets

on their balance sheet, increasing by size from 4% of 0 employee SMEs to 12% of those with 50-249 employees. The latest figures for YEQ4 2017 were marginally higher, with 8% of all SMEs holding intellectual property or other knowledge assets on their balance sheet, increasing by size from 7% of 0 employee SMEs to 24% of those with 50-249 employees.



How SMEs are managed – international issues

In new questions from Q3 2017, SMEs with employees were asked whether they employed overseas staff, either from the EU or further afield. As the table below shows, a quarter did (23%) predominantly from the EU, increasing by size of SME to over half (55%) of those with 50-249 employees:

Employing overseas staff

All SMEs with employees H2 17	Total	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	7202	2902	2900	1400
Employ any overseas staff:	23%	18%	40%	55%
- Employ staff from EU	22%	17%	38%	54%
- Employ other overseas staff	4%	2%	9%	23%

Q223 All SMEs with employees

The second new question asked all those employing overseas staff how concerned they were about the potential impact on their business of any changes to migration rules. 4 in 10 (41%) were concerned, the equivalent of 9% of all SMEs with employees, also increasing by size of SME:

Concern re changes to migration rules

All SMEs with overseas employees H2 17	Total	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	2350	501	1110	739
Very concerned	19%	19%	19%	32%
Fairly concerned	22%	21%	22%	29%
Not very concerned	22%	20%	26%	20%
Not at all concerned	34%	39%	29%	15%
Concerned (all employing overseas staff)	41%	40%	41%	61%
Concerned (all SMEs with employees)	9%	7%	17%	31%

Q223c All SMEs with overseas employees



SMEs that trade internationally were more likely to employ staff from overseas, typically from the EU, but amongst those who did, levels of concern about changes to migration rules were in line with other employers of overseas staff. As a result, 1 in 5 SMEs with employees that both import and export were concerned about changes to migration rules:

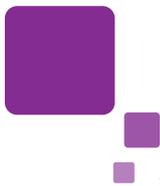
Overseas staff

All SMEs with employees H2 17	Total	Export only	Import only	Fully intl
Unweighted base:	7202	359	557	618
Employ any overseas staff:	23%	34%	32%	48%
<i>Employ staff from EU</i>	22%	32%	31%	46%
<i>Employ other overseas staff</i>	4%	8%	4%	10%
Concerned (all employing overseas staff)	41%	47%	47%	41%
Concerned (all SMEs with employees)	9%	16%	15%	20%

Q223 All SMES with employees/ Q223c All SMEs with overseas employees

The table below summarises the position by sector. Employers in Manufacturing were the most likely to employ overseas staff (28%) but with the exception of Agriculture (13%) there was relatively little difference in the proportion in other sectors (20-26%).

There was though more variation by sector in levels of concern about the impact of any future changes to migration rules. Those employing overseas staff in the Health (59%), Hotel and Restaurant (53%) and Agriculture (56%) sectors were more worried about such changes compared to 27% in Manufacturing (despite this sector being more likely to employ such staff):



Overseas staff

All SMES with employees

H2 17	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	477	608	1272	731	483	795	1423	602	811
Employ any overseas staff:	13%	28%	20%	20%	25%	23%	23%	26%	23%
Employ staff from EU	12%	28%	20%	19%	23%	22%	23%	25%	22%
Employ other overseas staff	1%	4%	2%	2%	7%	4%	4%	7%	4%
Concerned about migration changes (if employ)	56%	27%	31%	39%	53%	46%	43%	59%	31%
Concerned (all with employees)	7%	8%	6%	8%	13%	11%	10%	15%	7%

Q223 All SMES with employees/ Q223c All SMEs with overseas employees

The equivalent of 15% of all employers in the Health sector and 13% in Hotels and Restaurants were concerned about potential changes to migration rules affecting their overseas staff, compared to 6% of employers in Construction.



Turning now to international trade, six in ten exporters (62%) reported that less than a quarter of their total sales came from overseas, with relatively little variation by size:

Percentage of turnover as sales overseas

All SMEs who export YEQ4 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	2244	277	600	920	447
Less than 25% of sales made overseas	62%	61%	65%	67%	56%
25-50%	15%	14%	18%	17%	24%
51-75%	12%	12%	10%	11%	14%
76-100% of sales overseas	11%	13%	7%	4%	7%
Average proportion	30%	32%	28%	26%	31%

Q223x All SMEs who export, excluding DK/refused

23% of exporters said that international trade made up 50% or more of sales, a return to levels seen in 2013:

- In 2013, 24% of exporters said that overseas sales made up half or more of all sales, falling to 17% in 2014 and then 13% in 2015
- This proportion then increased to 19% for 2016 and 23% for 2017

10% of all SMEs were exporters. This is made up of the equivalent of 2% of all SMEs where exports made up 50% or more of their sales, and 9% of all SMEs where exports made up less than 50% of their sales. 90% of all SMEs did not export.



From Q3 2016, all exporters have been asked about the extent to which they were selling to the EU. The figures for YEQ4 2017 show that most exporters traded to some extent with the EU (82%), with 1 in 10 exporters only exporting to the EU (9%):

Overseas sales to EU

All SMEs who export YEQ4 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	2349	289	631	966	463
Only to the EU	9%	9%	10%	6%	5%
The majority to the EU	17%	16%	18%	18%	17%
Half to the EU	12%	12%	11%	13%	22%
A minority to the EU	45%	44%	44%	51%	53%
None to the EU	18%	19%	17%	12%	4%
Only/the majority	26%	25%	28%	24%	22%

Q223b All SMEs who export

The EU was also the sole/majority source of sales for 33% of those who achieved more than half of their turnover through exports, compared to 23% of those where less than half of their turnover came from exports.

Limited data is now available over time. The table below shows the proportion of exporters

who either sold exclusively to the EU or made the majority of their sales there. This was slightly higher in H1 2017 (28%) than in either H2 2016 or H2 2017, driven by the small group of 0 employee exporters. Amongst those with employees there has been something of a decline in the proportion selling heavily to the EU (from 31% in H2 2016 to 25% in H2 2017).



All/majority sales to EU			
Over time – all exporters			
Row percentages	H2 2016	H1 2017	H2 2017
All exporters	22%	28%	23%
0 employee	17%	28%	21%
1-9 employees	33%	28%	27%
10-49 employees	24%	26%	21%
50-249 employees	35%	25%	16%
<50% of sales exported	23%	25%	22%
50%+ of sales exported	23%	45%	24%

Q223b All SMEs who export



Membership of business groups or industry bodies

SMEs were asked whether the owner, senior partner or majority shareholder belonged to any business groups or industry bodies.

YEQ4 2017 a quarter of SMEs (24%) said that this was the case (excluding DK answers) back to levels seen in previous years.

Business Groups	Further analysis YEQ4 2017
By size of SME	Membership increased somewhat for the largest SMEs: <ul style="list-style-type: none">• 23% of 0 employee businesses belonged to a group/body• 25% of 1-9 employee businesses• 26% of 10-49 employee businesses• 38% of 50-249 employee businesses
By external risk rating	There was relatively little difference by risk rating, albeit SMEs with a worse than average external risk rating were slightly less likely to belong to such groups (22%), compared to 25-26% of SMEs in the other 3 risk rating bands.
By sector	The most likely to belong to such groups remained those in the Health sector (34%) and Property/Business Services (29%) while those in Transport (16%) were less likely.
PNBs and those using external finance	Those currently using external finance were no more likely to belong to such groups (25%) than those that did not use external finance (23%). There was also now little difference by whether the SME met the definition of a Permanent non-borrower or not (23% v 24% if not a PNB).
Other demographics	There was some, limited, variation by age of business. 27% of those trading for 15 years or more belonged to a business group compared to 20-24% of younger businesses. Those who had someone in charge of the finances who was qualified (more common in larger SMEs) remained more likely to belong to a business group (36% v 20%).



Business Ownership

66% of *companies* had one owner, declining by size from 85% of 0 employee companies to 36% of those with 50-249 employees. This means that of *all* SMEs, 90% were either sole proprietorships or companies with one owner.

A broader question explored the extent to which the owner of the SME was also involved in other businesses. For YEQ4 2017 (and excluding DK answers):

- 90% reported that this was the only business the owner was involved in, managerially or strategically, decreasing with size from 92% of 0 employee SMEs, to 75% of those with 50-249 employees.
- 9% reported that the owner currently ran another business as well (8% amongst 0 employee SMEs increasing to 24% amongst those with 50-249 employees).
- 4% reported that the owner had set up and run a business before (with little variation by size).
- Less than 1% said the owner had provided funds for another business in the past few years, again with little variation by size of SME.

From Q3 2014, SMEs with employees were asked whether theirs was a family business. For YEQ4 2017, 66% of those with employees said that it was. This means that for SMEs as a whole:

- 16% had employees and were family owned
- 9% had employees and a different ownership structure
- 75% of all SMEs had no employees (so were not asked the question).