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

35% of SMEs received trade credit, up slightly from 2014 (31%) and increasing by size of SME (29% of 0 employee SMEs received trade credit compared to 69% of those with 50-249 employees):

- 7 in 10 of those receiving trade credit said that it reduced their need for external finance – the equivalent of 24% of all SMEs.

Adding trade credit to the external finance and injections of personal funds reported in the previous chapter results in 65% of all SMEs using 'Business funding':

- Use of business funding increased by size of SME (61% of those with 0 employees to 89% of those with 50-249 employees) while the biggest uplift between external finance and business funding was amongst the 0 employee SMEs (34% to 61%).

Almost half of all SMEs in 2017 (47%) met the definition of a 'Permanent non-Borrower' who was not using finance and showed little inclination to do so:

- In 2012, 34% of SMEs met the definition of a PNB, increasing to 47% by 2015 and remaining stable since
- 0 employee SMEs remained the most likely to be a PNB (51%). A fifth (21%) of the largest SMEs met the definition and this was somewhat lower than in 2015 when 28% were PNBs
- PNBs were less likely to be innovative or to plan to grow but were as likely as other SMEs to have made a profit
- If the PNBs are excluded, the proportion of remaining SMEs using external finance increases to 72% for 2017 (compared to 38% of all SMEs). This is the highest proportion seen to date. In 2012, 64% of SMEs (excluding the PNBs) used external finance.

Attitudinally, SMEs remained somewhat reluctant to use finance but new statements have identified more ambitious SMEs:

- As previously reported, most SMEs said their plans were based on what they could afford to fund themselves (82%) and that they would rather grow more slowly than borrow to grow faster (70%)
- A declining proportion were happy to use external finance to help the business grow (34% in 2017 compared to 45% in 2015, with a decline across all sizes of SME)
- New questions for H2 2017 showed that 38% of SMEs had ambitions to be a significantly bigger business (increasing to 68% of those with 50-249 employees) and a similar proportion (42%) were prepared to take risks to become more successful. Both these attitudes were seen more strongly amongst younger businesses
- A quarter of all SMEs (27%) agreed with both of the new statements ie that they were ambitious and prepared to take risks. These were more likely to be younger, innovative businesses and a willingness to borrow to grow was a key predictor of membership of this group.

Use of trade credit

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

35% of SMEs regularly purchased products or services from other businesses on credit (YEQ4 2017). As previously seen, use of trade credit increased by size of SME:

- 29% of those with 0 employees regularly purchased on credit
- 49% of those with 1-9 employees
- 64% of those with 10-49 employees
- 69% of those with 50-249 employees.

Those using external finance (loans, overdrafts etc) remained more likely to be using trade credit (51%) than those who were not using any external finance (25%).

As the table below shows, overall use of trade credit increased slightly over time (31% to 35%). In 2017, larger SMEs were more likely to report using trade credit than previously, with 7 in 10 of those with 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	2017
All	31%	33%	33%	35%
0 emp	26%	28%	28%	29%
1-9 emps	45%	47%	45%	49%
10-49 emps	58%	61%	59%	64%
50-249 emps	58%	60%	59%	69%

52% of SMEs with employees used trade credit in 2017, up from 48% in 2016.

SMEs that received trade credit were asked whether this meant that they had a reduced need for other forms of external finance. 7 in 10 of them did (with little variation by size of SME) and this is the equivalent of 24% of all SMEs needing less external finance, as the table below shows:

Impact of receiving trade credit YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Receive trade credit	35%	29%	49%	64%	69%
Have less of a need for external finance	*24%*	*20%*	*33%*	*48%*	*52%*
Do not have less of a need for external finance	*9%*	*8%*	*13%*	*13%*	*13%*
Not sure	*2%*	*1%*	*2%*	*3%*	*5%*
Do not receive trade credit	65%	71%	51%	36%	31%
% of those with TC where it reduces need	*69%*	*69%*	*67%*	*75%*	*75%*

Q14y/y4 All SMEs

The proportion of Trade Credit users reporting that it reduced their need for external finance increased from 65% in H2 2014 when the question was first asked, to 69% for 2017. This was due to an increased proportion of smaller SMEs saying that Trade Credit reduced their need for external finance. Larger SMEs using trade credit remained more likely to say that it reduced their need for external finance (75%).

YEQ4 2017, SMEs using external finance (who were more likely to be using trade credit at all) remained more likely to say that they had less of a need for external finance as a result of that trade credit (37%) than those not using external finance (16%) or SMEs overall (24%).

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 YEQ4 17 – all SMEs	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	*18,012*	*3086*	*5460*	*4186*	*3876*
Receive trade credit	35%	47%	47%	35%	30%
Have less of a need for external finance	*24%*	*32%*	*33%*	*24%*	*21%*
Do not have less of a need for external finance	*9%*	*14%*	*11%*	*10%*	*8%*
Not sure	*2%*	*2%*	*2%*	*1%*	*1%*
Do not receive trade credit	65%	53%	53%	65%	70%
% of those with TC where it reduces need	*69%*	*68%*	*70%*	*69%*	*70%*

Q14y/y4 All SMEs from Q3 2014

Older SMEs remained more likely to be receiving trade credit. The proportion of trade credit users saying it reduced their need for finance peaked at 76% of those trading for 6-9 years before declining amongst older SMEs:

Impact of receiving trade credit YEQ4 17 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*1822*	*1704*	*1994*	*2986*	*9506*
Receive trade credit	29%	27%	29%	37%	43%
Have less of a need for external finance	*19%*	*19%*	*22%*	*26%*	*29%*
Do not have less of a need for external finance	*8%*	*7%*	*7%*	*9%*	*12%*
Not sure	*1%*	*1%*	*1%*	*1%*	*2%*
Do not receive trade credit	71%	73%	71%	63%	57%
% of those with TC where it reduces need	*66%*	*70%*	*76%*	*70%*	*67%*

Q14y/y4 All SMEs from Q3 2014

SMEs in the Wholesale Retail sector were the most likely to receive trade credit (53%). Amongst those receiving trade credit, those in Health were the most likely to say that it reduced their need for finance (76%) and those in Agriculture the least likely (62%):

Trade credit in last 12 months

YEQ4 17 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	*1202*	*1501*	*3200*	*1800*	*1200*	*2004*	*3603*	*1502*	*2000*
Receive TC	**39%**	**48%**	**44%**	**53%**	**38%**	**24%**	**27%**	**29%**	**27%**
Have less of a need for external finance	*24%*	*34%*	*32%*	*38%*	*26%*	*17%*	*18%*	*22%*	*17%*
Do not have less of a need for external finance	*13%*	*11%*	*10%*	*14%*	*11%*	*7%*	*8%*	*5%*	*8%*
Not sure	*2%*	*2%*	*2%*	*2%*	*1%*	*1%*	*1%*	*2%*	*2%*
Do not receive TC	61%	52%	56%	47%	62%	76%	73%	71%	73%
% where TC reduces need	*62%*	*71%*	*73%*	*72%*	*68%*	*71%*	*67%*	*76%*	*63%*

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 not only external finance but trade credit and injections of personal funds. Note that the amount of trade credit received was 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 YEQ4 2017:

- 38% of SMEs were using **external finance** as defined in the previous chapter (i.e. loans, overdrafts, invoice finance etc).
- An additional 16% of SMEs were not using external finance but were receiving **trade credit**.
- And finally, a further 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 increased the proportion of SMEs using business funding from 38% to 65%.

Analysis by year shows that this changed very little over the period for which this data is available, albeit the 2017 figure of 65% was the highest seen to date:

Use of business funding Over time – all SMEs	2014	2015	2016	2017
Unweighted base:	*20,055*	*20,046*	*18,000*	*18,012*
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%	11%
Total business funding	*63%*	*64%*	*63%*	*65%*

All SMEs from 2014

Looking specifically at YEQ4 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 YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Use external finance	38%	34%	49%	64%	73%
Do not use finance but do use trade credit	16%	14%	20%	20%	16%
Do not use the above but injected personal funds	11%	13%	7%	1%	*
Total business funding	*65%*	*61%*	*76%*	*85%*	*89%*

Q14y/y4 All SMEs from Q3 2014

Analysis by other demographics showed that:

- SMEs with an average risk rating were somewhat less likely to be using business funding (61%) than their peers with other ratings (66-69%)
- Starts were somewhat more likely to be using business funding than older SMEs (74% v 56-65%).
- The proportion using business funding varied from 58% of those in Property/Business Services to 77% of those in Wholesale/Retail and 75% in Manufacturing, with the rest in the range 60-72%.

The non-borrowing SME

As the previous chapter reported, 4 in 10 SMEs (38% YEQ4 2017) 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 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 47% of SMEs (YEQ4 2017), and remained more likely to be found amongst the smaller SMEs, although not exclusively so (amongst SMEs with employees, 35% met the definition of a Permanent non-borrower):

- 51% of 0 employee SMEs met this non-borrowing definition
- 37% of 1-9 employee SMEs
- 27% of 10-49 employee SMEs
- 22% of 50-249 employee SMEs.

Half of SMEs in Property/Business Services (52%) sectors met the definition of a Permanent non-borrower, compared to 37% of those in Agriculture. Starts were somewhat less likely to meet the definition (42%) than older SMEs (46-49%) and those with a minimal or low external risk rating (both 42%) were less likely to meet the definition than those with an average (49%) or worse than average (47%) risk rating.

Those using a personal account for their business banking (51%) were also somewhat more likely to meet the definition. This means that the equivalent of 8% of <u>all</u> SMEs were Permanent non-borrowers who used a personal bank account.

With the exception of Q4 2016 (when more SMEs reported using external finance), the proportion of PNBs has changed relatively little since the start of 2016, as the table below shows:

Permanent non-borrowers

Over time – all SMEs Row percentages	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	***43%***	***49%***	***47%***	***50%***	***41%***	***47%***	***46%***	***48%***	***45%***
0 employee	47%	52%	52%	52%	43%	51%	50%	52%	49%
1-9 employees	33%	42%	34%	42%	36%	37%	35%	40%	37%
10-49 employees	29%	28%	28%	36%	28%	27%	28%	29%	24%
50-249 employees	28%	27%	24%	28%	25%	22%	17%	22%	25%

As the table below shows, 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 72% of the remaining SMEs in 2017:

Use of external finance over time

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

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 (34%) to almost a half of all SMEs (47%) and has been stable since:

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

All SMEs

The proportions of SMEs that used finance or that met the definition of a PNB have varied over time. As the table below shows, those with 0 employees have followed a quite different pattern to those with employees:

Use of external finance and PNBs Over time Row percentages	2012	2013	2014	2015	2016	2017
0 employees:						
• Use external finance	38%	35%	32%	32%	33%	34%
• 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%	35%

All SMEs from 2012

In 2012, equal numbers of 0 employee SMEs were using external finance as met the definition of a PNB. 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 (32% v 51% in 2015). The gap has since narrowed slightly (17 points for 2017) as a few more 0 employee SMEs reported using external finance.

By contrast, in 2012 SMEs with employees were twice as likely to be using external finance (59%) as to meet 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, which narrowed this 'gap' from 35 to 12 percentage points. In 2017, use of finance increased slightly (to 52%), and the proportion of PNBs declined slightly (to 35%), so the gap widened again, to 17 points.

PNBs are a major influence on the overall position of SMEs regarding access to, and appetite for, external finance. Additional analysis was therefore 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	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%	23%
• Other SMEs	16%	18%	21%	25%	24%	27%
Minimal/Low risk rating:						
• PNBs	14%	15%	22%	21%	20%	20%
• Other SMEs	17%	17%	23%	28%	23%	23%
International						
• PNBs	7%	10%	12%	13%	11%	14%
• Other SMEs	12%	15%	19%	20%	16%	17%
Innovative						
• PNBs	33%	32%	31%	31%	32%	31%
• Other SMEs	43%	42%	42%	42%	41%	36%
Plan to grow						
• PNBs	-	43%	40%	38%	36%	37%
• Other SMEs	-	52%	52%	51%	50%	52%

All SMEs from 2012

As the table above shows, there were some instances where differences between PNBs and non-PNBs 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' has closed (83% v 82% in 2017).
- In 2017 there was 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 2017 the proportion of PNBs that were international had doubled (to 14%), while for non-PNBs the proportion had initially increased to 20% but then reduced slightly to 17% for 2017.
- PNBs have always been less likely to be innovative and this proportion has been stable over time (33% in 2012 to 31% in 2017). Amongst non-PNBs, the proportion that innovated was stable 2012 to 2016 (41-43%) but somewhat lower in 2017 (36%), 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 slightly more rapidly (to 27% for 2017) compared to PNBs (to 23% for 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 37%, widening the gap between them and the non-PNBs.

Analysis conducted in order to understand which factors in combination best predicted an SME meeting the definition of a PNB showed that the key determinant, as it was when this analysis was last run, was 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 full analysis can be found in the Q2 2017 report.

PNBs by their very definition were not 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 YEQ4 2017, including two new statements reported for the first time. Changes in levels of agreement over time are reported later in this chapter.

The first statement below has been asked consistently since Q3 2014. A third of SMEs (34%) agreed that they were happy to use external finance to help the business grow:

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

YEQ4 17– all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Strongly agree	5%	5%	6%	8%	13%
Agree	29%	26%	34%	40%	40%
Neither/nor	21%	21%	21%	24%	27%
Disagree	33%	35%	30%	22%	16%
Strongly disagree	12%	13%	9%	6%	3%
Total 'Agree'	*34%*	*31%*	*40%*	*48%*	*53%*

Q238a5 All SMEs from Q3 2014

0 employee SMEs were less likely to agree overall (31%) than larger SMEs (42% of those with employees). Analysis by other demographics over time is shown later in this chapter.

Previous analysis revealed that a key predictor of agreement with this statement was to be a current user of external finance. Amongst those using finance, 46% agreed with this statement, compared to 26% of those not currently using finance. Those planning to grow were also more likely to agree with this statement (43%) than those not planning to grow (26%).

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 willing to use external finance in the future to help the business develop and grow. This shows that 45% of SMEs were neither using external finance nor were willing to do so in future, but with considerable variation by size of SME:

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

YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Use external finance and willing to use in future	18%	14%	25%	37%	47%
Use external finance but not willing to use in future	21%	19%	23%	28%	28%
Do not use it but willing to	16%	17%	15%	11%	8%
Do not use it and not willing to	45%	50%	36%	24%	18%

Q15/Q238a5 All SMEs

The analysis shows that:

- 1 in 5 SMEs (18%) were using external finance and agreed that they would be willing to use it in future, increasing by size of SME to 47% of those with 50-249 employees.
- The remaining users of finance, 21% of all SMEs, would not be willing to use finance in future (the equivalent of 55% of all users of finance).
- 1 in 6 of all SMEs (16%) 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 8% of those with 50-249 employees.
- The remainder, 4 in 10 SMEs (45%), were non-users of finance who would not be willing to use it in future and this was more common amongst 0 employee SMEs (50% compared to 18% of those with 50-249 employees). 8 in 10 of this group (80%) 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 further explore demand for finance: "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"

YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Strongly agree	36%	38%	33%	27%	20%
Agree	46%	45%	47%	45%	42%
Neither/nor	11%	10%	12%	15%	20%
Disagree	6%	5%	7%	11%	15%
Strongly disagree	1%	1%	1%	2%	3%
Total 'Agree'	*82%*	*83%*	*80%*	*72%*	*62%*

Q238a5 All SMEs from Q3 2015

Amongst those with employees, 79% agreed with this statement.

Analysis by other demographics showed that:

- Agreement with this statement was slightly lower amongst those currently using external finance (78% v 84%).
- There was relatively little variation by sector (79-84%) or risk rating (80-83%).

Two further demand related statements were added from Q1 2016. In both cases, levels of agreement declined by size.

Half of SMEs said they never thought about using (more) external finance and this was more likely to be the case for smaller SMEs:

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

YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Strongly agree	13%	14%	12%	9%	5%
Agree	39%	41%	35%	30%	26%
Neither/nor	20%	19%	22%	25%	28%
Disagree	23%	22%	27%	29%	32%
Strongly disagree	5%	5%	5%	6%	10%
Total 'Agree'	***52%***	***55%***	***47%***	***39%***	***31%***

Q238a5 All SMEs from Q1 2016

Amongst those with employees, 45% agreed with this statement.

Analysis by other demographics showed that:

- Agreement was lower amongst SMEs currently using external finance (46% v 56%).
- There was relatively little variation in levels of agreement by risk rating (51-53%) or by sector (47-55%).

7 in 10 SMEs agreed with the second statement and 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"

YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Strongly agree	23%	24%	21%	18%	13%
Agree	47%	47%	48%	44%	37%
Neither/nor	19%	19%	19%	23%	29%
Disagree	9%	9%	10%	12%	17%
Strongly disagree	2%	2%	2%	2%	3%
Total 'Agree'	***70%***	***71%***	***69%***	***62%***	***50%***

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 71%)
- There was little variation by sector (67-74%) or risk rating (69-71%)

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". Just over half of SMEs agreed with the statement with little variation in overall agreement by size.

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

YEQ4 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*18,012*	*3607*	*5804*	*5801*	*2800*
Strongly agree	15%	15%	14%	12%	9%
Agree	39%	39%	39%	38%	37%
Neither/nor	25%	25%	25%	26%	31%
Disagree	17%	17%	19%	20%	19%
Strongly disagree	4%	5%	4%	4%	4%
Total 'Agree'	***54%***	***54%***	***53%***	***50%***	***46%***

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 (54% v 54%)
- There was no variation by external risk rating (all 54%)
- There was slightly more variation in levels of agreement by sector, from 50% of those in Transport to 58% of those in Property/Business services

In Q3 2017 two further statements were added to explore ambition in a bit more detail. The first statement was "We have a long term ambition to be a significantly bigger business" and initial data showed that 4 in 10 SMEs agreed with the statement, increasing by size of business:

"We have a long term ambition to be a significantly bigger business"

H2 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*9005*	*1803*	*2902*	*2900*	*1400*
Strongly agree	11%	10%	12%	19%	23%
Agree	27%	25%	30%	40%	45%
Neither/nor	17%	17%	20%	19%	18%
Disagree	36%	39%	31%	20%	12%
Strongly disagree	9%	10%	7%	2%	1%
Total 'Agree'	*38%*	*35%*	*42%*	*59%*	*68%*

Q238a5 All SMEs from Q4 2016

Amongst those with employees, 46% agreed that they had ambitions to be significantly bigger.

Analysis by other demographics showed that:

- SMEs already using finance were more likely to be ambitious (50% v 30%)
- There was no consistent pattern by risk rating (from 31% for those with an average risk rating to 42% for those with a worse than average risk rating)
- Excluding the PNBs increased the percentage of remaining SMEs with ambition to 47%
- By sector, the most likely to agree were those in the Wholesale/Retail sector (44%). Those least likely to agree were those in Agriculture, Manufacturing and Construction (all 35%)

The second new statement was "As a business we are prepared to take risks to become more successful". Initial data showed that 4 in 10 SMEs agreed with the statement, also increasing by size of business:

"As a business we are prepared to take risks to become more successful"

H2 17 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	*9005*	*1803*	*2902*	*2900*	*1400*
Strongly agree	7%	6%	8%	10%	11%
Agree	35%	34%	37%	43%	46%
Neither/nor	21%	20%	21%	23%	27%
Disagree	30%	32%	27%	20%	13%
Strongly disagree	7%	7%	7%	3%	2%
Total 'Agree'	*42%*	*40%*	*45%*	*53%*	*57%*

Q238a5 All SMEs from Q4 2016

Amongst those with employees, 47% agreed that they were prepared to take risks to be successful.

Analysis by other demographics showed that:

- SMEs already using finance were more likely to be prepared to take risks (52% v 35%)
- There was no consistent pattern by risk rating (from 37% for those with an average risk rating to 46% for those with a worse than average risk rating)
- Excluding the PNBs increased the percentage of remaining SMEs willing to take a risk to 50%
- 46% of SMEs in the Hotels and Restaurants and Transport sectors agreed with this statement, compared to 38% in Health and 39% in Agriculture

A further piece of analysis (H2 2017 so that all statements can be included) looks at differences in attitude by the age of the SME.

This shows that there was typically little to choose between the attitudes of younger and older SMEs, albeit willingness to borrow to grow does decline with age of business and Starts were the most likely to say that they never think about using (more) external finance. However there were clear differences by age of SME on the new statements, with both ambition to be a bigger business and willingness to take risks seen more in younger SMEs:

H2 17 – all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	*920*	*843*	*1059*	*1483*	*4700*
Happy to use finance to help business grow	41%	35%	36%	36%	29%
Plans based on what can afford ourselves	84%	81%	83%	82%	81%
Accept slower growth rather than borrow	71%	69%	70%	69%	69%
Never think about using (more) external finance	59%	46%	51%	53%	51%
Fall in cost of credit would not encourage application	58%	53%	58%	53%	56%
We have a long term ambition to be a significantly bigger business	57%	47%	35%	34%	26%
As a business we are prepared to take risks to become more successful	56%	43%	40%	43%	34%

Q238a5 All SMEs

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	H2 2017
Happy to use finance to help business grow	42%	45%	45%	43%	43%	33%	34%
Plans based on what can afford ourselves	-	-	80%	80%	80%	82%	82%
Accept slower growth rather than borrow	-	-	-	71%	70%	70%	70%
Never think about using (more) external finance	-	-	-	47%	40%	52%	52%
Fall in cost of credit would not encourage application	-	-	-	-	-	52%	56%
We have a long term ambition to be a significantly bigger business	-	-	-	-	-	-	38%
As a business we are prepared to take risks to become more successful	-	-	-	-	-	-	42%

Q238a5 All SMEs from H214

The proportion happy to use finance to help the business grow was lower in 2017 than in previous years and there was an increase in the proportion of SMEs agreeing that they never think about credit (to 52%) or that a fall in the cost of credit would not encourage application (56%).

As happiness to use finance can be seen as a key indicator of SME sentiment, further detail has been provided over time by key demographics:

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

Q238a54 All SMEs

The table shows that the proportion of SMEs happy to use finance to grow varied very little between H2 2014 and 2016 (42-45%) but was lower in 2017 (34%):

- This was due to lower levels of agreement amongst smaller SMEs in particular (41% to 31% for those with 0 employees and 49% to 40% for those with 1-9 employees)
- There was also lower levels of agreement across all risk ratings and sectors
- Those who did not meet the definition of a Permanent non borrower remained more likely to agree (44%) but this was lower than previously seen (50-53%) and the same was true for those using external finance (now 46% having previously been 54-56%)

Attitudes to finance – ambitious risk takers

Taking the two new statements together, a quarter of all SMEs (27%) could be described as "ambitious risk takers" as they agreed both that they were ambitious for the long term size of the business and were prepared to take risks to be successful. Twice as many SMES (47%) agreed with neither statement.

Initial analysis of these 'ambitious risk takers' showed that they were young, innovative and more likely to be using external finance. They were:

- More likely to be younger SMEs (51% trading for less than 5 years compared to 29% who didn't agree with both statements) but also to have employees (30% v 23%)
- More likely to use external finance (54% v 33%), to have had a borrowing event (27% v 13%) and/or to be planning to apply for finance (25% v 9%)
- Less likely to be a PNB (31% v 53%)
- Three quarters (74%) were planning to grow in the next 12 months (v 35% who didn't agree with both statements) and 9% were already scaleups
- More likely to innovate (47% v 29%), trade internationally (21% v 14%) and to plan (73% v 51%)
- The owner/MD was more likely to be male (85% v 75%) and under 50 (66% v 42%)
- Their external risk rating and sector profiles were not very different to those who didn't agree with both statements

Initial CHAID analysis suggests that a willingness to borrow to help the business grow was a key predictor of being an ambitious risk taker (64% agreed compared to 23% who didn't agree with both statements), followed by immediate plans to grow the business in the next year (especially by 20% or more) and to take on staff, but also to see access to finance as more of a barrier (albeit 11% saw this as a barrier v 3% who didn't agree with both statements).