

## 6. Financial context – how are SMEs funding themselves? (Part 2)



### **This chapter provides**

an overview of other aspects of external finance – trade credit, Permanent non-Borrowers and attitudes to using finance.



## Key findings

SMEs remain self-reliant, with some concerns about the future and their ability to get finance. In H1 2018:

- 79% agreed their plans were based on what they could afford themselves, and this has been stable over time. 73% agreed that they were willing to grow more slowly rather than borrow to grow more quickly.
- Half of SMEs (51%) agreed that they were being more cautious because the future felt uncertain, with relatively little variation by size.
- More variation was seen for the 38% of all SMEs that felt it was difficult for businesses like theirs to get finance (40% of those with 0 employees falling to 18% of those with 50-249 employees).
- A third of SMEs, 33%, were happy to borrow to grow. This proportion has declined from 45% in 2015 to 33% H1 2018 and across all size bands with the exception of those with 50-249 employees. Half of SMEs were neither using external finance nor happy to do so in future.
- SMEs already using finance were more likely to be happy to borrow to grow (46%) and prepared to take risks to succeed (51%) but were also feeling more uncertain about the future (59%) and that it would be difficult for them to get (more) finance (47%).

Almost half of SMEs (48% YEQ2 2018) met the definition of a 'Permanent non-borrower' of finance who was not using external finance and showed no inclination to do so.

- Smaller SMEs remained more likely to meet the definition (51% of those with 0 employees to 21% of those with 50-249 employees).
- PNBs were as likely to be profitable and to hold £10,000 or more in credit balances as non-PNBs. They were though less likely to be innovative (29% v 34% of non-PNBs) or to be planning to grow (41% v 54%).



- The proportion of PNBs increased steadily from 34% in 2012 to 47% in 2015 and has been stable since, albeit marginally higher in H1 2018 (49%).
- Excluding the PNBs increased the use of external finance amongst remaining SMEs to 67% in H1 2018, slightly lower than the 72% in 2017.

The proportion of SMEs receiving trade credit has increased slightly over time (from 31% in 2014 to 36% in H1 2018) and across all sizes of SME.

- Larger SMEs remained more likely to be using trade credit (73% of those with 50-249 employees compared to 31% of those with 0 employees).
- Larger SMEs were also somewhat more likely to say that using trade credit reduced their need for finance (81% of those using trade credit compared to 67% of 0 employee SMEs receiving trade credit).
- Adding trade credit and injections of personal funds to use of external finance increases the proportion of SMEs using 'business funding' from 34% to 65% in H1 2018, with the biggest uplift still amongst the smaller SMEs (33% to 61% for those with 0 employees).



## Use of trade credit

35% of SMEs regularly purchased products or services from other businesses on credit (YEQ2 2018). As previously seen, use of trade credit increased by size of SME:

- 30% of those with 0 employees regularly purchased on credit
- 49% of those with 1-9 employees
- 63% of those with 10-49 employees
- 70% of those with 50-249 employees.

Those using external finance (loans, overdrafts etc) remained more likely to also be using trade credit (49%) than those who were not using any external finance (27%).

As the table below shows, overall use of trade credit has increased slightly over time (31% to 36%). In H1 2018, larger SMEs were more likely to report using trade credit than previously, with almost three quarters of those with 50-249 employees now using trade credit, compared to 6 in 10 previously:

<b>Currently use trade credit</b>					
Over time – all SMEs					H1
By date of interview – row percentages	2014	2015	2016	2017	2018
All	31%	33%	33%	35%	36%
0 emp	26%	28%	28%	29%	31%
1-9 emps	45%	47%	45%	49%	48%
10-49 emps	58%	61%	59%	64%	63%
50-249 emps	58%	60%	59%	69%	73%

51% of SMEs with employees used trade credit in H1 2018, in line with 2017 (52%).



SMEs that received trade credit were asked whether this meant that they had a reduced need for other forms of external finance. 7 in 10 of them did (with limited variation by size of SME) and this is the equivalent of 24% of all SMEs needing less external finance, as the table below shows:

<b>Impact of <u>receiving</u> trade credit</b>		0	1-9	10-49	50-249
YEQ2 18 – all SMEs	Total	emp	emps	emps	emps
<i>Unweighted base:</i>	<b>18,005</b>	<b>3603</b>	<b>5802</b>	<b>5800</b>	<b>2800</b>
<b>Receive trade credit</b>	<b>35%</b>	<b>30%</b>	<b>49%</b>	<b>63%</b>	<b>70%</b>
<i>Have less of a need for external finance</i>	24%	20%	34%	47%	57%
<i>Do not have less of a need for external finance</i>	9%	8%	12%	13%	10%
<i>Not sure</i>	2%	2%	3%	3%	3%
<b>Do not receive trade credit</b>	<b>65%</b>	<b>70%</b>	<b>51%</b>	<b>37%</b>	<b>30%</b>
<i>% of those with TC where it reduces need</i>	<b>69%</b>	<b>67%</b>	<b>69%</b>	<b>75%</b>	<b>81%</b>

Q14y/y4 All SMEs

The proportion of Trade Credit users reporting that it reduced their need for external finance increased from 65% in H2 2014 when the question was first asked, to 69% for both 2017 and YEQ2 2018. This was due to an increased proportion of smaller SMEs saying that Trade Credit reduced their need for external finance. Larger SMEs using trade credit remained more

likely to say that it reduced their need for external finance (81%).

YEQ2 2018, SMEs using external finance (who were more likely to be using trade credit at all) remained more likely to say that they had less of a need for external finance as a result of that trade credit (36%) than those not using external finance (18%) or SMEs overall (24%).

Where available, having £10,000 or more in credit balances was slightly more likely to reduce the need for finance (80%) than having access to trade credit (69% - of a different group of SMEs). Overall, 31% of SMEs in H1 2018 said that their need for finance was reduced either through credit balances or trade credit.



SMEs with a minimal or low external risk rating remained more likely to receive trade credit. Across all risk ratings, around 7 in 10 of those receiving trade credit went on to say that it reduced their need for external finance and this has changed little over time:

<b>Impact of receiving trade credit</b>						
YEQ2 18 – all SMEs		Total	Min	Low	Avg	Worse /Avg
<b>Unweighted base:</b>		<b>18,005</b>	<b>3071</b>	<b>5419</b>	<b>4130</b>	<b>4086</b>
<b>Receive trade credit</b>		<b>35%</b>	<b>48%</b>	<b>47%</b>	<b>36%</b>	<b>30%</b>
<i>Have less of a need for external finance</i>		24%	33%	31%	25%	20%
<i>Do not have less of a need for external finance</i>		9%	12%	12%	9%	8%
<i>Not sure</i>		2%	3%	3%	1%	2%
<b>Do not receive trade credit</b>		<b>65%</b>	<b>52%</b>	<b>53%</b>	<b>64%</b>	<b>70%</b>
<i>% of those with TC where it reduces need</i>		69%	69%	66%	69%	67%

Q14y/y4 All SMEs

Older SMEs remained more likely to be receiving trade credit. The proportion of trade credit users saying it reduced their need for finance varied relatively little by age, with the slight exception of those trading for 10-15 years (64% compared to 7 in 10 for other age bands):

<b>Impact of receiving trade credit</b>			2-5	6-9	10-15	15
YEQ2 18 – all SMEs		Starts	yrs	yrs	yrs	yrs+
<b>Unweighted base:</b>		<b>1828</b>	<b>1736</b>	<b>2078</b>	<b>3077</b>	<b>9286</b>
<b>Receive trade credit</b>		<b>29%</b>	<b>28%</b>	<b>33%</b>	<b>36%</b>	<b>43%</b>
<i>Have less of a need for external finance</i>		20%	20%	24%	23%	29%
<i>Do not have less of a need for external finance</i>		9%	6%	7%	11%	11%
<i>Not sure</i>		1%	2%	1%	2%	3%
<b>Do not receive trade credit</b>		<b>71%</b>	<b>72%</b>	<b>67%</b>	<b>64%</b>	<b>57%</b>
<i>% of those with TC where it reduces need</i>		69%	71%	73%	64%	67%

Q14y/y4 All SMEs



SMEs in the Wholesale Retail sector were the most likely to receive trade credit (54%). Amongst those receiving trade credit, those in Health were the most likely to say that it reduced their need for finance (74%) and those in Transport the least likely (62%):

### Trade credit in last 12 months

YEQ2 18 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<i>Unweighted base:</i>	1200	1500	3200	1800	1200	2003	3600	1502	2000
Receive TC	38%	48%	45%	54%	41%	26%	27%	27%	28%
<i>Have less of a need for external finance</i>	25%	33%	33%	39%	27%	16%	18%	20%	19%
<i>Do not have less of a need for external finance</i>	12%	12%	10%	13%	11%	8%	8%	6%	8%
Not sure	2%	3%	2%	2%	3%	2%	2%	1%	1%
Do not receive TC	62%	52%	55%	46%	59%	74%	73%	73%	72%
<i>% where TC reduces need</i>	66%	69%	73%	72%	66%	62%	67%	74%	68%

Q14y/y4 All SMEs



## A wider definition of ‘Total business funding’

The questions on trade credit and injections of personal funds allow for an analysis of the use of ‘total business funding’ by SMEs in a wider sense, i.e. including not only external finance but trade credit and injections of personal funds. Note that the amount of trade credit received was not recorded, and that when last asked, the typical injection of personal funds was for a relatively small amount (often less than £5,000).

For YEQ2 2018:

- 36% of SMEs were using **external finance** as defined in the previous chapter (i.e. loans, overdrafts, invoice finance etc).
- An additional 17% of SMEs were not using external finance but were receiving **trade credit**.
- And finally, a further 11% of SMEs were using neither external finance, nor trade credit, but had seen an **injection of personal funds** into the business (also defined in the previous chapter).

Widening the definition of external funding to include not only finance but also trade credit and personal funds thus increased the proportion of SMEs using business funding from 36% to 64%.

Analysis by year shows that this changed little over the period for which this data is available, albeit the 2017 and H1 2018 figures of 65% were the highest seen to date:

<b>Use of business funding</b>					H1
Over time – all SMEs	2014	2015	2016	2017	2018
<i>Unweighted base:</i>	<b>20,055</b>	<b>20,046</b>	<b>18,000</b>	<b>18,012</b>	<b>9000</b>
Use external finance	37%	37%	37%	38%	34%
Do not use finance but do use trade credit	15%	16%	15%	16%	19%
Do not use the above but injected personal funds	12%	11%	11%	11%	11%
<b>Total business funding</b>	<b>63%</b>	<b>64%</b>	<b>63%</b>	<b>65%</b>	<b>65%</b>

All SMEs



Looking specifically at YEQ2 2018 in more detail, there continued to be a bigger ‘uplift’ amongst smaller SMEs when this wider business funding definition was applied, from 33% to 61% for those with 0 employees and from 44% to 74% for those with 1-9 employees:

<b>Wider definition of business funding</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
YEQ2 18 – all SMEs	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>18,005</b>	<b>3603</b>	<b>5802</b>	<b>5800</b>	<b>2800</b>
Use external finance	36%	33%	44%	60%	74%
Do not use finance but do use trade credit	17%	16%	23%	21%	14%
Do not use the above but injected personal funds	11%	12%	7%	2%	1%
<b>Total business funding</b>	<b>64%</b>	<b>61%</b>	<b>74%</b>	<b>82%</b>	<b>89%</b>

Q14y/y4 All SMEs

Analysis by other demographics showed that:

- SMEs with a minimal (69%) or low (67%) risk rating were somewhat more likely to be using business funding than their peers with an average (62%) or worse than average (65%) rating
- Starts were somewhat more likely to be using business funding than older SMEs (77% v 57-64%).
- The proportion using business funding varied from 56% of those in Property/Business Services to 78% of those in Wholesale/Retail, with the rest in the range 60-72%.



## The non-borrowing SME

As the previous chapter reported, a third of SMEs (36% YEQ2 2018) used external finance. Other data from this report allows for identification of those SMEs who seem firmly disinclined to borrow, defined as those that met **all** of the following conditions:

- Are not currently using external finance
- Have not used external finance in the past 5 years
- Have had no borrowing events in the past 12 months
- Have not applied for any other forms of finance in the last 12 months
- Reported no inclination to borrow in the past 12 months or next 3 months.

From Q1 2018 the questions used to identify these SMEs have changed slightly but the sentiment behind them remains the same as in previous waves.

These **Permanent non-borrowers** made up 48% of SMEs (YEQ2 2018), and remained more likely to be found amongst the smaller SMEs, although not exclusively so (amongst SMEs with employees, 40% met the definition of a Permanent non-borrower):

- 51% of 0 employee SMEs met this non-borrowing definition
- 42% of 1-9 employee SMEs
- 31% of 10-49 employee SMEs
- 21% of 50-249 employee SMEs.

Half of SMEs in Property/Business Services (54%) sectors met the definition of a Permanent non-borrower, compared to 39% of those in Health and 40% of those in Agriculture. Starts were somewhat less likely to meet the definition (37%) than older SMEs (49-52%) but there was little difference by external risk rating (46-48%).

Those using a personal account for their business banking (55%) were also somewhat more likely to meet the definition. This means that the equivalent of 8% of all SMEs were Permanent non-borrowers who used a personal bank account.



With the exception of Q4 2016 (when more SMEs reported using external finance), the proportion of PNBs has changed relatively little since the start of 2016, as the table below shows:

<b>Permanent non-borrowers</b>									
Over time – all SMEs Row percentages	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
<i>All SMEs</i>	47%	50%	41%	47%	46%	48%	45%	49%	49%
0 employee	52%	52%	43%	51%	50%	52%	49%	50%	51%
1-9 employees	34%	42%	36%	37%	35%	40%	37%	46%	46%
10-49 employees	28%	36%	28%	27%	28%	29%	24%	35%	36%
50-249 employees	24%	28%	25%	22%	17%	22%	25%	26%	12%

As the table below shows, if these PNBs were excluded from the ‘use of external finance’ table reported in the previous chapter, the proportion using external finance would increase to 67% of the remaining SMEs in H1 2018, somewhat lower than the 72% reported for 2017:

<b>Use of external finance over time</b>							
Over time – all SMEs excl PNBs	2012	2013	2014	2015	2016	2017	H1 2018
Use any external finance	66%	68%	65%	70%	70%	72%	67%
• <i>Use core finance</i>	54%	53%	51%	55%	57%	57%	58%
• <i>Use other forms of finance</i>	27%	29%	30%	32%	31%	33%	22%
Do not use external finance	34%	32%	35%	30%	30%	28%	33%



The table below looks at the longer term changes in the proportion of SMEs meeting the definition of a PNB by key business demographics. Between 2012 and 2015 the proportion of PNBs increased from a third (34%) to almost a half of all SMEs (47% in 2015) and has been stable since:

<b>Permanent non-borrowers</b>							
Over time – all SMEs							H1
Row percentages	2012	2013	2014	2015	2016	2017	2018
All	34%	40%	43%	47%	47%	47%	49%
0 emp	37%	44%	48%	51%	50%	51%	51%
1-9 emps	25%	28%	33%	36%	38%	37%	46%
10-49 emps	18%	22%	26%	29%	30%	27%	35%
50-249 emps	15%	17%	26%	28%	26%	22%	19%
Minimal external risk rating	31%	37%	41%	41%	42%	42%	47%
Low	29%	35%	44%	38%	43%	42%	51%
Average	36%	40%	45%	45%	46%	49%	47%
Worse than average	34%	40%	43%	51%	48%	47%	49%
Agriculture	26%	37%	40%	41%	40%	37%	42%
Manufacturing	32%	41%	42%	43%	45%	42%	52%
Construction	33%	41%	45%	52%	45%	48%	51%
Wholesale/Retail	26%	32%	34%	38%	40%	39%	48%
Hotels & Restaurants	28%	33%	39%	40%	43%	41%	48%
Transport	29%	33%	40%	44%	45%	42%	46%
Property/ Business Services	38%	43%	46%	48%	51%	52%	54%
Health	47%	52%	54%	51%	56%	48%	35%
Other	37%	38%	46%	47%	45%	50%	47%

All SMEs



The proportions of SMEs that used finance or that met the definition of a PNB have varied over time. As the table below shows, those with 0 employees have followed a quite different pattern to those with employees:

<b>Use of external finance and PNBs</b>							
Over time							H1
Row percentages	2012	2013	2014	2015	2016	2017	2018
0 employees:							
• Use external finance	38%	35%	32%	32%	33%	34%	31%
• Permanent non-borrower	37%	44%	48%	51%	50%	51%	51%
• 'Gap' finance to PNB	-1	+9	+16	+19	+17	+17	+20
All with employees							
• Use external finance	59%	57%	51%	51%	49%	52%	43%
• Permanent non-borrower	24%	27%	32%	35%	37%	35%	43%
• 'Gap' finance to PNB	-35	-30	-19	-16	-12	-17	0

#### All SMEs

In 2012, as many 0 employee SMEs were using external finance as met the definition of a PNB. Between 2012 and 2015, use of external finance decreased and the proportion qualifying as PNBs increased, until there was a 19 percentage point difference between them in 2015 (32% v 51%). This 'gap' has varied relatively little since (currently 20 percentage points).

By contrast, in 2012 SMEs with employees were twice as likely to be using external finance (59%) as to meet the definition of a PNB (24%), a gap of 35 percentage points. Between 2012 and 2016 there was a decline in the proportion using external finance, and an increase in those meeting the definition of a PNB, which

narrowed this 'gap' from 35 to 12 percentage points. In 2017, use of finance increased slightly (to 52%), and the proportion of PNBs declined slightly (to 35%), so the gap widened again, to 17 points. Interim data for H1 2018 however has seen that gap close for the first time with as many SMEs with employees meeting the definition of a PNB as using external finance.

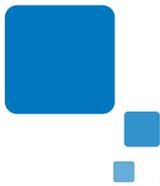
PNBs are a major influence on the overall position of SMEs regarding access to, and appetite for, external finance. Additional analysis was therefore conducted, to understand the types of SME that fit the PNB definition.



The table below summarises the differences between PNBs and other SMEs on a range of key measures over time:

<b>Characteristics of PNBs</b>							
Over time							H1
Row percentages	2012	2013	2014	2015	2016	2017	2018
Made a profit:							
• PNBs	74%	73%	80%	82%	80%	83%	80%
• Other SMEs	66%	69%	74%	78%	80%	82%	78%
Hold £10k+ of credit balances:							
• PNBs	17%	14%	19%	23%	19%	23%	23%
• Other SMEs	16%	18%	21%	25%	24%	27%	22%
Minimal/Low risk rating:							
• PNBs	14%	15%	22%	21%	20%	20%	23%
• Other SMEs	17%	17%	23%	28%	23%	23%	22%
International							
• PNBs	7%	10%	12%	13%	11%	14%	12%
• Other SMEs	12%	15%	19%	20%	16%	17%	15%
Innovative							
• PNBs	33%	32%	31%	31%	32%	31%	29%
• Other SMEs	43%	42%	42%	42%	41%	36%	34%
Plan to grow							
• PNBs	-	43%	40%	38%	36%	37%	41%
• Other SMEs	-	52%	52%	51%	50%	52%	54%

All SMEs



As the table above shows, there were some instances where differences between PNBs and non-PNBs have narrowed over time and others where they have widened:

- In 2012, PNBs were more likely than non PNBs to have been profitable (74% v 66%). Over time, profitability has improved for both groups, but to a greater degree for the non-PNBs and so the 'gap' closed (both 80% in 2016). In H1 2018 there was still little to choose between them (80% v 78%)
- PNBs have always been somewhat less likely to be international. Since 2012 the proportion of PNBs trading internationally has varied between 7% and 14% (currently 12%) and for non-PNBs between 12% and 20% (currently 15%)
- The proportion of PNBs that were innovative has declined slightly over time (33% in 2012 to 29% in H1 2018). They remained less likely to have been innovative than non-PNBs, where the proportion that innovated was stable 2012 to 2016 (41-43%) but somewhat lower in both 2017 (36%) and H1 2018 (34%), thus narrowing the gap to PNBs
- In 2012, PNBs were as likely to be holding £10,000 or more in credit balances as non-PNBs (17% v 16%). The proportion of non-PNBs holding this sum then increased slightly more rapidly (to 27% for 2017) compared to PNBs (to 23% for 2017), widening the gap between them. In H1 2018 the gap was reduced (23% v 22%) as fewer non-PNBs held £10,000 or more
- Growth plans amongst the non-PNBs have been stable over time, with half planning to grow. Amongst PNBs on the other hand, the proportion planning to grow declined from 43% in 2013 to 36% in 2016, widening the gap to the non-PNBs. This was maintained in H1 2018 with both groups more likely to report growth plans (54% non-PNBs v 41% PNBs)

Analysis conducted on several occasions in order to understand which factors in combination best predicted an SME meeting the definition of a PNB showed that the key determinant remained size of business. Common issues across size bands that increased the likelihood of being a PNB

included not seeing access to finance as a barrier, not planning to grow, lower levels of planning and/or innovation and agreeing that their plans were based on what they could afford. The last full analysis can be found in the Q2 2017 report.



PNBs by their very definition were not using external finance. Adding use of trade credit and injections of personal funds results in 41% of PNBs using any 'business funding'. If those who had injected personal funds and/or used trade credit were to be excluded from the PNB definition, the proportion of PNBs would reduce from 48% to 27% of all SMEs in H1 2018, in line with 2016 (29%) and 2017 (28%).

These PNBs have indicated that they are unlikely to be interested in borrowing, based on their current views. At various stages in this report, therefore, we have provided an alternative to the 'All SME' figure, which excludes these Permanent non-borrowers and provided an alternative figure that might be described as 'All SMEs with a *potential* interest in external finance'.



## Attitudes to finance

Since Q3 2014 an increasing number of attitudinal statements have been included in the SME Finance Monitor to explore different aspects of demand for finance amongst SMEs. These are reported below for YEQ2 2018 where data is available for the entire period. Also included are three new statements asked from Q1 2018 and reported for the first time. Changes in levels of agreement over time are reported later in this chapter.

The first statement below has been asked consistently since Q3 2014. A third of SMEs (34%) agreed that they were happy to use external finance to help the business grow:

### “As a business we are happy to use external finance to help the business grow and develop”

YEQ2 18- all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>18,005</b>	<b>3603</b>	<b>5802</b>	<b>5800</b>	<b>2800</b>
Strongly agree	4%	4%	5%	7%	11%
Agree	29%	28%	32%	40%	45%
Neither/nor	19%	18%	21%	23%	25%
Disagree	36%	38%	33%	25%	15%
Strongly disagree	11%	12%	9%	5%	4%
<b>Total ‘Agree’</b>	<b>34%</b>	<b>32%</b>	<b>37%</b>	<b>47%</b>	<b>56%</b>

Q96 (238a5) All SMEs

0 employee SMEs were less likely to agree overall (32%) than larger SMEs (39% of those with employees).

Previous analysis revealed that a key predictor of agreement with this statement was to be a current user of external finance. Amongst those using external finance, 46% agreed with this statement, compared to 26% of those not currently using finance. Those planning to grow were also more likely to agree with this statement (40%) than those not planning to grow (26%). Analysis of all the attitude statements by these demographics is provided later in the chapter.

- PNBs were less likely to agree with this statement (23%) than non PNBs (44%).
- There was no consistent pattern by risk rating (from 37% of those with a minimal risk rating to 32% of those with an average risk rating)



To understand willingness to use external finance in more detail, additional analysis has been undertaken on this question.

The table below allocates all SMEs to one of four categories, depending on whether they were using external finance and whether they agreed that they would be happy to use external finance in the future to help the business develop and grow. This shows that 47% of SMEs were neither using external finance nor were happy to do so in future, but with considerable variation by size of SME:

### Combined analysis: Use of external finance and happiness to use in future

YEQ2 18 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>18,005</b>	<b>3603</b>	<b>5802</b>	<b>5800</b>	<b>2800</b>
Use external finance and happy to use in future	17%	14%	22%	34%	50%
Use external finance but not happy to use in future	19%	18%	22%	26%	25%
Do not use it but happy to	17%	17%	15%	13%	6%
Do not use it and not happy to	47%	50%	41%	28%	19%

Q15/Q96 (Q238a5) All SMEs

Taking these two issues in combination:

- 1 in 6 SMEs (17%) were using external finance and agreed that they would be happy to use it in future, increasing by size of SME to half of those with 50-249 employees (50%).
- The remaining users of finance, 19% of all SMEs, would not be happy to use finance in future (the equivalent of 53% of all users of finance). There was less variation by size of SME for this group, especially for those SMEs with employees.
- 1 in 6 of all SMEs (17%) were not using external finance currently but agreed that they would be happy to use it to help the business develop and grow. This proportion declined slightly by size of SME to 6% of those with 50-249 employees.
- The remainder, almost half of SMEs (47%), were non-users of finance who would not be happy to use it in future and this was more common amongst 0 employee SMEs (50% compared to 19% of those with 50-249 employees). 8 in 10 of this group (79%) met the definition of a PNB.



From Q3 2015 another statement was added to further explore demand for finance: “Our current plans for the business are based entirely on what we can afford to fund ourselves”. As the table below shows, 8 in 10 SMEs agreed with this statement, decreasing by size:

**“Our current plans for the business are based entirely on what we can afford to fund ourselves”**

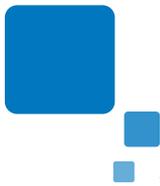
YEQ2 18 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>18,005</b>	<b>3603</b>	<b>5802</b>	<b>5800</b>	<b>2800</b>
Strongly agree	30%	31%	29%	22%	13%
Agree	50%	50%	50%	49%	50%
Neither/nor	11%	11%	12%	17%	21%
Disagree	7%	6%	8%	12%	14%
Strongly disagree	1%	1%	1%	1%	2%
<b>Total ‘Agree’</b>	<b>80%</b>	<b>81%</b>	<b>79%</b>	<b>71%</b>	<b>63%</b>

Q96 (238a5) All SMEs

Amongst those with employees, 77% agreed with this statement.

Analysis by other demographics showed that:

- Agreement increased only slightly by risk rating (77% of those with a minimal risk rating to 82% of those with a worse than average risk rating)
- PNBs were also slightly more likely to agree (83% v 78%)



Two further demand related statements were added from Q1 2016. In both cases, levels of agreement declined by size.

Half of SMEs said they never thought about using (more) external finance and this was more likely to be the case for smaller SMEs:

**“We never think about whether we could/should use more external finance”**

YEQ2 18 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>18,005</b>	<b>3603</b>	<b>5802</b>	<b>5800</b>	<b>2800</b>
Strongly agree	11%	11%	9%	6%	4%
Agree	40%	42%	36%	30%	23%
Neither/nor	20%	19%	22%	27%	26%
Disagree	24%	22%	28%	32%	35%
Strongly disagree	5%	5%	5%	5%	11%
<b>Total ‘Agree’</b>	<b>51%</b>	<b>53%</b>	<b>45%</b>	<b>36%</b>	<b>27%</b>

Q96 (238a5) All SMEs

Amongst those with employees, 43% agreed with this statement.

Analysis by other demographics showed that:

- Those with an average risk rating were the most likely to agree (54%) and those with a minimal risk rating were less likely to agree (45%)
- PNBs were slightly more likely to agree (56% v 47%)



7 in 10 SMEs agreed with the second statement added in Q1 2016 and were prepared to accept slower growth that was self-funded, again decreasing by size of SME:

**“We will accept a slower growth rate rather than borrowing to grow faster”**

YEQ2 18 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>18,005</b>	<b>3603</b>	<b>5802</b>	<b>5800</b>	<b>2800</b>
Strongly agree	20%	21%	19%	15%	8%
Agree	51%	51%	51%	48%	39%
Neither/nor	18%	18%	18%	23%	29%
Disagree	9%	9%	10%	12%	20%
Strongly disagree	1%	1%	1%	2%	4%
<b>Total ‘Agree’</b>	<b>71%</b>	<b>72%</b>	<b>70%</b>	<b>63%</b>	<b>47%</b>

Q96 (238a5) All SMEs

Amongst those with employees, 68% agreed that they would accept a slower self-funded growth rate.

Analysis by other demographics showed that:

- Those with a minimal risk rating were slightly less likely to agree (67% v 71-72% for other ratings)
- PNBs were somewhat more likely to agree (74% v 68%)



A new statement was added in Q3 2017: “As a business we are prepared to take risks to become more successful”. 4 in 10 SMEs agreed with the statement, increasing by size of business:

**“As a business we are prepared to take risks to become more successful”**

YEQ2 18 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>18,005</b>	<b>3603</b>	<b>5802</b>	<b>5800</b>	<b>2800</b>
Strongly agree	7%	6%	7%	9%	15%
Agree	36%	35%	39%	44%	47%
Neither/nor	20%	20%	20%	23%	23%
Disagree	30%	32%	27%	22%	13%
Strongly disagree	7%	7%	6%	3%	2%
<b>Total ‘Agree’</b>	<b>43%</b>	<b>41%</b>	<b>46%</b>	<b>53%</b>	<b>62%</b>

Q96 (238a5) All SMEs

Amongst those with employees, 47% agreed that they were prepared to take risks to be successful.

Analysis by other demographics showed that:

- There was no consistent pattern by risk rating (from 39% for those with a minimal or average risk rating to 46% for those with a worse than average risk rating)
- PNBs were less willing to take risks (35% v 49%)



In 2017, just over half of SMEs (54%) agreed with the statement “A fall in the cost of credit would not make us any more likely to consider applying for new external finance”.

For Q1 2018, given the predicted increase in interest rates, this statement was turned around to say “A further increase in the cost of credit would make us less likely to apply for new external finance”. The results for the first half of 2018 are shown below. Half of SMEs agreed with this statement, declining slightly by size:

**“A further increase in the cost of credit would make us less likely to apply for new external finance”**

H1 18 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>9000</b>	<b>1800</b>	<b>2900</b>	<b>2900</b>	<b>1400</b>
Strongly agree	11%	11%	10%	8%	4%
Agree	40%	40%	41%	39%	38%
Neither/nor	29%	29%	29%	31%	39%
Disagree	16%	16%	17%	19%	16%
Strongly disagree	4%	4%	3%	2%	2%
<b>Total ‘Agree’</b>	<b>51%</b>	<b>51%</b>	<b>51%</b>	<b>47%</b>	<b>42%</b>

Q96 (238a5) All SMEs

Amongst those with employees, 50% agreed that an increase in the cost of credit would make them less likely to apply for finance.

Analysis by other demographics showed that:

- Agreement by risk rating increased from 40% of those with a minimal rating to 53% of those with a worse than average rating
- PNBs were less likely to agree (44% v 57%)



Two further statements were added in Q1 2018. The first was “Because the future feels uncertain we are being very cautious with our plans for the business”. Initial data showed that half of SMEs agreed with the statement, with little variation by size of SME:

**“Because the future feels uncertain we are being very cautious with our plans for the business”**

H1 18 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>9000</b>	<b>1800</b>	<b>2900</b>	<b>2900</b>	<b>1400</b>
Strongly agree	11%	11%	11%	11%	6%
Agree	40%	40%	41%	40%	40%
Neither/nor	23%	23%	23%	26%	36%
Disagree	24%	24%	22%	22%	17%
Strongly disagree	2%	2%	2%	2%	2%
<b>Total ‘Agree’</b>	<b>51%</b>	<b>51%</b>	<b>52%</b>	<b>51%</b>	<b>46%</b>

Q96 (238a5) All SMEs from Q1 2018

Amongst those with employees, 52% agreed that they were being cautious with their plans.

Analysis by other demographics showed that:

- 47% of those with either a minimal or low risk rating agreed with this statement compared to 52% of those with an average or worse than average rating
- PNBs were less likely to agree (46% v 56%)



The second new statement added was “My impression from what I see and hear is that it is quite difficult for businesses like ours to get external finance”. 4 in 10 SMEs agreed with the statement, declining by size of SME:

**“My impression is that it is quite difficult for businesses like ours to get external finance”**

H1 18 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>9000</b>	<b>1800</b>	<b>2900</b>	<b>2900</b>	<b>1400</b>
Strongly agree	8%	9%	7%	6%	3%
Agree	30%	31%	26%	21%	15%
Neither/nor	33%	33%	35%	33%	36%
Disagree	25%	24%	28%	36%	38%
Strongly disagree	4%	4%	3%	4%	9%
<b>Total ‘Agree’</b>	<b>38%</b>	<b>40%</b>	<b>33%</b>	<b>27%</b>	<b>18%</b>

Q96 (238a5) All SMEs from Q1 2018

Amongst those with employees, 32% agreed that they thought it might be difficult for them to get finance.

Analysis by other demographics showed that:

- Agreement increased by risk rating from 24% of those with a minimal risk rating to 44% of those with a worse than average risk rating
- PNBs were less likely to agree (29% v 46%)



Summary analysis of attitudes (H1 2018 so that all statements can be included) is provided for key demographics including size. The statements have been ranked by overall levels of agreement in H1 2018:

H1 18 – all SMEs % agreeing	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>9000</b>	<b>1800</b>	<b>2900</b>	<b>2900</b>	<b>1400</b>
Plans based on what can afford ourselves	79%	80%	77%	70%	66%
Accept slower growth rather than borrow	73%	74%	71%	66%	47%
Increase in cost of credit would discourage application	51%	51%	51%	47%	42%
Because the future feels uncertain we are being very cautious with our plans for the business	51%	51%	52%	51%	46%
Never think about using (more) external finance	50%	53%	44%	34%	25%
As a business we are prepared to take risks to become more successful	43%	41%	47%	51%	67%
My impression is that it is quite difficult for businesses like ours to get external finance	38%	40%	33%	27%	18%
Happy to use finance to help business grow	33%	31%	36%	45%	61%

Q96 (238a5) All SMEs

Smaller SMEs were more willing to base their plans on what they could afford and accept slower growth. They were less happy to use finance, potentially impacted by higher levels of agreement about uncertain times and that it would be difficult for them to get finance anyway, but also that they didn't think about using (more) finance.



Analysis by sector shows that those in Construction were somewhat more averse to finance (plans based on what they can afford, accept a slower rate of growth rather than borrow, never think about finance, think it would be difficult to get finance and less happy to borrow to grow):

H1 18 – all SMEs % agreeing	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>600</b>	<b>750</b>	<b>1600</b>	<b>900</b>	<b>600</b>	<b>1001</b>	<b>1799</b>	<b>750</b>	<b>1000</b>
Plans based on what can afford ourselves	83%	79%	82%	79%	78%	77%	80%	65%	81%
Accept slower growth rather than borrow	75%	75%	77%	71%	69%	64%	75%	65%	75%
Increase in cost of credit would discourage application	57%	54%	50%	53%	49%	47%	49%	48%	57%
Because the future feels uncertain we are being very cautious with our plans for the business	62%	53%	54%	53%	56%	51%	47%	42%	54%
Never think about using (more) external finance	44%	52%	54%	45%	45%	49%	53%	46%	47%
As a business we are prepared to take risks to become more successful	47%	42%	38%	49%	43%	44%	44%	44%	43%
My impression is that it is quite difficult for businesses like ours to get external finance	36%	35%	41%	37%	37%	39%	36%	36%	41%
Happy to use finance to help business grow	42%	36%	29%	39%	32%	36%	30%	35%	33%

Q96 (238a5) All SMEs



Analysis by age of SME shows that there was typically little to choose between the attitudes of younger and older SMEs, albeit being happy to borrow to grow, or to take risks to be successful did decline with age of business. Starts were the most likely to say that they would be discouraged by an increase in the cost of credit and younger SMEs were more likely to think it was difficult for businesses like theirs to get finance:

H1 18 – all SMEs % agreeing	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
<b>Unweighted base:</b>	<b>908</b>	<b>893</b>	<b>1019</b>	<b>1594</b>	<b>4586</b>
Plans based on what can afford ourselves	78%	78%	76%	78%	81%
Accept slower growth rather than borrow	73%	73%	67%	69%	76%
Increase in cost of credit would discourage application	60%	55%	47%	47%	46%
Because the future feels uncertain we are being very cautious with our plans for the business	56%	52%	50%	48%	50%
Never think about using (more) external finance	53%	45%	46%	45%	54%
As a business we are prepared to take risks to become more successful	49%	49%	47%	40%	37%
My impression is that it is quite difficult for businesses like ours to get external finance	50%	41%	37%	34%	32%
Happy to use finance to help business grow	37%	36%	35%	30%	29%

Q96 (238a5) All SMEs



Analysis by use of external finance and plans to grow is shown below. Those using finance were more likely than their peers to be happy to use finance (again) to help the business grow and to be prepared to take risks to succeed. However they were also more likely to think that an increase in the cost of credit would discourage application, that it would be difficult for them to get finance and that the future felt uncertain:

H1 18 – all SMEs % agreeing	Use external finance	Do not use finance	Plan to grow	No plans to grow
<b>Unweighted base:</b>	<b>4517</b>	<b>4483</b>	<b>5368</b>	<b>3632</b>
Plans based on what can afford ourselves	75%	81%	79%	78%
Accept slower growth rather than borrow	69%	75%	75%	70%
Increase in cost of credit would discourage application	60%	46%	57%	45%
Because the future feels uncertain we are being very cautious with our plans for the business	59%	47%	54%	49%
Never think about using (more) external finance	45%	53%	48%	52%
As a business we are prepared to take risks to become more successful	51%	39%	52%	35%
My impression is that it is quite difficult for businesses like ours to get external finance	47%	33%	41%	35%
Happy to use finance to help business grow	46%	26%	40%	26%

Q96 (238a5) All SMEs

Similarly, those with plans to grow were happier than their peers to use finance, more willing to take risks to succeed, but also more likely to feel that an increase in the cost of credit would discourage application.



With the changes and additions made to these statements, analysis over time is somewhat limited, but is shown here, in time order, for half year periods from H1 2015 where available for each statement:

<b>Attitudes to finance</b>							
<b>Over time – all SMEs</b>	<b>H1</b>	<b>H2</b>	<b>H1</b>	<b>H2</b>	<b>H1</b>	<b>H2</b>	<b>H1</b>
<b>All agreeing – row percentages</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>	<b>2017</b>	<b>2018</b>
Happy to use finance to help business grow	45%	45%	43%	43%	33%	34%	33%
Plans based on what can afford ourselves	-	80%	80%	80%	82%	82%	79%
Accept slower growth rather than borrow	-	-	71%	70%	70%	70%	73%
Never think about using (more) external finance	-	-	47%	40%	52%	52%	50%
As a business we are prepared to take risks to become more successful	-	-	-	-	-	42%	43%
Increase in cost of credit would discourage application	-	-	-	-	-	-	51%
Because the future feels uncertain we are being very cautious with our plans for the business	-	-	-	-	-	-	51%
My impression is that it is quite difficult for businesses like ours to get external finance	-	-	-	-	-	-	38%

**Q96 (238a5) All SMEs**

The proportion happy to use finance to help the business grow remains lower than in previous years but overall there has been little change in attitudes in H1 2018.

The statement “We have a long term ambition to be a significantly bigger business” is no longer asked.



Being happy to borrow to grow can be seen as a key indicator of SME sentiment, so further detail has been provided over time by key demographics:

<b>Happy to use finance to help business grow</b>					
Over time – all SMEs	H2				H1
Row percentages % agree	2014	2015	2016	2017	2018
All	42%	45%	43%	34%	33%
0 emp	39%	43%	41%	31%	31%
1-9 emps	49%	51%	49%	40%	36%
10-49 emps	56%	57%	52%	48%	45%
50-249 emps	57%	58%	51%	53%	61%
Minimal external risk rating	38%	48%	45%	35%	38%
Low	41%	45%	42%	35%	33%
Average	39%	45%	41%	31%	33%
Worse than average	43%	47%	45%	36%	34%
Agriculture	49%	51%	44%	37%	42%
Manufacturing	47%	48%	42%	35%	36%
Construction	41%	44%	46%	31%	29%
Wholesale/Retail	51%	51%	44%	39%	39%
Hotels & Restaurants	48%	47%	46%	38%	32%
Transport	39%	47%	43%	38%	36%
Property/ Business Services	42%	45%	42%	33%	30%
Health	32%	39%	43%	27%	35%
Other	35%	39%	39%	32%	33%
PNB	31%	36%	34%	22%	22%
Not a PNB	50%	53%	51%	44%	43%
Use external finance	54%	56%	54%	46%	46%

Q96 (238a54) All SMEs



The table shows that the proportion of SMEs happy to use finance to grow varied very little between H2 2014 and 2016 (42-45%) but was lower in 2017 (34%) and H1 2018 (33%):

- This was due to lower levels of agreement amongst smaller SMEs in particular (41% to 31% for those with 0 employees and 49% to 36% for those with 1-9 employees)
- There were also lower levels of agreement across all risk ratings and sectors
- Those who did not meet the definition of a Permanent non borrower remained more likely to agree (43% in H1 2018) but this was lower than previously seen (50-53%) and the same was true for those using external finance (now 46% having previously been 54-56%)