

SME FINANCE MONITOR

3 month rolling analysis to end
March 2021

An independent report by
BVA BDRC, April 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 was 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 January to March 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.

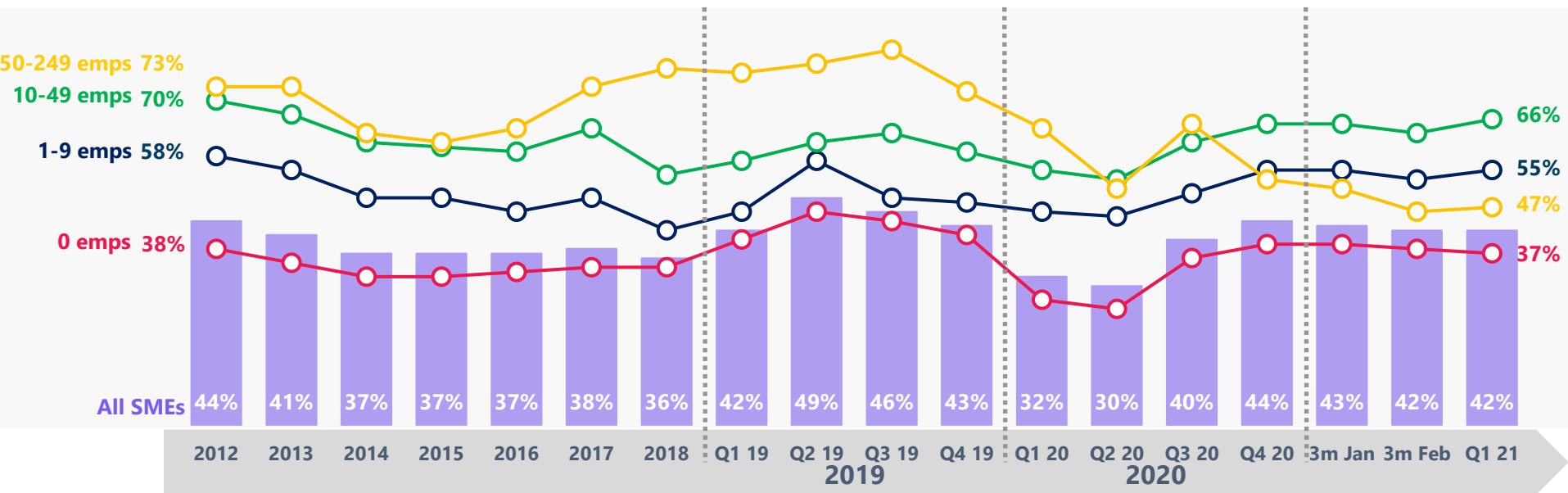
However, there have been slight changes to the “types of finance used” question and also to the definition of a “Permanent non-Borrower”. These initial results do not suggest the changes have had a major impact on results but will be monitored over time.

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.

42% of SMEs were using external finance, just below Q4 2020. This is after a sharp decline in the early months of 2020, to a low of 30% in Q2

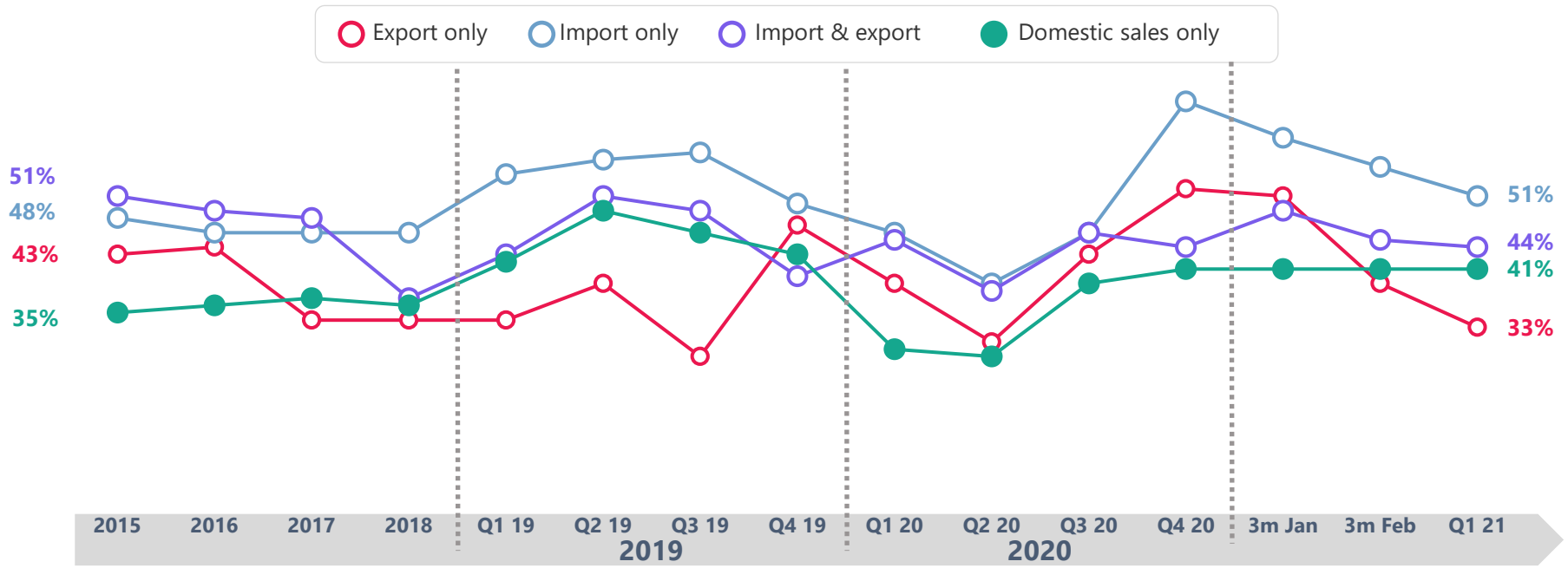
Time series: use of external finance per quarter



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 of finance has grown. It was 44% for Q4 2020 with, in particular, an increase since Q2 in the proportion of 0 employee SMEs using finance (25% to 39%), and has been stable since. The largest SMEs with 50-249 employees have become less likely to be using finance (72% in Q4 2019 to 47% in the 3 months to March 2021), a trend which started in the second half of 2019.

Import-only SMEs remained the most likely to be using external finance but at lower levels than at the end of 2020. There was also a further decline in use of finance amongst Export-only SMEs

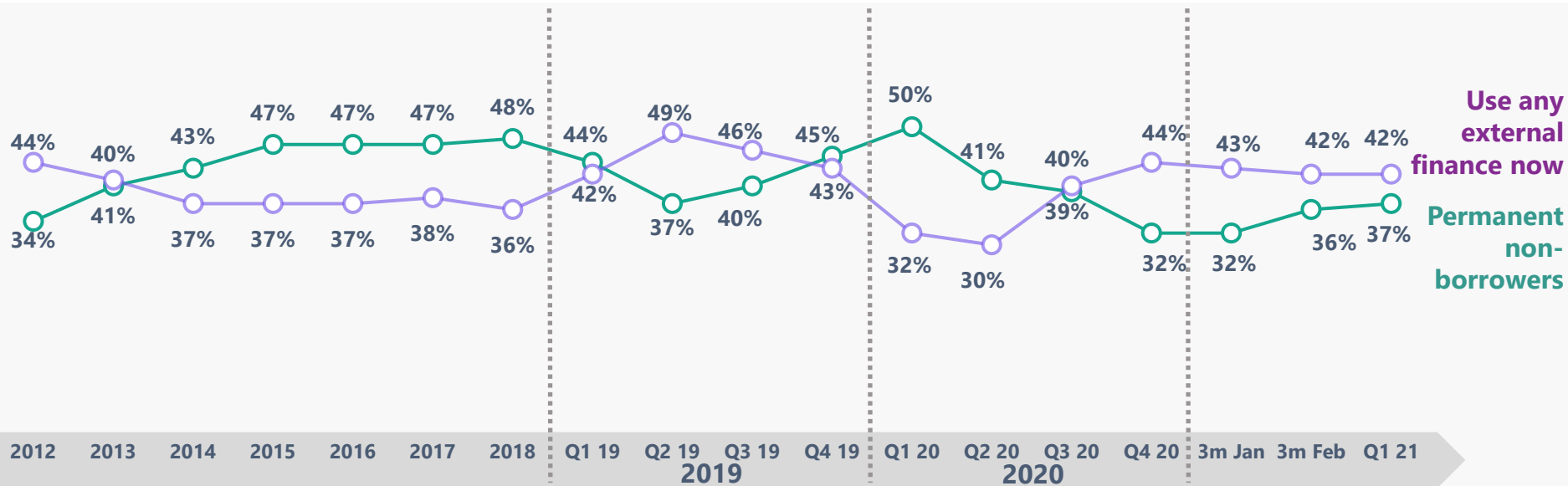
Time series: use of external finance by extent of international trade alongside domestic sales



Use any external finance

Use of finance increased from Q2 2020 and the proportion of PNBs, initially stable in Q3 2020, declined to 32% in Q4. It has since increased somewhat, to 37% currently

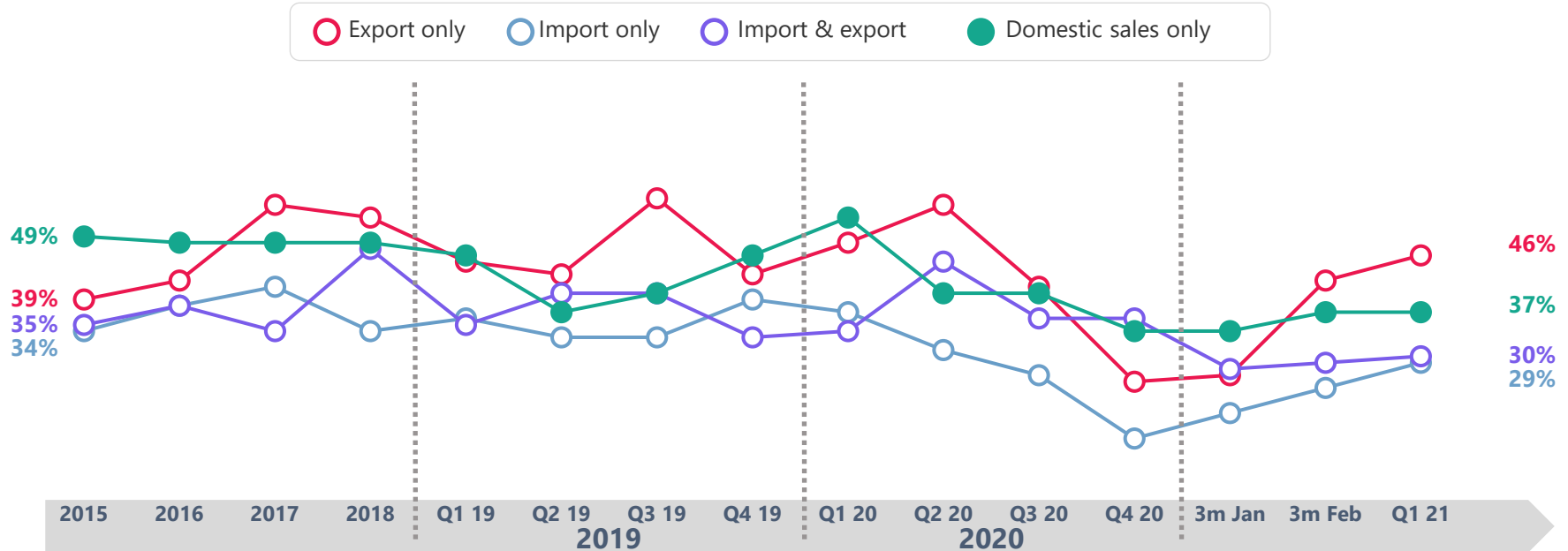
Time series: Permanent non-borrowers and users of external finance



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 37% is up slightly from 32% in Q4 2020, and more in line with proportions previously seen on SMEFM to date.

As Export-only and Import-only SMEs became less likely to use external finance they have become more likely to meet the definition of PNB, with a less marked increase since Q4 for Domestic SMEs

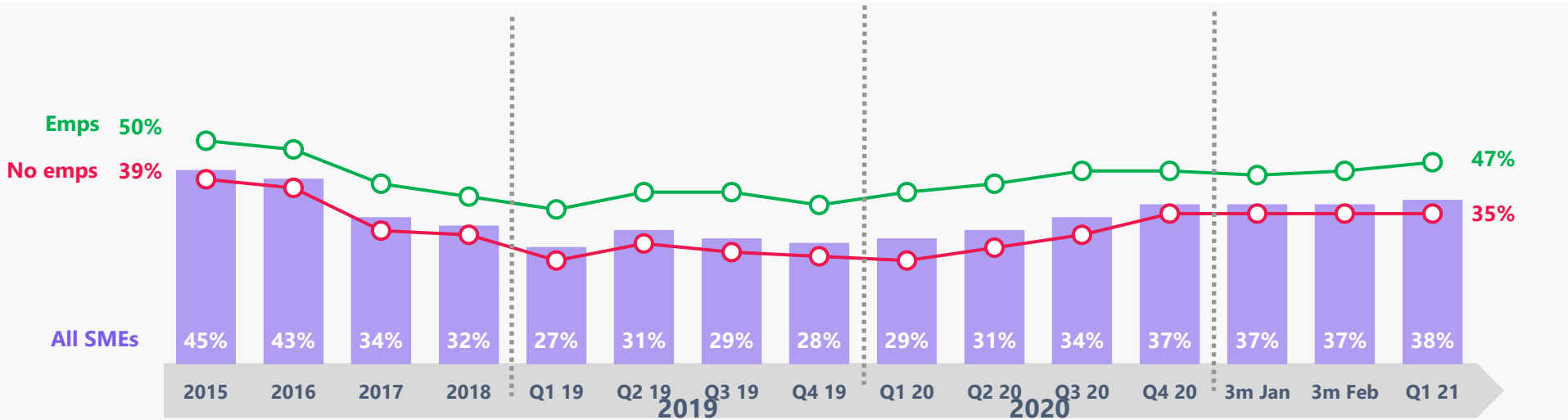
Time series: Permanent non-borrowers by extent of international trade alongside domestic sales



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

38% of SMEs were happy to use finance to grow, in line with Q4 2020 and maintaining the increase seen since during 2020

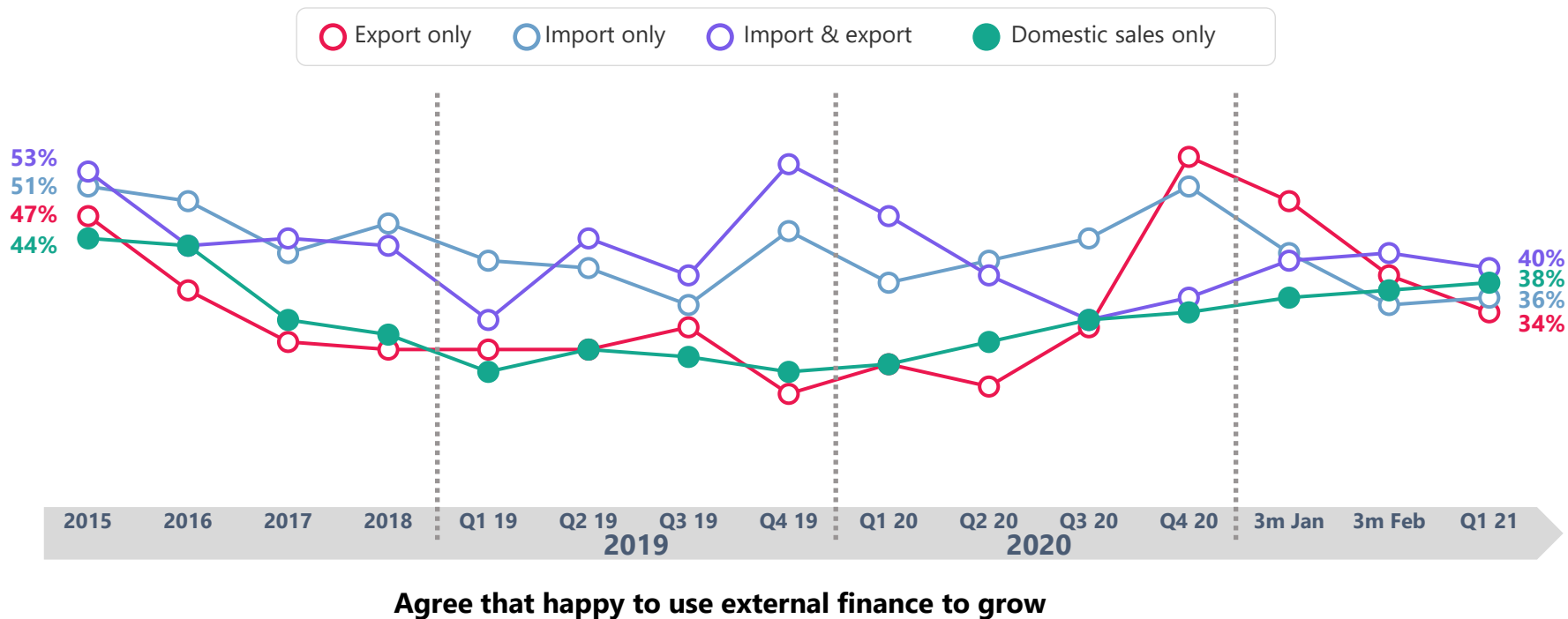
Time series: Agree that happy to use external finance to help business grow



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 then increased steadily to 37% for the 3 months to December 2020 and has remained unchanged since. Larger SMEs remain more likely to have an appetite for finance.

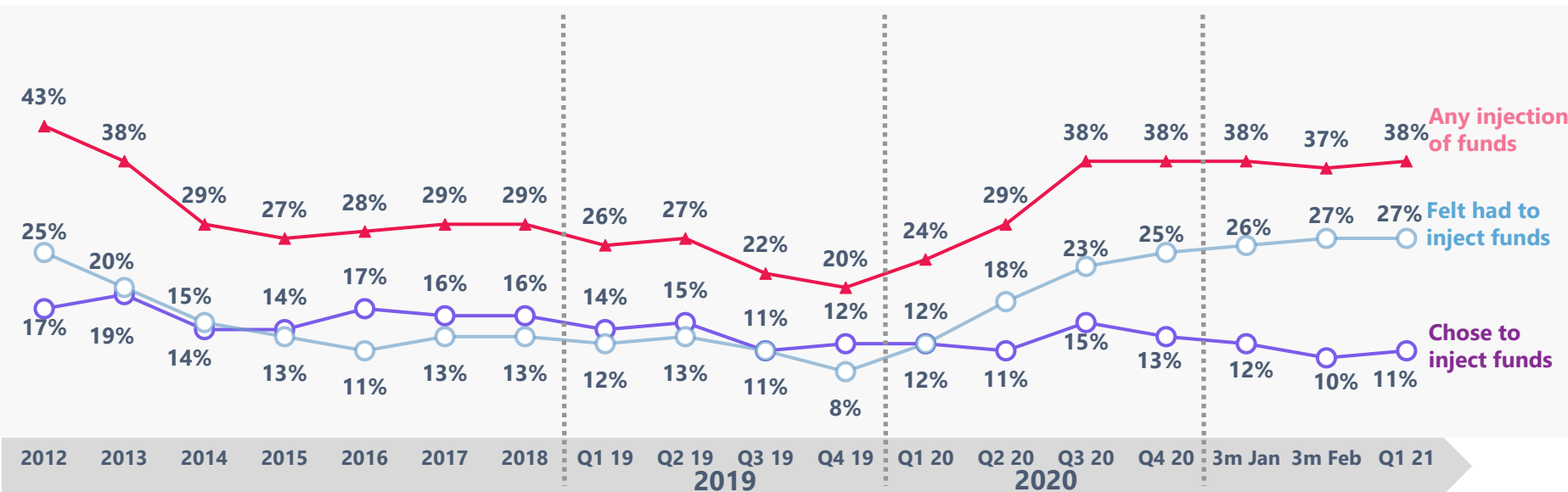
Export-only SMEs have seen a further decline in willingness to borrow to grow since Q4 2020 while Fully international and Domestic SMEs have seen a slight increase in appetite in 2021

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



38% of SMEs had 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 27%.

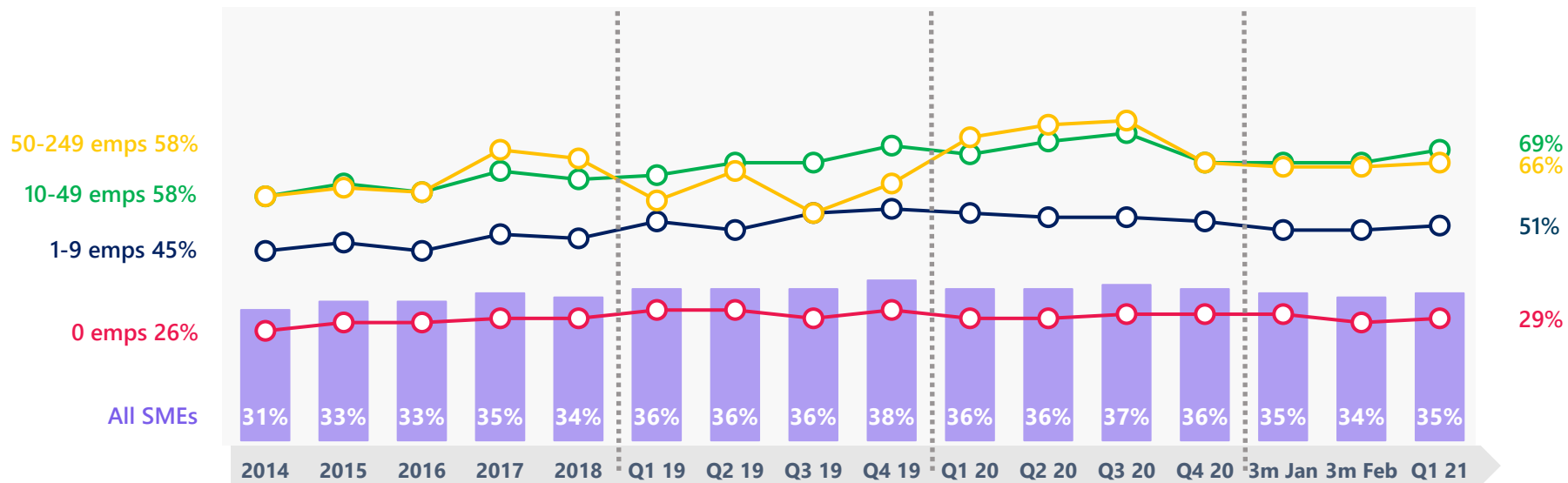
Time series: Injections of personal funds in previous 12 months



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 then increased Q1 to Q3 2020 to 38% and has remained stable since, with more SMEs feeling that they had to inject funds (27%).

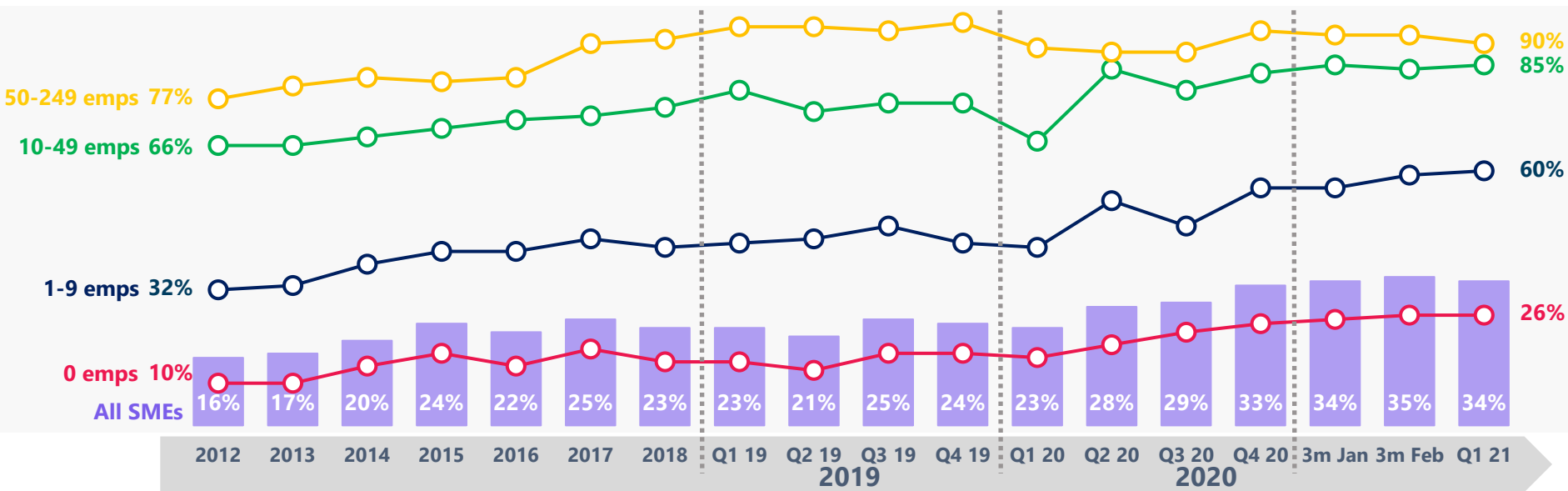
35% of SMEs were using trade credit, in line with 2017-18

Time series : Using trade credit



34% of SMEs held more than £10,000 of credit balances, maintaining the increase seen to Q4 2020. All but the largest SMEs are more likely to be holding such sums than they were in 2019

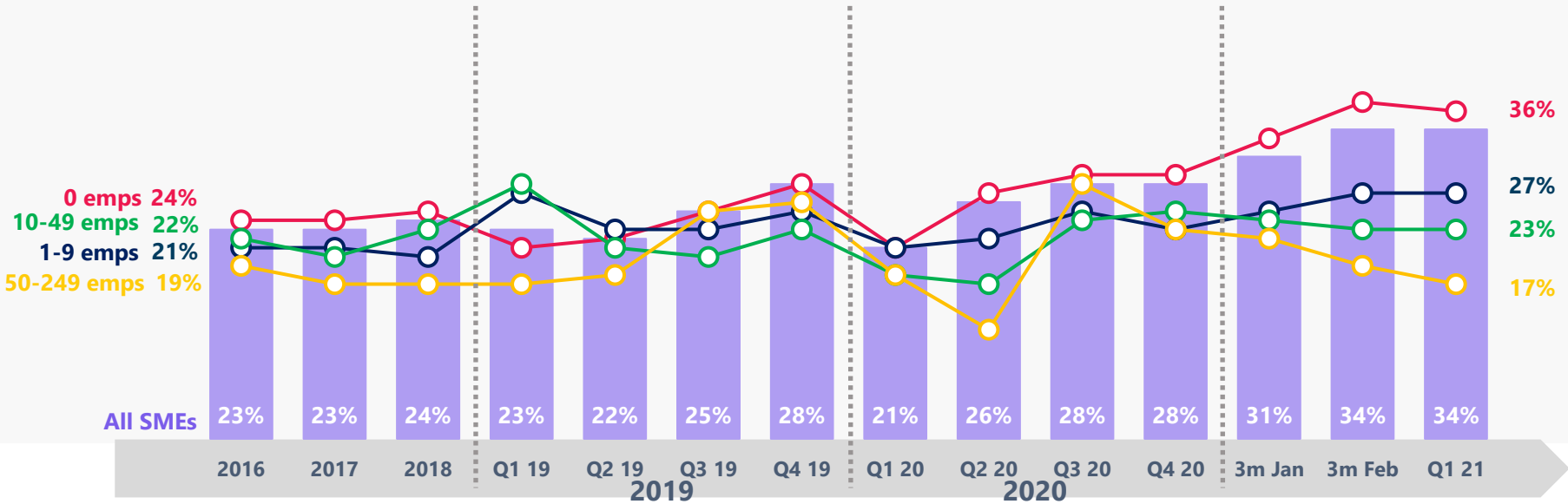
Time series: £10k credit balances held



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 33% in Q4, with increases seen across all size bands. The proportion for the 3 months to March 2021 was in line (34%)

SMEs held the equivalent of 34% 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, back to levels seen in 2017 and 2018

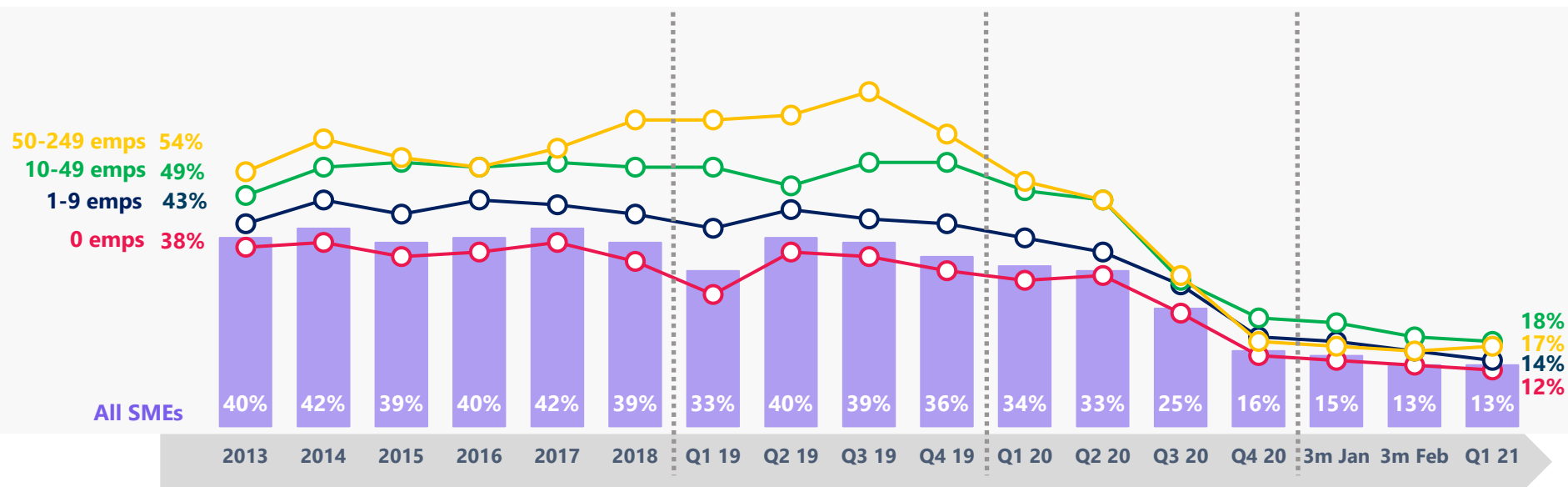
Time series: % of turnover held as credit balances



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 March 2021, SMEs held the equivalent of 34% 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 Q4 2019 to Q2 2020 (26% to 12%) then an increase back to 28% for Q3 but a steady decline again since to 17% currently, albeit this is in line with previous years.

The proportion of SMEs reporting growth in the last year was 13%, the lowest level seen to date. Two thirds of SMEs had declined, up from 2 in 10 in 2019

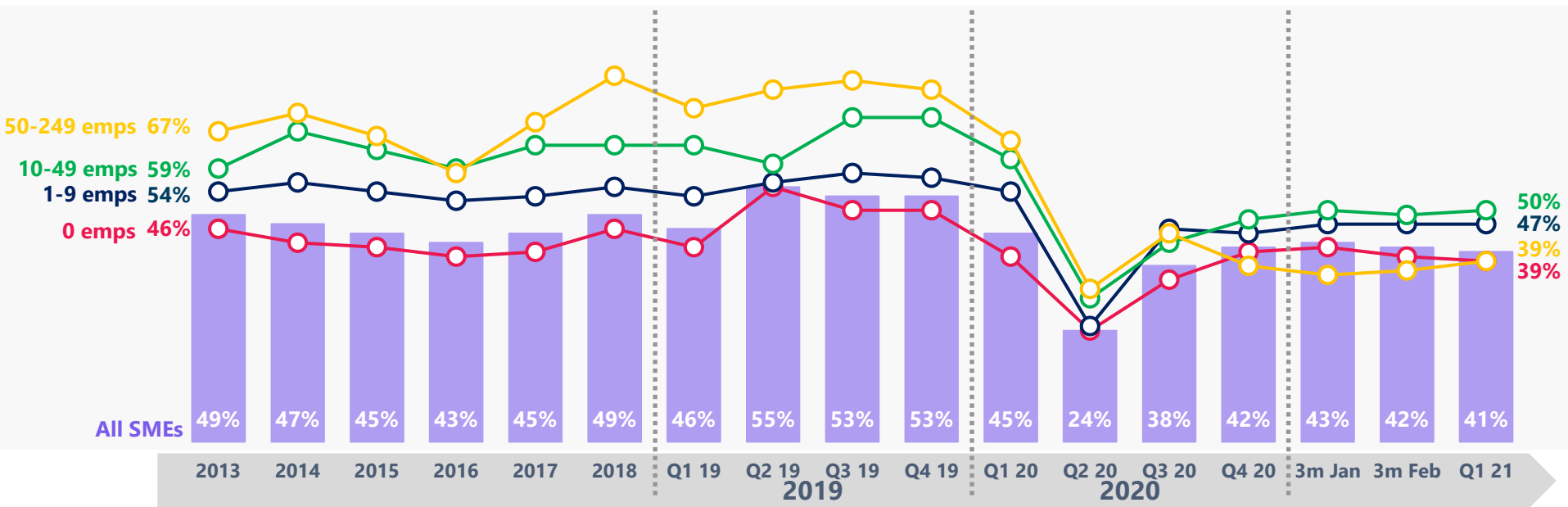
Time series: Have grown (excluding Starts)



Between 2012 and 2019, the proportion of SMEs (excluding Starts) reporting growth varied little (39-42%) and was 37% for 2019 as a whole. Reported growth in 2020 was initially broadly stable (32-34% up to the 3 months to July) but then declined steadily across all size bands and was 16% in Q4 2020 and 13% for the 3 mths to March 2021. 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 65% for the 3 months to February 2021.

Initially in 2020, growth ambitions declined markedly. Since Q2 however, as reported growth continued to decline, growth ambitions increased, to 42% in Q4 2020 and stable since, albeit still slightly lower than seen in previous years.

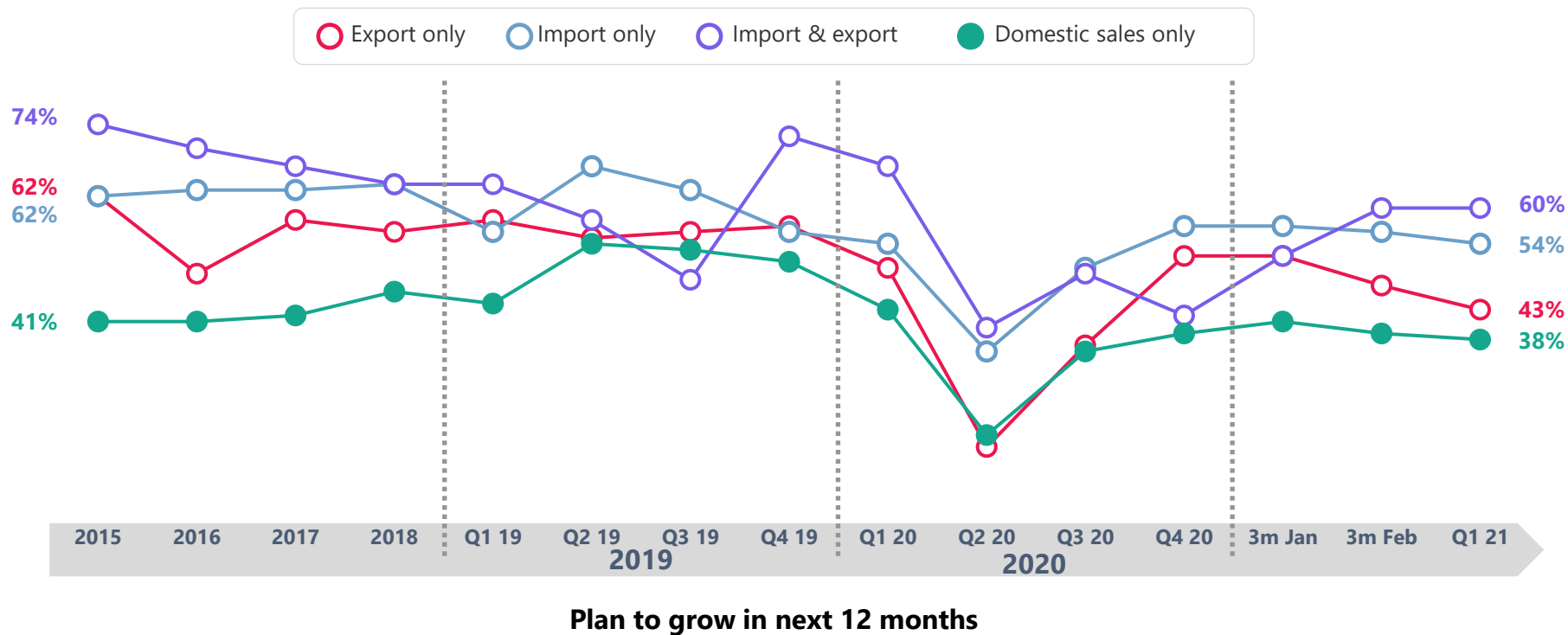
Time series: Have plans to grow



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, to 42% for Q4 2020 and stable since (41% in the current period) albeit still at slightly lower levels than previously seen, notably for the largest SMEs.

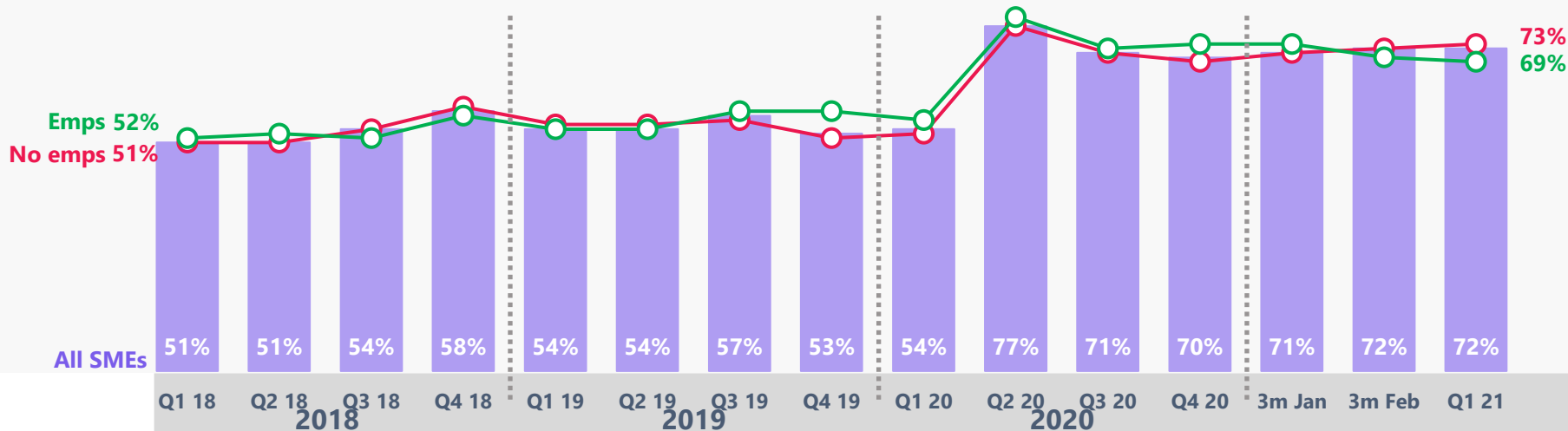
The growth ambitions of fully international SMEs have improved since Q4, as growth aspirations for Export-only have declined and those for Import-only and Domestic SMEs have plateaued.

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

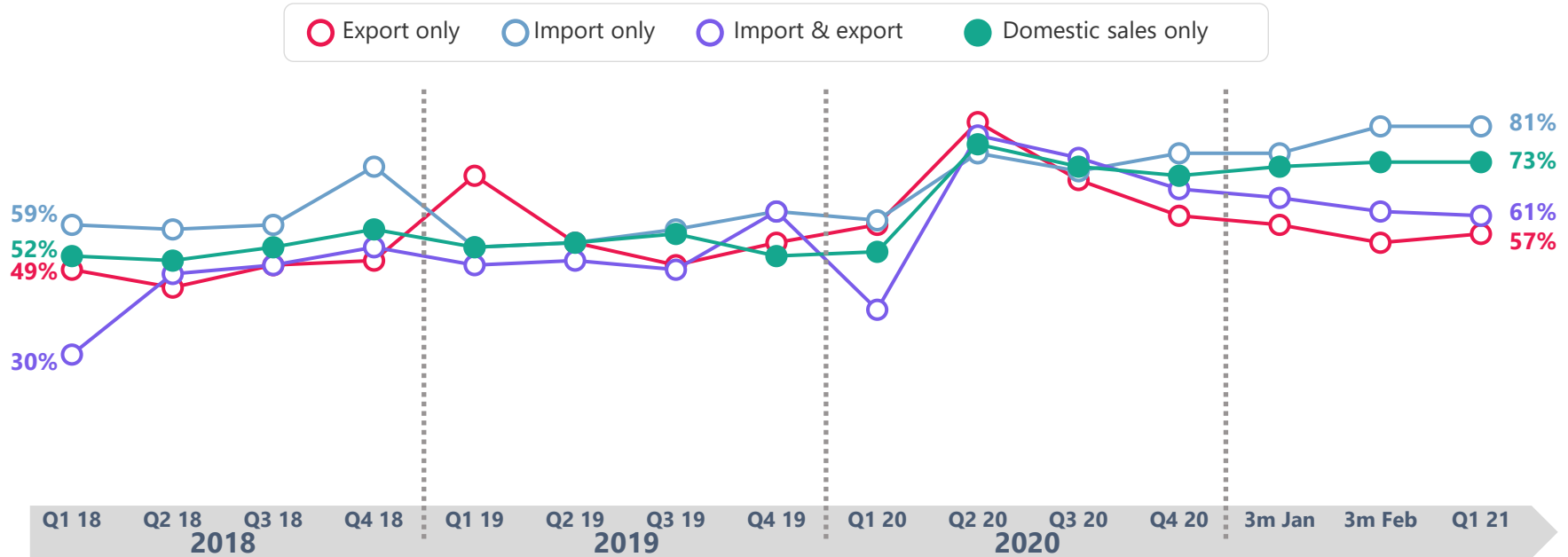
Time series: Agree that future is uncertain so being cautious



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 and has been stable since at 7 in 10 SMEs.

Since Q2 2020, SMEs with an element of exporting in their business have become somewhat less cautious, with more of a 'gap' in 2021 between these SMEs and those who are Domestic or Import-only.

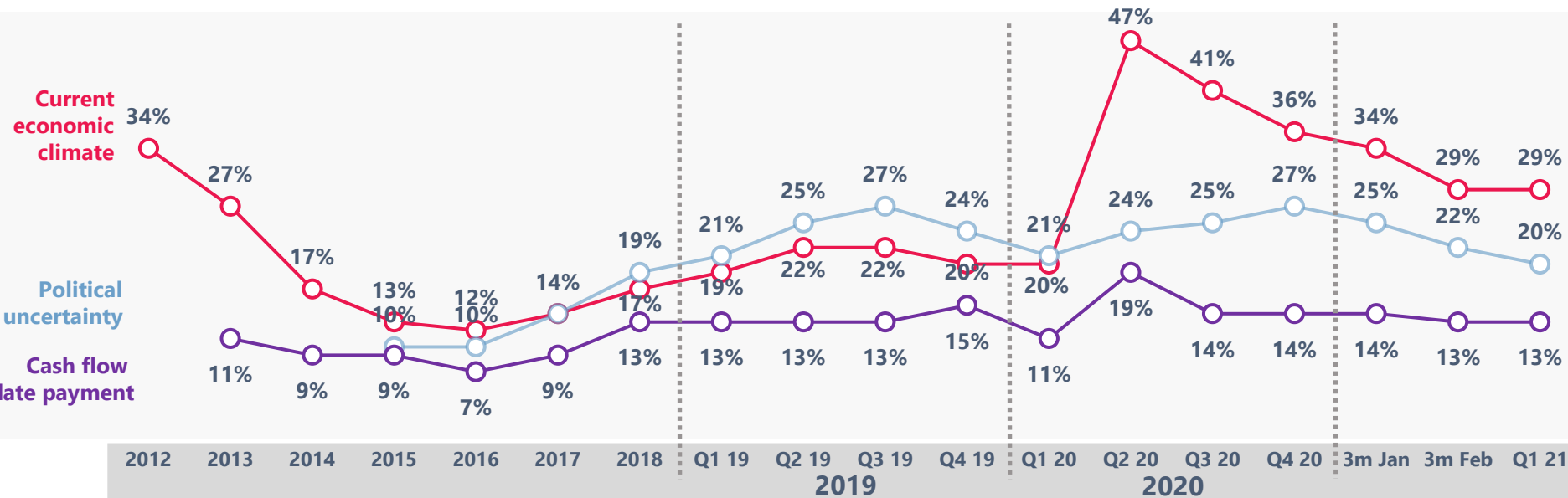
Time series: Agree that future is uncertain so being cautious



Future uncertain so being cautious

3 in 10 SMEs saw the current economic climate as a major barrier, following a steady decrease since Q2 2020. Concerns about political uncertainty have declined in Q1 2021, now back in line with Q1 2020

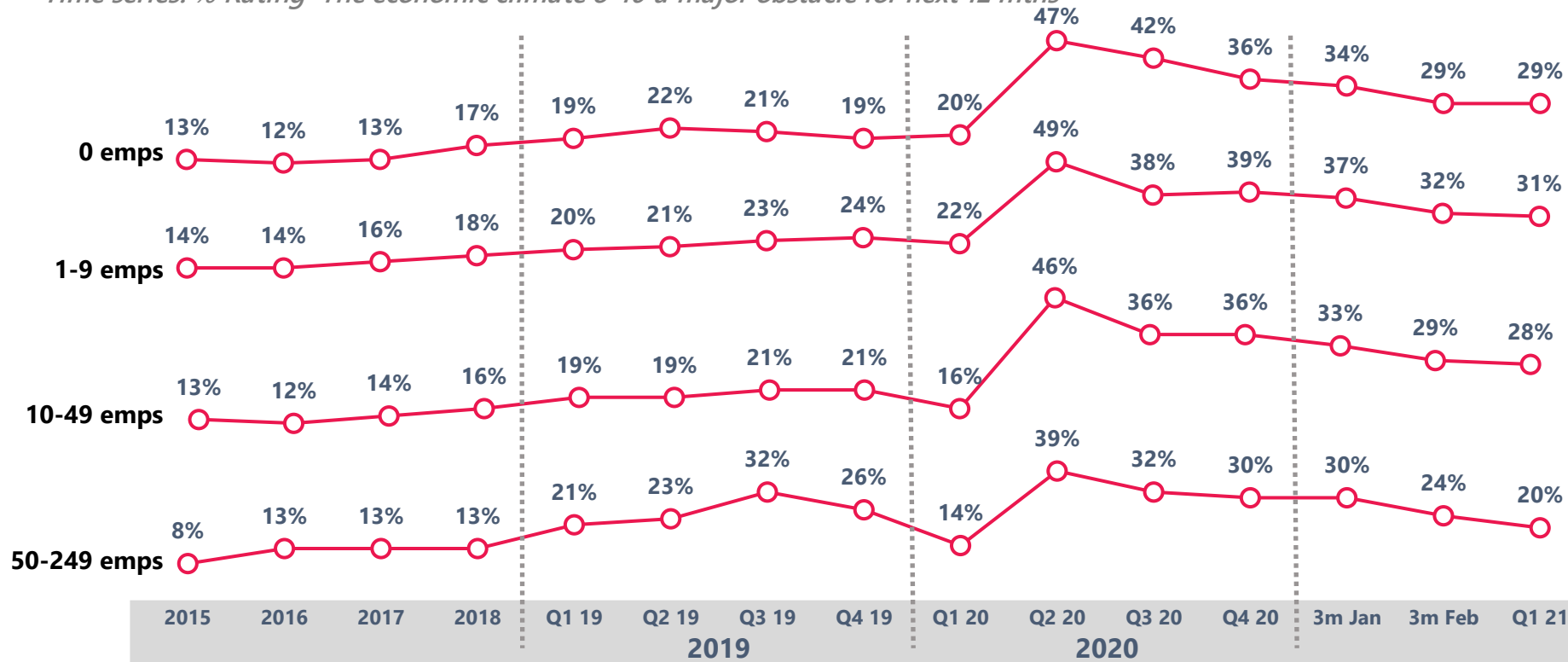
Time series: 8-10 Major obstacle to running business in next 12 months



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 29% currently. Concern about political uncertainty increased to 27% in Q4 2020 but this was not maintained subsequently, while the proportion seeing cash flow and late payment as a barrier has been stable since Q3 2020

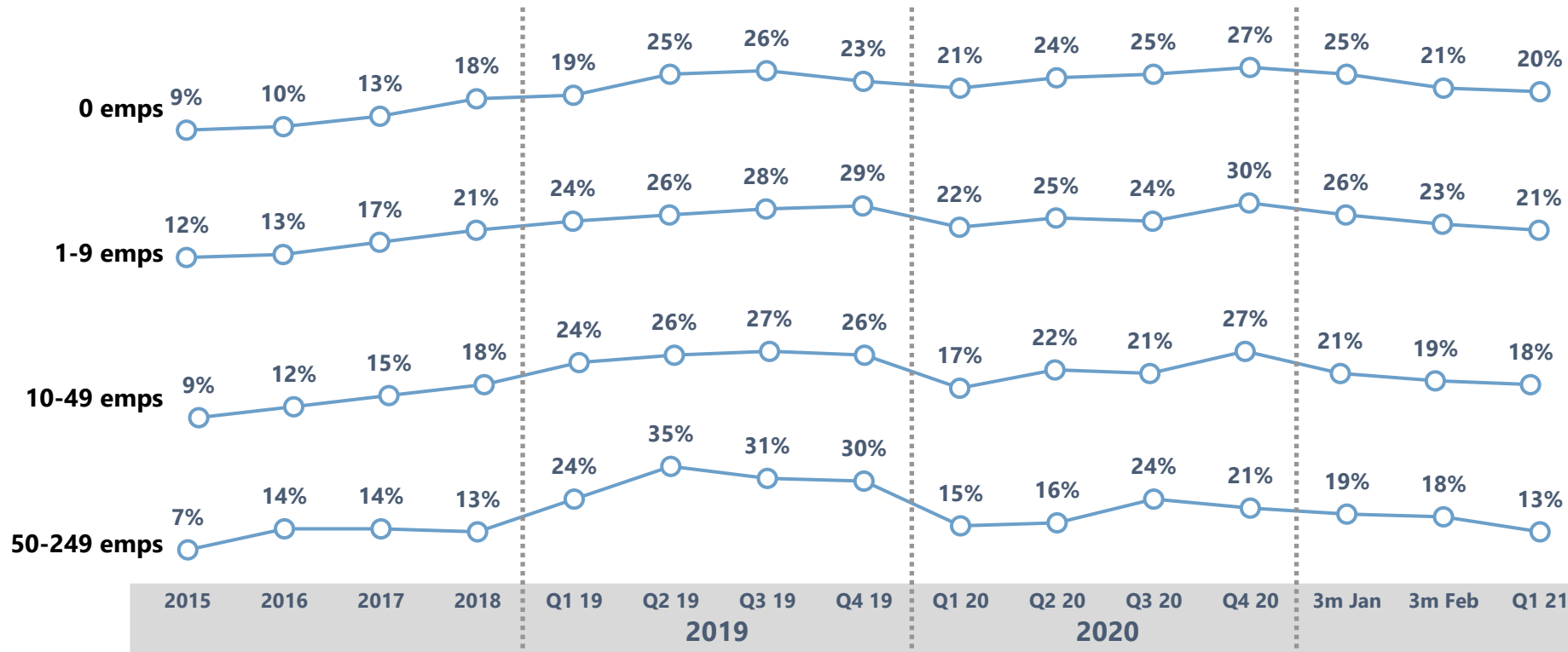
Concern about the economic climate increased markedly from Q1 to Q2 2020 across all size bands. It has declined since but remains higher than previously seen for all but the largest SMEs

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



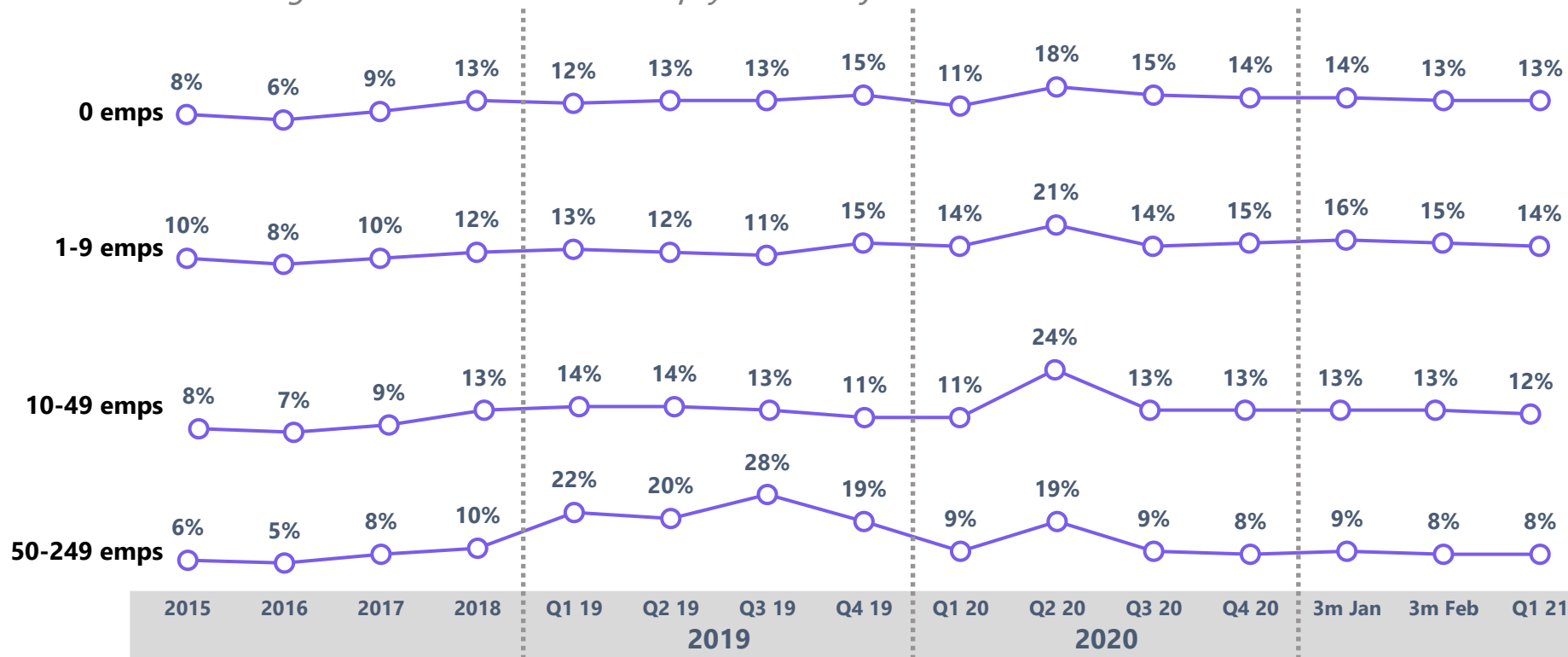
Concern about political uncertainty increased Q3 to Q4 2020 for all but the largest SMEs but was somewhat lower again in 2021, typically back to 2018 levels

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



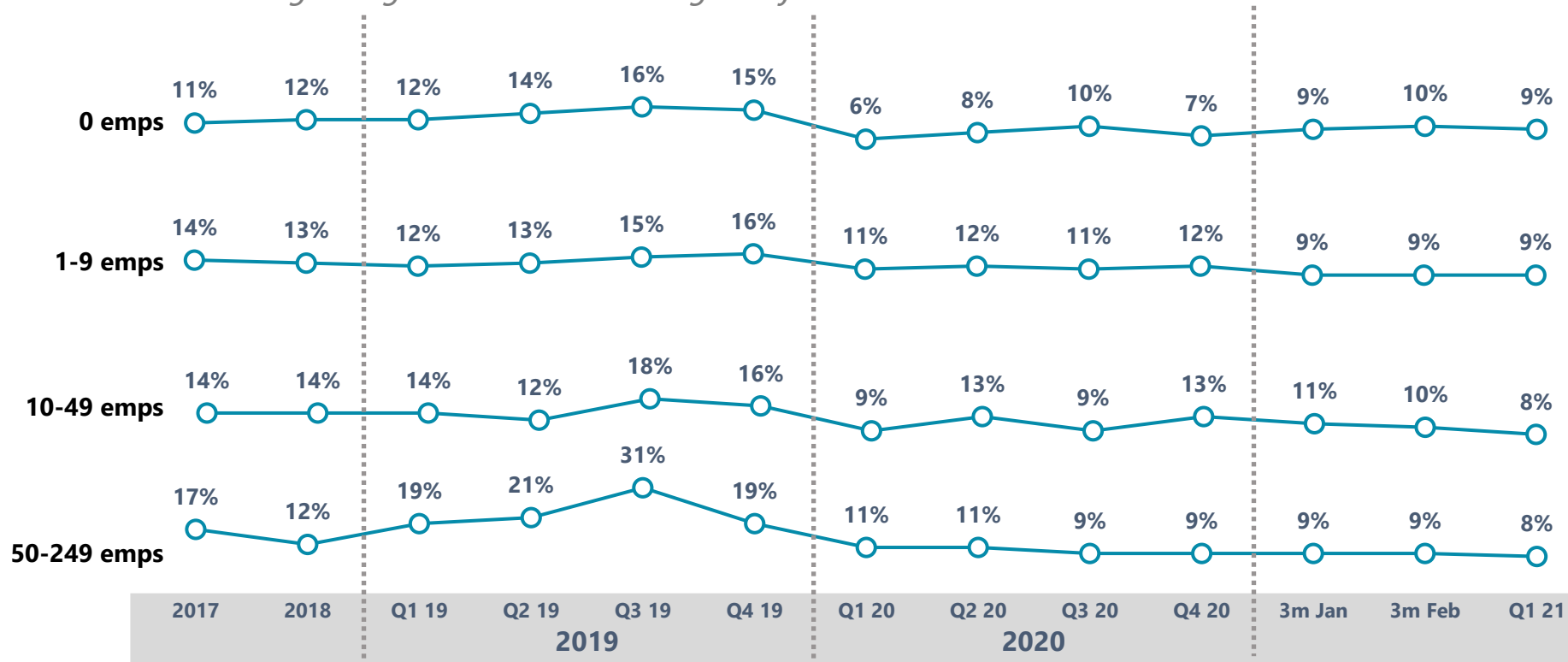
Levels of concern about cash flow and late payment increased from Q1 to Q2 2020 to some degree for all size bands, but have reduced and stabilised since.

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



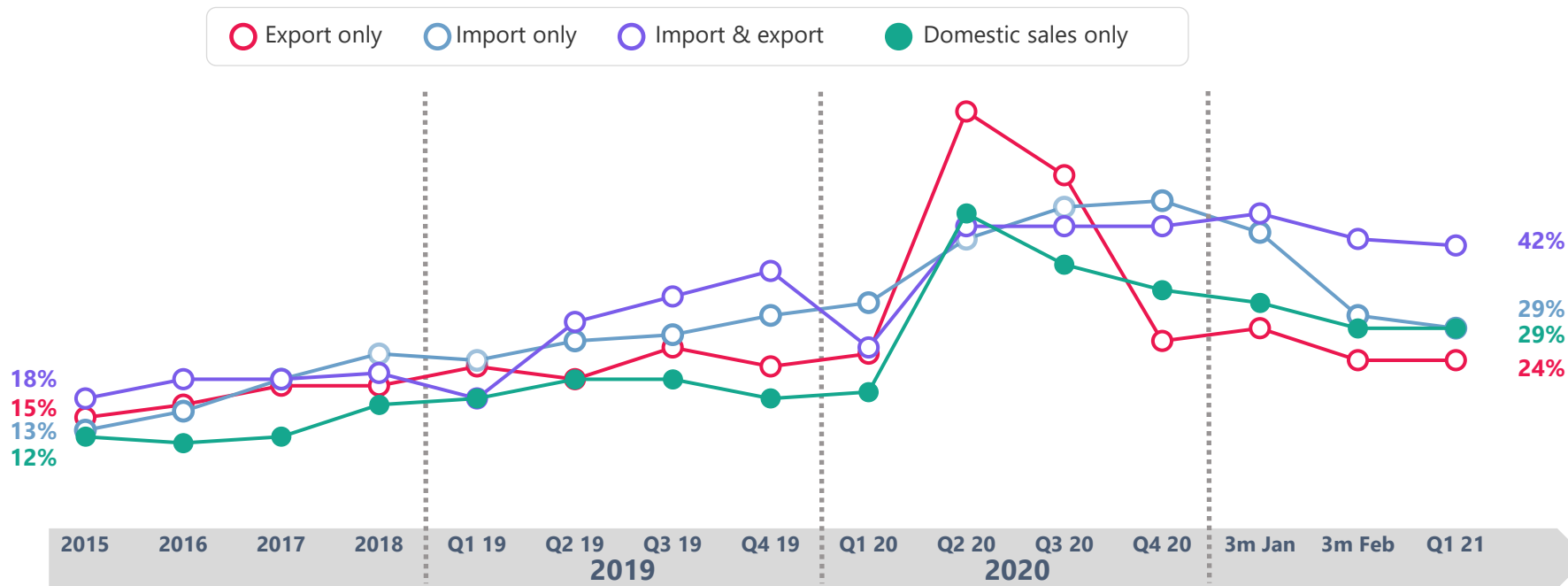
Levels of concern about the value of sterling have been broadly stable over recent quarters

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



Concern amongst fully international SMEs is stable but they are now the most concerned about the economic climate, following a decline in levels of concern amongst other groups

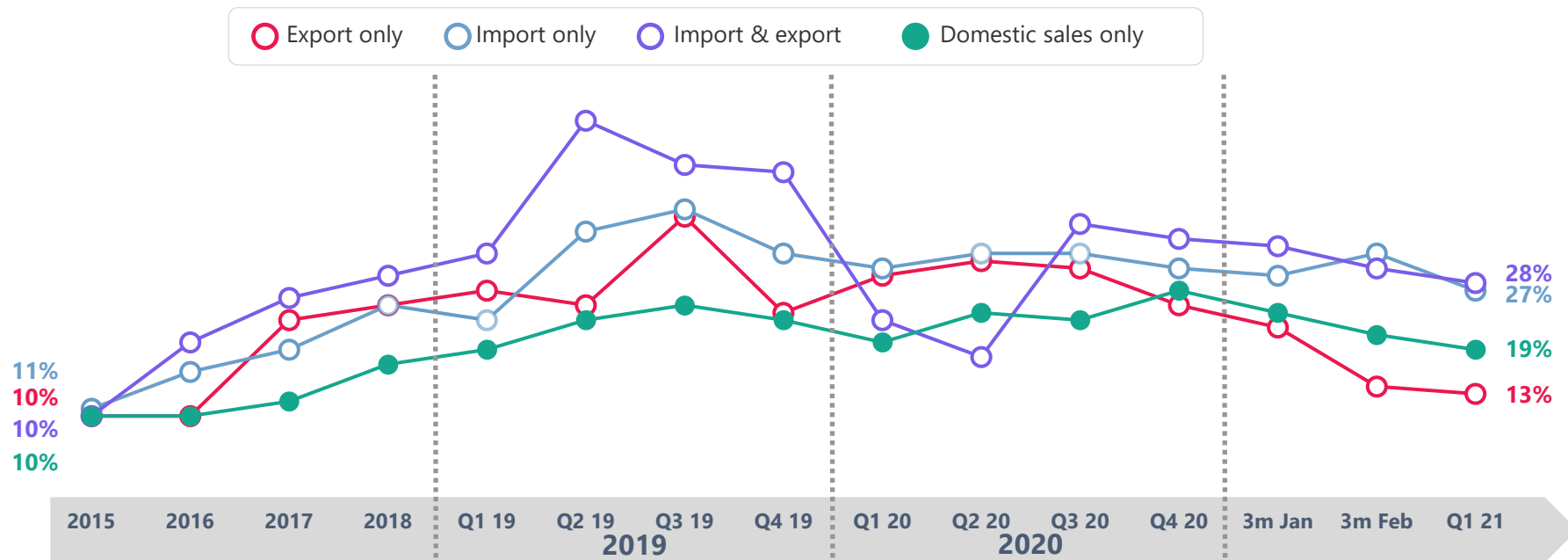
Time series: 8-10 economic climate by extent of international trade alongside domestic sales



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

Export-only and Domestic SMEs have become less likely to see political uncertainty as a barrier, with less of a decline since Q4 2020 for those with an element of importing to their business

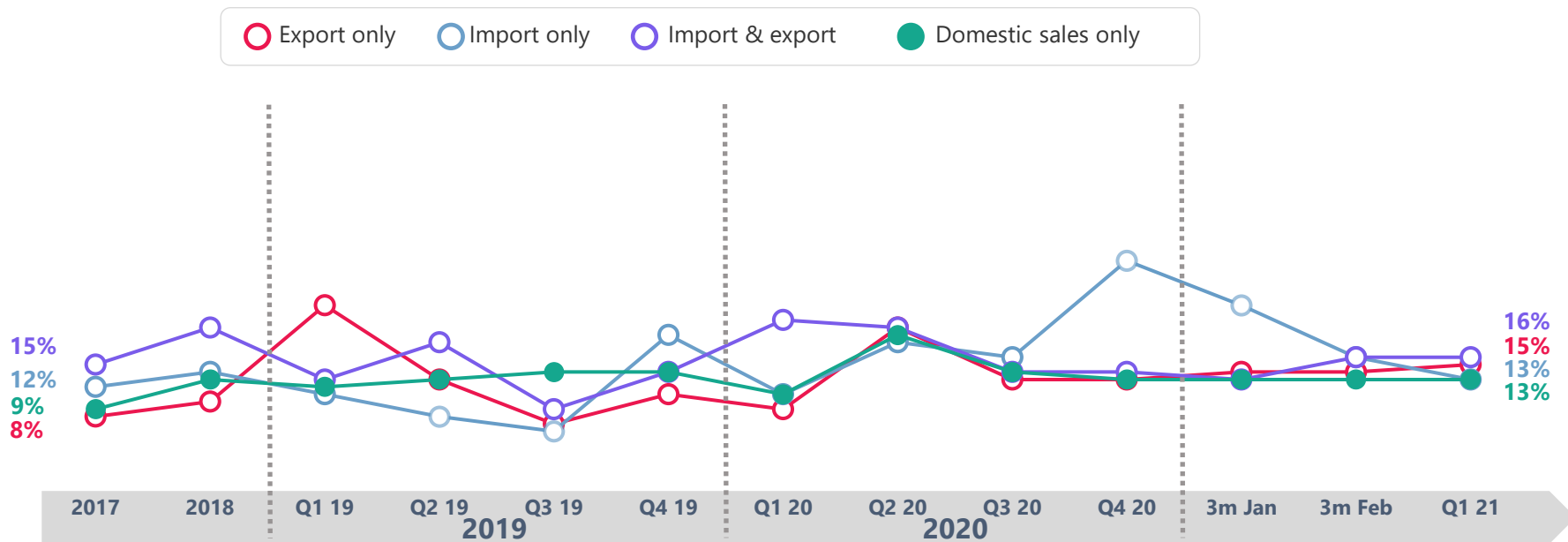
Time series: 8-10 political uncertainty by extent of international trade alongside domestic sales



Rating political uncertainty a major obstacle (8-10)

Since Q4 2020, Import-only SMEs have become less concerned about cash flow and late payment as a barrier, and there is now nothing to choose between SMEs by involvement in international trade

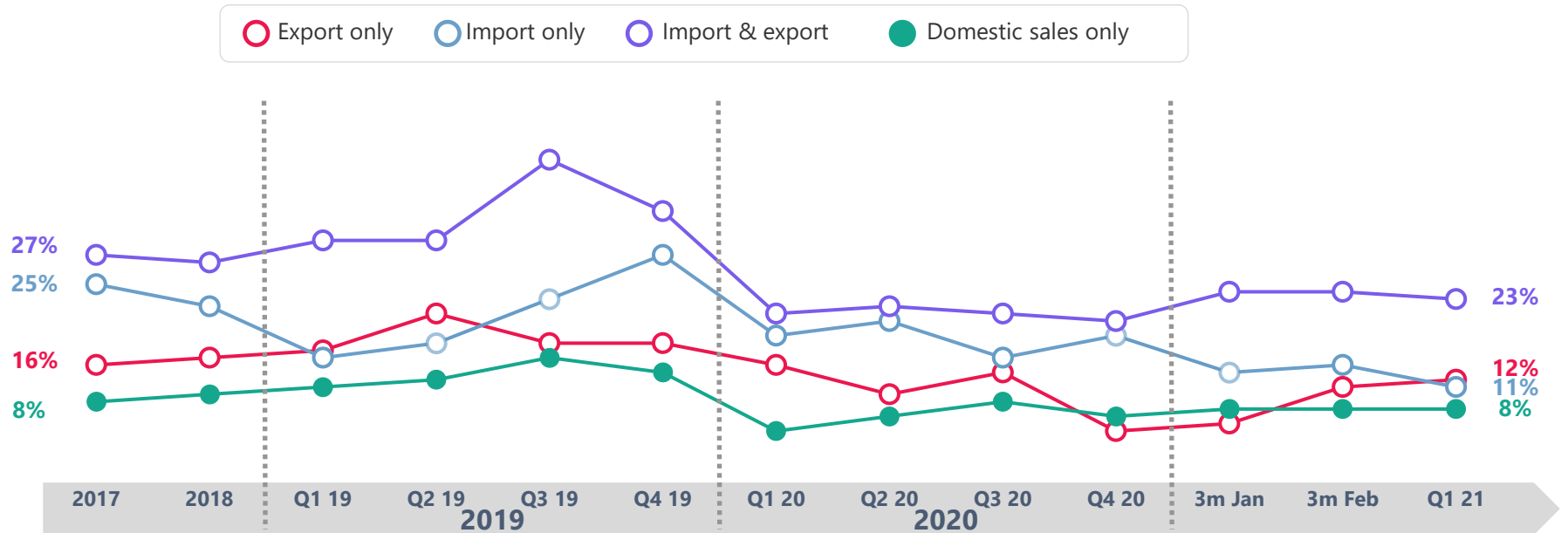
Time series: 8-10 cash flow / late payment by extent of international trade alongside domestic sales



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

Fully international SMEs remained the most concerned about changes in the value of sterling, above levels seen in 2019. Concern amongst Export-only SMEs has increased somewhat since Q4 2020

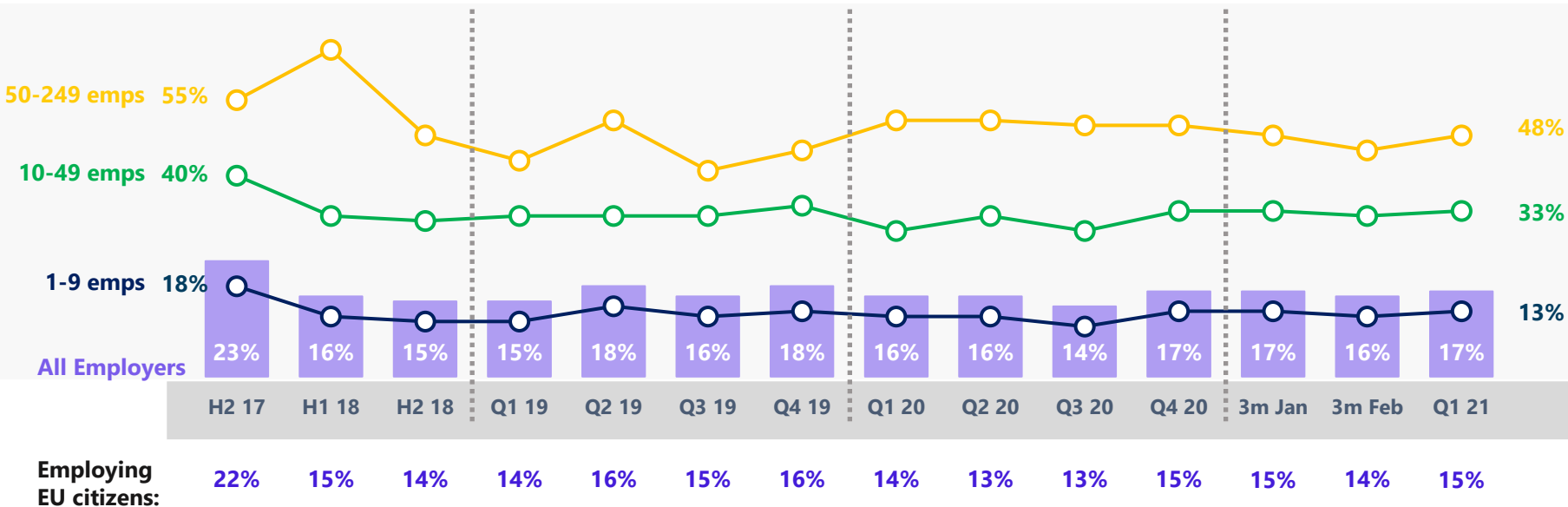
Time series: 8-10 changes in the value of sterling by extent of international trade alongside domestic sales



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

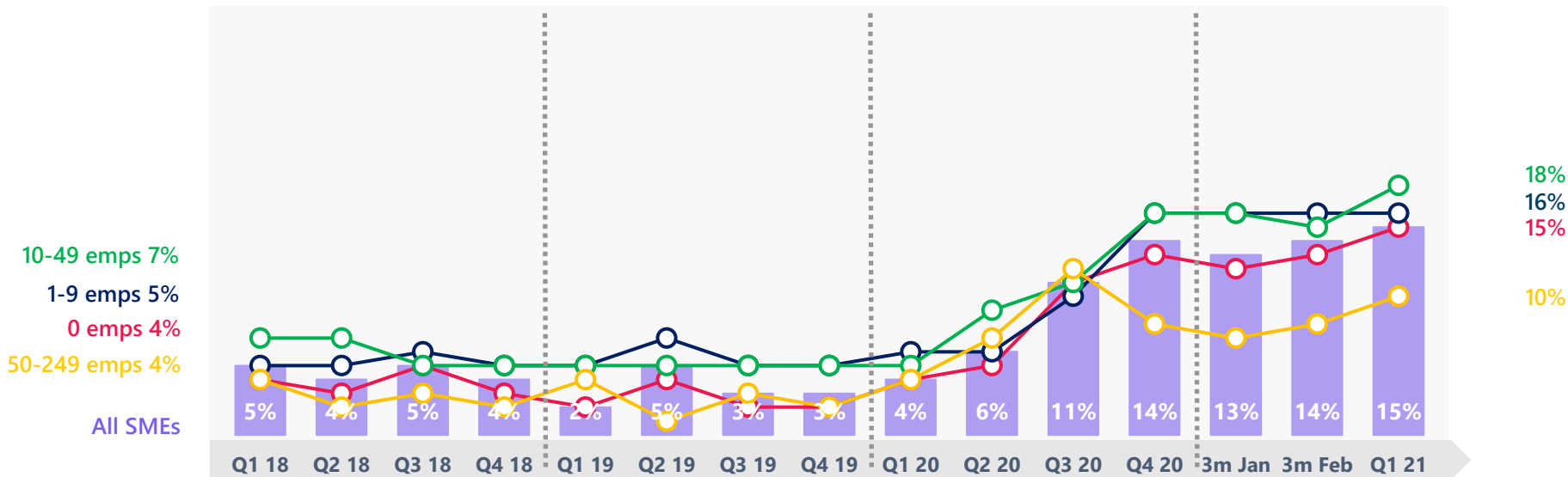
Time series: Employ non-UK staff (from the EU or elsewhere overseas)



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, but stable, currently 17%. In the 3 months to March, a stable 15% of employers had staff from the EU and 5% had staff from elsewhere.

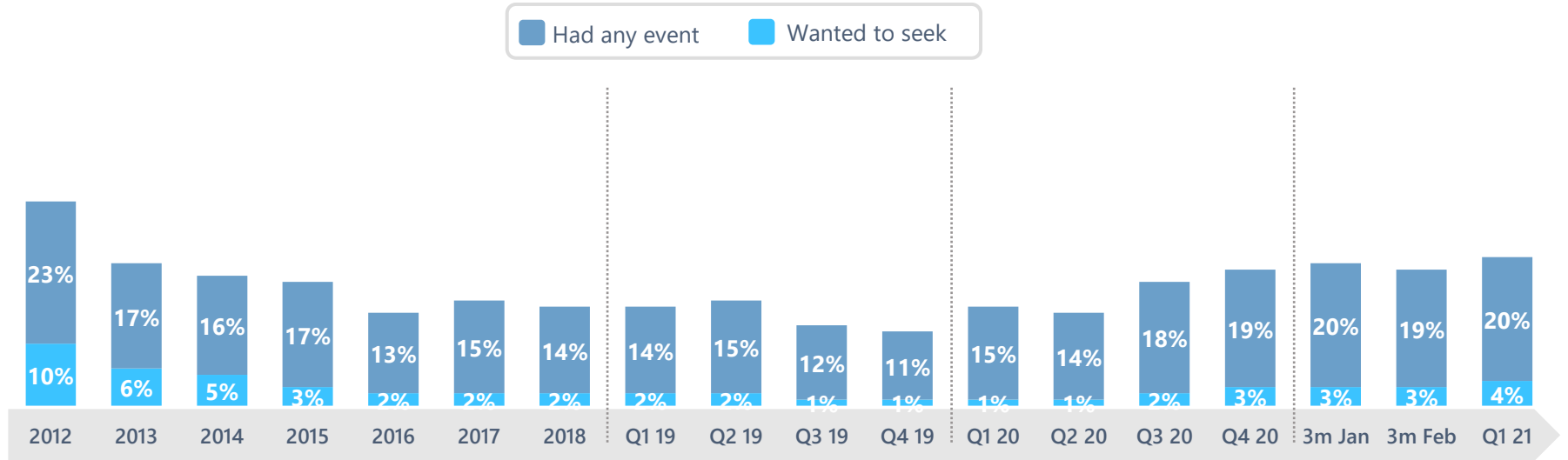
A stable 15% of SMEs reported having a need for external funding, maintaining the increase seen to Q4 2020. Need amongst the largest SMEs remains lower than their peers but has increased steadily in 2021

Time series: Had a need for external funding in past 12 months (whether applied or not)



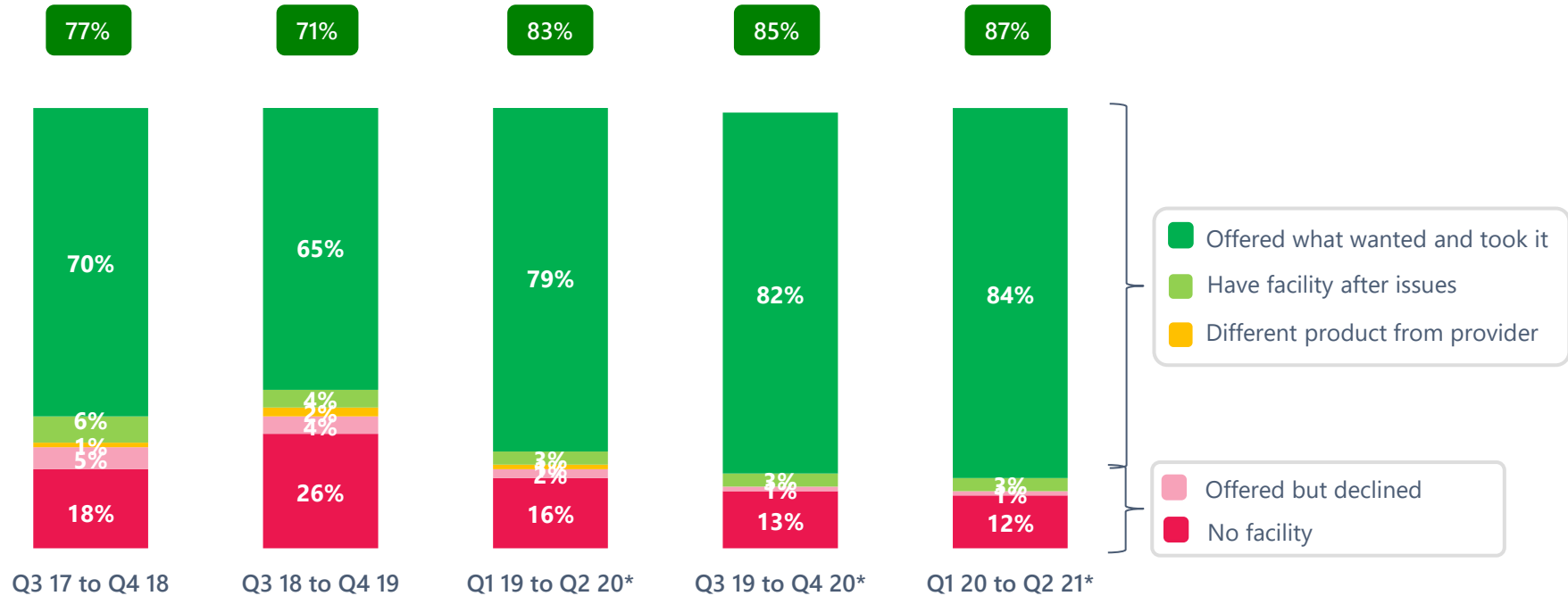
24% of SMEs reported any appetite for finance in the previous 12 months (an event or those who had wanted to seek finance), in line with levels seen in 2013

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



Analysis by application period shows further improvement in success rates for applications in 2020 and 2021 when new Government backed schemes were made available

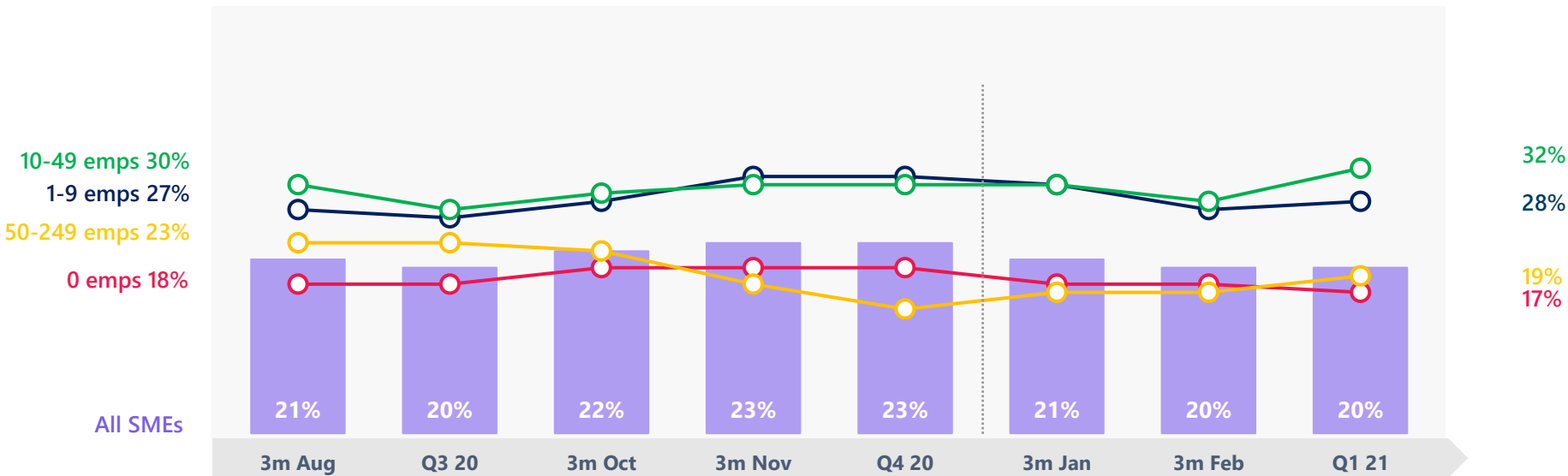
Global success rate: all applications reported from Q1 2018 to Q1 2021, occurring in the periods shown



This chart will be updated every quarter end
Last updated Q1 2021

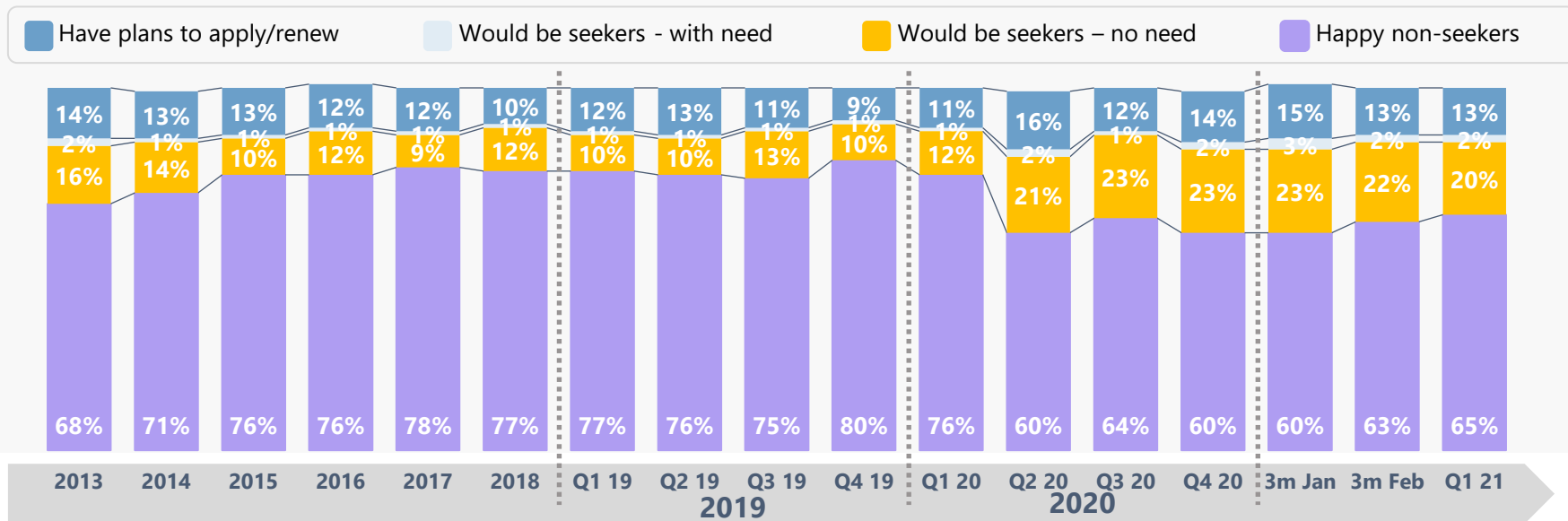
1 in 5 SMEs had approached a bank for Covid related finance, with appetite highest for those with 10-49 employees

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', which has been broadly maintained since

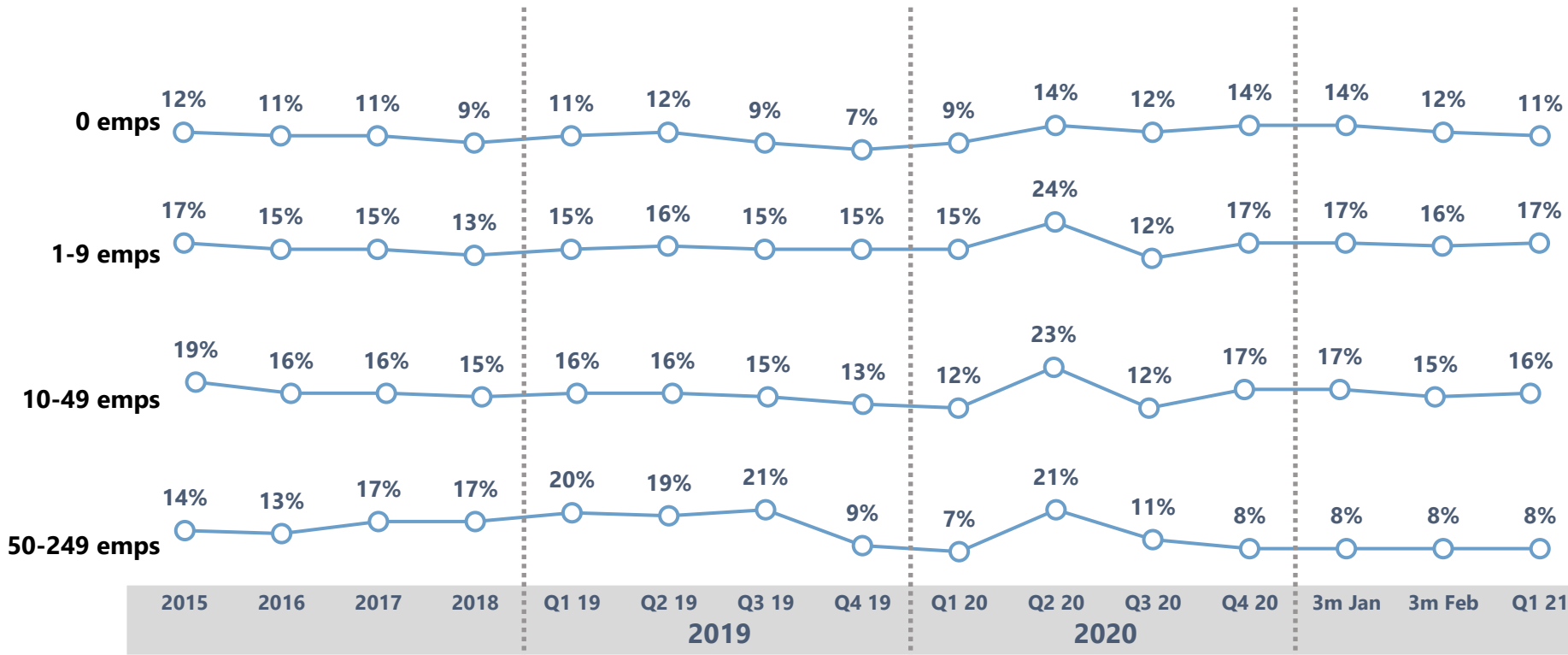
Time series: Anticipated borrowing profile for next 3 months after ...



Each quarter, the majority of SMEs have expected to be “Future happy non-seekers” of finance. The proportion of FHNS initially increased over time, to 80% in Q4 2019 but then reduced, to 60% for Q2 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%, 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 broadly stable, albeit at lower levels than in Q2 for all SMEs, especially those with employees

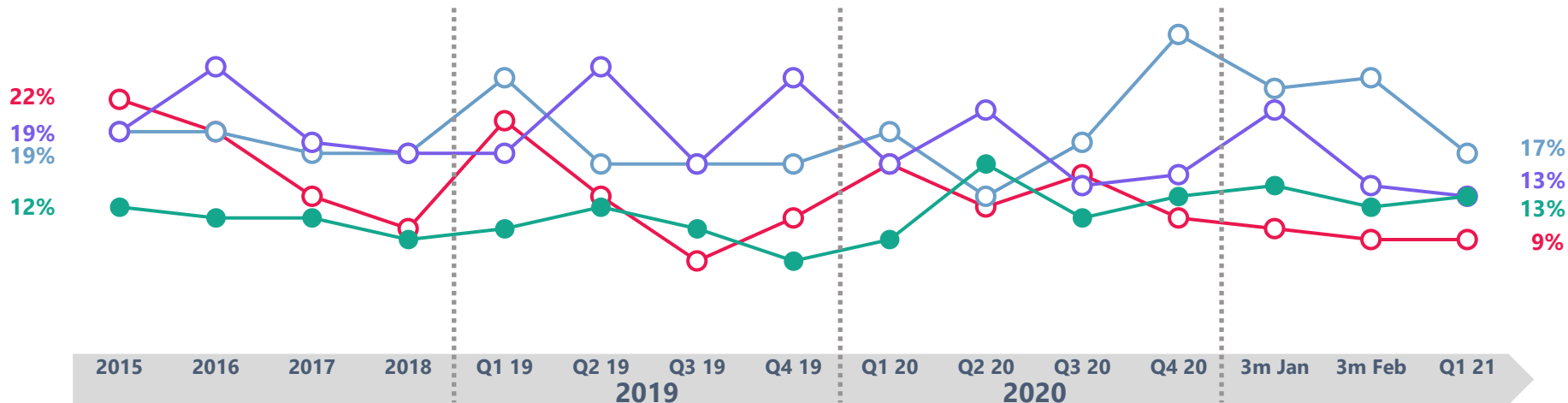
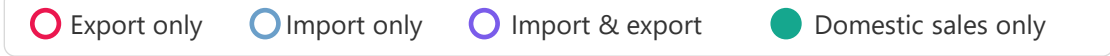
Time series: % planning to apply



Appetite for finance has declined somewhat in 2021 for all groups, remaining highest for the Import-only SMEs

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

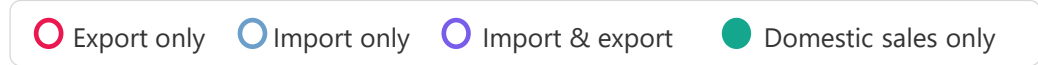
Plan to apply for external finance



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 13%. Appetite amongst domestic SMEs has declined slightly since Q2 2020 but typically remained higher than was seen in 2019 (7-12%)

There is no consistent pattern for international SMEs in terms of FWBS, but the proportions remain higher than in 2019. Those with an element of importing are more likely to meet the definition than in Q4 2020

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



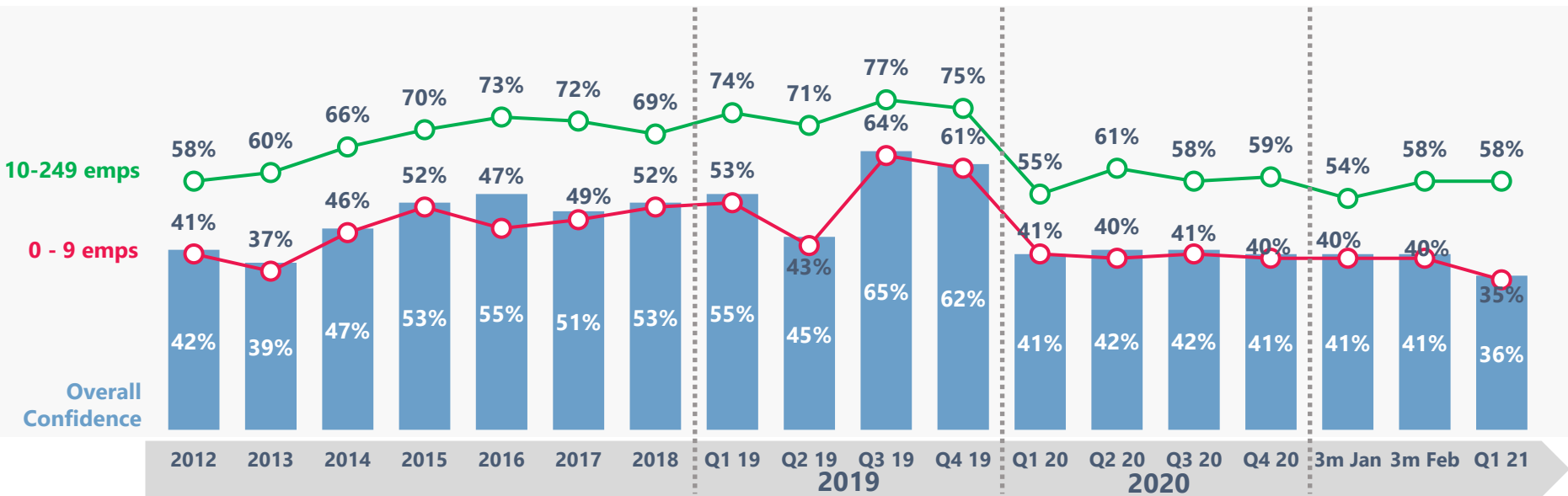
Expect to be a future would-be seeker of finance



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. Domestic MSEs have become somewhat less likely to meet the definition since Q4 2020 (27% to 22% currently) and they are now less likely to be FWBS than those with an element of importing to their business

As appetite for finance remained higher than typically seen, confidence of success was somewhat lower in Q1 2021, due to lower confidence amongst smaller would-be applicants

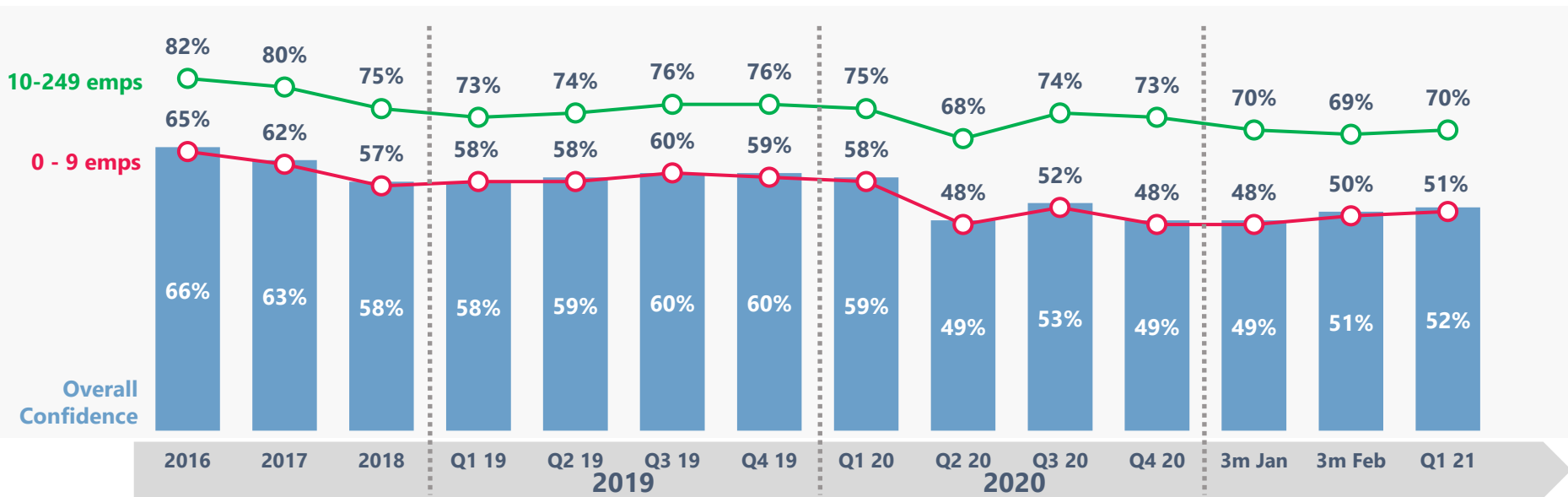
Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by size



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, declined in Q1 2020 (41%) and was then broadly stable, but declined again in Q1 2021. Larger applicants remained more confident of success than smaller ones

Confidence amongst hypothetical applicants declined from Q1 to Q2 2020 and has been little changed since, with a continued gap in confidence between larger and smaller SMEs

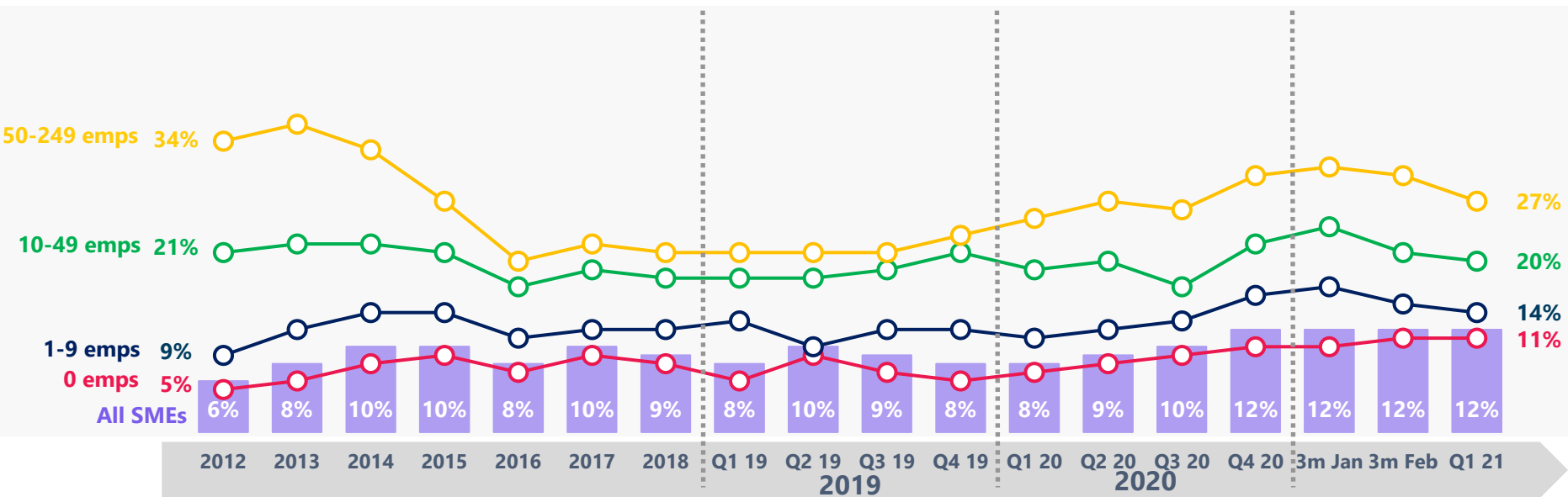
Time series: Confidence (very/fairly) bank would agree to facility next 3 months – by size



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 (70% v 58%). 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 35%, 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.

Time series: Exporters



The proportion of exporters increased from 6% in 2012 to 10% in 2014 and 2015. The proportion increased slightly during 2020 (8% to 12%) due to the smaller SMEs being slightly more likely to export and was 12% in 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

