

# SME Finance Monitor

Current analysis 3 months to  
end April 2018

An independent report by  
BDRC, May 2018



# Introduction

The SME Finance Monitor was established in 2011 and provides detailed analysis of SMEs and their access to finance on a half yearly basis. The latest full report (YEQ4 2017) was published on March 15<sup>th</sup> 2018 and the Q2 2018 report will be available in mid-September 2018.

As fieldwork takes place on a continuous basis, it is also possible to provide headline data on key issues in between these full reports. This pack will therefore be provided on a monthly basis and provide the latest 3 months rolling data across a range of issues.

The most recent data point for this report is the 3 months from February to April 2018.

Headline analysis is provided for all SMEs, with key questions split by size of SME. Some analysis is also provided by the type of international trade (if any) undertaken alongside domestic activity:

- Exporting but no importing (labelled as “export only”)
- Importing but no exporting (labelled as “import only”)
- Both importing and exporting (labelled as “import & export”)
- No international trade, SME only trades domestically (labelled as “domestic sales only”)

Differences shown month on month are not necessarily statistically significant. Differences of 4%+ month on month are needed for the total sample and up to 10%+ for some of the smaller groups (such as those trading internationally).

## Introduction – Changes to main SME Finance Monitor questionnaire for 2018

The SME Finance Monitor questionnaire has evolved gradually since it started in 2011.

In Q4 2017 it was decided that a more radical review was required to reflect changes in the finance market for SMEs, such as the rise of online platforms and other non-bank suppliers of finance. This was also an opportunity to focus on “need” for finance and how this translates into applications.

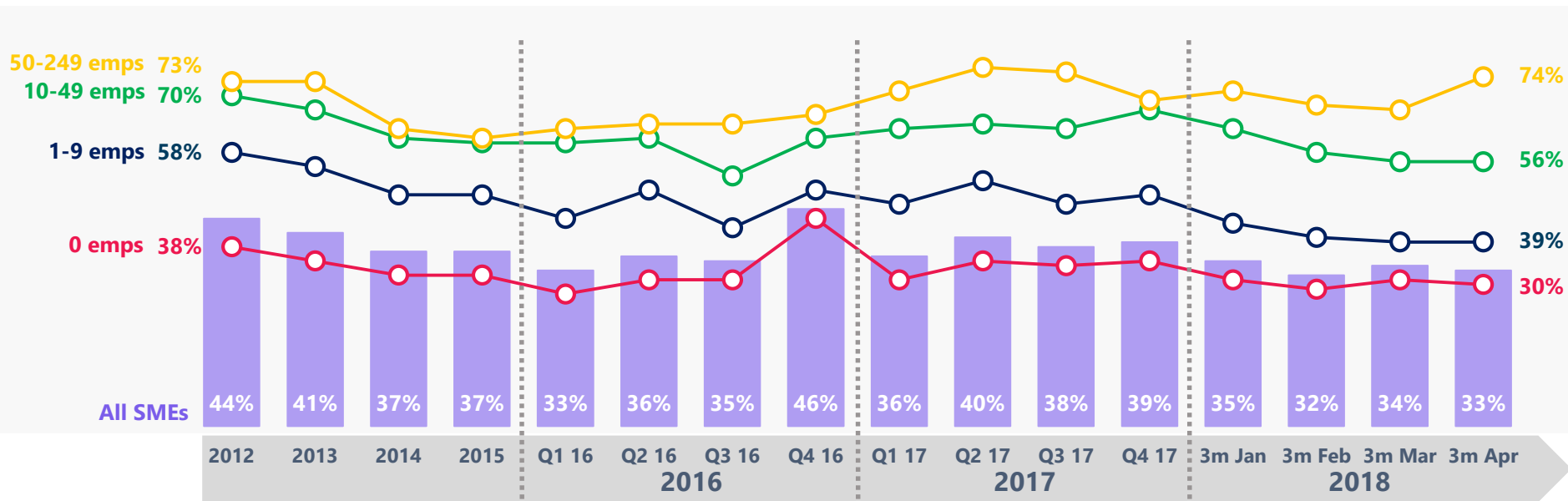
Most of the questions reported in this pack have remained unchanged.

However, there have been slight changes to the “types of finance used” question and also to the definition of a “Permanent non-Borrower”. These initial results do not suggest the changes have had a major impact on results but will be monitored over time.

All of the changes will be reported on in full in the Q2 2018 SME Finance Monitor report, due to be published in September 2018

# Use of external finance in 2018 to date is somewhat lower than in 2017, with the exception currently of those with 50-249 employees

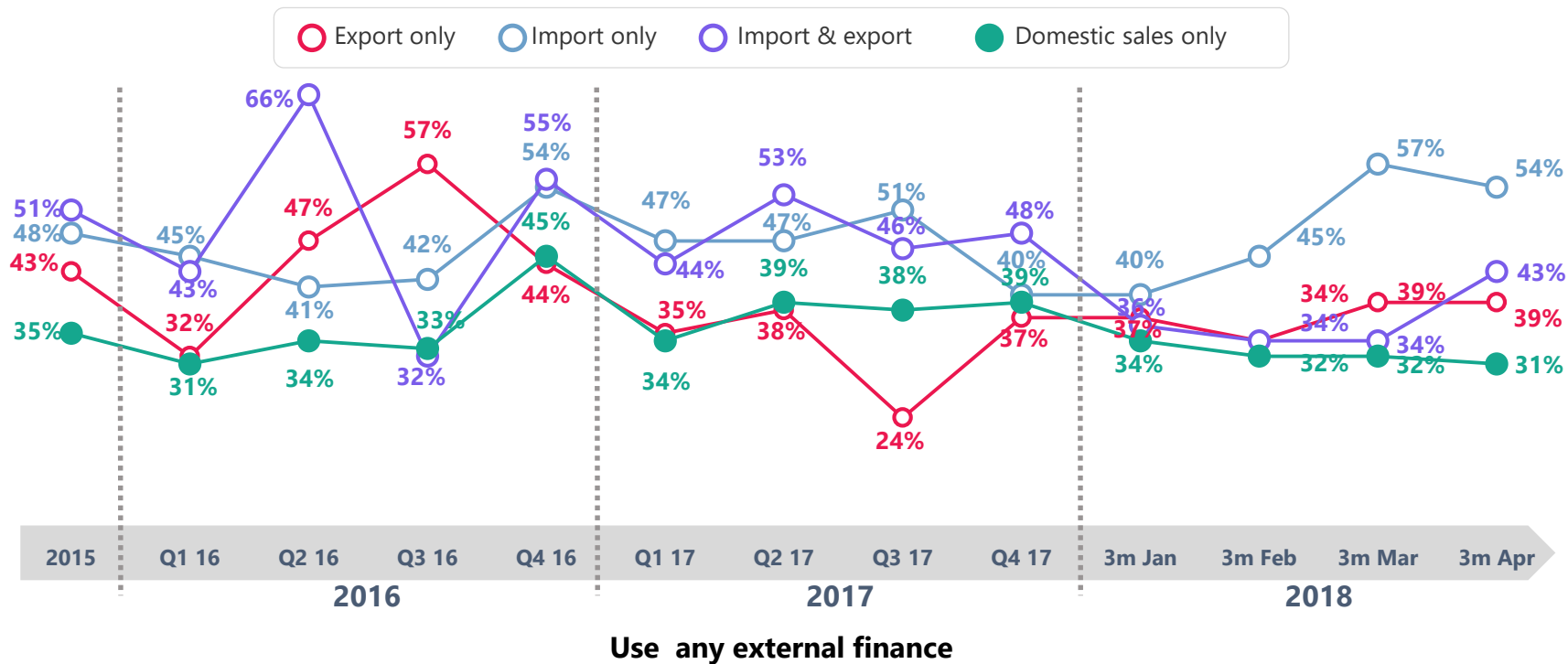
*Time series: use of external finance per quarter*



In 2017 as a whole, 38% of SMEs were using external finance, increasing by size of SME to 73% of those with 50-249 employees. Use of finance in 2018 has been somewhat lower with around a third of SMEs using finance. (33% in the current period). The decline since Q4 2017 has been seen across all sizes of SME with the exception in the most recent period of those with 50-249 employees.

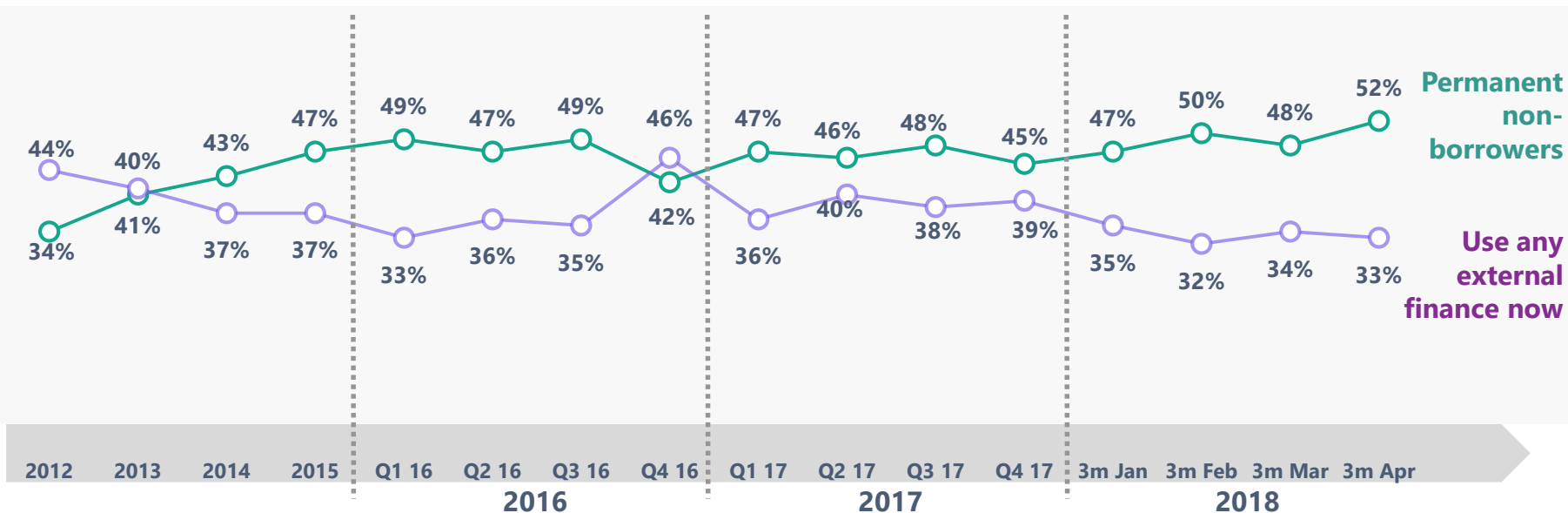
# Since the end of 2017, SMEs who only import have seen a sharp rise in their use of external finance

Time series: use of external finance by extent of international trade alongside domestic sales



# The proportion of “Permanent Non-Borrowers” has increased since the end of 2017 as fewer SMEs are using external finance

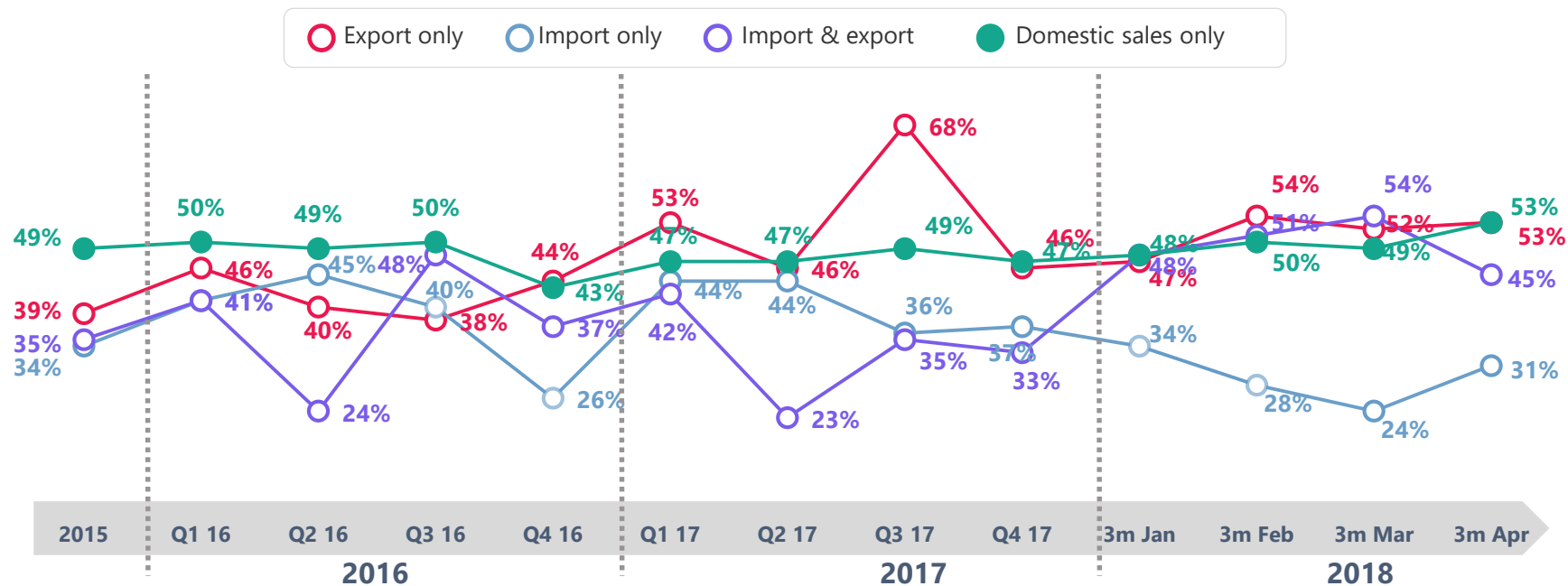
*Time series: Permanent non-borrowers and users of external finance*



The ‘Permanent non-borrowers’ are firms with no apparent appetite for finance and are defined by not using external finance and showing no inclination to do so. The 3 months to April figure of 52% is one of the highest seen to date, and the increase since 2017 (when 47% were PNBs) is due to more SMEs with 1-9 or 10-49 employees now meeting the definition, albeit the 0 employee SMEs remain the most likely to be a PNB (54%). The “gap” between the PNBs and those using external finance (as was seen for most of 2016 and 2017) has therefore widened.

# SMEs that only import (who are more likely to be using finance) remain less likely to be a permanent non-borrower

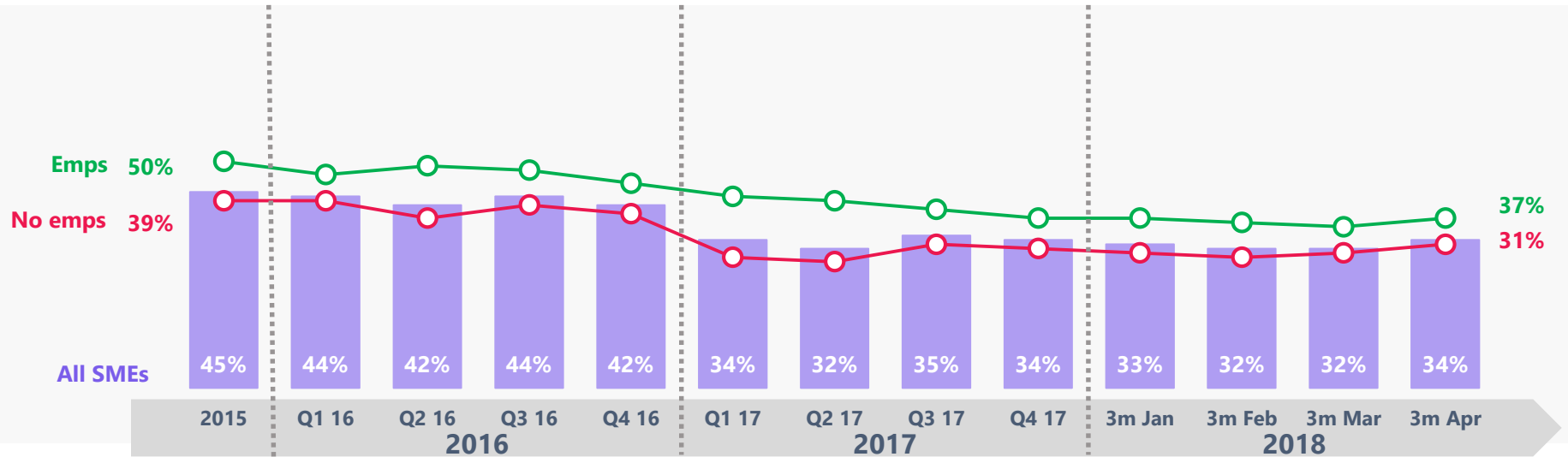
Time series: Permanent non-borrowers by extent of international trade alongside domestic sales



**Permanent non-borrowers  
(no apparent appetite for finance)**

# The proportion of SMEs 'willing to use finance to grow' has stabilised but remains at lower levels than were seen in 2016

*Time series: Agree that happy to use external finance to help business grow*

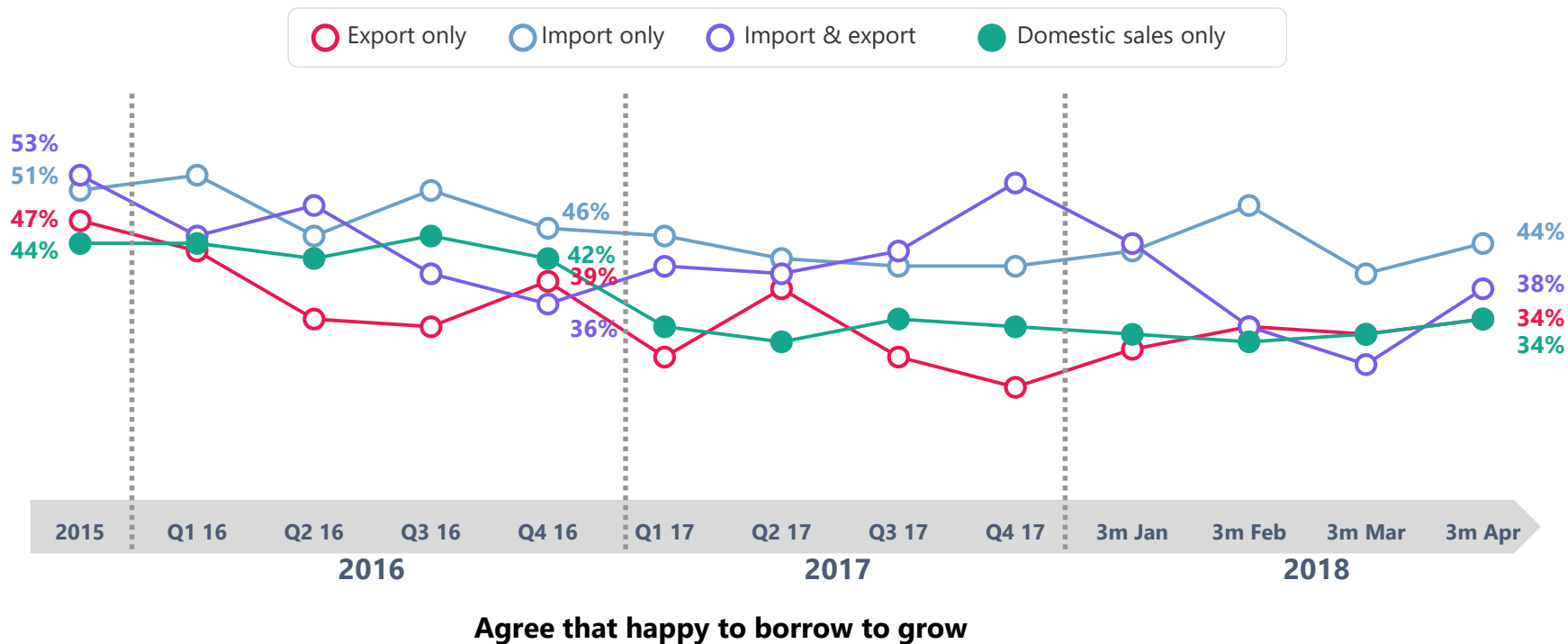


After remaining stable during 2016, the proportion of SMEs willing to use finance to grow was consistently lower from Q1 2017 onwards, with lower levels of agreement amongst both the 0 employee SMEs and those with employees.



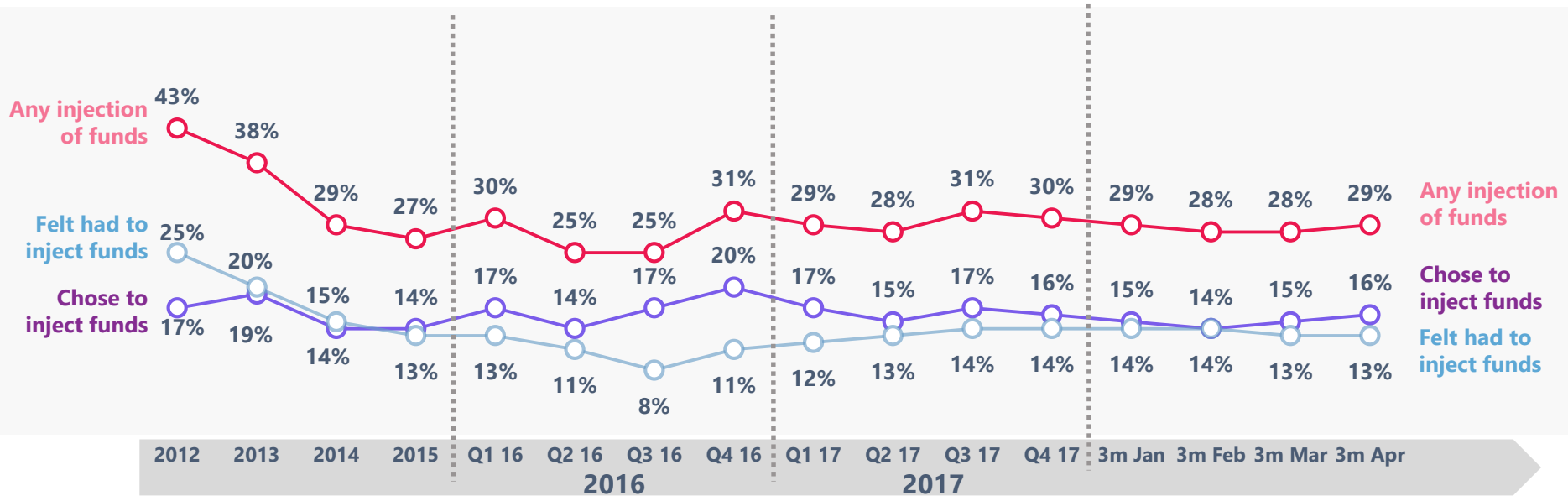
# Since the end of 2017, SMEs that both export and import have become less willing to borrow to grow

*Time series: happy to borrow to grow by international trade*



# A consistent 3 in 10 SMEs have injected personal funds since the start of 2017. SMEs were slightly more likely to have chosen to do so than to have felt that they had to.

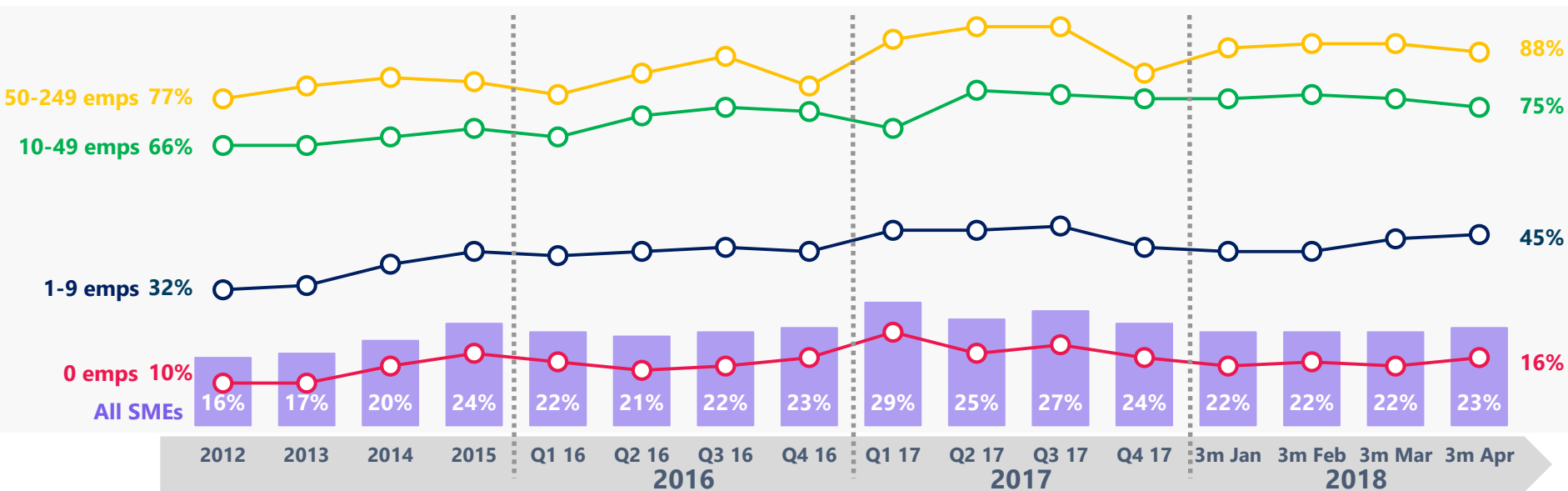
Time series: Injections of personal funds in previous 12 months



The proportion of SMEs injecting funds fell from a peak of 43% in 2012 to around a quarter of SMEs in mid-2016. Since the start of 2017 around 3 in 10 have reported an injection of funds – in the 3 months to April SMEs were slightly more likely to have chosen to inject funds than to have felt forced to

# The proportion of SMEs holding more than £10,000 of credit balances is stable but slightly lower than was seen during 2017.

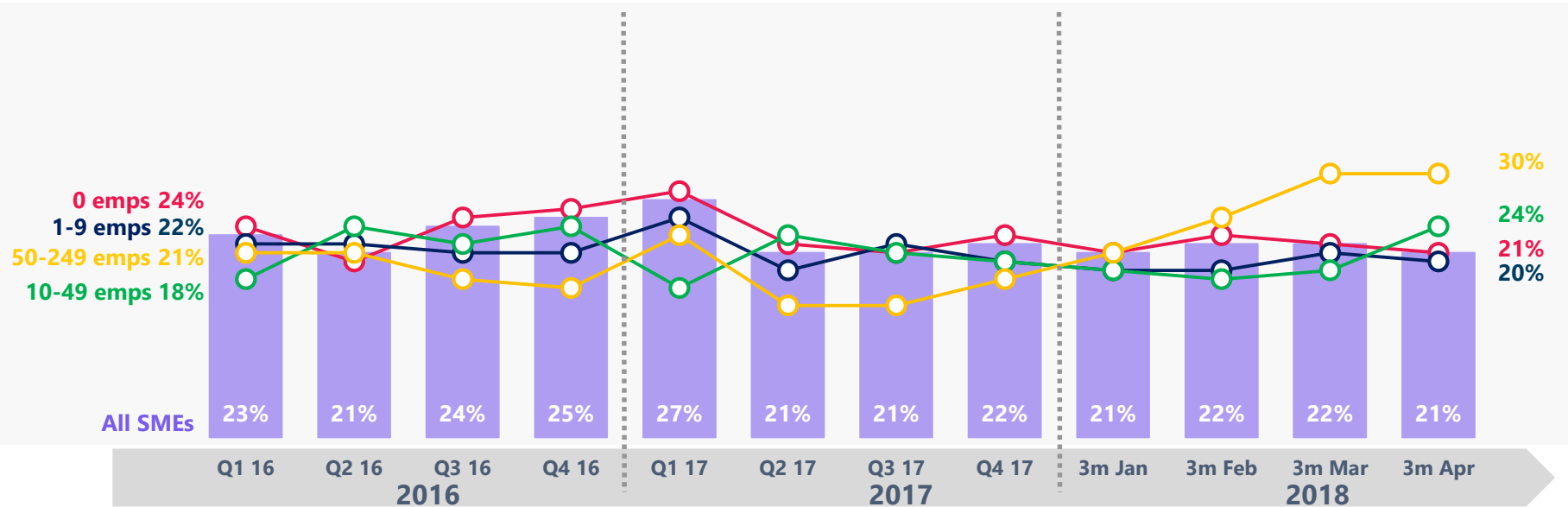
Time series: £10k credit balances held



In 2015, 24% of SMEs held £10,000 or more in credit balances. In 2016, 22% held such sums with little change overall during the year, increasing to 25% in 2017 as a whole. Initial data into 2018 suggests a somewhat lower percentage, more in line with 2016 with 0 employee SMEs slightly less likely to hold such balances (18% in 2017, 16% in the current period).

# On average SMEs held the equivalent of a fifth of their turnover as credit balances.

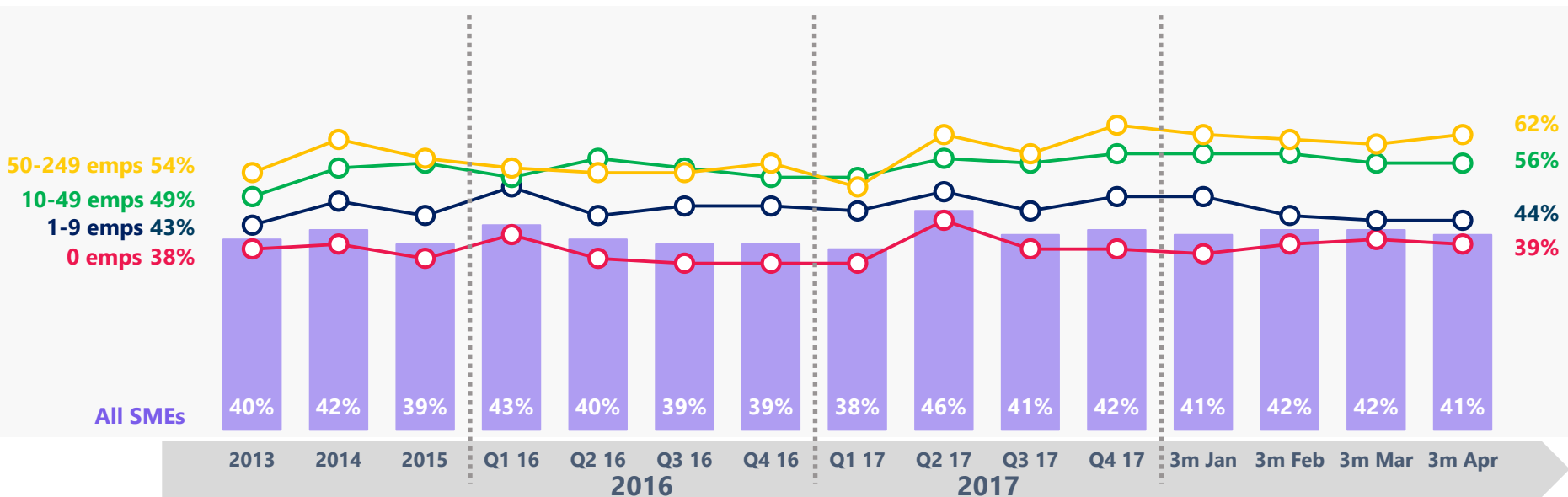
*Time series: % of turnover held as credit balances*



New analysis looks at credit balances held as a percentage of total turnover (both collected in bands, with mid-points used). For the 3 months to April 2018, SMEs held 21% of their turnover in credit balances on average, little changed over recent periods. Since Q2 2017, credit balances as a proportion of turnover attributed to SMEs with 50-259 employees has increased from 15% to 30%, the highest level seen to date for this size band.

# The proportion of SMEs reporting growth is currently stable overall, but for those with 1-9 employees is somewhat lower than in 2017

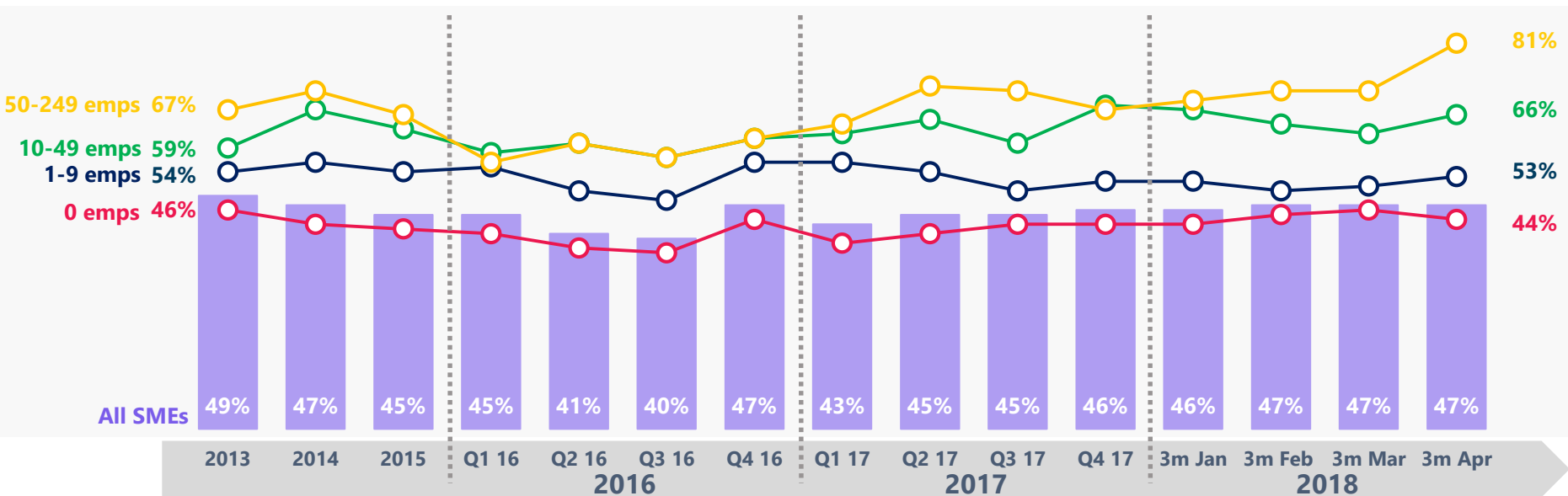
Time series: Have grown (excluding Starts)



Since 2012, the proportion of SMEs (excluding Starts) reporting growth has varied little over time. It was 40% for 2016 as a whole and 42% for 2017. The current overall figures are in line with 2017.

# Growth ambitions have been stable overall since Q4 2017. The largest SMEs are more likely to be planning to grow than they were in 2016.

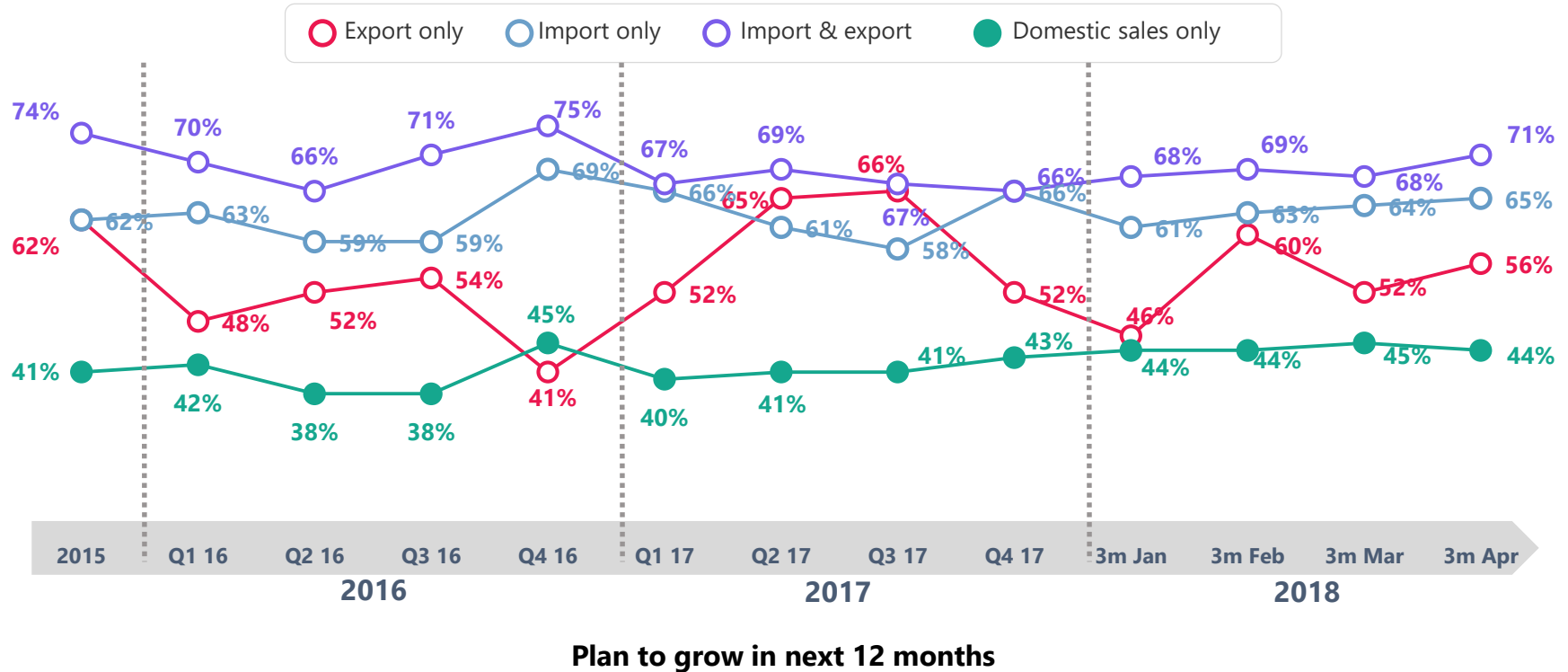
Time series: Have plans to grow



For 2016 as a whole, 43% of SMEs planned to grow, continuing the slight decline seen since 2013, but there was no further decline in 2017 (45% for the year as a whole) . The 3 months to April figure of 47% remains consistent with Q4 2017, but with increased ambition for those with 50-249 employees (from 64% to 81%).

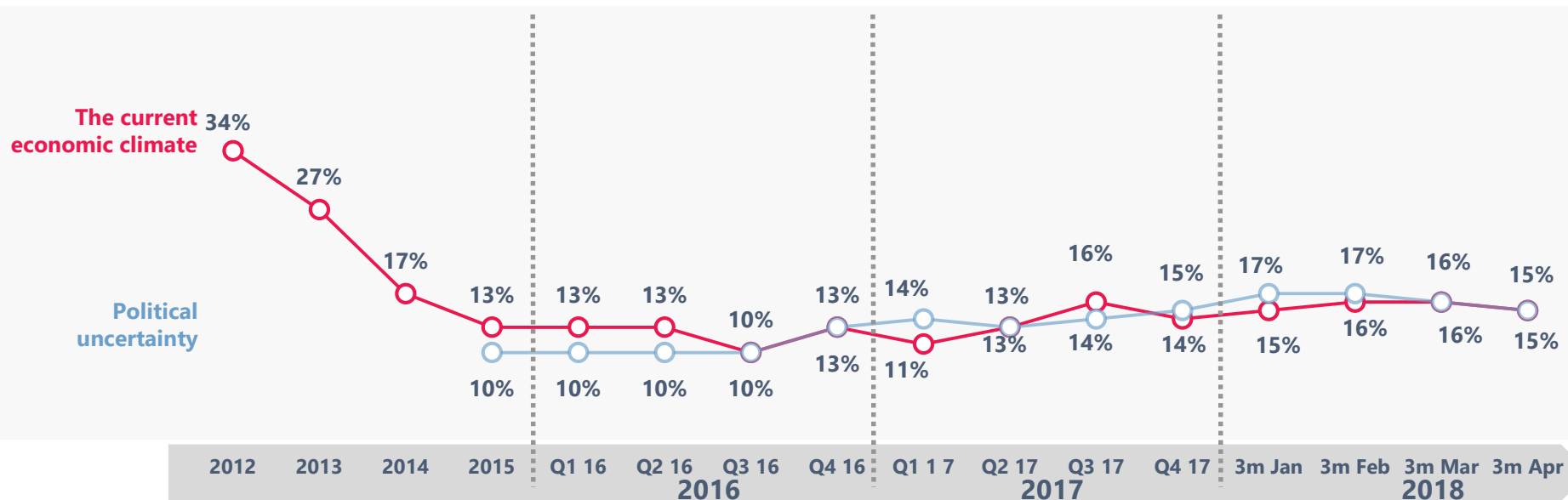
# The growth ambitions of international SMEs are higher than domestic SMEs. Export only SMEs have seen more variation in ambition over time than their international peers

Time series: Growth plans by extent of international trade alongside domestic sales



# Levels of concern around the current economic climate and political uncertainty remain stable in 2018, but are somewhat higher than they were at the start of 2017

Time series: 8-10 Major obstacle to running business in next 12 months

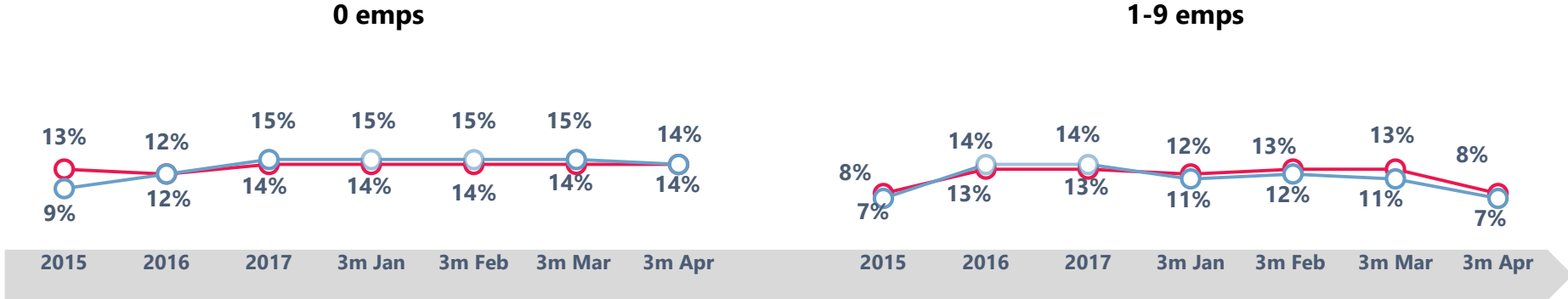
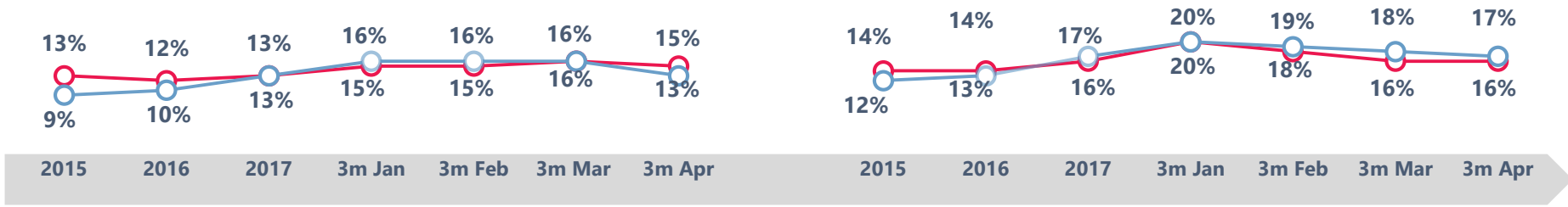


During 2017, concerns about political uncertainty remained fairly stable (13-15%) at a slightly higher level than in 2016 and increased again in early 2018. Concerns about the economic climate increased in 2017 from 11% in Q1 to 16% in Q3 and have been broadly stable since.



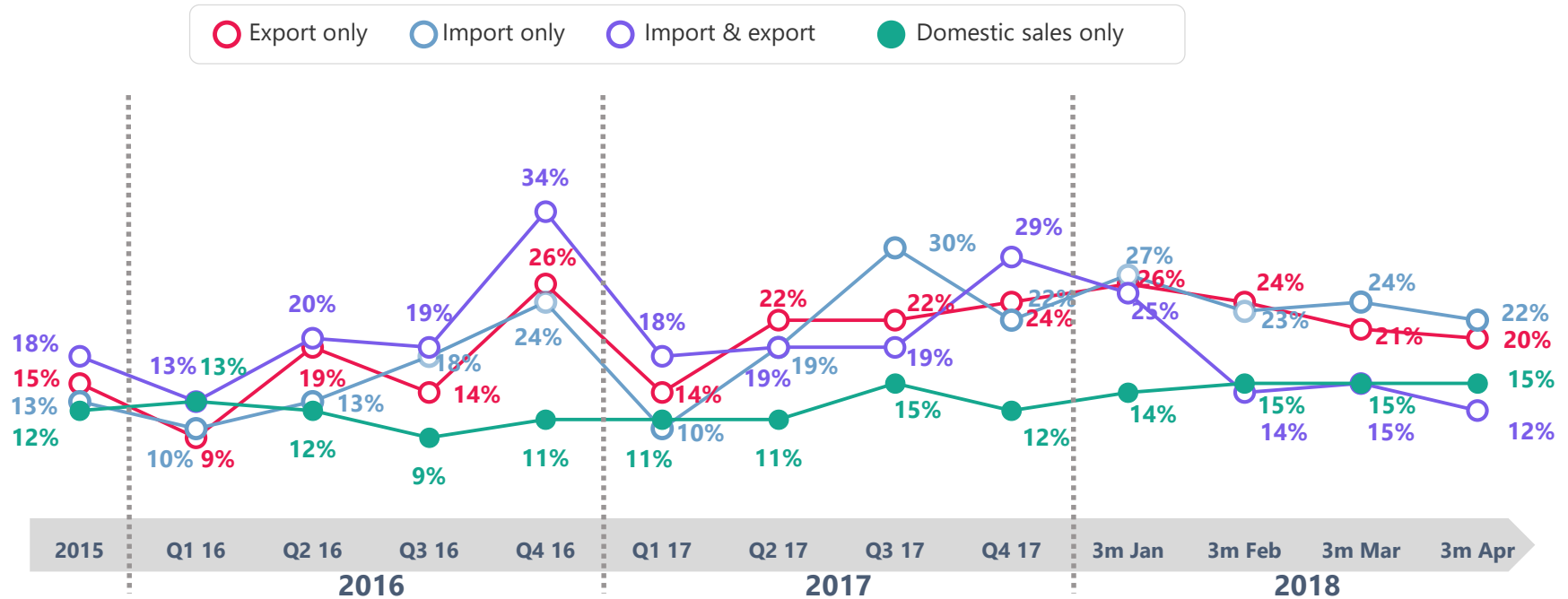
# SMEs with 1-9 employees remain more concerned about the economic climate and political uncertainty (and less likely to have grown); larger SMEs' concerns may be abating

Time series: % Rating 'The economic climate' and 'Political uncertainty/govt policy' 8-10 a major obstacle for next 12 months



# International SMEs have shown more variable levels of concern about the economic climate than domestic SMEs, but the “gap” between them has narrowed in 2018

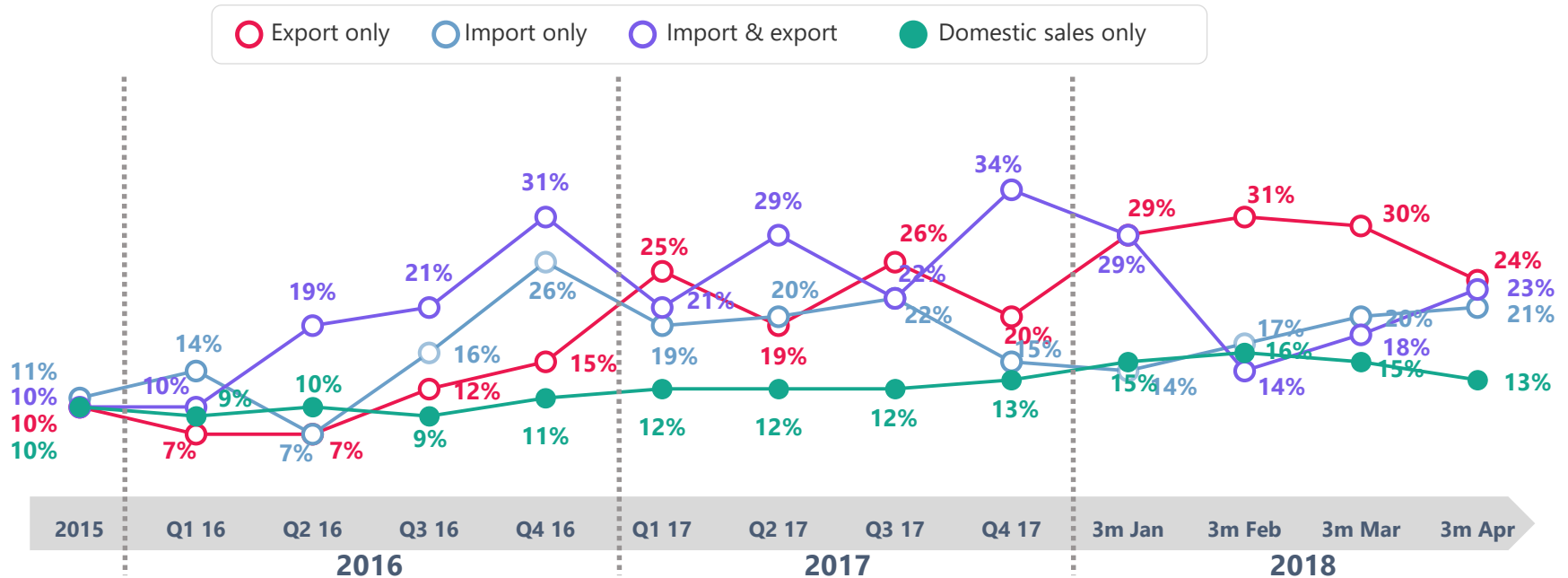
Time series: 8-10 economic climate by extent of international trade alongside domestic sales



**Rating the current economic climate a major obstacle (8-10)**

# International SMEs are once again more concerned about political uncertainty than domestic SMEs

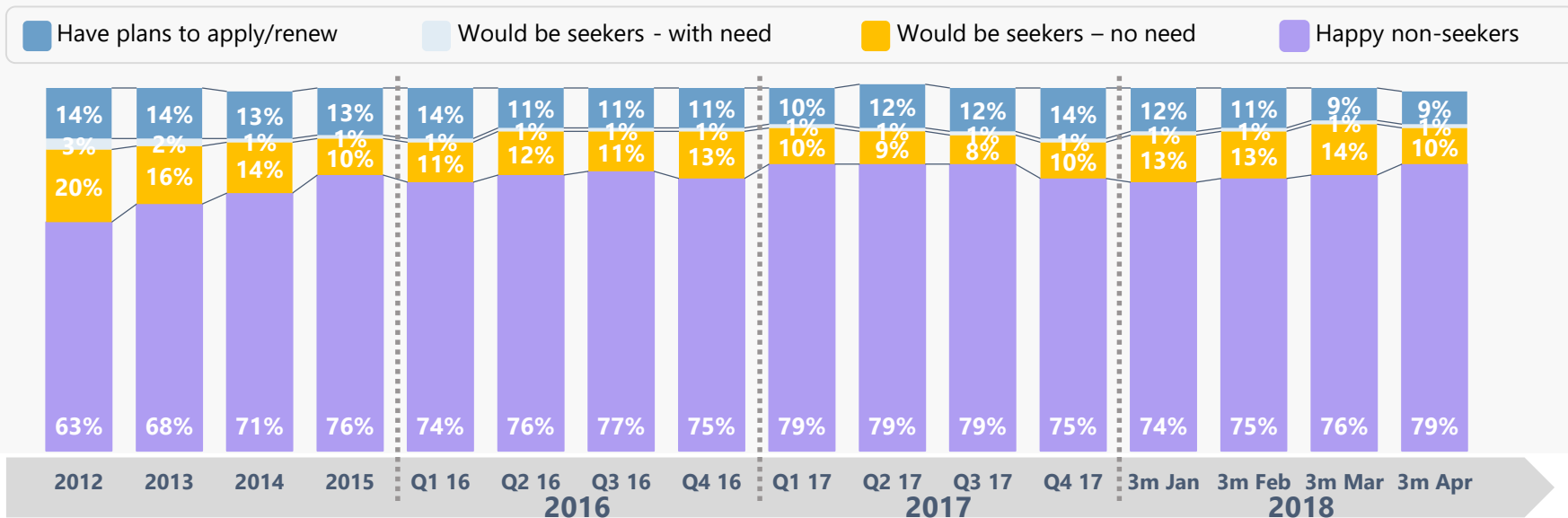
Time series: 8-10 political uncertainty by extent of international trade alongside domestic sales



Rating political uncertainty a major obstacle (8-10)

# Most SMEs are 'Future happy non-seekers'. Potential appetite for finance has returned to levels seen in the first half of 2017, as appetite for finance declines somewhat

Time series: Anticipated borrowing profile for next 3 months after ...

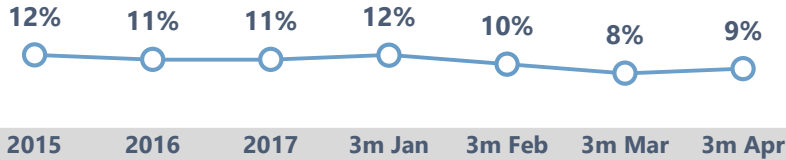


Each quarter, the majority of SMEs have expected to be “Future happy non-seekers” of finance. The proportion of HNS has increased over time, conversely, the proportion of “Future would-be seekers” who could see a barrier that would stop them applying for finance, reached a low around Q3 2017 of 9% and has since risen somewhat. The proportion of SMEs with any *potential* appetite for finance (planning to apply or a future “would-be seeker”) rose steadily over the last year, to 24% in Q1 2018 but is somewhat lower in the current period (20%)

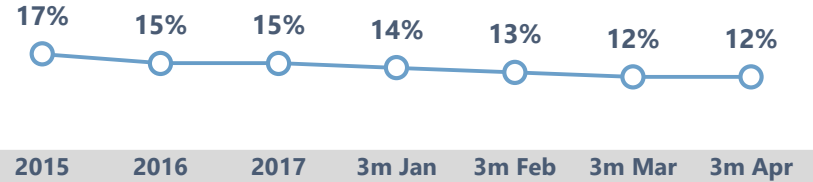
# Future appetite for finance has declined since 2017, falling to below 2015 levels for all SMEs and more sharply for those with 1-9 or 10-49 employees

Time series: % planning to apply

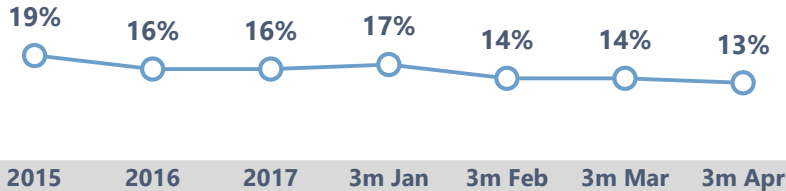
○ Plan to apply



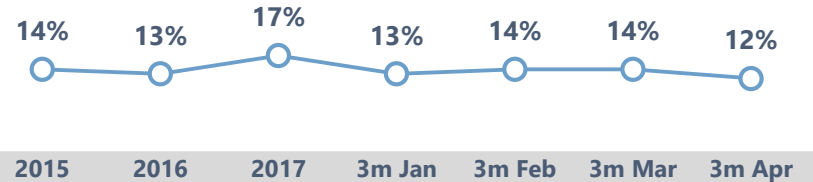
0 emps



1-9 emps



10-49 emps

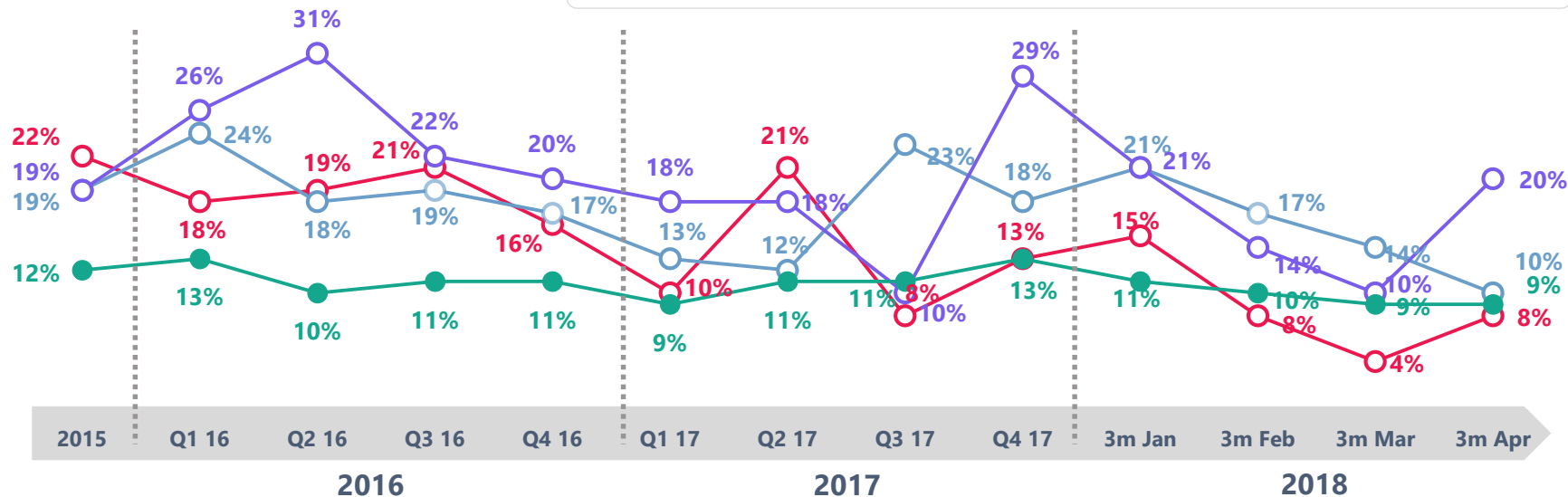
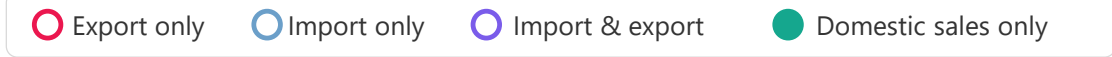


50-249 emps

# Appetite for external finance declined sharply amongst international SMEs in early 2018, but has increased in the current period for SMEs that import and export

Time series: plan to apply for finance by extent of international trade alongside domestic sales

## Plan to apply for external finance

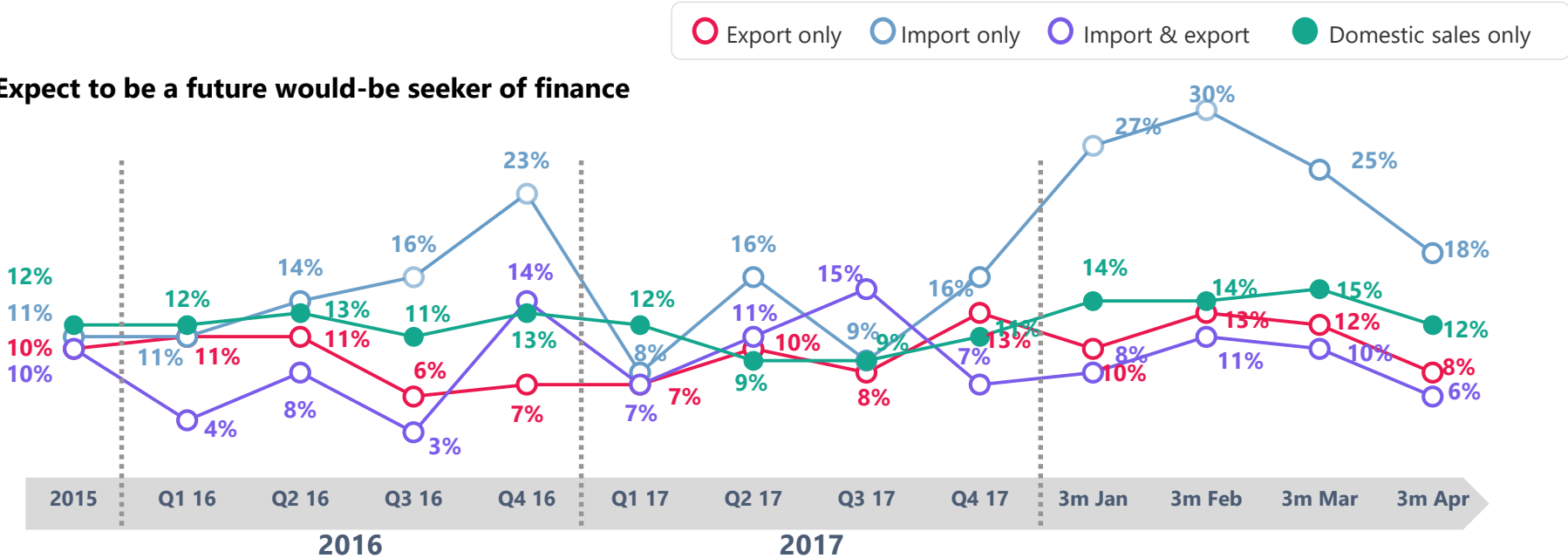


Appetite for finance amongst those that both import and export has varied over time. It fell sharply from the recent peak of 29% in the 3 months to December 2017 but is currently back to 20%.

# Those who only import remain more likely to be a future 'would be seeker' of finance as the proportion of this group planning to apply\* declines

Time series: future would be seekers by extent of international trade alongside domestic sales

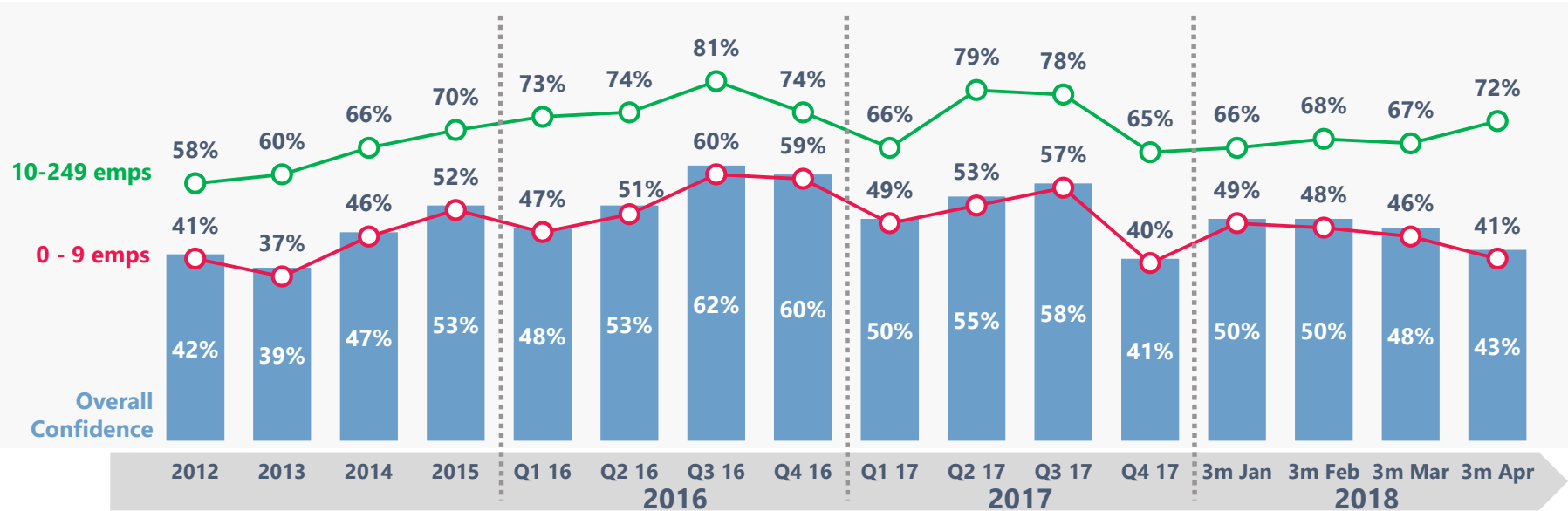
## Expect to be a future would-be seeker of finance



Would-be seekers of finance are those who can see a barrier to them making an application for loan or overdraft finance in future, such as the current economic climate or a belief that they would not be successful if they applied. Those who only import are once again more likely to expect to be a would-be seeker of finance, replicating a pattern seen at the end of 2016. \* See previous slide, for planning to apply

# Confidence amongst SMEs planning to apply for bank finance has been volatile since the end of 2017, due to declining confidence amongst potential applicants with 0-9 employees

Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by size

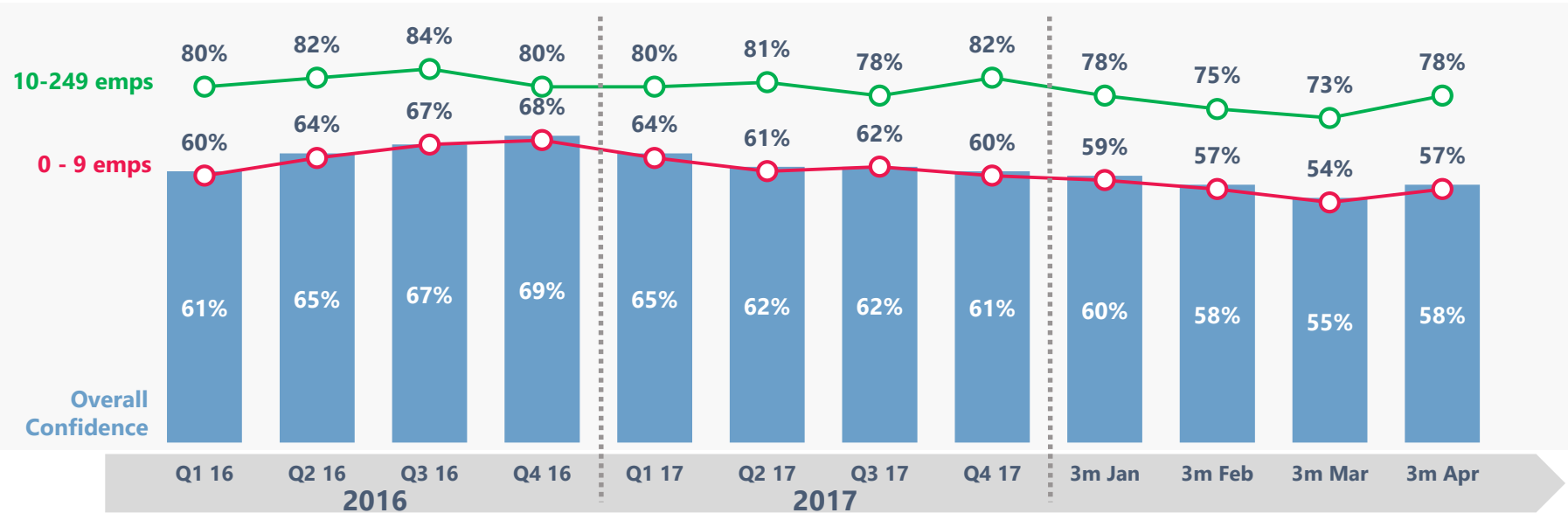


During 2017 confidence was somewhat lower and more volatile (it was 50% for the year as a whole compared to 55% in 2016). Increased confidence amongst potential applicants with 0-9 employees saw overall confidence for the 3 months to January return to levels seen at the start of 2017 but the confidence amongst these smaller potential applicants has declined again since.



# Confidence for hypothetical applicants has stabilised but remains somewhat lower than in 2017

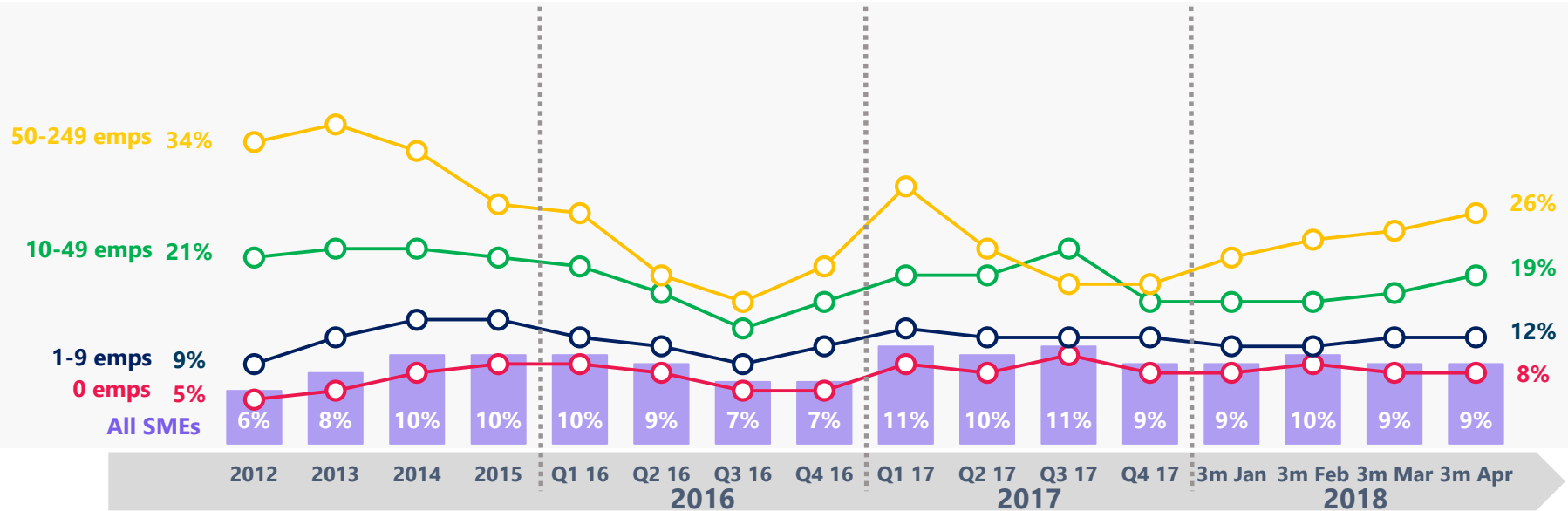
Time series: Confidence (very/fairly) bank would agree to facility next 3 months – by size



Almost 6 in 10 (58%) of those with **no plans** to apply to a bank for finance are confident of a hypothetical success. Larger hypothetical applicants remain somewhat more confident than smaller ones, and their confidence has increased to 78% in the latest period after previous declines. Confidence amongst smaller hypothetical applicants has also stabilised at 57%. Hypothetical applicants remain somewhat more confident than those planning to apply (see previous slide for those *with* plans) that the bank would say yes.

# The proportion of SMEs that export has been broadly stable since the start of 2017, but is increasing amongst larger SMEs

Time series: Exporters



The proportion of exporters increased from 6% in 2012 to 10% in 2014 and 2015. In 2016, the proportion exporting was slightly lower (8%), but was back to 10% for 2017. It is 9% in the current 3 month period.

## Quality Standards and Other Details

BDRC is certified to ISO 20252 and 27001, the recognised international quality standards for market research and information security.

- Adherence to the standard is independently audited once per year.
- Where subcontractors are used by BDRC, they are assessed to ensure any outsourced parts of the research are conducted in adherence to ISO 20252 and 27001.

All work will be carried out in conformity to these standards, the MRS Code of Conduct, and all relevant legal requirements



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