

## 2. Management summary



### **This report covers**

the borrowing process from the SME's perspective, with detailed information about those who have had a need for funding and those who have been, or would have liked to have been, through the process of borrowing for their business. It also provides broader context information about SMEs including growth, profitability and perceived barriers to running the business. This is the first report since the re-design of the questionnaire in Q1 2018.



SMEs continued to be profitable but fewer have been innovative and 6 in 10 said their business was recognisably the same as it was 3 years ago. Half met the definition of a Permanent non-borrower and SMEs remained self-reliant, with credit balances and trade credit helping to reduce their need for external finance. SMEs were twice as likely to trust their main bank as the banking industry overall.

<p><b>8 in 10 SMEs made a profit</b></p>	<p>81% of SMEs reported making a profit (YEQ2 18) and this proportion has been stable since 2015.</p> <p>Profitability increased slightly by size of SME (from 79% of those with 0 employees to 85% of those with 50-249 employees) with a more marked variation in the median amount of profits made (from £8,000 for those with 0 employees to £247,000 for those with 50-249 employees).</p>
<p><b>Fewer SMEs had been innovative</b></p>	<p>The proportion of SMEs that have either significantly improved an area of the business and/or introduced a new product/service has declined from 40% in 2012 to 32% in H1 2018 and across all size bands.</p>
<p><b>4 in 10 SMEs had grown while a quarter of SMEs said their business had developed in the last 3 years</b></p>	<p>In H1 2018, 41% of SMEs reported having grown, increasing by size of SME from 39% of those with 0 employees to 64% of those with 50-249 employees. The proportion reporting growth has changed very little over time.</p> <p>More qualitatively, 26% of SMEs said their business had developed quite a bit in the last 3 years, while 11% had retrenched and 63% said the business was recognisably the same as 3 years ago.</p> <p>The 'developed' businesses were more likely to have been innovative, and to be planning to grow.</p>
<p><b>3 in 10 SMEs reported an injection of personal funds</b></p>	<p>In H1 2018, 28% of SMEs reported an injection of personal funds into the business, with 15% choosing to inject funds and 13% feeling that they had to. This proportion has been stable since 2014, with smaller SMEs, Starts and those with a worse than average risk rating remaining more likely to have had an injection of funds.</p>
<p><b>Credit balances and trade credit offer some an alternative to external finance</b></p>	<p>In H1 2018, 22% of SMEs held more than £10,000 in credit balances, maintaining the improvement seen since 2012 when 16% of SMEs held such sums. 8 in 10 SMEs holding £10,000 or more said that this reduced their need for external finance.</p> <p>36% of SMEs used trade credit, up from 31% in 2014. Two thirds of SMEs using trade credit said that it reduced their need for external finance.</p> <p>Overall, 31% of SMEs in H1 2018 said that their need for external finance was reduced by either the credit balances they held and/or their use of trade credit.</p>

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**A third of SMEs were using external finance**

In H1 2018, 34% of SMEs were using external finance, compared to 38% in 2017 and despite an expanded product list from Q1 2018. This increased by size from 31% of 0 employee SMEs to 76% of those with 50-249 employees.

Use of core finance (loans, overdrafts and credit cards) remained stable (30%) but use of other forms of finance was lower (11% from 18%) and will be monitored going forward.

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**While half met the definition of a Permanent non-borrower**

49% of SMEs in H1 2018 met the definition of a Permanent non-borrower with little apparent appetite for finance. Whilst 51% of 0 employee SMEs met the definition, it also applied to 46% of those with 1-9 employees, 35% of those with 10-49 employees and 19% of those with 50-249 employees.

The proportion of PNBs has increased since 2012 (when 34% met the definition) and across all size bands, with the exception of the largest SMEs where PNBs peaked at 28% in 2016 and have declined since.

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**SMEs remained attitudinally self-reliant with some concerns about the future and limited awareness of other forms of finance**

In H1 2018, 79% of SMEs agreed that their plans were based on what they could afford and a similar proportion (73%) that they would rather grow more slowly than borrow to grow more quickly. By comparison, 33% of SMEs agreed that they were happy to borrow to grow and this was more likely to be the case amongst those already using finance – overall half of SMEs were neither using external finance nor happy to do so.

A new statement saw half of SMEs agreeing that the future felt uncertain and so they were being cautious, with little variation by size.

Another new statement saw a third of SMEs (38%) saying they felt it would be hard for a business like theirs to get finance, with clear variation by size of SME (40% of SMEs with 0 employees to 18% of SMEs with 50-249 employees).

Two thirds of SME companies (68%) said they knew nothing about equity finance. Current/future usage remained limited (3%) with the main concerns being suitability (17%) and a loss of control (10%). 40% of SMEs (excluding the PNBs) were aware of crowd funding.

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**SME have higher trust in their main bank than in the banking industry**

56% of SMEs had a high level of trust in their main bank (8-10 out of 10). This increased by size of SME from 55% of those with 0 employees to 71% of those with 50-249 employees and was also higher (77%) amongst those who felt they had a strong working relationship with their bank.

9% of SMEs had a low level of trust in their main bank (score 1-4), increasing to 22% of SMEs with a low level of trust in the banking industry as a whole (with 25% having a high level of trust in the industry).



4% of SMEs reported having a funding need. Most of them took some action, and 6 in 10 applied for finance. Overall 15% of SMEs reported any borrowing event, but as before, most SMEs in H1 2018 (83%) had been a Happy non-seeker of finance:

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**4% of SMEs reported a need for funding, which most acted on**

In a new question for 2018, 4% of SMEs reported having had a need for funding in the previous 12 months. This was typically to fund UK expansion (29% of those with a need), working capital (28%) or for plant and machinery (22%). Almost all SMEs with a need for funding took action, with 4 in 10 speaking to a professional advisor or a finance provider. 59% of SMEs with a need for funding went on to apply for finance (2% of all SMEs). Two thirds of those applying went to their main bank, 12% to another provider they already used, 9% to a new provider to them and 7% to an online platform.

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**4% of SMEs reported a Type 1 event, half as a result of a need for funding**

SMEs were also asked if they had made any other applications for new/renewed finance in the last 12 months and 2% had. This means that in H1 2018, 4% of SMEs reported the equivalent of a Type 1 event, unchanged from 2017 despite now being asked across all major products rather than just loans and overdrafts as previously.

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**1 in 6 SMEs reported any borrowing event**

Overall, 15% of SMEs reported a borrowing event in H1 2018, unchanged from 2017 (on a slightly different definition). As well as the 4% reporting a Type 1 event, 9% of SMEs reported that their overdraft had been automatically renewed and 3% reported that either they or the bank had sought early repayment of a facility. Borrowing events increased by size of SME, from 13% of those with 0 employees to 39% of those with 50-249 employees, due to the latter being more likely to have an overdraft automatically renewed.

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**8 in 10 SMEs have been Happy non-seekers of finance**

2% of SMEs met the definition of a Would-be seeker of finance, also stable since 2016. The process of borrowing (40% of WBS) and discouragement (28%) remained key reasons for not having applied, but there were more mentions in H1 2018 of the principle of borrowing (31%) and the economic climate (17%).

Most SMEs in H1 2018 (83%) had been a Happy non-seeker of finance and this proportion has been stable since 2016.



85% of applications reported in H1 2018 resulted in a facility and initial results for bank loan and overdraft success rates are in line with those previously seen on the Monitor. 8 in 10 were satisfied with the way the application(s) was/were handled and with the final outcome:

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**The majority of applications reported were to the main bank and for loans and overdrafts**

The majority of all applications for new/renewed facilities were made to the main bank (67%) and for a loan or an overdraft (60%). 17% of applications were made to another existing provider, 7% to a new provider, 4% to an online platform and 5% elsewhere.

Around a third of applications were made online (37%), more often by smaller SMEs. Most applications (76%) were in the name of the business rather than a personal name.

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**85% of applications results in a facility, while 12% were declined by the provider**

85% of all applications resulted in a facility, with 72% offered the facility they wanted and taking it. 4% of applications saw the SME offered a facility which they declined to take and in 12% of cases the application was declined by the provider. On a very small base, there was limited recall of the appeal or referral processes amongst SMEs declined by their bank.

Success rates specifically for bank loans (68%) and overdrafts (84%) were very similar to those reported previously and more analysis by products and providers will become available as base sizes increase over time.

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**Most SMEs were satisfied with the way their application was handled**

In 83% of cases applicants were satisfied with the way their application had been handled and 78% were satisfied with the outcome of the whole application process. In both instances those who were unsuccessful were much less likely to be satisfied (1 in 6 satisfied with application handling and 1 in 10 with the final outcome).



Looking forward, almost half of SMEs planned to grow and 1 in 10 expected to apply for finance. 3 in 10 rated legislation, political uncertainty and/or the economic climate as potential barriers to their business and these have increased somewhat since 2016. International SMEs remained more ambitious but also more concerned about potential barriers and their appetite for finance has declined (but remains above domestic-only SMEs):

<p><b>Almost half of SMEs were planning to grow</b></p>	<p>In H1 2018, 47% of SMEs planned to grow in the next 12 months, increasing by size of SME from 44% of those with 0 employees to 81% of those with 50-249 employees.</p> <p>The overall proportion planning to grow declined somewhat between 2013 (49%) and 2016 (43%) but has since increased again.</p> <p>39% of all SMEs in H1 2018 were planning activities that might be associated with growth, such as taking on more staff. This increased by size of SME (35% with 0 employees to 53% with 50-249 employees) and amongst those planning to grow (56% v 23% of those not planning to grow).</p>
<p><b>3 in 10 SMEs mentioned one or more of the key barriers – legislation and regulation, political uncertainty or the economic climate</b></p>	<p>31% of SMEs in H1 2018 mentioned one or more of 3 main obstacles to running the business as they would wish: Legislation and regulation (18%), political uncertainty (16%) and/or the current economic climate (15%). Mentions of all 3 have increased somewhat over time (in 2015, 24% of SMEs mentioned one or more of these factors).</p> <p>Those with an appetite for finance or ambitions to grow remained more likely to nominate one or more obstacles to that ambition.</p> <p>Access to finance remained the least mentioned barrier (5% overall).</p>
<p><b>1 in 10 SMEs planned to apply for finance</b></p>	<p>9% of SMEs in H1 2018 expected to apply for finance in the coming months. 63% of all SMEs were neither using finance nor had any plans to apply for some.</p> <p>UK expansion and plant / machinery were the main reasons for needing funds and over half were considering a core form of finance (loan, overdraft or credit card). 53% of potential applicants were confident the bank would agree to their request, up from 50% in 2017 and back to levels seen in 2015-16. Confidence remained lower than actual success rates (currently 85%).</p>
<p><b>Future would-be seekers remained deterred by the current economic climate but most SMEs expected to be Future happy non-seekers of finance</b></p>	<p>In addition to the 9% planning to apply, 13% of SMEs in H1 2018 expected to be Future would-be seekers of finance, up slightly from 2017 (10%). A reluctance to borrow in the current climate remained the main barrier for half of these FWBS (48%), with more mentions in H1 2018 of the process of borrowing (28%), now ahead of discouragement (17%).</p> <p>The largest single group remained the Future happy non seekers (77% and stable since 2015).</p>

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**International SMEs**

YEQ2 2018, 15% SMEs were trading internationally, with 9% exporting and 10% importing. 20% of exporters said overseas sales represented 50% or more of total turnover, while 25% exported all or most of their goods/services to the EU.

International SMEs have been consistently more likely to be planning to grow but whilst they also remained more likely than domestic SMEs to be planning to apply for finance, their appetite for finance has declined since 2016. They were also more likely to cite the current economic climate, political uncertainty and changes in the value of sterling as barriers to their business.

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