

7

NEED FOR FUNDING

THIS CHAPTER PROVIDES

new detail on those SMEs that reported a funding need in 2019, including why the funding was needed and what steps were considered and taken to meet that need.

KEY FINDINGS

Need for funding: 3% of all SMEs reported a need for funding in the previous 12 months, compared to 4% in 2018. Those with 1-9 employees and those currently using external finance were the most likely to report a need for funding (6%)

- 58% of those with a need for funding said that it was for business development such as an investment in new plant or machinery (25% of those with a need for funding), while 49% said it was to aid cash flow. This split changed by size of SME – smaller SMEs with a need for funding were as likely to mention cash flow (53%) as business development (56%), while amongst those with 50-249 employees, 35% mentioned needing the funding for cash flow compared to 73% mentioning business development.
- 4 in 10 SMEs with a need for finance (39%) were looking for £25,000 or more, increasing by size of SME from 25% of those with 0 employees to all of those with 50-249 employees (where 62% were looking for £100,000 or more).
- Almost all SMEs with a need for funding took some action initially. 43% spoke to an advisor, their bank or another financial provider, with larger SMEs more likely to have done so (60% of those with 50-249 employees). There was little difference by size in the proportion considering funding the need internally or from the directors (19% overall and 18-21% by size of SME with a need for funding).
- 63% of those who took action, subsequently considered making an application for finance while 40% considered self-funding. In the end, 57% made an application for finance (with 29% applying to their main bank) and 29% self-funded in whole or in part. 11% decided not to take any funding and 11% were still deciding.
- Compared to 2018, SMEs with a need for finance in 2019 were more likely to mention needing the finance for cash flow (49% from 42%), to have initially considered meeting the need for funding internally (19% from 10%) and less likely to have finally had a borrowing event (57% from 63%), with fewer applications to the main bank (29% from 40%) and more self-funding (29% from 13%).

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 three 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 each of these events. This analysis is also by interview date.
- Chapter 9 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 Q1 2018 and Q4 2019 and reported in interviews conducted Q1 2018 to Q4 2019.

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 about any need for external funding in the past 12 months, in addition to any finance they already used, 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 Q1 2019 and Q4 2019 (YEQ4 2019) who reported a need for funding in the 12 months prior to interview (ie from Q1 2018 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 limited variations by size of SME:

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

Q25 All SMEs (new Q1 2018)

The table below looks at the results available over time for 2018 and 2019, across key demographics. It shows that there was little variation in 2019 by risk rating (2-4%) and some limited variation by sector (1-6%). Excluding the Permanent non-borrowers increased the proportion with a funding need to 6% in 2019 and it was also 6% amongst those already using external finance. Need for funding was marginally lower in 2019 than in 2018, more particularly for those with 0 employees, a worse than average risk rating, or in the Transport or Health sectors:

Had a funding need

By date of interview

Over time – row percentages

	2018	2019
All SMEs	4%	3%
0 employee	4%	2%
1-9 employees	5%	6%
10-49 employees	6%	5%
50-249 employees	3%	3%
Minimal external risk rating	3%	2%
Low external risk rating	4%	4%
Average external risk rating	3%	3%
Worse than average external risk rating	5%	3%
Agriculture	5%	6%
Manufacturing	3%	2%
Construction	3%	3%
Wholesale/Retail	6%	5%
Hotels & Restaurants	5%	6%
Transport	4%	2%
Property/Business Services etc.	4%	3%
Health	4%	1%
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 little variation – 2% of Starts reported a funding need, 3% of those trading for more than 15 years and 4% of all other age bands.

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 YEQ4 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 a similar 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 2019 shows that half of those with a need for finance (49%) cited a cash flow related reason, with 37% needing working capital to help with cash flow, while 58% of those with a need for finance gave a business development reason with 25% looking to invest in new plant or machinery. Smaller SMEs were more likely to mention needing funding for cash flow purposes while larger SMEs were more likely to mention business development reasons:

Reason funding required		0	1-9	10-49	50-249
YEQ4 19 all SMEs who had need for funding	Total	emp	emps	emps	emps
Unweighted base:	739	91*	300	282	66*
Cash flow related	49%	53%	46%	41%	35%
Working capital to help with cash flow	37%	38%	36%	33%	25%
To cover a short term funding gap	26%	31%	19%	15%	14%
To help through trading difficulties	12%	14%	10%	6%	9%
Business development related	58%	56%	58%	67%	73%
Invest in new plant, machinery etc	25%	28%	19%	27%	16%
To fund expansion in the UK	20%	17%	25%	27%	16%
A new business opportunity	13%	14%	14%	6%	27%
To take on staff	5%	4%	6%	6%	7%
To fund new premises	7%	6%	9%	9%	12%
To fund expansion overseas	3%	4%	2%	7%	3%
To take over another business	2%	2%	3%	2%	3%

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

3% of SMEs said that they were approached by a bank/other funder offering them finance (declining by size of SME from 4% of 0 employee SMEs to no SMEs with 50-249 employees). A new code added for Q3 and Q4 2019 saw 3% of SMEs linking their need for funding to Research and Development (all of those mentioning this reason had either 1-9 or 10-49 employees).

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 2019 (49%) with a stable 6 in 10 wanting funding for business development (12% wanted funding for both purposes):

Reason funding required

By date of interview

Over time	2018	2019
Unweighted base:	807	739
Cash flow related	42%	49%
Working capital to help with cash flow	32%	37%
To cover a short term funding gap	16%	26%
To help through trading difficulties	11%	12%
Business development related	58%	58%
To fund expansion in the UK	26%	20%
Invest in new plant, machinery etc	22%	25%
A new business opportunity	18%	13%
To take on staff	6%	5%
To fund new premises	5%	7%
To fund expansion overseas	2%	3%
To take over another business	1%	2%

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

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). In Q3 2019 the bands for collecting this information were narrowed to provide more granularity and extended upwards to a top band of £5 million or more. These will be used in the next report when a full 12 months of data has been gathered.

7% of those with a need for finance YEQ4 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 (all of those with 50-249 employees) than smaller SMEs were (25% of those with 0 employees):

Likely finance required

YEQ4 19 all SMEs who had need for funding	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	666	87*	270	252	57*
Less than £5000	23%	33%	9%	5%	-
£5000 to £24,999	38%	42%	35%	17%	-
£25,000 to £99,999	22%	15%	33%	36%	38%
£100,000+	17%	10%	23%	42%	62%
£25,000 or more	39%	25%	56%	78%	100%

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:

- 7 in 10 of those with a minimal or low risk rating (73% and 66% respectively), compared to a third of those with an average rating (34%) or a worse than average risk rating (33%).
- Almost half of SMEs trading for 10 to 15 or more than 15 years (45% and 48%) compared to a third of Starts and those trading for 2-5 years and a fifth of those trading for 6-9 years.
- Half of those looking for funding for business development (48%) compared to a quarter looking for cash flow related funding (26%).

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%). The most common actions were to seek professional advice (19%) or talk informally to either the main bank or another provider (both 18%). As many though (19%) considered meeting the need for funding internally:

Steps taken in funding decision process		0	1-9	10-49	50-249
YEQ4 19 all SMEs who had need for funding	Total	emp	emps	emps	emps
Unweighted base:	739	91*	300	282	66*
Sought professional advice eg accountant	19%	17%	22%	24%	28%
Considered funding within business/directors	19%	18%	21%	18%	19%
Had informal conversation with main bank	18%	11%	27%	27%	33%
Had informal conversation with other provider	18%	18%	15%	25%	20%
Looked online for application advice	15%	18%	12%	9%	2%
Looked online for possible finance providers	15%	14%	18%	14%	2%
Discussed by management in the business	15%	6%	25%	32%	40%
Looked at comparison/satisfaction sites	11%	13%	8%	8%	-
Spoke to other business people	10%	9%	12%	16%	16%
Prepared/reviewed plans and forecasts	9%	6%	13%	22%	19%
Something else	10%	12%	7%	9%	-
Took no action	7%	11%	2%	1%	*

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. They were as likely to have considered funding the need internally and less likely to have looked online for either application advice or possible finance providers.

Overall 4 in 10 of these SMEs (43%) 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 (37%) compared to 51% of those with 1-9 employees, 57% of those with 10-49 employees and 60% of those with 50-249 employees.
- There was some variation by age of SME: 31% of Starts had had such a conversation, increasing to 43% of those trading for 2-5 years and 45-47% of older SMEs.
- There was also variation by risk rating, with those with a minimal rating the most likely to have such a conversation (60%) and those with a worse than average risk rating the least likely (37%).
- There was little variation in steps taken by whether the SME wanted funding for cash flow (45%) or business development (49%) purposes

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 (both 93%). 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, more spoke to other providers in 2019 and slightly fewer spoke to their main bank. There was also a marked increase in the proportion that considered funding the need from within the business:

Steps taken in funding decision process

All SMEs who had need for funding – over time	2018	2019
<i>Unweighted base:</i>	807	739
Sought professional advice eg accountant	19%	19%
Considered funding within business/directors	10%	19%
Had informal conversation with main bank	21%	18%
Had informal conversation with other provider	11%	18%
Discussed by management in the business	14%	15%
Looked online for application advice	12%	15%
Looked online for possible finance providers	12%	15%
Looked at comparison/satisfaction sites	7%	11%
Spoke to other business people	11%	10%
Prepared/reviewed plans and forecasts	11%	9%
Something else	25%	10%
Took no action	7%	7%
<i>Spoke to advisor/ main bank/ other provider</i>	41%	43%

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 4 in 10 had considered providing the funding themselves:

Steps considered in funding decision process

YEQ4 19 all SMEs who took action on need for funding	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	719	81*	293	280	65*
Making an application	63%	58%	68%	73%	82%
-Applying to main bank	37%	31%	45%	45%	45%
-Applying to finance provider not currently using	19%	20%	19%	17%	23%
-Applying to finance provider currently using	17%	14%	19%	27%	35%
-Applying to an online finance platform	9%	10%	9%	7%	2%
Finding some/all of the funding yourselves	40%	45%	36%	25%	19%
Using a broker	7%	4%	11%	14%	11%
None of these	12%	13%	10%	12%	7%

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

Analysis amongst SMEs with a need for funding showed that:

- Larger SMEs were more likely to have considered applying for finance while smaller ones were the most likely to have considered self-funding.
- Those with an average (53%) or worse than average risk rating (61%) were somewhat less likely to have considered making an application than those with a minimal (79%) or low (77%) risk rating
- 58% of Starts considered making an application compared to 63-66% of older SMEs
- Those more likely to have considered making an application included those who had had an informal conversation with their bank (91%) or another provider (90%) about their need for funding. 69% of those already using finance considered making an application, compared to 39% not currently using finance
- Those for whom the funding was needed for business development were slightly more likely to have considered an application (68%) than those looking for help with cash flow (62%).

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 considered making an application was somewhat lower in 2019 (63%). Within this, fewer SMEs considered applying to their main bank (37%) 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 40%):

Steps considered in funding decision process All SMEs who took action on need for funding – over time

	2018	2019
Unweighted base:	781	719
Making an application	67%	63%
-Applying to main bank	48%	37%
-Applying to finance provider not currently using	14%	19%
-Applying to finance provider currently using	12%	17%
-Applying to an online finance platform	10%	9%
Finding some/all of the funding yourselves	22%	40%
Using a broker	7%	7%
None of these	19%	12%

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 (57%) of all SMEs who had taken action to address a funding need went on to have a borrowing 'event' to meet that need (54% of all SMEs with a funding need). The most common borrowing 'event' was an application to the main bank, mentioned by 29% of those taking action on a need for funding and half of those who had any sort of borrowing event at all. As many (29%) decided to meet all or part of the need for funding themselves:

Steps taken in funding decision process

YEQ4 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:	719	81*	293	280	65*
Had borrowing 'event' re need for finance	57%	50%	65%	72%	81%
Applied to main bank	29%	22%	37%	37%	40%
Applied to finance provider currently using	16%	14%	16%	29%	26%
Applied to finance provider not currently using	16%	14%	18%	14%	22%
Applied to an online finance platform	7%	6%	9%	6%	-
Decided to fund all or part of it yourselves	29%	31%	28%	20%	14%
Decided not to take funding	11%	15%	7%	5%	2%
Still deciding	11%	11%	11%	12%	8%

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

Analysis showed that:

- Borrowing 'events' increased by size of SME, and SMEs with employees were more likely to have applied to their main bank.
- Those with a minimal risk rating (86%) and those trading for more than 15 years (68%) were more likely to have had a borrowing 'event'.
- Those looking for funding for business development were no more likely to have a borrowing event (59%) than those looking for cash flow funding (54%), with this latter group more likely to have at least an element of self-funding (39% v 24% for business development).
- Those already using external finance were almost twice as likely to have had a borrowing 'event' as those not already using finance (62% v 37%).

The 57% with a borrowing ‘event’ shown above is the equivalent of just under 2% of all SMEs.

Some limited analysis over time is now possible, comparing those interviewed in 2018 with those interviewed in 2019. This shows that the proportion reporting a borrowing ‘event’ declined from 63% of those taking any action on a need for funding to 57%, due to fewer such SMEs applying to their main bank (from 40% to 29%). There was also an increase in SMEs deciding to fund all or part of the need themselves (from 13% to 29%):

Steps taken in funding decision process

All SMEs who had need for funding and took action – over time	2018	2019
Unweighted base:	781	719
Had borrowing ‘event’ re need for finance	63%	57%
<i>Applied to main bank</i>	40%	29%
<i>Applied to finance provider currently using</i>	12%	16%
<i>Applied to finance provider not currently using</i>	14%	16%
<i>Applied to an online finance platform</i>	5%	7%
Decided to fund all or part of it yourselves	13%	29%
Decided not to take funding	12%	11%
Still deciding	16%	11%
Borrowing event as % of all with need for funding	58%	54%

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’ declined from 58% in 2018 to 50% in H1 2019 but was 57% in H2 2019 (54% for 2019 as a whole).

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” YEQ4 2019

From consideration to any application	<p>79% of those who ‘considered’ applying at all went on to do so, with 41% 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 79% in 2019 while the proportion who considered making any application and then applied to their main bank dropped from 55% to 41%. Meanwhile the proportion applying to another provider (including online providers) increased from 35% to 43% in 2019.</p> <p>21% of those who considered applying anywhere went on to self-fund some or all of the funding required. This has increased over time, having been 9% in 2018.</p>
From consideration of main bank to application	<p>Of those who had ‘considered’ applying specifically to their main bank, 7 in 10 (69%) went on to make an application to them and most (77%) had a borrowing ‘event’ of some kind.</p> <p>Again these proportions have declined. 76% went on to apply to their main bank in 2018, compared to 69% in 2019, and applications overall declined from 83% to 77%. Applications to other providers were stable over time (15% in both years).</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 from 11% in 2018 to 18% in 2019.</p>
From consideration of other providers to application	<p>Of those who had ‘considered’ applying to a new, existing or online provider, 7 in 10 (72%) went on to make an application to one of them and most (78%) had a borrowing ‘event’ of some kind.</p> <p>Again these proportions have declined. 79% went on to apply to another provider in 2018, compared to 72% in 2019, and applications overall declined from 84% to 78%. Applications to the main bank amongst this group were also somewhat lower in 2019 (13%) than in 2018 (18%).</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% in 2018 to 24% in 2019.</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 (31%) applied for finance. Overall, 16% of those who had a borrowing event also put in some funding themselves (up from 11% in 2018).</p> <p>The proportion considering self-funding who went on to do so increased from 46% in 2018 to 65% in 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.