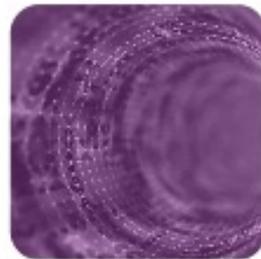


4. The general context



This chapter presents

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year-ending Q2 2017 (YEQ2 17).



Key findings

Most SMEs are profitable with 8 in 10 SMEs (81%) reporting making a profit YEQ2 2017. This proportion has increased steadily over time, from 69% in 2012 to 82% in the first half of 2017, and across all size bands, with the biggest increase seen amongst 0 employee SMEs (67% to 82%).

A consistent 4 in 10 SMEs (41%) reported having grown in the previous 12 months (excluding Starts). This has changed very little on an annual basis (39-42% since 2012), but was somewhat higher for Q2 2017 (46%).

- The proportion growing by 20% or more in the previous year has declined slightly over time, from 13% in 2014 to 8% for both 2016 and the first half of 2017
- 4% of all SMEs trading for 3 years or more had achieved scale up growth (20%+ growth for the 3 consecutive previous years).

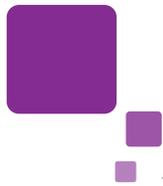
The proportion of SMEs that innovate, whether through a new product or service or improving an aspect of the business, has declined over time from 40% in 2012 to 34% in the first half of 2017. Over the same period the proportion that plan has remained stable (currently 57%). The proportion trading internationally increased from 10% in 2012 to 16% in 2014 and has been stable since.

- Larger SMEs and those with a minimal or low risk rating are more likely to innovate, plan or be international
- 10% of SMEs export. Most of them (65%) say that exports make up a quarter or less of all sales and a similar proportion (62%) say that a minority, or none, of these sales are to the EU (a quarter of all exporters say that all or most of their sales are to the EU).



In H1 2017, 26% of SMEs held £10,000 or more in credit balances. This proportion has increased steadily over time (from 16% in 2012). Larger SMEs remained much more likely to hold such balances, but the proportion of 0 employee SMEs holding £10,000 or more has doubled since 2012 (from 10% to 19%). Amongst SMEs with such balances, 8 in 10 said that it reduced their need for external finance, the equivalent of 13% of all SMEs.

The external risk rating profile of SMEs is broadly stable over time. 22% have a minimal or low risk rating while just under half (47%) have a worse than average risk rating. This is much more likely to be the case for smaller SMEs (54% of those with 0 employees compared to 4% of those with 50-249 employees).



This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 18,007 interviews conducted in the year ending Q2 2017 (that is Q3 and Q4 of 2016 and Q1 and Q2 of 2017). There were a number of trading challenges when the survey started in 2011, and analysis of this data over time provides an

indication of how SMEs have managed as conditions change. For example, in 2016, the Q1 and Q2 interviews were completed prior to the EU referendum result being known, while the Q3 and Q4 interviews were conducted in the months immediately afterwards and in 2017 the Q2 interviews were being conducted during and immediately after the General Election.

Profitability

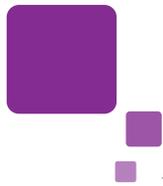
In Q2 2017, 78% of SMEs reported making a profit in their most recent 12 month trading period. The proportion unable or unwilling to give an answer has varied over time, so the table below also reports the proportion that made a profit once these ‘don’t know’ answers had been excluded. Over recent quarters a stable 8 in 10 SMEs have reported making a profit (excluding DK answers):

Business performance last 12 months

Over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2015	2015	2015	2016	2016	2016	2016	2017	2017
Unweighted base:	5001	5004	5003	4500	4500	4500	4500	4500	4507
Made a profit	76%	75%	75%	75%	74%	76%	74%	75%	78%
Broke even	10%	10%	9%	10%	12%	11%	14%	11%	8%
Made a loss	9%	9%	8%	8%	6%	7%	7%	7%	7%
DK/refused	5%	6%	8%	7%	7%	6%	6%	7%	7%
Median profit made	£9k	£9k	£9k	£8k	£8k	£8k	£9k	£10k	£9k
Made profit (excl DK)	80%	80%	81%	81%	80%	81%	78%	81%	84%

Q241 All SMEs/ * All SMEs making a profit and revealing the amount

Note that because consistently unprofitable SMEs tend to go out of business, there will be an element of ‘survivorship bias’ in the profit figures, potentially underestimating the proportion of unprofitable businesses in the population.



For the period YEQ2 2017, 76% of all SMEs had been profitable (81% once the DK answers were excluded), increasing by size of SME as the table below shows. The median profit, where made, was £9k, and the median loss £2k. Both increased by size of SME:

Business performance last 12 months		0	1-9	10-49	50-249
YEQ2 17 – all SMEs		emp	emps	emps	emps
	Total				
Unweighted base:	18,007	3604	5802	5801	2800
Made a profit	76%	75%	77%	80%	81%
Broke even	11%	12%	9%	6%	6%
Made a loss	7%	7%	6%	4%	5%
DK/refused	6%	6%	8%	10%	8%
Made profit (excl DK)	81%	80%	84%	89%	88%
Median profit made*	£9k	£8k	£14k	£55k	£236k
Median loss made*	£2k	£2k	£4k	£15k	£111k

Q241 All SMEs/ * All SMEs making a profit/loss and revealing the amount

Amongst SMEs with employees, 85% reported making a profit YEQ2 2017 (once the DK and refused answers were excluded).

There has been relatively little variability in levels of profitability over recent quarters and larger SMEs have remained consistently more likely to be profitable than smaller ones, as the table below shows:

Made a profit in last 12 months

Over time

Row percentages – excl DK	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2015	2015	2015	2016	2016	2016	2016	2017	2017
All SMEs	80%	80%	81%	81%	80%	81%	78%	81%	84%
0 employee	79%	79%	81%	80%	79%	79%	77%	80%	83%
1-9 employees	82%	83%	82%	84%	80%	86%	81%	84%	83%
10-49 employees	87%	86%	88%	87%	88%	90%	87%	90%	87%
50-249 employees	87%	89%	93%	94%	87%	87%	87%	87%	91%

Q241 All SMEs excluding DK



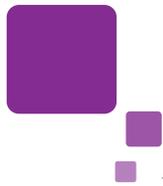
By sector, once the 'don't know' answers were excluded, there was relatively little difference in the proportion reporting a profit YEQ2 2017, ranging from 77% for Transport to 84% for Manufacturing and Construction:

Business performance last 12 months

YEQ2 17 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	1202	1502	3200	1803	1203	2001	3599	1497	2000
Made a profit	75%	77%	79%	76%	73%	72%	77%	76%	72%
Broke even	9%	9%	11%	10%	10%	13%	10%	14%	11%
Made a loss	10%	6%	3%	8%	9%	9%	7%	6%	10%
DK/refused	6%	8%	6%	6%	8%	6%	7%	4%	8%
Made profit (excl DK)	80%	84%	84%	80%	79%	77%	82%	79%	78%
Median profit made*	£8k	£9k	£9k	£12k	£10k	£7k	£10k	£7k	£8k
Median loss made*	£2k	£2k	£2k	£3k	£2k	£2k	£2k	£1k	£2k

Q241 All SMEs/ * All SMEs making a profit/loss and revealing the amount

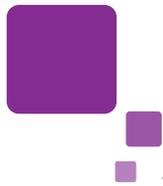
Median profits reported for YEQ2 2017 varied slightly, between £7-12k by sector, with little change over time. Reported median losses for YEQ2 2017 were £2k overall and for almost all sectors.



The table below takes a longer term view of profitability (back to 2012) by key demographics. This shows an increasing proportion of SMEs reported making a profit between 2012 and H1 2017 (both overall and across all key demographic groups, led by the 0 employee SMEs), and that Permanent non-borrowers are no longer more likely to be profitable than their peers:

Made a profit in last 12 months						
Over time (excl DK)						
By date of interview – row percentages	2012	2013	2014	2015	2016	H1 17
All	69%	70%	77%	80%	80%	82%
0 emp	67%	69%	75%	79%	79%	82%
1-9 emps	72%	75%	81%	82%	83%	84%
10-49 emps	80%	81%	86%	87%	88%	89%
50-249 emps	81%	84%	88%	90%	89%	89%
Minimal external risk rating	83%	83%	84%	84%	86%	87%
Low	81%	84%	82%	87%	86%	91%
Average	71%	73%	80%	82%	82%	84%
Worse than average	63%	65%	72%	76%	77%	79%
Agriculture	74%	73%	79%	78%	77%	81%
Manufacturing	69%	74%	80%	81%	81%	85%
Construction	67%	68%	78%	80%	81%	86%
Wholesale/Retail	67%	70%	74%	79%	82%	79%
Hotels & Restaurants	59%	65%	73%	75%	79%	76%
Transport	65%	66%	76%	78%	78%	78%
Property/ Business Services	73%	73%	80%	81%	81%	85%
Health	70%	69%	76%	78%	77%	84%
Other	66%	73%	67%	83%	79%	78%
PNBs	74%	73%	80%	82%	80%	83%
All excl PNBs	66%	69%	74%	78%	80%	82%

Q241 All SMEs excl DK



Sales growth

From Q4 2012, all SMEs that had been trading for 3 years or more were asked about their growth in the previous 12 months. Those that had grown by 20% or more were asked whether they had also achieved this level of growth in each of the previous 2 years (also known as scaleup growth).

As the table below shows, the proportion of SMEs (excluding Starts) reporting that they had grown at all in the previous 12 months has typically been around 4 in 10 in recent quarters but was somewhat higher in Q2 2017 (46%). Within this total, the proportion reporting growth of 20% or more has declined slightly (currently 9% of all SMEs excluding Starts):

Growth achieved in last 12 months

All SMEs excluding Starts By date of interview	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Unweighted base:	4146	4184	4203	3729	3686	3703	3665	3742	3716
Grown by more than 20%	11%	11%	12%	10%	9%	7%	8%	6%	9%
Grown but by less than 20%	26%	29%	28%	33%	31%	32%	31%	32%	37%
Grown	37%	40%	40%	43%	40%	39%	39%	38%	46%
Stayed the same	51%	47%	49%	46%	49%	51%	52%	48%	44%
Declined	13%	13%	11%	10%	11%	10%	10%	14%	10%

Q245a All SMEs trading for 3 years or more excl DK

For the period YEQ2 2017:

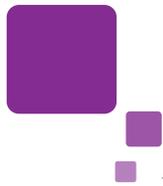
- 8% of SMEs more than 3 years old said they had grown by 20% or more in the previous 12 months while 33% had grown but by less than 20%
- This means that for YEQ2 2017, 41% of SMEs reported having grown at all in the previous 12 months
- 49% had stayed the same size and 11% had got smaller.



The table below shows how these growth patterns varied by SME demographics. Larger SMEs remained more likely to report growth than smaller ones, while those trading for less than 10 years remained more likely to have grown than those trading for longer:

Business Growth Further analysis (excluding Starts) YEQ2 2017

Size of SME	<p>SMEs with employees were more likely to have grown by 20% or more (10-11%) than SMEs with no employees (6%).</p> <p>Larger SMEs were also more likely to have grown by up to 20% and so were more likely to have grown overall:</p> <ul style="list-style-type: none"> • 37% of 0 employee SMEs reported having grown at all • 47% of those with 1-9 employees had grown • Just over half of those with 10-49 (54%) or 50-249 (56%) employees had grown.
Risk rating	<p>The proportion growing by 20% or more varied little by risk rating (7-9%). 46% of those with a minimal risk rating had grown at all. Those with a low risk rating were almost as likely to have grown (43%), while those with an average or worse than average risk rating (both 39%) were somewhat less likely.</p>
Age of business	<p>The proportion of SMEs achieving 20%+ growth declined by age of business, from 12% of those trading 2-5 years to 5% of those trading for 15+ years.</p> <p>Overall growth was also higher for younger businesses: 49% of those trading for 2-5 years and 48% of those trading for 6-9 years had grown, compared to 41% of those trading 10-15 years and 33% of those trading for more than 15 years.</p>
Sector	<p>SMEs in the Other Community sector were the most likely to report 20%+ growth (10%), along with those in Property/Business Services (9%). For other sectors the proportion varied from 5-8%.</p> <p>Those in Wholesale/Retail (47%) and the Other Community sector (46%) were the most likely to report overall growth, compared to 36% in the Transport sector. For other sectors, growth varied from 37-43%.</p>
Appetite for finance	<p>Growth varied relatively little by past appetite for finance: 42% of those who reported a borrowing event in the 12 months prior to interview had grown in the previous year, compared to 37% of Would-be seekers and 40% of Happy non-seekers.</p> <p>Permanent non-borrowers (with no immediate appetite for finance) were as likely to have grown (40%) as those who did not meet the definition (41%), unlike previous years where they have been somewhat less likely.</p>



The table below takes a longer term view of growth by key demographics. This shows a consistent 4 in 10 having grown in each period, driven by the consistent growth performance of 0 employee SMEs. Larger SMEs were consistently more likely to have grown than smaller ones, and the proportion of these larger SMEs reporting growth has also increased steadily over time:

Growth achieved in last 12 months					
All SMEs over time (excluding Starts)					
By date of interview – row percentages	2013	2014	2015	2016	H1 2017
All	40%	42%	39%	40%	42%
0 emp	38%	39%	36%	37%	40%
1-9 emps	43%	48%	45%	48%	48%
10-49 emps	49%	55%	56%	55%	55%
50-249 emps	54%	61%	57%	55%	57%
Minimal external risk rating	36%	44%	38%	45%	44%
Low	40%	40%	39%	43%	44%
Average	35%	38%	37%	37%	42%
Worse than average	44%	45%	41%	41%	42%
Agriculture	40%	40%	31%	36%	44%
Manufacturing	44%	46%	45%	45%	39%
Construction	35%	37%	35%	36%	41%
Wholesale/Retail	38%	46%	43%	47%	47%
Hotels & Restaurants	37%	43%	45%	44%	44%
Transport	35%	38%	35%	39%	36%
Property/ Business Services	44%	42%	41%	41%	40%
Health	40%	45%	38%	34%	47%
Other	44%	45%	41%	42%	49%
PNBs	38%	40%	37%	39%	42%
All excl PNBs	41%	43%	41%	41%	43%

Q245a All SMEs excl DK



Scaleup growth

In the first half of 2017, 8% of SMEs (excluding Starts) reported that they had grown by 20% or more in the previous 12 months. The proportion was unchanged from 2016 but somewhat lower than seen in previous years (13% in 2014).

Amongst those trading for more than 2 years who reported for YEQ2 2017 that they had grown by 20% or more, 6 in 10 (58%) went on to report that they had also achieved this level of growth for each of the two previous years. The proportion reporting such growth increased with size (55% of those with 0 employees to 66% of those with 50-249 employees).

This is the equivalent of 4% of all SMEs 3+ years old achieving 3 years of 20%+ growth, also known as 'scaleup' growth.

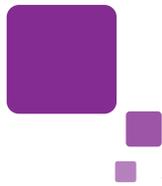
- This increased slightly by size (3% for 0 employee SMEs and 6% for all employee bands)
- By sector, 6% Other Community sector had achieved such growth
- PNBs were no more or less likely to have achieved scaleup growth (4%) than non-PNBs (5%)
- Those using external finance were no more or less likely to have achieved scaleup growth (4%) than non-users (4%)
- SMES trading 2-5 years were the most likely to be scaleups (7%) compared to 4% of those trading 6-15 years and 3% of older SMEs.

Past and future growth

The Monitor has recorded *future* growth expectations since it started in early 2011. This allows a comparison to be made between growth expectations recorded from 2011 onwards and growth subsequently achieved, albeit that these are based on **different** samples of SMEs and so this is not a direct comparison between prediction and achievement.

The table below shows the proportion of SMEs 3+ years old that predicted they would grow in the first time period, and compares it to the

proportion of SMEs 3+ years old that reported having achieved growth in the second period. Since this analysis started, the predictions made have typically proved to be very close to the growth figures subsequently reported (by a different sample of SMEs). The growth achieved more recently, in Q4 2016 and Q1 2017, did not bear out the predictions made in 2015 but the growth achieved in Q2 2017 exceeded that predicted in Q1 2016 due to the performance of those with 0-9 employees (predicted growth of 38%, actual growth of 46%).



Back in Q1 2016, 39% of SMEs 3+ years old *predicted* that they would grow in the next 12 months. In Q2 2017 more, 46%, (of a *different* sample of such SMEs) reported that they *had* grown in the previous 12 months:

Growth predictions against expectations

All SMEs excluding Starts By date of interview	All SMEs	All SMEs	0-9 emps	0-9 emps	10-249 emps	10-249 emps
	Predicted growth	Achieved growth	Predicted growth	Achieved growth	Predicted growth	Achieved growth
Predicted Q3 13/Achieved Q4 14	41%	42%	40%	41%	61%	56%
Predicted Q4 13/Achieved Q1 15	44%	41%	43%	40%	65%	61%
Predicted Q1 14/Achieved Q2 15	43%	36%	42%	35%	68%	59%
Predicted Q2 14/Achieved Q3 15	49%	40%	48%	39%	67%	54%
Predicted Q3 14/Achieved Q4 15	41%	39%	39%	39%	69%	52%
Predicted Q4 14/Achieved Q1 16	39%	44%	38%	43%	64%	53%
Predicted Q1 15/Achieved Q2 16	38%	39%	36%	38%	65%	57%
Predicted Q2 15/Achieved Q3 16	40%	39%	38%	38%	67%	55%
Predicted Q3 15/Achieved Q4 16	44%	38%	43%	38%	61%	53%
Predicted Q4 15/Achieved Q1 17	43%	38%	42%	38%	60%	53%
Predicted Q1 16/Achieved Q2 17	39%	46%	38%	46%	57%	58%
Predicted Q2 16/Achieved Q3 17	37%		36%		60%	

Q225a and Q245a All SMEs trading for 3 years or more excl DK

SMEs with 10-249 employees have typically been more likely to predict growth than to achieve it, although the latest data shows prediction and achievement in line (57% v 58%).



Financial Risk Profile

In earlier Monitor reports two assessments of financial risk were provided. The first was a self-reported risk from the survey itself, which over time affected a decreasing minority of SMEs (8% YEQ2 2015). As a result, from Q3 2015 this question has been ‘rested’ from the main survey and will be re-run from time to time to understand whether any changes have occurred.

The main assessment of financial risk is the external risk rating supplied for the sample by

ratings agencies Dun & Bradstreet and Experian. They use a range of business information to predict the likelihood of business failure and their ratings have been combined to a common 4 point scale from minimal to worse than average risk of failure. Although not all SMEs receive this external risk rating, most do (85%) and it is commonly used and understood by lenders. It has thus been used in this report for all risk related analysis.

The overall risk profile over recent quarters is shown below with typically just under half of SMEs having a worse than average risk rating:

External risk rating

(Where provided) over time By date of interview	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Unweighted base:	4594	4601	4546	4139	4093	4111	4108	4175	4112
Minimal risk	7%	8%	7%	6%	8%	8%	6%	7%	5%
Low risk	17%	17%	16%	13%	16%	14%	16%	15%	14%
Average risk	31%	27%	28%	28%	32%	30%	27%	35%	33%
Worse than average risk	45%	48%	48%	53%	44%	48%	51%	42%	48%

All SMEs where risk rating provided



Looking over the longer term, the proportion of SMEs with a worse than average risk rating dropped to just below 50% for 2014 and has remained there since. The proportion with a minimal or low external risk rating increased over time from 16% in 2012 to 25% in 2015, before declining slightly (currently 21% in H1 2017):

External risk rating (Where provided) over time By date of interview	2012	2013	2014	2015	2016	H1 2017
Unweighted base:	18,270	18,183	18,330	18,301	16,451	8287
Minimal risk	5%	6%	7%	8%	7%	6%
Low risk	11%	10%	15%	17%	15%	15%
Average risk	31%	29%	32%	29%	29%	34%
Worse than average risk	53%	54%	45%	46%	49%	45%

All SMEs where risk rating provided

The overall YEQ2 2017 ratings are shown below by size of SME, and continue to report a better risk profile for larger SMEs. 82% of SMEs with 50-249 employees had a minimal or low risk rating compared to 13% of those with 0 employees:

External risk rating YEQ2 17 – all SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	16,506	3003	5108	5652	2743
Minimal risk	7%	4%	11%	23%	37%
Low risk	15%	9%	24%	51%	45%
Average risk	32%	33%	29%	20%	14%
Worse than average risk	47%	54%	35%	6%	4%

All SMEs where risk rating provided

Amongst SMEs with employees, 44% had a minimal or low external risk rating, 27% an average risk rating and 29% a worse than average risk rating.

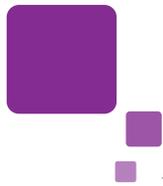


The risk profile of all SMEs with a worse than average external risk rating is driven by the ratings for 0 employee SMEs. The table below shows the proportion with this rating over time, in each size band:

- Amongst the 0 employee SMEs the proportion with a worse than average risk rating has varied over time (50-60%) but is currently at the lower end of the range seen.
- The proportion of 1-9 employee SMEs with this rating appears to have stabilised from 2014 onwards at around a third.
- Amongst those with 10-49 and 50-249 employees there has been a more consistent decline over time in the proportion with a worse than average risk rating and they are the least likely to have this rating.

Worse than average risk rating						
Over time						H1
Row percentages	2012	2013	2014	2015	2016	2017
Total	53%	54%	45%	46%	49%	45%
0 employee	58%	60%	50%	52%	56%	50%
1-9 employees	43%	43%	37%	34%	35%	36%
10-49 employees	17%	17%	11%	9%	7%	6%
50-249 employees	13%	15%	9%	6%	5%	3%

All SMEs where risk rating provided

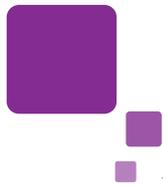


An analysis for YEQ2 2017 by sector shows that SMEs in Agriculture remained much more likely than other sectors to have a minimal or low risk rating (45% YEQ2 2017) while those in Transport (11%) and Construction (16%) remained the least likely to have such a rating:

External risk rating

YEQ2 17	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	1073	1392	2970	1649	1080	1793	3337	1352	1860
Minimal risk	28%	8%	4%	8%	3%	4%	5%	13%	6%
Low risk	17%	17%	12%	19%	23%	7%	15%	24%	12%
Average risk	26%	37%	29%	26%	30%	30%	33%	32%	37%
Worse than average risk	28%	37%	55%	47%	44%	59%	46%	31%	45%
Total Min/Low	45%	25%	16%	27%	26%	11%	20%	37%	18%

All SMEs where risk rating provided



Credit balances

Almost all SMEs reported holding some credit balances. In the first half of 2017, 4% did not hold any, and this proportion has changed relatively little over time, nor does it vary much by size of SME, or risk rating.

Between 2012 and 2015 the average credit balance held increased from £25,000 to £39,000. It was somewhat lower for 2016 as a whole (£30,000) but is back to £40,000 for the first half of 2017:

Credit balances held						H1
Over time – all SMEs	2012	2013	2014	2015	2016	2017
Unweighted base:	15,020	14,752	13,039	13,182	10,730	5622
None	4%	4%	5%	3%	3%	4%
Less than £5,000	66%	64%	58%	55%	57%	52%
£5,000 to £10,000	14%	15%	17%	18%	18%	19%
£10,000 to £50,000	11%	12%	14%	17%	15%	18%
More than £50,000	5%	4%	6%	7%	6%	8%
Average balance held	£25k	£24k	£31k	£39k	£30k	£40k

Q244 All SMEs excluding DK/refused

The median value of credit balances held remained at just over £2,000 for YEQ2 2017. This amount continued to vary by size of SME, and for YEQ2 2017 was:

- £2,000 for 0 employee SMEs
- £6,300 for 1-9 employee SMEs
- £35,400 for 10-49 employee SMEs
- £158,400 for 50-249 employee SMEs.

The median value of credit balances varied little by sector (£2-4k).



The table below shows the proportion of SMEs holding more than £10,000 in credit balances, and how this has changed over time. In 2012, 16% of SMEs held £10,000 or more in credit balances, increasing steadily to 24% in 2015 before stabilising at 22% in 2016. Initial indications for 2017 are that the proportion has increased again, to 26% for H1 2017.

Larger SMEs remained much more likely to hold such sums. All size bands have seen an increase in £10,000+ credit balances over time, including a doubling in the proportion of 0 employee SMEs holding such sums (10% to 19%):

£10,000+ Credit balances held						
Over time – all SMEs						H1
Row percentages	2012	2013	2014	2015	2016	2017
All SMEs	16%	17%	20%	24%	22%	26%
0 employee	10%	10%	14%	17%	14%	19%
1-9 employees	32%	33%	38%	41%	41%	44%
10-49 employees	66%	66%	68%	70%	72%	73%
50-249 employees	77%	80%	82%	81%	82%	91%

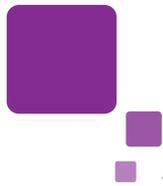
Q244 All SMEs excluding DK/refused

The next chapter reports on the use of external finance amongst SMEs. The table below shows the proportion of SMEs using external finance (or not) who also hold £10,000 or more in credit balances:

£10,000+ Credit balances held						
Over time – row percentages	2012	2013	2014	2015	2016	H1
						2017
All SMEs	16%	17%	20%	24%	22%	26%
SMEs who use any external finance	18%	20%	23%	27%	27%	34%
SMEs who use core finance	18%	20%	22%	27%	26%	34%
SMEs who use no external finance	14%	14%	19%	22%	19%	21%

Q244 All SMEs excluding DK/refused

This shows that over time, those using external finance have become more likely to also hold £10,000 or more in credit balances (from 18% of those using external finance in 2012 to 34% in H1 2017).



Amongst those who don't use external finance (typically smaller SMEs), the proportion holding such balances increased somewhat from 14% in 2012 to 19% in 2014 but has been stable since.

From Q3 2015, all SMEs holding £10,000 or more of credit balances were asked whether holding such balances meant that the business had less of a need for external finance. 8 in 10

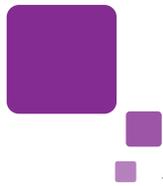
SMEs with such credit balances said that it did, with the largest SMEs somewhat less likely to agree (74% for those with 50-249 employees).

The table below shows that this is the equivalent of 13% of all SMEs saying their need for external finance is lower due to the credit balances they hold:

Impact of £10k+ of credit balances		0	1-9	10-49	50-249
YE Q2 2017 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	18,007	3604	5802	5801	2800
£10k+ reduces need for external finance	13%	9%	21%	32%	31%
£10k+ does not reduce need for finance	3%	2%	5%	7%	10%
Hold less than £10k of credit balances	48%	54%	33%	11%	4%
No credit balances/DK/Refused	37%	35%	41%	50%	55%

Q244x All SMEs

Those currently using external finance were slightly more likely to say that it reduces their need for further finance (16%) than those not currently using finance (11%).



The table below shows the actual use of external finance amongst those who hold £10,000 or more in credit balances, over time. Between 2012 and 2015, SMEs with £10,000 or more of credit balances become less likely to use any external finance *at all* (51% in 2012 to 44% in 2014 and 2015) but the proportion has increased again for H1 2017 (50%):

Use of finance over time						
Over time	2012	2013	2014	2015	2016	H1 2017
All with £10k+ in credit balances						
Unweighted base:	6296	6319	5926	6376	5228	2971
Use any external finance	51%	52%	44%	44%	46%	50%
• Use core finance	41%	40%	32%	35%	36%	39%
Do not use finance	49%	48%	56%	56%	54%	50%



How SMEs are managed

Interviews were conducted with the main financial decision maker. In almost all cases, this person was also the owner, managing director, or senior partner.

A series of questions collected information about the structure and control of the business. Those reported below (including planning, trading internationally, and having someone in charge of the finances who is qualified) reflect their contribution to other areas of analysis such as applications for finance. From Q1 2016, SMEs have also been asked whether the business has ‘a

mentor who provides help and advice’ and these figures are also reported below.

The table below shows that the proportion of SMEs undertaking planning has varied between 50-60% over recent quarters (currently 54% for Q2 2017), while the proportion of international SMEs has returned to previous levels (16%) after a dip in the latter half of 2016. 30% reported innovative activity, the lowest level seen over this period, while a steady 1 in 10 has a business mentor:

Business formality elements

Over time – all SMEs By date of interview	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Unweighted base:	5001	5004	5003	4500	4500	4500	4500	4500	4507
Planning (any)	51%	56%	56%	54%	52%	57%	58%	60%	54%
- Produce regular management accounts	38%	44%	42%	41%	39%	45%	41%	48%	41%
- Have a formal written business plan	29%	34%	33%	32%	29%	33%	38%	32%	28%
International (any)	15%	20%	18%	15%	15%	12%	13%	16%	16%
- Export goods or services	9%	12%	11%	10%	9%	7%	7%	11%	10%
- Import goods or services	11%	14%	13%	10%	10%	8%	10%	10%	12%
Innovation (any)	35%	40%	38%	36%	37%	37%	36%	38%	30%
- New product or service (last 3 yrs)	15%	15%	16%	14%	15%	13%	14%	13%	12%
- Improved aspect of business	31%	35%	34%	31%	32%	34%	33%	35%	26%
Mentors	-	-	-	13%	10%	12%	11%	12%	10%
Have qualified person in charge of finances	28%	26%	24%	23%	22%	23%	25%	26%	21%

Q223/251 All SMEs



The table below provides further analysis by key demographics for YEQ2 2017:

Business Formality Further analysis YEQ2 2017

<p>Planning</p>	<p>57% of all SMEs planned, increasing by size of business from 52% of those with 0 employees to almost all, 91%, of those with 50-249 employees.</p> <p>Levels of planning declined very slightly by age of business: 62% of Starts and 59% of those trading for 2-5 years planned compared to 55% of older SMEs.</p> <p>Those with a minimal (66%) or a low (64%) risk rating were more likely to plan, compared to 56% of those with an average rating and 55% of those with a worse than average risk rating.</p> <p>66% of SMEs in the Hotels & Restaurant sector and 65% of SMEs in the Wholesale/Retail sector planned, compared to 50% of those in the Construction and Other Community sectors. Amongst other sectors 53-60% planned.</p>
<p>International</p>	<p>14% of all SMEs were international, increasing by size of business from 12% of those with 0 employees to 31% of those with 50-249 employees.</p> <p>There was little variation by age of SME (14-16%) with the exception of those trading for 6-9 years where 10% were international.</p> <p>There was also little variation by risk rating (17-18%) with the exception of those with a worse than average risk rating, where 13% were international.</p> <p>SMEs in the Wholesale/Retail (26%) and Manufacturing (25%) sectors were the most likely to be international, with those in Construction (4%) the least likely. Amongst other sectors 8-17% were international.</p>
<p>Innovation</p>	<p>36% of all SMEs had innovated, increasing by size of business from 32% of those with 0 employees to 59% of those with 50-249 employees.</p> <p>There was no consistent pattern by age of business. Those trading 2-5 years were the most likely to have been innovative (41% and those trading for more than 15 years were the least likely (32%).</p> <p>Those with either a minimal (43%) or a low risk (40%) rating were more likely to have innovated, compared to 34% of those with an average rating and 35% of those with a worse than average risk rating.</p> <p>SMEs in Wholesale/Retail (42%), Hotels & Restaurants (41%), and Manufacturing (41%) were the most likely to have innovated, with Construction (26%) the least likely. Amongst other sectors 32-39% had innovated.</p>

Continued



Continued

Financial specialist 24% of SMEs had a financially qualified person looking after their finances. This was less likely to be the case for smaller SMEs (20% for those with 0 employees and 32% for those with 1-9 employees) than it was for larger SMEs (53% of those with 10-49 employees and 72% of those with 50-249 employees).

There was typically less variation by age of business (20-25% with the exception of those trading for 10-15 years, 28%).

32% of those with a minimal and 31% of those with a low risk rating had a financial specialist, compared to 25% of those with an average rating and 21% of those with a worse than average risk rating.

Those in Wholesale/Retail and Property/Business Services (both 31%) were the most likely to have a financial specialist, compared to 16% in Construction. Amongst other sectors the proportion varied from 18-27%.

Mentors

A new question from Q1 2016 asked whether the business was using a mentor for business help and advice. YEQ2 2017, 11% of SMEs did.

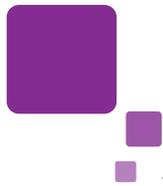
By size, the use of mentors increased from 10% of those with 0 employees and 14% of those with 1-9 employees, to around a quarter of larger SMEs (22% for those with 10-49 employees and 25% for those with 50-249 employees). 15% of SMEs with employees had a mentor.

The presence of mentors varied little by risk rating: from 14% of those with a minimal risk rating and 12% of those with a low risk rating, to 11% of those with either an average or a worse than average risk rating.

There was also relatively little variation by sector (8-14%).

Permanent non-borrowers were slightly less likely to have a mentor (9% v 14% who were not PNBs).

Analysis YEQ2 2017 showed that those with a mentor were more likely to be planning to grow (65% v 41%), to be international (25% v 13%), innovative (56% v 33%) and to plan (79% v 54%). They were also more likely to be using external finance (49% v 38%), and to be planning to apply for more (15% v 10%). These differences were seen amongst both smaller and larger SMEs with mentors.



The smallest SMEs remained less likely to undertake any of these activities. For YEQ2 2017, excluding the 0 employee SMEs sees the proportion of SMEs (with employees) who:

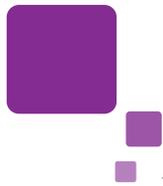
- Plan increase from 57% to 73%
- Trade internationally increase from 14% to 20%
- Innovate increase from 36% to 45%
- Have a mentor increase from 11% to 15%
- Have a qualified person in charge of the finances increase from 24% to 36%.

Taking a longer term view back to 2012:

- The proportion that plan has varied little over time (54-57%)
- The proportion of SMEs that are international has been somewhat higher since 2014 (with more exporters and more importers)
- The proportion of SMEs that have been innovative has declined somewhat over the period (from 40% to 34%), and the proportion with someone qualified in charge of the finances is also somewhat lower:

Business formality elements						
Over time – all SMEs						H1
By date of interview	2012	2013	2014	2015	2016	2017
Unweighted base:	20,055	20,036	20,055	20,046	18,000	9007
Planning (any)	55%	55%	54%	54%	55%	57%
- Produce regular management accounts	41%	42%	42%	41%	41%	44%
- Have a formal written business plan	33%	32%	32%	32%	33%	30%
International (any)	10%	13%	16%	17%	14%	16%
- Export goods or services	6%	8%	10%	10%	8%	10%
- Import goods or services	7%	9%	11%	12%	10%	11%
Innovation (any)	40%	38%	37%	37%	36%	34%
-New product or service (last 3 yrs)	17%	16%	16%	15%	14%	13%
-Improved aspect of business	35%	33%	34%	33%	32%	31%
Have qualified person in charge of finances	25%	26%	27%	26%	23%	23%

Q223/251 All SMEs



Amongst those who exported, two thirds (65%) reported that less than a quarter of their total sales came from overseas, with relatively little variation by size:

Percentage of turnover as sales overseas

All SMEs who export YEQ2 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	2044	242	548	819	435
Less than 25% of sales made overseas	65%	64%	66%	65%	58%
25-50%	16%	14%	18%	19%	27%
51-75%	10%	11%	8%	11%	10%
76-100% of sales overseas	9%	10%	8%	5%	6%
Average proportion	29%	30%	27%	27%	29%

Q223x All SMEs who export, excluding DK/refused

19% of exporters said that international trade made up 50% or more of sales, somewhat higher than in recent years:

- In 2013, 24% of exporters said that overseas sales made up half or more of all sales, falling to 17% in 2014 and then 13% in 2015
- This proportion then increased to 19% for 2016 and 20% for H1 2017.

9% of all SMEs export. This is made up of the equivalent of 2% of all SMEs where exports made up 50% or more of their sales, and 7% of all SMEs where exports made up less than 50% of their sales. 91% of all SMEs do not export.



From Q3 2016, all exporters have been asked about the extent to which they are currently selling to the EU. The figures for YEQ2 2017 show that 1 in 10 exporters only export to the EU (9%) while almost twice as many (17%) said that they do not trade with the EU at all:

Overseas sales to EU

All SMEs who export YEQ2 17	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	2151	253	571	863	464
Only to the EU	9%	8%	12%	7%	6%
The majority to the EU	16%	15%	18%	18%	23%
Half to the EU	12%	13%	10%	15%	19%
A minority to the EU	45%	46%	43%	48%	49%
None to the EU	17%	17%	17%	12%	4%
Only/the majority	25%	23%	30%	25%	29%

Q223b All SMEs who export

A quarter of exporters (25%) said that all, or the majority, of their sales were to the EU. This was more likely if the exporter had a minimal risk rating (36%), was in the Transport sector (33%) or had 1-9 employees (30%).

The EU was also the sole/majority source of sales for 36% of those who achieved more than half of their turnover through exports, compared to 24% of those where less than half of their turnover came from exports.

Occasional questions have been asked (starting in Q1 and Q2 2014) about whether the business holds intellectual property or other knowledge assets on its balance sheet such as patents, copyrights, trademarks or goodwill (in H1 2014, 6% did). When the questions were asked again for 2015 there was little change: 5% held intellectual property or other knowledge assets

on their balance sheet, increasing by size from 4% of 0 employee SMEs to 12% of those with 50-249 employees. The latest figures for YEQ2 2017 are marginally higher, with 8% of all SMEs holding intellectual property or other knowledge assets on their balance sheet, increasing by size from 6% of 0 employee SMEs to 19% of those with 50-249 employees.

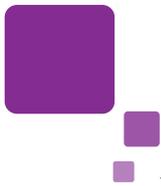


Membership of business groups or industry bodies

SMEs were asked whether the owner, senior partner or majority shareholder belonged to any business groups or industry bodies.

YEQ2 2017 a fifth of SMEs (21%) said that this was the case (excluding DK answers). This was unchanged from 2016 as a whole but somewhat lower than seen in previous years (in 2013, 24% of SMEs said that they belonged to a business group) due to fewer 0 employee SMEs belonging to such groups:

Business Groups	Further analysis YEQ2 2017
By size of SME	<p>Membership increased somewhat by size of SME:</p> <ul style="list-style-type: none"> • 20% of 0 employee businesses belonged to a group/body • 23% of 1-9 employee businesses • 25% of 10-49 employee businesses • 33% of 50-249 employee businesses
By external risk rating	<p>There was relatively little difference by risk rating, albeit SMEs with a worse than average external risk rating were slightly less likely to belong to such groups (18%), compared to 23-26% of SMEs in the other 3 risk rating bands.</p>
By sector	<p>The most likely to belong to such groups remained those in the Health sector (29%) and Property/Business Services (26%) while those in Transport (15%) and Manufacturing (16%) were less likely.</p>
PNBs and those using external finance	<p>Those currently using external finance were now no more likely to belong to such groups (22%) than those that did not use external finance (21%).</p> <p>There was also now little difference by whether the SME met the definition of a Permanent non-borrower or not (21% v 22% if not a PNB).</p>
Other demographics	<p>There was some, limited, variation by age of business. 17-19% of businesses trading for less than 10 years belonged to such groups, compared to 22% of those trading for 10-15 years and 25% of the oldest SMEs.</p> <p>Those who had someone in charge of the finances who was qualified (more common in larger SMEs) remained more likely to belong to a business group (31% v 18%).</p>



Business Ownership

68% of *companies* had one owner, declining by size from 89% of 0 employee companies to 38% of those with 50-249 employees. This means that of *all* SMEs, 86% are either sole proprietorships or companies with one owner.

A broader question explored the extent to which the owner of the SME was also involved in other businesses. For YEQ2 2017 (and excluding DK answers):

- 90% reported that this was the only business the owner was involved in, managerially or strategically, decreasing with size from 92% of 0 employee SMEs, to 81% of those with 50-249 employees.
- 9% reported that the owner currently ran another business as well (8% amongst 0 employee SMEs increasing to 18% amongst those with 50-249 employees).
- 4% reported that the owner had set up and run a business before (with little variation by size).
- Less than 1% said the owner had provided funds for another business in the past few years, again with little variation by size of SME.

From Q3 2014, SMEs with employees were asked whether theirs was a family business. For YEQ2 2017, 66% of those with employees said that theirs was a family owned business. This means that for SMEs as a whole:

- 16% have employees and are family owned
- 9% have employees and a different ownership structure
- 75% of all SMEs have no employees (so are not asked the question).