

# SME FINANCE MONITOR

3 month rolling analysis to end  
November 2020

An independent report by  
BVA BDRC, December 2020



# Introduction

The SME Finance Monitor was established in 2011 and provides detailed analysis of SMEs and their access to finance, typically on a half yearly basis. More detailed analysis to Q3 2020 was published in November 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 September to November 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.

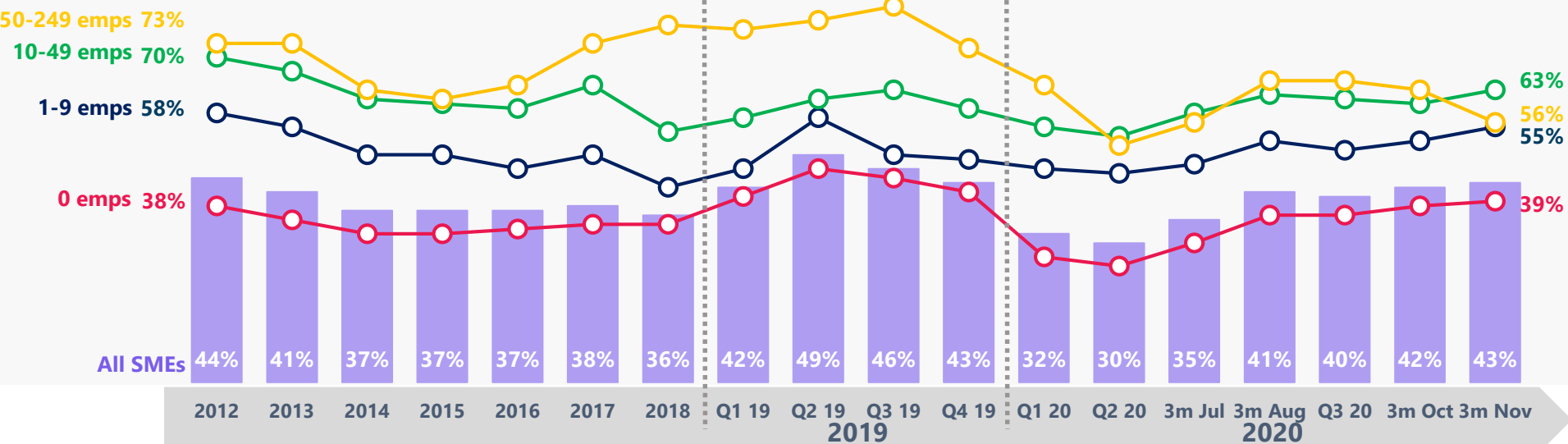
However, there have been slight changes to the “types of finance used” question and also to the definition of a “Permanent non-Borrower”. These initial results do not suggest the changes have had a major impact on results but will be monitored over time.

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.

43% of SMEs were using external finance, back at levels seen in Q4 2019. This is after a sharp decline in the early months of 2020, to 30% in Q2

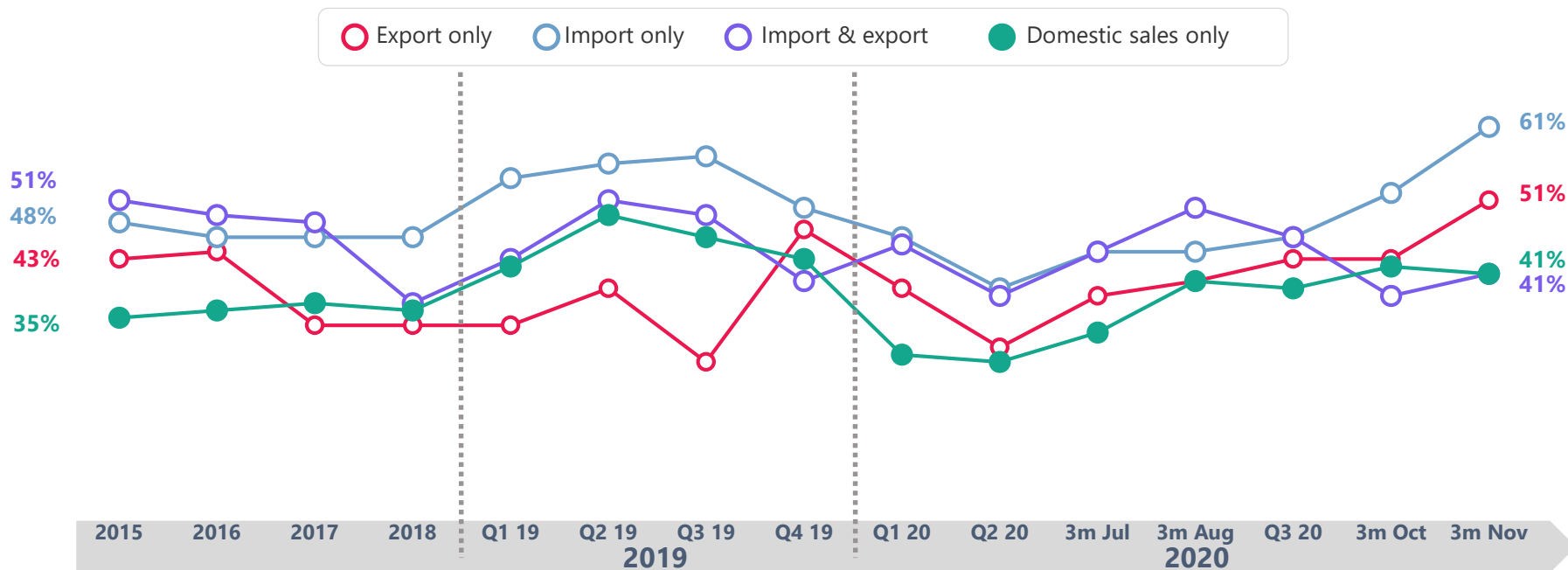
*Time series: use of external finance per quarter*



For 2019 as a whole, 45% of SMEs were using external finance, but from Q2 2019 usage declined, to 30% for Q2 2020. Since then the use has grown, and was 43% for the 3 months to November with, in particular, an increase since Q2 in the proportion of 0 employee SMEs using finance (25% to 39%)

Use of finance increased on the 3 months to August position for Import only and Export only SMEs, is currently stable for Domestic SMEs and has declined amongst SMEs that both Import and Export, from 50% to 41%

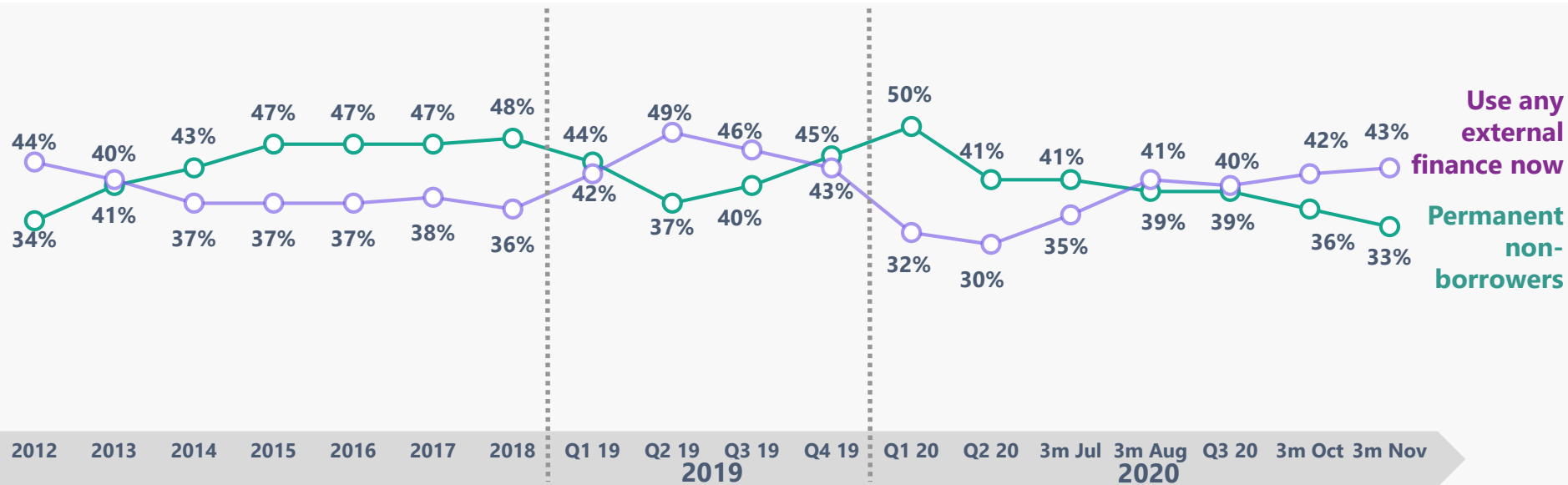
*Time series: use of external finance by extent of international trade alongside domestic sales*



**Use any external finance**

As the use of finance increased from Q2, the proportion of PNBs was initially stable in Q3 2020 but has declined to 33% in the current period. 24% of SMEs were not using finance but are not discounting it entirely, down from 29% in Q2 2020

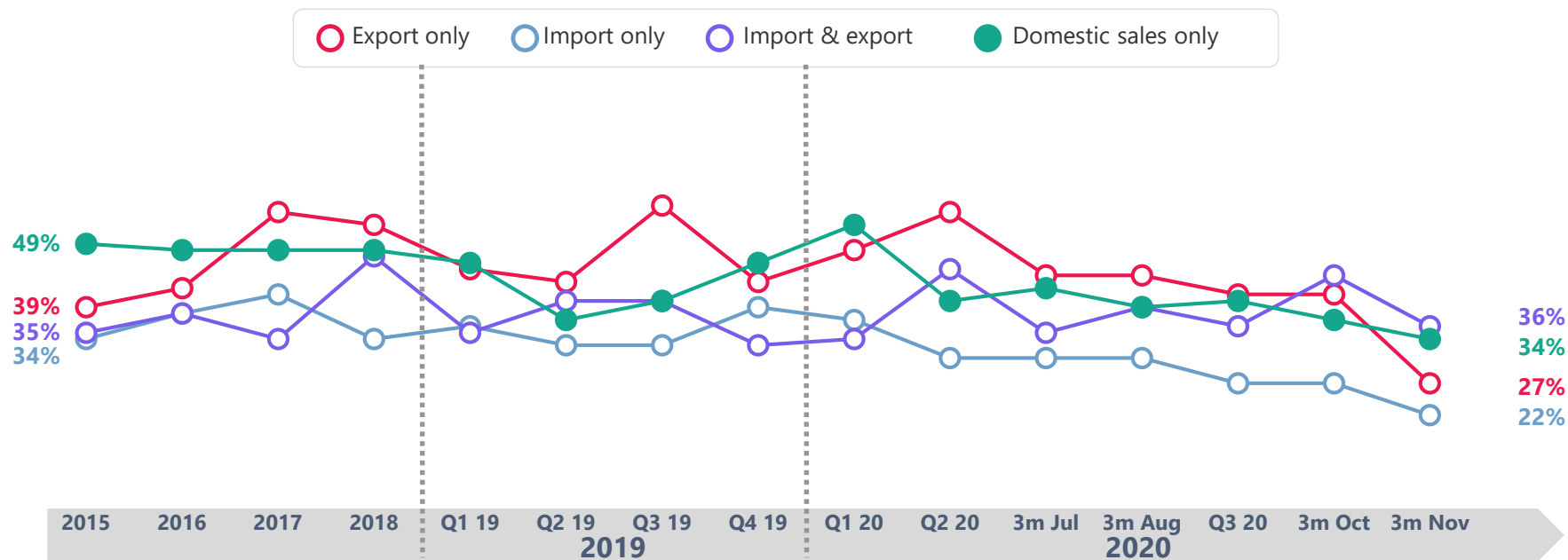
Time series: Permanent non-borrowers and users of external finance



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 33% is one of the lowest seen on SME FM to date. 24% of SMEs neither used external finance, nor met the definition of a PNB, down 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

# Import-only SMEs remain the least likely to be a PNB with Export-only SMEs moving in that direction. Fully international and Domestic SMEs were more likely to be a PNB

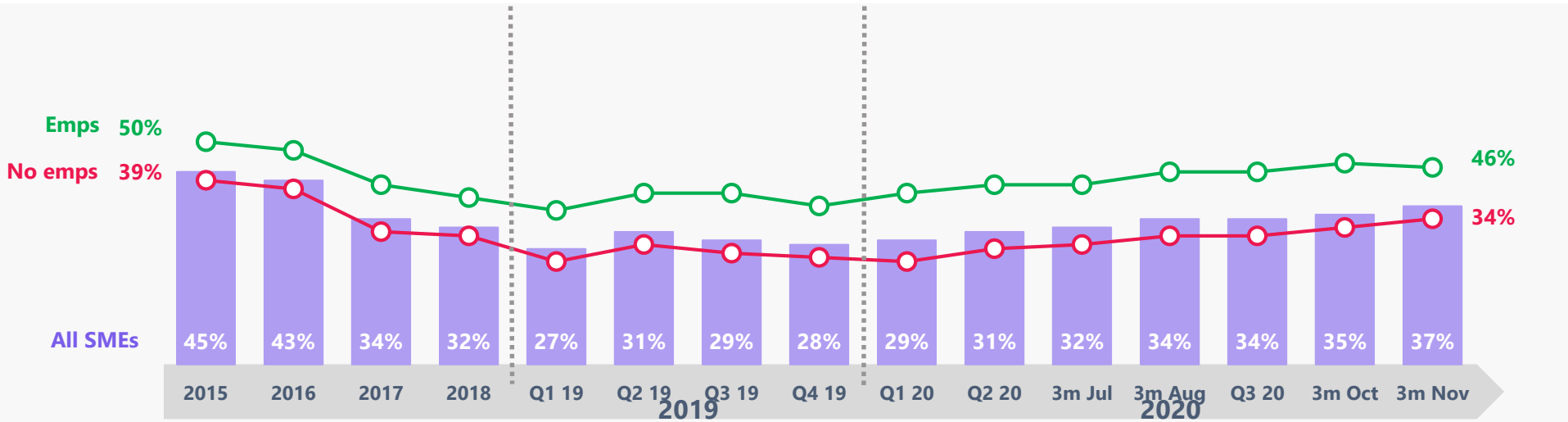
*Time series: Permanent non-borrowers by extent of international trade alongside domestic sales*



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

# 37% of SMEs were happy to use finance to grow, a further increase since Q1 2020, led by the smaller SMEs and a higher proportion than has been seen since 2016

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

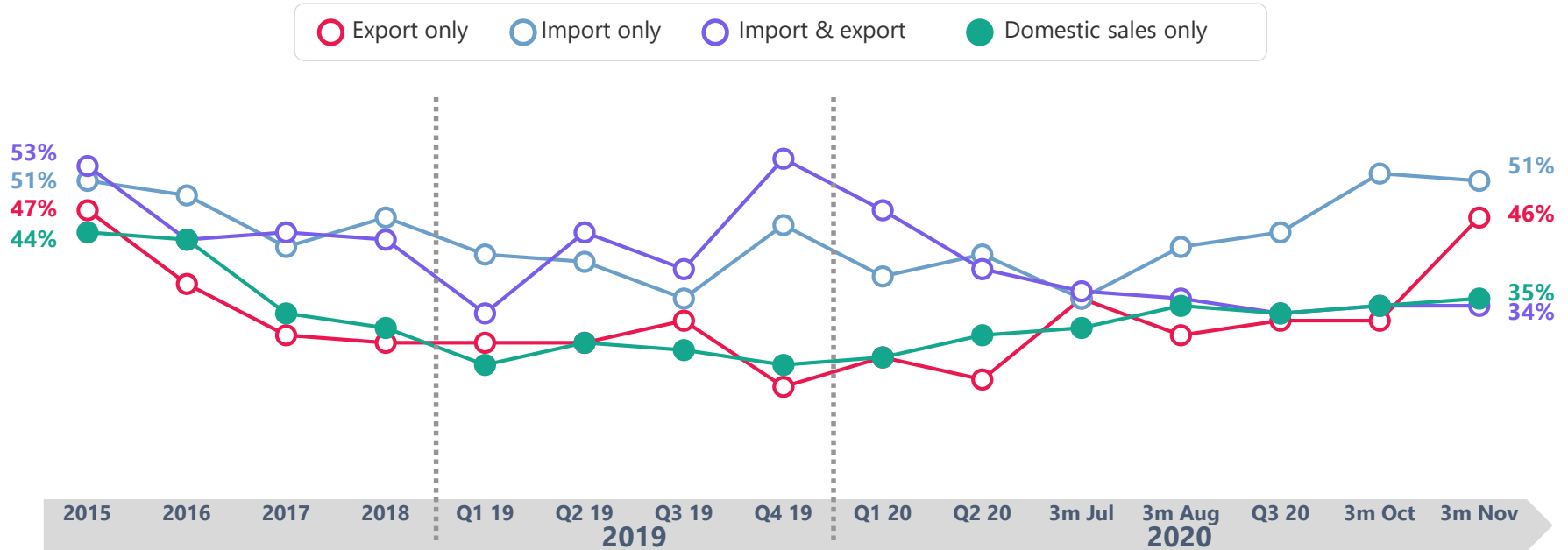


After remaining stable during 2016, the proportion of SMEs happy to use finance to grow declined to a third for 2017 and 2018. By Q1 2019 the proportion had declined again to around 3 in 10 SMEs (27%). It has since increased steadily since Q1 2020, to 37% for the 3 months to November, with larger SMEs remaining more likely to have an appetite for finance.



Import-only and Export-only SMEs, who were increasingly likely to be using finance, also showed an increasing willingness to borrow to grow. Appetite amongst other International and Domestic SMEs was more stable

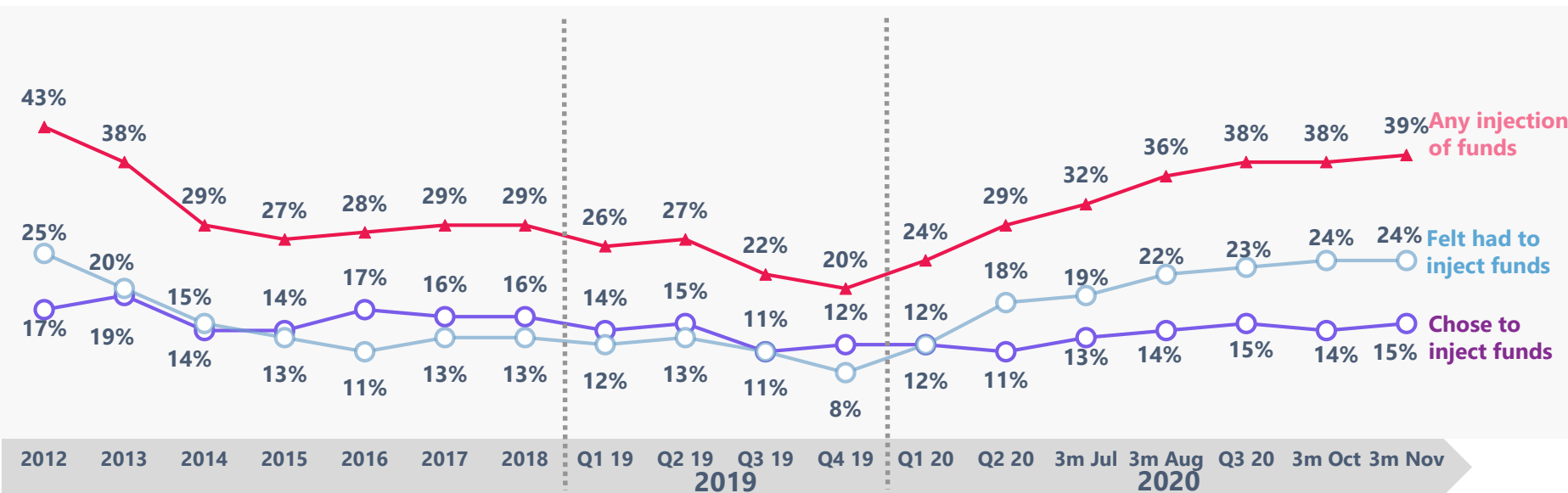
*Time series: Agree that happy to use external finance to help business grow*



**Agree that happy to use external finance to grow**

39% of SMEs have injected personal funds, little changed from Q3 but now a higher proportion than that seen in 2013. From Q4 2019, there has been a steady increase in the proportion of SMEs that felt that they had to inject funds to 24%.

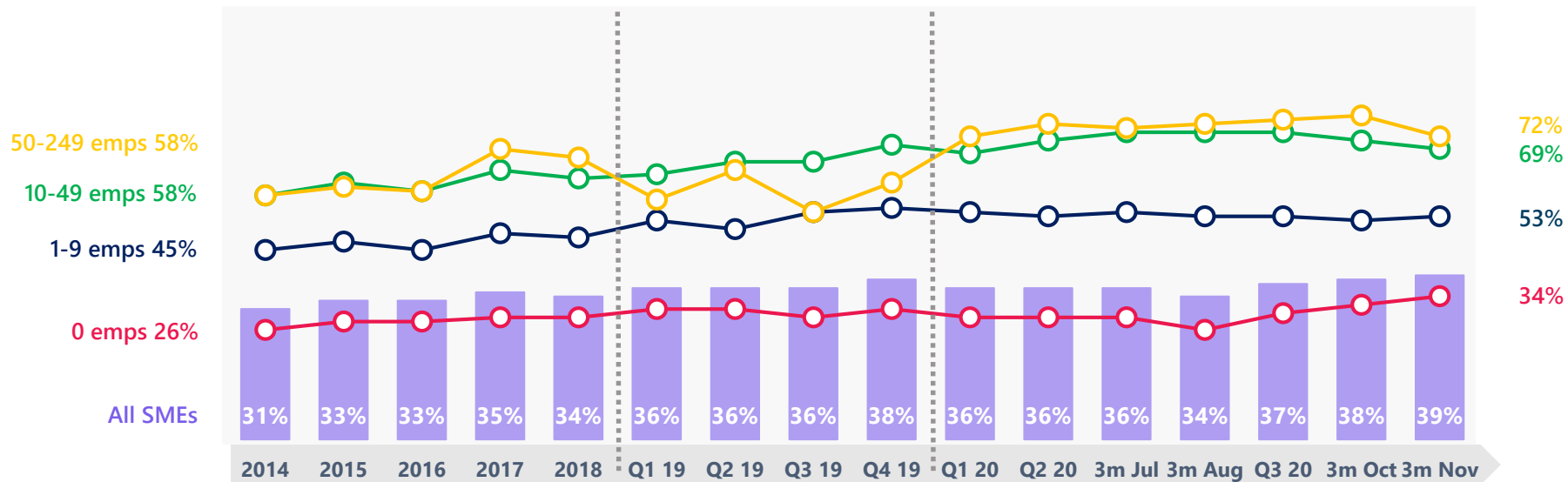
*Time series: Injections of personal funds in previous 12 months*



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 has increased Q1 to Q3 2020 and for the 3 months to November 2020 was 39%, a higher proportion than has been seen since 2013, with more SMEs feeling that they had to inject funds (24%).

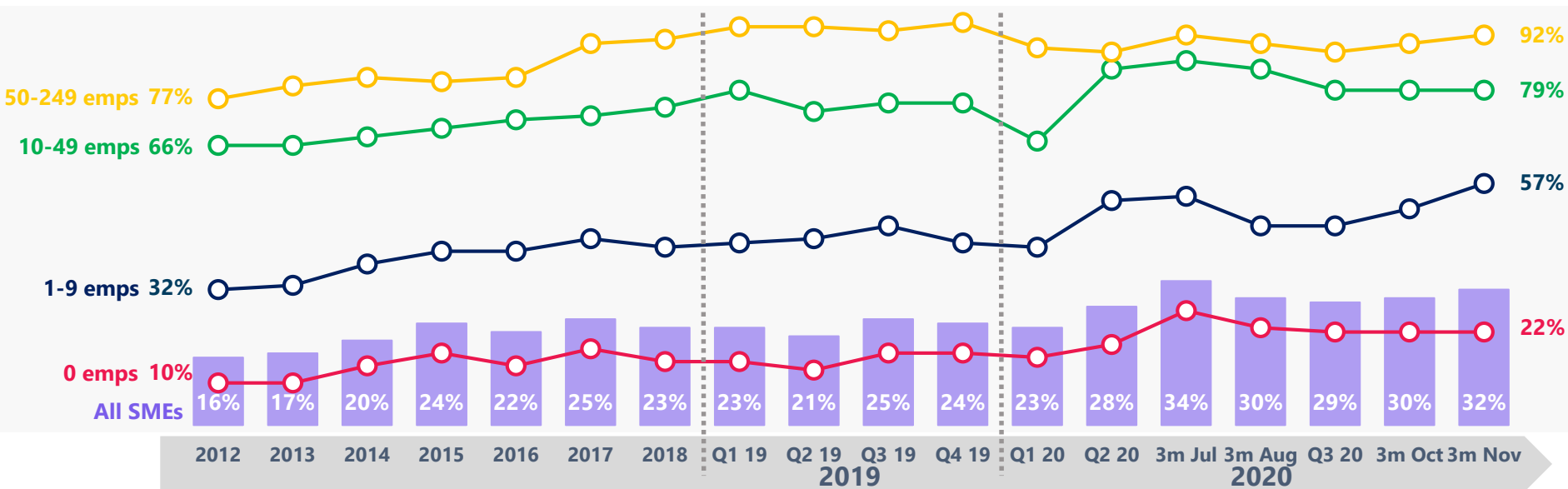
# 39% of SMEs were using trade credit, with little change since 2019

Time series: : Using trade credit



32% of SMEs held more than £10,000 of credit balances, maintaining the increase seen since Q1. SMEs with 1-9 employees have seen a steady increase in recent periods in the proportion holding such sums

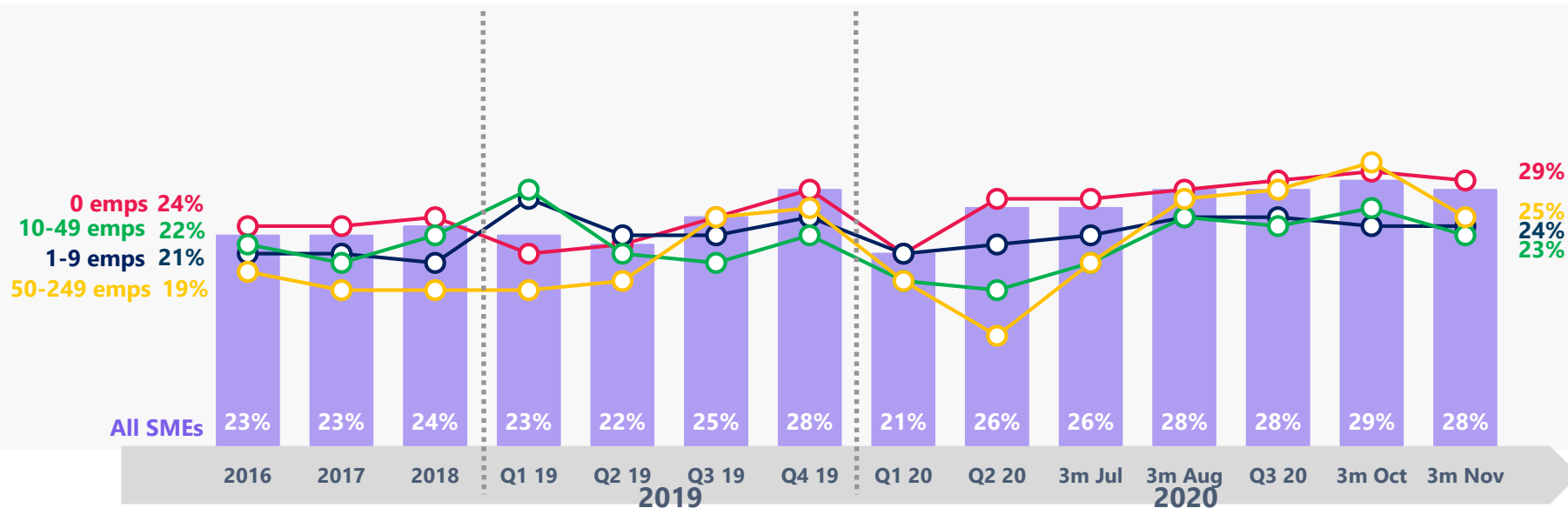
Time series: £10k credit balances held



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 November was close to that "peak" (32%) with a steady recent increase in the proportion of SMEs with 1-9 employees holding such sums (from 42% in Q1 to 54% in July and 57% currently)

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 a strong improvement from Q2 to October for those with 50-249 employees

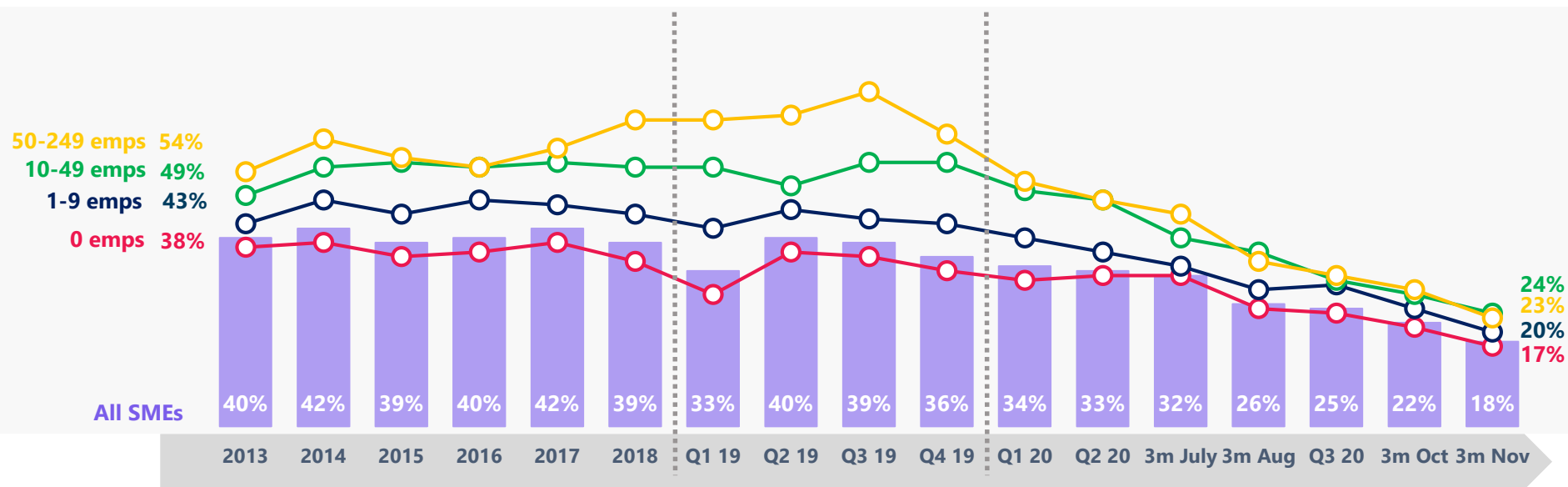
*Time series: % of turnover held as credit balances*



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 November 2020, SMEs held the equivalent of 28% of their turnover in credit balances on average, in line with Q3 and the 28% recorded for Q4 2019. The largest SMEs with 50-249 employees saw the biggest decline to Q2 (28% to 10%, the equivalent of 1.2 months of turnover). The 3 months to October figures showed an increase to 31%, the highest level recorded to date on SME FM, followed by a slight reduction to 25% currently

# The proportion of SMEs reporting growth in the last year decreased again to 18%, the lowest level seen to date. 6 in 10 SMEs had declined, up from 2 in 10 in 2019

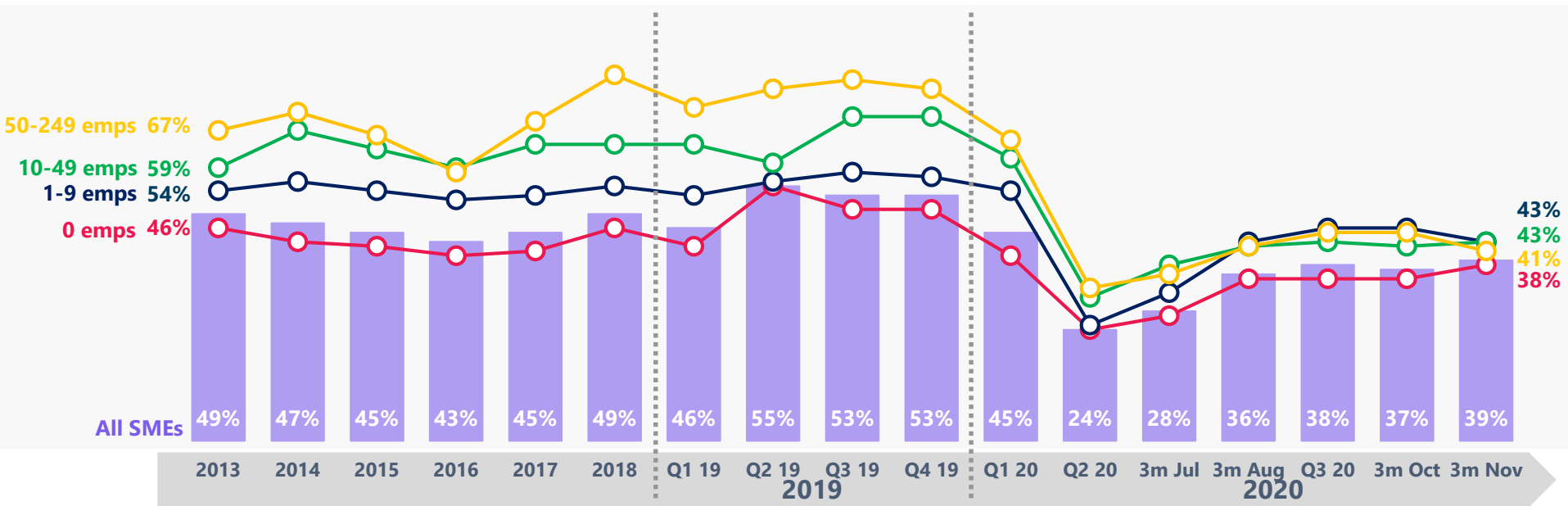
Time series: Have grown (excluding Starts)



Between 2012 and 2019, the proportion of SMEs (excluding Starts) reporting growth varied little (39-42%). In 2019 as a whole 37% reported having grown, due to lower growth figures in Q1 of that year. Reported growth in 2020 was initially broadly stable (32-34% up to the 3 months to July) but has declined since (18% for the 3 months to November) and across all size bands. In 2019, 19% of SMEs had declined, remaining at a similar level for H1 2020, but as the pandemic made more of an impact on past performance, the proportion increased again to 46% for Q3 and 59% for the 3 months to November

Initially in 2020, growth ambitions declined markedly. Since Q2 however, as reported growth declined, growth ambitions improved and are currently stable, albeit at lower levels than previously seen

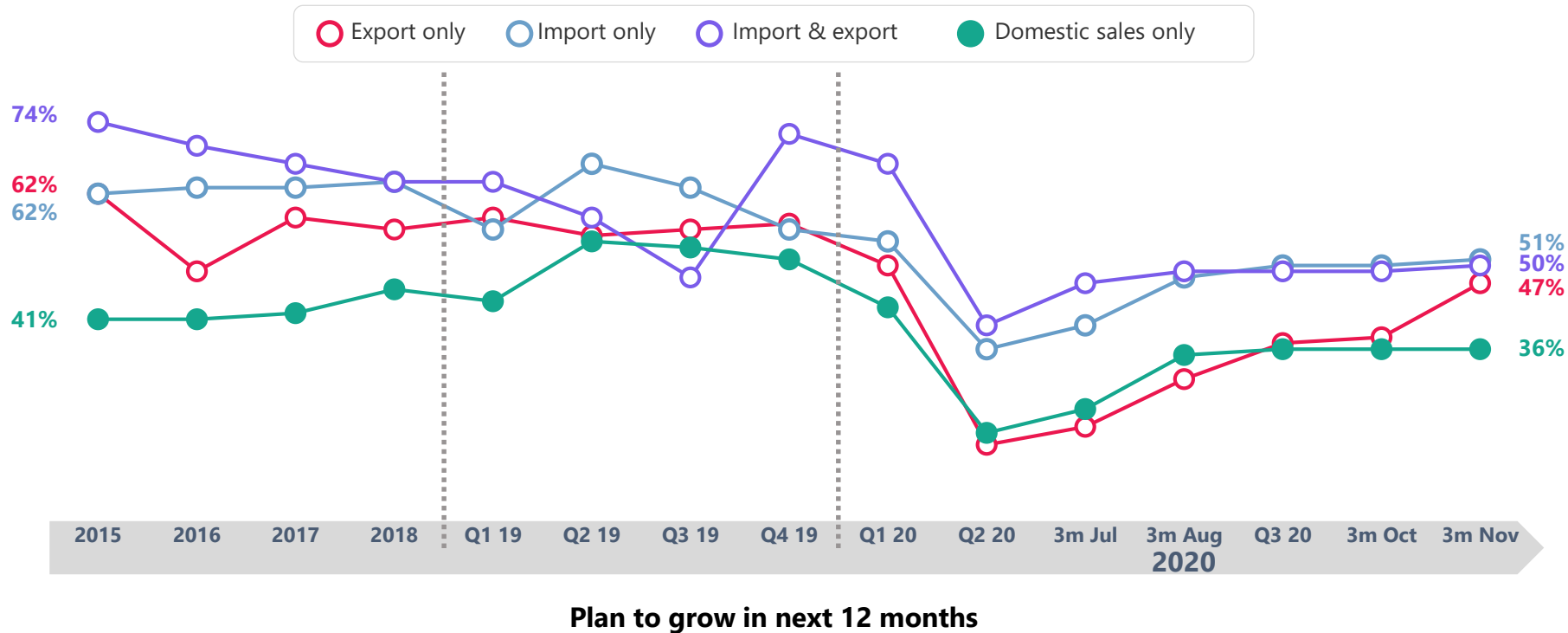
*Time series: Have plans to grow*



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 Q2. Since then, growth aspirations have increased (39% for the 3 months to November) and in each size band, albeit still at lower levels than previously seen.

# The growth ambitions of SMEs with an element of importing have stabilised since August, while those of export-only SMEs have increased in the most recent period, separating them from Domestic SMEs

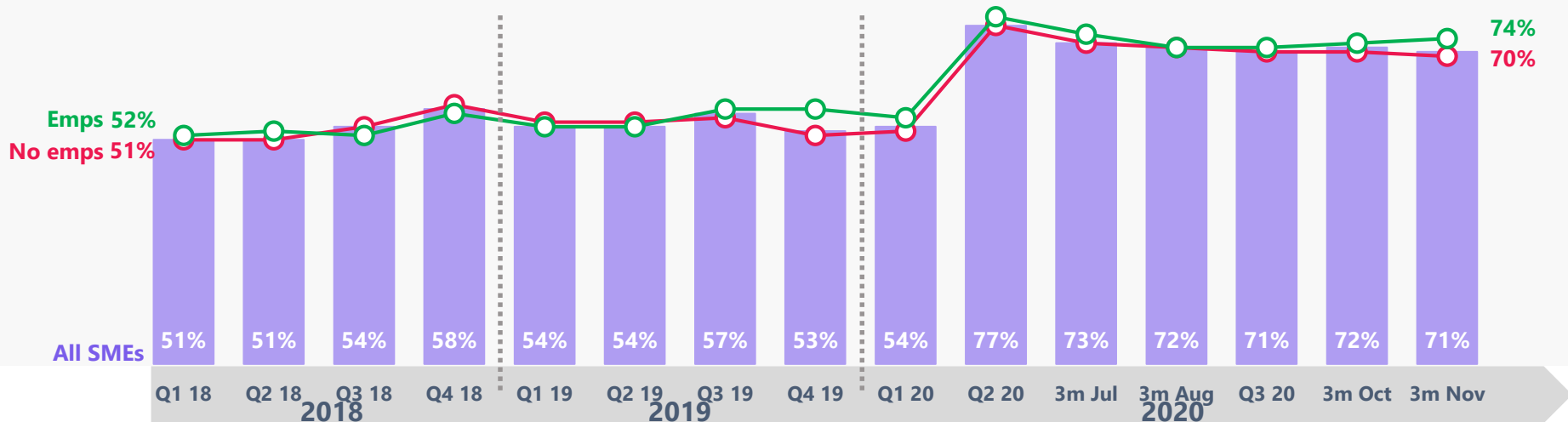
Time series: Growth plans by extent of international trade alongside domestic sales





# A stable 7 in 10 SMEs were being cautious due to the future feeling uncertain, still markedly higher than in 2019 but slightly lower than the 77% reported in Q2 2020

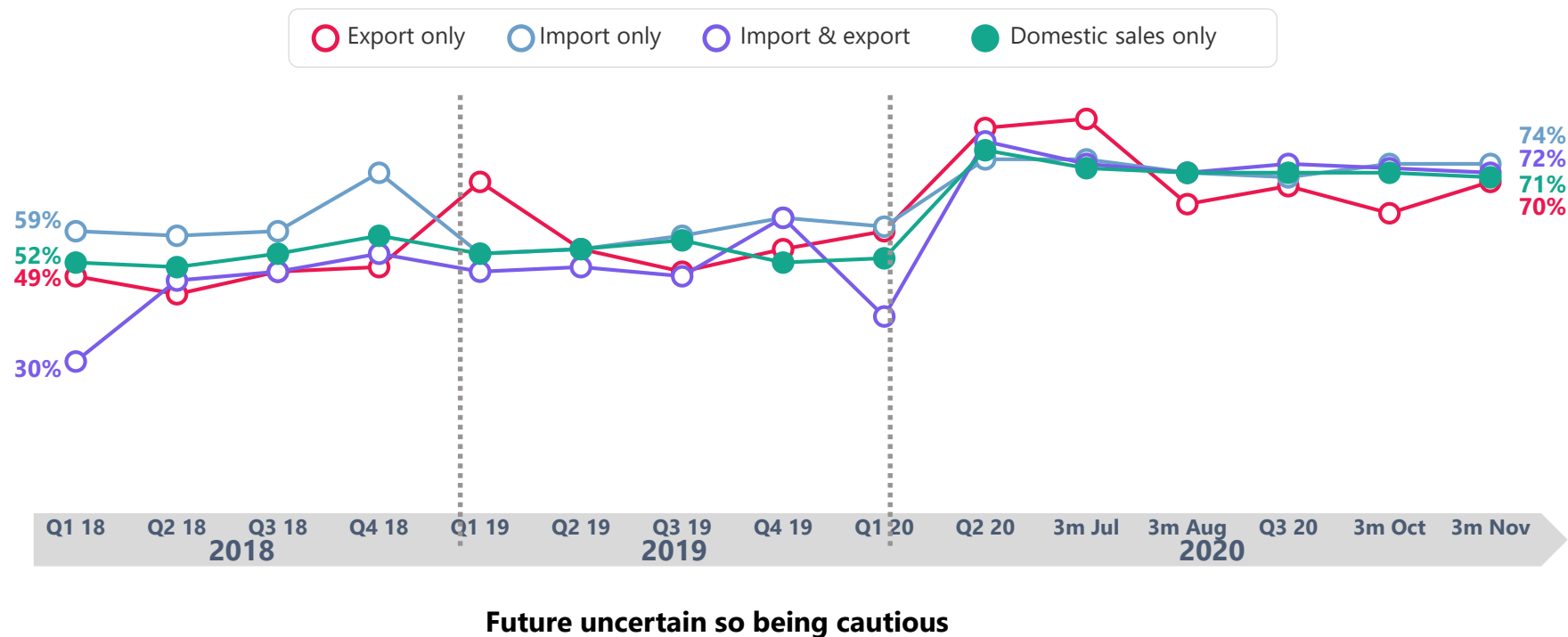
*Time series: Agree that future is uncertain so being cautious*



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, but did not increase further for Q3 (71%), and was unchanged for the 3 months to November (72% overall), still markedly higher than 2019.

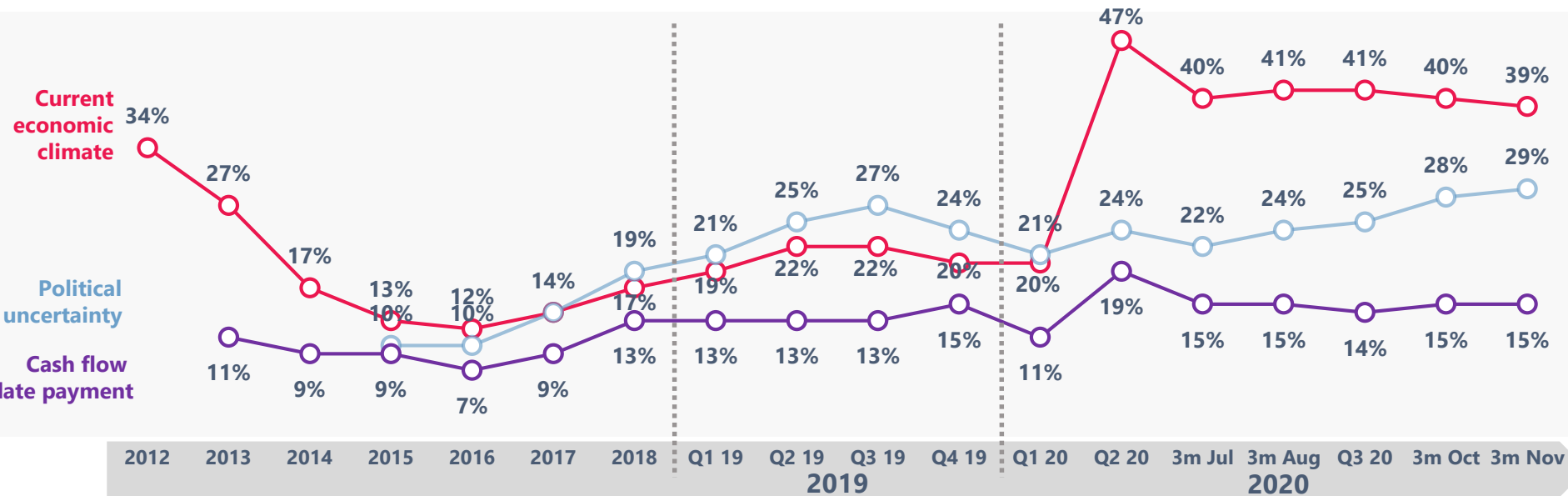
There is currently little to choose between levels of caution by international or domestic trade.

*Time series: Agree that future is uncertain so being cautious*



## 4 in 10 SMEs saw the current economic climate as a major barrier, little changed from the 3m to July but lower than in Q2 2020. There has been a slight but steady increase in political uncertainty as a barrier

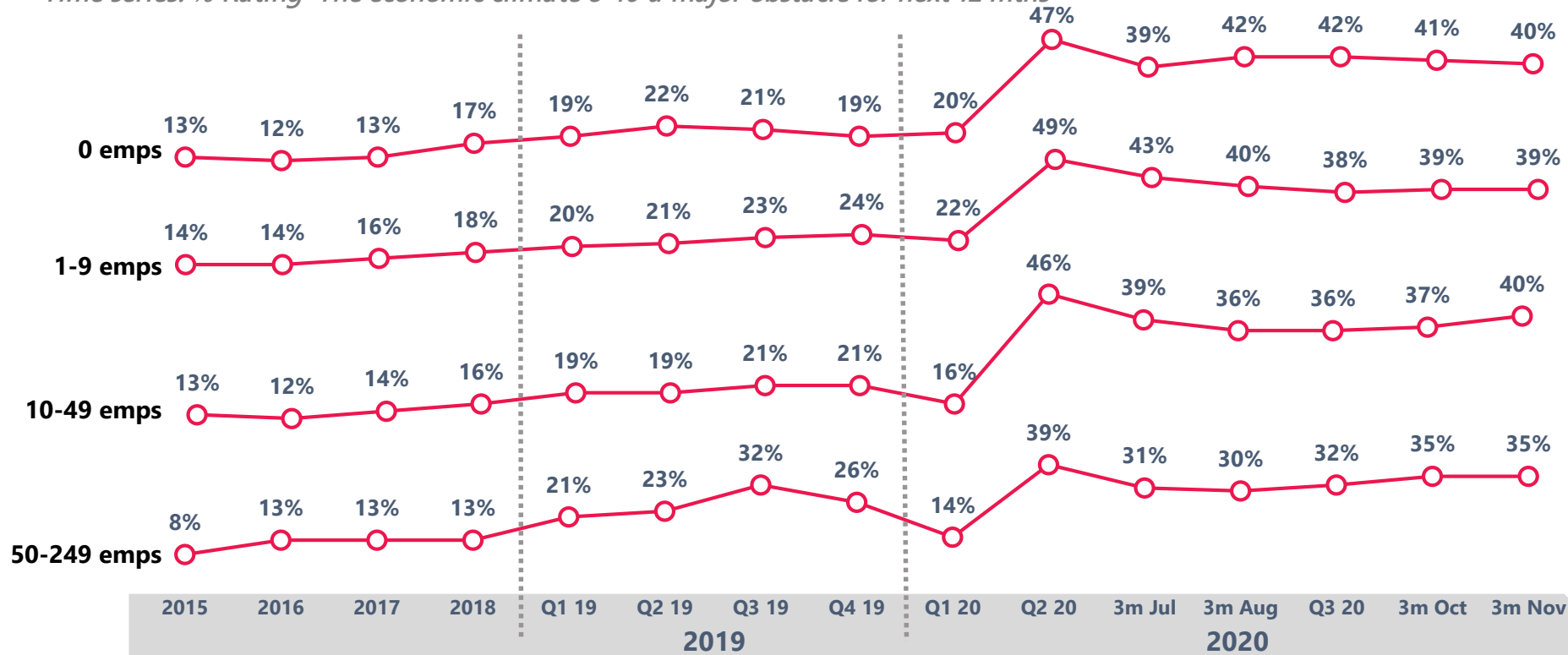
Time series: 8-10 Major obstacle to running business in next 12 months



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 (39-41%) since. Concern about political uncertainty has increased in the current period and is now ahead of Q3 2019, while the proportion seeing cash flow and late payment as a barrier is more stable

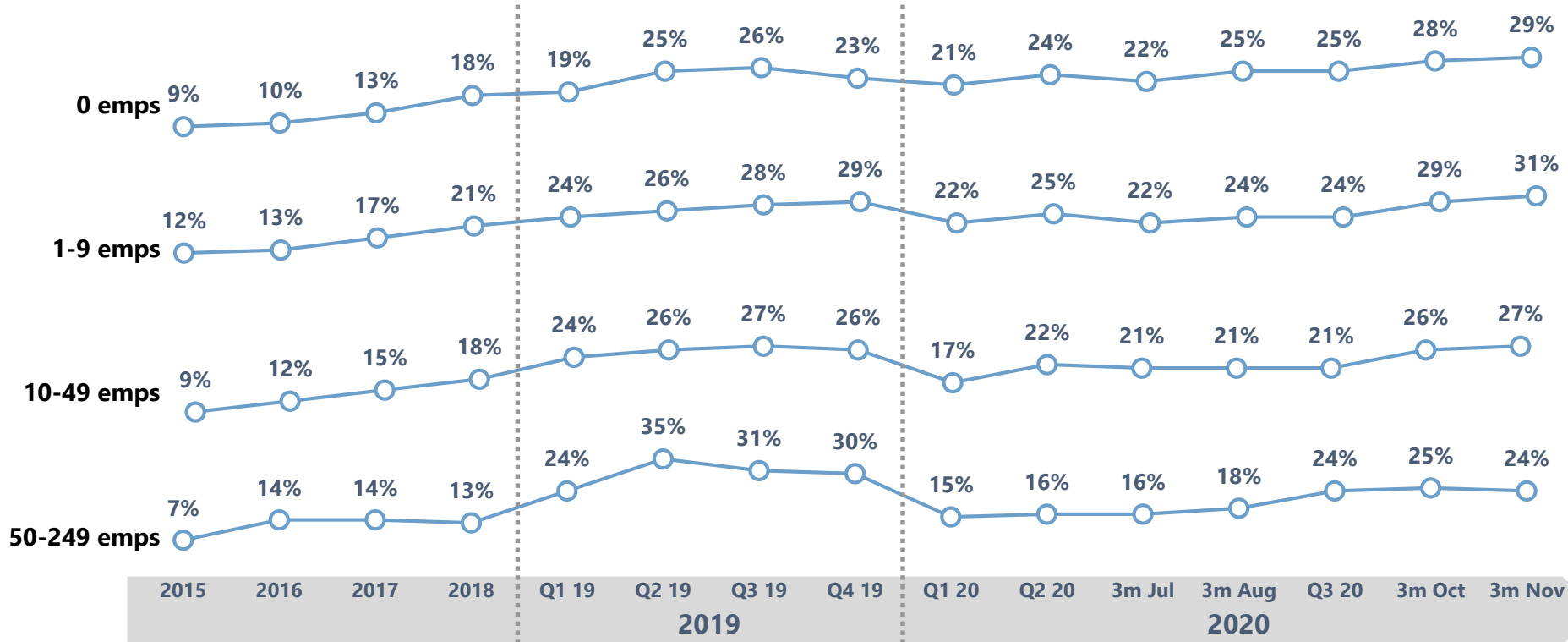
# Concern about the economic climate increased markedly from Q1 to Q2 2020 across all size bands. A slightly lower level of concern has been seen since, but still clearly higher than in 2019

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



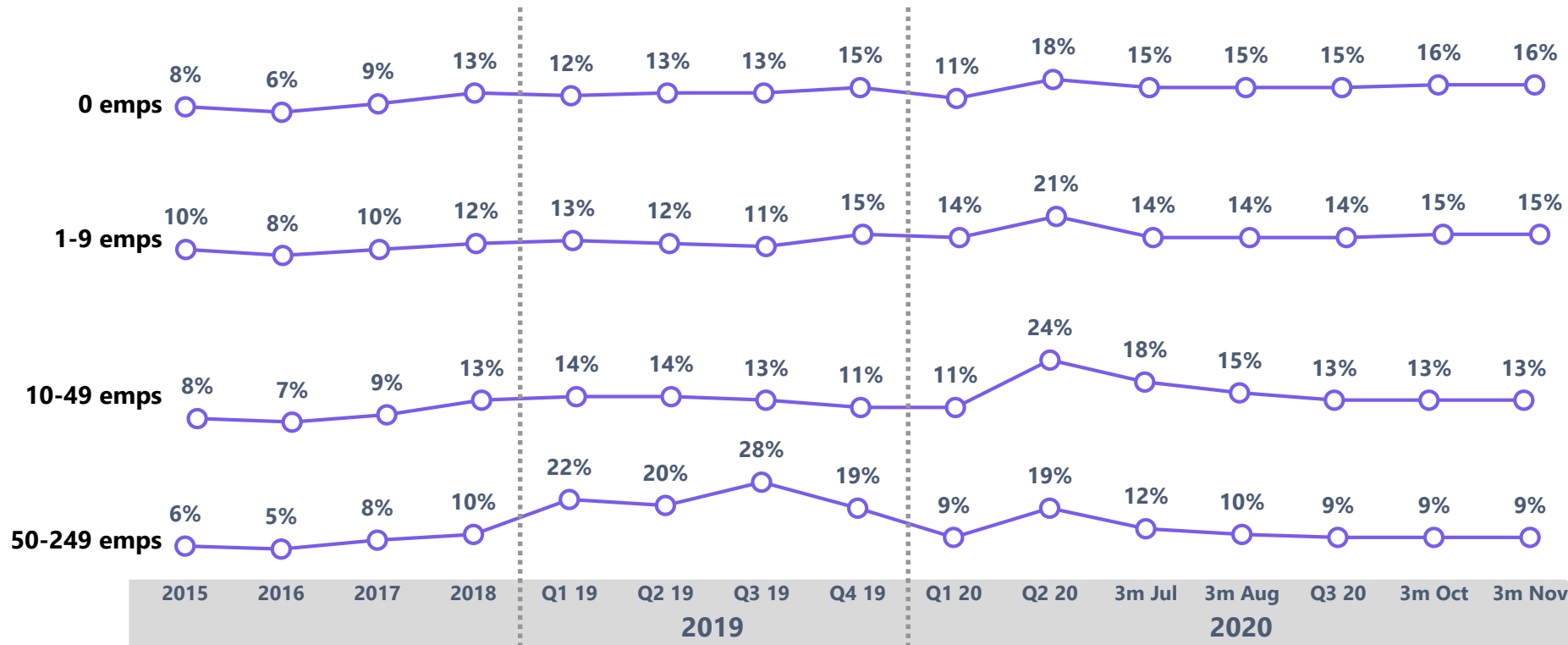
# Concern about political uncertainty started to increase from Q3 2020, and is above 2019 levels for SMEs with 0 and those with 1-9 employees

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



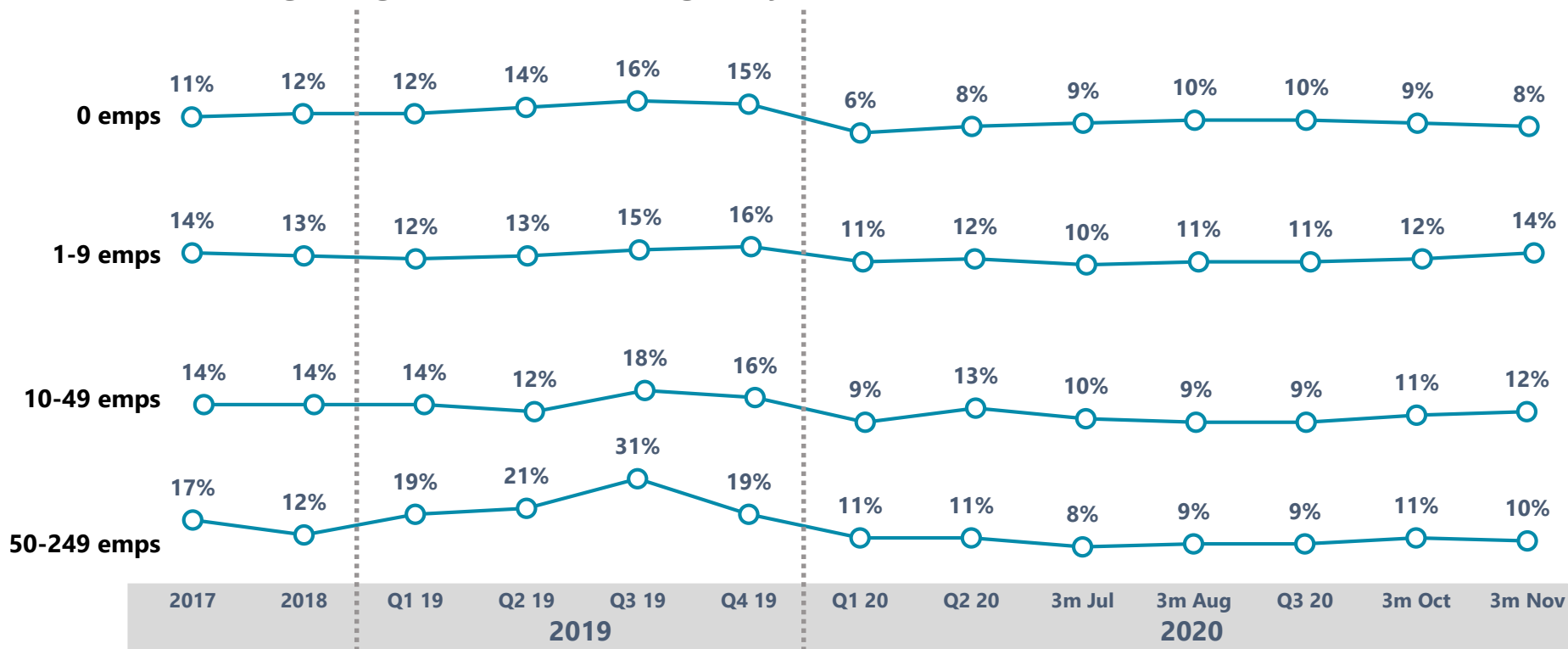
# Levels of concern about cash flow and late payment increased from Q1 to Q2 2020 for all size bands, but have reduced and stabilised since, especially for those with employees

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



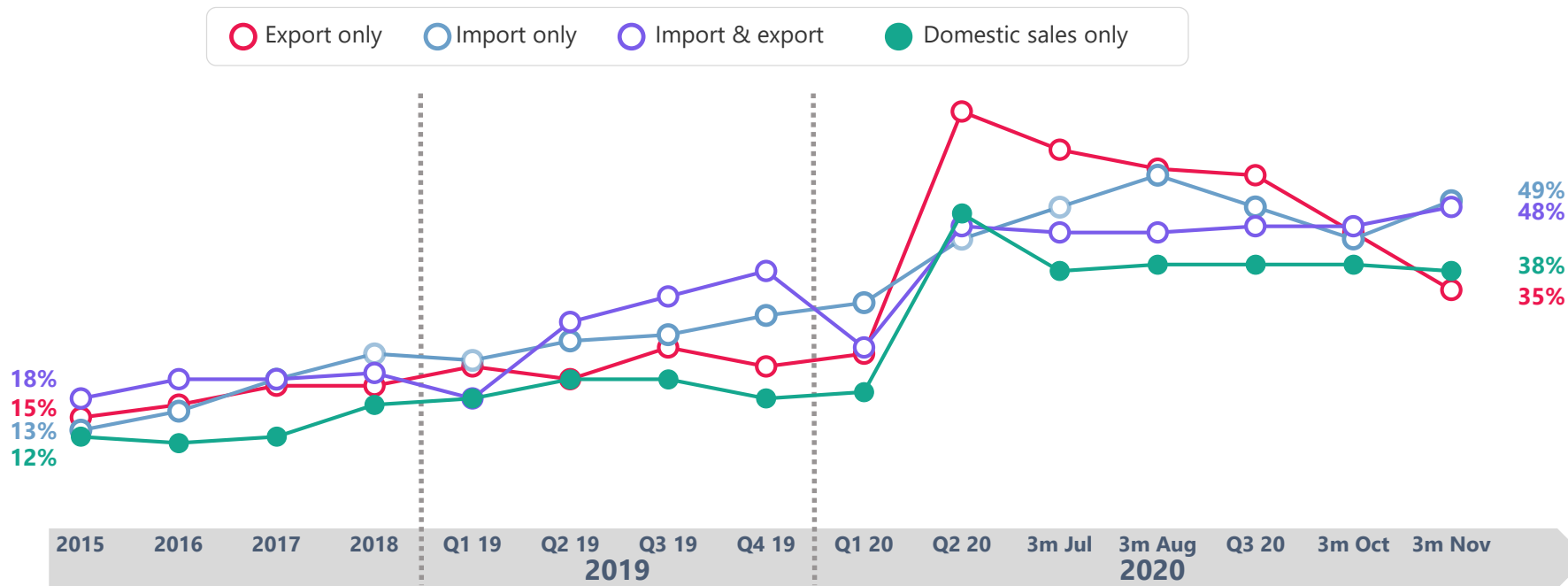
## Levels of concern about the value of sterling have been broadly stable in 2020

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



# Export only SMEs have become less concerned about the economic climate since Q2 2020 and now have a lower level of concern than Domestic SMEs

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

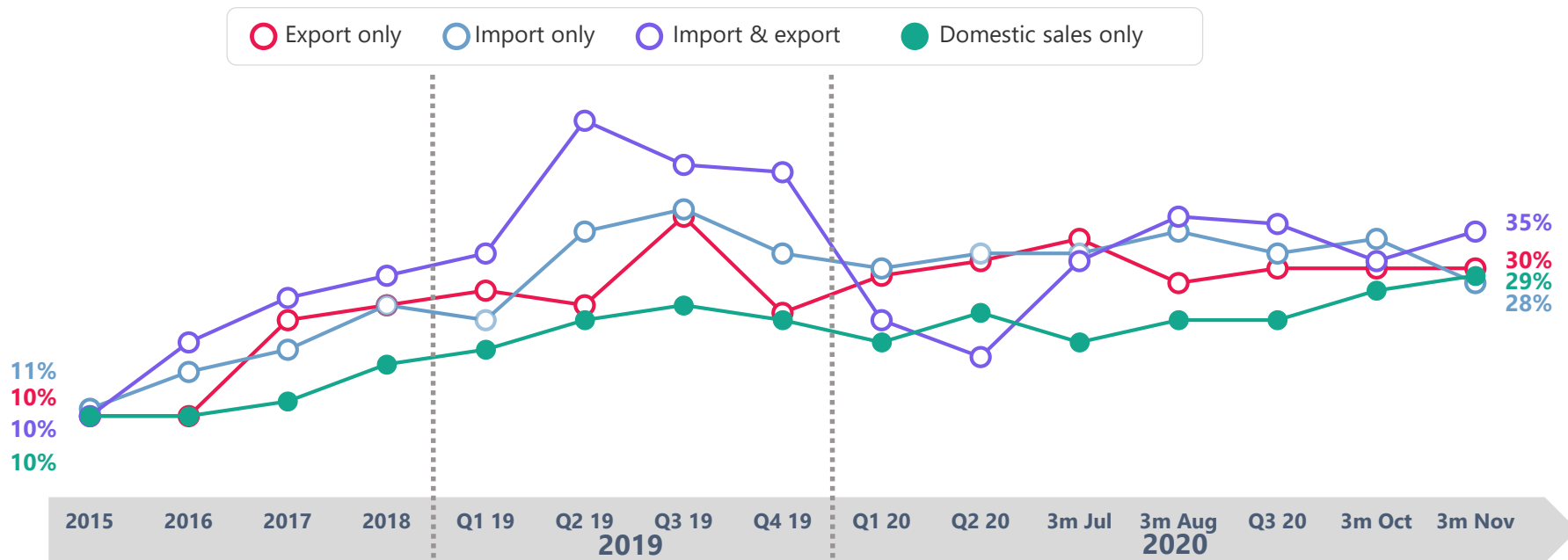


**Rating the current economic climate a major obstacle (8-10)**



# Since Q3, Domestic SMEs have become more likely to see political uncertainty as a barrier, bringing them in line with International SMEs

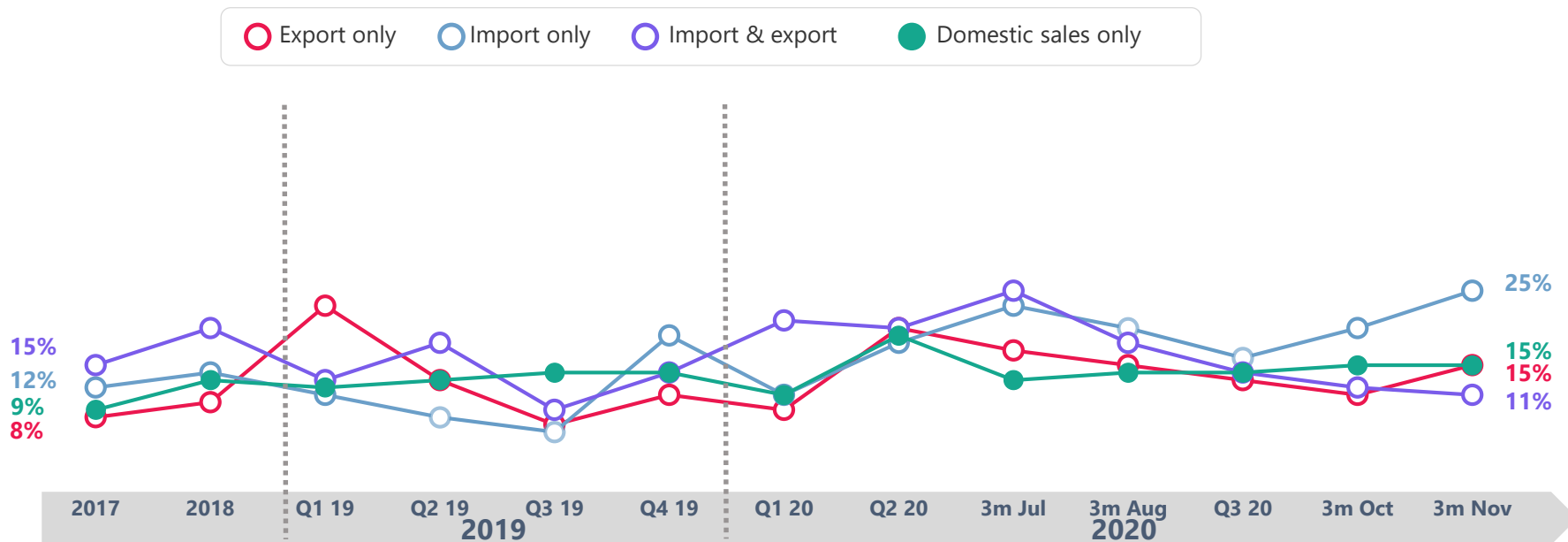
Time series: 8-10 political uncertainty by extent of international trade alongside domestic sales



## Rating political uncertainty a major obstacle (8-10)

Since Q3, Import-only SMEs have become more concerned about cash flow and late payment as a barrier, now higher than levels seen in July

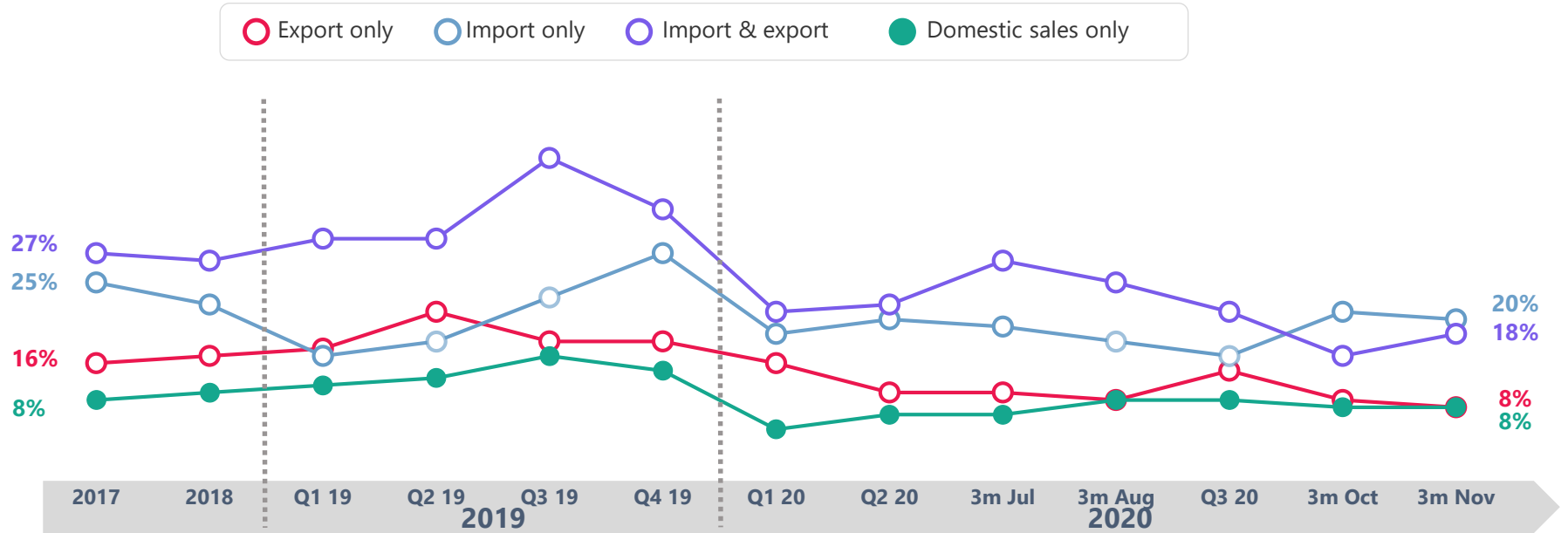
Time series: 8-10 cash flow / late payment by extent of international trade alongside domestic sales



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

# SMEs with an element of importing were more concerned about changes in the value of sterling than Export only and Domestic SMEs

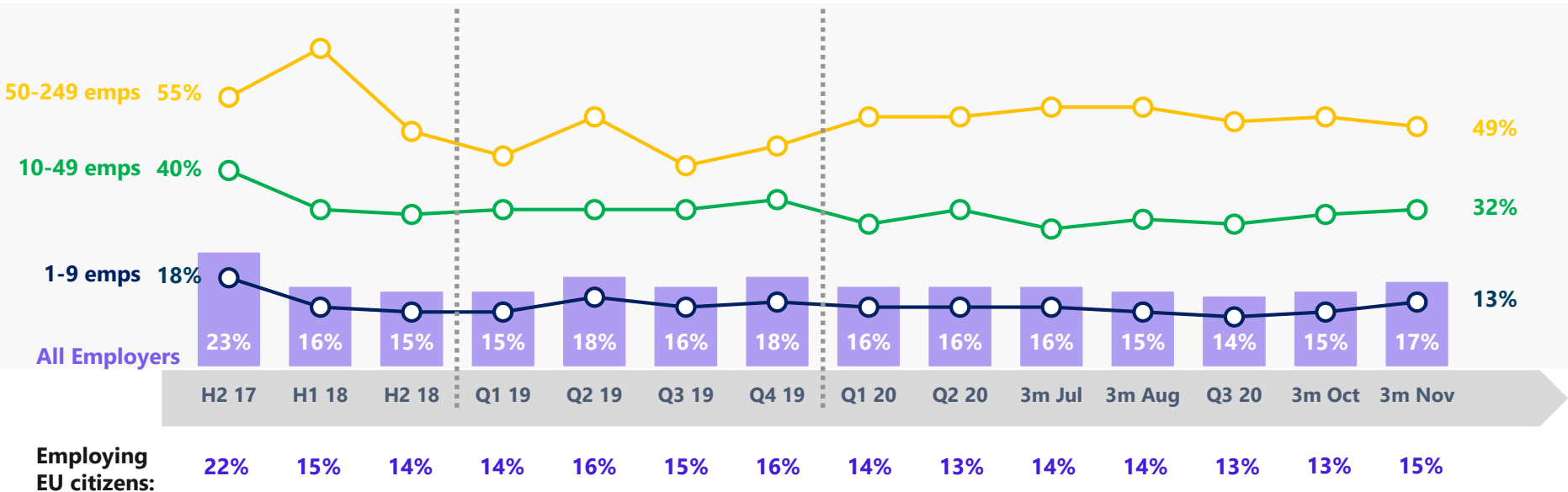
Time series: 8-10 changes in the value of sterling by extent of international trade alongside domestic sales



**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 broadly stable since 2018

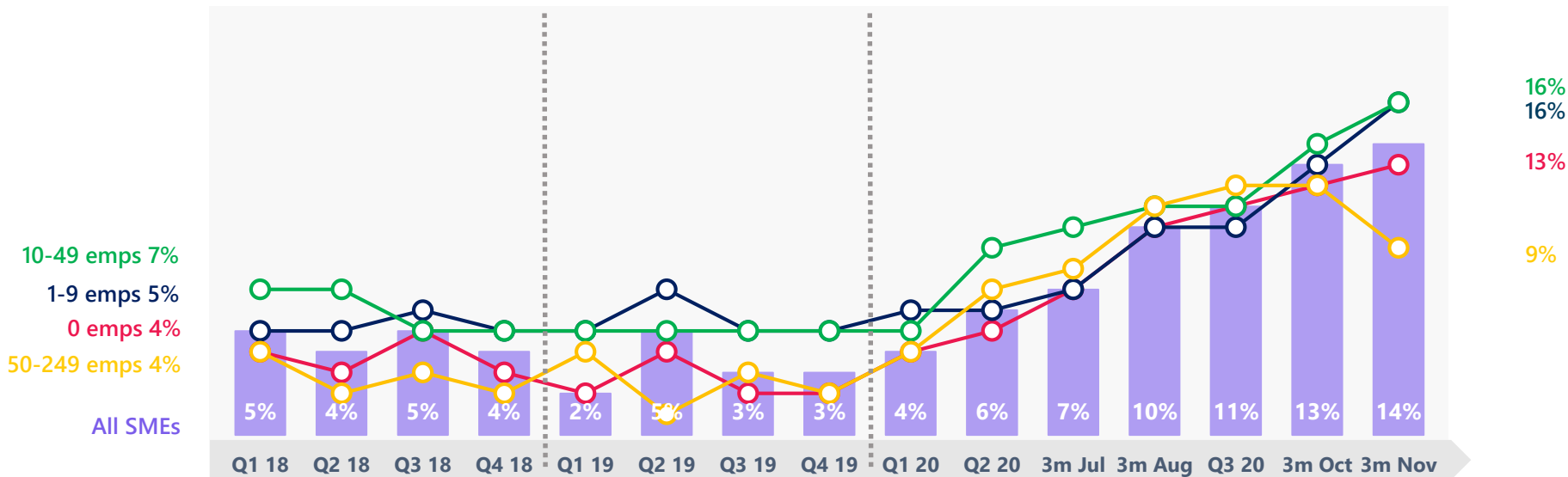
Time series: Employ non-UK staff (from the EU or elsewhere overseas)



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 17%. In the 3 months to November, 15% of employers had staff from the EU and 7% had staff from elsewhere.

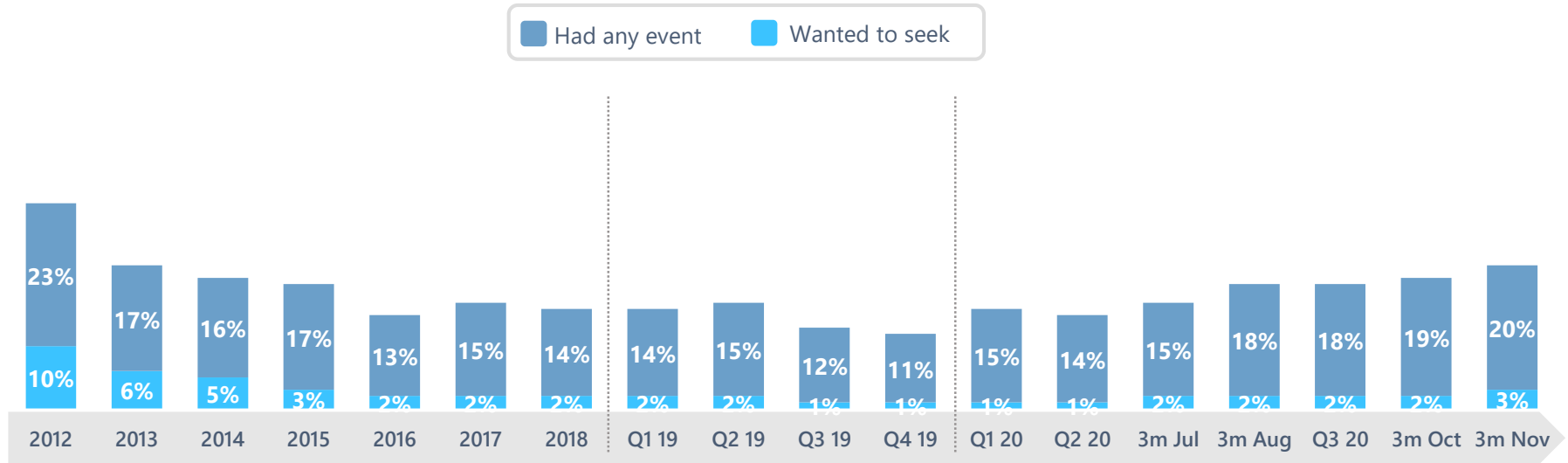
# 14% of SMEs reported having a need for external funding in the previous 12 months, higher than in 2019 and continuing the upward trend seen from Q1 2020 for all but the largest SMEs

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



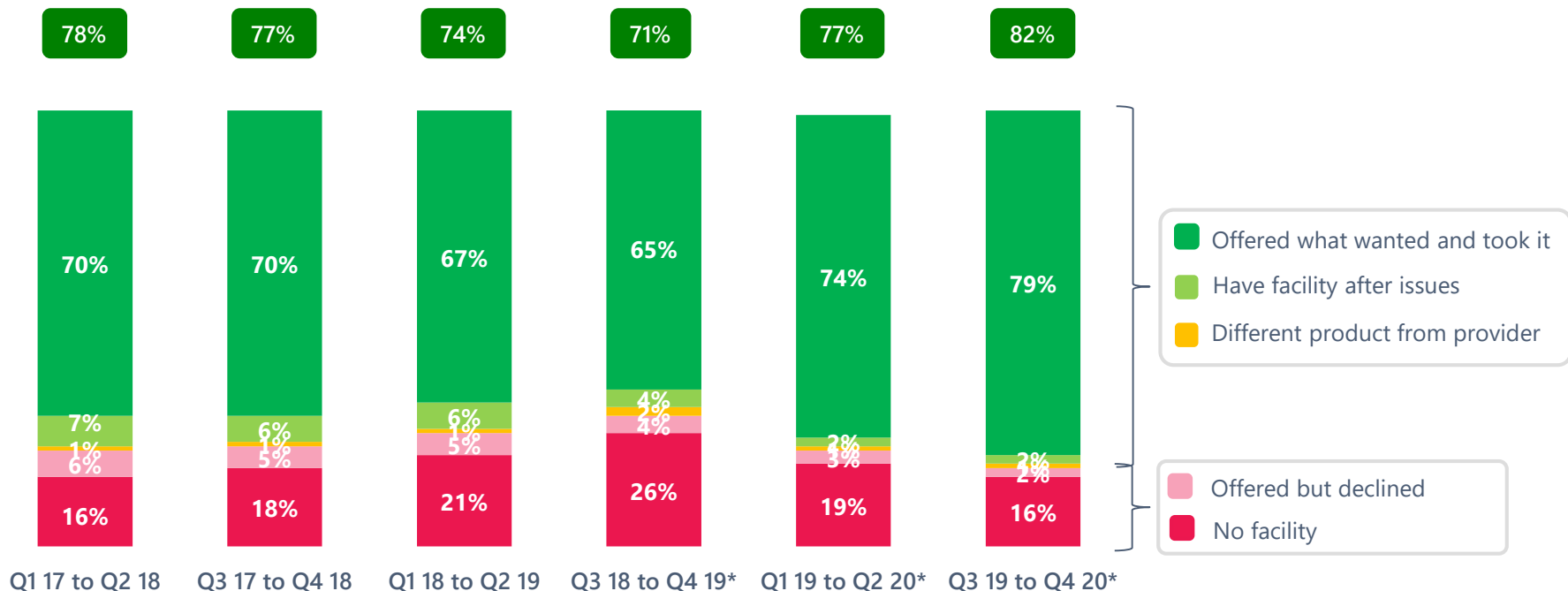
# 23% of SMEs reported any appetite for finance in the previous 12 months (an event or those who had wanted to seek finance), back to levels seen in 2013

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



# Analysis by application period since 2017 shows an initial increase in those offered no facility to over a quarter, but success rates in 2020 improved as new Government backed schemes launched

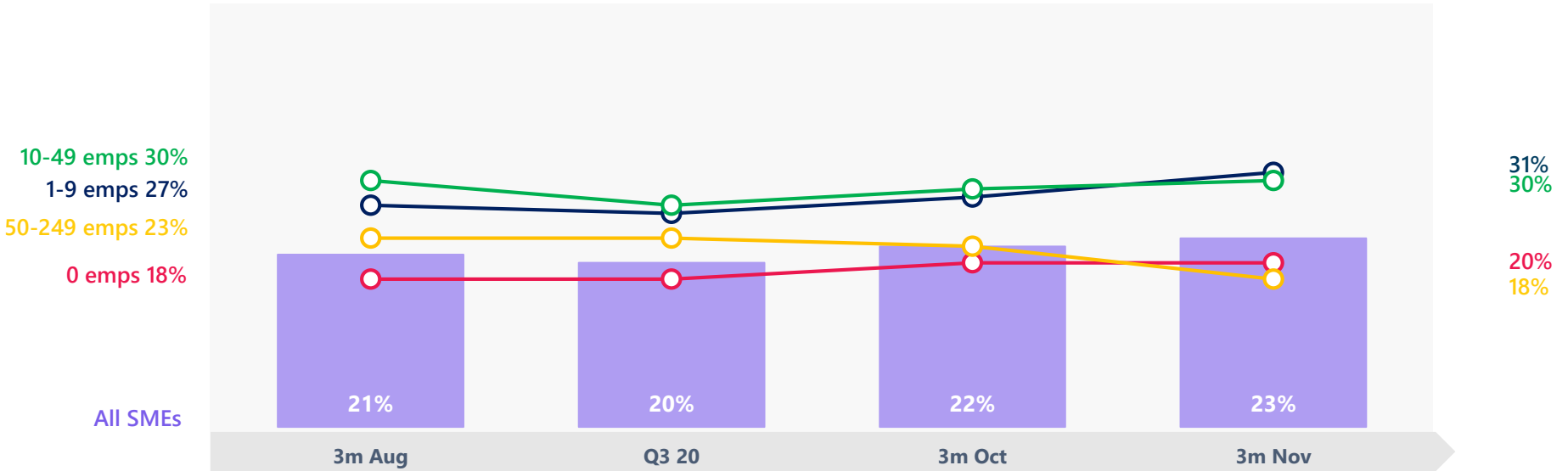
*Global success rate: all applications reported from Q1 2018 to Q3 2020, occurring in the periods shown*



This chart will be updated every quarter end  
Last updated Q3 2020

# Just over 1 in 5 SMEs had approached a bank for Covid related finance, with appetite declining amongst the largest SMEs since the summer

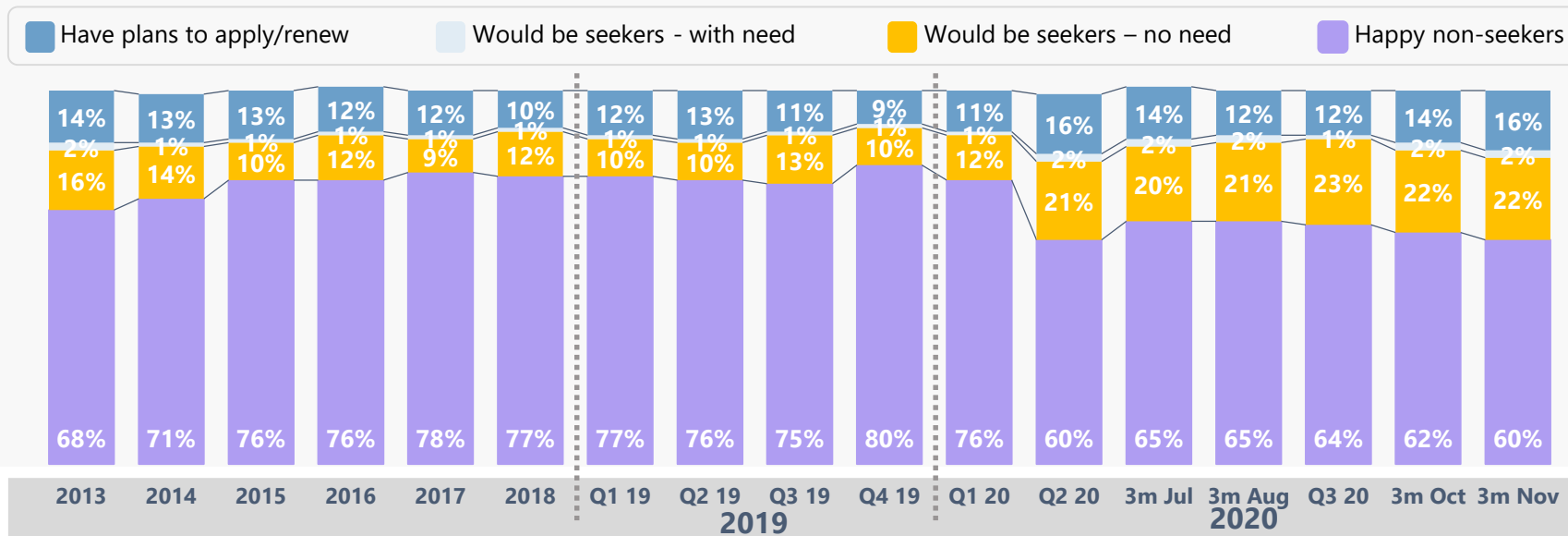
*NEW Time series: Approached main/other bank for Covid related finance*





## The 3 months to August saw a marked increase in those planning to apply and those who expected to be 'Future would-be seekers of finance'. Appetite since has remained ahead of 2019

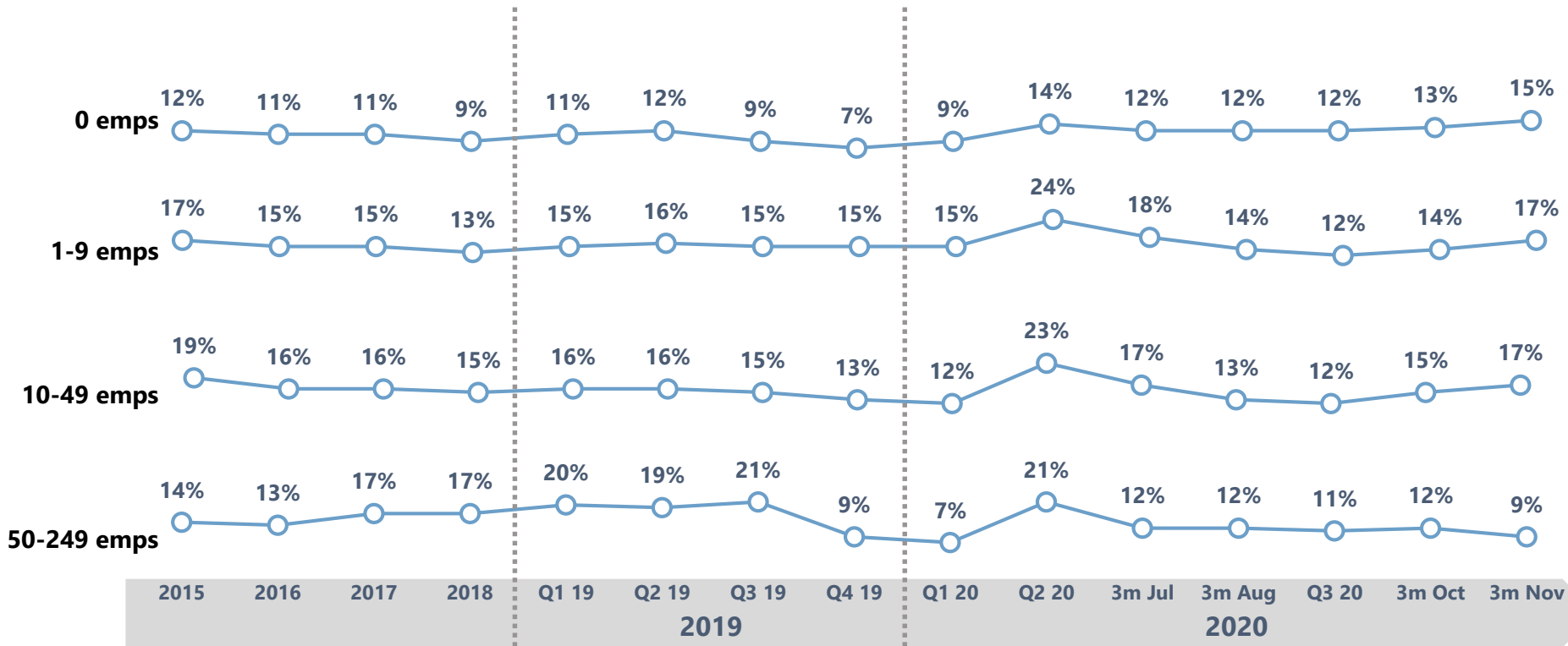
Time series: Anticipated borrowing profile for next 3 months after ...



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 Q2 and 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%, with limited change since, still above the previous peak in 2013

Future appetite for finance increased across all size bands from Q1 to Q2 2020. Since however appetite has fallen for medium sized firms but fallen and recovered in smaller firms.

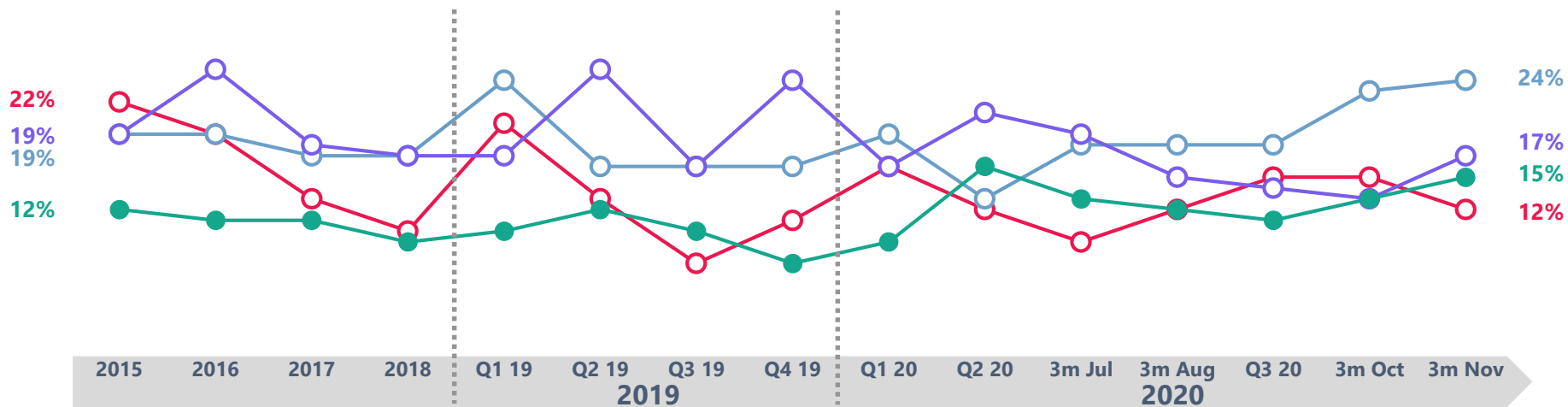
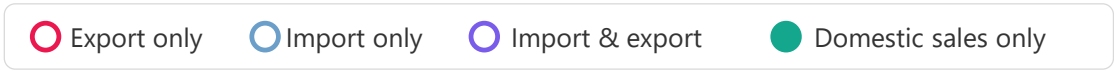
*Time series: % planning to apply*



# Appetite for finance has increased since Q2 for Import-only SMEs. It has remained above 2019 levels for Domestic only SMEs

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

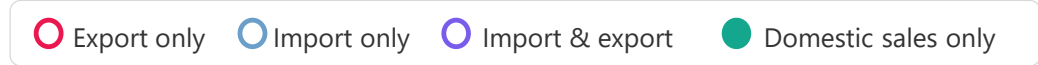
## Plan to apply for external finance



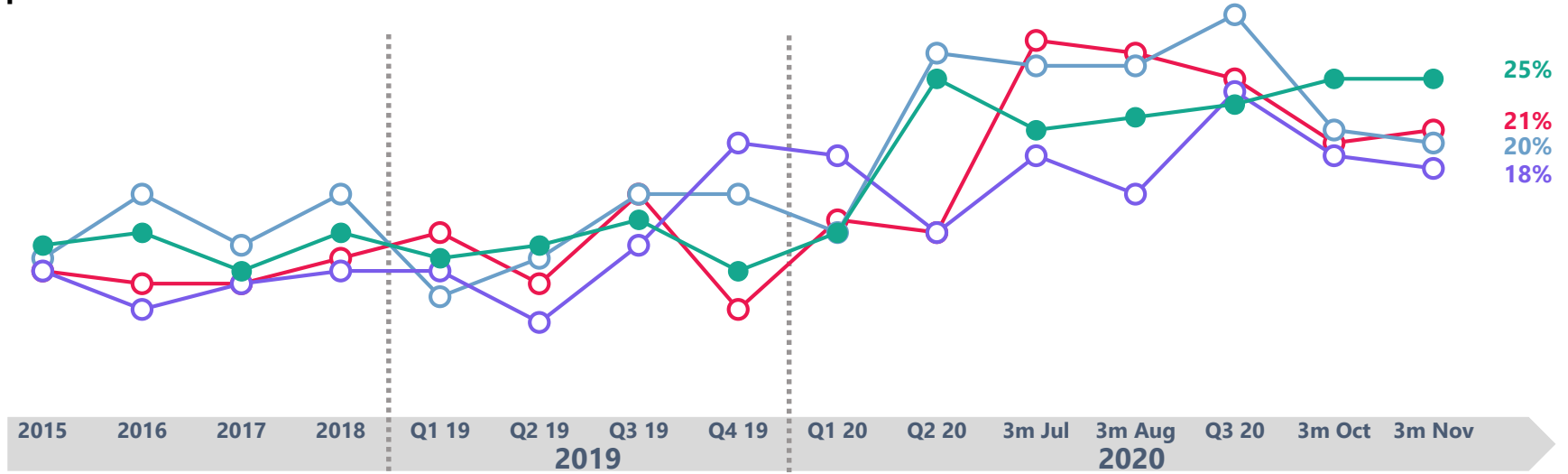
Appetite for finance amongst those that both import and export has varied over time. It fell sharply from the peak of 25% in 2016 to 10% in Q1 2018 and is currently 17%. Appetite amongst domestic SMEs has declined slightly since Q2 2020 but typically remained higher than was seen in 2019 (7-12%)

Since Q3, fewer international SMEs have met the definition of a Future would-be seeker, but still ahead of 2019. Domestic SMEs were more likely to meet the definition, also ahead of 2019

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



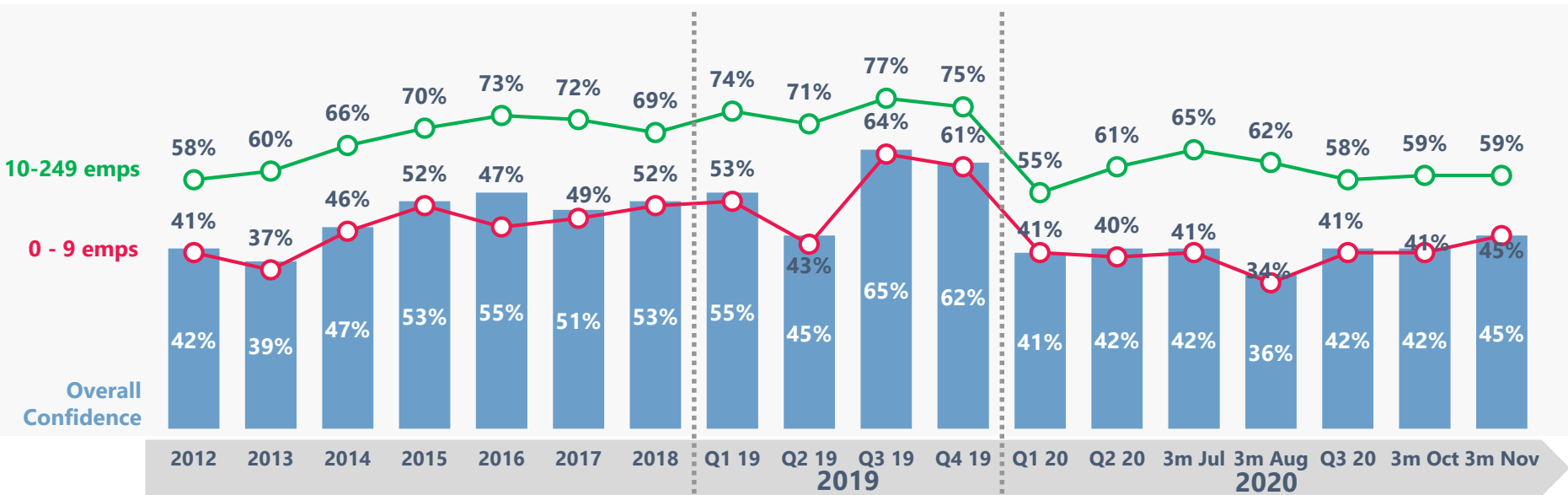
**Expect to be a future would-be seeker of finance**



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 gradually became more likely to meet the definition of a FWBS during 2020 – the recent decline may be linked to the increase in the proportion planning to apply for finance (from 18% to 24%)

# As appetite for finance increased in 2020, confidence that the application would be successful initially declined and has fluctuated around 4 in 10, but with some recent improvement for the smaller SMEs

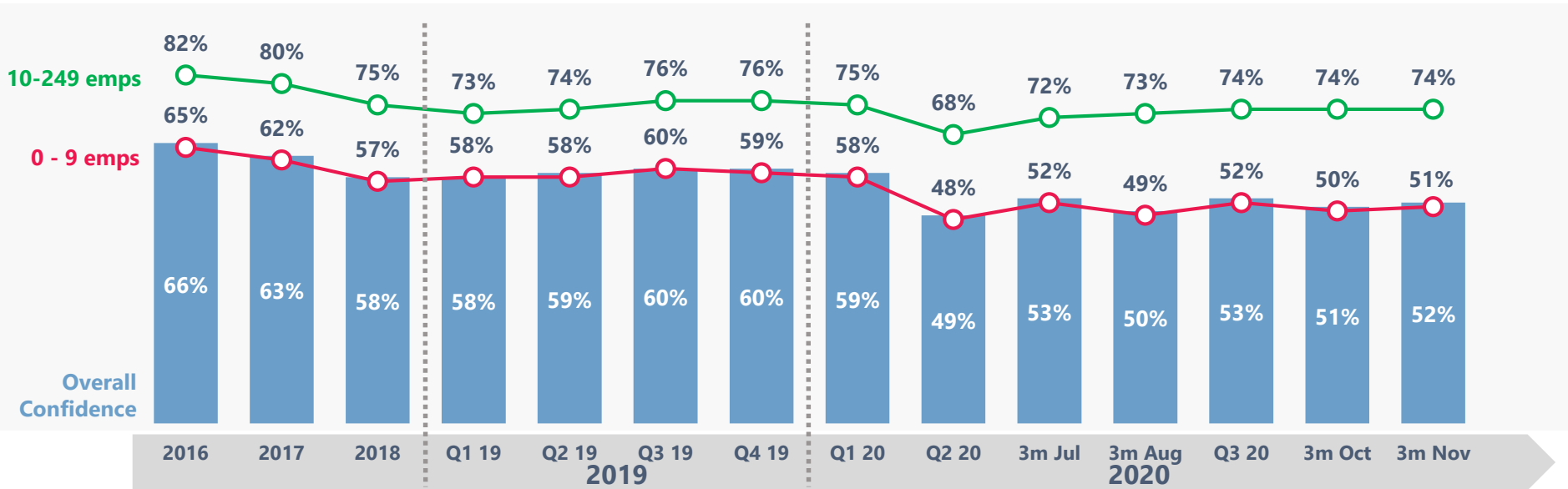
Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by size



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 with larger applicants more confident of success

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

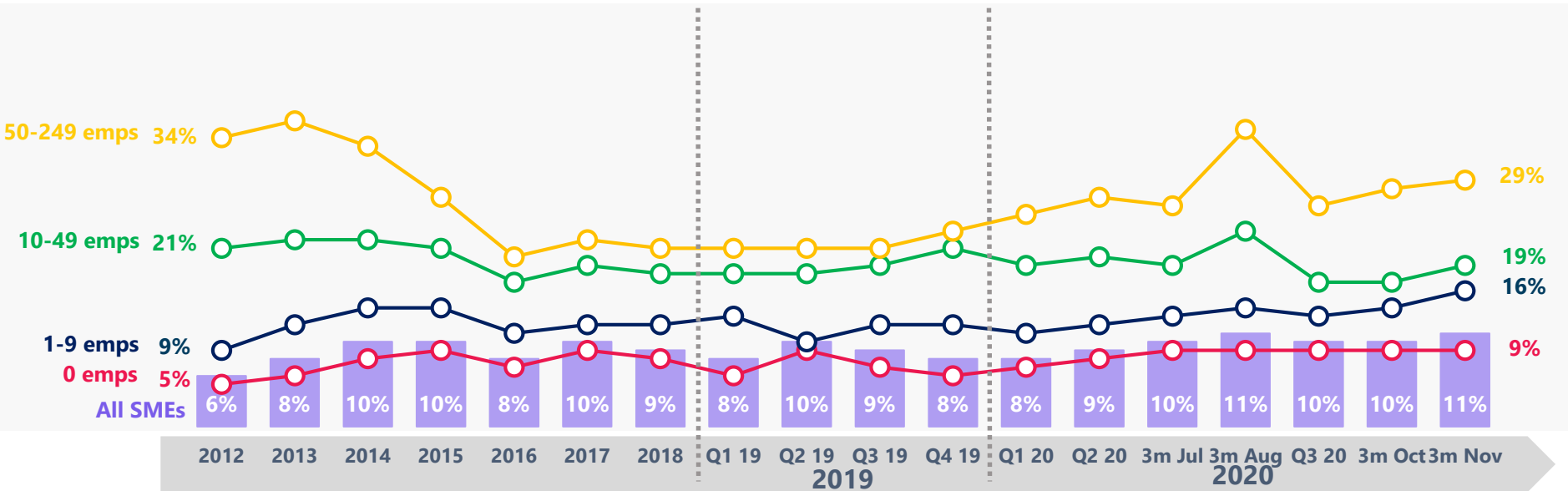
Time series: Confidence (very/fairly) bank would agree to facility next 3 months – by size



Half (52%) of those with **no plans** to apply to a bank for finance are confident of a hypothetical success. Larger hypothetical applicants remain more confident than smaller ones, and more confident than those of a similar size who are planning to apply (74% v 59%). Smaller hypothetical applicants are less confident of success, compared to larger hypothetical applicants but they too are more confident than those of a similar size planning to apply (51% v 45%, see previous slide for those *with* plans)

The proportion of all SMEs that export remained broadly stable in recent months but with signs of an increase since the start of the year. Since Q4 2019, the largest SMEs have become more likely to 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 (8-11%) 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



