

# 11

## THE FUTURE

### **THIS CHAPTER PROVIDES**

on growth plans and perceived barriers to that growth. It then explores SMEs' intentions for the next 3 months, in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period.

## KEY FINDINGS

**Future growth:** In Q4 2019, just over half of SMEs planned to grow in the coming 12 months (53%) while around a third were planning a growth related activity (37%). Most of those planning to grow expected to do so by increasing sales in the UK rather than overseas.

- 53% of SMEs interviewed in Q4 2019 were planning to grow, including 17% planning to grow by 20% or more. Growth ambitions increased by size of SME from 50% of those with 0 employees to 76% of those with 50-249 employees.
- Amongst those planning to grow in Q4 2019, 98% expected to sell more in the UK (93% in existing markets and 20% in new markets), while 9% planned to sell more overseas (6% in existing markets and 6% in new markets). This is the equivalent of 50% of all SMEs planning to sell more in the UK and 5% planning to sell more overseas.
- For 2019 as a whole, 52% of SMEs had planned to grow, slightly higher than in 2018 (49%) and the highest figure recorded on the Monitor to date. This was due to more 0 employee SMEs planning to grow (46% to 49%), with increases in most sectors (but a decline in Manufacturing from 56% to 52%).
- More broadly, 35% of all SMEs were planning one or more of a series of activities linked to growth such as taking on more staff (18%) or investing in new plant and machinery (13%). Such activity was more common amongst larger SMEs (63% of those with 50-249 employees), younger SMEs (43% of Starts and 45% of those trading for 2-5 years) and those planning to apply for finance (51%). Those planning to grow were also more likely to be planning an activity, although not all were (51%).
- Since this question was first asked in H2 2017, fewer SMEs have been planning growth related activity (42% to 37% for 2019 as a whole), with a decline across all size bands, except the largest SMEs, and notably amongst Starts (56% to 40%) and those in Manufacturing (54% to 42%).

**Future appetite for finance:** In Q4 2019, 1 in 10 SMEs planned to apply for finance (9%). This new finance was more likely to be wanted for business development than for cash flow, and core finance was the most likely form of funding. 6 in 10 of those planning to apply for a bank product were confident of success. 11% of SMEs in Q4 2019 were Future would-be seekers of finance (who were typically reluctant to borrow in the current climate), but the largest group of SMEs remained the Future happy non-seekers of finance

- 9% of SMEs expected to apply for (more) finance and this was more likely to be the case for those with 1-9 or 10-49 employees (15% and 13%) than the smallest (7%) or largest SMEs (9%). Slightly more SMEs anticipated a reduction in the funding they were using, with little variation by size (13% of 0 employee SMEs to 16% of those with 50-249 employees).
- In Q4 2019, 66% of those planning to apply wanted the funding for business development, such as funding UK expansion (31%), while 45% wanted it for cash flow purposes. 51% were considering a core product (loan, overdraft or credit card) but 25% had yet to decide what they might apply for. 62% were confident that their bank would agree to lend to them, in line with Q3 2019 and higher than seen Q3 2018 to Q2 2019 (when 48-55% were confident).
- 11% of SMEs were Future would-be seekers of finance, seeing potential barriers to making a future application for finance, with relatively little variation by size of SME (8-11%). The main reason for not applying remained a reluctance to borrow in the current environment (65% of Future would-be seekers).
- 80% of SMEs in Q4 2019 expected to be a Future happy non-seeker of finance with no need to apply for finance.

- Over time, the proportion of SMEs planning to apply has declined somewhat, from 14% in 2012 and 2013 to 11% for 2019. The proportion planning to apply for cash flow purposes has increased slightly (from 38% in 2018 to 43% for 2019 as a whole) and confidence the bank would lend is stable (56%) after a dip in 2017 to 50%. The proportion of Future would-be seekers declined from 23% in 2012 to 11% in 2015 and has been stable since (11% in 2019), while the proportion of Future happy non-seekers increased from 63% in 2012 to 76% in 2015 and has been broadly stable since (78% in 2019).

**Barriers to running the business:** In Q4 2019, the three key barriers remained political uncertainty (24%), legislation, regulation and red tape (21%) and the current economic climate (20%). 38% of all SMEs saw one or more of these 3 as major barriers

- Larger SMEs were more likely to see political uncertainty as a barrier (23% of 0 employee SMEs to 30% for those with 50-249 employees). There was little variation by size on the proportion seeing legislation, regulation and red tape as a barrier (20-22%), while the smallest SMEs were somewhat less likely to see the current economic climate as a barrier (19% of 0 employee SMEs compared to 21-26% of those with employees).
- Overall, 0 employee SMEs were less likely to see any of these three main issues as a major obstacle (36% v 39-43% of those with employees).
- Between 2016 and 2019, the proportion of SMEs rating any of these three as a major obstacle increased from 30% to 38%, with higher mentions for political uncertainty (10% to 24%) the economic climate (12% to 21%) and legislation and regulation (10% to 19%).
- There were also increased mentions for cash flow/ late payment as a barrier (7% to 13%) while mentions of other barriers were more stable, including access to finance (5% to 7%).

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**International SMEs:** SMEs trading overseas remained more likely in Q4 2019 to be planning to grow and to apply for finance, but they were also more concerned about political uncertainty and the current economic climate

- This was most noticeable amongst those that both imported and exported, where in Q4 2019 73% planned to grow (v 53% of SMEs overall) and 24% planned to apply for finance (v 9% overall) but 43% saw political uncertainty as a major barrier (v 24% overall) and 38% saw the economic climate as a major barrier (v 20% overall).

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Having reviewed performance over the 12 months prior to interview, SMEs were then asked about the **future**. As this is looking forward, the results from each quarter can more easily be compared to each other, providing a guide to SME sentiment over time.

This chapter reports on growth objectives and perceived barriers to future business performance. It then explores SMEs' intentions for the next 3 months in terms of finance and the reasons why SMEs think that they will/will not be applying for new/renewed finance in that time period.

Most of this chapter therefore is based on Q4 2019 data gathered between October and December 2019, as the UK prepared for and then held a General Election.

SMEs that trade internationally will potentially be anticipating more of an impact post-Brexit, so this chapter also includes a summary of how such SMEs have been feeling since the referendum result.

## GROWTH RELATED ACTIVITIES PLANNED FOR NEXT 12 MONTHS

A number of activities, listed below, could be associated with growing a business. In Q4 2019, a third of all SMEs (not just those planning to grow) planned to undertake at least one of these activities in the following year, increasing by size of SME:

Planned activities in next 12 mths		0	1-9	10-49	50-249
Q4 19 All SMEs	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>4500</b>	<b>900</b>	<b>1450</b>	<b>1450</b>	<b>700</b>
Take on more staff	18%	14%	26%	37%	37%
Invest in new plant, machinery, premises	13%	11%	18%	24%	25%
Develop a new product or service	14%	13%	17%	21%	24%
Start to sell, or sell more, overseas	5%	4%	7%	9%	10%
Some other major expenditure	6%	5%	8%	10%	10%
<b>Any of these</b>	<b>35%</b>	<b>31%</b>	<b>45%</b>	<b>55%</b>	<b>63%</b>
None of these	65%	69%	55%	45%	37%

Q90 (240w) All SMEs

Younger SMEs were the most likely to be planning any activity (43-45%), with activity then declining by age of business to 28% of those trading for more than 15 years:

Planned activities in next 12 mths		2-5	6-9	10-15	15
Q4 19 All SMEs	Starts	yrs	yrs	yrs	yrs+
<b>Unweighted base:</b>	<b>461</b>	<b>399</b>	<b>464</b>	<b>729</b>	<b>2447</b>
Take on more staff	27%	22%	14%	18%	11%
Invest in new plant, machinery, premises	13%	16%	10%	14%	12%
Develop a new product or service	20%	19%	16%	10%	10%
Start to sell, or sell more, overseas	4%	10%	5%	3%	4%
Some other major expenditure	2%	7%	6%	9%	5%
<b>Any of these</b>	<b>43%</b>	<b>45%</b>	<b>33%</b>	<b>35%</b>	<b>28%</b>
None of these	57%	55%	67%	65%	72%

Q90 (240w) All SMEs

Those in the Wholesale/Retail and Health sectors were the most likely to be planning any activity (44%) together with those in Manufacturing (42%), compared to 27% in Transport and 28% in Construction. Permanent non-borrowers were somewhat less likely to be planning such activities (26%) and excluding them increased the proportion planning to take any action to 42% of remaining SMEs.

Key differences in levels of planned activity were seen by both future growth plans and future finance plans. Those planning to grow in the next 12 months and those with any future appetite for finance were much more likely to be planning any of these activities than their peers (both 51%):

<b>Planned activities in next 12 mths</b>	<b>Plan to grow</b>	<b>No plans to grow</b>	<b>Plan to apply</b>	<b>FWBS</b>	<b>FHNS</b>
<b>Q4 19 All SMEs</b>					
<b><i>Unweighted base:</i></b>	<b>2805</b>	<b>1695</b>	<b>530</b>	<b>461</b>	<b>3509</b>
Take on more staff	28%	6%	26%	19%	16%
Invest in new plant, machinery , premises	17%	8%	24%	17%	11%
Develop a new product or service	22%	5%	28%	21%	12%
Start to sell, or sell more, overseas	8%	1%	11%	8%	4%
Some other major expenditure	8%	3%	11%	7%	5%
<b><i>Any of these</i></b>	<b>51%</b>	<b>18%</b>	<b>51%</b>	<b>43%</b>	<b>33%</b>
None of these	49%	82%	49%	57%	67%

Q90 (240w) All SMEs



As the table below shows, there has been relatively little change over time in the proportion of SMEs planning to undertake each of these activities, but the proportions planning any activity was somewhat lower in 2019 than it was in 2018:

### Planned activities

By date of interview	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All SMEs – over time	2018	2018	2018	2018	2019	2019	2019	2019
<b>Unweighted base:</b>	<b>4500</b>	<b>4500</b>	<b>4502</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>
Take on more staff	19%	18%	19%	17%	18%	17%	18%	18%
Invest in new plant, machinery etc	18%	15%	17%	13%	14%	15%	14%	13%
Develop a new product or service	17%	14%	18%	15%	14%	15%	14%	14%
Start to sell, or sell more, overseas	7%	6%	6%	7%	4%	7%	5%	5%
Some other major expenditure	6%	5%	5%	4%	6%	6%	5%	6%
<b>Any of these</b>	<b>41%</b>	<b>37%</b>	<b>40%</b>	<b>34%</b>	<b>36%</b>	<b>38%</b>	<b>37%</b>	<b>35%</b>
None of these	59%	63%	60%	66%	64%	62%	63%	65%

Q90 (240w) All SMEs

The table overleaf provides summary analysis over time:

- In H2 2017, when this question was first asked, 42% of SMEs reported one or more activities, dropping slightly to 38% in 2018 and then 37% for 2019.
- These lower levels of activity were seen across all but the largest SMEs (where the proportion increased slightly to 63%), and notably amongst Starts and those in Manufacturing and Transport as well as those planning to grow.

<b>Plan any activity</b>	H2		
Over time by date of interview – row percentages	2017	2018	2019
All SMEs	42%	38%	37%
0 emp	38%	34%	33%
1-9 emps	50%	46%	45%
10-49 emps	63%	58%	55%
50-249 emps	60%	58%	63%
Minimal external risk rating	42%	40%	40%
Low	44%	39%	40%
Average	35%	34%	32%
Worse than average	45%	40%	40%
Agriculture	38%	37%	34%
Manufacturing	54%	46%	42%
Construction	36%	30%	29%
Wholesale/Retail	48%	44%	46%
Hotels & Restaurants	42%	38%	36%
Transport	40%	33%	31%
Property/ Business Services	41%	40%	39%
Health	44%	36%	36%
Other	43%	41%	40%
PNBs	36%	32%	30%
All excl PNBs	47%	43%	42%
Plan to grow	61%	55%	52%
Plan to apply for finance	62%	62%	59%
Starts	56%	42%	40%
2-5 years	48%	49%	48%
6-9 years	37%	41%	38%
10-15 years	38%	36%	38%
15 years+	34%	30%	29%

Q90 (240w) All SMEs

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Analysed as a group for YEQ4 2019, the 37% of SMEs that were planning to take any of these actions in the next 12 months were:

- Innovative and international: They were more likely to be international (25% v 10%) and innovative (52% v 25%)
- Ambitious: They were more likely to have grown (50% v 30% of those not planning any activities) and to be planning to grow (73% v 39%) and to have employees (32% v 21%). They were also more likely to be ambitious risk takers (37% v 16%).
- Users of finance: They were more likely to be using finance (52% v 42%) and to plan to apply in future (18% v 7%) and less likely to be a PNB (34% v 46%). They were also more likely to be happy to borrow to grow (43% v 21%).
- Concerned: They were more worried about possible barriers (57% nominated any v 41%) notably political uncertainty (30% v 21%), the current economic climate (25% v 18%) and recruitment of staff (14% v 5%).

## GROWTH PLANS FOR NEXT 12 MONTHS

All SMEs were asked about their growth plans for the next 12 months. From Q1 2018, the information collected on both past and future growth was extended to identify those that had grown / planned to grow by 40% or more (previously the highest growth rate recorded was 20% or more). The analysis below provides the previous “Grown by 20% or more” code for all recent quarters but, where available, also now provides data on those who planned to grow by 40% or more (3% of SMEs in Q4 2019).

In Q4 2019, the largest SMEs remained more likely to be planning to grow at all (76% v 50% of those with 0 employees), but less likely to be planning to grow by 20% or more (11%):

<b>Plans to grow in next 12 mths</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>Q4 19 only</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>4500</b>	<b>900</b>	<b>1450</b>	<b>1450</b>	<b>700</b>
Grow by more than 40%	3%	3%	3%	2%	*
Grow by 20-40%	14%	13%	15%	14%	10%
Grow by less than 20%	36%	34%	39%	54%	66%
<b>All with objective to grow</b>	<b>53%</b>	<b>50%</b>	<b>57%</b>	<b>70%</b>	<b>76%</b>
Stay the same size	37%	38%	35%	26%	22%
Become smaller	5%	5%	3%	2%	1%
Plan to sell/pass on/close	6%	6%	5%	2%	*

Q91 (225) All SMEs

Amongst those who in Q4 2019 said that their business had ‘developed significantly’ in the last 3 years, two thirds expected to grow again in the next year (65%), compared to 40% of those who said the business was ‘recognisably the same’ and 29% who said the business had ‘retrenched’. Amongst ‘Ambitious risk takers’, 79% were planning to grow, including 34% by 20% or more.

In Q4 2019 and excluding Starts who were not asked about growth in the previous year:

- 68% of SMEs who had grown their turnover in the previous year were planning to do so again in the coming year, with 26% planning to stay at their new size.
- Over half of those who had stayed the same size in the previous year planned to stay the same size again (58%) while 32% planned to grow.
- The same proportion of those who had previously declined in size planned to grow in the coming year (31%), with 40% planning to stay the same size and 29% expecting to get smaller again.

## PLANNED GROWTH OVER TIME

In Q4 2019, 53% of SMEs planned to grow, in line with the higher proportions seen since Q2 2019:

### Growth in next 12 mths

All SMEs– over time By date of interview	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>Unweighted base:</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4502</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>
Grow by 20% or more*	19%	17%	17%	16%	15%	13%	18%	15%	17%
- Grow by 40% +	-	4%	3%	3%	3%	2%	4%	3%	3%
- Grow by 20-40%	-	13%	14%	13%	12%	10%	14%	12%	14%
Grow by less than 20%*	27%	30%	31%	33%	35%	33%	36%	38%	36%
<b>All with objective to grow</b>	<b>46%</b>	<b>47%</b>	<b>48%</b>	<b>49%</b>	<b>50%</b>	<b>46%</b>	<b>54%</b>	<b>53%</b>	<b>53%</b>
Stay the same size	44%	43%	41%	41%	40%	44%	37%	37%	37%
Become smaller	6%	4%	5%	4%	4%	6%	4%	5%	5%
Plan to sell/pass on/close	5%	6%	6%	6%	5%	4%	4%	5%	6%

Q91 (225) All SMEs

The table on the next page summarises these growth plans/objectives of SMEs by key demographics over recent quarters, including by size of SME. The overall figures are most influenced by the views of the smaller SMEs:

- For SMEs with 0 employees half planned to grow (50% in Q4 2019) maintaining the somewhat higher proportion seen since Q2 2019.
- Amongst SMEs with 1-9 employees the proportion planning to grow has been more variable, but typically around half have planned to grow (57% in Q4 2019).
- Over time a fairly consistent 6 in 10 or more of SMEs with 10-49 employees have planned to grow, but in the latter half of 2019 this increased to 7 in 10 (70% for Q4 2019).
- Amongst SMEs with 50-249 employees, 7 in 10 or more have typically been planning to grow in recent quarters, with the Q4 2019 figure in line (76%).

**Objective to grow (any) in next 12 months**

Over time – row percentages By date of interview	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>All SMEs</b>	<b>46%</b>	<b>47%</b>	<b>48%</b>	<b>49%</b>	<b>50%</b>	<b>46%</b>	<b>54%</b>	<b>53%</b>	<b>53%</b>
0 employee	43%	45%	43%	47%	48%	43%	54%	51%	50%
1-9 employees	52%	51%	59%	56%	54%	53%	56%	58%	57%
10-49 employees	68%	62%	67%	62%	66%	64%	60%	70%	70%
50-249 employees	67%	71%	90%	77%	76%	72%	77%	79%	76%
Minimal external risk rating	45%	44%	46%	44%	51%	53%	53%	50%	54%
Low external risk rating	47%	42%	40%	41%	47%	47%	50%	49%	46%
Average external risk rating	42%	41%	45%	40%	45%	38%	46%	47%	47%
Worse than average external risk rating	47%	52%	53%	57%	55%	52%	64%	59%	59%
Agriculture	39%	33%	42%	43%	41%	41%	39%	58%	45%
Manufacturing	49%	49%	57%	57%	58%	52%	56%	55%	47%
Construction	39%	39%	40%	39%	37%	41%	48%	43%	45%
Wholesale/Retail	54%	52%	54%	59%	54%	56%	58%	65%	66%
Hotels & Restaurants	45%	46%	49%	52%	45%	52%	44%	58%	56%
Transport	45%	46%	33%	53%	48%	42%	61%	45%	44%
Property/Business Services etc.	46%	50%	54%	52%	56%	46%	54%	54%	54%
Health	47%	48%	64%	48%	53%	52%	66%	65%	67%
Other Community	49%	53%	45%	44%	55%	40%	60%	53%	51%
All Permanent non-borrowers	38%	42%	40%	41%	41%	36%	39%	42%	44%
All excluding PNBs	52%	52%	56%	57%	58%	54%	64%	60%	60%
Starts	68%	70%	68%	70%	77%	75%	81%	80%	84%
2-5 years	50%	59%	62%	68%	64%	59%	66%	68%	58%
6-9 years	41%	47%	50%	44%	51%	50%	48%	53%	57%
10-15 years	45%	40%	41%	50%	40%	44%	48%	44%	45%
More than 15 years	33%	31%	33%	31%	35%	28%	40%	35%	34%

Q91 (225) All SMEs base size varies by category

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The variability in predicted growth quarter on quarter can make trends harder to discern. The table below looks at annual growth plans since 2013 (due to previous changes to the question in Q4 2012) by key business demographics.

Between 2013 and 2016 the proportion of SMEs planning to grow fell from 49% to 43% but has increased again since. In 2019, 52% of SMEs planned to grow, the highest level seen to date on the SME Finance Monitor. It is worth noting that levels of actual growth (excluding Starts) have, if anything declined slightly (the 37% reporting growth in 2019 was the lowest on SMEFM since 2012).

The increase since 2016 was seen across all sizes of SME with the slight exception of those with 1-9 employees. It was also seen particularly amongst those with a minimal or worse than average risk rating, those in the Health and Agriculture sectors and those that do not meet the definition of a PNB.

Age of business has now been added to these tables. This shows that younger SMEs have typically been more ambitious than older ones. Planned growth amongst those trading for more than 10 years has hardly changed over time but since 2016, younger SMEs have become more ambitious, notably Starts (61% to 80%) and those trading for 2-5 years (51% to 63%).

<b>Objective to grow (any) in next 12 months</b>							
Over time							
By date of interview – row percentages	2013	2014	2015	2016	2017	2018	2019
All SMEs	49%	47%	45%	43%	45%	49%	52%
0 emp	46%	43%	42%	40%	41%	46%	49%
1-9 emps	54%	56%	54%	52%	53%	55%	56%
10-49 emps	59%	67%	63%	59%	64%	64%	66%
50-249 emps	67%	71%	66%	58%	69%	79%	76%
Minimal external risk rating	45%	45%	40%	39%	42%	47%	53%
Low	45%	45%	44%	42%	43%	43%	48%
Average	41%	42%	39%	39%	41%	43%	44%
Worse than average	54%	52%	51%	49%	49%	54%	59%
Agriculture	43%	37%	34%	34%	35%	40%	46%
Manufacturing	51%	55%	49%	43%	44%	56%	52%
Construction	41%	37%	35%	35%	35%	39%	44%
Wholesale/Retail	51%	54%	53%	51%	51%	55%	61%
Hotels & Restaurants	46%	45%	46%	48%	47%	48%	53%
Transport	48%	37%	44%	43%	44%	45%	48%
Property/ Business Services	53%	49%	48%	46%	48%	53%	52%
Health	49%	49%	48%	41%	46%	53%	62%
Other	52%	57%	50%	47%	48%	49%	51%
PNBs	43%	40%	38%	36%	37%	41%	40%
All excl PNBs	52%	52%	51%	50%	52%	56%	60%
Starts	69%	61%	62%	61%	63%	71%	80%
2-5 years	57%	59%	58%	51%	56%	63%	63%
6-9 years	45%	46%	44%	41%	43%	48%	52%
10-15 years	38%	41%	40%	41%	41%	43%	45%
More than 15 years	31%	33%	33%	31%	33%	33%	34%

Q91 (225) All SMEs



## HOW PREDICTED GROWTH WILL BE ACHIEVED

Those planning to grow were asked additional questions about how this growth might be achieved in terms of sales to new/existing markets and in the UK/overseas. 93% of those planning to grow said this would involve selling more to existing markets in the UK (the equivalent of 47% of all SMEs). Overall, more SMEs planned to grow by selling to new markets in the UK (10% of all SMEs) than in new markets overseas (3%):

How plan to grow Q4 19	All planning to grow	All SMEs
<b>Unweighted base:</b>	<b>2737</b>	<b>4500</b>
Sell in the UK	98%	50%
<i>Increase sales in existing markets in UK</i>	93%	47%
<i>Sell in new markets in UK</i>	20%	10%
Sell overseas	9%	5%
<i>Increase sales in existing markets overseas</i>	6%	3%
<i>Sell in new markets overseas</i>	6%	3%

Q92 (226) All SMEs planning to grow excluding DK/All SMEs

As the table below shows, those planning to grow who did not currently export were focussed on achieving growth in the UK, and in existing markets in particular (94%). Just 4% thought they would sell more overseas.

6 in 10 of those who export planned to sell more overseas (typically in an existing market) but like their non-exporting peers, most of them saw some growth coming from UK markets, albeit they were slightly less likely to mention existing UK markets (85%):

<b>How plan to grow Q4 19</b>	<b>All planning to grow who export</b>	<b>All planning to grow who do not export</b>
<b><i>Unweighted base:</i></b>	<b>409</b>	<b>2328</b>
Sell in the UK	89%	98%
<i>Increase sales in existing markets in UK</i>	85%	94%
<i>Sell in new markets in UK</i>	30%	19%
Sell overseas	60%	4%
<i>Increase sales in existing markets overseas</i>	53%	2%
<i>Sell in new markets overseas</i>	35%	3%

#### Q92 (226) All SMEs planning to grow excluding DK

Exporters have typically been more likely to be predicting growth than their domestic peers. In Q4 2019, 65% reported that they planned to grow compared to 51% of non-exporters and this was true for both larger and smaller exporters:

- Amongst SMEs with 0-9 employees: 63% of exporters interviewed in Q4 2019 planned to grow compared to 51% of non-exporters.
- Amongst SMEs with 10-249 employees: 77% of exporters interviewed in Q4 2019 planned to grow compared to 69% of non-exporters.

The tables below summarise these differences between exporters and non-exporters over recent quarters. The first table confirms that exporters have typically been more likely to be planning to grow each quarter (typically around 6 in 10) than those that did not export (typically around 4 in 10), with the exception of Q2 and Q3 2019 when growth ambitions were more closely aligned:

### Objective to grow (any) in next 12 months

By date of interview	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Row percentages	2017	2018	2018	2018	2018	2019	2019	2019	2019
Exporters	59%	60%	62%	60%	59%	61%	56%	52%	65%
Non-exporters	44%	46%	47%	48%	49%	44%	55%	53%	51%

Q91 (225) All SMEs

The second table is based on those planning to grow and summarises how this growth is to be achieved (excluding 'Don't know' answers).

Existing markets remained the main target for growth for almost all exporters and non-exporters that plan to grow (both 94%). Exporters remained more likely than non-exporters to be contemplating new markets, especially overseas:

### How plan to grow

By date of interview	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Row percentages	2017	2018	2018	2018	2018	2019	2019	2019	2019
In existing markets:									
Exporters	91%	93%	89%	93%	97%	87%	89%	93%	94%
Non-exporters	90%	94%	94%	93%	97%	94%	93%	95%	94%
New UK markets:									
Exporters	30%	31%	26%	23%	23%	21%	31%	26%	30%
Non-exporters	23%	17%	13%	14%	15%	15%	15%	15%	19%
New overseas markets:									
Exporters	27%	23%	28%	22%	23%	16%	25%	25%	35%
Non-exporters	3%	4%	2%	4%	4%	2%	4%	2%	3%

Q92 (226) All SMEs planning to grow excluding DK

Taking a longer term view back to 2013, the table below shows that growth ambitions amongst exporters have typically been higher at around 6 in 10 compared to just under half of other SMEs. This was also true for 2019 but, at 58%, planned growth amongst exporters was at the lower end of the range seen to date. By comparison, the 51% of non-exporting SMEs planning to grow was at the top end of the range typically seen for them.

Amongst exporters planning to grow, the proportion planning to do so in new overseas markets (not necessarily within the EU) declined between 2013 and 2015 (30% to 20%), increased for 2016 to 31% and have been somewhat variable since (25% for 2019). The equivalent figures for non-exporters were stable but much lower (3-4%):

<b>Growth plans</b>							
<b>Over time</b>							
<b>By date of interview</b>							
<b>Row percentages</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>All SMEs:</b>							
Plan to grow	49%	47%	45%	43%	45%	49%	52%
<i>New markets overseas (if planning to grow)</i>	7%	6%	6%	7%	7%	6%	5%
<b>Exporters:</b>							
Plan to grow	60%	63%	65%	60%	63%	60%	58%
<i>New markets overseas (if planning to grow)</i>	30%	26%	20%	31%	28%	23%	25%
<b>Non exporters:</b>							
Plan to grow	48%	45%	43%	42%	43%	47%	51%
<i>New markets overseas (if planning to grow)</i>	4%	3%	4%	4%	4%	3%	3%

Q91/92 (225/226) All SMEs planning to grow excluding DK

More detailed analysis of the growth ambitions of international SMEs, not just exporters, is now provided at the end of this chapter.

## OBSTACLES TO RUNNING THE BUSINESS IN THE NEXT 12 MONTHS

SMEs were asked to rate the extent to which each of a number of factors were perceived as obstacles to them running the business as they would wish in the next 12 months, using a 1 to 10 scale (where 1 meant the factor was not an obstacle at all, and 10 that it was seen as a major obstacle). Scores have been analysed in 3 bands:

- 1-4 = a minor obstacle
- 5-7 = a moderate obstacle
- 8-10 = a major obstacle.

Over time, some amendments have been made to the list of possible obstacles tested, including two changes for Q1 2017:

- ‘Changes in the value of sterling’ replaced ‘The quality of management and leadership in the business’ which had itself been added in Q3 2015.
- The existing code ‘Legislation and regulation’ was extended to include ‘red tape’.

The data for Q4 2019 was gathered as the Brexit debate continued and the UK prepared for, and held, a general election. At an overall level the proportion of SMEs rating either the current economic climate or ‘Political uncertainty and future government policy’ as major obstacles in 2019 was fairly stable, having previously increased during the latter half of 2018. Amongst international SMEs both of these factors were mentioned more as major obstacles, although views remained somewhat volatile as is reported later in this section.

There remained three key issues for SMEs in Q4 2019:

- These key issues were **political uncertainty/government policy** (rated a major obstacle by 24% of SMEs), the **current economic climate** (20%) and **legislation, regulation and red tape** (rated a major obstacle by 21% of SMEs). 38% of SMEs rated at least one of these as a major obstacle.
- **Changes to the value of sterling** was rated a major obstacle by 15% of SMEs.
- **Cash flow and issues with late payment** was also rated a major obstacle by 15% of SMEs.
- 8% rated **recruiting and retaining staff** as a major obstacle.
- 7% saw **access to external finance** as a major obstacle for the year ahead.
- 6% of SMEs rated **availability of relevant advice** for their business as a major obstacle.

## OBSTACLES IN Q4 2019

The analysis below looks in detail at the barriers perceived in Q4 2019, by size of SME. Details of how these views have changed over time are provided later in this chapter.

Extent of obstacles in next 12 months		0	1-9	10-49	50-249
Q4 19 – all SMEs	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>4500</b>	<b>900</b>	<b>1450</b>	<b>1450</b>	<b>700</b>
Political uncertainty/future govt policy	4.5	4.3	5.2	5.2	5.6
- 8-10 major obstacle	24%	23%	29%	26%	30%
- 5-7 moderate obstacle	23%	21%	29%	35%	32%
- 1-4 minor obstacle	48%	52%	38%	33%	29%
The current economic climate	4.5	4.3	5.0	4.9	5.1
- 8-10 major obstacle	20%	19%	24%	21%	26%
- 5-7 moderate obstacle	30%	28%	33%	36%	33%
- 1-4 minor obstacle	47%	49%	40%	40%	37%
Legislation, regulation, red tape	4.4	4.3	4.8	4.8	5.0
- 8-10 major obstacle	21%	20%	22%	20%	22%
- 5-7 moderate obstacle	26%	24%	31%	33%	37%
- 1-4 minor obstacle	50%	53%	44%	42%	36%

Continued

Continued

Changes in the value of sterling	3.6	3.5	3.9	3.9	4.3
- 8-10 major obstacle	15%	15%	16%	16%	19%
- 5-7 moderate obstacle	19%	18%	23%	24%	27%
- 1-4 minor obstacle	62%	64%	58%	57%	51%
Cash flow/issues with late payment	3.5	3.4	3.7	3.6	4.1
- 8-10 major obstacle	15%	15%	15%	11%	19%
- 5-7 moderate obstacle	16%	15%	20%	22%	18%
- 1-4 minor obstacle	67%	69%	63%	65%	61%
Recruiting/retaining staff	2.5	2.2	3.3	4.0	3.9
- 8-10 major obstacle	8%	7%	13%	15%	14%
- 5-7 moderate obstacle	10%	7%	19%	25%	23%
- 1-4 minor obstacle	78%	83%	66%	58%	60%
Availability of relevant advice	2.8	2.8	2.9	2.9	3.5
- 8-10 major obstacle	6%	6%	7%	5%	13%
- 5-7 moderate obstacle	18%	18%	18%	18%	20%
- 1-4 minor obstacle	74%	74%	72%	73%	64%
Access to external finance	2.6	2.6	2.5	2.5	3.4
- 8-10 major obstacle	7%	7%	6%	5%	13%
- 5-7 moderate obstacle	13%	13%	14%	15%	17%
- 1-4 minor obstacle	77%	77%	77%	76%	66%
<b>None of these are major obstacles</b>	<b>54%</b>	<b>56%</b>	<b>49%</b>	<b>51%</b>	<b>49%</b>

Q93 (227a) All SMEs

In Q4 2019, 54% of SMEs did not rate any of these factors as a major obstacle (scoring 8-10).

All those who did not score 8-10 for *any* of these factors were asked if there were any barriers missing from the list. Almost all (96%) said that there weren't, and no single additional factor was mentioned by more than a handful of respondents.

## OBSTACLES TO RUNNING THE BUSINESS – BY KEY DEMOGRAPHICS

The tables below focus on those scoring 8-10 for each potential obstacle. For ease, the analysis by size of SME (provided in more detail in the previous table) is also summarised below, ranked for Q4 2019:

### Extent of obstacles in next 12 months

Q4 19 – all SMEs 8-10 impact score	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>4500</b>	<b>900</b>	<b>1450</b>	<b>1450</b>	<b>700</b>
Political uncertainty/future govt policy	24%	23%	29%	26%	30%
Legislation, regulation and red tape	21%	20%	22%	20%	22%
The current economic climate	20%	19%	24%	21%	26%
Changes to value of sterling	15%	15%	16%	16%	19%
Cash flow/issues with late payment	15%	15%	15%	11%	19%
Recruiting/retaining staff	8%	7%	13%	15%	14%
Access to external finance	7%	7%	6%	5%	13%
Availability of relevant advice	6%	6%	7%	5%	13%
<b>None of these rated a major obstacle</b>	<b>54%</b>	<b>56%</b>	<b>49%</b>	<b>51%</b>	<b>49%</b>

#### Q93 (227a) All SMEs

SMEs with employees were more likely to rate any of these factors as 'Major obstacles' with 50% nominating at least one factor compared to 44% of those with 0 employees.

The top 3 major obstacles (the economic climate, political uncertainty and legislation) were key issues for all sizes of SME:

- 4 in 10 SMEs in Q4 2019 (38%) mentioned one or more of these three factors as a major obstacle, with the smallest SMEs less likely to do so (36% for those with 0 employees, 42% of those with 1-9 employees, 39% for those with 10-49 employees and 43% for those with 50-249 employees).



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Analysis by risk rating and age of SME are shown below.

The same three key obstacles were key for each risk rating:

- Those with a better external risk rating were slightly more concerned about political uncertainty, legislation and regulation, and recruiting/ retaining staff, but otherwise differences were limited.
- Those with a low external risk rating were slightly more likely to mention one or more of the top 3 barriers (43% mentioned any) than those with any other risk rating (36-39%) and slightly less likely to say none of these were barriers (49% compared to 53-55% for other risk ratings).

Analysis by age of business showed that

- Starts were more likely to rate each of the barriers as major obstacles: 56% mentioned any of them as major obstacles, including 38% for political uncertainty, 33% for legislation and regulation and 29% for the economic climate. Overall, 51% of Starts mentioned one of the top 3 barriers.
- Amongst older SMEs, the proportion rating any of these as major obstacles was lower but increased by age (38% for those trading 2-5 years mentioned any of them, to 46% for those trading for more than 15 years). The proportion mentioning one of the top 3 barriers followed a similar pattern (28% for those trading 2-5 years to 39% for those trading for more than 15 years).

**Extent of obstacles in next 12 months**

Q4 19 – all SMEs by risk rating

8-10 impact score

	Total	Min	Low	Avg	Worse/ Avg
<b>Unweighted base:</b>	<b>4500</b>	<b>712</b>	<b>1308</b>	<b>1219</b>	<b>865</b>
Political uncertainty/future govt policy	24%	27%	28%	23%	25%
Legislation, regulation and red tape	21%	23%	27%	20%	20%
The current economic climate	20%	20%	24%	18%	22%
Changes to value of sterling	15%	13%	19%	14%	17%
Cash flow/issues with late payment	15%	10%	15%	14%	16%
Recruiting/retaining staff	8%	13%	15%	8%	7%
Access to external finance	7%	5%	6%	6%	8%
Availability of relevant advice	6%	6%	10%	6%	6%
<b>None of these rated a major obstacle</b>	<b>54%</b>	<b>55%</b>	<b>49%</b>	<b>54%</b>	<b>53%</b>

Q93 (227a) All SMEs where risk rating known

**Extent of obstacles in next 12 months**

Q4 19 – all SMEs by age of business

8-10 impact score

	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
<b>Unweighted base:</b>	<b>461</b>	<b>399</b>	<b>464</b>	<b>729</b>	<b>2447</b>
Political uncertainty/future govt policy	38%	14%	20%	22%	24%
Legislation, regulation and red tape	33%	14%	12%	14%	23%
The current economic climate	29%	15%	17%	19%	19%
Changes to value of sterling	27%	12%	12%	14%	13%
Cash flow/issues with late payment	29%	11%	10%	14%	9%
Recruiting/retaining staff	14%	4%	5%	8%	9%
Access to external finance	18%	4%	4%	6%	4%
Availability of relevant advice	15%	6%	3%	2%	5%
<b>None of these rated a major obstacle</b>	<b>44%</b>	<b>62%</b>	<b>59%</b>	<b>55%</b>	<b>54%</b>

Q93 (227a) All SMEs where risk rating known

The table below shows that in Q4 2019 those with plans to grow were more likely to identify obstacles to that growth, notably political uncertainty and changes to the value of sterling. 49% mentioned at least one obstacle (including 40% who mentioned one or more of the top 3 barriers) compared to 43% with no plans to grow (where 35% mentioned a top 3 barrier).

Clear differences were also seen on all factors depending on whether the SME was a Permanent non-borrower or not. PNBs remained less likely to see any of these issues as major barriers and 67% said that none of them were:

#### Extent of obstacles in next 12 months

Q4 19 – all SMEs 8-10 impact score	Total	Plan to grow	No plans to grow	PNB	Not PNB
<b>Unweighted base:</b>	<b>4500</b>	<b>2805</b>	<b>1695</b>	<b>1542</b>	<b>2958</b>
Political uncertainty/future govt policy	24%	28%	21%	16%	31%
Legislation, regulation and red tape	21%	21%	20%	15%	26%
The current economic climate	20%	21%	19%	13%	26%
Changes to value of sterling	15%	17%	13%	10%	20%
Cash flow/issues with late payment	15%	16%	13%	7%	21%
Recruiting/retaining staff	8%	10%	7%	4%	12%
Access to external finance	7%	9%	5%	1%	11%
Availability of relevant advice	6%	7%	5%	2%	10%
<b>None of these rated a major obstacle</b>	<b>54%</b>	<b>51%</b>	<b>57%</b>	<b>67%</b>	<b>44%</b>

Q93 (227a) All SMEs

Compared to those expecting to be Future happy non-seekers of finance, those with *any* appetite to apply for new/renewed facilities in the next three months were much more likely to see these issues as major obstacles, including access to finance. As the table below shows, 65% nominated at least one major obstacle, compared to 41% of Future happy non-seekers. Those with a future appetite for finance were also more likely to mention any of the top 3 barriers (52%) than Happy non-seekers were (34%).

The Future happy non-seeker category shown includes those SMEs that met the definition of a Permanent non-borrower, which indicates that they were not using finance nor were they likely to borrow. Such SMEs have been excluded from the Future happy non-seeker definition in the final column below, resulting in an increase in most individual scores. Excluding the PNBs saw the proportion nominating at least one major obstacle increase from 41% to 51%, and the proportion mentioning a top 3 barrier increase from 34% to 43%.

Extent of obstacles in next 12 months		Plan to	Future	Future
Q4 19 – all SMEs	Total	apply or	HNS	HNS excl.
8-10 impact score		FWBS		PNB
<b><i>Unweighted base:</i></b>	<b>4500</b>	<b>991</b>	<b>3509</b>	<b>1967</b>
Political uncertainty/future govt policy	24%	36%	22%	28%
Legislation, regulation and red tape	21%	27%	19%	25%
The current economic climate	20%	32%	17%	23%
Changes to value of sterling	15%	20%	14%	19%
Cash flow/issues with late payment	15%	21%	13%	21%
Recruiting/retaining staff	8%	12%	8%	12%
Access to external finance	7%	13%	6%	11%
Availability of relevant advice	6%	10%	6%	10%
<b><i>None of these rated a major obstacle</i></b>	<b>54%</b>	<b>35%</b>	<b>59%</b>	<b>49%</b>

Q93 (227a) All SMEs

The top 3 barriers were more likely to be mentioned by those in Health (47%) or Agriculture (44%) compared to 29% in Construction, who were also the sector most likely to say that none of these presented a barrier (65%), compared to 47% in Agriculture and 48% in Construction:

#### Extent of obstacles in next 12 months

Q4 19 – all SMEs 8-10 impact scores	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>300</b>	<b>375</b>	<b>800</b>	<b>450</b>	<b>300</b>	<b>500</b>	<b>900</b>	<b>375</b>	<b>500</b>
Political uncertainty	27%	27%	18%	28%	23%	27%	26%	29%	21%
Legislation, regulation and red tape	35%	16%	16%	16%	21%	19%	24%	38%	17%
The current economic climate	21%	22%	12%	21%	20%	20%	22%	30%	23%
Changes to sterling	13%	19%	9%	20%	16%	16%	16%	21%	13%
Cash flow/issues with late payment	14%	11%	12%	14%	8%	14%	17%	19%	16%
Recruiting/retaining staff	12%	6%	8%	10%	12%	4%	5%	19%	13%
Access to external finance	9%	5%	7%	6%	5%	6%	6%	13%	8%
Availability of relevant advice	8%	4%	4%	5%	8%	5%	6%	19%	7%
<b>None of these rated a major obstacle</b>	<b>47%</b>	<b>55%</b>	<b>65%</b>	<b>53%</b>	<b>53%</b>	<b>48%</b>	<b>52%</b>	<b>50%</b>	<b>52%</b>

Q93 (227a) All SMEs

## OBSTACLES TO RUNNING THE BUSINESS – OVER TIME

The summary table below shows the proportion of SMEs that rated each factor a major obstacle across the most recent nine waves of the Monitor and any mention of a top 3 issue. Since Q2 2019 around 4 in 10 SMEs have mentioned one of the top 3 issues, compared to around 3 in 10 in earlier quarters, due to more mentions of political uncertainty / future government policy:

### Extent of obstacles in next 12 months

All SMEs over time

8-10 impact score

By date of  
interview

	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
<b>Unweighted base:</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4502</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>
Political uncertainty	15%	16%	15%	19%	24%	21%	25%	26%	24%
Legislation, regs and red tape	15%	17%	18%	19%	22%	17%	20%	18%	21%
The current economic climate	14%	16%	15%	17%	22%	19%	22%	21%	20%
<b>Any Top 3 issue</b>	<b>29%</b>	<b>31%</b>	<b>31%</b>	<b>34%</b>	<b>41%</b>	<b>36%</b>	<b>41%</b>	<b>39%</b>	<b>38%</b>
Cash flow/issues with late payment	9%	11%	12%	13%	15%	13%	13%	12%	15%
Changes in sterling	10%	11%	11%	11%	15%	12%	14%	16%	15%
Availability of relevant advice	4%	6%	8%	8%	7%	6%	6%	8%	6%
Recruiting/retaining staff	8%	7%	7%	8%	7%	7%	10%	7%	8%
Access to external finance	5%	5%	6%	5%	5%	5%	8%	7%	7%
<b>None of these rated a major obstacle</b>	<b>61%</b>	<b>59%</b>	<b>57%</b>	<b>54%</b>	<b>50%</b>	<b>54%</b>	<b>52%</b>	<b>54%</b>	<b>54%</b>

Q93 (227a) All SMEs

The proportion saying that ‘none of these’ were a barrier has declined over time. Having previously been around 7 in 10, it has been around 5 in 10 since the latter half of 2018.

The table below provides a longer term view back to 2012 to help identify changes over time:

- Following a marked decline in the proportion of SMEs citing the current economic climate as a barrier between 2012 and 2015 (to 13%) and a period of stability 2016-2017, an increasing proportion of SMEs have cited the economic climate as a barrier in 2018 and 2019 (to 21%).
- As well as more mentions of the economic climate, during 2018 and 2019 there were increased mentions of political uncertainty (24%) and legislation and regulation (19%). As a result, 38% of SMEs mentioned one or more of these barriers in 2019, up from 24% in 2015:
- The proportion of SMEs citing cash flow/late payment had declined from 13% in 2012 to 7% in 2016 but was 13% again in both 2018 and 2019.
- There has also been a slight increase in the proportion citing changes in the value of sterling, from 11% when this was first asked in 2017 to 14% in 2019.

<b>Extent of obstacles in next 12 months</b>								
<b>Over time – all SMEs</b>								
<b>8-10 impact score</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<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>	<b>18,000</b>
Political uncertainty/future govt policy	-	-	-	10%	10%	14%	19%	24%
Legislation, regulation and red tape	13%	13%	12%	11%	10%	15%	19%	19%
The current economic climate	34%	27%	17%	13%	12%	14%	17%	21%
<b>Any top 3 mentions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24%</b>	<b>22%</b>	<b>28%</b>	<b>34%</b>	<b>38%</b>
Cash flow/issues with late payment	13%	11%	9%	9%	7%	9%	13%	13%
Changes in sterling	-	-	-	-	-	11%	12%	14%
Availability of relevant advice	6%	6%	5%	5%	4%	4%	7%	6%
Recruiting/retaining staff	3%	3%	5%	6%	6%	6%	7%	8%
Access to external finance	11%	10%	7%	6%	5%	5%	5%	7%

Q93 (227a) All SMEs

The table below provides another longer term view back to 2012, this time excluding the Permanent non-borrowers. This typically increased the 8-10 impact scores for individual measures by 3-4 percentage points, with the exception of cash flow/ late payment where the score increased from 13% of all SMEs to 19% when the PNBs were excluded:

<b>Extent of obstacles in next 12 months</b>								
Over time – all SMEs excl PNBs								
8-10 impact score	2012	2013	2014	2015	2016	2017	2018	2019
<b>Unweighted base:</b>	<b>15,312</b>	<b>14,578</b>	<b>13,613</b>	<b>13,011</b>	<b>11,634</b>	<b>11,940</b>	<b>11,294</b>	<b>12,147</b>
Political uncertainty/future govt policy	-	-	-	13%	13%	17%	22%	28%
Legislation, regulation and red tape	15%	16%	14%	14%	12%	18%	22%	22%
The current economic climate	39%	31%	20%	17%	15%	17%	21%	25%
<b>Any top 3 mentions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30%</b>	<b>25%</b>	<b>33%</b>	<b>40%</b>	<b>44%</b>
Cash flow/issues with late payment	18%	15%	12%	12%	9%	14%	20%	19%
Changes in sterling	-	-	-	-	-	16%	16%	18%
Availability of relevant advice	8%	8%	7%	6%	6%	6%	9%	9%
Recruiting/retaining staff	3%	4%	6%	8%	7%	9%	9%	10%
Access to external finance	16%	15%	11%	9%	8%	7%	8%	10%

Q93 (227a) All SMEs excluding PNBs

The proportion of SMEs excluding the PNBs mentioning any of the top 3 barriers has varied somewhat over time but was at the highest level seen to date in 2019 (44%) ahead of SMEs overall (38%).

The on-going uncertainty around Brexit and other issues may have affected perceptions about the future. The table below shows the changes since 2015 for two key barriers, the economic climate and political uncertainty, by size of SME. Analysis for those engaged in international trade is provided at the end of this chapter.



Political uncertainty became somewhat more of a barrier 2015 to 2018 and then increased again in 2019, across all sizes of SME, to the highest levels seen to date:

### Political uncertainty

8-10 impact score					Q1	Q2	Q3	Q4
Row percentages	2015	2016	2017	2018	2019	2019	2019	2019
All SMEs	9%	10%	14%	19%	21%	25%	26%	24%
0 employees	9%	10%	13%	18%	19%	25%	25%	23%
1-9 employees	12%	13%	17%	21%	24%	26%	28%	29%
10-49 employees	9%	12%	15%	18%	24%	26%	26%	26%
50-249 employees	7%	14%	14%	13%	24%	35%	34%	30%

Q93 (227a) All SMEs

Overall, the proportion of SMEs seeing the current economic climate as a barrier was broadly stable 2015-2017. A slight increase in overall concern in 2017 (to 17%) was followed by a further slight increase in 2019 across all sizes of SME:

### The current economic climate

8-10 impact score					Q1	Q2	Q3	Q4
Row percentages	2015	2016	2017	2018	2019	2019	2019	2019
All SMEs	13%	12%	14%	17%	19%	22%	21%	20%
0 employees	12%	12%	13%	17%	19%	22%	21%	19%
1-9 employees	14%	14%	16%	18%	20%	21%	23%	24%
10-49 employees	10%	12%	14%	16%	19%	19%	21%	21%
50-249 employees	8%	13%	13%	13%	21%	23%	32%	26%

Q93 (227a) All SMEs

Access to finance is the key theme of this report but an issue that has been less likely than others to be rated a barrier by SMEs. The table below shows a broadly stable picture over recent quarters (albeit 8% saw this as a barrier in Q2 2019 compared to the more typical 5%), with those expressing any appetite for finance remaining more likely to see it as a barrier:

### Access to finance – 8-10 impact scores

Over time – row percentages	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	17	18	18	18	18	19	19	19	19
<b>All SMEs</b>	<b>5%</b>	<b>5%</b>	<b>6%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>8%</b>	<b>7%</b>	<b>7%</b>
0 employee	5%	5%	6%	5%	5%	5%	8%	8%	7%
1-9 employees	5%	6%	5%	6%	7%	6%	7%	5%	6%
10-49 employees	4%	5%	6%	4%	6%	5%	5%	5%	5%
50-249 employees	2%	4%	2%	6%	5%	7%	5%	11%	13%
Minimal external risk rating	3%	2%	2%	4%	4%	5%	5%	2%	5%
Low external risk rating	4%	4%	4%	6%	5%	4%	6%	6%	6%
Average external risk rating	4%	5%	6%	5%	5%	5%	6%	5%	6%
Worse than average external risk rating	6%	6%	6%	5%	5%	6%	10%	7%	8%
Agriculture	7%	4%	5%	5%	3%	3%	8%	9%	9%
Manufacturing	5%	2%	10%	7%	5%	3%	5%	6%	5%
Construction	3%	6%	5%	3%	6%	3%	12%	9%	7%
Wholesale/Retail	3%	4%	5%	6%	7%	6%	6%	7%	6%
Hotels & Restaurants	6%	11%	5%	8%	5%	7%	4%	8%	5%
Transport	8%	8%	4%	8%	3%	7%	9%	9%	6%
Property/Business Services etc.	5%	2%	5%	4%	5%	4%	4%	5%	6%
Health	9%	3%	7%	5%	2%	8%	13%	4%	13%
Other Community	5%	9%	6%	7%	7%	6%	7%	7%	8%
Use external finance	8%	9%	9%	8%	8%	7%	10%	12%	13%
Plan to borrow/FWBS	11%	11%	11%	12%	11%	10%	17%	14%	13%
Future Happy non-seekers	3%	3%	4%	3%	4%	3%	5%	5%	6%
All SMEs excluding PNBS	8%	8%	9%	8%	8%	7%	11%	11%	11%

Q93 (227a) All SMEs

## FINANCIAL REQUIREMENTS IN THE NEXT 3 MONTHS

SMEs were asked to consider their financial plans over the next 3 months. No changes were made to this question for the revised questionnaire from Q1 2018. The proportion planning to apply/renew has been around 1 in 10 since the start of 2018 and SMEs were typically somewhat more likely to identify a future need for finance than to think they would apply for it:

<b>% likely in next 3 months</b>									
All SMEs – over time By date of interview	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>Unweighted base:</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4502</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>
Will have a need for (more) external finance	10%	8%	7%	7%	7%	7%	9%	8%	6%
Will apply for more external finance	8%	6%	5%	5%	5%	6%	7%	5%	4%
Renew existing borrowing at same level	8%	6%	6%	8%	6%	8%	9%	7%	6%
<b>Any apply/renew</b>	<b>14%</b>	<b>9%</b>	<b>9%</b>	<b>11%</b>	<b>10%</b>	<b>12%</b>	<b>13%</b>	<b>11%</b>	<b>9%</b>
Reduce the amount of external finance used	8%	8%	12%	11%	15%	14%	16%	15%	13%
Inject personal funds into business	15%	13%	9%	14%	11%	12%	15%	12%	9%

Q99 (229) All SMEs

Amongst those SMEs that are companies, there continued to be limited interest in seeking new equity finance:

<b>% likely in next 3 months</b>									
All companies– over time By date of interview	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>Unweighted base:</b>	<b>2709</b>	<b>2851</b>	<b>2760</b>	<b>2853</b>	<b>2964</b>	<b>2931</b>	<b>2929</b>	<b>3041</b>	<b>3002</b>
Any new equity	5%	4%	2%	3%	4%	3%	3%	3%	4%

Q99\_6 (229) All companies

In Q4 2019 as in previous quarters, there continued to be a difference in future appetite for finance by size of business:

- Appetite was lower amongst those with 0 employees (7% planned to apply) and these smaller SMEs were more likely to anticipate a reduction in the amount of finance used (13%).
- The largest SMEs with 50-249 employees were also less likely to be planning to apply (9%) with 16% planning to reduce the amount of finance being used.

<b>% likely in next 3 months</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>Q4 19 – all SMEs</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b><i>Unweighted base:</i></b>	<b>4500</b>	<b>900</b>	<b>1450</b>	<b>1450</b>	<b>700</b>
Will have a need for (more) external finance	6%	5%	10%	9%	8%
Will apply for more external finance	4%	3%	8%	7%	6%
Renew existing borrowing at same level	6%	5%	11%	10%	5%
<b><i>Any apply/renew</i></b>	<b>9%</b>	<b>7%</b>	<b>15%</b>	<b>13%</b>	<b>9%</b>
Reduce the amount of external finance used	13%	13%	15%	15%	16%
Inject personal funds into business	9%	9%	12%	6%	3%

Q99 (229) All SMEs

Amongst SMEs with employees, 14% had plans to apply/renew in the next 3 months and 10% believed they would have a need for (more) external finance.

Before looking at future applications for finance in more detail, the analysis below explores the role of personal funding for SMEs. The proportion of SMEs planning to inject personal funds declined over time, from 24% in 2012 to 12% in 2018 and 2019. There was also a decline in the proportion of SMEs that had actually injected personal funds, from 43% in 2012 to 29% in 2014, followed by little change until 2019 (24%), so actual injections were at twice the level planned:

<b>Injections of personal funds past and future</b>								
Over time – All SMEs	2012	2013	2014	2015	2016	2017	2018	2019
<i>Unweighted base:</i>	20,055	20,036	20,055	20,046	18,000	18,012	18,002	18,000
Have injected personal funds	43%	38%	29%	28%	28%	29%	29%	24%
Plan to inject personal funds	24%	20%	16%	16%	15%	13%	12%	12%

Q15d/Q99-5 (229-5) All companies

The table below shows how the injections of personal funds past and future have combined. In Q4 2019, three quarters (77%) of SMEs had neither put in funds, nor thought it likely they would do so, somewhat higher than the two thirds more typically seen. As a result, fewer SMEs had both injected funds and expected to do so again (6%) and there were also fewer who had injected funds in the past but did not think they would do so again (14%):

<b>Injections of personal funds</b>									
Over time – All SMEs	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<i>Unweighted base:</i>	4500	4500	4500	4502	4500	4500	4500	4500	4500
Have injected personal funds and likely to do so again	10%	9%	5%	9%	7%	8%	9%	7%	6%
Have not put in personal funds but likely to do so	4%	4%	4%	6%	4%	5%	6%	6%	3%
Have injected personal funds but unlikely to do so again	20%	19%	23%	21%	20%	18%	18%	16%	14%
Have not put in personal funds and not likely to do so	66%	68%	68%	65%	69%	69%	66%	72%	77%

Q99 (229)/Q15d-d2 All SMEs

Turning back to future applications for external finance, the Q4 2019 figure of 9% planning to apply is somewhat lower than the most recent quarters (10-13%). Excluding the PNBs increased the proportion of remaining SMEs planning to apply to 16%, also lower than previously seen:

### % likely to apply or renew in next 3 months

Over time – row percentages By date of interview	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>All SMEs</b>	<b>14%</b>	<b>9%</b>	<b>9%</b>	<b>11%</b>	<b>10%</b>	<b>12%</b>	<b>13%</b>	<b>11%</b>	<b>9%</b>
0 employee	13%	8%	7%	11%	9%	11%	12%	9%	7%
1-9 employees	16%	12%	13%	13%	13%	15%	16%	15%	15%
10-49 employees	18%	14%	15%	18%	16%	16%	16%	14%	13%
50-249 employees	12%	14%	11%	25%	18%	20%	19%	21%	9%
Minimal external risk rating	16%	6%	9%	10%	13%	9%	8%	14%	11%
Low external risk rating	14%	10%	10%	12%	13%	12%	12%	12%	11%
Average external risk rating	12%	9%	8%	11%	9%	10%	12%	10%	9%
Worse than average external risk rating	16%	10%	9%	12%	10%	14%	14%	9%	7%
Agriculture	16%	14%	10%	13%	8%	17%	13%	17%	12%
Manufacturing	20%	12%	14%	12%	16%	14%	11%	11%	12%
Construction	12%	11%	7%	10%	6%	10%	13%	10%	6%
Wholesale/Retail	15%	8%	12%	13%	12%	14%	15%	18%	12%
Hotels & Restaurants	21%	12%	9%	11%	10%	15%	15%	10%	11%
Transport	16%	10%	5%	16%	11%	15%	15%	12%	10%
Property/Business Services etc.	12%	6%	8%	11%	11%	10%	10%	9%	7%
Health	15%	10%	12%	11%	13%	9%	8%	8%	9%
Other Community	12%	9%	12%	10%	11%	11%	19%	8%	9%
Objective to grow	19%	12%	12%	16%	14%	16%	16%	13%	11%
No objective to grow	10%	7%	6%	8%	7%	9%	9%	9%	6%
All SMEs excluding PNBs	26%	18%	18%	22%	19%	21%	21%	18%	16%

Q99 (229) All SMEs base size varies by category

The variability in predicted appetite for finance quarter on quarter makes trends harder to discern. The table below looks at annual appetite for finance since 2012 by key business demographics and shows a very slight decline over time from 14% in 2012-23 to 10% in 2018:

<b>% likely to apply or renew in next 3 months</b>								
Over time								
By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018	2019
All SMEs	14%	14%	13%	13%	12%	12%	10%	11%
0 emp	12%	12%	11%	12%	11%	11%	9%	10%
1-9 emps	20%	19%	20%	17%	15%	15%	13%	15%
10-49 emps	21%	17%	18%	19%	16%	16%	15%	15%
50-249 emps	19%	16%	14%	14%	13%	17%	17%	17%
Minimal external risk rating	16%	12%	13%	13%	11%	11%	10%	10%
Low	17%	13%	14%	15%	13%	13%	11%	12%
Average	13%	13%	12%	14%	10%	10%	9%	10%
Worse than average	15%	14%	14%	12%	13%	13%	10%	11%
Agriculture	18%	16%	15%	18%	15%	11%	11%	15%
Manufacturing	16%	13%	16%	16%	13%	14%	13%	12%
Construction	14%	13%	11%	11%	11%	10%	8%	10%
Wholesale/Retail	16%	18%	19%	15%	13%	13%	11%	15%
Hotels & Restaurants	17%	15%	16%	16%	14%	15%	10%	13%
Transport	14%	16%	15%	13%	15%	13%	11%	13%
Property/ Business Services	12%	13%	11%	13%	11%	11%	9%	9%
Health	11%	12%	11%	9%	10%	13%	12%	9%
Other	16%	12%	14%	13%	12%	13%	10%	12%
All excl PNBs	21%	23%	24%	25%	23%	22%	19%	19%

#### Q99 (229) All SMEs

Amongst 0 employee SMEs demand for finance has been broadly stable (9-12%), while for those with 1-9 and 10-49 employees demand fell 2012 to 2016 but has been stable since. Amongst the largest SMEs, demand fell from 19% in 2012 to 13% in 2016 but has been stable at 17% since.

Amongst those planning to grow, future appetite for finance has typically been somewhat higher (17-19% 2013-17) than for SMEs overall. Having been slightly lower for 2018 as a whole (13%), in 2019 it was more in line with previous years (16% v 9% not planning to grow).

Previous analysis has shown that those already using external finance were more likely to consider applying for (more) finance than those not currently using it.

- In 2019, 8% of all SMEs were using finance and planned to apply for more, three times as many as the 3% not currently using finance but planning to apply for some.
- 37% were using finance but had no plans to apply for more, somewhat higher than the 3 in 10 more usually seen, and the largest group of SMEs (52%) neither used finance nor had plans to apply for any.

This means that of the 12% of SMEs planning to apply for finance in 2019, most (73%) were already using it:

<b>Plans to apply/renew v use of external finance</b>							
Over time – all SMEs	2013	2014	2015	2016	2017	2018	2019
<i>Unweighted base:</i>	20,036	20,055	20,046	18,000	18,012	18,002	18,000
Use external finance and plan to apply	10%	10%	10%	8%	9%	7%	8%
Use external finance, no plans to apply	30%	27%	27%	29%	29%	29%	37%
Do not use finance but plan to apply	3%	3%	4%	4%	3%	3%	3%
Do not use finance, no plans to apply	56%	60%	59%	59%	59%	61%	52%
<b>% of future applicants using finance</b>	<b>77%</b>	<b>77%</b>	<b>71%</b>	<b>67%</b>	<b>78%</b>	<b>70%</b>	<b>73%</b>

Q15 and futfin All SMEs



8% of all SMEs were both using finance and planning to apply, increasing by size of SME. 73% of all future applicants were already using external finance and this also increased by size of SME:

- 7% of 0 employee SMEs were using external finance and planned to apply for more. 74% of all future applicants with 0 employees were already using finance.
- 12% of 1-9 employee SMEs were using external finance and planned to apply for more. 81% of all these future applicants were already using finance.
- 13% of 10-49 employee SMEs were using external finance and planned to apply for more. 92% of all these future applicants were already using finance.
- 16% of 50-249 employee SMEs were using external finance and planned to apply for more. 93% of all these future applicants were already using finance.

From 2014 to 2017, the proportion of SMEs planning to reduce the amount of finance they used was stable (7-8%). This proportion then increased from 7% in 2017 planning to reduce the amount of finance being used, to 12% in 2018 and 15% in 2019.

The increase from 2017 was seen across all size bands as shown below. Amongst the largest SMEs, the increase started earlier, in 2017, reaching 38% planning to reduce the amount of finance they used in 2018, but in 2019 that proportion has declined to 21%:

- 0 employee SMEs: 6% in 2017 to 11% in 2018 and 15% in 2019
- 1-9 employees: 8% in 2017 to 12% in 2018 and 14% in 2019
- 10-49 employees: 10% in 2017 to 14% in 2018 and 16% in 2019
- 50-249 employees: 8% in 2016, 16% in 2017, 38% in 2018 and 21% in 2019.

## Future funding requirements

The list of options regarding the purpose of the new/renewed facility was extensively revised for Q1 2018. The new list is shown below, now split into the two groups also used earlier in this report to analyse a past need for funding. Since H1 2018, an increasing number of planned applications have been cash flow related and there have also been more mentions in recent quarters of funding to take on staff:

### Use of new/renewed facility

#### All planning to seek/renew

Over time excl DK  
By date of interview

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
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<b>Unweighted base:</b>	<b>546</b>	<b>540</b>	<b>716</b>	<b>618</b>	<b>675</b>	<b>716</b>	<b>650</b>	<b>526</b>
<b>Cash flow related</b>	<b>28%</b>	<b>32%</b>	<b>41%</b>	<b>48%</b>	<b>43%</b>	<b>42%</b>	<b>43%</b>	<b>45%</b>
Working capital to help cash flow*	15%	17%	31%	36%	35%	31%	34%	39%
Cover short term funding gap	10%	14%	9%	12%	8%	12%	10%	15%
Help through trading difficulties	9%	11%	9%	7%	11%	10%	5%	9%
<b>Business development related</b>	<b>69%</b>	<b>70%</b>	<b>69%</b>	<b>63%</b>	<b>66%</b>	<b>64%</b>	<b>62%</b>	<b>66%</b>
To fund UK expansion	28%	30%	24%	24%	26%	25%	21%	31%
Plant & machinery	24%	22%	31%	25%	30%	22%	27%	29%
A new business opportunity	15%	24%	20%	15%	12%	17%	14%	14%
Take on staff	9%	9%	12%	17%	16%	18%	11%	17%
Fund new premises	5%	7%	9%	5%	7%	8%	6%	7%
Fund expansion overseas	3%	6%	5%	5%	3%	3%	2%	6%
Take over another business	1%	1%	2%	2%	1%	3%	2%	1%

Q100 (230) All planning to apply for/renew facilities in next 3 months. EXCL DK New codes from Q1 2018

A new code added to both past and future funding needs in Q3 and Q4 2019 saw 3% of SMEs linking their past need for funding to R&D (all of those mentioning this code had 1-9 or 10-49 employees). Looking forward, 5-6% of SMEs said their future need for funding was for research and development.

A longer term view back to 2012 shows the increase in finance being sought for cash flow purposes:

<b>Use of new/renewed facility</b>								
<b>All planning to seek/renew</b>								
<b>– over time</b>	2012	2013	2014	2015	2016	2017	2018	2019
<b>Unweighted base:</b>	<b>3717</b>	<b>3316</b>	<b>3310</b>	<b>3200</b>	<b>2563</b>	<b>2616</b>	<b>2420</b>	<b>2567</b>
<b>Cash flow related</b>	-	-	-	-	-	-	<b>38%</b>	<b>43%</b>
Working capital to help cash flow	-	-	-	-	-	-	26%	34%
Cover short term funding gap	-	-	-	-	-	-	11%	11%
Help through trading difficulties	-	-	-	-	-	-	9%	9%
<b>Business development related</b>	-	-	-	-	-	-	<b>68%</b>	<b>64%</b>
To fund UK expansion	21%	28%	30%	28%	28%	23%	26%	26%
Plant & machinery	27%	27%	26%	25%	21%	20%	26%	27%
A new business opportunity	-	-	-	-	-	-	18%	14%
Take on staff	-	-	-	-	-	9%	12%	16%
Fund new premises	7%	7%	10%	7%	8%	7%	6%	7%
Fund expansion overseas	3%	5%	6%	6%	5%	4%	5%	4%
Take over another business	-	-	-	-	-	-	2%	2%

Q100 (230) All planning to apply for/renew facilities in next 3 months excl DK. New codes from Q1 2018

Earlier in this report similar data was provided for those who had reported a past need for finance in the previous 12 months. Analysis across the two showed that:

- Business development: A steady 6 in 10 of those with a past need for funding said it had been for something related to the development of the business – expansion, new plant and machinery etc. The figure for those planning to apply is very similar (64% 2019) but slightly lower than in 2018 (68%).
- Cash flow: An increasing proportion over time said that their past funding need had been cash flow related – whether general cash flow or for funding gaps or trading difficulties (42% in 2018 to 49% for 2019). The proportion planning to apply for such a purpose was somewhat lower than this but had also increased since 2018 (from 42% to 49% for 2019).

The table below details what types of finance those planning to apply would consider for their new/renewed funding. Since 2016, data has been collected at a headline level rather than for each possible type of finance.

Consideration over recent quarters of any of the core lending products (overdrafts, loans and/or credit cards) and/or other forms of borrowing, is shown below for those planning to apply, using the summary categories. It shows consideration of core finance in Q4 2019 (51%) was in line with most other recent quarters, albeit somewhat lower than for Q3 2019 (57%)

#### **% of those seeking/renewing finance that would consider form of funding**

Over time By date of interview	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>Unweighted base:</b>	<b>551</b>	<b>552</b>	<b>719</b>	<b>620</b>	<b>678</b>	<b>718</b>	<b>650</b>	<b>530</b>
Core product (loan, O/D, credit card)	54%	54%	51%	59%	49%	53%	57%	51%
Commercial mortgage	15%	12%	12%	15%	17%	21%	29%	20%
Leasing/invoice finance	19%	18%	16%	21%	17%	19%	30%	20%
Other	25%	21%	17%	33%	26%	32%	31%	28%
<b>None of these</b>	<b>35%</b>	<b>33%</b>	<b>37%</b>	<b>30%</b>	<b>36%</b>	<b>34%</b>	<b>29%</b>	<b>37%</b>

#### Q101 (233) All SMEs seeking new/renewing finance in next 3 months

In all recent quarters, consideration was highest for the core products. In Q4 2019, 51% of future applicants were considering a core form of finance, compared to 1 in 5 considering a commercial mortgage or leasing and 1 in 3 considering any of the other forms of finance.

The proportion saying 'none of these' has been broadly stable since the start of 2017 at around a third of future applicants.

These undecided potential applicants were asked whether this was because they had not decided what finance they might use or because they were considering another form of finance not listed. For YEQ4 2019, 73% said that they had not decided, while 27% were considering another form of finance, up from 20% in 2015.

Amongst all potential applicants YEQ4 2019, 66% were considering one or more of the forms of finance listed, 9% were considering another form of finance and 25% hadn't yet decided what they might use.

In order to maximise base sizes, the table below shows levels of consideration in H2 2019 by the size of SME considering applying for funding.

**% of those seeking/renewing finance would consider funding**

H2 2019	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>1180</b>	<b>152</b>	<b>420</b>	<b>400</b>	<b>208</b>
Core product (loan, od, credit card)	54%	57%	48%	52%	78%
Commercial mortgage	25%	29%	17%	18%	40%
Leasing/invoice finance	25%	29%	17%	29%	49%
Other	30%	31%	29%	20%	41%
<b>None of these</b>	<b>33%</b>	<b>30%</b>	<b>38%</b>	<b>32%</b>	<b>15%</b>

Q101 (233) All SMEs seeking new/renewing finance in next 3 months

The balance between consideration of core and other forms of funding changed by size of SME. Core finance was the most likely source of funding to be considered in all size bands, but larger SMEs remained more likely to also consider commercial mortgages or leasing/invoice finance.

Amongst SMEs with employees, 49% would consider one or more core products for their future lending, 17% a commercial mortgage, 20% leasing or invoice finance and 28% some other form of funding. 37% said they would not consider any of these.

Comparing these intentions to the products actually applied for Q1 2018 to Q4 2019 (albeit these are not the same SMEs so it is not a direct comparison) shows that core products were both the most likely to be considered and to be applied for:

- 62% of applications made were for a core product, increasing to 70% if 'other' overdrafts and loans are included
- 7% of applications were for a commercial mortgage
- 10% were for leasing/hp.

## Application confidence – applying for ‘bank’ products

Those planning to apply via typical bank products (loan, commercial mortgage, overdraft, leasing, invoice finance and/or credit cards) were asked how confident they were that their main bank would agree to their request. Those planning to apply who were either only considering one of the other forms of finance specified or who did not nominate any form of finance were asked an alternative question, reported below. This part of the questionnaire was not changed for Q1 2018.

There have been significant variations in levels of application confidence since 2017, and confidence in the latter half of 2019 was somewhat higher than seen Q4 2018 or the first half of 2019:

### Confidence bank would lend

All planning to seek finance Over time by date of interview	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	17	18	18	18	18	19	19	19	19
<b>Unweighted base:</b>	<b>401</b>	<b>327</b>	<b>353</b>	<b>456</b>	<b>415</b>	<b>445</b>	<b>496</b>	<b>453</b>	<b>313</b>
Very confident	14%	16%	23%	15%	17%	14%	12%	20%	21%
Fairly confident	27%	32%	35%	43%	31%	41%	33%	45%	41%
<b>Overall confidence</b>	<b>41%</b>	<b>48%</b>	<b>58%</b>	<b>58%</b>	<b>48%</b>	<b>55%</b>	<b>45%</b>	<b>65%</b>	<b>62%</b>
Neither/nor	26%	23%	20%	19%	26%	26%	32%	18%	20%
Not confident	33%	29%	23%	23%	25%	19%	24%	18%	18%
<b>Net confidence (confident – not confident)</b>	<b>+8</b>	<b>+19</b>	<b>+35</b>	<b>+35</b>	<b>+23</b>	<b>+36</b>	<b>+21</b>	<b>+47</b>	<b>+44</b>

Q103 (238) All SMEs seeking new/renewing finance in next 3 months

Confidence amongst prospective applicants with employees was 58% in Q4 2019.

As the table below shows, the changes in confidence in 2019 were seen predominantly amongst smaller applicants but across risk ratings:

### Overall confidence bank would lend

All planning to seek finance – over time By date of interview	Total	0-9 emps	10-249 emps	Min/low	Av/Worse than avge
Q1 2016	48%	47%	73%	71%	41%
Q2 2016	53%	51%	74%	83%	47%
Q3 2016	61%	60%	81%	71%	59%
Q4 2016	59%	58%	74%	71%	60%
Q1 2017	49%	48%	66%	74%	44%
Q2 2017	55%	54%	79%	69%	51%
Q3 2017	59%	57%	78%	72%	61%
Q4 2017	41%	40%	65%	58%	37%
Q1 2018	48%	46%	67%	68%	45%
Q2 2018	58%	57%	71%	66%	52%
Q3 2018	58%	58%	64%	65%	59%
Q4 2018	48%	47%	74%	68%	42%
Q1 2019	55%	53%	74%	61%	51%
Q2 2019	45%	43%	70%	48%	43%
Q3 2019	65%	63%	77%	64%	66%
Q4 2019	62%	61%	75%	73%	60%

Q103 (238) All SMEs seeking new/renewing finance in next 3 months

Over the longer term, there was a steady increase in levels of confidence between 2012 and 2016 from 42% to 55%. Since then levels of confidence have been more variable (but have remained at 50% or more) and were back to 56% for 2019:

<b>Confidence bank would agree to lend</b>								
All planning to apply – over time	2012	2013	2014	2015	2016	2017	2018	2019
<b>Unweighted base:</b>	<b>2933</b>	<b>2477</b>	<b>2337</b>	<b>2194</b>	<b>1467</b>	<b>1648</b>	<b>1551</b>	<b>1707</b>
Very confident	15%	14%	24%	24%	23%	14%	18%	16%
Fairly confident	27%	25%	23%	29%	32%	36%	36%	40%
<b>Overall confidence</b>	<b>42%</b>	<b>39%</b>	<b>47%</b>	<b>53%</b>	<b>55%</b>	<b>50%</b>	<b>54%</b>	<b>56%</b>
Neither/nor	23%	30%	24%	21%	25%	24%	22%	24%
Not confident	35%	31%	29%	26%	21%	26%	25%	20%
<b>Net confidence (confident – not confident)</b>	<b>+10</b>	<b>+8</b>	<b>+18</b>	<b>+27</b>	<b>+34</b>	<b>+24</b>	<b>+29</b>	<b>+36</b>

Q103 (238) All SMEs seeking new/renewing finance in next 3 months

Confidence for 2019 as a whole (56%) was very similar to that in 2016 with confidence amongst those with 0-9 employees also back to 2016 levels. Confidence amongst those with an average or worse than average risk rating has remained stable, and lower, since 2015, but those with a minimal or low risk rating were less confident in 2019 than at any time since 2012 (albeit with signs of improvement in the latter half of the year as reported above):

<b>Confidence bank would agree to lend</b>								
All planning to apply – over time	2012	2013	2014	2015	2016	2017	2018	2019
<b>Row percentages</b>								
<b>All</b>	<b>42%</b>	<b>39%</b>	<b>47%</b>	<b>53%</b>	<b>55%</b>	<b>50%</b>	<b>54%</b>	<b>56%</b>
0-9 employees	41%	37%	46%	52%	53%	49%	52%	54%
10-49 employees	58%	60%	66%	70%	75%	72%	69%	74%
Minimum/Low risk rating	57%	67%	65%	66%	74%	68%	67%	61%
Average/WTA risk rating	40%	35%	45%	48%	51%	48%	49%	53%

Q103 (238) All SMEs seeking new/renewing finance in next 3 months



Those planning to renew have typically been more confident of success than those planning to apply for a new facility. With the higher levels of confidence overall seen in H2 2019

- 6 in 10 of those planning to apply for new facilities were confident of success (60%). Levels of confidence amongst this group were 4 in 10 in 2017 and the first half of 2018, then somewhat lower in H2 2018 and H1 2019 (both 35%), so the current confidence is somewhat higher than recently seen.
- 7 in 10 of those planning to renew were confident (71%). Levels of confidence amongst this group increased from 58% in H1 2017 to 70% in H1 2018, dipped somewhat in H1 2019 (57%) but then returned to 71% for H2 2019.

## APPLICATION CONFIDENCE – FURTHER ANALYSIS

In a new question asked from Q1 2016, all other SMEs were asked how confident they would be of their bank saying yes if they were to apply. This includes both those planning to apply for a non-bank product and those with no plans to apply for anything. The table below shows the results for Q4 2019, when 6 in 10 were confident of success with a potentially hypothetical application. This ‘hypothetical’ confidence increased by size of SME from 58% of those with no employees to 77% of those with 10-49 employees and 72% of those with 50-249 employees:

<b>Confidence bank would say yes if asked</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>Q4 19 – All not planning to apply to bank</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b><i>Unweighted base:</i></b>	<b>4187</b>	<b>867</b>	<b>1336</b>	<b>1343</b>	<b>641</b>
Very confident	26%	25%	30%	40%	31%
Fairly confident	33%	33%	33%	37%	41%
<b><i>Overall confidence</i></b>	<b>59%</b>	<b>58%</b>	<b>63%</b>	<b>77%</b>	<b>72%</b>
Neither/nor	29%	30%	27%	18%	18%
Not confident	12%	12%	10%	6%	11%
<b><i>Net confidence (confident – not confident)</i></b>	<b>+47</b>	<b>+46</b>	<b>+53</b>	<b>+71</b>	<b>+61</b>

Q106 (239b) All SMEs not seeking new/renewing finance from bank in next 3 months

Included in the table above are those who planned to renew/apply but then did not nominate any bank products (or indeed any products) for consideration, as well as those with no plans to apply. The table below summarises the confidence of all SMEs in Q4 2019, based on their future application plans. This shows that:

- Those planning to apply for a form of bank finance were somewhat more confident of success at their main bank (62%) than those looking to apply for something else (54% confident).
- Future would-be seekers of finance were the least confident of success (41%).
- The largest group, the Future happy non-seekers (those who had no need or plans to apply) were as confident as those planning to apply to their bank that if they were to approach their bank they would be successful (62%).

Confidence bank would say yes if asked	All planning to apply to bank	All others planning to apply	Future WBS	Future HNS
Q4 19 – all SMEs				
<b>Unweighted base:</b>	<b>313</b>	<b>217</b>	<b>461</b>	<b>3509</b>
Very confident	21%	23%	22%	27%
Fairly confident	41%	31%	19%	35%
<b>Overall confidence</b>	<b>62%</b>	<b>54%</b>	<b>41%</b>	<b>62%</b>
Neither/nor	20%	19%	40%	28%
Not confident	18%	27%	19%	10%
<b>Net confidence (confident – not confident)</b>	<b>+44</b>	<b>+27</b>	<b>+22</b>	<b>+52</b>

Q103/106 (238/ 239b) All SMEs

Across all SMEs (those planning to apply and those answering hypothetically) around 6 in 10 have been confident in each recent quarter (60% in Q4 2019) with the exception of Q1 2018 (55%). As the table below shows:

- The most confident have usually been the Future happy non-seekers, with 6 in 10 being confident.
- The Future would-be seekers have typically been the least confident at around 4 in 10.
- Those planning to apply have seen varying levels of confidence, somewhere between these two groups. In Q3 and Q4 2019 those planning to apply to a bank were more confident than usually seen (65% and 62%), bringing them in line with the Future happy non-seekers.

<b>Confidence bank would say yes</b>									
Over time	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Row percentages	17	18	18	18	18	19	19	19	19
<b>All SMEs</b>	<b>60%</b>	<b>55%</b>	<b>60%</b>	<b>58%</b>	<b>58%</b>	<b>58%</b>	<b>58%</b>	<b>61%</b>	<b>60%</b>
Planning to apply to bank	41%	48%	58%	58%	48%	55%	45%	65%	62%
Others planning to apply	61%	44%	56%	62%	56%	51%	54%	57%	54%
No plans – Future would-be seekers	43%	43%	49%	49%	45%	41%	34%	41%	41%
No plans – Future happy non-seekers	64%	58%	62%	59%	60%	61%	63%	64%	62%

#### Q103/106 (238/239b) All SMEs

The summary table below shows that, on an annual basis, overall confidence amongst all SMEs decreased slightly from 65% in 2016 to 58% in 2018 and was stable at 59% in 2019:

- This was driven by the Future happy non-seekers as the largest group, where confidence has moved from 69% in 2016 to 60% in 2018 and 63% in 2019.
- Confidence amongst those planning to apply to a bank has varied over time (50-56%) and is currently at the upper end of that range.
- Amongst Future would-be seekers confidence has also varied (40-50%) and is currently at the lower end of the range seen.
- Those planning to apply (but not to a bank) saw confidence increase from 55% in 2016 to 63% in 2017, but then return to previous levels for 2018 and 2019 (54%).

The summary table also shows overall confidence (whether the SME planned to apply or not) for other key groups over time.

- The lower levels of confidence in 2018 and 2019 (58-59%) compared to 2016 and 2017 were seen across all size bands.
- Overall, larger SMEs remained more confident of success (but at lower levels than previously seen), while those with a worse than average risk rating were less confident (again at lower levels than previously).
- By sector, confidence in 2019 ranged from 54% of those in the Other Community sector to 67% in Agriculture.
- Back in 2016, Permanent non-borrowers were more confident than other SMEs (68% v 62%) but since then the two groups have been more closely aligned (60% v 58% for 2019).

<b>Confidence bank will say yes (whether planning to apply or not)</b>				
Over time				
By date of interview – row percentages	2016	2017	2018	2019
All SMEs	65%	62%	58%	59%
0 emp	62%	59%	55%	57%
1-9 emps	70%	66%	65%	64%
10-49 emps	80%	79%	73%	74%
50-249 emps	85%	84%	80%	77%
Minimal external risk rating	73%	73%	70%	71%
Low	73%	70%	67%	68%
Average	67%	61%	61%	58%
Worse than average	61%	58%	51%	54%
Agriculture	71%	67%	63%	67%
Manufacturing	67%	61%	61%	60%
Construction	65%	62%	60%	65%
Wholesale/Retail	70%	66%	62%	59%
Hotels & Restaurants	62%	63%	58%	57%
Transport	61%	59%	58%	57%
Property/ Business Services	65%	62%	54%	57%
Health	64%	59%	57%	61%
Other	62%	59%	54%	54%
PNBs	68%	63%	57%	60%
All excl PNBs	62%	61%	58%	58%
Planning to apply to bank	55%	50%	54%	56%
Planning to apply elsewhere	55%	63%	54%	54%
Future would-be seeker	50%	42%	46%	40%
Future happy non-seeker	69%	65%	60%	63%

Q103/106 (238/239b) All SMEs

## THOSE NOT PLANNING TO SEEK OR RENEW FACILITIES IN THE NEXT 3 MONTHS

In Q4 2019, 9% of all SMEs reported plans to apply for, or renew, facilities in the following 3 months, leaving the majority (91%) with no such plans. Analysis showed that overall, 55% of all SMEs in Q4 2019 neither used external finance nor had any immediate plans to apply for any.

On an annual basis, the proportion neither using finance nor planning to apply for it increased from 50% of SMEs in 2011 to 60% for 2014 and was then stable (58-61%) for 2015 to 2018. In 2019, with more SMEs using external finance and a slightly higher appetite for future finance in the first half of the year, this proportion was lower again, at 52%.

When thinking about SMEs with no plans to apply/renew, it is important to distinguish between two groups:

- Those that were happy with the decision because they did not need to borrow (more) or already had the facilities they needed – the Future happy non-seekers.
- Those that felt that there were barriers that might stop them making an application (such as discouragement, the economy or the principle or process of borrowing) – the Future would-be seekers.

These Future would-be seekers can then be split into 2 further groups:

- Those that had already identified that they were likely to need external finance in the coming 3 months (and could foresee barriers to an application that met that need).
- Those that thought it unlikely that they would have a need for external finance in the next 3 months but who thought there would be barriers to their applying, were a need to emerge.

As reported later in this chapter, very few Future would-be seekers had an actual need for finance already identified, and thus they were a wider group than the Would-be seekers of the past 12 months, *all* of whom reported having an identified need for finance that they had not applied for.

There have been no changes over time to these definitions, and these questions continue to be asked in the same way as they were in 2017 and previous waves.

The picture for recent quarters is reported below. Three quarters of SMEs in Q2 2019 met the definition of a Future happy non-seeker (76%) and they remained the largest group:

### Future finance plans

All SMEs – over time By date of interview	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>Unweighted base:</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4502</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>
Plan to apply/renew	14%	9%	9%	11%	10%	12%	13%	11%	9%
Future would-be seekers – with identified need	1%	1%	1%	1%	1%	1%	1%	1%	1%
Future would-be seekers – no immediate identified need	9%	13%	11%	11%	11%	10%	10%	12%	10%
Future happy non-seekers	76%	76%	79%	77%	78%	78%	76%	76%	80%

Q99/104 (230/239) All SMEs

Amongst SMEs with employees in Q4 2019, 14% had plans to apply/renew while 11% met the definition of a Future would-be seeker. The Future happy non-seekers remained the largest group at 75%.

4 in 10 Future happy non-seekers were using external finance (42% in 2019) and this was somewhat higher than was seen in previous years (31-33% 2016-2018).

On an annual basis, future demand for finance declined somewhat from 14% in 2012 to 10% in 2018 and then 11% in 2019. More markedly, the proportion of Future would-be seekers halved (23% to 11% currently), and so the proportion of Future happy non-seekers has increased:

### Future finance plans

Over time – all SMEs	2012	2013	2014	2015	2016	2017	2018	2019
<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>	<b>18,000</b>
Plan to apply/renew	14%	14%	13%	13%	12%	12%	10%	11%
Future would-be seekers	23%	18%	16%	11%	13%	10%	13%	11%
Future happy non-seekers	63%	68%	71%	76%	76%	78%	77%	78%

Q99/104 (230/239) All SMEs

Amongst SMEs with employees:

- The proportion planning to apply/renew was higher but had also declined over time, from 20% in 2012 to 14% in 2018 and 15% in 2019.
- Over the same time period, the proportion of Future would-be seekers also declined (from 20% to 10%) and was 10% for 2019.
- This left the Future happy non-seekers of finance as an increasingly large group (60% to 76%) and 75% for 2019.

Around half of SMEs can be described as Permanent non-borrowers based on their past and indicated future behaviour. The table below shows future plans over recent quarters once this group was excluded, resulting in a higher proportion of remaining SMEs planning to apply (16% in Q4 2019) and fewer Future happy non-seekers (65% – although they remained the largest single group):

### Future finance plans

#### SMEs excluding PNB

– over time

By date of interview

	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
<b>Unweighted base:</b>	<b>3001</b>	<b>2735</b>	<b>2868</b>	<b>2848</b>	<b>2843</b>	<b>2906</b>	<b>3156</b>	<b>3127</b>	<b>2958</b>
Plan to apply/renew	26%	18%	18%	22%	19%	21%	21%	18%	16%
Future would-be seekers – with identified need	2%	3%	2%	2%	1%	1%	1%	2%	1%
Future would-be seekers – no immediate identified need	17%	26%	22%	21%	20%	18%	16%	21%	18%
Future happy non-seekers	55%	53%	58%	55%	60%	60%	62%	59%	65%

Q99/104 (230/239) All SMEs excluding the Permanent non-borrowers

Looking over the longer term, once the PNBs were excluded:

- The proportion planning to apply has been around 1 in 5, with the exception of 2014 and 2015 when a quarter were planning to apply.
- The proportion of Future would-be seekers declined from 35% in 2012 to 19% in 2017 but has been more variable since (20% for 2019).
- The largest group remained the Future happy non-seekers of finance and the group increased from 44% of these SMEs in 2012 to 61% in 2019.

<b>Future finance plans</b>								
Over time – all SMEs excluding PNBs	2012	2013	2014	2015	2016	2017	2018	2019
<i>Unweighted base:</i>	15,312	14,578	13,613	13,011	11,634	11,940	11,294	12,147
Plan to apply/renew	21%	23%	24%	25%	23%	22%	19%	19%
Future would-be seekers	35%	30%	28%	21%	23%	19%	24%	20%
Future happy non-seekers	44%	47%	49%	54%	54%	59%	57%	61%

Q99/104 (230/239) All SMEs excluding PNBs



## FUTURE WOULD-BE SEEKERS

The Future would-be seekers are a group of interest as they represent a measure of future ‘unmet’ demand. The table below looks at this group over recent quarters. With the exception of Q1 2018 (when 15% were FWBS) around 1 in 10 SMEs have met the definition in recent quarters, with the smallest SMEs more likely to do so:

### Future would-be seekers

Over time – row

percentages	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2017	2018	2018	2018	2018	2019	2019	2019	2019
All SMEs	10%	15%	12%	12%	12%	11%	11%	13%	11%
0 employee	11%	16%	13%	12%	12%	11%	12%	14%	11%
1-9 employees	9%	12%	10%	11%	11%	10%	7%	12%	11%
10-49 employees	6%	8%	7%	7%	9%	8%	11%	11%	8%
50-249 employees	3%	6%	3%	8%	6%	5%	8%	9%	11%
Minimal external risk rating	3%	7%	6%	11%	9%	9%	6%	12%	10%
Low external risk rating	8%	15%	8%	7%	7%	9%	11%	13%	9%
Average external risk rating	10%	14%	13%	11%	13%	11%	10%	13%	14%
Worse than average external risk rating	12%	16%	15%	13%	12%	10%	11%	13%	10%
Agriculture	10%	9%	9%	10%	11%	12%	10%	9%	16%
Manufacturing	9%	10%	15%	18%	12%	9%	16%	12%	11%
Construction	10%	16%	11%	11%	13%	12%	12%	13%	10%
Wholesale/Retail	8%	13%	11%	13%	14%	15%	10%	21%	13%
Hotels & Restaurants	10%	13%	17%	13%	15%	10%	9%	14%	13%
Transport	13%	14%	14%	15%	17%	10%	9%	16%	9%
Property/Business Services	10%	17%	11%	11%	9%	9%	10%	10%	12%
Health	11%	18%	8%	8%	7%	9%	9%	12%	5%
Other Community	13%	14%	18%	10%	10%	9%	14%	17%	12%
All SMEs excluding PNBs	19%	29%	24%	23%	21%	19%	17%	23%	19%

Q99/104 (230/239) All SMEs \* shows overall base size, which varies by category

To understand this further, the table below shows all the reasons given by Future would-be seekers in Q4 2019 for thinking that they would not apply for finance in the next three months. It highlights their continued reluctance to borrow in the current environment, mainly due to the general economic climate:

<b>Reasons for not applying (all mentions)</b>			
All Future would-be seekers Q4 19	Total	0-9 emps	10-249 emps
<b>Unweighted base:</b>	<b>461</b>	<b>251</b>	<b>210</b>
<b>Reluctant to borrow now (any)</b>	65%	65%	78%
-Prefer not to borrow in economic climate	60%	59%	67%
-Predicted performance of business	5%	5%	12%
<b>Issues with <u>principle</u> of borrowing</b>	4%	4%	5%
-Not lose control of business	2%	2%	3%
-Can raise personal funds if needed	1%	1%	1%
-Prefer other forms of finance	*	-	1%
-Go to family and friends	1%	1%	*
<b>Issues with <u>process</u> of borrowing</b>	10%	11%	4%
-Would be too much hassle	5%	5%	2%
-Thought would be too expensive	3%	3%	1%
-Bank would want too much security	2%	2%	1%
-Too many terms and conditions	1%	1%	*
-Did not want to go through process	-	-	-
-Forms too hard to understand	1%	1%	*
<b>Discouraged (any)</b>	11%	11%	11%
-Direct (Put off by bank)	*	*	-
-Indirect (Think I would be turned down)	11%	11%	11%

Q104 (239) Future would-be seekers SMEs

Those SMEs that gave more than one reason for being unlikely to apply for new/renewed facilities were asked for the main reason, and all the main reasons given over time are shown below.

In Q4 2019, a reluctance to borrow, at 65%, remained the main reason for not applying for external finance. The proportion citing it as their main reason has varied over time (from 41% to 69% in the quarters shown below), but from Q3 2018 it has been mentioned more than had been seen since early 2017. Mentions of discouragement also varied over recent quarters (8-28%) and in Q4 2019 were at the lower end of the range seen (11%):

### Main reason for not applying

#### Future would-be seekers – over

time	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	17	18	18	18	18	19	19	19	19
<b>Unweighted base:</b>	<b>344</b>	<b>445</b>	<b>406</b>	<b>424</b>	<b>425</b>	<b>386</b>	<b>440</b>	<b>492</b>	<b>461</b>
Reluctant to borrow now (any)	53%	41%	55%	66%	68%	69%	63%	58%	65%
-Prefer not to borrow in economic climate	31%	32%	52%	60%	61%	55%	53%	47%	60%
-Predicted performance of business	21%	9%	3%	6%	8%	14%	10%	11%	5%
Issues with <u>process</u> of borrowing	11%	38%	16%	13%	9%	11%	15%	13%	10%
Discouraged (any)	28%	12%	22%	8%	8%	9%	10%	16%	11%
-Direct (Put off by bank)	2%	*	2%	*	*	-	-	*	*
-Indirect (Think I would be turned down)	26%	12%	20%	8%	8%	9%	10%	16%	11%
Issues with <u>principle</u> of borrowing	2%	2%	1%	2%	5%	4%	5%	5%	4%

Q105 (239/239a) Future would-be seekers SMEs

The higher figure for the process of borrowing in Q1 2018 (38%) was due to more mentions that bank forms and literature were hard to understand.

Analysis over the longer term showed a steady decline in the proportion mentioning a reluctance to borrow between 2013 (64%) and 2017 (50%), but with more mentions again in 2018 (57%) and a further increase for 2019 (63%). It remained the most mentioned reason, with fewer mentions of discouragement than previously seen:

<b>Main reason for not applying</b>							
<b>Future would-be seekers – over time</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b><i>Unweighted base:</i></b>	<b>3241</b>	<b>2765</b>	<b>1939</b>	<b>1967</b>	<b>1416</b>	<b>1700</b>	<b>1779</b>
Reluctant to borrow now (any)	64%	59%	55%	57%	50%	57%	63%
Issues with <u>process</u> of borrowing	12%	15%	18%	16%	14%	20%	12%
Discouraged (any)	14%	13%	14%	15%	22%	13%	12%
Issues with <u>principle</u> of borrowing	3%	4%	5%	4%	3%	3%	4%

Q105 (239/239a) Future would-be seekers SMEs

These reasons remain in contrast to those given by past Would-be seekers where there was a more even spread of reasons for not applying.

Further analysis of the main reasons given by Future would-be seekers, including by size and risk rating, is based on the latest quarter (Q4 2019).

A 'reluctance to borrow now' was the main reason for thinking they would not apply, given by two thirds of these SMEs (65%) with larger FWBS more likely to give this as a reason (78%). 1 in 10 FWBS mentioned discouragement (11%, all of it indirect), with no difference by size:

### Main reason for not applying

Future would-be seekers by size Q4 19	Total	0-9 emps	10-249 emps
<b>Unweighted base:</b>	<b>461</b>	<b>251</b>	<b>210</b>
Reluctant to borrow now (any)	65%	65%	78%
-Prefer not to borrow in economic climate	60%	59%	67%
-Predicted performance of business	5%	5%	11%
Issues with <u>process</u> of borrowing	10%	10%	4%
Discouraged (any)	11%	11%	11%
-Direct (Put off by bank)	*	*	-
-Indirect (Think I would be turned down)	11%	11%	11%
Issues with <u>principle</u> of borrowing	4%	4%	5%

Q105 (239/239a) Future would-be seekers SMEs

Amongst Future would-be seekers with employees, 72% mentioned a reluctance to borrow now compared to 9% citing the process of borrowing, 10% mentioning discouragement and 4% the principle of borrowing.

The table below shows the main reasons given for not applying in Q4 2019 by risk rating, with a 'reluctance to borrow now' still the main barrier across the risk ratings, and highest for those with a minimal or low risk rating (77% v 62%). Those with an average or worse than average rating remained more likely to mention the process of borrowing (12% v 3%).

### Main reason for not applying

Future would-be seekers by risk rating  
Q4 19

	Total	Min/Low	Avg/ Worse Avg
<b>Unweighted base:</b>	<b>461</b>	<b>196</b>	<b>225</b>
Reluctant to borrow now (any)	65%	77%	62%
-Prefer not to borrow in economic climate	60%	67%	59%
-Predicted performance of business	5%	10%	3%
Issues with <u>process</u> of borrowing	10%	3%	12%
Discouraged (any)	11%	10%	12%
-Direct (Put off by bank)	*	-	*
-Indirect (Think I would be turned down)	11%	10%	12%
Issues with <u>principle</u> of borrowing	4%	6%	4%

Q105 (239/239a) Future would-be seekers SMEs

When these Future would-be seekers were first described, they were the sum of two groups – those with an identified need they thought it unlikely they would apply for, and a larger group of those with no immediate need identified.

The sample size of those with an identified need for finance is very limited, but some analysis on an annual basis is possible:

- The small group that had a need for finance identified gave a range of reasons, with discouragement being mentioned more in 2019 than a reluctance to borrow now (43% v 24%).
- Amongst those with no immediate need for finance, a reluctance to borrow was the main, and increasingly mentioned, reason for not applying for finance (67% in 2019).

Main reason for not applying Future would-be seekers – over time	Immediate need			No immediate need		
	2017	2018	2019	2017	2018	2019
<b>Unweighted base:</b>	<b>99</b>	<b>125</b>	<b>114</b>	<b>1317</b>	<b>1575</b>	<b>1665</b>
Reluctant to borrow now (any)	26%	39%	24%	52%	58%	67%
Issues with <u>process</u> of borrowing	24%	35%	28%	13%	19%	11%
Discouraged (any)	35%	21%	43%	21%	12%	10%
Issues with <u>principle</u> of borrowing	10%	1%	4%	2%	3%	4%

Q105 (239/239a) Future would-be seekers SMEs

To put all these results in context, the table below shows the equivalent figures for each reason amongst all SMEs in Q4 2019.

7% of all SMEs would have liked to apply for new/renewed facilities in the next 3 months but were reluctant to borrow, mainly because of the current climate. The table also shows the equivalent proportion of SMEs *excluding* the Permanent non-borrowers. Of those SMEs that *might* be interested in seeking finance (ie once the PNBs were excluded), 13% were reluctant to borrow now, mostly due to the current economic climate:

<b>Reasons for not applying</b>	<b>Main reason</b>	<b>All SMEs</b>	<b>All SMEs excl. PNB</b>
<b>Q4 19 – Future would-be seekers</b>			
<b>Unweighted base:</b>	<b>461</b>	<b>4500</b>	<b>2958</b>
Reluctant to borrow now (any)	65%	7%	13%
-Prefer not to borrow in economic climate	60%	6%	12%
-Predicted performance of business	5%	1%	1%
Issues with <u>process</u> of borrowing	10%	1%	2%
Discouraged (any)	11%	1%	2%
-Direct (Put off by bank)	*	-	*
-Indirect (Think I would be turned down)	11%	1%	2%
Issues with <u>principle</u> of borrowing	4%	*	1%

Q105 (239/239a) Future would-be seekers SMEs



## HOW HAVE INTERNATIONAL SMES RESPONDED TO CURRENT CONDITIONS?

When the Q4 2019 interviews were conducted, the date and terms under which the UK would leave the EU remained uncertain and a General election was held. As highlighted at the start of this chapter, those SMEs that trade internationally are potentially more likely to anticipate an impact on their business, whether from the change in the value of sterling since the referendum vote or the debate over the terms upon which the UK will trade with other countries after the end of 2020.

This section summarises how international SMEs have felt from 2015 onwards, split into three groups based on the ways in which they trade internationally alongside their domestic trade. The sizes of these groups have changed very little since 2016, and in 2019:

- 4% of SMEs exported but did not import (increasing by size from 4% to 7%).
- 7% of SMEs imported but did not export (increasing by size from 6% with 0 employees to 9-11% with employees).
- 4% of SMEs both imported and exported (increasing by size of SME from 3% to 15%).

Key results for Q4 2019 are shown below:

### Future outlook summary table

Q4 19- all SMEs row percentages	All SMEs	Export	Import	Both
<b>Unweighted base:</b>	<b>4500</b>	<b>215</b>	<b>424</b>	<b>362</b>
Plan to grow	53%	57%	55%	73%
Economic climate 8-10 barrier	20%	23%	31%	38%
Political uncertainty 8-10 barrier	24%	24%	32%	43%
Sterling 8-10 barrier	15%	17%	29%	35%
Plan to apply for finance	9%	11%	16%	24%
Future would-be seeker of finance	11%	7%	15%	20%

Compared to SMEs overall, SMEs that both exported and imported were more likely to be planning to grow, while those that imported (either solely or alongside exporting) were more likely to see barriers to the business, but also to have a future appetite for finance.

The table below shows how these views have changed over recent quarters. With relatively limited base sizes there is some natural volatility quarter to quarter but international SMEs continue to be more likely to be planning to grow, to have more of an appetite for finance and to see barriers to the business:

<b>Future outlook summary table</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>Over time – all SMEs</b>	<b>17</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>19</b>	<b>19</b>	<b>19</b>	<b>19</b>
<b>Plan to grow</b>									
• All SMEs	46%	47%	48%	48%	50%	46%	54%	53%	53%
• Export only	51%	52%	62%	50%	63%	59%	54%	55%	57%
• Import only	66%	63%	58%	66%	69%	56%	68%	64%	56%
• Import and export	66%	67%	62%	74%	57%	64%	58%	49%	73%
<b>Plan to apply for finance</b>									
• All SMEs	14%	9%	9%	11%	10%	12%	13%	11%	9%
• Export only	13%	4%	10%	8%	17%	20%	13%	7%	11%
• Import only	18%	14%	11%	22%	21%	24%	16%	16%	16%
• Import and export	29%	10%	21%	18%	18%	17%	25%	16%	24%
<b>Economic climate 8-10</b>									
• All SMEs	14%	16%	15%	17%	22%	19%	22%	21%	20%
• Export only	24%	21%	15%	19%	27%	23%	22%	25%	23%
• Import only	22%	24%	26%	26%	24%	24%	28%	27%	31%
• Import and export	29%	15%	22%	25%	25%	18%	30%	33%	38%
<b>Political uncertainty 8-10</b>									
• All SMEs	15%	16%	15%	19%	24%	21%	25%	26%	24%
• Export only	20%	30%	16%	24%	33%	27%	26%	37%	24%
• Import only	15%	20%	22%	27%	29%	23%	36%	37%	32%
• Import and export	34%	18%	28%	33%	37%	32%	50%	44%	43%
<b>Changes in sterling 8-10</b>									
• All SMEs	10%	11%	11%	11%	15%	12%	14%	16%	15%
• Export only	13%	12%	15%	14%	17%	16%	22%	17%	17%
• Import only	25%	29%	24%	17%	19%	15%	17%	23%	29%
• Import and export	31%	25%	32%	25%	29%	31%	30%	43%	35%

The second table takes a longer term view back to 2013 where data exists. This shows some volatility over time, with international SMEs typically more likely to be planning to grow and/or apply for finance than their domestic peers, but also somewhat more concerned about potential barriers to the business:

International	Summary analysis over time
Exporters	<p>This group has always been more likely to be planning to grow than domestic SMEs, with 54-59% planning to grow, apart from in 2016 when 49% planned to grow.</p> <p>Their future appetite for finance was stable 2013-2016 (19-22%) then declined in 2017 and has been stable at a lower level since (10-13%).</p> <p>They have become more worried about political uncertainty since 2017 (29% in 2019) while concerns about the economic climate have been more stable (currently 23% and in line with the market).</p>
Importers	<p>This group has also always been more likely to be planning to grow than domestic SMEs, and a stable 6 in 10 have been planning to grow.</p> <p>Their appetite for finance has been stable (17-19% planned to apply) with the exception of 2014 when 24% planned to apply.</p> <p>Levels of concern about both the economic climate and political uncertainty have increased somewhat since 2015 with 3 in 10 concerned about each barrier while 1 in 5 was concerned about changes in the value of sterling in 2019.</p>
Import and export	<p>This group has also always been more likely to be planning to grow than domestic SMEs, but levels of ambition have declined somewhat since 2015 (72% planned to grow) to 60% in 2019.</p> <p>They have typically also had more of an appetite for finance, but it has varied over time and has been somewhat lower since 2017 (21% in 2019, still ahead of the market).</p> <p>Levels of concern about barriers were higher for this group in 2019 and all clearly ahead of the market. Concern about political uncertainty increased to 42%, changes in the value of sterling to 34% and the economic climate to 30%.</p>

**Future outlook summary table**

Over time – all SMEs	2013	2014	2015	2016	2017	2018	2019
<b>Plan to grow</b>							
• All SMEs	49%	47%	45%	43%	45%	49%	51%
• Export only	54%	56%	59%	49%	58%	56%	56%
• Import only	63%	65%	62%	63%	63%	64%	61%
• Import and export	66%	69%	72%	70%	67%	64%	60%
<b>Plan to apply for finance</b>							
• All SMEs	14%	13%	13%	12%	12%	10%	11%
• Export only	19%	20%	22%	19%	13%	10%	13%
• Import only	19%	24%	19%	19%	17%	17%	18%
• Import and export	21%	24%	19%	25%	18%	17%	21%
<b>Economic climate 8-10 barrier</b>							
• All SMEs	27%	17%	13%	12%	14%	17%	21%
• Export only	29%	14%	19%	17%	20%	20%	23%
• Import only	26%	20%	12%	16%	21%	25%	28%
• Import and export	24%	15%	17%	21%	21%	22%	30%
<b>Political uncertainty 8-10 barrier</b>							
• All SMEs	-	-	9%	10%	14%	19%	24%
• Export only	-	-	9%	10%	23%	25%	29%
• Import only	-	-	11%	16%	19%	25%	32%
• Import and export	-	-	8%	20%	26%	29%	42%
<b>Change in value of sterling 8-10 barrier</b>							
• All SMEs	-	-	-	-	11%	12%	14%
• Export only	-	-	-	-	14%	15%	18%
• Import only	-	-	-	-	25%	22%	21%
• Import and export	-	-	-	-	29%	28%	34%

From Q3 2016 it has been possible to analyse the views of exporters depending on the extent to which they exported to the EU.

Those making all or most of their sales to the EU have recovered their ambition to grow (47% in H1 2019 to 58% in H2 2019) and their appetite for finance. They have though become more concerned about political uncertainty (57%), the economic climate (43%) and changes in the value of sterling (47%). The growth prospects of those who do not sell to the EU were more stable, but their appetite for finance has been more variable (12% in H2 2019) amid increasing concern about political uncertainty (31%) and the economic climate (30%):

<b>Future outlook summary table</b>	H2	H1	H2	H1	H2	H1	H2
<b>Over time – Exporters row percentages</b>	16	17	17	18	18	19	19
<b>Plan to grow</b>							
• All/most sales to EU	54%	57%	60%	65%	51%	47%	58%
• Some sales to EU	64%	68%	66%	61%	65%	65%	60%
• No sales to EU	54%	57%	56%	54%	56%	57%	54%
<b>Plan to apply for finance</b>							
• All/most sales to EU	20%	12%	14%	10%	11%	13%	20%
• Some sales to EU	19%	17%	14%	13%	15%	22%	11%
• No sales to EU	20%	21%	16%	8%	20%	19%	12%
<b>Economic climate 8-10 barrier</b>							
• All/most sales to EU	26%	29%	25%	23%	29%	25%	43%
• Some sales to EU	21%	14%	20%	13%	20%	25%	21%
• No sales to EU	29%	14%	30%	23%	31%	18%	30%
<b>Political uncertainty 8-10 barrier</b>							
• All/most sales to EU	31%	37%	33%	31%	43%	43%	57%
• Some sales to EU	17%	18%	21%	21%	28%	33%	27%
• No sales to EU	14%	19%	30%	15%	26%	26%	31%
<b>Changes in sterling 8-10 barrier</b>							
• All/most sales to EU	-	35%	27%	29%	24%	31%	47%
• Some sales to EU	-	18%	21%	16%	22%	21%	19%
• No sales to EU	-	9%	21%	24%	14%	27%	19%

Q86 All exporters