

# SME FINANCE MONITOR

3 month rolling analysis to end  
July 2019

An independent report by  
BVA BDRC, August 2019



# Introduction

The SME Finance Monitor was established in 2011 and provides detailed analysis of SMEs and their access to finance on a half yearly basis. The next full report to Q2 2019 will be published in September 2019.

As fieldwork takes place on a continuous basis, it is also possible to provide headline data on key issues in between these full reports. This pack will therefore be provided on a monthly basis and provide the latest 3 months rolling data across a range of issues.

The most recent data point for this report is the 3 months from May to July 2019.

Headline analysis is provided for all SMEs, with key questions split by size of SME. Some analysis is also provided by the type of international trade (if any) undertaken alongside domestic activity:

- Exporting but no importing (labelled as "export only")
- Importing but no exporting (labelled as "import only")
- Both importing and exporting (labelled as "import & export")
- No international trade, SME only trades domestically (labelled as "domestic sales only")

Differences shown month on month are not necessarily statistically significant. Differences of 4%+ month on month are needed for the total sample and up to 10%+ for some of the smaller groups (such as those trading internationally).

# Introduction – Changes to main SME Finance Monitor questionnaire from Q1 2018


The SME Finance Monitor questionnaire has evolved gradually since it started in 2011.

In Q4 2017 it was decided that a more radical review was required to reflect changes in the finance market for SMEs, such as the rise of online platforms and other non-bank suppliers of finance. This was also an opportunity to focus on “need” for finance and how this translates into applications.

Most of the questions reported in this pack have remained unchanged.

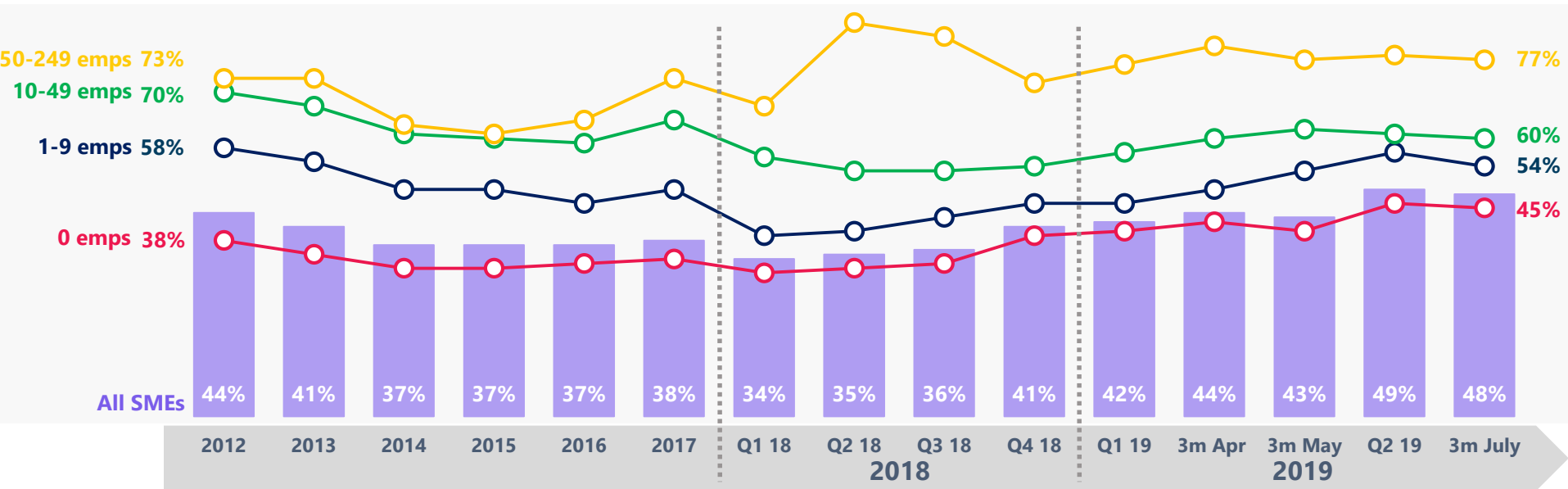
However, there have been slight changes to the “types of finance used” question and also to the definition of a “Permanent non-Borrower”. These initial results do not suggest the changes have had a major impact on results but will be monitored over time.

All of the changes have been reported on in full in the Q4 2018 SME Finance Monitor report, published in March 2019

This pack has been updated to reflect the new questionnaire and some new data included. New charts are indicated with a 

Almost half of SMEs were using external finance, clearly above the 36% using finance in 2018 as a whole, with SMEs with 0 and 1-9 employees in particular now more likely to use finance

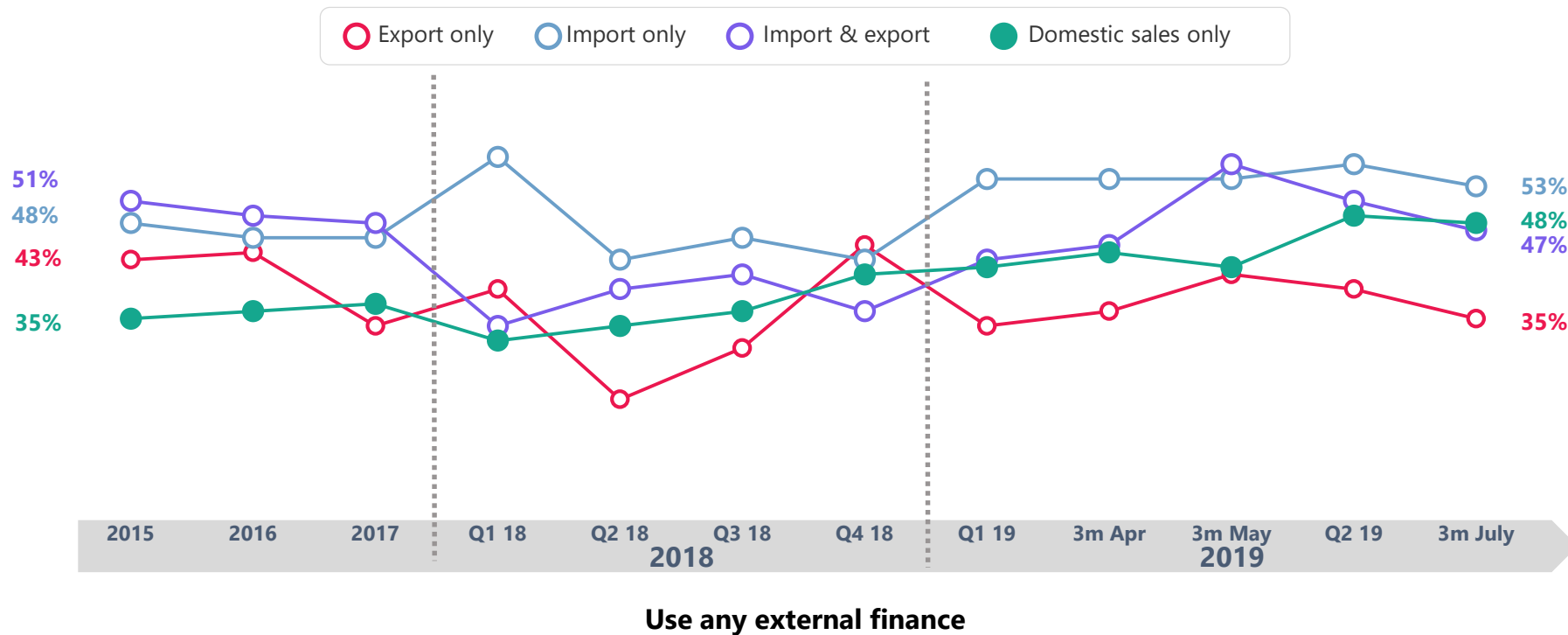
*Time series: use of external finance per quarter*



In 2018 as a whole, 36% of SMEs were using external finance, increasing by size of SME to 77% of those with 50-249 employees. Towards the end of 2018, use of finance started to increase, rising to 44% in the 3 months to February 2019, and 49% in Q2 (48% for the latest 3 months to July). The increase overall is driven by the behaviour of 0 employee SMEs (39% using finance in Q4 2018 to 46% in Q2 2019), but all SMEs with fewer than 50 employees have seen an increase during 2019, predominantly in the use of bank overdrafts and credit cards.

The increase in use of finance in Q2 2019 came mainly from domestic SMEs. Use of finance continued to be more variable for those trading internationally, albeit little changed in 2019 for those who import

*Time series: use of external finance by extent of international trade alongside domestic sales*



There continues to be a “gap” in favour of finance (last seen in 2012) between the proportion of SMEs using external finance and those meeting the definition of a ‘Permanent non-borrowers’

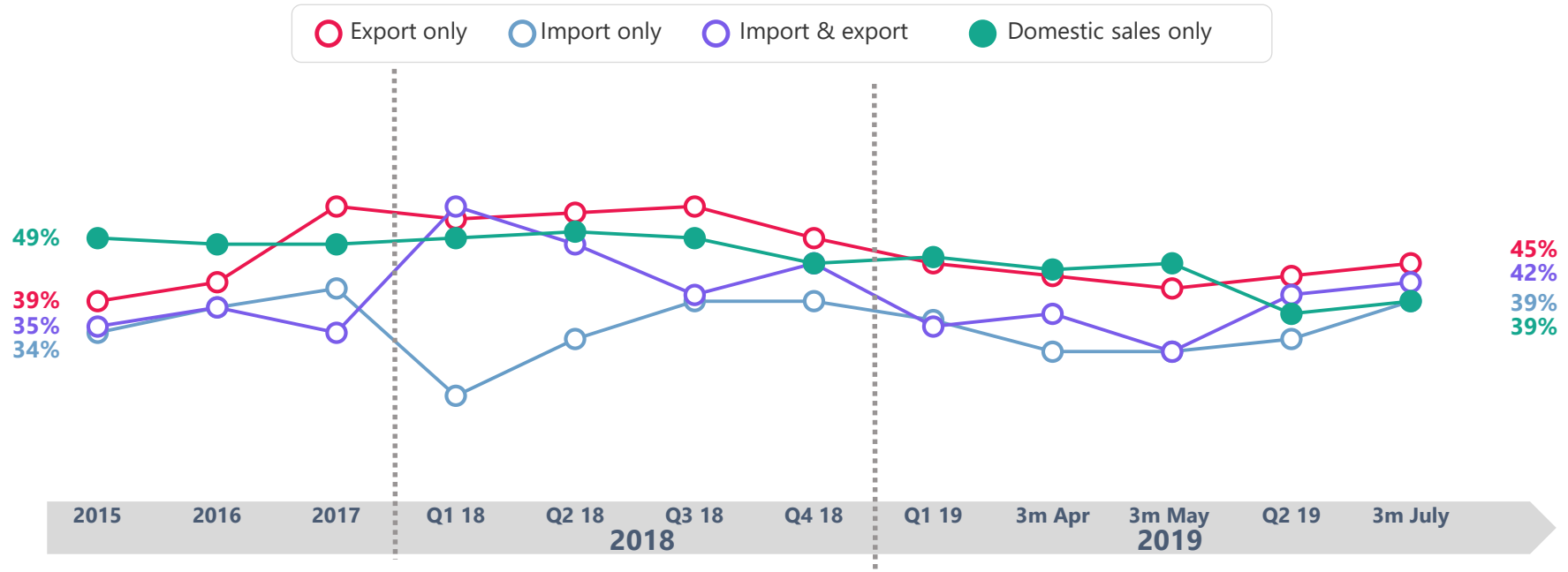
*Time series: Permanent non-borrowers and users of external finance*



The ‘Permanent non-borrowers’ are firms with no apparent appetite for finance and are defined by not using external finance and showing no inclination to do so. The 3 months to July figure of 39% is below 2018 as a whole (48%) and with the increased use in external finance there are now more SMEs using external finance than meeting the definition of a PNB, which has not been seen since 2012.

As more international SMEs meet the definition of a Permanent non-borrower in the latest 3 month period, there is now little to choose between them and domestic SMEs

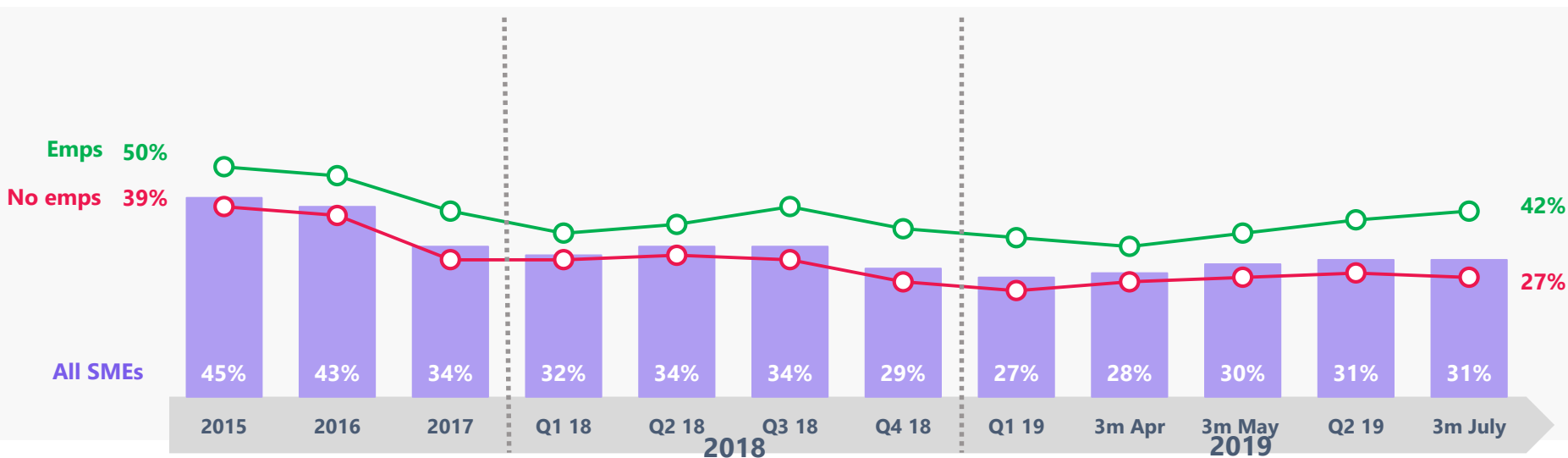
*Time series: Permanent non-borrowers by extent of international trade alongside domestic sales*



**Permanent non-borrowers  
(no apparent appetite for finance)**

## 3 in 10 SMEs were 'happy to use finance to grow' in the 3 months to July. SMEs with employees have seen a slight increase in potential appetite for finance, back to levels seen in 2017

*Time series: Agree that happy to use external finance to help business grow*

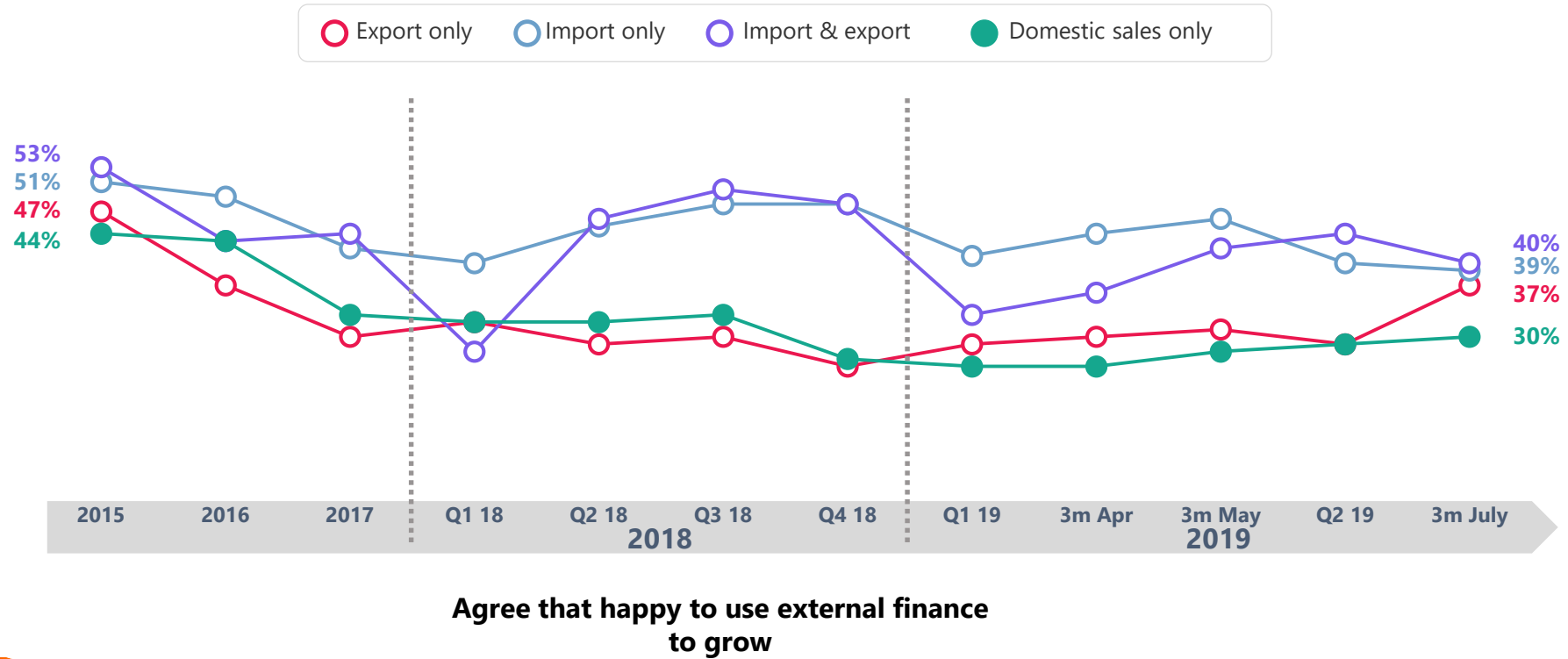


After remaining stable during 2016, the proportion of SMEs happy to use finance to grow declined to 1 in 3 for 2017 and Q1-3 2018. By Q1 2019 the proportion had declined again to around a quarter of SMEs (27%), with lower appetite amongst both 0 employee SMEs (24% in Q1 2019, down from 32% in Q3 2018) and those with employees (36% in Q1 2019, down from 43% in Q3 2018). Data for the latest period to July shows a stable 31% overall and a slight increase in appetite amongst SMEs with employees



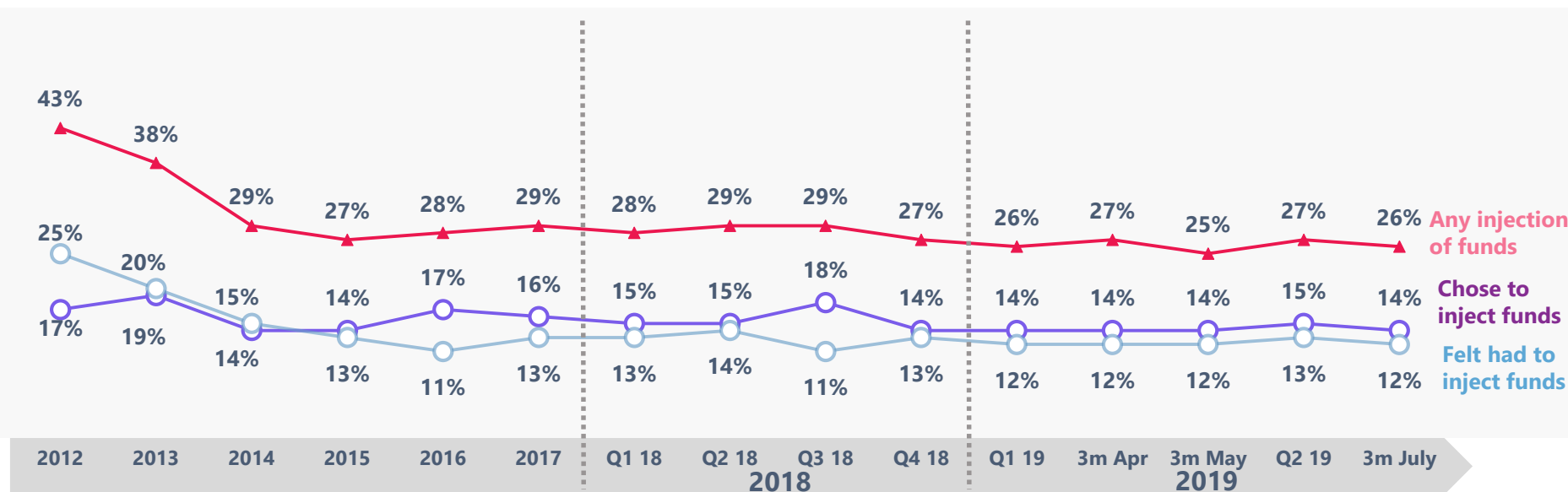
# All types of international SME currently have more appetite for finance than domestic SMEs

Time series: Agree that happy to use external finance to help business grow



Around a quarter of SMEs have injected personal funds, with little change over recent months. SMEs were broadly as likely to have chosen to do so as to have felt that they had to.

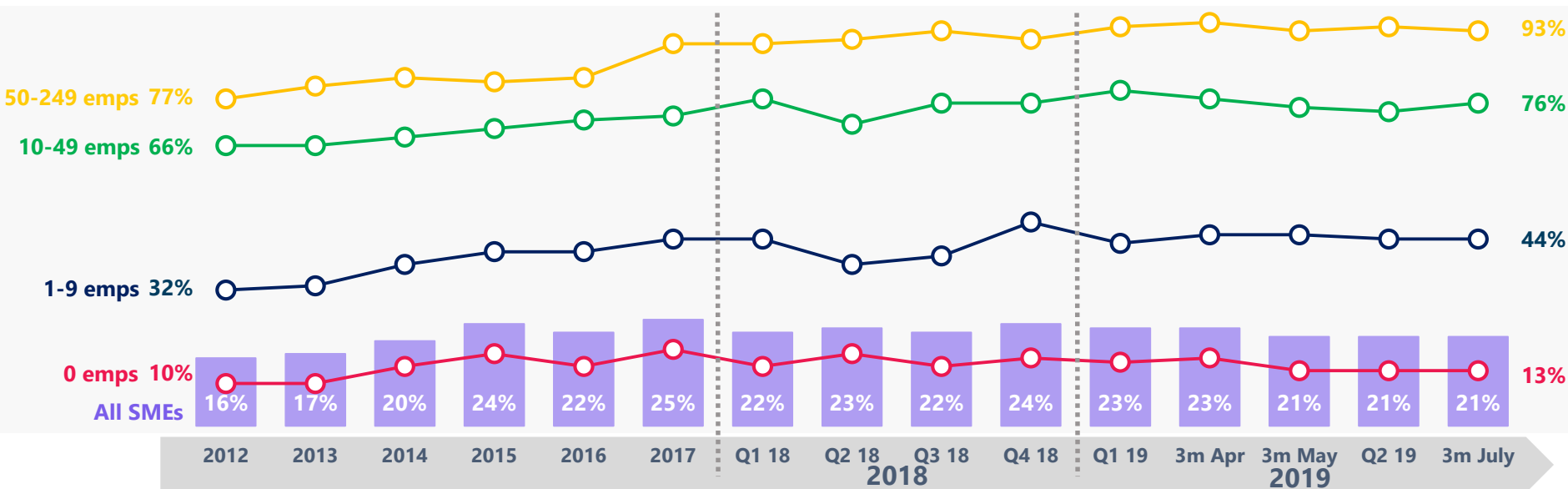
*Time series: Injections of personal funds in previous 12 months*



The proportion of SMEs injecting funds fell from a peak of 43% in 2012 to 28-29% of SMEs from 2016 onwards (29% for 2018 as a whole). In the latter stages of 2018 and January 2019 the proportion fell slightly but has been stable since, at 26% for the 3 months to July.

## Around a fifth of SMEs held more than £10,000 of credit balances, slightly lower than at the start of 2019 due to fewer 0-employee SMEs holding such sums

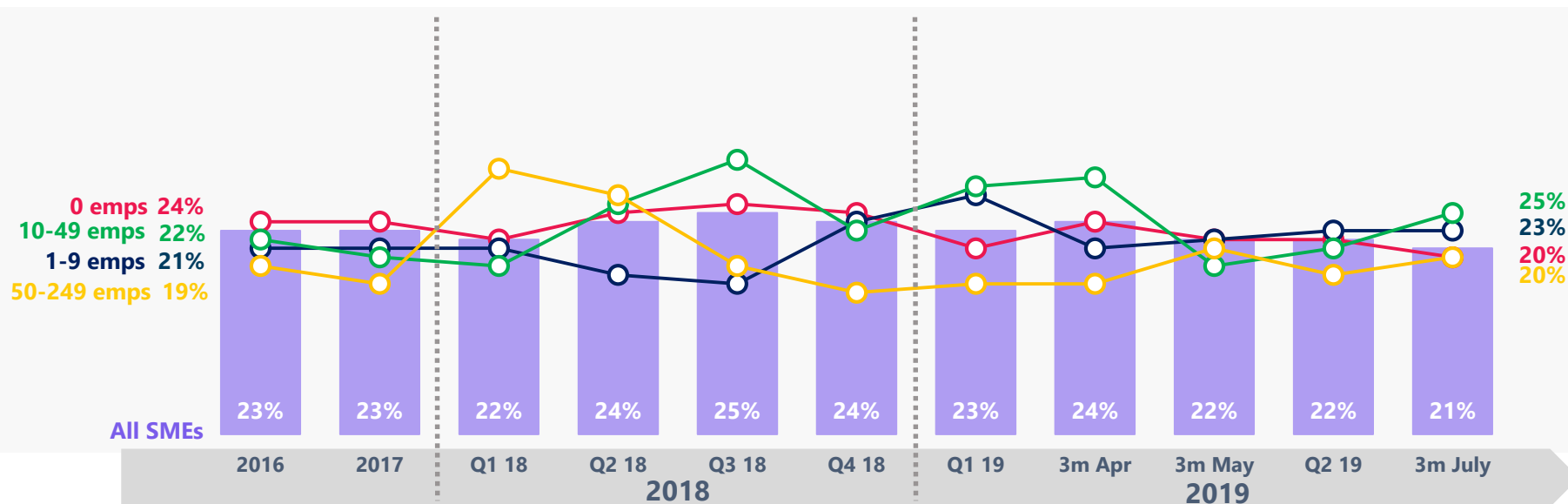
*Time series: £10k credit balances held*



The proportion of SMEs holding £10,000 or more in credit balances increased from 16% in 2012 to 24% in 2015 and has been broadly stable since (23% in 2018). It has been somewhat lower since the 3 months to May (21%) due to fewer 0 employee SMEs holding such sums (13% compared to 16% in Q4 2018). Larger SMEs remain more likely to hold such sums.

On average SMEs held the equivalent of around a fifth of their turnover as credit balances. There remained little difference by size of SME

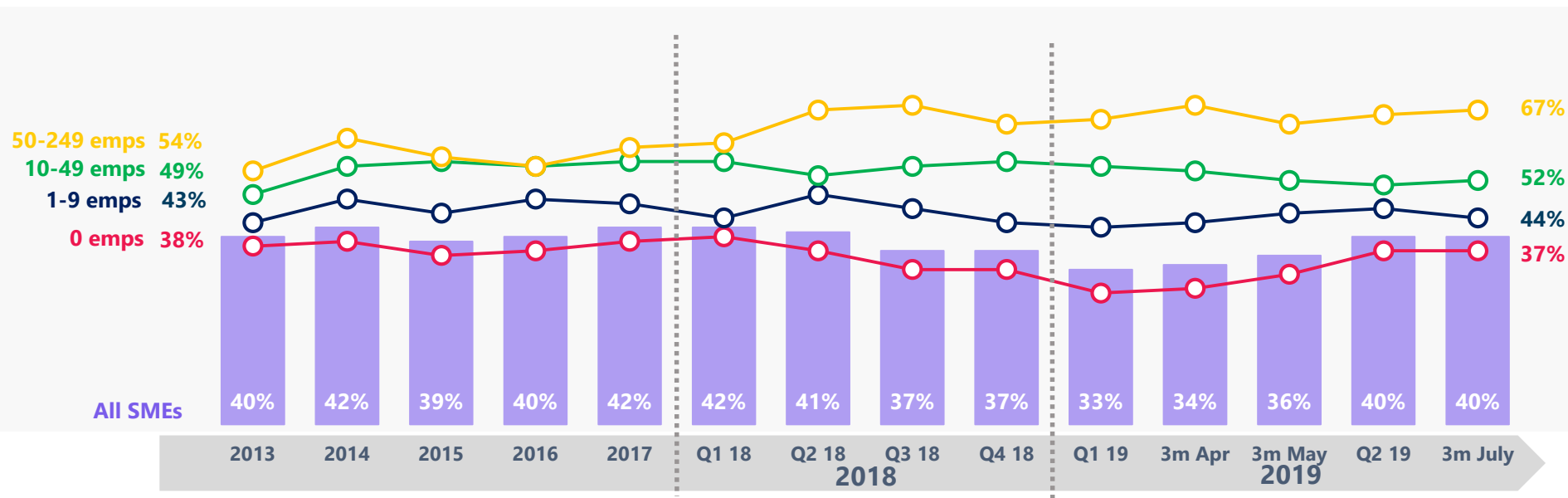
*Time series: % of turnover held as credit balances*



More recent analysis looks at credit balances held as a percentage of total turnover (both collected in bands, with mid-points used). For the 3 months to July 2019, SMEs held the equivalent of 21% of their turnover in credit balances on average, somewhat lower than was seen from Q2 2018 onwards. There is currently little to choose between SMEs by size.

## The proportion of SMEs reporting growth declined between Q1 2018 and Q1 2019 but has improved since, lead by the smaller SMEs

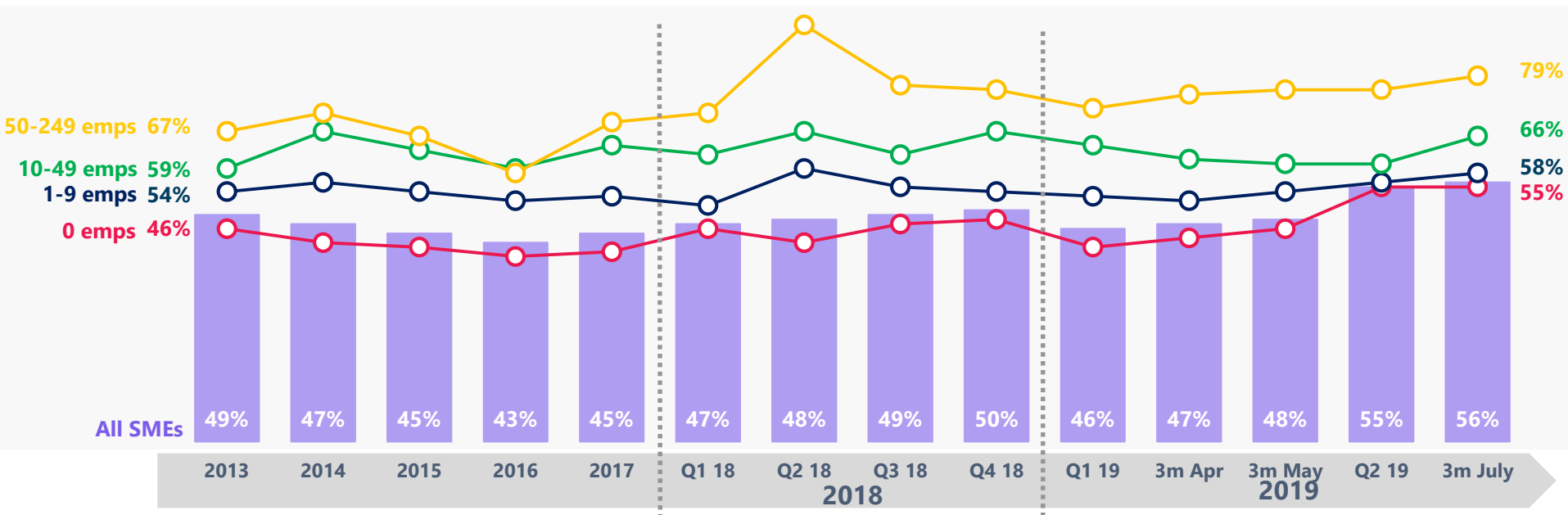
*Time series: Have grown (excluding Starts)*



Between 2012 and 2018, the proportion of SMEs (excluding Starts) reporting growth varied little (39-42%). It was at the lower end of this scale for 2018 as a whole (39%) as fewer SMEs reported growth from Q3 2018 onwards and into 2019 (the 32% in the 3 months to February was the lowest recorded on the SMEFM to date). Since then the proportion has increased somewhat and was 40% for the 3 months to July. This was lead by those with 0 employees where 37% reported having grown, up from 28% in Q1 2019.

As reported growth declined somewhat to Q1 2019, growth ambitions broadly held up. Since then, the proportion planning to grow has increased, to 56% in the current period, lead by the 0 employee SMEs

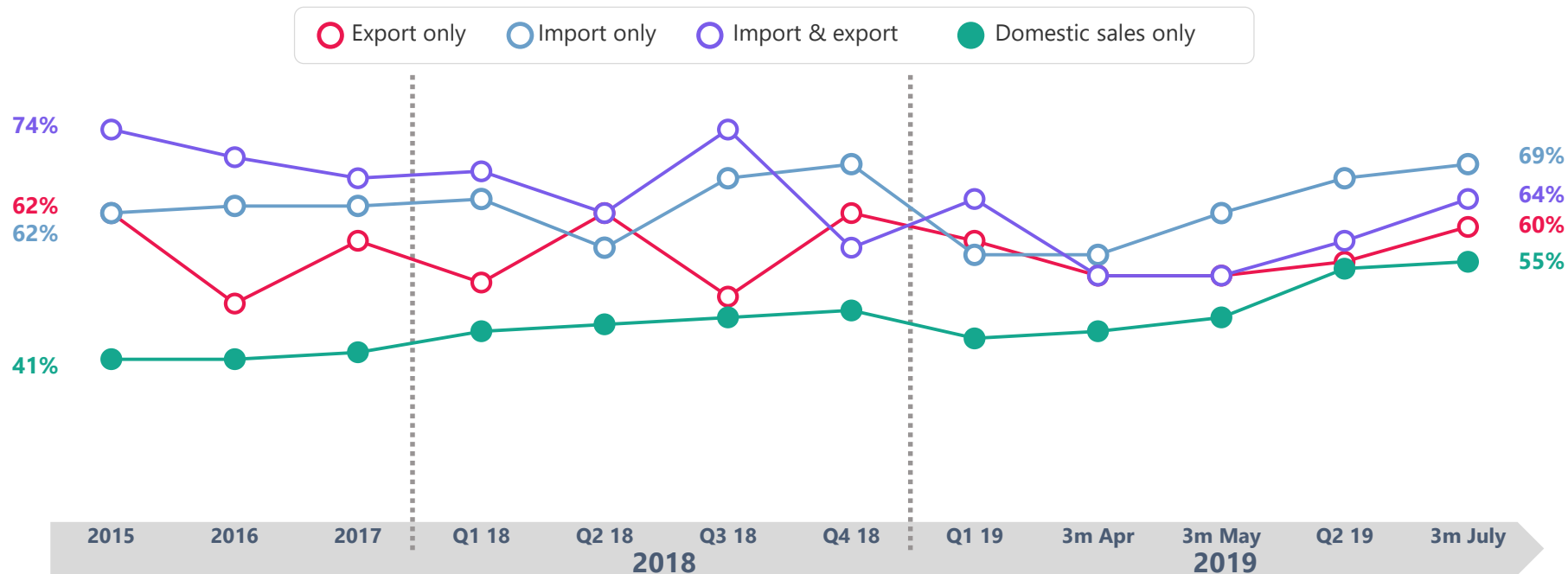
*Time series: Have plans to grow*



49% of SMEs planned to grow in 2018, up from 45% in 2017. This was due to more 0-employee SMEs planning to grow (46% in 2018 from 41% in 2017). In the 3 months to July, 56% of SMEs were planning to grow, again lead by the 0 employee SMEs (42% in Q1 2019 to 55% in Q2 2019 and the current period).

International SMEs' ambition has been variable but typically ahead of domestic SMEs. Between Q1 and Q2 2019, ambition increased for domestic SMEs bringing them closer to export-only SMEs

*Time series: Growth plans by extent of international trade alongside domestic sales*

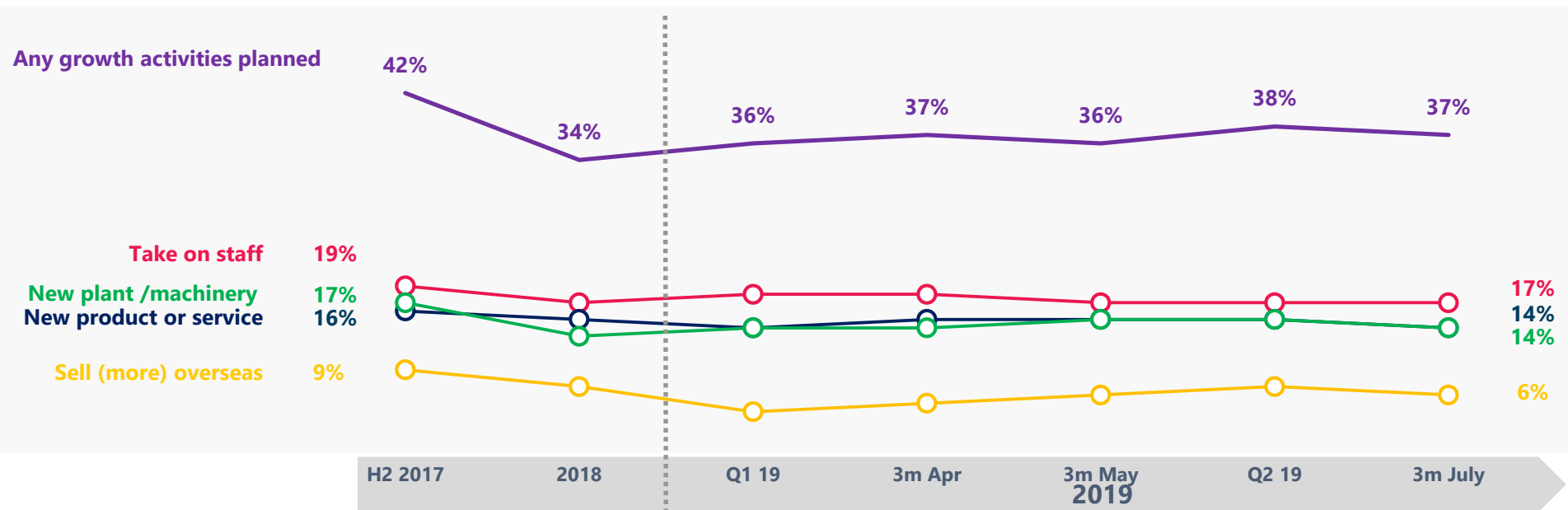


**Plan to grow in next 12 months**



Over the course of 2019 to date just under 4 in 10 SMEs have been planning growth activities, currently ahead of 2018 (34%) but lower than H2 2017 when this question was first asked (42%)

*Time series: Growth activities planned*



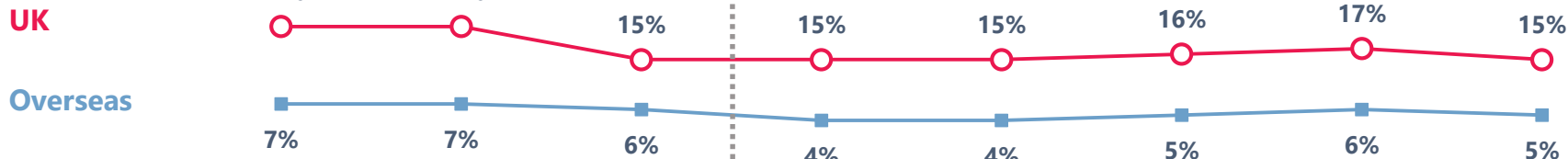
In the 3 months to July 2019, 37% of SMEs were planning one or more growth activities. The most common activity was a plan to take on more staff (17%) while the least likely was to be planning to sell (more) overseas at 6%, albeit slightly higher than the 4% planning to sell more overseas in Q1 2019.



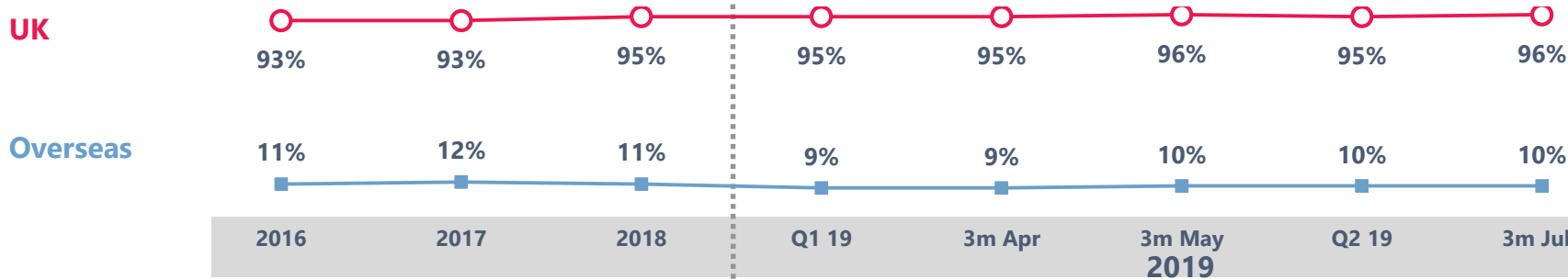
Almost all those planning to grow expect to sell more in the UK (96%). 15% plan to sell in new UK markets, down from 21% in 2016 and 2017. 5% plan to sell in new overseas markets

*Time series: How sales growth will be achieved (all planning to grow) – in new or existing markets in UK or overseas*

**Plan to sell in new market in:**



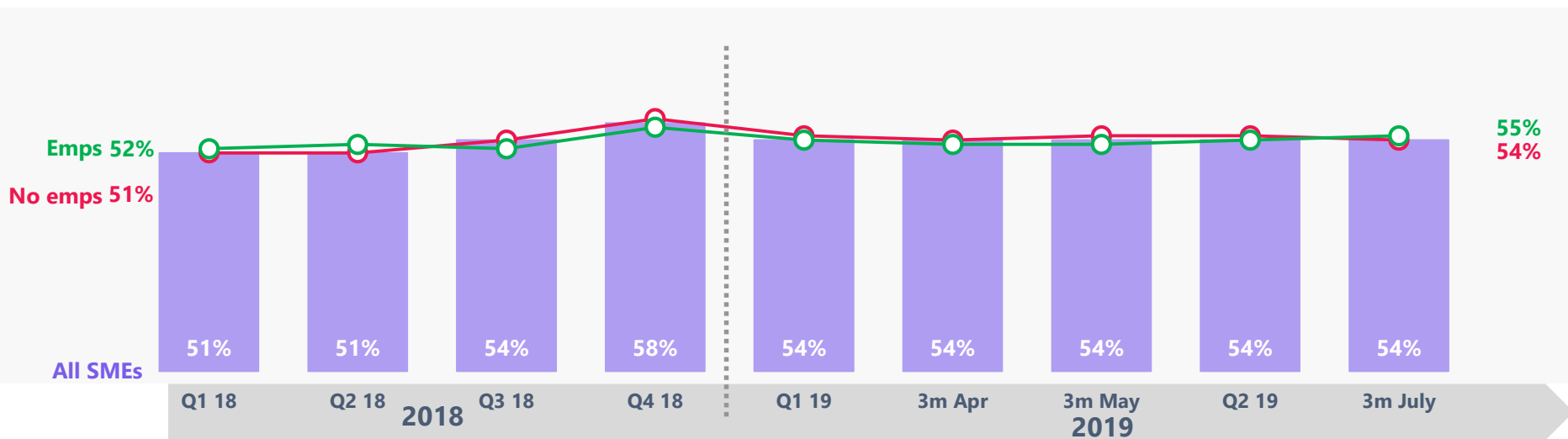
**Plan to sell in new or existing market in:**





The proportion of SMEs being cautious due to the future feeling uncertain increased from 51% to 58% during 2018. It has been stable in 2019 to date at a slightly lower level (54%)

*Time series: Agree that future is uncertain so being cautious*

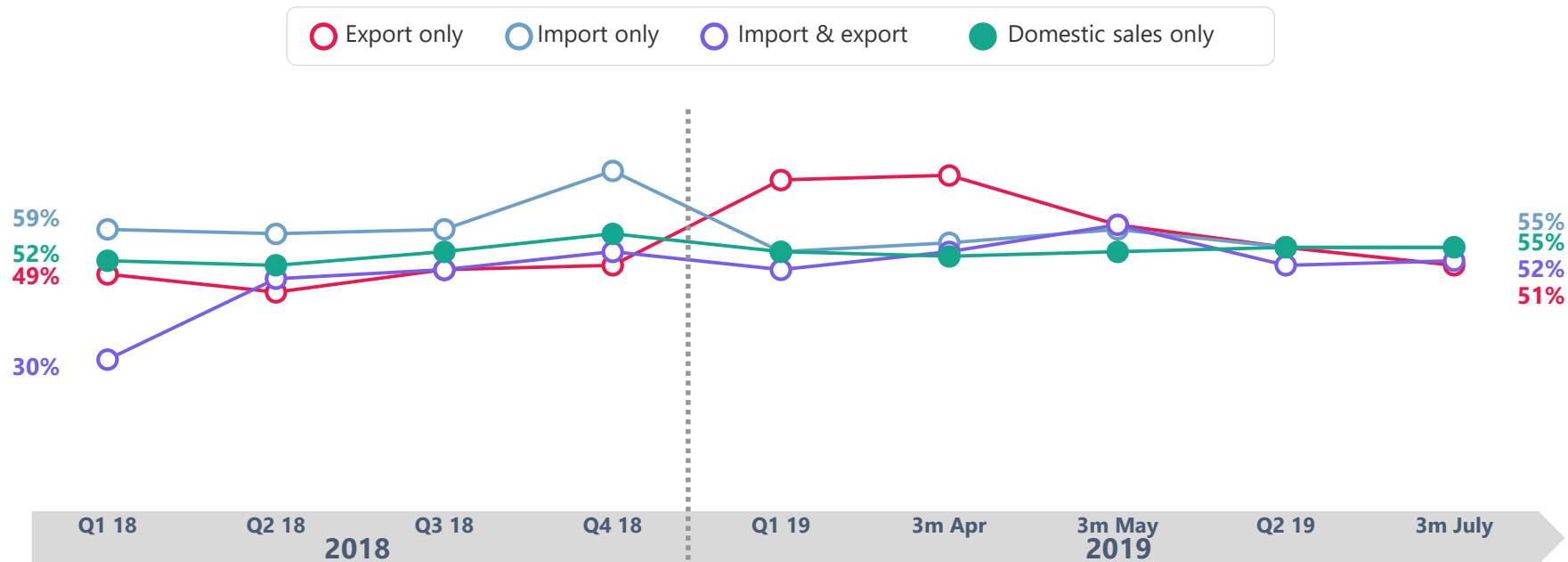


When this question was first asked in Q1 2018, half of SMEs agreed that they were being cautious, with little variation by size of SME. Over the course of 2018, that proportion increased to 58% in Q4, still with little variation by size, but there was no further increase in 2019 (currently at 54% for the 3 months to July)

Levels of caution are somewhat lower in 2019 than in Q4 2018, (led by domestic SMEs which are by far the largest cohort) and notably lower for those who only export (70% in Q1 to 51% in the current period)



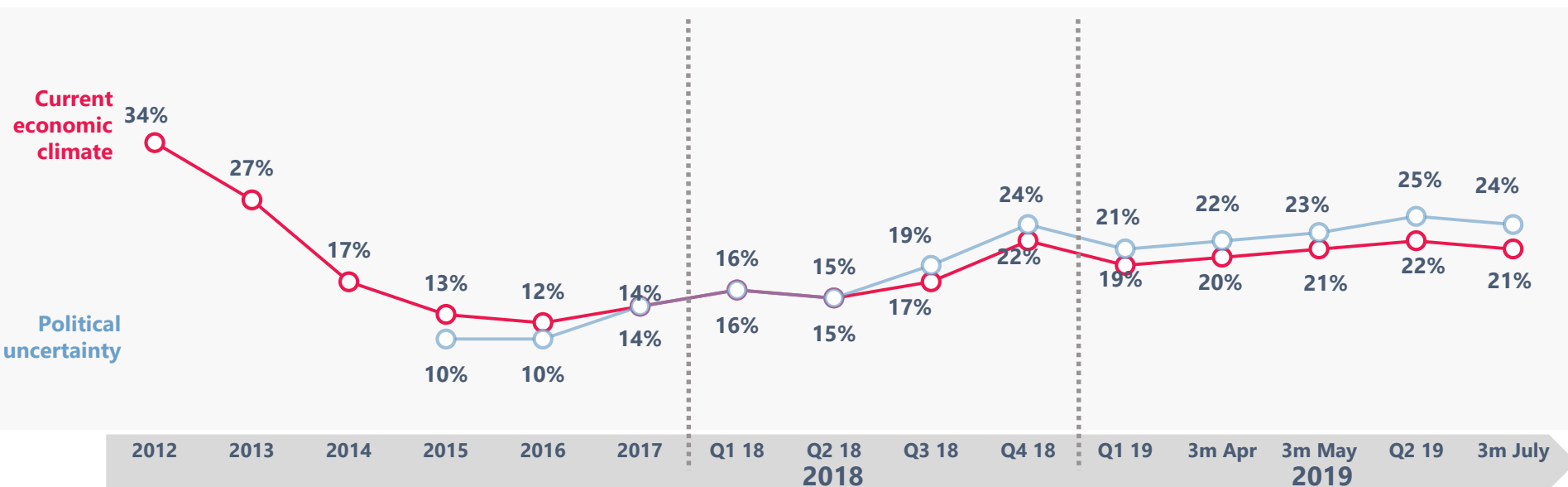
*Time series: Agree that future is uncertain so being cautious*



**Future uncertain so being cautious**

## Levels of concern around the current economic climate and political uncertainty increased during 2018. Both are currently in line with the position at the end of 2018.

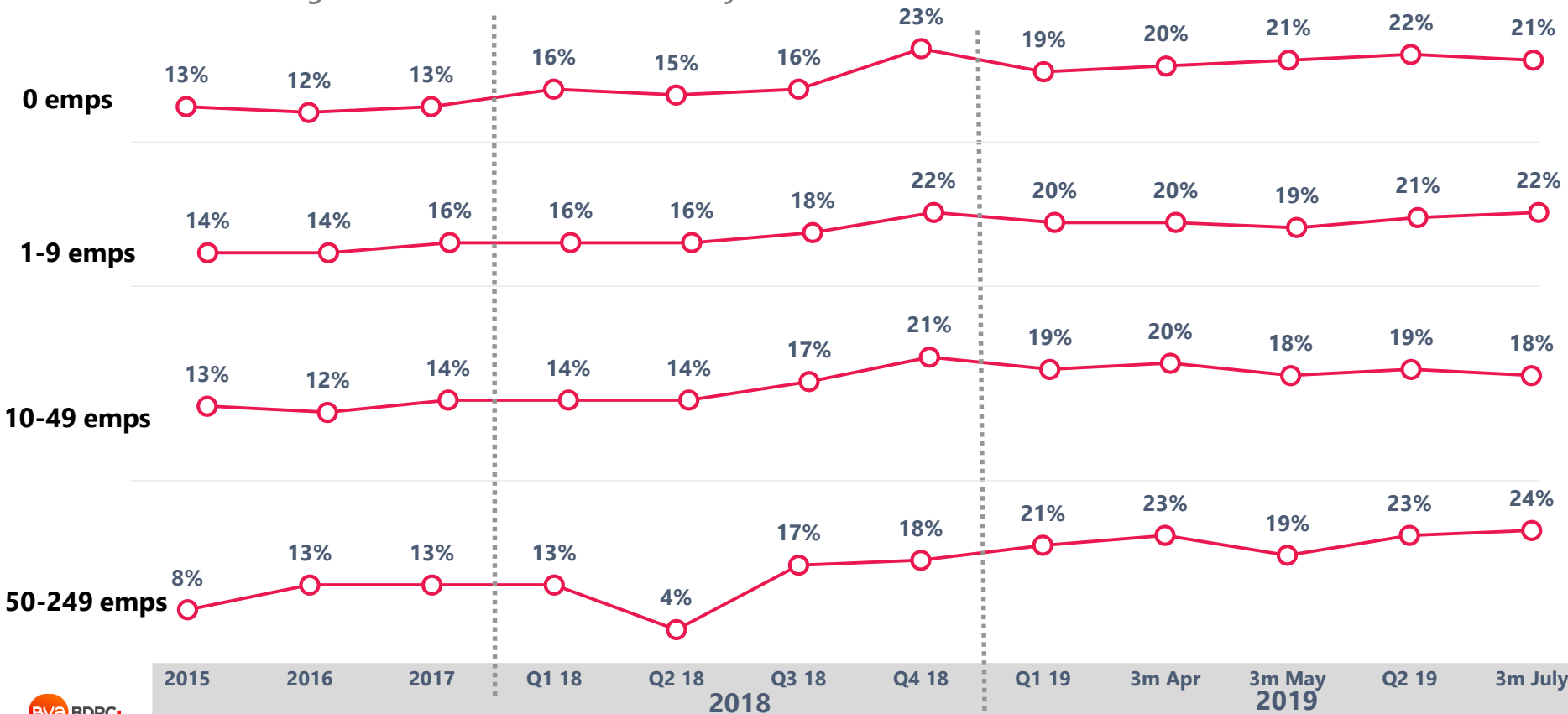
*Time series: 8-10 Major obstacle to running business in next 12 months*



Concerns about political uncertainty increased steadily during 2018 (19% for 2018 as a whole), as did concerns about the economic climate (17% for the year as a whole). Levels of concern on both metrics declined slightly between Q4 2018 and Q1 2019 but have since returned to Q4 2018 levels.

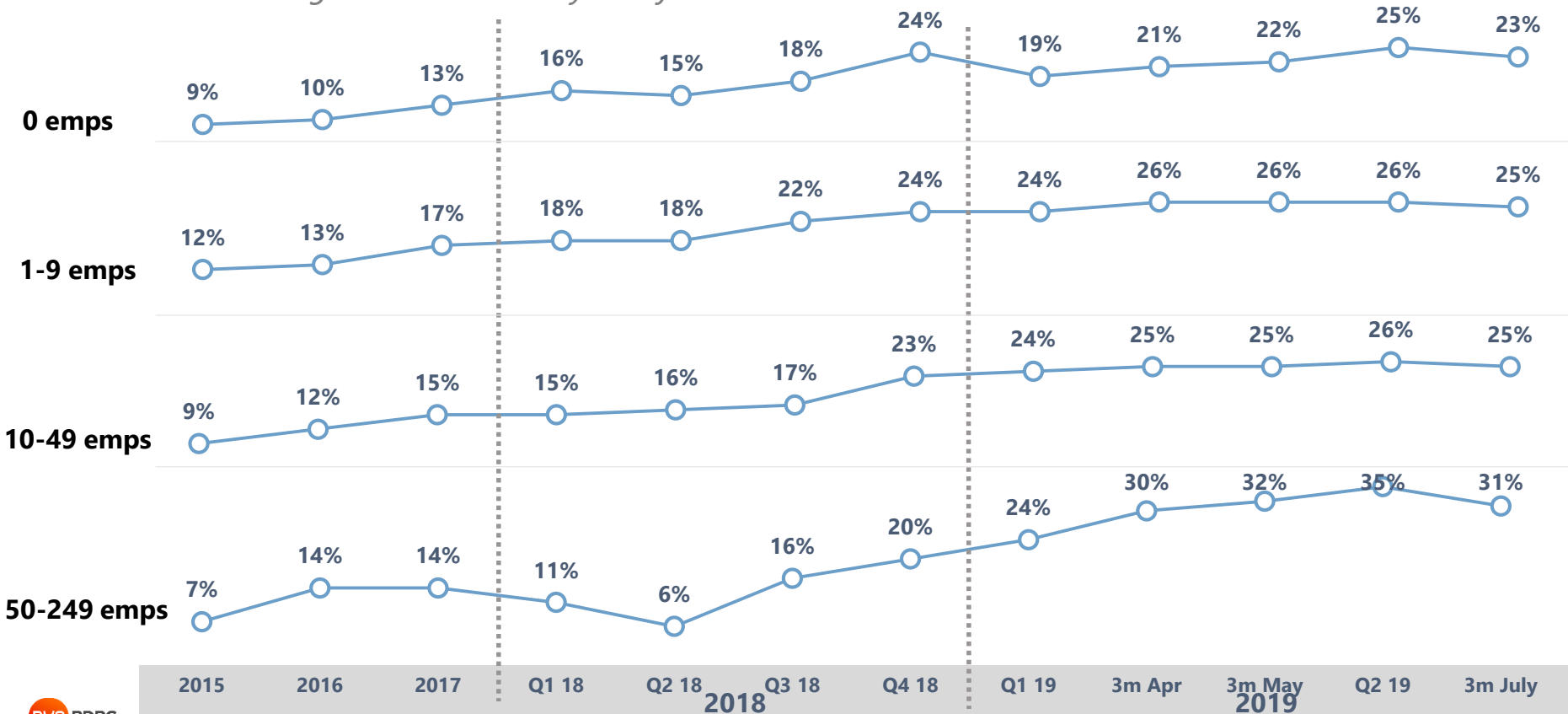
## Concern about the economic climate is somewhat higher for the largest SMEs

*Time series: % Rating 'The economic climate' 8-10 a major obstacle for next 12 mths*



## Concern about political uncertainty is also higher for the largest SMEs

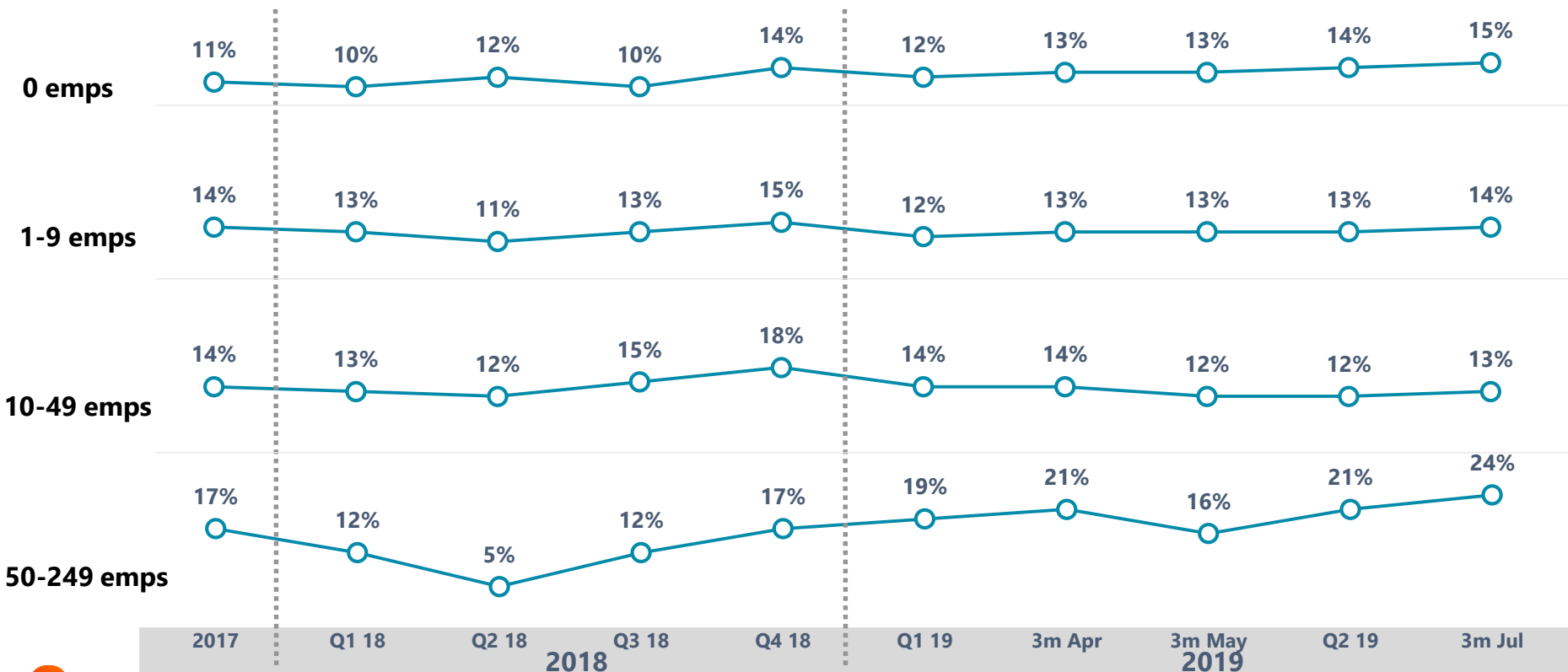
*Time series: % Rating 'Political uncertainty' a major obstacle for next 12 mths*



# Concern about the value of sterling increased for all sizes of SME during 2018 but only the largest SMEs have seen a further increase in 2019 to date

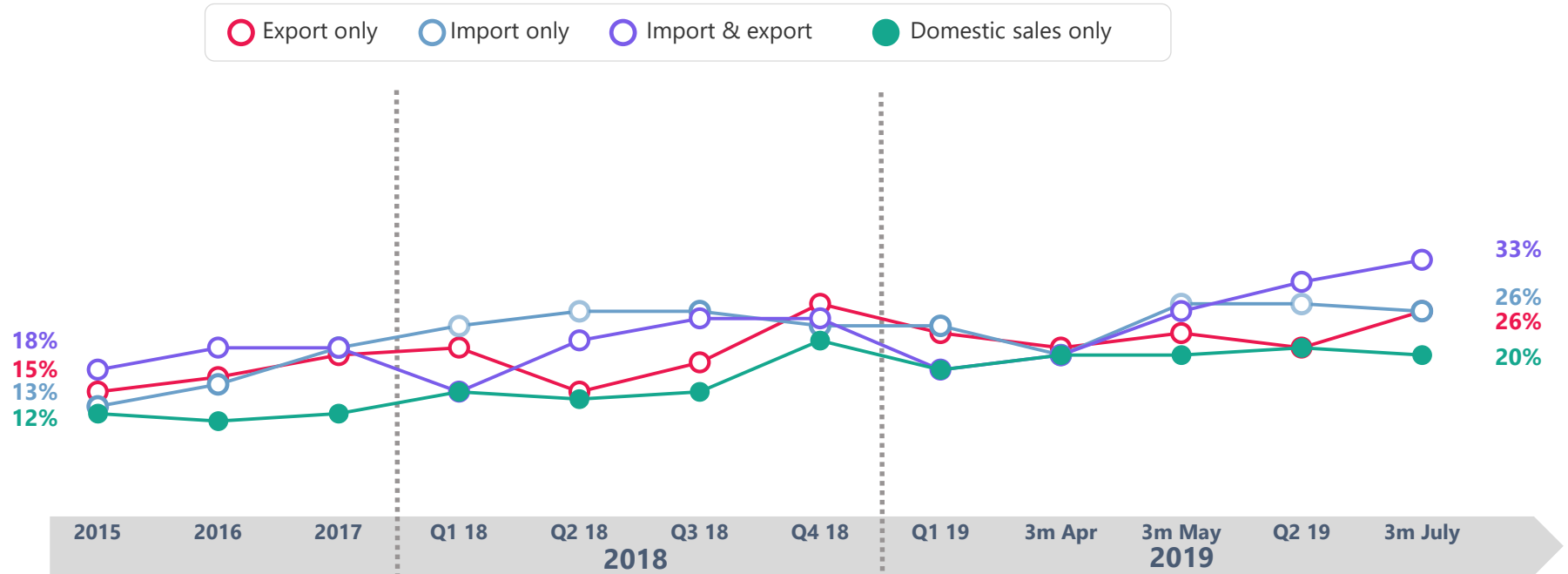


*Time series: % Rating 'Changes in the value of sterling' a major obstacle for next 12 mths*



## Those who import and export, or export-only, have become somewhat more concerned about the economic climate in the 3 months to July, with little change for domestic SMEs

*Time series: 8-10 economic climate by extent of international trade alongside domestic sales*

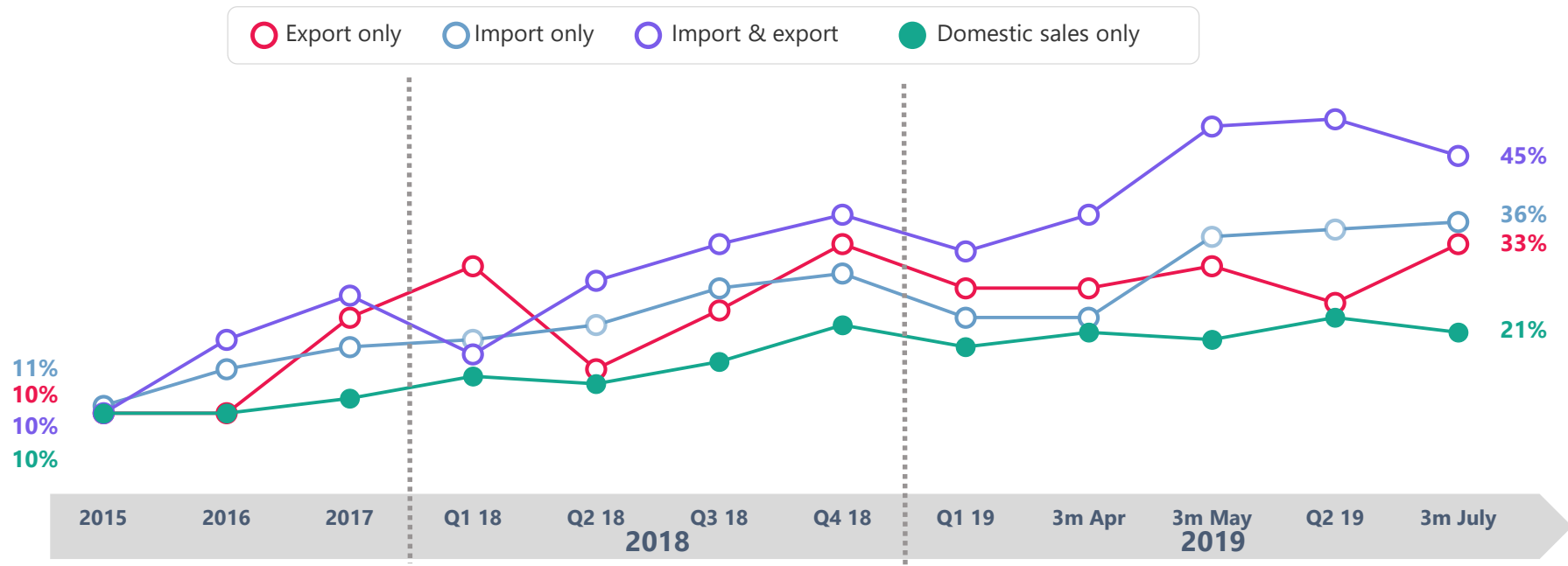


**Rating the current economic climate a major obstacle (8-10)**



SMEs who import and export are also more concerned about political uncertainty, with a clearer “gap” currently seen between the sentiment of domestic and international SMEs

*Time series: 8-10 political uncertainty by extent of international trade alongside domestic sales*

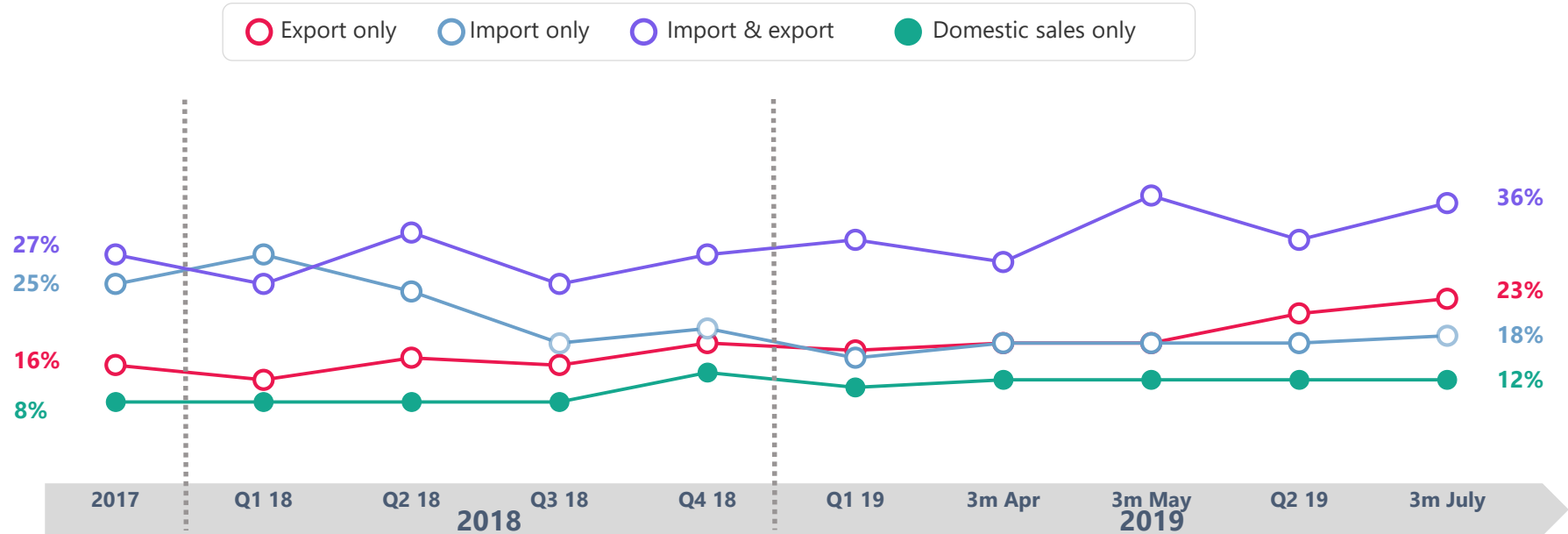


**Rating political uncertainty a major obstacle (8-10)**



Those who both import and export have been consistently more concerned about changes in the value of sterling, with a slight increase for exporting SMEs over recent periods

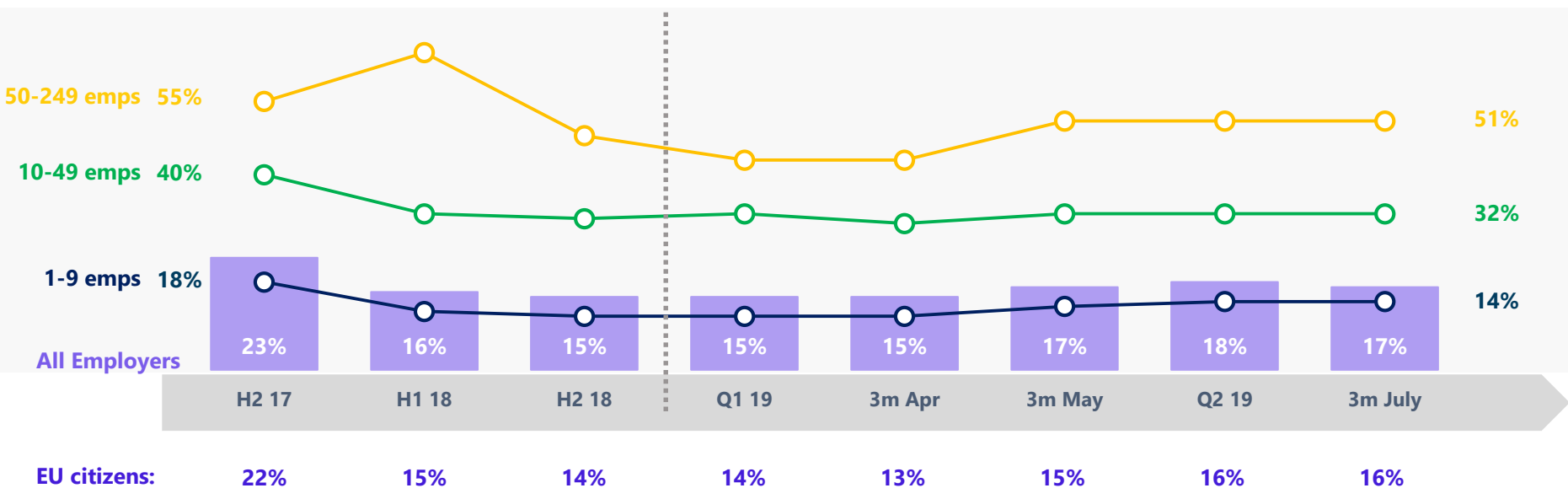
*Time series: 8-10 changes in the value of sterling by extent of international trade alongside domestic sales*



**Rating changes in the value of sterling a major obstacle (8-10)**

1 in 6 employers have employees from overseas, typically from the EU. This proportion has increased slightly from Q1 2019 but is not yet in line with levels seen in H2 2017

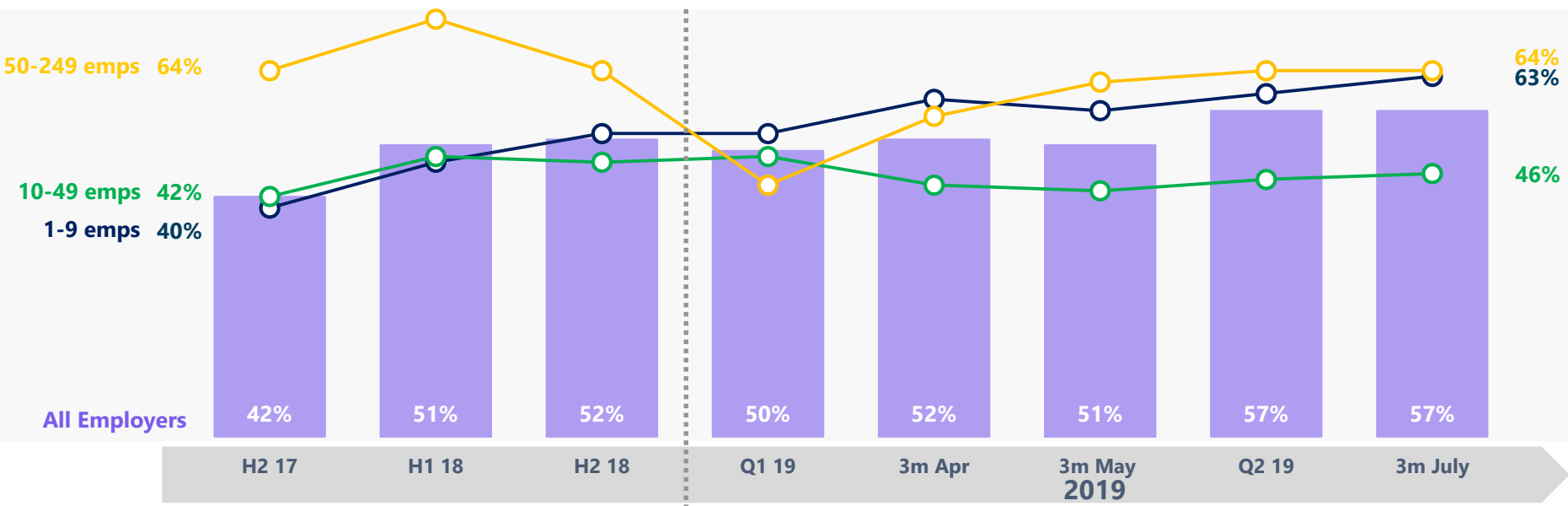
*Time series: Employ staff from the EU or elsewhere overseas*



When this question was first asked in H2 2017, a quarter (23%) of employers had staff from overseas. Since the start of 2018 this proportion has been lower, currently 17%, across all sizes of business. In the 3 months to July, 16% of employers had staff from the EU and 5% had staff from elsewhere.

## Concern about possible migration changes amongst those employing overseas staff is stable, but remains higher than previously seen, albeit little changed for those with 10-49 employees

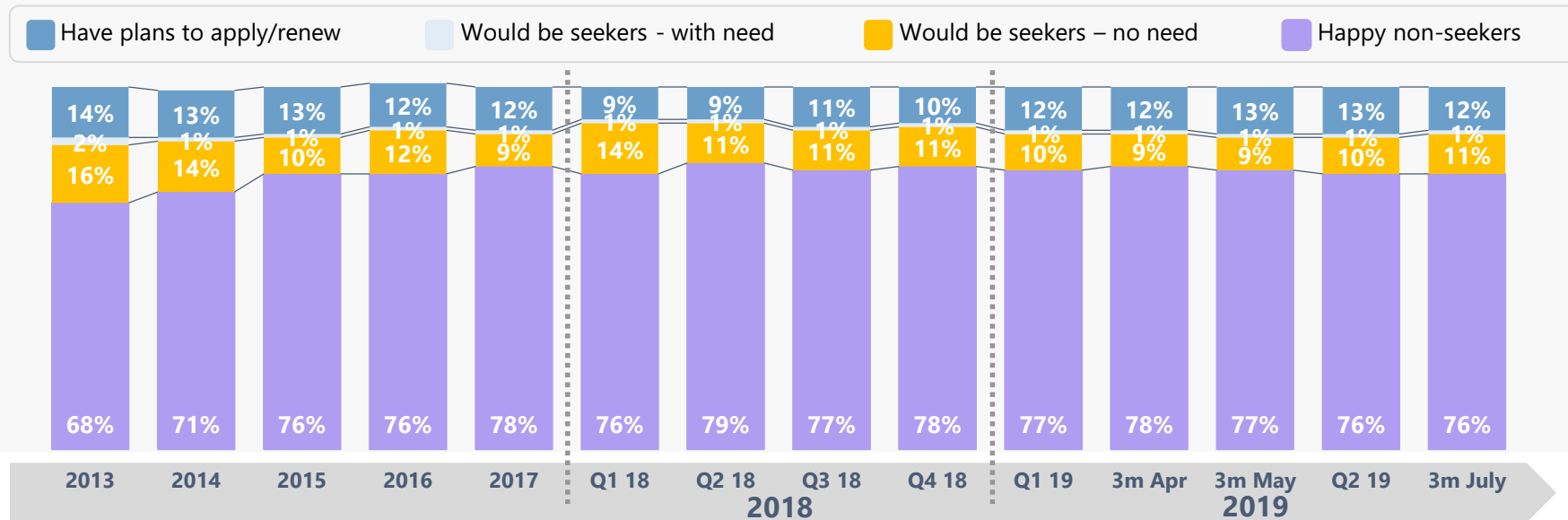
*Time series: Employers of overseas staff concerned about possible migration changes*



When this question was first asked in H2 2017, 4 in 10 (42%) of employers with staff from overseas were very/fairly concerned about possible future changes to migration laws. Since the start of 2018 this proportion has been higher, currently 57%, driven by increased concern amongst those with 1-9 employees (currently 63%) and those with 50-249 employees (64%). Concern amongst those with 10-49 employees is little changed

## Most SMEs were 'Future happy non-seekers' of finance. The proportion planning to apply in 2019 (currently 12%) is slightly higher than was seen in 2018

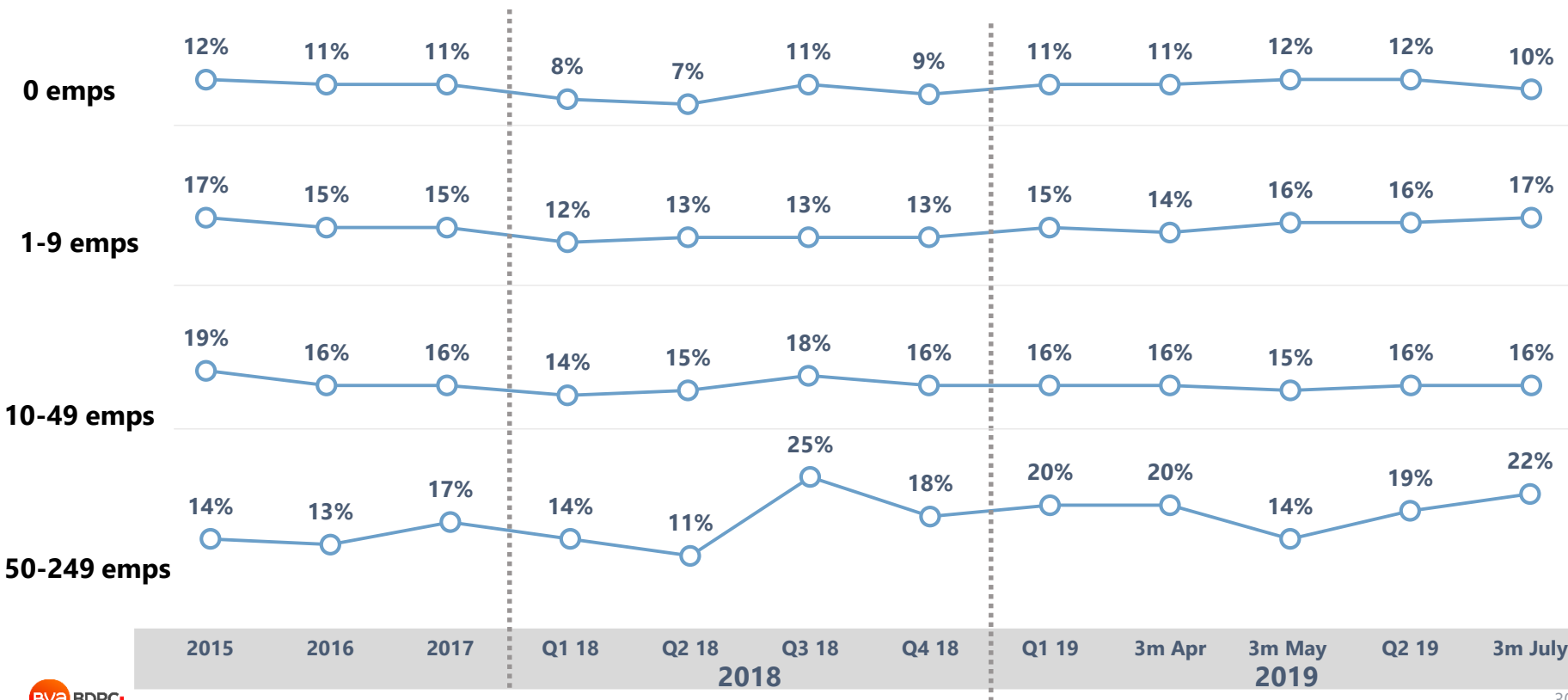
*Time series: Anticipated borrowing profile for next 3 months after ...*



Each quarter, the majority of SMEs have expected to be “Future happy non-seekers” of finance. The proportion of HNS has increased over time, conversely, the proportion of “Future would-be seekers” who could see a barrier that would stop them applying for finance, reached a low in 2017 of 9% and has since risen somewhat. The proportion of SMEs with any *potential* appetite for finance (planning to apply or a future “would-be seeker”) rose steadily to 24% in Q1 2018 and is currently 24%

Future appetite for finance is currently fairly stable for all but the largest SMEs where appetite has recovered from a dip earlier in 2019 and is once again higher than for their peers.

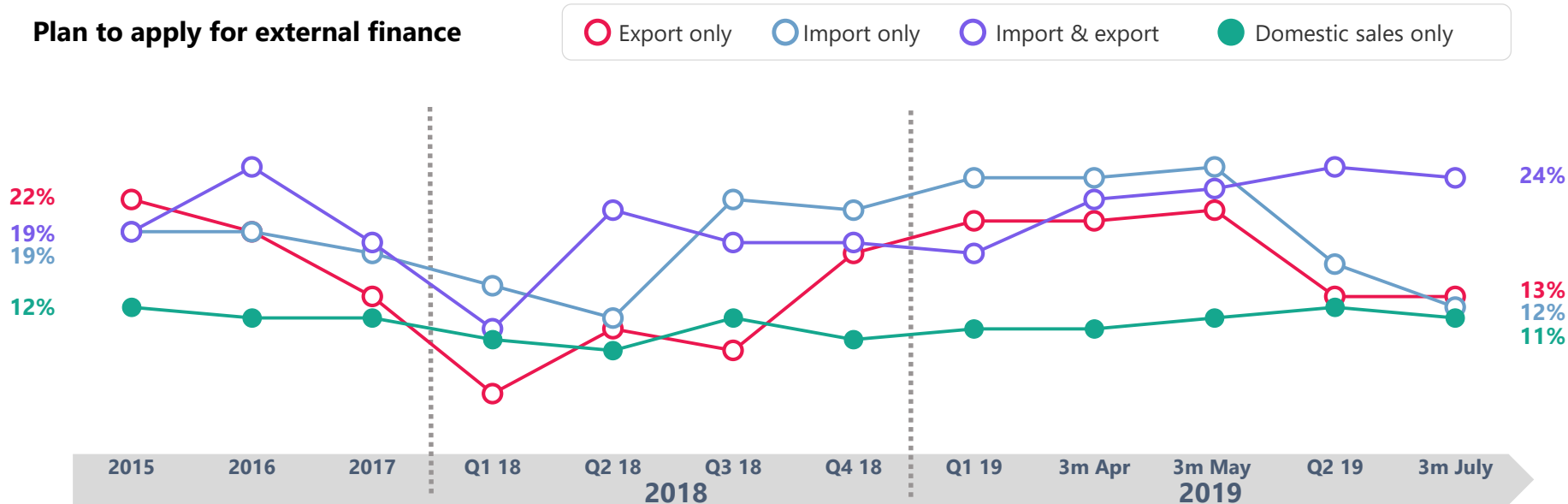
*Time series: % planning to apply*



## Appetite for external finance remains higher for those who import and export, but appetite amongst export or import-only SMEs has declined and is now more in line with domestic SMEs

*Time series: plan to apply for finance by extent of international trade alongside domestic sales*

### Plan to apply for external finance

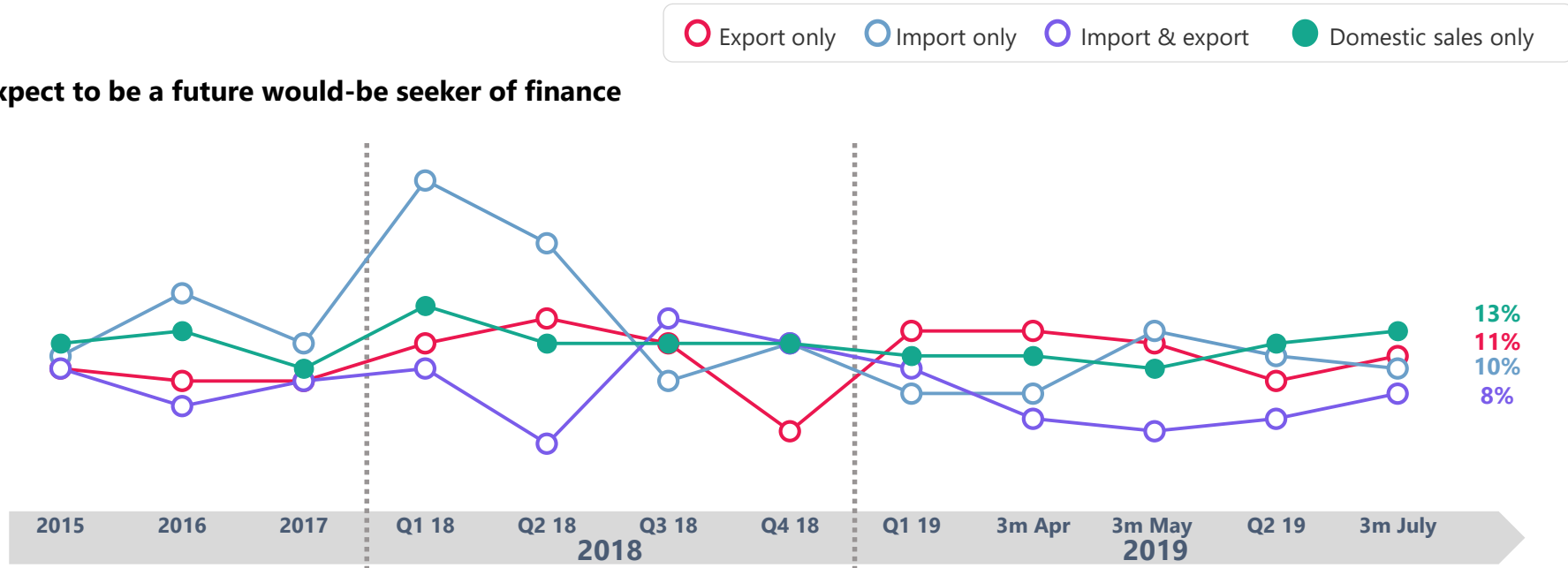


Appetite for finance amongst those that both import and export has varied over time. It fell sharply from the peak of 29% in the 3 months to December 2017 to 10% in Q1 2018 and is currently 24%. Import-only and export-only SMEs have become less likely to have appetite for finance than previously seen in 2019

## Those who both import and export remain somewhat less likely to be a Future would-be seeker of finance but there is currently little to choose between international and domestic SMEs

*Time series: future would be seekers by extent of international trade alongside domestic sales*

### Expect to be a future would-be seeker of finance

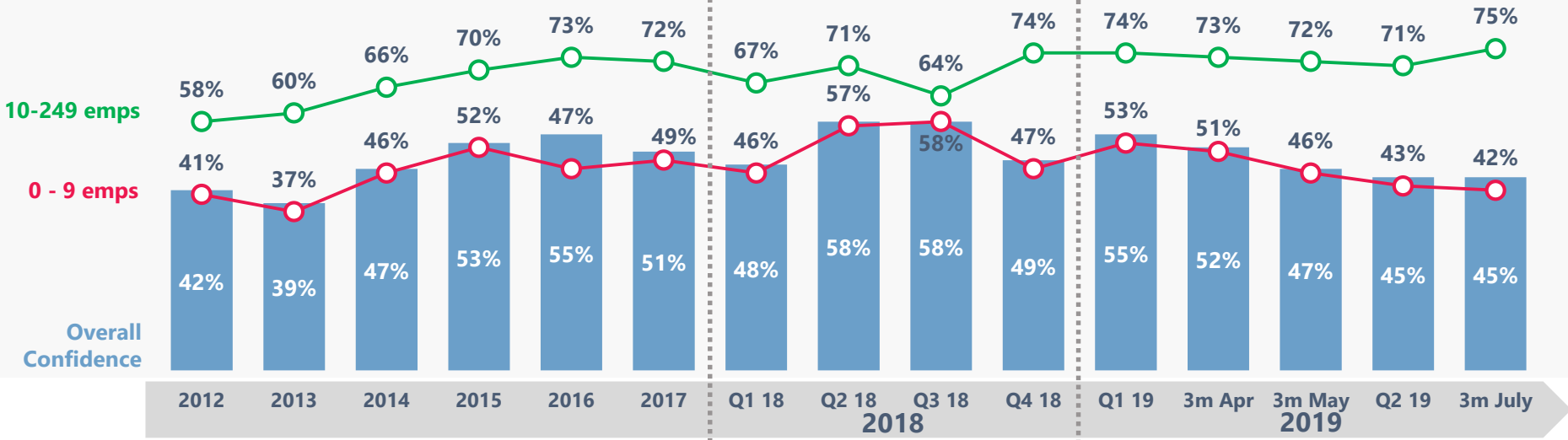


Would-be seekers of finance are those who can see a barrier to them making an application for loan or overdraft finance in future, such as the current economic climate or a belief that they would not be successful if they applied. Recently, those who import and export have been more likely to be planning to apply and remain somewhat less likely to be a future would-be seeker of finance. (See previous slide, for planning to apply).



## Confidence amongst smaller SMEs planning to apply for bank finance has declined somewhat in the most recent periods, back to levels seen in 2012

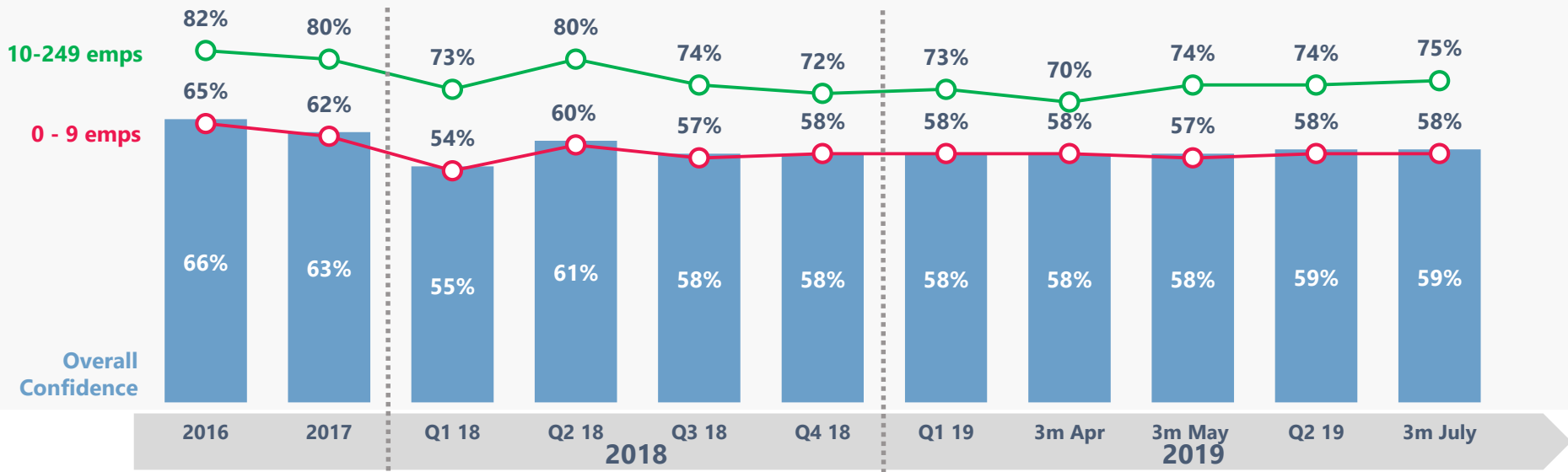
*Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by size*



During 2017 51% were confident of success compared to 55% in 2016. In 2018, there was further variation and for the year as a whole 54% were confident, back in line with 2016. Confidence in the 3 months to July 2019 (45%) was somewhat lower than earlier in the year due to lower confidence amongst smaller potential applicants (42%) with confidence amongst larger applicants improving slightly (75%)

Confidence for hypothetical applicants was unchanged in the current period compared to H2 2018 and higher than for SMEs actually planning to apply (especially those with 0-9 employees).

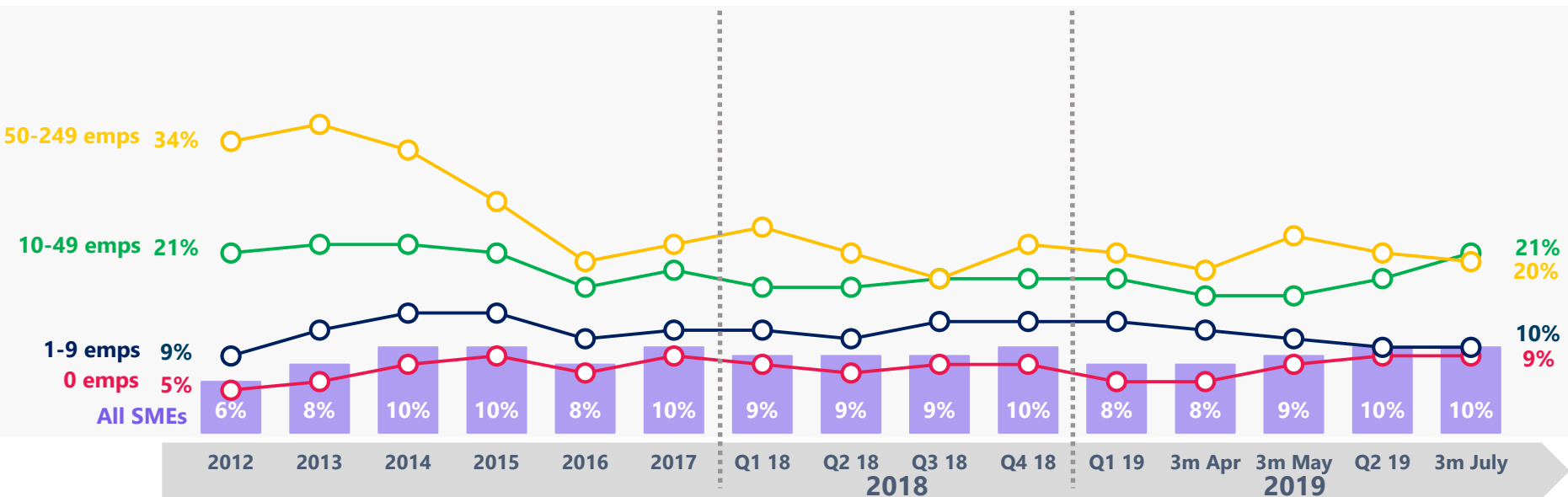
*Time series: Confidence (very/fairly) bank would agree to facility next 3 months – by size*



6 in 10 (59%) of those with **no plans** to apply to a bank for finance are confident of a hypothetical success. Larger hypothetical applicants remain somewhat more confident than smaller ones, and in line with those of a similar size who are planning to apply. Smaller hypothetical applicants remain more confident than those planning to apply (see previous slide for those *with plans*) that the bank would say yes.

The proportion of SMEs that export remains somewhat higher than in Q1 2019, driven especially by the proportion of 0-employee firms that are exporting.

*Time series: Exporters*



The proportion of exporters increased from 6% in 2012 to 10% in 2014 and 2015. Since then the proportion has been fairly stable (8-10%, 9% for 2018 as a whole and 10% for the current period).

## Quality Standards and Other Details

BDRC is certified to ISO 20252 and 27001, the recognised international quality standards for market research and information security.

- Adherence to the standard is independently audited once per year.
- Where subcontractors are used by BDRC, they are assessed to ensure any outsourced parts of the research are conducted in adherence to ISO 20252 and 27001.

All work will be carried out in conformity to these standards, the MRS Code of Conduct, and all relevant legal requirements

