

# 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 2018 (YEQ4 18).

## KEY FINDINGS

**Growth:** 4 in 10 SMEs (39%) reported having grown in the 12 months prior to interview, with 2% having grown by 40% or more.

- The proportion that have grown has varied very little over time (39-42% since 2013), but since 2016 an increasing minority of SMEs have reported a decline (10% in 2016 to 17% in 2018), albeit not quite back to levels seen in 2012 (21%)
- A consistent quarter of SMEs (26%) said their business had developed ‘quite a bit’ over the last three years, while 10% had retrenched. Most, 63%, said the business was ‘recognisably the same’ as before

**Profitability:** Between 2012 and 2017 the proportion of SMEs reporting a profit increased from 69% to 82%. The figure for 2018 was slightly lower (78%), due to slightly fewer 0 employee SMEs reporting a profit, although most did (77% from 81%).

- An increasing proportion of SMEs said that improving their profit margin was a priority – from 22% in Q1 2018 to 36% in Q4 and 30% for 2018 as a whole

**Credit balances:** 23% of SMEs held more than £10,000 in credit balances and this has been stable since 2015. 8 in 10 who held such balances said that it reduced their need for external finance, the equivalent of 1 in 10 of all SMEs.

- The proportion of SMEs with 10-49 or 50-249 employees that hold £10,000 or more of credit balances has increased steadily (to 75% and 91% respectively in 2018) while the proportion of smaller SMEs with such balances has stabilised
- Where available, having £10,000 of credit balances was more likely to reduce the need for external finance (82%) than having access to trade credit (68% of a different group of SMEs)
- Overall, 29% of SMEs said their need for finance was reduced by either £10,000 of credit balances or having access to trade credit

**International:** 15% of SMEs traded internationally and this was little changed over recent years

- 18% of exporters made half or more of their total sales overseas, with little variation by size. A quarter (28%) made all or most of their sales to the EU, declining by size of SME. There was no clear pattern over time
- 16% of all SMEs with employees said that they employ staff from overseas, typically from the EU (14%) rather than further afield (5%), increasing to half of all SMEs with 50-249 employees (56%). The proportion employing overseas staff was somewhat lower in 2018 (16%) than it was in H2 2017 when this question was first asked (23%)
- 51% of SMEs with overseas employees were concerned about possible changes to migration rules (the equivalent of 8% of all employers) and this was higher than in H2 2017 (42%)

**Managing the business:** The proportions of SMEs that plan (56%) or have a qualified person in charge of the finances (25%) have been stable over time, but there has been a continued decline in the proportion that have innovated (33% in 2018 from 40% in 2012)

- 83% of SMEs sell to consumers and 55% to other businesses (37% sell to both). Larger SMEs and exporters were somewhat more likely to sell to businesses and less likely to sell to consumers. A third of those selling to businesses had more than 50 customers

**The banking relationship:** Most SMEs described their relationship with the bank as ‘fine but transactional’ (63%) and levels of switching remained low (2%)

- 15% of SMEs didn’t have an active relationship with their bank and wished that they did, and this has increased slightly since 2016 (12%)
- 55% had a high level of trust in their main bank compared to 25% in the banking industry generally. 23% had a high level of trust in both

This chapter presents an overview of the characteristics of SMEs in the UK and has been largely unaffected by the changes made to the questionnaire in Q1 2018. Unless otherwise stated, figures are based on the 18,002 interviews conducted in the year ending Q4 2018 (that is Q1, Q2, Q3 and Q4 of 2018). SMEs have faced a range of trading challenges since the SME Finance Monitor started, with the UK economy seeing differing levels of growth, a number of General Elections and the 2016 EU referendum. Analysis of this data over time provides an indication of how SMEs have managed as conditions have changed.

## PROFITABILITY

In Q4 2018, 69% 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, but once these answers have been excluded, a stable 8 in 10 SMEs reported making a profit (78% in Q4 2018):

### Business performance last 12 months

Over time	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2016	2017	2017	2017	2017	2018	2018	2018	2018
<b>Unweighted base:</b>	4500	4500	4507	4505	4500	4500	4500	4502	4500
Made a profit	74%	75%	78%	76%	75%	69%	74%	68%	69%
Broke even	14%	11%	8%	9%	11%	10%	10%	13%	11%
Made a loss	7%	7%	7%	7%	7%	10%	7%	8%	8%
DK/refused	6%	7%	7%	9%	7%	12%	10%	11%	12%
<b>Median profit made</b>	<b>£9k</b>	<b>£10k</b>	<b>£9k</b>	<b>£9k</b>	<b>£9k</b>	<b>£9k</b>	<b>£9k</b>	<b>£8k</b>	<b>£9k</b>
<b>Made profit (excl DK)</b>	<b>78%</b>	<b>81%</b>	<b>84%</b>	<b>83%</b>	<b>81%</b>	<b>77%</b>	<b>81%</b>	<b>76%</b>	<b>78%</b>

Q115 (241) 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 2018, 70% of all SMEs had been profitable (78% once the DK answers were excluded), increasing by size of SME as the table below shows. The median profit, where made, was £9k, and the median loss £2k. Both have been stable over time and increase by size of SME:

<b>Business performance last 12 months</b>		0	1-9	10-49	50-249
YEQ4 18 – all SMEs	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>18,002</b>	<b>3602</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
Made a profit	70%	69%	72%	76%	78%
Broke even	11%	12%	9%	6%	6%
Made a loss	8%	9%	7%	5%	7%
DK/refused	11%	11%	12%	12%	9%
<b>Made profit (excl DK)</b>	<b>78%</b>	<b>77%</b>	<b>82%</b>	<b>87%</b>	<b>86%</b>
<b>Median profit made*</b>	<b>£9k</b>	<b>£7k</b>	<b>£14k</b>	<b>£56k</b>	<b>£249k</b>
<b>Median loss made*</b>	<b>£2k</b>	<b>£2k</b>	<b>£5k</b>	<b>£14k</b>	<b>£156k</b>

Q115 (241) All SMEs/ \* All SMEs making a profit/loss and revealing the amount

Amongst SMEs with employees, 83% reported making a profit YEQ4 2018 (excluding the DK and refused answers).

Looking back over recent quarters, there has been relatively little variability in overall levels of profitability, albeit SMEs in 2017 were slightly more likely to report a profit than those in 2018 (82% v 78% for the year as a whole). 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									
Row percentages	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2016	2017	2017	2017	2017	2018	2018	2018	2018
All SMEs	78%	81%	84%	83%	81%	77%	81%	76%	78%
0 employee	77%	80%	83%	82%	79%	76%	80%	74%	76%
1-9 employees	81%	84%	83%	85%	85%	80%	83%	83%	83%
10-49 employees	87%	90%	87%	89%	88%	87%	87%	89%	86%
50-249 employees	87%	87%	91%	83%	86%	84%	87%	86%	84%

Q115 (241) All SMEs excluding DK

The proportion reporting a profit YEQ4 2018 did not vary much by sector (once the DK answers were excluded), from 75% for Hotels & Restaurants, Wholesale/Retail and Agriculture to 81% for Manufacturing:

#### Business performance last 12 months

YEQ4 18 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop / Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	1200	1500	3200	1800	1200	2001	3599	1502	2000
Made a profit	68%	72%	68%	65%	67%	68%	73%	71%	70%
Broke even	13%	9%	12%	12%	13%	11%	10%	12%	12%
Made a loss	9%	8%	6%	9%	9%	9%	9%	6%	9%
DK/refused	10%	11%	13%	13%	11%	12%	9%	10%	10%
<b>Made profit (excl DK)</b>	<b>75%</b>	<b>81%</b>	<b>79%</b>	<b>75%</b>	<b>75%</b>	<b>77%</b>	<b>80%</b>	<b>80%</b>	<b>78%</b>
<b>Median profit made*</b>	<b>£9k</b>	<b>£8k</b>	<b>£8k</b>	<b>£11k</b>	<b>£11k</b>	<b>£9k</b>	<b>£10k</b>	<b>£5k</b>	<b>£7k</b>
<b>Median loss made*</b>	<b>£2k</b>	<b>£3k</b>	<b>£2k</b>	<b>£4k</b>	<b>£4k</b>	<b>£2k</b>	<b>£2k</b>	<b>£2k</b>	<b>£2k</b>

Q115 (241) All SMEs/ \* All SMEs making a profit/loss and revealing the amount

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Median profits reported for YEQ4 2018 varied somewhat by sector (£5-11k) with little change over time. Reported median losses for YEQ4 2018 were £2k overall and for almost all sectors.

The table below takes a longer term view of profitability (back to 2012 and also 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%), while the figure for 2018 was somewhat lower (78%).

The proportion making a profit has increased over time across all size bands, but notably for those with 0 employees (67% to 81% 2012-17) albeit the 2018 figure of 77% was somewhat lower. Between 2012 and 2015, Permanent non-Borrowers with no apparent appetite for finance were more likely to be profitable than their peers, but since then there has been little to choose between the two groups:

<b>Made a profit in last 12 months</b>							
Over time (excl DK)							
By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018
All	69%	70%	77%	80%	80%	82%	78%
0 emp	67%	69%	75%	79%	79%	81%	77%
1-9 emps	72%	75%	81%	82%	83%	84%	82%
10-49 emps	80%	81%	86%	87%	88%	88%	87%
50-249 emps	81%	84%	88%	90%	89%	87%	86%
Minimal external risk rating	83%	83%	84%	84%	86%	88%	85%
Low	81%	84%	82%	87%	86%	90%	84%
Average	71%	73%	80%	82%	82%	84%	79%
Worse than average	63%	65%	72%	76%	77%	78%	75%
Agriculture	74%	73%	79%	78%	77%	81%	75%
Manufacturing	69%	74%	80%	81%	81%	83%	81%
Construction	67%	68%	78%	80%	81%	86%	79%
Wholesale/Retail	67%	70%	74%	79%	82%	79%	75%
Hotels & Restaurants	59%	65%	73%	75%	79%	78%	75%
Transport	65%	66%	76%	78%	78%	77%	77%
Property/ Business Services	73%	73%	80%	81%	81%	84%	80%
Health	70%	69%	76%	78%	77%	83%	80%
Other	66%	73%	67%	83%	79%	79%	78%
PNBs	74%	73%	80%	82%	80%	83%	79%
All excl PNBs	66%	69%	74%	78%	80%	82%	77%

Q115 (241) All SMEs excl DK

From Q1 2018 SMEs were asked whether increasing their profit margin was a key priority for the business. YEQ4 2018, 30% of all SMEs said that it was, increasing by size of SME:

- 28% of SMEs with 0 employees said it was a priority
- 34% of SMEs with 1-9 employees
- 40% of SMEs with 10-49 employees
- 51% of SMEs with 50-249 employees said it was a priority.

35% of SMEs with employees said that improving profit margins was a key priority.

Further analysis showed that for 2018 as a whole

- There was little variation by risk rating in the proportion saying it was a priority (28-31%).
- Excluding the Permanent non-borrowers increased the proportion saying it was a priority to 34% (compared to 25% of PNBs).
- 36% of those using finance, and 39% of those planning to grow in the next 12 months, said it was a priority (compared to 26% of those not using finance and 21% not planning to grow).
- Those trading for 2-5 years were the most likely to say it was a priority (35%) compared to 27% of those trading for more than 15 years and 29-30% of other SMEs.
- Those in Wholesale/Retail or Property/Businesses Services were somewhat more likely to say it was a priority (both 33%), while those in Health were the least likely (21%).
- Those who had made a profit in the last year were as likely to say that improving profit margins was a priority (30%) as those who had made a loss (31%), with those who broke even somewhat less likely to agree (24%):
  - Analysis by size of SME showed improving profit margins was an equal priority for 0 employee and 1-9 employee SMEs whether they had previously made a profit or a loss.
  - It was slightly more of a priority for SMEs with 10-49 employees if they had made a loss (44%) than a profit (40%) and this was even more likely to be the case for those with 50-249 employees (62% if they made a loss compared to 53% if they had made a profit).

Over the four quarters of 2018 when this question has been asked, the proportion citing the improvement of profit margins as a priority has increased, especially in the second half of the year (from 22% in Q1 to 26% in Q2, 33% in Q3 and 36% in Q4). This was driven by the smallest SMEs (20% to 36% between Q1 and Q4 2018 for those with 0 employees).

## 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. From Q1 2018, the information collected on both past and future growth was extended to identify those growing by 40% or more (previously the highest growth rate recorded was 20% or more).

Those that had grown by 20% or more have continued to be asked whether they had also achieved this level of growth in each of the previous 2 years (also known as scaleup growth and reported on later in this chapter).

The table below provides the previous “Grown by 20% or more” code for all recent quarters but, where available, also now provides data on those who had grown by 40% or more.

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, albeit slightly lower in Q3 and Q4 2018 at 37%. Within that total, the proportion growing by 20% or more has increased since the start of 2017 from under to over 10%, with a stable 2% having grown by more than 40%:

<b>Growth achieved in last 12 months</b>									
All SMEs excluding Starts By date of interview	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
<b>Unweighted base:</b>	<b>3665</b>	<b>3742</b>	<b>3716</b>	<b>3602</b>	<b>3649</b>	<b>3914</b>	<b>3914</b>	<b>3899</b>	<b>3846</b>
Grown by 20% or more	8%	6%	9%	10%	10%	12%	14%	11%	12%
• Grown by 40%+	-	-	-	-	-	2%	2%	2%	2%
• Grown by 20-40%	-	-	-	-	-	9%	12%	9%	10%
Grown but by < 20%	31%	32%	37%	31%	32%	30%	27%	26%	25%
<b>Grown</b>	<b>39%</b>	<b>38%</b>	<b>46%</b>	<b>41%</b>	<b>42%</b>	<b>42%</b>	<b>41%</b>	<b>37%</b>	<b>37%</b>
Stayed the same	52%	48%	44%	47%	49%	43%	44%	46%	45%
Declined	10%	14%	10%	12%	10%	15%	15%	17%	19%

Q81 (245a) All SMEs trading for 3 years or more excl DK

The table below shows results for the new extended question, based on the 4 quarters of 2018 combined to maximise base sizes. 39% of all SMEs (excluding Starts) reported having grown. Similar small proportions of SMEs of all sizes achieved growth of 40% or more (1-3%) or growth of 20-40% (9-13%). There was more variation by size in the proportion of those growing by up to 20% and hence for growth overall, which increased by size of SME from 35% of those with 0 employees to 65% of those with 50-249 employees:

<b>Growth achieved in last 12 months</b>		0	1-9	10-49	50-249
YEQ4 18 – all SMEs (excluding Starts)	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>15,573</b>	<b>2527</b>	<b>4945</b>	<b>5410</b>	<b>2691</b>
Grown by more than 40%	2%	2%	3%	2%	1%
Grown by 20-40%	10%	9%	12%	13%	11%
Grown by less than 20%	27%	24%	31%	40%	53%
<b>Grown (any)</b>	<b>39%</b>	<b>35%</b>	<b>46%</b>	<b>55%</b>	<b>65%</b>
Stayed the same size	44%	46%	42%	37%	22%
Declined	17%	19%	12%	8%	13%

Q81 (245a) All SMEs trading for 3 years or more excl DK

Larger SMEs remained more likely to report growth than smaller ones. As the analysis below shows, younger SMEs were also more likely to report growth than those trading for longer, but there was relatively little difference by external risk rating:

Business Growth	Further analysis (excluding Starts) YEQ4 18
Risk rating	<p>The proportion growing by 40% or more did not vary by risk rating (all 2%). Those with a worse than average risk rating were slightly more likely to have grown by 20-40% (12%) compared to 9% for other risk ratings.</p> <p>There was little difference in overall growth between those with a minimal risk rating (40% had grown), a low risk rating (41%) or a worse than average risk rating (41%). Those with an average risk rating were slightly less likely to have grown (36%).</p>
Age of business	<p>Those trading for 2-5 years were the most likely to have grown by 40% or more (5% v 1-2% for other age bands). The proportion of SMEs achieving 20-40% growth declined by age of business, from 18% of those trading for 2-5 years to 7% of those trading for 15+ years.</p> <p>Overall growth was also higher for younger businesses: 58% of those trading for 2-5 years and 45% of those trading for 6-9 years had grown, compared to 35% of those trading for 10-15 years and 31% of those trading for more than 15 years.</p>
Sector	<p>The proportion growing by 40% or more varied little by sector (1-3%). 12% of SMEs in Manufacturing reported growth of 20-40%, compared to 7% of those in Agriculture, who were also less likely to have grown at all (33%) as were those in Construction (34%). The most likely to have grown were those in Wholesale/Retail (45%) and Health (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 (43%), compared to 35% of Would-be seekers and 39% of Happy non-seekers.</p> <p>Permanent non-borrowers (with no immediate appetite for finance) were as likely to have grown by 20% or more as those who did not meet the definition (both 12%) but slightly less likely to have grown at all (37% v 42%).</p>

The table below takes a longer term view of growth by key demographics and shows a consistent 4 in 10 SMEs (excluding Starts) having grown in each period. SMEs with 0 employees reported fairly consistent levels of growth over time but with slightly fewer having grown in 2018 (35%). Growth levels amongst those with 1-9 or 10-49 SMEs have been stable since 2014, whilst those with 50-249 employees were more likely to report growth in 2018 than before:

<b>Growth achieved in last 12 months</b>						
<b>All SMEs over time (excluding Starts)</b>						
<b>By date of interview – row percentages</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
All	40%	42%	39%	40%	42%	39%
0 emp	38%	39%	36%	37%	39%	35%
1-9 emps	43%	48%	45%	48%	47%	46%
10-49 emps	49%	55%	56%	55%	56%	55%
50-249 emps	54%	61%	57%	55%	59%	65%
Minimal external risk rating	36%	44%	38%	45%	46%	40%
Low	40%	40%	39%	43%	43%	41%
Average	35%	38%	37%	37%	40%	36%
Worse than average	44%	45%	41%	41%	42%	41%
Agriculture	40%	40%	31%	36%	40%	33%
Manufacturing	44%	46%	45%	45%	41%	41%
Construction	35%	37%	35%	36%	41%	34%
Wholesale/Retail	38%	46%	43%	47%	45%	45%
Hotels & Restaurants	37%	43%	45%	44%	45%	42%
Transport	35%	38%	35%	39%	36%	38%
Property/ Business Services	44%	42%	41%	41%	43%	40%
Health	40%	45%	38%	34%	43%	43%
Other	44%	45%	41%	42%	42%	41%
PNBs	38%	40%	37%	39%	40%	37%
All excl PNBs	41%	43%	41%	41%	44%	42%

Q81 (245a) All SMEs trading for 3 years or more excl DK

Over the course of 2018 an increasing proportion of SMEs (excluding Starts) reported a decline in size in the previous 12 months (19% for Q4 2018 and 17% for the year as a whole, up from 11% in 2017).

Longer term analysis in the table below, showed that this proportion had previously been somewhat higher (21% in 2012), then declined over time (to 10% in 2016) before starting to increase again in 2018 (17%) but not yet back to 2012 levels:

<b>Reported a decline</b> (Where provided) over time By date of interview	2012	2013	2014	2015	2016	2017	2018
All SMEs	21%	19%	14%	12%	10%	11%	17%
0 employees	22%	20%	15%	13%	11%	12%	19%
1-9 employees	19%	17%	12%	9%	9%	9%	12%
10-49 employees	14%	14%	8%	7%	6%	7%	8%
50-249 employees	13%	12%	6%	6%	9%	11%	13%

Q81 (245a) All SMEs trading for 3 years or more excl DK

Analysis by size of SME showed that this trend was driven by the 0 employee SMEs, who were also the most likely to report a decline.

Analysis by sector for 2018 showed more declining SMEs in Transport (19%), Manufacturing, Property & Business services and Other Community (all 18%)

## SCALEUP GROWTH

In 2018, 12% of SMEs (excluding Starts) reported that they had grown by 20% or more in the previous 12 months, with limited variation by size (11-15%). This proportion was back to levels seen in 2014 (13%) and slightly higher than the 9% of SMEs reporting such growth in 2016 and 2017. Since 2013, typically a third of SMEs who have grown at all have grown by 20% or more but in 2016 and 2017 this fell to 2 in 10, before returning to 3 in 10 for 2018.

Amongst those who reported for 2018 that they had grown by 20% or more, half (51%) went on to report that they had also achieved this level of growth for each of the two previous years (this was slightly lower than the 57% in 2017).

- This is the equivalent of 6% of SMEs (excluding Starts) reporting having grown by 20% or more for the last 3 years.
- Those with 0 employees were slightly less likely to have achieved such growth (5%) compared to 7-8% of those with employees.

From Q1 2018, an additional question was asked of the remaining SMEs (excluding Starts) that had not achieved scale up growth in the last 3 years. This asked whether they had achieved scale up growth (3 consecutive years growth at 20% or more) at any time in the last 10 years.

- 15% of these SMEs said that they had, the equivalent of 14% of all SMEs (excluding Starts).
- The smallest and largest SMEs were somewhat less likely to have achieved such growth (12% for those with 50-249 employees and 13% for 0 employee SMEs compared to 18% for those with 1-9 or 10-49 employees).

This means that overall, 20% of SMEs (excluding Starts) had achieved a period of scale up growth, either recently or in the last 10 years (the equivalent of 16% of all SMEs).

The table below shows the proportion of scaleups, using the new definition, by key demographics for 2018:

- Those with 1-9 or 10-49 employees were more likely to have achieved this level of growth.
- There was little difference by risk rating or whether the business met the definition of a Permanent non-borrower or not.
- With the exception of the Health sector (13%) and Agriculture (15%) there was also little difference by sector (18-23%).

<b>Achieved scale up growth in last 10 years</b>	
All SMEs over time (excluding Starts)	
By date of interview – row percentages	2018
All	20%
0 emp	18%
1-9 emps	25%
10-49 emps	25%
50-249 emps	17%
Minimal external risk rating	18%
Low	20%
Average	19%
Worse than average	20%
Agriculture	15%
Manufacturing	23%
Construction	19%
Wholesale/Retail	21%
Hotels & Restaurants	22%
Transport	20%
Property/ Business Services	21%
Health	13%
Other	18%
PNBs	19%
All excl PNBs	21%

Q81/83 All SMEs excl Starts

Those trading for 2-5 years were the most likely to have achieved this level of growth (25%), declining slightly to 17% of those trading for more than 15 years.

Analysis of these Scaleups showed that they were more likely to be innovative (45%), international (22%), and planning to grow (57%) than their peers. They were slightly more likely to be using external finance (albeit half met the definition of a Permanent non-borrower), and to have an appetite for finance looking forward:

### Profile of Scaleups

YEQ4 18 – all SMEs excluding Starts	Total	Scaleup	Not scaleup
<b>Unweighted base:</b>	<b>16,187</b>	<b>3438</b>	<b>12,749</b>
Have employees	29%	36%	27%
Use external finance	32%	35%	31%
Permanent non-borrower	52%	50%	53%
Innovative	35%	45%	32%
International	16%	22%	14%
Plan to grow	43%	57%	39%
Plan growth activity	37%	50%	34%
Plan to apply for finance	9%	15%	8%
Future would-be seeker	12%	10%	13%
Future happy non-seeker	78%	75%	79%

Q88 All SMEs trading for 3 years or more

## PAST AND FUTURE GROWTH COMPARISONS

The Monitor records both *past* growth achieved and *future* growth expectations. This allows a comparison to be made between growth expectations recorded at a point in time and growth subsequently achieved, albeit that these are based on **different** samples of SMEs and so do not provide 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.

Having previously been quite a close match, more recently there have been variations between the growth predicted and subsequently achieved. The growth predictions made in Q3 and Q4 2015 (43-44%) were not entirely achieved in Q4 2016 and Q1 2017 (38%), whereas the growth predictions in Q1-Q3 2016 (37-39%, during and immediately after the referendum) were subsequently bettered (by a different group of SMEs) in Q2-Q4 2017 (41-46%). The latest available data shows that the growth predictions made in Q2 and Q3 2017 were not entirely achieved in Q3 and Q4 2018:

### Growth predictions against expectations

All SMEs excluding Starts By date of interview	All SMEs	All SMEs	0-9 emps	0-9 emps	10-249 emps	10-249 emps
	Predicted growth	Achieved growth	Predicted growth	Achieved growth	Predicted growth	Achieved growth
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%	42%	41%	41%	61%	57%
Predicted Q1 17/Achieved Q2 18	40%	41%	38%	40%	62%	55%
Predicted Q2 17/Achieved Q3 18	41%	37%	40%	36%	66%	57%
Predicted Q3 17/Achieved Q4 18	39%	36%	38%	35%	62%	57%
Predicted Q4 17/Achieved Q1 19	40%		39%		67%	

Q81 and 91 (225a 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, and this is true for the latest period (62% v 57%).

## AN ALTERNATIVE ASSESSMENT OF GROWTH AND DEVELOPMENT

From Q1 2018, SMEs (excluding Starts) have been asked to give an overall assessment of how their business has changed in the last 3 years. For 2018 as a whole:

- 26% said that ‘it had developed quite a bit from where it was and/or is doing new things’
- 63% said that ‘it was recognisably the same business in terms of size and structure’
- 10% said that ‘it had retrenched and is now more focussed on a few core aspects of the business’.

As the table below shows, larger SMEs were more likely to say that their business had developed:

Development in last 3 years		0	1-9	10-49	50-249
YEQ4 18 – all SMEs excluding Starts		emp	emps	emps	emps
<b>Unweighted base:</b>	<b>16,187</b>	<b>2600</b>	<b>5099</b>	<b>5702</b>	<b>2786</b>
Developed quite a bit	26%	24%	29%	40%	43%
Recognisably the same	63%	65%	61%	53%	51%
Retrenched	10%	11%	10%	7%	6%

Q88 All SMEs trading for 3 years or more

Amongst SMEs with employees, 31% had developed, 9% had retrenched and 60% were recognisably the same.

Analysis by age of business shows younger businesses more likely to have developed while 7 in 10 of the oldest SMEs were recognisably the same:

#### Development in last 3 years

YEQ4 18 – all SMEs excluding Starts	Total	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
<b>Unweighted base:</b>	<b>16,187</b>	<b>1722</b>	<b>2219</b>	<b>3072</b>	<b>9174</b>
Developed quite a bit	26%	38%	33%	27%	18%
Recognisably the same	63%	54%	57%	62%	71%
Retrenched	10%	8%	10%	11%	11%

Q88 All SMEs trading for 3 years or more

Further analysis showed that:

- Those with an average risk rating were slightly less likely to have developed (24%) compared to other risk ratings (26-28%).
- By sector, the proportion where the business had developed varied from 22% for those in Agriculture and Construction to 34% of those in Wholesale/Retail and 33% in Health.
- Those who had grown by 20% or more in the previous year were more likely to have developed the business (49%).
- Those using finance were more likely to have developed the business (32%) than those not using finance (24%). Excluding the Permanent non-borrowers increases the proportion that had developed the business to 30% of remaining SMEs (compared to 23% of PNBs). 36% of those who had innovated in the last 3 years had developed the business (compared to 21% who had not innovated).

Analysis also showed that there was little variation across these different demographic groups in the proportion that had ‘retrenched’, with around 1 in 10 SMEs having done so in each group.

Those who had developed their business were more likely to have been innovative (47%), to have grown (60%) and to be planning to grow (62%) and slightly more likely to be using finance (39%), albeit almost half (46%) met the definition of a PNB.

Almost half of those who had retrenched said their business had declined in size (46%) in the past year. Looking forward, a third of 'retrenchers' planned to grow (34%) and they had more of an appetite for future finance (33%) although over half of them (19%) expected to be a would-be seeker of finance rather than an applicant.

### Development in last 3 years

YEQ4 18 – all SMEs excluding Starts	Developed	The same	Retrenched
<b>Unweighted base:</b>	<b>5568</b>	<b>9322</b>	<b>1297</b>
Have employees	34%	27%	26%
Use external finance	39%	29%	36%
Permanent non-borrower	46%	56%	41%
Innovative	47%	30%	31%
International	18%	14%	20%
Have grown	60%	33%	25%
Have declined	8%	15%	46%
Plan to grow	62%	36%	34%
Plan growth activity	55%	29%	36%
Plan to apply for finance	13%	7%	14%
Future would-be seeker	11%	11%	19%
Future happy non-seeker	76%	81%	67%

Q88 All SMEs trading for 3 years or more

## 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 (88%) 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. It has been broadly stable with typically just under half of SMEs having a worse than average risk rating (42% in Q4 2018):

### External risk rating

All SMEs (where provided) over time

By date of interview	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
<b>Unweighted base:</b>	<b>4108</b>	<b>4175</b>	<b>4112</b>	<b>4140</b>	<b>4181</b>	<b>4210</b>	<b>4175</b>	<b>4147</b>	<b>4066</b>
Minimal risk	6%	7%	5%	7%	6%	7%	7%	7%	8%
Low risk	16%	15%	14%	17%	16%	14%	17%	16%	16%
Average risk	27%	35%	33%	34%	30%	28%	30%	28%	34%
Worse than average risk	51%	42%	48%	42%	49%	51%	46%	50%	42%

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 from 16% in 2012 to 25% in 2015 and has been broadly stable since (23% in 2018):

<b>External risk rating</b>							
<b>(Where provided)</b>							
<b>over time</b>							
<b>By date of interview</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Unweighted base:</b>	<b>18,270</b>	<b>18,183</b>	<b>18,330</b>	<b>18,301</b>	<b>16,451</b>	<b>16,608</b>	<b>16,598</b>
Minimal risk	5%	6%	7%	8%	7%	6%	7%
Low risk	11%	10%	15%	17%	15%	15%	16%
Average risk	31%	29%	32%	29%	29%	33%	30%
Worse than average risk	53%	54%	45%	46%	49%	45%	47%

All SMEs where risk rating provided

The overall YEQ4 2018 ratings are shown below by size of SME and continue to report a better risk profile for larger SMEs. 80% of SMEs with 50-249 employees had a minimal or low risk rating compared to 16% of those with 0 employees:

<b>External risk rating</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>YEQ4 18 – all SMEs where rating provided</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>16,598</b>	<b>3166</b>	<b>5156</b>	<b>5572</b>	<b>2704</b>
Minimal risk	7%	5%	11%	23%	39%
Low risk	16%	11%	25%	50%	41%
Average risk	30%	31%	27%	21%	14%
Worse than average risk	47%	53%	36%	6%	5%

All SMEs where risk rating provided

Amongst SMEs with employees, 44% had a minimal or low external risk rating, 26% an average risk rating and 30% a worse than average risk rating.

Analysis for YEQ4 2018 by sector showed that SMEs in Agriculture remained much more likely than other sectors to have a minimal or low risk rating (48% YEQ4 2018 including 27% with a minimal risk rating) while those in the Other Community sector were the least likely to have such a rating (16%):

#### External risk rating

YEQ4 18	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>1078</b>	<b>1399</b>	<b>2967</b>	<b>1687</b>	<b>1121</b>	<b>1816</b>	<b>3325</b>	<b>1358</b>	<b>1847</b>
Minimal risk	27%	7%	5%	9%	3%	7%	5%	12%	4%
Low risk	21%	17%	14%	23%	24%	12%	14%	24%	12%
Average risk	20%	34%	30%	27%	26%	32%	29%	28%	35%
Worse than average risk	32%	42%	51%	40%	47%	49%	52%	36%	49%
<b>Total Min/Low</b>	<b>48%</b>	<b>24%</b>	<b>19%</b>	<b>32%</b>	<b>27%</b>	<b>19%</b>	<b>19%</b>	<b>36%</b>	<b>16%</b>

All SMEs where risk rating provided

The table below shows the proportion with a worse than average risk rating over time, by key demographics:

- The proportion of SMEs with a worse than average risk rating has fallen over time from above to below 50%.
- The overall risk profile is driven by the ratings for 0 employee SMEs. Amongst the 0 employee SMEs the proportion with a worse than average risk rating has varied over time (50-60%) and in 2018 was at the lower end of this range (53%).
- 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 was a more consistent decline between 2012 and 2016 in the proportion with a worse than average risk rating. This has now stabilised, and they remained the least likely to have this rating.
- PNBs have been as likely as other SMEs to have a worse than average risk rating, except in 2015 and 2016 when they were more likely.
- The sectors most likely to have a worse than average risk rating were Construction (51% but down from 64% in 2013) and Property/Business Services (52% and fairly stable over time).

<b>Worse than average external risk rating</b>							
All SMEs over time							
By date of interview							
– row percentages	2012	2013	2014	2015	2016	2017	2018
All	53%	54%	45%	46%	49%	45%	47%
0 emp	58%	60%	50%	52%	56%	50%	53%
1-9 emps	43%	43%	37%	34%	35%	37%	36%
10-49 emps	17%	17%	11%	9%	7%	7%	6%
50-249 emps	13%	15%	9%	6%	5%	4%	5%
Agriculture	31%	31%	22%	29%	28%	30%	32%
Manufacturing	55%	48%	40%	39%	38%	39%	42%
Construction	61%	64%	54%	54%	57%	54%	51%
Wholesale/Retail	45%	50%	43%	39%	44%	43%	40%
Hotels & Restaurants	56%	53%	49%	46%	43%	46%	47%
Transport	64%	62%	56%	59%	62%	56%	49%
Property/ Business Services	52%	54%	45%	47%	49%	42%	52%
Health	34%	35%	34%	34%	33%	32%	36%
Other	55%	57%	41%	47%	50%	43%	49%
PNBs	53%	55%	45%	51%	51%	46%	46%
All excl PNBs	53%	54%	46%	42%	47%	45%	48%
Using external finance	49%	50%	43%	39%	44%	43%	46%
Not using finance	56%	57%	46%	50%	52%	47%	48%

All SMEs where risk rating provided

## CREDIT BALANCES

Almost all SMEs hold some credit balances. In 2018, 4% did not hold any, and this proportion has changed relatively little over time. The table below shows the credit balances held YEQ4 2018, with clear variation by size of SME. 8 in 10 of the smallest SMEs held less than £10,000 of credit balances, while the same proportion of those with 50-249 employees held more than £50,000:

<b>Credit balances held</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>YEQ4 18 – all SMEs</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>9494</b>	<b>2186</b>	<b>3016</b>	<b>2756</b>	<b>1536</b>
None	4%	4%	4%	5%	1%
Less than £5,000	55%	63%	34%	12%	5%
£5,000 to £10,000	18%	18%	20%	8%	2%
£10,000 to £50,000	15%	12%	28%	26%	9%
More than £50,000	7%	3%	15%	49%	82%

Q117 (244) All SMEs excluding DK/refused

Analysis over time showed that 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 and £38,000 for 2018:

<b>Credit balances held</b>							
<b>Over time – all SMEs</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Unweighted base:</b>	<b>15,020</b>	<b>14,752</b>	<b>13,039</b>	<b>13,182</b>	<b>10,730</b>	<b>10,950</b>	<b>9494</b>
None	4%	4%	5%	3%	3%	4%	4%
Less than £5,000	66%	64%	58%	55%	57%	51%	55%
£5,000 to £10,000	14%	15%	17%	18%	18%	19%	18%
£10,000 to £50,000	11%	12%	14%	17%	15%	17%	15%
More than £50,000	5%	4%	6%	7%	6%	8%	7%
<b>Average balance held</b>	<b>£25k</b>	<b>£24k</b>	<b>£31k</b>	<b>£39k</b>	<b>£30k</b>	<b>£37k</b>	<b>£38k</b>

Q117 (244) All SMEs excluding DK/refused

The median value of credit balances held remained at £2,000 for YEQ4 2018. This amount continued to vary by size of SME, and for YEQ2 2018 was:

- £2,000 for 0 employee SMEs
- £6,000 for 1-9 employee SMEs
- £36,000 for 10-49 employee SMEs
- £223,000 for 50-249 employee SMEs.

The median value of credit balances did not vary by sector (£2-3k).

The table below shows the proportion of SMEs holding more than £10,000 in credit balances, and how this has changed over time.

- The proportion increased from 16% in 2012 to 24% in 2015 and has been stable since.
- All size bands are now more likely to hold £10,000 or more than they were in 2012, but those with a minimal risk rating were no more likely to be holding such balances.
- By sector, those in Wholesale/Retail or Hotels & Restaurants have always been more likely to hold £10,000 or more than other sectors and the proportion has increased over time to 33% in 2018
- The proportion using external finance who also held £10,000 or more in credit balances increased from 18% in 2012 to 31% in 2017 but was lower in 2018 (23%). 22% of SMEs that were not using external finance held £10,000 or more in credit balances in 2018 and this proportion has been stable since 2014.

<b>Hold £10,000 or more as credit balances</b>							
All SMEs over time							
By date of interview							
– row percentages	2012	2013	2014	2015	2016	2017	2018
All	16%	17%	20%	24%	22%	25%	23%
0 emp	10%	10%	14%	17%	14%	18%	15%
1-9 emps	32%	33%	38%	41%	41%	44%	42%
10-49 emps	66%	66%	68%	70%	72%	73%	75%
50-249 emps	77%	80%	82%	81%	82%	90%	91%
Minimal external risk rating	53%	51%	44%	43%	42%	48%	49%
Low	35%	36%	34%	44%	46%	45%	41%
Average	18%	17%	22%	25%	23%	25%	24%
Worse than average	10%	11%	14%	16%	15%	17%	14%
Agriculture	16%	19%	25%	26%	26%	26%	22%
Manufacturing	19%	22%	24%	32%	25%	29%	28%
Construction	13%	13%	16%	19%	17%	21%	18%
Wholesale/Retail	21%	21%	23%	28%	34%	36%	33%
Hotels & Restaurants	15%	21%	24%	27%	27%	30%	33%
Transport	12%	15%	17%	22%	17%	19%	24%
Property/ Business Services	20%	20%	25%	27%	25%	29%	26%
Health	8%	9%	13%	16%	13%	15%	15%
Other	13%	12%	18%	21%	18%	25%	15%
PNBs	17%	14%	19%	23%	19%	23%	23%
All excl PNBs	16%	18%	21%	25%	24%	27%	22%
Using external finance	18%	20%	23%	27%	27%	31%	23%
Not using finance	14%	14%	19%	22%	19%	22%	22%

Q117 (244) All SMEs excluding DK/refused

## IMPACT OF £10,000 OF CREDIT BALANCES

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 (82%) agreed that it did, with the largest SMEs slightly less likely to agree (69% for those with 50-249 employees).

The table below shows that this was the equivalent of 10% of all SMEs saying their need for external finance was lower due to the £10,000 or more of credit balances they held, increasing by size of SME:

<b>Impact of £10k+ of credit balances</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>YEQ4 2018 – all SMEs</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>18,002</b>	<b>3602</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
£10k+ reduces need for external finance	10%	7%	18%	27%	33%
£10k+ does not reduce need for finance	2%	2%	4%	7%	15%
Hold less than £10k of credit balances	43%	49%	28%	10%	4%
No credit balances/DK/Refused	45%	43%	51%	56%	48%

Q118x (244x) All SMEs

Those currently using external finance were no more likely to say that it reduced their need for further finance (11%) than those not currently using finance (10%).

SMEs with £10,000 or more of credit balances and those using trade credit are asked whether this reduced their need for external finance:

- Where available, having £10,000 or more in credit balances was slightly more likely to reduce the SME's need for finance (82%) than having access to trade credit (68% - of a different group of SMEs).
- Overall, 29% of SMEs in 2018 said that their need for finance was reduced either through credit balances or trade credit, increasing by size of SME from a quarter of those with 0 employees to two thirds of those with 50-249 employees.
- The proportion of SMEs reporting a reduction in need for finance was slightly higher in 2016 and 2017 (both 32%).

The table below shows the actual use of external finance amongst those SMEs that 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 be using any external finance *at all* (51% to 44%) and after a slight increase in 2017, the proportion is back at 44% for 2018:

<b>Use of finance over time</b>							
<b>Over time</b>							
<b>All with £10k+ in credit balances</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b><i>Unweighted base:</i></b>	<b>6296</b>	<b>6319</b>	<b>5926</b>	<b>6376</b>	<b>5228</b>	<b>5804</b>	<b>5046</b>
Use any external finance	51%	52%	44%	44%	46%	49%	44%
• <i>Use core finance</i>	41%	40%	32%	35%	36%	38%	37%
Do not use finance	49%	48%	56%	56%	54%	51%	56%

In 2018, 56% of SMEs with £10,000 or more of credit balances did not use any external finance, back in line with 2014-2015.

## CREDIT BALANCES AS A PROPORTION OF TURNOVER

Further analysis provides data on 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 and 2017, 6 in 10 SMEs provided figures for both turnover and credit balances while in 2018 the proportion was 5 in 10.

As the table below shows, on average SMEs held credit balances that were the equivalent of 24% of their turnover. This has been consistent over time, however, the proportion holding the equivalent of 10% or less of turnover has increased from 41% in 2016 to 49% in 2018:

<b>% credit balances to turnover</b>			
<b>Over time – all SMEs</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b><i>Unweighted base:</i></b>	<b>9725</b>	<b>9795</b>	<b>8161</b>
<5%	20%	25%	23%
5-10%	21%	21%	26%
11-20%	42%	37%	34%
21-50%	8%	8%	8%
More than 50%	9%	9%	9%
<b><i>Average percentage held</i></b>	<b>23%</b>	<b>23%</b>	<b>24%</b>

Q117 (244) / 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 25% of their turnover in credit balances
- 1-9 employee SMEs held the equivalent of 20%
- 10-49 employee SMEs held the equivalent of 23%
- 50-249 employee SMEs held the equivalent of 17% of their turnover in credit balances.

The limited analysis available over time shows that these average percentage figures have changed very little since 2016:

<b>% credit balances to turnover</b>			
Over time			
Average percentage held	2016	2017	2018
All SMEs (excluding DK/refused)	23%	23%	24%
0 employee	24%	24%	25%
1-9 employees	21%	21%	20%
10-49 employees	22%	20%	23%
50-249 employees	19%	17%	17%

Q117 (244) / Q9 All SMEs excluding DK/refused

## 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 has varied between 52-60% over recent quarters (currently 60% for Q4 2018), while the proportion of SMEs trading internationally has been more stable (16%). 32% reported innovative activity, continuing the decline over time from 38% in Q1 2017, while a more consistent 1 in 10 had a business mentor and 1 in 4 a qualified person in charge of the finances:

Over time – all SMEs By date of interview	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
<b>Unweighted base:</b>	<b>4500</b>	<b>4500</b>	<b>4507</b>	<b>4505</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4502</b>	<b>4500</b>
Planning (any)	58%	60%	54%	59%	55%	56%	52%	55%	60%
- Produce regular management accounts	41%	48%	41%	42%	40%	41%	38%	41%	43%
- Have a formal written business plan	38%	32%	28%	33%	32%	29%	26%	28%	32%
International (any)	13%	16%	16%	17%	15%	13%	14%	15%	16%
- Export goods or services	7%	11%	10%	11%	9%	9%	9%	9%	10%
- Import goods or services	10%	10%	12%	12%	10%	9%	10%	10%	12%
Innovation (any)	36%	38%	30%	34%	34%	32%	31%	35%	32%
-New product or service (last 3 yrs)	14%	13%	12%	15%	16%	15%	14%	17%	15%
-Improved aspect of business	33%	35%	26%	29%	29%	28%	26%	30%	28%
Mentors	11%	12%	10%	10%	11%	10%	8%	11%	11%
Have qualified person in charge of finances	25%	26%	21%	23%	26%	25%	26%	24%	26%

Q84/129 (223/251) All SMEs

The table below provides further analysis by key demographics for YEQ4 2018. Larger SMEs and those with a minimal or low risk rating were typically more likely to undertake these activities:

### Business Formality Further analysis YEQ4 2018

Planning	<p>56% of all SMEs planned, increasing by size of business from 51% of those with 0 employees to almost all, 91%, of those with 50-249 employees.</p> <p>Younger SMEs were somewhat more likely to plan: 65% of Starts and 59% of those trading for 2-5 years planned compared to 51-54% of older SMEs.</p> <p>Those with a minimal (60%) or a low (62%) risk rating were more likely to plan, compared to 52% of those with an average rating and 55% of those with a worse than average risk rating.</p> <p>67% of SMEs in the Wholesale/Retail sector and 63% of SMEs in the Hotels &amp; Restaurant sector planned, compared to 47% of those in Construction. Amongst other sectors 55-59% planned.</p>
International	<p>15% of all SMEs were international, increasing by size of business from 13% of those with 0 employees to 29% of those with 50-249 employees.</p> <p>Starts were the least likely to be international (10%), with little variation otherwise by age of SME (14-16%).</p> <p>Those with a minimal or low risk rating were the most likely to be international (both 20%) compared to 14% of those with an average and 13% of those with a worse than average risk rating.</p> <p>SMEs in Wholesale/Retail and Manufacturing (both 26%) remained more likely to be international. SMEs in Construction (5%), Health (7%) and Agriculture or Hotels &amp; Restaurants (both 8%) were less likely to be international.</p>
Innovation	<p>33% of all SMEs had innovated, increasing by size of business from 29% of those with 0 employees to 55% of those with 50-249 employees.</p> <p>There was no consistent pattern by age of business. Those trading 2-5 years (39%) or 6-9 years (40%) were the most likely to have been innovative, compared to 24% of Starts and 32-33% of those trading for more than 10 years.</p> <p>Those with a minimal risk rating (39%) were more likely to have innovated, compared to 31-36% for other risk ratings.</p> <p>SMEs in Manufacturing (41%) or Wholesale/Retail (40%) were the most likely to have innovated, with Construction (23%) the least likely.</p>

Continued

Continued

Financial specialist	<p>25% of SMEs had a financially qualified person looking after their finances. This became more likely as business size increased: 21% of 0 employee SMEs had a financial specialist compared to 34% of those with 1-9 employees, 50% of those with 10-49 employees and 76% of those with 50-249 employees.</p> <p>27% of Starts had a financial specialist, with little variation for older SMEs (23-25%).</p> <p>34% of those with a minimal and 30% of those with a low risk rating had a financial specialist, compared to 24% of those with an average rating and 23% of those with a worse than average risk rating.</p> <p>Those in Property/Business Services (33%) or Hotels &amp; Restaurants (30%) were the most likely to have a financial specialist, compared to 18% in Construction.</p>
Mentors	<p>From Q1 2016 SMEs were asked whether they were using a mentor for business help and advice. YEQ4 2018, 10% of SMEs did.</p> <p>By size, the use of mentors increased from 9% of those with 0 employees and 12% of those with 1-9 employees, to just under a fifth of larger SMEs (18% for those with 10-49 employees and 17% for those with 50-249 employees).</p> <p>The presence of mentors varied only slightly by risk rating: from 12% of those with a minimal or low risk rating to 8% of those with an average and 10% of those with a worse than average risk rating.</p> <p>With the exception of those trading 2-5 years (13%), there was no variation by age of business (9-10%), and relatively little variation by sector (10-12%) with the exception of Construction and Transport (both 7%).</p>

The smallest SMEs remained less likely to undertake any of these activities. For YEQ4 2018, excluding the 0 employee SMEs saw the proportion of SMEs (with employees) who:

- Plan increase from 56% of all SMEs to 70% of those with employees
- Trade internationally increase from 15% to 21%
- Innovate increase from 33% to 42%
- Have a mentor increase from 10% to 13%
- Have a qualified person in charge of the finances increase from 25% to 37%.

Taking a longer term view back to 2012:

- The proportion that planned has varied relatively little over time (54-57%)
- The proportion of SMEs that were international has varied relatively little since 2014 (14-17%)
- The proportion of SMEs that had been innovative has declined over the period (from 40% to 33%)
- The proportion with a financial specialist has varied relatively little
- The proportion with a business mentor has declined slightly:

<b>Business formality elements</b>							
Over time – all SMEs							
By date of interview	2012	2013	2014	2015	2016	2017	2018
<b>Unweighted base:</b>	<b>20,055</b>	<b>20,036</b>	<b>20,055</b>	<b>20,046</b>	<b>18,000</b>	<b>18,012</b>	<b>18,002</b>
Planning (any)	55%	55%	54%	54%	55%	57%	56%
- Produce regular management accounts	41%	42%	42%	41%	41%	43%	41%
- Have a formal written business plan	33%	32%	32%	32%	33%	31%	29%
International (any)	10%	13%	16%	17%	14%	16%	15%
- Export goods or services	6%	8%	10%	10%	8%	10%	9%
- Import goods or services	7%	9%	11%	12%	10%	11%	10%
Innovation (any)	40%	38%	37%	37%	36%	34%	33%
-New product or service (last 3 yrs)	17%	16%	16%	15%	14%	14%	15%
-Improved aspect of business	35%	33%	34%	33%	32%	30%	28%
Have qualified person in charge of finances	25%	26%	27%	26%	23%	24%	25%
Have a mentor	-	-	-	-	12%	11%	10%

Q84/129 (223/251) All SMEs

The proportion of SMEs that innovate has declined steadily since 2012. Further investigation showed that this decline between 2012 and 2018 occurred across all size bands, but more markedly for those with 50-249 employees and slightly more for improving an aspect of the business than for new product development:

- Amongst all SMEs the proportion developing a new product dropped from 17% in 2012 to 15% in 2018 and the proportion improving the business from 35% to 28%.
- Amongst those with 0 employees the proportion developing a new product was stable (15% to 14%) but the proportion improving the business declined from 32% to 25%.
- Amongst those with 1-9 employees the proportion developing a new product dropped from 22% to 18% and the proportion improving the business from 44% to 35%.
- Amongst those with 10-49 employees the proportion developing a new product dropped from 29% to 24% and the proportion improving the business from 55% to 46%.
- Amongst those with 50-249 employees the proportion developing a new product dropped more markedly from 42% to 29% and the proportion improving the business from 64% to 45%.

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).

The latest figures for YEQ4 2018 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 and 9% of those with 1-9 employees, to 15% of those with 10-49 employees and 30% of those with 50-249 employees.

Those in the Property/Business Services sector (11%) or in Manufacturing or the Other Community sectors (10%) were more likely to hold such assets, compared to 2% of those in Construction and 4-8% in other sectors.

## HOW SMES ARE MANAGED – INTERNATIONAL STAFF

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, 1 in 6 did (16%), predominantly from the EU. The largest SMEs were much more likely to be employing any overseas staff (56% of those with 50-249 employees) and for these to be people from outside the EU:

All SMEs with employees YEQ4 18	Total	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>14,400</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
Employ any overseas staff:	16%	12%	31%	56%
• Employ staff from EU	14%	10%	29%	55%
• Employ other overseas staff	5%	3%	10%	23%

Q84 (223) 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. Half (51%) were concerned, the equivalent of 8% of all SMEs with employees. The largest SMEs were more likely to be concerned, with the equivalent of 42% of all SMEs with 50-249 employees concerned about potential changes:

### Concern re changes to migration rules

All SMEs with overseas employees YEQ4 18	Total	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>3752</b>	<b>622</b>	<b>1636</b>	<b>1494</b>
Very concerned	27%	27%	23%	44%
Fairly concerned	24%	23%	26%	25%
Not very concerned	21%	18%	28%	21%
Not at all concerned	27%	32%	23%	10%
<b>Concerned (all employing overseas staff)</b>	<b>51%</b>	<b>50%</b>	<b>49%</b>	<b>69%</b>
<b>Concerned (all SMEs with employees)</b>	<b>8%</b>	<b>6%</b>	<b>15%</b>	<b>42%</b>

Q87 (223c) All SMEs with overseas employees excl DK

The table below summarises the position by sector. Employers in Health and Hotels & Restaurants (both 21%) were the most likely to employ overseas staff, compared to 11% in Agriculture and 12% in Construction.

There was though more variation by sector in levels of concern about the impact of any future changes to migration rules. Those employing any overseas staff in Agriculture (70%) were the most concerned, while those in Construction were the least concerned (44%). Amongst other sectors concern varied from 45% to 58%.

### Overseas staff

All SMES with employees

YEQ4 18

	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>952</b>	<b>1211</b>	<b>2550</b>	<b>1450</b>	<b>969</b>	<b>1600</b>	<b>2865</b>	<b>1193</b>	<b>1610</b>
Employ any overseas staff:	11%	18%	12%	15%	21%	15%	16%	21%	15%
Employ staff from EU	10%	16%	12%	13%	20%	14%	15%	19%	13%
Employ other overseas staff	3%	6%	2%	4%	6%	5%	5%	7%	5%
<b>Concerned about migration changes (if employ)</b>	<b>70%</b>	<b>46%</b>	<b>44%</b>	<b>45%</b>	<b>55%</b>	<b>57%</b>	<b>51%</b>	<b>58%</b>	<b>57%</b>
<b>Concerned (all with employees)</b>	<b>10%</b>	<b>9%</b>	<b>5%</b>	<b>6%</b>	<b>12%</b>	<b>9%</b>	<b>8%</b>	<b>12%</b>	<b>8%</b>

Q84/87 (223/223c) All SMES with employees/ All SMEs with overseas employees

SMEs that trade internationally were more likely to employ staff from overseas, typically from the EU. Amongst those who did, levels of concern about changes to migration rules were slightly higher for those who either only exported or only imported, while concern amongst those who did both was more in line with other employers of overseas staff. As a result, 1 in 7 SMEs with employees that trade internationally were concerned about changes to migration rules:

#### Overseas staff

All SMEs with employees YEQ4 18	Total	Export only	Import only	Fully intl	Domestic
<b>Unweighted base:</b>	<b>14,400</b>	<b>726</b>	<b>1084</b>	<b>1263</b>	<b>11,327</b>
Employ any overseas staff:	16%	22%	24%	32%	13%
<i>Employ staff from EU</i>	14%	21%	21%	29%	12%
<i>Employ other overseas staff</i>	5%	8%	8%	11%	3%
<b>Concerned (all employing overseas staff)</b>	<b>51%</b>	<b>56%</b>	<b>58%</b>	<b>47%</b>	<b>51%</b>
<b>Concerned (all SMEs with employees)</b>	<b>8%</b>	<b>13%</b>	<b>13%</b>	<b>15%</b>	<b>6%</b>

Q84/87 (223/223c) All SMEs with employees/ All SMEs with overseas employees

Some limited analysis over time is now possible. When this question was first asked in H2 2017, 23% of SMEs with employees employed any overseas staff (22% from the EU and 4% from elsewhere). Over time that proportion has declined somewhat to 15% in H2 2018 (14% from the EU and 5% from elsewhere), predominantly due to fewer SMEs with 1-49 employees having staff from overseas.

There were fewer overseas staff in almost all sectors with the exception of Agriculture, and by all types of international trade.

<b>Employ overseas staff</b>			
All SMEs with employees over time			
By date of interview			
– row percentages	H2 2017	H1 2018	H2 2018
All	23%	16%	15%
1-9 emps	18%	12%	11%
10-49 emps	40%	32%	31%
50-249 emps	55%	65%	48%
Agriculture	13%	12%	11%
Manufacturing	28%	20%	17%
Construction	20%	11%	14%
Wholesale/Retail	20%	15%	15%
Hotels & Restaurants	25%	23%	18%
Transport	23%	15%	15%
Property/ Business Services	23%	17%	16%
Health	26%	23%	18%
Other	23%	16%	14%
Export only	34%	26%	19%
Import only	32%	24%	23%
Fully international	48%	29%	35%
Domestic	18%	14%	12%

Q84 (223) All SMEs with employees

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Amongst those employing staff from overseas, concern about changes to migration rules increased from 4 in 10 to 5 in 10 of relevant SMEs and for all but the largest SMEs.

- Concern amongst Manufacturers with overseas staff increased from 27% in H2 2017 to 43% in H2 2018 and amongst those in the Other Community sector from 32% to 53%. Those in Agriculture (59% to 69%) and Wholesale/Retail (40% to 50%) and Construction (32% to 43%) were also more concerned in H2 2018 while employers of overseas staff in other sectors saw no or minimal increases in levels of concern.
- Amongst those who only export, levels of concern about migration changes increased from 49% in H2 2017 to 64% in H1 2018 but then reverted to 44% for H2 2018. For those who only import, levels of concern about migration changes increased from 47% in H2 2017 to 56% in H1 2018 and then again to 59% for H2 2018, while for those who both import and export, levels of concern about migration changes increased from 42% in H2 2017 to 48% in H1 2018 but were then stable at 47% for H2 2018.

<b>Concern re migration changes</b>			
All SMEs with overseas staff over time			
By date of interview			
– row percentages	H2 2017	H1 2018	H2 2018
All	42%	51%	52%
1-9 emps	40%	48%	53%
10-49 emps	42%	49%	48%
50-249 emps	64%	73%	63%
Agriculture	59%	70%	69%
Manufacturing	27%	49%	43%
Construction	32%	47%	43%
Wholesale/Retail	40%	40%	50%
Hotels & Restaurants	54%	53%	57%
Transport	48%	60%	54%
Property/ Business Services	44%	48%	54%
Health	61%	61%	56%
Other	32%	61%	53%
Export only	49%	64%	44%
Import only	47%	56%	59%
Fully international	42%	48%	47%
Domestic	41%	49%	53%

Q87 (223c) All SMEs with overseas employees

## EXPORTING

Turning now to international trade, 9% of all SMEs were making sales outside the UK. Two thirds of these exporters (68%) 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 18	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>2092</b>	<b>236</b>	<b>587</b>	<b>846</b>	<b>423</b>
Less than 25% of sales made overseas	68%	68%	69%	68%	59%
25-50%	15%	14%	16%	17%	22%
51-75%	8%	7%	7%	10%	16%
76-100% of sales overseas	10%	11%	8%	5%	4%
<b>Average proportion</b>	<b>26%</b>	<b>27%</b>	<b>25%</b>	<b>24%</b>	<b>26%</b>

Q85 (223x) All SMEs who export, excluding DK/refused

9% 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 7% of all SMEs where exports made up less than 50% of their sales. 91% 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 2018 show that most exporters traded to some extent with the EU (84%), with around a quarter of exporters (28%) exporting all or the majority of their goods/services to the EU, declining by size of exporter:

**Overseas sales to EU**

All SMEs who export YEQ4 18	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>2241</b>	<b>252</b>	<b>632</b>	<b>903</b>	<b>454</b>
Only to the EU	10%	11%	8%	8%	3%
The majority to the EU	18%	19%	15%	15%	14%
Half to the EU	13%	13%	13%	13%	16%
A minority to the EU	44%	40%	49%	53%	63%
None to the EU	16%	16%	16%	12%	5%
<b>Only/the majority</b>	<b>28%</b>	<b>30%</b>	<b>23%</b>	<b>23%</b>	<b>17%</b>

Q86 (223b) All SMEs who export

The EU was the sole/majority source of sales for 29% of those who achieved more than half of their turnover through exports, and 28% of those where less than half of their turnover came from exports.

Analysis by sector showed that those in Manufacturing (18%), Property/Business Services (14%) and Wholesale/Retail (13%) were the most likely to be exporting. Amongst exporters in these sectors, those in Transport were the most likely to be achieving 50% + of sales overseas, while exporters in Agriculture and Health were the most likely to be selling all or most of their exported products/services to the EU:

**Exporting**

All SMEs / Exporters YEQ4 18	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Export	4%	18%	2%	13%	3%	9%	14%	4%	10%
Exporters; 50%+ sales	19%	14%	3%	16%	8%	26%	19%	2%	17%
Exporters; All/majority to EU	41%	23%	34%	33%	12%	23%	28%	43%	24%

Q84/85/86 (223x/223b) All SMES / All SMEs exporting

Analysis over time shows no clear trend, with between 13% and 24% of exporters making more than half of their sales overseas. In 2018, 18% of exporters said that international trade made up 50% or more of sales:

<b>50%+ sales made overseas</b>						
<b>Over time – all exporters</b>						
<b>Row percentages</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
All exporters	24%	16%	13%	19%	22%	18%
0 employee	28%	16%	10%	21%	25%	18%
1-9 employees	19%	14%	16%	16%	17%	15%
10-49 employees	20%	16%	16%	16%	16%	15%
50-249 employees	20%	18%	19%	17%	21%	20%

Q85 (223x) All SMEs who export, excluding DK/refused

- In 2013, 24% of exporters said that overseas sales made up half or more of all sales, falling to 13% in 2015.
- This proportion then increased to 19% for 2016 and has been broadly stable since.
- The variation was primarily due to 0 employee exporters. Amongst exporters with employees, the proportion achieving 50% or more of sales overseas has been more stable at around 1 in 6 for those with 1-9 or 10-49 employees and 1 in 5 for those with 50-249 employees.

The table below shows the proportion of exporters who either sold exclusively to the EU or made the majority of their sales there, over time.

This proportion has varied somewhat over the time periods available, being somewhat lower in the second halves of both 2017 and 2018 than it was in the first halves of those years, due to changes amongst 0 employee exporters, but with no similar decline in H2 2018. Amongst exporters with 1-9 there has been a decline in the proportion selling all/most of their goods to the EU, with a more stable picture for those with 10-49 employees:

<b>All/majority sales to EU</b>					
Over time – all exporters	H2	H1	H2	H1	H2
Row percentages	2016	2017	2017	2018	2018
All exporters	22%	28%	23%	28%	27%
0 employee	17%	28%	21%	32%	29%
1-9 employees	33%	28%	27%	21%	24%
10-49 employees	24%	26%	21%	23%	23%
50-249 employees	35%	25%	16%	11%	23%
<50% of sales exported	23%	25%	22%	29%	27%
50%+ of sales exported	23%	45%	24%	24%	33%

Q86 (223b) All SMEs who export

## CUSTOMERS

In new questions from Q1 2018, SMEs were asked whether they sold to consumers, to other businesses or to both businesses and consumers, as well as how many business customers they typically had (if any). As the table below shows, most SMEs sold to consumers (83% overall) with this percentage declining by size of SME. Just over half sold to other businesses (55%), increasing by size:

<b>Customer types</b>					
All SMEs YEQ4 18	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>18,002</b>	<b>3602</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
Other businesses only	18%	16%	20%	29%	37%
Consumers only	46%	48%	42%	28%	23%
Both businesses and consumers	37%	36%	39%	43%	41%
<b>All selling to businesses</b>	<b>55%</b>	<b>52%</b>	<b>59%</b>	<b>72%</b>	<b>78%</b>
<b>All selling to consumers</b>	<b>83%</b>	<b>84%</b>	<b>81%</b>	<b>71%</b>	<b>64%</b>

Q13a (NEW) All SMEs

Those who exported were much more likely to be selling to other businesses than those who only imported or traded domestically, where 8 in 10 were selling to consumers:

<b>Customer types</b>					
All SMEs YEQ4 18	Total	Export only	Import only	Import and export	Domestic
<b>Unweighted base:</b>	<b>18,002</b>	<b>861</b>	<b>1245</b>	<b>1380</b>	<b>14,516</b>
Other businesses only	18%	34%	17%	32%	16%
Consumers only	46%	24%	34%	24%	49%
Both businesses and consumers	37%	42%	49%	44%	35%
<b>All selling to businesses</b>	<b>55%</b>	<b>76%</b>	<b>66%</b>	<b>76%</b>	<b>51%</b>
<b>All selling to consumers</b>	<b>83%</b>	<b>66%</b>	<b>83%</b>	<b>68%</b>	<b>84%</b>

Q13a (NEW) All SMEs

As the table below shows, there were some clear differences by sector, with the proportion selling to businesses varying from 24% in the Health sector and 26% in Hotels & Restaurants to 68% in Property/Business Services and 65% in Manufacturing. There was more consistency in the proportion selling to consumers, which was 8 in 10 or more for all sectors with the exception of Property/Business Services (69%):

### Customer types

All SMEs YEQ4 18	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>1200</b>	<b>1500</b>	<b>3200</b>	<b>1800</b>	<b>1200</b>	<b>2001</b>	<b>3599</b>	<b>1502</b>	<b>2000</b>
Other businesses only	20%	22%	9%	9%	4%	21%	31%	6%	15%
Consumers only	45%	35%	46%	50%	74%	42%	32%	76%	54%
Both businesses and consumers	35%	43%	45%	41%	22%	37%	37%	18%	32%
<b>All selling to businesses</b>	<b>55%</b>	<b>65%</b>	<b>54%</b>	<b>50%</b>	<b>26%</b>	<b>58%</b>	<b>68%</b>	<b>24%</b>	<b>47%</b>
<b>All selling to consumers</b>	<b>80%</b>	<b>78%</b>	<b>91%</b>	<b>91%</b>	<b>96%</b>	<b>79%</b>	<b>69%</b>	<b>94%</b>	<b>86%</b>

Q13a (NEW) All SMEs

Those SMEs selling to other businesses were asked how many business customers they had. From Q3 2018 this question has been asked both to those only selling to businesses and those selling to businesses and consumers. The results for H2 2018 are shown below. A third of SMEs selling to other businesses had more than 50 customers, increasing by size of SME:

#### Customer types

All SMEs that sell to other businesses H2 18	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>5633</b>	<b>842</b>	<b>1628</b>	<b>2094</b>	<b>1069</b>
1-5 customers	16%	20%	9%	3%	1%
6-10 customers	13%	15%	10%	4%	3%
11-25 customers	19%	19%	19%	16%	11%
26-50 customers	19%	19%	19%	17%	14%
51-100 customers	13%	11%	15%	19%	20%
100+ customers	20%	15%	27%	41%	50%
<b>All selling to 50+ customers</b>	<b>33%</b>	<b>26%</b>	<b>42%</b>	<b>60%</b>	<b>70%</b>

#### Q13b (NEW) All SMEs

Analysis by sector showed that SMEs in Wholesale/Retail (54%) and Hotels & Restaurants (53%) were the most likely to have 50 or more business customers, followed by those in Manufacturing (47%). The least likely to have 50 or more business customers was the Health sector (13%). Other sectors were between 27% and 31%.

Analysis by customer type showed that those selling to both consumers and businesses were more likely to report having more than 50 business customers (38%) than those selling to businesses only (22%):

All SMEs that sell to other businesses H2 18	Total	Business only	Business and consumer
<b>Unweighted base:</b>	<b>5633</b>	<b>2149</b>	<b>3484</b>
1-5 customers	16%	24%	12%
6-10 customers	13%	15%	13%
11-25 customers	19%	21%	18%
26-50 customers	19%	17%	20%
51-100 customers	13%	9%	15%
100+ customers	20%	13%	23%
<b>All selling to 50+ customers</b>	<b>33%</b>	<b>22%</b>	<b>38%</b>

Q13b (NEW) All SMEs

Further analysis showed differences by size of business within these two groups:

- Amongst those selling to businesses only, 19% of those with 0-9 employees had more than 50 customers compared to 58% of those with 10-249 employees.
- For those selling to businesses and consumers, 35% of those with 0-9 employees had more than 50 customers compared to 65% of those with 10-249 employees.

## 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 2018 a quarter of SMEs (25%) said that this was the case (excluding DK answers) in line with levels seen in previous years.

Business Groups	Further analysis YEQ4 2018
By size of SME	<p>Membership was more likely amongst the largest SMEs:</p> <ul style="list-style-type: none"> <li>• 24% of 0 employee businesses belonged to a group/body</li> <li>• 27% of 1-9 employee businesses</li> <li>• 28% of 10-49 employee businesses</li> <li>• 47% of 50-249 employee businesses</li> </ul>
By external risk rating	<p>27% of those with a minimal risk rating, 30% of those with a low risk rating and 26% of those with an average risk rating belonged to a group/body. Those with a worse than average risk rating were somewhat less likely to do so (22%).</p>
By sector	<p>The most likely to belong to such groups remained those in the Health sector (36%) and Property/Business Services (31%) while those in Transport (16%) were less likely.</p>
PNBs and those using external finance	<p>Those currently using external finance were only slightly more likely to belong to such groups (26%) than those that did not use external finance (24%).</p> <p>There was also little difference by whether the SME met the definition of a Permanent non-borrower or not (24% v 25% if not a PNB).</p>
Other demographics	<p>There was some variation by age of business. 21% of Starts belonged to a business group, compared to 23% of those trading for 2-5 years and then 26-27% of older SMEs.</p> <p>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 (37% v 20%).</p>

Q143 (Q265c) All SMEs

## BUSINESS OWNERSHIP

69% of *companies* had one owner, declining by size from 88% of 0 employee companies to 42% 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 2018 (and excluding DK answers):

- 89% reported that this was the only business the owner was involved in, managerially or strategically, decreasing with size from 91% of 0 employee SMEs, to 71% of those with 50-249 employees.
- 9% reported that the owner currently ran another business as well (8% amongst 0 employee SMEs increasing to 28% amongst those with 50-249 employees).
- 2% reported that the owner had set up and run a business before (with little variation by size, except for the 6% of those with 50-249 employees).
- 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.

SMEs with employees were also asked whether theirs was a family business. For YEQ4 2018, 64% 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).

## THE BANK RELATIONSHIP

In early Monitor reports analysis was provided on overall satisfaction with the main bank. On an annual basis from 2011, overall satisfaction improved very slightly (80-84%) and was consistently higher for larger SMEs.

From Q1 2016 this question was replaced by one that sought to understand the banking relationship in more detail, with SMEs asked which of three phrases best described their relationship with their main bank. Since then questions on switching and trust have also been added.

Before exploring the banking relationship, it is worth noting that multi-banking remains rare in this market. In 2018, 99% of SMEs reported that they only used one bank for their business banking, with little difference by size:

<b>Use one business bank</b>							
<b>Over time – all SMEs</b>							
<b>Row percentages</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
All SMEs	99%	99%	99%	98%	99%	99%	99%
0 employee	99%	99%	99%	99%	99%	99%	99%
1-9 employees	98%	99%	98%	98%	99%	98%	99%
10-49 employees	97%	98%	97%	97%	97%	98%	98%
50-249 employees	97%	98%	97%	98%	97%	97%	96%

## NATURE OF THE BANK RELATIONSHIP

As the table below shows, when asked about the nature of their relationship with their main bank, the most frequent answer YEQ4 2018 was that the relationship was fine but transactional, and this is little changed over time:

Nature of relationship with main bank		0	1-9	10-49	50-249
YEQ4 18 all SMEs		emps	emps	emps	emps
	Total				
<b>Unweighted base</b>	<b>18,002</b>	<b>3602</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
We have a strong working relationship with our bank and feel we can approach them whenever we need to	23%	20%	27%	45%	63%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	63%	64%	60%	47%	29%
We don't have an active working relationship with our bank and wish that we had one	15%	15%	13%	8%	8%

Q24a All SMEs

There were clear differences by size of SME:

- Those with 0 employees were much more likely to describe their relationship as 'transactional' (64%) than to say they had a 'strong working relationship' (20%) or to wish for a more active relationship (15%).
- As the size of SME increases, so does the proportion with a 'strong working relationship'. Amongst those with 50-249 employees this was the most common answer (63%) compared to 29% who have a transactional relationship and 8% who wish for a more active relationship.

Differences were also seen by other demographics

- Excluding the Permanent non-borrowers increased the proportion with a ‘strong relationship’ slightly (to 25% v 21% of PNBs), but there was little difference in terms of wanting a more active relationship (14% PNBs v 15% non-PNBs).
- Analysis by age of business showed that a quarter of Starts (25%) had a ‘strong relationship’ with their bank. This declined to 17% of those trading for 2-5 years, then increased steadily by age to 26% of those trading for 15 years or more. The proportion wanting a more active relationship varied little by age, from 16% for Starts to 14% for those trading for more than 15 years.
- Analysis by risk rating showed that the proportion describing the relationship as ‘strong’ declined from 32% of those with a minimal risk rating and 29% of those with a low risk rating to 21% of those with either an average or a worse than average risk rating.
- 28% of SMEs in Agriculture and 27% in the Hotel & Restaurant and Manufacturing sectors had a strong working relationship compared to 18% in the Other Community sector. There was relatively little variation by sector in the proportion wanting a more active relationship (14-16%) with the exception of 11% in Agriculture.

Analysis by previous borrowing behaviour showed that those who had reported a borrowing event (typically the larger SMEs) were more likely to have a ‘strong working relationship’ (31%) than those who had been Would-be seekers of finance (16%). The relatively small group of WBS remained more likely than the other groups to wish that they had a more active relationship with their bank (23%):

<b>Nature of relationship with main bank</b>		<b>Had an event</b>	<b>WBS</b>	<b>HNS</b>
<b>YEQ4 18 all SMEs</b>	<b>Total</b>			
<i>Unweighted base</i>	<b>18,002</b>	<b>3666</b>	<b>208</b>	<b>14,059</b>
We have a strong working relationship with our bank and feel we can approach them whenever we need to	23%	31%	16%	22%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	63%	57%	61%	64%
We don't have an active working relationship with our bank and wish that we had one	15%	12%	23%	15%

Q24a All SMEs

This relationship question has been run since Q1 2016, so some analysis over time is now possible. A minority of SMEs wished that they had a more active relationship with their bank, and this proportion has increased slightly over time, from 12% in 2016 to 15% in 2018 and across most demographics. Smaller SMEs, those with a poorer external risk rating and those with plans to apply for finance in future all remained more likely to want a more active relationship:

<b>Wish had more active relationship with bank</b>			
<b>Over time</b>			
<b>By date of interview – row percentages</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
All	12%	14%	15%
0 emp	13%	15%	15%
1-9 emps	12%	13%	13%
10-49 emps	7%	8%	8%
50-249 emps	5%	6%	8%
Minimal external risk rating	9%	9%	8%
Low	10%	13%	12%
Average	12%	14%	15%
Worse than average	13%	16%	16%
Use external finance	12%	14%	12%
Plan to apply for finance	17%	19%	19%
PNBs	12%	13%	14%
All excl PNBs	13%	15%	15%

Q24a All SMEs

## SWITCHING MAIN BANK

From Q1 2018, further relationship questions were added.

The first asked whether the business had changed main bank in the past 3 years. In 2018:

- 2% said that they had made a change, with little variation by size (2% of those with 0 and 1-9 employees had changed bank, 3% for those with 10-49 employees and 4% for those with 50-249 employees).
- There was also little variation by risk rating (2-3%), or once the Permanent non-borrowers were excluded (3%), or by whether the SME was using finance (3%) or not (2%).
- Those trading for less than 10 years were the most likely to have changed bank in the last 3 years (3%), those trading for more than 15 years the least likely (1%). 4% of those in Wholesale/Retail, Health and the Other Community sectors had switched (1-2% for other sectors).
- Those who had changed bank had a similar relationship with their bank (25% a strong relationship) to those who had not made a change (23%), although they remained slightly more likely to wish they had a more active relationship (18% v 15% of those who hadn't changed).

## TRUST IN BANKS AND BANKING

The other new questions looked at the issue of trust in banks – both in the SME’s main bank specifically and banks more generally. SMEs were asked to rate their level of trust on a scale from 1 (do not trust them at all) to 10 (trust them entirely).

Just over half of all SMEs (55%) gave a score of 8 to 10 for their level of trust in their own bank. This increased by size of SME from 54% of those with 0 employees to 72% of those with 50-249 employees. 1 in 10 SMEs overall (9%) gave a low score of 1-4 and this was more likely to be the case for smaller SMEs:

<b>Trust in main bank</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>YEQ4 18 all SMEs</b>	<b>Total</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<i>Unweighted base</i>	<b>18,002</b>	<b>3602</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
High level of trust 8-10	55%	54%	56%	63%	72%
Medium level of trust 5-7	37%	37%	35%	31%	26%
Low level of trust 1-4	9%	9%	9%	6%	2%

### Q24b All SMEs

58% of SMEs with employees had a high level of trust in their main bank.

8-10 scores:

- Were slightly more likely from those with a minimal (58%) or low (57%) risk rating than those with an average (54%) or worse than average (53%) rating.
- Were more likely from those in Hotels & Restaurants (60%), Other Community (59%) or Transport or Wholesale/Retail (both 58%). It was 53-54% for all other sectors except Health (48%).
- With the exception of Starts (50%), high levels of trust did not vary much by age of business (52-58%).
- Were more likely from PNBs (59%) than those who did not meet the definition (50%).
- Were less likely from those using external finance (51% v 57% not using finance).

The proportion of SMEs with a high level of trust in their main bank was twice that with a high level of trust in banking generally. 25% gave a score of 8 to 10 for their level of trust in the banking industry increasing by size of SME from 24% of those with 0 employees to 41% of those with 50-249 employees. Almost as many SMEs overall (22%) gave a low score of 1-4 and again this was more likely to be the case for smaller SMEs:

<b>Trust in the banking industry</b>		0	1-9	10-49	50-249
YEQ4 18 all SMEs		emps	emps	emps	emps
	Total				
<i>Unweighted base</i>	<b>18,002</b>	<b>3602</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
High level of trust 8-10	25%	24%	27%	33%	41%
Medium level of trust 5-7	53%	53%	54%	53%	54%
Low level of trust 1-4	22%	23%	20%	14%	5%

#### Q24c All SMEs

28% of SMEs with employees had a high level of trust in the banking industry as a whole.

8-10 scores:

- Were slightly more likely from those with a minimal (28%) or low (27%) risk rating than those with an average (23%) or worse than average (25%) rating.
- Were more likely from those in Hotels & Restaurants (30%). It was 21-27% for all other sectors.
- Did not vary much by age of business (24-26%) with the exception of those trading for more than 15 years (25%).
- Were more likely from PNBs (29%) than those who did not meet the definition (21%).
- Were less likely from those using external finance (22% v 27% not using finance).

Across the two questions, 7% of SMEs gave a low score of 1-4 for both their main bank and the banking industry more generally, while 23% gave a high score of 8-10 for both. 58% gave a higher score for their own bank than for the banking industry more generally.

There were clear differences in level of trust in main bank when analysed by the overall nature of the banking relationship.

- Those who reported a strong working relationship with their main bank were more likely to have a high level of trust in them (77%).
- Those who wished that they had a more active relationship with their bank were less likely to have this high level of trust (34%) and just over a quarter had a low level of trust (28%).
- Those who had a ‘fine but transactional’ relationship were unlikely to have a low level of trust in their main bank (6%), but somewhat more likely to have a medium, 5-7 level of trust in their main bank (42%).

Trust in bank/banking industry YEQ4 18 all SMEs	Main bank			Banking Industry		
	Strong	Trans'l	More active	Strong	Trans'l	More active
<i>Unweighted base</i>	<i>6682</i>	<i>9317</i>	<i>2003</i>	<i>6682</i>	<i>9317</i>	<i>2003</i>
High level of trust 8-10	77%	51%	34%	32%	24%	16%
Medium level of trust 5-7	20%	42%	38%	52%	55%	48%
Low level of trust 1-4	3%	6%	28%	16%	21%	36%

Q24a/b/c All SMEs

Whilst those with a strong relationship also gave slightly higher trust scores for the banking industry as a whole (32% 8-10), the differences were not as marked between the groups as they were for trust in the main bank. A third of those who wanted a more active relationship with their bank had a low level of trust in the banking industry as a whole (36%).