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

THIS CHAPTER PROVIDES

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

KEY FINDINGS

Permanent non-borrowers: 42% of SMEs in 2019 met the definition of a Permanent non-borrower (PNB), an SME not using, and with no apparent appetite for, external finance. If this group is excluded, 78% of remaining SMEs were using external finance in 2019, the highest level seen to date on the Monitor

- Smaller SMEs were more likely to meet the definition of a Permanent non-borrower (44% of those with 0 employees). In 2019 amongst 0 employee SMEs there were as many PNBs as users of finance with the ‘gap’ between the two groups then increasing by size of SME to 58 percentage points for the largest SMEs (77% using external finance v 19% PNBs). Over time, fewer SMEs have been ‘in the middle’, neither using finance nor being a PNB (13% in 2019 compared to 22% in 2012).
- By sector, the proportion of PNBs ranged from 39-42% with the exception of the Property/Business Services sector (50% PNB) and Agriculture and Wholesale/Retail (33%) and Health (34%). Starts were much less likely to meet the definition (17%) compared to 44-49% of older SMEs.
- The proportion of PNBs was stable 2015 to 2018 (47-48%) having previously increased from 34% in 2012. In 2019, with more SMEs using external finance, the proportion dropped somewhat to 42%, and across all size bands with the exception of the largest SMEs (stable since 2017 at 1 in 5).
- In 2019, PNBs were as likely as their peers to be profitable (83% v 81%), to be innovative (34% v 35%), to trade internationally (15% v 16%) or to have a minimal/low external risk rating (22% v 24%). They were more likely to hold £10,000 or more of credit balances (28% v 21%) but less likely to be planning to grow (40% v 60%).

Attitudes to finance: Appetite for finance remained limited as three quarters of SMEs (73%) said they would accept slower growth rather than borrowing to grow more quickly, while a similar proportion had based their plans on what they could afford themselves (80%), both stable over time. Fewer SMEs (29%) were happy to borrow to help the business grow and this proportion has declined over time. A quarter of SMEs (24%) met the definition of an ‘Ambitious risk taker’

- Smaller SMEs and PNBs were more likely to be basing their plans on what they could afford and/or to be willing to grow more slowly, with little variation on these statements by age of SME or risk rating. Agreement with these statements is little changed over time.
- Willingness to borrow to grow increased by size of SME (from 26% of 0 employee SMEs to 47% of those with 50-249 employees) and was also higher for SMEs trading for 5 years or less, those already using finance, those planning to grow and those that were not PNBs. The proportion happy to borrow to grow has declined over time from 45% in 2015 to 29% in 2019 (the lowest level seen to date) with lower levels of agreement across all sizes of SME and sectors.
- 18% of all SMEs were both using external finance and were happy to borrow to grow in future while, at the other end of the scale, 43% were neither using finance nor happy to borrow to grow. Since 2015 the biggest increase has come in the group that are using finance currently but are not happy to borrow to grow (which accounted for 28% of SMEs in 2019 compared to 16% in 2015) and the biggest decrease was in the group not currently using finance but willing to borrow to grow in future (11% of SMEs in 2019 compared to 24% in 2015).
- A quarter of SMEs (24%) agreed both that they wanted to be a significantly bigger business and that they were prepared to take risks to be successful – the ‘Ambitious risk takers’. These SMEs were more likely to be found amongst larger SMEs (21% of 0 employee SMEs compared to 42% of those with 50-249 employees) but also amongst younger SMEs (35% and 34% of Starts and those trading 2-5 years compared to 14% of those trading for more than 15 years).

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- There were slightly fewer Ambitious risk takers in 2019 (24% in H2) compared to H2 2017 (27%) when the group was first identified. Such SMEs were typically younger (51% had been trading for under 5 years), innovative (44%), international (21%), planning to grow (79%) and happy to borrow to grow (51%).

THE NON-BORROWING SME

As the previous chapter reported, just under half of SMEs (45% YEQ4 2019) used external finance. Other data from this report allows for identification of those SMEs who seem firmly disinclined to borrow, defined as those that met **all** of the following conditions:

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

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

In 2019, 42% of all SMEs met this definition of a Permanent non-borrower (PNB). They remained more likely to be found amongst the smaller SMEs (44% of 0 employee SMEs) although not exclusively so:

- 44% of 0 employee SMEs met this non-borrowing definition
- 38% of 1-9 employee SMEs
- 31% of 10-49 employee SMEs
- 19% of 50-249 employee SMEs.

Amongst SMEs with employees, 37% met the definition of a Permanent non-borrower.

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

Permanent non-borrowers									
Over time – all SMEs	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Row percentages	2017	2018	2018	2018	2018	2019	2019	2019	2019
All SMEs	45%	49%	49%	48%	45%	45%	38%	41%	45%
0 employee	49%	50%	51%	51%	46%	46%	39%	42%	47%
1-9 employees	37%	46%	46%	43%	43%	41%	35%	38%	39%
10-49 employees	24%	35%	36%	36%	37%	34%	29%	28%	33%
50-249 employees	25%	26%	12%	14%	24%	22%	17%	15%	21%

Across other demographics for 2019 as a whole:

- Half of SMEs in Property/Business Services (50%) met the definition of a Permanent non-borrower, compared to 33% of those in Agriculture or Wholesale/Retail and 34% of those in Health.
- Starts were less likely to meet the definition (17%) than older SMEs (44-49%). SMEs with an average (46%) or minimal risk rating (44%) were somewhat more likely to meet the definition of a PNB than their peers with a low or worse than average rating (both 41%).
- Those using a personal account for their business banking were no more likely to meet the definition than those using a business bank account (43% v 42%). This means that the equivalent of 5% of all SMEs were Permanent non-borrowers who used a personal bank account.

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

- Between 2012 and 2015 the overall proportion of PNBs increased from a third (34%) to almost a half of all SMEs (47% in 2015) and was then stable to 2018 (48%). The figure for 2019 was somewhat lower (42%) back to levels seen in 2014.
- Between 2015 and 2018, half of SMEs with 0 employees met the definition of a PNB. In 2019, the proportion was lower at 44%, back to levels seen in 2013.
- Amongst SMEs with 1-9 employees, the proportion of PNBs increased to 36% in 2015 and was then stable until a further increase in 2018 to 44% which was then not maintained in 2019 (38%). A similar pattern was seen for those with 10-49 employees (29% in 2015, stable until 2018 when 36% were PNBs then back to 31% in 2019).
- The largest SMEs have always been less likely to be a PNB but the proportion increased to 28% in 2015 then started to decline again (19% in both 2018 and 2019).
- The reduction in PNBs between 2018 and 2019 was noted particularly amongst those in Construction and Wholesale/Retail (both down 10 percentage points)

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

All SMEs

The proportions of SMEs that either used external finance or that met the definition of a PNB have varied over time. Across SMEs as a whole, the ‘gap’ between those using finance and PNBs widened 2012 to 2015 and was then stable to 2018 before narrowing in 2019 with the increased use of external finance. Different patterns were seen over time by size of SME as the table below shows:

Amongst SMEs overall, since 2014 more SMEs were PNBs than were using finance, but the ‘gap’ narrowed somewhat in 2019 to 3 percentage points. This overall trend was due to 0 employee SMEs as amongst those with employees, use of finance has been higher than the proportion of PNBs in almost all instances, albeit the ‘gap’ narrowed from 2012 to 2015-16 before increasing again:

Use of external finance and PNBs								
Over time								
Row percentages	2012	2013	2014	2015	2016	2017	2018	2019
All SMEs:								
• Use external finance	44%	41%	37%	37%	37%	38%	36%	45%
• Permanent non-borrower	34%	40%	43%	47%	47%	47%	48%	42%
• ‘Gap’ finance to PNB	+10	+1	-6	-10	-10	-9	-12	-3
0 employees:								
• Use external finance	38%	35%	32%	32%	33%	34%	34%	43%
• Permanent non-borrower	37%	44%	48%	51%	50%	51%	50%	44%
• ‘Gap’ finance to PNB	+1	-9	-16	-19	-17	-17	-16	-1
1-9 employees:								
• Use external finance	58%	55%	49%	49%	46%	49%	42%	50%
• Permanent non-borrower	25%	28%	33%	36%	38%	37%	44%	38%
• ‘Gap’ finance to PNB	+33	+27	+16	+13	+8	+12	-2	+12
10-49 employees:								
• Use external finance	70%	67%	61%	60%	59%	64%	54%	60%
• Permanent non-borrower	18%	22%	26%	29%	30%	27%	36%	31%
• ‘Gap’ finance to PNB	+52	+45	+35	+31	+29	+37	+18	+29
50-249 employees								
• Use external finance	73%	73%	63%	61%	64%	73%	77%	77%
• Permanent non-borrower	15%	17%	26%	28%	26%	22%	19%	19%
• ‘Gap’ finance to PNB	+58	+56	+37	+33	+38	+51	+58	+58

All SMEs

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

PNBs v use of external finance trends over time

0 employees	<p>In 2012, as many 0 employee SMEs were using external finance (38%) as met the definition of a PNB (37%).</p> <p>Between 2012 and 2015, use of external finance decreased and the proportion qualifying as PNBs increased, until there was a 19 percentage point difference between them in 2015 (32% v 51%). This ‘gap’ varied relatively little 2015 to 2018 but in 2019, with more 0 employee SMEs using finance (43%) and fewer meeting the definition of a PNB (44%), there is almost no ‘gap’ for the first time since 2012.</p>
1-9 employees	<p>In 2012, SMEs with 1-9 employees were twice as likely to be using external finance (58%) as to be a PNB (25%). Their use of finance then declined, and the proportion of PNBs increased, such that in 2018, there were slightly more SMEs with 1-9 employees meeting the definition of a PNB (44%) than using finance (42%). In 2019 however, an increased use of finance (50%) and declining proportion of PNBs (38%) saw a ‘gap’ of 12 points restored, in line with 2017.</p>
10-49 employees	<p>In 2012, SMEs with 10-49 employees were much more likely to be using external finance (70%) than they were to meet the definition of a PNB (18%). From 2012 to 2018, the proportion of PNBs doubled to 36% and the proportion using finance declined to 54%, reducing the ‘gap’ from 52 percentage points to 18, but it has increased again in 2019 to 29 percentage points as more SMEs use finance (60%) and fewer meet the definition of a PNB (31%).</p>
50-249 employees	<p>In 2012, like those with 10-49 employees, the largest SMEs with 50-249 employees were much more likely to be using finance (73%) than meeting the definition of a PNB (15%), a gap of 58 points.</p> <p>Between 2012 and 2015, the gap narrowed to 33 points, as fewer of the largest SMEs used finance (61%) and more met the definition of a PNB (28%). Since then though, the trend has reversed and in both 2018 and 2019, 77% were using finance and 19% were PNBs, a gap once more of 58 points.</p>

SMEs can be placed in one of three groups: using finance, being a PNB or being “in the middle” ie not using finance now but showing some appetite unlike the PNBs. This group might be considered a potential source of future users of external finance, but analysis has shown that, over time, fewer SMEs have been in this middle group, reducing from 22% of all SMEs in 2012 to 13% in 2019.

PERMANENT NON-BORROWERS – CHARACTERISTICS

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

Characteristics of PNBs								
Over time								
Row percentages	2012	2013	2014	2015	2016	2017	2018	2019
Made a profit:								
• PNBs	74%	73%	80%	82%	80%	83%	79%	83%
• Other SMEs	66%	69%	74%	78%	80%	82%	77%	81%
Hold £10k+ of credit balances:								
• PNBs	17%	14%	19%	23%	19%	23%	23%	28%
• Other SMEs	16%	18%	21%	25%	24%	27%	22%	21%
Minimal/Low risk rating:								
• PNBs	14%	15%	22%	21%	20%	20%	23%	22%
• Other SMEs	17%	17%	23%	28%	23%	23%	23%	24%
International								
• PNBs	7%	10%	12%	13%	11%	14%	14%	15%
• Other SMEs	12%	15%	19%	20%	16%	17%	16%	16%
Innovative								
• PNBs	33%	32%	31%	31%	32%	31%	30%	34%
• Other SMEs	43%	42%	42%	42%	41%	36%	35%	35%
Plan to grow								
• PNBs	-	43%	40%	38%	36%	37%	41%	40%
• Other SMEs	-	52%	52%	51%	50%	52%	56%	60%

All SMEs

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

PNB v non-PNB trends over time

Profitability	In 2012, PNBs were more likely than non-PNBs to have been profitable (74% v 66%). Over time, profitability improved for both groups, but to a greater degree for the non-PNBs and so the ‘gap’ closed (both 80% in 2016). In 2018 and again in 2019 there was still little to choose between them (83% v 81%), but profitable PNBs were somewhat more likely to report making a profit of £25,000 or more (34% v 28% of non-PNBs that made a profit).
Credit balances	In 2012, PNBs were as likely to be holding £10,000 or more in credit balances as non-PNBs (17% v 16%). The proportion of non-PNBs holding this sum then increased slightly more rapidly (to 27% for 2017) compared to PNBs (to 23% for 2017), widening the gap between them. In 2018 the gap was reduced (23% v 22%) and in 2019 for the first time PNBs were more likely to hold £10,000+ in credit balances (28% v 21% of non-PNBs).
Risk rating	Both PNBs and non-PNBs have seen a slight increase over time in the proportion with a minimal or low external risk rating.
International	PNBs have typically been somewhat less likely to be international. Since 2012 the proportion of PNBs trading internationally has varied between 7% and 15% and for non-PNBs between 12% and 20% but there is currently little to choose between the two (15% of PNBs v 16% of non-PNBs).
Innovation	The proportion of PNBs that were innovative declined slightly over time (33% in 2012 to 30% in 2018), but was 34% for 2019. They were previously less likely to have been innovative than non-PNBs, where the proportion that innovated was stable 2012 to 2016 (41-43%) but as non-PNBs were somewhat less likely to have been innovative 2017- 2019 (35-36%), there is currently no difference between the two groups.
Plan to grow	Amongst PNBs, the proportion planning to grow declined from 43% in 2013 to 36% in 2016, widening the gap to the non-PNBs whose growth plans were stable 2013-2017, with around half planning to grow. In 2019 more PNBs were planning to grow (40%) but this was also the case for non-PNBs (60%) so the gap between them has increased.

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

PNBs by their very definition were not using external finance, but if use of trade credit and injections of personal funds are considered then 43% of PNBs used any ‘business funding’. If those who had injected personal funds and/or used trade credit were to be excluded from the PNB definition, the proportion of PNBs would reduce from 42% to 24% of all SMEs YE Q4 2019.

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

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

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

ATTITUDES TO FINANCE

Since Q3 2014 an increasing number of attitudinal statements have been included in the SME Finance Monitor to explore different aspects of demand for finance amongst SMEs. These are reported below in full for YEQ4 2019, in the order in which they were added to the SME Finance Monitor, with the overall ‘agree’ score in bold italics by each statement.

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

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

ATTITUDES TO FINANCE IN DETAIL – YEQ4 2019

Attitudes to finance YEQ4 2019	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<i>Unweighted base:</i>	18,000	3600	5800	5800	2800
<i>Happy to use external finance to help the business grow and develop</i>	29%	26%	37%	44%	47%
Strongly agree	3%	3%	4%	5%	4%
Agree	26%	23%	33%	39%	42%
Neither/nor	23%	23%	23%	26%	34%
Disagree	37%	39%	32%	25%	16%
Strongly disagree	11%	12%	8%	5%	4%
<i>Current plans for the business are based on what we can afford ourselves</i>	80%	82%	78%	70%	61%
Strongly agree	25%	26%	23%	16%	11%
Agree	55%	56%	55%	54%	50%
Neither/nor	11%	10%	13%	19%	29%
Disagree	7%	6%	8%	10%	9%
Strongly disagree	1%	1%	1%	1%	1%

Continued

Never think about whether we could/should use more external finance	51%	53%	46%	39%	37%
Strongly agree	11%	11%	9%	5%	4%
Agree	40%	41%	37%	34%	33%
Neither/nor	22%	22%	24%	29%	34%
Disagree	23%	22%	26%	28%	25%
Strongly disagree	4%	3%	4%	3%	4%
We will accept a slower rate of growth rather than borrowing to grow faster	73%	75%	72%	65%	53%
Strongly agree	20%	20%	19%	14%	9%
Agree	54%	54%	53%	52%	44%
Neither/nor	17%	17%	18%	23%	31%
Disagree	8%	7%	9%	11%	14%
Strongly disagree	1%	1%	1%	1%	2%
As a business we are prepared to take risks to be more successful	42%	40%	49%	52%	57%
Strongly agree	5%	5%	6%	5%	5%
Agree	37%	35%	43%	46%	52%
Neither/nor	20%	21%	19%	23%	29%
Disagree	31%	33%	26%	22%	13%
Strongly disagree	6%	6%	6%	3%	2%
A further increase in the cost of credit would make us less likely to apply for new external finance	52%	52%	54%	50%	48%
Strongly agree	14%	14%	14%	10%	7%
Agree	39%	38%	40%	41%	42%
Neither/nor	28%	28%	28%	31%	39%
Disagree	16%	16%	16%	16%	10%
Strongly disagree	4%	4%	3%	2%	2%

Continued

Continued

<i>Because the future feels uncertain we are being very cautious with our plans for the business</i>	55%	54%	57%	52%	56%
Strongly agree	12%	12%	13%	8%	7%
Agree	42%	42%	44%	44%	49%
Neither/nor	22%	22%	21%	24%	27%
Disagree	21%	22%	20%	22%	15%
Strongly disagree	2%	2%	2%	2%	2%
<i>My impression is that it is quite difficult for businesses like ours to get external finance</i>	41%	43%	36%	27%	34%
Strongly agree	9%	10%	6%	4%	4%
Agree	32%	33%	30%	23%	30%
Neither/nor	36%	35%	37%	37%	39%
Disagree	21%	20%	24%	33%	23%
Strongly disagree	2%	2%	2%	3%	3%
<i>We have a long term ambition to be a significantly bigger business</i>	37%	35%	43%	54%	64%
Strongly agree	7%	6%	9%	10%	13%
Agree	30%	28%	34%	44%	52%
Neither/nor	19%	19%	18%	21%	24%
Disagree	35%	37%	31%	22%	10%
Strongly disagree	9%	9%	8%	3%	1%

Q96 (238a5) All SMEs

ATTITUDES TO FINANCE – SUMMARY BY KEY DEMOGRAPHICS

Summary analysis of attitudes is provided for key demographics including size. The statements have been ranked by overall levels of agreement for YEQ4 2019:

YEQ4 19 – all SMEs % agreeing	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	18,000	3600	5800	5800	2800
Plans based on what can afford ourselves	80%	82%	78%	70%	61%
Accept slower growth rather than borrow	73%	75%	72%	65%	53%
Because the future feels uncertain we are being very cautious with our plans for the business	55%	54%	57%	52%	56%
Increase in cost of credit would discourage application	52%	52%	54%	50%	48%
Never think about using (more) external finance	51%	53%	46%	39%	37%
As a business we are prepared to take risks to become more successful	42%	40%	49%	52%	57%
My impression is that it is quite difficult for businesses like ours to get external finance	41%	43%	36%	27%	34%
We have a long term ambition to be a significantly bigger business	37%	35%	43%	54%	64%
Happy to use finance to help business grow	29%	26%	37%	44%	47%

Q96 (238a5) All SMEs

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

The table below looks at attitudes to finance by external risk rating. There was relatively little variation by risk rating on a number of these statements, but those with a minimal risk rating were somewhat more likely to feel the future was uncertain and less likely to say they never think about using (more) finance, while those with a worse risk rating were more likely to think it could be difficult to get finance, to be discouraged by an increase in the cost of credit and to say their plans are based on what they can afford:

YEQ4 19 – all SMEs % agreeing	Total	Min	Low	Avg	Worse /Avg
Unweighted base:	18,000	3187	5361	4171	3578
Plans based on what can afford ourselves	80%	76%	76%	82%	82%
Accept slower growth rather than borrow	73%	74%	72%	75%	72%
Because the future feels uncertain we are being very cautious with our plans for the business	55%	60%	53%	53%	56%
Increase in cost of credit would discourage application	52%	49%	49%	52%	54%
Never think about using (more) external finance	51%	43%	48%	53%	50%
As a business we are prepared to take risks to become more successful	42%	41%	42%	38%	46%
My impression is that it is quite difficult for businesses like ours to get external finance	41%	31%	35%	39%	45%
We have a long term ambition to be a significantly bigger business	37%	39%	37%	32%	41%
Happy to use finance to help business grow	29%	33%	34%	25%	30%

Q96 (238a5) All SMEs

There was some variation by sector:

- The proportion feeling that the future was uncertain varied from 65% of those in Wholesale/Retail to 50% of those in Property/Business Services and Other Community sectors
- The proportion with an ambition to be significantly bigger varied from 46% in Wholesale/Retail to 32% in Agriculture
- Perhaps linking their ambition and uncertainty, those in Wholesale/Retail were less likely to say they never thought about using more finance (43%) compared to 56% in Construction

YEQ4 19 – all SMEs % agreeing	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWk	Other Comm
Unweighted base:	1200	1500	3200	1800	1200	2000	3600	1500	2000
Plans based on what can afford ourselves	78%	78%	81%	80%	82%	82%	80%	80%	81%
Accept slower growth rather than borrow	72%	75%	77%	70%	71%	70%	75%	68%	75%
Future feels uncertain, we are being very cautious	57%	56%	54%	65%	55%	60%	50%	54%	50%
Increase in cost of credit would discourage application	57%	55%	53%	53%	56%	53%	50%	53%	49%
Never think about using (more) external finance	46%	53%	56%	43%	46%	48%	54%	50%	48%
We are prepared to take risks to become more successful	44%	48%	39%	47%	46%	41%	44%	37%	42%
Impression is that it is quite difficult for businesses like ours to get external finance	41%	40%	43%	43%	45%	40%	36%	42%	46%
Have long term ambition to be a significantly bigger business	32%	38%	34%	46%	36%	36%	36%	41%	38%
Happy to use finance to help business grow	34%	35%	27%	36%	32%	30%	26%	27%	28%

Q96 (238a5) All SMEs

Analysis by age of SME showed that younger SMEs were more ambitious and prepared to take risks, but also more uncertain about the future, feeling it might be difficult for them to get finance or feeling discouraged by any potential increase in the cost of credit:

YEQ4 19 – all SMEs % agreeing	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	1828	1614	1863	2899	9796
Plans based on what can afford ourselves	80%	83%	81%	81%	80%
Accept slower growth rather than borrow	72%	76%	71%	76%	73%
Because the future feels uncertain we are being very cautious with our plans for the business	64%	57%	51%	52%	51%
Increase in cost of credit would discourage application	63%	55%	48%	50%	48%
Never think about using (more) external finance	52%	51%	51%	49%	51%
As a business we are prepared to take risks to become more successful	54%	53%	42%	40%	33%
My impression is that it is quite difficult for businesses like ours to get external finance	62%	46%	40%	31%	32%
Have long term ambition to be a significantly bigger business	55%	49%	38%	34%	25%
Happy to use finance to help business grow	32%	34%	27%	28%	26%

Q96 (238a5) All SMEs

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

YEQ4 19 – all SMEs % agreeing	Use external finance	Do not use finance	Plan to grow	No plans to grow
Unweighted base:	10,420	7580	10,961	7039
Plans based on what can afford ourselves	78%	82%	81%	80%
Accept slower growth rather than borrow	71%	76%	75%	72%
Because the future feels uncertain we are being very cautious with our plans for the business	61%	49%	58%	51%
Increase in cost of credit would discourage application	60%	46%	60%	44%
Never think about using (more) external finance	49%	52%	50%	52%
As a business we are prepared to take risks to become more successful	49%	36%	55%	29%
My impression is that it is quite difficult for businesses like ours to get external finance	53%	31%	48%	34%
Have long term ambition to be a significantly bigger business	47%	30%	54%	20%
Happy to use finance to help business grow	39%	21%	35%	22%

Q96 (238a5) All SMEs

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

YEQ4 19 – all SMEs				
% agreeing	Total	PNBs	Not PNBs	All with employees
Unweighted base:	18,000	5853	12,147	14,400
Plans based on what can afford ourselves	80%	83%	79%	76%
Accept slower growth rather than borrow	73%	77%	71%	70%
Because the future feels uncertain we are being very cautious with our plans for the business	55%	47%	60%	56%
Increase in cost of credit would discourage application	52%	44%	58%	53%
Never think about using (more) external finance	51%	53%	49%	45%
As a business we are prepared to take risks to become more successful	42%	34%	48%	50%
My impression is that it is quite difficult for businesses like ours to get external finance	41%	27%	51%	34%
We have a long term ambition to be a significantly bigger business	37%	28%	44%	45%
Happy to use finance to help business grow	29%	17%	38%	38%

Q96 (238a5) All SMEs

ATTITUDES TO FINANCE – AGREEMENT OVER TIME

With the changes and additions made to these statements, the potential for analysis over time varies somewhat, but is shown here, in time order, for half year periods from H2 2015 where available for each statement:

Attitudes to finance									
Over time – all SMEs									
All agreeing – row percentages	H2 15	H1 16	H2 16	H1 17	H2 17	H1 18	H2 18	H1 19	H2 19
Happy to use finance to help business grow	45%	43%	43%	33%	34%	33%	32%	29%	29%
Plans based on what can afford ourselves	80%	80%	80%	82%	82%	79%	81%	80%	81%
Accept slower growth rather than borrow	-	71%	70%	70%	70%	73%	72%	73%	74%
Never think about using (more) external finance	-	47%	40%	52%	52%	50%	49%	52%	49%
As a business we are prepared to take risks to become more successful	-	-	-	-	42%	43%	43%	41%	43%
Increase in cost of credit would discourage application	-	-	-	-	-	51%	52%	51%	53%
Future feels uncertain so we are being very cautious with our plans	-	-	-	-	-	51%	56%	54%	55%
Impression it is quite difficult for businesses like ours to get finance	-	-	-	-	-	38%	39%	42%	39%
Have long term ambition to be a significantly bigger business	-	-	-	-	38%	-	39%	38%	36%

Q96 (238a5) All SMEs -

The proportion happy to use finance to help the business grow has declined steadily since 2015, while other attitudes have been more stable over time.

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

Happy to use finance to help business grow						
Over time – all SMEs	H2					
Row percentages % agree	2014	2015	2016	2017	2018	2019
All SMEs	42%	45%	43%	34%	32%	29%
0 emp	39%	43%	41%	31%	30%	26%
1-9 emps	49%	51%	49%	40%	38%	37%
10-49 emps	56%	57%	52%	48%	45%	44%
50-249 emps	57%	58%	51%	53%	57%	47%
Minimal external risk rating	38%	48%	45%	35%	36%	33%
Low	41%	45%	42%	35%	34%	34%
Average	39%	45%	41%	31%	31%	25%
Worse than average	43%	47%	45%	36%	34%	30%
Agriculture	49%	51%	44%	37%	41%	34%
Manufacturing	47%	48%	42%	35%	34%	35%
Construction	41%	44%	46%	31%	29%	27%
Wholesale/Retail	51%	51%	44%	39%	38%	36%
Hotels & Restaurants	48%	47%	46%	38%	32%	32%
Transport	39%	47%	43%	38%	35%	30%
Property/ Business Services	42%	45%	42%	33%	30%	26%
Health	32%	39%	43%	27%	32%	27%
Other	35%	39%	39%	32%	31%	28%
PNB	31%	36%	34%	22%	22%	17%
Not a PNB	50%	53%	51%	44%	42%	38%
Use external finance	54%	56%	54%	46%	44%	39%

Q96 (238a54) All SMEs

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

- Lower levels of agreement amongst smaller SMEs in particular (41% to 26% for those with 0 employees and 49% to 37% for those with 1-9 employees).
- Lower levels of agreement across most risk ratings and sectors, particularly those with an average risk rating or in the Property/Business Services sector.
- Those who did not meet the definition of a Permanent non borrower remained more likely to agree (38% in 2019 compared to 17% of PNBs) but this was lower than previously seen (51% in 2016) and the same was true for those using external finance (39% in 2019 from 54% in 2016).

ATTITUDES TO FINANCE – MORE DETAILED ANALYSIS

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

USING AND WILLING TO USE FINANCE

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

The table below allocates all SMEs to one of four categories, depending on whether they were using external finance and whether they agreed that they would be happy to use external finance in the future to help the business develop and grow. This shows that 43% of SMEs were neither using external finance nor were happy to do so in future, but with considerable variation by size of SME:

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

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 and happy to use in future	18%	15%	24%	33%	41%
Use external finance but not happy to use in future	28%	28%	26%	27%	36%
Do not use it but happy to use in future	11%	11%	13%	11%	6%
Do not use it and not happy to use in future	43%	46%	37%	29%	18%

Q15/Q96 (Q238a5) All SMEs

Taking these two issues in combination:

- 1 in 6 SMEs (18%) were using external finance and agreed that they would be happy to use it in future, increasing by size of SME to 41% of those with 50-249 employees.
- The remaining users of finance, 28% of all SMEs, would not be happy to use finance in future (the equivalent of 61% of all users of finance). There was less variation by size of SME for this group, but those with 50-249 employees were somewhat more likely to be in this group (36%).
- 1 in 10 of all SMEs (11%) were not using external finance currently but agreed that they would be happy to use it to help the business develop and grow. This proportion varied little by size of SME with the exception of those with 50-249 employees (6%).
- The remainder, just under half of SMEs (43%), were non-users of finance who would not be happy to use it in future and this was more common amongst smaller SMEs (46% of those with 0 employees compared to 18% of those with 50-249 employees). 8 in 10 of this group (80%) met the definition of a PNB.

Between 2018 and 2019 the proportion of SMEs using external finance increased from 36% to 45%. As the table below shows, this resulted in an increase in the group that was 'using external finance, but would not be happy to do so in future' (from 20% to 28%), rather than the group 'using finance and happy to do so in future' (16% to 18%). Longer term, fewer SMEs were potential future users of finance in the 'not using finance but would be happy to do so in future' group (24% in 2015 to 11% in 2019):

Combined analysis: Use of external finance and happiness to use in future over time – all SMEs	2015	2016	2017	2018	2019
Use external finance and happy to use in future	21%	20%	18%	16%	18%
Use external finance but not happy to use in future	16%	17%	21%	20%	28%
Do not use it but happy to use in future	24%	23%	16%	16%	11%
Do not use it and not happy to use in future	39%	40%	46%	47%	43%

Q15/Q96 (Q238a5) All SMEs

COMBINING GROWTH AMBITIONS AND ATTITUDE TO RISK

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

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

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

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

Repeating this analysis for YEQ4 2019 showed very similar results: 37% agreed they wanted to be a bigger business and 42% that they were prepared to take risks, with 24% agreeing with both statements.

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

- 21% of 0 employee SMEs agreed with both statements, increasing by size to 42% of those with 50-249 employees.
- 35% of Starts and 34% of those trading for 2-5 years agreed with both statements, decreasing by age of SME to 14% of those trading for more than 15 years.

The table below shows the proportion of SMEs in each demographic that agreed with both statements and could be described as Ambitious risk-takers. Overall this group has declined slightly (from 27% in H2 2017 to 24% in H2 2019), with some differences by sub-group. Those less likely to agree with both statements H2 2019 compared to H2 2017 included larger SMEs, those in the Hotels and Restaurants, and Health sectors, and Starts.

Want to grow significantly and prepared to take risks				
Over time – all SMEs	H2	H2	H1	H2
Row percentages % agree with both	2017	2018	2019	2019
All SMEs	27%	25%	23%	24%
0 emp	25%	23%	21%	22%
1-9 emps	30%	30%	29%	29%
10-49 emps	39%	37%	34%	36%
50-249 emps	50%	50%	43%	41%
Minimal external risk rating	24%	22%	23%	22%
Low	26%	20%	23%	23%
Average	20%	22%	19%	20%
Worse than average	31%	28%	26%	27%
Agriculture	26%	16%	17%	26%
Manufacturing	25%	31%	27%	29%
Construction	25%	17%	22%	21%
Wholesale/Retail	30%	31%	30%	26%
Hotels & Restaurants	32%	24%	27%	22%
Transport	28%	24%	22%	22%
Property/ Business Services	25%	26%	21%	26%
Health	28%	23%	21%	22%
Other	30%	30%	24%	25%
Starts	44%	35%	34%	35%
2-5 years	32%	38%	33%	35%
6-9 years	26%	23%	25%	22%
10-15 years	23%	24%	22%	20%
More than 15 years	17%	15%	13%	15%

Q96 (238a54) All SMEs

The table below shows the profile of these ‘Ambitious risk takers’ (24% of SMEs) compared to those SMEs that agreed with just one of the statements (19% agreed they would take risks and 14% that they were ambitious to be a bigger business) or with neither of them (44% of SMEs).

Ambitious risk takers have a distinct profile. They are younger but more likely to have employees, more likely to have grown and to be planning to grow, or to be planning a growth related activity. They are also more likely to have innovated, to be using finance and to be planning to apply for finance. As might be expected they differ significantly, particularly around growth and use of finance, from those who don’t agree with either statement and are not looking to grow or prepared to take risks.

Analysis of the other two groups shows that those who agree just with the ambition statement share some similarities with the ambitious risk takers, while those who only agree with the risk statement are more different:

Ambitious risk takers profile YEQ4 19 – all SMEs	Ambitious risk takers	Agree risk not ambition	Agree ambition not risk	Agree neither statement
Unweighted base:	5539	3217	3040	6204
Have employees	33%	26%	27%	20%
Trading for less than 5 years	51%	34%	45%	23%
Innovative	44%	34%	43%	27%
International	21%	17%	17%	11%
Have grown	54%	40%	41%	28%
Achieved scale up growth	30%	21%	22%	15%
Have declined	13%	21%	19%	20%
Plan to grow	79%	52%	66%	32%
Plan growth activity	58%	35%	46%	23%
Cautious as future uncertain	62%	54%	71%	46%
Use external finance	56%	49%	57%	34%
Permanent non-borrower	30%	39%	32%	53%
Happy to borrow to grow	51%	33%	31%	15%
Plan to apply for finance	21%	10%	15%	5%
Future would-be seeker	10%	11%	12%	12%
Future happy non-seeker	69%	79%	73%	83%

Q96 (238a54) All SMEs