An independent report by BVA BDRC

SME Finance Monitor

Q2 2024 Report Summary

bva Bdrc

UK Finance

SME Finance Monitor

Q2 2024 Report Summary

Carl Phillips
Director
carl.phillips@bva-bdrc.com

Management summary

Management summary

Navigating the SME Finance Monitor

The Q2 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.

At the mid-point of 2024, and looking ahead to an election in July*, SMEs are in a relatively good mood overall. Optimistically, half planned to grow, and two-fifths planned to be innovative – back to, or exceeding, pre-pandemic norms.

Good news first; profits and credit balances are back in line with pre-pandemic levels. However, there are still significant headwinds; increased costs, worries about the economic climate and staff recruitment/retention issues. All of which are impacting growth and ambition.

The overall need for finance remains low, with the main need being business development rather than cash flow – a return to the pre-pandemic norm. Success in acquiring finance is slanted towards larger and more experienced SMEs, which is impacting smaller

THIS SUMMARY COVERS

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.

*All data in this report was collected prior to the July 4th General Election

SMEs, despite overall success rates improving. This may become a problem – a third of SMEs fall into the "ambitious innovator" category – keen to grow and innovate over the coming year – but this profile includes both larger SMEs and start-ups, so there may be a challenge for everyone in this group to acquire the funding to match their ambitions.

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.

Shiona Davies
Editor, The SME Finance Monitor

Carl Phillips
Director, BVA BDRC

September 2024

SME Sentiment: SMEs have remained in the same fairly positive mood that they have had since the end of the pandemic. Not all view the future with optimism, however, with a fifth of smaller and younger SMEs 'Struggling'.

57%
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 things have improved, with around 6 in 10 SMEs consistently being in a 'good' mood. In Q2 2024 57% are in a good mood overall, increasing by the size of SME from 56% of 0 employee SMEs to 78% of those with 50-249 employees.

29%
felt the future offered more opportunities than threats

In Q2 2024 29% of SMEs felt that the future offered mainly opportunities to them. Sentiment has remained level since Q4 2022 (27%), but lower than Q4 2021 (36%).

Larger SMEs with 10-49 or 50-249 employees (37% and 36%) were more likely to feel the future presents opportunities than smaller ones – 30% of those with 0 employees or 31% of those with 1-9.

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 25% of those with 0 employees to 9% with 50-249 employees.

However,
1 in 5
said they were 'Struggling'

20% of SMEs described themselves as 'Struggling', ranging from 21% of those with 0 employees to 4% of those with 50-249 employees (where half were Well off / Comfortable).

Almost a quarter of Startups (23%) and those trading for 2-5 years (25%) were 'Struggling', along with a similar proportion in Hotels & Restaurants (24%).

Compared to their peers, SMEs that were 'Struggling' were more likely to have been impacted by increasing costs (67% v 40% overall), less likely to feel the future offers opportunities (8% v 31%) and more likely to be using business finance (57% v 48% overall) including 25% still repaying government backed pandemic funding (v 19% overall).

They were also twice as likely as SMEs overall to be planning to apply for (more) finance (17% v 9%).

SME Context: Levels of profitability returned to pre-pandemic levels and the number of SMEs with £10k or higher credit balances has fallen. However, concerns about increased costs, the economic climate and staff issues remain, and continue to have an impact.

76%
of SMEs made a profit, nearly back to pre-pandemic levels

In Q2 2024, 76% of SMEs (excl. DK answers) reported making a profit in the previous 12 months, increasing by size of SME from 74% of those with 0 employees to 92% of those with 50-249 employees.

This represents an increase in profitability post-pandemic (in 2021, 65% reported making a profit) to nearly being back to levels seen pre-pandemic (the average between 2016 and 2020 was 80%).

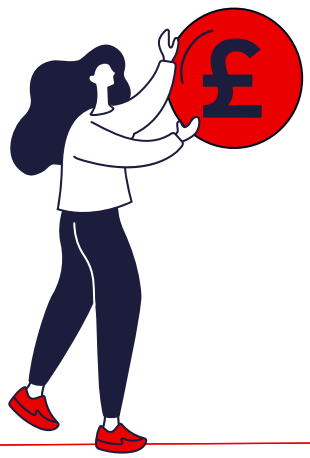
27%
of SMEs had £10,000 or more in credit balances

27% of SMEs in Q2 2024 reported holding £10k or more in credit balances, increasing by size from 20% of those with 0 employees to 86% with 50-249 employees.

While the proportion of SMEs with £10k+ credit balances had been stable between 2021 (33%) and 2023 (34%), it has now fallen. This fall can be seen across most SME sizes from -8 among 0 employee SMEs to -7 among 50-249 employee SMEs.

There is also significant variation by sector: 35% of Hospitality and Property/Business Services SMEs and 34% of Transport SMEs have £10k or higher credit balances compared to 18% of Health SMEs.

36%
had injected personal funds into the business



36% of SMEs reported injecting personal funds into the business in Q2 2024: 14% through choice and 22% through need, largely unchanged since 2022. 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 barrier to growth, both in the past and looking forward, is increasing costs

In Q2 2024, 34% of SMEs saw increasing costs as a major future barrier to their business, while 40% reported having already been significantly impacted by increased costs (with a further 36% 'somewhat' impacted).

The percentage of SMEs saying they have been significantly impacted has been around two in five since 2022, but those reporting it as a future barrier are beginning to fall and is closer to Q4 2021 levels (also 34%) than 2023 (38%). This dip is being led by 0-employee SMEs (down from 38% to 33% since 2023).

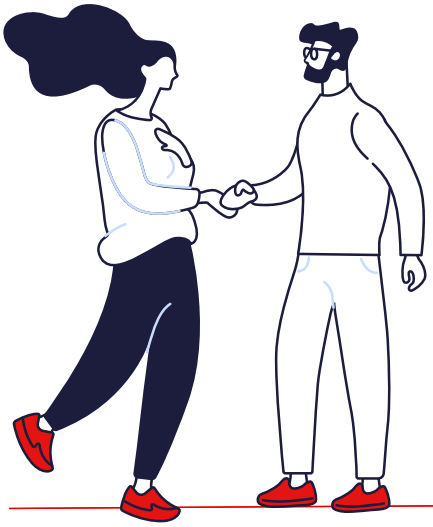
Hotels & Restaurants is the sector most likely to say increasing costs have both caused and will cause, a barrier to growth (61% and 53% respectively).

Concern about the economic climate remained higher than pre-pandemic at 31%

31% of SMEs in Q2 2024 saw the economic climate as a major future barrier, with concerns higher amongst those in the Hotel & Restaurant sector (41%) while being less of an issue for the largest SMEs (18% of those with 50-249 employees vs. 31% of those with 0).

Concern about the economic climate 'peaked' in 2020 at 36% before declining to a pre-pandemic level of 23% in 2021. Since 2022 it has been stable, with around one in three concerned.

30% of employers were either struggling to recruit now or saw it as a future barrier



27% of employers had no plans to recruit in the next 12 months while 22% 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 (30% v 12% for employers with 50-249 employees). Of the sectors, Health and Construction (31% and 25%) were the most likely to say they are struggling to hire.

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% and again to 20% in 2023 and is still at 19% in YEQ2 2024.

When those already struggling to recruit were taken into account, 30% of employers in Q2 2024 were either already struggling to recruit and/or considered it a major future barrier.

1 in 5

SMEs traded internationally but a third felt that the revised trading arrangements with the EU were having a negative impact

19% of all SMEs were international (18% of those with 0 employees increasing with size to 38% of those with 50-249 employees) with no changes over the last few years, despite an increase since 2016 (14%).

A stable 10% of SMEs exported, increasing by size from 9% of those with 0 employees to 22% of those with 50-249 employees.

A quarter of these exporters (23%) said that half or more of their overall sales came from overseas with limited variation by size of the exporter. A new question for 2023 found that 39% of exporters felt they were very or fairly reliant on their overseas sales to achieve their overall sales targets, meaning that overall, 3% of all SMEs rely on exports to achieve their sales targets.

Since 2022 one in three SMEs (33% in Q2 2024) 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. These proportions have changed very little since 2021.

Those who trade internationally were most likely to report a negative effect, ranging from Export only (41%) to those who are fully international (64%).

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, already higher than pre-pandemic, increased further and overall, three fifths of SMEs had either been, or planned to be, innovative.

30%

of SMEs had grown, still below pre-pandemic levels

30% of SMEs in Q2 2024 reported having grown, increasing by size from 27% of those with 0 employees to 48% with 10-49 employees and 44% with 50-249 employees.

Growth was higher than the 18% reporting growth in 2021 but has changed little since 2022 (27%) and remained below the 4 in 10 typically reporting growth pre-pandemic.

While the number who had declined remained higher than pre-pandemic

Immediately pre-pandemic, 1 in 5 SMEs reported a decline (19% in 2019). This then increased markedly to 56% in 2021 before declining to one in three in 2023 (33%) where it has remained (it is 32% in Q2 2024).

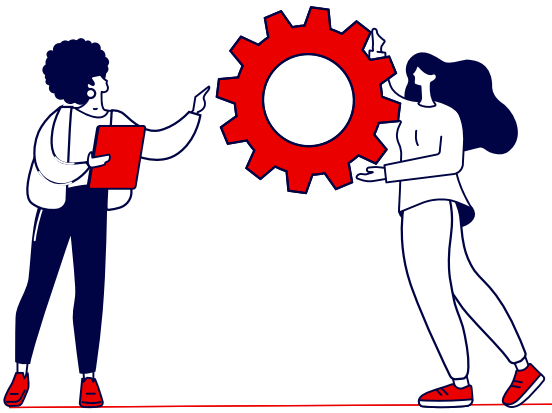
It was more of an issue for the smallest SMEs where 36% reported a decline in Q2 2024, reducing by size to 14% of those with 50-249 employees.

Nearly half of SMEs had been innovative, well above pre-pandemic levels

Levels of innovation increased during the pandemic (from 35% in 2019 to 42% in 2020) before having a period of stability. In Q2 2024 however, a new high of 46% of all SMEs have reported having innovated, increasing by size of business from 43% of those with 0 employees to 63% of those with 50-249 employees.

Hospitality and Business services (both 63%) were the most likely sectors to have been, or planned to be, innovative.

Looking forward, 39% of SMEs planned to innovate in future. This means that overall, 58% of SMEs had either been, or planned to be, innovative.



50%

of SMEs in Q2 2024 expected to grow in the coming year, back to pre-pandemic levels for smaller SMEs

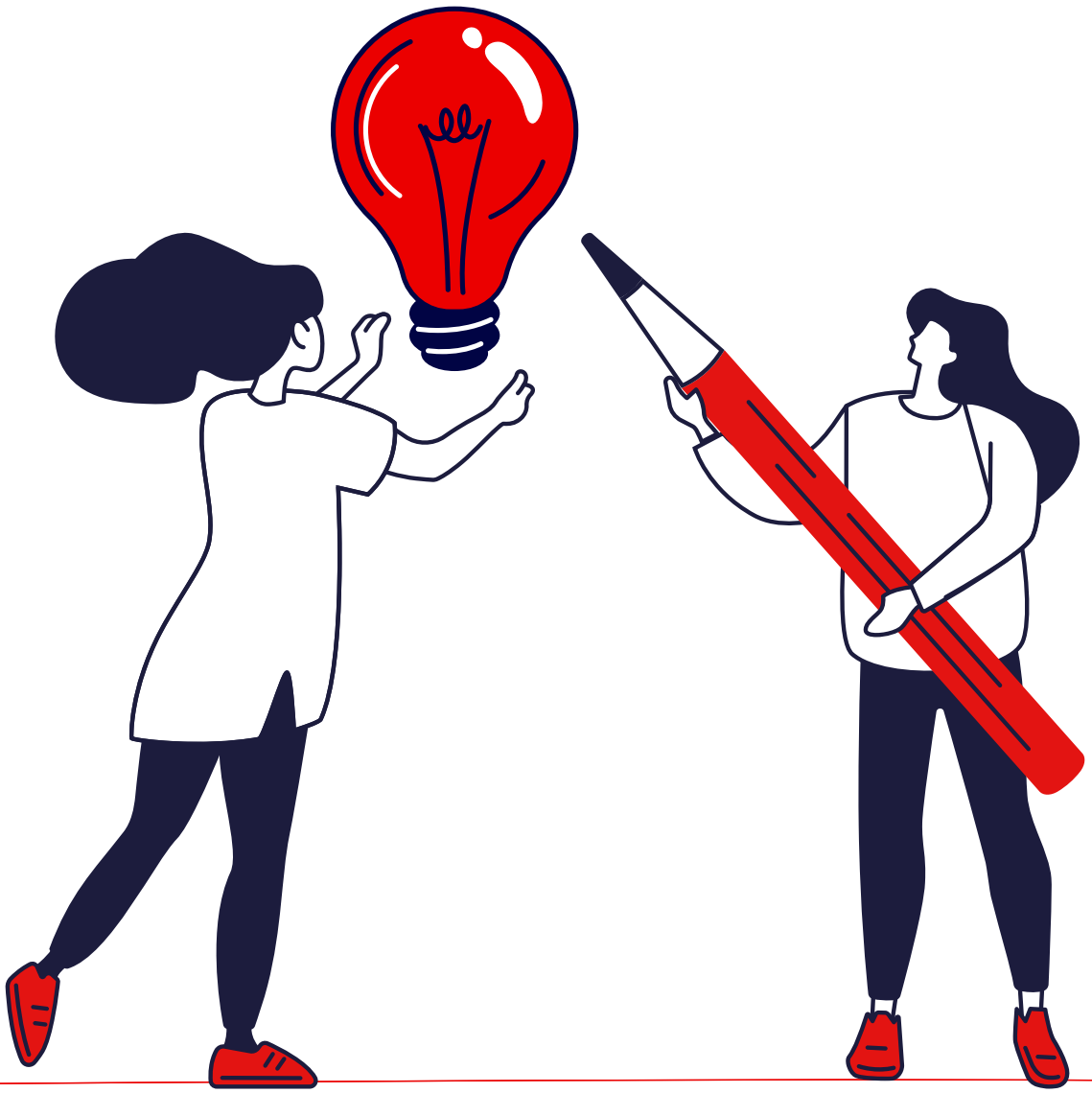
50% of SMEs in Q2 2024 planned to grow in the next 12 months, increasing by size of SME from 48% of those with 0 employees to 66% of those with 50-249 employees.

Overall, and for smaller SMEs, this was back in line with pre-pandemic levels, but not for larger SMEs. In Q2 2024, 59% of those with 10-49 employees planned to grow, down from 64% planning to do so in 2018, with the gap larger for those with 50-249 employees (66% compared to 79%).

27%

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

27% of all SMEs Q2 2024 planned both to grow and to be innovative in the coming year. 'Ambitious innovators' were more likely to be young – either start-ups (46%) or 2-5 years old (41%), fully international (40%) or be planning to apply for finance (48%).



Use of external finance: 1 in 5 SMEs were still repaying pandemic funding, helping to boost the proportion using finance to 43% and reduce the Permanent non-borrowers with little apparent appetite for finance to 35%. One in six (14%) were concerned about repaying what they owed, but most had yet to speak to their bank, despite saying this was impacting their business.

43%
of SMEs used external finance in Q2 2024, including

19%
still repaying government backed pandemic funding

43% of SMEs were using external finance in Q2 2024, increasing by size of SME from 39% of those with 0 employees to 65% of those with 10-49 employees.

This is based on the definition introduced in 2023 which includes a better measure of those still repaying government backed pandemic funding, alongside core and other forms of finance.

In YEQ2 2024, 20% of SMEs were still repaying pandemic funding. This included 34% of all SMEs with 10-49 employees and 29% of those with 1-9 employees, compared to 17% of the smallest SMEs with 0 employees and 13% of the largest SMEs with 50-249 employees.

31% of SMEs were using some form of 'core' finance in YEQ2 2024, primarily credit cards (17%), a bank overdraft (13%) and/or a bank loan (10%), while 22% of SMEs were using some 'other' form of finance, primarily leasing/hp (10%).

Notably, credit cards and overdrafts are now the dominant form of core finance used, just as it was pre-pandemic.

Overall use of finance is back in line with 2019, but this is due to both pandemic funding and more use of core finance

In 2022, under the previous definition, 36% of SMEs were using external finance. In Q2 2024, 43% were using finance and 20% still repaying pandemic funding.

The increase from 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.

Overall use of finance in Q2 2024 was broadly in line with 2019 (43% v 45%), but those with 0 employees were still a little under (-4) while those with 1-9 and 10-49 employees were a little over (both +5). It is the largest SMEs where there is still the biggest difference to 2019 (-32).

A quarter of borrowers had secured facilities

25% of borrowers said that some or all of their borrowing was secured. This varied both by size of borrower (from 23% of those with 0 employees to 36% of those with 50-249 employees) and by total sum borrowed (from 13% of those borrowing less than £25,000 to 39% of those borrowing more than £100,000).

14% of borrowers were concerned about repaying the finance they had, and concern about finance is increasingly having a negative impact

14% of borrowers (YEQ2 2024) were concerned about how they would repay the finance they had. Concern was higher amongst smaller SMEs than larger ones (15% among those with 0 employees falling to 4% of those with 50-249). More significantly, those borrowing £25-100k and those who have taken on new/additional funding compared to pre-pandemic express concern (both 27%). 20% of those repaying pandemic funding were concerned.

The impact that concern about finance has on the business is becoming more acute over time – SMEs are increasingly likely to say that it is impacting how much they can grow the business (66%, up from 58% in 2023), how much they can invest (59%, up from 49%) and recruit/develop staff (39%, up from 35%).

60% had no plans to speak to their lender

A minority (26%) of all those concerned about repaying their existing finance had already spoken to their lender (with 52% of these satisfied with the outcome) and a further 14% planned to do so, leaving the largest group (60%) 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 was unlikely their lender would treat them fairly, offer practical help and/or be supportive.

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 Q2 2024, 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 Q2 2024 varies by size from 36% of 0 employee SMEs to 21% of those with 10-49 employees and 40% of those with 50-249 employees. All SMEs remained less likely to be PNBs than to be using external finance, the opposite of what was the case pre-pandemic.

Attitudinally, SMEs remained cautious about finance, but a stable

29%

were 'Ambitious risk takers'

A consistent 86% 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.

54% felt put off from applying by the increase in interest rates and 36% of SMEs believed it would be quite difficult for a business like theirs to get finance, with the latter more of an issue for small SMEs, those with a worse than average risk rating, and younger SMEs (Starts and 2-5 years). It was also higher for those already using external finance.

34% of SMEs were happy to use finance to grow, especially mid-sized SMEs, whereas both the smaller and larger businesses were less inclined to do so.

More broadly, 46% of SMEs were prepared to take risks to be successful and 42% 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 Q2 2024 met that definition.

Appetite for finance: Whilst the need for finance remained limited, SMEs are now firmly back to funding for business development rather than cash flow, as they were before the pandemic. Another trend is that the role of the main bank has continued to reduce 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

5% of SMEs in YEQ2 2024 reported having had a funding need, with limited variation in incidence across different sizes of SMEs (3-6%).

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

Just over half of those with a need for funding (53%) said that it was for business development purposes, while 4 in 10 said the need was cash flow related (45%). These are similar proportions to those recorded pre-pandemic, whereas during the pandemic most applications (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

Two fifths (40%) of SMEs in H1 2024, with a need for funding, initially spoke to their main bank, or any other provider or advisor. This is in line with 2022 (43%) but makes 2023 look like an aberration (29%).

45% of those who did anything about their need for funding had a borrowing event somewhere, 10% decided to fund all or part of it themselves and 23% decided not to take any funding. 26% were still deciding what to do, far higher than seen in previous years.

Compared to previous years, fewer SMEs (45% in H1 2024) had a borrowing event (80% in 2021) and fewer had a borrowing event at the main bank (22% did, compared to 47% in 2022), the lowest level since 2019 when 29% had a borrowing event at the main bank.

Applications were typically for a loan and made to a known provider, even though it was not always the main bank

23% of the applications reported were made to the main bank and a further 10% to another provider known to the business in YEQ2 2024. 11% were made to a new provider and 6% to an online platform.

44% of applications were for a bank loan, a significant fall from the pandemic peak in the 18 months to Q4 2021 when 61% of all applications were for a bank loan. A further 19% of applications were for a bank overdraft.

50%

of all applications made in the current period were successful

50% of applications reported resulted in a facility, 7% were offered finance but chose not to take it and 37% were declined.

Application success increased markedly by the size of SME from 42% of applications from those with 0 employees to 86% of the small group of applications from those with 50-249 employees.

Success rates were lower for first-time applicants (43%) than for those who had borrowed before (63%) and for those applying to their main bank (49%).

35% of those applying for a bank loan were successful, with 52% declined while 48% of those applying for a bank overdraft were successful, with 35% declined. This contrasts with the 82% success rates for leasing/hp (base sizes preclude analysis of other products).

After an extended period of success rate decline, things seem to be improving, especially for 0 employee SMEs

Immediately before the pandemic, in the 18 months to Q4 2019, 71% of all applications were successful. The launch of government-backed funding increased the success rates for the periods ending Q4 2020 and Q4 2021 (85% and 82% respectively).

In the next period, ending in Q4 2022, a lower proportion of applications were successful (59%). Success rates fell again in the 18 months to Q4 2023 (53% successful) but have picked up in the latest period to Q2 2024 (56% successful).

The most notable change has been success rates for 0 employee SMEs. After falling sharply from 81% in the period ending Q4 2021 to 52% and then 42% in the next two periods, it has now risen to 49% in the period ending Q2 2024.

Looking back, most SMEs have been Happy non-seekers of finance, and while appetite has increased, it has fluctuated recently

In Q2 2024 10% of SMEs had a borrowing event, 4% had wanted to apply but something stopped them (the Would-be seekers) and most, 86%, had been Happy non-seekers of finance.

Looking forward, 9% were planning to apply, 21% expected to be a Future would-be seeker and 70% expected to be a Future Happy non-seeker of finance.

There has been an increase in FWBS since the pandemic, but it has fluctuated so far in 2024 between Q1 (33%) and Q2 (30%) driven by declining numbers of smaller SMEs being FWBS. Generally, however, smaller SMEs continuing to be more likely to meet the definition than those with 50-249 employees.

The key barrier to a future application remained a reluctance to borrow now (73% 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,

6 in 10

wanted funding for business development while half were confident a bank would lend to them

In Q2 2024, 64% of those planning to apply wanted the funds for business development, such as to fund expansion in the UK, while 36% were looking for funding to aid cash flow. During the pandemic, application plans were weighted in favour of cash flow, but the plans SMEs are making now are more in line with 2019.

47% 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 but unchanged over the last eighteen months. Future Happy non-seekers, with no plans to apply, remained the most confident (53%) compared to 37% planning to apply for finance and 32% of Future Would-be seekers.

bva
Bdrc

UK Finance