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MANAGEMENT SUMMARY

THIS REPORT COVERS

key points from the main body of the report, providing the SME perspective on both access to finance and other challenges, as well as broader business demographics such as growth, profitability and ambition, for context.

SMEs remained in a more positive mood than during the pandemic, with more making a profit and credit balances holding up. The impact of the pandemic, especially on revenue, is abating, but new headwinds are impacting SMEs with increasing costs, the broader economic climate and staff shortages, potentially reducing the opportunities ahead.

Business ‘mood’ remained higher than during the pandemic but with no further increases in 2022

In Q2 2020 when this metric was first included, 25% of SMEs described themselves as being in a 'good' mood about their business.

By Q4 2020 that proportion had increased to 41% and since Q4 2021, around 6 in 10 SMEs have been in a ‘good’ mood (58% in 2022 as a whole). This was more likely to be the case for the larger SMEs (76% of those with 10-49 employees and 80% of those with 50-249 employees).

More SMEs were making a profit and 1 in 3 held £10,000 or more of credit balances

In 2022, 73% of SMEs (excluding DK answers) reported making a profit, increasing by size of business from 71% of those with 0 employees to 89% of those with 50-249 employees. The median profit made was £12,000, the median loss made was £6,000.

This 2022 figure of 73% was up from 65% in 2021, but remained lower than pre-pandemic, when 8 in 10 SMEs typically reported a profit (82% in 2019).

35% of SMEs in 2022 reported holding £10,000 or more of credit balances, increasing markedly by size of SME from 28% with 0 employees to 95% of those with 50-249 employees. This proportion was little changed from 2021 (when 33% of SMEs held such balances) and maintained the steady increase seen from 2019 when 23% held such balances.

The challenges associated with the pandemic have started to wane and fewer expect major disruption to their income

When first asked in Q2 2020, 68% of SMEs saw the pandemic as a major barrier to their business. Since then the impact has declined steadily, to 34% by Q4 2021 and 12% in Q4 2022.

In 2022, 10% of all SMEs expected their income to be either severely reduced or non-existent. This continued the improvement seen since this question was first asked during the pandemic: In Q2-4 2020, 40% of SMEs expected such a reduction in income, falling to 18% in 2021 and 10% in 2022.

Most SMEs, especially if only trading domestically, were unaffected by the new EU trading arrangements

67% of SMEs in H2 2022 said that the new trading arrangements with the EU had not impacted them at all.

32% reported a negative impact on their business from the new EU trading arrangements, increasing to 43% of those with 10-49 employees, 45% in Wholesale/Retail and 43% in Manufacturing. These two sectors were the most likely to be trading internationally and 61% of SMEs undertaking any international trade reported a negative impact from the new trading arrangements, compared to 25% of SMEs that traded in the UK only.

Amongst the 8% very negatively affected, the main issue remained the supply chain, with more mentions of paperwork in 2022.

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The main future barrier for SMEs remained increasing costs (already affecting many of them)

41% of all SMEs saw increasing costs as an 8-10 future barrier to their business in Q4 2022, with little variation by size of SME (40-43%) but with more mentions from those in Hotels & Restaurants (63%) and Transport (55%). This has been the top barrier since this metric was included in Q4 2021, when 34% of SMEs saw it as a barrier.

In addition, 73% of SMEs in Q4 2022 said that they had already been impacted by increasing costs, 38% of them significantly. As a result, 53% of all SMEs in Q4 2022 were either already significantly impacted by increasing costs, or expected to be.

And there was increasing concern about the economic climate and also more mentions of political uncertainty

Concerns about the economic climate exceeded 40% during 2020 but were then lower at 21% for most of 2021. During 2022 they increased again, reaching 35% in Q4 2022 and this was more of an issue for smaller SMEs, those trading for 2-5 years (47%), and again those in Hotels & Restaurants (48%) and Import only SMEs (58%).

27% of SMEs saw political uncertainty and Government policy as a barrier in Q4 2022, and this was also more likely to be a barrier for smaller SMEs, with limited variation otherwise (but 42% for Import only SMEs). This was back to levels seen in Q4 2020 and higher than the more usual 1 in 5 during 2021 and most of 2022.

Employers expressed a number of concerns around recruitment, current and future

In H2 2022, 26% of employers were struggling to recruit the people they needed. It was more of an issue for larger SMEs (41% with 10-49 employees and 46% with 50-249 employees) and those in the Health sector (32%). By comparison 17% of employers currently had a recruitment freeze in place and 7% reported making, or planning to make, redundancies.

21% of employers saw recruiting and retaining staff as a major future barrier in 2022, increasing to 30% of those with 10-49 employees, 29% in the Health sector and 27% of those with any future appetite for finance.

Overall, a third of employers in H2 2022 were either already struggling to recruit and/or saw recruitment/retention of staff as a major future barrier, however taking on more staff remained one of the key growth related activities planned for the coming year: 20% of SMEs planned to take on more staff, increasing markedly by size from 17% of those with 0 employees currently to 59% of those with 50-249 employees.

Overall, a declining proportion of SMEs felt the future offered more opportunities than threats as half reported a negative impact due to current trading conditions

30% of SMEs in 2022 felt that the future offered more opportunities than threats. Over the course of 2022, this proportion declined from 36% in Q1 2022 to 27% in Q4 2022, but the proportion seeing mainly threats changed very little (15-17%) as more SME settled in the 'middle ground'. Compared to 2021, 0 employee SMEs were somewhat less likely to see opportunities in 2022 (33% to 30%) while the largest SMEs were much more likely (31% to 47%).

In a new question for 2022, 50% of SMEs reported a 'negative' impact to current trading conditions, compared to 1 in 10 reporting a positive impact (with little change during the year). This increased to 60% of SMEs in Wholesale/Retail reporting a negative impact and 58% in the Hotel & Restaurant and Transport sectors.

A quarter of SMEs reported having grown, an improvement on 2021, but still below pre-pandemic levels. Attitudinally, the proportion of ‘Ambitious risk takers’ has not been affected over recent years and more SMEs continued to report innovation than pre-pandemic. Growth aspirations, at 40%, were somewhat lower than in 2021, and also pre-pandemic.

In 2022, a quarter of SMEs (excluding Starts) reported having grown, still below pre-pandemic levels

27% of SMEs (excluding Starts) had grown, ranging from 25% of the smallest and largest SMEs with 0 or 50-249 employees, to 32% with 1-9 employees and 42% with 10-49 employees, with limited variation by risk rating or sector.

This was a stronger position than in 2021 when 18% had grown, but remained below pre-pandemic when typically 4 in 10 had grown (37% in 2019).

37% of SMEs in 2022 (excluding Starts) reported a decline. This was more likely to be the case for 0 employee SMEs (40%) who remained more likely to have declined than grown. Whilst this level of decline remained above pre-pandemic levels (in 2019, 19% of SMEs reported a decline), it was a significant improvement on 2021 when 56% reported a decline, seen across all size bands.

A stable 3 in 10 SMEs met the definition of an ‘Ambitious risk taker’

SMEs that agreed both that they wanted to be a significantly bigger business and also that they were prepared to take risks to succeed are known as ‘Ambitious risk takers’. They made up 28% of SMEs in 2022, little changed from 2020 (27%) and slightly above pre-pandemic levels (24% in 2019). The largest SMEs (46%) and Starts (55%) were the most likely to meet the definition in 2022.

A stable 4 in 10 SMEs had been innovative

40% of SMEs reported innovation in 2022, with 19% having launched a new product or service in the previous 3 years and 35% having improved an aspect of the business. This was little changed from 2021 (41%) and remained above levels seen immediately pre-pandemic (35% in 2019).

SMEs with 50-249 employees were more likely to report innovation in 2022 (71%), with limited variation by sector (34-46%) with the exception of Construction (29%).

Looking forward, in Q4 2022 16% of SMEs planned to launch a new product or service in the coming 12 months, in line with previous years and with little variation by size, but such innovation was more likely to feature in the plans of Starts (32%) and those looking to grow (28%).

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40% of SMEs in Q4 2022 expected to grow in the coming year, not quite back to pre-pandemic levels

40% of all SMEs expected to grow in the 12 months after Q4 2022, ranging from 38% of those with 0 employees to 54% with 10-49 employees. Other more ambitious demographics included Manufacturing (51%) and those trading for less than 5 years (Starts 71% and 2-5 years 52%), as well as fully international SMEs (64%).

Pre-pandemic, around 45% of SMEs each year had planned to grow, dropping markedly to 24% in Q2 2020. By Q2 2021 the proportion had increased to 52%, but this was not maintained and by Q2 2022, 41% planned to grow, with little change for the rest of 2022 (40% in Q4).

As in previous years, most of those planning to grow expected to do so in the UK (98%), predominantly in existing markets, compared to 14% planning to sell more overseas

SMEs were somewhat less likely to be using external finance in 2022 with nearly half meeting the definition of a Permanent non-borrower. Those now using more finance than they had pre-pandemic were more likely to be concerned about the amount of debt they had in total and their ability to repay it, which impacted on their plans for the business. Whilst SMEs remained cautious, fewer thought it would be difficult for them to get funding if they wanted it, albeit most had been a Happy non-seeker of finance.

36% of SMEs used external finance in 2022, with 1 in 3 of them borrowing more than £25,000. Almost half of SMEs met the definition of a Permanent non-borrower

36% of SMEs used any form of external finance in 2022, back in line with 2020 (37%) but lower overall than use of finance in 2021 (43% overall) across all sizes and sector of SME.

48% of SMEs met the definition of a Permanent non-borrower (PNB), an SME that is not using external finance and appears disinclined to do so, in line with pre-pandemic levels but higher than recently seen.

It became apparent that a small proportion of SMEs in 2022 said they were repaying pandemic related funding but had not mentioned any form of external funding at the main finance question. Adjusting for these SMEs would increase use of external finance in 2022 from 36% to 40% and reduce the Permanent non-borrowers from 48% to 46%.

The 2023 questionnaire has been changed to correct this anomaly and no adjustments have been made to the other data reported here.

In a new question for H2 2022, 35% of all those using external finance were borrowing more than £25,000 in total. This increased markedly by size of SME from 23% of those with 0 employees to 84% of those with 50-249 employees and 64% of those in Agriculture. This is the equivalent of 9% of all SMEs borrowing more than £25,000.

15% of all SMEs were using more external finance now than they were pre-pandemic, and this typically increased concerns about repayment

Amongst SMEs using finance, half were using more external finance than pre-pandemic whether as new or additional facilities or making more use of existing facilities. This is the equivalent of 15% of all SMEs in 2022, somewhat lower than the 21% of SMEs in 2021. This was more likely to be the case for those with 1-9 employees (22%) and 10-49 employees (25%), with limited variation by risk rating or sector.

The equivalent of 7% of all SMEs were concerned about repaying the facilities that they held, little changed from 2021 when 9% were concerned. Concern was higher amongst those who were borrowing more than pre-pandemic, notably those who had not been borrowing before (30%).

7 in 10 of those concerned about repayments said it had impacted their wider business, typically making them more cautious and affecting how much they could try to grow the business.

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A third of SMEs in 2022 had received an injection of personal funds and there was evidence of more use of finance facilities in a personal name

34% of SMEs reported an injection of personal funds in 2022, down slightly from 37% in 2021, but higher than seen immediately pre-pandemic. The increase was driven by those who felt they had to inject funds, increasing from 11% of SMEs in 2019 to 22% in 2022.

While 9 in 10 SMEs operated through a business bank account, in 2022 25% of SMEs using finance said one or more facility was in a personal name, up from 16% in 2021 and due to an increase in the proportion saying they had facilities in *both* a business and a personal name.

Attitudinally, SMEs remained cautious about finance, but fewer thought it would be difficult for them to obtain

85% of SMEs in 2022 agreed that their plans were based on what they could afford, with little variation by demographics.

31% of SMEs in 2022 agreed that they were happy to borrow to grow, increasing to 47-48% of those with 10-49 or 50-249 employees, 42% of Starts, 42% of those already using external finance and 41% of those planning to grow. This was somewhat lower than in 2021 (36%) but in line with most years since 2017.

The proportion of SMEs that felt that it could be difficult for them to get external finance has reduced from around 4 in 10 in previous years to 3 in 10 in 2022. Smaller and younger SMEs, those in the Health and Other Community sectors and those already using external finance were more likely to feel that they would struggle to get finance.

16% of those using external finance (and 9% of all SMEs) in 2022 agreed that they were worried about the amount of debt the business had, and this was more likely to be the case for smaller and younger SMEs using finance, as well as those in the Hotel & Restaurant, Transport and Health sectors and those borrowing more than pre-pandemic.

1 in 10 reported any borrowing event, with most SMEs having been Happy non-seekers of finance

11% of SMEs reported any borrowing event, with 5% reporting an application for new or renewed funding, 5% an overdraft that was automatically renewed and 2% a facility was cancelled or paid off early. This was somewhat lower than in recent years (13-17% since 2018).

Would-be seekers are SMEs that wanted to apply for finance but something stopped them. They make up a small minority of SMEs and this was also true in 2022 (3%) with little variation by other demographics. In 2022, 41% of Would-be seekers said they had been put off by the process of borrowing and this has been the main reason cited over the past few years, along with discouragement (29%, almost all of it indirect where the SME assumes the bank would turn them down).

The remaining SMEs are those that had not sought finance nor wanted to, the Happy non-seekers. They continued to make up the majority of SMEs in 2022 (87%). Whilst they had not sought (more) finance, 30% of them were using external finance, in line with recent years.

Appetite for finance is lower than during the pandemic, with a continued emphasis on funding for cashflow. 62% of applications in the current period were successful, lower than during the pandemic (when rates were boosted by Government backed schemes) with smaller SMEs, first time borrowers and those applying for loans less likely to be successful. Future appetite for finance remained limited but with more of an emphasis on borrowing for business development.

Few SMEs reported a need for funding, still mainly for cash flow

In 2018 when this was first asked, 4% of SMEs reported a need for funding in the previous 12 months, whether they went on to apply for funding or not. During the pandemic this increased to 9% in 2020 and 12% in 2021 but was back to 6% in 2022 with little variation by demographics.

69% of those with a need for funding in 2022 said that it was for cash flow purposes, typically for working capital (49%) and this was slightly more likely to be the case for smaller SMEs.

37% were looking for funding for business development purposes, typically to fund expansion in the UK (19%) or to invest in plant and machinery (14%), with limited differences by size of SME.

Applications made Q3 2021 to Q4 2022 were typically for a loan, made to a known provider such as the main bank, and made online

50% of applications made in this time period were for a bank loan, while 17% were for a bank overdraft. Most applications were to a known provider, with 59% made to the main bank and 11% to another existing provider and just over half (56%) of applications were made online.

Compared to Q3 2020 to Q4 2021, fewer applications in the current period were for loans (down from 61%), to the main bank (down from 68%), or made online (down from 65%) but they remained the most common types of application.

62% of all applications made in the current period (Q3 2021 to Q4 2022) were successful

Success rates for applications in the 18 months from Q3 2021 to Q4 2022 (62% overall) increased by size of applicant from 56% of applications made by 0 employee SMEs to 94% of applications made by those with 50-249 employees.

Success rates were also somewhat higher for those who had borrowed before (68% v 56% of first time applicants) and those that did not apply online (71% v 54% of those who did).

By product, where base sizes permit, applications for leasing/HP were almost always successful (95%), compared to 61% of applications for bank overdrafts and 56% of applications for bank loans.

37% of applications were declined, with the key reasons cited as a lack of track record, poor credit rating, a lack of security and/or affordability concerns. 7 in 10 of those declined received some explanation or advice from the bank, but referrals and appeals remained limited.

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After the ‘boost’ to success rates from the Government backed schemes, success rates were somewhat lower in the current period, but this change did not affect all SMEs equally

Pre-pandemic around 7 in 10 of all applications were successful (71% for applications made in the 18 months to Q4 2019). This then increased to over 8 in 10 during the pandemic (82% for the 18 months to Q4 2021) but was 62% for the current period.

On limited base sizes, there were indications that applications by 0 employee SMEs and those borrowing for the first time were less likely to be successful than previously, whereas there had been much less of a change in success rates for SMEs with employees.

Analysis by product showed that the change was seen predominantly for bank loans, the product that formed the basis of Government backed support during the pandemic. Bank loan success rates reduced from 85% in the 18 months to Q4 2021 to 56% in the 18 months to Q4 2022, whereas success rates for overdrafts and leasing/HP were stable.

8% of SMEs in Q4 2022 expected to apply for new or renewed finance in the coming months, lower than has typically been seen. Again most, 78%, expected to be Future happy non-seekers of finance

In 2022, 8% of SMEs planned to apply/renew, compared to 13% in 2020. Since 2015, over 10% of SMEs have planned to apply, with lower appetite in 2022 amongst those with 1-9 employees and those in Transport.

14% of SMEs were Future Would-be seekers and felt that they would not apply for finance if they needed it, somewhat lower than the 1 in 5 SMEs that met this definition in 2020 and 2021. They continued to cite the current economic climate as the main barrier to an application (79%).

As with past finance, the majority of SMEs expected to be a Future happy non-seeker of finance (78%).

Amongst those planning to apply, 6 in 10 wanted funding for business development and 4 in 10 were confident a bank would lend to them

In H2 2022, 63% of those planning to apply wanted the funds for business development, such as to fund expansion in the UK, while 41% were looking for funding to aid cashflow. Since the pandemic, applications have been weighted in favour of cash flow, but the plans for 2023 were more in line with those in 2019.

For 2022 as a whole, 51% of all SMEs were confident of success if they were to apply for (possibly hypothetical) finance, unchanged from 2021, but lower than the 6 in 10 that were usually confident of success pre-pandemic. Future happy non-seekers, with no plans to apply, remained the most confident (55% in 2022) compared to 33% planning to apply to a bank.