

# SME Finance Monitor

3 month rolling analysis to end  
September 2018

An independent report by  
BVA BDRC, October 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 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 July to September 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.

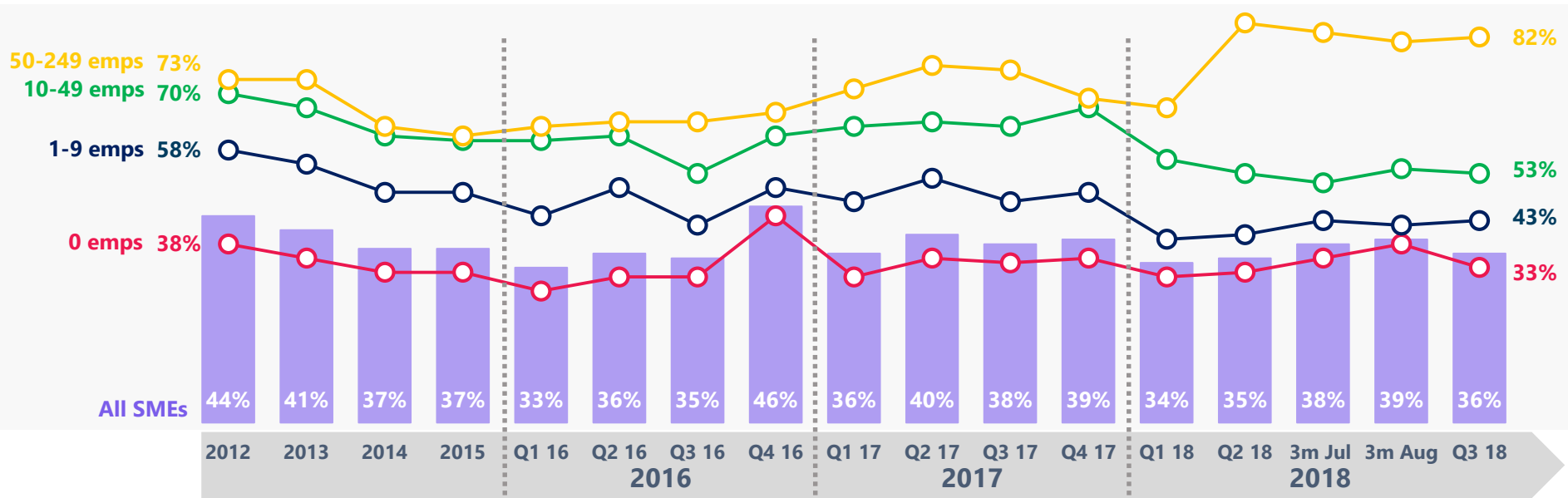
Most of the questions reported in this pack have remained unchanged.

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 have been reported on in full in the Q2 2018 SME Finance Monitor report, published in September 2018

# Use of external finance is once more slightly below the 38% seen for 2017 as a whole. Those with 1-9 or 10-49 employees remain less likely to be using finance than in 2017

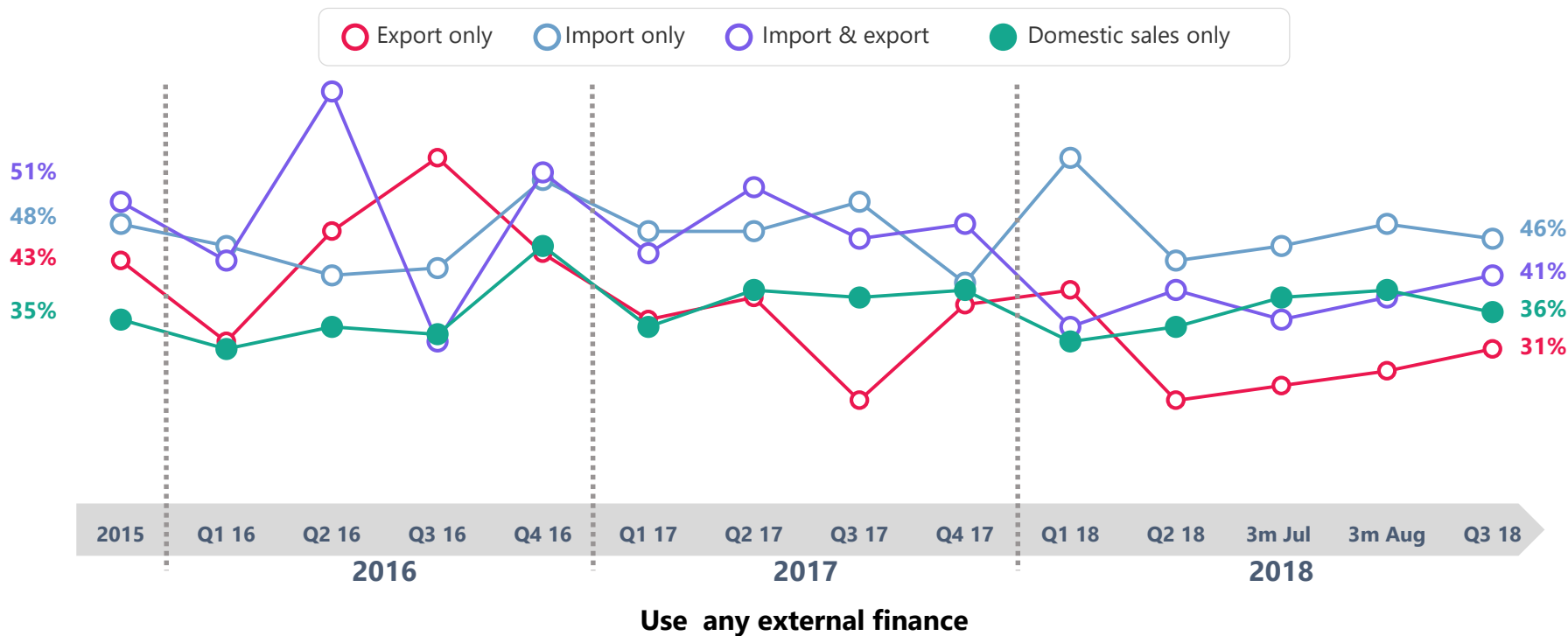
Time series: use of external finance per quarter



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 to date has been somewhat lower with around a third of SMEs using finance. The largest SMEs remain more likely to be using finance than in 2017, while there is no clear pattern for smaller SMEs but use for those with 1-49 employees remains somewhat lower than in 2017

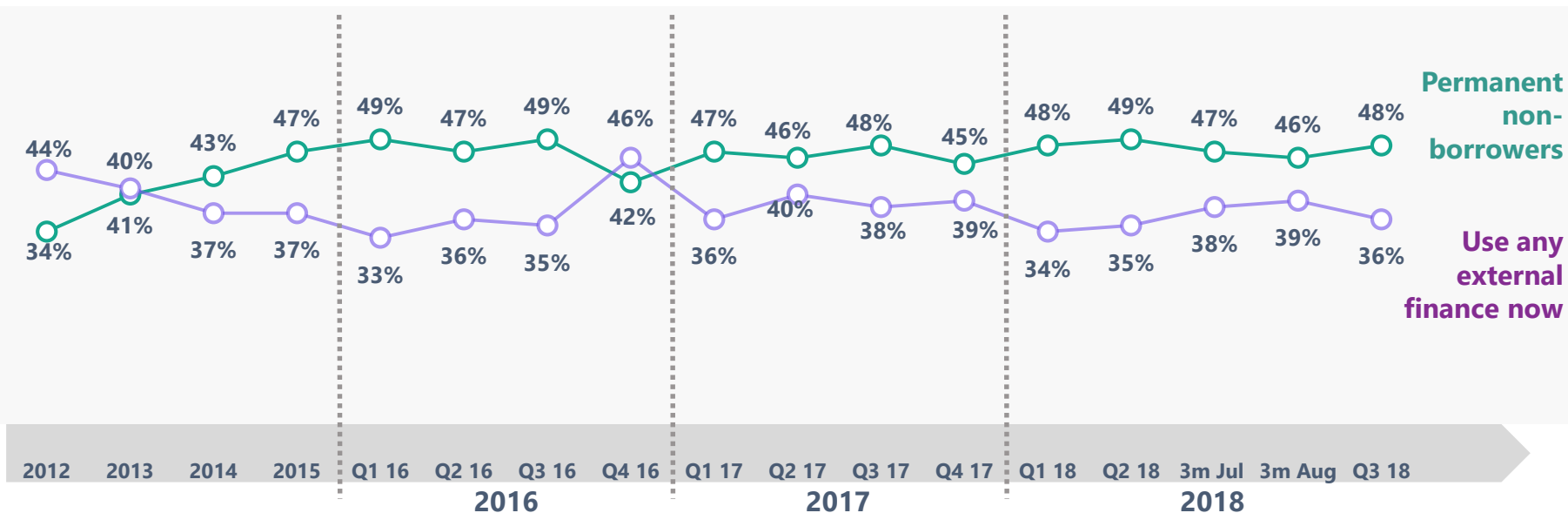
# Use of finance amongst those who export only has improved somewhat since Q2 2018. Those who import only continue to be the most likely to be using finance in 2018

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



# The proportion of 'Permanent Non-Borrowers' is back to levels seen in Q1 and Q2 2018, maintaining a significant 'gap' between them and users of finance

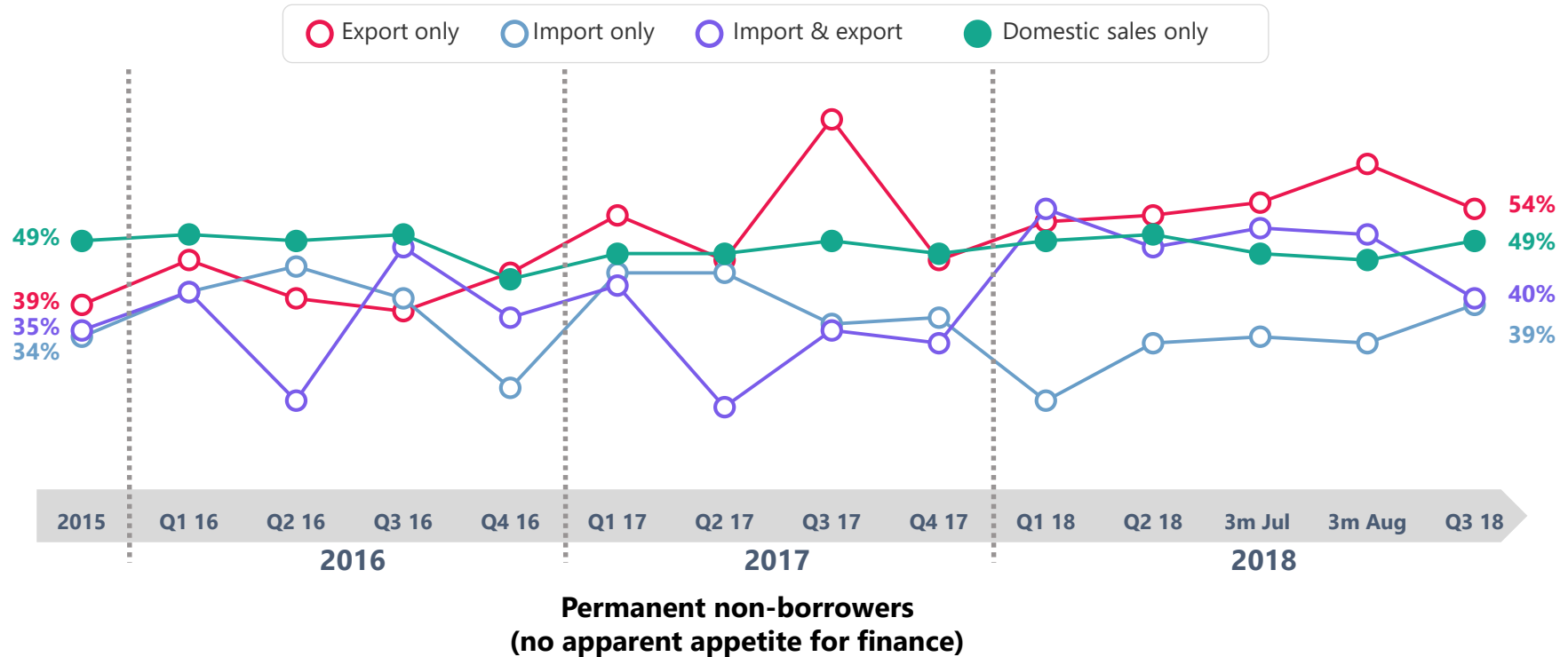
*Time series: Permanent non-borrowers and users of external finance*



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 September figure of 48% is in line with 2017 (when 47% were PNBs). The "gap" between the PNBs and those using external finance (as was seen for most of 2016 and 2017) has widened again, as fewer SMEs report using finance and more meet the PNB definition.

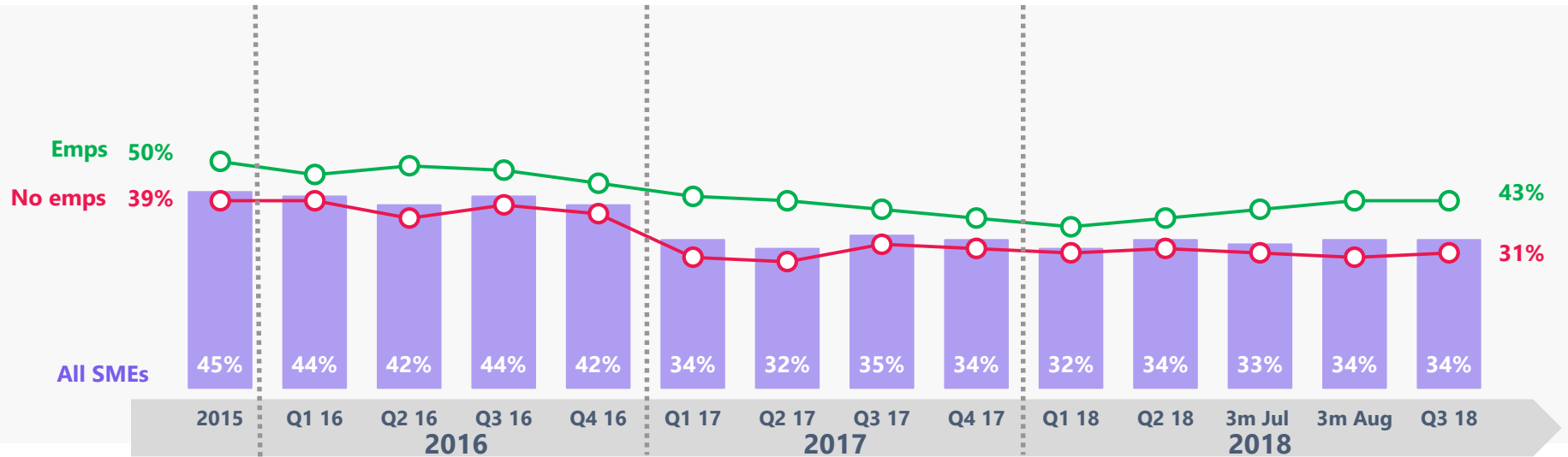
# SMEs that import only or both import and export remain somewhat less likely to be a Permanent non-borrower in 2018

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



# The proportion of SMEs 'happy to use finance to grow' is stable overall, but SMEs with employees have become slightly happier about using finance to grow

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

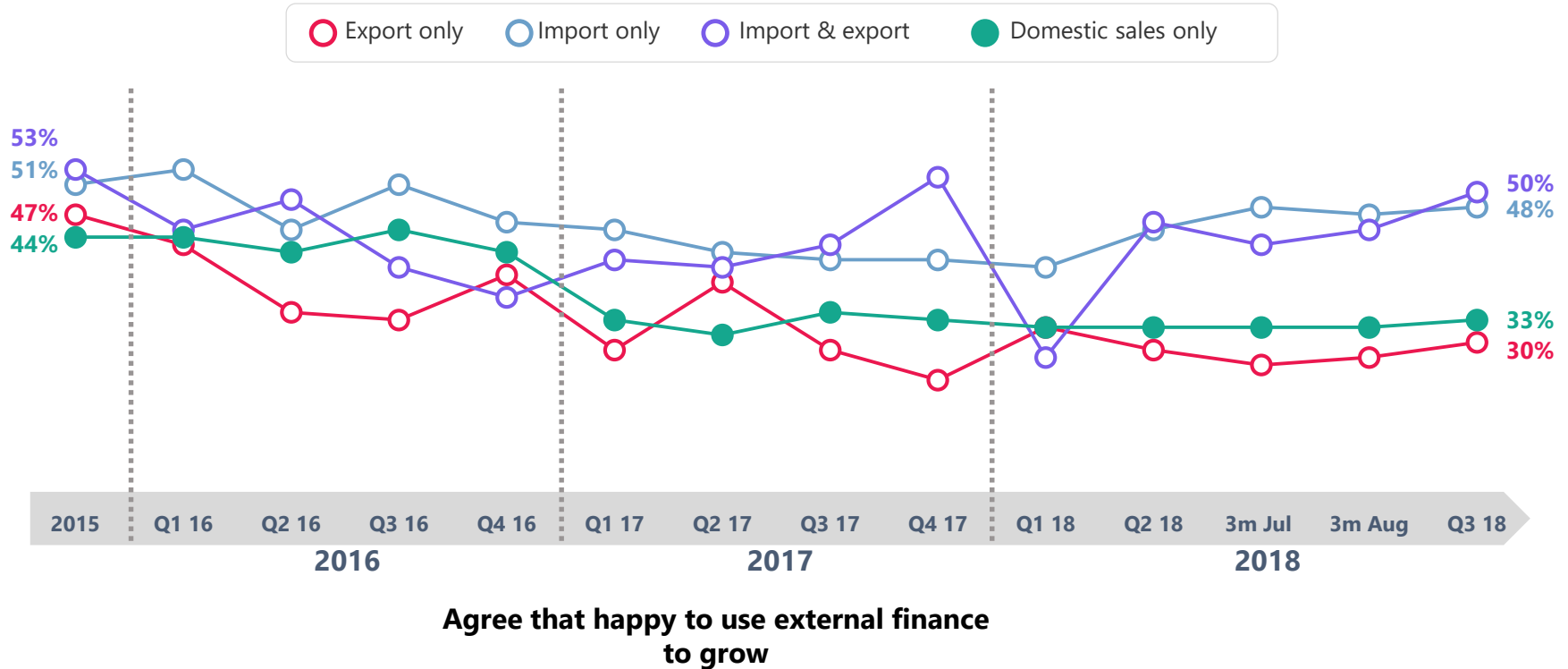


After remaining stable during 2016, the proportion of SMEs happy to use finance to grow was consistently lower from Q1 2017 onwards. There are signs in the most recent quarters of SMEs with employees being happier to use finance to grow (37% in Q1 2018 to 43% currently)



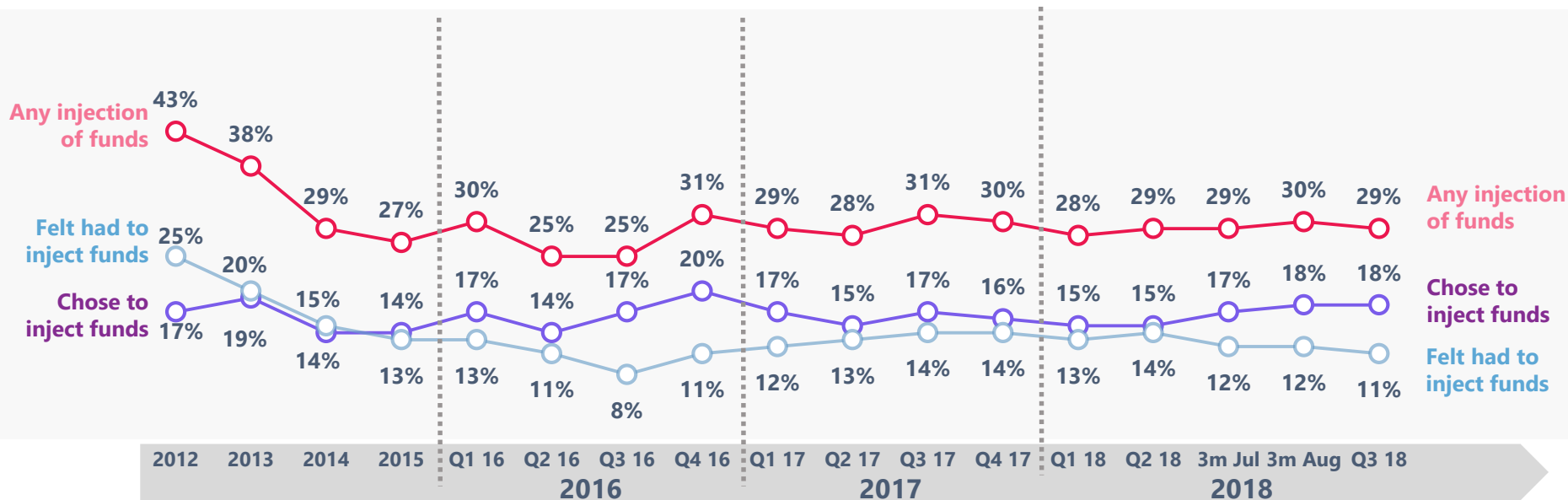
# Import/export and import-only SMEs remain more likely to be happy to borrow to grow

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



# A stable 3 in 10 SMEs have injected personal funds. SMEs were more likely to have chosen to do so than to have felt that they had to.

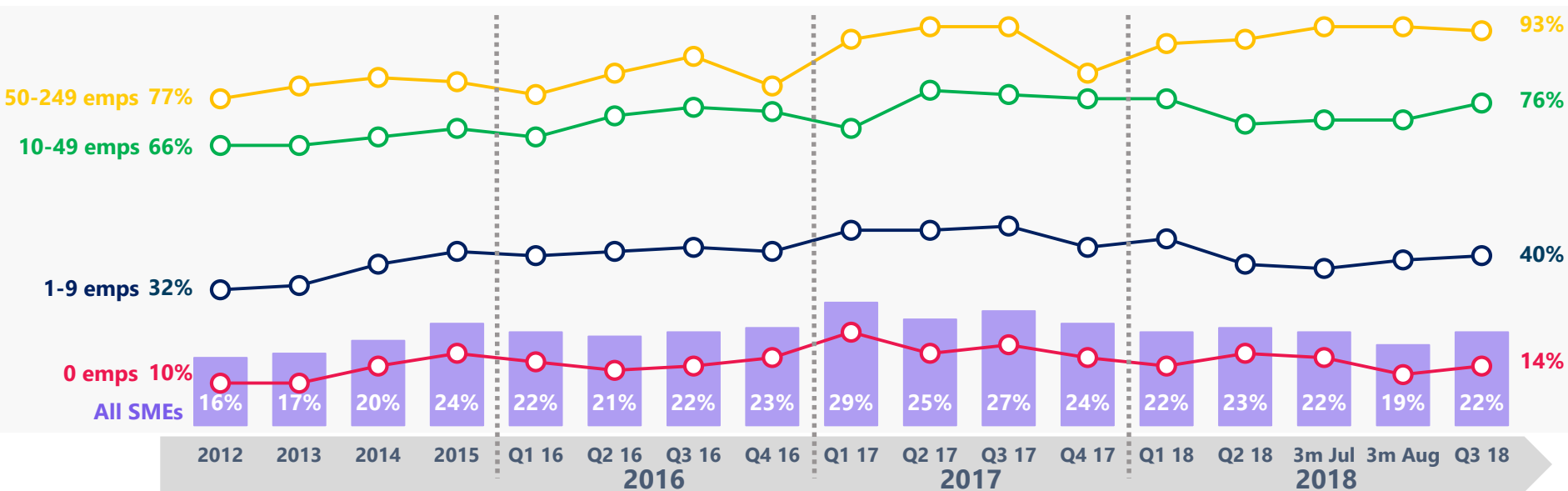
Time series: Injections of personal funds in previous 12 months



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. During 2018 there has been a slight increase in the proportion saying they chose to inject funds, currently 18%

# The proportion of SMEs holding more than £10,000 of credit balances is back in line with H1 2018. Larger SMEs remain more likely to hold such sums

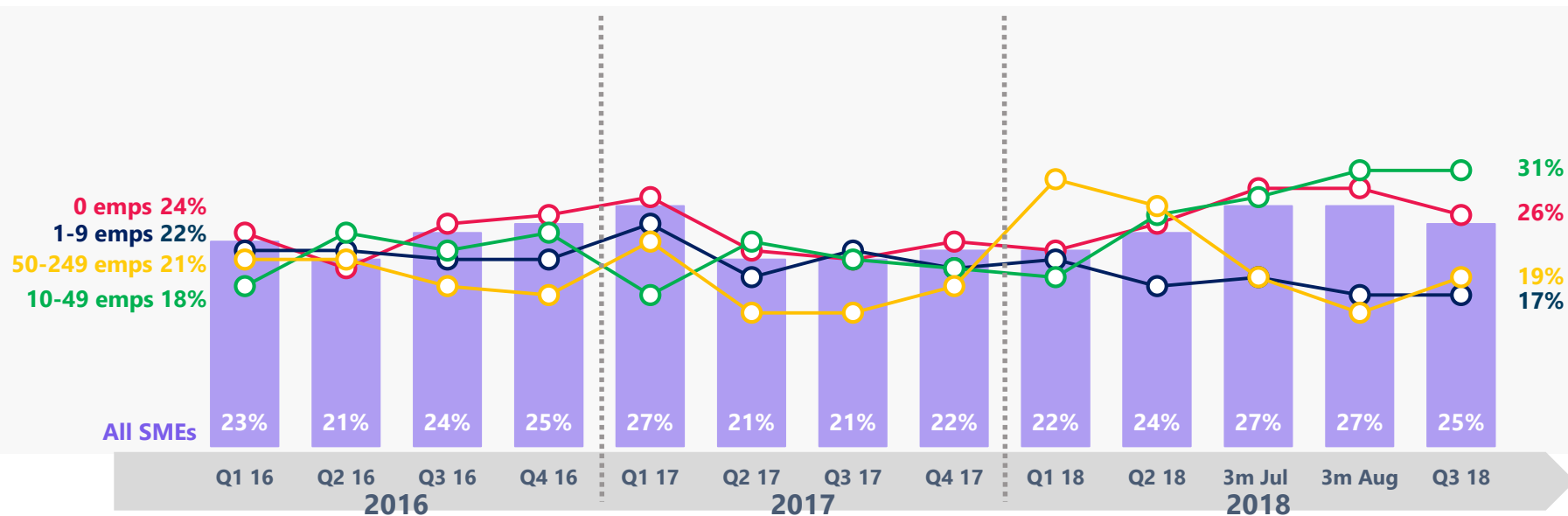
Time series: £10k credit balances held



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 (22%) but this is due to fewer 0 employee SMEs holding such sums. Amongst those with employees the picture is more stable

# On average SMEs held the equivalent of a quarter of their turnover as credit balances in the latest period, up from a fifth a year ago

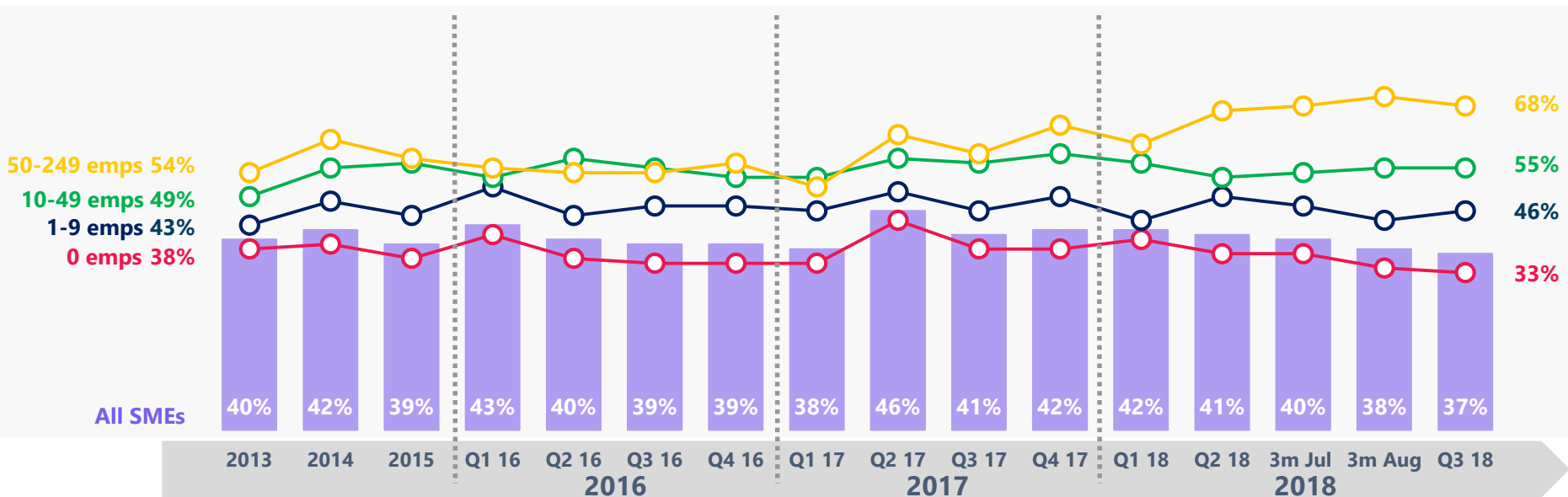
Time series: % of turnover held as credit balances



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 September 2018, SMEs held 25% of their turnover in credit balances on average. Those with 50-249 employees have seen a decline in the ratio of funds held, from 30% in Q1 2018 to 15% for the 3 months to August, and currently 19%

# During 2018, the proportion of SMEs reporting growth has declined slightly overall driven by the 0 employee SMEs

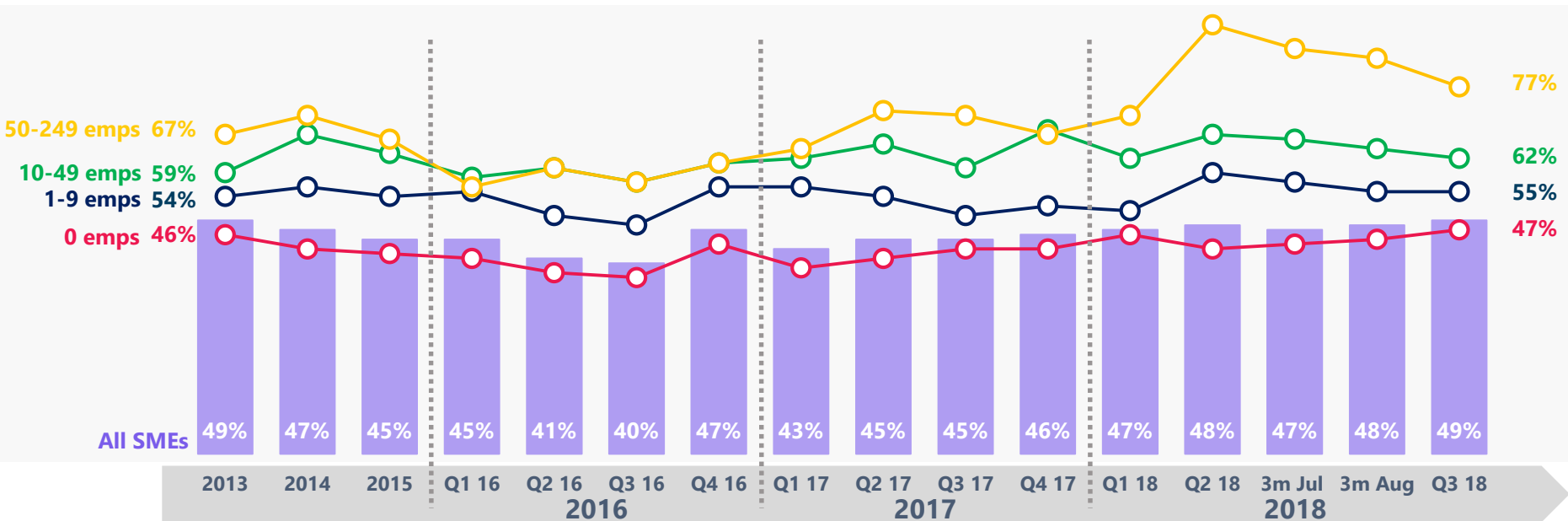
Time series: Have grown (excluding Starts)



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 figure of 37% is somewhat lower, due to fewer SMEs with 0 employees reporting growth in recent periods (currently 33%)

# Growth ambitions have been stable overall in 2018. Between Q2 and Q3 2018, fewer SMEs with employees planned to grow

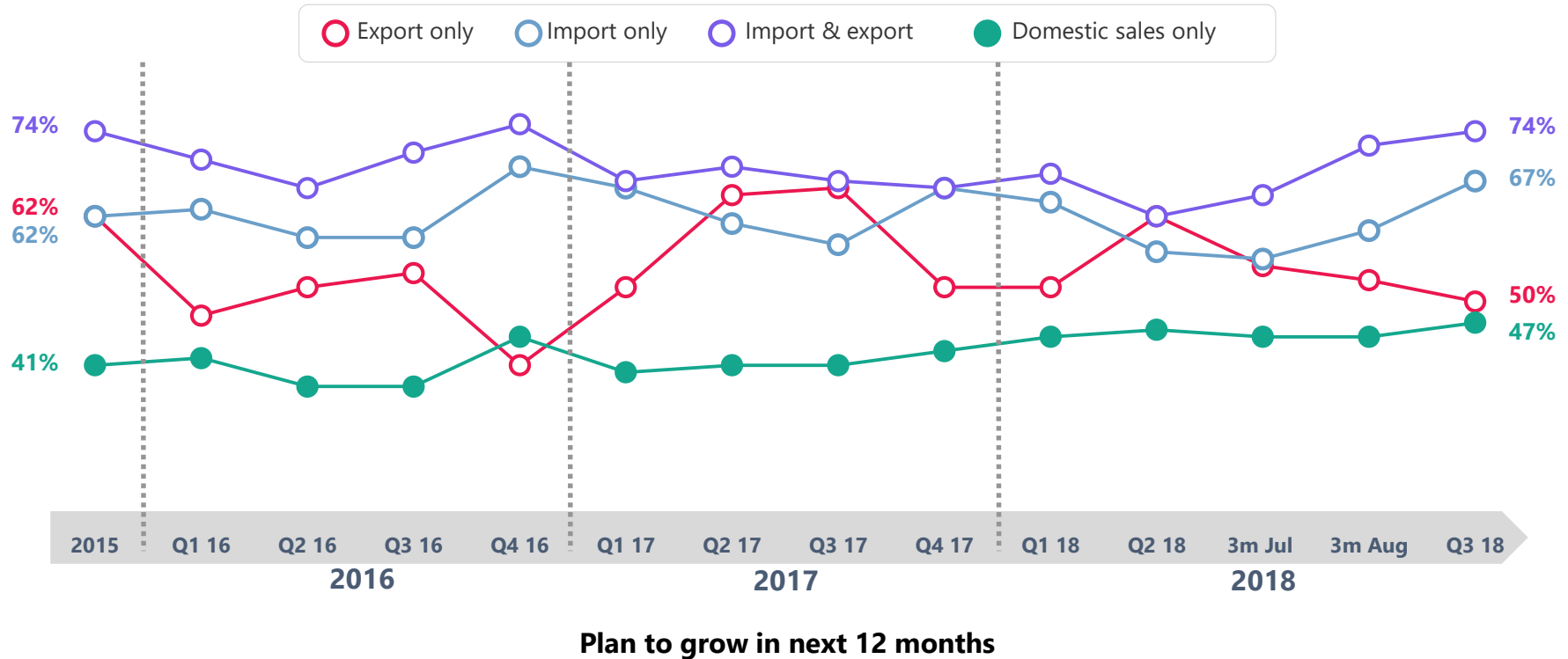
Time series: Have plans to grow



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). Growth ambitions are somewhat higher in 2018 to date (currently 49% are planning to grow) but the increased growth aspirations seen amongst SMEs with employees in Q2 2018 have not been maintained.

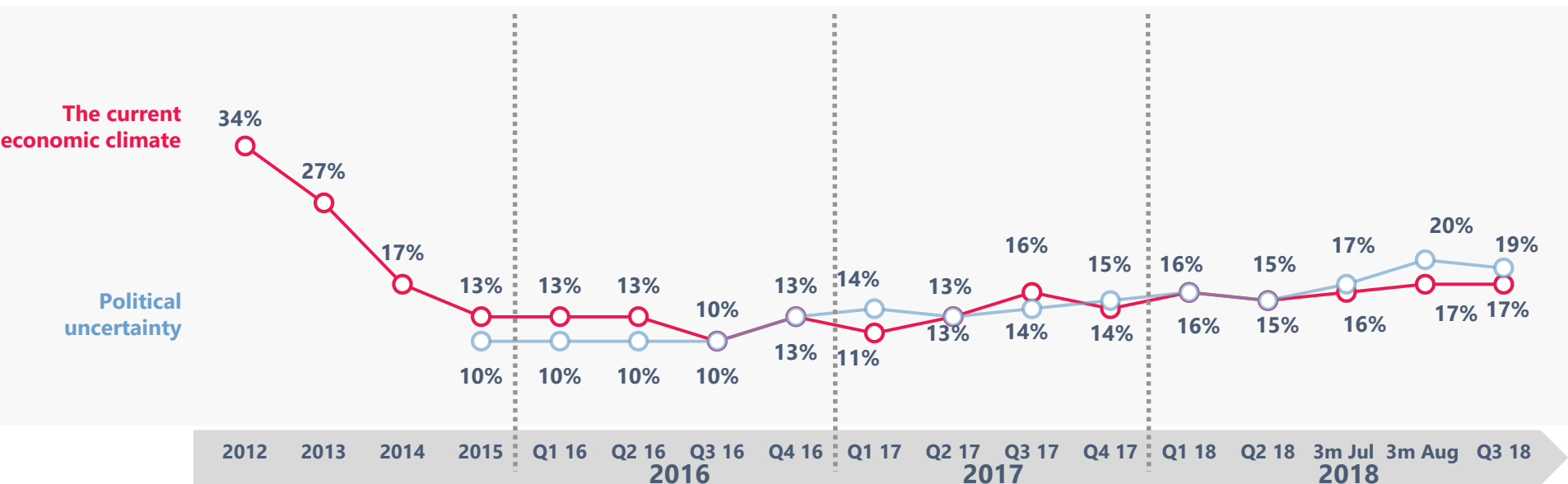
# The growth ambitions of SMEs that import or both import and export are higher than domestic SMEs, with more variation over time for those that export only

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



# Levels of concern around the current economic climate and political uncertainty have increased recently, and are somewhat higher than they were at the start of 2017

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

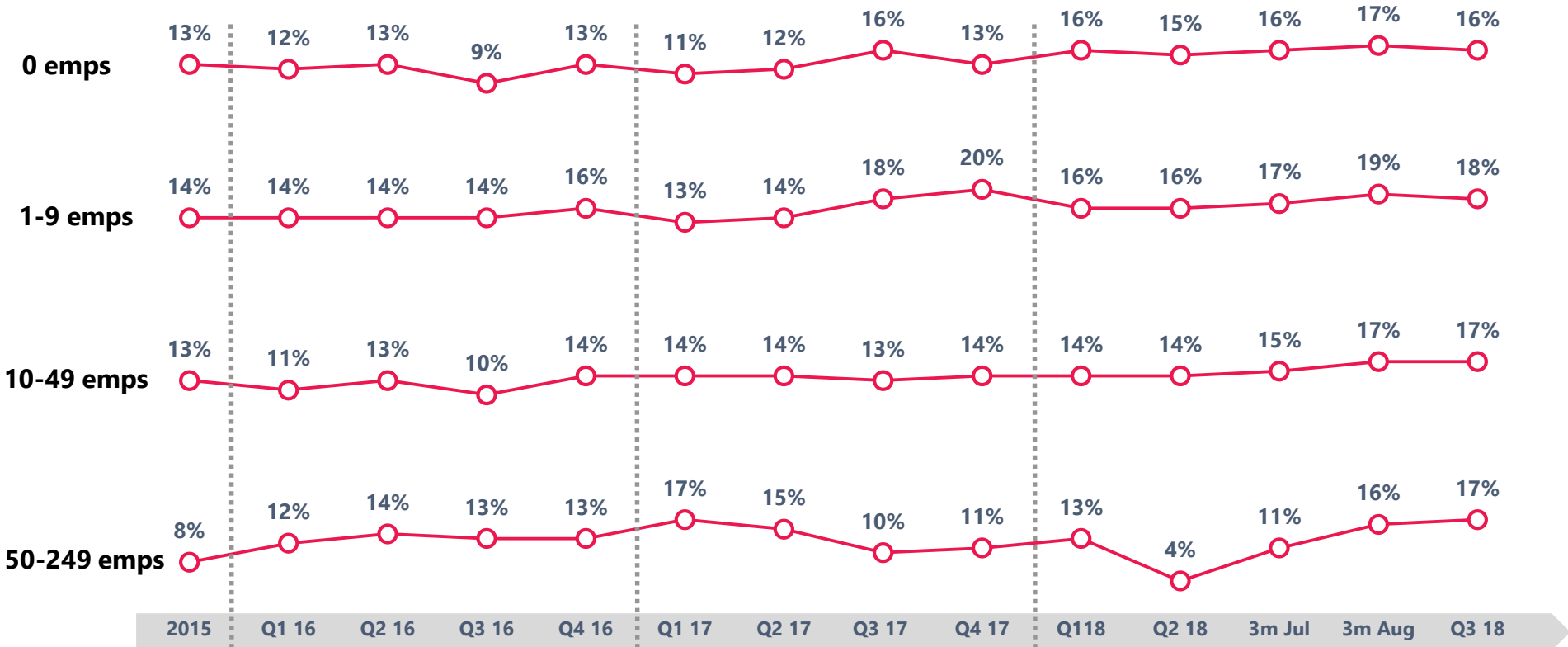


During 2017, concerns about political uncertainty remained fairly stable (13-15%) at a slightly higher level than in 2016 and have increased again in 2018 (now 19%). Concerns about the economic climate increased in 2017 from 11% in Q1 to 16% in Q3 and have been broadly stable since (now 17%).



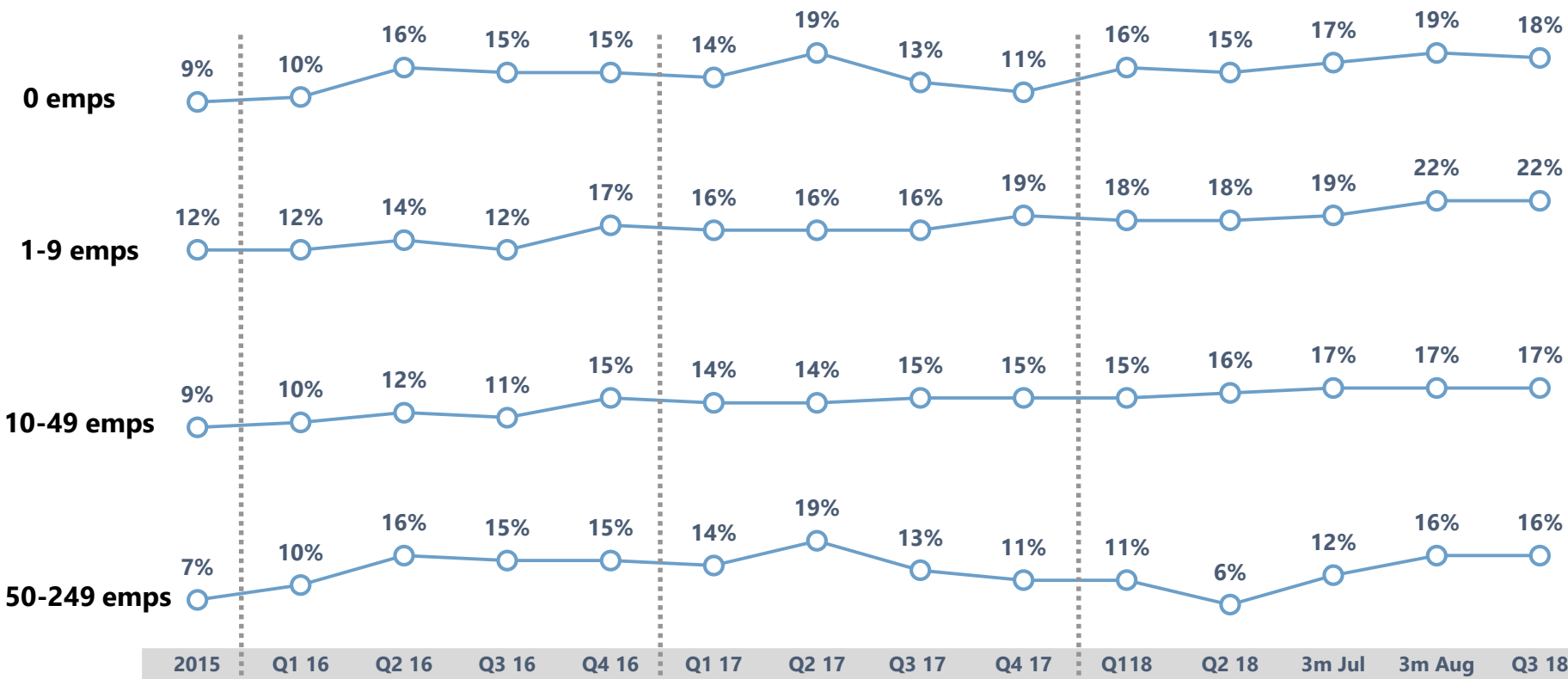
# Smaller and larger SMEs alike have seen some increase in concern about the economic climate since Q4 2017

Time series: % Rating 'The economic climate' 8-10 a major obstacle for next 12 mths



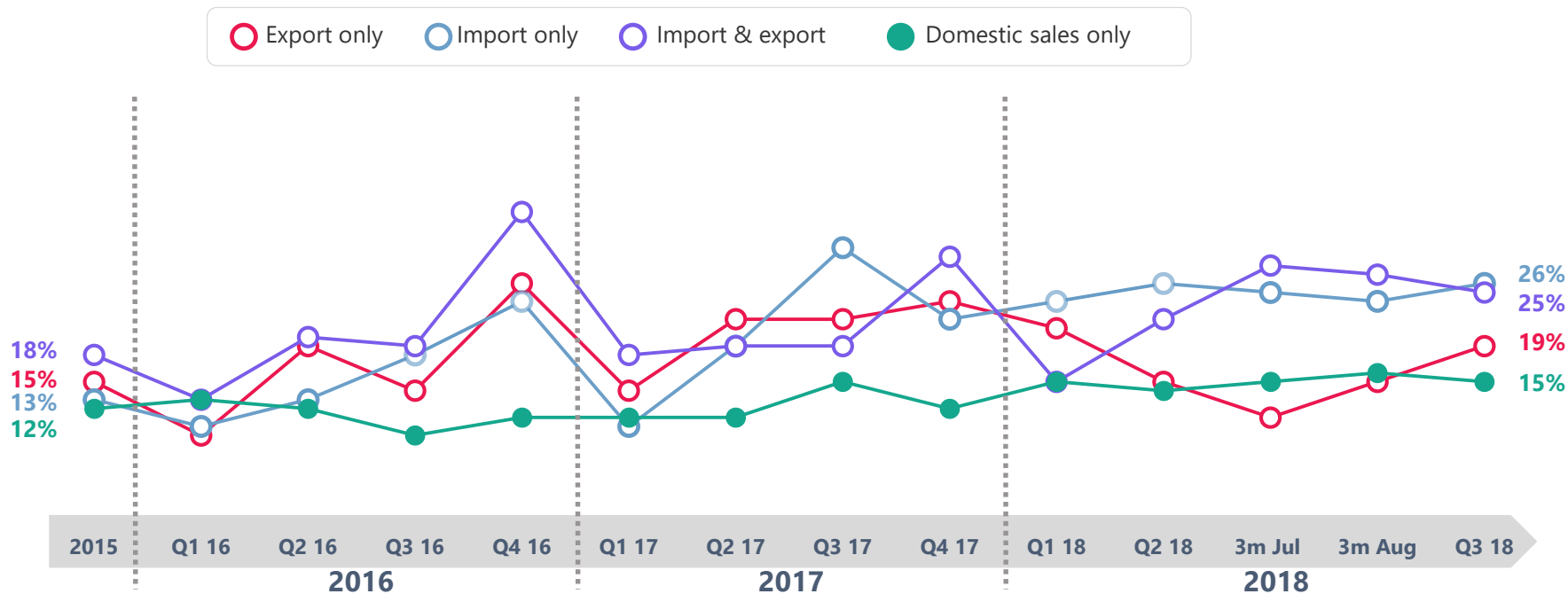
# SMEs are currently more concerned about political uncertainty than they were in the second half of 2016, with the exception of the largest SMEs

Time series: % Rating 'Political uncertainty' a major obstacle for next 12 mths



# International SMEs, notably those that import remain more concerned about the economic climate than domestic SMEs

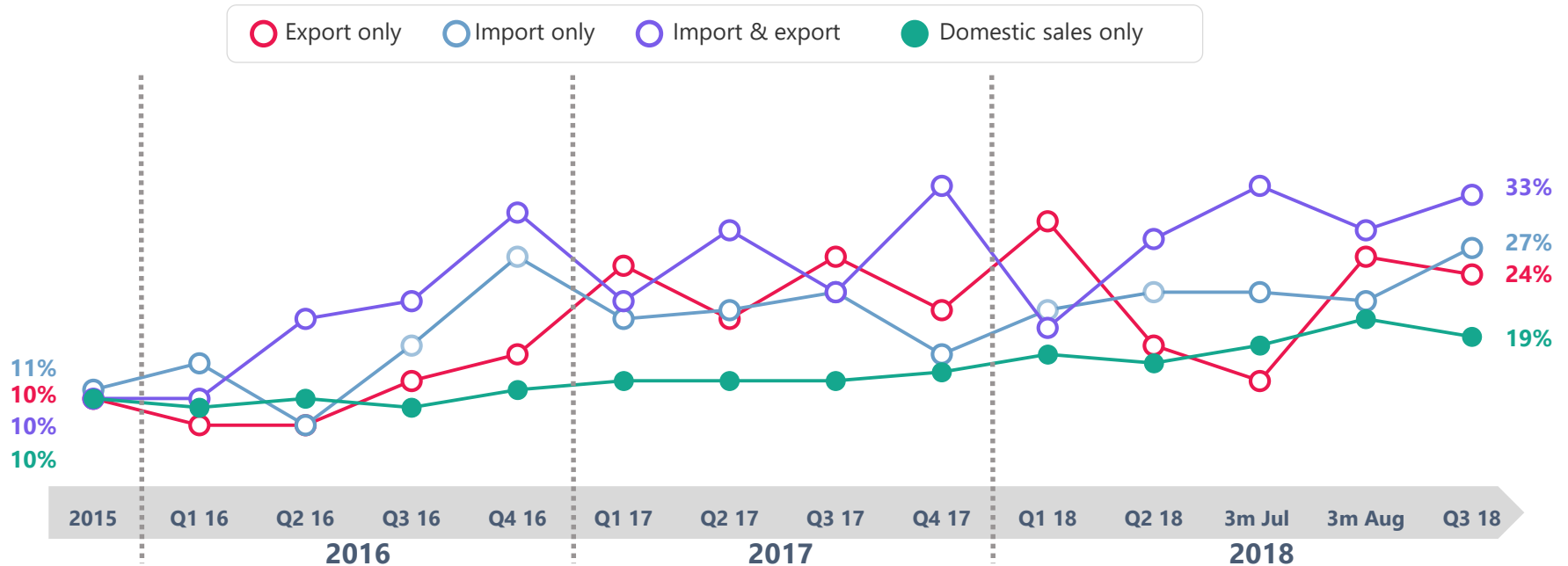
Time series: 8-10 economic climate by extent of international trade alongside domestic sales



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

# Concern about political uncertainty has increased amongst domestic SMEs and in the last few months has been higher for all types of international SMEs

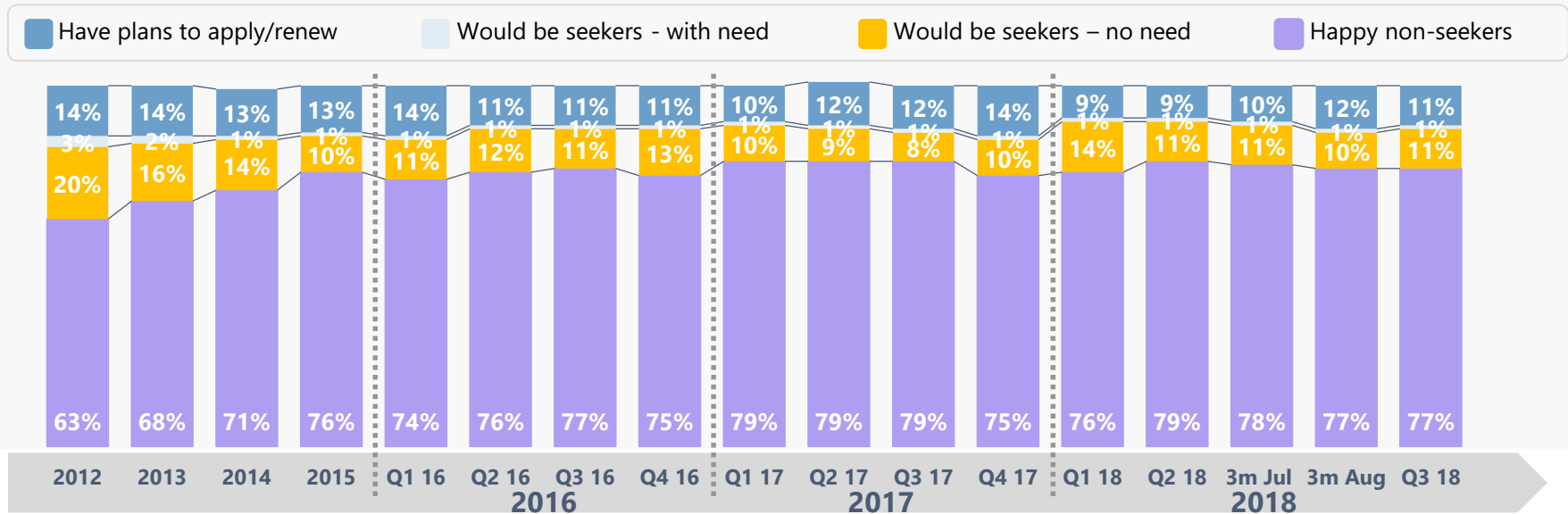
Time series: 8-10 political uncertainty by extent of international trade alongside domestic sales



**Rating political uncertainty a major obstacle (8-10)**

# Most SMEs are 'Future happy non-seekers'. Potential appetite for finance is broadly stable, at levels seen in mid-2017

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

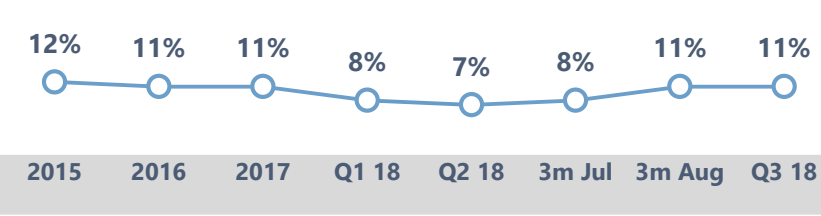


Each quarter, the majority of SMEs have expected to be “Future happy non-seekers” of finance. The proportion of HNS has increased over time, conversely, the proportion of “Future would-be seekers” who could see a barrier that would stop them applying for finance, reached a low around Q3 2017 of 9% and 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 and is back to that level in the current period (23%)

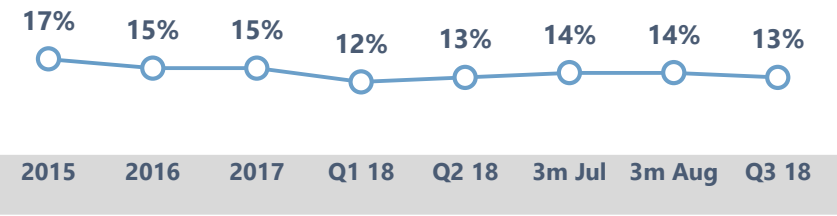
# Future appetite for finance has increased recently for all but SMEs with 1-9 employees, with larger SMEs reporting a sharper increase

Time series: % planning to apply

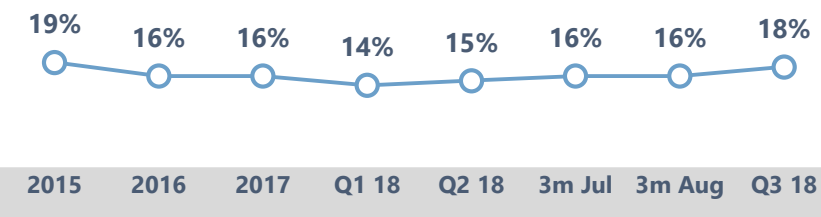
○ Plan to apply



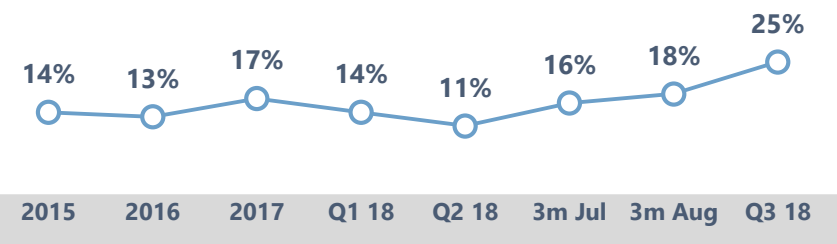
0 emps



1-9 emps



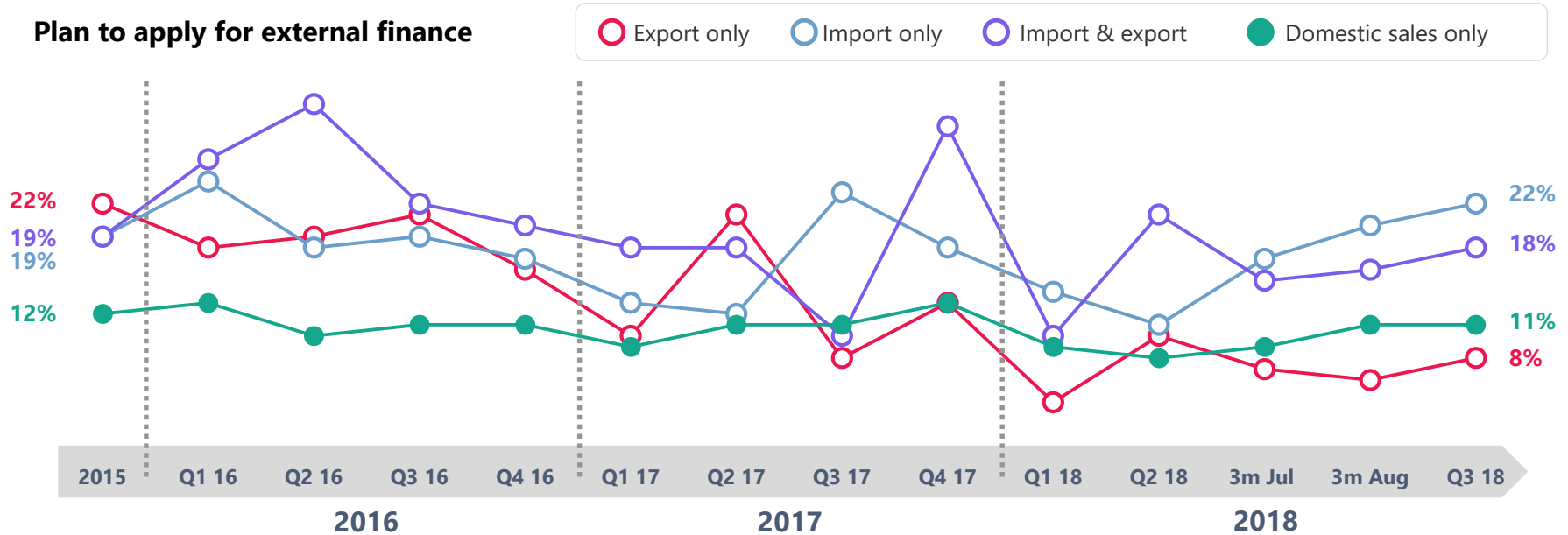
10-49 emps



50-249 emps

# Appetite for external finance has been volatile amongst all types of international SMEs over the last 2 years, but importers are more likely than other SMEs to plan to apply for finance

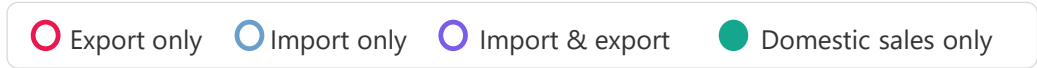
*Time series: plan to apply for finance by extent of international trade alongside domestic sales*



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 to 10% in Q1 2018 and is currently 18%.

# There is currently little difference in the proportion of future 'would be seekers' of finance when analysed by international trade

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



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

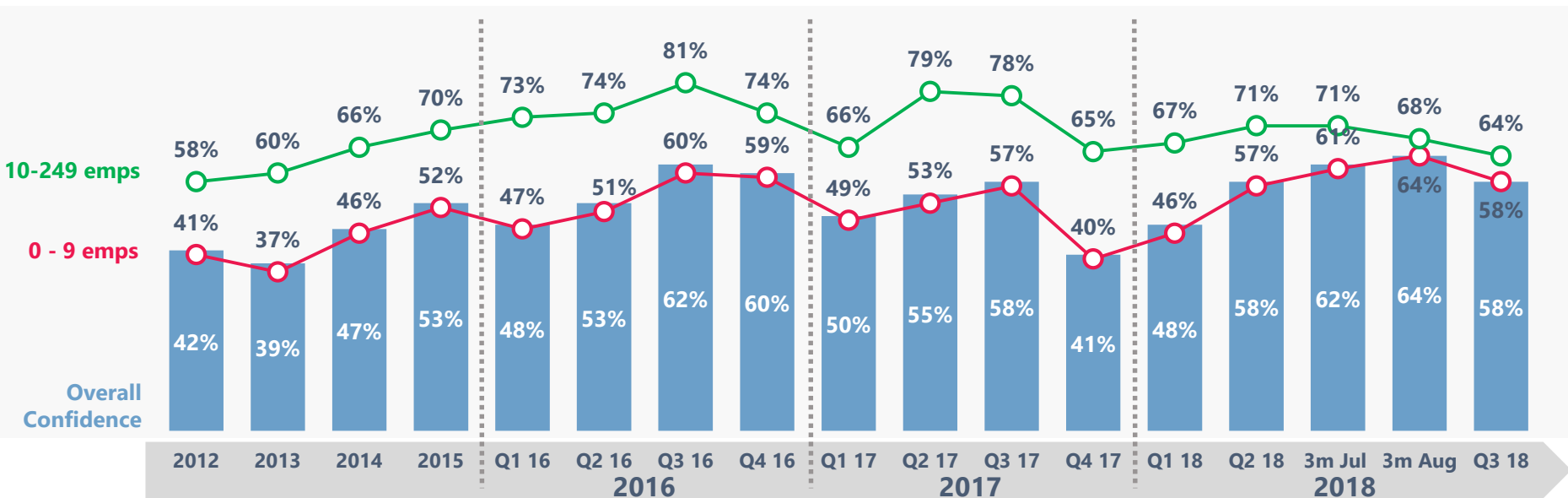


Would-be seekers of finance are those who can see a barrier to them making an application for loan or overdraft finance in future, such as the current economic climate or a belief that they would not be successful if they applied. Those who only import have typically been more likely to expect to be a would-be seeker of finance, but there is currently little difference between the groups. \* See previous slide, for planning to apply



# Confidence amongst SMEs planning to apply for bank finance has declined slightly recently, but remains in line with Q2 2018

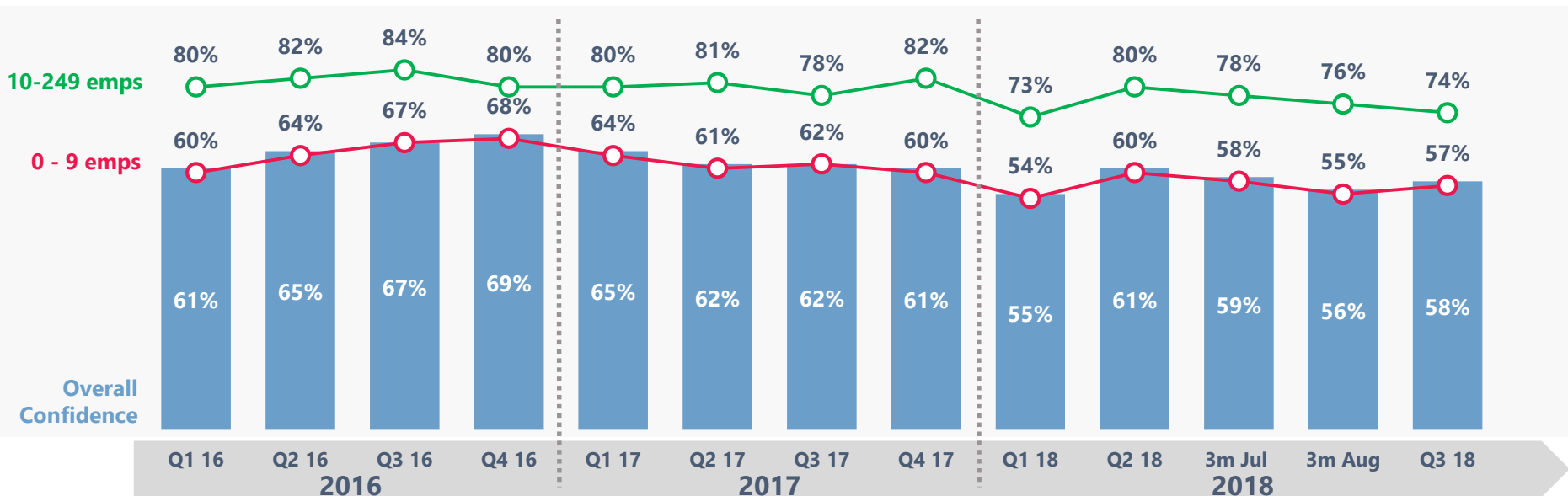
*Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by size*



During 2017 confidence was somewhat lower and more volatile (it was 50% for the year as a whole compared to 55% in 2016). In 2018, overall confidence improved to 64% for the 3 months to August, but fell back slightly for the 3 months to September (58%) albeit still ahead of 2017 overall.

# Confidence for hypothetical applicants is somewhat lower in 2018 than in 2017 and is no longer ahead of applicant confidence

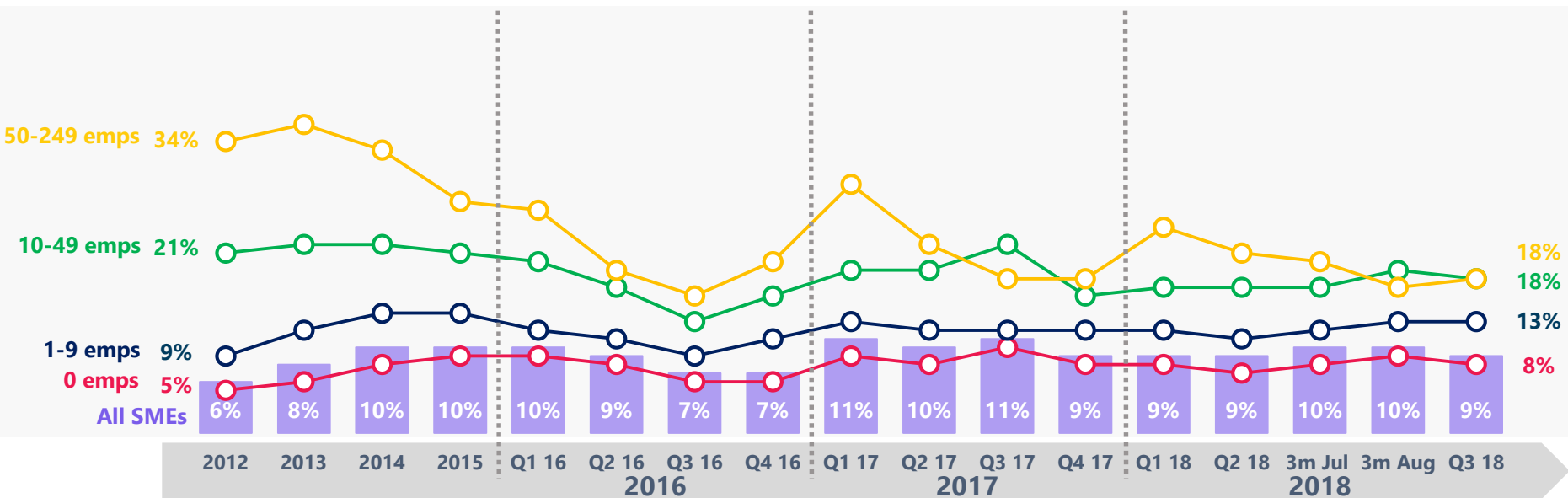
Time series: Confidence (very/fairly) bank would agree to facility next 3 months – by size



Around 6 in 10 (56%) 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. Hypothetical applicants are now as confident as 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

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 has been 1 in 10 consistently in 2018 to date.

# 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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