

# 7

## NEED FOR FUNDING

### **THIS CHAPTER PROVIDES**

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

## KEY FINDINGS

4% of SMEs interviewed in 2018 reported a need for funding in the previous 12 months, with little variation by size (3-6%), or by quarter of 2018 (4-5%).

This need was most likely to be for working capital to help with cash flow (32%) or to fund expansion in the UK (26%), while 22% wanted to invest in new plant and machinery

- Smaller SMEs were more likely to mention cash flow and larger ones funding expansion
- Mentions of funding for cash flow purposes were higher in the second half of 2018 (36%) than the first (28%) but otherwise there was little change over time

30% of those with a need for funding had wanted £25,000 or more, increasing by size of SME (19% of those with 0 employees to 90% of those with 50-249 employees).

93% of those with a need for funding took some action as a result, including 21% who spoke to their main bank, 19% who sought professional advice and 14% who discussed the matter within the business. 11% prepared a business plan or forecast

- 4 in 10 spoke to someone externally about their finance need (their bank, an advisor or another finance provider), increasing by size of SME from 38% of those with 0 employees to 65% of those with 50-249 employees

Having taken some action, 67% then considered making an application for finance, typically to their main bank (48%), while 22% considered putting some or all of the funding in themselves.

- Larger SMEs were more likely to consider making an application but there was little difference by size in terms of consideration of self-funding
- Those who had spoken to someone (the bank, an advisor or another provider) were more likely to consider making an application (79%)

In the end, 63% had a borrowing 'event', with most, 40%, applying to their main bank. 13% decided to fund all or part of the finance need themselves and 12% decided not to take any funding. 16% were still deciding what to do

- 84% of those who considered making an application went on to do so
- 76% of those who considered applying to their main bank went on to do so, with 83% having a borrowing event somewhere
- Similar proportions considered and then applied to an existing provider or a new provider. Fewer of those who considered applying to an online finance platform went on to do so (42%), but again, most did have a borrowing event somewhere (84%)
- Those who had spoken to someone (the bank, an advisor or another provider) were more likely to make an application (73%)
- 46% of those who considered self-funding went on to put money in, while 35% applied for finance and the rest were still deciding

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The middle section of the questionnaire, around applications for finance, saw the most changes in the re-design for Q1 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 the four revised chapters, now 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 of the application on the SME.

The definitions of all the borrowing events included in this report is provided at the start of the next chapter.

## HAVING, AND MEETING, A NEED FOR FUNDING

Rather than being asked directly about any applications made for loans and overdrafts, from Q1 2018 respondents have been 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 defined as having had a Type 1a borrowing event later in this report.

### HAD A NEED FOR FUNDING

As the table below shows, only a minority of SMEs each quarter said that they had had a need for external funding in the previous 12 months, with little change over time:

<b>Had a funding need</b>				
<b>By date of interview</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>Over time – row percentages</b>	<b>2018</b>	<b>2018</b>	<b>2018</b>	<b>2018</b>
<b>All SMEs</b>	<b>5%</b>	<b>4%</b>	<b>5%</b>	<b>4%</b>
0 employee	4%	3%	5%	3%
1-9 employees	5%	5%	6%	5%
10-49 employees	7%	7%	5%	5%
50-249 employees	4%	2%	3%	2%

Q25 All SMEs (new Q1 2018)

The table below looks at the results for YEQ4 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 (3-6%). Excluding the Permanent non-borrowers increased the proportion with a funding need to 8% and it was also 8% amongst those already using external finance.

### Had a funding need

#### By date of interview

#### Over time – row percentages

2018

	2018
<b>All SMEs</b>	<b>4%</b>
0 employee	4%
1-9 employees	5%
10-49 employees	6%
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	5%
Manufacturing	3%
Construction	3%
Wholesale/Retail	6%
Hotels & Restaurants	5%
Transport	4%
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)

Analysis by age of business showed that those trading for less than 10 years were more likely to have a funding need (5-6%) compared to 3% of those trading for more than 10 years.

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 data is presented for 2018 as a whole.

## WHY FUNDING WAS REQUIRED

The first table looks at why the funding was required, with cash flow support and UK expansion the top mentions. When this question was run previously, most overdrafts were for working capital and loans were for UK growth, fixed assets or vehicles.

The table below for YEQ4 2018, and using a revised list of answer codes, shows that 3 in 10 of those identifying a need for finance needed working capital to help with day to day cash flow (32%), while a quarter wanted to expand the business in the UK (26%):

Reason funding required		0	1-9	10-49	50-249
YEQ4 18 all SMEs who had need for funding		emp	emps	emps	emps
<b>Unweighted base:</b>	<b>807</b>	<b>129</b>	<b>279</b>	<b>319</b>	<b>80*</b>
Working capital to help with cash flow	32%	32%	33%	29%	23%
To fund expansion in the UK	26%	25%	28%	29%	46%
Invest in new plant, machinery etc	22%	23%	19%	28%	21%
A new business opportunity	18%	19%	16%	22%	27%
To cover a short term funding gap	16%	17%	14%	14%	17%
To help through trading difficulties	11%	10%	12%	10%	12%
To take on staff	6%	4%	9%	10%	11%
To fund new premises	5%	3%	9%	8%	15%
To fund expansion overseas	2%	1%	2%	3%	4%

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

A comparison between H1 and H2 2018 showed there were more mentions of working capital for cash flow in the latter half of the year (36%) compared to the first half (28%) but otherwise little change.

On limited base sizes:

- Larger SMEs were more likely to mention UK expansion or a new business opportunity, as were younger SMEs, trading for 5 years or less.
- Working capital for cash flow was slightly more likely to be mentioned by smaller SMEs, and less likely to be mentioned by Starts, but otherwise there was little difference by age of business.
- Those already using external finance gave very similar reasons to those not already using finance.

## AMOUNT OF FUNDING REQUIRED

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, when overdraft applications were typically for smaller amounts (4 in 10 under £5000) than loans (4 in 10 £25,000 or more).

11% of those with a need for finance in 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 (90% for those with 50-249 employees) than smaller SMEs were (19% of those with 0 employees):

### Likely finance required

YEQ4 18 all SMEs who had need for funding	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>720</b>	<b>116</b>	<b>248</b>	<b>284</b>	<b>72*</b>
Less than £5000	26%	35%	8%	4%	5%
£5000 to £24,999	43%	46%	44%	15%	5%
£25,000 to £99,999	20%	14%	32%	41%	26%
£100,000+	10%	5%	17%	41%	64%
<b>£25,000 or more</b>	<b>30%</b>	<b>19%</b>	<b>49%</b>	<b>82%</b>	<b>90%</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:

- Just under half of those with a minimal (43%) or low (46%) risk rating, compared to a third of those with an average rating (36%) and almost a quarter of those with a worse than average risk rating (22%).
- 4 in 10 of SMEs trading for more than 15 years (43%) compared to around a quarter of SMEs of other ages (22-29%).
- Around half of those looking for funding for UK expansion (46%) or to fund a new business opportunity (50%) compared to a quarter looking for working capital (23%).

## THE DECISION MAKING PROCESS

As the table below shows, almost all those with a need for funding had taken some action as a result (93%), with such SMEs most likely to have spoken informally to their bank (21%) and/or sought professional advice (19%). A quarter 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</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>YEQ4 18 all SMEs who had need for funding</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>807</b>	<b>129</b>	<b>279</b>	<b>319</b>	<b>80*</b>
Had informal conversation with main bank	21%	18%	24%	33%	41%
Sought professional advice eg accountant	19%	19%	18%	22%	41%
Discussed by management in the business	14%	10%	20%	31%	42%
Looked online for possible finance providers	12%	12%	13%	15%	21%
Looked online for application advice	12%	13%	10%	7%	18%
Had informal conversation with other provider	11%	9%	14%	19%	27%
Spoke to other business people	11%	9%	14%	12%	15%
Prepared/reviewed plans and forecasts	11%	9%	15%	20%	30%
Considered funding within business/directors	10%	9%	14%	13%	23%
Looked at comparison/satisfaction sites	7%	7%	7%	7%	17%
Something else	25%	29%	16%	12%	11%
Took no action	7%	8%	4%	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 (41%) spoke to an advisor or had an informal conversation with their bank or another provider about their need for funding:

- This increased by size of SME from 38% of those with 0 employees to 65% of those with 50-249 employees.
- There was some variation by age of SME, with Starts the most likely to have had such a conversation (49%) and those trading 2-5 years the least likely (31%).
- There was also variation by risk rating, with those with a minimal (59%) rating the most likely to have such a conversation and those with a worse than average risk rating the least likely (38%).

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

#### **Steps considered in funding decision process**

YEQ4 18 all SMEs who took action on need for funding	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>781</b>	<b>121</b>	<b>268</b>	<b>313</b>	<b>79*</b>
Making an application	67%	66%	65%	76%	80%
-Applying to main bank	48%	49%	43%	58%	68%
-Applying to finance provider not currently using	14%	15%	13%	19%	19%
-Applying to finance provider currently using	12%	8%	20%	21%	27%
-Applying to an online finance platform	10%	12%	6%	5%	3%
Finding some/all of the funding yourselves	22%	21%	25%	23%	24%
Using a broker	8%	7%	8%	10%	16%
None of these	19%	21%	16%	12%	18%

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

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Analysis showed that:

- Larger SMEs were more likely to have considered a range of actions, including applying for finance.
- Those with a minimal external risk rating were more likely to have considered making an application for finance (80%) along with those with an average risk rating (76%). Those with a worse than average (63%) or low (54%) risk rating were less likely to have considered making an application.
- Starts were somewhat less likely to have considered making an application (60%) than older SMEs (66-72%).
- Those who had spoken to an advisor or had an informal conversation with their bank or another provider about their need for funding were more likely to have considered making an application (79%) and this appears to have offered more of a boost to smaller applicants than larger ones.
- Those with a low degree of trust in their main bank were somewhat less likely to have considered an application (60% v 68% for higher levels of trust) and those with the highest level of trust in the banking industry were the most likely to have considered an application (74%).

## STEPS TAKEN TO MEET FUNDING NEED

The next table looks at the steps actually taken, rather than considered, by SMEs with a funding need.

6 in 10 (63%) of all SMEs who had taken action to address a funding need went on to have a borrowing 'event' to meet that need (58% of all SMEs with a funding need). The most common borrowing 'event' was an application to the main bank, mentioned by 40% of those taking action on a need for funding and almost two thirds of those who had a borrowing event at all:

<b>Steps taken in funding decision process</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>YEQ4 18 all SMEs who had need for funding</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<i>Unweighted base:</i>	<b>781</b>	<b>121</b>	<b>268</b>	<b>313</b>	<b>79*</b>
<b>Had borrowing 'event' re need for finance</b>	<b>63%</b>	<b>61%</b>	<b>64%</b>	<b>80%</b>	<b>76%</b>
<i>Applied to main bank</i>	40%	39%	39%	54%	56%
<i>Applied to finance provider currently using</i>	12%	8%	18%	20%	22%
<i>Applied to finance provider not currently using</i>	14%	14%	12%	16%	11%
<i>Applied to an online finance platform</i>	5%	5%	5%	5%	3%
Decided to fund all or part of it yourselves	13%	9%	23%	14%	7%
Decided not to take funding	12%	14%	9%	6%	12%
Still deciding	16%	20%	8%	9%	10%

Q31 All SMEs with a need for funding who took action at Q28 (new Q1 2018)

Analysis showed that:

- Larger SMEs were somewhat more likely to have had an event than smaller ones and to have applied to their main bank.
- 84% of those who ‘considered’ applying at all went on to do so.
- Of those who had ‘considered’ applying to their main bank, three quarters (76%) went on to make an application and almost all (83%) had a borrowing ‘event’ of some kind. These proportions were very similar for those who considered applying to another existing provider or to a new provider. Those who considered applying to an online platform were less likely to go on and do so (42%) but almost all did have a borrowing event somewhere (84%), typically applying either to their main bank or to another new provider.
- Amongst those who ‘considered’ providing some or part of the funding themselves, almost half (46%) went on to provide such funding, while a third (35%) applied for finance (the rest were still deciding). Overall, 8% of those who had a borrowing event also put in some funding themselves.
- Those who had spoken to an advisor or had an informal conversation with their bank or another provider about their need for funding were more likely to have made an application (73%) and this appears to have offered more of a boost to smaller applicants than larger ones.

The 63% 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.