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# **USING THIS REPORT**

As well as the overall SME market, key elements have been analysed by a number of other factors where sample sizes permit. Typically, nothing will be reported on a base size of less than 100 – where this has been done an asterisk \* highlights the care to be taken with a small base size. If appropriate, a qualitative or indicative assessment has been provided where base sizes are too small to report.

Much of the analysis is by size of business, based on the number of employees (excluding the respondent). This is because research has repeatedly shown that SMEs are not a homogenous group in their need for external finance, or their ability to obtain it, and that size of business can be a significant factor. The employee size bands used are the standard bands of 0 (typically a sole trader), 1-9, 10-49 and 50-249 employees.

Where appropriate, analysis has also been provided by sector, age of business or other relevant characteristics of which the most frequently used is external risk rating. This was supplied, for almost all completed interviews, by the sample providers Dun & Bradstreet and Experian. Risk ratings are not available for 14% of respondents, typically the smallest ones. Dun & Bradstreet and Experian use slightly different risk rating scales, and so the Experian scale has been matched to the Dun & Bradstreet scale as follows:

D&B	Experian
1 Minimal	Very low/Minimum
2 Low	Low
3 Average	Below average
4 Above average	Above Average/High/Maximum/Serious Adverse Information

It is also possible to show many results by sector. The table below shows the share of each sector, from 3% (Agriculture) to 28% (Property/Business Services) of all SMEs, and the proportion in each sector that are 0 employee SMEs.

	<b>Sector</b>	<b>% of all SMEs</b>	<b>% of sector that are 0 emp</b>
AB	Agriculture, Hunting and Forestry; Fishing	3%	66%
D	Manufacturing	5%	72%
F	Construction	18%	84%
G	Wholesale and Retail Trade; Repairs	10%	56%
H	Hotels & Restaurants	4%	39%
I	Transport, Storage and Communication	13%	81%
K	Real Estate, Renting and Business Activities	28%	76%
N	Health and Social work	7%	86%
O	Other Community, Social and Personal Service Activities	12%	87%

## ANALYSIS OVER TIME

This report is based predominantly on four waves of data gathered Q1 to Q4 2021. In all four waves, SMEs were asked about their past behaviour during the previous 12 months, so there is an overlap in the time period each wave has reported on. These year-ending figures are defined by the date of **interview**, i.e. all interviews conducted in the year concerned.

Where results can be shown by individual quarter over time, they have been, especially for years like 2020 and 2021 where trading conditions could change on an almost weekly basis. However, small sample sizes for some lines of questioning mean that in those instances data is reported based on four quarters combined (YEQ4 2021 in this report). This provides a robust sample size and allows for analysis by key sub-groups such as size, sector, or external risk rating.

Each report also comments on changes in demand for credit and the outcome of applications over time. Here, it is more appropriate to analyse results based on when the **application** was made, rather than when the interview was conducted. The extensive changes made to the questionnaire for Q1 2018 mean that base sizes for applications made were initially limited. In this report analysis is based on applications made between Q3 2020 and Q4 2021 and reported during that period as analysis by 18mth application period became possible.

The exception to the approach outlined above, apart from when a new question has been introduced, is in the latter stages of the report where SMEs were asked about their planned future behaviour. In these instances, where we are typically reporting expectations for the next three months, comparisons are made between individual quarters as each provides an assessment of SME sentiment for the coming months and the comparison is an appropriate one.

Not *all* of the previous quarters are shown in the standard quarterly tables in this report. Quarterly data from 2011-2019 is no longer routinely shown and subsequent reports will continue this policy of deleting the oldest wave before adding the latest.

However, a series of annual summary tables have been developed and were included for the first time in the Q2 2016 report. These complement the series of key charts in the final chapter of this report which show all results over time for key metrics.

## DEFINITIONS USED IN THIS REPORT

Over time, a number of definitions have been developed for different SMEs and some standard terms are commonly used in this report. The most frequently used are summarised below:

**SME size** – this is based on the number of employees (excluding the respondent). Those with more than 249 employees were excluded from the research

**External risk profile** – this is provided by the sample providers (Dun & Bradstreet and Experian). Risk ratings are not available for 15% of respondents, typically the smallest ones. D&B and Experian use slightly different risk rating scales, and so the Experian scale has been matched to the D&B scale as shown at the start of this chapter

**Fast growth** – SMEs that report having grown by 20% or more each year, for each of the past 3 years (definition updated Q4 2012)

**Use of external finance** – SMEs were asked whether they were currently using any of the following forms of finance: Bank overdraft, Credit cards, Bank loan, Commercial mortgage, Leasing or hire purchase, Loans/equity from directors, Loans/equity from family and friends, Invoice finance, Grants, Loans from other 3<sup>rd</sup> parties, Export/import finance, crowd funding, asset based lending, or any other loan or overdraft facility

**Permanent non-borrower** – SMEs that seem firmly disinclined to borrow because they meet all of the following conditions: are not currently using external finance, have not used external finance in the past 5 years, have had no borrowing events in the past 12 months, have not applied for any other forms of finance in the last 12 months, said that they had had no desire to borrow in the past 12 months and reported no inclination to borrow in the next 3 months

**Borrowing event** – there are now 5 types of borrowing event recorded on the SME Finance Monitor:

- Type 1a: Where a need for funding resulted in a borrowing event (involving any product and any provider)
- Type 1b: Where the SME had (also) applied for any other new or renewed facility, from a list of major products
- Type 1c: Any other application made and not already mentioned
- Where the SME's overdraft had been automatically renewed
- Type 2/3 events: Where the SME or the finance provider had sought to cancel or re-negotiate a facility before it was due to be repaid.

**Would-be seeker** – those SMEs that had not had a borrowing event and said that something had stopped them applying for funding in the previous 12 months (definition revised in Q1 2018 – the question is now asked for all borrowing not just loans and overdrafts, but the question wording has not changed)

**Happy non-seeker** – those SMEs that had not had a borrowing event, and also said that nothing had stopped them applying for any (further) funding in the previous 12 months (definition revised in Q1 2018)

**Issues** – something that needed further discussion before a loan or overdraft facility was agreed, typically the terms and conditions (security, fee, or interest rate) or the amount initially offered by the bank

**Principle of borrowing** – where an SME did not (or, looking ahead, will not) apply to borrow because they feared they might lose control of their business, or preferred to seek alternative sources of funding

**Process of borrowing** – where an SME did not (or, looking ahead, will not) apply to borrow because they thought it would be too expensive, too much hassle etc.

**Discouragement** – where an SME did not (or, looking ahead, will not) apply to borrow because it had been put off, either directly (they made informal enquiries of the bank and felt put off) or indirectly (they thought they would be turned down by the bank so did not enquire)

**Major obstacle** – SMEs were asked to rate the extent to which each of a number of factors were perceived as obstacles to their running the business as they would wish in the next 12 months, using a 1 to 10 scale. Ratings of 8-10 are classed as a major obstacle

**Future happy non-seekers** – those that said they would not be applying to borrow (more) in the next three months because they said that they did not need to borrow (more) or already had the facilities they needed

**Future would-be seekers** – those that felt that there were barriers that would stop them applying to borrow (more) in the next three months (such as discouragement, the economy or the principle or process of borrowing)

**Average** – the arithmetic mean of values, calculated by adding the values together and dividing by the number of cases

**Median** – a different type of average, found by arranging the values in order and then selecting the one in the middle. The median is a useful number in cases where there are very large extreme values which would otherwise skew the data, such as a few very large loans or overdraft facilities

Please note that the majority of data tables show **column** percentages, which means that the percentage quoted is the percentage of the group described at the top of the column in which the figure appears. On some occasions, particularly for data shown over time, summary tables have been prepared which include **row** percentages, which means that the percentage quoted is the percentage of the group described at the left hand side of the row in which the figure appears. Where row percentages are shown, this is highlighted in the table.

From the Q2 2016 report onwards, additional summary tables have been prepared for key questions to show the changes year on year since 2012. This provides a longer term context for the changes being seen in the most recent quarters, upon which most reporting is based.