

SME FINANCE MONITOR

3 month rolling analysis to end
August 2020– extended pack

An independent report by
BVA BDRC, September 2020



Introduction

The SME Finance Monitor was established in 2011 and provides detailed analysis of SMEs and their access to finance on a half yearly basis. Analysis to Q2 2020 was published in August 2020.

As fieldwork takes place on a continuous basis, it is also possible to provide headline data on key issues in between these full reports. This pack will therefore be provided on a monthly basis and provide the latest 3 months rolling data across a range of issues.

The most recent data point for this report is the 3 months from June to August 2020.

Headline analysis is provided for all SMEs, with key questions split by size of SME. Some analysis is also provided by the type of international trade (if any) undertaken alongside domestic activity:

- Exporting but no importing (labelled as “export only”)
- Importing but no exporting (labelled as “import only”)
- Both importing and exporting (labelled as “import & export”)
- No international trade, SME only trades domestically (labelled as “domestic sales only”)

Differences shown month on month are not necessarily statistically significant. Differences of 4%+ month on month are needed for the total sample and up to 10%+ for some of the smaller groups (such as those trading internationally).

Introduction – Changes to main SME Finance Monitor questionnaire from Q1 2018

The SME Finance Monitor questionnaire has evolved gradually since it started in 2011.

In Q4 2017 it was decided that a more radical review was required to reflect changes in the finance market for SMEs, such as the rise of online platforms and other non-bank suppliers of finance. This was also an opportunity to focus on “need” for finance and how this translates into applications.

Most of the questions reported in this pack have remained unchanged.

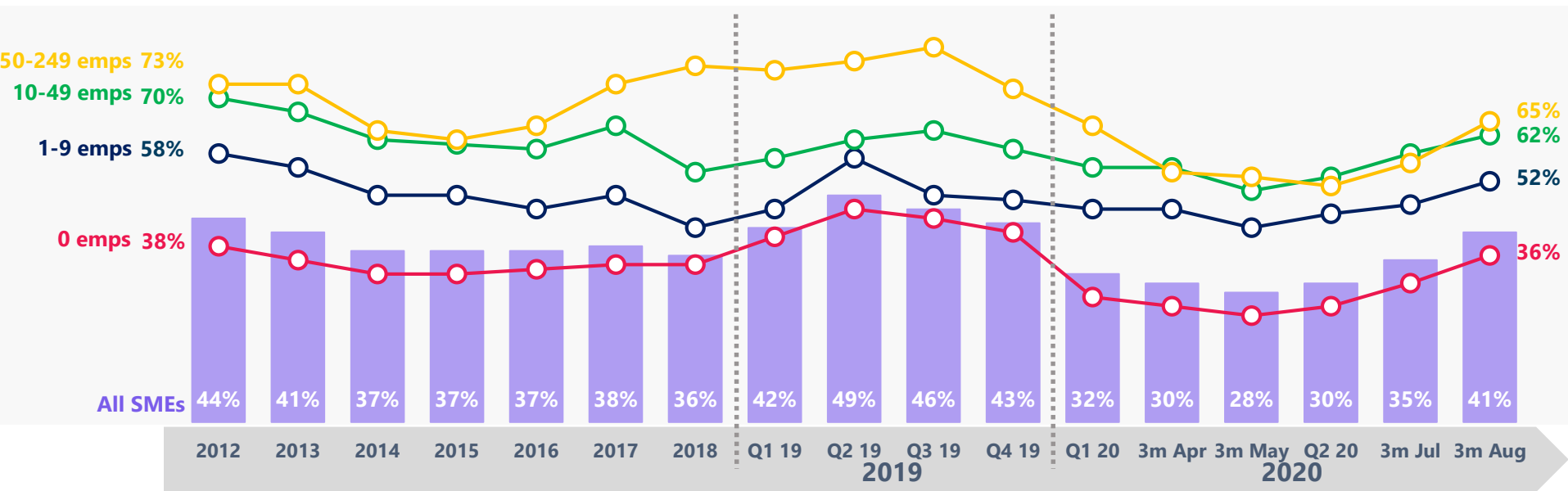
However, there have been slight changes to the “types of finance used” question and also to the definition of a “Permanent non-Borrower”. These initial results do not suggest the changes have had a major impact on results but will be monitored over time.

All of the changes have been reported on in full from the Q2 2019 SME Finance Monitor report, published in September 2019

This pack has been updated to reflect the new questionnaire and some new data included.

41% of SMEs were using external finance, back to levels seen in Q1 2019, after a sharp decline in the early months of 2020

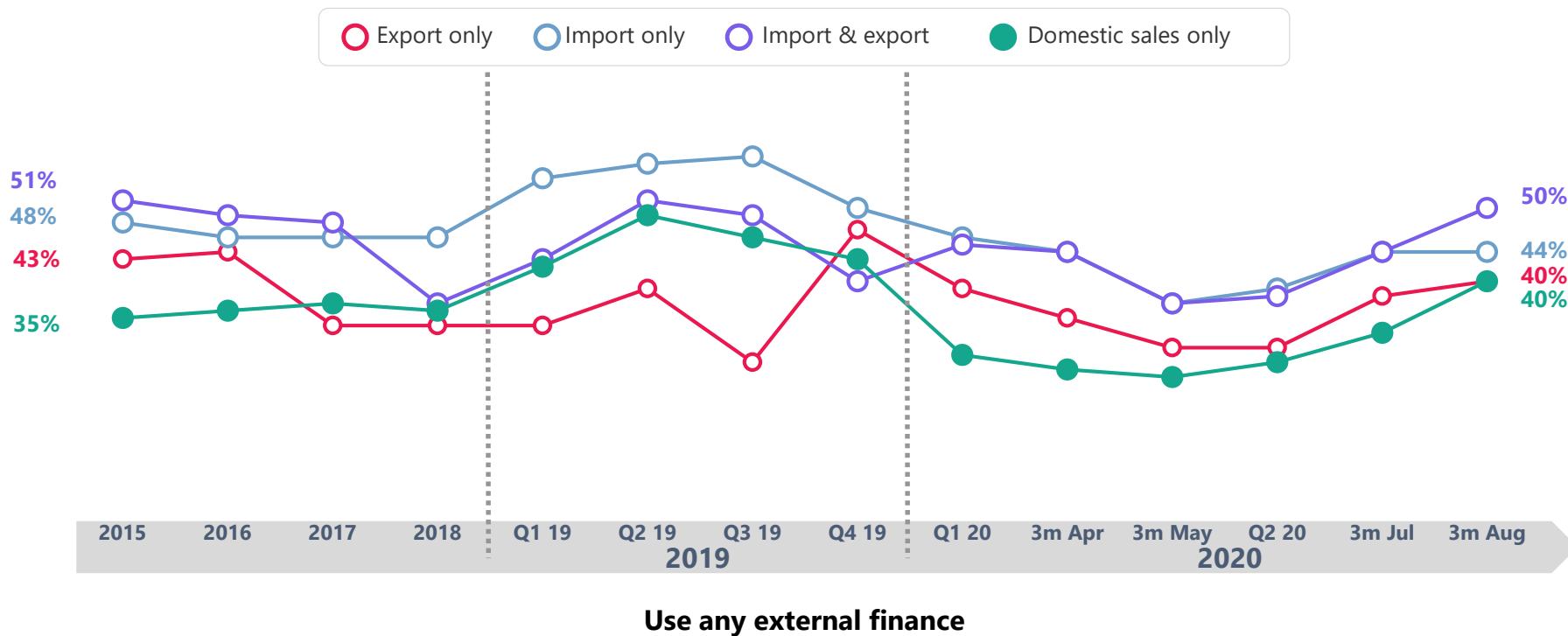
Time series: use of external finance per quarter



For 2019 as a whole 45% of SMEs were using external finance, but from Q2 2019 usage declined, to 28% for the 3 months to May 2020. For the 3 months to August the position had improved (to 41%) led by the 0 employee SMEs (from 23% in the 3 months to May to 36% for the 3 months to August) but with an increase across all size bands – those with 1-9 or 10-49 employees are now more likely to be using finance than they were in Q1 2019

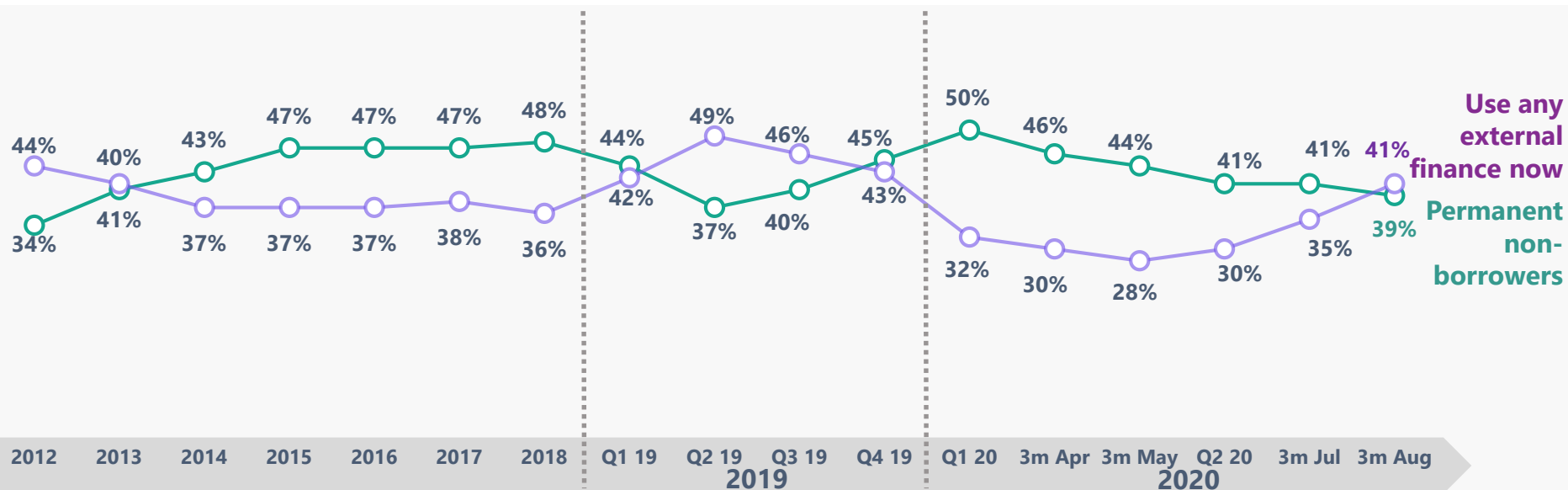
Use of finance has increased since Q2 2020 amongst both Domestic and International SMEs. SMEs with an element of importing remained more likely to be using external finance than their peers

Time series: use of external finance by extent of international trade alongside domestic sales



The proportion of Permanent non-borrowers was stable as use of finance increased, and there are now as many SMEs using finance as PNBs. 20% of SMEs were not using finance but not discounting it entirely, down from 29% in Q2 2020

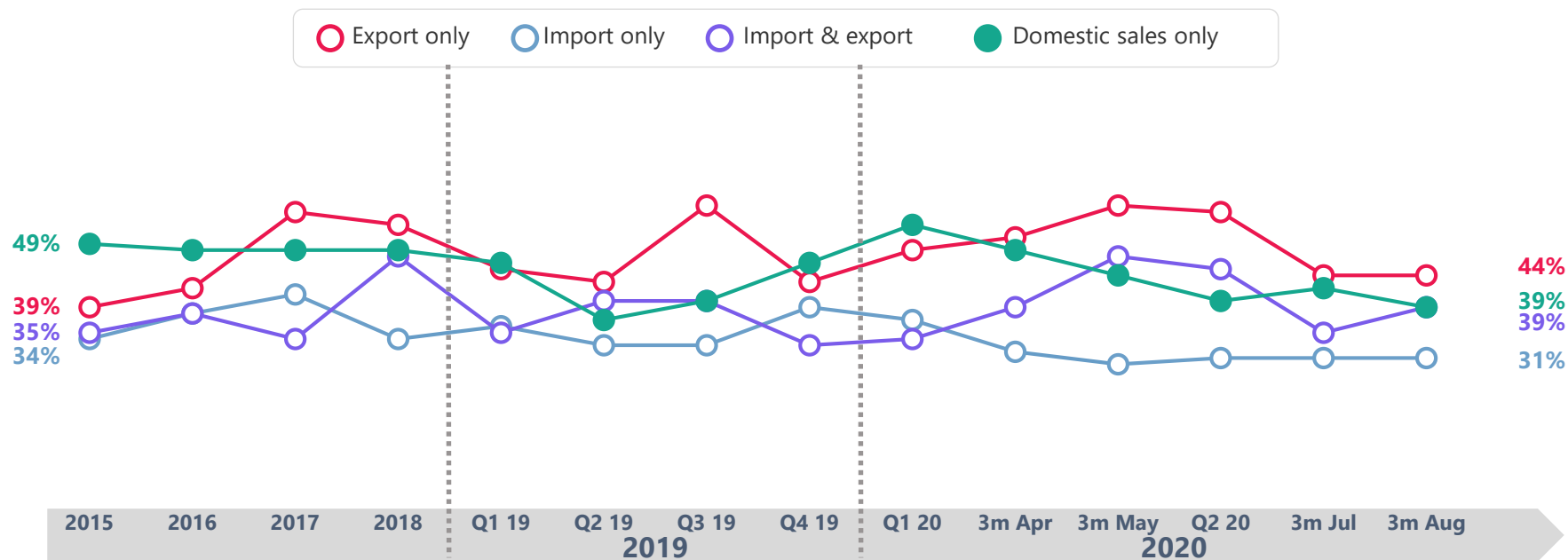
Time series: Permanent non-borrowers and users of external finance



The 'Permanent non-borrowers' are firms with no apparent appetite for finance and are defined by not using external finance and showing no inclination to do so. The latest figure of 39% is slightly below that for 2019 as a whole (42%) and than the 50% seen in Q1 of 2020. 20% of SMEs neither used external finance, nor met the definition of a PNB, down somewhat from the 29% in Q2 2020 but still a slightly higher proportion of SMEs that were not using finance but had or would consider doing so, than has been seen since 2012

Export-only SMEs remained slightly more likely to meet the definition of a Permanent non-borrower, despite a decrease in the PNB proportion since Q2. Import-only SMEs remained less likely, stable for the current period

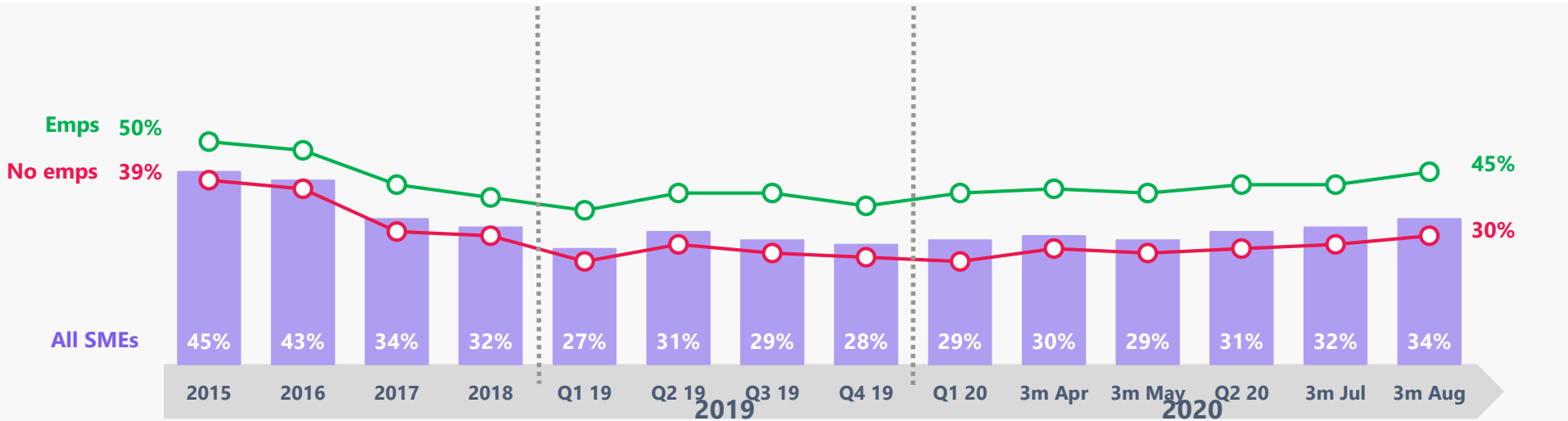
Time series: Permanent non-borrowers by extent of international trade alongside domestic sales



**Permanent non-borrowers
(no apparent appetite for finance)**

1 in 3 SMEs were happy to use finance to grow, back in line with 2017 and an increase from Q1 2020 for both larger and smaller SMEs

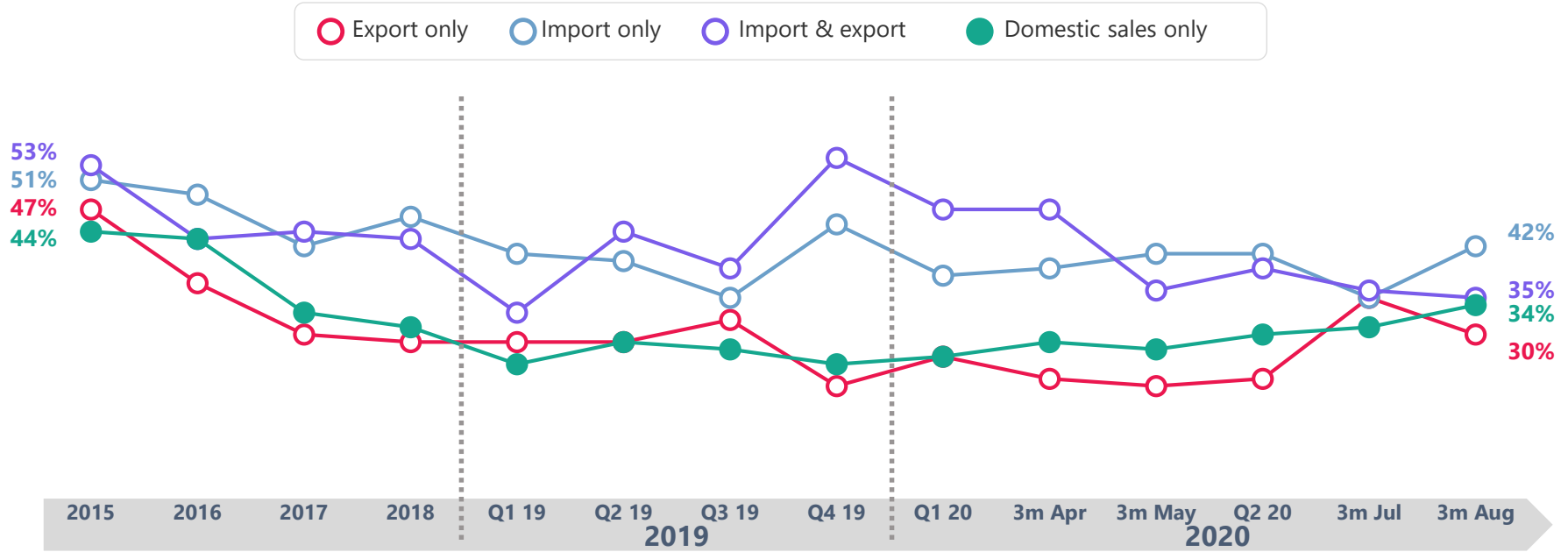
Time series: Agree that happy to use external finance to help business grow



After remaining stable during 2016, the proportion of SMEs happy to use finance to grow declined to 1 in 3 for 2017 and 2018. By Q1 2019 the proportion had declined again to around a quarter of SMEs (27%), and was 25% at the start of 2020, due to lower appetite amongst smaller SMEs. It has since increased steadily, back to 34% for the 3 months to August, with larger SMEs remaining more likely to have an appetite for finance.

Domestic SMEs appetite for finance to grow has increased steadily in 2020. Export-only SMEs were somewhat less likely than their peers to have an appetite for finance, but at a higher level than H1 2020

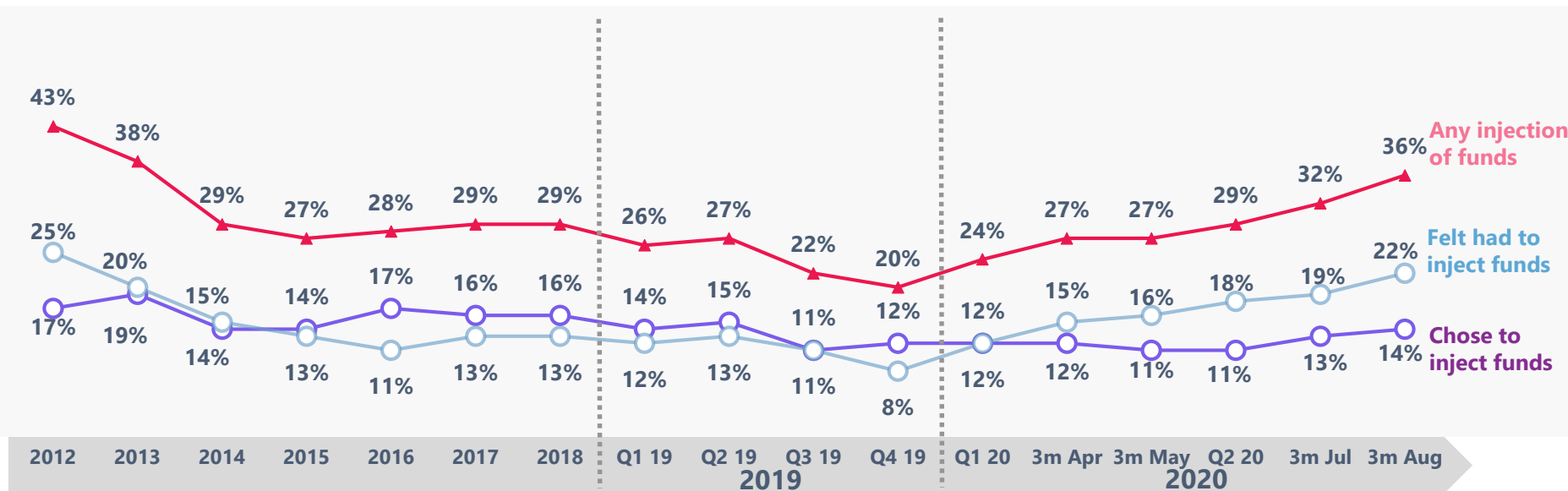
Time series: Agree that happy to use external finance to help business grow



Agree that happy to use external finance to grow

More than 1 in 3 SMEs had injected personal funds, a higher proportion than seen since 2013, with a steady increase from Q4 2019 in the proportion feeling that they had to inject funds (22%).

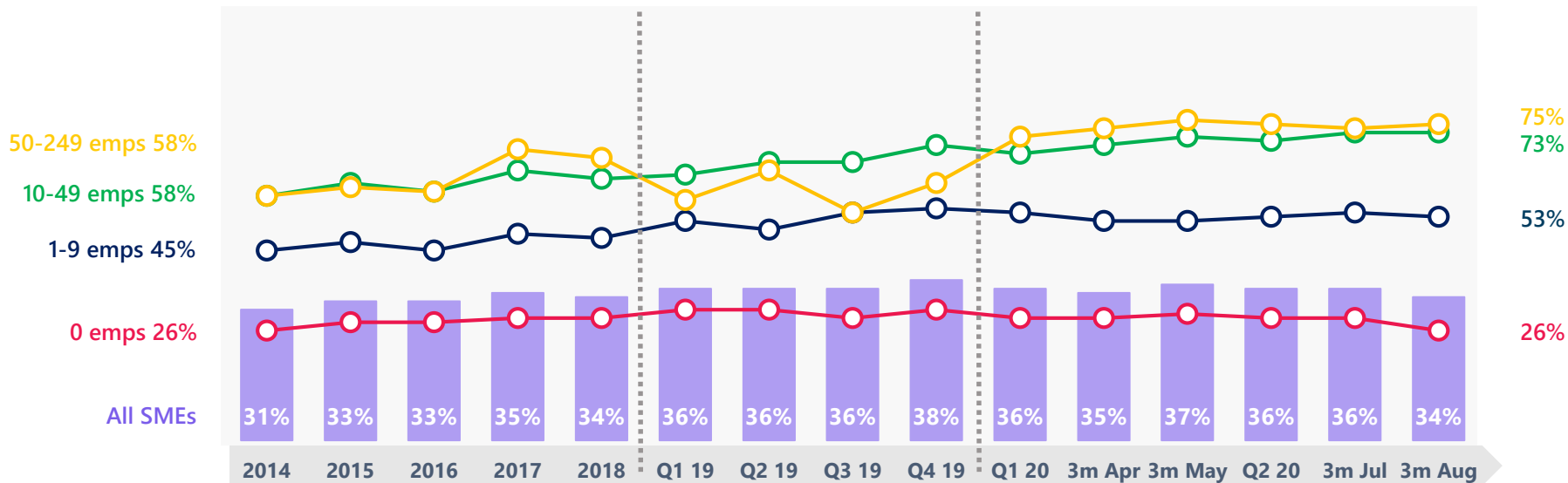
Time series: Injections of personal funds in previous 12 months



The proportion of SMEs injecting funds fell from a peak of 43% in 2012 to 28-29% of SMEs from 2016 onwards. In the second half of 2019 the proportion dropped to a fifth of SMEs, but for the 3 months to August 2020 it was 36%, a higher proportion than has been seen since 2013, with more SMEs feeling that they had to inject funds (22%).

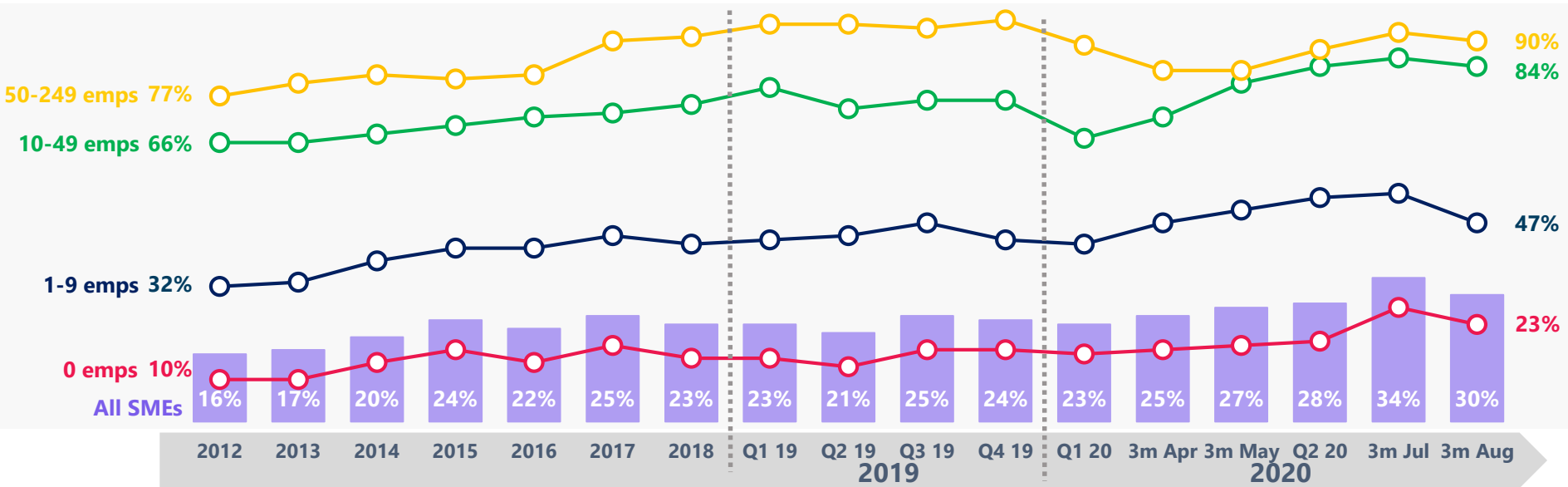
A third of SMEs were using trade credit in the three months to August, broadly consistent with the first half of 2020, but slightly lower than in 2019

Time series: : Using trade credit



30% of SMEs held more than £10,000 of credit balances, down slightly from the 3 months to July (especially amongst smaller SMEs) but still higher than previously seen

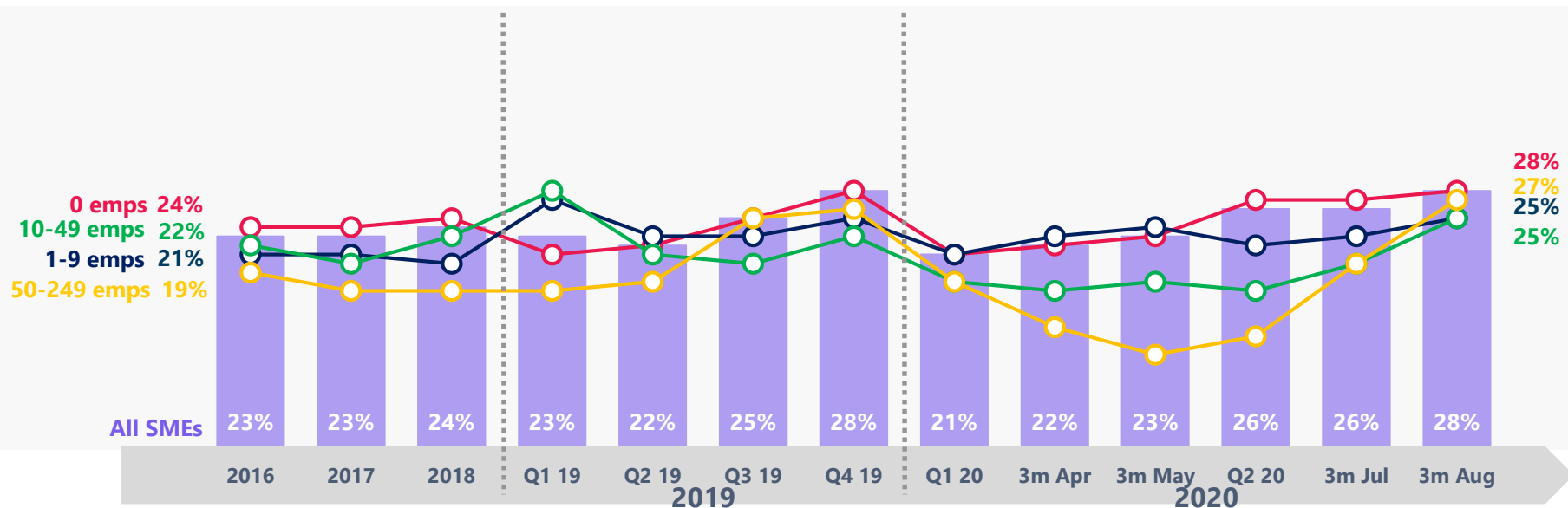
Time series: £10k credit balances held



The proportion of SMEs holding £10,000 or more in credit balances increased from 16% in 2012 to 24% in 2015 and remained broadly stable to the end of 2019. During 2020, the proportion of SMEs holding such sums increased steadily, from 23% in Q1 to 34% in the 3 months to July, with increases seen across all size bands. The proportion for the 3 months to August was slightly lower (30%) but remained above levels previously seen for all but the largest SMEs

SMEs held the equivalent of 28% of their turnover in credit balances, in line with Q4 2019. The increase from Q1 2020 was led by the 0 employee SMEs and with a strong improvement from Q2 for those with 50-249 employees

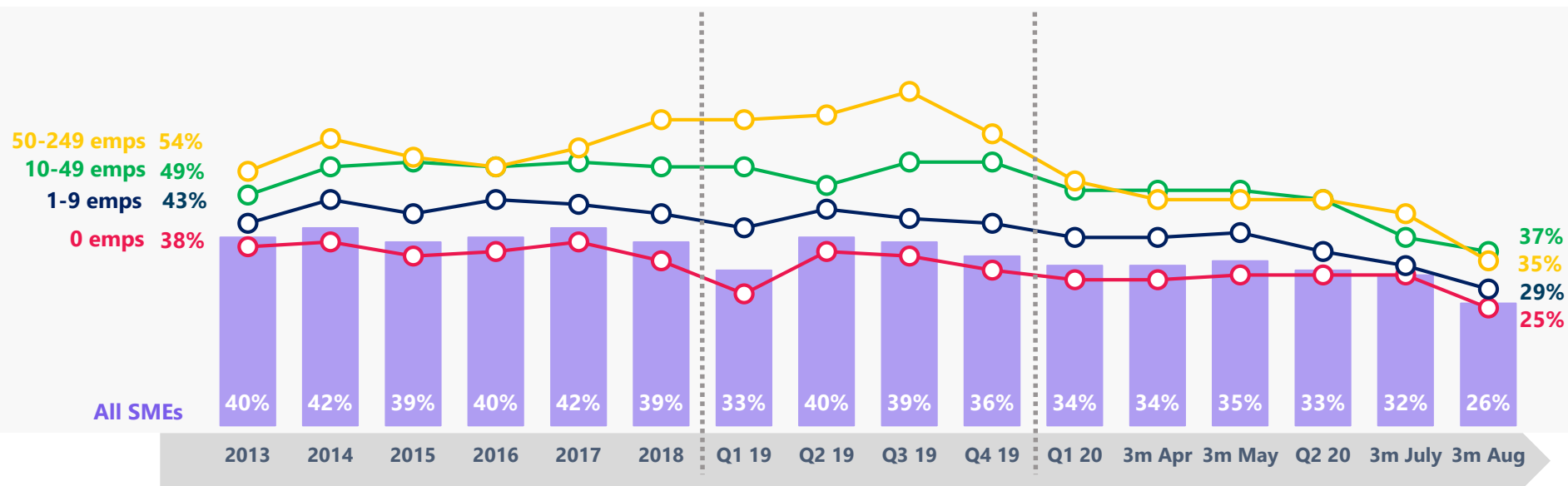
Time series: % of turnover held as credit balances



More recent analysis looks at credit balances held as a percentage of total turnover (both collected in bands, with mid-points used). For the 3 months to August 2020, SMEs held the equivalent of 28% of their turnover in credit balances on average, back in line with the 28% recorded for Q4 2019. The largest SMEs with 50-249 employees saw the biggest decline during 2020 (28% to 10% the equivalent of 1.2 months of turnover) but the 3 months to August figures showed an increase to 27% which is more in line with their peers and previous data

The proportion of SMEs reporting growth in the last year (currently 26%), was lower than previously seen. Since the start of 2020 all SMEs have become less likely to report having grown

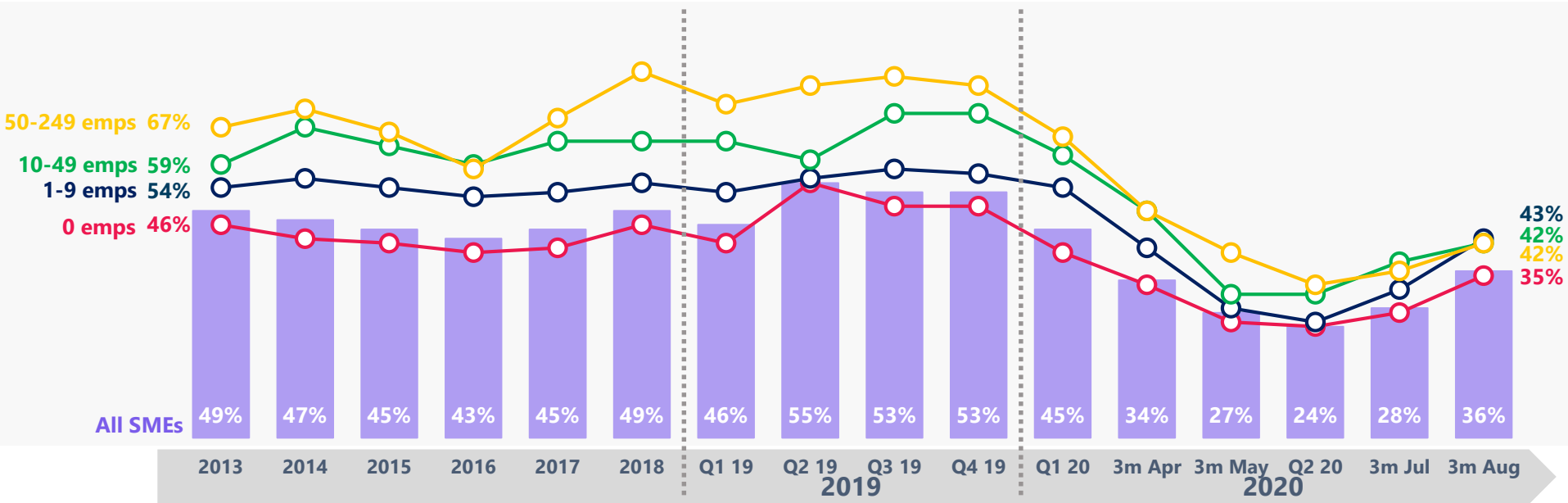
Time series: Have grown (excluding Starts)



Between 2012 and 2018, the proportion of SMEs (excluding Starts) reporting growth varied little (39-42%). It was at the lower end of this scale for 2018 as a whole (39%) and in 2019 as a whole 37% reported having grown, due to lower growth figures in Q1 of that year. Reported growth in 2020 has been somewhat lower but was initially broadly stable (32% for the 3 months to July) however the 3 months to August figure shows 26% had grown, with a decline across all size bands, as the impact of the pandemic starts to be reflected in annual figures.

Initially in 2020, reported growth held up (at a lower level), as growth ambitions declined markedly. Since Q2 however, as reported growth declined, growth ambitions have started to pick up again

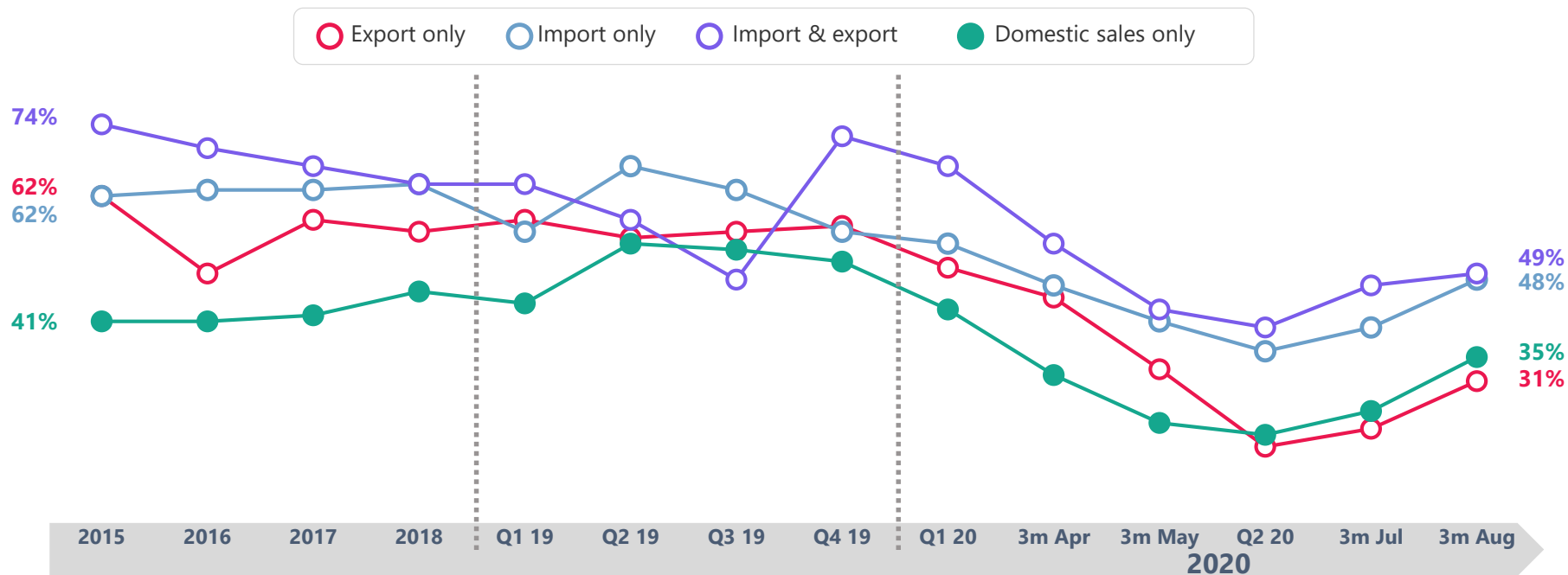
Time series: Have plans to grow



For 2019 as a whole, 52% of SMEs expected to grow, up from 49% in 2018 and the highest level seen to date on SMEFM. In the first half of 2020 those aspirations lowered significantly, to 24% for the 3 months to June with a decrease across all size bands. The 3 months to August show an increase to 36%, and again in each size band as growth ambition increase albeit still at lower levels than previously seen.

Those with an element of importing to their business remained more likely to be planning to grow than their peers, but since Q2 2020 both domestic and international SMEs have become more likely to be planning to grow

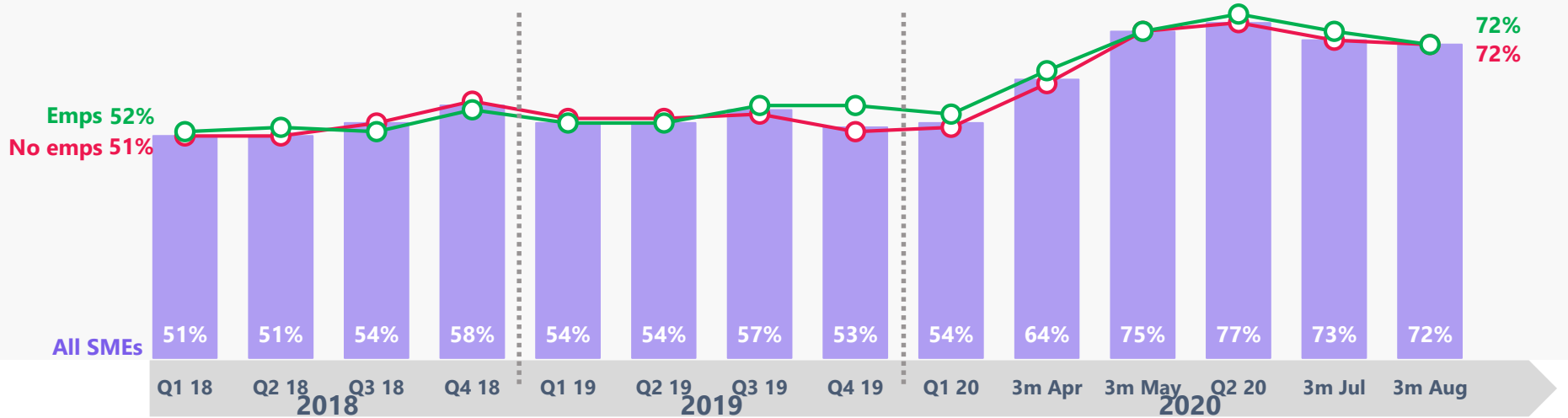
Time series: Growth plans by extent of international trade alongside domestic sales



Plan to grow in next 12 months

72% of SMEs were being cautious due to the future feeling uncertain in the 3 months to August, still markedly higher than in 2020 but slightly lower than the 77% in Q2 2020

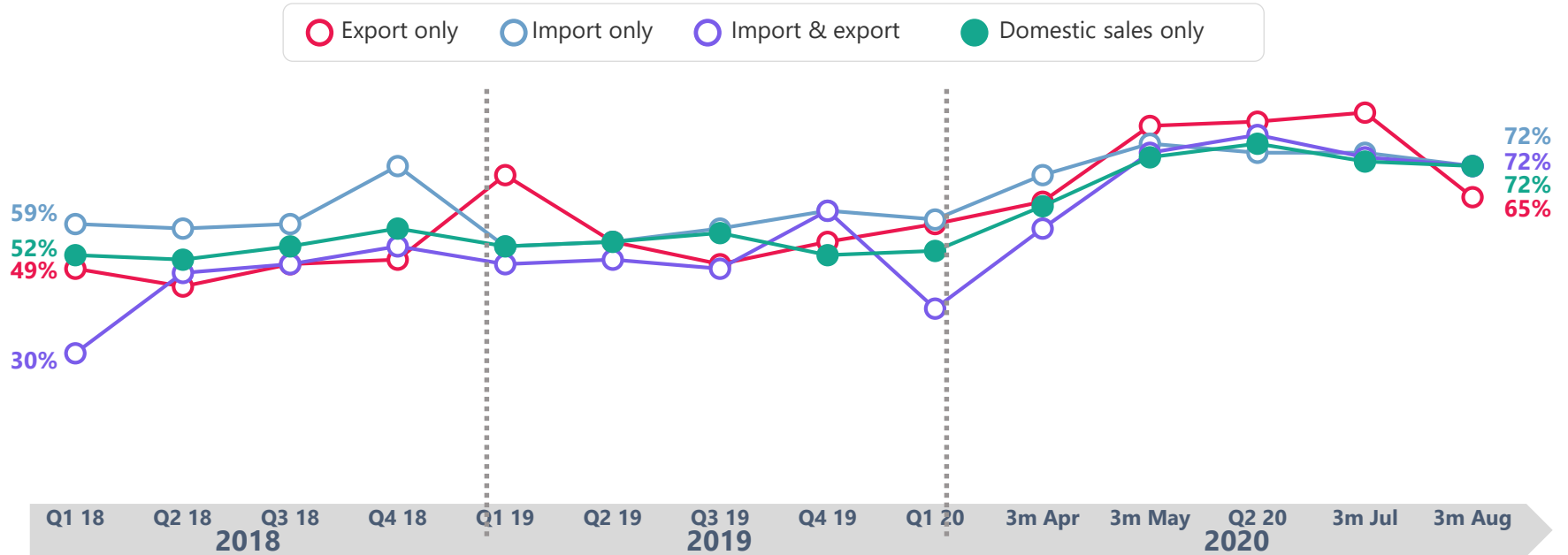
Time series: Agree that future is uncertain so being cautious



When this question was first asked in Q1 2018, half of SMEs agreed that they were being cautious, with little variation by size of SME. Over the course of 2018, that proportion increased to 58% in Q4, still with little variation by size. In 2019, just over half of SMEs were feeling cautious and this was maintained to Q1 2020. However, by Q2 2020 concern had risen to 77% across both larger and smaller SMEs. For the 3 months to August the proportions were slightly lower (72% overall) but still markedly higher than 2019.

Levels of caution remained higher than have been seen previously for both Domestic and International SMEs as export-only SMEs become somewhat less cautious than in Q2 2020

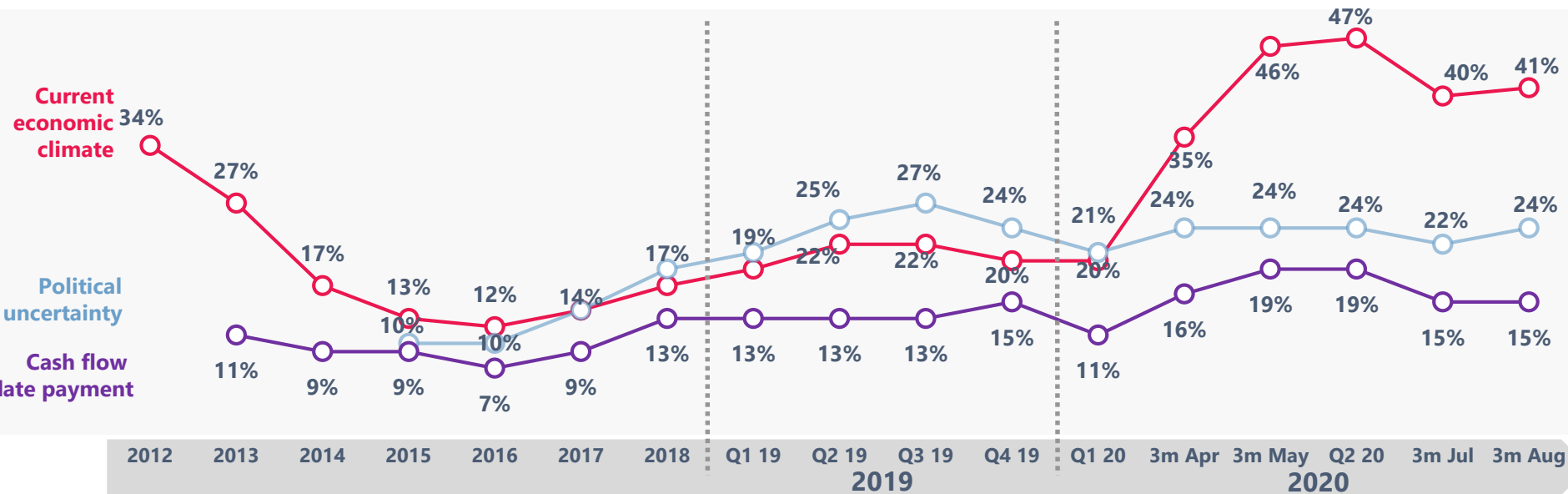
Time series: Agree that future is uncertain so being cautious



Future uncertain so being cautious

4 in 10 SMEs saw the current economic climate as a major barrier in the 3m to August, stable from the 3m to July and lower than in Q2 2020. Concern for cash flow/late payment was also somewhat lower than in Q2

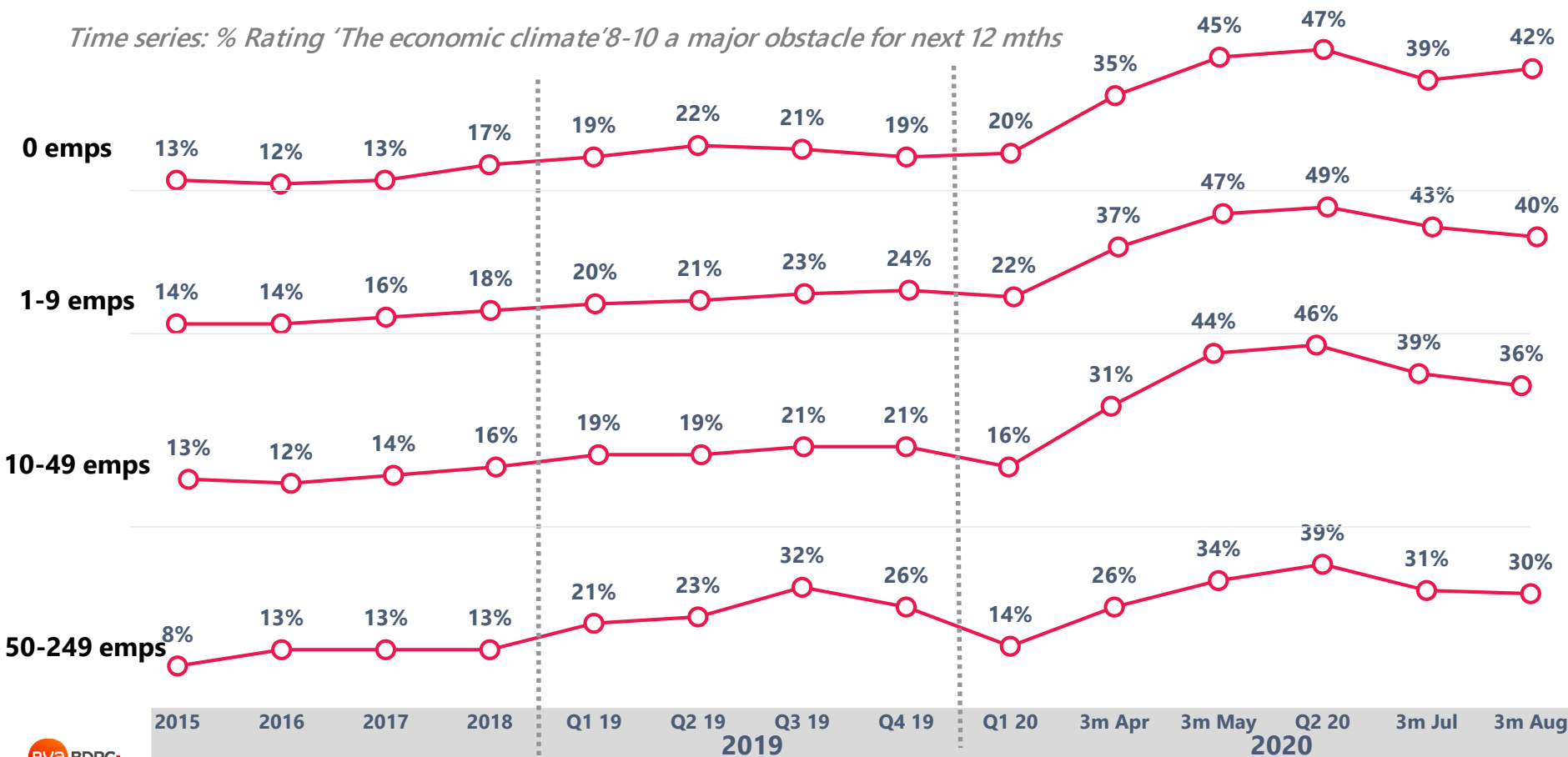
Time series: 8-10 Major obstacle to running business in next 12 months



Concern increased most markedly Q1 to Q2 2020 for the economic climate (20% in Q1 to 47% in Q2), the highest level seen to date, but there has been no further increase (41% in August). Concern about political uncertainty was stable and in line with Q4 2019, while concern about late payment and cash flow, which had increased to 19% in Q2 2020 (the highest level seen to date for this metric) was also somewhat lower at 15%.

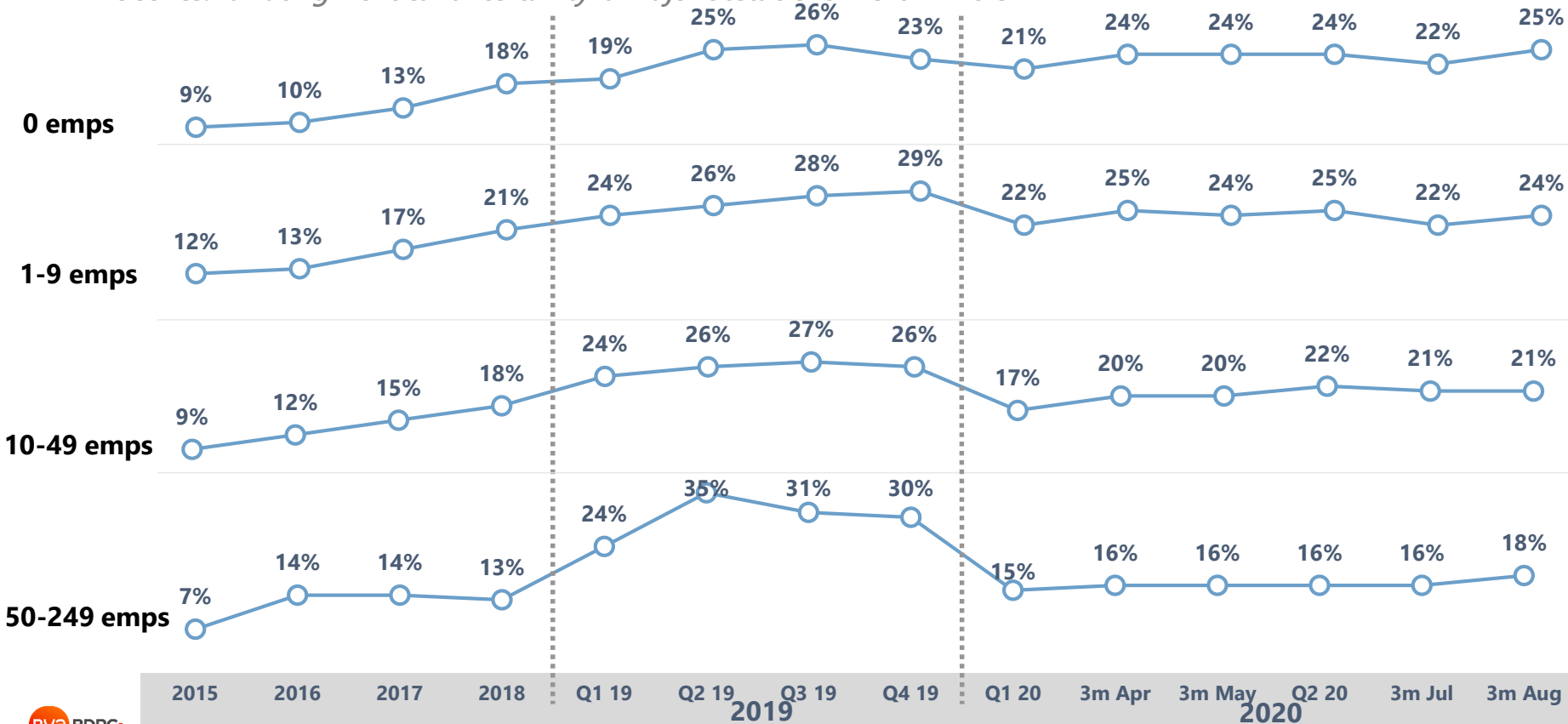
Concern about the economic climate increased markedly from Q1 to Q2 2020 across all size bands, but a lower level of concern has been seen since

Time series: % Rating 'The economic climate' 8-10 a major obstacle for next 12 mths



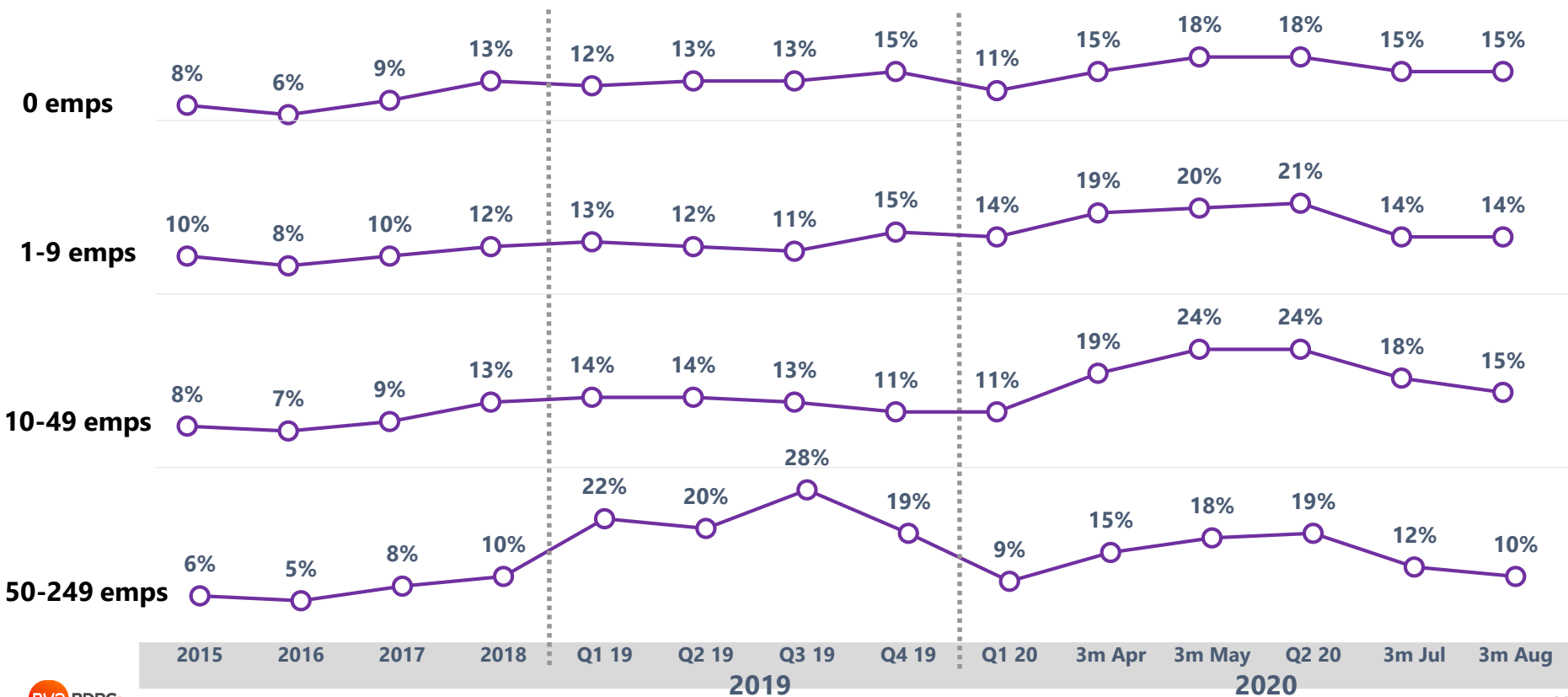
Concern about political uncertainty has been more stable in 2020 and typically lower than in 2019, notably for the largest SMEs.

Time series: % Rating 'Political uncertainty' a major obstacle for next 12 mths



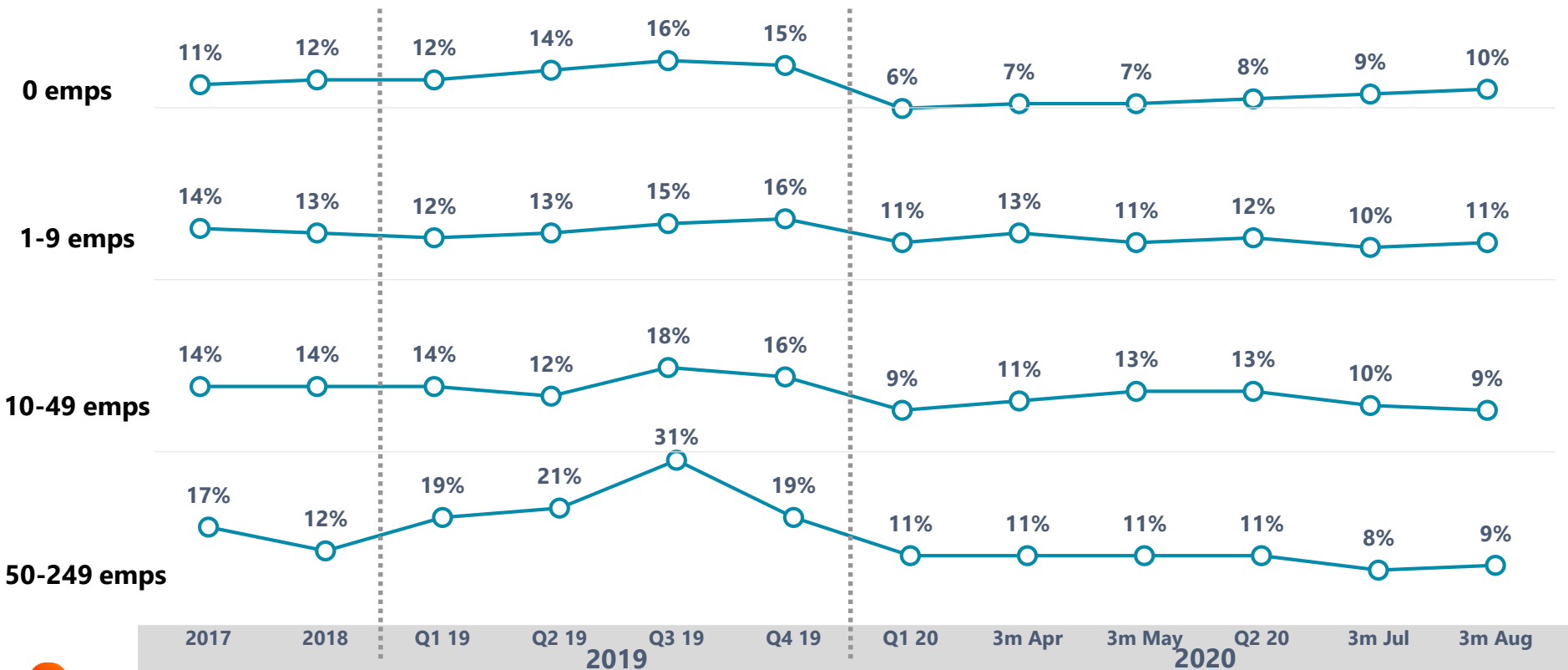
Levels of concern about cash flow and late payment increased from Q1 to Q2 2020 for all size bands, but have reduced somewhat since, more markedly for those SMEs with employees

Time series: % Rating "Cash flow or issues with late payment" a major obstacle for next 12 mths



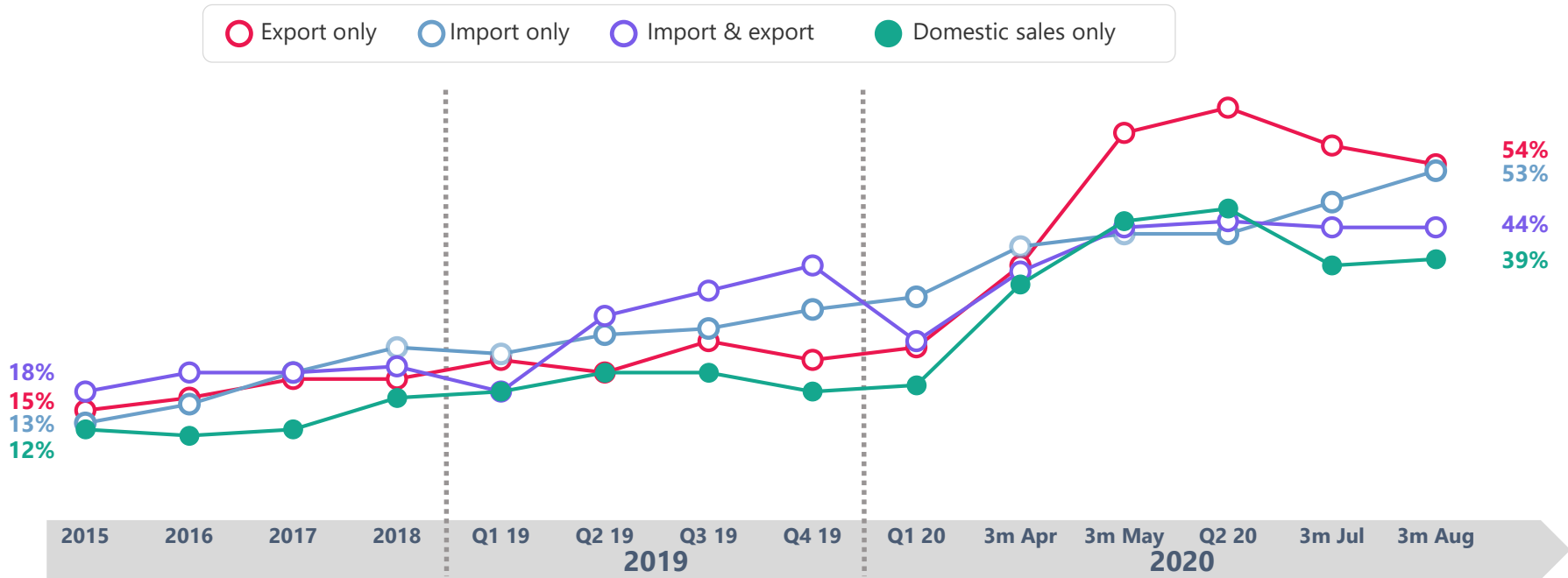
Levels of concern about the value of sterling have been broadly stable in 2020, with little difference between sizes of SME in the latest period

Time series: % Rating 'Changes in the value of sterling' a major obstacle for next 12 mths



Export only SMEs remained more concerned about the economic climate, albeit at a lower level than before, with an increase in concern amongst import-only SMEs

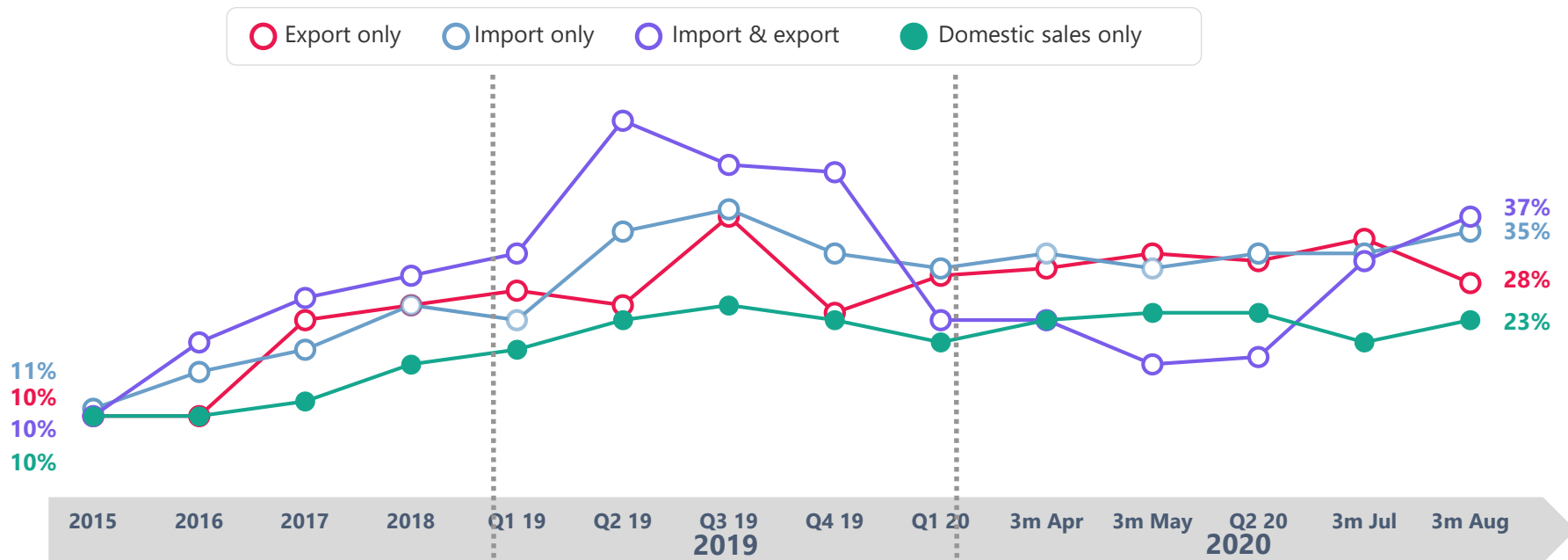
Time series: 8-10 economic climate by extent of international trade alongside domestic sales



Rating the current economic climate a major obstacle (8-10)

Political uncertainty scores have been more stable in 2020, except for SMEs which Import & Export which have become more concerned since Q2 2020. Domestic SMEs continued to be less likely to see this as a barrier.

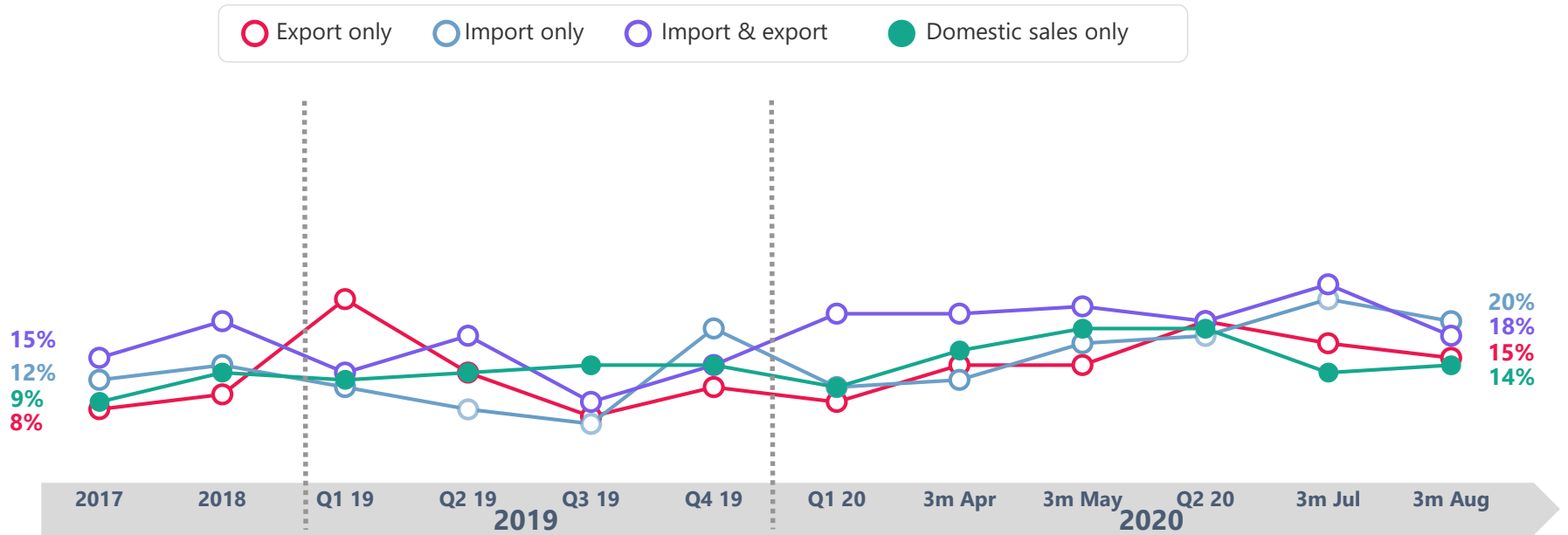
Time series: 8-10 political uncertainty by extent of international trade alongside domestic sales



Rating political uncertainty a major obstacle (8-10)

International SMEs have become somewhat less concerned about cash flow and late payment as a barrier in the latest 3 month period

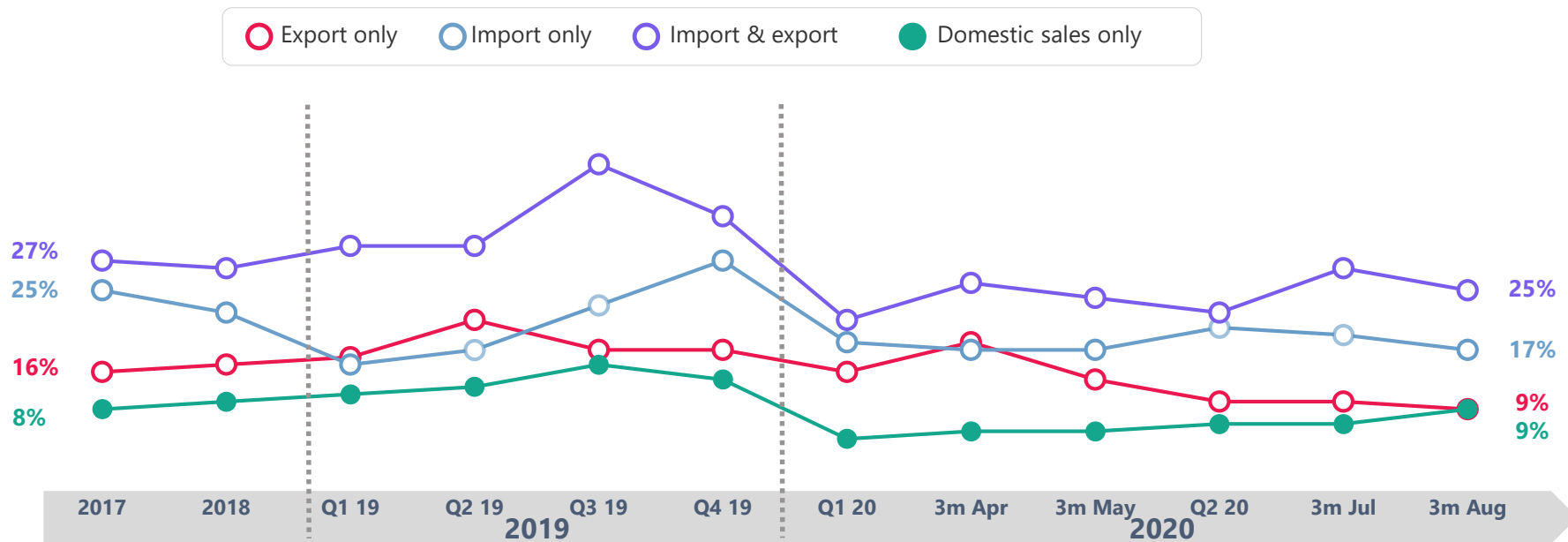
Time series: 8-10 cash flow / late payment by extent of international trade alongside domestic sales



Rating cash flow / late payment a major obstacle (8-10)

SMEs with an element of importing continued to be more concerned about changes in the value of sterling. Levels of concern remained broadly stable and below those seen in 2019

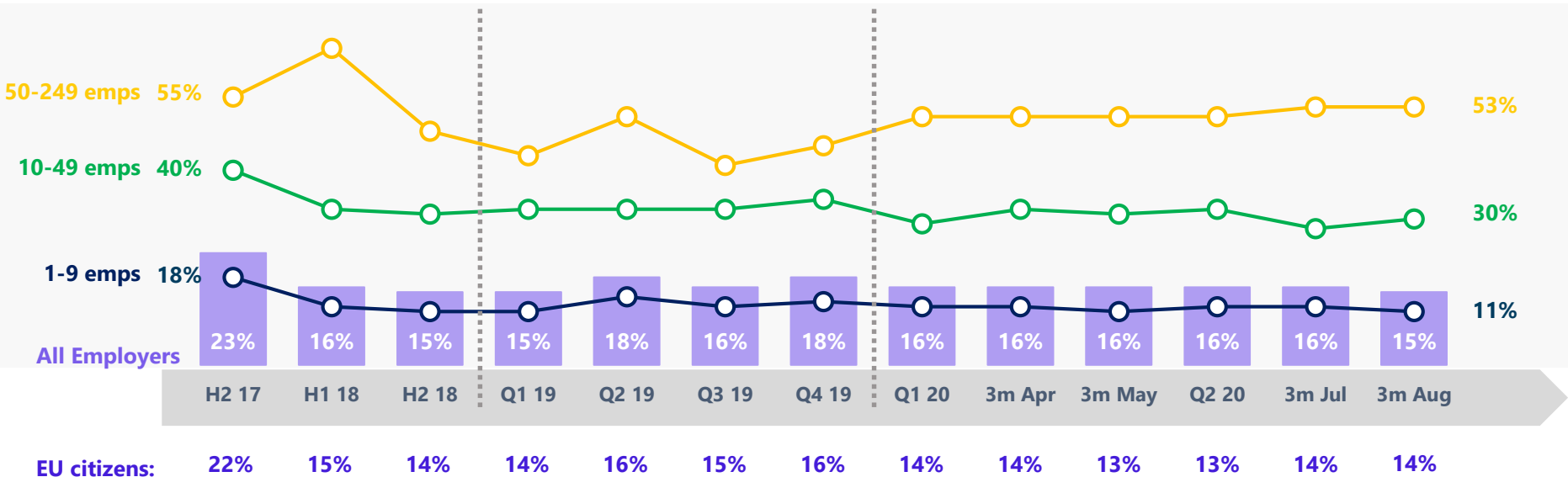
Time series: 8-10 changes in the value of sterling by extent of international trade alongside domestic sales



Rating changes in the value of sterling a major obstacle (8-10)

1 in 6 employers had employees from overseas, typically from the EU. This proportion has been stable since 2018

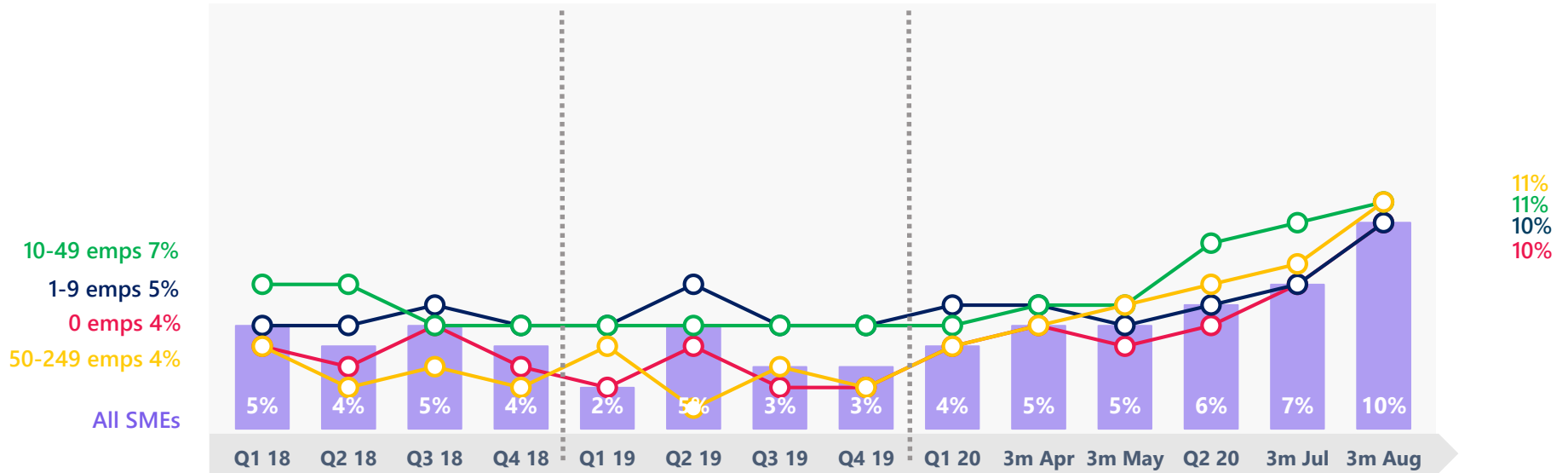
Time series: Employ staff from the EU or elsewhere overseas



When this question was first asked in H2 2017, a quarter (23%) of employers had staff from overseas. Since the start of 2018 this proportion has been lower, currently 16%. In the 3 months to August, 14% of employers had staff from the EU and 6% had staff from elsewhere.

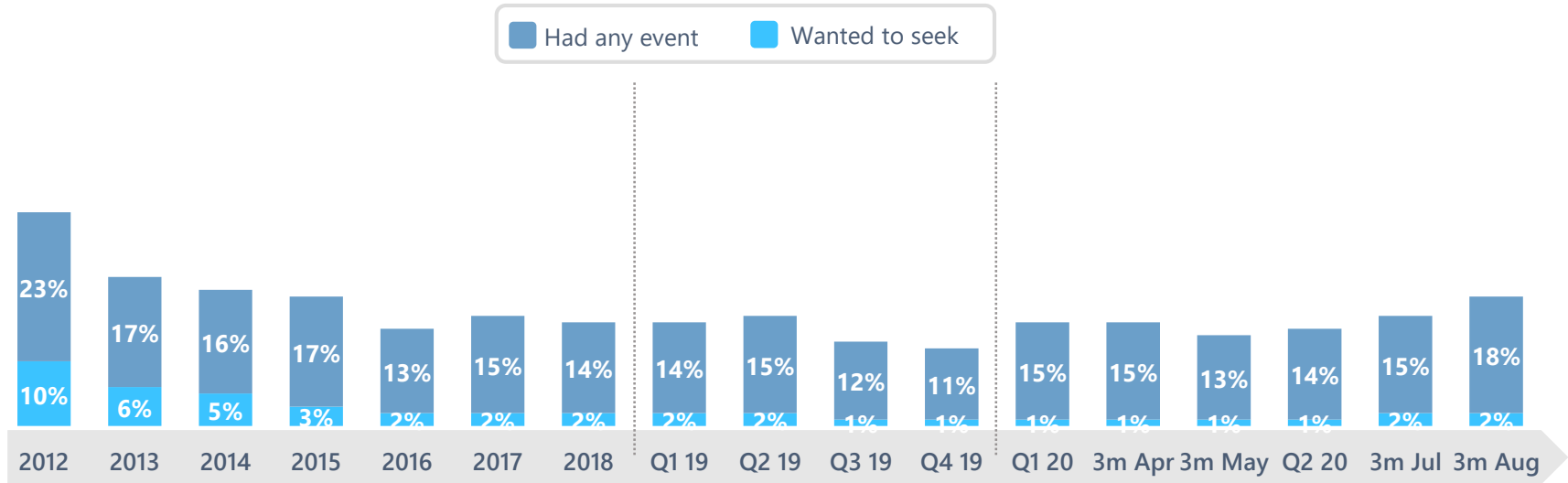
10% of SMEs reported having a need for external funding in the previous 12 months, higher than in 2019. All sizes of SME have seen an increase in need for external funding since the 3m to May 2020

Time series: Had a need for external funding (whether applied or not)



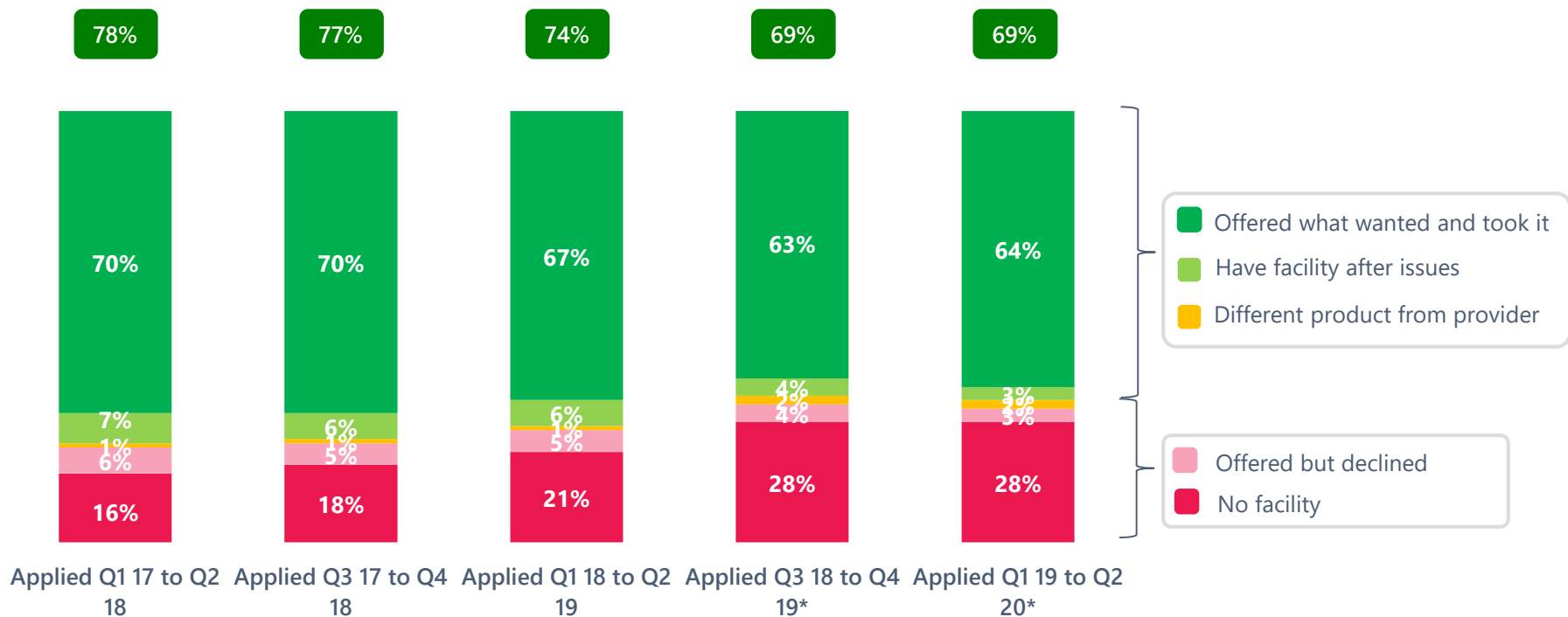
20% of SMEs reported any appetite for finance in the previous 12 months (an event or those who had wanted to seek finance), back to levels seen in 2015

Time series: Any appetite for finance in 12 months prior to interview



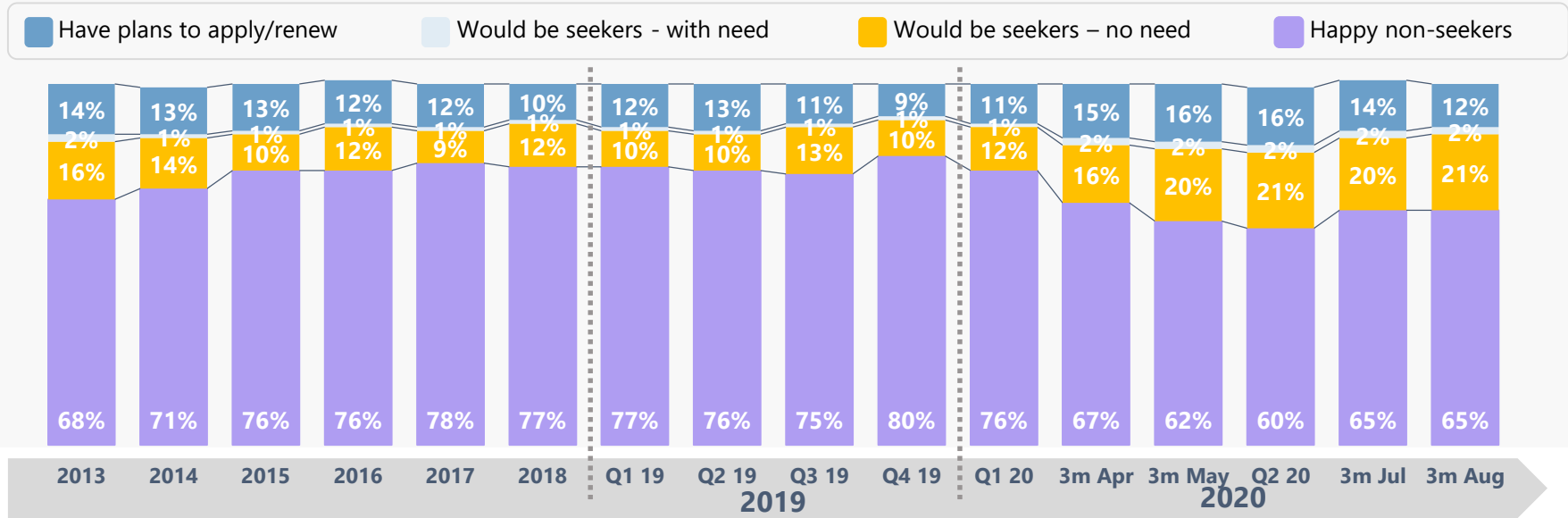
Analysis by application period since 2017 shows a decline in those with a facility and an increase in those offered no facility to over a quarter

Global success rate: all applications reported from Q1 2018 to Q2 2020, occurring in the periods shown



There was a marked increase to Q2 2020 in those planning to apply and those who expect to be 'Future would-be seekers of finance'. Appetite since has been slightly lower but still ahead of 2019 and Q1 2020

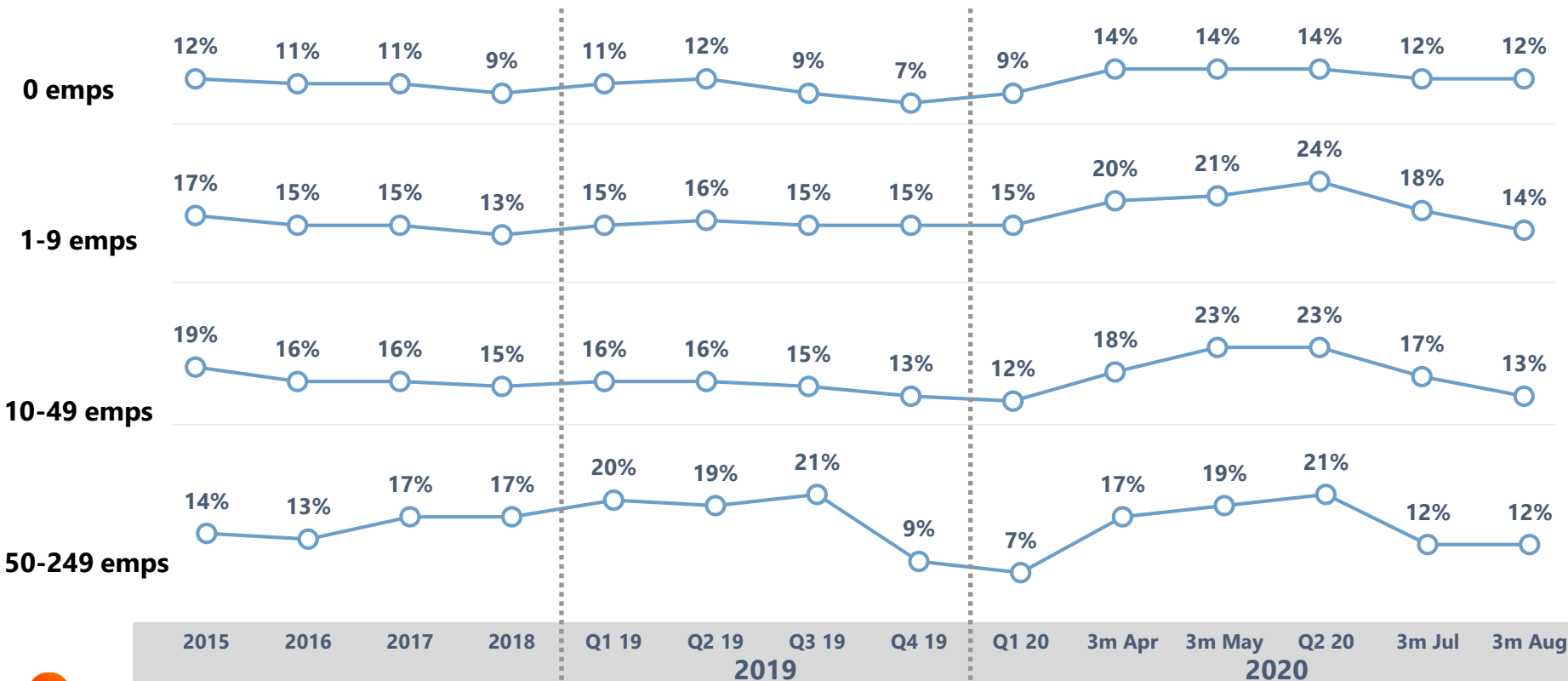
Time series: Anticipated borrowing profile for next 3 months after ...



Each quarter, the majority of SMEs have expected to be “Future happy non-seekers” of finance. The proportion of HNS initially increased over time, to 80% in Q4 2019 but then reduced, to 60% for the 3 months to June and 65% currently. By Q2 2020, the proportion of SMEs planning to apply had increased to 16%, and the proportion of would-be seekers (who would like to apply but feel something would stop them) to 23%, both now slightly lower in the 3 months to August (12% and 23%) but still above the previous peak in 2013

Future appetite for finance increased across all size bands from Q1 to Q2 2020, but more markedly for larger SMEs. In the latest 3 months it was lower, notably for those with employees

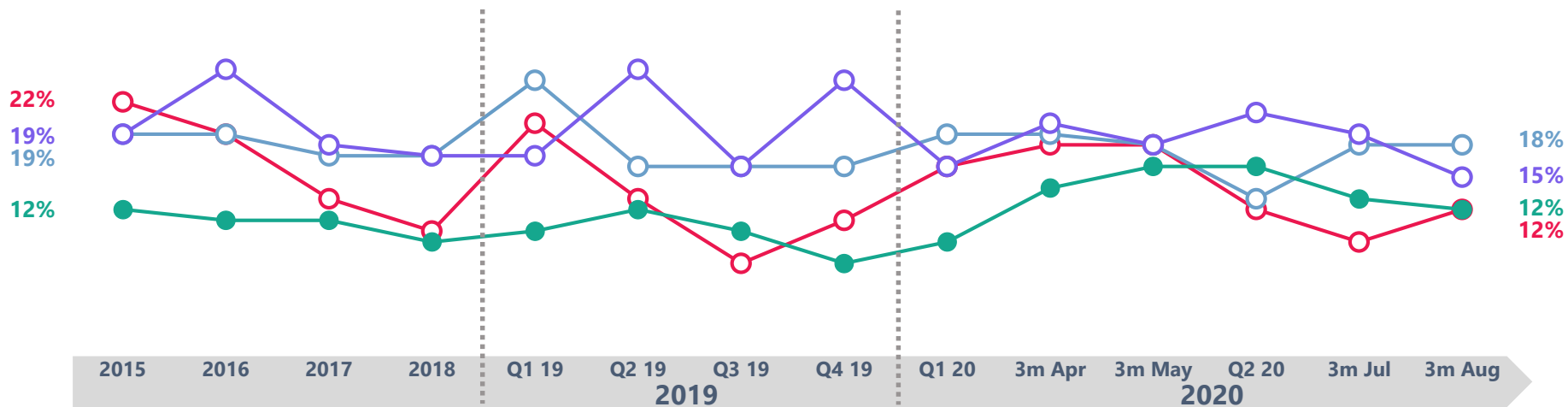
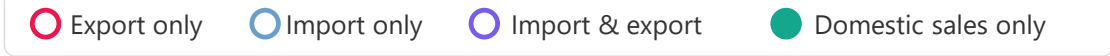
Time series: % planning to apply



Appetite for finance was higher for SMEs with an element of importing to their business, in line with 2019. Appetite amongst export only SMEs has stabilised after recent declines

Time series: plan to apply for finance by extent of international trade alongside domestic sales

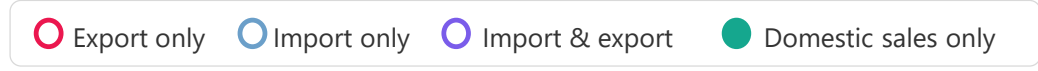
Plan to apply for external finance



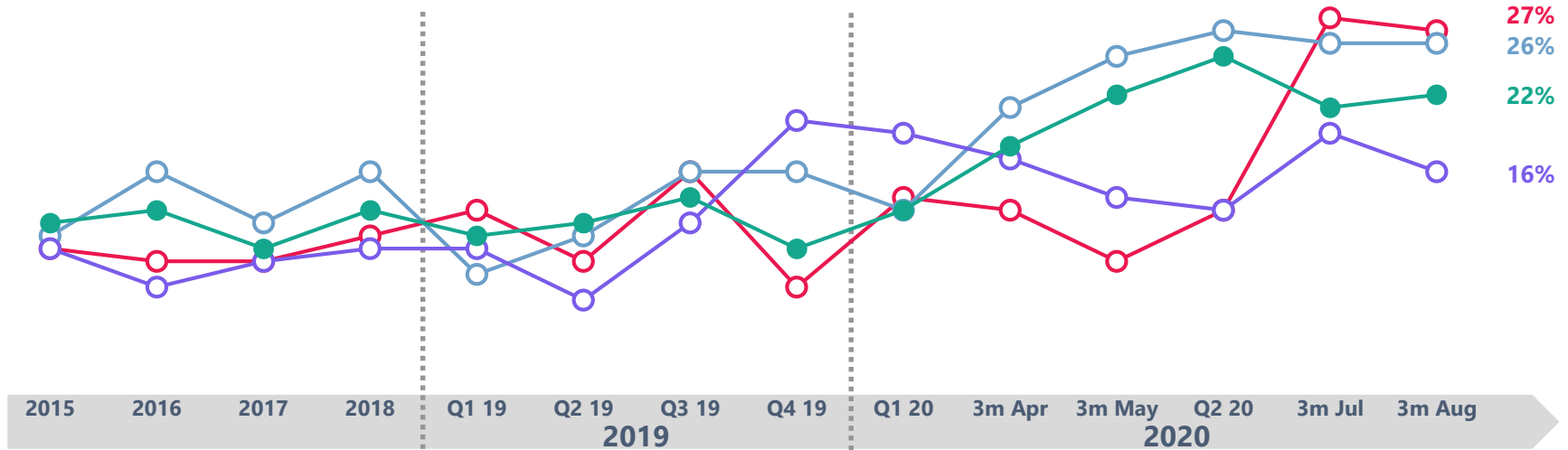
Appetite for finance amongst those that both import and export has varied over time. It fell sharply from the peak of 25% in 2016 to 10% in Q1 2018 and is currently 15%. Appetite amongst domestic SMEs has declined since Q2 2020 and is now in line with export-only SMEs

Export-only and Import-only SMEs remained slightly more likely to meet the definition of a Future would-be seeker

Time series: future would be seekers by extent of international trade alongside domestic sales



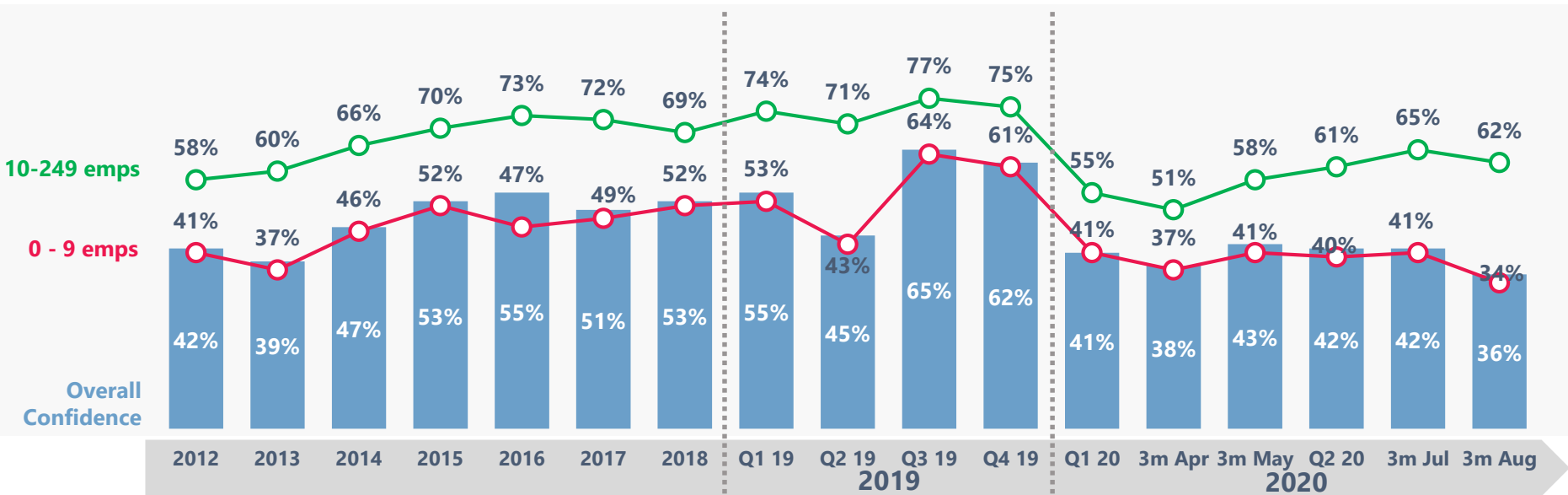
Expect to be a future would-be seeker of finance



Would-be seekers of finance are those who can see a barrier to them making an application for funding in future, such as the current economic climate or a belief that they would not be successful if they applied. SMEs that import have gradually become more likely to meet the definition of a FWBS during 2020, with more recent increases for other international SMEs but no further increases were seen in the latest 3 months to August.

As appetite for finance increased in 2020, confidence that the application would be successful declined to 38% for the 3 months to April and has remained lower due to lower confidence amongst smaller applicants

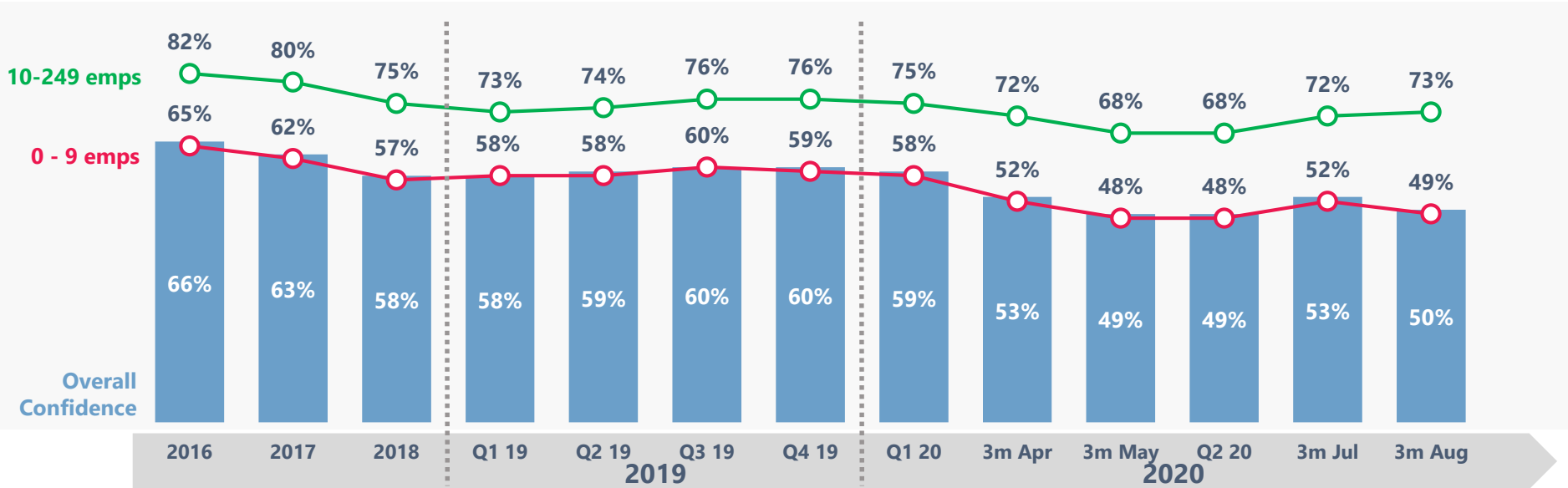
Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by size



Confidence amongst those planning to apply that they would be successful increased to 55% in 2016 but has been more variable since (and always below actual success rates). Confidence improved in the second half of 2019 but declined again to Q1 2020 (41%). Overall, it has been broadly stable since – the slight reduction for the 3 months to August to 36% is due primarily to lower confidence amongst smaller applicants with 0-9 employees (34%) with a widening gap to the larger applicants were 62% are confident

After a period of stability, confidence for hypothetical applicants declined from Q1 to Q2 2020, but has been stable since albeit with a widening gap in confidence between larger and smaller SMEs

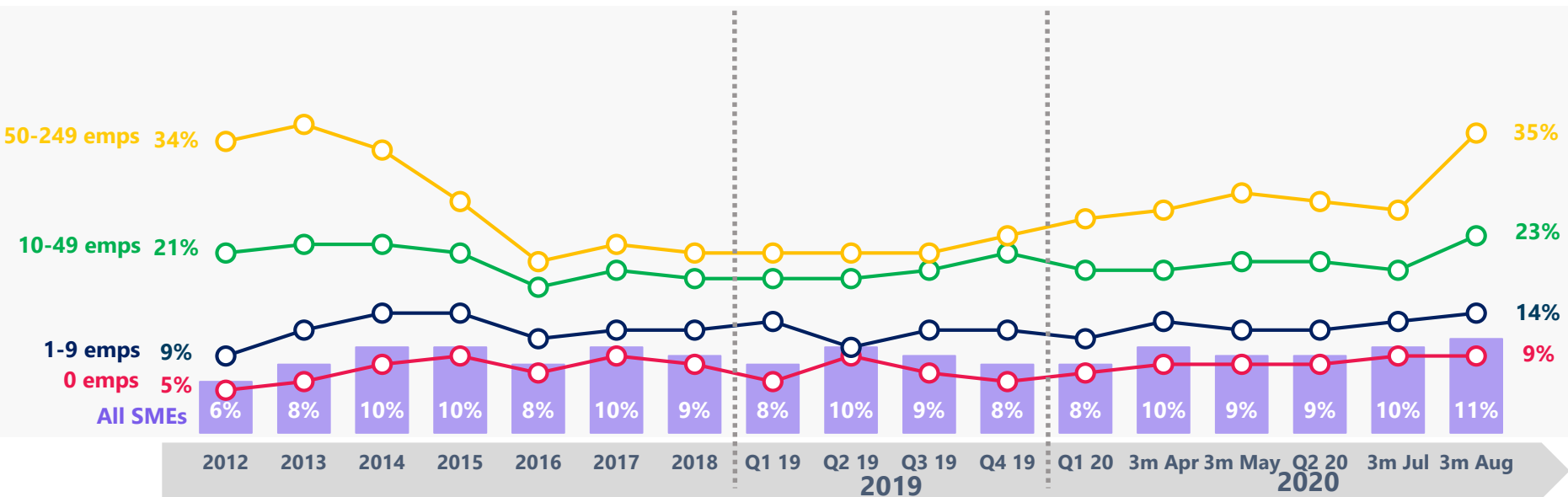
Time series: Confidence (very/fairly) bank would agree to facility next 3 months – by size



Half (50%) of those with **no plans** to apply to a bank for finance are confident of a hypothetical success. Larger hypothetical applicants remain somewhat more confident than smaller ones, and more confident than those of a similar size who are planning to apply (73% v 62%). Smaller hypothetical applicants are less confident of success, compared to larger hypothetical applicants but are also more confident than those of a similar size planning to apply (49% v 34%, see previous slide for those *with plans*)

The proportion of all SMEs that export remained broadly stable, currently in line with Q2 2019, but with more of the larger SMEs reporting that they export

Time series: Exporters



The proportion of exporters increased from 6% in 2012 to 10% in 2014 and 2015. Since then the proportion has been fairly stable (8-10%) and is 11% for the current period.

Quality Standards and Other Details

BDRC is certified to ISO 20252 and 27001, the recognised international quality standards for market research and information security.

- Adherence to the standard is independently audited once per year.
- Where subcontractors are used by BDRC, they are assessed to ensure any outsourced parts of the research are conducted in adherence to ISO 20252 and 27001.

All work will be carried out in conformity to these standards, the MRS Code of Conduct, and all relevant legal requirements

