

SME FINANCE MONITOR

3 month rolling analysis to end
October 2021

An independent report by
BVA BDRC, November 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 Q2 2021 pack was published in mid-August 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 August to October 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.

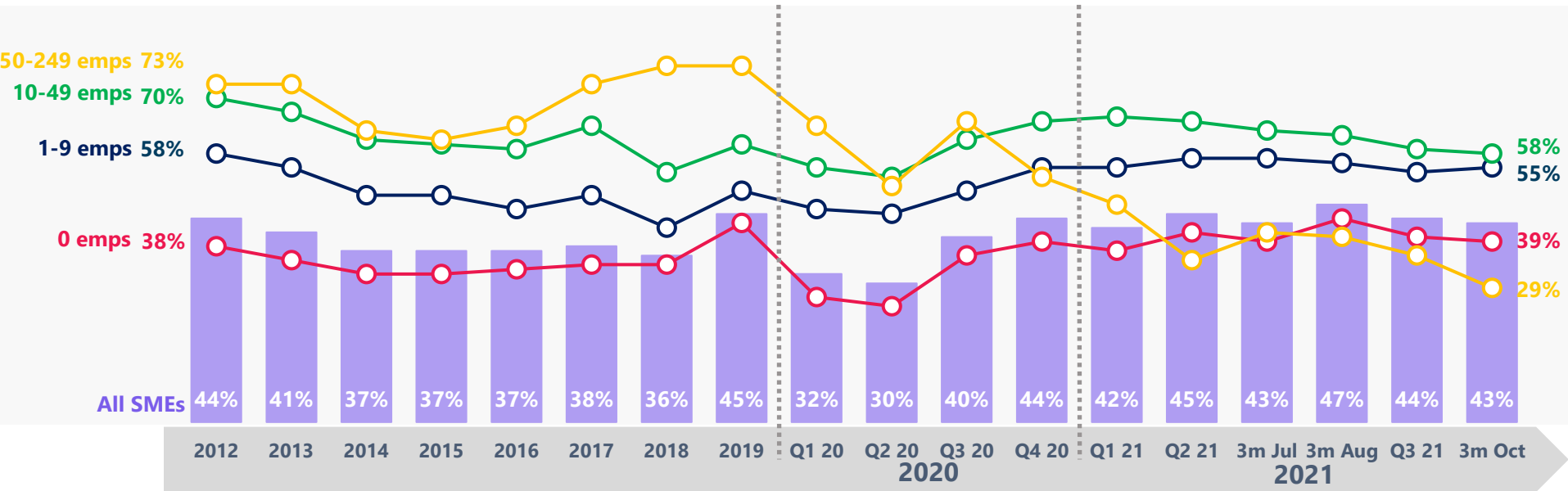
However, there have been slight changes to the “types of finance used” question and also to the definition of a “Permanent non-Borrower”. These initial results do not suggest the changes have had a major impact on results but will be monitored over time.

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 the 3 months to October, stable overall since Q4 2020, albeit larger SMEs with 10-49 or 50-249 employees are now somewhat less likely to be using finance than in Q4 2020

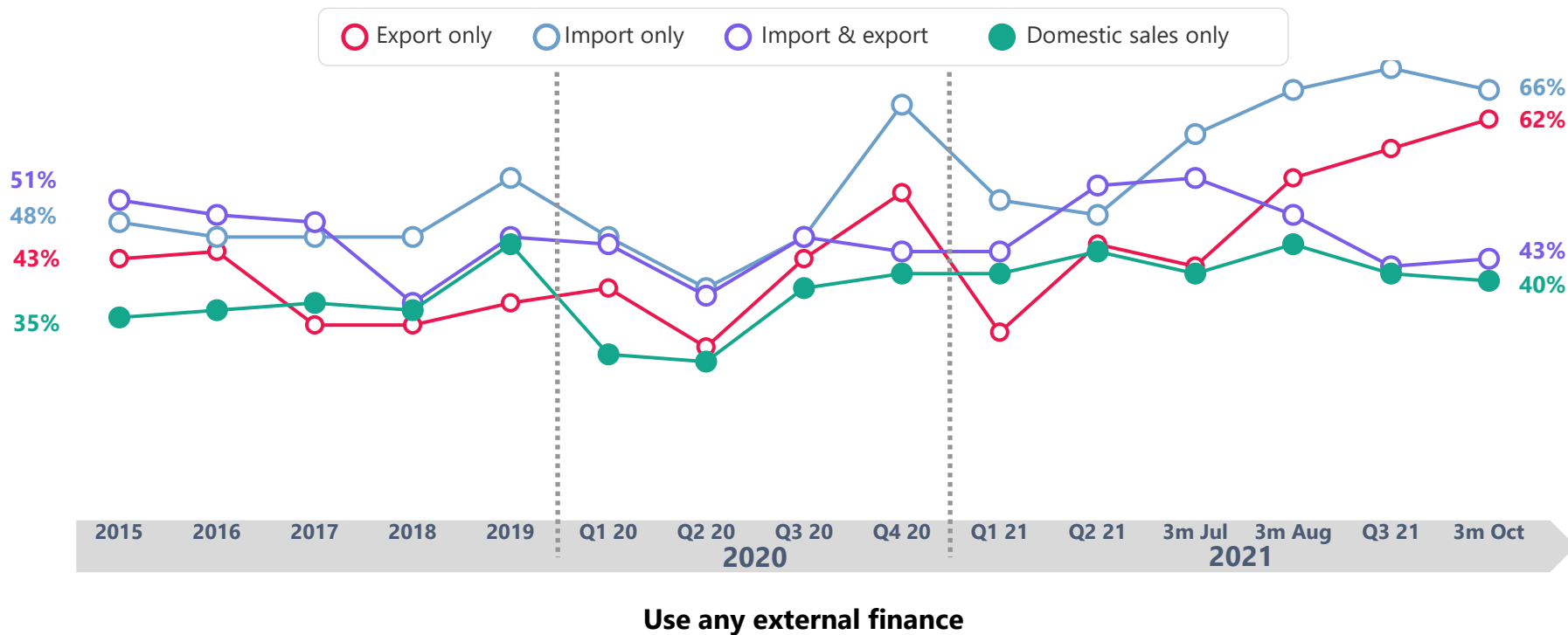
Time series: use of external finance per quarter



For 2019 as a whole, 45% of SMEs were using external finance, but from Q2 2019 usage declined, to 30% for Q2 2020, before returning to 44% in Q4 2020 then remaining broadly stable since (43% for the 3 months to October). The largest SMEs with 50-249 employees remain less likely to be using finance than in previous year.

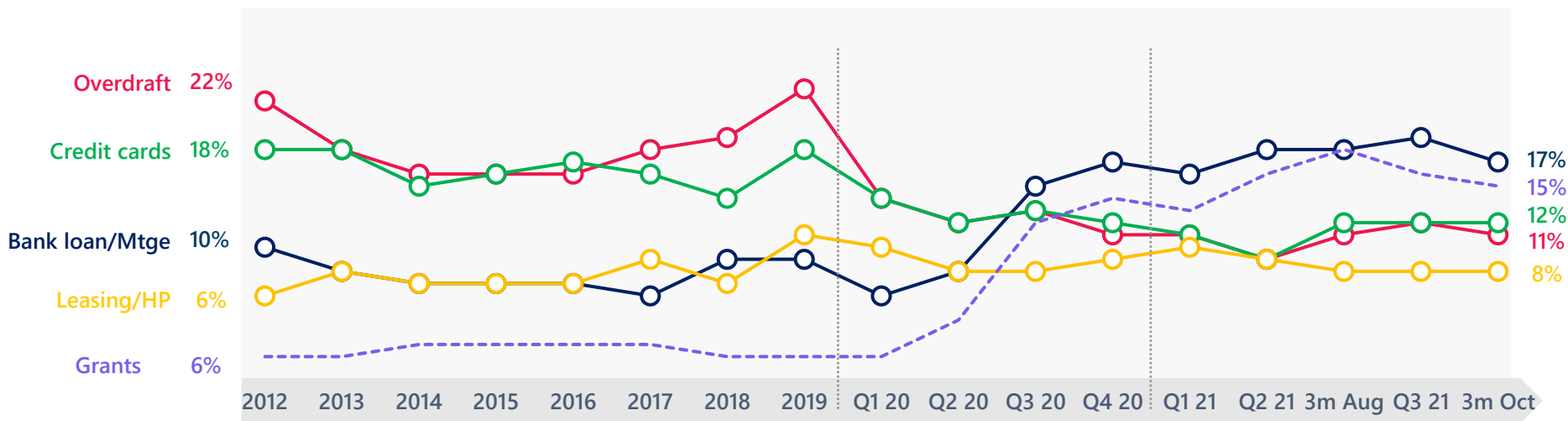
Import-only SMEs remained more likely than their peers to be using external finance with a further increase in use of finance by export-only SMEs.

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



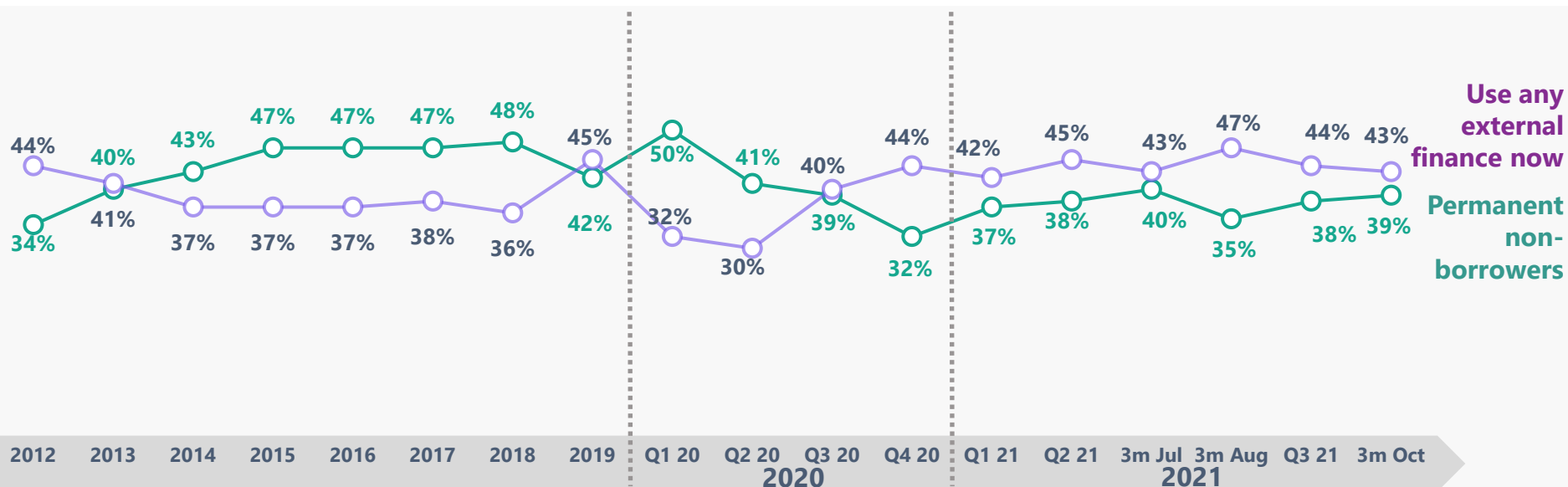
There has been a marked increase in use of loans/commercial mortgages since Q1 2020. Use of 'other' forms of finance was boosted by an increase in grants which appears to be stabilising

Annual time series: Main forms of finance used



The proportion of Permanent non-borrowers has been broadly stable in 2021, ahead of Q4 2020 but still below the levels more usually seen pre-pandemic

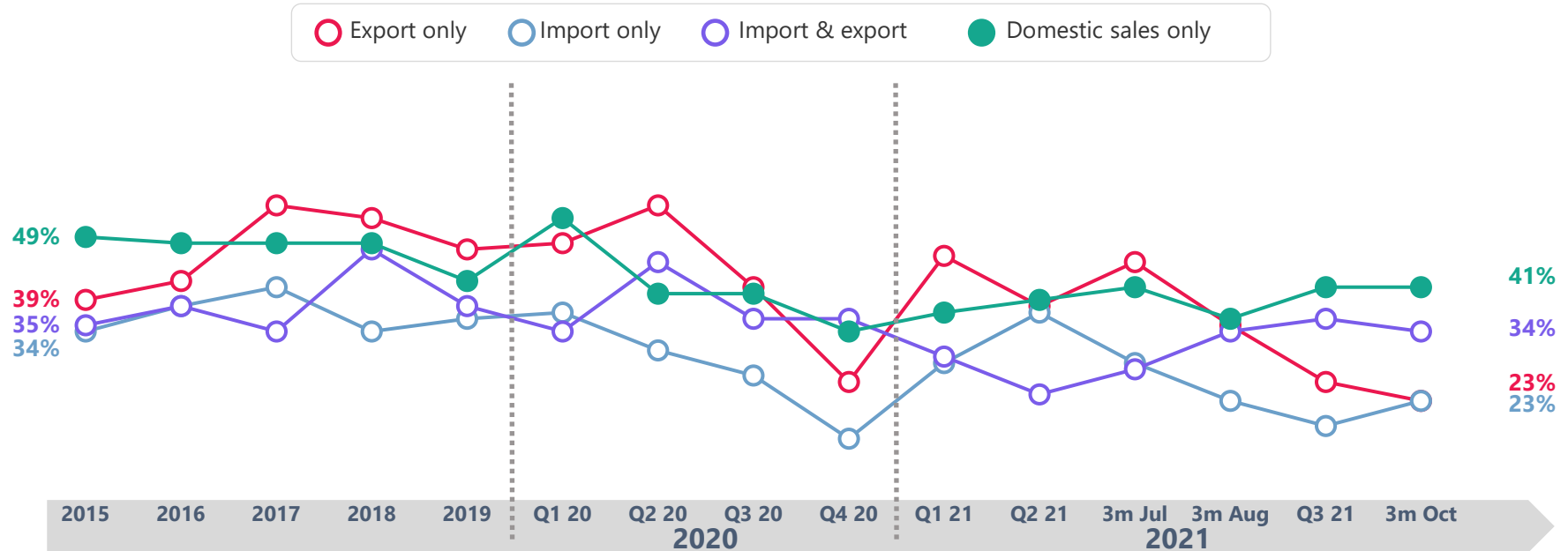
Time series: Permanent non-borrowers and users of external finance



The 'Permanent non-borrowers' are firms with no apparent appetite for finance and are defined by not using external finance and showing no inclination to do so. The latest figure of 39% is in line with earlier quarters of 2021, but remains below levels seen pre-pandemic when almost half of SMEs met the definition of a PNB .

With their increased use of finance, Import-only and Export-only SMEs remained less likely to meet the definition of a Permanent non-borrower than their peers

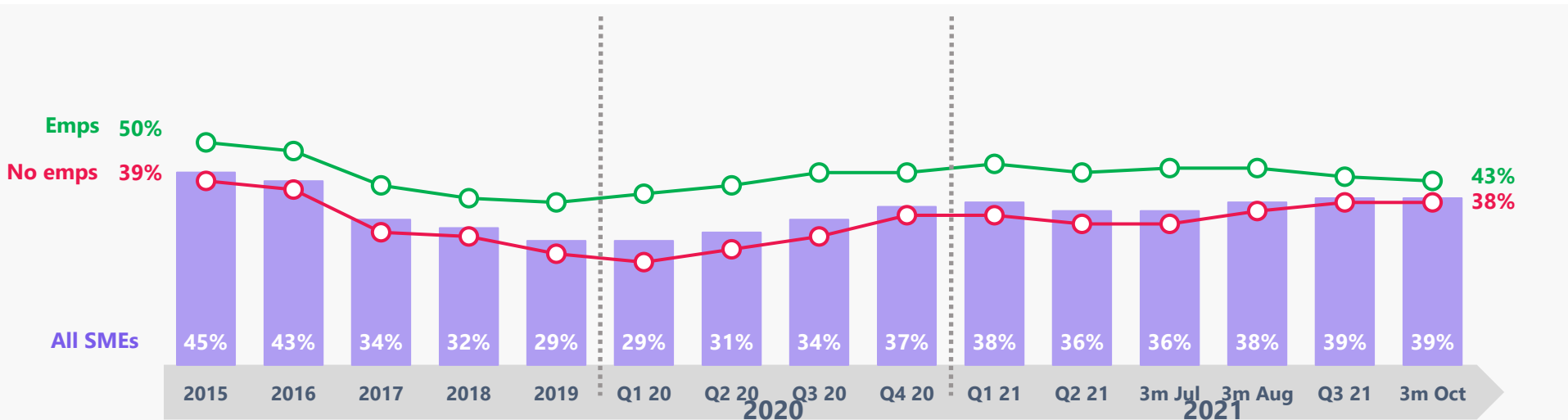
Time series: Permanent non-borrowers by extent of international trade alongside domestic sales



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

39% of SMEs were happy to use finance to grow, in line with Q1 2021, and an increase over time from 29% in Q1 2020, albeit still below the levels seen in 2015-16

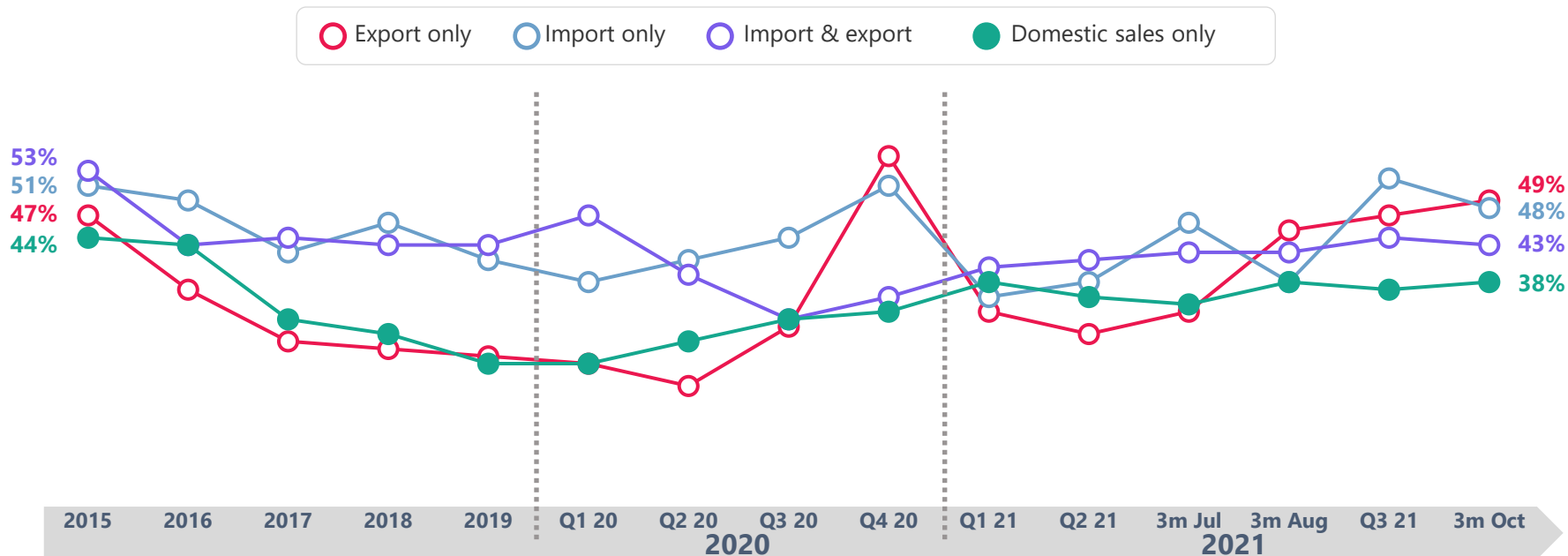
Time series: Agree that happy to use external finance to help business grow



After remaining stable during 2016, the proportion of SMEs happy to use finance to grow declined over time to 3 in 10 SMEs in 2019. It then increased steadily to 37% for the 3 months to December 2020 and has remained broadly stable since

Import-only and Export-only SMEs are also somewhat more likely to be happy to borrow to grow

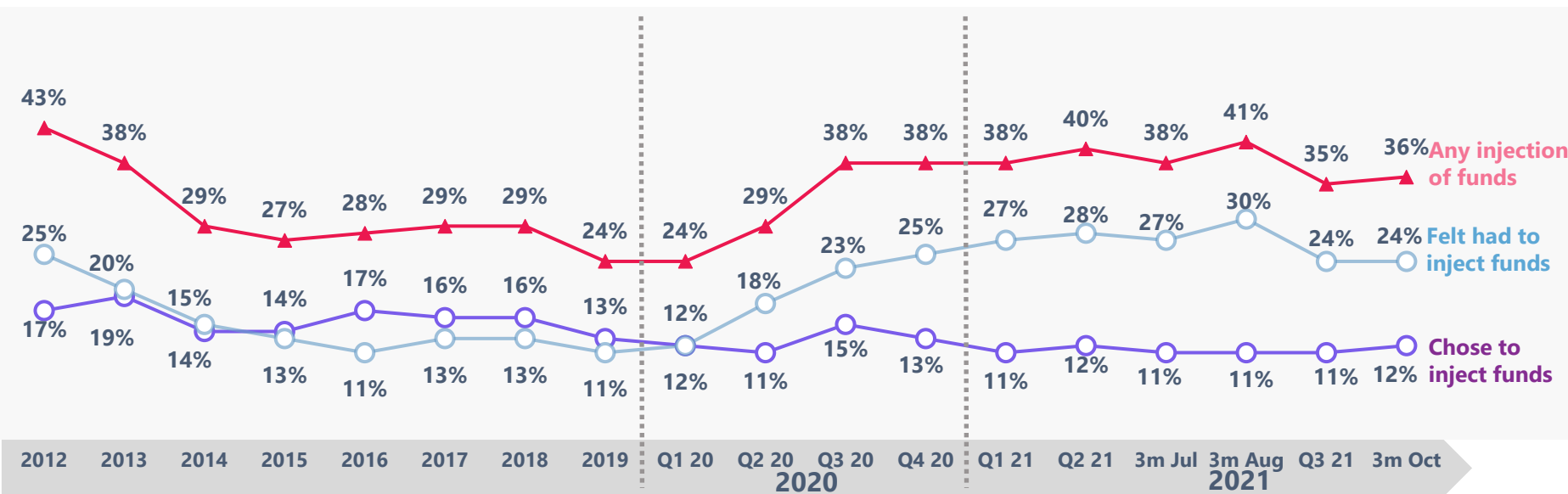
Time series: Agree that happy to use external finance to help business grow



Agree that happy to use external finance to grow

36% of SMEs had injected personal funds, slightly lower than in Q2 2021 as fewer SMEs felt they had to inject funds (now 24%), albeit still above levels seen from 2014 onwards

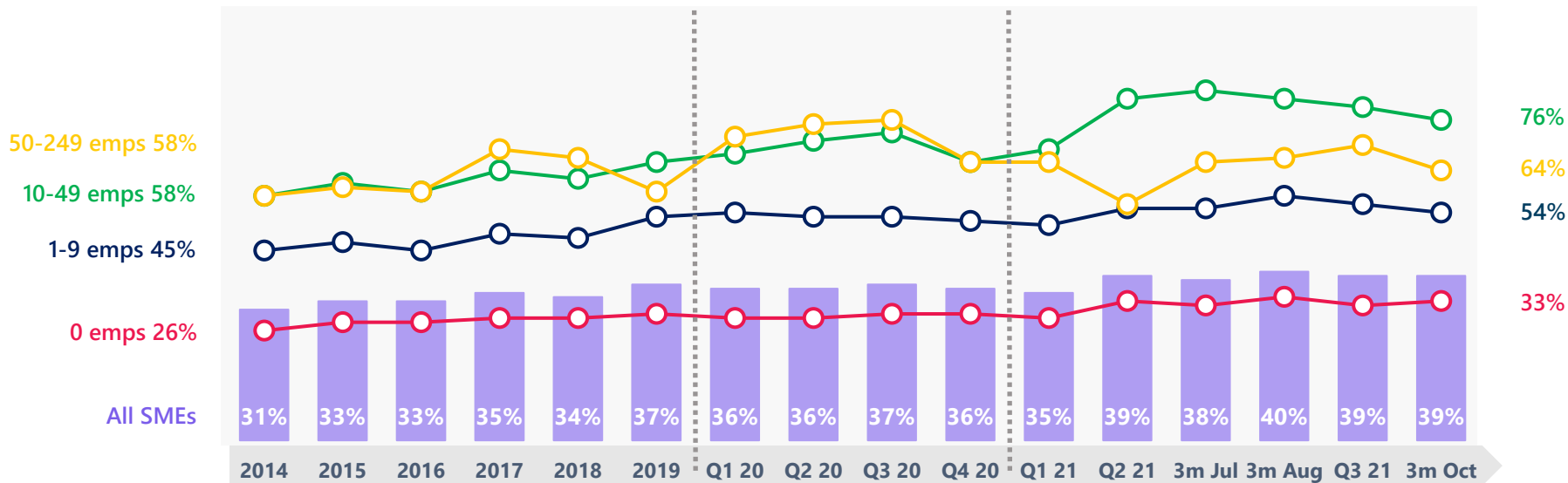
Time series: Injections of personal funds in previous 12 months



The proportion of SMEs injecting funds fell from a peak of 43% in 2012 to 28-29% of SMEs from 2016 onwards. In 2019 the proportion dropped to a quarter of SMEs, but then increased Q1 to Q3 2020 to 38% and was then broadly stable. In the 3 mths to October, 36% reported an injection of funds, due to fewer SMEs (24%) who felt that they had to do so

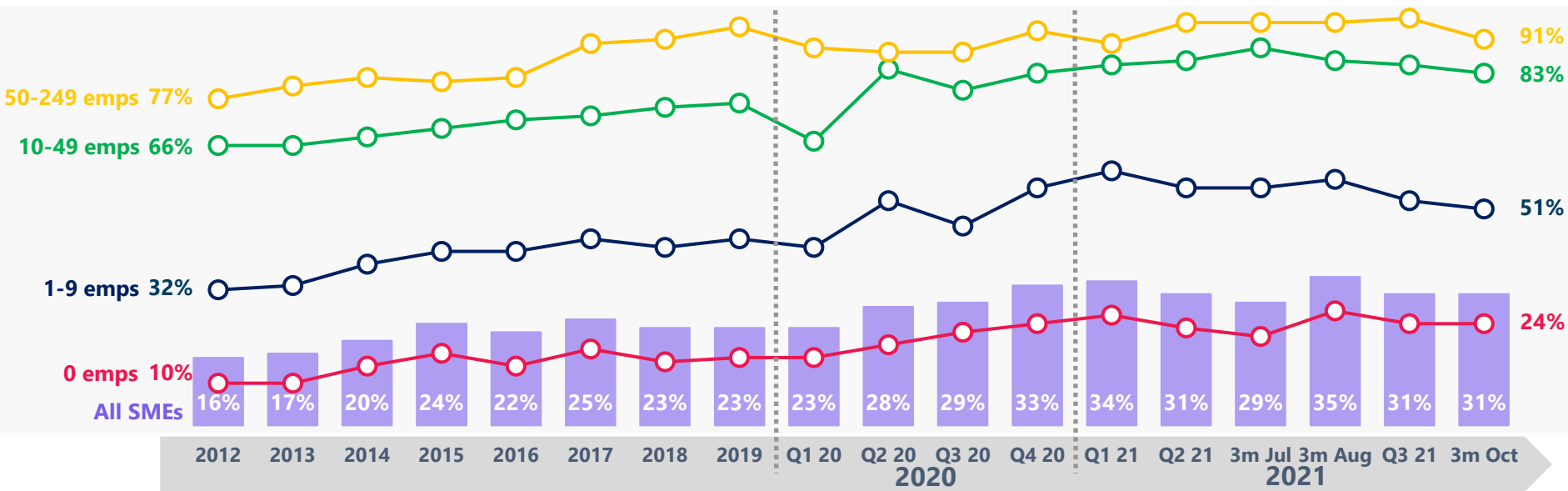
39% of SMEs were using trade credit, stable since Q2 2021 at a slightly higher level than seen pre-pandemic. Those with 10-49 employees remained the most likely to have trade credit

Time series: : Using trade credit



31% of SMEs held more than £10,000 of credit balances, in line with Q2 2021 overall, albeit 1-9 employee SMEs were somewhat less likely to hold such sums

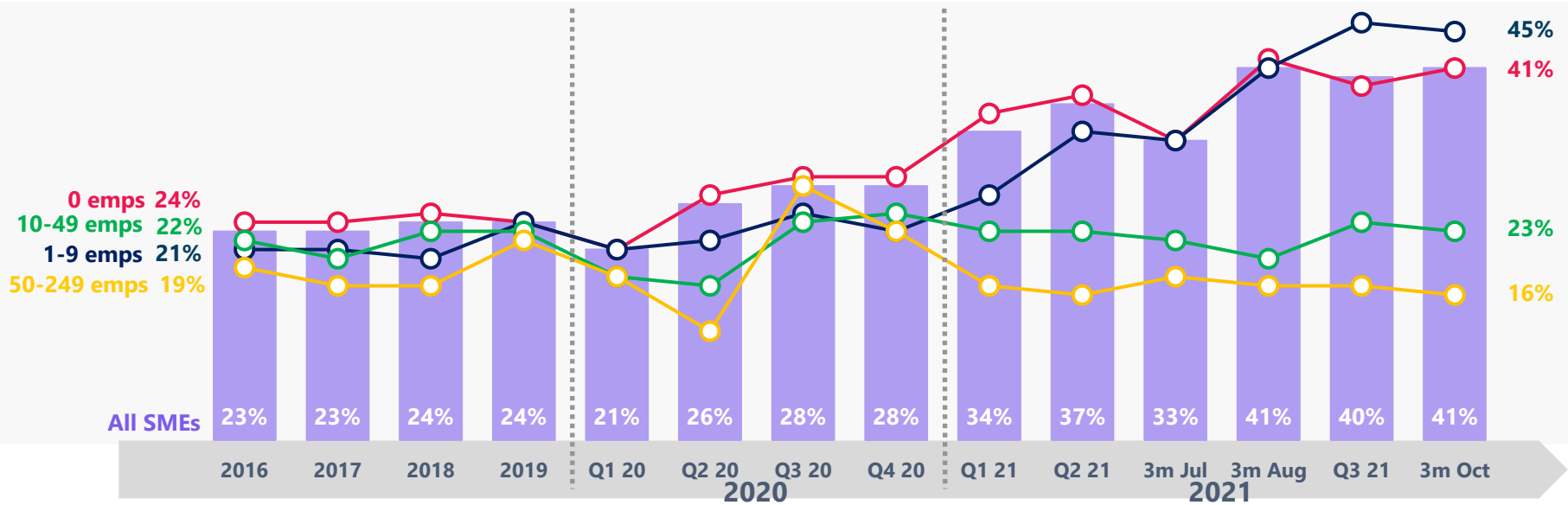
Time series: £10k credit balances held



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 in 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. This was maintained initially in 2021, but has been somewhat lower from Q2 2021 (31% currently) as the smaller SMEs became less likely to report holding such balances

SMEs held the equivalent of 41% of their turnover in credit balances, slightly higher than in Q2 2021. 0 and 1-9 employee SMEs held a higher percentage of credit balances than previously seen

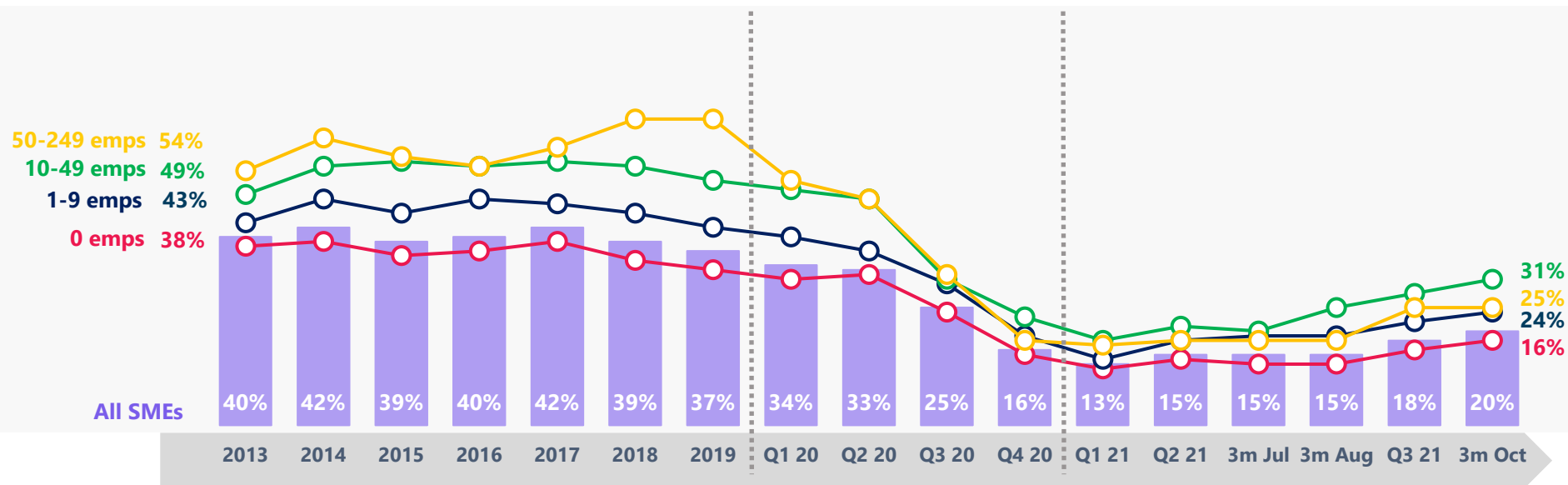
Time series: % of turnover held as credit balances



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 October 2021, SMEs held the equivalent of 41% of their turnover in credit balances on average, slightly ahead of Q2 2021 and higher than previously seen 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 a brief increase back to 28% for Q3 but is currently more stable at 16%

The proportion of SMEs reporting growth in the last year was 20%, continuing the slight increase seen since Q1 2021. 51% of SMEs had declined, compared to 65% in Q1 2021

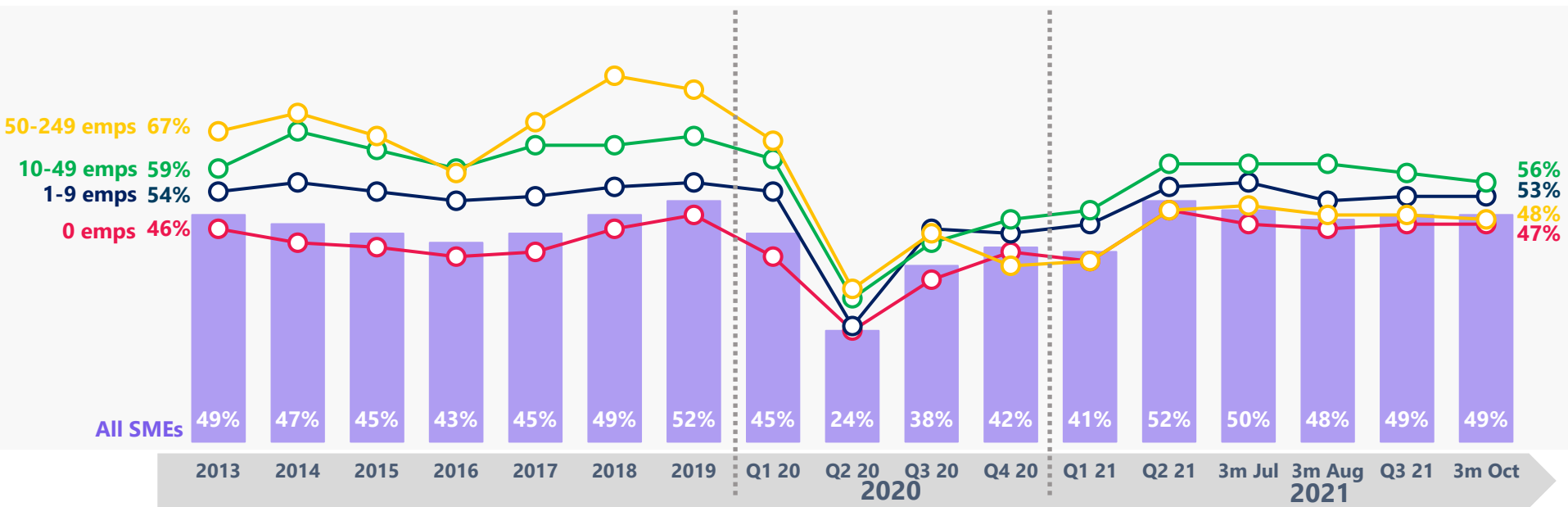
Time series: Have grown (excluding Starts)



2012 to 2019, the proportion of SMEs (excluding Starts) reporting growth varied little and was 37% for 2019. Reported growth in 2020 was initially broadly stable but then declined steadily across all size bands and was 13% for Q1 2021. It increased slightly to 18% for Q3 2021 and 20% currently and across all size bands. Back 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 reaching 65% in Q1 2021. It was 51% in the latest period to October 2021, as slightly more SMEs reported growing and 29% remained the same size

After a sharp decline to 24% in Q2 2020, growth aspirations then increased steadily, reaching 52% in Q2 2021. Since then half of SMEs have reported aspirations to grow

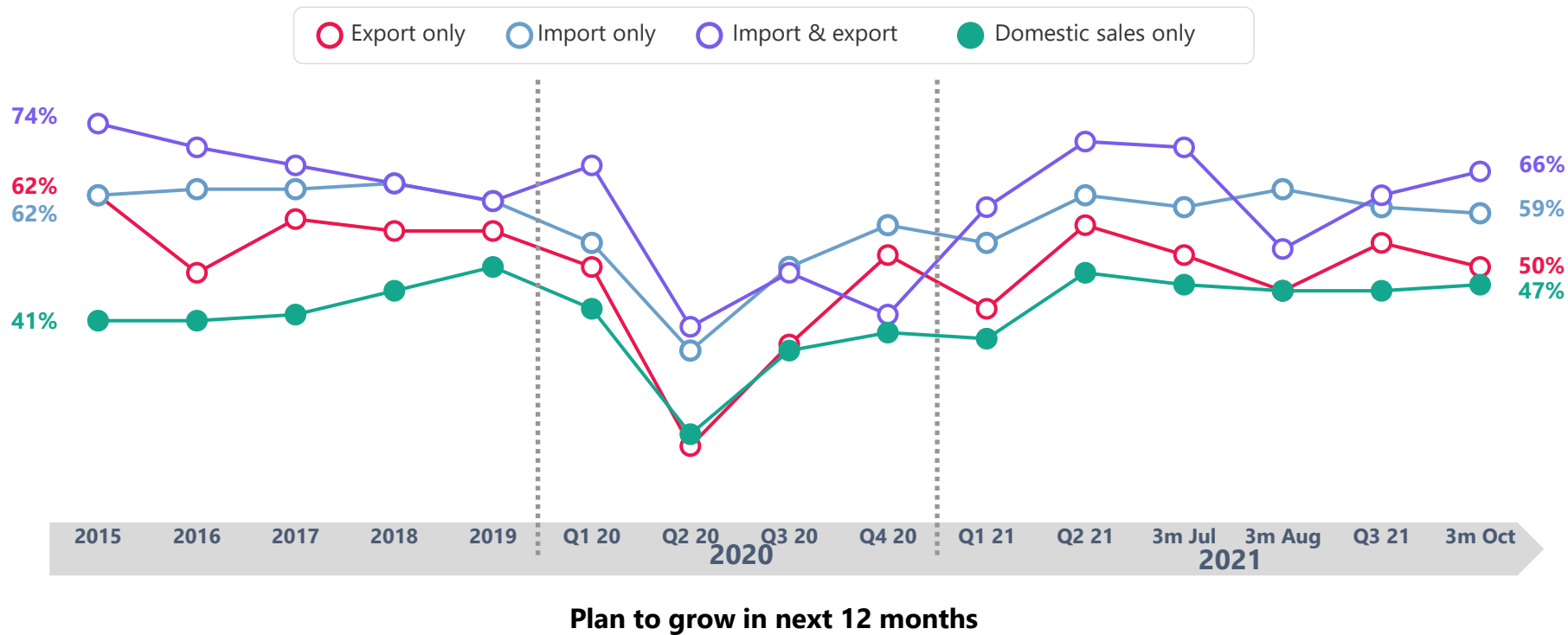
Time series: Have plans to grow



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, to 42% for Q4 2020 and then, after a period of stability, to 52% for Q2 2021. As slightly fewer 0 employee SMEs reported planning to grow, the proportion has stabilised and is currently 49% but remains in line with pre-pandemic levels

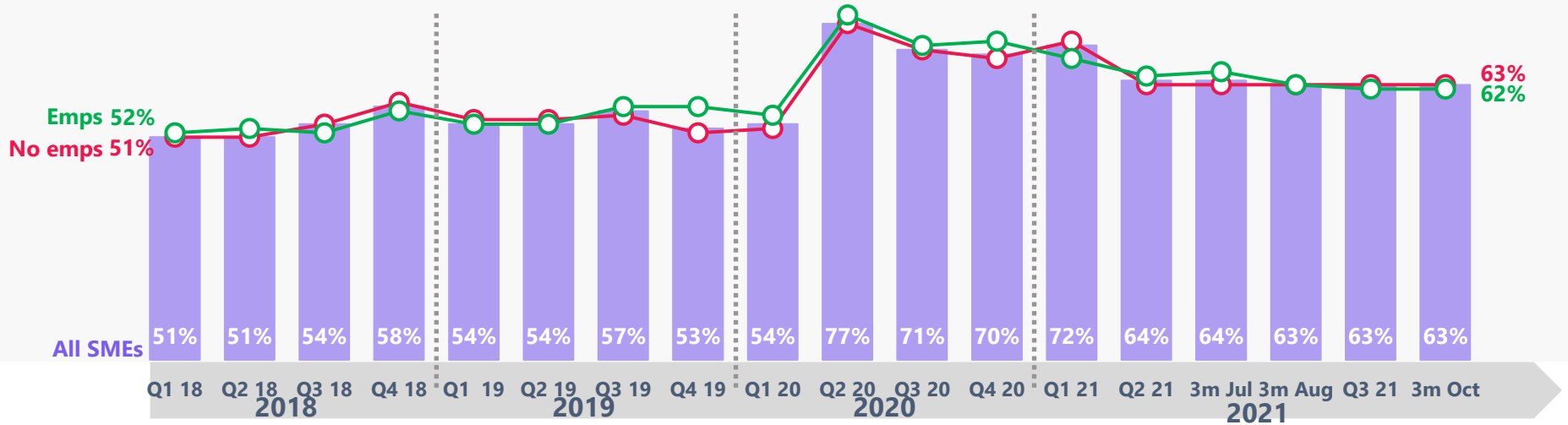
SMEs with an element of importing to their business remained more likely to be planning to grow than their peers, with levels of ambition stabilising from Q2 2021

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



A stable 6 in 10 SMEs were being cautious due to the future feeling uncertain, still markedly higher than in 2019 but lower than the 77% reported in Q2 2020

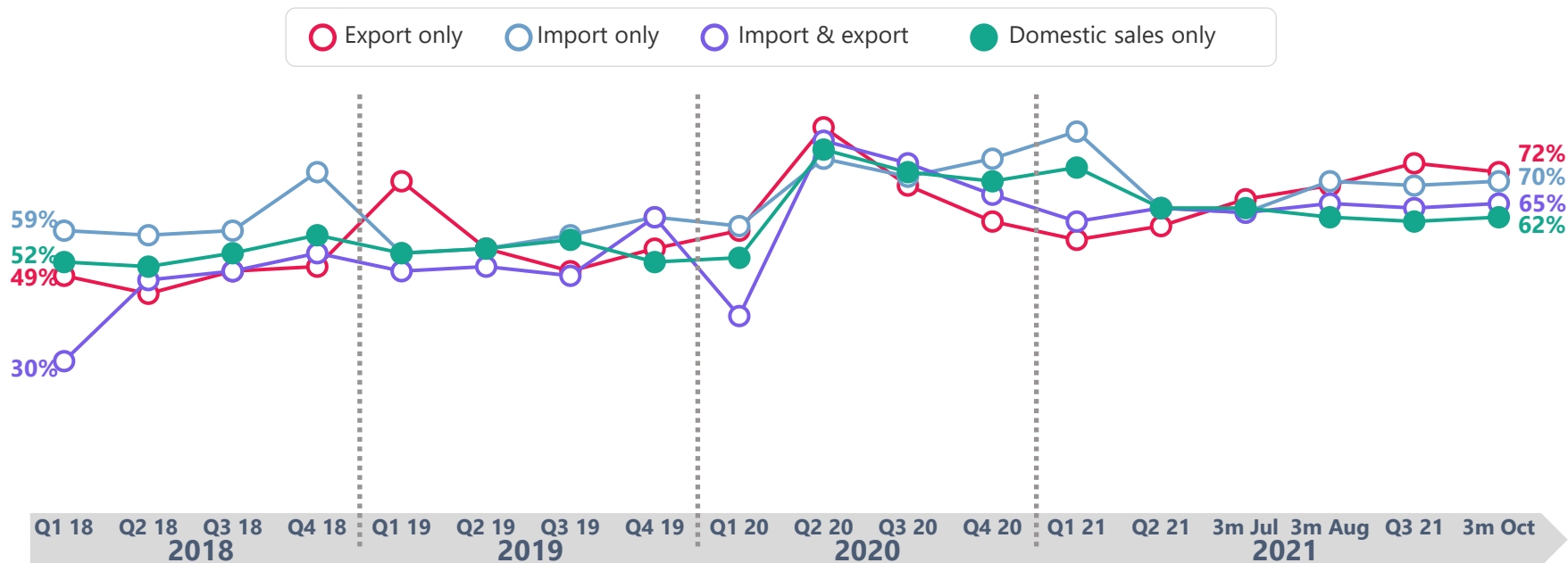
Time series: Agree that future is uncertain so being cautious



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 has declined somewhat since then, to 64% in Q2 2021 and 63% currently

There remained little to choose between the levels of concern by international trade. Export-only SMEs remained the most concerned but below the previous peak in Q2 2020 (82%)

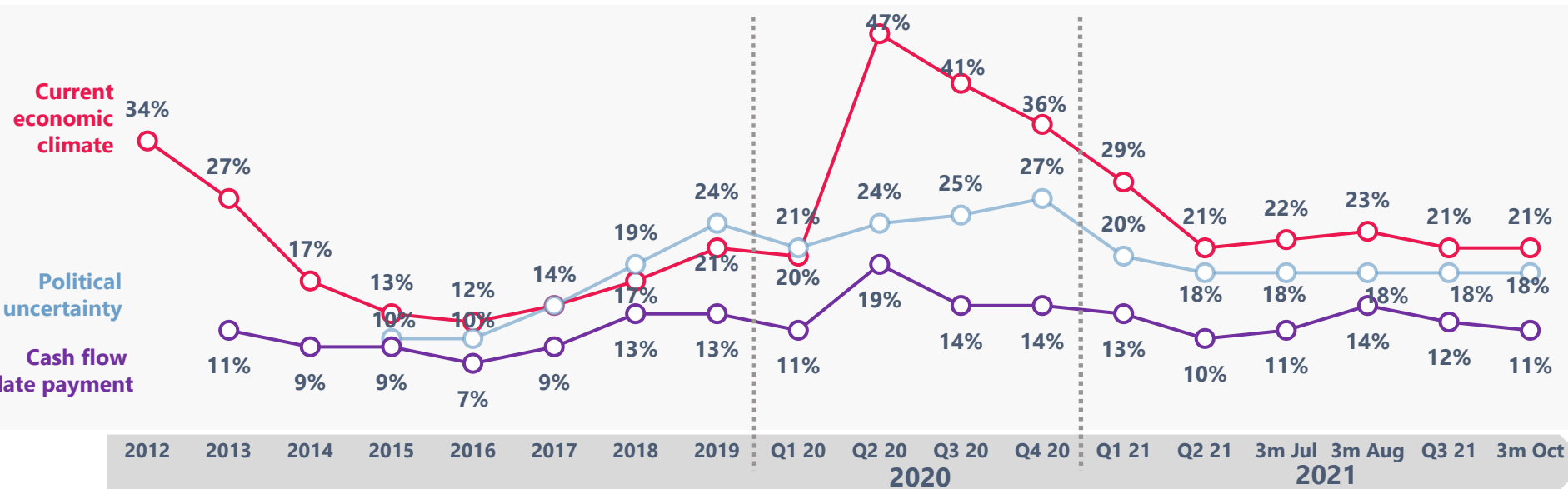
Time series: Agree that future is uncertain so being cautious



Future uncertain so being cautious

A fifth of SMEs saw the current economic climate as a major barrier, now broadly stable following the increase 47% concerned in Q2 2020 declining to the 21% concerned in Q2 2021. Concerns about political uncertainty remained stable and lower in 2021 than in 2020, now back in line with 2018

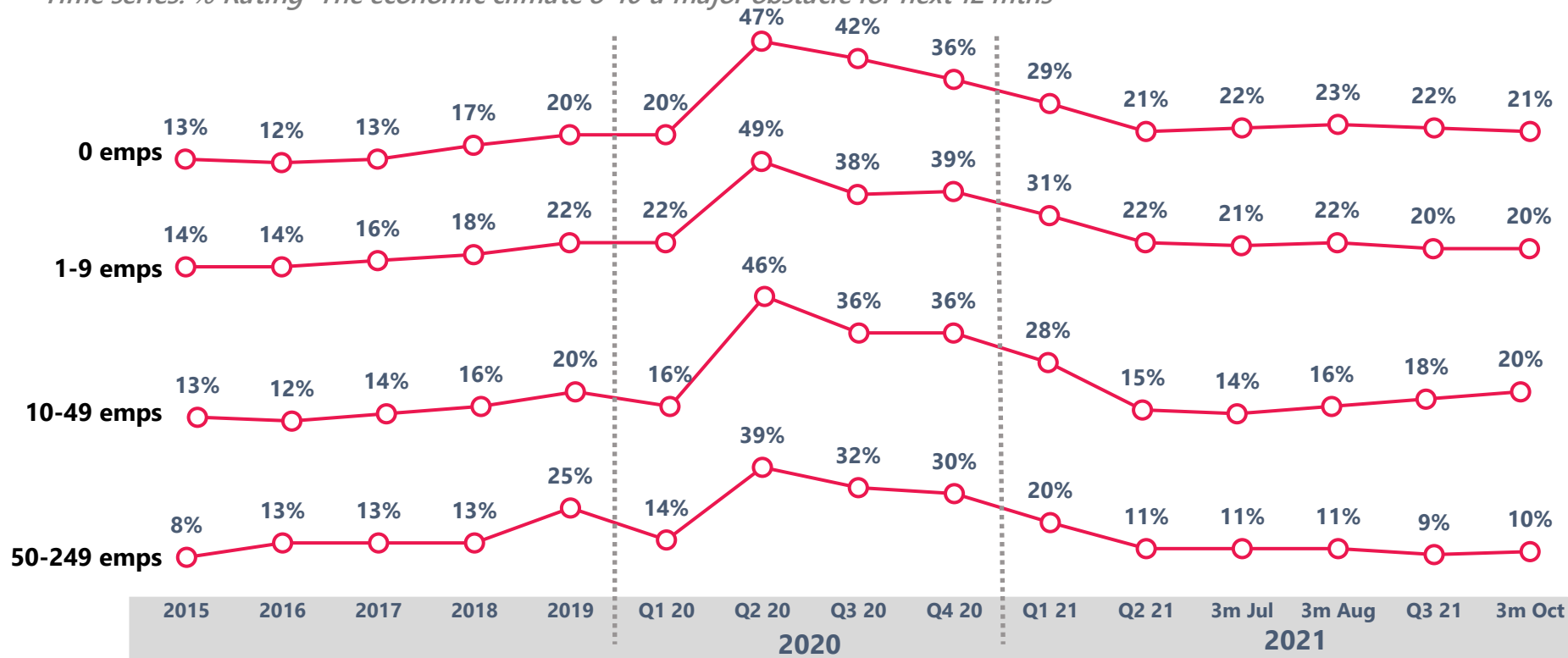
Time series: 8-10 Major obstacle to running business in next 12 months



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. Since then it has declined, to 21% in Q2 2021 and stable since. 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 declined Q2 2020-Q2 2021 and is also stable, at 11% currently

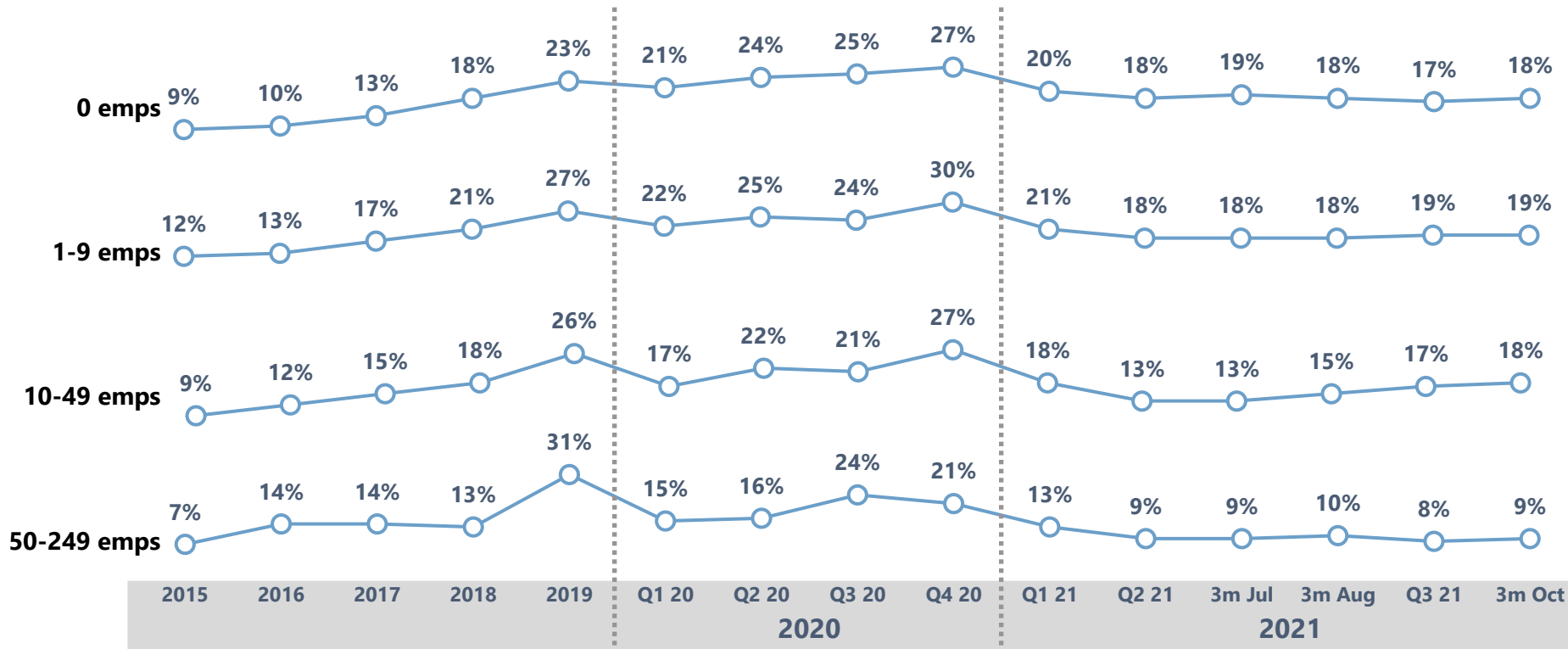
After a marked increase in Q2 2020 across all size bands, concern about the economic climate declined to Q2 2021. It has been broadly stable since, except for those with 10-49 employees

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



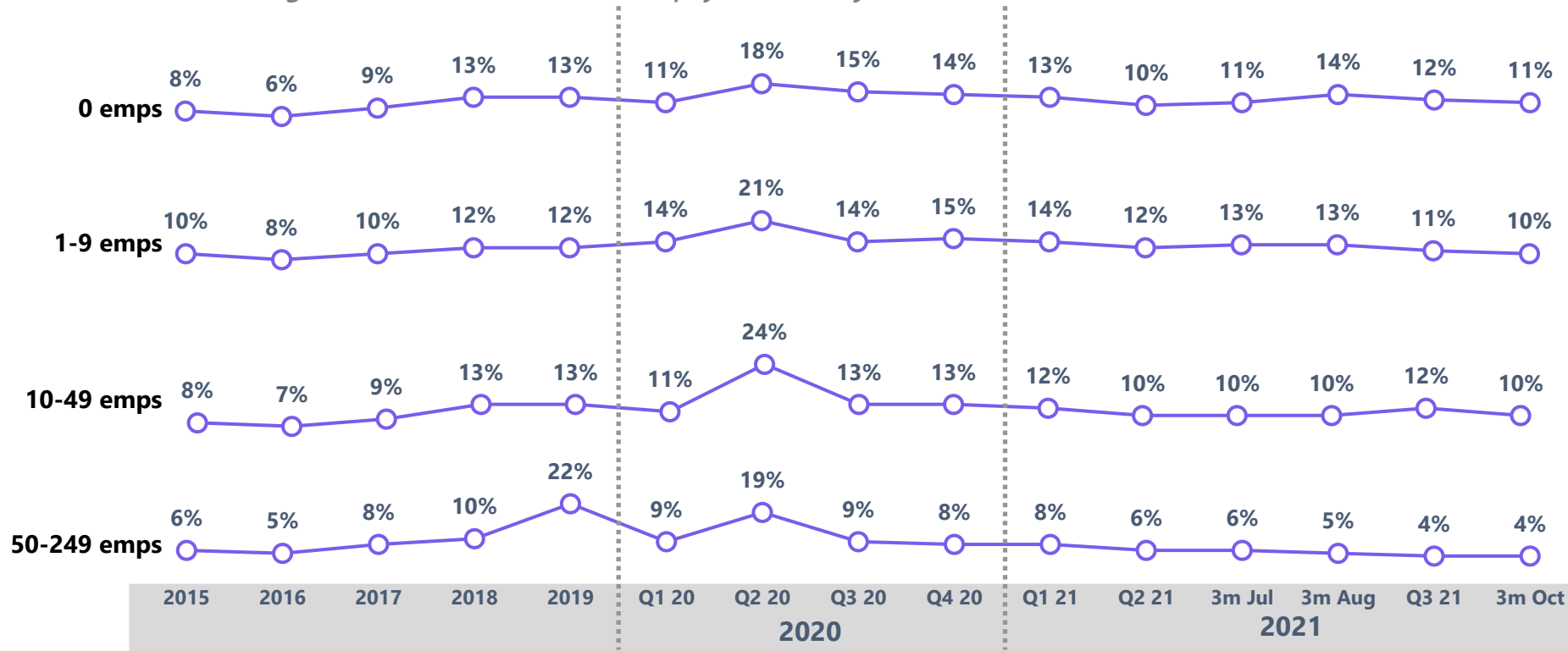
Concern about political uncertainty increased Q3 to Q4 2020 for all but the largest SMEs but was lower again in 2021, notably for the larger SMEs. It is currently stable for all but those with 10-49 employees

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



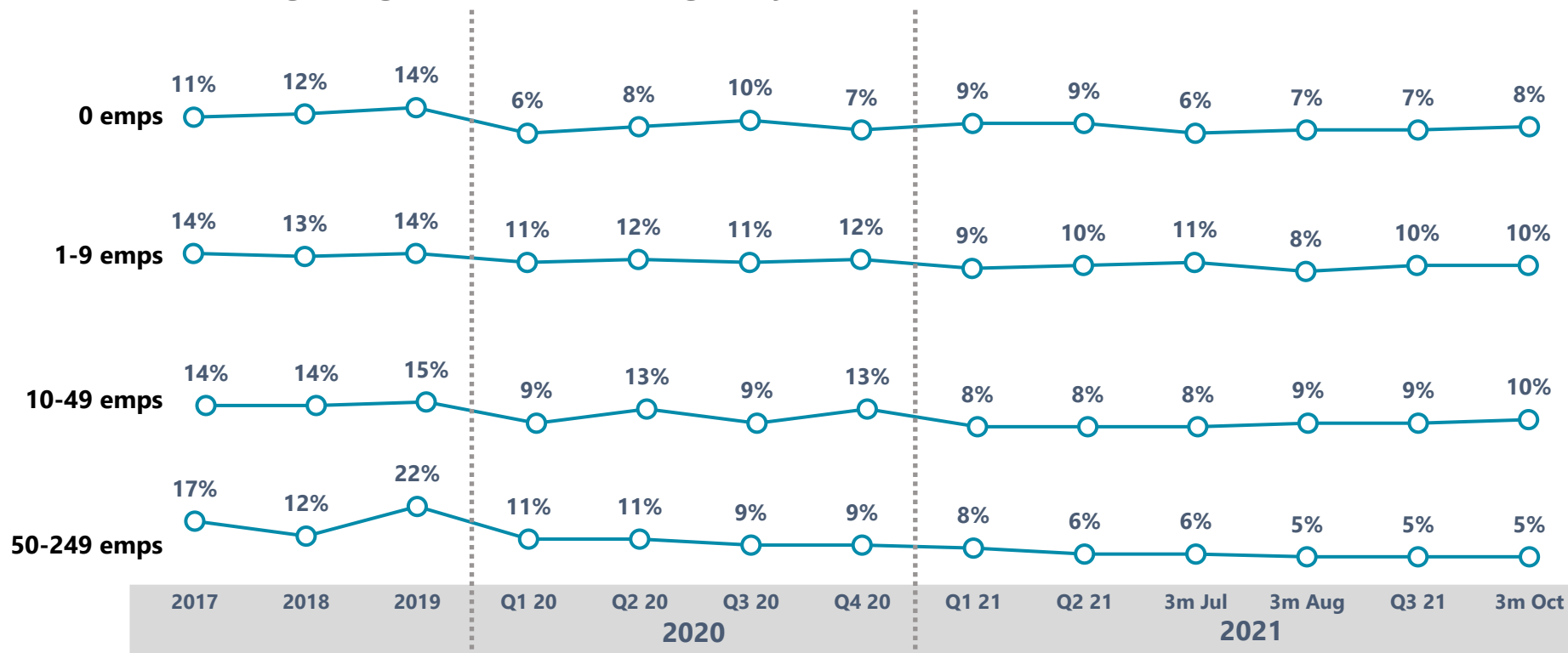
Levels of concern about cash flow and late payment have been broadly stable in 2021 and below the last peak in Q2 2020

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



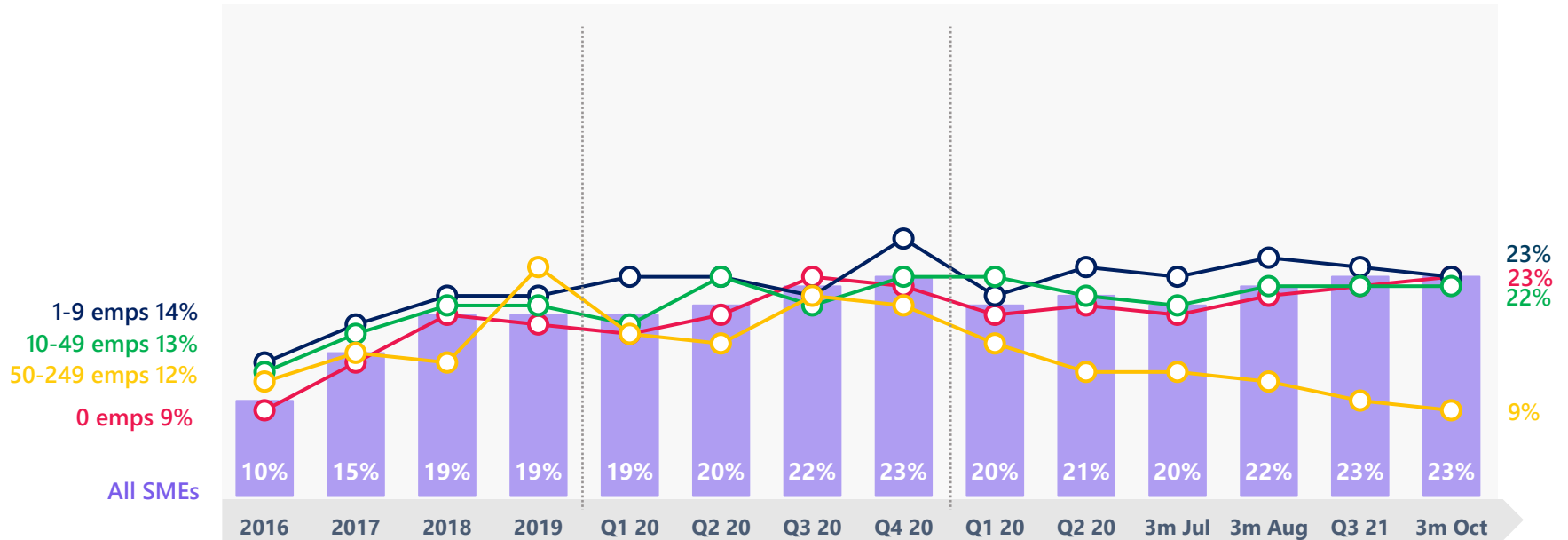
Levels of concern about the value of sterling have been broadly stable over recent quarters

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



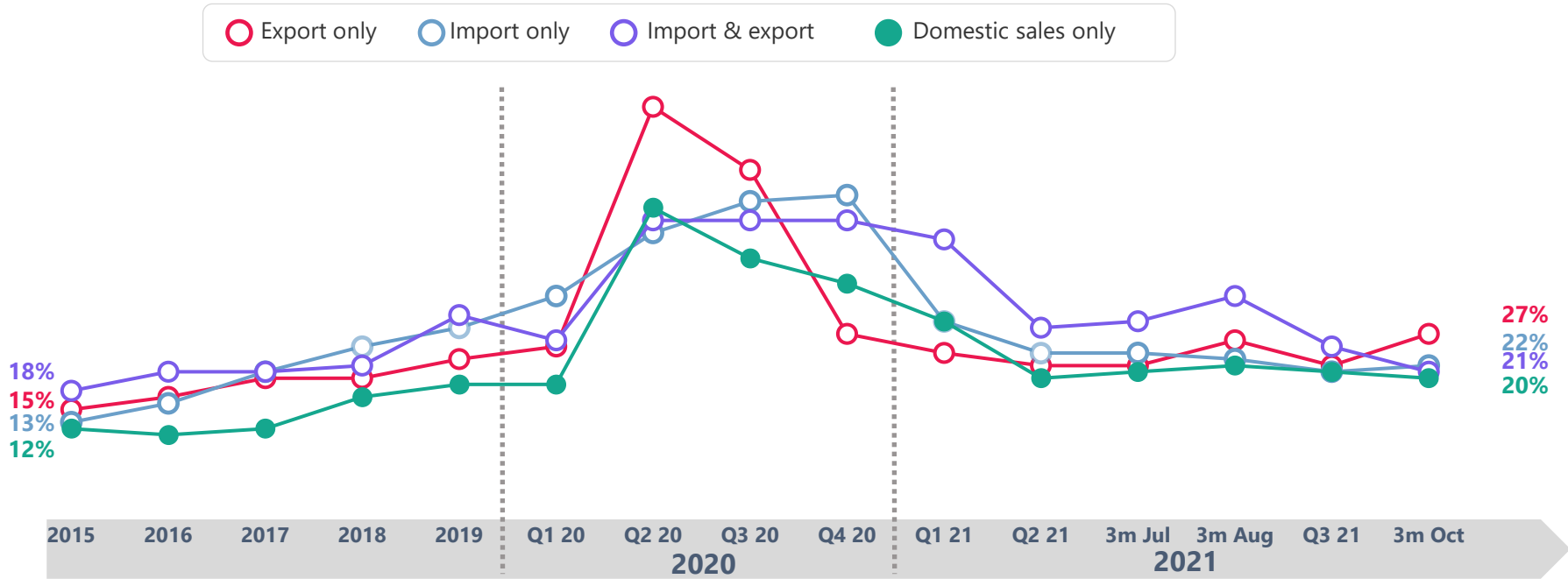
In Q4 2020, 23% of SMEs rated legislation/regulation/red tape as a major barrier, up from 10% in 2016. The scores in 2021 to date have been broadly in line but fewer of the largest SMEs saw this as a barrier

Annual time series: % legislation/regulation / red tape 8-10 barrier



There is little to choose in terms of levels of concern about the economic climate amongst domestic and international SMEs, well below the peak in 2020

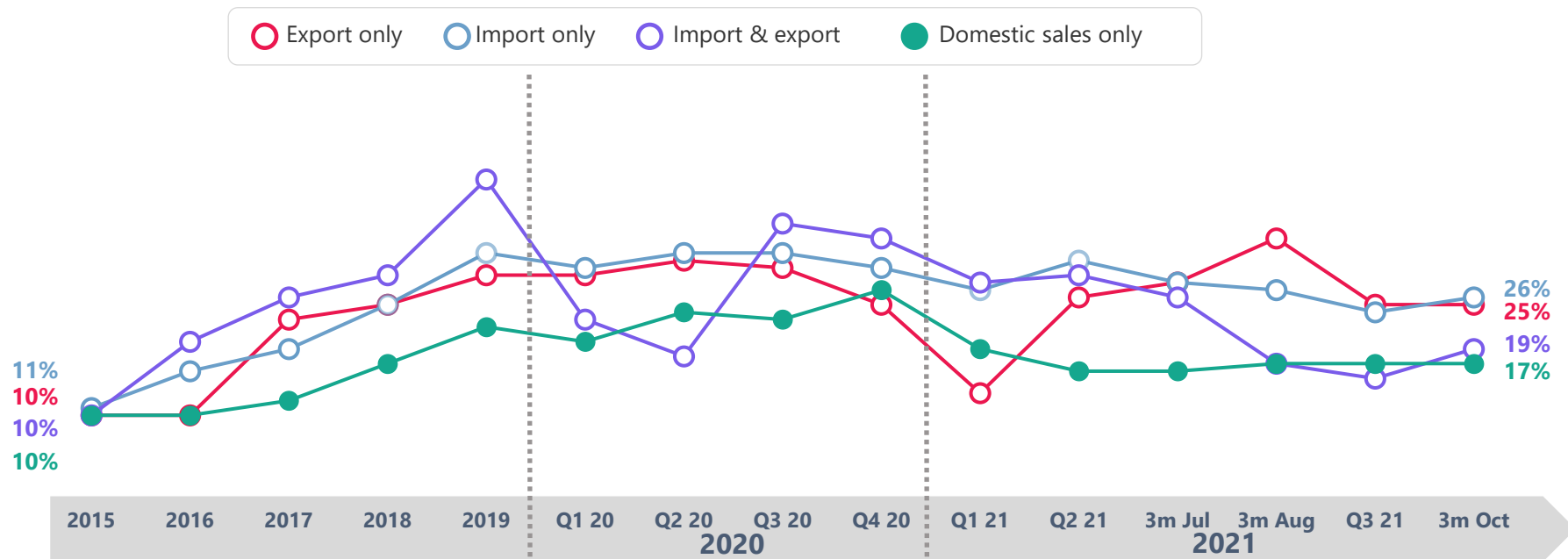
Time series: 8-10 economic climate by extent of international trade alongside domestic sales



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

Export-only and Import-only SMEs remained somewhat more likely than before to see political uncertainty as a barrier, but it has become less of a concern for fully international SMEs

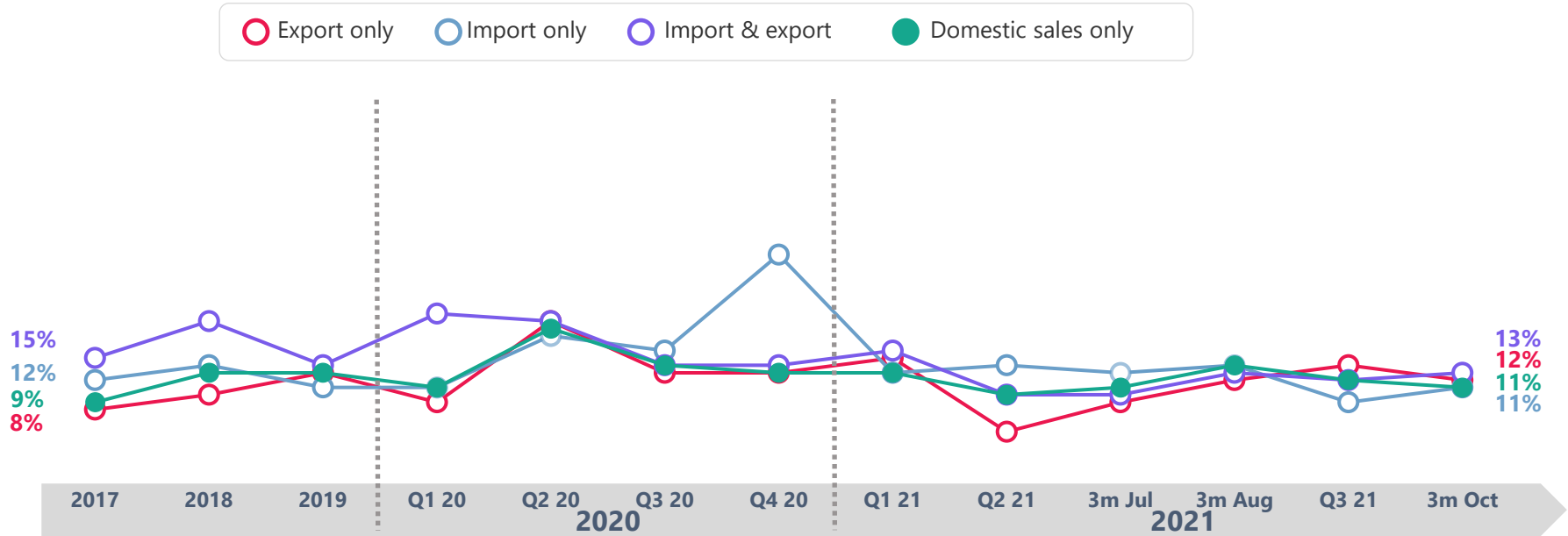
Time series: 8-10 political uncertainty by extent of international trade alongside domestic sales



Rating political uncertainty a major obstacle (8-10)

The proportion seeing cash flow / late payment as a barrier varied little between domestic and international SMEs

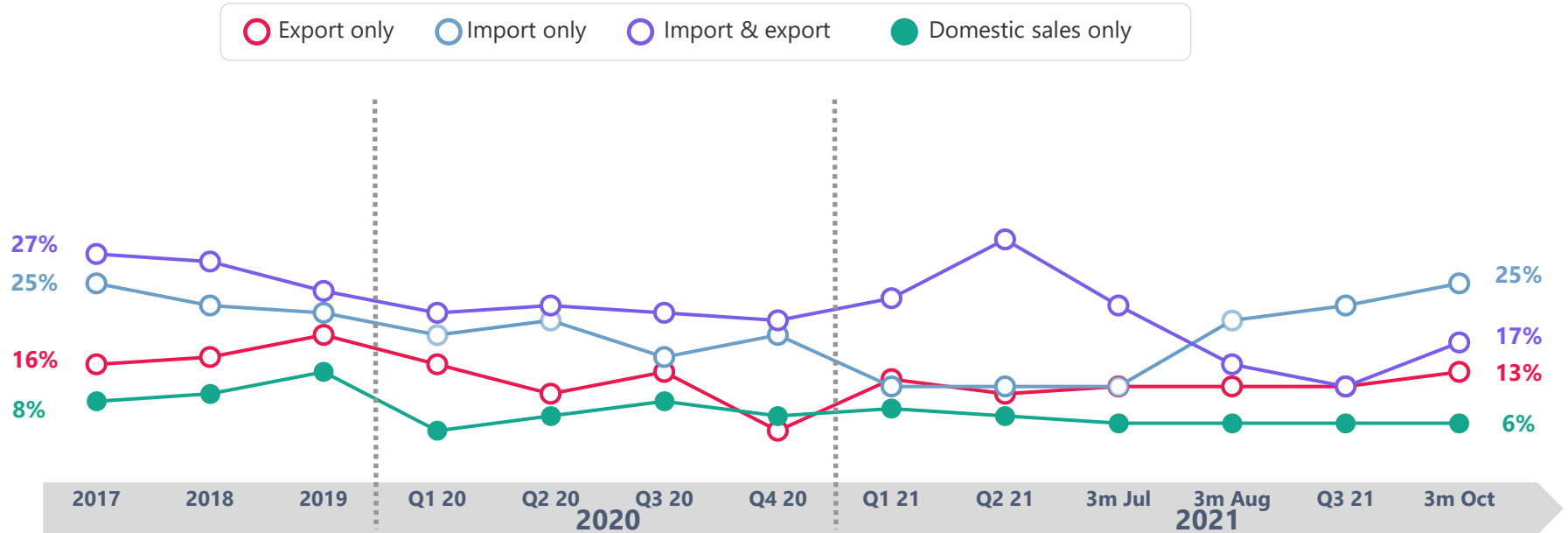
Time series: 8-10 cash flow / late payment by extent of international trade alongside domestic sales



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

Those with an element of importing to their businesses have become more concerned about changes in the value of sterling, as concern amongst Import-only SMEs returned to 2017 levels

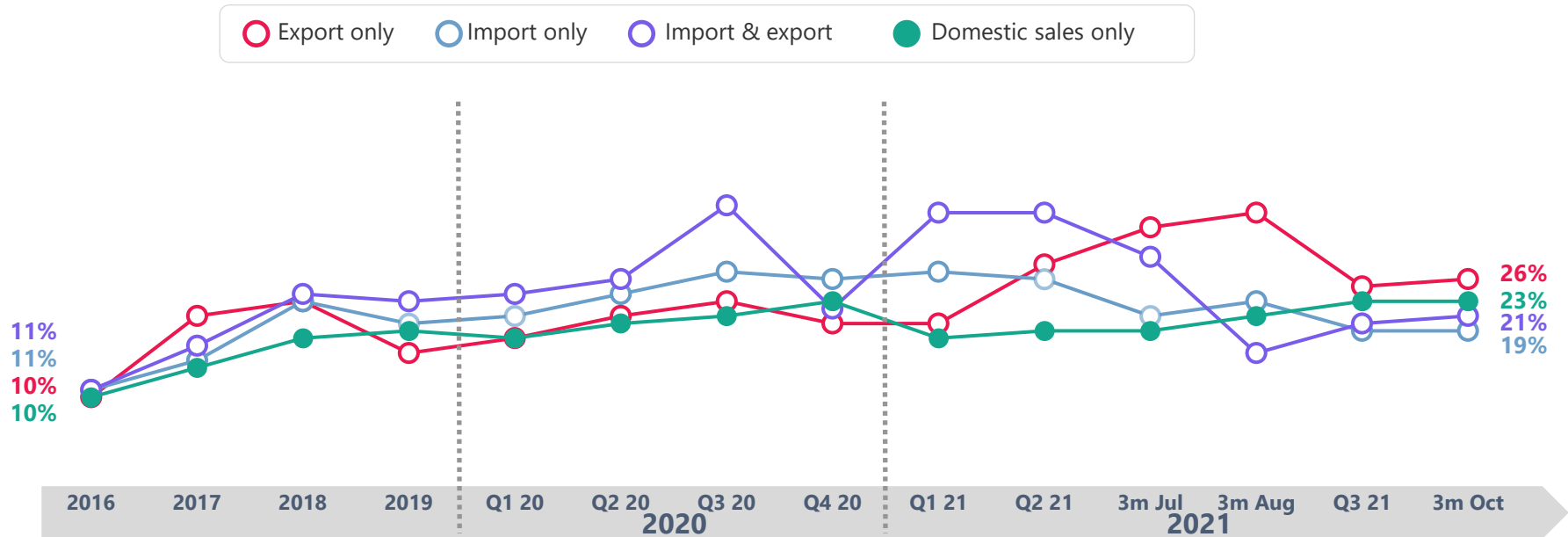
Time series: 8-10 changes in the value of sterling by extent of international trade alongside domestic sales



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

There remains little to choose between Domestic and International SMEs in terms of seeing legislation/regulation/red tape as a barrier

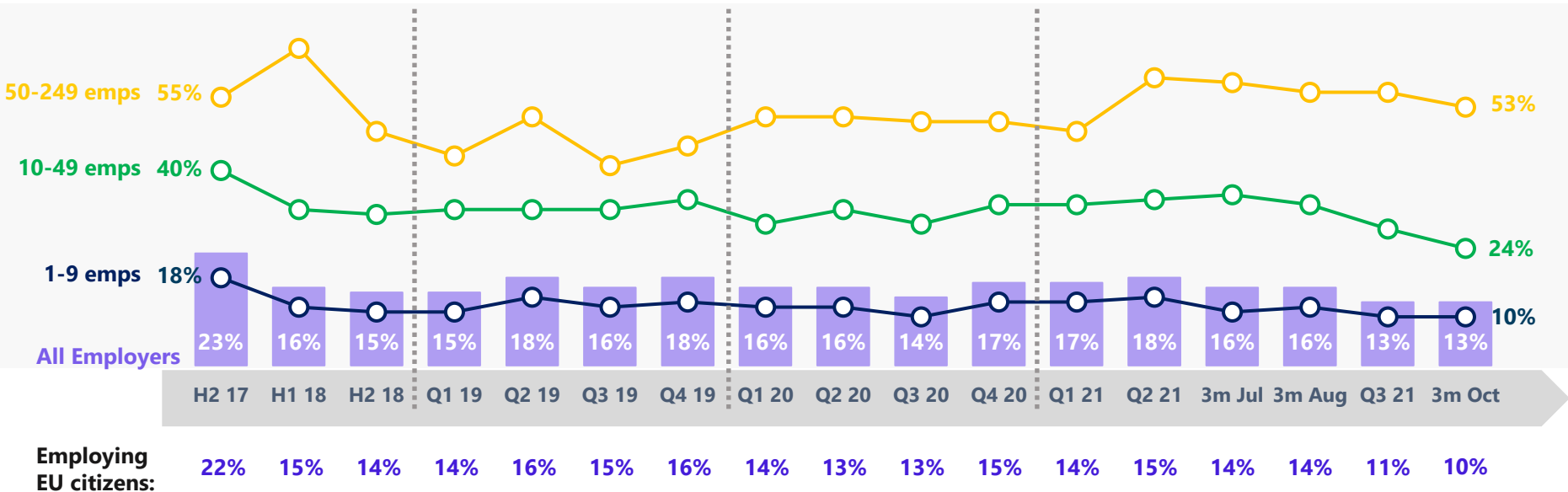
Time series: 8-10 changes in "legislation/regulation/red tape" by extent of international trade alongside domestic sales



Rating changes in legislation/regulation/red tape a major obstacle (8-10)

1 in 8 employers had employees from overseas, typically from the EU. This is slightly lower than Q2 2021 (18%) but in line with Q3 2020

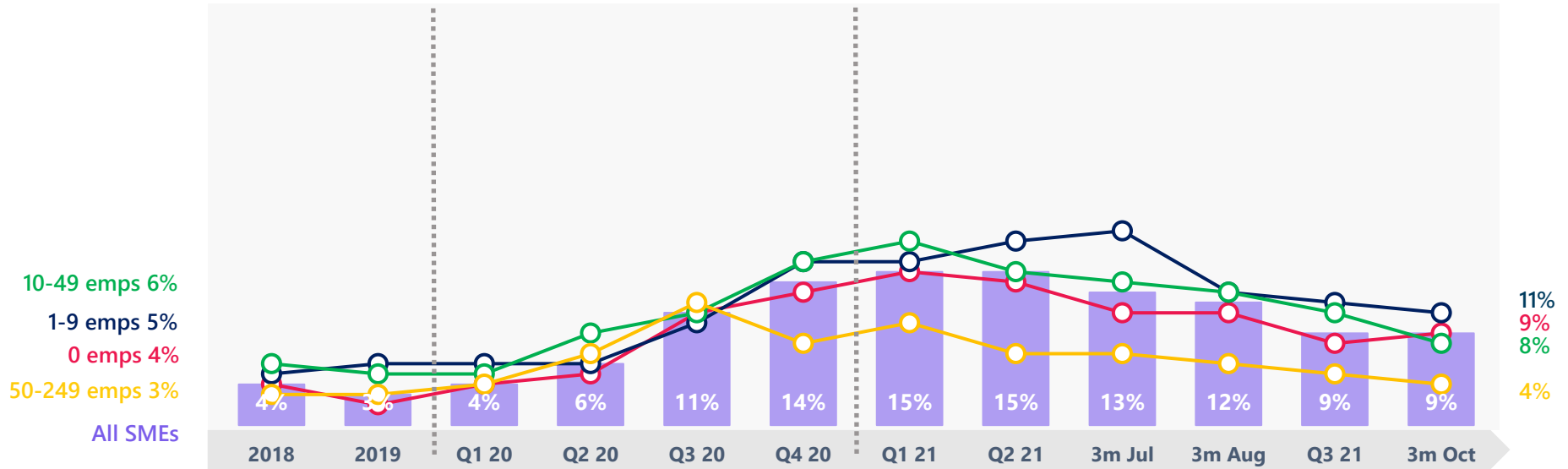
Time series: Employ non-UK staff (from the EU or elsewhere overseas)



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 broadly stable, currently 13%. In the 3 months to October, 10% of employers had staff from the EU and 6% had staff from elsewhere.

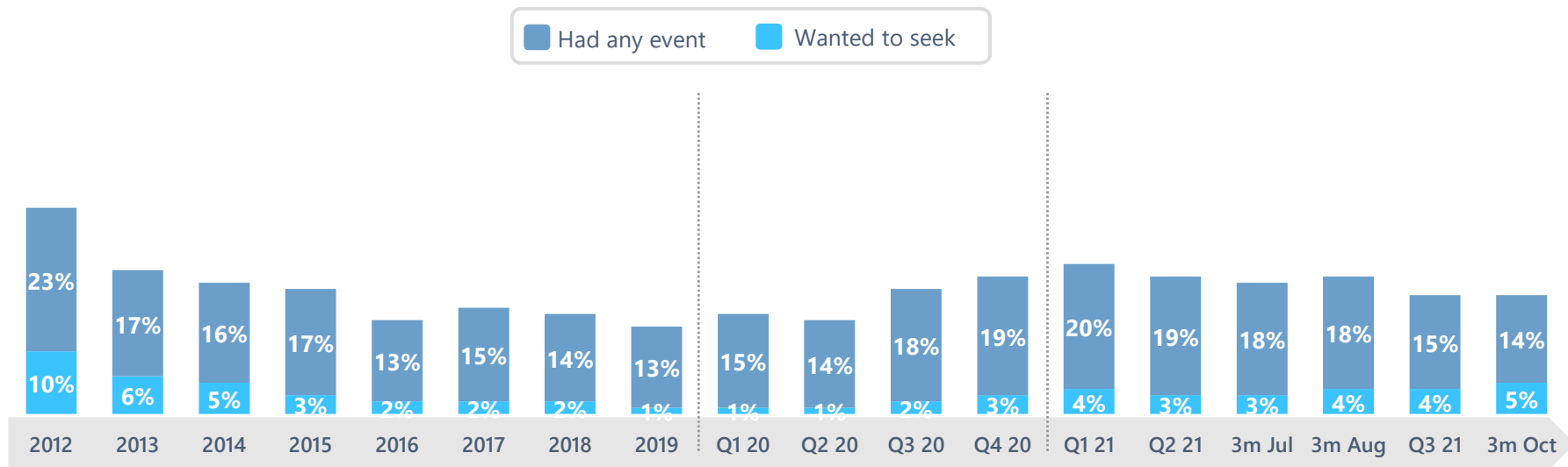
9% of SMEs reported having a need for external funding in the last 12 months, slightly lower than in H1 2021, but still higher than pre-pandemic levels. Need amongst the largest SMEs remained lower than their peers

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



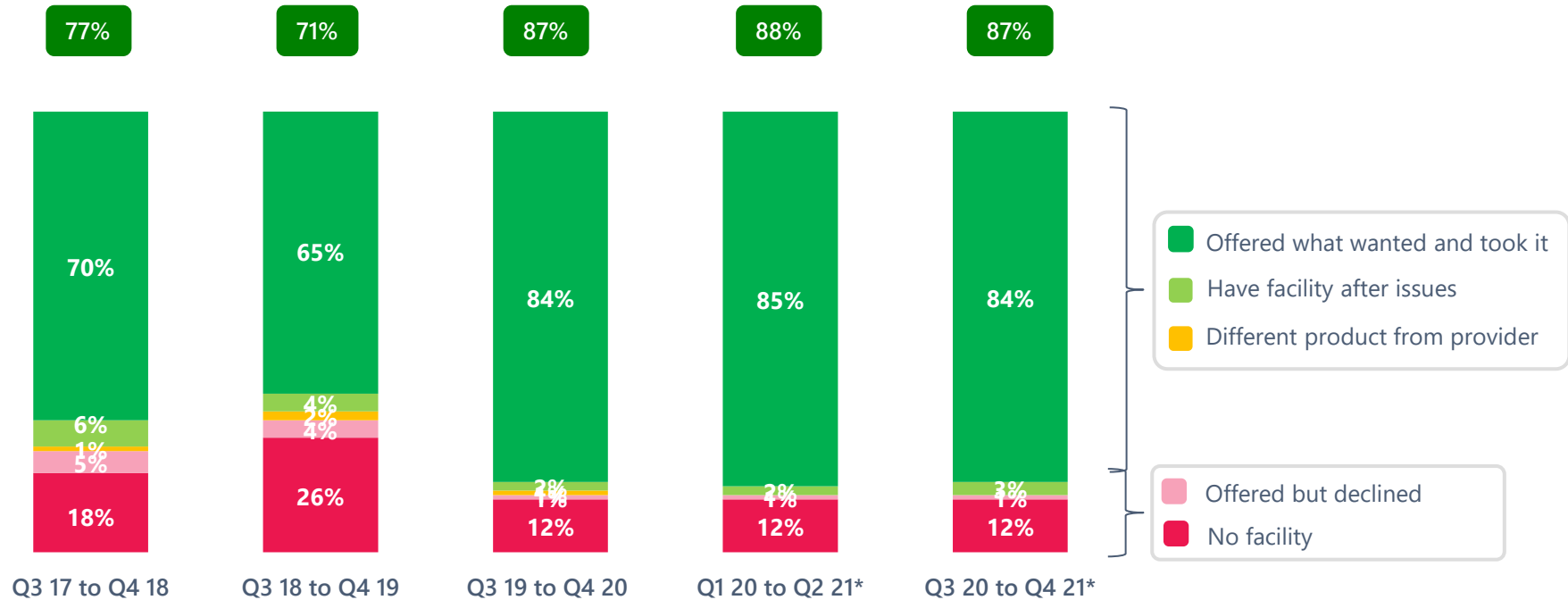
19% of SMEs reported any appetite for finance in the previous 12 months (an event or those who had wanted to seek finance), in line with Q3 2020 but slightly lower than earlier in 2021

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



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

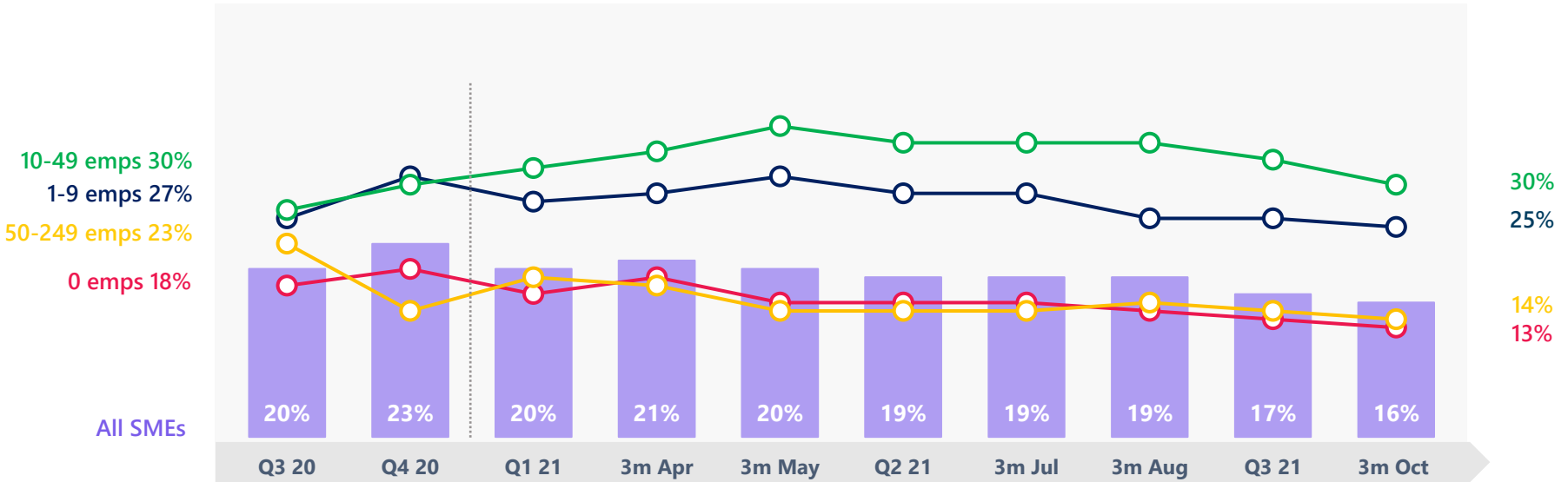
Global success rate: all applications reported from Q1 2018 to Q3 2021, occurring in the periods shown



This chart will be updated every quarter end
Last updated Q3 2021

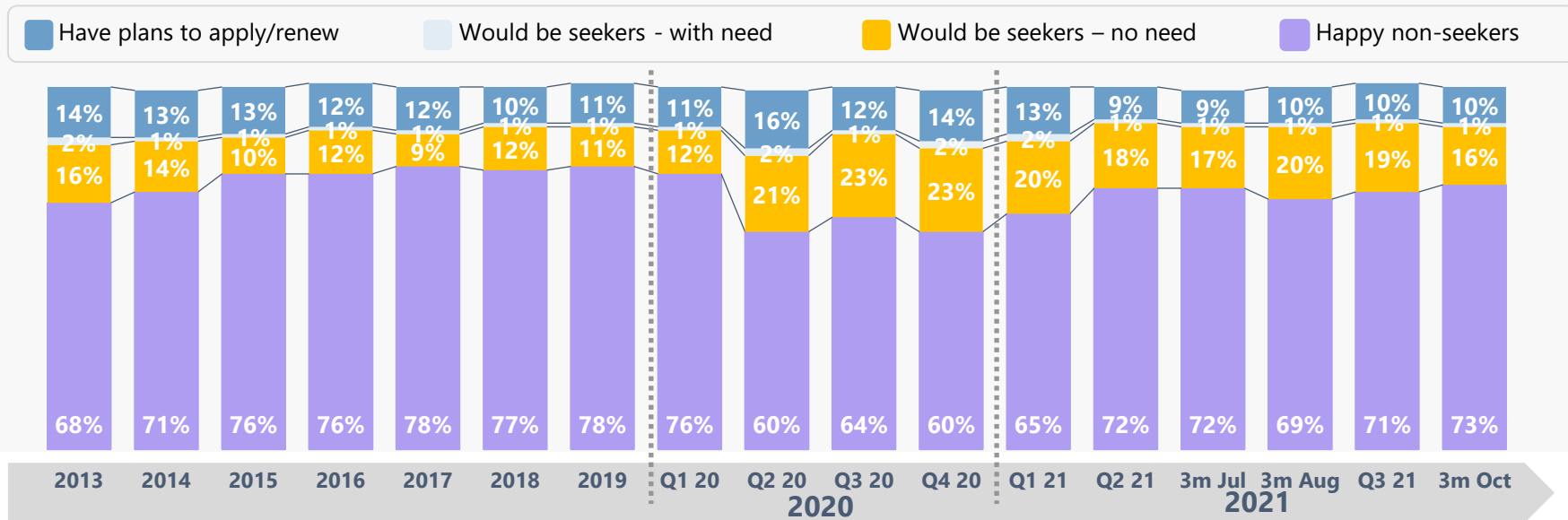
1 in 6 SMEs had approached a bank for Covid related finance. Those with 1-9 or 10-49 employees remained more likely to report such an approach, but the figures are slightly lower than in Q4 2020

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



The marked increase in Q2 2020 in those planning to apply and those who expected to be 'Future would-be seekers of finance', was maintained to Q1 2021. Since then, total future demand has been slightly lower but stable and still higher than pre-pandemic

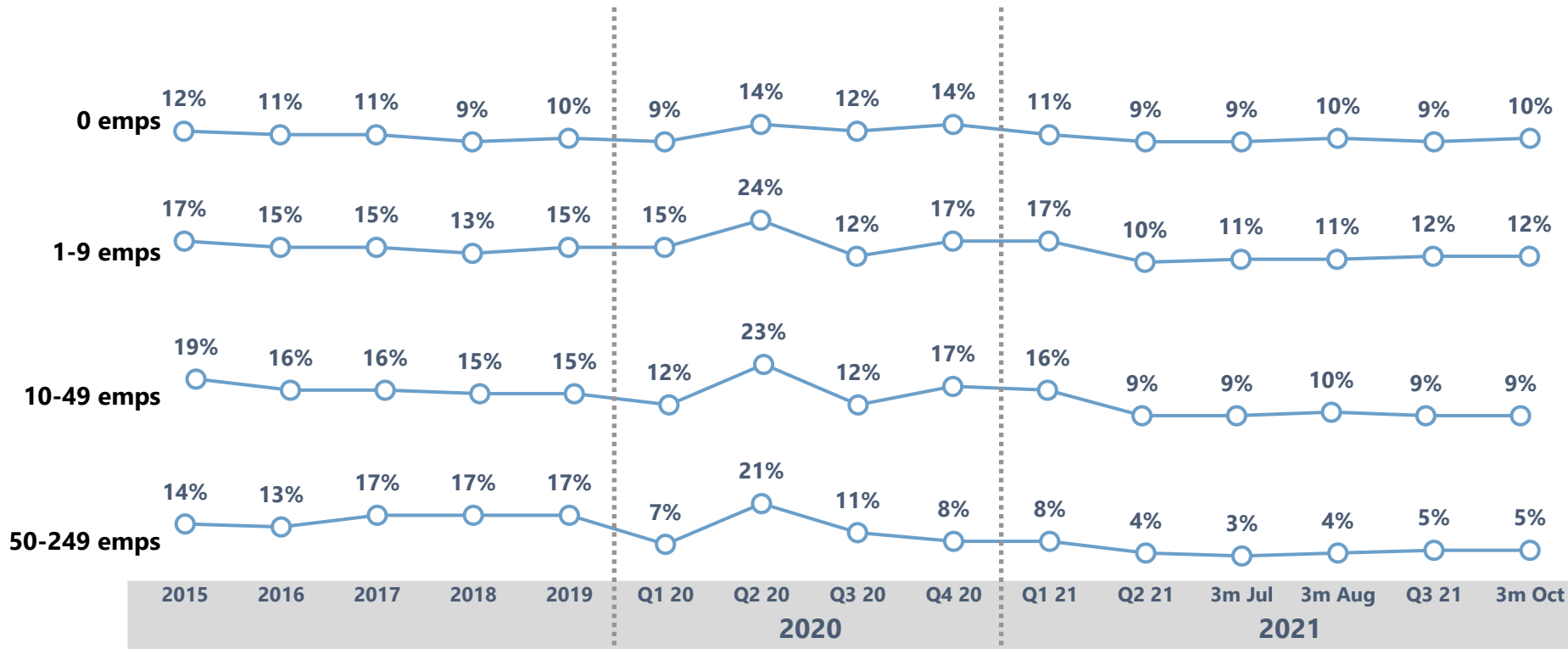
Time series: Anticipated borrowing profile for next 3 months after ...



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. It then reduced, to 60% for Q2 2020 but as future demand for finance dropped slightly, the proportion of Future happy non-seekers has increased and is currently 73%. The proportion with *any* future demand for finance reached 39% in Q2 2020, but had reduced to 28% by Q2 2021 and has been stable since

The proportion planning to apply for finance increased across all size bands from Q1 to Q2 2020. It declined somewhat to Q2 2021 but has been stable since, typically below pre-pandemic levels

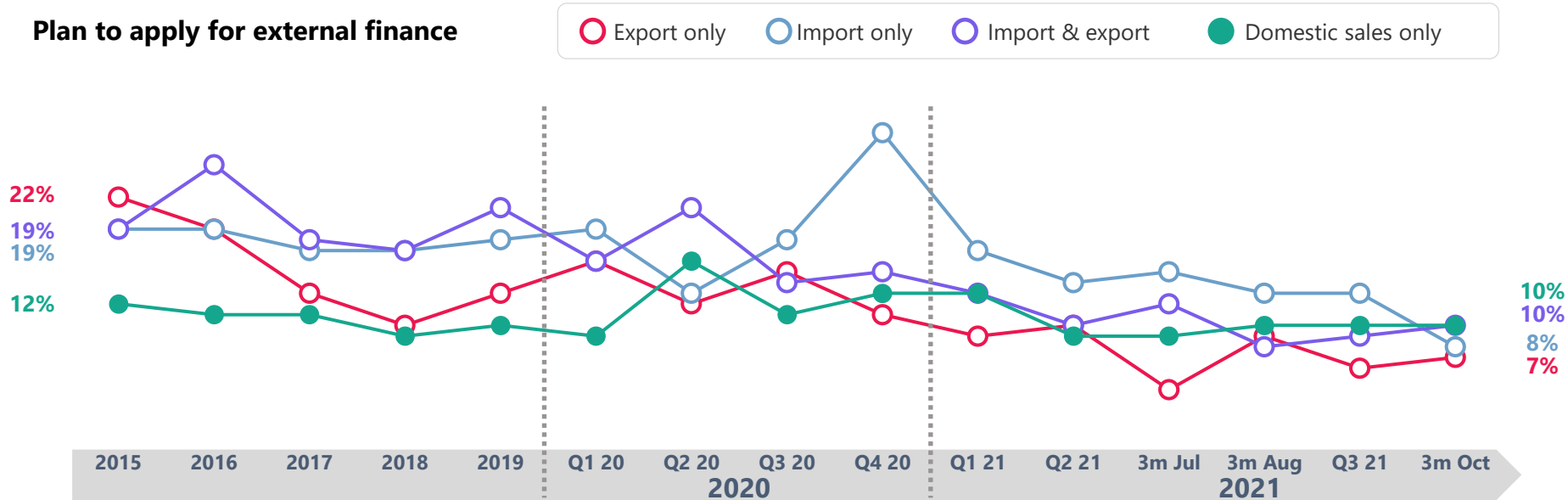
Time series: % planning to apply



There is little to choose between Domestic and International SMEs in terms of plans to apply for future finance

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

Plan to apply for external finance

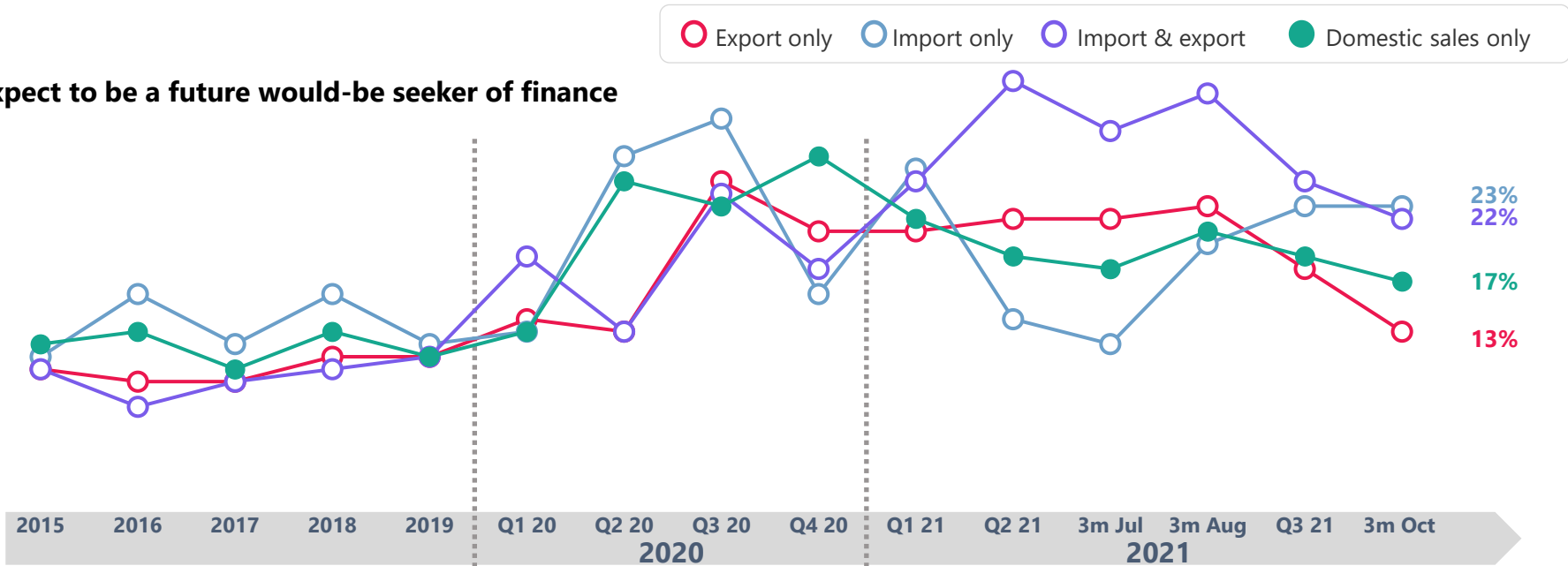


Appetite for finance amongst those that both import and export has varied over time. It fell sharply from the peak of 25% in 2016 to 10% in Q1 2018 and is currently 8%. Appetite amongst domestic SMEs has declined slightly since Q2 2020 and is now in line with 2019 (10%)

There is no consistent pattern for international SMEs in terms of FWBS, but levels are typically higher than seen pre-pandemic. SMEs with an element of importing were more likely to meet the definition

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

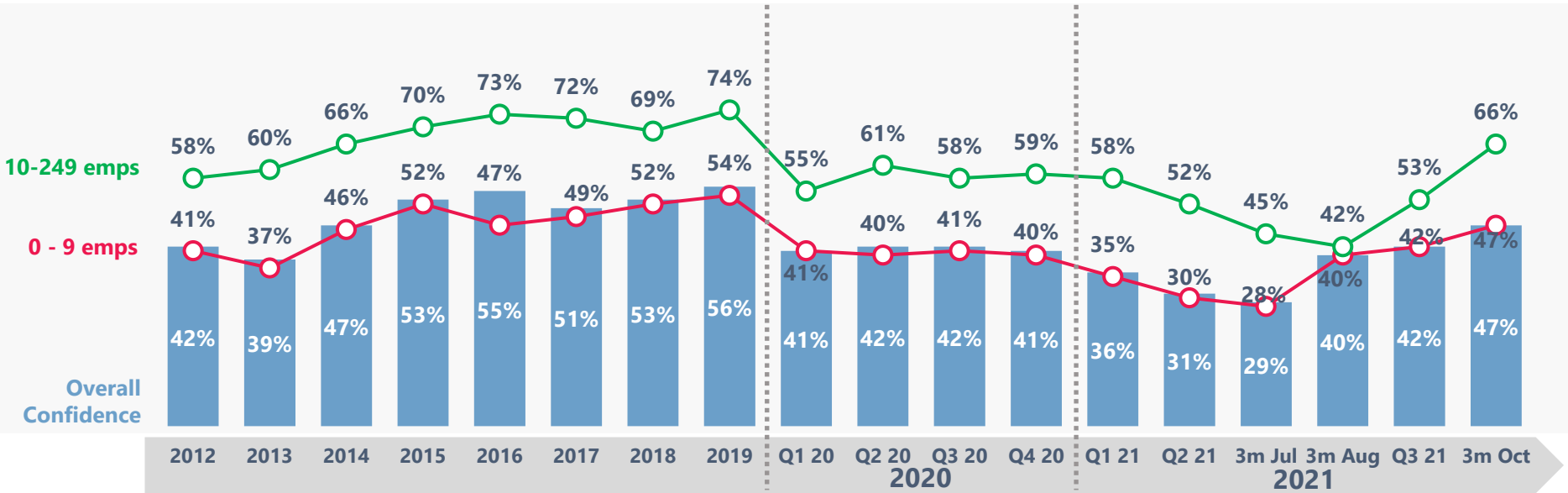
Expect to be a future would-be seeker of finance



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. Fully international SMEs initially saw an increase in this group in 2021 but this has not been maintained

Overall levels of confidence in a successful application have built back since Q2 2021 but remain below the levels reported immediately pre-pandemic

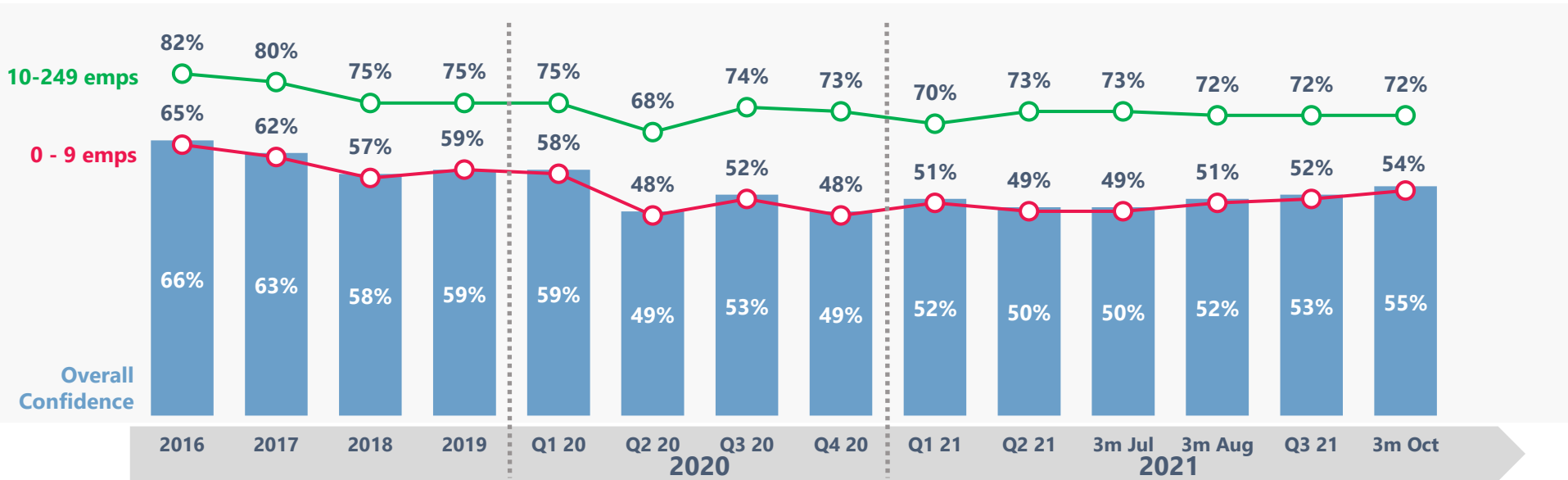
Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by size



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 2019, declined in Q1 2020 (41%) and was then broadly stable, but declined again to 31% in Q2 2021, one of the lowest levels seen to date. Since then confidence has increased to 47%, and recently both smaller and larger SMEs have become more confident of success

Confidence amongst hypothetical applicants declined from Q1 to Q2 2020 but has also started to build back and remains at a higher level than those planning to apply

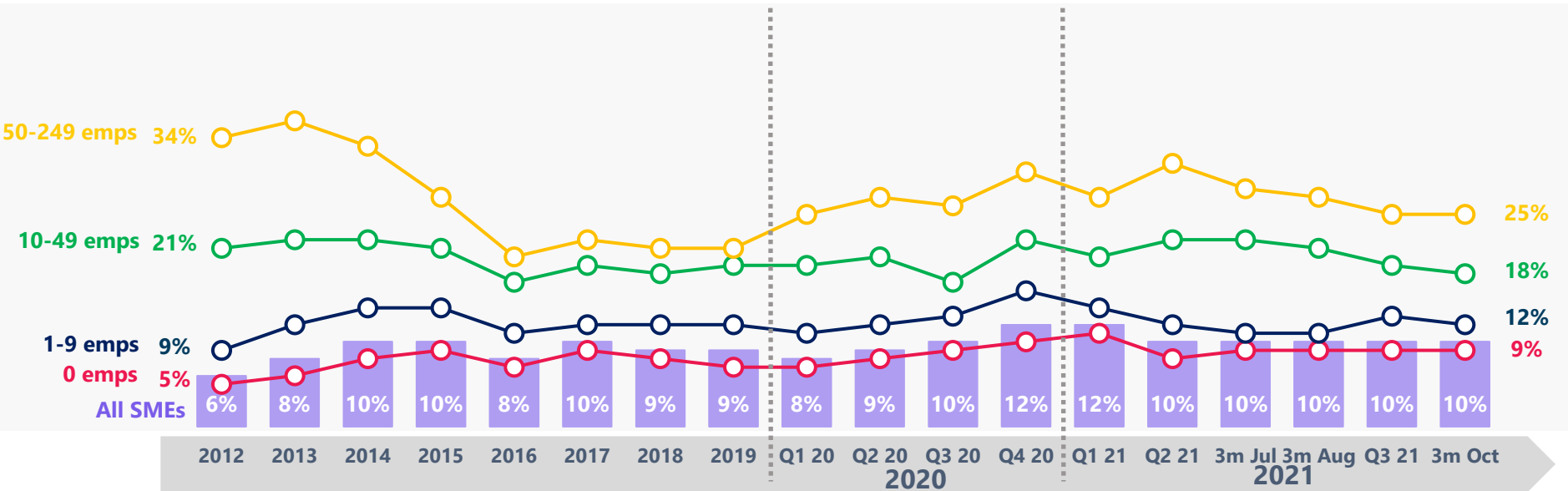
Time series: Confidence (very/fairly) bank would agree to facility next 3 months – by size



Half (55%) 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 (72% v 66%). 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 (54% v 47%, 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 in Q1 2021. It has been stable since at 10%

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 has been 10% since Q2 2021

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

