

# SME FINANCE MONITOR

3 month rolling analysis to end  
January 2021

An independent report by  
BVA BDRC, February 2021



# 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. The Q4 2020 report will be published in mid-March 2021.

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 November 2020 to January 2021.

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.

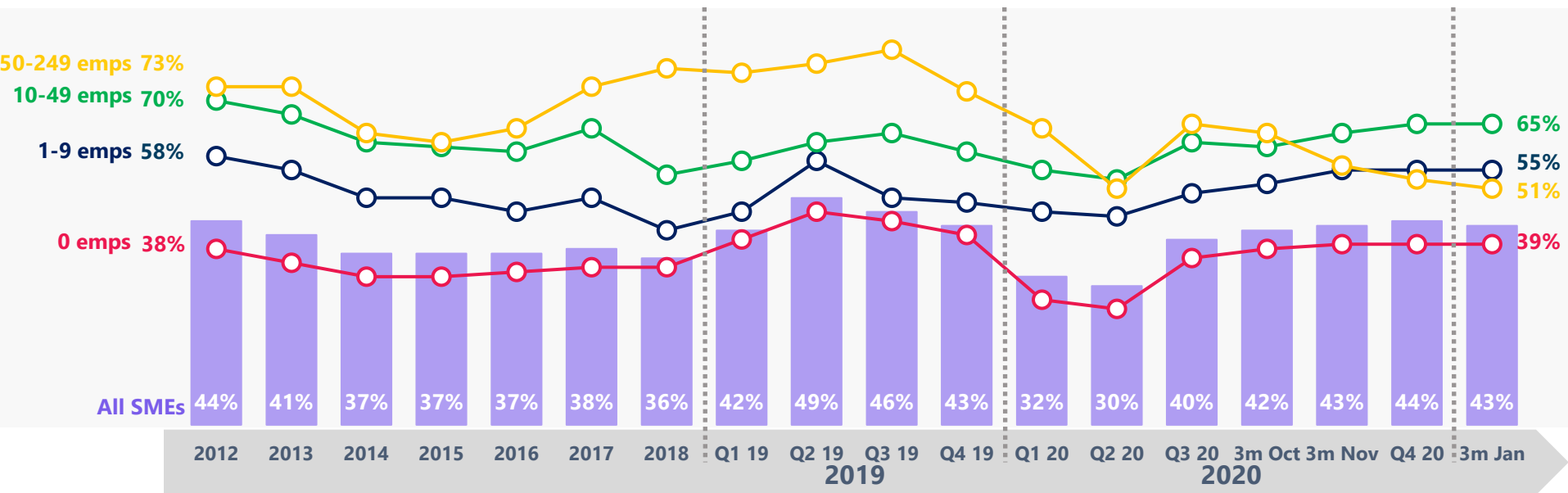
However, there have been slight changes to the “types of finance used” question and also to the definition of a “Permanent non-Borrower”. These initial results do not suggest the changes have had a major impact on results but will be monitored over time.

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, in line with recent quarters and Q4 2019. This is after a sharp decline in the early months of 2020, to a low of 30% in Q2

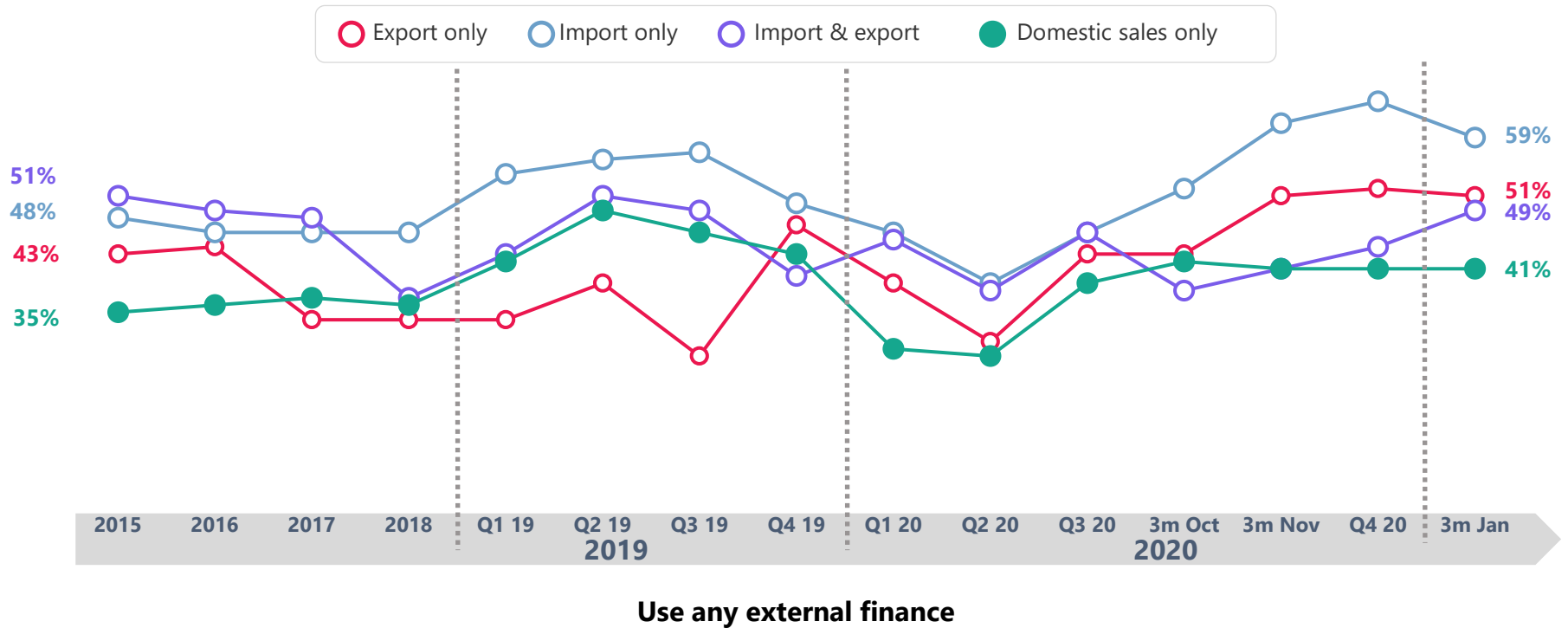
*Time series: use of external finance per quarter*



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 44% for the 3 months to December with, in particular, an increase since Q2 in the proportion of 0 employee SMEs using finance (25% to 39%). The largest SMEs with 50-249 employees have become less likely to be using finance (72% in Q4 2019 to 51% in the 3 months to January 2021)

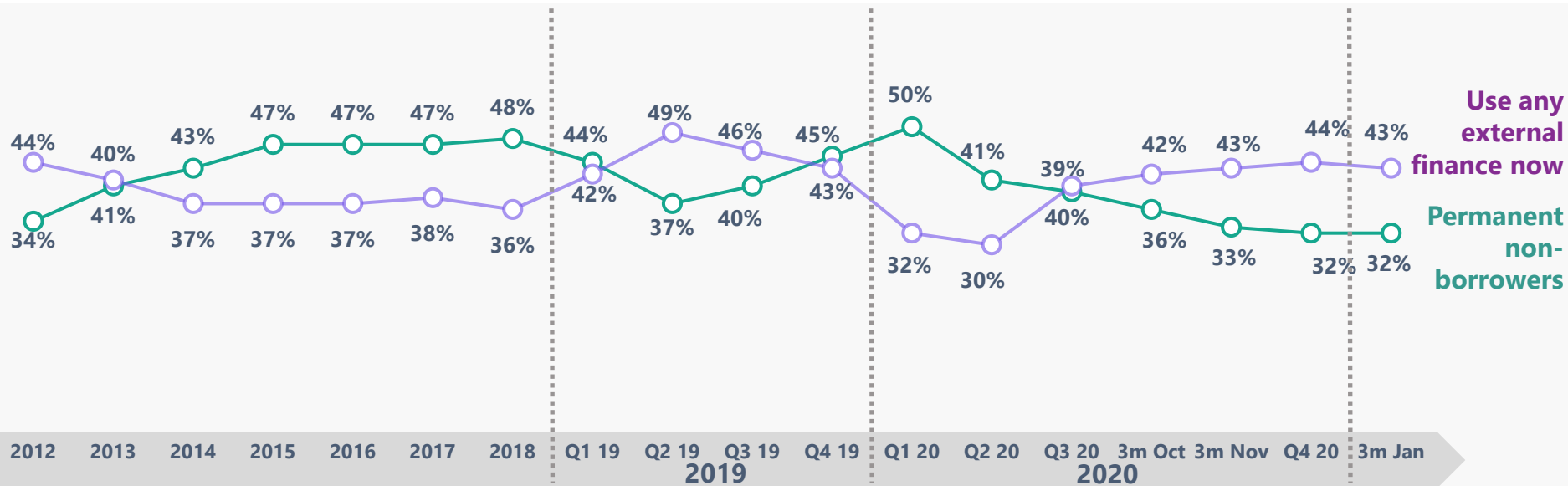
Import-only SMEs remained the most likely to be using external finance. Use of finance is increasing for Fully international SMEs back to levels seen in Q3 2019, and stable amongst Export-only and Domestic SMEs

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



As the use of finance increased from Q2, the proportion of PNBs was initially stable in Q3 2020 but has declined to 32% in the current period. 25% of SMEs are not using finance but are not discounting it entirely, from a peak of 29% in Q2 2020

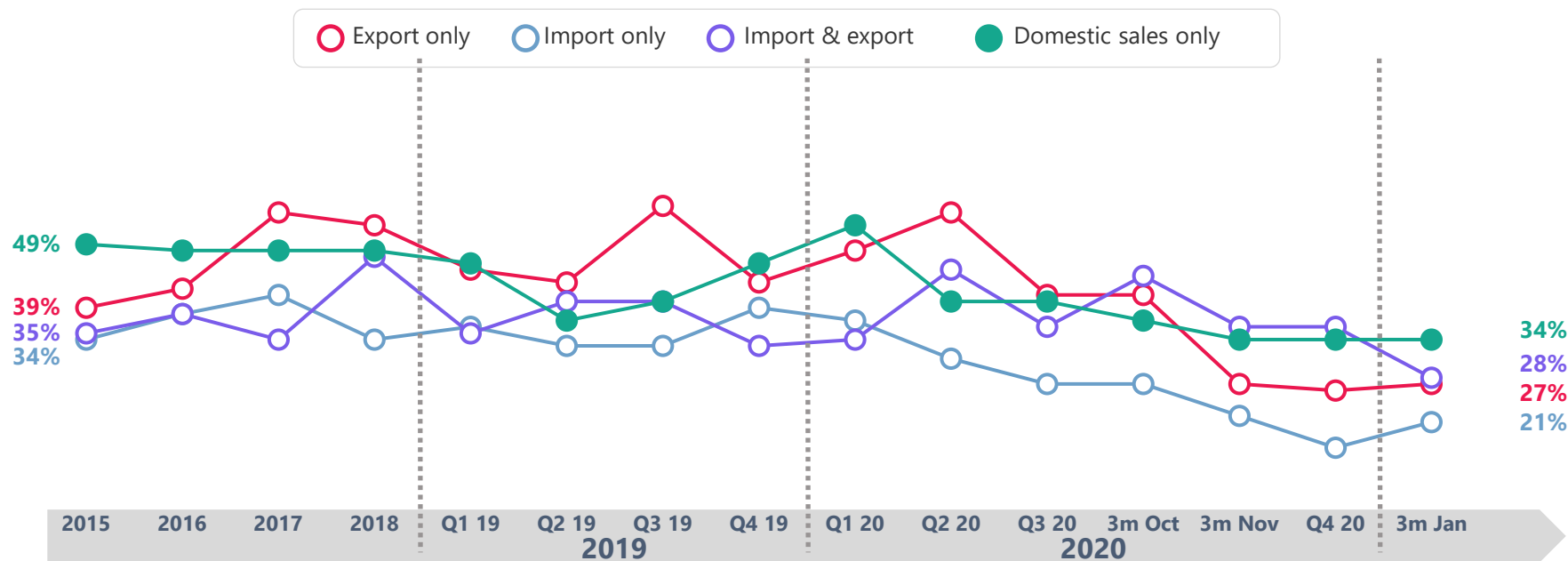
*Time series: Permanent non-borrowers and users of external finance*



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 32% is one of the lowest seen on SME FM to date. 25% 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 remained the least likely to be a PNB while Fully international SMEs became less likely to meet the definition and Export-only SMEs remained stable. Domestic SMEs were more likely to be a PNB

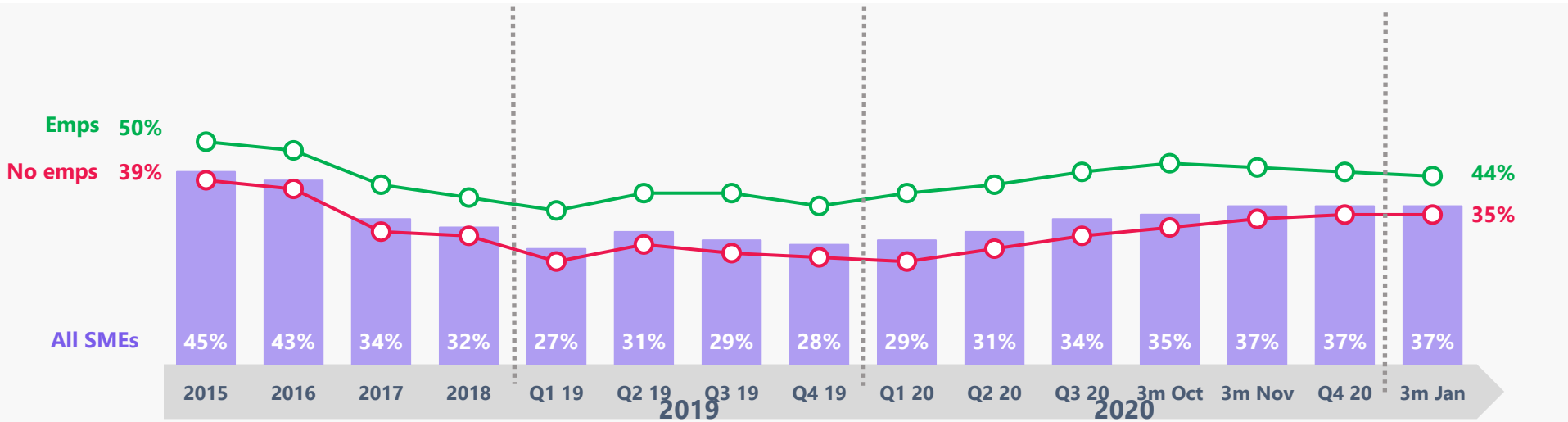
*Time series: Permanent non-borrowers by extent of international trade alongside domestic sales*



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

# 37% of SMEs were happy to use finance to grow, unchanged from Q4 2020 and maintaining the increase seen since Q1 2020

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

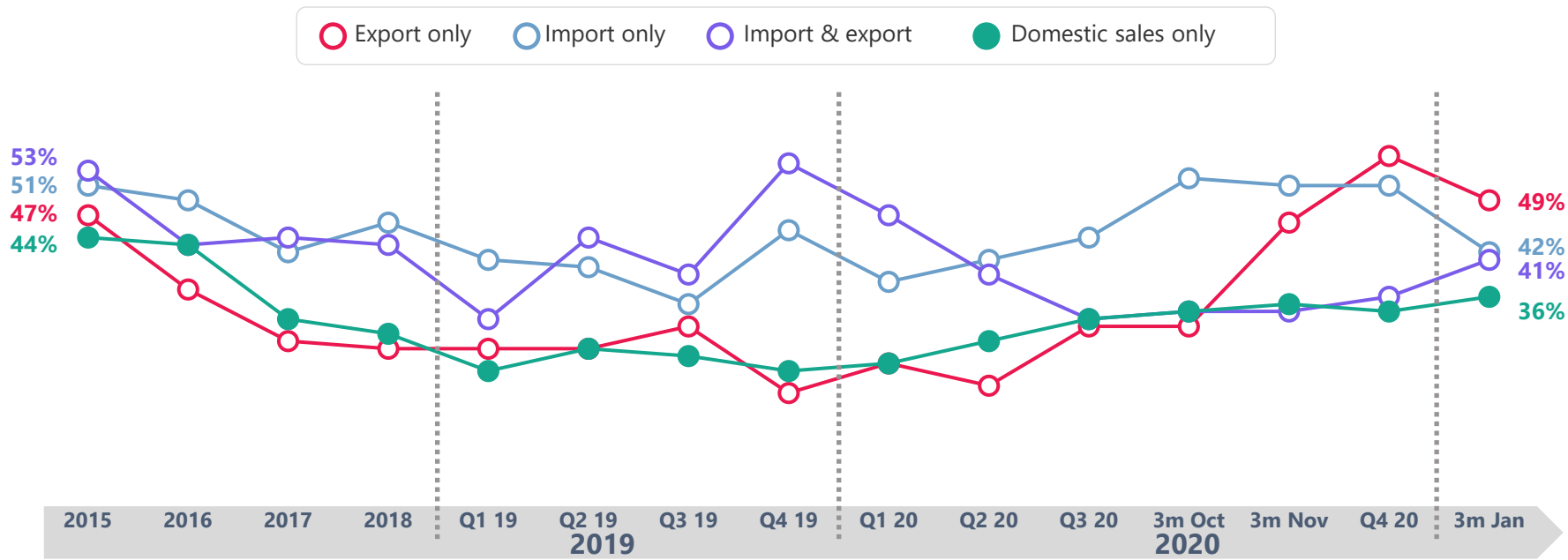


After remaining stable during 2016, the proportion of SMEs happy to use finance to grow declined to a third of SMEs in 2017 and 2018. By Q1 2019 the proportion had declined again to around 3 in 10 SMEs (27%). It has since increased steadily to 37% for the 3 months to December and January. Larger SMEs remain more likely to have an appetite for finance, albeit it has declined slightly since the 3 months to October (47%).



# Export-only and Import-only SMEs were now less willing to use external finance than in Q4 2020, while Fully international SMEs saw a slight increase in appetite

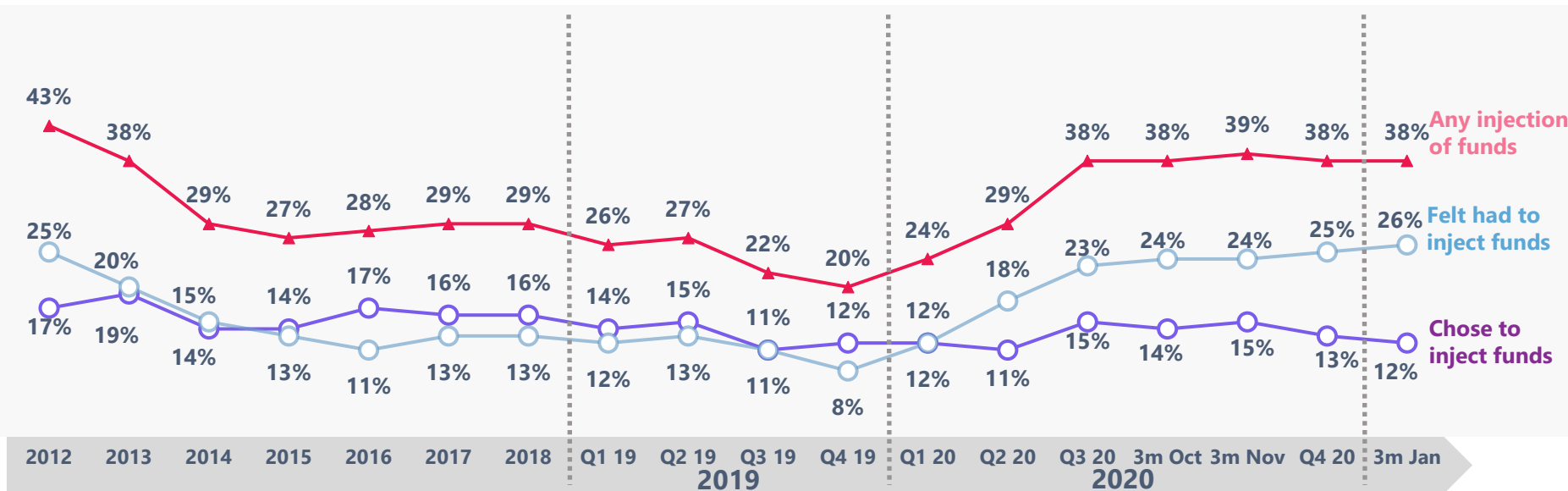
*Time series: Agree that happy to use external finance to help business grow*



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

38% of SMEs have injected personal funds, unchanged from Q3 and in line with levels last 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 26%.

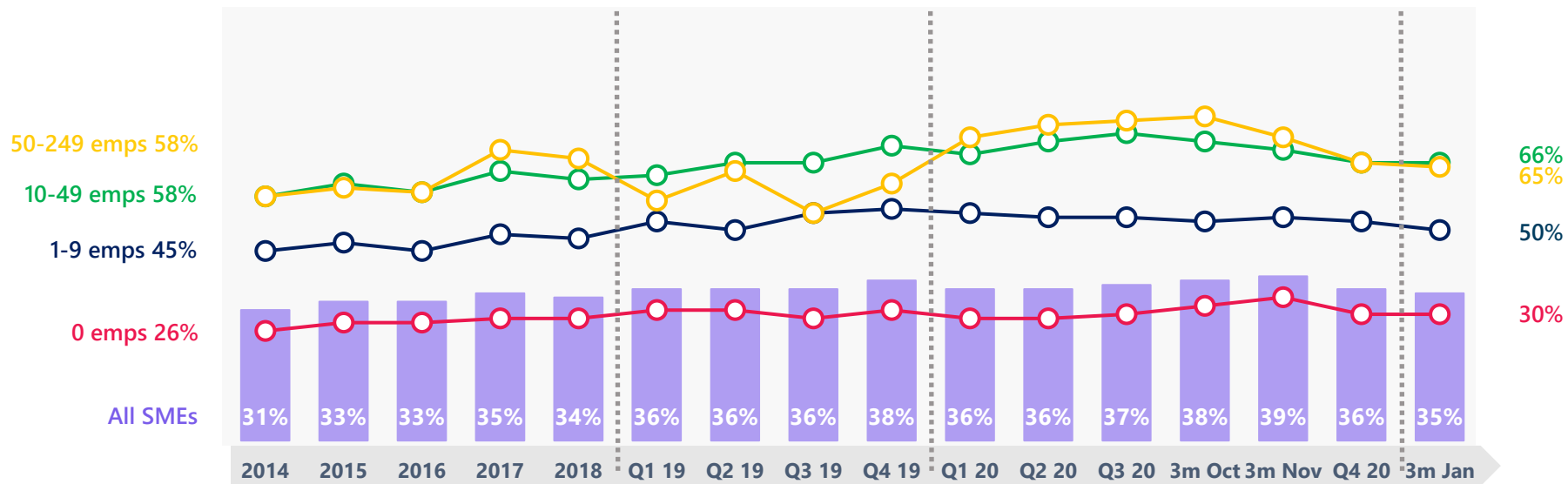
*Time series: Injections of personal funds in previous 12 months*



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 has remained stable since, with more SMEs feeling that they had to inject funds (26%).

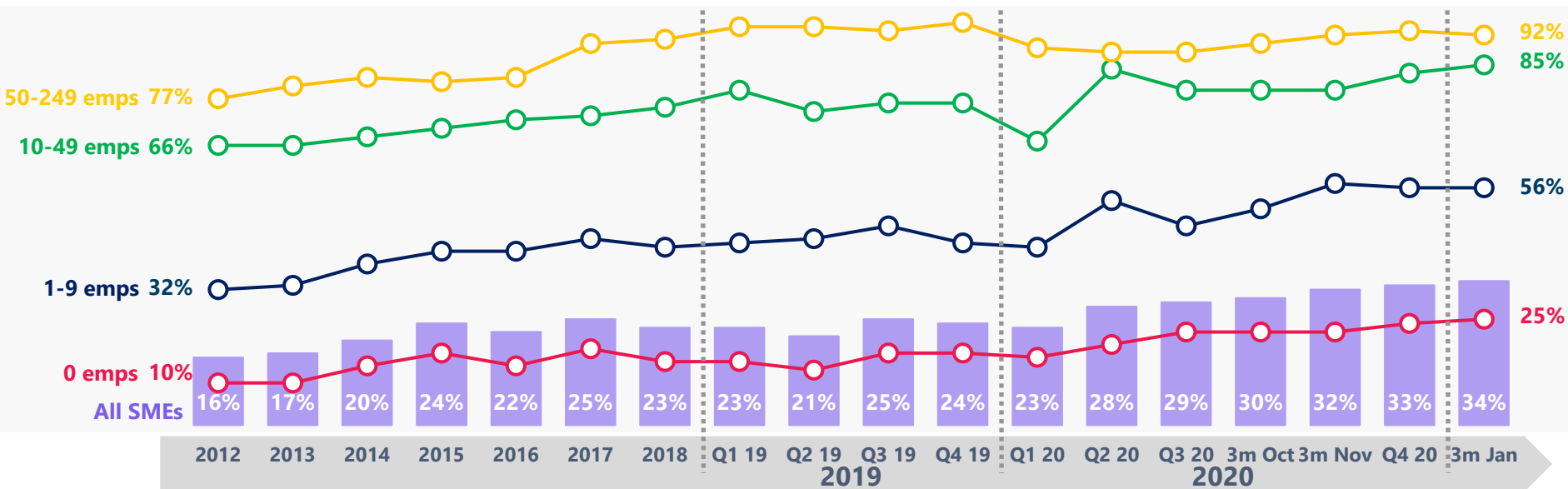
# 35% of SMEs were using trade credit, with little change since 2019

Time series: : Using trade credit



# 34% of SMEs held more than £10,000 of credit balances, maintaining the increase seen since Q1. All but the largest SMEs are more likely to be holding such sums than they were in 2019

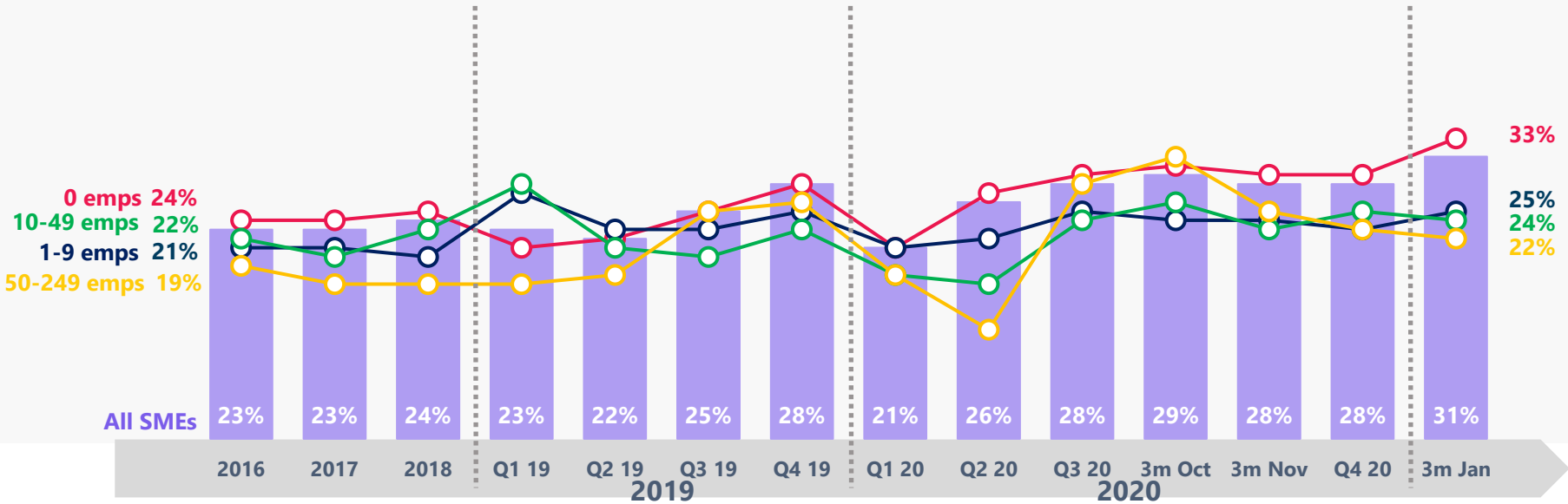
Time series: £10k credit balances held



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 January was in line with that "peak" (34%)

SMEs held the equivalent of 31% of their turnover in credit balances, slightly higher than previously seen due to 0 employee SMEs holding a higher proportion of turnover. The proportion held amongst the largest SMEs has declined again

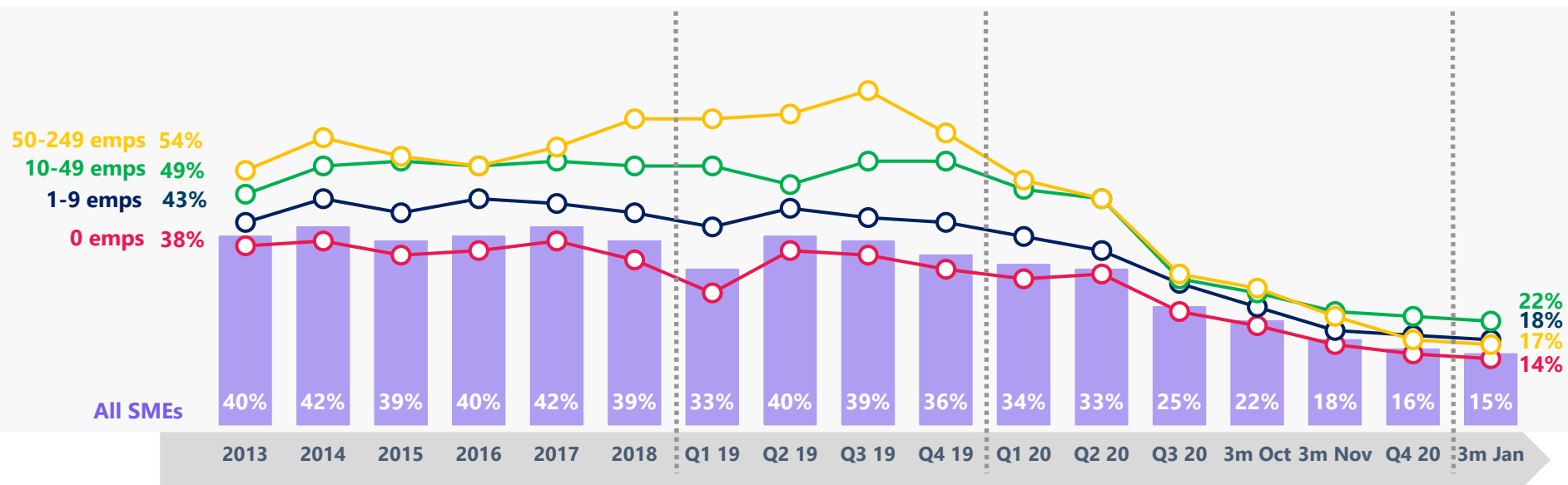
Time series: % of turnover held as credit balances



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 January 2021, SMEs held the equivalent of 31% of their turnover in credit balances on average, the highest proportion seen to date on the SME Finance Monitor. The largest SMEs with 50-249 employees saw the biggest decline to Q2 (28% to 10%) then an increase back to 31% for the 3 months to October but a steady decline again since to 22% currently.

# The proportion of SMEs reporting growth in the last year was 15%, the lowest level seen to date. 6 in 10 SMEs had declined, up from 2 in 10 in 2019

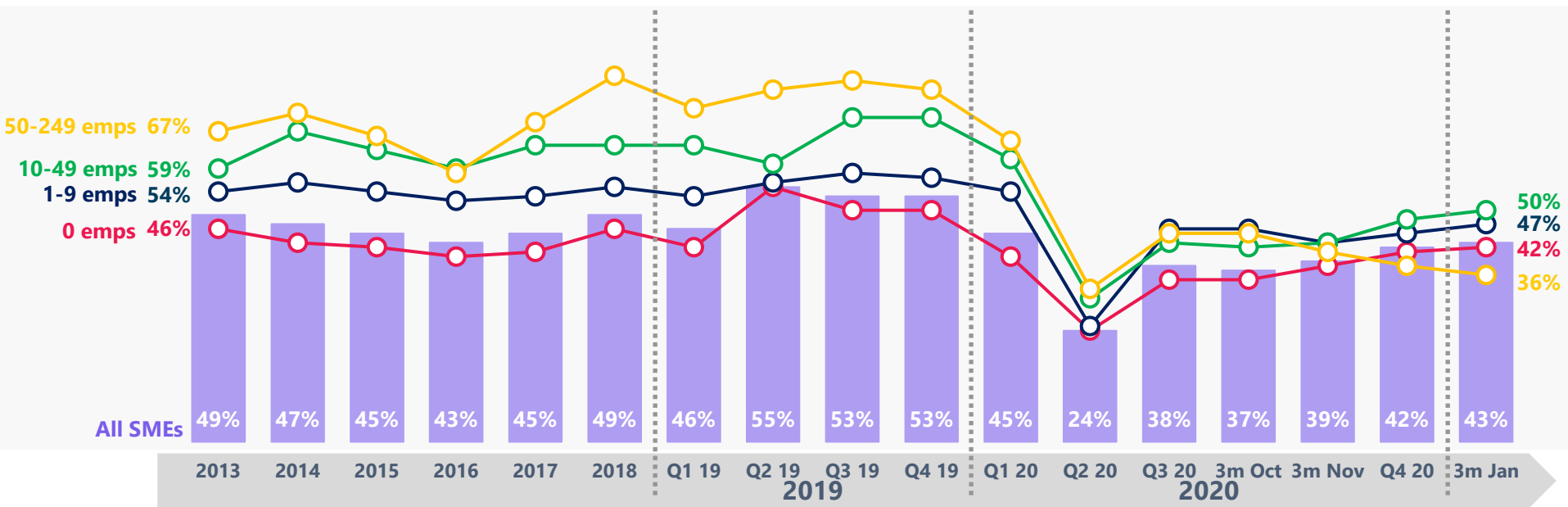
Time series: Have grown (excluding Starts)



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 then declined (15% for the 3 mths to January) 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 63% for the 3 mths to January

Initially in 2020, growth ambitions declined markedly. Since Q2 however, as reported growth continued to decline, growth ambitions have increased, to 43% currently, albeit a lower level than seen in previous years. Since Q3 2020 the largest SMEs have become less likely to expect to grow

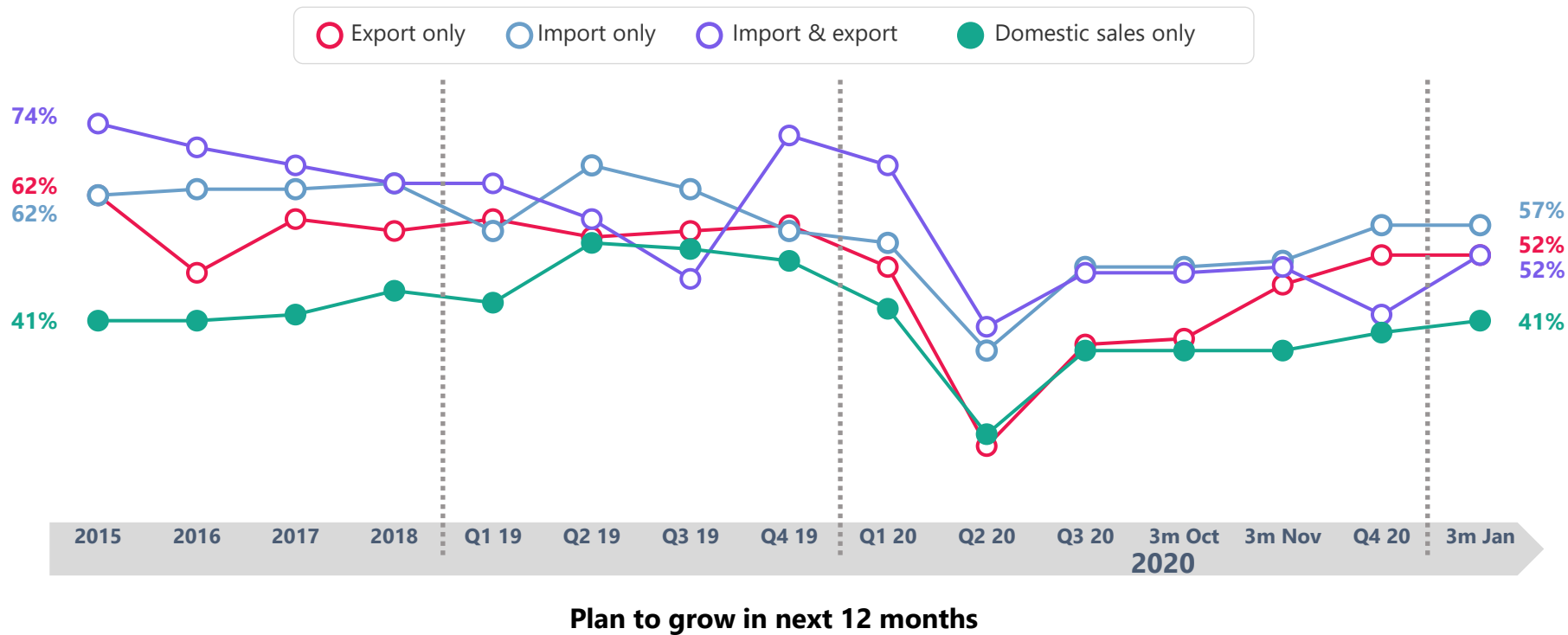
*Time series: Have plans to grow*



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 (43% for the current period), albeit still at lower levels than previously seen, notably for the largest SMEs.

The growth ambitions of Import-only and Export-only SMEs increased in Q4 and are currently stable, while those for fully international SMEs have improved, bringing them more in line with their international peers.

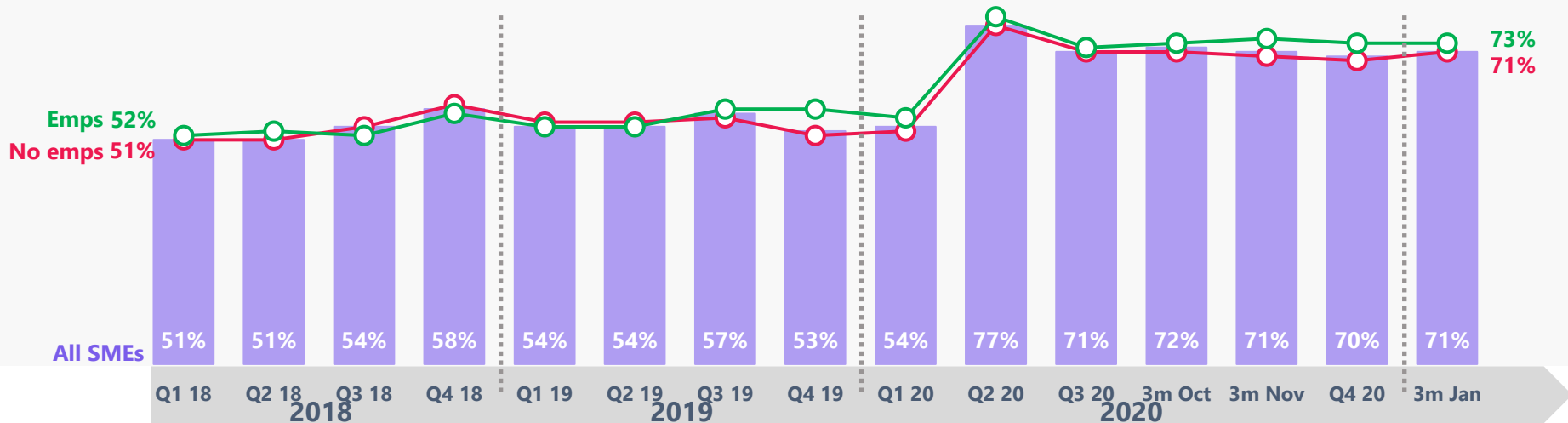
Time series: Growth plans by extent of international trade alongside domestic sales





# 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

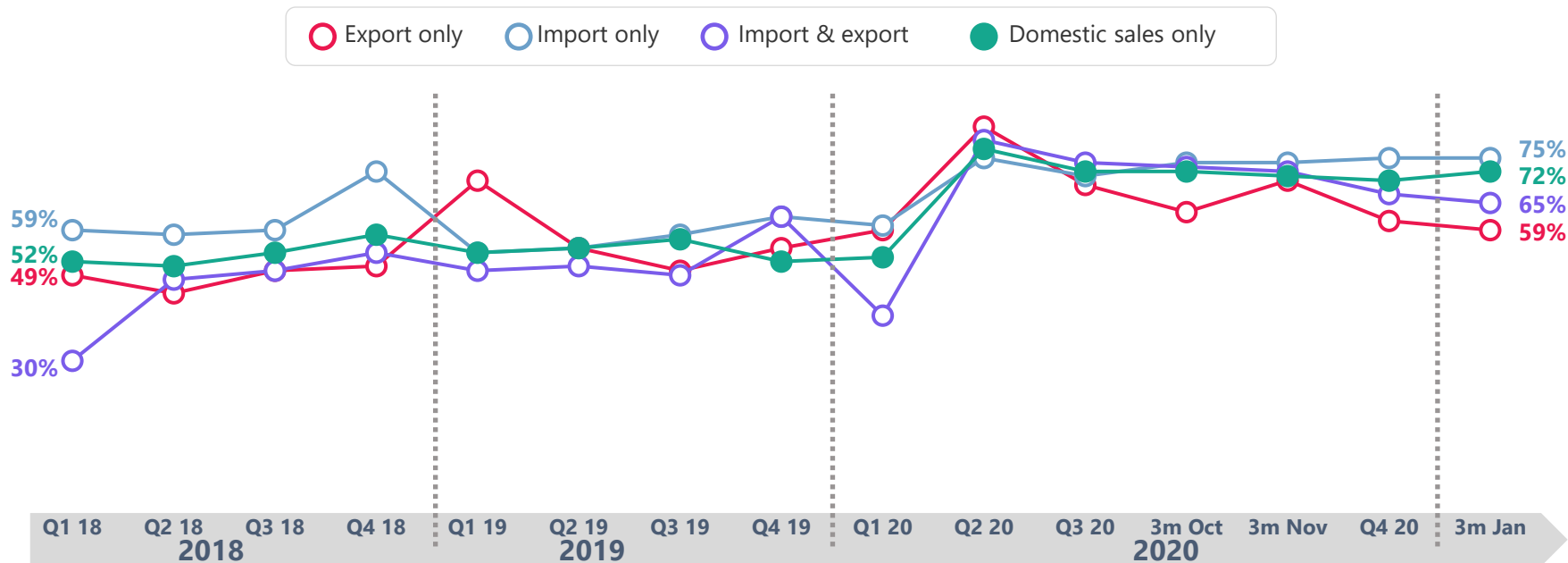
*Time series: Agree that future is uncertain so being cautious*



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%), or Q4 (70% overall), and was stable in the current period, albeit still higher than seen in previous years.

Since Q2, SMEs with an element of exporting in their business have become somewhat less cautious, but there remains relatively little to choose between levels of caution in each group.

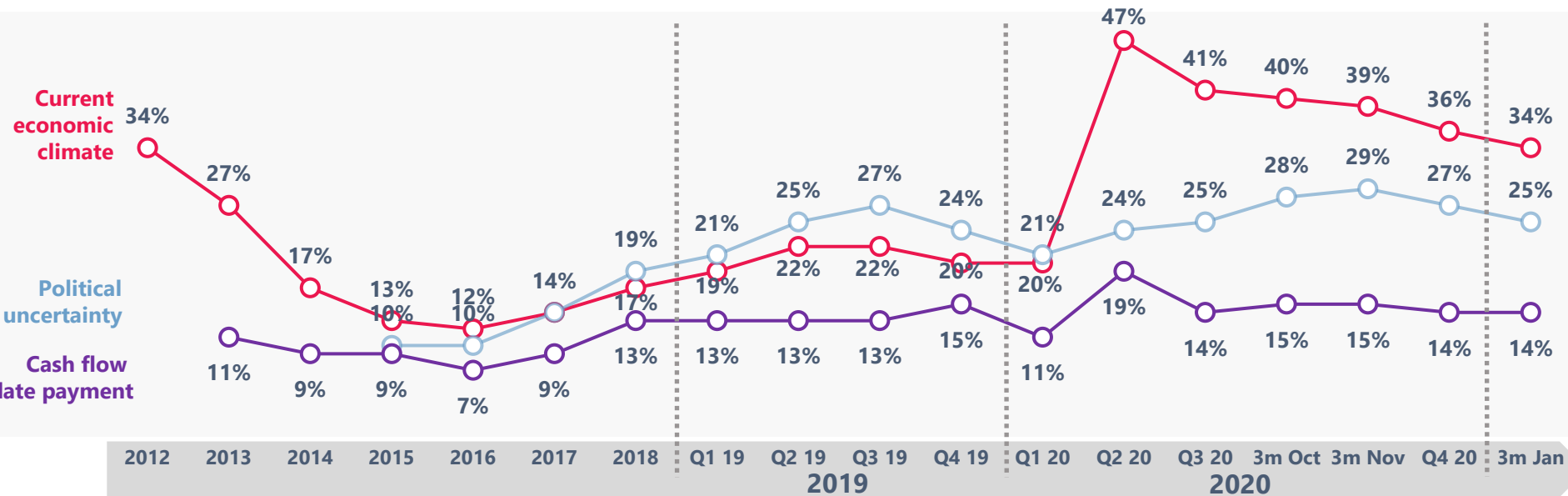
*Time series: Agree that future is uncertain so being cautious*



**Future uncertain so being cautious**

## A third of SMEs saw the current economic climate as a major barrier, a steady decrease since Q2 2020. Concerns about political uncertainty have declined, now back in line with Q2 2020

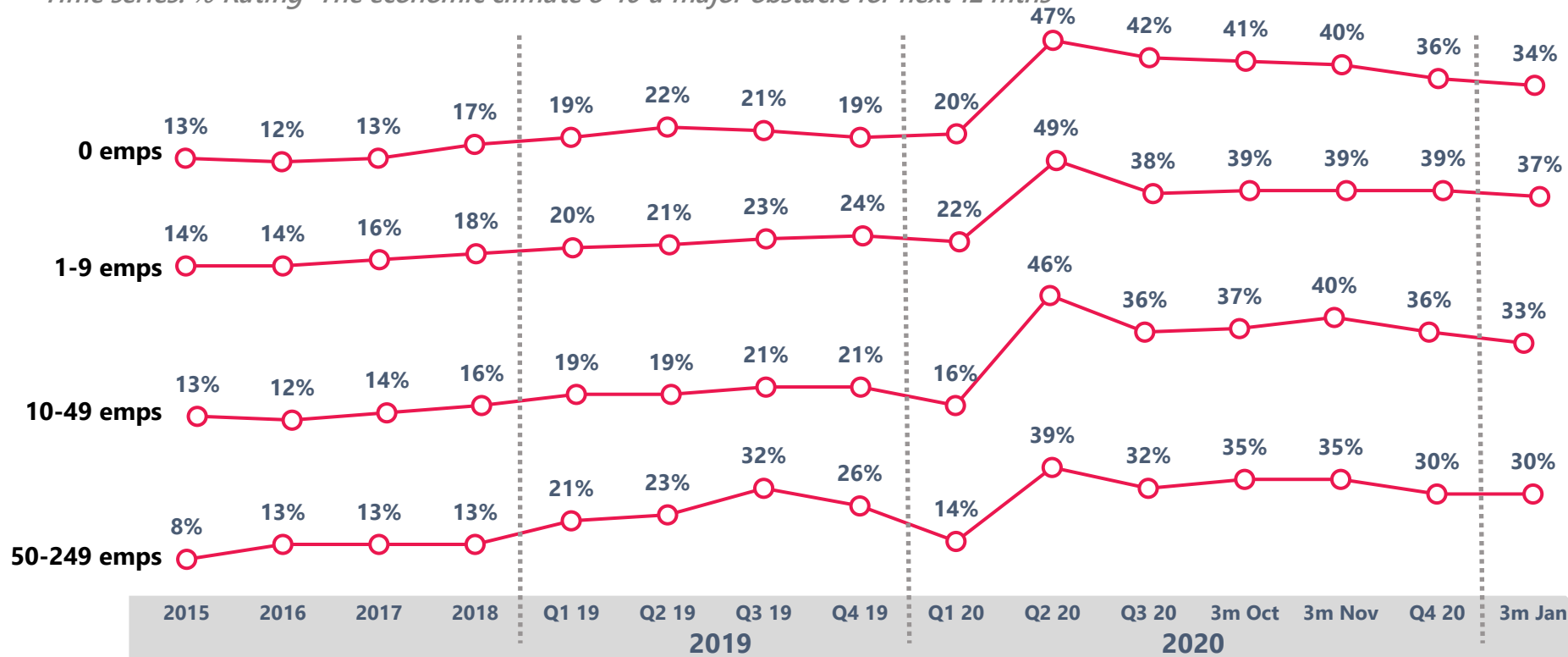
Time series: 8-10 Major obstacle to running business in next 12 months



Concern for the economic climate increased most markedly from Q1 to Q2 2020 (20% in Q1 to 47% in Q2), the highest level seen to date, but there has been a decline since, to 34% currently. Concern about political uncertainty increased to the 3 months to November but this was not maintained subsequently, while the proportion seeing cash flow and late payment as a barrier is more stable

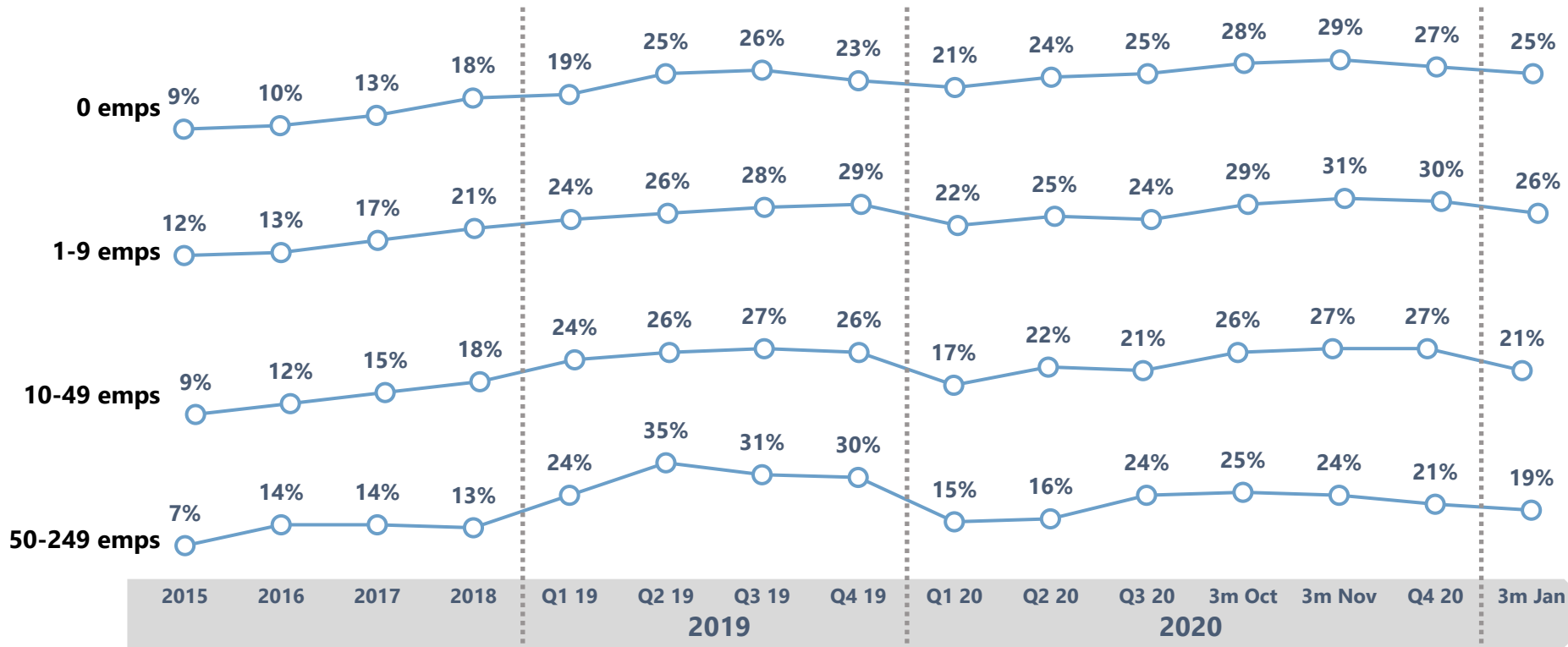
Concern about the economic climate increased markedly from Q1 to Q2 2020 across all size bands. A lower level of concern has been seen since, but still higher than in 2019 for all but the largest SMEs

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



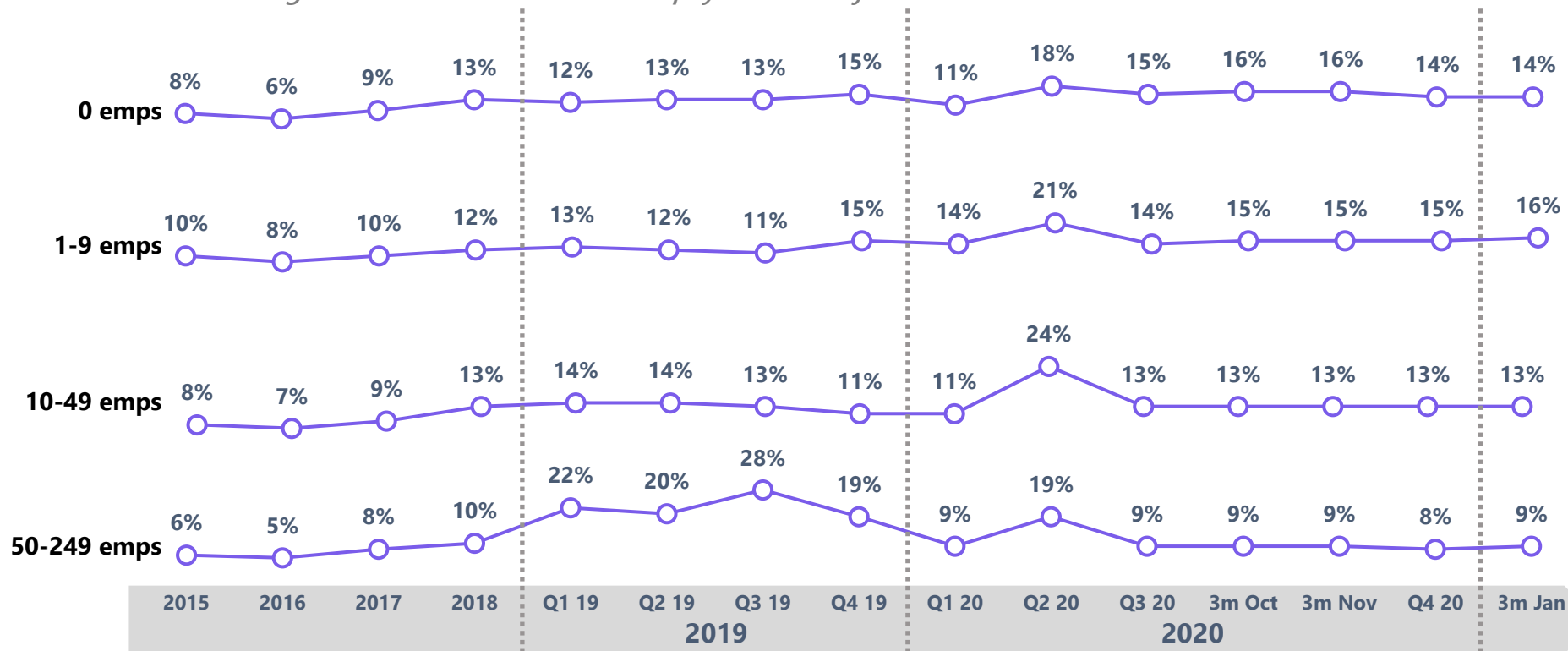
# Concern about political uncertainty increased Q3 to Q4 2020 for all but the largest SMEs but was somewhat lower in the 3 months to January, back in line with, or somewhat below, 2019 levels

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



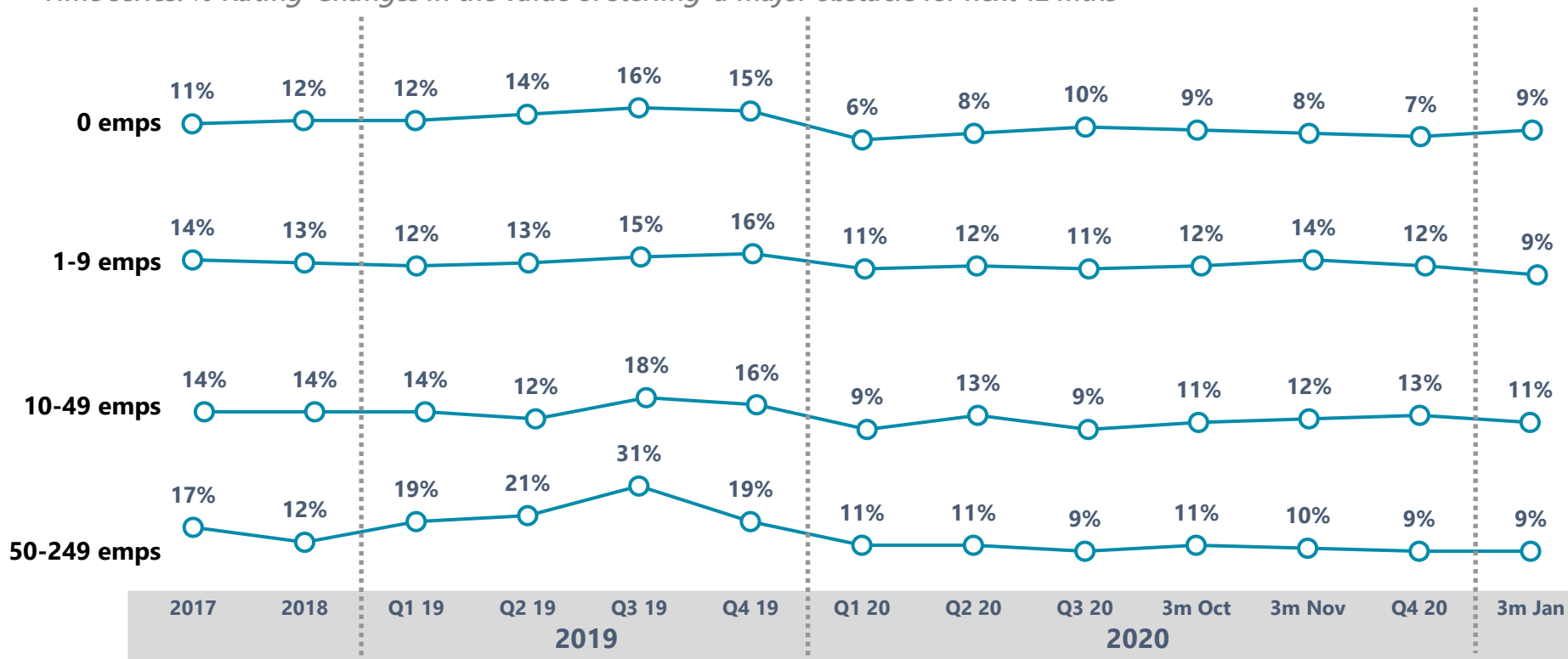
## Levels of concern about cash flow and late payment increased from Q1 to Q2 2020 for all size bands, but have reduced and stabilised since, especially for those with employees

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



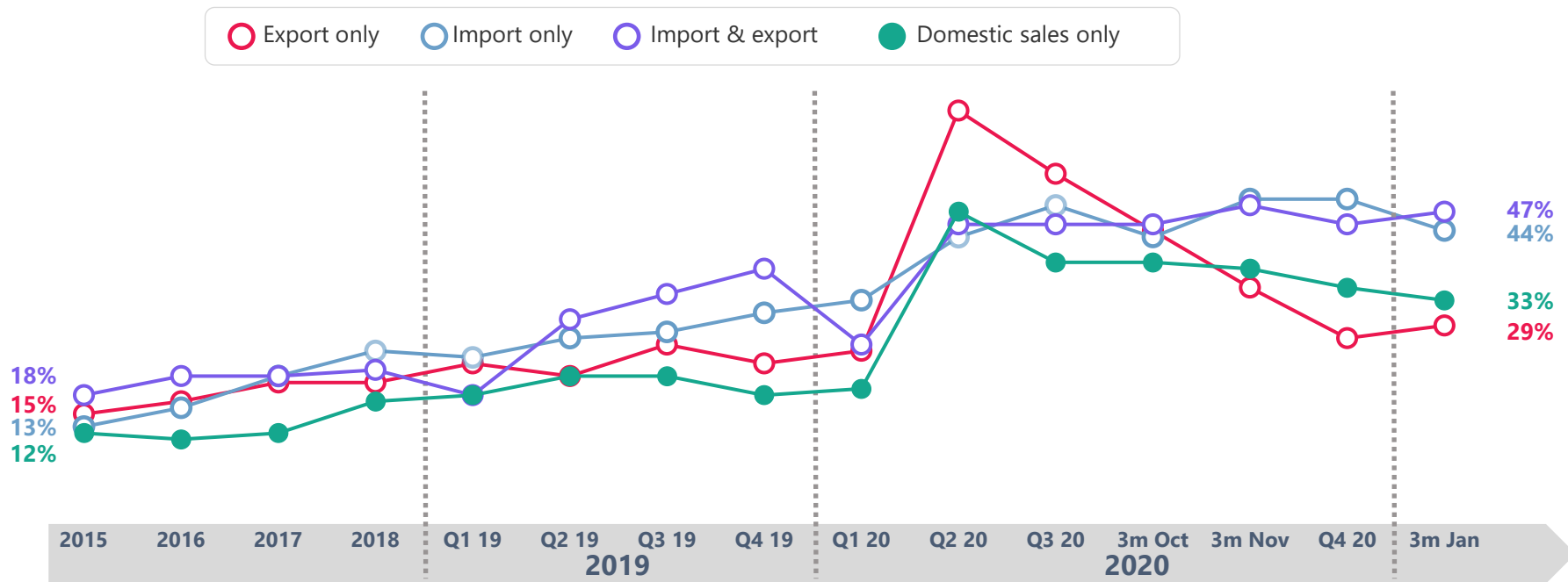
## Levels of concern about the value of sterling have been broadly stable over recent quarters

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



Export-only SMEs became less concerned about the economic climate from Q2 to Q4 2020 but have seen a slight increase in the current period, still at a slightly lower level of concern than Domestic SMEs. All are more concerned than they were in 2019

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

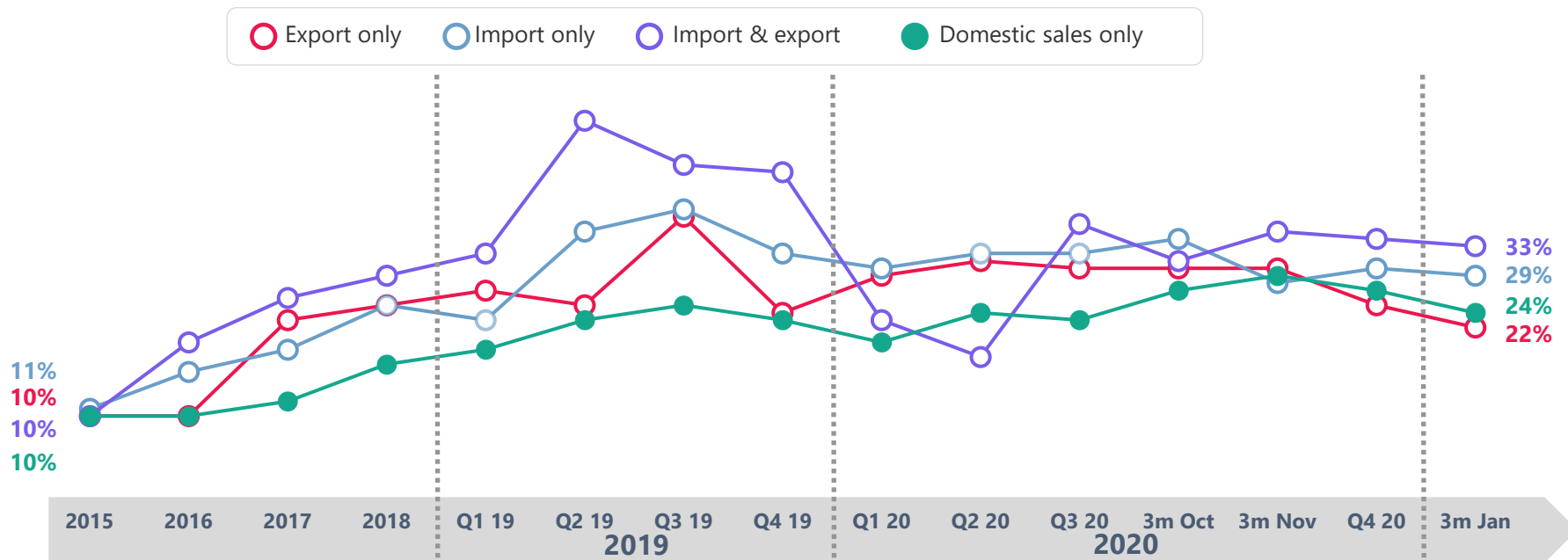


### Rating the current economic climate a major obstacle (8-10)



# Export-only and Domestic SMEs have become somewhat less likely to see political uncertainty as a barrier, with levels more stable for those with an element of importing to their business

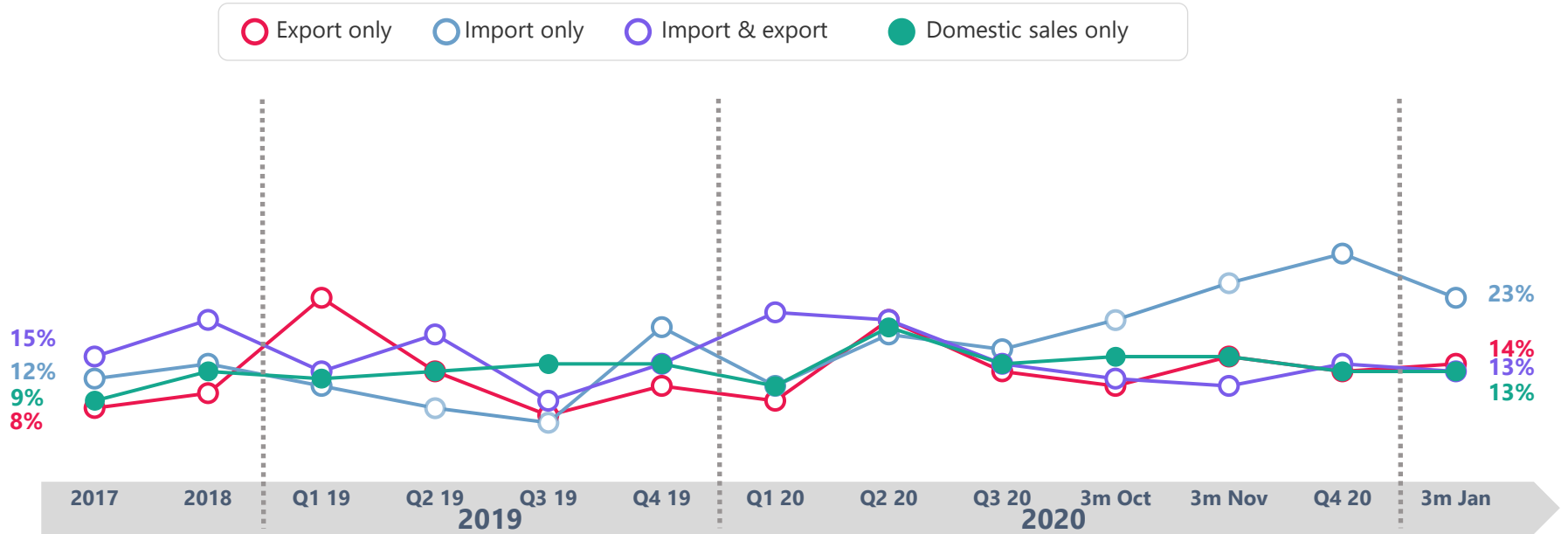
Time series: 8-10 political uncertainty by extent of international trade alongside domestic sales



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

# Import-only SMEs (who are more likely to be using external finance) remain more concerned about cash flow and late payment as a barrier, albeit at a lower level than in Q4 2020

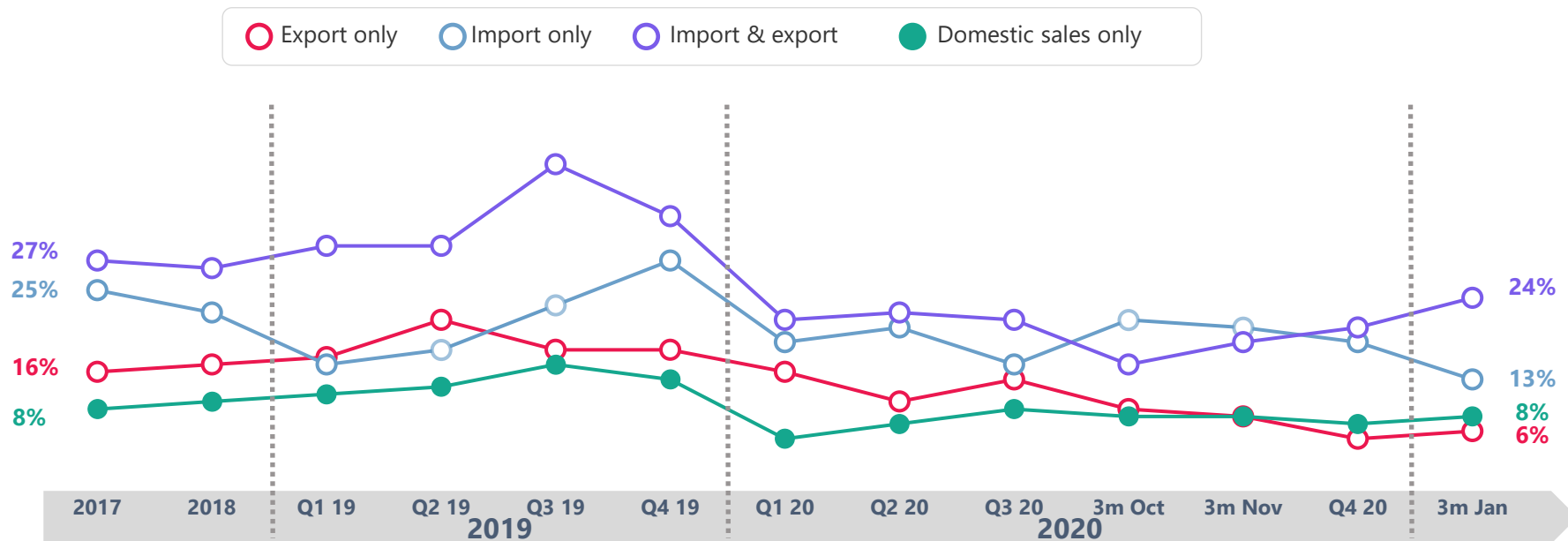
Time series: 8-10 cash flow / late payment by extent of international trade alongside domestic sales



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

# Fully international SMEs are now the most concerned about changes in the value of sterling, slightly higher than in 2020 but still lower than the levels of concern in 2019

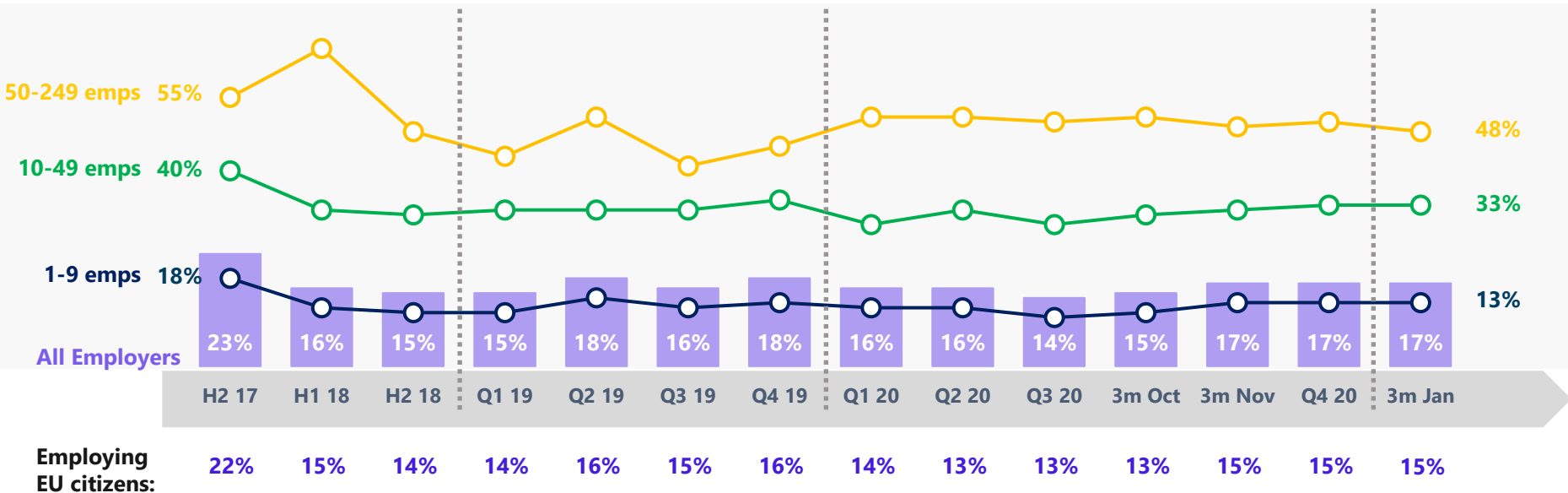
Time series: 8-10 changes in the value of sterling by extent of international trade alongside domestic sales



## 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 broadly stable since 2018

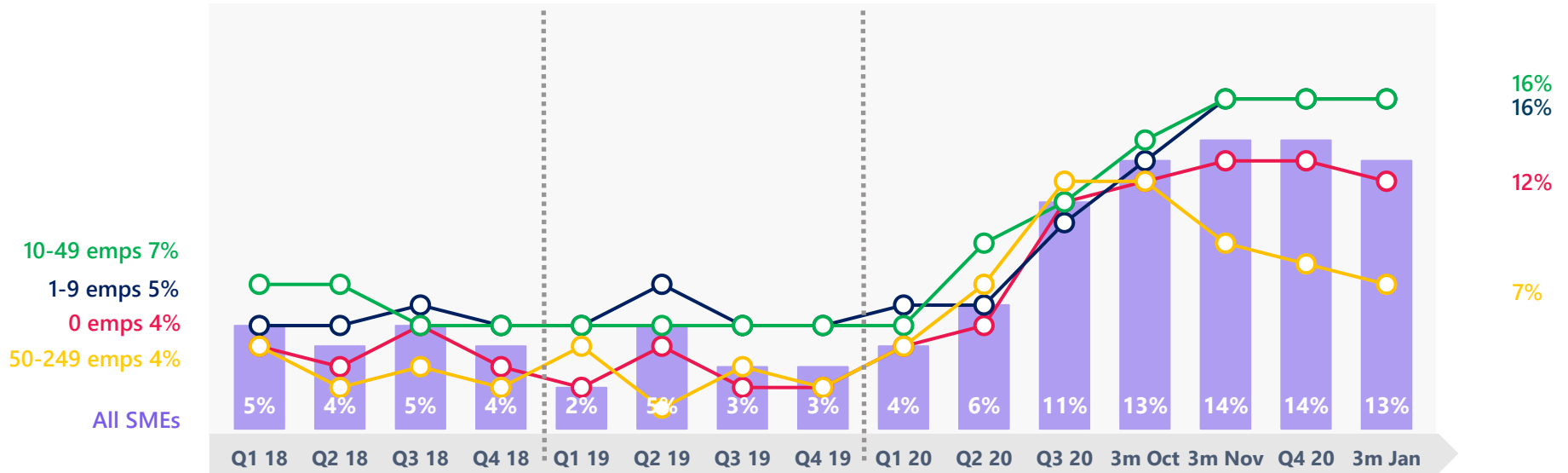
Time series: Employ non-UK staff (from the EU or elsewhere overseas)



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 January, a stable 15% of employers had staff from the EU and 6% had staff from elsewhere.

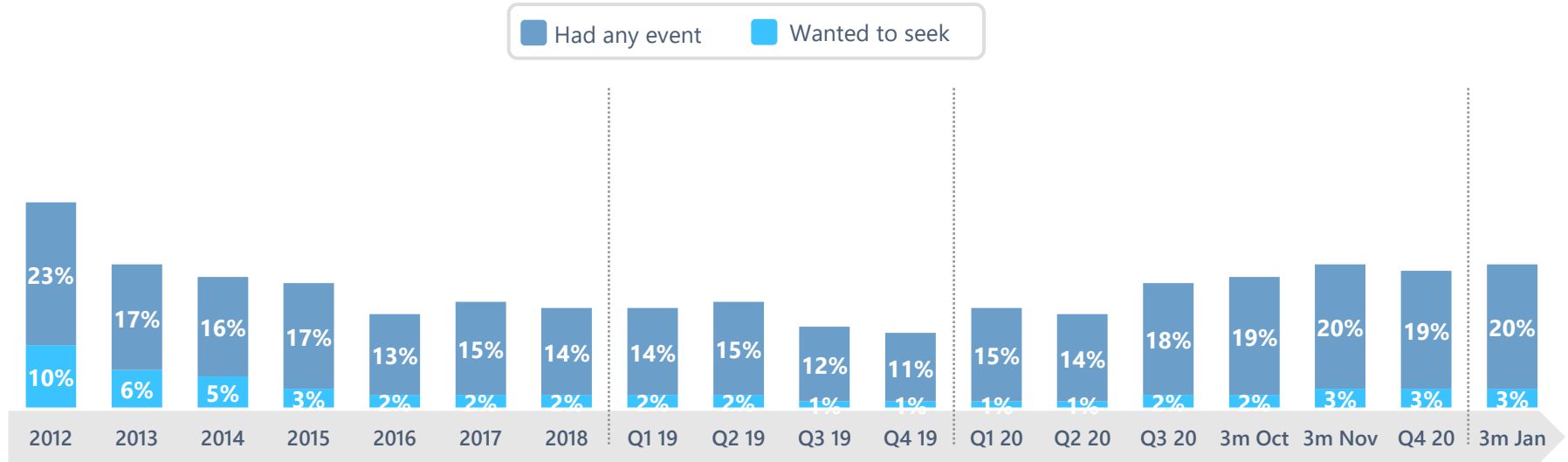
# A stable 13% of SMEs reported having a need for external funding in the previous 12 months, higher than in 2019 and the first half of 2020. Need amongst the largest SMEs declined again

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



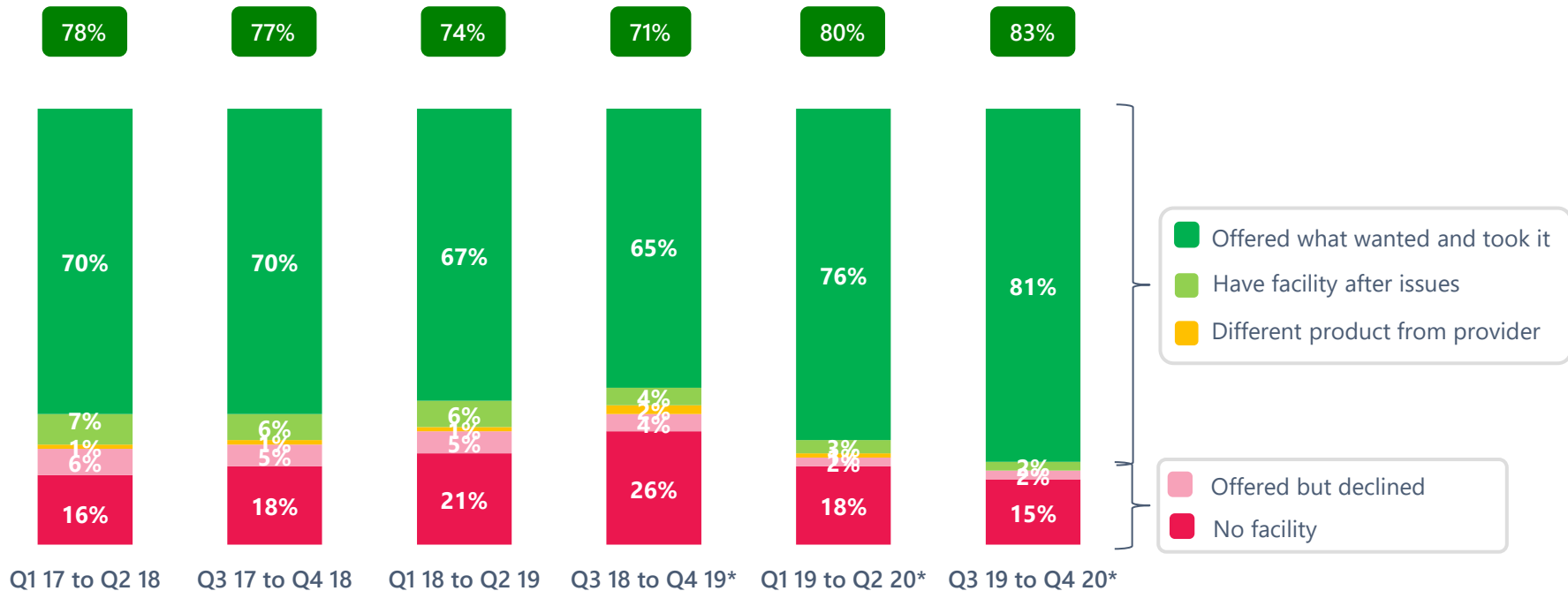
23% of SMEs reported any appetite for finance in the previous 12 months (an event or those who had wanted to seek finance), in line with Q4 2020 and levels seen in 2013

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



# Analysis by application period shows an initial increase in those offered no facility to over a quarter at the end of 2019, but success rates in 2020 improved as new Government backed schemes launched

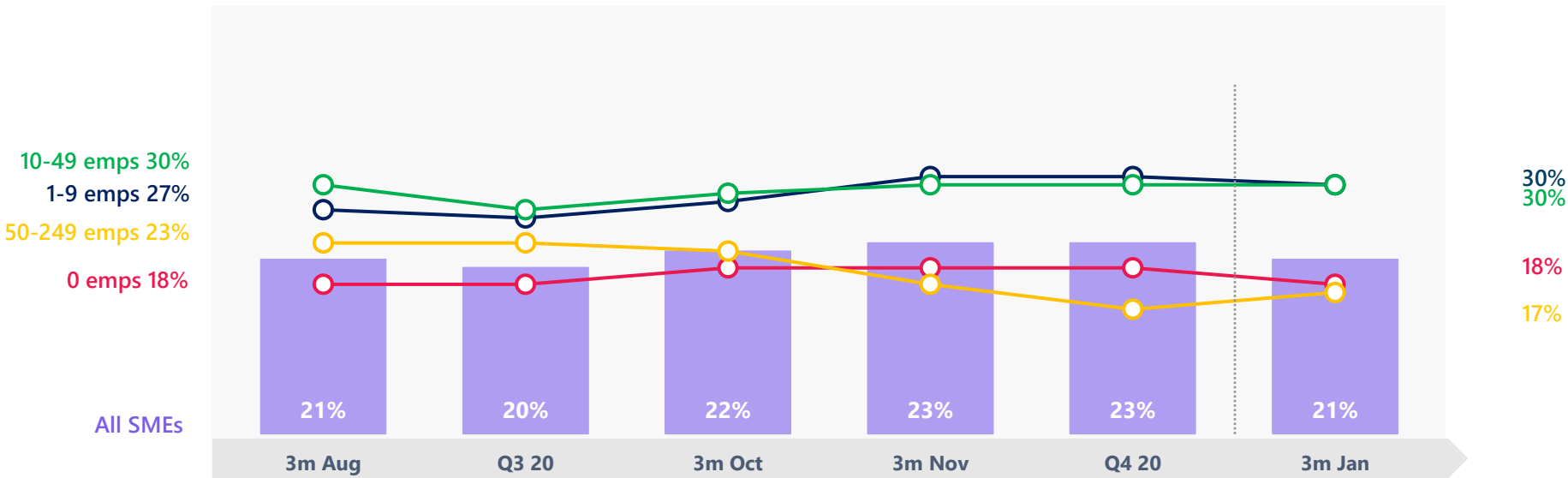
*Global success rate: all applications reported from Q1 2018 to Q4 2020, occurring in the periods shown*



This chart will be updated every quarter end  
Last updated Q4 2020

# 1 in 5 SMEs had approached a bank for Covid related finance, with appetite lower amongst the largest SMEs compared to the summer

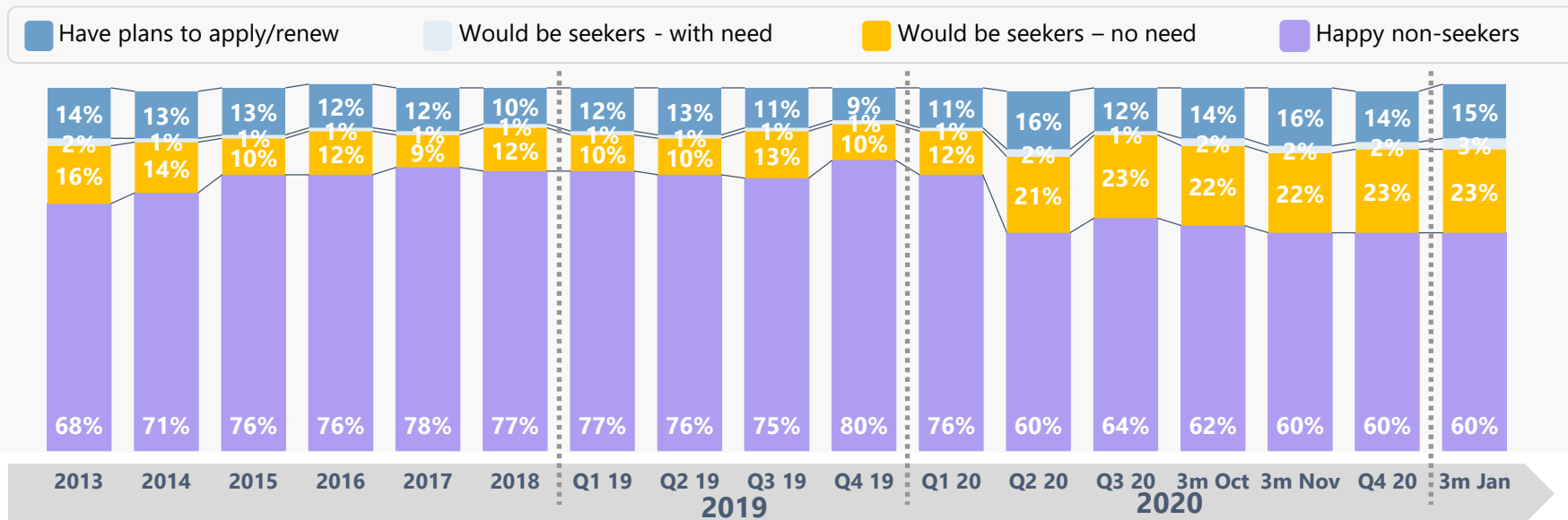
*NEW Time series: Approached main/other bank for Covid related finance*





## Q2 2020 saw a marked increase in those planning to apply and those who expected to be 'Future would-be seekers of finance'. Appetite has remained at a similar level since

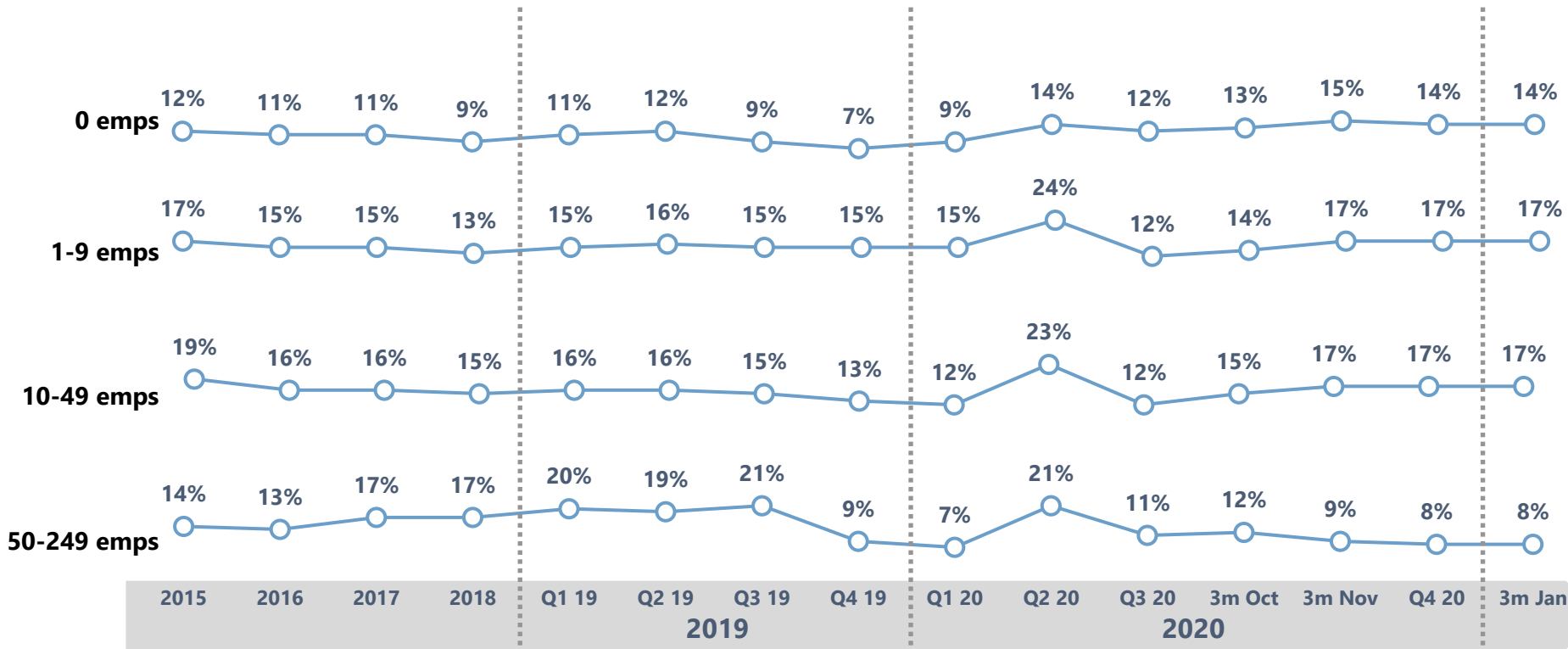
*Time series: Anticipated borrowing profile for next 3 months after ...*



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. It is currently stable, albeit at lower levels than in Q2 for all SMEs with employees

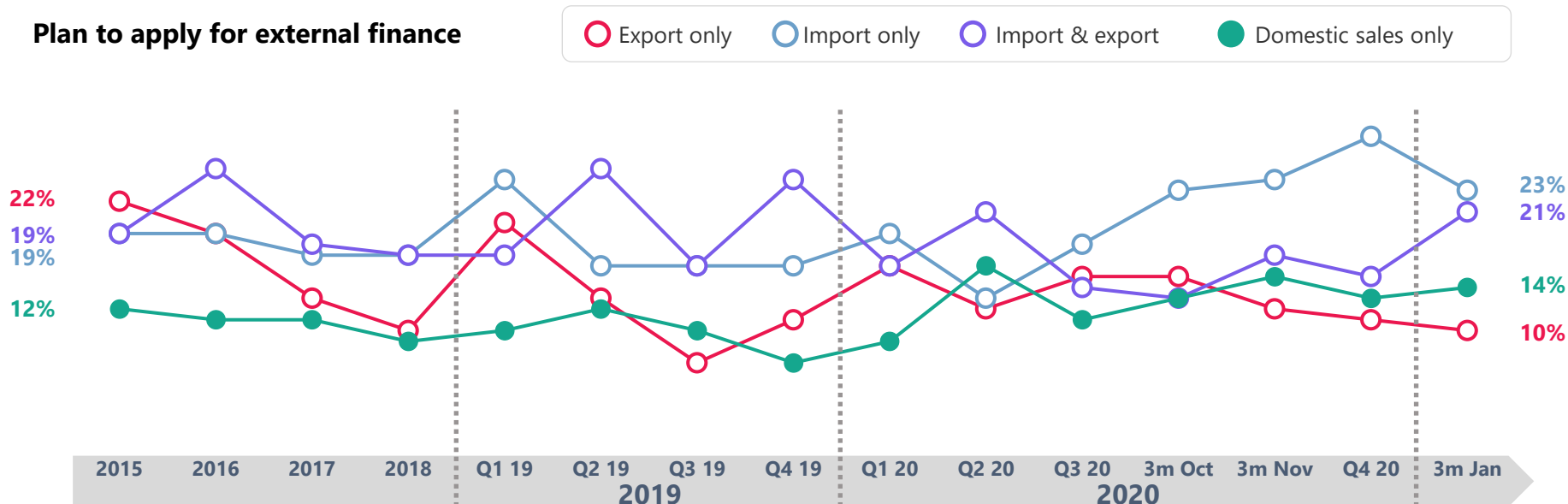
Time series: % planning to apply



Appetite for (and also use of) finance increased for Fully international SMEs, bringing them into line with Import-only SMEs. Appetite for finance amongst Export-only SMEs has declined somewhat since Q3 2020

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

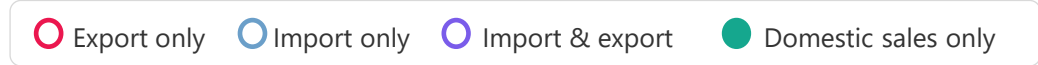
### Plan to apply for external finance



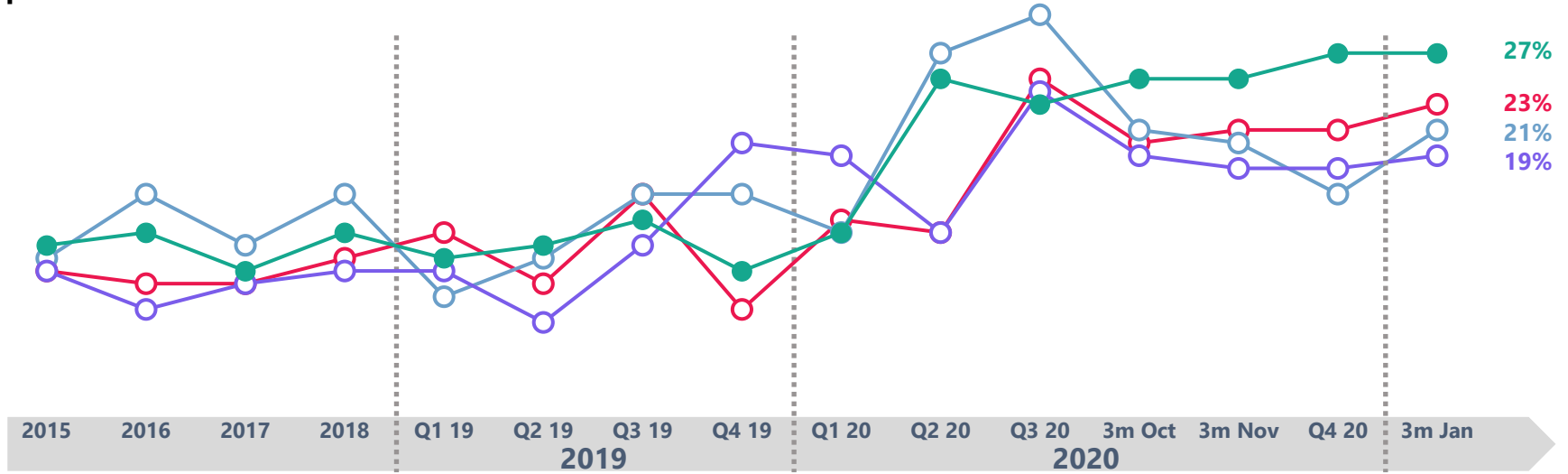
Appetite for finance amongst those that both import and export has varied over time. It fell sharply from the peak of 25% in 2016 to 10% in Q1 2018 and is currently 21%. Appetite amongst domestic SMEs has declined slightly since Q2 2020 but typically remained higher than was seen in 2019 (7-12%)

Since Q3, fewer international SMEs have met the definition of a Future would-be seeker, but still typically 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*



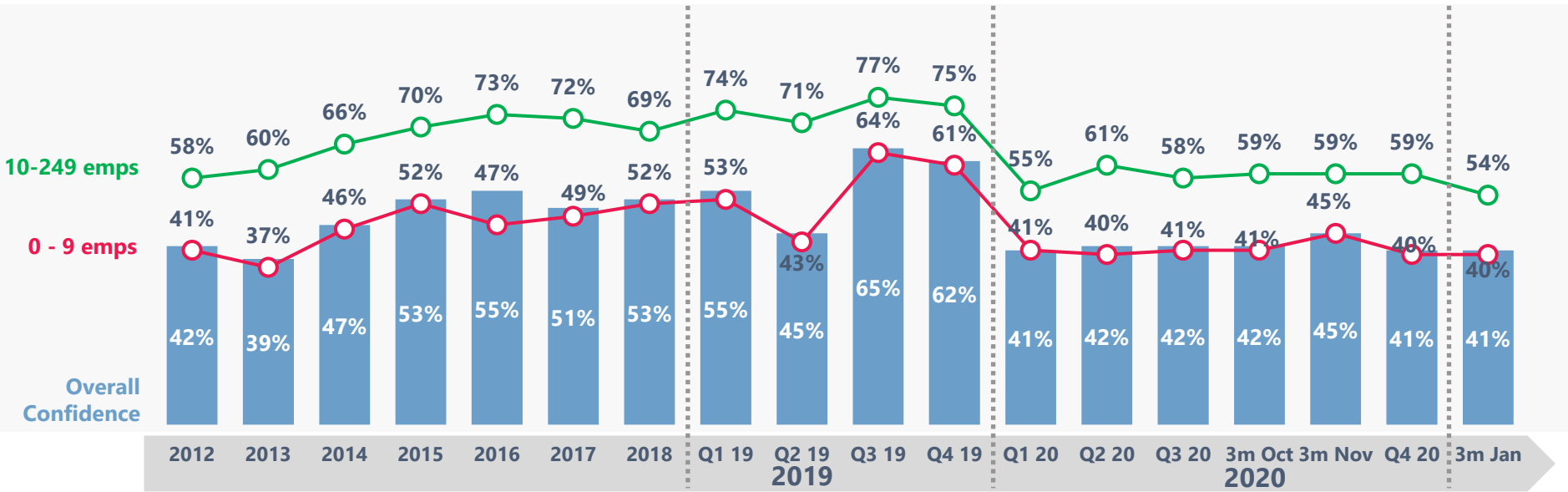
**Expect to be a future would-be seeker of finance**



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 increase in the 3 months to January to 21% may be linked to a slight drop in plans to apply for finance (see previous slide)

# As appetite for finance increased in 2020, confidence that the application would be successful has fluctuated around 4 in 10 of those planning to apply, somewhat lower than in 2019

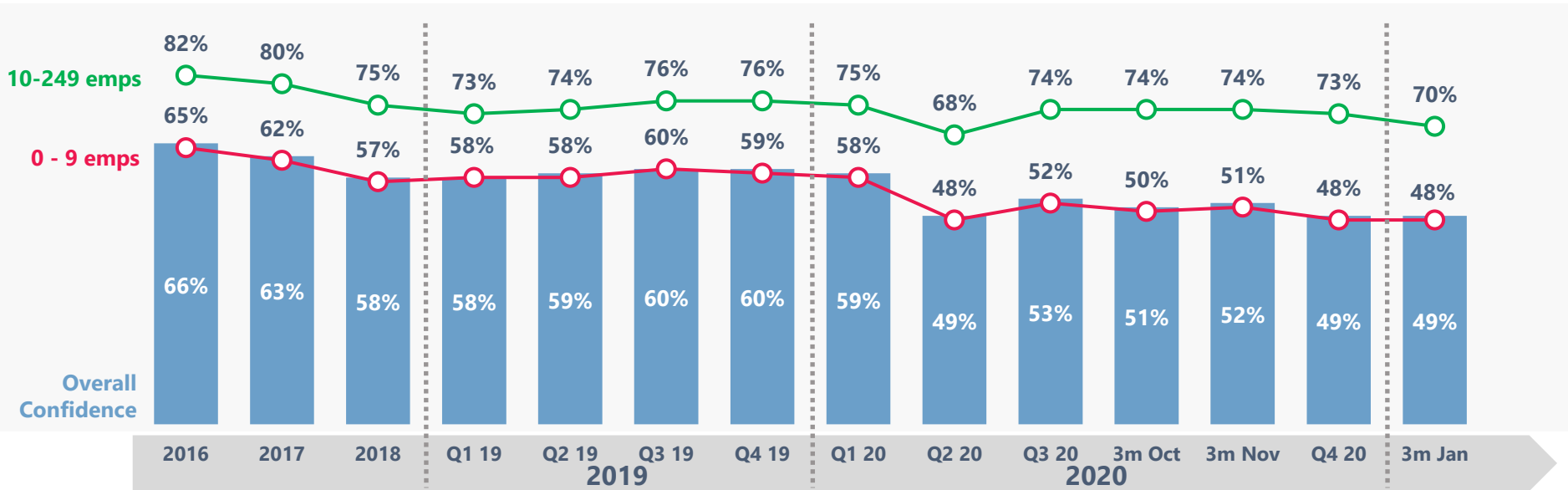
Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by size



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 and has been little changed since, albeit with a wider gap in confidence between larger and smaller SMEs

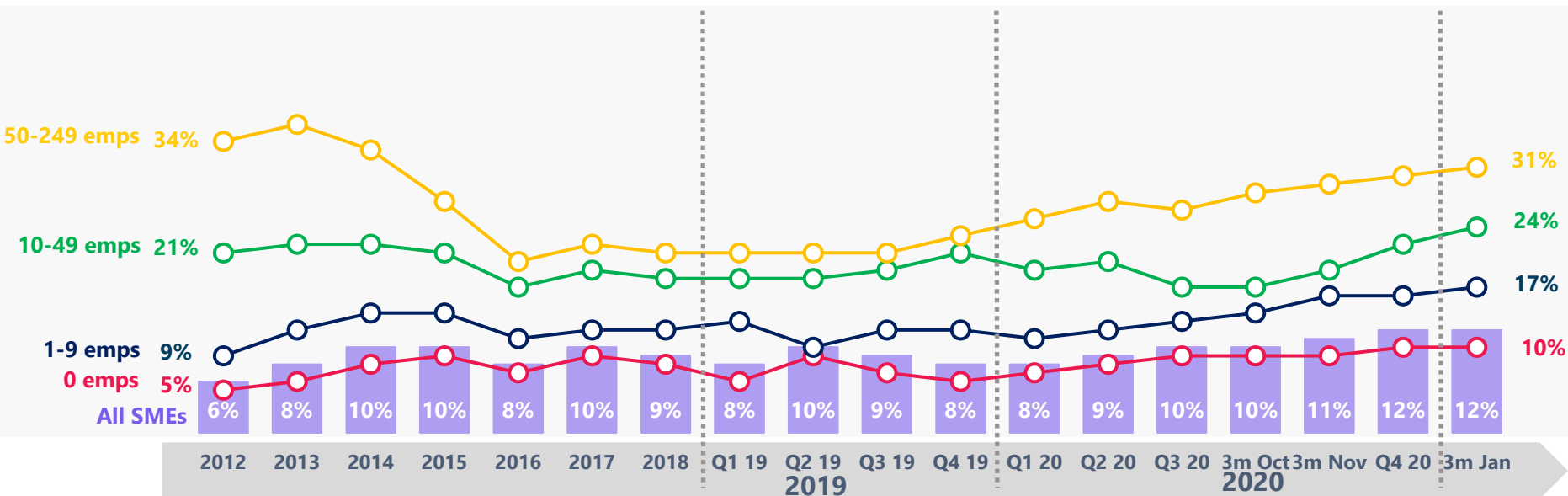
Time series: Confidence (very/fairly) bank would agree to facility next 3 months – by size



Half (49%) 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 (70% v 54%). 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 (48% v 40%, see previous slide for those *with* plans)

The proportion of all SMEs that export increased very slightly over the course of 2020, to 12% in Q4 and the current period, and across all size bands.

*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 (8-12%) and is 12% 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



