2 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 2020, most of it as the UK tackled the pandemic and completed the transition period to leaving the EU, with a deal agreed just before the end of the year. A series of new questions were added from Q2 2020 to understand the impact of the pandemic on SMEs and these are summarised below, along with the impact on longer standing metrics such as growth and appetite for finance in the rest of this summary.

The impact of Covid-19: All SMEs have been impacted by the pandemic and the series of economic lockdowns, but some have been more affected than others, notably the Hotel & Restaurant and Transport sectors. The impact was most felt in Q2 2020 as SMEs contemplated much reduced income and felt the worst was still to come. There was an improvement in income projections and mood in Q3, with little change in Q4.

All SMEs have been affected by the pandemic, with 1 in 3 'very negatively' impacted	In Q2, 87% of SMEs reported that they had been negatively impacted by the pandemic with little variation by size (87% for each size band except those with 50-249 employees where 81% had been affected). The immediate impact had been felt most by those in the Hotel & Restaurant sector (95%) and in Construction (94%). In Q3 with an expanded question, 75% reported a negative impact, including 33% who reported a very negative impact, and there was little change in Q4 (73% a negative impact including 33% who reported a very negative impact). There continued to be little difference by size of SME, but while those in Construction had become less likely to say they had been negatively impacted (77% in Q4) the vast majority of those in the Hotel & Restaurant sector were still negatively affected (91% in Q4).
The pandemic was seen as the main barrier to running the business	In Q2, 68% of SMEs rated the pandemic a major barrier to running the business, ahead of the previous top barrier, the economic climate (which had itself increased from 20% in Q1 to 47%). In Q3 and Q4 slightly fewer SMEs rated it a major barrier (55% and 51%) but it remained more of a barrier than the other factors measured. Separately, a quarter of SMEs felt they were focussed entirely on coping with the pandemic, while around 4 in 10 felt they were able to plan ahead for the future, but only a minority thought that future offered mostly opportunities (24% in Q4).
In each quarter, around half of SMEs have expected that the worst is still to come	In Q2, 21% of SMEs thought things were stable and 20% that the worst was behind us but the largest group, 59% of SMEs, expected that the worst impacts of the pandemic were still to come. In Q3 and Q4 the proportion was somewhat lower (47% and 50%) but still the largest group, with smaller SMEs more likely to share this sentiment, as were those in the Transport sector. By Q4, 28% thought things were stable and 22% that the worst was behind us, with little difference by size of SME for the latter group. The most optimistic that the worst was behind us were those in the Health sector (31%) and Starts (29%).

Continued

Continued

A quarter of employers thought staff numbers could be impacted	Over half of employers (59%) had taken advantage of the furlough scheme, with more use amongst larger and older SMEs and those in Manufacturing. The proportion that had already made staff redundant increased from 5% in Q2 to 16% in Q4 while a stable 12% of employers in Q3 and Q4 thought they might have to make some redundancies in future. Overall, 23% of employers in Q4 had made or were contemplating redundancies, increasing to 41% of those with 50-249 employees and 35% in the Hotel & Restaurant sector.
A quarter of SMEs have made an approach for Covid related funding, almost all through a Government backed scheme. 95% were successful	Awareness of the new Government backed BBIL and CBIL schemes has been very high with 80% of SMEs aware of either scheme soon after launch in Q2, increasing to 90% in Q4. By Q4, a quarter of SMEs (23%) had approached a provider for pandemic related funding, primarily their main bank (21% of SMEs). Almost all applications were linked to a Government backed scheme (98%) and were successful (95%), with 1 in 3 successful applicants saying that all or most of the funds had already been spent. Over the course of 2020 the proportion of SMEs using finance increased with a higher proportion of these finance users saying they are borrowing more than £25k (28% in Q4 from 18% in Q1) and also that they are concerned about their ability to repay (24% in Q4 from 14% in Q1). More broadly, 3 in 10 of all SMEs in Q4 (30%) were concerned about whether they had enough funding in place for the next 6 months.
In H2 2020, fewer SMEs felt their income would be severely reduced	In Q2, 60% of SMEs predicted that their revenue would be either non-existent (23%) or down by more than 50% (37%) in the months ahead. Smaller SMEs and those with a poorer risk rating were more likely to predict this, together with 78% of SMEs in the Hotel & Restaurant sector. In Q3, as some lock down measures eased, the proportion predicting such a reduction halved to 30% and was unchanged in Q4 (31%). Having had something of a respite in Q3 (36%), the proportion of Hotels & Restaurants predicting a decline in income increased again in Q4 to 57% as they faced new restrictions, along with those in Transport (54%).
Overall, SME mood about their business also improved in the second half of 2020	In Q2, 49% of SMEs rated their mood about their business as poor, with SMEs with a worse than average risk rating (55%), those trading 2-5 or 6-9 years (55% and 56%) and those in the Hotel & Restaurant or Transport sectors (67% and 61%) most likely to feel this way, compared to 27% of the largest SMEs and 31% in Agriculture. In Q3, fewer SMEs were in a poor mood (32%) and the proportion feeling in a positive mood about their business had improved from 25% in Q2 to 41% in Q3 and across all size bands and sectors. The most likely to be in a good mood were the largest SMEs (58%) and those in Agriculture (56%). Those in the Hotel & Restaurant sector were less likely to be in a poor mood than in Q2 (38%) as were those in Transport, although 48% still rated their mood as poor.

Continued

Continued

	In Q4, the proportions of all SMEs in a good (41%) or poor (33%) mood were very similar to Q3. There were though marked increases in feeling in a poor mood amongst those in the Hotel & Restaurant sector (64%) alongside those in Transport (58%), while those with a minimal or low risk rating, or trading for 6-9 years were much more likely to rate themselves in a good mood than previously.
A significant minority of SMEs are 'Ambitious risk-takers'	Despite the current trading challenges, in H2 2020, 4 in 10 SMEs (44%) agreed that they wanted to be a bigger business and the same proportion (44%) that they were prepared to take risks to succeed. A quarter of SMEs (29%) agreed with both statements and thus met the definition of an 'Ambitious risk taker', somewhat higher than the 1 in 4 typically seen. Larger SMEs, those in Wholesale/Retail and Starts were more likely to meet the definition and previous analysis showed that such SMEs were more likely to be growing, innovative and using external finance.

General sentiment: By Q4 2020, 16% of SMEs were reporting having grown, the lowest level recorded to date, slightly fewer had made a profit and more could see barriers to running their business, notably the economic climate. Planned future growth was impacted in Q2, when 24% planned to grow, but by Q4 this had increased to 42%, with almost half of SMEs planning some form of growth-related activity. More SMEs had been innovative, and an increasing minority had a mentor to support them.

There was a sharp decline in the proportion of SMEs that had grown	As the impact of the pandemic started to be felt in trading figures, the proportion of SMEs that had grown in the past 12 months declined from 37% in 2019 to 25% in Q3 and 16% in Q4. This was seen across all size bands, notably the largest SMEs (66% in 2019 to 18% in Q4 2020) such that in Q4 there was little difference in growth by size of SME (15-22%).
Future growth aspirations were affected in Q2 but then recovered somewhat	In Q2 2020, 24% of SMEs were planning to grow in the coming year, half the level reported at the end of 2019. During Q3 and Q4 the proportion did increase somewhat, to 42% but all SMEs were less likely to be planning to grow at the end of 2020 than they had been in 2019, notably Starts and larger SMEs. Half of SMEs (47%) planned some form of activity related to growth such as taking on staff or being innovative.
Fewer SMEs reported making a profit in Q4, as improving profit margins became a greater priority	As with reported growth, the proportion of SMEs making a profit was initially unaffected (83% in Q1 and Q2 2020) but was 70% in Q4, with a decline across all size bands but notably the smallest SMEs (81% in 2019 to 69% in Q4 2020). Half of SMEs in 2020 (52%) said that improving profit margins was a key priority for them, up from 39% in 2019 and a priority in 2020 for 66% of those with 50-249 employees.
More SMEs saw a potential major barrier to their business, notably the economic climate	As already reported, a new barrier was added to reflect the impact of the pandemic and this was rated a major barrier by 51% of SMEs in Q4 2020, down from 68% when first asked in Q2. Amongst the barriers tracked over a longer time frame, there was most change during 2020 for the current economic climate, rated a major barrier by 20% of SMEs in Q1 2020, more than doubling to 47% in Q2 but then somewhat lower in Q3 (41%) and Q4 (36%) albeit still well above the 1 in 5 seeing this as a barrier in 2019. Starts were more likely to see this as a major barrier in Q4 2020 (44%) as were those with any future appetite for finance (46%). There was relatively little change in the ratings for the other barriers, but the increase in the rating for the economic climate helped to increase the proportion of SMEs rating something (not including the pandemic) as a major barrier from 43% in Q1 to 59% in Q4 2020.

Continued

Continued

More SMEs had been innovative in 2020	After previous declines, the proportion of SMEs reporting innovation increased during 2020 from 38% in Q1 to 46% in Q4 with more SMEs reporting a new product/service (13% to 21%) and/or an improvement to the business (35% to 41%). On an annual basis, innovation increased from 35% in 2019 to 42% in 2020. Larger SMEs, those trading for 6-9 years and those in the Hotel & restaurant sector were most likely to have innovated.
More had a business mentor, international trade was stable and slightly fewer had planned	Since it was first asked, the proportion of SMEs with a business mentor has been stable (10-12% 2016-2019) but was somewhat higher in 2020 (15%, and 17% in both Q3 and Q4). Use increases by size of SME to 30% of those with 50-249 employees. 16% of SMEs traded internationally, unchanged from 2019 and in line with previous years, with 10% exporting and 11% importing. Like mentors, the proportion in Q4 was slightly higher than earlier in the year (19%). The proportion of SMEs with a business plan and/or management accounts initially declined to 45% in Q2 2020 but was slightly higher in Q3 and Q4 (both 56%) although still lower than the 60% that planned in 2019.
Trust in main bank was stable and remained higher than trust for the industry as a whole	54% of SMEs had a high level of trust in their bank in 2020, unchanged from 2019 (55%). Larger SMEs continued to have higher levels of trust and trust amongst Starts increased in 2020 (to 59%) as it declined slightly amongst those planning to apply for finance (45%). As seen in previous years, trust in the banking industry as a whole was lower, with 27% having a high level of trust in the industry, virtually unchanged from 2019 (27%).

Use of funding: After a decline in the first half of the year, by Q4 44% of SMEs were using external finance, back in line with 2019 and boosted by increased use of bank loans and grants. Use of trade credit was unchanged but more SMEs reported the injection of personal funds, with a higher proportion saying the injection had to be made. A stable 1 in 3 SMEs said their need for finance was reduced by either trade credit or credit balances.

Use of finance initially dropped in 2020 but then increased again, boosted by use of bank loans and grants	For 2020 as a whole, 37% of SMEs reported using external finance, down slightly from the 45% using finance in 2019 but in line with earlier years. There was variability during 2020 as use of finance declined to 30% in Q2 before increasing to 40% in Q3 and 44% in Q4. 0 employee SMEs were less likely to be using finance in 2020 compared to 2019 (32% from 43%) as were the largest SMEs with 50-249 employees (58% from 77%) and those in the Health sector (28% from 56%). More use was made of bank loans (16% in Q4, twice the level typically seen) but less of the other core forms of finance (overdrafts and credit cards) and more use was made too of grants (14% in Q4 compared to the 1% more typically seen previously).
Use of trade credit was stable	36% of SMEs were using trade credit in 2020, unchanged from 2019 (37%), but with more use reported by the largest SMEs in 2020 (72%, up from 59% in 2019).
There were more injections of personal funds, and a higher proportion felt they had no choice	In 2019, 24% of SMEs reported an injection of personal funds into the business. in 2020 this increased to 32% (and to 38% in both Q3 and Q4). 19% of SMEs said that the injection of funds had to be made, they had no choice, up from 11% in 2019, meaning that 59% of all injections of funds were ‘forced’ compared to 46% in 2019.
A stable two thirds of SMEs were using any form of business funding	68% of SMEs were using business funding, some combination of finance, trade credit and injections of personal funds in 2020. This was almost unchanged from 2019 (70%), but with more of a contribution from trade credit and personal funds to the mix. Larger SMEs, those with a better risk rating and those in Wholesale/Retail were all more likely to be using business funding.
An increasing proportion of SMEs held £10,000 of more of credit balances	Almost all SMEs held some credit balances and in 2020, 28% held £10,000 or more, up from 23% in 2019 (and increasing over the course of 2020 from 23% in Q1 to 33% in Q4, the highest level recorded on the Monitor to date). All SMEs with fewer than 50 employees were more likely to hold such sums than previously, ranging from 21% of those with 0 employees to 79% of those with 10-49 employees, while the largest SMEs remained the most likely to have such sums (90%, little changed from previous years).
1 in 3 SMEs had their need for finance reduced by credit balances and/or trade credit	32% of SMEs in 2020 said their need for finance was reduced, either by holding £10,000 or more of credit balances or through their use of trade credit, in line with previous years. The impact of these sources of funding increased by size of SME, from 26% of 0 employee SMEs to 64% with 50-249 employees.

Appetite for funding: An increasing minority of SMEs reported a need for funding during 2020, predominantly to aid cash-flow. Most took action, and there were more applications made to the main bank than previously seen. 83% of applications resulted in a facility, boosted by increased success rates for bank loans which made up a higher proportion of all applications for new/renewed funding. Whilst the proportion of SMEs with any appetite for finance (an event or a WBS) increased over the course of 2020 from 16% in Q1 to 22% in Q4, most SMEs in 2020 met the definition of a Happy non-seeker of finance (82%).

An increasing minority of SMEs reported a need for funding to support cash flow, with most approaching their main bank	9% of SMEs reported a need for funding in 2020 as a whole, up from 3% in 2019, with the proportion increasing during 2020, from 4% in Q1 to 14% in Q4. The need for finance was higher for those with 1-9 or 10-49 employees (16% in Q4). There was a marked increase in the proportion needing funding for cash flow purposes (81% Q2-4 2020 including a new "to cope with the pandemic" option, up from 49% in 2019). The proportion requiring funding for business development purposes halved from 58% to 24% in the same period. Most of those with a funding need took some action and this was more likely to involve speaking to either their main bank, another provider or an advisor (55% from 43%). More considered making an application for finance (81% from 63%) and in the end 65% applied to their main bank and 80% made an application for finance somewhere, both higher than in 2019 (when 29% applied to the bank and 57% applied anywhere). Overall, 6% of all SMEs had a borrowing event as a result of a need for finance.
Most applications resulted in a facility, especially for bank loans	In 2020, 8% of all SMEs reported any borrowing event in the previous 12 months for new or renewed finance. 70% of applications made Q3 2019 to Q4 2020 were made to the main bank and 57% for a bank loan. Compared to previous periods, more applications were made online and by first time applicants (both 64%). 83% of all applications for all products, made Q3 2019 to Q4 2020, resulted in a facility – 81% were offered what they wanted and took it and 2% took the facility after issues. 2% were offered a facility but turned it down while 15% were turned down for the facility (primarily due to credit rating or affordability issues). Applications to the main bank (86%) or another existing provider (85%) were slightly more likely to be successful compared to those to a new provider (78%) and unlike previous waves, applications from first time applicants were more likely to be successful than from those who had applied before (85% v 78%). Applications for bank loans (85%) or leasing/hp (87%) were more likely to have been successful than those for bank overdrafts (74%) or credit cards (58%). 78% of applications were felt to have had a satisfactory outcome, ranging from 90% where the applicant was offered what they wanted to 16% where they were declined.

Continued

Continued

Success rates have improved for applications made in 2020	In successive 18-month periods from Q1 2017-Q2 2018 to Q3 2018-Q4 2019, overall success rates declined from 78% to 71% and the proportion ending the process with no facility increased from 16% to 26%. Since then, success rates have improved, reaching 83% for the latest 18-month period to Q4 2020. The same pattern was reflected amongst applications for bank loans, which initially declined from 65% to 60% before increasing to 85% in the current period and with more applications for bank loans being made in 2020, this has helped to boost the overall success rates reported above. Meanwhile, success rates for overdrafts were more stable, with around three-quarters being successful (73-79% across this period), meaning they are now less likely to have been agreed than bank loans.
Appetite for finance was higher in 2020 but most SMEs met the definition of a Happy non-seeker	16% of SMEs reported any borrowing event in 2020 (including the automatic renewal of an overdraft facility) up slightly from 13% in 2019. 2% met the definition of a Would-be seeker of finance, who had wanted to apply but felt something had stopped them. 4 in 10 (43%) said that the process of borrowing was the main barrier (the time, cost, hassle etc) ahead of discouragement (29%) and the principle of borrowing (17%). The proportion with any appetite for finance (an event or a WBS) increased over the course of 2020 from 16% in Q1 to 22% in Q4, thus reducing the proportion of Happy non-seekers slightly, albeit they remained the largest group (82% for 2020 as a whole)

Future appetite for funding: Appetite for finance increased during 2020 although more markedly for Future would-be seekers than for those planning to apply. The latter group planned to apply to support cash-flow rather than business development and 4 in 10 were confident of success, below current actual success rates. Attitudinally, SMEs remained somewhat cautious, but 29% now meet the definition of an Ambitious risk-taker. During 2020, fewer SMEs met the definition of a Permanent non-borrower, due to the increase in potential future appetite for finance.

1 in 7 SMEs expects to apply for finance	In Q4 2020, 14% of SMEs were expecting to apply for new or renewed finance in the coming months, broadly in line with previous quarters. The majority of them (69%) were already using external finance and, in line with past applications, more of them were looking for help with cash flow (70%) than funding for business development (34%). A stable 4 in 10 of those planning to apply were confident that their bank would say yes, lower than in previous years (56% in 2019) and seemingly unaffected by the increase in success rates overall.
There has been a marked increase in Future would-be seekers	In 2019, around 1 in 10 SMEs expected to be a Future would-be seeker of finance and this was also the case in Q1 2020 (12%). In Q2 however the proportion increased markedly to 21% and remained at this level for the remainder of the year (23% for Q4). Smaller SMEs and those with a poorer risk rating were more likely to be in this group. Over time, when asked why they would not be applying for finance, most FWBS have cited a reluctance to borrow in the current climate and this remained true in 2020 (76% in Q4), ahead of discouragement (4%) and the process of borrowing (8%) which are mentioned more by those explaining why they did not apply for finance in the past. 4 in 10 of these FWBS were confident that if they did apply to the bank, they would be successful, stable over time and now in line with those planning to apply.
Two thirds of SMEs expect to be a Happy non-seeker of finance	With the increased future appetite for finance, fewer SMEs met the definition of a Happy non-seeker of finance, although they remained the largest group (60% in Q4 2020 compared to 78% for 2019 as a whole). Although they had no plans to apply for finance, 53% were confident that they would be successful if they did, the highest of the three groups, but lower than previously seen (in Q4 2019, 62% were confident).
Attitudinally, SMEs remained cautious and typically self-reliant	In 2019, just over half of SMEs had felt that they were being cautious because the future felt uncertain and this increased to 65% in H1 2020 and 71% in H2. Whilst the proportion happy to borrow to grow increased slightly in H2 2020 (35% v 29-30% since the start of 2019), SMEs remained likely to agree that their plans were based on what they could afford (86% in H2 2020) even if this meant growing more slowly (80%).

Continued

Continued

By Q4 2020, 3 in 10 SMEs showed no appetite for finance	As use of external finance fluctuated during the year, so too did the proportion of SMEs meeting the definition of a Permanent non-borrower with little apparent appetite for finance: in Q1 2020, 51% of SMEs met the definition of a PNB, decreasing to 41% and then 39% in Q2 and Q3 and then 32% in Q4. For 2020 as a whole, 41% of SMEs met the definition of a PNB, in line with 2019 (42%). Smaller SMEs remained more likely to be a PNB, with 44% of 0 employee SMEs meeting the definition in 2020, but not exclusively so as 28-32% of SMEs with employees could also be defined as PNBs. Typically, more than 8 in 10 SMEs have either been using external finance or have met the definition of a PNB, increasing to 87% in 2019. In 2020 the proportion dropped to 78%, as more SMEs expressed a future appetite for finance (but were not currently using any). In 2020, PNBs were more likely than their peers to have been profitable and as likely to hold £10,000 in credit balances. They were though less likely to have been innovative, traded internationally or to plan to grow (although the gap is narrower than previously seen).