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FINANCIAL CONTEXT – HOW ARE SMES FUNDING THEMSELVES? (PART 1)

THIS CHAPTER PROVIDES

an overview of the types of external finance being used by SMEs, including the use of core and other forms of finance, crowd funding and the use of personal funds and trade credit.

KEY FINDINGS

External finance: 45% of SMEs were using external finance in 2019, up from 36% in 2018 and back to levels seen in 2012 (44%). This was due to increased usage of finance amongst all but the largest SMEs, albeit this usage peaked in Q2 2019 and has declined somewhat since.

- 45% of all SMEs were using external finance in 2019, with 39% using core finance (loans, overdrafts and/or credit cards) and 16% using other forms of finance.
- Use of finance increased by size of SME. Amongst those with 50-249 employees, 77% were using finance with 71% using core finance and 33% using other forms of finance.
- Prior to the increase in use of finance in 2019, usage had been stable since 2014 (36-38%). Analysis by quarter shows that usage peaked in Q2 2019 at 49% and then declined to 46% in Q3 and 43% in Q4, with lower usage in Q4 across all size bands.
- Q2 2019 was also the peak for use of core finance (42% compared to 38% in Q4) and other forms of finance (18% v 15%), with more use made of overdrafts (25%) and credit cards (20%) in Q2 2019 than previously seen. Of the other forms of finance, use of leasing/hp was slightly higher across the whole of 2019 (10-12%) than in 2018 (7-8%).
- 1 in 5 SMEs using any finance (19%) said that some part of it was in their personal name, the equivalent of 8% of all SMEs. In the majority of instances these were 0 employee SMEs (84%).

Personal funds: An alternative to external funding is for the owners/directors to inject personal funds. 24% of SMEs had received such an injection in 2019, the lowest proportion recorded to date on the Monitor (28-29% since 2014 and previously 43% in 2012).

- Such injections of funds were more common amongst smaller SMEs. 25% and 23% of those with 0 and 1-9 employees had received an injection, compared to 13% of those with 10-49 employees and 5% of those with 50-249 employees.
- They were also more common amongst younger SMEs (33% and 32% of Starts and those trading 2-5 years), those with a worse than average risk rating (29%) those in the Hotel & Restaurant sector (30%) and the small group of Would-be seekers of finance (60%).
- 13% of SMEs reported that it had been a choice to inject funds to help the business grow, while 11% said there had been no choice. This latter event was more likely for smaller SMEs (11% of those with 0 or 1-9 employees compared to 2% of those with 50-249 employees).

Trade credit: Over a third of SMEs (37%) received trade credit, increasing by size of SME, with 7 in 10 saying that this trade credit reduced their need for external finance.

- Use of trade credit in 2019 increased by size of SME from 30% of those with 0 employees to 66% of those with 10-49 employees (and 59% of those with 50-249 employees).
- Over time use of trade credit has increased from 31% of all SMEs in 2014 to 37% currently and across all size bands with the exception of the largest SMEs where usage increased to 7 in 10 for 2017 but has been somewhat lower since.

- Amongst those that received trade credit, 7 in 10 said that it reduced their need for external finance, with little variation by size. This is the equivalent of 26% of all SMEs, increasing by size from 22% of those with 0 employees to 49% of those with 10-49 employees (and 45% of those with 50-249 employees). This proportion has also increased over time, from 21% of all SMEs in H2 2014.
- Overall a third of SMEs (34%) said that their need for finance was reduced by trade credit and/or by holding more than £10,000 of credit balances, increasing by size of SME (to 68% of those with 50-249 employees) and stable over time.

Business Funding: As already reported, more SMEs were using external finance in 2019 (45%). As a result, more SMEs were using 'business funding', ie any use of external finance, trade credit or injections of personal funds (70% up from 65% in 2018).

- Business funding increased by size of SME from 67% of those with 0 employees to 91% of those with 50-249 employees.

FINANCIAL CONTEXT

This is the first of what are now two chapters on external finance in its many forms. They reflect the changes made to the questionnaire from Q1 2018 including an extended list of the types of finance that SMEs could say they were using.

This first chapter covers current use of external finance as well as the role of personal finance (whether as a borrowing facility or an injection of personal funds), the second chapter covers some of the wider context, including the Permanent non-Borrowers, use of trade credit and attitudes to finance.

USE OF EXTERNAL FINANCE – AN OVERVIEW

SMEs were asked some initial questions about their use of external finance:

- Which of a specified list of sources they were currently using.
- If they were not using any finance currently whether they had used any form of external finance in the past 5 years.

From Q1 2018, in addition to the forms of finance that have been reported since the start of the SME Finance Monitor, SMEs were also asked whether they were using any of the following forms of finance:

- Finance through crowd funding or peer to peer lending
- Asset based lending
- Selective or single invoice finance
- Any other loan
- Any other overdraft facility.

Use of these other forms of finance is reported below but was fairly limited. The new definition of use of external finance, including these additional codes, has been used in all analysis from Q1 2018 onwards, unless otherwise stated.

Use of external finance for YEQ4 2019 was 45%, an increase from the 36-38% reported annually from 2014 to 2018 and more in line with the 44% reported in 2012. More details on use of finance over time are provided later in this chapter.

The table below shows that larger SMEs remained more likely to be using some form of external finance (albeit, as reported later, the recent increase has come from the smaller SMEs):

Use of external finance in last 5 years YEQ4 19 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Use now	45%	43%	50%	60%	77%
Used in past but not now	2%	2%	3%	2%	1%
Not used at all	52%	55%	48%	38%	22%

Q14/15 All SMEs – new definition from Q1 2018

Analysis by recent quarter showed that use of external finance was somewhat lower in in Q1 2018 than had been seen in 2017 (despite additional types of finance being included). Use of finance then increased through 2018 and to Q2 2019 (49%) but this was not maintained in the latter half of 2019 (43% were using finance in Q4):

Use of external finance in last 5 years

Over time – all SMEs By date of interview	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Unweighted base:	*4500*	*4500*	*4500*	*4502*	*4500*	*4500*	*4500*	*4500*	*4500*
Use now	39%	34%	35%	36%	41%	42%	49%	46%	43%
Used in past but not now	3%	2%	2%	2%	3%	2%	2%	2%	3%
Not used at all	58%	64%	63%	61%	56%	55%	49%	52%	54%

Q14/15 All SMEs – new definition from Q1 2018

The increase in use of finance in Q2 2019 was due to more of the smaller SMEs using external finance but this was not maintained to Q4 2019. The largest SMEs remained the most likely to be using external finance but at lower levels than usually seen (72%):

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
All SMEs	**39%**	**34%**	**35%**	**36%**	**41%**	**42%**	**49%**	**46%**	**43%**
0 emp	35%	31%	32%	33%	39%	40%	46%	45%	41%
1-9 emps	49%	39%	40%	43%	46%	46%	56%	49%	48%
10-49 emps	67%	56%	53%	53%	54%	57%	61%	62%	59%
50-249 emps	69%	67%	85%	82%	72%	76%	78%	81%	72%

Q14/15 All SMEs – new definition from Q1 2018

The table below shows use of finance by risk rating for recent quarters. The increase in use of finance in Q2 2019 was seen most markedly in those with a minimal risk rating (40% to 59%) or a worse than average risk rating (41% to 53%), but again neither group maintained this into Q4 2019:

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
All SMEs	**39%**	**34%**	**35%**	**36%**	**41%**	**42%**	**49%**	**46%**	**43%**
Minimal	49%	47%	45%	42%	48%	40%	59%	46%	41%
Low	42%	41%	32%	37%	45%	49%	50%	49%	46%
Average	40%	35%	36%	32%	37%	39%	41%	43%	41%
Worse than average	37%	29%	34%	37%	42%	41%	53%	46%	43%

Q14/15 All SMEs, base varies slightly each quarter- new definition from Q1 2018

Starts have become increasingly likely to be using external finance, from 36% in Q1 2018 to 80% in Q3 2019 before a slight decline in Q4 2019 (72%). The 'peak' in use of finance in Q2 2019 was seen across all sizes of business but by Q4 use of finance had declined again for those trading for 2-5 or 10-15 years:

Currently use external finance

Over time – all SMEs By date of interview – row percentages	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
All SMEs	**39%**	**34%**	**35%**	**36%**	**41%**	**42%**	**49%**	**46%**	**43%**
Starts	48%	36%	58%	54%	70%	72%	75%	80%	72%
2-5 years	29%	31%	27%	32%	38%	34%	42%	36%	31%
6-9 years	34%	32%	36%	31%	39%	39%	44%	42%	41%
10-15 years	43%	32%	32%	35%	35%	35%	45%	42%	32%
More than 15 years	39%	35%	26%	32%	30%	34%	41%	36%	39%

Q14/15 All SMEs, base varies slightly each quarter- new definition from Q1 2018

The table below shows use of external finance on an annual basis over the longer term, initially declining from 44% in 2012 to 37% in 2014 and then remaining stable until 2019 when 45% of SMEs reported using finance, back in line with 2012 for the first time.

- This increase was seen across all sizes of business with the exception of SMEs with 50-249 employees where use of finance was unchanged.
- There were also significant increases for those with a low or worse than average risk rating but no change for those with a minimal risk rating
- Those in Construction saw the largest percentage point increase, but all sectors saw an increase in use of finance in 2019
- 4 in 10 SMEs can be described as Permanent non-borrowers (defined in the next chapter), with no use of, or apparent appetite for, finance. They became an increasing proportion of SMEs over time and, once they were excluded, use of finance amongst remaining SMEs increased between 2012 and 2017, from 66% to 72%. It was then stable in 2018 (70%) before increasing again in 2019 to 78%, the highest proportion seen to date on the SME Finance Monitor.

Currently use external finance Over time – all SMEs By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018	2019
All SMEs	**44%**	**41%**	**37%**	**37%**	**37%**	**38%**	**36%**	**45%**
0 emp	38%	35%	32%	32%	33%	34%	34%	43%
1-9 emps	58%	55%	49%	49%	46%	49%	42%	50%
10-49 emps	70%	67%	61%	60%	59%	64%	54%	60%
50-249 emps	73%	73%	63%	61%	64%	73%	77%	77%
Minimal external risk rating	57%	50%	44%	47%	45%	48%	46%	46%
Low	52%	51%	40%	47%	44%	45%	38%	48%
Average	46%	42%	36%	38%	39%	37%	35%	41%
Worse than average	41%	38%	35%	32%	34%	36%	35%	46%
Agriculture	51%	44%	43%	44%	46%	50%	46%	56%
Manufacturing	49%	44%	44%	39%	39%	43%	34%	44%
Construction	41%	38%	33%	33%	38%	37%	34%	48%
Wholesale/Retail	56%	50%	50%	45%	45%	48%	43%	52%
Hotels & Restaurants	53%	47%	42%	44%	42%	43%	39%	48%
Transport	47%	41%	38%	38%	36%	40%	37%	46%
Property/ Business Services	41%	39%	34%	35%	33%	33%	31%	37%
Health	32%	31%	28%	33%	32%	41%	49%	56%
Other	38%	42%	33%	39%	38%	34%	37%	42%
All excl PNBs	66%	68%	65%	70%	70%	72%	70%	78%

Q14/15 All SMEs – new definition from Q1 2018

SUMMARY USE OF CORE AND OTHER FORMS OF FINANCE

The overall use of finance figures already reported include use of the ‘core’ forms of finance often provided by banks (overdrafts, loans (including commercial mortgages) and/or credit cards) and a range of ‘other’ forms of finance available to SMEs. As with overall use of finance, use of core finance in 2019 was higher than previously seen, at 39%.

Detailed breakdowns by type of product are provided later in this chapter.

The changes to the forms of finance recorded from Q1 2018 still allow the previous ‘core’ net figures to be calculated and the new codes for use of ‘other’ loans and overdrafts can then be added to make the ‘new core definition’ shown below. The changes have had little impact on the net use of core finance products.

The longer term view provided in the table below shows how use of *any* of these forms of core finance declined from 36% in 2012 to 29% in 2014, remained stable 2015 to 2017 and then increased to the 39% reported for 2019.

The increase in use in 2019 was seen more amongst the smaller SMEs, those with a low or worse than average risk rating and those in the Construction sector.

As with use of finance overall, these trends have been affected by the increase in Permanent non-borrowers. Once they were excluded, use of core finance increased from 51% in 2014 to 67% in 2019:

Currently use any core finance Over time – all SMEs By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018	2019
All SMEs	**36%**	**32%**	**29%**	**30%**	**30%**	**31%**	**32%**	**39%**
0 emp	31%	27%	25%	25%	27%	27%	29%	37%
1-9 emps	48%	44%	40%	40%	37%	39%	36%	42%
10-49 emps	62%	57%	50%	50%	50%	53%	46%	52%
50-249 emps	67%	64%	55%	53%	57%	64%	70%	71%
Minimal external risk rating	48%	42%	35%	39%	39%	39%	41%	40%
Low	46%	43%	34%	39%	38%	38%	34%	41%
Average	39%	34%	30%	31%	33%	30%	31%	35%
Worse than average	31%	28%	26%	24%	26%	28%	30%	39%
Agriculture	44%	37%	36%	36%	36%	40%	40%	48%
Manufacturing	40%	35%	37%	31%	33%	35%	31%	37%
Construction	34%	31%	25%	26%	32%	30%	29%	42%
Wholesale/Retail	47%	39%	41%	36%	39%	39%	37%	45%
Hotels & Restaurants	45%	38%	34%	37%	33%	36%	36%	42%
Transport	36%	30%	29%	29%	28%	29%	30%	38%
Property/ Business Services	33%	31%	26%	29%	27%	26%	27%	32%
Health	25%	24%	22%	26%	27%	36%	45%	52%
Other	30%	32%	25%	29%	30%	26%	32%	34%
All excl PNBs	54%	53%	51%	55%	57%	57%	61%	67%

Q15 All SMEs -new definition for Q1 2018

The table below shows summary use of the 'other' forms of finance, by key demographics, over time. Usage changed very little between 2012 and 2017 (16-18%) due to consistent use amongst 0 employee SMEs. In 2018, with a revised questionnaire, usage was somewhat lower, both overall and for SMEs with fewer than 50 employees, but it was back in line for 2019:

Currently use other forms of finance Over time – all SMEs By date of interview – row percentages	2012	2013	2014	2015	2016	2017	2018	2019
All SMEs	**18%**	**18%**	**17%**	**17%**	**16%**	**18%**	**12%**	**16%**
0 emp	14%	14%	13%	13%	14%	14%	9%	13%
1-9 emps	27%	27%	25%	26%	23%	25%	18%	22%
10-49 emps	39%	39%	37%	37%	33%	40%	28%	33%
50-249 emps	46%	50%	40%	36%	35%	44%	49%	33%
Minimal external risk rating	26%	23%	21%	22%	20%	25%	14%	20%
Low	21%	22%	18%	22%	20%	20%	14%	19%
Average	17%	16%	15%	15%	16%	15%	11%	13%
Worse than average	19%	17%	18%	15%	16%	17%	12%	16%
Agriculture	20%	22%	21%	22%	24%	26%	15%	24%
Manufacturing	19%	22%	17%	18%	18%	19%	11%	15%
Construction	15%	14%	15%	13%	15%	17%	11%	14%
Wholesale/Retail	23%	22%	21%	22%	19%	22%	16%	22%
Hotels & Restaurants	23%	21%	20%	19%	20%	18%	12%	17%
Transport	20%	22%	20%	20%	20%	22%	14%	20%
Property/ Business Services	17%	16%	15%	15%	14%	14%	10%	12%
Health	15%	13%	13%	15%	12%	15%	12%	12%
Other	15%	18%	15%	19%	17%	17%	10%	16%
All excl PNBs	27%	29%	30%	32%	31%	33%	22%	27%

Q15 All SMEs – new definition Q1 2018

USE OF CORE AND OTHER FORMS OF FINANCE IN COMBINATION

The table below shows how core and other forms of finance have been used individually or in combination by SMEs since 2012. The figures for 2018 and 2019 reflect the new list of products now being used. The proportion using only core forms of finance initially decreased from 26% in 2012 to 20% of SMEs in 2014. After a period of stability 2015-2017, sole use of core finance was somewhat higher in 2018 (25%) and increased again in 2019 (29%), the highest level seen to date on the Monitor:

External finance currently used Over time – all SMEs	2012	2013	2014	2015	2016	2017	2018	2019
Unweighted base:	*20,055*	*20,036*	*20,055*	*20,046*	*18,000*	*18,012*	*18,002*	*18,000*
Only use core products	26%	23%	20%	20%	21%	21%	25%	29%
Only use other forms of finance	8%	9%	8%	8%	7%	8%	5%	6%
Use both forms of finance	10%	9%	9%	9%	10%	10%	7%	9%
Use none of these forms of finance	56%	59%	63%	63%	62%	62%	64%	55%

Q15 All SMEs

Changes in the use of core finance has been the main contributor to the increase or decline in the proportion of SMEs using no finance at all, as the proportions using only other forms of finance, or both other and core forms of finance, remained more stable. Between 2012 and 2017, fewer SMEs were using core finance and the proportion using no finance increased, then in 2019 there was an increase in the use of core finance (to 29%) and a decrease in the proportion using no finance (to 55%).

DETAILED USE OF ALL FORMS OF EXTERNAL FINANCE

The table below shows the full list of the different types of funding covered on the SME Finance Monitor since Q1 2018 and being used by SMEs YEQ4 2019. It includes both the core forms of finance and the other forms of finance about which data has been collected, some of which may also be obtained from the bank. Larger businesses continued to make use of a wider range of forms of funding:

External finance currently used YEQ4 19 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Core products (any)	**39%**	**37%**	**42%**	**52%**	**71%**
-Bank overdraft	23%	22%	25%	30%	49%
-Credit cards	18%	17%	19%	30%	43%
-Bank loan	8%	6%	10%	14%	20%
-Commercial mortgage	2%	1%	3%	5%	7%
-Any other overdraft*	*	*	*	*	1%
-Any other loan*	1%	1%	1%	1%	4%
Other forms of finance (any)	**16%**	**13%**	**22%**	**33%**	**33%**
-Leasing or hire purchase	11%	9%	15%	26%	28%
-Loans from directors, family & friends	3%	3%	6%	6%	4%
-Equity from directors, family & friends	1%	1%	3%	3%	2%
-Invoice finance	1%	1%	1%	5%	5%
-Grants	1%	1%	2%	3%	3%
-Crowd funding / peer to peer*	*	*	1%	1%	1%
-Asset based lending*	*	*	1%	1%	3%
-Selective/single invoice finance*	*	*	*	1%	1%
Any of these	*45%*	*43%*	*50%*	*60%*	*77%*
None of these	*55%*	*57%*	*50%*	*40%*	*23%*

Q15 All SMEs – new definition from Q1 2018*

Amongst SMEs with employees, 52% were using external finance – 44% were using any form of core finance and 24% any of the other forms of finance listed.

SMEs that import and/or export were asked about use of Export/Import finance. YEQ4 2019, 1% of such SMEs used these products, with limited variation by size of business (<1-2%).

SMEs that are companies were also asked about use of equity from other third parties such as Business Angels. 1% were using such finance, with little variation by size, age or risk rating, or over time.

The table below details the use of all of these forms of funding over recent quarters:

- Use of 'core' forms of finance was stable until Q4 2018 when 36% reported using such finance, with higher use of overdrafts and credit cards, and there was a further increase in Q2 2019 (to 42%), again led by use of overdrafts and credit cards. Since then the proportion has dropped slightly (to 38% in Q4 2019).
- Since the new definitions were introduced in Q1 2018, use of 'other' forms of finance had been fairly stable but at somewhat lower levels than previously seen. It was higher in Q2 2019 (18%, with increased use of leasing/hp and loans from directors) but back to more typical levels in Q4 2019 (15%).

Use of external finance

Over time – all SMEs By date of interview	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Unweighted base:	*4500*	*4500*	*4500*	*4502*	*4500*	*4500*	*4500*	*4500*	*4500*
Core products (any)*	**31%**	**29%**	**31%**	**32%**	**36%**	**37%**	**42%**	**39%**	**38%**
-Bank overdraft	19%	16%	18%	20%	22%	22%	25%	24%	22%
-Bank loan	5%	7%	7%	8%	8%	8%	7%	7%	8%
-Comm. Mortgage	2%	2%	2%	2%	2%	2%	2%	2%	1%
-Credit cards	16%	12%	14%	14%	16%	17%	20%	16%	19%
-Any other overdraft*	-	*	*	*	*	1%	*	*	*
-Any other loan*	-	*	1%	1%	1%	1%	1%	1%	1%
Other forms of finance (any)*	**19%**	**12%**	**10%**	**12%**	**13%**	**14%**	**18%**	**16%**	**15%**
-Leasing, hire purchase or vehicle finance	9%	8%	7%	7%	8%	10%	11%	12%	11%
-Loans from directors/family/friends	5%	3%	2%	3%	3%	2%	5%	3%	4%
-Equity from directors/family/friends	2%	1%	1%	1%	2%	1%	1%	1%	1%
-Invoice finance	3%	1%	1%	1%	1%	1%	1%	1%	1%
-Grants	3%	1%	1%	1%	1%	1%	1%	1%	1%
-Crowd funding/ peer to peer*	-	*	*	*	*	*	*	*	1%
-Asset based lending*	-	*	*	*	*	*	*	*	*
-Selective/single invoice finance*	-	*	*	*	1%	*	*	1%	*
Any form of finance* – all SMEs	***39%***	***34%***	***35%***	***36%***	***41%***	***42%***	***49%***	***46%***	***43%***

Q15 All SMEs – new definition Q1 2018

The table below takes a longer term, annual view of the use of these individual finance products, back to 2012. In 2019, SMEs were more likely to be using 'core' finance than had been seen before on the SME Finance Monitor (39%, due to increased use of overdrafts and credit cards) while use of 'other' forms of finance increased compared to 2018 to be back in line with previous years (16% due to increased use of leasing/hp):

Use of forms of finance Over time – all SMEs By date of interview	2012	2013	2014	2015	2016	2017	2018	2019
Core products (any)*	36%	32%	29%	30%	30%	31%	32%	39%
-Bank overdraft	*22%*	*18%*	*16%*	*16%*	*16%*	*18%*	*19%*	*23%*
-Bank loan/Commercial mortgage	*10%*	*8%*	*7%*	*7%*	*7%*	*6%*	*9%*	*9%*
-Credit cards	*18%*	*18%*	*15%*	*16%*	*17%*	*16%*	*14%*	*18%*
*-Any other overdraft**	-	-	-	-	-	-	*	*
*-Any other loan**	-	-	-	-	-	-	*1%*	*1%*
Other forms of finance (any)*	18%	18%	17%	17%	16%	18%	12%	16%
-Leasing, hire purchase or vehicle finance	*6%*	*8%*	*7%*	*7%*	*7%*	*9%*	*7%*	*11%*
-Loans/Equity from directors/family/friends	*6%*	*9%*	*8%*	*8%*	*6%*	*5%*	*4%*	*4%*
-Invoice finance	*3%*	*2%*	*3%*	*2%*	*3%*	*3%*	*1%*	*1%*
-Grants	*1%*	*1%*	*2%*	*2%*	*2%*	*2%*	*1%*	*1%*
*-Crowd funding/ peer to peer**	-	-	-	-	-	-	*	*
*-Asset based lending**	-	-	-	-	-	-	*	*
*-Selective/single invoice finance**	-	-	-	-	-	-	*	*
Any Finance	*44%*	*41%*	*37%*	*37%*	*37%*	*38%*	*36%*	*45%*

Q15 All SMEs – new definition Q1 2018

SMEs could use one or more of the forms of finance listed above, but most used just one if they used any (62% of SMEs using any external finance were only using one of the forms of finance listed, while 4% used 4 or more types of finance).

The table below shows the number of forms of finance used by all SMEs for YEQ4 2019 (including the 55% using no external finance). Around a quarter of SMEs in each size band used only one form of external finance. While almost none of the smallest SMEs (1%) were using 4 or more forms of finance, this proportion increased to 11% of those with 50-249 employees:

Forms of external finance currently used YEQ4 2019 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
None	55%	57%	50%	40%	23%
1 form of finance	28%	29%	27%	26%	26%
2 forms of finance	11%	10%	12%	16%	28%
3 forms of finance	4%	3%	7%	9%	12%
4 or more forms of finance	2%	1%	4%	9%	11%

79% of those using a single form of finance YEQ4 2019 were using one of the core products: 43% were using an overdraft, while 26% were using a credit card and 9% a loan/commercial mortgage.

The table below shows how the number of products being used has changed since Q1 2018 when the new product list was introduced, with SMEs primarily moving in and out of the 1 form of finance category. Between Q3 2018 and Q2 2019, the proportion of SMEs using no finance declined by 13 percentage points (from 64% to 51%) as the proportion using 1 form of finance went up by 9 points and 2 or more forms of finance by 4 points. Between Q2 and Q4 2019, the proportion using no finance increased again by 6 points, primarily due to a decline of 5 points in those using 1 form of finance:

Number of forms of finance Over time – all SMEs By date of interview	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Unweighted base:	*4500*	*4500*	*4502*	*4500*	*4500*	*4500*	*4500*	*4500*
No finance used	66%	65%	64%	59%	58%	51%	54%	57%
1 form of finance	21%	23%	21%	25%	27%	30%	31%	25%
2 or more forms of finance	13%	12%	15%	16%	16%	19%	15%	18%

2% of SMEs (YEQ4 2019) said that they were using an additional form of external finance not on the list detailed in full above, increasing slightly by size (5% of those with 50-249 employees):

- There was a difference in use of these other forms of finance by whether the SME was also using one of the *specified* forms of external finance (4% for those also using any of the specified forms of external finance and 1% for those not).
- This means that less than 1% of **all** SMEs are classed as non-users of finance in this report (because they do not use any of the specified forms of external finance) but said at this question that they were using some other form of finance. The form of funding used is not known.

USE OF LEASING, HP AND VEHICLE FINANCE

Since 2014 SMEs using leasing, HP and/or vehicle finance have been asked in more detail about the source of this funding. These questions have gone through several iterations and, from Q1 2017, SMEs using these forms of finance have been asked a simplified question to understand the extent to which this funding came from their main bank/banking group.

The results for YEQ4 2019 for the revised question are shown below. 32% of SMEs using leasing, HP and/or vehicle finance used their main bank to some extent for this finance. The largest SMEs remained somewhat more likely to use their main bank for at least some of this finance:

Source of leasing/vehicle finance YEQ4 19 – all SMEs using such finance	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*3766*	*333*	*967*	*1619*	*847*
Any main bank/banking group	32%	34%	27%	27%	40%
-All through main bank / banking group	*27%*	*31%*	*23%*	*20%*	*25%*
-Some through main bank / banking group	*4%*	*4%*	*4%*	*7%*	*15%*
All through other provider	68%	66%	73%	73%	60%

Q15c (14x2) All SMEs using leasing or vehicle finance

Some analysis over time is now possible. The table below shows that the proportion of SMEs using leasing/vehicle finance who did so through their bank (in whole or in part) increased from 21% in 2017 to 33% in 2018 and was stable at 32% for 2019. The initial increase was due to more of the smaller SMEs using their bank for leasing/hp in 2018 but in 2019 the proportion of SMEs with 1-9 or 10-49 employees using their bank was somewhat lower than in 2018:

Any bank involvement

Over time – all SMEs using leasing By date of interview – row percentages	2017	2018	2019
All	**21%**	**33%**	**32%**
0 emp	20%	33%	34%
1-9 emps	20%	32%	27%
10-49 emps	28%	34%	27%
50-249 emps	40%	39%	40%

Q15c (14x2) All SMEs using leasing or vehicle finance

PERSONAL ELEMENTS TO BUSINESS FINANCE

For smaller SMEs in particular there can be a 'blurring' between business and personal finance. This next section looks at the various ways in which personal funds have been used by SMEs, whether as finance for the business or through the use of a personal bank account. Most of this section of the questionnaire was unaffected by the changes made in Q1 2018.

PERSONAL ELEMENT – INJECTIONS OF PERSONAL FUNDS

SMEs were asked whether personal funds had been injected into the business in the previous 12 months by the owner or any director, and whether this was something they had *chosen* to do or felt that they *had* to do.

In Q4 2019, a fifth of SMEs (20%) reported an injection of personal funds and that this was slightly more likely to have been a choice (12%) than something they felt they had to do (8%). These figures are somewhat lower than other recent quarters, for both choosing to inject funds, or feeling that they had to:

Personal funds in last 12 months

Over time – all SMEs By date of interview	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Unweighted base:	*4500*	*4500*	*4500*	*4502*	*4500*	*4500*	*4500*	*4500*	*4500*
Inject personal funds – you chose to do to help the business grow and develop	16%	15%	15%	18%	14%	14%	15%	11%	12%
Inject personal funds – you felt you had no choice about this, that you had to do it	14%	13%	14%	11%	13%	12%	13%	11%	8%
Any personal funds	*30%*	*28%*	*29%*	*29%*	*27%*	*26%*	*28%*	*22%*	*20%*
Not something you have done	70%	72%	71%	71%	73%	74%	72%	78%	80%

Q15d All SMEs

A longer term look at the injection of personal funds shows how such injections initially declined from 4 in 10 SMEs in 2012 and 2013 to 3 in 10 in 2014. This proportion was then stable until a further decline to 24% in 2019:

Personal funds in last 12 months Over time – all SMEs	2012*	2013	2014	2015	2016	2017	2018	2019
Unweighted base:	*15,032*	*20,036*	*20,055*	*20,046*	*18,000*	*18,012*	*18,002*	*18,000*
Inject personal funds – you chose to do to help the business grow and develop	17%	19%	14%	14%	17%	16%	16%	13%
Inject personal funds – you felt you had no choice about this, that you had to do it	25%	20%	15%	13%	11%	13%	13%	11%
Any personal funds	*43%*	*38%*	*29%*	*28%*	*28%*	*29%*	*29%*	*24%*
Not something you have done	57%	62%	71%	72%	72%	71%	71%	76%

Q15d All SMEs from Q2 2012

The proportion of *all* injections of funds that were 'forced' declined from 58% in 2012 to 39% in 2016 but then increased slightly to 45% of injections for 2017 and has been stable since (46% in 2019).

The more detailed analysis below is based on the combined results YEQ4 2019 to provide robust base sizes for key sub-groups. Smaller SMEs, with fewer than 10 employees, remained much more likely to have received an injection of personal funds:

Personal funds in last 12 months YEQ4 19 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Inject personal funds – you chose to do to help the business grow and develop	13%	14%	12%	7%	3%
Inject personal funds – you felt you had no choice about this, that you had to do it	11%	11%	11%	6%	2%
Any personal funds	*24%*	*25%*	*23%*	*13%*	*5%*
Not something you have done	76%	75%	77%	87%	95%

Q15d All SMEs

Amongst SMEs with employees, 20% reported any injection of personal funds – 11% who chose to do so and 9% who felt that they had no choice.

Injections of personal funds increased with risk rating, from 11% of those with a minimal risk rating to 29% of those with a worse than average risk rating:

Personal funds in last 12 months

YEQ4 19 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,000*	*3187*	*5361*	*4171*	*3578*
Inject personal funds – you chose to do to help the business grow and develop	13%	6%	8%	12%	17%
Inject personal funds – you felt you had no choice about, that you had to do	11%	5%	9%	11%	12%
Any personal funds	*24%*	*11%*	*17%*	*23%*	*29%*
Not something you have done	76%	89%	83%	77%	71%

Q15d All SMEs

17% of those in Health sector had seen an injection of funds, compared to 30% in the Hotel & Restaurant sector (and 22-28% in the other sectors):

Personal funds in last 12 months

YEQ4 19 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*1200*	*1500*	*3200*	*1800*	*1200*	*2000*	*3600*	*1500*	*2000*
Chose to inject	19%	14%	12%	11%	15%	12%	15%	9%	13%
Had to inject	9%	10%	12%	11%	15%	12%	9%	8%	13%
Any funds	*28%*	*24%*	*24%*	*22%*	*30%*	*24%*	*24%*	*17%*	*26%*
Not put funds in	72%	76%	76%	78%	70%	76%	76%	83%	74%

Q15d All SMEs

The table below looks at the long term changes in injections of any personal funds, whether through choice or necessity, by key business demographics. After a period of stability 2014 to 2018, injections of personal funds were somewhat lower in 2019 (24%), with 0 and 1-9 employee SMEs, those in Wholesale/Retail and those that did not meet the definition of a PNB somewhat less likely to report an injection of personal funds:

Any personal funds in last 12 months Over time – all SMEs Row percentages	2012*	2013	2014	2015	2016	2017	2018	2019
All SMEs	**43%**	**38%**	**29%**	**28%**	**28%**	**29%**	**29%**	**24%**
0 emp	45%	40%	30%	29%	29%	31%	29%	25%
1-9 emps	39%	36%	29%	26%	24%	28%	27%	23%
10-49 emps	22%	19%	17%	16%	13%	14%	13%	13%
50-249 emps	13%	11%	9%	8%	9%	7%	6%	5%
Minimal external risk rating	20%	16%	17%	17%	13%	12%	14%	11%
Low	29%	22%	21%	19%	18%	21%	18%	17%
Average	36%	33%	25%	24%	25%	25%	26%	23%
Worse than average	51%	46%	36%	33%	33%	38%	34%	29%
Agriculture	41%	38%	27%	26%	27%	27%	28%	28%
Manufacturing	42%	31%	30%	27%	23%	28%	30%	24%
Construction	44%	38%	29%	25%	26%	25%	26%	24%
Wholesale/Retail	43%	37%	27%	27%	28%	30%	31%	22%
Hotels & Restaurants	47%	41%	33%	29%	30%	34%	31%	30%
Transport	44%	40%	30%	31%	31%	37%	24%	24%
Property/ Business Services	42%	41%	29%	27%	30%	27%	30%	24%
Health	43%	37%	29%	27%	24%	29%	21%	17%
Other	41%	37%	31%	34%	28%	33%	34%	26%
PNBs	33%	29%	19%	19%	20%	21%	20%	18%
All excl PNBs	48%	44%	37%	35%	35%	37%	36%	29%

Q15d All SMEs

Returning to the current period, analysis showed that the youngest SMEs continued to be the most likely to have had an injection of personal funds and that this was more likely to have been a choice than a necessity. For older businesses, an injection of personal funds was less likely to have happened at all but where it had, a higher proportion of those injections were felt to have been a necessity:

Personal funds in last 12 months YEQ4 19 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1828*	*1614*	*1863*	*2899*	*9796*
Inject personal funds – you chose to do to help the business grow and develop	19%	19%	9%	11%	10%
Inject personal funds – you felt you had no choice about this, that you had to do it	14%	13%	10%	10%	9%
Any personal funds	*33%*	*32%*	*19%*	*21%*	*19%*
Not something you have done	67%	68%	81%	79%	81%

Q15d All SMEs

Starts have always been more likely to report an injection of funds. In 2012, 68% of Starts reported receiving an injection of funds, dropping to 43% in 2015 but then starting to increase again to 49% in 2017 and 2018. Fewer reported an injection of personal funds in 2019 (33%) as a higher proportion of Starts reported using external finance.

Those using a *personal* account for their business banking were more likely to have put personal funds in at all (34% v 22% of those with a business account YEQ4 2019).

SMEs currently using external finance were somewhat more likely to have received an injection of personal funds (26% YEQ2 2019) than those not currently using external finance (22%) and were also somewhat more likely to say they had felt that there had been no choice (13% v 9%).

Analysed by their overall financial behaviour in the previous 12 months, the small group of Would-be seekers (who had wanted to apply for finance but felt that something had stopped them) remained much more likely to have received an injection of personal funds (60%) and to say that they had had no choice (52%):

Personal funds in last 12 months YEQ4 19 – all SMEs	Total	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	*18,000*	*3250*	*190*	*14,507*
Inject personal funds – you chose to do to help the business grow and develop	13%	15%	8%	13%
Inject personal funds – you felt you had no choice about, that you had to do	11%	20%	52%	9%
Any personal funds	*24%*	*35%*	*60%*	*22%*
Not something you have done	76%	65%	40%	78%

Q15d All SMEs

As already reported, the proportion of SMEs that had seen an injection of personal funds declined from 43% when the question was first asked in 2012 to 29% in 2014 and was then stable before a further decline in 2019.

- Amongst those that had had a borrowing event, injections fell from 52% in 2012 to 35% in 2019 and amongst Happy non-seekers from 37% to 22% over the same period.
- However, there was an increase in injections of personal funds amongst the small group of Would-be seekers of finance, from 62% in 2012 to 72% in 2017 and whilst this was not maintained in 2018 (59%) or 2019 (60%), this group remained more likely than its peers to have seen an injection of personal funds.

PERSONAL ELEMENT – USE OF PERSONAL BANK ACCOUNTS

Most SMEs used a business bank account (89% excluding DK answers).

Of the 11% that used a personal account, almost all (93%) were 0 employee businesses. So, whilst 14% of 0 employee SMEs used a personal account for their business banking, amongst those with employees the figure was 3%.

In the early years of the SME Finance Monitor around 1 in 5 SMEs used a personal account. Since 2017 this proportion has declined, from 16% to 14% in 2018 and 11% in 2019.

YEQ4 2019, SMEs using a personal account were:

- Less likely to be using external finance (38% used external finance, compared to 46% of those using a business account) or to have had a borrowing event (10% v 13%), but as likely to meet the definition of a PNB (43 v 42%).
- More likely to have put personal funds into the business (34% v 23% of those with a business account).

Traditionally, SMEs using a personal account for their business banking were less likely to be using external finance, and this was also the case in 2019, as the analysis below shows. 38% of those using a personal account were also using external finance compared to 46% of those with a business bank account (an increase in use of finance for both groups):

External finance currently used Over time – all SMEs	2015	2016	2017	2018	2019
Use business account					
Use core finance	*31%*	*33%*	*32%*	*33%*	*40%*
Use any finance	*39%*	*40%*	*40%*	*38%*	*46%*
Use personal account for business					
Use core finance	*22%*	*21%*	*24%*	*26%*	*33%*
Use any finance	*28%*	*26%*	*30%*	*29%*	*38%*

Q15/Q23 All SMEs

PERSONAL ELEMENT – FINANCE FACILITIES IN A PERSONAL NAME

Those using core finance have previously been asked whether any of those loan, overdraft or credit card facilities were in their personal name, rather than that of the business. In 2017, a quarter of those using such facilities (26%) said that one or more facilities were in their personal name. This varied relatively little across the quarters in which the question was asked.

From Q1 2018, the question was broadened. SMEs were still asked about the loans and/or overdrafts they used but were then asked about any other forms of finance, not just credit cards specifically. As a result, the figures below are the proportion of those using any finance who have a facility in their personal name, not just those using 'core' finance as previously. As core forms of finance are more likely than the other forms of finance to be in a personal name, all the percentages are lower.

19% of SMEs using finance had any facility in a personal name, the equivalent of 8% of all SMEs (84% of them were 0 employee SMEs). This varied by size of SME and was predominantly concentrated amongst the smaller SMEs using finance: a fifth of those with 0 employees had some facility in their personal name (22%, the equivalent of 9% of all 0 employee SMEs) compared to 1% of those with 50-249 employees. SMEs using finance and who also had an average or worse than average risk rating, were more likely to have a facility in a personal name (22% and 21%), than those with a minimal or low risk rating (7% and 9%):

Have element of finance in personal name YEQ4 19 – row percentages	Of those using finance	Equivalent % of all such SMEs
Total	**19%**	**8%**
0 employees	22%	9%
1-9 employees	12%	6%
10-49 employees	4%	2%
50-249 employees	1%	1%
Minimal risk rating	7%	3%
Low risk rating	9%	4%
Average risk rating	22%	9%
Worse than average risk rating	21%	13%
Use a personal bank account	76%	28%
Use a business bank account	13%	6%

Q15bsu All SMEs using finance excluding DK

Those operating their business banking through a personal account were less likely to be using any finance. However, if they *did* use external finance, then the majority (76%) said that some or all of the facilities that they had were in their personal name. Those with a business account who used finance were much less likely to say that any of the facilities were in their personal name (13%).

As a result, amongst all SMEs, those using a personal account for their business were much more likely to have a facility in their personal name (28%) than those using a business account (6%), or SMEs overall (8%).

SMEs using loans, overdrafts or any other finance were asked about facilities in a personal name for each individual type of facility they held. In all instances, those with 0 employees were much more likely to have a facility in a personal name:

Facilities in a personal name YEQ4 2019 (excl DK)

Overdrafts	7% of all SMEs with an overdraft said it was in a personal name, of which 91% were 0 employee SMEs. 3% said they had overdrafts in both personal and business names. 9% of 0 employee SMEs with an overdraft said that it was in a personal name. This declined by size to 3% of those with 1-9 employees,1% of those with 10-49 employees and less than 1% of those with 50-249 employees.
Loans	8% of all SMEs with a loan said it was in a personal name, of which 77% were 0 employee SMEs. 5% said they had loans in both personal and business names. 11% of 0 employee SMEs with a loan said that it was in a personal name. This declined by size to 5% of those with 1-9 employees, 2% of those with 10-49 employees and less than 1% of those with 50-249 employees.
All other finance	16% of SMEs using any other form of finance said it was in a personal name, of which 87% were 0 employee SMEs. 6% said they had facilities in both personal and business names. 21% of 0 employee SMEs using other forms of finance said that it was in a personal name. This declined by size to 9% of those with 1-9 employees, 2% of those with 10-49 employees and less than 1% of those with 50-249 employees.

TRADE CREDIT

37% of SMEs regularly purchased products or services from other businesses on credit (YEQ4 2019), increasing as before by size of SME:

- 30% of those with 0 employees regularly purchased on credit
- 53% of those with 1-9 employees
- 66% of those with 10-49 employees
- 59% of those with 50-249 employees.

Overall use of trade credit has increased slightly over time (31% in 2014 to 37% in 2019). All sizes of SME were more likely to be using trade credit in 2019 than they were in 2014, with the exception of the largest SMEs where use of trade credit was 58% in 2014, increased to 69% in 2017 but was back to 59% in 2019:

Currently use trade credit Over time – all SMEs By date of interview – row percentages	2014	2015	2016	2017	2018	2019
All SMEs	**31%**	**33%**	**33%**	**35%**	**34%**	**37%**
0 emp	26%	28%	28%	29%	29%	30%
1-9 emps	45%	47%	45%	49%	48%	53%
10-49 emps	58%	61%	59%	64%	62%	66%
50-249 emps	58%	60%	59%	69%	67%	59%

Q14y All SMEs

55% of SMEs with employees used trade credit in 2019.

Those using external finance (loans, overdrafts etc) remained more likely to also be using trade credit (45% YEQ4 2019) than those who were not using any external finance (30%) and this was true across all size bands with the exception of those with 50-249 employees, where 58% of those using external finance were using trade credit compared to 62% of those not using external finance.

SMEs that received trade credit were asked whether this meant that they had a reduced need for other forms of external finance. 7 in 10 of them did (this was slightly more likely to be the case for larger SMEs) and this is the equivalent of 26% of all SMEs needing less external finance, as the table below shows:

Impact of receiving trade credit YEQ4 19 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Receive trade credit	37%	30%	53%	66%	59%
Have less of a need for external finance	*26%*	*22%*	*38%*	*49%*	*45%*
Do not have less of a need for external finance	*9%*	*7%*	*12%*	*13%*	*11%*
Not sure	*2%*	*1%*	*3%*	*4%*	*3%*
Do not receive trade credit	63%	70%	47%	34%	41%
% of those with TC where it reduces need	*70%*	*73%*	*72%*	*74%*	*76%*

Q14y/y4 All SMEs

The proportion of all SMEs reporting that trade credit had reduced their need for external finance has increased slowly over time, from 21% in H2 2014 to 26% in 2019. The larger SMEs remained more likely to say this was the case:

Trade credit reduced need for finance Over time – all SMEs By date of interview – row percentages	H2 2014	2015	2016	2017	2018	2019
All SMEs	**21%**	**22%**	**23%**	**24%**	**23%**	**26%**
0 emp	18%	18%	20%	20%	18%	22%
1-9 emps	31%	31%	31%	33%	33%	38%
10-49 emps	39%	41%	41%	48%	44%	49%
50-249 emps	43%	37%	39%	52%	52%	45%

Q14y/y4 All SMEs

USE AND IMPACT OF TRADE CREDIT BY OTHER KEY DEMOGRAPHICS

SMEs with a minimal external risk rating remained more likely to receive trade credit (53%). Across all risk ratings, around two thirds of those receiving trade credit went on to say that it reduced their need for external finance, increasing to 75% of those with a worse than average risk rating:

Impact of receiving trade credit YEQ4 19 – all SMEs	Total	Min	Low	Avge	Worse /Avge
Unweighted base:	*18,000*	*3187*	*5361*	*4171*	*3578*
Receive trade credit	**37%**	**53%**	**49%**	**36%**	**32%**
Have less of a need for external finance	*26%*	*36%*	*33%*	*25%*	*24%*
Do not have less of a need for external finance	*9%*	*15%*	*12%*	*9%*	*7%*
Not sure	*2%*	*2%*	*4%*	*2%*	*1%*
Do not receive trade credit	63%	47%	51%	64%	68%
% of those with TC where it reduces need	*70%*	*68%*	*67%*	*69%*	*75%*

Q14y/y4 All SMEs

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

Impact of receiving trade credit YEQ4 19 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1828*	*1614*	*1863*	*2899*	*9796*
Receive trade credit	**27%**	**33%**	**35%**	**39%**	**43%**
Have less of a need for external finance	*20%*	*26%*	*28%*	*28%*	*29%*
Do not have less of a need for external finance	*7%*	*6%*	*6%*	*9%*	*12%*
Not sure	*1%*	*1%*	*1%*	*2%*	*2%*
Do not receive trade credit	73%	67%	65%	61%	57%
% of those with TC where it reduces need	*74%*	*79%*	*80%*	*72%*	*67%*

Q14y/y4 All SMEs

SMEs in the Wholesale/Retail sector (58%) were the most likely to receive trade credit and also to see their need for finance reduced (79% of those using trade credit):

Trade credit in last 12 months

YEQ4 19 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth Swk	Other Comm
Unweighted base:	*1200*	*1500*	*3200*	*1800*	*1200*	*2000*	*3600*	*1500*	*2000*
Receive TC	44%	49%	47%	58%	42%	30%	27%	26%	26%
Have less of a need for external finance	*34%*	*35%*	*36%*	*46%*	*31%*	*22%*	*17%*	*18%*	*18%*
Do not have less of a need for external finance	*9%*	*12%*	*9%*	*11%*	*9%*	*8%*	*9%*	*7%*	*6%*
Not sure	*1%*	*3%*	*3%*	*2%*	*3%*	*1%*	*1%*	*1%*	*2%*
Do not receive TC	56%	51%	53%	42%	58%	70%	73%	74%	74%
% where TC reduces need	*77%*	*71%*	*77%*	*79%*	*74%*	*73%*	*63%*	*69%*	*69%*

Q14y/y4 All SMEs

YEQ4 2019, SMEs using external finance (who were more likely to be using trade credit at all) remained more likely to say that they had less of a need for external finance as a result of trade credit (34%) than those not using external finance (20%) or SMEs overall (26%).

As already reported, both those SMEs with £10,000 or more of credit balances and those using trade credit were asked (separately) whether this reduced their need for external finance:

- Where available, having £10,000 or more in credit balances was slightly more likely to reduce the SME's need for finance (82% YEQ4 2019) than having access to trade credit (70% – of a different group of SMEs).
- Overall, 34% of SMEs YEQ4 2019 said that their need for finance was reduced either through credit balances or trade credit, increasing by size of SME (28% for 0 employee SMEs, 49% for those with 1-9 employees, 63% for those with 10-49 employees and 68% for those with 50-249 employees).
- The proportion of SMEs reporting a reduction in need for finance has been around 3 in 10 since 2016 (32% in 2016 and 2017, 29% in 2018) and was in line in 2019 at 34%.

A WIDER DEFINITION OF 'TOTAL BUSINESS FUNDING'

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

For YEQ4 2019:

- 45% of SMEs were using external finance as defined in the previous chapter (i.e. loans, overdrafts, invoice finance etc).
- An additional 16% of SMEs were not using external finance but were receiving trade credit.
- And finally, a further 8% of SMEs were using neither external finance, nor trade credit, but had seen an injection of personal funds into the business (also defined in the previous chapter).

Widening the definition of external funding to include not only finance but also trade credit and personal funds thus increased the proportion of SMEs using business funding from 45% to 70%.

Analysis by year shows that the business funding figures were stable 2014-2018, but the increased use of external finance seen in 2019 boosted the use of business funding from 65% in 2018 to 70% in 2019:

Use of business funding Over time – all SMEs	2014	2015	2016	2017	2018	2019
Unweighted base:	***20,055***	***20,046***	***18,000***	***18,012***	***18,002***	***18,000***
Use external finance	37%	37%	37%	38%	36%	45%
Do not use finance but do use trade credit	15%	16%	15%	16%	18%	16%
Do not use the above but injected personal funds	12%	11%	11%	11%	11%	8%
Total business funding	***63%***	***64%***	***63%***	***65%***	***65%***	***70%***

All SMEs

Looking specifically at YEQ4 2019 in more detail, there continued to be less of an 'uplift' from external finance to 'business funding' amongst the largest SMEs, from 77% to 91%, given their higher use of finance:

Wider definition of business funding YEQ4 19 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,000*	*3600*	*5800*	*5800*	*2800*
Use external finance	45%	43%	50%	60%	77%
Do not use finance but do use trade credit	16%	14%	22%	23%	14%
Do not use the above but injected personal funds	8%	10%	5%	1%	*
Total business funding	*70%*	*67%*	*77%*	*84%*	*91%*

Q14y/y4 All SMEs

Analysis by other demographics showed that:

- SMEs with an average risk rating were somewhat less likely to be using business funding (67%) than their peers with a minimal or low (74%), or worse than average (70%) risk rating.
- Starts were somewhat more likely to be using business funding (89%) than older SMEs (64-67% across these age bands).
- The proportion using business funding varied from 61% in Property/Business Services to 81% of those in Wholesale/Retail, with the rest in the range 64-77%.