An independent
report by BVA BDRC

# SME Finance Monitor

Q4 2023 Report Summary

# 2.Management summary

## Navigating the SME Finance Monitor

**The 2024 SME Finance Monitor report provides an in-depth assessment of SMEs as they emerge from the pandemic years to take advantage of new opportunities but also to face challenges from both the economy and the impact of world events.**

This **management summary** provides the key headlines on important contextual issues such as innovation and growth as well as on the focus of this report: the use of, and access to, external finance by SMEs.

More detailed headlines, also in a summary format, can be found in the **summaries** at the start of **each chapter** of this report, with each chapter then providing full data, over time and by key demographics, to give a full picture across the topics covered.

There is also an accompanying **chart pack** covering the key themes reported here.

Going into 2024, as one might hope, SMEs were in a more positive mood than they were during the pandemic although, having improved to 58% in 2022, the proportion in a 'good mood' has not moved on since, while a quarter felt that the future offered more threats than opportunities, now back to the same proportion that felt that way in Q4 2020. 18% of (typically smaller) SMEs described themselves as 'Struggling' with their monthly revenue not being enough to meet their needs, which is having an impact across their business, but 34% of (typically larger) SMEs felt 'Comfortable' or even 'Well off' and much less affected by economic and other events.

This report helps to explain the reasons behind these overall sentiments, remembering that SMEs are a diverse group, especially by size but also by age, sector and ambition and it is rare that all will share a view or experience to the same extent as their peers. Understanding these differences is key to understanding this important part of the economy and how they should be supported.

**THIS SUMMARY COVERS**

the 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.

## SME Sentiment: SMEs remained in a more positive mood than during the pandemic, but not all were viewing the future with optimism and around 1 in 5 smaller and younger SMEs were 'Struggling'.

**59%**
**were in a good mood, unchanged from 2020**

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

Since Q4 2021, around 6 in 10 SMEs have been in a 'good' mood (59% in 2023 as a whole, increasing by size of SME from 58% of 0 employee SMEs to 79% of those with 50-249 employees).

**28%**
**felt the future offered more opportunities than threats**

In Q4 2023, 28% of SMEs felt that the future offered mainly opportunities to them, and this was more likely to be the case for larger SMEs with 10-49 or 50-249 employees (38% and 37%).

At the other end of the scale, 25% of SMEs felt the future offered mainly threats, with a much clearer difference by size of SME, from 28% of those with 0 employees to 9% with 50-249 employees.

When this question was first asked in H2 2020, 22% felt the future offered mainly opportunities, increasing to 32% in 2021 and stable since (31% for 2023 as a whole).

**However,**
**1 in 5**
**said they were 'Struggling'**

18% of SMEs described themselves as 'Struggling', ranging from 19% of those with 0 employees to 3% of those with 50-249 employees (where half were Well off / Comfortable).

Almost a quarter of Starts (22%) and those trading for 2-5 years (23%) were 'Struggling', along with a similar proportion in Hotels & Restaurants and Wholesale/Retail.

Compared to their peers, SMEs that were 'Struggling' were more likely to have been impacted by increasing costs (70% v 42% overall), less likely to feel the future offers opportunities (8% v 31%) and more likely to be using external finance (53% v 46% overall) including 23% still repaying government backed pandemic funding (v 18% overall).

They were also twice as likely as SMEs overall to be planning to apply for (more) finance (16% v 8%).

## SME Context: Levels of profitability returned to pre-pandemic levels, credit balances remained stable, but increased costs, the economic climate and staff issues all continued to have an impact.

**77%**
**of SMEs made a profit, back to pre-pandemic levels**

In 2023, 77% of SMEs (excl DK answers) reported making a profit in the previous 12 months, increasing by size of SME from 76% of those with 0 employees to 91% of those with 50-249 employees.

This represents an increase in profitability post-pandemic (in 2021, 65% reported making a profit) back to levels seen pre-pandemic (78% reported a profit in 2018).

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**A stable**
**34%**
**of SMEs had £10,000 or more in credit balances**

34% of SMEs in 2023 reported holding £10k or more in credit balances, increasing by size from 28% of those with 0 employees to 93% with 50-249 employees.

This proportion has been stable since 2021, following the increase seen from 23% to 33% of SMEs holding such sums between 2018 and 2021.

In 2023 the sums held were the equivalent of 29% of SME turnover on average, or 3.5 months ‘cover’. This was slightly lower than the 36-37% seen across 2021 and 2022 due to an increase in average turnover while sums held remained more stable.

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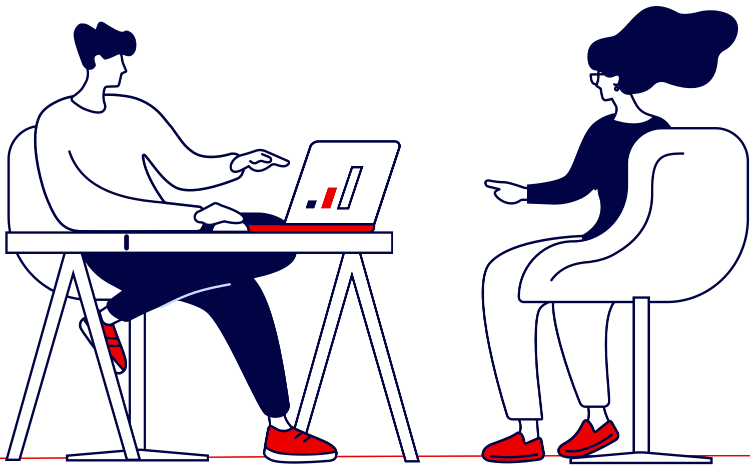
**While a similar proportion had injected personal funds into the business**

36% of SMEs reported an injection of personal funds into the business in 2023: 13% through choice and 23% through need. The smallest SMEs (39%) were more likely to report such an injection of funds than their peers (declining to 7% of those with 50-249 employees).

Since 2021, more than 1 in 3 SMEs have reported an injection of funds (34-37%) compared to around 1 in 4 pre-pandemic (24% in 2019), with smaller and younger SMEs always more likely to report such an injection.



## The main future barrier for SMEs remained increasing costs which have already affected many of them

In Q4 2023, 36% of SMEs saw increasing costs as a major future barrier to their business while 41% reported having already been significantly impacted by increased costs (with a further 35% ‘somewhat’ impacted).

For 2023 as a whole, 55% of SMEs had either been significantly impacted and/or saw increasing costs as a major barrier and this was more likely to be the case for those with 1-9 or 10-49 employees (60% and 59%) and those in Hotels & Restaurants (74%) or Agriculture (64%).

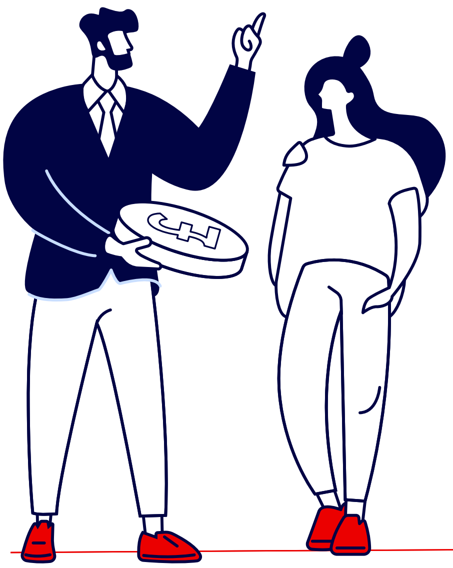
This has been a key issue for SMEs since the metric was introduced in Q4 2021, but there has been no further increase in any overall impact in 2023 (from 54% in 2022).

## And concern about the economic climate remained higher than pre-pandemic at 32%

32% of SMEs in 2023 saw the economic climate as a major future barrier with concerns higher amongst those in the Hotel & Restaurant sector (42%) while being less of an issue for the largest SMEs (19% of those with 50-249 employees).

Concern about the economic climate ‘peaked’ in 2020 at 36% before declining to a pre-pandemic level of 23% in 2021. Since then however concern has increased again, to 31% in 2022 and 32% in 2023.

## 31% of employers were either struggling to recruit now or saw it as a future barrier



24% of employers had no plans to recruit in the next 12 months while as many, 23%, said they were struggling to hire the new staff they need. Analysis by size showed that those with more employees were much more likely to report recruitment struggles than a freeze (33% v 13% for employers with 50-249 employees).

Pre-pandemic, a stable 1 in 10 employers saw the recruitment and retention of staff as a major future barrier. In 2021 this increased to 18% of employers and again to 20% in 2023. It was particularly likely to be a barrier for those with 10-49 employees (26%) and those in the Health sector (28%) with limited variation across other demographics.

When those already struggling to recruit were taken into account, 31% of employers in 2023 were either already struggling to recruit and/or considered it a major future barrier.

## 1 in 5

**SMEs traded internationally and reported more impact than their peers from the revised trading arrangements with the EU**

20% of all SMEs traded internationally (18% of those with 0 employees increasing with size to 39% of those with 50-249 employees). Whilst there has been little change year on year, the longer term trend is for a small but steady increase, from 14% trading internationally in 2016 to 20% currently, seen across all size bands.

A stable 10% of SMEs exported, increasing by size from 9% of those with 0 employees to 24% of those with 50-249 employees.

A quarter of these exporters (27%) said that half or more of their overall sales came from overseas with limited variation by size of exporter. A new question for 2023 found that 40% of exporters felt they were very or fairly reliant on their overseas sales to achieve their overall sales targets, meaning that overall, 4% of all SMEs rely on exports to achieve their sales targets.

In H2 2023, 34% of SMEs reported that the revised EU trading arrangements were having a negative impact on their business. Most, 64%, said that they had no impact, while 2% reported a positive impact and these proportions have changed very little since H2 2021.

Those who trade internationally were most likely to report a negative effect, notably those who are fully international (62%).

## Growth and innovation: Past growth remained below pre-pandemic levels but growth aspirations were back to pre-pandemic levels, for smaller SMEs at least. Levels of innovation remained above pre-pandemic levels and overall over half of SMEs had either been, or planned to be, innovative.

**29%**
**of SMEs had grown, still below pre-pandemic levels**

29% of SMEs in 2023 reported having grown, increasing by size from 26% of those with 0 employees to 48% with 10-49 employees and 45% with 50-249 employees – a marked increase for this latter group from the 25% that had grown in 2022.

Growth in 2023 was higher than the 18% reporting growth in 2021, however it was little changed from 2022 (27%) and remained below the 4 in 10 typically reporting growth pre-pandemic.

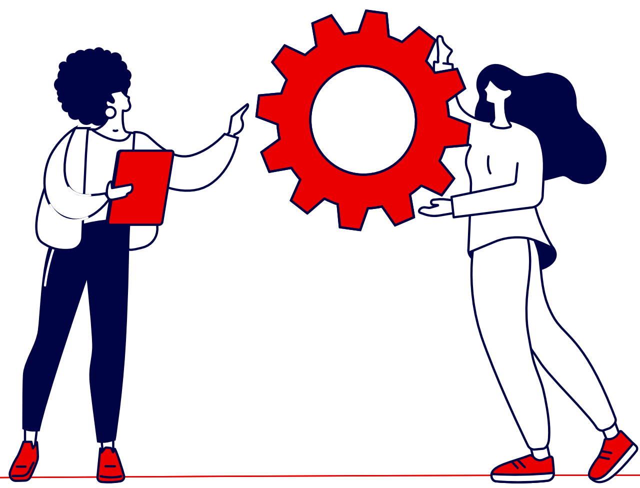
**While declines remained higher than pre-pandemic**

Immediately pre-pandemic, around 1 in 5 SMEs reported a decline (19% in 2019). This then increased markedly to 56% in 2021 and whilst fewer SMEs reported a decline in 2023 (33%) this was little changed from 2022 (37%) and still clearly above pre-pandemic levels. It was more of an issue for the smallest SMEs where 37% reported a decline in 2023, reducing by size to 11% of those with 50-249 employees.

**4 in 10**
**SMEs had been innovative, still above pre-pandemic levels**

Levels of innovation increased during the pandemic (from 35% in 2019 to 42% in 2020) and have remained stable since. 42% of all SMEs in 2023 had innovated, increasing by size of business from 39% of those with 0 employees to 63% of those with 50-249 employees.

Looking forward, 36% of SMEs planned to innovate in future (Q2-Q4 23 when an additional question was asked). This means that overall, 55% of SMEs had either been, or planned to be, innovative and 24% met the criteria of a 'consistent innovator' who had both been innovative and planned to be so in the coming year.



# 46%

**of SMEs in 2023 expected to grow in the coming year, back to pre-pandemic levels for smaller SMEs**

46% of SMEs in 2023 planned to grow in the next 12 months, increasing by size of SME to 59% of those with 10-49 employees and 58% of those with 50-249 employees.

This was back in line overall with pre-pandemic levels (49% in 2018) and for those with 0 or 1-9 employees, but not for larger SMEs. In 2023, 59% of those with 10-49 employees planned to grow, down from 64% planning to do so in 2018 and for those with 50-249 employees the difference was more acute (58% from 79%).

# 24%

**of SMEs planned to both grow and be innovative in the coming year**

24% of all SMEs Q2-Q4 2023 planned both to grow and to be innovative in the coming year. Half of these 'ambitious innovators' were both small (0-9 employees) and young (trading for up to 5 years), twice the proportion amongst SMEs overall.

This group were more likely than their peers to be using finance and to have appetite for more, but also slightly more concerned it would be difficult for them to get funding.

## Use of external finance: 1 in 5 SMEs were still repaying pandemic funding, helping to boost the proportion using finance in 2023 to 46% and reduce the Permanent non-borrowers with little apparent appetite for finance to 35%. Most of those concerned about repaying what they owed had yet to speak to their bank, despite most saying this was impacting their business and attitudinally SMEs remained cautious about finance.

**46%**
**of SMEs used external finance in 2023, including**

**19%**
**still repaying government backed pandemic funding**

46% of SMEs were using external finance in 2023, increasing by size of SME from 42% of those with 0 employees to 69% of those with 10-49 employees.

This is based on the new definition which includes a better measure of those still repaying government backed pandemic funding, alongside core and other forms of finance.

In 2023, 19% of SMEs were still repaying government backed pandemic funding, two thirds of the 28% of SMEs that were granted such funding originally. This included 33% of all SMEs with 10-49 employees still repaying government backed funding, as were 29% of those with 1-9 employees, compared to 16% of the smallest SMEs with 0 employees and 12% of the largest SMEs with 50-249 employees.

31% of SMEs were using some form of 'core' finance, primarily credit cards (17%), a bank overdraft (13%) and/or a bank loan (11%), while 21% of SMEs were using some 'other' form of finance, primarily leasing/hp (10%).

**1 in 3**
**borrowers now using more finance than pre-pandemic**

In 2022, under the previous definition, 36% of SMEs were using external finance (increasing to 40% when adjusted as far as was possible at that stage for pandemic funding).

In 2023, under the new definition, 46% were using finance, with 41% using core/other forms of finance where the definition had not changed and 19% still repaying pandemic funding.

This increase 2022 to 2023 was caused both by the new pandemic funding element but also by an increase in the use of core finance and specifically in credit cards (11% to 17% of SMEs).

32% of borrowers were using more finance than they had been before the pandemic, with limited variation by size of SME. This is the equivalent of 12% of all SMEs, which is around half the 21% of SMEs using more finance when this question was first asked in 2021.

**A quarter of borrowers had secured facilities, including**

**1 in 6**

**with a personal guarantee**

25% of borrowers said that some or all of their borrowing was secured. This increased both by size of borrower (from 23% of those with 0 employees to 44% of those with 50-249 employees) and by total sum borrowed (from 20% of those borrowing less than £25,000 to 58% of those borrowing more than £100,000).

In a new question for Q4 2023, 1 in 6 limited companies that were borrowing said there was a personal guarantee in place. Where the respondent had provided the guarantee, initial analysis suggested that 1 in 3 had given a guarantee for less than £25,000, a quarter had taken legal advice before signing and a similar proportion were worried about what giving the guarantee might mean for them (but half were not worried).

**15%**

**of borrowers were concerned about repaying the finance they had, but over half had no plans to speak to their lender**

15% of borrowers were concerned about how they would repay the finance they had. This was more likely to be the case for smaller SMEs than larger, as well as those borrowing more than they had been pre-pandemic (27% and little changed over time) and those with pandemic funding still to repay (20%).

8 in 10 of those concerned said this had impacted their plans for the business, primarily how much they can grow the business (58% of those concerned) or invest in it (49%).

A minority (19%) of all those concerned about repaying their existing finance had already spoken to their lender (with two thirds satisfied with the outcome) and a further 18% planned to do so, leaving the largest group (63%) with no plans at all to speak to their lender.

Of those who hadn't (yet) spoken to their lender, around 3 in 10 thought it unlikely their lender would treat them fairly, offer practical help and/or be supportive and this was more likely to be the view of those with no plans to speak to their lender.

**35%**
**of SMEs met the revised definition of a Permanent non-borrower**

The definition of a Permanent non-borrower was revised in 2023 to exclude anyone who had applied for government backed pandemic funding from the definition of SMEs with no apparent use/appetite for finance.

In 2023, under the new definition, 35% of SMEs met the definition of a PNB and this compares to 39-41% during the pandemic and 48% pre-pandemic in 2018.

The proportion of PNBs in 2023 declined by size from 37% of 0 employee SMEs to 20% of those with 10-49 employees and was 41% of those with 50-249 employees, who remained less likely to be using external finance than pre-pandemic. In contrast to recent years, in 2023 all sizes of SME were more likely to be using finance than to be a PNB.

PNBs were more likely than their peers to have made a profit, as likely to hold £10k or more of credit balances or have a minimal or low risk rating but less likely to be international, innovative or planning to grow.

**Attitudinally, SMEs remained cautious about finance, but a stable**
**1 in 6**
**were 'Ambitious risk takers'**

A consistent 87% of SMEs said their plans were based on what they could afford and a stable 62% were being cautious with their plans because the future felt uncertain.

55% felt put off from applying by the increase in interest rates and 35% of SMEs believed it would be quite difficult for a business like theirs to get finance, the latter more of an issue for small SMEs, those with a worse than average risk rating, those in Construction and Starts. It was also higher for those already using external finance.

33% of SMEs were happy to use finance to grow, increasing by size of SME and with limited change over time.

More broadly, 44% of SMEs were prepared to take risks to be successful and 40% had a long term ambition to be a significantly bigger business. Those who agreed with both statements are the "Ambitious risk takers" and 27% of SMEs in 2023 met that definition (little changed over time despite the challenges faced).

## Appetite for finance: Whilst need for finance remained limited, there was a return to funding for business development rather than cash flow. The role of the main bank has reduced for those looking to meet that need and whilst the majority of larger, more experienced SMEs got the funding they wanted, smaller SMEs were less likely to end the process with a facility.

### Few SMEs reported a need for funding, but there was more appetite for funding for business development

4% of SMEs in 2023 reported having had a funding need, with limited variation by size of SME (4-5%) with the exception of those with 50-249 employees (2%).

Need for funding was 4% when first asked in 2018, increasing in 2020 to 9% and again in 2021 to 12%. This was not maintained subsequently and the 4% figure in 2023 is back in line with pre-pandemic years.

In 2023, just over half of those with a need for funding (56%) said that it was for business development purposes, while 4 in 10 said the need was cash flow related (43%). These are similar proportions to those pre-pandemic, whereas during the pandemic most application (8 in 10) related to cash flow.

### Those with a funding need were less likely to apply than previously, with the main bank playing less of a role in the process

Fewer SMEs in 2023 with a need for funding initially spoke to their main bank, or indeed any other provider or advisor (29% v 40% or more in previous years).

50% of those that did anything about their need for funding had a borrowing event somewhere, 19% decided to fund all or part of it themselves and 12% decided not to take any funding. 22% were still deciding what to do, twice the level typically seen.

Compared to previous years, fewer SMEs had a borrowing event (pre-pandemic around 6 in 10 did) and fewer had a borrowing event at the main bank (25% did, compared to 47% in 2022), the lowest level since 2019 when 29% had a borrowing event at the main bank.

### Applications made Q3 2022 to Q4 2023 were typically for a loan, and made to a known provider though not always the main bank

48% of the applications reported were made to the main bank and a further 14% to another provider known to the business. 20% were made to a new provider, 9% to an online platform and 9% were made elsewhere.

41% of applications were for a bank loan (and a further 10% for a loan from another provider, recorded separately), a further decrease from the pandemic peak in the 18 months to Q4 2021 when 61% of all applications were for a bank loan. 18% were for a bank overdraft, up from 7%.

**50%**

**of all applications made in the current period were successful**

50% of applications reported resulted in a facility, 7% were offered something but chose not to take it and 43% were declined.

Application success increased markedly by size of SME from 40% of applications from those with 0 employees to 88% of the small group of applications from those with 50-249 employees.

Success rates were lower for first time applicants (37%) than for those who had borrowed before (73%), and for those applying to their main bank (42%) compared to another existing provider (77%) or a new provider (52%).

40% of those applying for a bank loan were successful, with 55% declined while 42% of those applying for a bank overdraft were successful, with 44% declined (and 14% turning down the facility offered to them). This contrasts with the 88% success rates for leasing/hp (base sizes preclude analysis of other products).

Those who were unsuccessful were typically told it was due to a lack of track record and/or current business performance with 6 in 10 seeing some action from the lender, whether to explain and/or ask for more information or offer the referral or appeals process.

**After the 'boost' from the Government backed schemes, success rates declined, but this change did not affect all SMEs equally**

Immediately prior to the pandemic, in the 18 months to Q4 2019, 71% of all applications were successful and 26% were declined.

The launch of government backed funding increased the success rates for the 18 months to Q4 2020 to 85% and the 18 months to Q4 2021 to 82%, with declines falling to 12% and 16% respectively.

In the next period, for the 18 months to Q4 2022, a lower proportion of applications were successful (59%), with 40% declined and the interim figures for the latest 18 months to Q4 2023 reinforced that position (50% successful and 43% declined).

Accepting that the pandemic distorted the market, a comparison between applications in the 18 months to Q4 2019 and the 18 months to Q4 2023 showed that success rates for applications from 0 employee SMEs have dropped more markedly, by 23 percentage points from 63% to 40%, than success rates for larger applicants. These too are lower (by between 6 and 14 points) but in all cases 7 in 10 or more were successful with their application in the current period.

## Looking back, most SMEs have been Happy non-seekers of finance but future appetite for finance has increased

In the previous 12 months, 11% of SMEs had a borrowing event, 4% had wanted to apply but something stopped them (the Would-be seekers) and most, 85%, had been Happy non-seekers of finance.

Looking forward, 10% were planning to apply, 21% expected to be a Future would-be seeker and 69% expected to be a Future Happy non-seeker of finance.

There has been an increase in FWBS since the pandemic, with smaller SMEs continuing to be more likely to meet the definition. The key barrier to a future application remained a reluctance to borrow now, (74% of Future would-be seekers), predominantly because of the general economic climate rather than the predicted performance of the business in that environment.

## Amongst those planning to apply, 7 in 10 wanted funding for business development while 3 in 10 were confident a bank would lend to them

In 2023, 68% of those planning to apply wanted the funds for business development, such as to fund expansion in the UK, while 34% were looking for funding to aid cashflow. During the pandemic, application plans were weighted in favour of cash flow, but the plans for 2023 were more in line with applications being planned in 2019.

For 2023 as a whole, 48% of all SMEs were confident of success if they were to apply for (possibly hypothetical) finance, 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 (53%) compared to 32% planning to apply for finance and 38% of Future Would-be seekers.