6. Financial context – how are SMEs funding themselves? (Part 2)

This chapter provides

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

Key findings

Fewer SMEs in the first half of 2017 were happy to use finance to help the business grow.

- Since this question was first asked, 41-45% of SMEs each half year have agreed they would use finance to help the business grow. In the first half of 2017, 33% agreed
- This lower appetite for finance in 2017 was seen most markedly amongst 0 employee SMEs (41% in 2016 to 30% in H1 2017) but all size bands were less willing to use finance with the exception of those with 50-249 employees where willingness to use finance increased slightly (51% to 54%).

Attitudinally, SMEs continued to prefer self-reliance, even if this meant slower growth.

- 81% agreed that their plans for the business were based on what they can afford and this has remained consistent over time
- 70% would accept a slower rate of growth rather than borrowing to grow and this has also remained consistent over time.

65% of all SMEs were using business funding, any combination of external finance, trade credit or injections of personal funds, and this has remained fairly stable over time.

- The 'uplift' between users of external finance and users of business funding was most marked for those with 0 employees (35% to 62%).

At the other end of the finance spectrum, 46% of SMEs met the definition of a Permanent non-borrower, an SME that seems firmly disinclined to borrow, based on their current and future finance plans.

- Whilst 0 employee SMEs remained more likely to be a PNB (49%), a quarter of those with 50-249 employees (23%) met the definition (YEQ2 2017)
- The proportion of PNBs increased from 34% of all SMEs in 2012 to 47% in 2015 and has been stable since
- The likelihood of being a PNB is affected by the size of the business, being less likely to plan, to innovate or to plan to grow and being more likely to see access to finance as a barrier.

Use of trade credit

Data has been gathered on the extent to which SMEs use trade credit from their suppliers and the impact it has on their use of, or need for, external finance.

35% of SMEs regularly purchased products or services from other businesses on credit (YEQ2 2017). As previously seen, use of trade credit increased by size of SME:

- 30% of those with 0 employees regularly purchased on credit
- 47% of those with 1-9 employees
- 63% of those with 10-49 employees
- 66% of those with 50-249 employees.

Those using external finance (loans, overdrafts etc) remained more likely to be using trade credit (52%) than those who were not using any external finance (25%).

As the table below shows, overall use of trade credit has increased very slightly over time (31 to 35%). In H1 2017, larger SMEs were more likely to report using trade credit, with around 7 in 10 of those with 10-49 or 50-249 employees now using trade credit, compared to 6 in 10 previously:

Currently use trade credit Over time – all SMEs By date of interview – row percentages	2014	2015	2016	H1 2017
All	31%	33%	33%	35%
0 emp	26%	28%	28%	30%
1-9 emps	45%	47%	45%	48%
10-49 emps	58%	61%	59%	66%
50-249 emps	58%	60%	59%	71%

SMEs that received trade credit were asked whether having this trade credit meant that they had a reduced need for other forms of external finance. 7 in 10 of them did (with little variation by size of SME) and this is the equivalent of 25% of all SMEs needing less external finance, as the table below shows:

Impact of receiving trade credit YEQ2 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,007*	*3604*	*5802*	*5801*	*2800*
Receive trade credit	35%	30%	47%	63%	66%
Have less of a need for external finance	*25%*	*21%*	*33%*	*46%*	*47%*
Do not have less of a need for external finance	*9%*	*8%*	*12%*	*14%*	*13%*
Not sure	*2%*	*1%*	*2%*	*3%*	*6%*
Do not receive trade credit	65%	70%	53%	37%	34%
% of those with TC where it reduces need	*71%*	*70%*	*70%*	*73%*	*71%*

Q14y/y4 All SMEs

The proportion of Trade Credit users reporting that it reduces their need for external finance has increased from 65% in H2 2014 when the question was first asked, to 71% for YEQ2 2017. This is due to more smaller SMEs saying that Trade Credit reduces their need for external finance and there is little variation in this percentage by size of SME.

YEQ2 2017, SMEs currently using external finance (who were more likely to be using trade credit) remained more likely to say that they had less of a need for external finance as a result (38%) than those not using external finance (17%) or SMEs overall (25%).

SMEs with a minimal or low external risk rating remained more likely to receive trade credit. Around 7 in 10 of those receiving trade credit in each risk rating band said that it reduced their need for external finance:

Impact of receiving trade credit YEQ2 17 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,007*	*3102*	*5513*	*4118*	*3773*
Receive trade credit	35%	46%	46%	37%	31%
Have less of a need for external finance	*25%*	*31%*	*32%*	*26%*	*22%*
Do not have less of a need for external finance	*9%*	*12%*	*12%*	*10%*	*7%*
Not sure	*2%*	*2%*	*2%*	*2%*	*1%*
Do not receive trade credit	65%	54%	54%	63%	69%
% of those with TC where it reduces need	*71%*	*67%*	*70%*	*70%*	*71%*

Q14y/y4 All SMEs from Q3 2014

Older SMEs remained more likely to be receiving trade credit but the proportion of trade credit users saying it reduced their need for finance did not vary much by age of business:

Impact of receiving trade credit YEQ2 17 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1805*	*1850*	*2094*	*2993*	*9265*
Receive trade credit	27%	31%	31%	37%	43%
Have less of a need for external finance	*20%*	*21%*	*21%*	*27%*	*30%*
Do not have less of a need for external finance	*6%*	*8%*	*9%*	*9%*	*11%*
Not sure	*1%*	*2%*	*1%*	*1%*	*2%*
Do not receive trade credit	73%	69%	69%	63%	57%
% of those with TC where it reduces need	*74%*	*68%*	*68%*	*73%*	*70%*

Q14y/y4 All SMEs from Q3 2014

SMEs in the Wholesale Retail sector were the most likely to receive trade credit (51%). Amongst those receiving trade credit, those in Construction were the most likely to say that it reduced their need for finance (76%):

Trade credit in 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*
Receive TC	38%	48%	46%	51%	36%	27%	29%	22%	28%
Have less of a need for external finance	*23%*	*34%*	*35%*	*36%*	*24%*	*19%*	*19%*	*15%*	*18%*
Do not have less of a need for external finance	*13%*	*10%*	*10%*	*14%*	*11%*	*7%*	*8%*	*5%*	*7%*
Not sure	*2%*	*3%*	*1%*	*2%*	*1%*	*1%*	*1%*	*2%*	*2%*
Do not receive TC	62%	52%	54%	49%	64%	73%	71%	78%	72%
% where TC reduces need	*61%*	*71%*	*76%*	*71%*	*67%*	*70%*	*66%*	*68%*	*64%*

Q14y/y4 All SMEs from Q3 2014

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 both trade credit received and injections of personal funds as well as external finance. Note that the amount of trade credit received is not recorded, and that when last asked, the typical injection of personal funds was for a relatively small amount (often less than £5,000).

For YEQ2 2017:

- 39% of SMEs were using **external finance** as defined in the previous chapter (i.e. loans, overdrafts, invoice finance etc).
- An additional 15% of SMEs were not using external finance but were receiving **trade credit**.
- And finally, a further 11% 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 increases the proportion of SMEs using business funding from 39% to 65%.

Analysis by year shows that this has changed very little over the period for which this data is available, albeit the H1 2017 figure of 66% is the highest seen to date:

Use of business funding Over time – all SMEs	2014	2015	2016	H1 2017
Unweighted base:	*20,055*	*20,046*	*18,000*	*9007*
Use external finance	37%	37%	37%	38%
Do not use finance but do use trade credit	15%	16%	15%	16%
Do not use the above but injected personal funds	12%	11%	11%	12%
Total business funding	*63%*	*64%*	*63%*	*66%*

All SMEs from 2014

Looking specifically at YEQ2 2017 in more detail, there remained a bigger 'uplift' amongst smaller SMEs when this wider business funding definition was applied:

Wider definition of business funding YEQ2 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18007*	*3604*	*5802*	*5801*	*2800*
Use external finance	39%	35%	48%	60%	69%
Do not use finance but do use trade credit	15%	14%	19%	21%	16%
Do not use the above but injected personal funds	11%	13%	6%	1%	1%
Total business funding	*65%*	*62%*	*73%*	*82%*	*86%*

Q14y/y4 All SMEs from Q3 2014

Analysis by other demographics showed that:

- SMEs with a minimal or low risk rating were somewhat more likely to be using business funding (68% and 67%) than those with an average or worse than average risk rating (both 65%).
- Starts were as likely to be using external finance (38% v 35-42%) as their older peers but somewhat more likely to be using business funding (71% v 60-65%).
- The proportion using business funding varied from 55% of those in the Health sector to 76% of those in Wholesale/Retail, with the rest in the range 61-70%.

The non-borrowing SME

As the previous chapter reported, 4 in 10 SMEs (39% YEQ2 2017) currently use external finance. Other data from this report allows for identification of those SMEs who seem firmly disinclined to borrow, defined as those that meet **all** of the following conditions:

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

These **Permanent non-borrowers** made up 46% of SMEs (YEQ2 2017), and remained more likely to be found amongst the smaller SMEs, although not exclusively so (amongst SMEs with employees, 36% met the definition of a Permanent non-borrower):

- 49% of 0 employee SMEs met this non-borrowing definition
- 37% of 1-9 employee SMEs
- 30% of 10-49 employee SMEs
- 23% of 50-249 employee SMEs.

Half of SMEs in the Health (53%) or Property/Business Services (49%) sectors met the definition of a Permanent non-borrower, compared to 37% of those in Agriculture. Those using a personal account for their business banking (54%) were also somewhat more likely to meet the definition. This means that the equivalent of 9% of all SMEs are Permanent non-borrowers who use a personal bank account.

Over recent quarters the proportion of PNBs has changed relatively little, as the table below shows. The exception was Q4 2016, where the proportion of PNBS fell to 41%, due to more SMEs reporting use of external finance. However, the proportion of PNBs increased again in 2017 and was 46% for Q2 2017:

Permanent non-borrowers

Over time – all SMEs Row percentages	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
All SMEs	*49%*	*46%*	*43%*	*49%*	*47%*	*50%*	*41%*	*47%*	*46%*
0 employee	53%	50%	47%	52%	52%	52%	43%	51%	50%
1-9 employees	38%	36%	33%	42%	34%	42%	36%	37%	35%
10-49 employees	28%	30%	29%	28%	28%	36%	28%	27%	28%
50-249 employees	26%	29%	28%	27%	24%	28%	25%	22%	17%

If these PNBs are excluded from the 'use of external finance' table reported in the previous chapter, the proportion using external finance increases to three quarters of the remaining SMEs in Q2 2017. Typically around 7 in 10 SMEs (excluding the PNBs) have been using external finance over recent quarters:

Use of external finance in last 5 years

Over time – all SMEs excl PNBs By date of interview	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Unweighted base:	*3195*	*3258*	*3338*	*2854*	*3008*	*2755*	*3017*	*3011*	*3038*
Use now	71%	66%	71%	64%	69%	68%	78%	67%	74%
Used in past but not now	6%	7%	4%	5%	5%	6%	3%	7%	6%
Not used at all	23%	27%	24%	31%	26%	26%	19%	25%	20%

Q14/15 All SMEs

The table below looks at the long term changes in the proportion of SMEs meeting the definition of a PNB by key business demographics. Between 2012 and 2015 the proportion of PNBs increased from a third to almost a half of all SMEs and has been stable since:

Permanent non-borrowers Over time – all SMEs Row percentages	2012	2013	2014	2015	2016	H1 2017
All	34%	40%	43%	47%	47%	46%
0 emp	37%	44%	48%	51%	50%	51%
1-9 emps	25%	28%	33%	36%	38%	36%
10-49 emps	18%	22%	26%	29%	30%	27%
50-249 emps	15%	17%	26%	28%	26%	20%
Minimal external risk rating	31%	37%	41%	41%	42%	38%
Low	29%	35%	44%	38%	43%	41%
Average	36%	40%	45%	45%	46%	50%
Worse than average	34%	40%	43%	51%	48%	47%
Agriculture	26%	37%	40%	41%	40%	37%
Manufacturing	32%	41%	42%	43%	45%	39%
Construction	33%	41%	45%	52%	45%	47%
Wholesale/Retail	26%	32%	34%	38%	40%	39%
Hotels & Restaurants	28%	33%	39%	40%	43%	42%
Transport	29%	33%	40%	44%	45%	43%
Property/ Business Services	38%	43%	46%	48%	51%	51%
Health	47%	52%	54%	51%	56%	53%
Other	37%	38%	46%	47%	45%	49%

All SMEs

As already reported, since 2012, the proportion of all SMEs using external finance initially decreased and then stabilised, while the proportion that met the definition of a PNB increased and then stabilised. The table below shows that the relationship between these two elements is different over time for those with employees to those without:

Use of external finance and PNBs

Over time Row percentages	2012	2013	2014	2015	2016	H1 2017
0 employees:						
• Use external finance	38%	35%	32%	32%	33%	33%
• Permanent non-borrower	37%	44%	48%	51%	50%	51%
All with employees						
• Use external finance	59%	57%	51%	51%	49%	52%
• Permanent non-borrower	24%	27%	32%	35%	37%	34%

All SMEs from 2012

Amongst 0 employee SMEs, the proportion using external finance and the proportion that met the definition of a PNB were the same in 2012. 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%), with little change since (18 points for the first half of 2017).

In 2012 twice as many SMEs with employees were using external finance (59%) as met the definition of a PNB (24%), a gap of 35 percentage points. Between 2012 and 2016 there was a decline in the proportion using external finance, and an increase in those meeting the definition of a PNB. As a result, the gap narrowed from 35 to 12 percentage points by the end of 2016. However, with use of finance increasing slightly in H1 2017 for this group, and the proportion of PNBs declining slightly, the gap has widened slightly to 18 points.

PNBs are a major influence on the overall position of SMEs regarding access to, and appetite for, external finance. Additional analysis has therefore been conducted, to understand the types of SME that fit the PNB definition.

The table below summarises the differences between PNBs and other SMEs on a range of key measures over time:

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

All SMEs from 2012

As the table above shows, there are some instances where differences between PNBs and non-PNBs have narrowed over time and others where they have widened:

- In 2012, PNBs were more likely than non PNBs to have been profitable (74% v 66%). Over time, profitability has improved for both groups, but to a greater degree for the non-PNBs and so the 'gap' is now closed (83% v 82% in H1 2017).
- There is now less to choose between the two groups in terms of being international. In 2012, 7% of PNBs were international compared to 12% of non-PNBs. By H1 2017 the proportion of PNBs that were international had doubled (to 15%), while for non-PNBs the proportion had initially increased to 20% but then reduced slightly to 17% for H1 2017.
- PNBs have always been less likely to be innovative and this proportion has been stable over time (33% in 2012 to 31% in H1 2017). Amongst non-PNBs, the proportion that have innovated was stable 2012 to 2016 (41-43%) but somewhat lower in H1 2017 (37%), narrowing the gap to PNBs.
- In 2012, PNBs were as likely to be holding £10,000 or more in credit balances as non-PNBs (17% v 16%). Since then, the proportion of non-PNBs holding this sum has increased more rapidly (to 30% for H1 2017) compared to PNBs (to 22% for H1 2017), widening the gap between them.
- Growth plans amongst the non-PNBs have been very stable over time, with half planning to grow. Amongst PNBs on the other hand, the proportion planning to grow has declined from 43% to 36%, widening the gap between them and the non-PNBs.

To explore this further, and to understand which factors in combination predict a PNB, further detailed (CHAID) analysis was undertaken for the Q2 2017 report. All the usual business demographic variables (size, sector, region, growth, profitability etc) were included. The latest analysis is reported below, based on interviews in the year to Q2 2017 and shows the highest and lower groupings in each size band in terms of the proportion of PNBs.

The key determinant, as it was last time, was size of business. Common issues across size bands included not seeing access to finance as a barrier, not planning to grow, lower levels of planning or innovation and agreeing that their plans were based on what they could afford:

YEQ2 17	Factors increasing likelihood of being a Permanent non Borrower
0 employees	49% of 0 employee SMEs met the definition of a PNB. If they said that access to finance was not a barrier, that they plan to stay the same size, or get smaller, agreed that their current plans were based on what they can afford AND they were in the Property/Business Services or Health sector, then this proportion increased to 66%. If on the other hand they did see access to finance as a barrier and they had improved an aspect of the business, this proportion dropped to 5%.
1-9 employees	37% of 1-9 employee SMEs met the definition of a PNB. If they had no 8-10 barriers identified for the business, no business plan, had not improved as aspect of the business and agreed that their plans were based on what they can afford, this proportion increased to 53%. On the other hand, if they identified barriers for the business and saw access to finance as a barrier, then 9% were PNBs
10-49 employees	30% of 10-49 employee SMEs met the definition of a PNB. If they had no 8-10 issues identified for the business, no management accounts, they didn't import and they were not a family business, this proportion increased to 54%. On the other hand if they identified access to finance as an issue and held some credit balances, but less than £10,000, the proportion decreased to 2%
50-249 employees	23% of 10-49 employee SMEs met the definition of a PNB. If they had no 8-10 barriers identified for the business, broke even for the previous 12 months, agreed their current plans were based on what they can afford themselves and did not have a business plan, then this proportion increased to 80% (albeit of a small group) If they had any 8-10 barriers, planned to grow in the next year and had an average risk rating, then 2% were PNBs

PNBs by their very definition are not currently using external finance. Adding use of trade credit and injections of personal funds results in 40% of PNBs using any ‘business funding’. If those who had injected personal funds and/or used trade credit were to be excluded from the PNB definition, the proportion of PNBs would reduce from 46% to 28% of all SMEs.

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’.

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 for YEQ2 2017, with changes in levels of agreement over time reported later in this chapter.

The first statement below has been asked consistently since Q3 2014. It assesses the extent to which SMEs are happy to use external finance to help the business grow. 0 employee SMEs were less likely to agree overall (35%) compared to around half of those with employees:

"As a business we are happy to use external finance to help the business grow and develop"

YEQ2 17– all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,007*	*3604*	*5802*	*5801*	*2800*
Strongly agree	7%	6%	9%	10%	13%
Agree	31%	29%	36%	40%	39%
Neither/nor	23%	23%	22%	25%	29%
Disagree	28%	29%	24%	20%	15%
Strongly disagree	11%	12%	9%	6%	3%
Total 'Agree'	*38%*	*35%*	*46%*	*49%*	*52%*

Q238a5 All SMEs from Q3 2014

Amongst those with employees, 46% agreed with this statement.

Analysis by other demographics showed that:

- There was little difference in levels of agreement by external risk rating (36-41%)
- Younger SMEs were more likely to agree (42% of Starts and 45% of those trading for 2-5 years) than older ones (34% of those trading for 10-15 or 15+ years)
- By sector, those in the Health (32%) and Other Community (33%) sectors were less likely to agree, but otherwise there was relatively little difference (37-43%).
- Previous analysis revealed that a key predictor of being prepared to use finance to grow was to be already using external finance. Amongst those using finance, 49% agreed with this statement, compared to 31% of those not currently using external finance.

Those planning to grow were more likely to agree with this statement (45%) than those not planning to grow (32%).

To understand this 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 are currently using external finance and whether they agreed that they would be willing to use external finance in the future to help the business develop and grow:

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

YEQ2 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,007*	*3604*	*5802*	*5801*	*2800*
Use external finance and willing to use in future	19%	16%	27%	35%	39%
Use external finance but not willing to use in future	20%	19%	21%	26%	28%
Do not use it but willing to	19%	19%	19%	15%	13%
Do not use it and not willing to	42%	45%	34%	26%	21%

Q15/Q238a5 All SMEs

The analysis shows that:

- 1 in 5 SMEs (19%) were using external finance and agreed that they would be willing to use it in future, increasing by size of SME to 39% of those with 50-249 employees.
- The remaining users of finance (20% of all SMEs) would not be willing to use finance in future (the equivalent of 51% of all users of finance).
- A further fifth of all SMEs (19%) were not using external finance but agreed that they would be willing to use it to help the business develop and grow. This proportion declined slightly by size of SME to 13% of those with 50-249 employees.
- The remainder, 4 in 10 SMEs (42%), were non-users of finance who would not be willing to use it in future and this was more common amongst 0 employee SMEs (45% compared to 21% of those with 50-249 employees). 8 in 10 of this group (79%) met the definition of a PNB.

The other attitudinal statement introduced in Q3 2014 sought to understand the extent to which SMEs agreed that "their aim was to pay down debt and then remain debt free if possible". In 2016, 7 in 10 SMEs (68%) agreed with this statement, with little variation by size, and this question has been rested in 2017.

From Q3 2015 another statement was added to explore demand for finance further: "Our current plans for the business are based entirely on what we can afford to fund ourselves". As the table below shows, 8 in 10 SMEs agreed with this statement, decreasing by size:

"Our current plans for the business are based entirely on what we can afford to fund ourselves"

YEQ2 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,007*	*3604*	*5802*	*5801*	*2800*
Strongly agree	39%	41%	34%	30%	26%
Agree	42%	41%	45%	43%	40%
Neither/nor	13%	13%	12%	15%	19%
Disagree	6%	5%	7%	11%	13%
Strongly disagree	1%	1%	1%	2%	2%
Total 'Agree'	*81%*	*81%*	*80%*	*73%*	*66%*

Q238a5 All SMEs from Q3 2015

Amongst those with employees, 78% agreed with this statement.

Analysis by other demographics showed that:

- Agreement with this statement was slightly lower amongst those currently using external finance (77% v 83%).
- There was little variation by age of business (80-82%) or sector (79-82%) or risk rating (79-82%).

Two further demand related statements were added from Q1 2016. Both show levels of agreement declining by size.

Half of SMEs said they never thought about using (more) external finance:

“We never think about whether we could/should use more external finance”

YEQ2 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,007*	*3604*	*5802*	*5801*	*2800*
Strongly agree	13%	13%	12%	10%	6%
Agree	33%	34%	31%	29%	26%
Neither/nor	23%	23%	24%	26%	29%
Disagree	25%	24%	27%	29%	31%
Strongly disagree	6%	6%	6%	6%	8%
Total ‘Agree’	***46%***	***47%***	***43%***	***39%***	***32%***

Q238a5 All SMEs from Q1 2016

Amongst those with employees, 42% agreed with this statement.

Analysis by other demographics showed that:

- Agreement was lower amongst SMEs currently using external finance (41% v 49%).
- There was little variation in levels of agreement by risk rating (45-47%) or by age (44-48%) or by sector (43-48%).

7 in 10 SMEs were prepared to accept slower growth that was self-funded, again decreasing by size of SME:

"We will accept a slower growth rate rather than borrowing to grow faster"

YEQ2 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,007*	*3604*	*5802*	*5801*	*2800*
Strongly agree	25%	26%	24%	20%	18%
Agree	45%	45%	45%	43%	37%
Neither/nor	19%	19%	19%	23%	27%
Disagree	9%	9%	10%	12%	16%
Strongly disagree	2%	2%	2%	2%	2%
Total 'Agree'	*70%*	*71%*	*69%*	*63%*	*55%*

Q238a5 All SMEs from Q1 2016

Amongst those with employees, 68% agreed that they would accept a slower self-funded growth rate.

Analysis by other demographics showed that:

- Those using external finance were only slightly less likely to agree that they preferred self-funded growth (67% v 72%)
- There was little variation by age of business (69-71%) or sector (67-73%)
- There was a slight increase in levels of agreement by external risk rating (from 65% of those with a minimal risk rating to 72% of those with a worse than average rating)

In Q4 2016 a new statement was added "A fall in the cost of credit would not make us any more likely to consider applying for new external finance". Combined results for Q4 2016 to Q2 2017 are shown below, with half of SMEs agreeing with the statement and little variation by size.

"A fall in the cost of credit would not make us any more likely to consider applying for new external finance"

Q4 16-Q2 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*13,507*	*2704*	*4352*	*4351*	*2100*
Strongly agree	16%	17%	16%	15%	13%
Agree	34%	34%	36%	36%	34%
Neither/nor	27%	27%	26%	26%	29%
Disagree	17%	17%	18%	19%	20%
Strongly disagree	5%	5%	4%	4%	3%
Total 'Agree'	*51%*	*50%*	*52%*	*51%*	*47%*

Q238a5 All SMEs from Q4 2016

Amongst those with employees, 52% agreed that a fall in the cost of credit would not make them more likely to apply for finance.

Analysis by other demographics showed that:

- There was no difference in levels of agreement by whether the SME was already using finance (51% v 51%)
- There was little variation by external risk rating (50-53%) and only limited variation by age of business (48-54%)
- There was more variation in levels of agreement by sector, from 46% of those in Construction and Transport to 55% of those in Health or Property/Business services

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

Attitudes to finance Over time – all SMEs All agreeing – row percentages	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017
Happy to use finance to help business grow	42%	45%	45%	43%	43%	33%
Plans based on what can afford ourselves	-	-	80%	80%	80%	82%
Accept slower growth rather than borrow	-	-	-	71%	70%	70%
Never think about using more external finance	-	-	-	47%	40%	52%
Fall in cost of credit would not encourage application	-	-	-	-	-	52%

Q238a5 All SMEs from H214

As the table above shows, the proportion of SMEs willing to use finance to help the business grow was lower in H1 2017 (33%) than in previous periods (42-45%). As this statement can be seen as a key indicator of SME sentiment towards finance, further detail has been provided in this report.

The table below shows the proportion of SMEs agreeing with this statement annually (the statement was first asked in Q3 2014 so H2 2014 is the initial data period reported). This shows that:

- Larger SMEs have always been more willing to use finance to help the business grow than smaller SMEs. However, willingness to use finance amongst larger SMEs began to decline in 2016, whereas for smaller SMEs it was stable in 2016 but declined in the first half of 2017. Note though that willingness to borrow amongst the largest SMEs with 50-249 employees recovered slightly in H1 2017 (to 54% for 51% in 2016)
- There is relatively little difference in willingness to borrow by risk rating and all four groups have seen a decline over time
- By sector, Agriculture and Wholesale/Retail were the most willing to borrow in H2 2014 and they were also the most willing to borrow in H1 2017, albeit at a lower level of agreement
- PNBs were, as might be expected, always less likely to be willing to borrow, with 1 in 3 expressing a willingness to borrow across H2 2014 to 2016. This then declined to 21% for the first half of 2017. For non-PNBs the pattern was similar at a higher level (half were willing to borrow across H2 2014 to 2016, then 44% in 2017).
- Those already using external finance were amongst the most likely to be willing to use it in future (54-56% across H2 2014 to 2016) but again willingness to borrow was lower in H1 2017 (46%).

Happy to use finance to help business grow – % agree Over time – all SMEs Row percentages	H2 2014	2015	2016	H1 2017
All	42%	45%	43%	33%
0 emp	39%	43%	41%	30%
1-9 emps	49%	51%	49%	42%
10-49 emps	56%	57%	52%	47%
50-249 emps	57%	58%	51%	54%
Minimal external risk rating	38%	48%	45%	33%
Low	41%	45%	42%	36%
Average	39%	45%	41%	32%
Worse than average	43%	47%	45%	35%
Agriculture	49%	51%	44%	42%
Manufacturing	47%	48%	42%	38%
Construction	41%	44%	46%	30%
Wholesale/Retail	51%	51%	44%	41%
Hotels & Restaurants	48%	47%	46%	38%
Transport	39%	47%	43%	38%
Property/ Business Services	42%	45%	42%	32%
Health	32%	39%	43%	20%
Other	35%	39%	39%	30%
PNB	31%	36%	34%	21%
Not a PNB	50%	53%	51%	44%
Use external finance	54%	56%	54%	46%

Q238a54 All SMEs

Finally, a statement amended in Q3 2015 concerning interest rates. Previously, 3 in 10 SMEs agreed that they would struggle if interest rates were to rise by 2% or more. The revised statement asked SMEs whether they would struggle if their *cost of borrowing* were to increase by this amount. To reflect this, the table below is based just on those SMEs that are currently using external finance:

"If our cost of borrowing were to increase by 2% or more, the business would be struggling"

YEQ2 17 – all SMEs using external finance	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*9681*	*1310*	*2836*	*3566*	*1969*
Strongly agree	5%	5%	6%	4%	4%
Agree	20%	20%	21%	17%	14%
Neither/nor	27%	28%	24%	25%	29%
Disagree	37%	36%	38%	43%	40%
Strongly disagree	11%	11%	12%	11%	14%
Total 'Agree'	*25%*	*25%*	*27%*	*21%*	*17%*

Q238a5 All SMEs from Q3 2015 using external finance

Amongst those using external finance a quarter (25%) felt they would struggle if the cost of borrowing were to rise by 2% or more, declining slightly by size of SME to 17% of those with 50-249 employees.

Amongst those with employees 26% agreed that they might struggle.

Analysis by other demographics showed that:

- Those with a worse than average risk rating were more likely to agree they would struggle (29% v 20-23% for the other risk ratings)
- This was also the case for younger SMEs (30% of Starts agreed and 28% of those trading 2-5 years compared to 22-26% of older SMEs)
- By sector, 32% of those in the Transport sector and 30% in Hotels and restaurants felt they would struggle compared to 21% in Property/Business Services and 23-28% of other sectors

A further statement looked at willingness to be referred to an alternative lender. When the question was last reported for YEQ4 2016, 4 in 10 SMEs (38%) agreed that "If our bank were unable to help us with the finance we needed, we would be happy for them to pass on our request to an alternative lender", with relatively little variation by size. This question was added ahead of the launch of the referral system and the new lending platforms. From Q1 2017 awareness and use of these new platforms has been monitored and so this question is no longer asked.