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FINANCIAL CONTEXT - HOW ARE SMES FUNDING THEMSELVES? (PART 2)

THIS CHAPTER PROVIDES

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

KEY FINDINGS

Permanent non-borrowers: 44% of SMEs YEQ2 2019 met the definition of a PNB, an SME that is not using finance and shows no appetite to

- While 0 employee SMEs remained more likely to meet the definition of a PNB (46%), they could also be found amongst larger SMEs (34% of those with 10-49 employees and 19% of those with 5-249 employees)
- The proportion of PNBs increased from 34% in 2012 to 47-48% in 2015-2018, meaning that from 2014 to 2018 there were more PNBs than there were SMEs using external finance. In H1 2019 however, use of external finance increased to 46% and the proportion of PNBs declined to 41%, reversing that trend
- In H1 2019 there were as many 0 employee SMEs using finance as there were PNBs (both 43%) with increasingly wider margins between the two groups for the other sizes of SME, up to 58 percentage points for those with 50-249 employees where 77% were using finance and 19% were PNBs in H1 2019
- Compared to their peers, PNBs in H1 2019 were more likely to hold £10,000 or more in credit balances (27% v 19%) and were as likely to be profitable (83% v 81%), to have a minimal/low risk rating (22% v 24%) or to trade internationally (15% v 17%). They were though less likely to be planning to grow (37% v 59%)
- Excluding the PNBs increases the proportion of remaining SMEs using external finance to 78% in H1 2019, the highest proportion reported to date on SMEFM (up from 70% in 2018)

Attitudes to finance: Attitudes around the use of finance remained fairly consistent YEQ2 2019 with larger SMEs being somewhat more positive and smaller SMEs somewhat more cautious:

- 8 in 10 (81%) agreed their plans were based on what they could afford themselves, declining by size of SME from 82% of those with 0 employees to 57% of those with 50-249 employees

- Three quarters (73%) would accept slower growth rather than borrow to grow more quickly, again declining by size of SME (74% to 49%)
- Around half of SMEs agreed that the future felt uncertain so they were being cautious (55%), that an increase in the cost of credit would discourage an application (51%) or that they never think about using (more) external finance (51%). Only the last of these three varied much by size of SME (declining from 52% to 32%)
- 4 in 10 (42%) agreed that they were prepared to take risks to be more successful, with agreement increasing by size of SME (40% to 59%). Almost as many (39%) agreed that they had a long term ambition to be significantly bigger, with agreement again increasing by size of SME (37% to 64%). Those who agreed with both statements make up the ‘Ambitious risk takers’ described below
- A similar proportion (41%) felt that it was quite difficult for SMEs like them to get external finance, once again decreasing by size of SME (42% to 27%)
- Finally, 31% agreed that they were happy to use finance to help the business grow, increasing by size of SME from 27% to 49%

Happy to borrow to grow: Over time, the longest standing attitude statement has seen fewer SMEs agreeing that they are happy to borrow to grow, from 45% in 2015 to 29% in H1 2019. This decline has been seen to a varying extent across all size bands, sectors and by those using finance

- Analysis of this statement by whether the SME was using external finance already, showed that the increase in use of external finance in H1 2019 resulted in more SMEs in the ‘use finance but not happy to do so in future’ category (28% of all SMEs in H1 2019 compared to 20% in 2018) rather than the ‘use finance and happy to do so in future’ category (17% from 16%)

Ambitious risk takers: YEQ2 2019, 39% of SMEs agreed that they wanted to be a significantly bigger business and 42% that they were prepared to take risks to succeed. 24% agreed with both statements and might be described as 'Ambitious risk takers'

- Those who met the definition were more likely to be using finance (52%), trading internationally (23%) and to have been innovative (46%) as well as to be planning to grow in the coming year (78%)
- Over time this group has declined slightly in size, from 27% in H2 2017 to 23% in H1 2019
- The proportion of ambitious risk takers increased by size of SME (21% of those with 0 employees in H1 2019 to 43% of those with 50-249 employees), and was also more common amongst Starts (34% albeit down from 44% in H2 2017) and those trading for 2-5 years (33%)

Business Funding: Adding use of trade credit and injections of personal funds to the use of external finance already reported increased use of finance from 42% to 69% YEQ2 2019

- Over time, the proportion using business funding has been fairly stable (65% in 2018) but was somewhat higher in H1 2019 (71%) due to more SMEs using external finance
- 34% of SMEs were using trade credit YEQ2 2019. This proportion has increased somewhat over time (31% were using trade credit in 2012 to 36% in H1 2019) with all but the largest SMEs now more likely to be using trade credit than previously
- 7 in 10 SMEs that received trade credit said that it reduced their need for finance, and this was slightly more likely to be the case for larger SMEs (66% of those with 0 employees to 74% of those with 50-249 employees). This is the equivalent of 23% of all SMEs YEQ2 2019 having their need for finance reduced by trade credit

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- Overall, 30% of all SMEs YEQ2 2019 said that their need for finance was reduced either by trade credit or by having £10,000 or more in credit balances, increasing by size of SME (24% of 0 employee SMEs to 63% of those with 50-249 employees)

TRADE CREDIT

34% of SMEs regularly purchased products or services from other businesses on credit (YEQ2 2019), increasing as before by size of SME:

- 29% of those with 0 employees regularly purchased on credit
- 49% of those with 1-9 employees
- 63% of those with 10-49 employees
- 61% of those with 50-249 employees.

Overall use of trade credit has increased slightly over time (31% to 36% in H1 2019). All sizes of SME were more likely to be using trade credit in H1 2019 than they were in 2014, with the exception of the largest SMEs where use of trade credit was 58% in 2014, increasing to 69% in 2017 but back to 60% in H1 2019:

Currently use trade credit						
Over time – all SMEs						H1
By date of interview – row percentages	2014	2015	2016	2017	2018	2019
All SMEs	31%	33%	33%	35%	34%	36%
0 emp	26%	28%	28%	29%	29%	31%
1-9 emps	45%	47%	45%	49%	48%	51%
10-49 emps	58%	61%	59%	64%	62%	65%
50-249 emps	58%	60%	59%	69%	67%	60%

Q14y All SMEs

53% of SMEs with employees used trade credit in H1 2019.

Those using external finance (loans, overdrafts etc) remained more likely to also be using trade credit (42% YEQ2 2019) than those who were not using any external finance (29%) and this was true across all size bands.

SMEs that received trade credit were asked whether this meant that they had a reduced need for other forms of external finance. 7 in 10 of them did (this was slightly more likely to be the case for larger SMEs) and this is the equivalent of 23% of all SMEs needing less external finance, as the table below shows:

Impact of receiving trade credit		0	1-9	10-49	50-249
YEQ2 19 – all SMEs		emp	emps	emps	emps
	Total				
<i>Unweighted base:</i>	18,002	3602	5800	5800	2800
Receive trade credit	34%	29%	49%	63%	61%
<i>Have less of a need for external finance</i>	23%	19%	34%	45%	45%
<i>Do not have less of a need for external finance</i>	9%	8%	12%	13%	11%
<i>Not sure</i>	2%	1%	3%	5%	5%
Do not receive trade credit	66%	71%	51%	37%	39%
<i>% of those with TC where it reduces need</i>	68%	66%	69%	71%	74%

Q14y/y4 All SMEs

The proportion of all SMEs reporting that trade credit had reduced their need for external finance has increased slowly over time, from 21% in H2 2014 to 26% in H1 2019. The largest SMEs remained more likely to say this was the case, but not quite to the same extent as in 2017 and 2018:

Trade credit reduced need for finance						
Over time – all SMEs	H2					H1
By date of interview – row percentages	2014	2015	2016	2017	2018	2019
All SMEs	21%	22%	23%	24%	23%	26%
0 emp	18%	18%	20%	20%	18%	21%
1-9 emps	31%	31%	31%	33%	33%	36%
10-49 emps	39%	41%	41%	48%	44%	47%
50-249 emps	43%	37%	39%	52%	52%	45%

Q14y/y4 All SMEs

USE AND IMPACT OF TRADE CREDIT BY OTHER KEY DEMOGRAPHICS

SMEs with a minimal or low external risk rating remained more likely to receive trade credit (47%). Across all risk ratings, around two thirds of those receiving trade credit went on to say that it reduced their need for external finance:

Impact of receiving trade credit						
YEQ2 19 – all SMEs	Total	Min	Low	Avg	Worse /Avge	
Unweighted base:	18,002	3291	5378	3913	3715	
Receive trade credit	34%	47%	47%	33%	30%	
<i>Have less of a need for external finance</i>	23%	31%	31%	22%	21%	
<i>Do not have less of a need for external finance</i>	9%	14%	13%	9%	8%	
<i>Not sure</i>	2%	2%	3%	2%	1%	
Do not receive trade credit	66%	53%	53%	67%	70%	
<i>% of those with TC where it reduces need</i>	68%	66%	66%	67%	70%	

Q14y/y4 All SMEs

Older SMEs remained more likely to be receiving trade credit, although amongst trade credit users it was those trading for 2-5 or 6-9 years who were the most likely to say it reduced their need for finance:

Impact of receiving trade credit						
YEQ2 19 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+	
Unweighted base:	1815	1613	2152	2955	9467	
Receive trade credit	25%	30%	32%	39%	40%	
<i>Have less of a need for external finance</i>	16%	22%	24%	27%	26%	
<i>Do not have less of a need for external finance</i>	8%	7%	7%	9%	12%	
<i>Not sure</i>	1%	1%	1%	3%	2%	
Do not receive trade credit	75%	70%	68%	61%	60%	
<i>% of those with TC where it reduces need</i>	64%	73%	75%	69%	65%	

Q14y/y4 All SMEs

SMEs in the Wholesale/Retail sector (54%) or in Manufacturing (51%) were the most likely to receive trade credit. Amongst trade credit users it was those in Agriculture and Transport who were more likely to see their need for finance reduced (both 74%):

Trade credit in last 12 months									
YEQ2 19 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth Swk	Other Comm
<i>Unweighted base:</i>	1200	1500	3200	1800	1200	2000	3600	1502	2000
Receive TC	42%	51%	42%	54%	38%	27%	26%	24%	27%
<i>Have less of a need for external finance</i>	31%	34%	30%	39%	25%	20%	16%	14%	18%
<i>Do not have less of a need for external finance</i>	9%	14%	10%	12%	11%	6%	8%	8%	8%
<i>Not sure</i>	3%	2%	2%	3%	2%	1%	2%	2%	2%
Do not receive TC	58%	49%	58%	46%	62%	73%	74%	76%	73%
<i>% where TC reduces need</i>	74%	67%	71%	72%	66%	74%	62%	58%	67%

Q14y/y4 All SMEs

YEQ2 2019, SMEs using external finance (who were more likely to be using trade credit at all) remained more likely to say that they had less of a need for external finance as a result of trade credit (30%) than those not using external finance (18%) or SMEs overall (23%).

As already reported, SMEs with £10,000 or more of credit balances and those using trade credit were 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 (81%) than having access to trade credit (72% - of a different group of SMEs).
- Overall, 30% of SMEs YEQ2 2019 said that their need for finance was reduced either through credit balances or trade credit, increasing by size of SME (24% for 0 employee SMEs, 45% for those with 1-9 employees, 59% for those with 10-49 employees and 63% for those with 50-249 employees).
- The proportion of SMEs reporting a reduction in need for finance has been around 3 in 10 since 2016 (32% in 2016 and 2017, 29% in 2018).

A WIDER DEFINITION OF ‘TOTAL BUSINESS FUNDING’

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

For YEQ2 2019:

- 42% of SMEs were using external finance as defined in the previous chapter (i.e. loans, overdrafts, invoice finance etc).
- An additional 17% of SMEs were not using external finance but were receiving trade credit.
- And finally, a further 10% of SMEs were using neither external finance, nor trade credit, but had seen an injection of personal funds into the business (also defined in the previous chapter).

Widening the definition of external funding to include not only finance but also trade credit and personal funds thus increased the proportion of SMEs using business funding from 42% to 69%.

Analysis by year shows that the business funding figures were stable 2014-2018, but the increased use of external finance seen in H1 2019 boosted the use of business funding from 65% in 2018 to 71% in H1 2019:

Use of business funding						H1
Over time – all SMEs	2014	2015	2016	2017	2018	2019
Unweighted base:	20,055	20,046	18,000	18,012	18,002	9,000
Use external finance	37%	37%	37%	38%	36%	46%
Do not use finance but do use trade credit	15%	16%	15%	16%	18%	16%
Do not use the above but injected personal funds	12%	11%	11%	11%	11%	9%
Total business funding	63%	64%	63%	65%	65%	71%

All SMEs

Looking specifically at YEQ2 2019 in more detail, there continued to be less of an ‘uplift’ amongst the largest SMEs, from 77% to 91%, given their higher use of finance:

Wider definition of business funding		0	1-9	10-49	50-249
YEQ2 19 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	18,002	3602	5800	5800	2800
Use external finance	42%	40%	48%	56%	77%
Do not use finance but do use trade credit	17%	15%	21%	24%	13%
Do not use the above but injected personal funds	10%	11%	6%	1%	*
Total business funding	69%	66%	76%	82%	91%

Q14y/y4 All SMEs

Analysis by other demographics showed that:

- SMEs with an average risk rating were somewhat less likely to be using business funding (65%) than their peers with a minimal (71%), low (72%), or worse than average (70%) rating.
- Starts were somewhat more likely to be using business funding (86%) than older SMEs (63-67% across these age bands).
- The proportion using business funding varied from 63% of those in Property/Business Services to 80% of those in Wholesale/Retail and 76% in Manufacturing, with the rest in the range 66-73%.

THE NON-BORROWING SME

As the previous chapter reported, 4 in 10 SMEs (42% YEQ2 2019) used external finance. Other data from this report allows for identification of those SMEs who seem firmly disinclined to borrow, defined as those that met **all** of the following conditions:

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

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

These **Permanent non-borrowers** made up 44% of SMEs (YEQ2 2019), and remained more likely to be found amongst the smaller SMEs, although not exclusively so (amongst SMEs with employees, 39% met the definition of a Permanent non-borrower):

- 46% of 0 employee SMEs met this non-borrowing definition
- 41% of 1-9 employee SMEs
- 34% of 10-49 employee SMEs
- 19% of 50-249 employee SMEs.

Across other demographics:

- Half of SMEs in Property/Business Services (50%) or Construction (46%) met the definition of a Permanent non-borrower, compared to 37% of those in Health, Agriculture or Wholesale/Retail.
- Starts were less likely to meet the definition (22%) than older SMEs (increasing by age from 47% to 51%). SMEs with an average risk rating were somewhat more likely to meet the definition of a PNB (48%) than their peers with a minimal (43%), low (44%), or worse than average (42%) rating.
- Those using a personal account for their business banking were no more likely to meet the definition than those using a business bank account (42% v 44%). This means that the equivalent of 5% of all SMEs were Permanent non-borrowers who used a personal bank account.

The proportion of PNBs increased to 49% for Q1 and Q2 2018 but has since declined somewhat, as use of external finance increased:

Permanent non-borrowers

Over time – all SMEs Row percentages	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
All SMEs	46%	48%	45%	49%	49%	48%	45%	45%	38%
0 employee	50%	52%	49%	50%	51%	51%	46%	46%	39%
1-9 employees	35%	40%	37%	46%	46%	43%	43%	41%	35%
10-49 employees	28%	29%	24%	35%	36%	36%	37%	34%	29%
50-249 employees	17%	22%	25%	26%	12%	14%	24%	22%	17%

The table below looks at the longer term changes in the proportion of SMEs meeting the definition of a PNB by key business demographics:

- Between 2012 and 2015 the overall proportion of PNBs increased from a third (34%) to almost a half of all SMEs (47% in 2015) and was then stable to 2018. The figure for H1 2019 was somewhat lower (41%) back to levels seen in 2013.
- Between 2015 and 2018, half of SMEs with 0 employees met the definition of a PNB. In H1 2019, the proportion was lower at 43%.
- Amongst SMEs with 1-9 employees, the proportion of PNBs increased to 36% in 2015 and was then stable until a further increase in 2018 to 44% which was then not maintained in H1 2019 (38%). A similar pattern was seen for those with 10-49 employees (29% in 2015, stable until 2018 when 36% were PNBs then back to 32% in H1 2019).
- The largest SMEs were always less likely to be a PNB but the proportion increased to 28% in 2015 then started to decline again (19% in both 2018 and H1 2019).

Permanent non-borrowers								
Over time – all SMEs								H1
Row percentages	2012	2013	2014	2015	2016	2017	2018	2019
All SMEs	34%	40%	43%	47%	47%	47%	48%	41%
0 emp	37%	44%	48%	51%	50%	51%	50%	43%
1-9 emps	25%	28%	33%	36%	38%	37%	44%	38%
10-49 emps	18%	22%	26%	29%	30%	27%	36%	32%
50-249 emps	15%	17%	26%	28%	26%	22%	19%	19%
Minimal external risk rating	31%	37%	41%	41%	42%	42%	45%	41%
Low	29%	35%	44%	38%	43%	42%	50%	40%
Average	36%	40%	45%	45%	46%	49%	49%	46%
Worse than average	34%	40%	43%	51%	48%	47%	47%	39%
Agriculture	26%	37%	40%	41%	40%	37%	41%	34%
Manufacturing	32%	41%	42%	43%	45%	42%	48%	40%
Construction	33%	41%	45%	52%	45%	48%	51%	40%
Wholesale/Retail	26%	32%	34%	38%	40%	39%	43%	35%
Hotels & Restaurants	28%	33%	39%	40%	43%	41%	46%	41%
Transport	29%	33%	40%	44%	45%	42%	45%	39%
Property/ Business Services	38%	43%	46%	48%	51%	52%	52%	50%
Health	47%	52%	54%	51%	56%	48%	38%	33%
Other	37%	38%	46%	47%	45%	50%	48%	39%

All SMEs

The proportions of SMEs that either used finance or that met the definition of a PNB have varied over time, with different patterns by size of SME as the table below shows:

Use of external finance and PNBs								
Over time								H1
Row percentages	2012	2013	2014	2015	2016	2017	2018	2019
0 employees:								
• Use external finance	38%	35%	32%	32%	33%	34%	34%	43%
• Permanent non-borrower	37%	44%	48%	51%	50%	51%	50%	43%
• 'Gap' finance to PNB	+1	-9	-16	-19	-17	-17	-16	0
1-9 employees:								
• Use external finance	58%	55%	49%	49%	46%	49%	42%	51%
• Permanent non-borrower	25%	28%	33%	36%	38%	37%	44%	38%
• 'Gap' finance to PNB	+33	+27	+16	+13	+8	+12	-2	+13
10-49 employees:								
• Use external finance	70%	67%	61%	60%	59%	64%	54%	59%
• Permanent non-borrower	18%	22%	26%	29%	30%	27%	36%	32%
• 'Gap' finance to PNB	+52	+45	+35	+31	+29	+37	+18	+27
50-249 employees:								
• Use external finance	73%	73%	63%	61%	64%	73%	77%	77%
• Permanent non-borrower	15%	17%	26%	28%	26%	22%	19%	19%
• 'Gap' finance to PNB	+58	+56	+37	+33	+38	+51	+58	+58

All SMEs

Analysis by number of employees of these trends over time showed that:

PNBs v use of external finance trends over time

0 employees	<p>In 2012, as many 0 employee SMEs were using external finance (38%) as met the definition of a PNB (37%).</p> <p>Between 2012 and 2015, use of external finance decreased and the proportion qualifying as PNBs increased, until there was a 19 percentage point difference between them in 2015 (32% v 51%). This ‘gap’ varied relatively little 2015 to 2018 but in H1 2019, with more 0 employee SMEs using finance and fewer meeting the definition of a PNB, there is no ‘gap’ for the first time since 2012.</p>
1-9 employees	<p>In 2012, SMEs with 1-9 employees were twice as likely to be using external finance (58%) as to be a PNB (25%). Their use of finance then declined, and the proportion of PNBs increased, such that in 2018, there were slightly more SMEs with 1-9 employees meeting the definition of a PNB (44%) than using finance (42%). In H1 2019 however, an increased use of finance and declining proportion of SMEs saw a ‘gap’ of 13 points restored, in line with 2017.</p>
10-49 employees	<p>In 2012, SMEs with 10-49 employees were much more likely to be using external finance (70%) than they were to meet the definition of a PNB (18%). From 2012 to 2018, the proportion of PNBs doubled to 36% and the proportion using finance declined to 54%, reducing the ‘gap’ from 52 percentage points to 18, but it has increased again in H1 2019 to 27 percentage points.</p>
50-249 employees	<p>In 2012, like those with 10-49 employees, the largest SMEs with 50-249 employees were much more likely to be using finance (73%) than meeting the definition of a PNB (15%), a gap of 58 points.</p> <p>Between 2012 and 2015, the gap narrowed to 33 points, as fewer of the largest SMEs used finance (61%) and more met the definition of a PNB (28%). Since then though, the trend has reversed and in both 2018 and H1 2019, 77% were using finance and 19% were PNBs, a gap once more of 58 points.</p>

PERMANENT NON-BORROWERS – CHARACTERISTICS

The table below summarises the differences between those meeting the definition of a PNB and other SMEs on a range of key measures over time:

Characteristics of PNBs								
Over time								H1
Row percentages	2012	2013	2014	2015	2016	2017	2018	2019
Made a profit:								
• PNBs	74%	73%	80%	82%	80%	83%	79%	83%
• Other SMEs	66%	69%	74%	78%	80%	82%	77%	81%
Hold £10k+ of credit balances:								
• PNBs	17%	14%	19%	23%	19%	23%	23%	27%
• Other SMEs	16%	18%	21%	25%	24%	27%	22%	19%
Minimal/Low risk rating:								
• PNBs	14%	15%	22%	21%	20%	20%	23%	22%
• Other SMEs	17%	17%	23%	28%	23%	23%	23%	24%
International								
• PNBs	7%	10%	12%	13%	11%	14%	14%	15%
• Other SMEs	12%	15%	19%	20%	16%	17%	16%	17%
Innovative								
• PNBs	33%	32%	31%	31%	32%	31%	30%	35%
• Other SMEs	43%	42%	42%	42%	41%	36%	35%	36%
Plan to grow								
• PNBs	-	43%	40%	38%	36%	37%	41%	37%
• Other SMEs	-	52%	52%	51%	50%	52%	56%	59%

All SMEs

As the table above shows, there is no single consistent pattern of changes over time between PNBs and non-PNBs:

PNB v non-PNB trends over time

Profitability	In 2012, PNBs were more likely than non-PNBs to have been profitable (74% v 66%). Over time, profitability improved for both groups, but to a greater degree for the non-PNBs and so the ‘gap’ closed (both 80% in 2016). In 2018 and again in H1 2019 there was still little to choose between them (83% v 81%).
Credit balances	In 2012, PNBs were as likely to be holding £10,000 or more in credit balances as non-PNBs (17% v 16%). The proportion of non-PNBs holding this sum then increased slightly more rapidly (to 27% for 2017) compared to PNBs (to 23% for 2017), widening the gap between them. In 2018 the gap was reduced (23% v 22%) and in H1 2019 PNBs were more likely to hold £10,000+ in credit balances (27%) due to non-PNBs becoming somewhat less likely to do so (19%).
Risk rating	Both PNBs and non-PNBs have seen a slight increase over time in the proportion with a minimal or low external risk rating.
International	PNBs have always been somewhat less likely to be international. Since 2012 the proportion of PNBs trading internationally has varied between 7% and 15% (currently 15%) and for non-PNBs between 12% and 20% (currently 17%).
Innovation	The proportion of PNBs that were innovative declined slightly over time (33% in 2012 to 30% in 2018), but was 35% for H1 2019. They were previously less likely to have been innovative than non-PNBs, where the proportion that innovated was stable 2012 to 2016 (41-43%) but there is currently no difference between the two groups as non-PNBs were somewhat less likely to have been innovative 2017-H1 2019 (35-36%).
Plan to grow	Amongst PNBs, the proportion planning to grow declined from 43% in 2013 to 36% in 2016, widening the gap to the non-PNBs. Their growth plans have been broadly stable since (37% in H1 2019). Growth plans amongst the non-PNBs were stable 2013-2017, with around half planning to grow, before increasing to 59% in H1 2019.

Analysis conducted on several occasions in order to understand which factors in combination best predicted an SME meeting the definition of a PNB showed that the key determinant remained size of business. Common issues across size bands that increased the likelihood of being a PNB included not seeing access to finance as a barrier, not planning to grow, lower levels of planning and/or innovation and agreeing that their plans were based on what they could afford. The last full analysis can be found in the Q2 2017 report.

PNBs by their very definition were not using external finance, but if use of trade credit and injections of personal funds are considered then 43% of PNBs using any ‘business funding’. If those who had injected personal funds and/or used trade credit were to be excluded from the PNB definition, the proportion of PNBs would reduce from 48% to 25% of all SMEs YE Q2 2019.

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

As an example, if these PNBs were excluded from the ‘use of external finance’ table reported in the previous chapter, the proportion using external finance would increase to 78% of the remaining SMEs in H1 2019, a somewhat higher proportion than in recent years (2015-2018, 7 in 10 non-PNBs were using external finance):

Use of external finance over time								
Over time – all SMEs excl PNBs	2012	2013	2014	2015	2016	2017	2018	H1 2019
Use any external finance	66%	68%	65%	70%	70%	72%	70%	78%
• Use core finance	54%	53%	51%	55%	57%	57%	61%	67%
• Use other forms of finance	27%	29%	30%	32%	31%	33%	22%	27%
Do not use external finance	34%	32%	35%	30%	30%	28%	30%	22%

ATTITUDES TO FINANCE

Since Q3 2014 an increasing number of attitudinal statements have been included in the SME Finance Monitor to explore different aspects of demand for finance amongst SMEs. These are reported below in full for YEQ2 2019, in the order in which they were added to the SME Finance Monitor, with the overall ‘agree’ score in bold italics by each statement.

These statements shed some light on the current demand for finance. Most SMEs (8 in 10) continued to report that their plans were based on what they could afford, with 7 in 10 saying they would accept slower growth rather than borrowing to grow faster. Just over half felt they were being cautious due to future uncertainty while a minority, 3 in 10, were happy to use finance to help the business grow.

Previous analysis revealed that a key predictor of attitudes towards, and future use of, finance was to be a current user of external finance. Summary analysis of these statements by use of finance as well as other key demographics is therefore provided later in this section, together with changes in levels of agreement over time.

ATTITUDES TO FINANCE IN DETAIL – YEQ2 2019

Attitudes to finance YEQ2 2019	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<i>Unweighted base:</i>	18,002	3602	5800	5800	2800
<i>Happy to use external finance to help the business grow and develop</i>	31%	27%	38%	44%	49%
Strongly agree	4%	3%	4%	5%	5%
Agree	27%	24%	34%	39%	44%
Neither/nor	21%	21%	22%	25%	30%
Disagree	38%	40%	32%	25%	17%
Strongly disagree	11%	12%	8%	5%	3%
<i>Current plans for the business are based on what we can afford ourselves</i>	81%	82%	78%	70%	57%
Strongly agree	26%	27%	23%	16%	11%
Agree	55%	55%	55%	54%	46%
Neither/nor	11%	10%	12%	19%	28%
Disagree	7%	6%	9%	10%	12%
Strongly disagree	1%	1%	1%	1%	1%

Continued

Continued

Never think about whether we could/should use more external finance	51%	52%	47%	39%	32%
Strongly agree	11%	12%	9%	5%	4%
Agree	40%	40%	38%	34%	28%
Neither/nor	21%	21%	22%	28%	32%
Disagree	25%	24%	27%	30%	31%
Strongly disagree	3%	3%	4%	3%	5%
We will accept a slower rate of growth rather than borrowing to grow faster	73%	74%	70%	65%	49%
Strongly agree	20%	21%	18%	14%	9%
Agree	53%	53%	52%	51%	40%
Neither/nor	17%	17%	19%	23%	31%
Disagree	9%	8%	10%	11%	18%
Strongly disagree	1%	1%	1%	1%	2%
As a business we are prepared to take risks to be more successful	42%	40%	48%	51%	59%
Strongly agree	5%	5%	6%	6%	7%
Agree	37%	35%	42%	45%	52%
Neither/nor	20%	21%	18%	23%	26%
Disagree	31%	33%	28%	23%	13%
Strongly disagree	6%	6%	6%	4%	2%
A further increase in the cost of credit would make us less likely to apply for new external finance	51%	52%	52%	52%	46%
Strongly agree	14%	15%	13%	11%	8%
Agree	37%	37%	39%	41%	38%
Neither/nor	28%	28%	27%	29%	37%
Disagree	18%	18%	18%	17%	15%
Strongly disagree	3%	3%	3%	3%	3%

Continued

Continued

<i>Because the future feels uncertain we are being very cautious with our plans for the business</i>	55%	56%	55%	53%	51%
Strongly agree	13%	14%	12%	10%	8%
Agree	42%	42%	43%	43%	43%
Neither/nor	22%	21%	22%	23%	30%
Disagree	21%	21%	21%	23%	17%
Strongly disagree	2%	2%	2%	2%	2%
<i>My impression is that it is quite difficult for businesses like ours to get external finance</i>	41%	43%	35%	29%	27%
Strongly agree	10%	11%	7%	5%	5%
Agree	31%	32%	28%	24%	22%
Neither/nor	36%	36%	35%	35%	38%
Disagree	22%	20%	27%	33%	31%
Strongly disagree	2%	2%	2%	3%	5%
<i>We have a long term ambition to be a significantly bigger business</i>	39%	37%	43%	56%	64%
Strongly agree	8%	8%	8%	10%	13%
Agree	31%	29%	35%	46%	51%
Neither/nor	18%	18%	18%	20%	23%
Disagree	35%	37%	33%	22%	11%
Strongly disagree	8%	8%	7%	3%	2%

Q96 (238a5) All SMEs

ATTITUDES TO FINANCE – SUMMARY BY KEY DEMOGRAPHICS

Summary analysis of attitudes is provided for key demographics including size. The statements have been ranked by overall levels of agreement for YEQ2 2019:

YEQ2 19 – all SMEs % agreeing	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	18,002	3602	5800	5800	2800
Plans based on what can afford ourselves	81%	82%	78%	70%	57%
Accept slower growth rather than borrow	73%	74%	70%	65%	49%
Because the future feels uncertain we are being very cautious with our plans for the business	55%	56%	55%	53%	51%
Increase in cost of credit would discourage application	51%	52%	52%	52%	46%
Never think about using (more) external finance	51%	52%	47%	39%	32%
As a business we are prepared to take risks to become more successful	42%	40%	48%	51%	59%
My impression is that it is quite difficult for businesses like ours to get external finance	41%	43%	35%	29%	27%
We have a long term ambition to be a significantly bigger business	39%	37%	43%	56%	64%
Happy to use finance to help business grow	31%	27%	38%	44%	49%

Q96 (238a5) All SMEs

- Smaller SMEs were more likely than larger SMEs to express a willingness to base plans on what could be afforded and to grow more slowly rather than borrow to grow.
- Smaller SMEs were also more likely to say they never thought about using (more) finance and to think it would be difficult to get finance if they did apply.
- Larger SMEs were more likely to be willing to use external finance, to take risks to become more successful and to have a long term ambition to be larger still.
- The feeling that the future is uncertain applies equally across all size bands.

The table below looks at attitudes to finance by external risk rating. There was relatively little variation by risk rating on a number of these statements, but those with a better external risk rating were less likely to think it would be difficult to get finance, or to be discouraged from applying by an increase in the cost of credit:

YEQ2 19 – all SMEs % agreeing	Total	Min	Low	Avg	Worse /Avg
Unweighted base:	18,002	3291	5378	3913	3715
Plans based on what can afford ourselves	81%	76%	78%	82%	81%
Accept slower growth rather than borrow	73%	69%	72%	73%	72%
Because the future feels uncertain we are being very cautious with our plans for the business	55%	55%	53%	53%	57%
Increase in cost of credit would discourage application	51%	46%	48%	49%	55%
Never think about using (more) external finance	51%	46%	48%	53%	50%
As a business we are prepared to take risks to become more successful	42%	43%	40%	39%	45%
My impression is that it is quite difficult for businesses like ours to get external finance	41%	32%	36%	38%	43%
We have a long term ambition to be a significantly bigger business	39%	38%	37%	33%	43%
Happy to use finance to help business grow	31%	33%	34%	26%	33%

Q96 (238a5) All SMEs

There was also relatively little variation by sector:

- Those in Health were less likely to accept slower growth rather than borrowing to grow faster
- Those in Wholesale/Retail were more likely to have ambitions to be bigger and slightly more willing to use finance to grow, those in Agriculture were as willing to use finance to grow but somewhat less likely to have ambitions to be much bigger

YEQ2 19 – all SMEs % agreeing	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWk	Other Comm
Unweighted base:	1200	1500	3200	1800	1200	2000	3600	1502	2000
Plans based on what can afford ourselves	78%	80%	82%	78%	81%	82%	79%	77%	83%
Accept slower growth rather than borrow	72%	75%	74%	72%	71%	72%	74%	65%	73%
Future feels uncertain, we are being very cautious	57%	56%	55%	61%	56%	61%	52%	54%	54%
Increase in cost of credit would discourage application	53%	53%	51%	52%	54%	53%	50%	50%	51%
Never think about using (more) external finance	49%	52%	55%	47%	50%	49%	51%	45%	49%
We are prepared to take risks to become more successful	37%	47%	37%	47%	44%	41%	45%	37%	45%
Impression is that it is quite difficult for businesses like ours to get external finance	38%	42%	43%	40%	43%	42%	37%	37%	45%
Have long term ambition to be a significantly bigger business	28%	40%	34%	49%	39%	37%	38%	43%	40%
Happy to use finance to help business grow	36%	35%	28%	37%	31%	33%	28%	28%	29%

Q96 (238a5) All SMEs

Analysis by age of SME shows younger SMEs felt more uncertain about the future, but with ambitions to be a bigger business and prepared to take risk to succeed. They were also more likely to feel that it might be difficult for them to get finance:

YEQ2 19 – all SMEs % agreeing	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	1815	1613	2152	2955	9467
Plans based on what can afford ourselves	81%	82%	82%	79%	80%
Accept slower growth rather than borrow	73%	75%	70%	72%	73%
Because the future feels uncertain we are being very cautious with our plans for the business	65%	58%	54%	52%	51%
Increase in cost of credit would discourage application	66%	56%	47%	47%	45%
Never think about using (more) external finance	53%	49%	49%	48%	51%
As a business we are prepared to take risks to become more successful	51%	55%	40%	41%	34%
My impression is that it is quite difficult for businesses like ours to get external finance	60%	45%	38%	32%	32%
Have long term ambition to be a significantly bigger business	57%	50%	41%	37%	24%
Happy to use finance to help business grow	31%	38%	32%	30%	27%

Q96 (238a5) All SMEs

Analysis by use of external finance and plans to grow is shown below. Those already using finance were more prepared to take risks and more ambitious to be bigger as well as happier to use finance to grow. However they were also more likely to think the future was uncertain, that they might find it difficult to get finance and that an increase in the cost of credit would deter them. Attitudes amongst those planning to grow followed a similar pattern:

YEQ2 19 – all SMEs % agreeing	Use external finance	Do not use finance	Plan to grow	No plans to grow
Unweighted base:	9957	8045	10,593	7409
Plans based on what can afford ourselves	79%	82%	81%	80%
Accept slower growth rather than borrow	72%	73%	74%	72%
Because the future feels uncertain we are being very cautious with our plans for the business	62%	50%	59%	51%
Increase in cost of credit would discourage application	61%	44%	60%	42%
Never think about using (more) external finance	49%	51%	49%	51%
As a business we are prepared to take risks to become more successful	48%	38%	55%	30%
My impression is that it is quite difficult for businesses like ours to get external finance	53%	31%	47%	34%
Have long term ambition to be a significantly bigger business	49%	32%	57%	21%
Happy to use finance to help business grow	40%	23%	38%	23%

Q96 (238a5) All SMEs

The table below provides analysis by whether the SME met the definition of a PNB or not, and also just for those SMEs that have employees. Permanent non-borrowers were less likely to have an ambition to be much bigger, or to be prepared to take risks to be successful, or to be happy to use finance to grow. They were also less likely to feel the future was uncertain, or to feel it would be difficult for them to get finance.

YEQ2 19 – all SMEs					
% agreeing	Total	PNBs	Not PNBs	All with employees	
Unweighted base:	18,002	6249	11,753	14,400	
Plans based on what can afford ourselves	81%	83%	79%	76%	
Accept slower growth rather than borrow	73%	74%	72%	69%	
Because the future feels uncertain we are being very cautious with our plans for the business	55%	49%	60%	54%	
Increase in cost of credit would discourage application	51%	42%	58%	52%	
Never think about using (more) external finance	51%	53%	48%	45%	
As a business we are prepared to take risks to become more successful	42%	36%	47%	48%	
My impression is that it is quite difficult for businesses like ours to get external finance	41%	28%	50%	34%	
We have a long term ambition to be a significantly bigger business	39%	29%	46%	46%	
Happy to use finance to help business grow	31%	19%	39%	39%	

Q96 (238a5) All SMEs

ATTITUDES TO FINANCE – AGREEMENT OVER TIME

With the changes and additions made to these statements, the potential for analysis over time varies somewhat, but is shown here, in time order, for half year periods from H2 2014 where available for each statement:

Attitudes to finance										
Over time – all SMEs										
All agreeing – row percentages	H2 14	H1 15	H2 15	H1 16	H2 16	H1 17	H2 17	H1 18	H2 18	H1 19
Happy to use finance to help business grow	42%	45%	45%	43%	43%	33%	34%	33%	32%	29%
Plans based on what can afford ourselves	-	-	80%	80%	80%	82%	82%	79%	81%	80%
Accept slower growth rather than borrow	-	-	-	71%	70%	70%	70%	73%	72%	73%
Never think about using (more) external finance	-	-	-	47%	40%	52%	52%	50%	49%	52%
As a business we are prepared to take risks to become more successful	-	-	-	-	-	-	42%	43%	43%	41%
Increase in cost of credit would discourage application	-	-	-	-	-	-	-	51%	52%	51%
Future feels uncertain so we are being very cautious with our plans	-	-	-	-	-	-	-	51%	56%	54%
Impression it is quite difficult for businesses like ours to get finance	-	-	-	-	-	-	-	38%	39%	42%
Have long term ambition to be a significantly bigger business	-	-	-	-	-	-	38%	-	39%	38%

Q96 (238a5) All SMEs -

The proportion happy to use finance to help the business grow has declined steadily since 2015. Other attitudes have been more stable over time, but there has been something of an increase in the proportion of SMEs who felt it might be difficult to get finance (38% to 42%).

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

Happy to use finance to help business grow						
Over time – all SMEs	H2					H1
Row percentages % agree	2014	2015	2016	2017	2018	2019
All SMEs	42%	45%	43%	34%	32%	29%
0 emp	39%	43%	41%	31%	30%	26%
1-9 emps	49%	51%	49%	40%	38%	36%
10-49 emps	56%	57%	52%	48%	45%	45%
50-249 emps	57%	58%	51%	53%	57%	46%
Minimal external risk rating	38%	48%	45%	35%	36%	32%
Low	41%	45%	42%	35%	34%	33%
Average	39%	45%	41%	31%	31%	24%
Worse than average	43%	47%	45%	36%	34%	32%
Agriculture	49%	51%	44%	37%	41%	32%
Manufacturing	47%	48%	42%	35%	34%	38%
Construction	41%	44%	46%	31%	29%	28%
Wholesale/Retail	51%	51%	44%	39%	38%	36%
Hotels & Restaurants	48%	47%	46%	38%	32%	29%
Transport	39%	47%	43%	38%	35%	31%
Property/ Business Services	42%	45%	42%	33%	30%	25%
Health	32%	39%	43%	27%	32%	27%
Other	35%	39%	39%	32%	31%	29%
PNB	31%	36%	34%	22%	22%	18%
Not a PNB	50%	53%	51%	44%	42%	37%
Use external finance	54%	56%	54%	46%	44%	38%

Q96 (238a54) All SMEs

The table shows that the proportion of SMEs happy to use finance to grow was stable between H2 2014 (42%) and 2016 (43%) but has since declined (29% for H1 2019). The decline between 2016 and 2019 was due to:

- Lower levels of agreement amongst smaller SMEs in particular (41% to 26% for those with 0 employees and 49% to 36% for those with 1-9 employees).
- Lower levels of agreement across most risk ratings and sectors.
- Those who did not meet the definition of a Permanent non borrower remained more likely to agree (37% in H1 2019 compared to 18% of PNBs) but this was lower than previously seen (51% in 2016) and the same was true for those using external finance (38% in H1 2019 from 54% in 2016).

ATTITUDES TO FINANCE – MORE DETAILED ANALYSIS

Analysis of attitudes to finance against each other or by other behaviours provides further insight into SME sentiment.

USING AND WILLING TO USE FINANCE

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

The table below allocates all SMEs to one of four categories, depending on whether they were using external finance and whether they agreed that they would be happy to use external finance in the future to help the business develop and grow. This shows that 44% of SMEs were neither using external finance nor were happy to do so in future, but with considerable variation by size of SME:

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

YEQ2 19 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	18,002	3602	5800	5800	2800
Use external finance and happy to use in future	17%	14%	24%	31%	44%
Use external finance but not happy to use in future	25%	26%	24%	25%	33%
Do not use it but happy to use in future	14%	13%	14%	13%	6%
Do not use it and not happy to use in future	44%	47%	38%	30%	17%

Q15/Q96 (Q238a5) All SMEs

Taking these two issues in combination:

- 1 in 6 SMEs (17%) were using external finance and agreed that they would be happy to use it in future, increasing by size of SME to just under half of those with 50-249 employees (44%).
- The remaining users of finance, 25% of all SMEs, would not be happy to use finance in future (the equivalent of 60% of all users of finance). There was less variation by size of SME for this group, but those with 50-249 employees were somewhat more likely to be in this group (33%).
- 1 in 7 of all SMEs (14%) were not using external finance currently but agreed that they would be happy to use it to help the business develop and grow. This proportion varied little by size of SME with the exception of those with 50-249 employees (6%).
- The remainder, just under half of SMEs (44%), were non-users of finance who would not be happy to use it in future and this was more common amongst 0 employee SMEs (47% compared to 17% of those with 50-249 employees). 8 in 10 of this group (80%) met the definition of a PNB.

Between 2018 and H1 2019 the proportion of SMEs using external finance increased from 36% to 46% and, as the table below shows, this resulted in a further increase in the group that was using external finance, but would not be happy to do so in future (from 16% in 2015 to 28% in H1 2019). At the same time fewer SMEs were not using finance but would be happy to do so in future (24% to 12%):

Combined analysis: Use of external finance and happiness to use in future over time – all SMEs	2015	2016	2017	2018	H1 2019
Use external finance and happy to use in future	21%	20%	18%	16%	17%
Use external finance but not happy to use in future	16%	17%	21%	20%	28%
Do not use it but happy to use in future	24%	23%	16%	16%	12%
Do not use it and not happy to use in future	39%	40%	46%	47%	43%

Q15/Q96 (Q238a5) All SMEs

COMBINING GROWTH AMBITIONS AND ATTITUDE TO RISK

When the attitude statement ‘We have a long term ambition to be a significantly bigger business’ was initially run in H2 2017, further analysis was done in combination with the statement ‘As a business we are prepared to take risks to become more successful’ to produce a profile of “Ambitious risk takers” that agreed with both statements. This analysis has now been updated with the latest results.

In H2 2017, 38% had agreed they wanted to be a bigger business and 42% that they were prepared to take risks, with 27% agreeing with both statements. Agreement increased by size of SME but decreased by age:

- 25% of 0 employee SMEs agreed with both statements, increasing by size to 50% of those with 50-249 employees.
- 44% of Starts agreed with both statements, decreasing by age of SME to 17% of those trading for more than 15 years.

Those SMEs that agreed with both statements were more likely to be using finance, to be innovative, international and to plan, to have grown and to be planning to grow. They could thus be seen as a key group of SMEs.

Repeating this analysis for YEQ2 2019 showed very similar results: 39% agreed they wanted to be a bigger business and 42% that they were prepared to take risks, with 24% agreeing with both statements.

Levels of agreement continued to increase by size of SME and decrease by age:

- 22% of 0 employee SMEs agreed with both statements, increasing by size to 43% of those with 50-249 employees.
- 35% of Starts agreed with both statements, decreasing by age of SME to 14% of those trading for more than 15 years.

The table below shows the proportion of SMEs in each demographic that agreed with both statements and could be described as Ambitious risk-takers. Overall this group has declined very slightly (from 27% in H2 2017 to 23% in H1 2019), with some differences by sub-group:

- Those less likely to agree with both statements H1 2019 compared to H2 2017 included larger SMEs, those in the Agriculture, Transport or Other Community sectors, and Starts.

Want to grow significantly and prepared to take risks			
Over time – all SMEs		H2	H1
Row percentages % agree with both	H2 2017	2018	2019
All SMEs	27%	25%	23%
0 emp	25%	23%	21%
1-9 emps	30%	30%	29%
10-49 emps	39%	37%	34%
50-249 emps	50%	50%	43%
Minimal external risk rating	24%	22%	23%
Low	26%	20%	23%
Average	20%	22%	19%
Worse than average	31%	28%	26%
Agriculture	26%	16%	17%
Manufacturing	25%	31%	27%
Construction	25%	17%	22%
Wholesale/Retail	30%	31%	30%
Hotels & Restaurants	32%	24%	27%
Transport	28%	24%	22%
Property/ Business Services	25%	26%	21%
Health	28%	23%	21%
Other	30%	30%	24%
Starts	44%	35%	34%
2-5 years	32%	38%	33%
6-9 years	26%	23%	25%
10-15 years	23%	24%	22%
More than 15 years	17%	15%	13%

Q96 (238a54) All SMEs

The table below shows the profile of these ‘Ambitious risk takers’ (24% of SMEs) compared to those SMEs that agreed with one of the statements (33% of SMEs) or with neither of them (43% of SMEs).

Ambitious risk takers are younger but more likely to have employees, more likely to have grown and to be planning to grow, to be planning a growth related activity, to have innovated and to be planning to apply for finance. Those who agree with neither statement are less likely to be using external finance and more likely to meet the definition of a PNB:

Ambitious risk takers profile YEQ2 19 – all SMEs	Ambitious risk takers	Agree one statement	Agree neither statement
<i>Unweighted base:</i>	5594	6209	6199
Have employees	32%	25%	21%
Use external finance	52%	49%	32%
Permanent non-borrower	33%	40%	53%
Innovative	46%	37%	27%
International	23%	17%	11%
Have grown	54%	39%	27%
Have declined	14%	19%	22%
Plan to grow	78%	56%	30%
Plan growth activity	61%	39%	22%
Plan to apply for finance	21%	12%	6%
Future would-be seeker	11%	9%	13%
Future happy non-seeker	68%	79%	81%

Q96 (238a54) All SMEs