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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

Need for funding: 4% of all SMEs YEQ2 2019 reported a need for funding in the previous 12 months

- This has been stable over the time this question has been run (4% in both 2018 and H1 2019)
- Those with 1-9 or 10-49 employees have typically been more likely to report a need for funding (6% and 5% in H1 2019) as have those SMEs already using external finance (6%)
- Half (49%) of those with a funding need YEQ2 2019 said that it was cash flow related (for working capital, a funding gap or trading difficulties). Smaller SMEs with a need for funding were more likely to mention cash flow and there were more overall mentions in H1 2019 (52%) than in 2018 (42%)
- 58% of those with a funding need said it was related to a business development activity such as UK expansion or the funding of plant and machinery. This was more likely to be mentioned as a reason by larger SMEs with a need for funding and overall mentions have not changed over time (58% in 2018 and 60% in H1 2019)
- A third of those with a need for funding YEQ2 2019 (34%) were looking for more than £25,000 with clear differences by size of SME (22% of those with 0 employees were looking for £25,000 or more to, rising to 91% of those with 50-249 employees). 4 in 10 of those looking for funding for business development were looking for £25,000 or more compared to a quarter of those looking for cash flow funding

Initial response: 9 in 10 of those with a need for funding took some initial action, with 4 in 10 speaking either to an advisor or informally to their bank or other finance provider

- Most of those who took no action were 0 employee SMEs. Almost all those with 10-49 or 50-259 employees took some action and also a wider range of actions, with around half speaking to an advisor / bank / financial provider. Those looking for funding for cashflow purposes were somewhat more likely to have taken no action (15%) compared to 5% of those looking for funding for business development
- The proportion speaking to an advisor / bank / financial provider did not change 2018 to H1 2019 (41% to 42%) but within this group fewer SMEs had a conversation with their main bank (14% from 21%) and more had a conversation with another provider (18% from 11%). More SMEs also thought about providing the funding themselves (16% from 10%)

Steps considered: Amongst those who took action on their need for funding YEQ2 2019, 68% considered making an application for finance, typically to the main bank (43%)

- The larger the SME, the more likely they were to consider an application and at the main bank. Amongst those with 50-249 employees and a need for finance, 82% considered making an application and 64% to their main bank
- Just over a quarter (28%) considered funding all or part of it themselves and this was more likely amongst smaller SMEs
- Over time the proportion considering making an application has not changed much (67% in 2018 to 64% in H1 2019) but the proportion considering an application to the main bank was somewhat lower in H1 2019 (35%) than in 2018 (48%) with increased consideration of applying to another financial provider, whether they were currently using them or not
- The proportion considering self-funding increased from 22% in 2018 to 41% in H1 2019

Steps taken: 6 in 10 SMEs who took any action to meet a need for funding ended up making an application for finance (61% YEQ2 2019), with half of them (33% of all such SMEs) making an application to their main bank:

- As with consideration, the larger the SME, the more likely they were to make an application and to the main bank. Amongst those with 50-249 employees and a need for finance, 87% made an application and 58% applied to their main bank
- A fifth (21%) decided to fund all or part of it themselves, with those with 1-9 employees the most likely to do this (27%) and those with 50-249 employees the least likely (7%)
- 11% decided not to take any funding and 13% were still deciding, both more common amongst smaller SMEs
- Those looking to fund business development were more likely to have made an application (65%) than those looking for cash flow funding (54%) with the latter more likely to have chosen some self-funding (29% v 20%)
- Fewer SMEs made an application in H1 2019 (55%) than in 2018 (63%), with fewer applications to the main bank (26% from 40%) and more SMEs decided to self-fund (to some extent) – 33% from 13% in 2018

From consideration to action: Most SMEs who considered making any application went on to do so (80% YEQ2 2019) with 45% going on to apply to their main bank

- In H1 2019, 72% of those who had considered making an application went on to do so, compared to 84% in 2018 and the proportion applying to their main bank was also lower (36% from 55%)
- The proportion who considered self-funding and then went on to do so increased from 46% in 2018 to 69% in H1 2019

The middle section of the questionnaire, around applications made 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 had 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). This analysis is by interview date.
- 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. This analysis is also by interview date.
- Chapter 9 looks at all the borrowing events reported in more detail, by interview date.
- 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. This analysis is based on all applications made between Q3 2017 and Q2 2019 and reported to date since the questionnaire changed in Q1 2018.

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 initially 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.

This chapter is based on those interviewed between Q3 2018 and Q2 2019 (YEQ2 2019) who reported a need for funding in the 12 months prior to interview (ie from Q3 2017 onwards).

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:

Had a funding need						
By date of interview	Q1	Q2	Q3	Q4	Q1	Q2
Over time – row percentages	2018	2018	2018	2018	2019	2019
All SMEs	5%	4%	5%	4%	2%	5%
0 employee	4%	3%	5%	3%	2%	4%
1-9 employees	5%	5%	6%	5%	5%	7%
10-49 employees	7%	7%	5%	5%	5%	5%
50-249 employees	4%	2%	3%	2%	4%	1%

Q25 All SMEs (new Q1 2018)

The table below looks at the results for 2018 and H1 2019, to maximise base sizes, across key demographics. It shows that there was little variation by risk rating (3-4%) and only limited variation by sector (2-6%). Excluding the Permanent non-borrowers increased the proportion with a funding need to 6% in H1 2019 and it was also 6% amongst those already using external finance.

Had a funding need

By date of interview	2018	H1
Over time – row percentages		2019
All SMEs	4%	4%
0 employee	4%	3%
1-9 employees	5%	6%
10-49 employees	6%	5%
50-249 employees	3%	2%
Minimal external risk rating	3%	3%
Low external risk rating	4%	4%
Average external risk rating	3%	3%
Worse than average external risk rating	5%	4%
Agriculture	5%	5%
Manufacturing	3%	2%
Construction	3%	3%
Wholesale/Retail	6%	6%
Hotels & Restaurants	5%	5%
Transport	4%	2%
Property/Business Services etc.	4%	4%
Health	4%	2%
Other Community	4%	5%
All SMEs excluding Permanent non-borrowers	8%	6%
Current using external finance	8%	6%
Not currently using external finance	2%	1%

Q25 All SMEs (new Q1 2018)

Analysis by age of business showed that those trading for 2-5 years were slightly more likely to have had a funding need (5%) compared to 2-4% of other SMEs.

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 YEQ2 2019 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 YEQ2 2019, and using a revised list of answer codes, shows that 4 in 10 of those identifying a need for finance needed working capital to help with day to day cash flow (38%), while a quarter wanted to invest in new plant and machinery (25%) and almost as many were looking to fund UK expansion (23%). For ease and given the limited base sizes, the reasons for needing funding have been split into 2 broader groups, one relating to cash flow and one to business development:

Reason funding required		0	1-9	10-49	50-249
YEQ2 19 all SMEs who had need for funding	Total	emp	emps	emps	emps
Unweighted base:	762	111	306	277	68*
Cashflow related	49%	51%	45%	39%	34%
Working capital to help with cash flow	38%	39%	36%	34%	28%
To cover a short term funding gap	21%	24%	15%	14%	10%
To help through trading difficulties	13%	13%	14%	7%	8%
Business development related	58%	57%	59%	66%	67%
Invest in new plant, machinery etc	25%	26%	22%	27%	16%
To fund expansion in the UK	23%	21%	27%	27%	27%
A new business opportunity	16%	18%	13%	16%	31%
To take on staff	5%	4%	8%	7%	6%
To fund new premises	5%	1%	11%	8%	11%
To fund expansion overseas	4%	4%	3%	3%	*
To take over another business	2%	2%	2%	1%	*

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

1% of SMEs said that they were approached by a bank/other funder offering them finance.

Some data is now available over time, as the table below shows. There were more mentions of funding being needed for cash flow purposes in H1 2019 (to 52%) with a stable 6 in 10 wanting funding for business development (around 10% wanted funding for both purposes):

Reason funding required

By date of interview	2018	H1 2019
Over time		
Unweighted base:	807	377
Cashflow related	42%	52%
Working capital to help with cash flow	32%	40%
To cover a short term funding gap	16%	25%
To help through trading difficulties	11%	16%
Business development related	58%	60%
To fund expansion in the UK	26%	23%
Invest in new plant, machinery etc	22%	27%
A new business opportunity	18%	15%
To take on staff	6%	5%
To fund new premises	5%	6%
To fund expansion overseas	2%	5%
To take over another business	1%	3%

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

On limited base sizes:

- A steady 6 in 10 of those with a need for funding said it was for something related to the development of the business – expansion, new plant and machinery etc.
- Over time an increasing proportion (52% in H1 2019) said that the funding was cash flow related – whether general cash flow or for funding gaps or trading difficulties.

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).

7% of those with a need for finance YEQ2 2019 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 (91% for those with 50-249 employees) than smaller SMEs were (22% of those with 0 employees):

Likely finance required

YEQ2 19 all SMEs who had need for funding	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	696	107	278	253	58*
Less than £5000	24%	33%	9%	6%	6%
£5000 to £24,999	42%	46%	40%	12%	4%
£25,000 to £99,999	21%	16%	30%	38%	30%
£100,000+	13%	6%	21%	44%	61%
£25,000 or more	34%	22%	51%	82%	91%

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

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

- Just over half of those with a minimal or low risk rating (both 54%), compared to a third of those with an average rating (33%) and a quarter of those with a worse than average risk rating (26%).
- Almost half of SMEs trading for more than 15 years (46%) compared to around a fifth of SMEs trading for 2-9 years.
- 4 in 10 of those looking for funding for business development (including 57% of those looking to fund a new business opportunity) compared to a quarter looking for cashflow related funding (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 (90%), with such SMEs most likely to have spoken informally to their bank and/or sought professional advice (both 18%). 16% had taken some other action that was not listed, and this will be monitored over future waves.

Steps taken in funding decision process		0	1-9	10-49	50-249
YEQ2 19 all SMEs who had need for funding	Total	emp	emps	emps	emps
Unweighted base:	762	111	306	277	68*
Had informal conversation with main bank	18%	13%	25%	31%	33%
Sought professional advice eg accountant	18%	16%	22%	21%	21%
Looked online for application advice	15%	17%	12%	10%	12%
Looked online for possible finance providers	14%	13%	17%	13%	11%
Discussed by management in the business	13%	8%	19%	30%	41%
Considered funding within business/directors	12%	9%	18%	13%	13%
Had informal conversation with other provider	12%	9%	17%	24%	17%
Spoke to other business people	11%	8%	15%	15%	12%
Prepared/reviewed plans and forecasts	11%	8%	14%	20%	18%
Looked at comparison/satisfaction sites	9%	10%	7%	9%	2%
Something else	16%	20%	10%	7%	4%
Took no action	10%	14%	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, discussed it within the business and/or prepared business plans or forecasts.

Overall 4 in 10 of these SMEs (40%) spoke to an advisor or had an informal conversation with their bank or another provider about their need for funding:

- Those with 0 employees were less likely to have spoken to an advisor/provider (34%) compared to 51-58% of those with employees.
- There was some variation by age of SME: 41% of Starts had had such a conversation, declining by age of SME to 34% of those trading for 10-15 years but then increasing to 48% of those trading for more than 15 years.
- There was also variation by risk rating, with those with a minimal rating the most likely to have such a conversation (55%) and those with a worse than average risk rating the least likely (35%).
- There was little variation in steps taken by whether the SME wanted funding for cash flow or business development purposes, albeit those needing funding for cash flow were more likely to say that no steps were taken (15%) than those looking for funding for business development (5%).

Some limited analysis over time is now possible and is shown in the table below. This shows that the proportion of SMEs with a need for funding who took any action was stable across the two periods. The proportion who spoke to an advisor or had an informal conversation with their bank or another provider about their need for funding was also stable, at 4 in 10 across both periods, but within that group, fewer spoke to their main bank in H1 2019, while more spoke to other providers. There was also an increase in the proportion considering funding the need from within the business:

Steps taken in funding decision process

All SMEs who had need for funding – over time

2018

H1
2019

Unweighted base:

807

377

Had informal conversation with main bank

21%

14%

Sought professional advice eg accountant

19%

20%

Looked online for application advice

12%

19%

Looked online for possible finance providers

12%

18%

Discussed by management in the business

14%

12%

Considered funding within business/directors

10%

16%

Had informal conversation with other provider

11%

18%

Spoke to other business people

11%

12%

Prepared/reviewed plans and forecasts

11%

10%

Looked at comparison/satisfaction sites

7%

13%

Something else

25%

13%

Took no action

7%

8%

Spoke to advisor/ main bank/ other provider

41%

42%

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

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

Steps considered in funding decision process

YEQ2 19 all SMEs who took action on need for funding	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	732	98*	294	272	68*
Making an application	68%	67%	68%	81%	82%
-Applying to main bank	43%	42%	43%	55%	64%
-Applying to finance provider not currently using	19%	19%	19%	18%	19%
-Applying to finance provider currently using	15%	11%	22%	28%	20%
-Applying to an online finance platform	9%	9%	8%	6%	4%
Finding some/all of the funding yourselves	28%	26%	32%	20%	12%
Using a broker	7%	4%	12%	11%	11%
None of these	14%	16%	10%	7%	10%

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 worse than average risk rating were somewhat less likely to have considered making an application (61%) than those with other risk ratings (69-74%).
- There was no clear pattern by age of business with those trading 2-5 years the most likely to consider making an application (79%).
- Those who had had an informal conversation with their bank or another provider about their need for funding were more likely to have considered making an application (84%), together with 87% of those who looked online for potential providers of finance.
- There was little difference in consideration of an application by whether the funding was needed for business development (71%) or to help cash flow (68%). Those looking for funding for cash flow purposes were though somewhat more likely to consider self-funding (36%) than those looking for business development funding (26%).

Some limited analysis over time is now possible and is shown in the table below. This shows that the proportion of SMEs who took action on a need for funding who made an application was broadly stable (64% in H1 2019) across the two periods. Within this though, fewer SMEs considered applying to their main bank (35%) with more consideration of other providers but not of online providers specifically. There was also an increase in the proportion considering funding the need from within the business (to 41%):

Steps <u>considered</u> in funding decision process All SMEs who took action on need for funding – over time	2018	H1 2019
Unweighted base:	781	365
Making an application	67%	64%
-Applying to main bank	48%	35%
-Applying to finance provider not currently using	14%	21%
-Applying to finance provider currently using	12%	18%
-Applying to an online finance platform	10%	10%
Finding some/all of the funding yourselves	22%	41%
Using a broker	7%	6%
None of these	19%	13%

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

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 (61%) of all SMEs who had taken action to address a funding need went on to have a borrowing 'event' to meet that need (55% of all SMEs with a funding need). The most common borrowing 'event' was an application to the main bank, mentioned by 33% of those taking action on a need for funding and just over half of those who had a borrowing event at all:

Steps taken in funding decision process

YEQ2 19 all SMEs who had need for funding and took action	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	732	98*	294	272	68*
Had borrowing 'event' re need for finance	61%	58%	64%	76%	87%
<i>Applied to main bank</i>	33%	31%	35%	48%	58%
<i>Applied to finance provider currently using</i>	15%	12%	19%	23%	17%
<i>Applied to finance provider not currently using</i>	17%	17%	19%	14%	23%
<i>Applied to an online finance platform</i>	5%	4%	8%	4%	3%
Decided to fund all or part of it yourselves	21%	19%	27%	16%	7%
Decided not to take funding	11%	14%	8%	6%	3%
Still deciding	13%	14%	11%	9%	7%

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.
- Those with a minimal risk rating (79%) and those trading for more than 15 years (74%) were more likely to have had a borrowing 'event'.
- Those looking for funding for business development were somewhat more likely to have a borrowing event (65%) than those looking for cash flow funding (54%), with this latter group more likely to have at least an element of self-funding (29% v 20% for business development).

The 61% with a borrowing 'event' shown above is the equivalent of 2% of all SMEs.

Some limited analysis over time is now possible, comparing those interviewed in 2018 with those interviewed in H1 2019. This shows that the proportion reporting a borrowing 'event' declined from 63% of those taking any action on a need for funding to 55%. This was due to fewer such SMEs applying to their main bank (from 40% to 26%) and more deciding to fund all or part of the need themselves (from 13% to 33%):

Steps taken in funding decision process	2018	H1 2019
All SMEs who had need for funding and took action – over time	781	365
<i>Unweighted base:</i>		
Had borrowing 'event' re need for finance	63%	55%
<i>Applied to main bank</i>	<i>40%</i>	<i>26%</i>
<i>Applied to finance provider currently using</i>	<i>12%</i>	<i>18%</i>
<i>Applied to finance provider not currently using</i>	<i>14%</i>	<i>15%</i>
<i>Applied to an online finance platform</i>	<i>5%</i>	<i>7%</i>
Decided to fund all or part of it yourselves	13%	33%
Decided not to take funding	12%	10%
Still deciding	16%	11%
<i>Borrowing event as % of all with need for funding</i>	<i>58%</i>	<i>50%</i>

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

The proportion of all SMEs with a need for funding (not just those who took any action) who went on to have a borrowing 'event' also declined from 58% in 2018 to 50% in H1 2019.

The table below looks at each stage of the journey and how consideration then leads to action. Across the two time periods available, fewer SMEs who considered making an application went on to do so, whether to their main bank or elsewhere (although most still did) and there was an increase in the proportion who put in their own funds to meet some or all of the need for funding.

The need for finance “journey”

From consideration to any application	<p>80% of those who ‘considered’ applying at all went on to do so, with 45% applying to their main bank.</p> <p>These proportions did though decline over time: In 2018, 84% of those who considered making any application went on to do so, compared to 72% in H1 2019 and the proportion who considered making any application and then applied to their main bank dropped from 55% to 36%.</p> <p>16% of those who considered applying anywhere went on to self-fund some or all of the funding required. This has increased over time, from 9% in 2018 to 25% in H1 2019.</p>
From consideration of main bank to application	<p>Of those who had ‘considered’ applying specifically to their main bank, 7 in 10 (70%) went on to make an application to them and most (78%) had a borrowing ‘event’ of some kind.</p> <p>Again these proportions have declined: in H1 2019 64% of those who considered applying to their main bank went on to do so compared to 76% in 2018, and the proportion having any borrowing event after considering applying to their bank dropped from 83% to 70%.</p> <p>The proportion who considered applying to their main bank who went on to self-fund some or all of the funding required increased over time, from 11% to 24% for those considering applying to their main bank.</p>
From consideration of other providers to application	<p>Of those who had ‘considered’ applying to a new or an existing provider, 8 in 10 (78%) went on to make an application to them and most (81%) had a borrowing ‘event’ of some kind.</p> <p>Again these proportions have declined: in H1 2019 68% of those who considered applying to a new or an existing provider went on to do so compared to 79% in 2018, and the proportion having any borrowing event after considering applying to a new/existing provider dropped from 84% to 73%.</p> <p>The proportion who considered applying to a new or existing provider who went on to self-fund some or all of the funding required increased, from 12% to 25% for those considering applying to their main bank.</p>
Self-funding in whole or part	<p>Amongst those who ‘considered’ providing some or part of the funding themselves two thirds (65%) went on to provide such funding, while a third (30%) applied for finance (the rest were still deciding). Overall, 11% of those who had a borrowing event also put in some funding themselves.</p> <p>The proportion considering self-funding who went on to do so increased from 46% in 2018 to 69% in H1 2019.</p>

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.