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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 as well as broader context information about SMEs including growth, profitability and perceived barriers to running the business.

This data was collected January- December 2019, almost all of it before the result of the General Election was known, before the UK entered the transition period for leaving the EU and when no one had heard of Covid-19.

General sentiment: SMEs were somewhat less likely to report growth (37%), but more planned to grow in the coming year (52%), with 37% planning one or more specific growth related activity. Levels of innovation and international trade were stable. A third of SMEs (38%) saw one or more of political uncertainty, the current economic climate, or legislation, regulation and red tape as a barrier. Most SMEs had been profitable and an increasing minority saw improving profit margins as a priority.

Just over a third of SMEs had grown

37% of SMEs in 2019 reported having grown in the past year, increasing by size of SME from 33% of those with 0 employees to 66% of those with 50-249 employees. This includes 11% that had grown by 20% or more, with little variation by size.

Since the SME Finance Monitor started, typically 39-42% of SMEs had grown, and the slight decline in 2019 was seen across most size bands and sectors and for younger SMEs.

19% of SMEs reported a decline in size, up from 10% in 2016 and back to levels seen in 2013 (also 19%).

Just over half of SMEs planned to grow

52% of SMEs in 2019 were planning to grow, up slightly from 2018 (when 49% planned to grow) and the highest level recorded on the SMEFM to date. The increase was led by more 0 employee SMEs planning to grow, with all sizes of SME seeing a wider 'gap' develop between achieved and planned growth.

37% of all SMEs, and 52% of those planning to grow, were planning one or more of a series of growth related activities, such as taking on staff or investing in plant and machinery, down slightly from 42% in H2 2017 when this question was first asked.

A third of SMEs had been innovative

35% of SMEs had been innovative (with 15% launching a new product or service and 30% improving an aspect of the business), increasing by size of SME to half of those with 10-49 or 50-249 employees.

This proportion has been stable since 2017 but remained lower than the 40% who reported innovation in 2012. The decline was seen across all size bands and most sectors, with a notable exception in Manufacturing where a consistent 4 in 10 have been innovative since 2012.

1 in 6 SMEs traded overseas and a similar proportion of employers had staff from overseas

16% of SMEs traded internationally (11% imported and 9% exported) increasing to 3 in 10 of those with 10-49 or 50-249 employees. This proportion is little changed since 2014.

2 in 10 exporters said that overseas sales made up more than half of their turnover and 3 in 10 that all or most of their sales went to the EU.

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	<p>17% of SME employers have staff from overseas (15% from the EU and 5% from elsewhere), and half of them were concerned about possible changes to migration rules, while a quarter were already seeing an impact on the recruitment and retention of overseas staff.</p>
<p>Key barriers were political uncertainty, the current economic climate and legislation/regulation</p>	<p>24% of SMEs saw political uncertainty as a major barrier, 21% legislation and regulation and 20% the current economic climate. 38% saw one or more of these as major barriers, with 0 employee SMEs slightly less likely to do so (36% compared to 39-43% of those with employees).</p> <p>Between 2016 and 2019, the proportion rating one or more of these as major barriers increased from 30% to 38% of SMEs.</p>
<p>8 in 10 SMEs had made a profit and 4 in 10 said improving profit margins was a key priority</p>	<p>82% of SMEs had made a profit in the previous year's trading, with little variation by size of SME. However, where a profit was made, the median ranged from £6,000 for profitable SMEs with 0 employees to £346,000 for those with 50-249 employees.</p> <p>39% of all SMEs said that improving profit margins was a key priority for them, up from 30% in 2018 and more of a priority for those with 10-49 employees (53%) and those trading for 2-5 years (47%).</p>
<p>Over half of SMEs had a high level of trust in their bank</p>	<p>55% of SMEs reported a high level of trust in their main bank, increasing by size of SME from 54% of 0 employee SMEs to 70% of those with 50-249 employees, and stable over time.</p> <p>Trust in the banking industry as a whole remained lower (25% high level of trust increasing by size of SME from 24% of 0 employee SMEs to 39% of those with 50-249 employees) and also stable over time.</p>

Use of finance: 45% of SMEs used external finance in 2019, up from 36% in 2018. Slightly more SMEs had access to trade credit (37%) and whilst injections of personal funds were lower than previously seen (24%) the proportion using any of these types of 'Business Funding' in 2019 was 70%, up from 65% in 2018. A quarter of SMEs held £10,000 or more of credit balances, the equivalent on average of a quarter of their turnover.

45% of SMEs used external finance	<p>45% of all SMEs used external finance with 39% using core finance (loans, overdrafts and credit cards) and 16% using other forms of finance. The largest SMEs remained more likely to be using finance (77%, with 71% using core finance and 33% other forms of finance).</p> <p>Use of finance was somewhat higher in 2019 than in the period 2014-2018 (36-38%) but this was driven by higher use of finance in Q2 2019 when 49% were using finance, with higher use of overdrafts and credit cards than previously seen. By Q4 2019, 43% were using finance.</p>
37% of SMEs received trade credit	<p>Over time, use of trade credit has increased somewhat from 31% in 2014 to 37% currently, with larger SMEs more likely to use it. Amongst those who did, 7 in 10 said that it reduced their need for external finance.</p>
24% had received an injection of personal funds, the lowest proportion to date	<p>Injections of personal funds had been stable (28-29% 2014-2018), down from 43% in 2012. In 2019, fewer reported an injection of personal funds (24%), the lowest level seen to date, with 13% saying it was a choice to help the business grow and 11% that there had been no choice. A quarter of SMEs with 0 or 1-9 employees had received an injection of personal funds compared to 13% of those with 10-49 and 2% of those with 50-249 employees.</p>
7 in 10 SMEs were using some form of 'Business funding'	<p>70% of SMEs were either using external finance, trade credit, or had received an injection of personal funds, ranging from 67% of those with 0 employees to almost all, 91%, of those with 50-249 employees.</p> <p>This proportion is higher than in 2018 (65%) due to more SMEs using external finance.</p>
23% of SMEs held £10,000 or more in credit balance	<p>Most SMEs held some credit balances with 23% holding £10,000 or more, increasing to 94% of those with 50-249 employees. The proportion of SMEs with such balances increased from 16% in 2012 to 24% in 2015 and has been broadly stable since.</p> <p>8 in 10 SMEs with £10,000 or more said that it reduced their need for external finance.</p> <p>Credit balances equate on average to a quarter of a SMEs turnover, with little variation by size or over time.</p>
1 in 3 SMEs had their need for external finance reduced by trade credit and/or £10,000 of credit balances	<p>The equivalent of 34% of all SMEs said that either trade credit or £10,000 of credit balances reduced their need for external finance, with little change over time. The largest SMEs remained more likely to have their need for finance reduced (68% in 2019).</p>

Appetite for finance: 3% of SMEs reported a need for finance, with most taking action and an increase in the proportion self-funding to meet the need. 75% of those who applied for finance were successful, but current success rates were somewhat lower than previously seen. Most SMEs had been a Happy non-seeker of finance in the previous year.

A minority of SMEs reported a need for funding, with most taking action

3% of SMEs reported a need for funding (compared to 4% in 2018), increasing to 6% of those with 1-9 employees and those already using external finance.

6 in 10 had needed the funding for business development (such as new plant and machinery) while 49% said it was needed to support cash flow – the larger the SME with a need for funding the more likely that the funding was needed for business development rather than cash flow.

Most took some action in response to the need for funding, with 63% considering an application for finance and 40% considering self-funding. In the end 57% applied for finance (29% to their main bank) and 29% self-funded in whole or in part.

Compared to 2018, SMEs with a need for finance in 2019 were more likely to mention needing the funding for cash flow (49% from 42%) and less likely to have finally made an application (57% from 63%) with more self-funding (29% from 13%).

Three quarters of all applications were successful

Most applications (75%) were made to a provider the SME was using already (55% to their main bank) and for a loan or an overdraft (57% of all applications).

75% of all applications (for new and renewed facilities made Q1 2018 to Q4 2019 and reported to date) were successful, increasing by size of SME from 72% of those with 0 employees to 95% of those with 50-249 employees.

32% of applications granted were for £25,000 or more, 73% were on a fixed interest rate and 78% were satisfied with the outcome of the application (ranging from 93% of those offered what they wanted to 30% of those who were declined).

Over time, success rates declined somewhat

The overall success rate declined from 78% for applications made Q1 2017 to Q2 2018 to 71% for applications made in the current 18 month period, Q3 2018 to Q4 2019. The proportion declined increased over the same period from 16% to 25%.

There was a decline in success rates for both applications made to the main bank (77% to 69%) and those made elsewhere (81% to 74%), and a slight decline for those applying for a loan (65% to 61%), while success rates for overdrafts were more stable with no clear pattern over time (76-81% across the time periods measured).

85% of SMEs had been a Happy non-seeker of finance

13% of SMEs reported any borrowing event in the previous 12 months, including 9% where their overdraft was automatically renewed. 1% met the definition of a 'Would-be seeker' of finance, put off by the process or principle of borrowing. That left most SMEs (85%) as Happy non-seekers of finance who had not needed to apply for funding.

Future appetite for finance: 1 in 10 SMEs planned to apply for finance in the coming months but most expected to be a Happy non-seeker of finance. 4 in 10 met the definition of a 'Permanent non-borrower' and three-quarters would rather accept slower growth than borrow to grow more quickly.

Three quarters of SMEs expected to be a 'Happy non-seeker' of finance

Looking forward, 78% of SMEs expected to be a Future happy non-seeker of finance and this remained the largest group of SMEs.

11% of SMEs planned to apply for finance, increasing to 17% of those with 50-249 employees and stable over recent years. 56% of those planning to apply for bank finance were confident they would be successful, in line with 2018.

11% were 'Future would-be seekers' who thought something would get in the way of an application. 6 in 10 of this group said now was not the right time to be applying for finance.

Attitudinally, appetite for finance remained limited

73% of SMEs would rather accept slower growth rather than borrow to grow more quickly and a similar proportion are basing their plans on what they can afford themselves (80%), both stable over time.

Fewer SMEs (29%) said they were happy to borrow to help the business grow and this proportion has declined over time (45% in 2015 to 29% in 2019) and across all sizes of SME and sectors. Larger SMEs remained more likely to agree with the statement (ranging from 26% of 0 employee SMEs to 47% of those with 50-249 employees in 2019).

A quarter of SMEs (24%), met the definition of an 'Ambitious risk taker' by wanting to be a significantly bigger business and being prepared to take risks to be successful. Larger SMEs were more likely to meet the definition (42% of those with 50-249 employees) as were a third of SMEs trading for 5 years or less. Such SMEs were more likely to have innovated, traded internationally, use finance and plan to apply for more, with 8 in 10 planning to grow in the next 12 months.

4 in 10 SMEs met the definition of a Permanent non-borrower

42% of SMEs met the definition of a 'Permanent non-borrower', an SME neither using, nor with any apparent appetite to use, finance. This was somewhat lower in 2019 than was seen 2015-18 (47-48%) as more SMEs in 2019 used external finance. 0 employee SMEs had as many PNBs (44%) as SMEs using external finance (43%) in 2019, with the 'gap' between the groups then increasing by size of SME to 58 percentage points for those with 50-249 employees (77% using external finance v 19% PNBs).