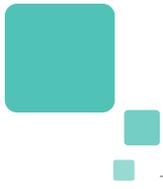


# 7. Need for funding



## **This chapter provides**

detail on those SMEs that reported a funding need in H1 2018, including why the funding was needed and what steps were considered and taken to meet that need.



## Key findings

All SMEs are now asked whether they have had a need for external funding, whether that need was met or not. In H1 2018, 4% of SMEs reported having had a need for funding, with little variation by size of SME or risk rating. Excluding the PNBs with little apparent interest in finance increased the proportion to 8%.

Those with a need for funding typically said that this was to fund expansion in the UK (29%), working capital to help with cash flow (28%) or to invest in plant, machinery etc (22%). The small group of larger SMEs with a need for funding gave a wider range of reasons why that funding was needed and were more likely to mention a new business opportunity but also needing to plug a short term funding gap.

30% of those with a need for funding were looking for £25,000 or more, with clear variation by size of SME (26% of those with 0-9 employees were looking for this amount compared to 79% of those with 10-249 employees).

Having identified a need, almost all of these SMEs took action. 22% sought professional advice from an accountant or similar and 21% had an informal discussion with their main bank. Overall, 4 in 10 of these SMEs spoke to an advisor, their bank or another provider about their funding need. 12% considered funding the need themselves and just 1% did not take any further action.

Over half of SMEs with a need for funding (59%) went on to make an application for finance (58% of those with 0-9 employees and 76% of those with 10-249 employees). This is the equivalent of 2% of all SMEs.

- Two thirds making any application applied to their main bank (40% of those with a need for funding). 12% applied to another provider they were already using, 9% to a new finance provider and 7% to an online platform.
- 15% decided to put in money themselves and 13% decided not to take funding, while 19% were still deciding at the time of interview.



The middle section of the questionnaire, around applications for finance, has changed the most for 2018. As a result this section of the report has also evolved, although where comparable data over time is still available, this has been reported.

This is the first of four revised chapters looking at borrowing events in the wider finance market beyond loans and overdrafts:

- This chapter looks at whether SMEs identified a need for external funding and what steps they took as a result of that need, including whether they applied for finance (a Type 1a borrowing event)
- Chapter 8 provides an overview of all borrowing ‘events’ (including Type 1a events), and the types of SME more or less likely to have had such events
- Chapter 9 looks at all the borrowing events reported in more detail
- Chapter 10 looks specifically at the Type 1 borrowing events, the final outcome of the applications made and the impact on the SME

## Having, and meeting, a need for funding

Rather than being asked directly about any applications made for loans and overdrafts, from Q1 2018 respondents were asked whether they had had a need for external funding in the past 12 months, in addition to any finance they already had, and irrespective of whether they acted on that need or not. Those who went on to apply for finance as a result of this funding

need are shown as having had a Type 1a borrowing event later in this report.

As the table below shows, only a minority of SMEs said that they had had a need for external funding in the previous 12 months. Those with 10-49 SMEs were the most likely to have had a funding need (7%):

### Had a funding need

By date of interview	Q1	Q2
Over time – row percentages	2018	2018
All SMEs	5%	4%
0 employee	4%	3%
1-9 employees	5%	5%
10-49 employees	7%	7%
50-249 employees	4%	2%

Q25 All SMEs (new Q1 2018)



The table below looks at the results for H1 2018, to maximise base sizes, across key demographics. It shows that there was little variation by risk rating (3-5%) and only limited variation by sector (1% of those in Construction to 7% of those in Wholesale/Retail). Excluding the Permanent non-borrowers increased the proportion with a funding need to 8%.

Analysis by age of business showed that Starts were the most likely to have had a funding need (6%), declining by age of business to 3% of those trading for more than 15 years.

### Had a funding need

#### By date of interview

#### Over time – row percentages

H1 2018

	H1 2018
All SMEs	4%
0 employee	4%
1-9 employees	5%
10-49 employees	7%
50-249 employees	3%
Minimal external risk rating	3%
Low external risk rating	4%
Average external risk rating	3%
Worse than average external risk rating	5%
Agriculture	6%
Manufacturing	4%
Construction	1%
Wholesale/Retail	7%
Hotels & Restaurants	6%
Transport	5%
Property/Business Services etc.	4%
Health	4%
Other Community	4%
All SMEs excluding Permanent non-borrowers	8%
Current using external finance	8%
Not currently using external finance	2%

Q25 All SMEs (new Q1 2018)



All those who identified a funding need were then asked further questions about how the need arose and any actions they had taken as a result. Given the small proportion of SMEs identifying such a need, the base sizes for these questions are somewhat limited at present and are reported for H1 2018.

The first table looks at why the funding was required. A similar question was asked previously, specifically about loan and overdraft

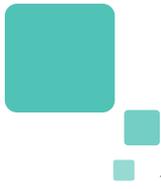
applications. Overdrafts were predominantly needed for working capital while loans were for growth or purchase of assets (see below for more details).

The table below for H1 2018, and using a revised list of answer codes, shows that 3 in 10 of those identifying a need for finance wanted to expand the business in the UK (29%) or needed working capital to help with day to day cash flow (28%):

<b>Reason funding required</b>		<b>0 emp</b>	<b>1-9 emps</b>	<b>10-49 emps</b>	<b>50-249 emps</b>
<b>H1 18 all SMEs who had need for funding</b>	<b>Total</b>				
<i>Unweighted base:</i>	<b>422</b>	<b>67*</b>	<b>135</b>	<b>178</b>	<b>42*</b>
To fund expansion in the UK	29%	28%	30%	33%	53%
Working capital to help with cash flow	28%	27%	31%	27%	19%
Invest in new plant, machinery etc	22%	23%	16%	29%	28%
A new business opportunity	19%	17%	22%	18%	32%
To cover a short term funding gap	14%	14%	15%	15%	22%
To help through trading difficulties	12%	12%	11%	12%	18%
To take on staff	6%	4%	9%	12%	17%
To fund new premises	6%	6%	4%	9%	18%
To fund expansion overseas	1%	-	1%	4%	8%

Q26 All SMEs with a need for funding (new Q1 2018)

Larger SMEs (albeit a limited number of them) gave a wider range of reasons for their need for finance. They were more likely to mention UK expansion or a new business opportunity, but also needing to deal with a short term funding gap.



On limited base sizes:

- Younger SMEs and those with a better external risk rating were more likely to mention funding for expansion or new opportunities, while older SMEs and those with an average or worse than average external risk rating, made more mention of working capital or short term funding gaps
- Investing in plant and machinery was equally popular across all ages of business and risk ratings.
- Those already using external finance gave very similar reasons to those not already using finance, with the exception of UK expansion (mentioned more by those not using finance) and new business opportunities (mentioned more by those using finance).

When this analysis was run in 2017 for loans and overdrafts specifically:

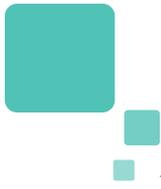
- 8 in 10 applying for an **overdraft** were looking for working capital (84%), 41% for a safety net and 29% to fill a short term funding gap. 15% were looking to fund growth in the UK
- A quarter of those applying for a **loan** were looking to fund growth in the UK (25%), while almost as many were looking to buy fixed assets (22%) or motor vehicles (20%)

The next table looks at how much finance was thought to be required to meet the funding need. This was also previously asked separately for loan and overdraft applications, with overdraft applications typically for smaller amounts (see below for more details). 13% of

those with a need for finance in H1 2018 did not know how much they had wanted and have been excluded from this table. As might be expected, larger SMEs with a need for funding were more likely to be looking for more than £25,000 (79%) than smaller SMEs were (26%):

<b>Likely finance required</b>		<b>0-9 emps</b>	<b>10-249 emps</b>
<b>H1 18 all SMEs who had need for funding</b>	<b>Total</b>		
<i>Unweighted base:</i>	<b>375</b>	<b>179</b>	<b>196</b>
Less than £5000	31%	33%	4%
£5000 to £24,999	40%	41%	17%
£25,000 to £99,999	17%	15%	39%
£100,000+	13%	11%	40%
<b>£25,000 or more</b>	<b>30%</b>	<b>26%</b>	<b>79%</b>

Q27 All SMEs with a need for funding excluding DK (new Q1 2018)



Other SMEs with a need for finance who were more likely to be seeking £25,000 or more included:

- Half of those with a minimal/low risk rating, compared to a quarter of those with an average or worse than average risk rating
- 4 in 10 older SMEs compared to 1 in 10 Starts
- 4 in 10 of those looking for funding for UK expansion or to fund a new business opportunity compared to 3 in 10 looking to invest in plant and machinery or a quarter looking for working capital or short term funding

When this analysis was run previously for 2017 for loans and overdrafts:

- 4 in 10 applying for an **overdraft** were looking for less than £5,000 (41%), with 17% looking for more than £25,000
- A minority of those applying for a **loan** were looking for less than £5,000 (14%), with 40% looking for more than £25,000



Almost all those with a need for funding had taken some action as a result (99%), with such SMEs most likely to have sought professional advice (22%) or spoken informally to their bank (21%) or another financial provider (16%). A third had taken some other action that was not listed and this will be monitored over future waves:

<b>Steps taken in funding decision process</b>		<b>0 emp</b>	<b>1-9 emps</b>	<b>10-49 emps</b>	<b>50-249 emps</b>
<b>H1 18 all SMEs who had need for funding</b>	<b>Total</b>				
<b>Unweighted base:</b>	<b>422</b>	<b>67*</b>	<b>135</b>	<b>178</b>	<b>42*</b>
Sought professional advice eg accountant	22%	23%	16%	24%	53%
Had informal conversation with main bank	21%	17%	27%	37%	50%
Had informal conversation with other provider	16%	15%	16%	16%	42%
Discussed by management in the business	15%	11%	22%	34%	47%
Looked online for possible finance providers	14%	15%	11%	17%	24%
Considered funding within business/directors	12%	12%	11%	15%	35%
Looked online for application advice	11%	13%	8%	6%	19%
Spoke to other business people	11%	10%	13%	12%	19%
Prepared/reviewed plans and forecasts	10%	6%	20%	21%	36%
Looked at comparison/satisfaction sites	8%	9%	6%	7%	26%
Something else	30%	35%	21%	17%	13%
Took no action	1%	-	2%	2%	*

**Q28 NEW All SMEs with a need for funding (new Q1 2018)**

Larger SMEs with a need for funding undertook a wider range of actions than smaller SMEs and were more likely to have spoken to an advisor or financial provider and prepared business plans or forecasts.

Overall 4 in 10 of these SMEs spoke to an advisor or had an informal conversation with their bank or another provider about their need

for funding, ranging from 41% of those with 0 employees to 80% of those with 50-249 employees. There was little variation by age of business, while those with a low risk rating were less likely to have had such a conversation (36%, compared to 59% with a minimal rating, 57% with an average rating and 43% with a worse than average rating).



Those who had taken any steps to meet their funding need were then asked which options they had considered. 6 in 10 had considered making an application for finance (typically to their main bank), while a quarter had considered providing the funding themselves:

**Steps considered in funding decision process**

H1 18 all SMEs who took action on need for funding	Total	0 -9 emp	10-249 emps
<b>Unweighted base:</b>	<b>414</b>	<b>198</b>	<b>216</b>
Making an application	62%	61%	72%
-Applying to main bank	45%	44%	57%
-Applying to an online finance platform	12%	13%	5%
-Applying to finance provider not currently using	12%	11%	18%
-Applying to finance provider currently using	11%	10%	20%
Finding some/all of the funding yourselves	27%	27%	28%
Using a broker	7%	7%	10%
None of these	23%	24%	14%

Q30 All SMEs with a need for funding who took action at Q28 (new Q1 2018)

Analysis showed that:

- Larger SMEs were more likely to have considered a range of actions, including applying for finance
- Those with a better external risk rating were more likely to consider making an application for finance (90% of those with a minimal risk rating compared to 65% of those with a worse than average risk rating).
- Those trading for 6-15 years were more likely to consider an application (7 in 10) than their peers.
- Likelihood to consider an application did not vary by level of trust in the SME's main bank. However, those with a low degree of trust in the banking industry overall were less likely to consider an application (54%) than those with a higher degree of trust (76%).



The next table looks at the steps actually taken, rather than considered, by SMEs with a funding need. It includes the small group who, having identified a need, took no further action. With the exception of those SMEs, respondents could mention one or more actions that they had taken.

6 in 10 (59%) of all SMEs with a funding need went on to have a borrowing 'event' to meet that need. The most common borrowing 'event' was an application to the main bank, mentioned by 40% of those with a need for funding and two thirds of those who had a borrowing event at all:

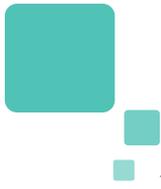
**Steps taken in funding decision process**

H1 18 all SMEs who had need for funding

Total                      0 -9 emp                      10-249 emps

	Total	0 -9 emp	10-249 emps
<b>Unweighted base:</b>	<b>422</b>	<b>202</b>	<b>220</b>
<b>Had borrowing 'event' re need for finance</b>	<b>59%</b>	<b>58%</b>	<b>76%</b>
• <i>Applied to main bank</i>	40%	40%	51%
• <i>Applied to finance provider currently using</i>	12%	11%	22%
• <i>Applied to finance provider not currently using</i>	9%	8%	16%
• <i>Applied to an online finance platform</i>	7%	7%	4%
Decided to fund it yourselves	15%	15%	17%
Decided not to take funding	13%	13%	7%
Still deciding	19%	19%	10%
Did not act on need for finance	1%	<1%	2%

Q31 All SMEs with a need for funding at Q25 (new Q1 2018)



Analysis showed that:

- Larger SMEs were somewhat more likely to have had an event (76% - the equivalent of 5% of all SMEs with 10-249 employees) than smaller ones (58% - the equivalent of 2% of all SMEs with 0-9 employees)
- Of those who had 'considered' applying to their main bank, three quarters went on to do so. The same pattern was seen for those who had 'considered' applying to another provider they were already using. Those who had 'considered' a new provider were as likely to go on to have a borrowing event somewhere (8 in 10) but slightly less likely to have applied to that new provider (6 in 10)
- Amongst those who 'considered' providing some or part of the funding themselves, 4 in 10 went on to provide such funding, with a similar proportion applying for finance (the rest were still deciding). Overall, 10% of those who had a borrowing event also put in some funding themselves

The 59% with a borrowing 'event' shown above is the equivalent of 2% of all SMEs.

Those who decided not to take finance and to put in the funds themselves or decided not to meet the funding need at all were asked further questions to determine if they had been a 'would-be seeker of finance' and this is reported in more detail in Chapter 11.

The outcome of these borrowing events to meet a funding need is explored in subsequent chapters. First the next chapter provides an overview of all the borrowing 'events' now captured on the SME Finance Monitor.