

# 4

## THE GENERAL CONTEXT

### **THIS CHAPTER PRESENTS**

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year ending Q4 2021 (YEQ4 21).

## KEY FINDINGS

### Growth started to pick up, but over half reported a decline:

- 18% of SMEs (excluding Starts) reported having grown in 2021 as a whole, still below the more usual 4 in 10 pre-pandemic. By quarter, the proportion that had grown fell from 35% in Q1 2020 to 13% in Q1 2021. Since then though there has been something of an improvement, with 25% in Q4 2021 reporting growth. Those most likely to report growth in 2021 included those with 10-49 employees (26%) and those trading for 2-5 years (25%).
- As fewer SMEs reported having grown, the proportion reporting a decline increased sharply from 21% in 2019 (which was itself higher than the 11-15% seen 2014-2017) to 56% in 2021. There was though a marked reduction during 2021 in the proportion reporting a decline from 64% in Q1 to 44% in Q4 2021.
- Whilst growth remained challenging, the proportion of SMEs meeting the definition of a scale up increased slightly from 20% of SMEs in 2018 and 2019 to 25% in 2021 (albeit the definition includes not only 20%+ growth in each of the previous 3 years but also any 3 consecutive years of 20%+ growth in the last 10).

### Two thirds made a profit and improving profit margins is an increasing priority:

- Pre-pandemic, around 8 in 10 SMEs reported making a profit each year. During 2020, as the impact of the pandemic was felt, this proportion started to decline (70% in Q4 2020) and this decline continued into 2021 with 60% reporting a profit in Q2 2021, before increasing somewhat to 68% in Q4 2021.
- For the year as a whole, 65% reported a profit, increasing by size of SME from 64% with 0 employees to almost 8 in 10 of those with more than 10 employees and by sector from 45% in Hotels & Restaurants to 73% in Agriculture. 58% of SMEs said that improving profit margins was a key priority for them and this has increased steadily over time (in 2019, 39% said this was a priority).

Levels of innovation remained slightly higher than typically seen, there is evidence of slightly more planning and international trade, and an increasing minority have a mentor:

- 41% of SMEs had been innovative, unchanged from 2020 and somewhat higher than the 35% reporting innovation in 2019, with increases seen across all size bands.
- After a dip in 2020 to 52%, due to fewer SMEs having a formal business plan, the proportion that plan was slightly higher at 55% in 2021, as more SMEs produced regular management accounts (46%) although the proportion with a formal written business plan remained lower than usually seen (25%).
- 18% were trading internationally, slightly higher than the 15-16% more typically seen due to a slight increase in the proportion of smaller SMEs and Starts trading overseas.
- Whilst a minority of SMEs had a business mentor, this proportion has increased from 1 in 10 pre pandemic to 1 in 6 in 2021.

Three quarters of SMEs sell to consumers, typically face to face. Those with business customers use a wider range of channels:

- 77% of SMEs in Q4 2021 sold to consumers and 63% to other businesses (40% sell to both). The proportion selling to business customers increased with size of SME as the proportion selling to consumers reduced.
- 77% of all SMEs sold to their customers face to face and this was a popular channel for all sizes of business, but somewhat less so for those who only sold to other businesses (63%), where online was an equally used channel (62% v 51% of all SMEs). Online was also understandably more popular amongst those trading overseas (78% of export only SMEs used this channel).

Most SMEs had some credit balances, and the proportion holding £10,000 or more has increased:

- Just 6% of SMEs had no credit balances at all, while fewer held less than £5,000 (44% from 55% in 2019). The proportion holding £10,000 or more has increased steadily over time from 20-23% pre-pandemic to 28% in 2020 and 33% in 2021, with 8 in 10 of those with 10 or more employees holding such sums in 2021.
- The equivalent of 14% of all SMEs said their need for external finance was lower due to holding £10,000 or more in credit balances

The pandemic does not appear to have reduced levels of trust in the main bank:

- In 2021, 60% of SMEs reported a high level of trust in their main bank compared to 54-55% in previous years. This increase was seen across all but the largest SMEs (who remained most likely to have a high level of trust at 67%).
- Fewer SMEs had a high level of trust in the banking industry as a whole than in their main bank but the 31% who did in 2021 was again slightly higher than in previous years (25-27%).

This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 16,486 interviews conducted in the year ending Q4 2021 (that is the four quarters of 2021). SMEs have faced a range of trading challenges since the SME Finance Monitor started in 2011, as economic performance varied, General Elections and the Brexit referendum were held and the UK left the EU, but perhaps nothing quite as all-encompassing as the Covid-19 pandemic which, since March 2020, has seen a series of lockdowns and other restrictions across the UK and the wider world. Analysis of this data over time provides an indication of how SMEs have managed as conditions have changed.

## PROFITABILITY

In Q4 2021, half of SMEs (53%) reported making a profit in their most recent 12 month trading period, still at the lower levels seen since the impact of the pandemic started to reflect in these figures from Q3 2020. The proportion unable or unwilling to give an answer has varied over time, and from H2 2020 has been somewhat higher than is typically seen (currently around 1 in 5 SMEs). Once these answers had been excluded, almost 7 in 10 SMEs in Q4 2021 reported making a profit (68%) which again was markedly lower than the 8 in 10 typically reported:

<b>Business performance last 12 months</b>									
Over time	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2019	2020	2020	2020	2020	2021	2021	2021	2021
<b>Unweighted base:</b>	<b>4500</b>	<b>4505</b>	<b>4511</b>	<b>4500</b>	<b>4252</b>	<b>4263</b>	<b>4250</b>	<b>3888</b>	<b>4085</b>
Made a profit	74%	73%	69%	62%	56%	56%	47%	52%	53%
Broke even	7%	7%	5%	6%	7%	7%	10%	7%	7%
Made a loss	7%	8%	9%	11%	16%	18%	22%	20%	18%
DK/refused	11%	12%	17%	21%	21%	19%	20%	20%	21%
<b>Median profit made</b>	<b>£9k</b>	<b>£10k</b>	<b>£11k</b>	<b>£11k</b>	<b>£12k</b>	<b>£11k</b>	<b>£11k</b>	<b>£11k</b>	<b>£11k</b>
<b>Made profit (excl DK)</b>	<b>84%</b>	<b>83%</b>	<b>83%</b>	<b>79%</b>	<b>70%</b>	<b>69%</b>	<b>60%</b>	<b>65%</b>	<b>68%</b>

Q115 (241) All SMEs/ \* All SMEs making a profit and revealing the amount

Note that because consistently unprofitable SMEs tend to go out of business, there will be an element of 'survivorship bias' in the profit figures, potentially underestimating the proportion of unprofitable businesses in the population.

For the period YEQ4 2021, 52% of all SMEs had been profitable. This increased to 65% once the DK answers were excluded, markedly lower than the 79% recorded for YEQ4 2020. The proportion making a profit increased by size of SME, as did the amount of profit (or indeed loss) made as the table below shows.

The median profit, where made, was £11k, and the median loss £5k. The profit made has been fairly stable over time (£9k 2019) but the median loss, while lower, has increased slightly (from £2k in 2019):

<b>Business performance last 12 months</b>		0	1-9	10-49	50-249
YEQ4 21 – all SMEs	Total	emp	emps	emps	emps
<b>Unweighted base:</b>	<b>16,486</b>	<b>3313</b>	<b>5466</b>	<b>5260</b>	<b>2447</b>
Made a profit	52%	51%	55%	60%	49%
Broke even	8%	8%	7%	4%	4%
Made a loss	20%	21%	18%	12%	11%
DK/refused	20%	20%	21%	24%	36%
<b>Made profit (excl DK)</b>	<b>65%</b>	<b>64%</b>	<b>69%</b>	<b>79%</b>	<b>77%</b>
<b>Median profit made*</b>	<b>£11k</b>	<b>£9k</b>	<b>£24k</b>	<b>£92k</b>	<b>£313k</b>
<b>Median loss made*</b>	<b>£5k</b>	<b>£4k</b>	<b>£11k</b>	<b>£34k</b>	<b>£122k</b>

Q115 (241) All SMEs/ \* All SMEs making a profit/loss and revealing the amount

Amongst SMEs with employees, 71% reported making a profit YEQ4 2021 (excluding the DK and refused answers). This was lower than the 82% reporting making a profit YEQ4 2020 as the effect of the pandemic impacted on annual figures.

Looking back over recent quarters, overall levels of profitability were somewhat lower in 2021 than in 2020, notably in Q2 2021, as the impact of the pandemic made itself felt on annual results. Larger SMEs have consistently been somewhat more likely to be profitable than smaller ones, and this remained true in 2021, albeit at slightly lower levels than previously seen, as the table below shows:

#### Made a profit in last 12 months

Over time									
Row percentages	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2019	2020	2020	2020	2020	2021	2021	2021	2021
<b>All SMEs</b>	<b>84%</b>	<b>83%</b>	<b>83%</b>	<b>79%</b>	<b>70%</b>	<b>69%</b>	<b>60%</b>	<b>65%</b>	<b>68%</b>
0 employee	84%	83%	83%	77%	69%	68%	57%	63%	66%
1-9 employees	80%	82%	85%	83%	74%	71%	66%	69%	70%
10-49 employees	87%	87%	88%	86%	78%	74%	80%	80%	82%
50-249 employees	83%	86%	88%	86%	79%	73%	75%	80%	80%

Q115 (241) All SMEs excluding DK

There was more variation in profitability between sectors than previously seen. YEQ4 2021, 73% of those in Agriculture and 70% in Construction and Property/Business Services made a profit compared to 45% in the Hotel & Restaurant sector and 56% in Transport which have struggled so much in the pandemic:

#### Business performance last 12 months

YEQ4 21 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop / Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>982</b>	<b>1704</b>	<b>2908</b>	<b>1859</b>	<b>1167</b>	<b>1601</b>	<b>3536</b>	<b>1039</b>	<b>1690</b>
Made a profit	62%	54%	55%	49%	35%	45%	57%	46%	52%
Broke even	9%	9%	9%	8%	10%	7%	7%	12%	7%
Made a loss	14%	16%	15%	19%	33%	29%	17%	21%	21%
DK/refused	15%	22%	21%	24%	21%	19%	20%	21%	19%
<b>Made profit (excl DK)</b>	<b>73%</b>	<b>68%</b>	<b>70%</b>	<b>65%</b>	<b>45%</b>	<b>56%</b>	<b>70%</b>	<b>58%</b>	<b>65%</b>
<b>Median profit made*</b>	<b>£11k</b>	<b>£11k</b>	<b>£11k</b>	<b>£13k</b>	<b>£10k</b>	<b>£10k</b>	<b>£13k</b>	<b>£9k</b>	<b>£7k</b>
<b>Median loss made*</b>	<b>£6k</b>	<b>£7k</b>	<b>£6k</b>	<b>£6k</b>	<b>£7k</b>	<b>£7k</b>	<b>£4k</b>	<b>£2k</b>	<b>£3k</b>

Q115 (241) All SMEs/ \* All SMEs making a profit/loss and revealing the amount

Median profits reported for YEQ4 2021 varied somewhat by sector (£7-13k compared to £6-10k in 2019). Reported median losses for YEQ4 2021 were £5k overall, varying from £2k to £7k.

The table below takes a longer-term view of profitability (shown from 2014 and also excluding DK/refused answers) by key demographics. This shows that in previous years a broadly stable 8 in 10 reported making a profit but in 2021 as the effect of the pandemic on annual results took more effect, the proportion reduced to 65% overall. This decline was seen to some degree for all sizes of SME and across all risk ratings, but the impact of the pandemic was seen more amongst the smaller SMEs with up to 10 employees and those with an average or worse than average risk rating.

The decline in profitability was also seen in some sectors more than others. The proportion of SMEs in the Hotel & Restaurant, Transport and Health sectors were all markedly down on 2020, compared to those in Agriculture, only slightly changed from 2020.

In half of the last 8 years, including in 2020 and 2021, Permanent non-borrowers have been slightly more likely to make a profit than those that did not meet the definition, while in the other years there was little to choose between the two groups. In 2021, the gap between the two groups was one of the widest seen, at 9 percentage points in favour of the PNBs.

<b>Made a profit in last 12 months</b>								
Over time (excl DK)								
By date of interview – row percentages	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs	77%	80%	80%	82%	78%	82%	79%	65%
0 emp	75%	79%	79%	81%	77%	81%	78%	64%
1-9 emps	81%	82%	83%	84%	82%	82%	81%	69%
10-49 emps	86%	87%	88%	88%	87%	87%	85%	79%
50-249 emps	88%	90%	89%	87%	86%	87%	85%	77%
Minimal external risk rating	84%	84%	86%	88%	85%	85%	86%	76%
Low	82%	87%	86%	90%	84%	88%	87%	73%
Average	80%	82%	82%	84%	79%	83%	80%	68%
Worse than average	72%	76%	77%	78%	75%	78%	74%	59%
Agriculture	79%	78%	77%	81%	75%	81%	77%	73%
Manufacturing	80%	81%	81%	83%	81%	81%	81%	68%
Construction	78%	80%	81%	86%	79%	85%	80%	70%
Wholesale/Retail	74%	79%	82%	79%	75%	76%	78%	65%
Hotels & Restaurants	73%	75%	79%	78%	75%	74%	72%	45%
Transport	76%	78%	78%	77%	77%	80%	77%	56%
Property/ Business Services	80%	81%	81%	84%	80%	84%	83%	70%
Health	76%	78%	77%	83%	80%	86%	80%	58%
Other	67%	83%	79%	79%	78%	78%	73%	65%
PNBs	80%	82%	80%	83%	79%	83%	83%	71%
All excl PNBs	74%	78%	80%	82%	77%	81%	76%	62%

Q115 (241) All SMEs excl DK

From Q1 2018, SMEs have been asked whether increasing their profit margin was a key priority for the business. YEQ4 2021, 58% said that it was, up from 52% YEQ4 2020 and 39% of all SMEs in 2019:

Profit margins	Further analysis YEQ4 21
Size of SME	<p>SMEs with 10-49 or 50-249 employees were the most likely to say improving profit margins was a priority, compared to 0 employee SMEs in particular but all size bands had seen an increase since 2019:</p> <ul style="list-style-type: none"> <li>• 55% of SMEs with 0 employees said it was a priority</li> <li>• 65% of SMEs with 1-9 employees</li> <li>• 69% of SMEs with 10-49 employees</li> <li>• 80% of SMEs with 50-249 employees said it was a priority.</li> </ul> <p>66% of SMEs with employees said that improving profit margins was a key priority, up from 62% in 2020 and 48% in 2019.</p>
Risk rating	<p>There was relatively little difference by risk rating in the proportion saying it was a priority (56-58%) with the slight exception of those with a worse than average risk rating (61%).</p>
Age of business	<p>Two thirds of Starts (67%, up from 35% in 2019) said this was a priority, as did 63% of those trading for 2-5 years (up from 47% in 2019). The proportion then declined by age to 52% of those trading for more than 15 years (albeit still an increase on the 35% saying it was a priority in 2019).</p>
Sector	<p>Those in Hotels &amp; Restaurants were more likely to say it was a priority (67%), along with those in Wholesale/Retail (64%), while those in Health, Transport or the Other Community sector were the least likely (55%).</p>
PNBs, use of finance and growth	<p>Excluding the Permanent non-borrowers increased the proportion saying it was a priority to 61% (compared to 53% of PNBs).</p> <p>Those using finance (63% up from 58% in 2020), and notably those planning to grow in the next 12 months (69% up from 62% in 2020), said it was a priority, compared to 54% of those not using finance (up from 48% in 2020) and 48% not planning to grow (little changed from 46% in 2020).</p>
Profitability	<p>Those who had made a profit in the last year were slightly less likely to say that improving profit margins was a priority (55% up from 50% in 2020) than those who had made a loss (60% up from 55% in 2020). It remained a slightly lower priority for those who had broken even (49% from 45% in 2020):</p> <ul style="list-style-type: none"> <li>• Analysis by size of SME showed improving profit margins remained more of a priority amongst 0 employee SMEs if they had made a loss (59%) rather than a profit (52%) but was not the case for SMEs with employees.</li> <li>• In all size bands, those who had broken even were less likely to say it was a priority.</li> </ul>

The proportion of all SMEs saying improving their profit margin was a priority has increased over time, from 30% in 2018 to 58% in 2021. All sizes of SMEs are now more likely to see this as a priority than they were in 2018, but there was no increase between 2020 and 2021 for those with 10-49% employees (69% in both years):

<b>Improving profit margins a priority</b>				
Over time				
Row percentages				
By date of interview	2018	2019	2020	2021
All SMEs	30%	39%	52%	58%
0 employee	28%	36%	49%	55%
1-9 employees	34%	47%	60%	65%
10-49 employees	40%	53%	69%	69%
50-249 employees	51%	42%	66%	80%

Q84 (223) All SMEs

## SALES GROWTH

From Q4 2012, all SMEs that had been trading for 3 years or more were asked about their growth in the previous 12 months. From Q1 2018, the information collected on both past and future growth was extended to identify those growing or planning to grow by 40% or more (previously the highest growth rate recorded was 20% or more).

Those that had grown by 20% or more have continued to be asked whether they had also achieved this level of growth in each of the previous 2 years (part of the definition for scaleup growth and reported on later in this chapter).

Typically, around 4 in 10 SMEs (excluding Starts) would report that they had grown at all in the previous 12 months. In 2020 the proportion reporting growth initially held up (35% in Q1 and 33% in Q2) but declined more markedly from Q3 2020 (24%) as the impact of the pandemic was felt, to 13% in Q2 2021, the lowest levels seen on the SME Finance Monitor. By Q4 2021 however, the proportion had reached 25%, with the proportion reporting growth of more than 20% the same as in Q4 2019 before the pandemic (11%):

### Growth achieved in last 12 months

All SMEs excluding Starts By date of interview	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
<b>Unweighted base:</b>	<b>3935</b>	<b>3945</b>	<b>3935</b>	<b>3984</b>	<b>3921</b>	<b>3980</b>	<b>3910</b>	<b>3636</b>	<b>3773</b>
Grown by more than 40%	2%	2%	2%	2%	1%	2%	2%	1%	3%
Grown by 20-40%	9%	9%	7%	7%	5%	3%	4%	5%	8%
Grown but by < 20%	25%	24%	24%	16%	10%	8%	9%	12%	14%
<b>Grown</b>	<b>36%</b>	<b>35%</b>	<b>33%</b>	<b>24%</b>	<b>16%</b>	<b>13%</b>	<b>15%</b>	<b>18%</b>	<b>25%</b>
Stayed the same	46%	45%	44%	29%	23%	23%	25%	28%	31%
Declined	18%	21%	22%	46%	61%	64%	60%	54%	44%

Q81 (245a) All SMEs trading for 3 years or more excl DK

The proportion of SMEs (excluding Starts) reporting that they had declined in the previous 12 months had previously increased from around 1 in 10 in 2017 to around 1 in 5 in 2019, back to levels seen in 2013. During the second half of 2020, the proportion increased more markedly, to 61% in Q4 2020 and remained at this level for the first half of 2021. Since then, as the proportion reporting growth started to increase, the proportion reporting a decline has itself declined, to 44% in Q4 2021 albeit this remains above levels previously seen.

Using the new extended question, 18% of all SMEs (excluding Starts) had grown YEQ4 2021:

<b>Growth achieved in last 12 months</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>YEQ4 21 – all SMEs (excluding Starts)</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>15,299</b>	<b>2857</b>	<b>4980</b>	<b>5068</b>	<b>2394</b>
Grown by more than 40%	2%	2%	2%	2%	1%
Grown by 20-40%	5%	5%	7%	7%	5%
Grown by less than 20%	11%	10%	12%	17%	15%
<b>Grown (any)</b>	<b>18%</b>	<b>17%</b>	<b>21%</b>	<b>26%</b>	<b>21%</b>
Stayed the same size	27%	26%	27%	31%	38%
Declined	56%	57%	52%	44%	41%

Q81 (245a) All SMEs trading for 3 years or more excl DK

Small proportions of SMEs of all sizes achieved growth of either 40% or more (1-2%) or of 20-40% (5-7%).

There was more variation by size in the proportion of those growing by up to 20% (10-17%) but this was less than previously seen and hence there was less variation amongst SMEs for growth overall. For 2021 this ranged from 17% of those with 0 employees to 26% of those with 10-49 employees. Comparisons to previous years are provided later in this section.

As reported above, 0 employee SMEs remained less likely to have grown, as did older SMEs and those with a poorer risk rating:

<b>Business Growth</b>	<b>Further analysis (excluding Starts) YEQ4 21</b>
Risk rating	<p>There was little to choose between risk ratings for the proportion growing by more than 40% (1-2%) or by 20-40% (4-6%). Overall, the proportion growing by 20% or more also varied very little (6-8%).</p> <p>There was also little variation in overall growth by risk rating (18-19%) with the slightly exception of those with an average risk rating (16%).</p>
Age of business	<p>Those trading for 2-5 years were slightly more likely to have grown by either 40% or more (4% v 1-2% for other age bands) or by 20-40% (7% v 5%) and were therefore the most likely to have grown by 20% or more (11% v 6-7% of older SMEs).</p> <p>Overall growth was also higher for younger SMEs: 25% of those trading for 2-5 years had grown, compared to 18% of those trading for 6-9 years or 10-15 years and 16% of those trading for more than 15 years.</p>
Sector	<p>The proportion growing by 40% or more varied little by sector (1-2%), while the proportion reporting growth of 20-40% was 4-7% in all sectors except Hotels &amp; Restaurants (3%).</p> <p>The most likely to have grown at all were those in Agriculture (23%), Manufacturing and Property/Business Services (both 21%) compared to 8% in the Hotel &amp; Restaurant sector and 14-20% in other sectors.</p>
Appetite for finance	<p>Would-be seekers, who had wanted to apply but something had stopped them, were less likely to report having grown (11%) than those who reported a borrowing event in the 12 months prior to interview (19%), or those that had been a Happy non-seeker of finance (18%).</p> <p>Permanent non-borrowers (with no immediate appetite for finance) were as likely to have grown by 20% or more as those who did not meet the definition (both 7%) and also to have grown at all (both 18%).</p>

The table below takes a longer term view of growth by key demographics and shows that pre-pandemic a broadly consistent 4 in 10 SMEs (excluding Starts) reported having grown in each period to 2019 (37%), with a more marked decline in 2020 (27%) and again in 2021 (18%). The decline 2019 to 2021 was seen to some extent across all demographics, notably those with 50-249 employees (66% to 25%), Hotels & Restaurants (40% to 8%), and those trading 2-5 years (53% to 25%).

<b>Growth achieved in last 12 months</b>								
All SMEs over time (excluding Starts)								
By date of interview – row percentages								
	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs (excl Starts)	42%	39%	40%	42%	39%	37%	27%	18%
0 emp	39%	36%	37%	39%	35%	33%	25%	17%
1-9 emps	48%	45%	48%	47%	46%	43%	32%	21%
10-49 emps	55%	56%	55%	56%	55%	54%	38%	26%
50-249 emps	61%	57%	55%	59%	65%	66%	37%	21%
Minimal external risk rating	44%	38%	45%	46%	40%	39%	31%	18%
Low	40%	39%	43%	43%	41%	39%	31%	19%
Average	38%	37%	37%	40%	36%	34%	25%	16%
Worse than average	45%	41%	41%	42%	41%	40%	27%	18%
Agriculture	40%	31%	36%	40%	33%	37%	26%	23%
Manufacturing	46%	45%	45%	41%	41%	35%	33%	21%
Construction	37%	35%	36%	41%	34%	34%	23%	16%
Wholesale/Retail	46%	43%	47%	45%	45%	41%	33%	20%
Hotels & Restaurants	43%	45%	44%	45%	42%	40%	21%	8%
Transport	38%	35%	39%	36%	38%	35%	21%	14%
Property/ Business Services	42%	41%	41%	43%	40%	37%	30%	21%
Health	45%	38%	34%	43%	43%	47%	33%	19%
Other	45%	41%	42%	42%	41%	36%	28%	16%
PNBs	40%	37%	39%	40%	37%	34%	27%	18%
All excl PNBs	43%	41%	41%	44%	42%	40%	27%	18%
2-5 years trading	55%	52%	47%	53%	58%	53%	40%	25%
6-9 years	42%	43%	48%	51%	45%	42%	31%	18%
10-15 years	41%	36%	39%	41%	35%	39%	27%	18%
15 years+	33%	34%	34%	34%	31%	29%	22%	16%

Q81 (245a) All SMEs trading for 3 years or more excl DK

Analysis by age of business has been added to this table. SMEs trading for 2-5 years remained the most likely to have grown (25%) but like all SMEs, this was a markedly lower level than previously seen (52% in 2019). Amongst those trading for 6 years or more typically 1 in 6 had grown compared to 1 in 3 or more in 2019.

In 2021, over half of SMEs (56%) reported a decline in turnover in the previous year, up from 37% in 2020 which had itself been a significant increase on the previous year (19% reported such a decline in 2019). This is the highest level seen to date on the SME Finance Monitor with the increase seen across all size bands, including the largest SMEs who had traditionally been much less likely to report a decline:

<b>Reported a decline</b>									
All SMEs excluding Starts over time									
By date of interview	2013	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs (excl Starts)	19%	14%	12%	10%	11%	17%	19%	37%	56%
0 employees	20%	15%	13%	11%	12%	19%	21%	39%	57%
1-9 employees	17%	12%	9%	9%	9%	12%	15%	34%	52%
10-49 employees	14%	8%	7%	6%	7%	8%	10%	28%	44%
50-249 employees	12%	6%	6%	9%	11%	13%	8%	28%	41%

Q81 (245a) All SMEs trading for 3 years or more excl DK

Analysis by sector for 2021 showed three-quarters of SMEs in the Hotel & Restaurant sector had declined (77% from 52% in 2020) compared to just over a third in Agriculture (38% from 28% in 2020) and 49-64% elsewhere.

## SCALEUP GROWTH

In 2021, 7% of SMEs (excluding Starts) reported that they had grown by 20% or more in the previous 12 months, with limited variation by size (6-9%). This proportion was just slightly lower than the 9% of SMEs typically reporting such levels of growth previously.

Amongst those who reported for YEQ4 2021 that they had grown by 20% or more, 4 in 10 (42%) went on to report that they had also achieved this level of growth for each of the two previous years (this was slightly lower than the 49% reported in 2020 and the 52% reported in 2019).

- This is the equivalent of 3% of SMEs (excluding Starts) reporting having grown by 20% or more for the last 3 years, with little variation by size of SME (2-4%).

From Q1 2018, an additional question has been asked of the remaining SMEs (excluding Starts) that had not achieved scale up growth in the last 3 years. This asked whether they had achieved scale up growth (3 consecutive years growth at 20% or more) at any time in the last 10 years.

- 25% of these SMEs said that they had, ranging by size from 20% of such SMEs with 50-249 employees to 29% of those with 1-9 employees and 31% for those with 10-49 employees.

This means that overall, 25% of SMEs (excluding Starts) had achieved a period of scale up growth, either recently or in the last 10 years, in line with the 23% in 2020 and up slightly from 20% in 2019. Note though that most of these scaleups qualify due to their performance in the last 10 years (ie reflecting their performance pre-pandemic).

The table below shows the proportion of scaleups, using the new definition, by key demographics from 2018:

- 0 employee SMEs were slightly more likely to have been a scaleup in 2021 (24%) than in 2019 (19%). Those with 1-9 or 10-49 employees were the most likely to have achieved this level of growth in 2021 (28% and 29%) slightly higher than in 2018 after somewhat lower percentages in 2019. The largest SMEs with 50-249 employees were somewhat less likely to meet the definition in 2021 than their peers (18%) but this too was an improvement on 2019.
- There remained little to choose by risk rating (24-26%).
- In previous years there has been no difference by whether the business met the definition of a Permanent non-borrower or not, but in both 2020 and 2021 PNBs were somewhat less likely than their peers to have scaled (22% v 27%).
- With the exception of Transport (28%) there was also little difference by sector (21-25%).
- SMES trading for 6 to 9 or 10 to 15 years remained the most likely to have scaled (30% and 29%). The oldest SMEs were less likely to have scaled than their peers (23%), but this was a slightly higher proportion than such SMEs in 2018-19 (17%)

<b>Achieved scale up growth in last 10 years</b>				
All SMEs over time (excluding Starts)				
By date of interview – row percentages	2018	2019	2020	2021
All SMEs (excl Starts)	20%	20%	23%	25%
0 emp	18%	19%	21%	24%
1-9 emps	25%	23%	27%	28%
10-49 emps	25%	19%	26%	29%
50-249 emps	17%	12%	19%	18%
Minimal external risk rating	18%	16%	23%	24%
Low	20%	20%	23%	24%
Average	19%	20%	20%	25%
Worse than average	20%	21%	24%	26%
Agriculture	15%	16%	16%	21%
Manufacturing	23%	21%	21%	23%
Construction	19%	18%	22%	24%
Wholesale/Retail	21%	20%	24%	25%
Hotels & Restaurants	22%	15%	24%	24%
Transport	20%	21%	24%	28%
Property/ Business Services	21%	23%	23%	25%
Health	13%	12%	20%	24%
Other	18%	19%	24%	25%
PNBs	19%	19%	19%	22%
All excl PNBs	21%	20%	25%	27%
Trading 2-5 years	25%	22%	24%	22%
Trading 6-9 years	19%	20%	29%	30%
Trading 10-15 years	22%	24%	25%	29%
Trading 15 years+	17%	17%	19%	23%

Q81/83x All SMEs excl Starts

Analysis of these Scaleups showed that they remained more likely than their peers to be innovative (53%), international (25%), and ambitious (50% planned to grow). They were also slightly more likely to be using external finance (48%) and to have an appetite for finance looking forward (14%), so were less likely to meet the definition of a Permanent non-borrower (35%):

### Profile of Scaleups

YEQ4 21 – all SMEs excluding Starts	Total	Scaleup	Not scaleup
<b>Unweighted base:</b>	<b>15,604</b>	<b>3,976</b>	<b>11,628</b>
Have employees	26%	30%	25%
Use external finance	45%	48%	44%
Permanent non-borrower	39%	35%	41%
Innovative	40%	53%	36%
International	18%	25%	16%
Plan to grow	40%	50%	37%
Plan growth activity*	52%	62%	48%
Plan to apply for finance	10%	14%	8%
Future would-be seeker	18%	18%	17%
Future happy non-seeker	73%	68%	74%

Q83x All SMEs trading for 3 years or more \*question amended and reported from Q2 2021

## PAST AND FUTURE GROWTH COMPARISONS

The Monitor records both *past* growth achieved and *future* growth expectations. This allows a comparison to be made between growth expectations recorded at a point in time and growth subsequently achieved, albeit that these are based on **different** samples of SMEs.

The table below shows the proportion of SMEs 3+ years old that predicted they would grow in the first time period, and compares it to the proportion of SMEs 3+ years old that reported having achieved growth in the second period. Historically, the predicted and actual growth figures have been close, but unsurprisingly this has not been the case more recently, with actual growth in 2020 and 2021 far below that predicted in 2019 and the start of 2020.

In Q2 2020, 23% of SMEs predicted that they would grow in the coming year, much lower than previously seen, and as a result, the actual growth reported in Q3 2021 was closer to this prediction (18%) and very close for larger SMEs (28% v 31% predicted). Since then growth predictions have started to increase again (to 37% in Q4 2020 for the year ahead) at a faster rate than increases in actual growth have subsequently been achieved:

### Growth predictions against expectations

All SMEs excluding Starts By date of interview	All SMEs	All SMEs	0-9 emps	0-9 emps	10-249 emps	10-249 emps
	Predicted growth	Achieved growth	Predicted growth	Achieved growth	Predicted growth	Achieved growth
Predicted Q4 17/Achieved Q1 19	40%	33%	39%	31%	67%	56%
Predicted Q1 18/Achieved Q2 19	41%	40%	40%	39%	63%	53%
Predicted Q2 18/Achieved Q3 19	43%	39%	41%	38%	69%	58%
Predicted Q3 18/Achieved Q4 19	44%	37%	43%	35%	64%	57%
Predicted Q4 18/Achieved Q1 20	44%	34%	42%	33%	67%	50%
Predicted Q1 19/Achieved Q2 20	39%	34%	37%	33%	65%	48%
Predicted Q2 19/Achieved Q3 20	48%	25%	47%	25%	62%	31%
Predicted Q3 19/Achieved Q4 20	46%	16%	45%	16%	71%	22%
Predicted Q4 19/Achieved Q1 21	45%	13%	43%	12%	70%	18%
Predicted Q1 20/Achieved Q2 21	41%	15%	40%	15%	62%	21%
Predicted Q2 20/Achieved Q3 21	23%	18%	22%	17%	31%	28%
Predicted Q3 20/Achieved Q4 21	34%	26%	34%	25%	44%	34%
Predicted Q4 20/Achieved Q1 22	37%		36%		46%	

Q81 and 91 (225a and Q245a) All SMEs trading for 3 years or more excl DK

## AN ALTERNATIVE ASSESSMENT OF GROWTH AND DEVELOPMENT

From Q1 2018, SMEs (excluding Starts) have been asked to give an overall assessment of how their business has changed in the last 3 years. This question was one of the ones rested from Q2 2020 to make space for additional Pandemic questions, so the results for Q1 2020 are repeated below as a placeholder for this question in future waves.

In Q1 2020:

- 24% said that ‘it had developed quite a bit from where it was and/or is doing new things’ (v 25% in 2019).
- 65% said that ‘it was recognisably the same business in terms of size and structure’ (v 65% in 2019).
- 11% said that ‘it had retrenched and is now more focussed on a few core aspects of the business’ (v 11% in 2019).

To provide continuity for future reports, data over time is shown below, with little change since this question was first asked in 2018:

<b>Development in last 3 years (excl Starts) over time</b>			
<b>By date of interview</b>	<b>2018</b>	<b>2019</b>	<b>Q1 2020</b>
<b><i>Unweighted base:</i></b>	<b>16,187</b>	<b>16,172</b>	<b>4043</b>
Developed quite a bit	26%	25%	24%
Recognisably the same	63%	64%	65%
Retrenched	10%	11%	11%

Q88 All SMEs trading for 3 years or more

## FINANCIAL RISK PROFILE

The main assessment of financial risk is the external risk rating supplied for the sample by ratings agencies Dun & Bradstreet and Experian. They use a range of business information to predict the likelihood of business failure and their ratings have been combined to a common 4 point scale from a minimal to a worse than average risk of failure. Although not all SMEs receive this external risk rating, most do (86%) and it is commonly used and understood by lenders. It has thus been used in this report for all risk related analysis.

The overall risk profile over recent quarters is shown below. Typically 7% of SMEs had a minimal risk rating and just under half had a worse than average risk rating. In Q3 and Q4 2021, a slightly lower proportion had a worse than average risk rating (40-41%), which may be another reflection of the “survivorship bias” mentioned earlier in this chapter:

### External risk rating

All SMEs (where provided) over time

By date of interview	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
<b>Unweighted base:</b>	<b>4104</b>	<b>4092</b>	<b>4104</b>	<b>4200</b>	<b>3956</b>	<b>3963</b>	<b>3965</b>	<b>3419</b>	<b>3570</b>
Minimal risk	7%	7%	8%	6%	5%	7%	7%	7%	6%
Low risk	16%	15%	19%	11%	14%	15%	13%	15%	15%
Average risk	32%	32%	34%	27%	35%	42%	32%	37%	38%
Worse than average risk	45%	46%	39%	56%	46%	36%	48%	40%	41%

All SMEs where risk rating provided

Looking over the longer term, the proportion of SMEs with a worse than average risk rating dropped to just below 50% for 2014 and has remained there since, with the 42% in 2021 the lowest recorded in recent years. The proportion with a minimal or low external risk rating increased from 16% in 2012 to 25% in 2015 and has been broadly stable since albeit slightly lower in both 2020 and 2021 at 21%:

<b>External risk rating</b>								
<b>(Where provided)</b>								
<b>over time</b>								
<b>By date of interview</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Unweighted base:</b>	<b>18,330</b>	<b>18,301</b>	<b>16,451</b>	<b>16,608</b>	<b>16,598</b>	<b>16,297</b>	<b>16,352</b>	<b>14,917</b>
Minimal risk	7%	8%	7%	6%	7%	7%	6%	7%
Low risk	15%	17%	15%	15%	16%	16%	15%	14%
Average risk	32%	29%	29%	33%	30%	33%	32%	37%
Worse than average risk	45%	46%	49%	45%	47%	44%	47%	42%

All SMEs where risk rating provided

The overall YEQ4 2021 ratings are shown below by size of SME and continue to report a better risk profile for larger SMEs. 67% of SMEs with 50-249 employees had a minimal or low risk rating compared to 15% of those with 0 employees:

<b>External risk rating</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>YEQ4 21 – all SMEs where rating provided</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>14,917</b>	<b>2828</b>	<b>4766</b>	<b>5024</b>	<b>2299</b>
Minimal risk	7%	4%	14%	29%	26%
Low risk	14%	11%	23%	40%	41%
Average risk	37%	39%	32%	27%	28%
Worse than average risk	42%	47%	32%	4%	5%

All SMEs where risk rating provided

Amongst SMEs with employees, 43% had a minimal or low external risk rating, 31% an average risk rating and 26% a worse than average risk rating.

There was notable variation in risk profile by sector. SMEs in Agriculture remained more likely than all other sectors to have a minimal or low risk rating (53% YEQ4 2021 including 33% with a minimal risk rating). Those in Health (37%) were also more likely to have a minimal/low rating, followed by those in Wholesale/Retail (25%) and Manufacturing (24%) then 17-19% for the other sectors:

#### External risk rating

YEQ4 21	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>868</b>	<b>1514</b>	<b>2648</b>	<b>1666</b>	<b>1079</b>	<b>1430</b>	<b>3204</b>	<b>970</b>	<b>1538</b>
Minimal risk	33%	8%	4%	8%	4%	5%	6%	10%	6%
Low risk	20%	16%	13%	17%	14%	12%	13%	27%	11%
Average risk	23%	40%	39%	35%	47%	40%	37%	29%	37%
Worse than average risk	24%	36%	45%	40%	35%	43%	43%	34%	46%
<b>Total Min/Low</b>	<b>53%</b>	<b>24%</b>	<b>17%</b>	<b>25%</b>	<b>18%</b>	<b>17%</b>	<b>19%</b>	<b>37%</b>	<b>17%</b>

All SMEs where risk rating provided

The table below shows the proportion with a worse than average risk rating over time, by key demographics. Between 2013 and 2019 the proportion of SMEs with a worse than average risk rating fell from 54% to 44% and was 42% in 2021:

- The overall risk profile is driven by the ratings for 0 employee SMEs. Amongst this group the proportion with a worse than average risk rating has typically varied between 50% and 60% over time, and in 2021 was slightly lower than previously seen (47%).
- The proportion of 1-9 employee SMEs with this rating has been stable since 2014 at around a third.
- Amongst those with 10-49 and 50-249 employees there was a more consistent decline in the proportion with a worse than average risk rating between 2012 and 2016 from around 1 in 7 to around 1 in 14. There has been little change since then and they remained the least likely to have this rating (4% and 5% in 2021).
- With only a few exceptions, PNBs have typically been as likely as other SMEs to have a worse than average risk rating. In 2021 there was slightly more of a gap between the groups (39% v 43% if not a PNB).
- Most sectors had a lower proportion of worse than average risk ratings in 2021, with the exception of Health (34% from 29% in 2020). There was no change in the proportion with this rating in Agriculture (24%) and this sector remained the least likely to have such a rating.

<b>Worse than average external risk rating</b>								
All SMEs over time								
By date of interview								
- row percentages	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs	45%	46%	49%	45%	47%	44%	47%	42%
0 emp	50%	52%	56%	50%	53%	50%	53%	47%
1-9 emps	37%	34%	35%	37%	36%	33%	33%	32%
10-49 emps	11%	9%	7%	7%	6%	5%	5%	4%
50-249 emps	9%	6%	5%	4%	5%	5%	3%	5%
Agriculture	22%	29%	28%	30%	32%	26%	25%	24%
Manufacturing	40%	39%	38%	39%	42%	40%	40%	36%
Construction	54%	54%	57%	54%	51%	48%	55%	45%
Wholesale/Retail	43%	39%	44%	43%	40%	41%	47%	40%
Hotels & Restaurants	49%	46%	43%	46%	47%	43%	41%	35%
Transport	56%	59%	62%	56%	49%	54%	52%	43%
Property/ Business Services	45%	47%	49%	42%	52%	45%	47%	43%
Health	34%	34%	33%	32%	36%	30%	29%	34%
Other	41%	47%	50%	43%	49%	43%	51%	46%
PNBs	45%	51%	51%	46%	46%	42%	46%	39%
All excl PNBs	46%	42%	47%	45%	48%	45%	47%	43%
Using external finance	43%	39%	44%	43%	46%	45%	43%	41%
Not using finance	46%	50%	52%	47%	48%	43%	49%	42%

All SMEs where risk rating provided

## CREDIT BALANCES

Almost all SMEs held some credit balances. YEQ4 2021, 6% did not hold any, and this proportion has changed relatively little over time. The table below shows the credit balances held, noting that from Q2 2020 the wording was changed slightly from balances “usually” held to balances “currently” held. There continued to be clear differences by size of SME, with 7 in 10 of the smallest SMEs holding less than £10,000 of credit balances, while over 8 in 10 of those with 50-249 employees held more than £50,000:

Credit balances held YEQ4 21 – all SMEs	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>7283</b>	<b>1673</b>	<b>2638</b>	<b>2140</b>	<b>832</b>
None	6%	6%	4%	4%	*
Less than £5,000	44%	50%	26%	9%	4%
£5,000 to £10,000	17%	18%	15%	4%	2%
£10,000 to £50,000	23%	21%	31%	20%	8%
More than £50,000	11%	5%	24%	63%	85%

Q117 (244) All SMEs excluding DK/refused

Between 2012 and 2015 the average credit balance held increased from £25,000 to £39,000. Apart from a slight ‘dip’ in 2016, it remained stable to 2020 when the mean amount held increased slightly to £42,000, followed by a further increase to £45,000 in 2021:

Credit balances held Over time – all SMEs	2014	2015	2016	2017	2018	2019	2020	2021
<b>Unweighted base:</b>	<b>13,039</b>	<b>13,182</b>	<b>10,730</b>	<b>10,950</b>	<b>9494</b>	<b>9641</b>	<b>8265</b>	<b>7283</b>
None	5%	3%	3%	4%	4%	4%	6%	6%
Less than £5,000	58%	55%	57%	51%	55%	55%	49%	44%
£5,000 to £10,000	17%	18%	18%	19%	18%	17%	17%	17%
£10,000 to £50,000	14%	17%	15%	17%	15%	16%	20%	23%
More than £50,000	6%	7%	6%	8%	7%	8%	9%	11%
<b>Average balance held</b>	<b>£31k</b>	<b>£39k</b>	<b>£30k</b>	<b>£37k</b>	<b>£38k</b>	<b>£38k</b>	<b>£42k</b>	<b>£45k</b>

Q117 (244) All SMEs excluding DK/refused

The median value of credit balances held increased very slightly to £3,000 for YEQ4 2021, with variations seen as usual by size of SME:

- £2,000 for 0 employee SMEs
- £11,000 for 1-9 employee SMEs
- £63,000 for 10-49 employee SMEs
- £254,000 for 50-249 employee SMEs

The median value of credit balances continued to vary little by sector (£2-5k).

Pre-pandemic, changes in credit balances were reported on an annual rather than a quarterly basis, but more granular reporting reflects how the position of SMEs has changed during the last 2 years:

- Over the course of 2020, the proportion of SMEs holding £10,000 or more in credit balances increased from 23% in Q1 to 33% in Q4, the highest level recorded to date on the Monitor. It then remained at this higher level, ending the year with 35% of SMEs holding £10,000 or more.
- All sizes of SME saw an increase in 2020 that was then maintained in 2021: 0 employee SMEs from 16% in Q1 2020 to 29% in Q4 2021, those with 1-9 employees from 42% to 52%, those with 10-49 employees from 67% to 78% and those with 50-249 employees from 89% to 95%.

The table below shows the proportion of SMEs holding more than £10,000 in credit balances, by key demographics and how this has changed over time.

- The proportion of all SMEs with £10,000+ of credit balances increased from 16% in 2012 to 24% in 2015 and remained broadly stable to 2019. Since then the proportion has increased again, to 33% in 2021.
- This increase in 2021 was seen across all size bands and the larger SMEs remained the most likely to hold such sums.
- Those with a minimal risk rating were more likely to hold such sums (63%), unchanged from 2020, while those with an average or worse than average risk saw a slight increase in 2021 to 32% and 24% respectively.
- Those in the Health sector remained the least likely sector to hold such sums (21%), with little change since 2019. Most other sectors saw an increase 2020 to 2021, with those in Wholesale/Retail the most likely to hold such sums (43%).
- The proportion of Permanent non-Borrowers holding such sums increased to 35%, with a smaller increase amongst those that did not meet the definition to 32%.
- 36% of SMEs using external finance also held £10,000 or more in credit balances, up from 21% in 2019. 31% of SMEs that were not using external finance held £10,000 or more in credit balances in 2021, up from 25% in 2020. These were both the highest proportions seen for these groups on the Monitor to date.

<b>Hold £10,000 or more as credit balances</b>								
All SMEs over time (excl DK)								
By date of interview								
– row percentages	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs	20%	24%	22%	25%	23%	23%	28%	33%
0 emp	14%	17%	14%	18%	15%	16%	21%	25%
1-9 emps	38%	41%	41%	44%	42%	44%	50%	55%
10-49 emps	68%	70%	72%	73%	75%	76%	79%	83%
50-249 emps	82%	81%	82%	90%	91%	94%	90%	94%
Minimal external risk rating	44%	43%	42%	48%	49%	51%	62%	63%
Low	34%	44%	46%	45%	41%	43%	52%	54%
Average	22%	25%	23%	25%	24%	22%	28%	32%
Worse than average	14%	16%	15%	17%	14%	15%	20%	24%
Agriculture	25%	26%	26%	26%	22%	25%	30%	36%
Manufacturing	24%	32%	25%	29%	28%	28%	29%	34%
Construction	16%	19%	17%	21%	18%	18%	23%	31%
Wholesale/Retail	23%	28%	34%	36%	33%	27%	35%	43%
Hotels & Restaurants	24%	27%	27%	30%	33%	30%	33%	39%
Transport	17%	22%	17%	19%	24%	23%	26%	32%
Property/ Business Services	25%	27%	25%	29%	26%	28%	34%	38%
Health	13%	16%	13%	15%	15%	20%	19%	21%
Other Community	18%	21%	18%	25%	15%	17%	25%	25%
PNBs	19%	23%	19%	23%	23%	28%	28%	35%
All excl PNBs	21%	25%	24%	27%	22%	21%	29%	32%
Using external finance	23%	27%	27%	31%	23%	21%	33%	36%
Not using finance	19%	22%	19%	22%	22%	26%	25%	31%

Q117 (244) All SMEs excluding DK/refused

## IMPACT OF £10,000 OF CREDIT BALANCES

From Q3 2015, all SMEs holding £10,000 or more of credit balances have been asked whether holding such balances meant that the business had less of a need for external finance. For YEQ4 2021, nearly 9 in 10 SMEs with such credit balances (86% excl DK) agreed that it did, with little variation by size of SME (82-87%).

This was the equivalent of 14% of all SMEs saying their need for external finance was lower due to the £10,000 or more of credit balances they held, increasing by size of SME:

<b>Impact of £10k+ of credit balances</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>YEQ4 2021 – all SMEs</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>16,486</b>	<b>3313</b>	<b>5466</b>	<b>5260</b>	<b>2447</b>
£10k+ reduces need for external finance	14%	11%	22%	27%	27%
£10k+ does not reduce need for finance	2%	2%	4%	6%	5%
Hold less than £10k of credit balances	31%	35%	19%	5%	2%
No credit balances/DK/Refused	53%	53%	55%	61%	66%

Q118x (244x) All SMEs

Those currently using external finance were slightly more likely to say that it reduced their need for further finance (16%) than those not currently using finance (12%).

Both those SMEs with £10,000 or more of credit balances and those using trade credit were asked (separately) whether this reduced their need for external finance:

- Where available, having £10,000 or more in credit balances was more likely to reduce the SME's need for finance (86% YEQ4 2021) than having access to trade credit (63% – of a different group of SMEs).
- Overall, 34% of SMEs YEQ4 2021 said that their need for finance was reduced either through credit balances or trade credit, increasing by size of SME (29% for 0 employee SMEs, 49% for those with 1-9 employees, 61% for those with 10-49 employees and 54% for those with 50-249 employees).
- The proportion of SMEs reporting a reduction in need for finance has been around 3 in 10 since 2016 and was in line with 2020 (32%).

The table below shows the actual use of external finance amongst those SMEs that held £10,000 or more in credit balances, over time. Between 2012 and 2015, SMEs with £10,000 or more of credit balances became less likely to be using any external finance *at all* (51% to 44%) but the proportion has increased again somewhat since, to 52% for 2021:

<b>Use of finance over time</b>								
Over time								
All with £10k+ in credit balances	2014	2015	2016	2017	2018	2019	2020	2021
<b>Unweighted base:</b>	<b>5926</b>	<b>6376</b>	<b>5228</b>	<b>5804</b>	<b>5046</b>	<b>5243</b>	<b>4653</b>	<b>4500</b>
Use any external finance	44%	44%	46%	49%	44%	49%	49%	52%
• Use core finance	32%	35%	36%	38%	37%	41%	38%	41%
Do not use finance	56%	56%	54%	51%	56%	51%	51%	48%

In 2021, 48% of SMEs with £10,000 or more of credit balances did not use any external finance, slightly lower than previously seen.

## CREDIT BALANCES AS A PROPORTION OF TURNOVER

Further analysis provides data on the amount of credit balances held as a percentage of the annual turnover of the SME, using the mid-points of the bands in which this information was collected. This metric provides a guide for how much ‘cover’ an SME might have, if there were to be an issue with sales or getting paid.

As the table below shows, on average SMEs held credit balances that were the equivalent of 37% of their turnover (ie just over 4 months ‘cover’), somewhat higher than previously seen. The proportion holding the equivalent of 10% or less of turnover increased from 41% in 2016 to 53% in 2019, but by 2021 was down to 34% of SMEs:

<b>% credit balances to turnover</b>						
<b>Over time – all SMEs</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b><i>Unweighted base:</i></b>	<b>9725</b>	<b>9795</b>	<b>8161</b>	<b>7706</b>	<b>6654</b>	<b>6124</b>
<5%	20%	25%	23%	22%	21%	18%
5-10%	21%	21%	26%	31%	20%	16%
11-20%	42%	37%	34%	31%	37%	37%
21-50%	8%	8%	8%	7%	11%	13%
More than 50%	9%	9%	9%	9%	10%	16%
<b><i>Average percentage held</i></b>	<b>23%</b>	<b>23%</b>	<b>24%</b>	<b>24%</b>	<b>26%</b>	<b>37%</b>

Q117 (244) / Q9 All SMEs excluding DK/refused

The increase overall in the average proportion of credit balances held is reflected more amongst smaller SMEs with fewer than 10 employees:

- 0 employee SMEs held the equivalent of 38% of their turnover in credit balances
- 1-9 employee SMEs held the equivalent of 34%
- 10-49 employee SMEs held the equivalent of 25%
- 50-249 employee SMEs held the equivalent of 18% of their turnover in credit balances.

These average percentage figures were broadly stable 2016-2020, before increasing in 2021:

<b>% credit balances to turnover</b>						
Over time						
Average percentage held	2016	2017	2018	2019	2020	2021
<b>All SMEs (excluding DK/refused)</b>	<b>23%</b>	<b>23%</b>	<b>24%</b>	<b>24%</b>	<b>26%</b>	<b>37%</b>
0 employee	24%	24%	25%	24%	26%	38%
1-9 employees	21%	21%	20%	24%	23%	34%
10-49 employees	22%	20%	23%	23%	22%	25%
50-249 employees	19%	17%	17%	22%	21%	18%

Q117 (244) / Q9 All SMEs excluding DK/refused

As already reported, the proportion of SMEs holding £10,000 or more of credit balances increased from 23% in 2019 to 33% in 2021. At the same time, the average turnover declined from £299k to £251k and the median from £33k to £29k. Thus the increase in the percentage of turnover held as credit balances is impacted both by the increase in credit balances and the reduction in average turnover.

## HOW SMES ARE MANAGED

Interviews were conducted with the main financial decision maker. In many cases, this person was also the owner, managing director, or senior partner.

A series of questions collected information about the structure and control of the business. Those reported below (including planning, trading internationally, and having someone in charge of the finances who was qualified) reflect their contribution to other areas of analysis such as applications for finance.

The table below shows that typically around half of SMEs have undertaken any business planning, while the proportion of SMEs trading internationally has been stable at a lower level (14-19%). Back in Q4 2020, 46% reported innovative activity, higher than had been previously seen, but a year later this was the case for 36% of SMEs and more in line with earlier years, as fewer SMEs reported improving an aspect of their business. The proportion with a business mentor has increased from around 1 in 10 to around 1 in 6, while a more stable 3 in 10 had a qualified person in charge of the finances:

<b>Over time – all SMEs</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>By date of interview</b>	<b>2019</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2021</b>	<b>2021</b>	<b>2021</b>	<b>2021</b>
<b>Unweighted base:</b>	<b>4500</b>	<b>4505</b>	<b>4511</b>	<b>4500</b>	<b>4252</b>	<b>4263</b>	<b>4250</b>	<b>3888</b>	<b>4085</b>
Planning (any)	61%	53%	45%	56%	56%	54%	56%	56%	55%
- Produce regular management accounts	44%	44%	38%	45%	46%	46%	46%	46%	44%
- Have a formal written business plan	32%	22%	18%	25%	25%	24%	24%	25%	27%
International (any)	15%	15%	14%	17%	19%	19%	17%	16%	19%
- Export goods or services	8%	8%	9%	10%	12%	12%	10%	10%	11%
- Import goods or services	11%	11%	10%	12%	13%	13%	12%	11%	13%
Innovation (any)	33%	38%	42%	43%	46%	45%	43%	38%	36%
- New product or service (last 3 yrs)	13%	13%	18%	18%	21%	22%	20%	18%	18%
- Improved aspect of business	29%	35%	32%	38%	41%	40%	39%	32%	30%
Mentors	12%	13%	13%	17%	17%	15%	17%	19%	16%
Have qualified person in charge of finances	30%	27%	32%	28%	29%	28%	31%	31%	30%

Q84/129 (223/251) All SMEs

The table below provides further analysis by key demographics for YEQ4 2021. Larger SMEs and those with a minimal risk rating remained more likely to undertake these activities:

#### Business Formality Further analysis YEQ4 2021

Planning	<p>55% of all SMEs planned, increasing by size of business from 50% of those with 0 employees to almost all, 92%, of those with 50-249 employees.</p> <p>Levels of planning declined slightly by age of business: 65% of Starts planned (compared to 77% in 2019 but up from 57% in 2020), declining to 50% of those trading for more than 15 years (unchanged from 2019).</p> <p>Those with a minimal risk rating were somewhat more likely to plan (62%), followed by those with a low (59%) or a worse than average risk rating (57%) Those with an average risk rating were slightly less likely to plan (52%).</p> <p>Planning was undertaken by 64% of SMEs in the Hotel &amp; Restaurant sector and 61% in the Wholesale/Retail sector, compared to 45% of those in Construction. Amongst other sectors 51-59% planned.</p>
International	<p>18% of all SMEs were international, with the smallest SMEs less likely to trade overseas (16% of those with 0 employees, 22% of those with 1-9 employees, 31% of those with 10-49 employees and 36% of those with 50-249 employees).</p> <p>Those trading 6-9 years (21%) were slightly more likely to be international, with little variation otherwise by age of SME (16-19%).</p> <p>Those with a minimal risk rating were more likely to be international (22%) compared to 17-18% for other risk ratings.</p> <p>SMEs in Wholesale/Retail (30%) and Manufacturing (29%) remained more likely to be international, while SMEs in Hotels &amp; Restaurants (7%) and Construction (9%) remained less likely. Amongst other sectors 12-21% were international.</p>
Innovation	<p>41% of all SMEs had innovated, increasing by size of business from 38% of those with 0 employees to 47% of those with 1-9 employees and 6 in 10 of those with 10-49 or 50-249 employees (60% and 64%).</p> <p>Those trading for 2-5 years were the most likely to have been innovative (52%), with little to choose between Starts (42%), those trading for 6-9 years (45%) or those trading for 10-15 years (41%). Those trading for more than 15 years remained less likely to have been innovative (36%).</p> <p>Those with a minimal or worse than average risk rating (44% and 45%) were slightly more likely to have innovated, compared to those with a low (40%) or average (37%) risk rating.</p> <p>SMEs in Manufacturing (47%), the Other Community sector (47%) and Hotels &amp; Restaurants (46%) remained the most likely to have innovated, with those in Construction (30%) the least likely. Amongst other sectors 34-45% had innovated.</p>

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Financial specialist	<p>30% of SMEs had a financially qualified person looking after their finances. This became more likely as business size increased: 26% of 0 employee SMEs had a financial specialist compared to 39% of those with 1-9 employees, 59% of those with 10-49 employees and 81% of those with 50-249 employees.</p> <p>There remained limited variation by age of business (29-32%).</p> <p>37% of those with a minimal and 33% of those with a low risk rating had a financial specialist, compared to 28% of those with an average rating and 30% of those with a worse than average risk rating.</p> <p>Those in Property/Business Services (38%) were the most likely to have a financial specialist, compared to 24% in Agriculture and 25-33% elsewhere.</p>
Mentors	<p>17% of SMEs used a mentor for business help and advice.</p> <p>The use of mentors increased by size of SME from 15% of those with 0 employees to 20% of those with 1-9 employees, and a quarter of larger SMEs (26% for those with 10-49 employees and 25% for those with 50-249 employees).</p> <p>The presence of mentors varied slightly by risk rating: from 21% of those with a minimal risk rating to 18% with a low rating, 13% of those with an average and 18% of those with a worse than average risk rating.</p> <p>Younger SMEs were more likely to have a mentor (21% of Starts and 20% of those trading 2-5 years) compared to 14-15% of older SMEs. There was relatively little variation by sector (13-17%) with the exception of the Health sector where 31% reported that they had a mentor.</p>

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The smallest SMEs remained less likely to undertake any of these activities. For YEQ4 2021, excluding the 0 employee SMEs saw the proportion of SMEs (with employees) who:

- Plan increase from 55% of all SMEs to 72% of those with employees
- Trade internationally increase from 18% to 24%
- Innovate increase from 41% to 49%
- Have a mentor increase from 17% to 21%
- Have a qualified person in charge of the finances increase from 30% to 43%.

Taking a longer term view back to 2014:

- The proportion that planned had varied relatively little over time (54-60%) but was somewhat lower in both 2020 (52%) and 2021 (55%).
- The proportion of SMEs that were international has varied relatively little but in 2021 was at the upper end of the range seen (18%)
- The proportion of SMEs that had been innovative declined 2012-2018 (from 40% to 33%) but increased back to 42% in 2020 and 41% in 2021.
- 3 in 10 SMEs have a financial specialist, with a slight increase seen since 2016.
- 1 in 6 SMEs has a business mentor, slightly higher than was seen 2016-2019:

<b>Business formality elements</b>								
Over time – all SMEs								
By date of interview	2014	2015	2016	2017	2018	2019	2020	2021
<b>Unweighted base:</b>	<b>20,055</b>	<b>20,046</b>	<b>18,000</b>	<b>18,012</b>	<b>18,002</b>	<b>18,000</b>	<b>17,768</b>	<b>16,486</b>
Planning (any)	54%	54%	55%	57%	56%	60%	52%	55%
- Produce regular management accounts	42%	41%	41%	43%	41%	40%	43%	46%
- Have a formal written business plan	32%	32%	33%	31%	29%	32%	22%	25%
International (any)	16%	17%	14%	16%	15%	16%	16%	18%
- Export goods or services	10%	10%	8%	10%	9%	9%	10%	11%
- Import goods or services	11%	12%	10%	11%	10%	11%	11%	12%
Innovation (any)	37%	37%	36%	34%	33%	35%	42%	41%
-New product or service (last 3 yrs)	16%	15%	14%	14%	15%	15%	17%	20%
-Improved aspect of business	34%	33%	32%	30%	28%	30%	38%	35%
Have qualified person in charge of finances	27%	26%	23%	24%	25%	27%	29%	30%
Have a mentor	-	-	12%	11%	10%	11%	15%	17%

Q84/129 (223/251) All SMEs

International trade and innovation are relevant factors in SME performance and their contribution to the wider economy. Further analysis of these activities has therefore been undertaken over time and by key demographics.

The table on the next page shows the proportion of SMEs trading internationally since 2014. Back in 2012, 10% traded internationally, increasing to 17% in 2015 and, after a period of stability, increasing slightly in 2021 (18%):

International	Further analysis over time
Size of SME	The increase 2018-2021 (15-18%) was seen across all sizes of SMEs but more markedly for those with 50-249 employees (29% to 36%) bringing them closer to pre-2016 levels
Sector	Those in Manufacturing and Wholesale/Retail have consistently been more likely to be trading internationally, with around 1 in 4 trading overseas (29% and 30% in 2021). Agriculture, Health, and the Other Community sector were all more likely to report trading internationally in 2021 than previously.
Age of business	<p>After a dip in 2019, Starts have become more likely to be trading internationally (16% in 2021)</p> <p>Meanwhile:</p> <ul style="list-style-type: none"> <li>• Those trading for 2-5 years have broadly maintained the growth in international trade seen 2012-2015 (18% in 2021).</li> <li>• Those trading for 6-9 years have seen some variation in levels of international trade (12-21%) with the 2021 figure the highest seen to date (21%).</li> <li>• Those trading for 10-15 years have also seen some variation over time but the 19% figure for 2021 was one of the highest seen recently while levels of international trade amongst the oldest SMEs have been much more consistent over time (15-18%).</li> </ul>

<b>International trade</b>								
All SMEs over time								
By date of interview								
– row percentages	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs	16%	17%	14%	16%	15%	16%	16%	18%
0 emp	13%	15%	12%	14%	13%	13%	14%	16%
1-9 emps	22%	22%	18%	20%	20%	22%	21%	22%
10-49 emps	31%	31%	25%	28%	27%	30%	30%	31%
50-249 emps	42%	37%	30%	31%	29%	31%	37%	36%
Minimal external risk rating	20%	21%	18%	22%	20%	22%	24%	22%
Low	18%	22%	18%	19%	20%	18%	20%	18%
Average	16%	15%	15%	16%	14%	14%	14%	17%
Worse than average	15%	18%	11%	15%	13%	15%	16%	18%
Agriculture	10%	10%	10%	10%	8%	10%	9%	12%
Manufacturing	26%	29%	23%	27%	26%	24%	28%	29%
Construction	6%	6%	5%	5%	5%	5%	6%	9%
Wholesale/Retail	27%	26%	25%	27%	26%	28%	27%	30%
Hotels & Restaurants	10%	9%	6%	7%	8%	9%	8%	7%
Transport	13%	17%	12%	14%	14%	14%	16%	16%
Property/ Business Services	18%	21%	16%	21%	19%	19%	21%	20%
Health	12%	12%	9%	8%	7%	9%	9%	12%
Other Community	19%	20%	17%	18%	15%	17%	17%	21%
Starts	14%	13%	12%	14%	10%	9%	14%	16%
2-5 years	16%	20%	13%	18%	16%	17%	20%	18%
6-9 years	16%	15%	12%	13%	16%	18%	19%	21%
10-15 years	17%	18%	13%	17%	14%	20%	16%	19%
15+ years	16%	18%	16%	17%	16%	16%	16%	17%

Q84 (223) All SMEs

The table on the next page shows that the overall proportion of SMEs that had innovated declined from 40% in 2012 to 33% in 2018 followed by an increase in 2020 to 42%, and stable in 2021 (41%):

Innovation	Further analysis over time
Size of SME	<p>The decline 2012 to 2018 was seen across all size bands, notably those with 50-249 employees (70% to 55%) where there was a further decline in 2019 to 50%, but a marked increase in 2020 to 63% and 64% in 2021. They remained the most likely to have innovated.</p> <p>Those with 10-49 employees saw a decline in innovation 2013-2015, then a period of stability before an improvement in both 2020 and 2021 to 60%.</p> <p>Smaller SMEs with 0 or 1-9 employees reported less of a decline 2012 to 2018. They saw a marked improvement in 2020 to 39% and 50% respectively, remaining at a similar level for 2021 (38% and 47%).</p>
Risk rating	<p>47% of minimal risk SMEs had been innovative in 2012, followed by a stable 4 in 10 being innovative (44% in 2021) with the slight exception of 2020 (49%)</p> <p>For those with a low external risk rating, a fairly stable 4 in 10 have innovated (40% in 2021), again with a slight exception in 2020 (45%).</p> <p>Those with an average or worse than average risk rating became less likely to innovate 2012-2018 (39% to 31% and 41% to 33% respectively) before increasing in 2019 and 2020 (to 40% and 42%). In 2021, those with a worse than average rating reported a further slight increase in innovation (to 45%) while those with an average risk rating were slightly less likely to have been innovative (37%, albeit still higher than previously seen).</p>
Sector	<p>In 2021, 47% of those in Manufacturing reported being innovative, slightly higher than in 2020 (44%). This brought them level with Hotels &amp; Restaurants (46% but down slightly from 50% in 2020) and the Other Community sector (47%, unchanged from 2020).</p> <p>By contrast, since 2012 only around a quarter of SMEs in Construction had been innovative, albeit this figure rose to 31% in 2020 and 30% in 2021.</p>
Age of business	<p>A third of Starts had been innovative 2012-2017. By 2019 this proportion had fallen to 20% but was back at 39% in 2020 and 42% in 2021.</p> <p>Amongst those trading 2-5 years, around 4 in 10 have been innovative each year with a similar picture for those trading 6-9 years and 10-15 years. All saw higher levels of innovation in 2020 (48%, 50% and 46%), but only those trading 2-5 years saw any improvement in 2021 (to 52%).</p> <p>Amongst the longest established SMEs, a stable 1 in 3 has been innovative. In 2021, 36% reported being innovative, still lower than the other age bands.</p>

<b>Innovation</b>								
All SMEs over time								
By date of interview								
- row percentages	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs	37%	37%	36%	34%	33%	35%	42%	41%
0 emp	34%	34%	33%	31%	29%	31%	39%	38%
1-9 emps	47%	45%	44%	42%	40%	43%	50%	47%
10-49 emps	57%	53%	53%	51%	51%	51%	60%	60%
50-249 emps	65%	59%	56%	60%	55%	50%	63%	64%
Minimal external risk rating	40%	40%	42%	40%	39%	39%	49%	44%
Low	38%	41%	42%	37%	36%	39%	45%	40%
Average	36%	33%	34%	31%	31%	33%	40%	37%
Worse than average	37%	38%	36%	35%	33%	35%	42%	45%
Agriculture	33%	33%	33%	34%	31%	30%	41%	39%
Manufacturing	43%	45%	42%	44%	41%	40%	44%	47%
Construction	26%	29%	28%	27%	23%	25%	31%	30%
Wholesale/Retail	45%	43%	43%	42%	40%	45%	48%	44%
Hotels & Restaurants	44%	43%	45%	39%	39%	43%	50%	46%
Transport	29%	34%	35%	31%	28%	30%	38%	34%
Property/ Business Services	43%	38%	39%	35%	35%	36%	46%	45%
Health	38%	37%	34%	30%	32%	34%	47%	41%
Other Community	41%	42%	37%	36%	37%	41%	47%	47%
Starts	36%	33%	35%	36%	24%	20%	39%	42%
2-5 years	46%	43%	41%	41%	39%	43%	48%	52%
6-9 years	38%	40%	38%	30%	40%	43%	50%	45%
10-15 years	36%	37%	36%	35%	33%	42%	46%	41%
15+ years	33%	35%	35%	31%	32%	34%	38%	36%

Q84 (223) All SMEs

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Occasional questions have been asked (starting in Q1 2014) about whether the business holds intellectual property or other knowledge assets on its balance sheet such as patents, copyrights, trademarks, or goodwill (in H1 2014, 6% did).

The latest figures for YEQ4 2021 were in line, with 9% of all SMEs holding intellectual property or other knowledge assets on their balance sheet, increasing by size from 8% of 0 employee SMEs and 11% of those with 1-9 employees, to 15% of those with 10-49 employees and 16% of those with 50-249 employees.

There was no difference by age of business (9-10%), but those in Manufacturing (16%) were more likely to hold such assets, compared to 4% of those in Construction and 6-12% of other sectors.

## HOW SMES ARE MANAGED – INTERNATIONAL STAFF

In new questions from Q3 2017, SMEs with employees were asked whether they employed overseas staff, either from the EU or further afield. As the table below shows, in 2021 1 in 6 did (15%), predominantly from the EU (12%). The largest SMEs remained much more likely to be employing any overseas staff and for these to include people from outside the EU:

All SMEs with employees		1-9	10-49	50-249
YEQ4 21	Total	emps	emps	emps
<b>Unweighted base:</b>	<b>13,173</b>	<b>5466</b>	<b>5260</b>	<b>2447</b>
Employ any overseas staff:	15%	11%	28%	53%
• <i>Employ staff from EU</i>	12%	9%	25%	50%
• <i>Employ other overseas staff</i>	6%	4%	10%	23%

Q84 (223) All SMEs with employees

12% of Starts employers had international employees, with no difference amongst older employers (all 15%). 22% of employers in the Health sector and 19% in Hotels & Restaurants had international employees, compared to 10% in Agriculture and 11-16% elsewhere.

A second new question asked all those employing overseas staff how concerned they were about the potential impact on their business of any changes to migration rules. This was asked in Q1 2020 when 44% of SMEs with overseas employees were very/fairly concerned (somewhat lower than the 53% reporting concern in 2019) and then rested until Q4 2021, when again 44% reported concern. This was the equivalent of 6% of all SMEs with employees, in line with Q1 2020 (7%) and slightly lower than the 9% with concerns in 2019.

Similarly, in a new question from Q3 2019, SMEs with any overseas employees were asked if they were already seeing an impact on the recruitment and retention of overseas staff. This question was also rested from Q2 2020 onwards but asked again in Q4 2021.

In H2 2019 (excluding the don't know answers), 26% had said that they were seeing an impact. The figure for Q1 2020 was slightly lower at 22%, however when this question was asked again in Q4 2021, 40% said that they were seeing an impact, with little difference by size of business.

Linking the questions together showed that:

- 65% of those 'very concerned' in Q4 2021 about possible changes to migration rules were already seeing an impact on recruitment and retention, unchanged from Q1 2020 (64%).
- More of those who were 'fairly concerned' were seeing an impact in Q4 2021 than in Q1 2020 (from 24% to 64%)

- Very few of those who in Q1 2020 were less concerned about changes had seen an impact (6-10%). However, by Q4 2021 this had increased to 27%, and 19% of those 'not very' or 'not at all' concerned about the future impact.

22% of employers in the Health sector and 19% in Hotels & Restaurants had international employees, compared to 10% in Agriculture and 11-16% elsewhere.

### Overseas staff

All SMES with employees

YEQ4 21

	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>753</b>	<b>1434</b>	<b>2249</b>	<b>1598</b>	<b>1010</b>	<b>1206</b>	<b>2768</b>	<b>822</b>	<b>1333</b>
Employ any overseas staff:	10%	16%	11%	12%	19%	15%	16%	22%	14%
Employ staff from EU	9%	14%	9%	11%	15%	13%	13%	15%	12%
Employ other overseas staff	3%	5%	3%	3%	8%	6%	7%	13%	6%

Q84/87/87a (223/223c) All SMES with employees/ All SMEs with overseas employees Q87 and 87a rested

Indicatively, in Q4 2021 employers with international staff in Agriculture and Wholesale/Retail were somewhat less concerned about the future impact of changes to the rules than their peers in other sectors, while those in Hotels & Restaurants were the most likely to say they were already seeing an impact on recruitment and retention (6 in 10).

SMEs that trade internationally were more likely to employ staff from overseas, typically from the EU, notably those that both import and export (these are typically larger SMEs).

#### Overseas staff

All SMEs with employees YEQ4 21	Total	Export only	Import only	Fully intl	Domestic
<b>Unweighted base:</b>	<b>13,173</b>	<b>640</b>	<b>1371</b>	<b>1519</b>	<b>9643</b>
Employ any overseas staff:	15%	20%	19%	31%	12%
<i>Employ staff from EU</i>	12%	15%	17%	27%	10%
<i>Employ other overseas staff</i>	6%	8%	6%	11%	5%

Q84/87/87a (223/223c) All SMES with employees

In Q4 2021, those with employees from overseas who also traded internationally were slightly less concerned about the impact of changes to migration (40%) than those who only traded domestically (45%), perhaps because this latter group were more likely to have seen an impact on recruitment and retention already (44% v 32% of international SMEs)

Some limited analysis over time is now possible and is provided in the next two tables. When the questions about overseas staff were first asked in H2 2017, 23% of SMEs with employees had any overseas staff (22% from the EU and 4% from elsewhere). Since then the proportion has been somewhat lower (15-17%) with all sizes of SME less likely to have such staff in 2020 compared to H2 2017, notably those with 10-49 employees:

<b>Employ overseas staff</b>					
All SMEs with employees					
over time					
By date of interview – row percentages					
	H2 2017	2018	2019	2020	2021
All	23%	16%	17%	16%	15%
1-9 emps	18%	12%	13%	12%	11%
10-49 emps	40%	31%	33%	31%	28%
50-249 emps	55%	56%	45%	50%	53%
Agriculture	13%	11%	9%	9%	10%
Manufacturing	28%	18%	16%	19%	16%
Construction	20%	12%	14%	12%	11%
Wholesale/Retail	20%	15%	15%	13%	12%
Hotels & Restaurants	25%	21%	18%	20%	19%
Transport	23%	15%	17%	13%	15%
Property/ Business Services	23%	16%	18%	18%	16%
Health	26%	21%	27%	21%	22%
Other Community	23%	15%	15%	16%	14%
Export only	34%	22%	21%	21%	20%
Import only	32%	24%	27%	22%	19%
Fully international	48%	32%	35%	32%	31%
Domestic	18%	13%	13%	13%	12%

Q84 (223) All SMEs with employees

<b>Concerned re migration changes</b>					
All SMEs with overseas staff over time By date of interview – row percentages	H2 2017	2018	2019	Q1 2020*	Q4 2021*
All	42%	51%	53%	44%	44%
1-9 emps	40%	50%	57%	40%	45%
10-49 emps	42%	49%	47%	38%	42%
50-249 emps	64%	69%	54%	33%	42%
Agriculture	59%	70%	64%	34%	12%
Manufacturing	27%	46%	47%	43%	45%
Construction	32%	44%	45%	35%	51%
Wholesale/Retail	40%	45%	60%	49%	28%
Hotels & Restaurants	54%	55%	59%	59%	50%
Transport	48%	57%	49%	40%	49%
Property/ Business Services	44%	49%	51%	43%	42%
Health	61%	54%	57%	37%	45%
Other Community	32%	57%	55%	28%	60%
Export only	49%	56%	54%	47%	41%
Import only	47%	58%	55%	43%	46%
Fully international	42%	45%	55%	42%	35%
Domestic	41%	50%	52%	45%	45%

Q87 (223c) All SMEs with overseas employees very/fairly concerned excl DK \* limited sample for Q1 2020 / Q4 2021 only

The table above shows that concern over possible changes to migration rules increase from 42% in H2 2017 to 53% in 2019 but was somewhat lower again in Q1 2020 and Q4 2021 at 44%. In Q4 2021, concern was slightly lower for fully international businesses and those in Agriculture or Wholesale/Retail.

## EXPORTING

11% of all SMEs were making sales outside the UK. The proportion of exporters has been stable over time, between 8% and 10% of SMEs 2013-2020, and 11% in 2021:

- Smaller SMEs were less likely to export, but the proportions have remained stable over time. In 2021, 10% of 0 employee SMEs and 12% of those with 1-9 employees were exporters. This increased to 19% of those with 10-49 employees, also little changed over time. There has been more variation over time amongst SMEs with 50-249 employees. In 2016 and 2017, 1 in 3 were exporting, declining to 1 in 5 in 2016 then remaining stable until a slight increase to 1 in 4 in 2020 and 2021.
- The Manufacturing sector were the most likely to be exporting. 18% were exporting in 2021, in line with most previous years. Those in Construction (3%) and Agriculture (5%) remained less likely to be exporting.
- In 2021, 11% of Starts exported, somewhat higher than previously seen. There was little difference in the proportion of exporters amongst older businesses (9-12%) and this is also little changed over time.

Since Q2 2019 an additional question has been asked to clarify whether SMEs are exporting or not:

*Can I just check about any export activity, by which I mean any goods or services sold by you to an individual or organisation based outside of the UK. This includes commissions, royalties and licences, and transactions you might make with any branch or subsidiary that you have that is located outside of the UK. This also includes sales to the Republic of Ireland. On that basis, in the past 3 years has your business exported any goods or services outside of the UK?*

- Overall, 9% of SMEs answered yes to this question in 2021, increasing by size of SME from 8% of those with 0 employees to 11% of those with 1-9 employees, 18% of those with 10-49 employees and 22% of those with 50-249 employees.
- Analysis showed that most but not all who answered yes to this new question had answered yes to the standard exporter question used since SMEFM started, and vice versa. For the period this question has been asked, adding in this question has increased the total proportion of SMEs claiming to export only slightly and in 2021 the increase was from 11% with the original question to 13% across both exporting questions.
- In order to maintain continuity any SMEs who only answered yes to the new question were not asked the additional exporter questions in this section and do not appear in any of this analysis.

<b>Exporting</b>								
All SMEs over time								
By date of interview								
- row percentages	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs	10%	10%	8%	10%	9%	9%	10%	11%
0 emp	8%	9%	7%	9%	8%	7%	8%	10%
1-9 emps	14%	14%	11%	12%	12%	12%	13%	12%
10-49 emps	22%	21%	17%	19%	18%	19%	20%	19%
50-249 emps	33%	27%	20%	22%	21%	21%	27%	26%
Minimal external risk rating	13%	14%	12%	14%	15%	14%	16%	14%
Low	11%	14%	12%	13%	12%	10%	12%	11%
Average	11%	8%	9%	11%	8%	8%	8%	11%
Worse than average	9%	11%	7%	9%	8%	8%	10%	10%
Agriculture	4%	3%	5%	5%	4%	4%	4%	5%
Manufacturing	18%	20%	16%	19%	18%	16%	16%	18%
Construction	2%	2%	2%	1%	2%	2%	2%	3%
Wholesale/Retail	16%	15%	12%	16%	13%	13%	14%	14%
Hotels & Restaurants	6%	4%	3%	4%	3%	3%	4%	3%
Transport	8%	11%	9%	10%	9%	9%	12%	11%
Property/ Business Services	12%	15%	11%	15%	14%	13%	15%	14%
Health	6%	6%	4%	4%	4%	2%	5%	8%
Other Community	11%	12%	12%	12%	10%	9%	10%	14%
Starts	8%	8%	7%	8%	6%	3%	8%	11%
2-5 years	9%	11%	7%	10%	10%	9%	10%	9%
6-9 years	10%	9%	6%	8%	10%	10%	12%	12%
10-15 years	11%	12%	9%	11%	9%	11%	10%	12%
15+ years	10%	11%	11%	11%	11%	10%	10%	10%

Q84 (223) All SMEs

A number of more detailed questions around exporting were rested from Q2 to Q4 2020 to make space for questions on Covid-19 but were re-introduced from Q1 2021. The table below shows that in 2021 exporters sent on average a quarter of their total turnover overseas (25%) and that this was little changed from 2019 or Q1 2020:

All SMEs who export	2019	Q1 2020	2021
<b>Unweighted base:</b>	<b>2097</b>	<b>570</b>	<b>2279</b>
Less than 25% of sales made overseas	71%	72%	67%
25-50%	11%	9%	16%
51-75%	10%	10%	9%
76-100% of sales overseas	8%	9%	8%
<b>Average proportion</b>	<b>24%</b>	<b>25%</b>	<b>25%</b>

Q85 (223x) All SMEs who export, excluding DK/refused

11% of all SMEs were exporters. This is made up of the equivalent of 2% of all SMEs where exports made up 50% or more of their sales, and 9% of all SMEs where exports made up less than 50% of their sales. 89% of all SMEs did not export.

From Q3 2016, all exporters have been asked about the extent to which they were selling to the EU. This question was also rested for Q2-Q4 2020 and re-introduced from Q1 2021. The table below shows that in 2021, 3 in 10 exporters (30%) said that all or the majority of their exports went to the EU and this is also little changed from 2019 or Q1 2020:

All SMEs who export	2019	Q1 2020	2021
<b>Unweighted base:</b>	<b>2258</b>	<b>607</b>	<b>2445</b>
Only to the EU	12%	15%	12%
The majority to the EU	17%	14%	18%
Half to the EU	14%	17%	13%
A minority to the EU	37%	30%	38%
None to the EU	21%	24%	19%
<b>Only/the majority</b>	<b>29%</b>	<b>29%</b>	<b>30%</b>

Q86 (223b) All SMEs who export

On limited base sizes in some instance, sector analysis showed that

- The proportion of exporters where exports made up 50% or more of total sales ranged from 3% in Agriculture to 35% in Transport (setting aside the 50% in Hotels & Restaurants on a very small base).
- The proportion of exporters selling all or the majority of their exports to the EU ranged from 16% in Health and Hotels & Restaurants to 40% in Wholesale/ Retail.

Analysis over time shows that since 2016 around 1 in 5 exporters have made more than 50% of all their sales overseas, with 2021 slightly lower at 17%, due to fewer exporters with 1-9 or 10-49 employees exporting at this level:

<b>50%+ sales made overseas</b>								
Over time – all exporters								Q1
Row percentages	2014	2015	2016	2017	2018	2019	2020*	2021
<b>All exporters</b>	<b>16%</b>	<b>13%</b>	<b>19%</b>	<b>22%</b>	<b>18%</b>	<b>18%</b>	<b>19%</b>	<b>17%</b>
0 employee	16%	10%	21%	25%	18%	18%	18%	17%
1-9 employees	14%	16%	16%	17%	15%	18%	23%	17%
10-49 employees	16%	16%	16%	16%	15%	16%	21%	14%
50-249 employees	18%	19%	17%	21%	20%	16%	18%	14%

Q85 (223x) All SMEs who export, excluding DK/refused \* limited base size, indicative data for Q1 2020 only

The table below shows the proportion of exporters who either sold exclusively to the EU or made the majority of their sales there, over time.

The proportion increased somewhat from 22% when the question was first asked in H2 1016 to 30% in 2021, and across all size bands except those with 1-9 employees where there has been more variation over time:

<b>All/majority sales to EU</b>						
Over time – all exporters	H2				Q1	
Row percentages	2016	2017	2018	2019	2020*	2021
<b>All exporters</b>	<b>22%</b>	<b>25%</b>	<b>28%</b>	<b>29%</b>	<b>29%</b>	<b>30%</b>
0 employee	17%	25%	31%	29%	30%	28%
1-9 employees	33%	28%	23%	29%	24%	30%
10-49 employees	24%	24%	23%	29%	33%	33%
50-249 employees	35%	21%	16%	29%	41%	40%
<50% of sales exported	23%	23%	28%	28%	26%	28%
50%+ of sales exported	23%	33%	28%	35%	49%	37%

Q86 (223b) All SMEs who export \* limited base size indicative data for Q1 2020 only

## CUSTOMERS

In new questions from Q1 2018, SMEs were asked whether they sold to consumers, to other businesses or to both businesses and consumers, as well as how many business customers they typically had (if any). These questions were also rested from Q2 2020 to Q3 2021, but the results for Q4 2021 are reported below.

As in 2019 and Q1 2020, 8 in 10 SMEs (77%) sold to consumers while 6 in 10 (63%) sold to other businesses. Smaller SMEs were more likely to be selling to consumers than businesses, while the opposite was true for larger SMEs:

All SMEs Q4 2021	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>4085</b>	<b>817</b>	<b>1389</b>	<b>1288</b>	<b>591</b>
Other businesses only	23%	22%	27%	34%	34%
Consumers only	37%	38%	33%	26%	13%
Both businesses and consumers	40%	40%	40%	39%	52%
<b>All selling to businesses</b>	<b>63%</b>	<b>62%</b>	<b>67%</b>	<b>74%</b>	<b>87%</b>
<b>All selling to consumers</b>	<b>77%</b>	<b>78%</b>	<b>73%</b>	<b>66%</b>	<b>66%</b>

Q13a (NEW) All SMEs

Those who exported were much more likely to be selling to other businesses (9 in 10 if they only exported and 8 in 10 if they exported and imported) than those who only imported or who traded domestically (both 6 in 10):

### Customer types

All SMEs Q4 2021	Total	Export only	Import only	Import and export	Domestic
<b>Unweighted base:</b>	<b>4085</b>	<b>217</b>	<b>395</b>	<b>378</b>	<b>3095</b>
Other businesses only	23%	53%	22%	35%	20%
Consumers only	37%	13%	41%	20%	39%
Both businesses and consumers	40%	34%	37%	45%	41%
<b>All selling to businesses</b>	<b>63%</b>	<b>87%</b>	<b>59%</b>	<b>80%</b>	<b>61%</b>
<b>All selling to consumers</b>	<b>77%</b>	<b>47%</b>	<b>78%</b>	<b>65%</b>	<b>80%</b>

Q13a (NEW) All SMEs

There were some clear differences by sector, with the proportion selling to businesses varying from 32% for Hotels & Restaurants to 75% in Property/Business Services and 74% in Manufacturing. There was more variation than previously seen in the proportion selling to consumers, which ranged from 62% in Property/Business Services to 99% in Hotels & Restaurants:

### Customer types

All SMEs Q4 2021	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>242</b>	<b>505</b>	<b>727</b>	<b>462</b>	<b>263</b>	<b>362</b>	<b>861</b>	<b>239</b>	<b>424</b>
Other businesses only	36%	29%	15%	7%	1%	24%	38%	16%	22%
Consumers only	39%	26%	39%	40%	68%	32%	25%	64%	40%
Both businesses and consumers	26%	46%	46%	53%	30%	44%	37%	20%	38%
<b>All selling to businesses</b>	<b>61%</b>	<b>74%</b>	<b>61%</b>	<b>60%</b>	<b>32%</b>	<b>68%</b>	<b>75%</b>	<b>36%</b>	<b>60%</b>
<b>All selling to consumers</b>	<b>64%</b>	<b>71%</b>	<b>85%</b>	<b>93%</b>	<b>99%</b>	<b>76%</b>	<b>62%</b>	<b>84%</b>	<b>78%</b>

Q13a (NEW) All SMEs

In previous waves, those SMEs selling to other businesses were asked how many business customers they had. In Q1 2020, when this question was last asked, a quarter of SMEs selling to other businesses had more than 50 customers, in line with 2019 (24% v 25% in 2019) and increasing by size of SME to 64% of those with 50-249 employees.

Analysis by sector showed that SMEs in the Hotel & Restaurant sector (44%) and Wholesale/Retail (38%) were the most likely to have 50 or more business customers, followed by those in Manufacturing (36%). The least likely to have 50 or more business customers were Agriculture (13%) and the Property/Business Services sector (17%). Amongst other sectors 20-30% had 50+ customers.

This question was rested from Q2 2020 and in Q4 2021 was replaced by a new question looking at the channels used to reach customers.

As the table below shows, three-quarters of SMEs said that they sold to their customers face to face, with little difference by size of SME. Half sold online, with the largest SMEs more likely to use this channel, while 4 in 10 sold over the phone, again increasing by size of SME:

Channels used All SMEs Q4 2021	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>4069</b>	<b>814</b>	<b>1380</b>	<b>1285</b>	<b>590</b>
Face to face eg in a shop	77%	77%	78%	75%	71%
Online	51%	50%	50%	52%	75%
Over the phone	44%	43%	47%	53%	73%
Some other way	9%	8%	9%	14%	16%

Q13c (NEW) All SMEs excl DK

There were some key differences by the type of customer being sold too. Business only SMEs were less likely to be selling face to face (although 6 in 10 did) and more likely to be using online or phone, whereas consumer only SMEs were more focussed on face to face sales (8 in 10). Those who sold to both business and consumers were also more focussed on face to face sales but were more likely to use online and phone than their consumer only peers:

Channels used- All SMEs Q4 2021	Total	Bus only	Cons only	Both
<b>Unweighted base:</b>	<b>4069</b>	<b>1231</b>	<b>1171</b>	<b>1667</b>
Face to face eg in a shop	77%	63%	81%	81%
Online	51%	62%	39%	54%
Over the phone	44%	51%	34%	49%
Some other way	9%	11%	7%	9%

Q13c (NEW) All SMEs excl DK

There were some clear differences by sector, albeit face to face was the top mentioned channel in all sectors. For those in Agriculture, face to face (79%) was way ahead of online (20%) or phone (37%) whereas for a sector like Property/Business services face to face (70%) was only slightly ahead of online (63%) followed by phone (46%):

#### Customer channels

All SMEs Q4 2021	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
<b>Unweighted base:</b>	<b>239</b>	<b>503</b>	<b>724</b>	<b>461</b>	<b>263</b>	<b>361</b>	<b>858</b>	<b>237</b>	<b>423</b>
Face to face	79%	74%	88%	80%	84%	72%	70%	79%	75%
Online	20%	65%	35%	46%	40%	47%	63%	43%	61%
Over the phone	37%	54%	39%	41%	35%	51%	46%	35%	46%
Some other way	12%	9%	11%	5%	1%	9%	11%	3%	9%

Q13c (NEW) All SMEs

Analysed by international trade, those trading overseas were less likely to see face to face (especially Export-only SMEs) and more likely to sell online (again, especially Export-only SMEs). Face to face was the key channel for Domestic SMEs who were as likely as their peers to sell by phone:

#### Customer channels

All SMEs Q4 2021	Total	Export only	Import only	Import and export	Domestic
<b>Unweighted base:</b>	<b>4069</b>	<b>216</b>	<b>393</b>	<b>378</b>	<b>3082</b>
Face to face	77%	53%	66%	63%	81%
Online	51%	78%	58%	66%	47%
Over the phone	44%	37%	35%	51%	45%
Some other way	9%	6%	16%	17%	8%

Q13c (NEW) All SMEs excl DK

Analysis by age of business showed that selling face to face was the most mentioned channel for all SMEs (72-82%) but the proportion selling online was 62% for Starts, decreasing by age of business to 43% of those trading for more than 15 years.

There were limited differences by growth and ambition, but those planning to grow were slightly more likely to be trading online (59%):

#### Channels used- All SMEs

Q4 2021	Total	Have grown	Expect to grow
<b>Unweighted base:</b>	<b>4069</b>	<b>1081</b>	<b>1911</b>
Face to face eg in a shop	77%	75%	78%
Online	51%	53%	59%
Over the phone	44%	43%	48%
Some other way	9%	8%	10%

Q13c (NEW) All SMEs excl DK

## MEMBERSHIP OF BUSINESS GROUPS OR INDUSTRY BODIES

SMEs were asked whether the owner, senior partner or majority shareholder belonged to any business groups or industry bodies.

In 2021, 3 in 10 SMEs (30%) said that this was the case (excluding DK answers) in line with previous years.

Business Groups	Further analysis YE Q4 2021
By size of SME	<p>Membership was more likely amongst the largest SMEs:</p> <ul style="list-style-type: none"> <li>• 29% of 0 employee businesses belonged to a business group/body</li> <li>• 32% of 1-9 employee businesses</li> <li>• 40% of 10-49 employee businesses</li> <li>• 38% of 50-249 employee businesses.</li> </ul>
By external risk rating	<p>Those with an average or worse than average risk rating remained somewhat less likely to belong to a business group (both 29%), compared to those with a minimal or low risk rating (36% and 35% respectively).</p>
By sector	<p>Those in the Health sector remained more likely to belong to a business group (43%) along with those in Property/Business Services (37%) while those in Transport (18%) were less likely. Across other sectors, membership varied from 21-32%.</p>
PNBs and those using external finance	<p>Those currently using external finance were no more likely to belong to such groups than those that did not use external finance (both 30%).</p> <p>There was also no difference by whether the SME met the definition of a Permanent non-borrower or not (31% v 29%).</p>
Other demographics	<p>As in 2020, there was little variation by age of business (29-32%), with the slight exception of Starts who were less likely to belong to a business group (26%).</p>

Q143 (Q265c) All SMEs excl DK

## BUSINESS OWNERSHIP

In 2021, 72% of *companies* had one owner, declining by size from 90% of 0 employee companies to 28% of those with 50-249 employees. This means that of *all* SMEs, 84% were either sole proprietorships or companies with one owner, higher than the 75% recorded in 2020.

SMEs with employees were also asked whether theirs was a family business. For YEQ4 2021, 67% of those with employees said that it was. This means that for SMEs as a whole:

- 16% had employees and were family owned
- 8% had employees and a different ownership structure
- 76% of all SMEs had no employees (so were not asked the question).

A broader question explored the extent to which the owner of the SME was also involved in other businesses. This has been rested since Q2 2020, with the most recent data provided in Q1 2020 (excluding DK answers) and included again here as a placeholder for future reports:

- 90% reported that this was the only business the owner was involved in, managerially or strategically, decreasing with size from 91% of 0 employee SMEs to 81% of those with 50-249 employees.
- 9% reported that the owner currently ran another business as well (8% amongst 0 employee SMEs increasing to 16% amongst those with 50-249 employees).
- 4% reported that the owner had set up and run a business before (with little variation by size, 3-4%).
- Less than 1% said the owner had provided funds for another business in the past few years, again with little variation by size of SME.

## THE BANK RELATIONSHIP

In early Monitor reports analysis was provided on overall satisfaction with the main bank. On an annual basis from 2011, overall satisfaction improved very slightly (80-84%) and was consistently higher for larger SMEs.

From Q1 2016 this question was replaced by one that sought to understand the banking relationship in more detail, with SMEs asked which of three phrases best described their relationship with their main bank. Since then questions on switching and trust have also been added and are reported in this section.

Before exploring the banking relationship, it is worth noting that multi-banking remains rare in this market. In 2021, 99% of SMEs reported that they only used one bank for their business banking, with no difference by size:

<b>Use one business bank</b>								
Over time – all SMEs								
Row percentages	2014	2015	2016	2017	2018	2019	2020	2021
All SMEs	99%	98%	99%	99%	99%	99%	99%	99%
0 employee	99%	99%	99%	99%	99%	99%	99%	99%
1-9 employees	98%	98%	99%	98%	99%	98%	99%	99%
10-49 employees	97%	97%	97%	98%	98%	98%	99%	99%
50-249 employees	97%	98%	97%	97%	96%	98%	99%	99%

## NATURE OF THE BANK RELATIONSHIP

When asked about the nature of their relationship with their main bank, the most frequent answer in Q1 2021 (when this question was last asked), as in previous years, was that the relationship was fine but transactional (64%):

Nature of relationship with main bank		0	1-9	10-49	50-249
Q1 2021 all SMEs	Total	emps	emps	emps	emps
<b>Unweighted base</b>	<b>4263</b>	<b>850</b>	<b>1410</b>	<b>1403</b>	<b>600</b>
We have a strong working relationship with our bank and feel we can approach them whenever we need to	19%	16%	25%	41%	48%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	64%	66%	62%	51%	48%
We don't have an active working relationship with our bank and wish that we had one	17%	18%	13%	9%	4%

Q24a All SMEs

There were clear differences by size of SME:

- Those with 0 employees were more likely to describe their relationship as 'transactional' (66%) with the remainder evenly split between a 'strong working relationship' (16%) or a wish for a more active relationship (18%).
- As the size of SME increases, so does the proportion with a 'strong working relationship', increasing to 48% of those with 50-249 employees, albeit now the same as the proportion who had a transactional relationship, while 4% wished for a more active relationship.

Differences were also seen by other demographics

- Excluding the Permanent non-borrowers did not change the proportion with a 'strong relationship' that much (to 21% v 16% of PNBs), nor was there much difference in terms of wanting a more active relationship (16% v 18% of PNBs).
- The proportion of SMEs with a 'strong relationship' varied only slightly by age. It was 17-19% for all age groups, except for those trading 2-5 years (12%) and 22% of those trading for more than 15 years. There was limited variation in the proportion wanting a more active relationship (15-17% but 19% for Starts).
- The proportion describing the relationship as 'strong' declined from 27% of those with a minimal or low risk rating to a fifth of those with an average rating (19%) and 15% with a worse than average risk rating. There was a marked variation in the proportion wanting a more active relationship, from 10-11% of those with a minimal/low risk rating to 22% of those with an above average rating.
- 32% of SMEs in the Hotel & Restaurant sector had a 'strong' relationship compared to 15% in Health and 17-22% in other sectors. Those in Manufacturing were more likely to want a more active relationship (23%), compared to 10% in Agriculture and 12-19% elsewhere.

Analysis by previous borrowing behaviour showed that those who had reported a borrowing event (20% and typically the larger SMEs) and those who were 'Happy non-seekers' of finance (19%) were more likely to have a 'strong working relationship' than those who had been Would-be seekers of finance (8%). The relatively small group of WBS were slightly more likely than the other groups to wish that they had a more active relationship with their bank (22%), but most described their relationship as transactional (71%):

#### Nature of relationship with main bank

Q1 2021 all SMEs	Total	Had an event	WBS	HNS
<b>Unweighted base</b>	<b>4263</b>	<b>1026</b>	<b>75*</b>	<b>3162</b>
We have a strong working relationship with our bank and feel we can approach them whenever we need to	19%	20%	8%	19%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	64%	64%	71%	64%
We don't have an active working relationship with our bank and wish that we had one	17%	17%	22%	16%

Q24a All SMEs

A minority of SMEs wished that they had a more active relationship with their bank, with limited variation over time. Smaller SMEs and those with a worse than average risk rating were more likely to want a more active relationship:

<b>Wish had more active relationship with bank</b>						
<b>Over time</b>						
<b>By date of interview – row percentages</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Q1 2021</b>
All SMEs	12%	14%	15%	11%	15%	17%
0 emp	13%	15%	15%	12%	15%	18%
1-9 emps	12%	13%	13%	11%	13%	13%
10-49 emps	7%	8%	8%	8%	8%	9%
50-249 emps	5%	6%	8%	6%	4%	4%
Minimal external risk rating	9%	9%	8%	11%	13%	11%
Low	10%	13%	12%	11%	11%	10%
Average	12%	14%	15%	11%	15%	15%
Worse than average	13%	16%	16%	11%	15%	22%
Use external finance	12%	14%	12%	10%	15%	15%
Have had borrowing event	13%	14%	12%	12%	17%	17%
Plan to apply for finance	17%	19%	19%	14%	20%	21%
PNBs	12%	13%	14%	11%	13%	18%
All excl PNBs	13%	15%	15%	12%	15%	16%
Starts	13%	18%	16%	11%	13%	19%
2-5 years	14%	13%	17%	12%	16%	15%
6-9 years	12%	12%	15%	7%	13%	15%
10-15 years	12%	12%	13%	12%	16%	17%
15+ years	12%	14%	14%	12%	15%	16%

#### Q24a All SMEs

With the exception of 2019, those planning to apply for finance were more likely to wish they had a closer relationship with their bank (17-21%) than SMEs generally. Those that had already had a borrowing event have typically been no more likely than SMEs generally to wish that they had a more active relationship (12-14%), but the figure was slightly higher in 2020 and Q1 2021 (17%).

## SWITCHING MAIN BANK

A stable minority of SMEs had changed main bank in the past 3 years. For YEQ4 2021, 5% said that they had made a change:

Switching	Further analysis YEQ4 2021
Size of SME	There was little variation by size (6% of those with 0 employees, 3-5% for those with employees).
External risk rating	There was also little variation by risk rating (3-4%) with the slight exception of those with a worse than average risk rating (6%)
Age and sector	Levels of switching declined slightly by age of business, from 8% of Starts and 7% of those trading 2-5 years to 3% of those trading for more than 15 years. There was little variation by sector (3-6%) with the exception of the Other Community sector (8%).
PNBs and finance	There was little variation in levels of switching once the Permanent non-borrowers were excluded (6% v 4% of PNBs), or by whether the SME was using finance (6%) or not (4%).
International trade	Those trading internationally were more likely to have switched – 9% of Fully international and Export only SMEs and 8% of Import only SMEs had switched, compared to 4% of SMEs that did not trade internationally.

In Q1 2021, those that reported changing bank were slightly less likely to have a strong relationship with their new bank (15% v 19% who had not switched) and slightly more likely to wish they had a more active relationship (19% v 17% of those who hadn't changed).

## TRUST IN BANKS AND BANKING

Other more recent questions looked at the issue of trust in banks – both in the SME’s main bank specifically and in the banking industry more generally. SMEs were asked to rate their level of trust on a scale from 1 (do not trust them at all) to 10 (trust them entirely).

6 in 10 SMEs (60%) gave a score of 8 to 10 for their level of trust in their own bank. This increased by size of SME from 59-60% of those with 0 or 1-9 employees to 67% of those with 50-249 employees. 1 in 10 SMEs overall (9%) gave a low trust score of 1-4 and this remained more likely to be the case for smaller SMEs:

<b>Trust in main bank</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>YEQ4 21 all SMEs</b>	<b>Total</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<i>Unweighted base</i>	<b>16,486</b>	<b>3313</b>	<b>5466</b>	<b>5260</b>	<b>2447</b>
High level of trust 8-10	60%	60%	59%	65%	67%
Medium level of trust 5-7	31%	30%	32%	29%	30%
Low level of trust 1-4	9%	9%	9%	7%	3%

Q24b All SMEs

60% of SMEs with employees had a high level of trust in their main bank.

The table overleaf provides further analysis by key demographics over the four years for which this data is available:

- Larger SMEs remained more likely to have a high level of trust in their main bank but increases in the level of trust amongst those with 0 or 1-9 employees (to 60% and 59%) has narrowed the gap.
- Levels of trust amongst those using finance increased to 61% in 2021, the highest level seen. Levels of trust amongst those that had a borrowing event, or those planning to apply, has been more volatile over time but is currently at the higher end of the range seen (58% and 55%).
- Those meeting the definition of a Permanent non-borrower remained likely to have a high level of trust (61% in 2021) but an increase in trust amongst those that did not meet the definition (to 60%), has all but eliminated the previous gap between the two groups.
- Starts were more likely to have a high level of trust in their main bank in 2021 than previously seen (67%), putting them slightly ahead of those trading for 2-5 years (63%) while for older SMEs levels of trust were somewhat lower than previously seen (57-60%).

<b>High level of trust in main bank (8-10)</b>				
Over time				
By date of interview – row percentages	2018	2019	2020	2021
All SMEs	55%	55%	54%	60%
0 emp	54%	54%	54%	60%
1-9 emps	56%	55%	54%	59%
10-49 emps	63%	66%	62%	65%
50-249 emps	72%	70%	69%	67%
Minimal external risk rating	58%	59%	58%	59%
Low	57%	55%	53%	60%
Average	54%	54%	55%	60%
Worse than average	53%	54%	54%	61%
Starts	50%	46%	59%	67%
2-5 years	58%	56%	57%	63%
6-9 years	52%	60%	53%	60%
10-15 years	56%	60%	51%	59%
More than 15 years	56%	57%	53%	57%
Use external finance	51%	51%	52%	61%
Have had borrowing event	51%	57%	51%	58%
Plan to apply for finance	48%	55%	45%	55%
PNBs	59%	60%	56%	61%
All excl PNBs	50%	52%	53%	60%

Q24b All SMEs

Half as many SMEs had a high level of trust in the banking industry generally (31%) as in their main bank (60%). Trust in the banking industry increased by size of SME from 30% of those with 0 employees to 44% of those with 50-249 employees. 1 in 5 SMEs overall gave a low trust score of 1-4 (21%) and again this was more likely to be the case for smaller SMEs:

#### Trust in the banking industry

YEQ4 21 all SMEs	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
<i>Unweighted base</i>	<b>16,486</b>	<b>3313</b>	<b>5466</b>	<b>5260</b>	<b>2447</b>
High level of trust 8-10	31%	30%	32%	40%	44%
Medium level of trust 5-7	49%	48%	50%	48%	50%
Low level of trust 1-4	21%	22%	18%	12%	6%

#### Q24c All SMEs

34% of SMEs with employees had a high level of trust in the banking industry as a whole.

The table overleaf provides further analysis by key demographics over time:

- Larger SMEs remained somewhat more likely to have a high level of trust in the banking industry than smaller SMEs, with slightly more of an increase 2020 to 2021 than their smaller peers.
- Levels of trust in the banking industry amongst those using finance increased to 31% in 2021, the highest level seen. Levels of trust amongst those that had a borrowing event, or those planning to apply, have also improved over time, to 30% and 26% respectively.
- Those meeting the definition of a Permanent non-borrower were no more likely to have a high level of trust in the banking industry than those that did not meet the definition (31% and 30%).
- As with trust in main bank, Starts have become more likely to have a high level of trust in the banking industry (36%) putting them ahead of older SMEs (29-31%) albeit all ages of business have seen some increase in levels of trust in 2021.

<b>High level of trust in banking industry (8-10)</b>				
Over time				
By date of interview – row percentages	2018	2019	2020	2021
All SMEs	25%	25%	27%	31%
0 emp	24%	24%	26%	30%
1-9 emps	27%	25%	28%	32%
10-49 emps	33%	35%	34%	40%
50-249 emps	41%	39%	37%	44%
Minimal external risk rating	28%	30%	29%	34%
Low	27%	26%	28%	29%
Average	23%	24%	26%	29%
Worse than average	25%	24%	27%	32%
Starts	24%	23%	32%	36%
2-5 years	26%	24%	28%	31%
6-9 years	25%	25%	25%	31%
10-15 years	24%	24%	25%	29%
More than 15 years	25%	25%	25%	29%
Use external finance	22%	22%	25%	31%
Have had borrowing event	20%	23%	24%	30%
Plan to apply for finance	20%	21%	22%	26%
PNBs	29%	28%	27%	31%
All excl PNBs	21%	22%	27%	30%

## Q24c All SMEs

Across the two questions, 29% of SMEs gave a high score of 8-10 for both their main bank and the banking industry more generally (v 25% in 2020), while 7% of SMEs gave a low score of 1-4 for both (v 9% in 2020).

There were clear differences in level of trust in main bank when analysed by the overall nature of the banking relationship (asked only in Q1 2021).

- Those who reported a strong working relationship with their main bank were more likely to have a high level of trust in them (79%).
- Those who wished that they had a more active relationship with their bank were less likely to have this high level of trust (31%) and almost as many had a low level of trust (24%).
- Those who had a ‘fine but transactional’ relationship were somewhere in between, with 52% having a high level of trust in their bank and 10% a low level of trust.

Trust in bank/banking industry Q1 2021 all SMEs	Main bank			Banking Industry		
	Strong	Trans'l	More active	Strong	Trans'l	More active
<i>Unweighted base</i>	1392	2409	462	1392	2409	462
High level of trust 8-10	79%	52%	31%	37%	25%	16%
Medium level of trust 5-7	19%	38%	44%	49%	53%	50%
Low level of trust 1-4	2%	10%	24%	14%	23%	34%

Q24a/b/c All SMEs

Those with a strong main bank relationship also gave slightly higher trust scores for the banking industry as a whole (37% 8-10) than their peers. Amongst those who wanted a more active relationship with their bank 34% had a low level of trust in the banking industry as a whole.