

2014 'SME Journey Towards Raising Finance' Survey

A report by BMG Research to the British Business Bank



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Unlocking finance for
smaller businesses

Acknowledgements

- The research was carried out by BMG Research (led by Steve Lomax, Research Director) between August and September 2014
- All views expressed in these slides are those of BMG Research and do not necessarily represent those of the British Business Bank
- BMG would like to thank Daniel van der Schans at the British Business Bank for his support and guidance throughout the project

Background

- In 2012, BIS commissioned a new survey exploring in detail the stages businesses go through when considering the need to raise external finance and the specific actions they take when seeking, applying and obtaining finance:
 - <http://british-business-bank.co.uk/wp-content/uploads/2013/10/SME-Journey-Towards-Raising-Finance.pdf>
- This latest survey repeats the 2012 survey, assessing the steps SMEs go through when raising finance. Some new questions are added, but core questions remain the same, allowing comparison of trends over time
- Statistically significant changes between the surveys (at 95% confidence level) are identified by circles (increases) and squares (decreases). Other changes are not as significant, and care should be taken in interpreting these findings.

Survey Methodology

- 1,000 CATI interviews conducted between 27th August and 19th September 2014. The average questionnaire length was 24 minutes.
- Sample structured by employment size and sector (2007 SIC).
- Interviews with person responsible for managing business finances.
- Data weighted to BIS's Business Population Estimates 2013 (BPE) by size, sector and age:
 - 377 with no employees interviewed (weighted to 75%)
 - 334 micros (1-9) interviewed (weighted to 20%)
 - 195 small (10-49) interviewed (weighted to 4%)
 - 94 medium (50-249) interviewed (weighted to 1%)
- The results for SMEs overall are dominated by zero employee businesses that have different characteristics to SME employers, and this should be borne in mind when interpreting the results.

Survey Findings

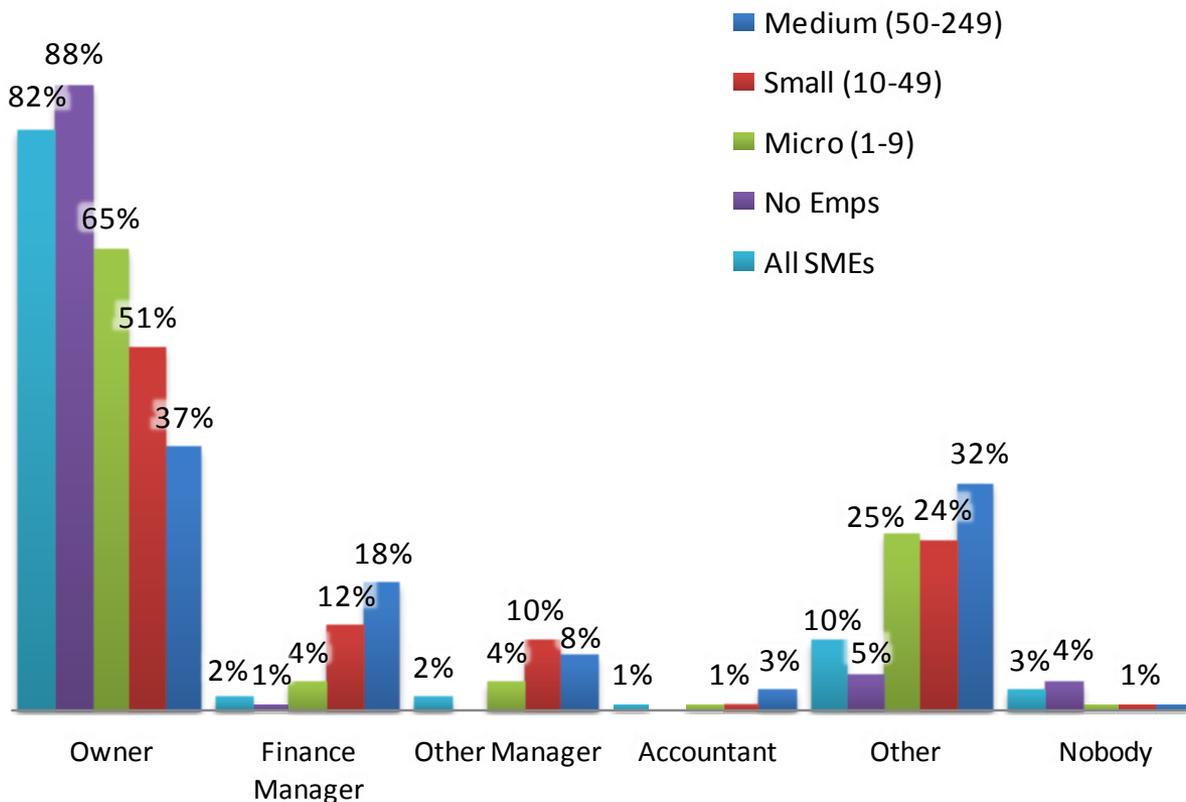
The report is structured into the following sections:

1. Business financial planning
2. Journey towards raising finance
3. Businesses use of advice
4. SMEs awareness of different types of finance
5. SME perceptions of raising finance
6. Use of finance in the future and discouragement
7. Trade Credit/ Late Payment
8. Conclusions

1) Business Financial Planning

The owner generally seeks finance on behalf of the business, although this declines with business size...

Who is responsible for obtaining finance on behalf of the business? - 2014

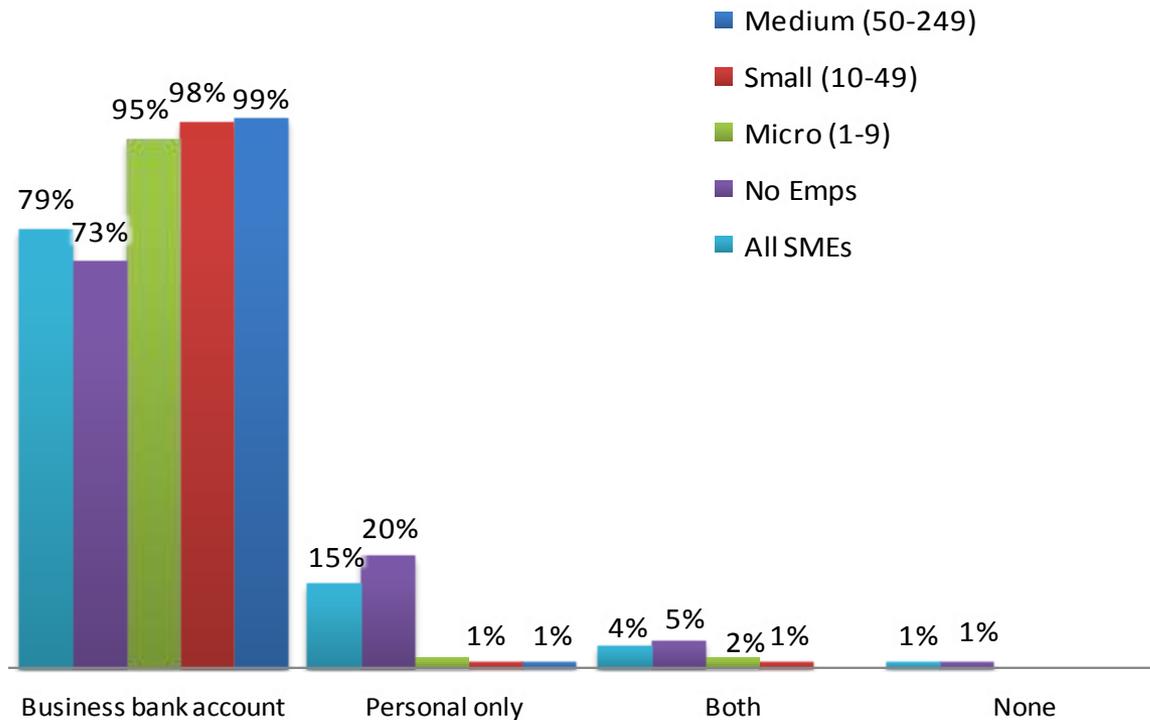


56% of SMEs produce monthly or quarterly accounts, which is correlated with size of business.

Base = all SMEs (n=1,508 in 2012; n=1,000 in 2014). Question C8 (single code, prompted)

Smaller Businesses are more likely to use personal sources of finance...

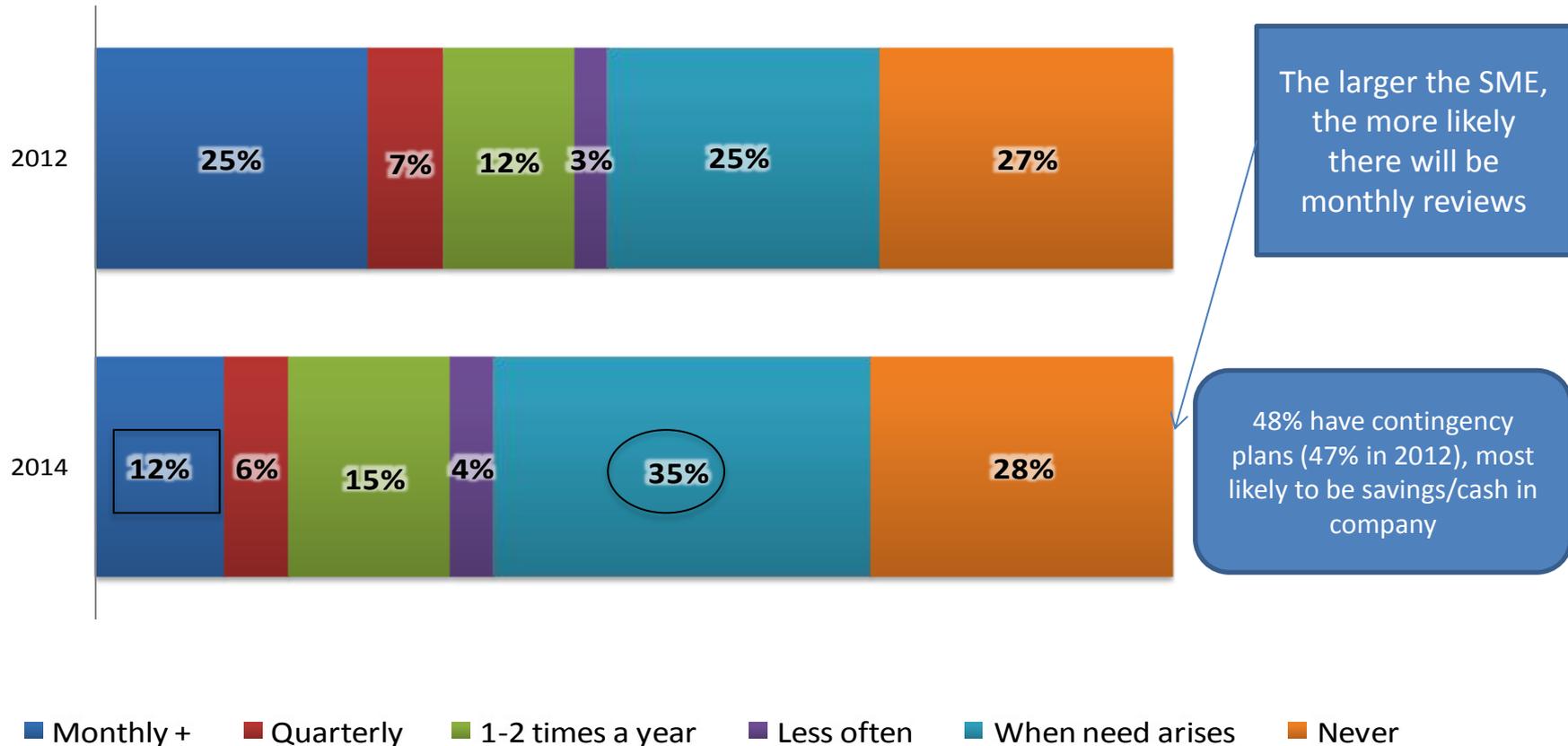
Does the business have its own bank account or is it in the name of the business owner? - 2014



Base = all SMEs (n=1,508 in 2012; n=1,000 in 2014). Question A4a (single code, prompted)

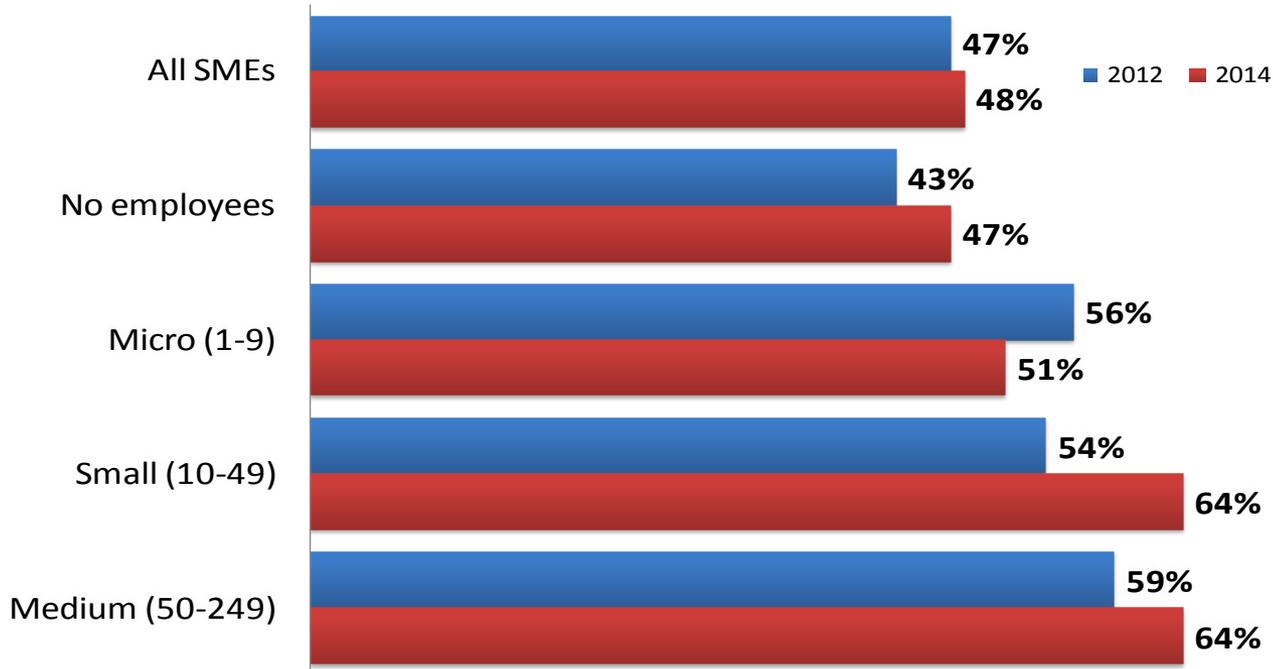
There has been a decline in the proportion of SMEs checking their financial needs on a monthly basis...

Frequency of assessing financial needs – 2012-2014



Half of businesses have a contingency plan to cover shortages in cash flow...

Do you have any contingencies in place to cover shortages in cash flow e.g. Late payment or unexpected expense? – 2012-2014 by size of business

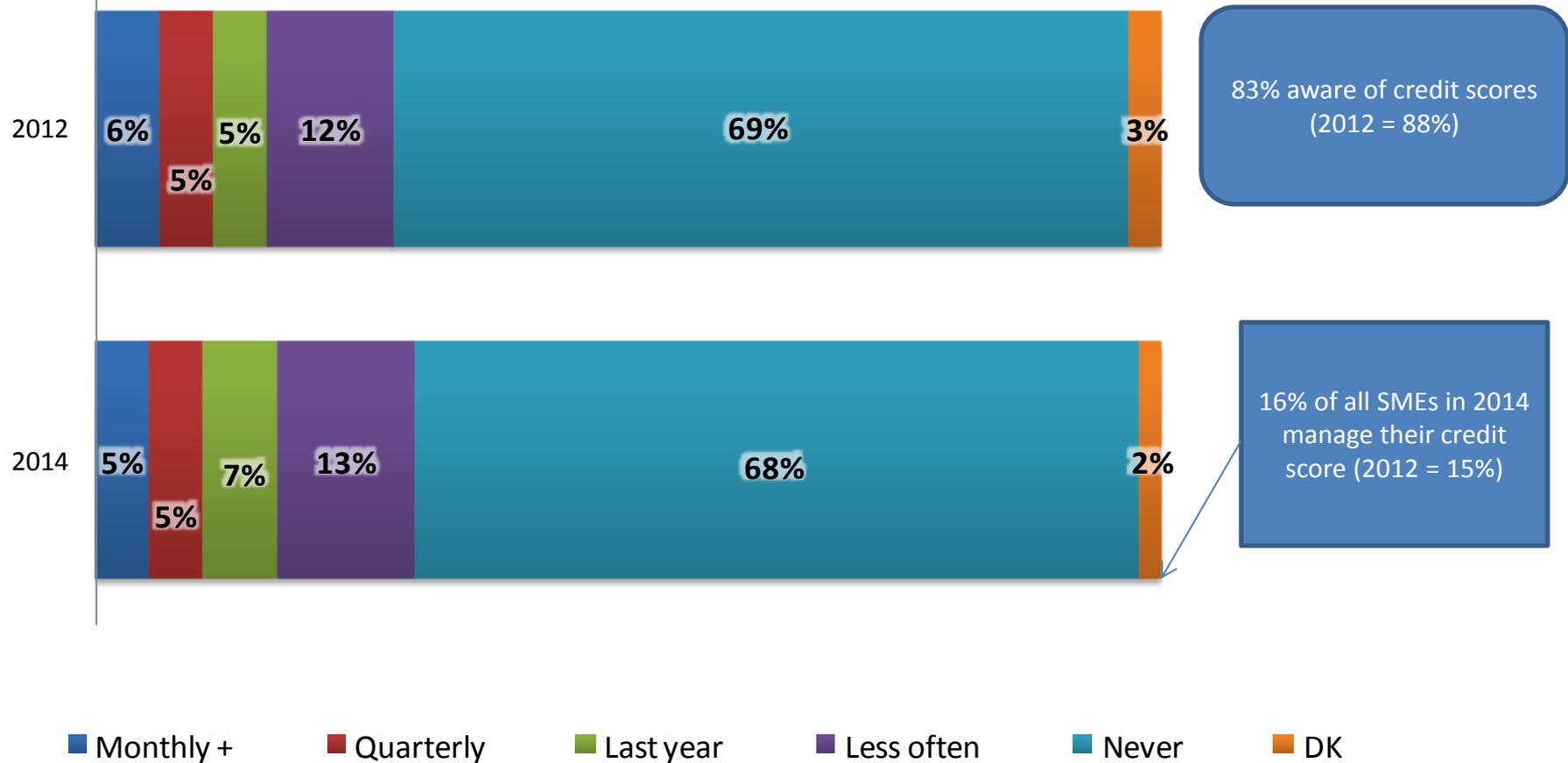


- Contingencies are most likely to be savings/cash in company (65%), but medium sized companies are more likely to have overdraft facilities as a contingent (37% cf. 27% overall)

Base = all SMEs (n=1,508 in 2012; n=1,000 in 2014). Question C2a (single code, prompted)

The majority of SMEs have never checked their business credit score...

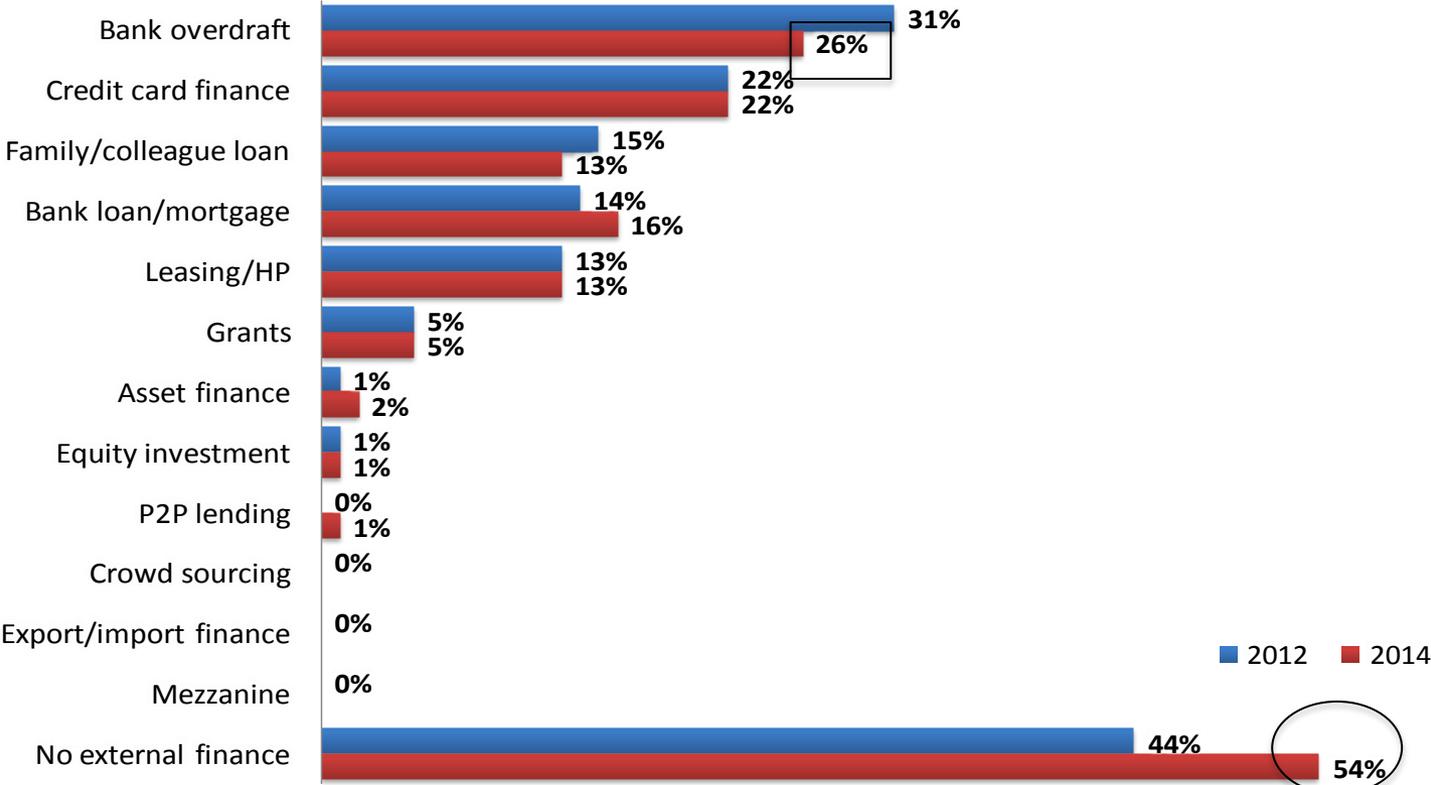
Frequency of checking credit scores – 2012-2014



Base = all SMEs aware of credit scores (n=886 in 2014/n=681 in 2012 – half sample). Question C3/C4/C6 (single code, prompted)

Only half of businesses have used external finance in the last three years, a lower proportion than in 2012...

Use of forms of finance in the previous 3 years - 2012-2014

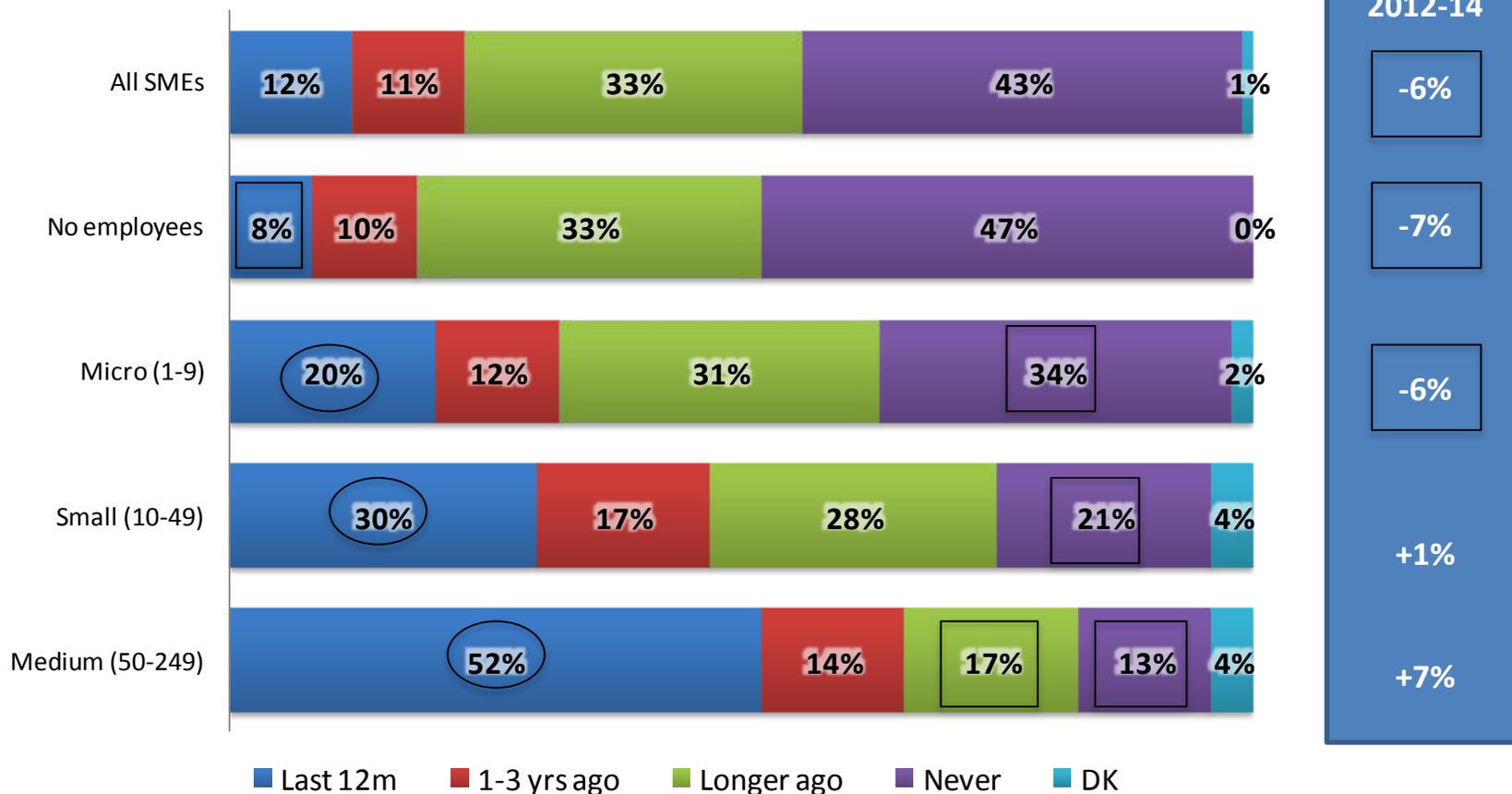


Base = all SMEs (n=1,508 in 2012; n=1,000 in 2014). Question A1 (multi-code, prompted)

2) Journey towards raising finance

Demand for external finance has declined since 2012, driven by micro businesses...

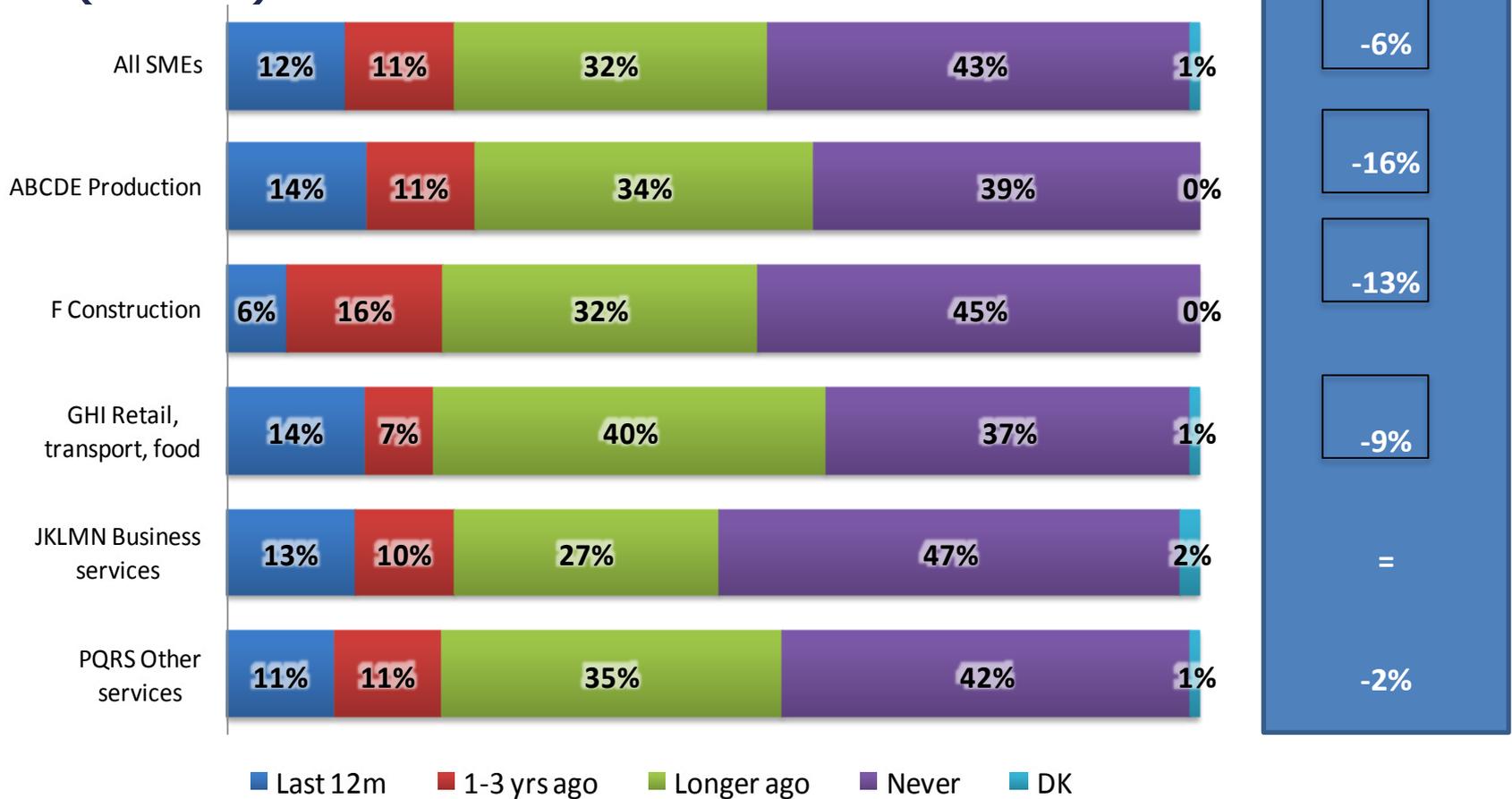
Last time external finance was sought – by size (2014)



Base = all SMEs (n=1000 in 2014). Question A14 (single code, prompted)

All sectors less likely to have sought finance in the last 12 months in 2014, except those in service industries...

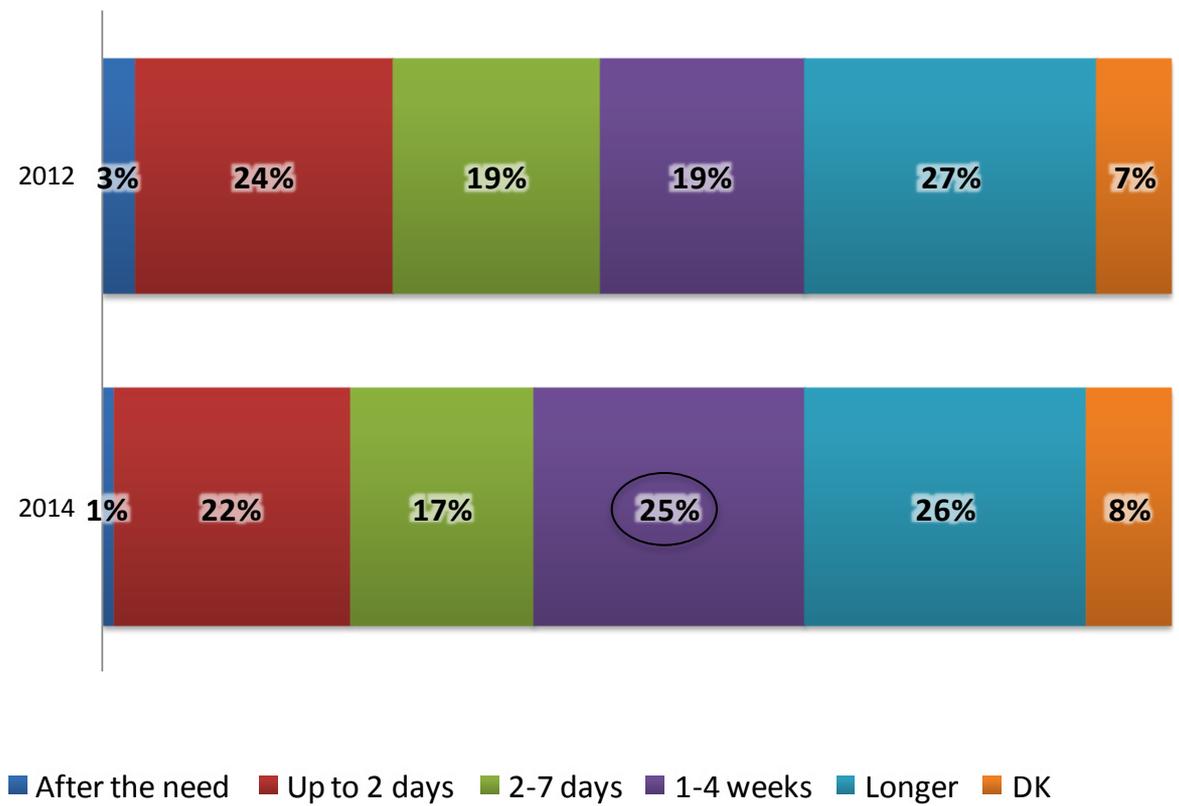
Last time external finance was sought – by sector (2014)



Base = all SMEs (n=1000 in 2014). Question A14 (single code, prompted)

A significant proportion (40%) apply for finance within a week of needing it...

How soon before needing it is finance applied for – 2012-2014

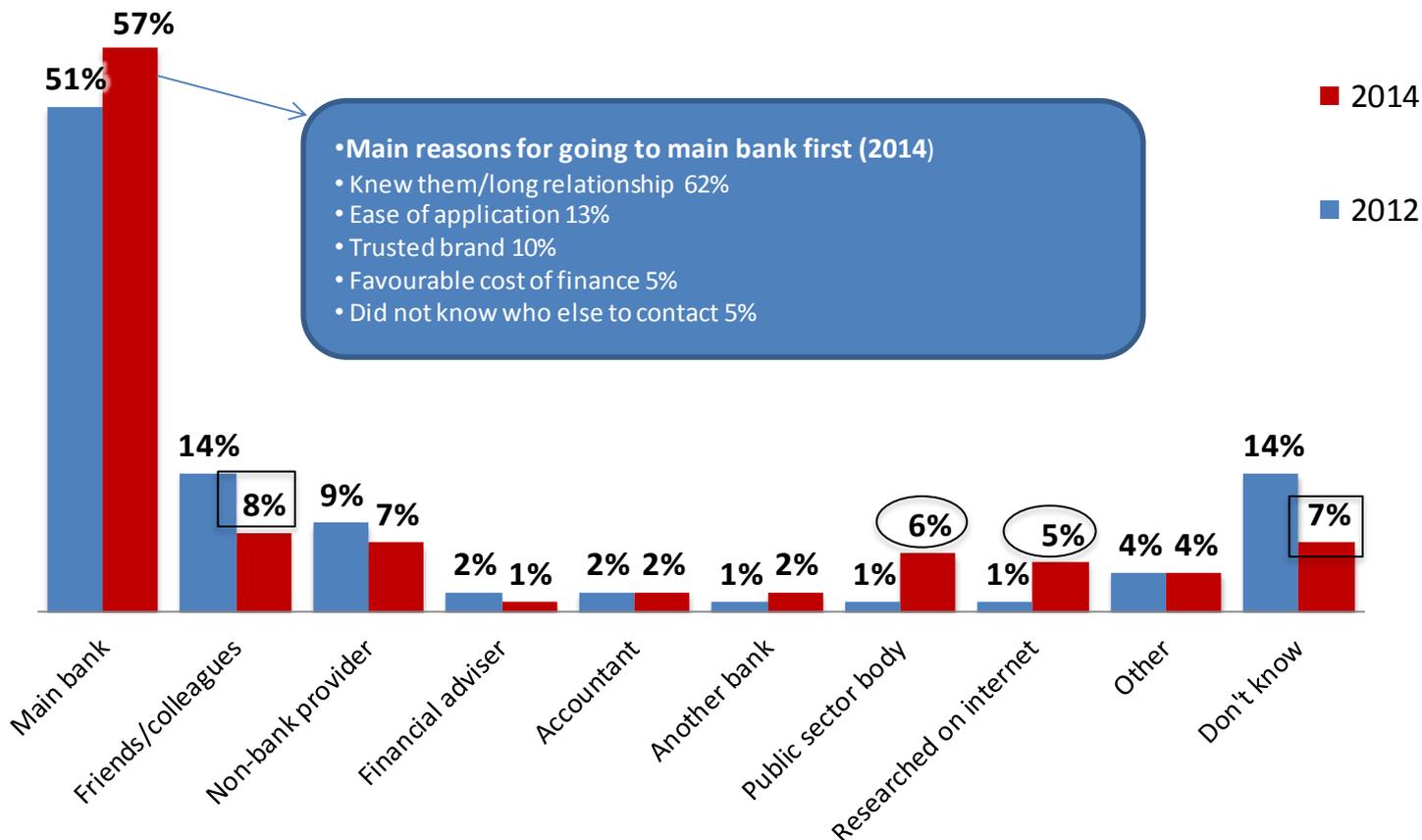


For working capital and asset purchase the median average time is 1-2 weeks; for expansion it is 1-2 months

Base = all SMEs that sought finance in the last 3 years (n=325 in 2014/n=588 in 2012).
 Question A22 (single code, unprompted)
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Over half of businesses go straight to their bank when needing finance...

Who spoke to first when finance need realised 2012-14



Half of businesses only sought finance from the four largest banks...

- 49% only sought finance from the four largest UK banks, 50% contacted other providers (1% don't know)

Most likely to contact other (non-big 4) providers

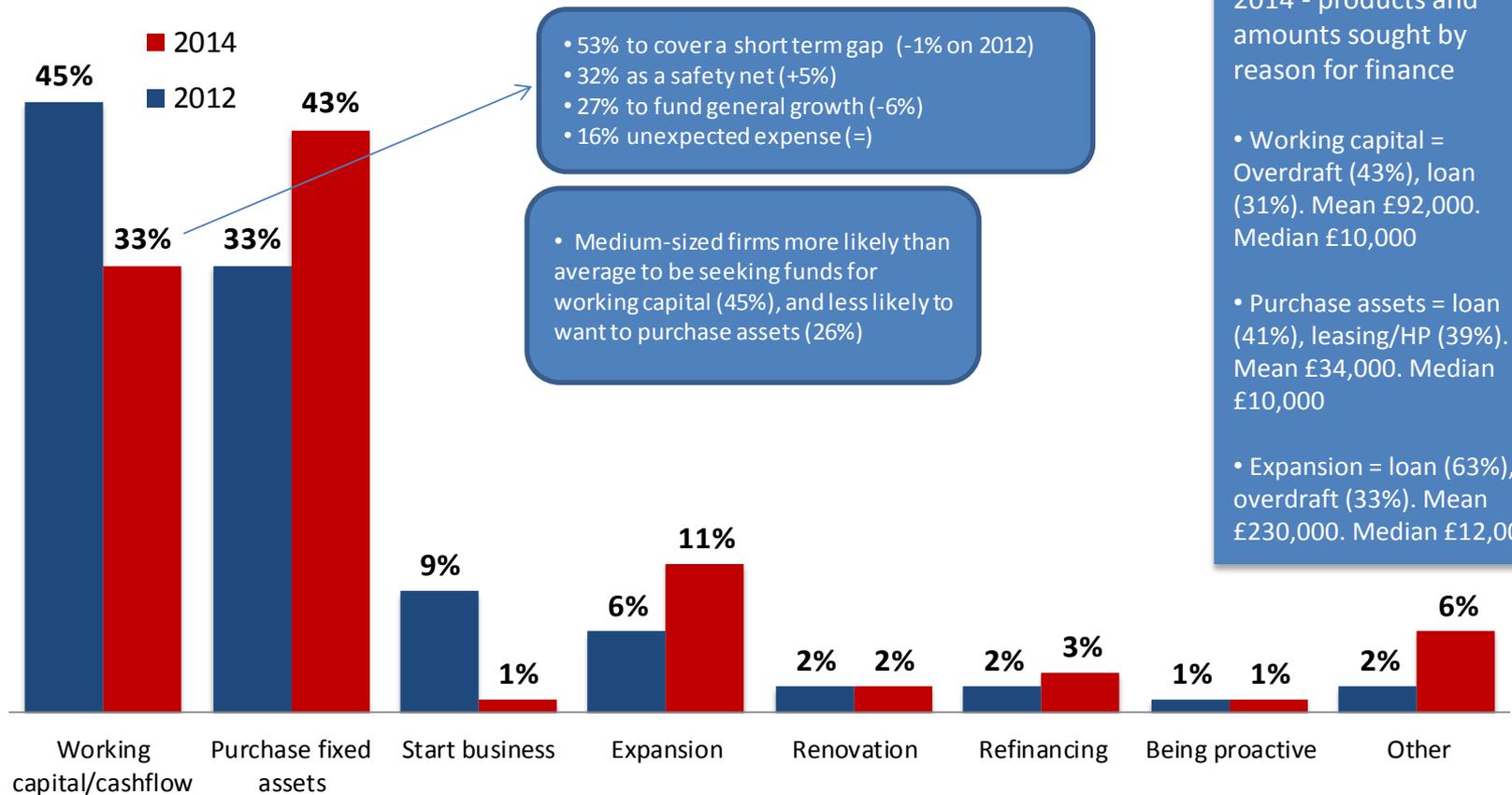
- Larger SMEs (67% of mediums cf. 44% with no employees)
- Younger SMEs (74% aged 0-5 years cf. 45% aged 15+)
- High growth SMEs (ambition to increase turnover 20%+ in next year) – 63%
- Those that sought finance in the last 12 months – 56%

Of those that approached just one provider....

- 88% had an existing relationship with them

The main reason for seeking finance is now to fund purchasing of fixed assets...

Main reason for seeking finance 2012-14 (last occasion in last 3 years)



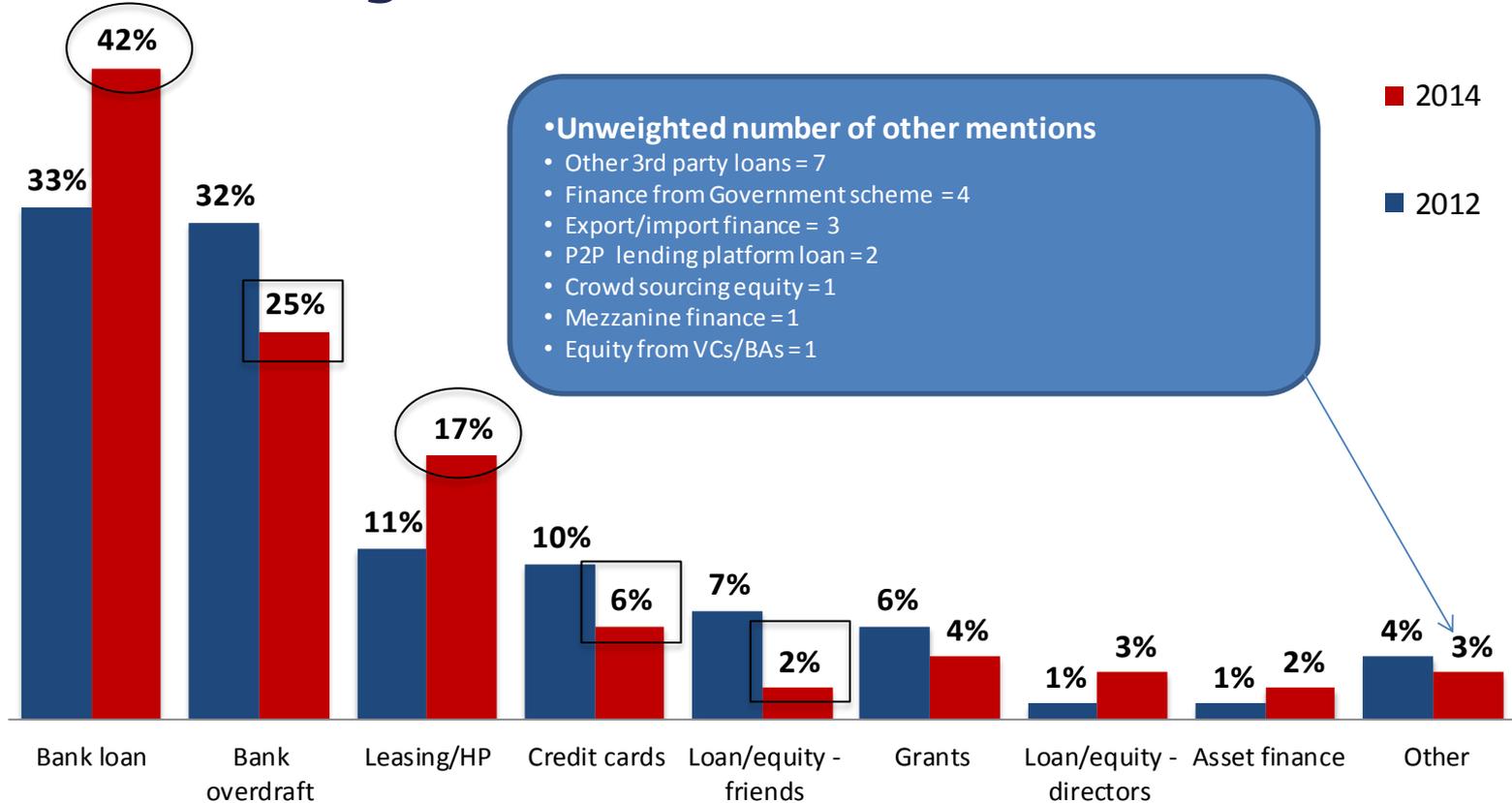
Base = all SMEs that sought finance in the last 3 years (n=325 in 2014/n=588 in 2012).

Question A15a (single code, prompted except 'renovation')

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...Which reflects changes in the type of product sought...

Products sought on the last occasion 2012-14



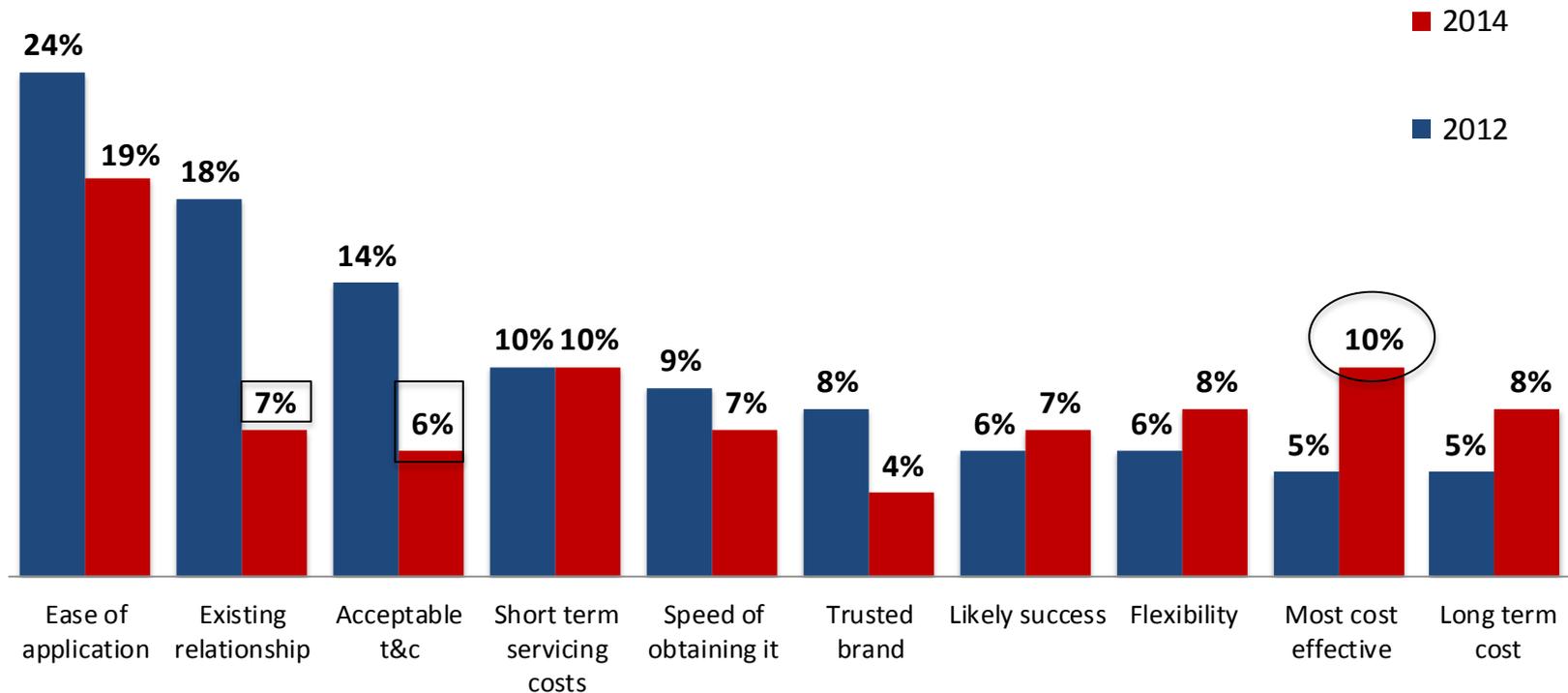
Base = all SMEs that sought external finance in the last 3 years (n=325 in 2014/n=588 in 2012).

Question A17a (multi code, unprompted)

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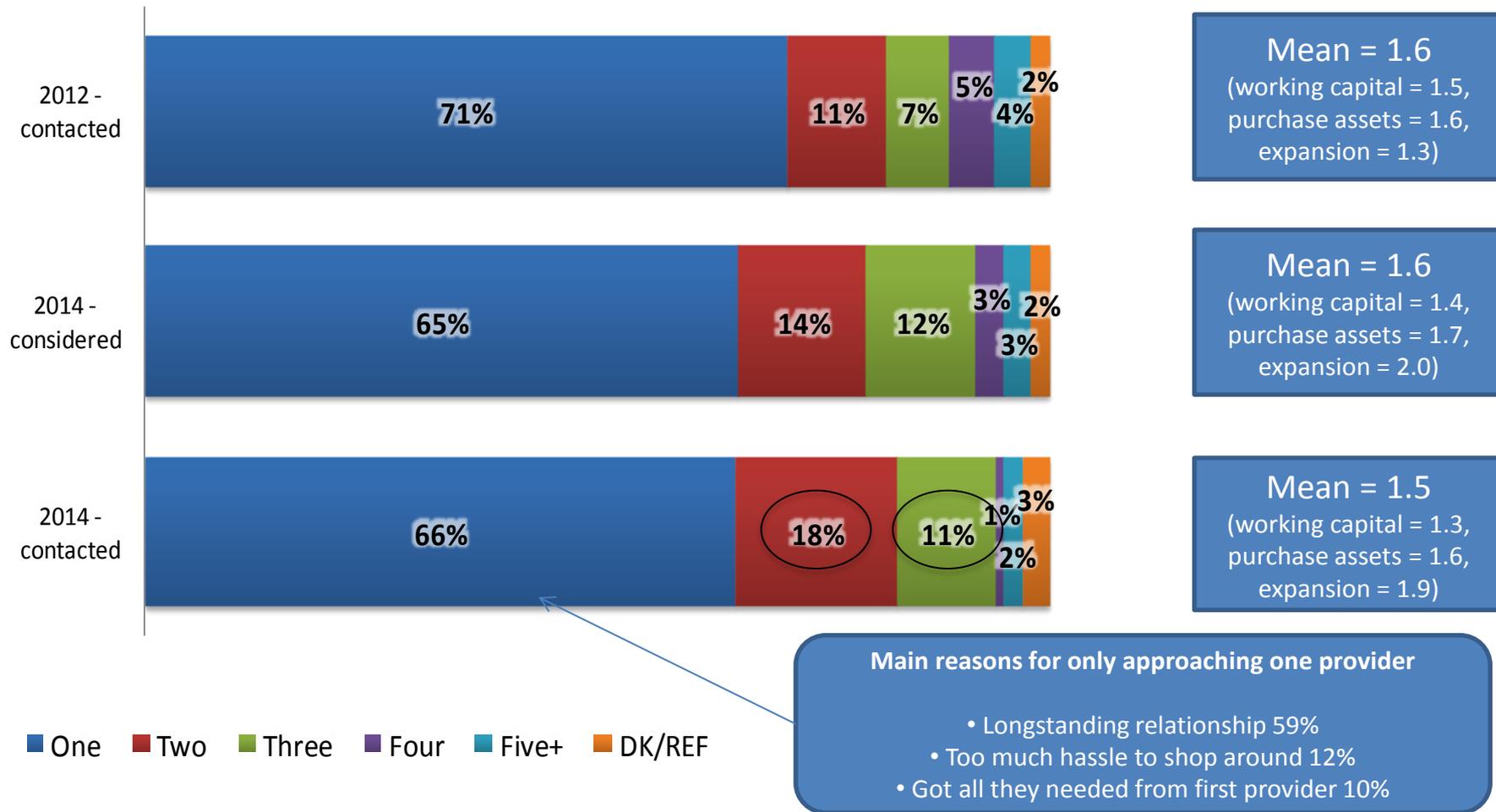
Businesses are becoming more likely to be focused on cost when choosing finance compared to 2012, and are less likely to trust an existing relationship...

Reasons for choosing type of finance - 2012-14



Although longstanding relationships are not claimed to be the main reason for choice of type of finance, most businesses only consider and contact one finance provider when seeking it...

Number of providers considered/contacted – 2012-2014



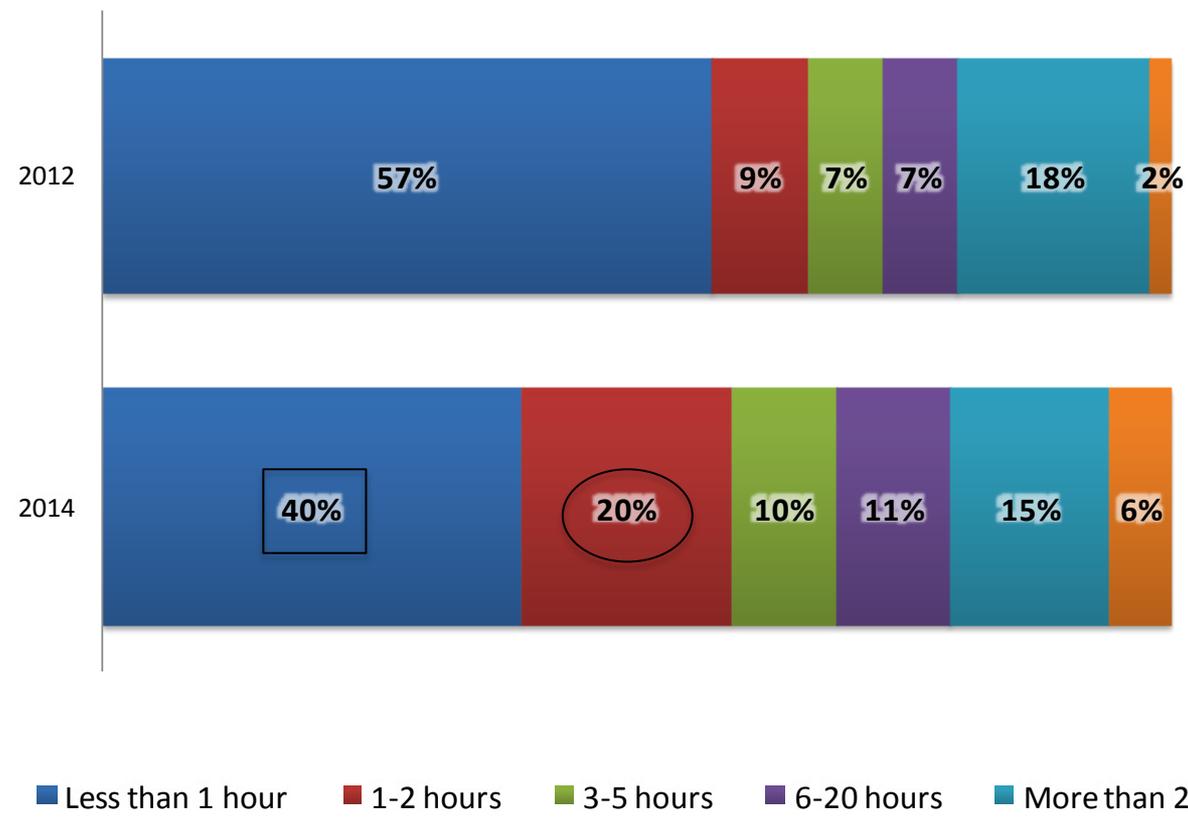
■ One ■ Two ■ Three ■ Four ■ Five+ ■ DK/REF

Main reasons for only approaching one provider

- Longstanding relationship 59%
- Too much hassle to shop around 12%
- Got all they needed from first provider 10%

SMEs are taking slightly longer to choose finance compared to 2014...

Time spent finding out about sources and providers – 2012-2014

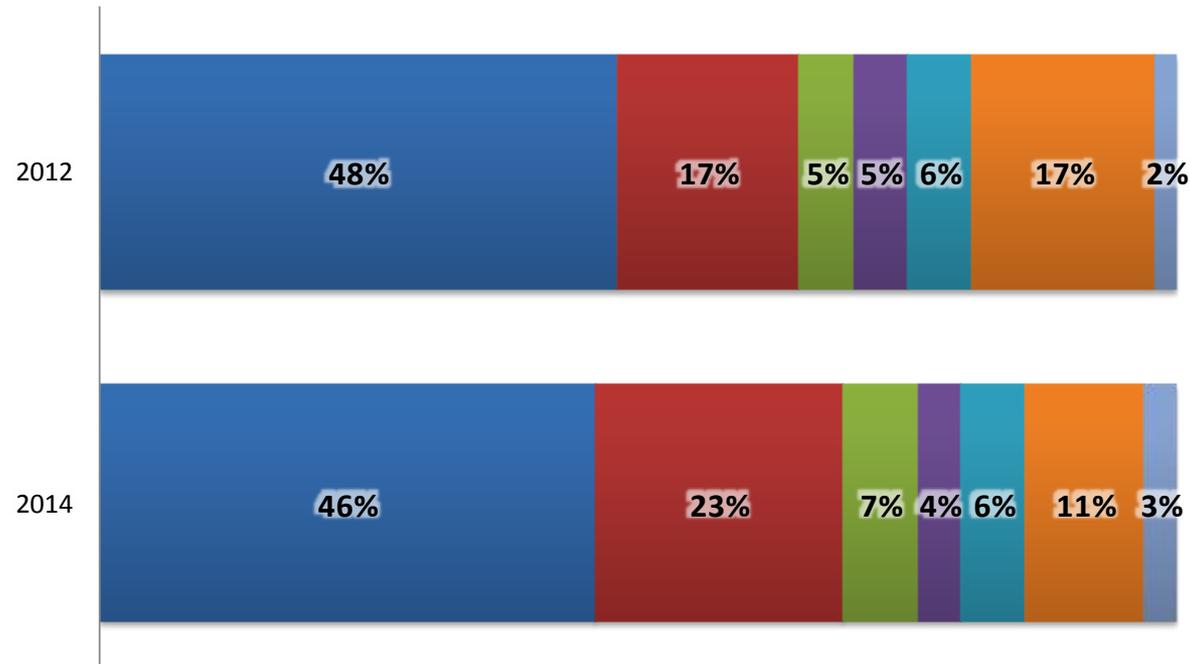


The increased time is mainly explained by more SMEs requiring finance for fixed assets in 2014, as opposed to working capital (more loan applications, fewer overdraft applications)

Similar amounts of time spent on reviewing as applying for finance

No real change in time in completing application forms compared to 2012....

Time spent filling out applications forms and preparing for finance – 2012-2014



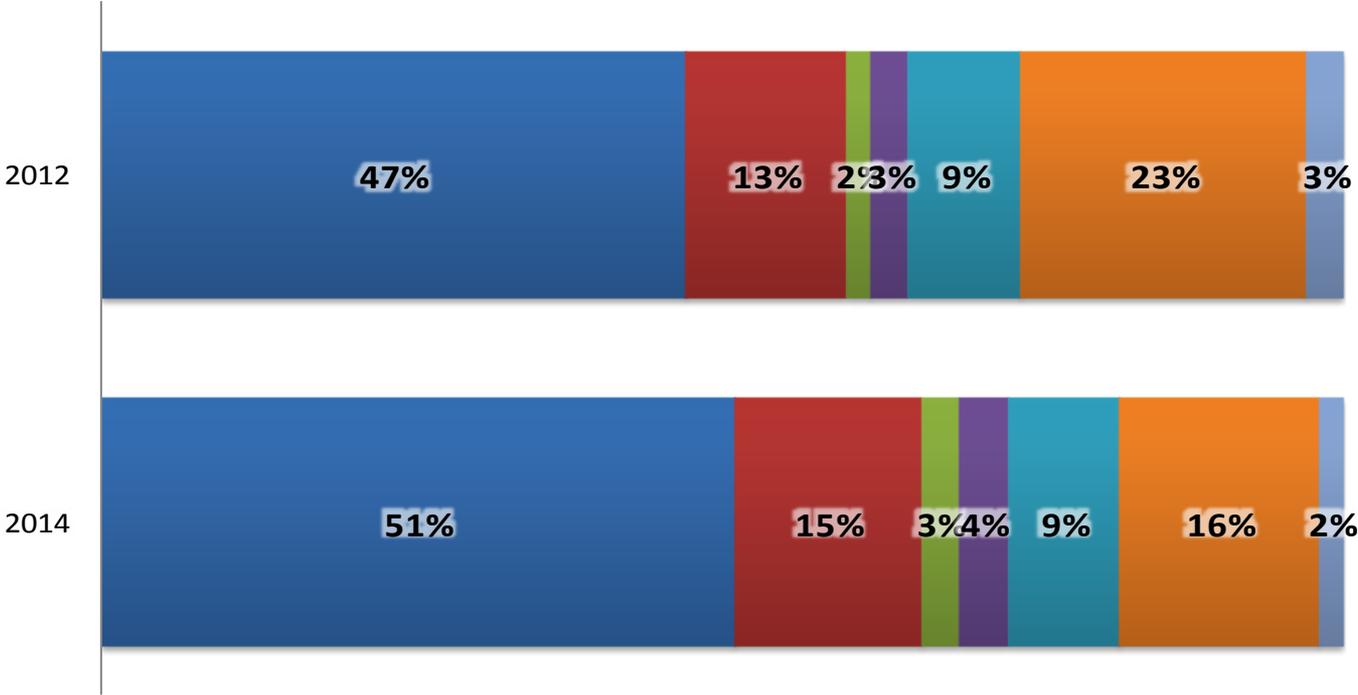
More SMEs put in formal application in 2014. Time taken to prepare for finance unchanged

■ Less than 1 hour ■ 1-2 hours ■ 3-5 hours ■ 6-20 hours ■ More than 20 hours ■ Not applicable ■ DK

Base = all SMEs that sought finance in the last 3 years (n=325 in 2014/n=588 in 2012). Question A20b (single code, unprompted)

Half of SMEs still spend less than an hour reviewing their finance options...

Time spent reviewing offer of finance before making a decision – 2012-2014



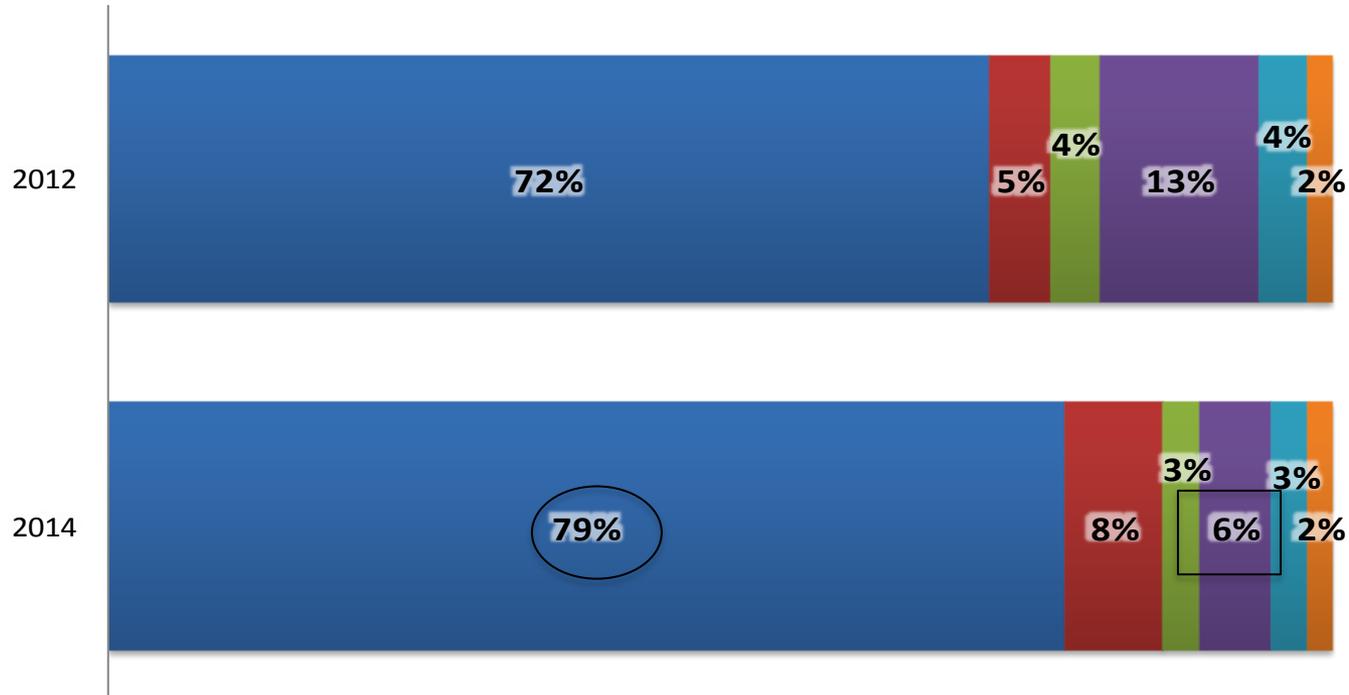
Those seeking finance for expansion spend longer reviewing offers (22% more than 20 hours)

■ Less than 1 hour ■ 1-2 hours ■ 3-5 hours ■ 6-20 hours ■ More than 20 hours ■ Not applicable ■ DK

Base = all SMEs that sought finance in the last 3 years (n=325 in 2014/n=588 in 2012). Question A20c (single code, unprompted)

SMEs are now more likely to be successful in getting finance than in 2012...

Whether successful in obtaining finance from first provider – 2012-2014



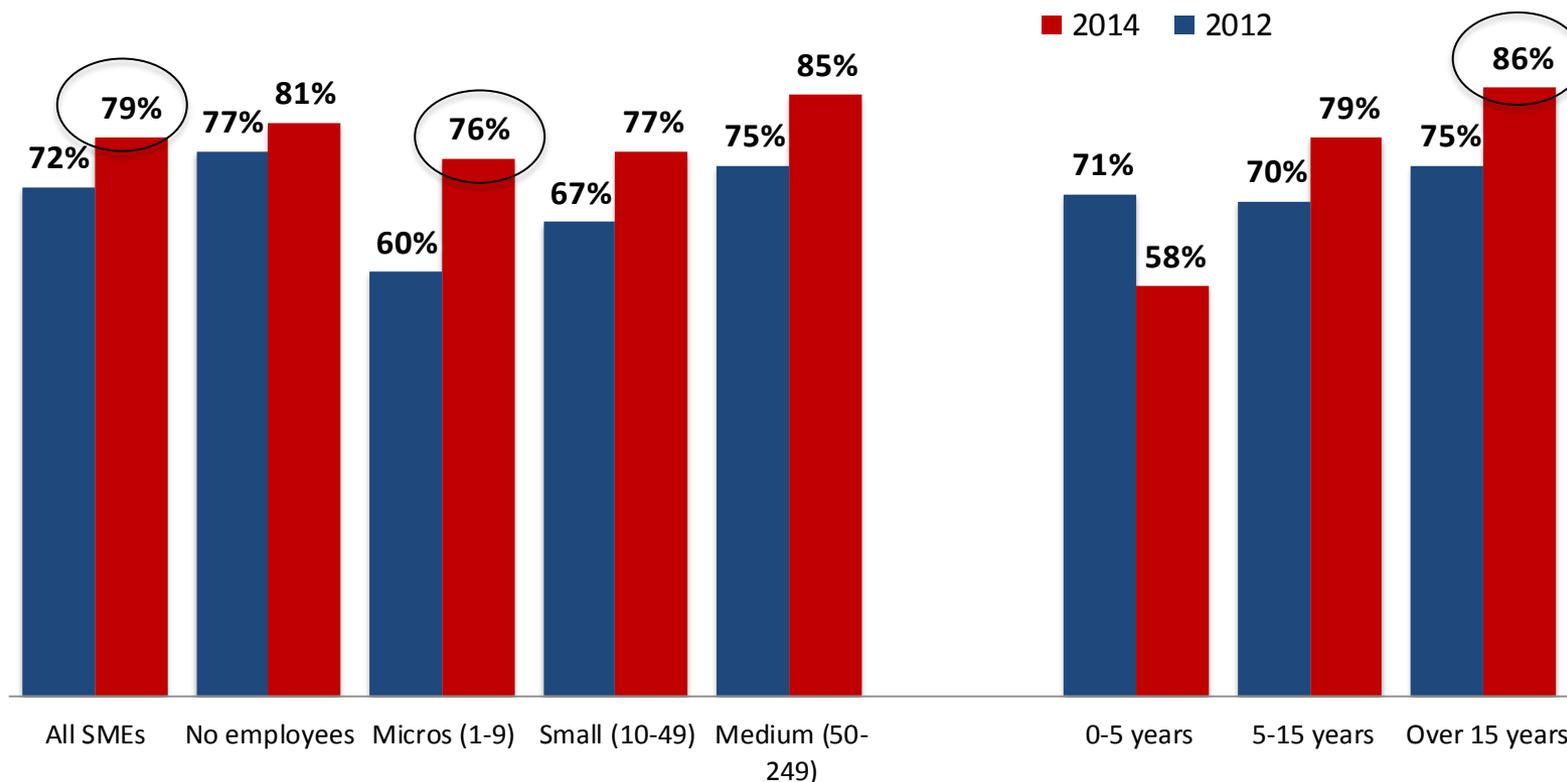
In 2012 only 60% of micros got all the finance they needed. In 2014 this was 76%.

■ Offered all ■ Offered smaller amount ■ Rejected offer ■ Turned down ■ Other ■ DK/REF

Base = all SMEs that sought finance in the last 3 years (n=325 in 2014/n=588 in 2012). Question A23a (single code, prompted)

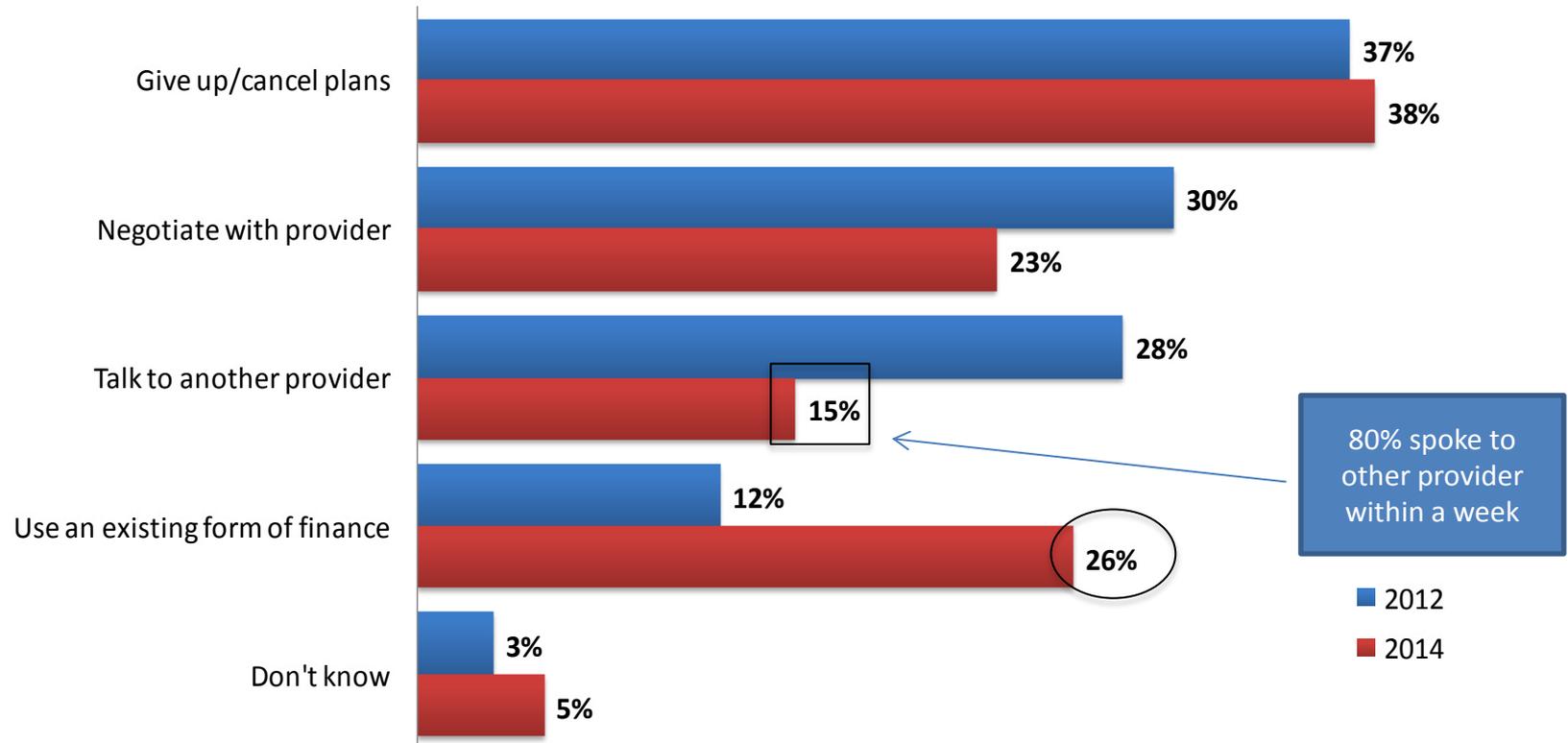
Micros more likely to be successful in getting all they needed from the first source than in 2012...

Successful in getting all they needed from the first source-
2012-14 (by size and age of business)



A significant proportion of businesses would give up seeking finance if not offered the full amount...

If not offered full amount – what did they do next? 2012-2014



Base = all SME that did not receive full amount of finance applied for from first institution approached (n=154 in 2012; n=52 in 2014). Question A23b (multi-code, prompted)

3) Businesses use of advice

Only a minority of businesses use external advice when seeking finance...

- 18% sought external advice when applying for finance (2012 = 16%)

Most likely to seek advice in 2014

- Small businesses 10-49 employees (29%)
- Production sector (33%)

65% found advice very useful, 30% useful (95% combined, up from 80% in 2012)

Who provided advice in 2014 (based on all receiving advice)

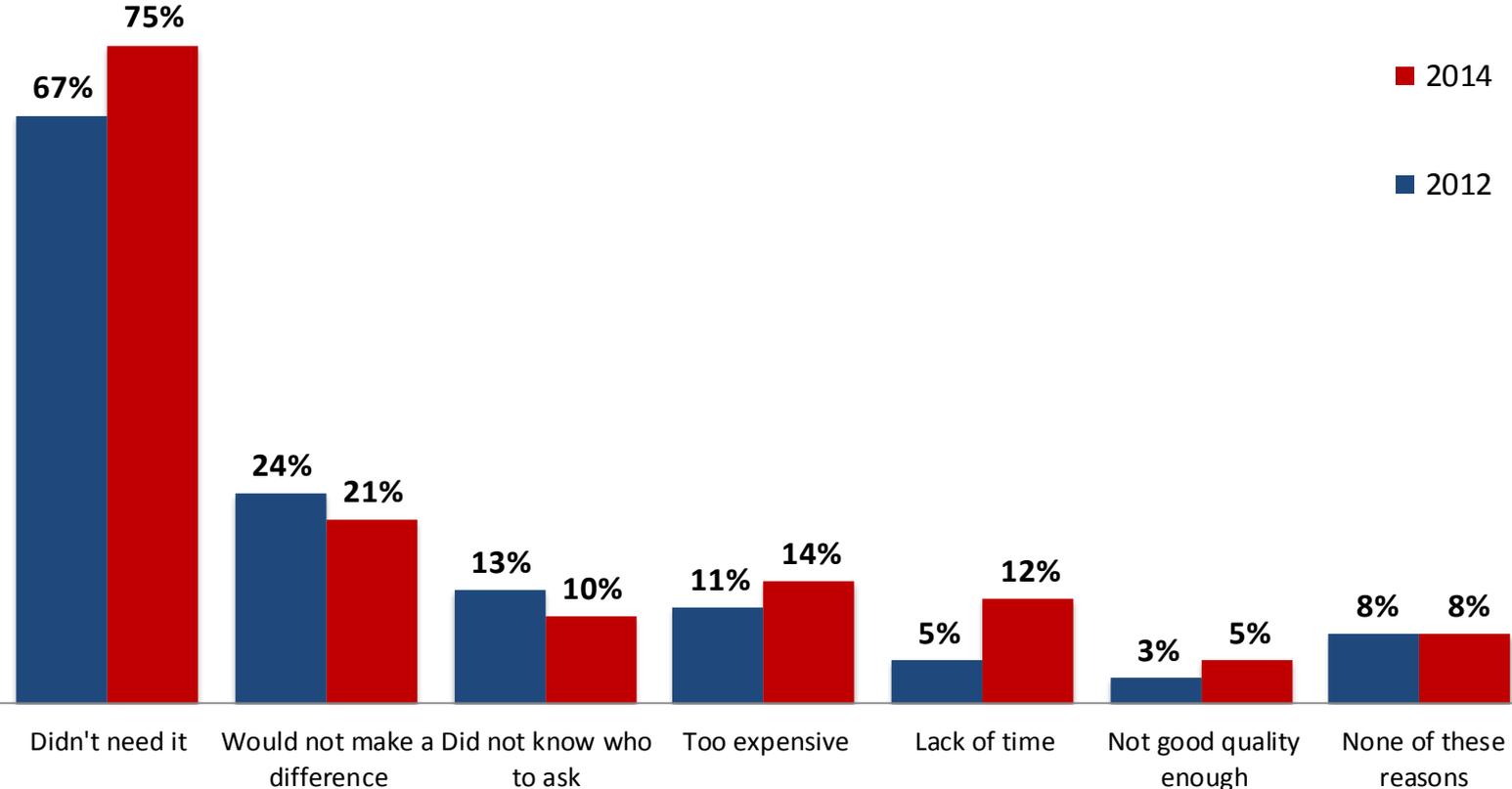
- Accountant = 54% (2012 = 39%)
- Friends/family = 19% (2012 = 12%)
- Website = 11% (2012 = 1%)
- Mentor = 8% (2012 = 0%)
- Financial adviser = 6% (2012 = 18%)

Of those that sought advice:

- 62% did so before deciding which type of finance to apply for
 - 36% before seeking a specific supplier
- 53% once they had started speaking to suppliers

Most businesses don't think they need advice...

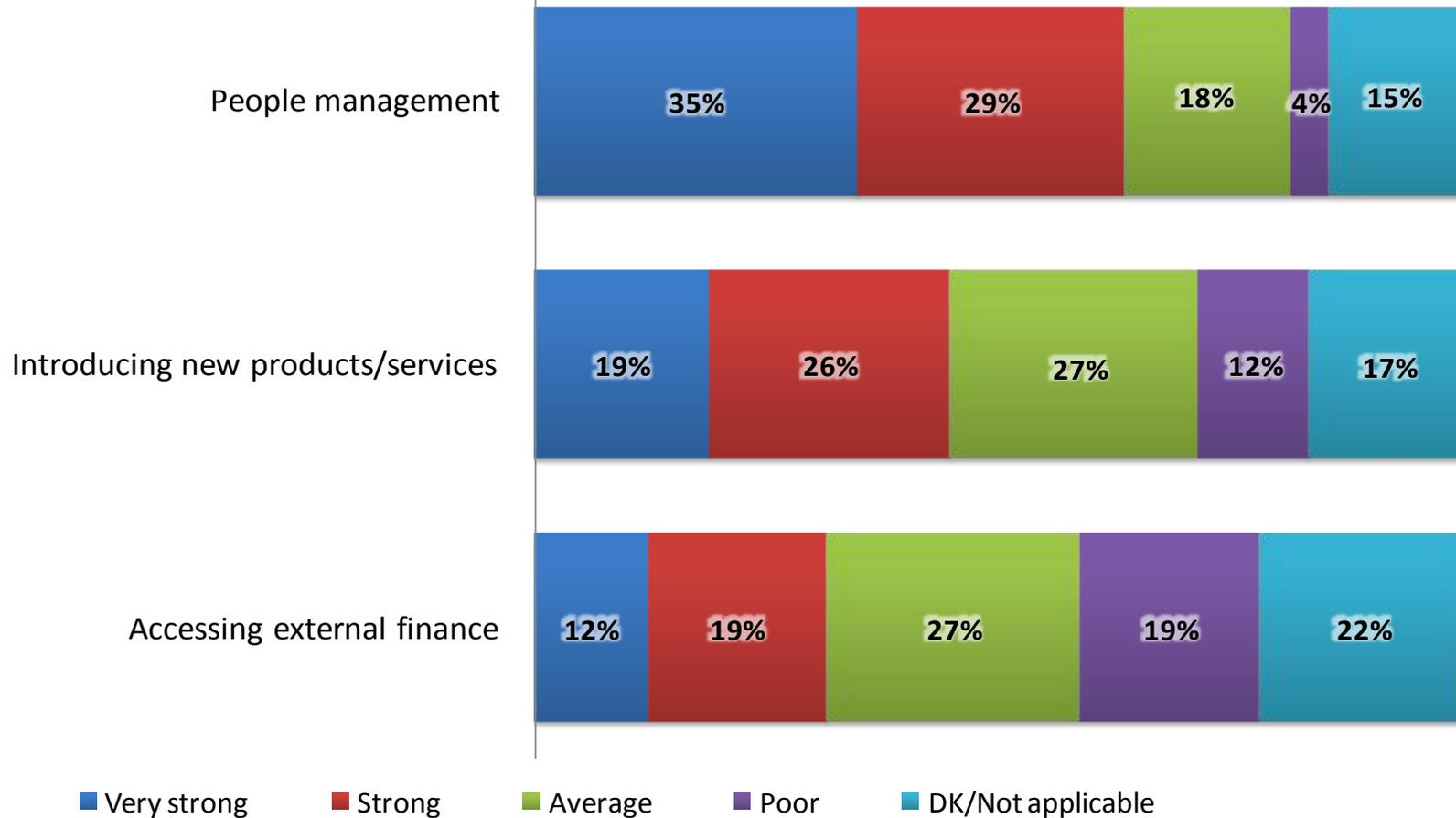
Reasons for not seeking external advice - 2012-14



Base = all SMEs that sought external finance in the last 3 years but did not seek external advice (n=247 in 2014/n=461 in 2012). Question A26 (multi code, prompted)

This is surprising as businesses are less confident in their own abilities raising finance compared to other aspects of running a business...

Self assessment of own capabilities – 2014

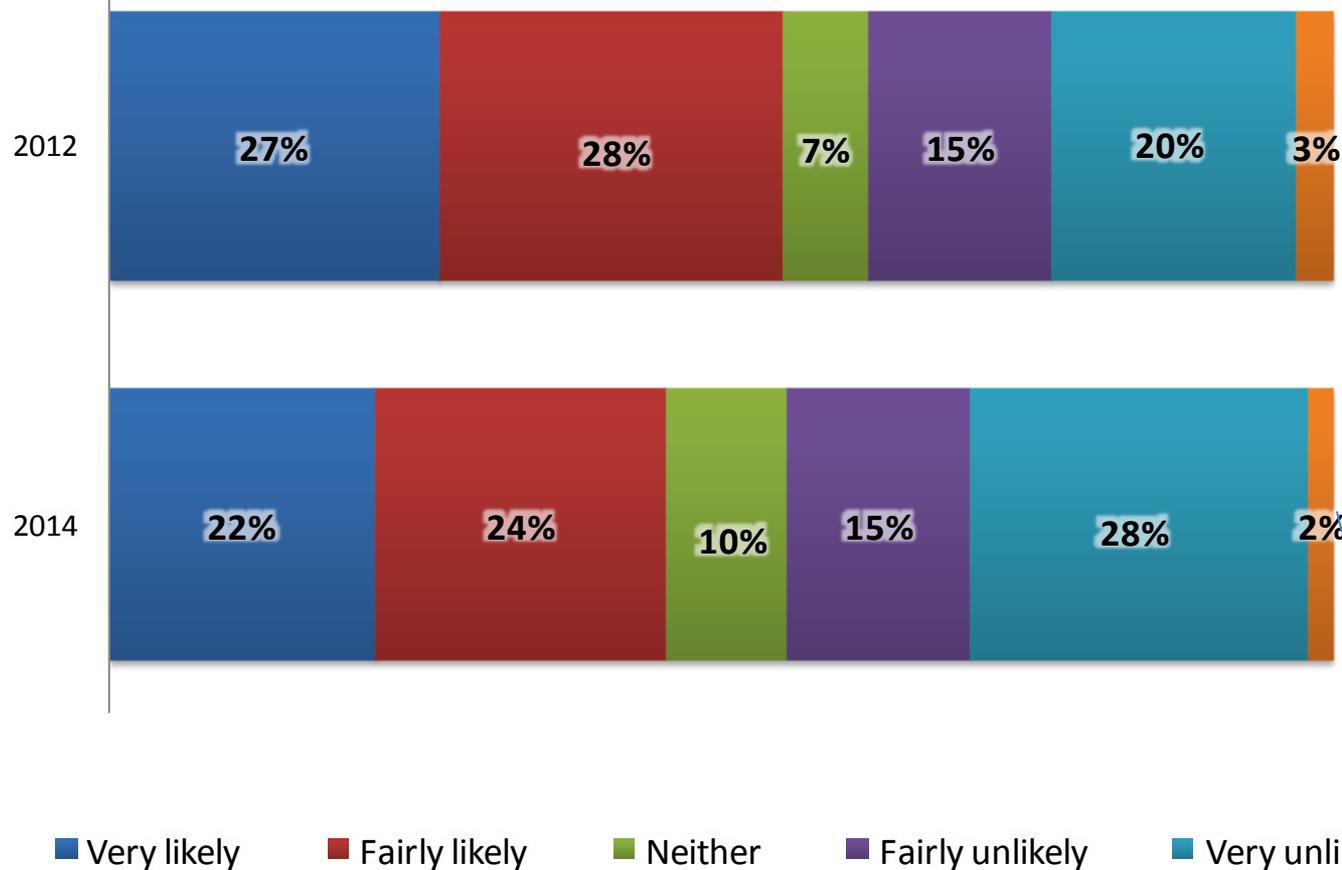


Base = all SMEs (n=1,000). Question C9 (single code, prompted)

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Although nearly half would consider using advice in the future if they had difficulties raising finance...

Likelihood of seeking external advice if had difficulties obtaining finance – 2012-2014



43% with no employees likely to seek advice cf. 55% of employers (down from 53%/58% in 2012)

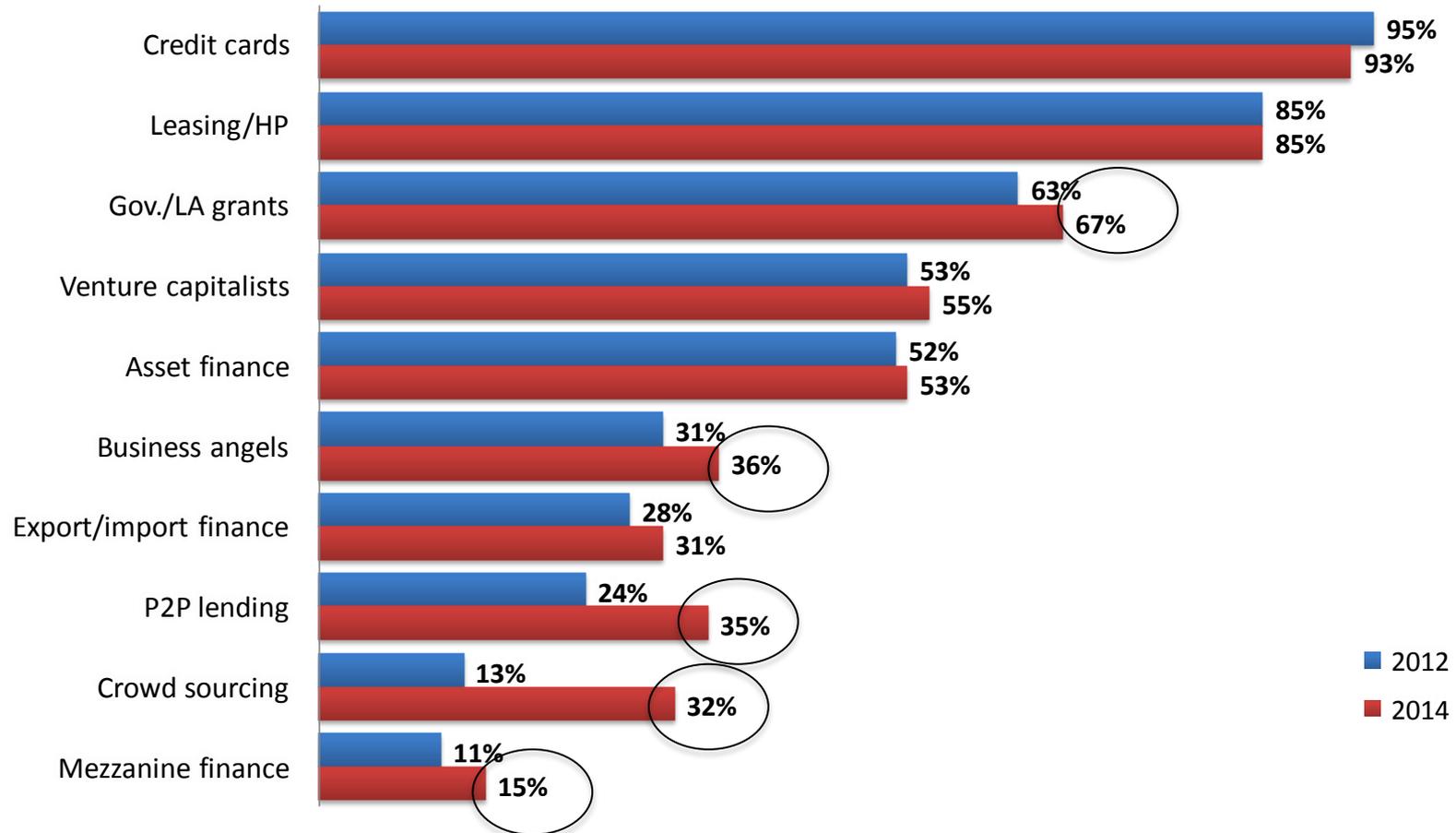
46% of those that would seek advice would pay for it (same as in 2012)

■ Very likely ■ Fairly likely ■ Neither ■ Fairly unlikely ■ Very unlikely ■ DK

4) SMEs awareness of different types of finance

SMEs are less aware of alternative non-bank sources of funding but this is beginning to change...

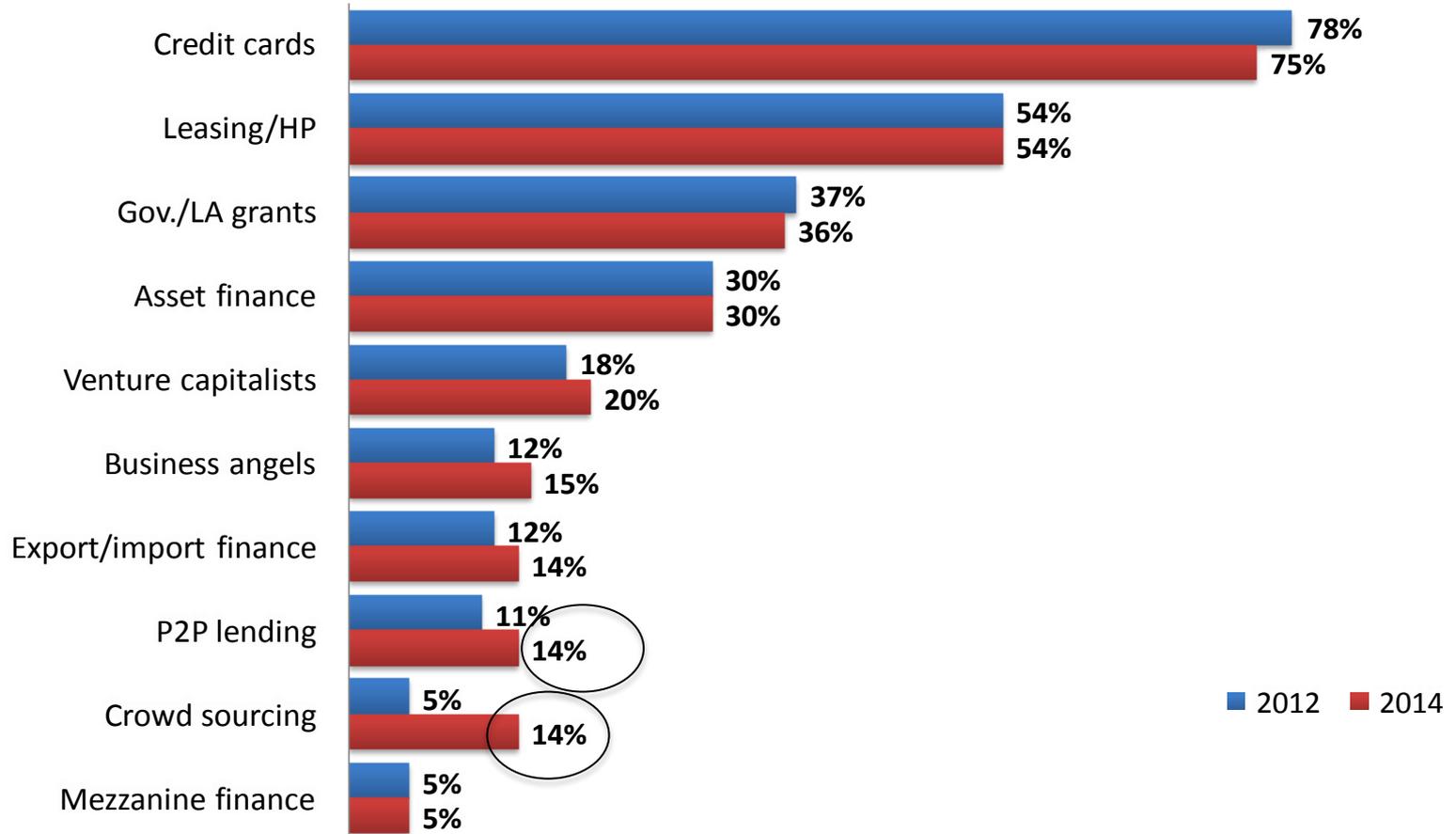
Awareness of forms of external finance - 2012-2014



■ 2012
■ 2014

Knowledge of specific non-bank suppliers of alternative finance is still low...

Aware of who to approach for forms of external finance - 2012-2014



Only a minority of businesses are aware of the British Business Bank...

- 35% aware that UK Government has created a development bank to increase supply of finance to SMEs
- 18% have heard of British Business Bank
- 40% aware of either
- The survey was introduced as a BIS survey to avoid biasing the results of this question.

Most likely to have heard of either

- Larger SMEs (60% of mediums cf. 39% with no employees)
- In the business services sector (51%, cf. 21% in construction)
- Aged 6-15 years (44%)

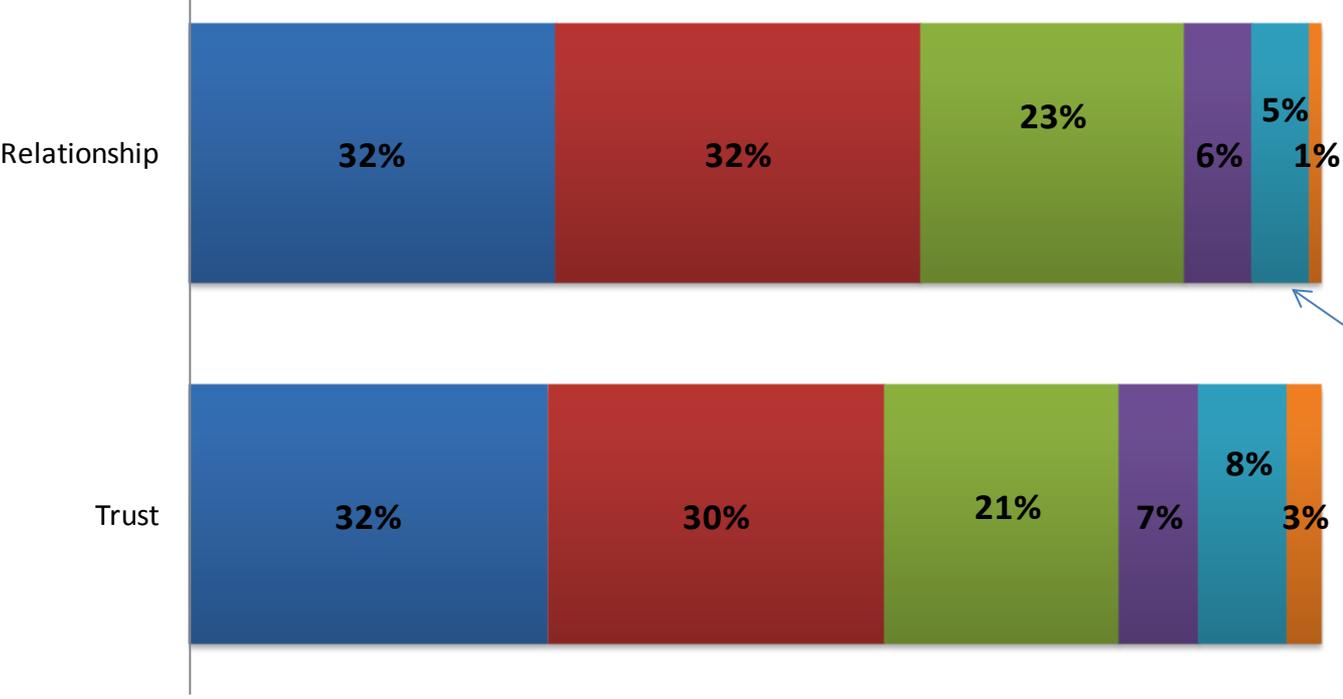
Most likely to have been made aware by....

- News/press release/Ministerial speech (49%)

5) SMEs perceptions of raising finance

Most businesses trust/ have a positive relationship with their bank but a minority do not...

Relationship with bank - 2014



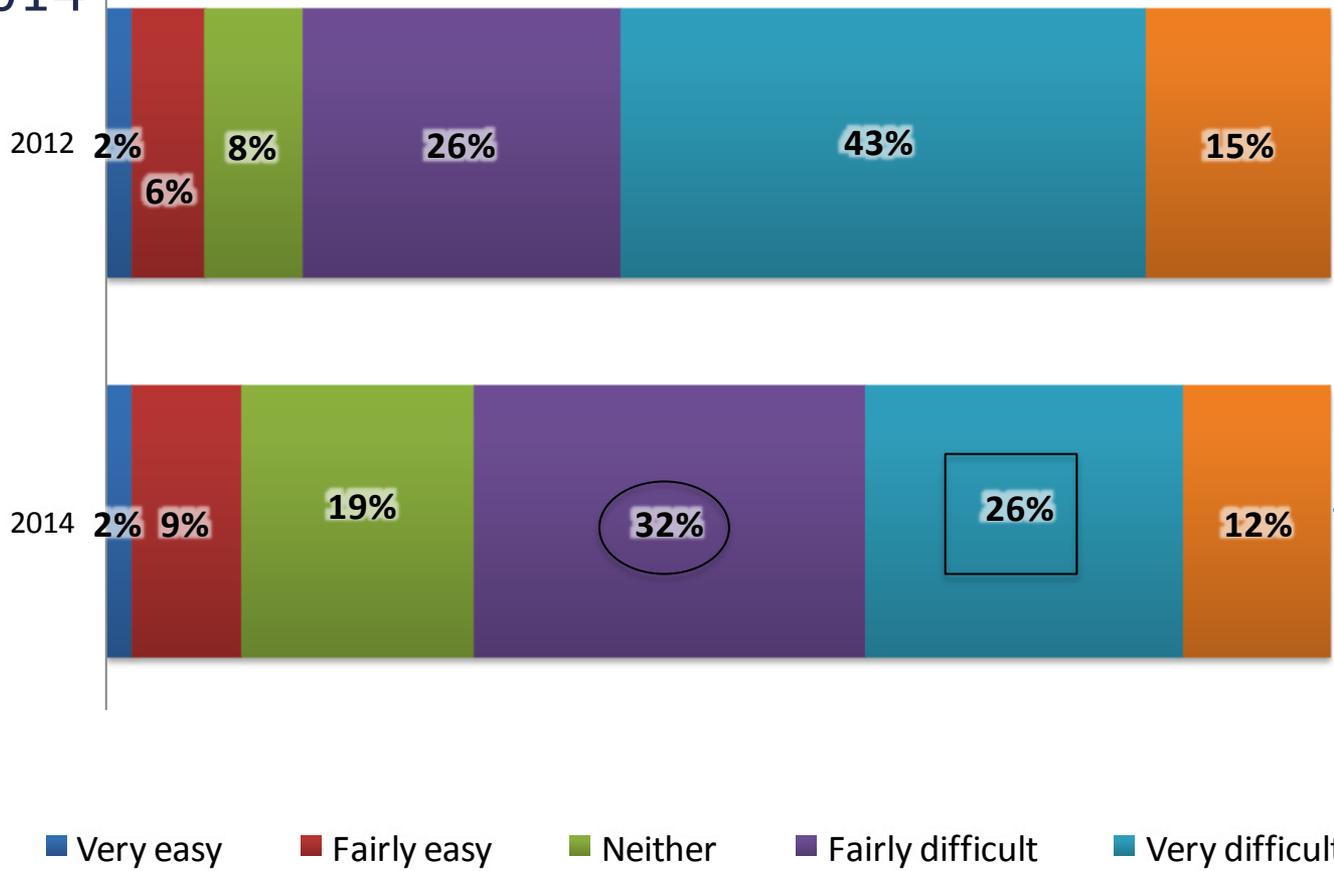
Those more likely to have poor relations with their bank include those who failed to get finance, those with higher risk ratings, and those who sought finance for expansion

- Very good/trustworthy
- Fairly good/trustworthy
- Neither
- Fairly poor/untrustworthy
- Very poor/untrustworthy
- DK/REF

Base = all SMEs (n=1,000). Question A4c/A4d (single code, prompted)

There has been a decline in the proportion of businesses reporting that it is difficult to raise finance...

Perceptions of how easy/difficult it is to gain finance– 2012-2014



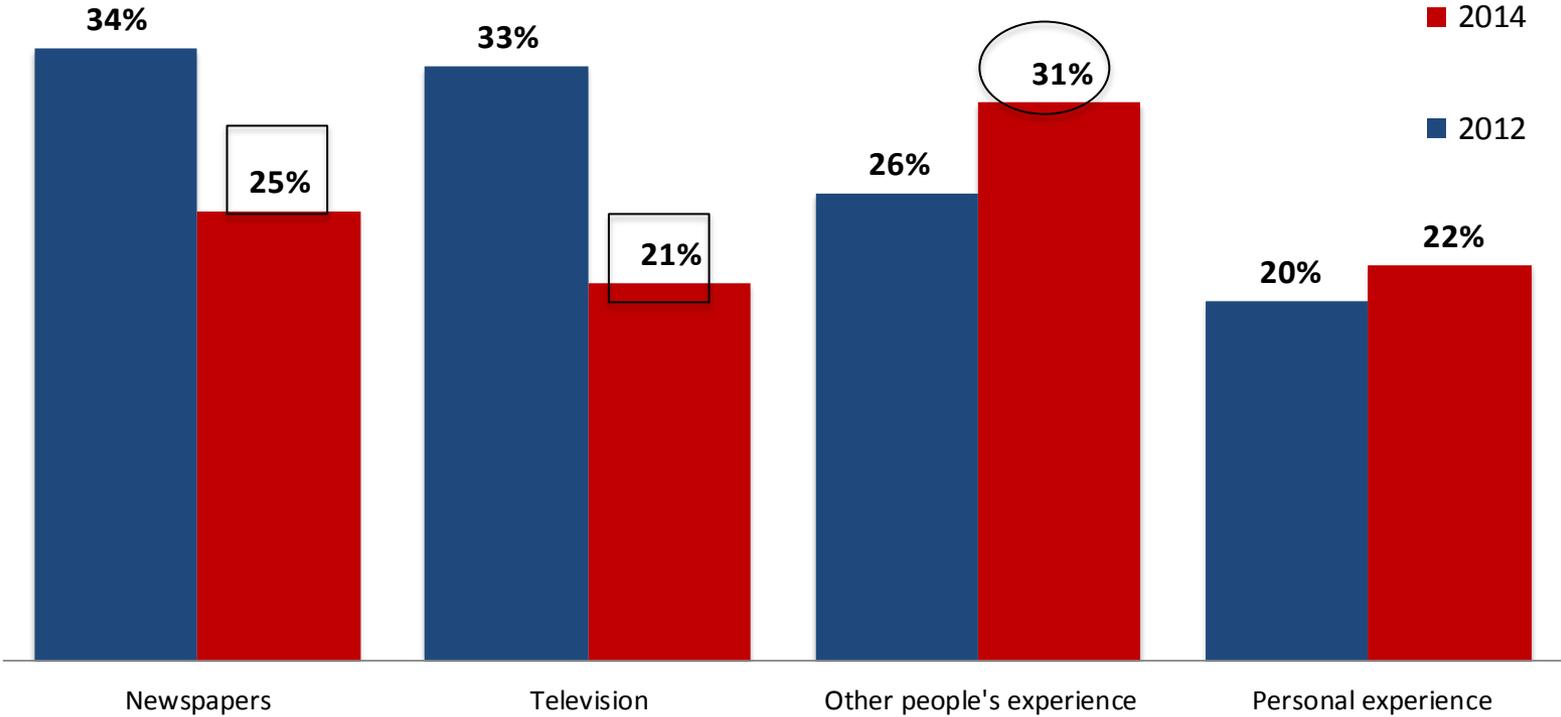
Those that applied for finance in the last 3 years (35%) and those that sought working capital (42%) more inclined to think it is very difficult

In 2014 SMEs perceived that (on average) 42% of those that apply for bank finance succeed in getting it (2012 = 32%)

■ Very easy ■ Fairly easy ■ Neither ■ Fairly difficult ■ Very difficult ■ DK/REF

Other peoples experience is now the main influence on business owners views on how difficult it is to raise finance...

Main sources of information that influence perception that finance is difficult to access- 2012-14



Base = all SMEs that think it is difficult to access finance (n=567 in 2014/n=1,089 in 2012).
Question A31 (multi code, prompted)

Businesses' experience of raising finance largely match their expectations...

How experience of raising finance compared with expectations – 2012-2014



For 37% in retail, transport, food sector, experience was better than expected

Experience matched expectations for 62% of employers, but only 48% of those with none

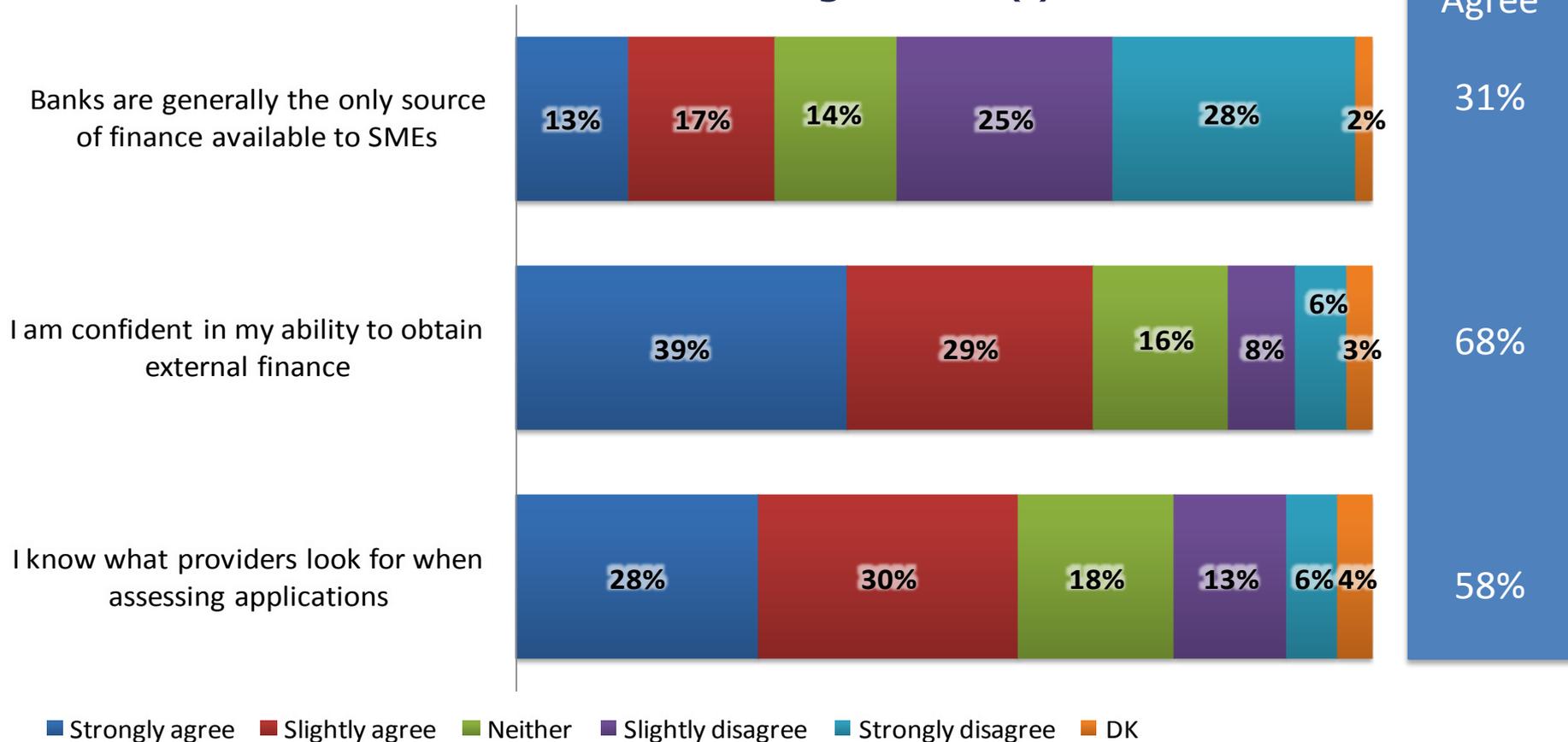
Main reasons for being worse than expected were poor customer service and the time it took

- Significantly better
- Slightly better
- matched expectations
- Slightly worse
- Significantly worse
- DK/REF

Base = all SMEs that sought finance in the last 3 years (n=325 in 2014/n=588 in 2012). Question A28a (single code, prompted)

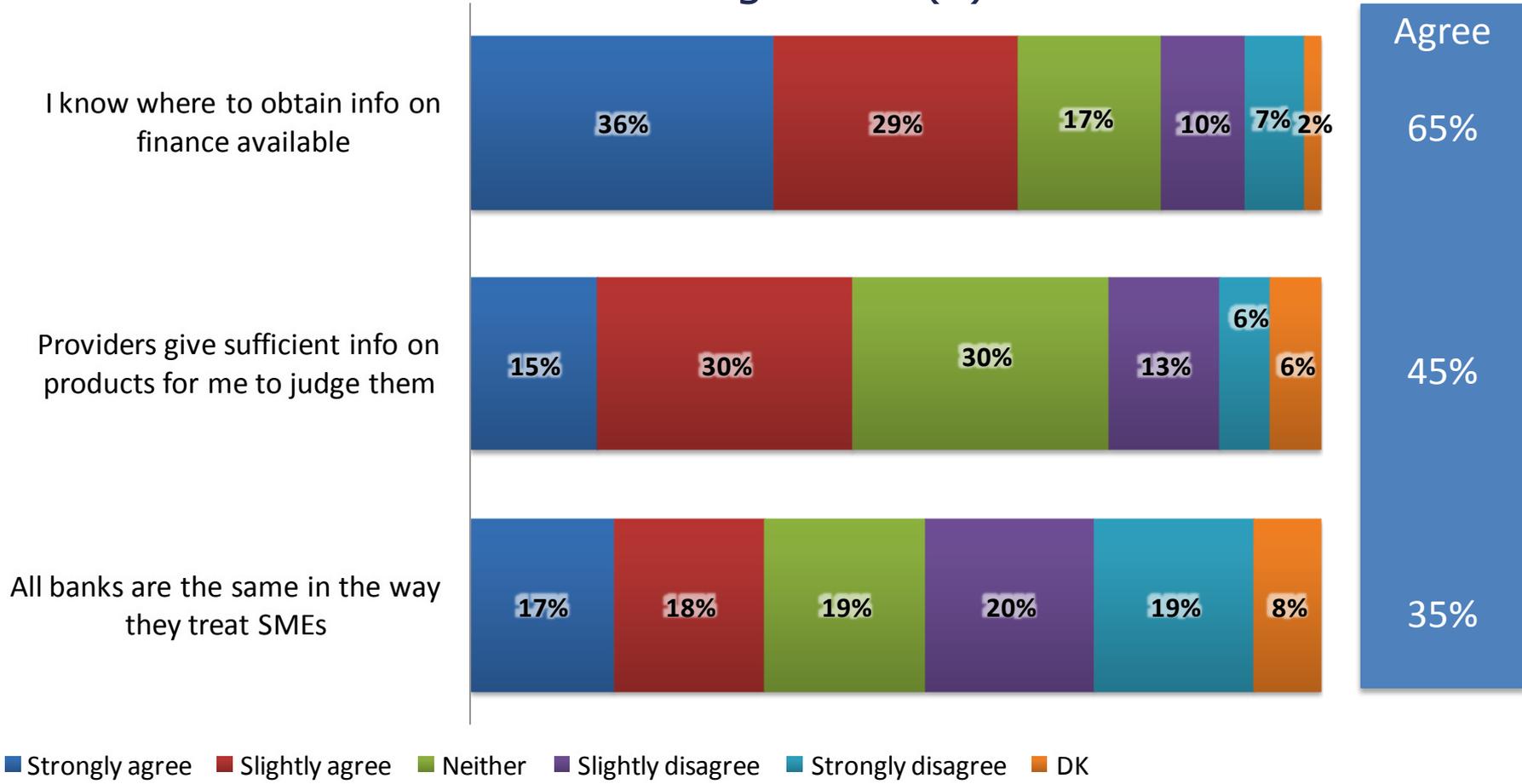
SMEs confident in their ability to obtain finance...

Attitudes to banks and finance in general (i) – 2014



Less than half of businesses think providers give sufficient information on financial products...

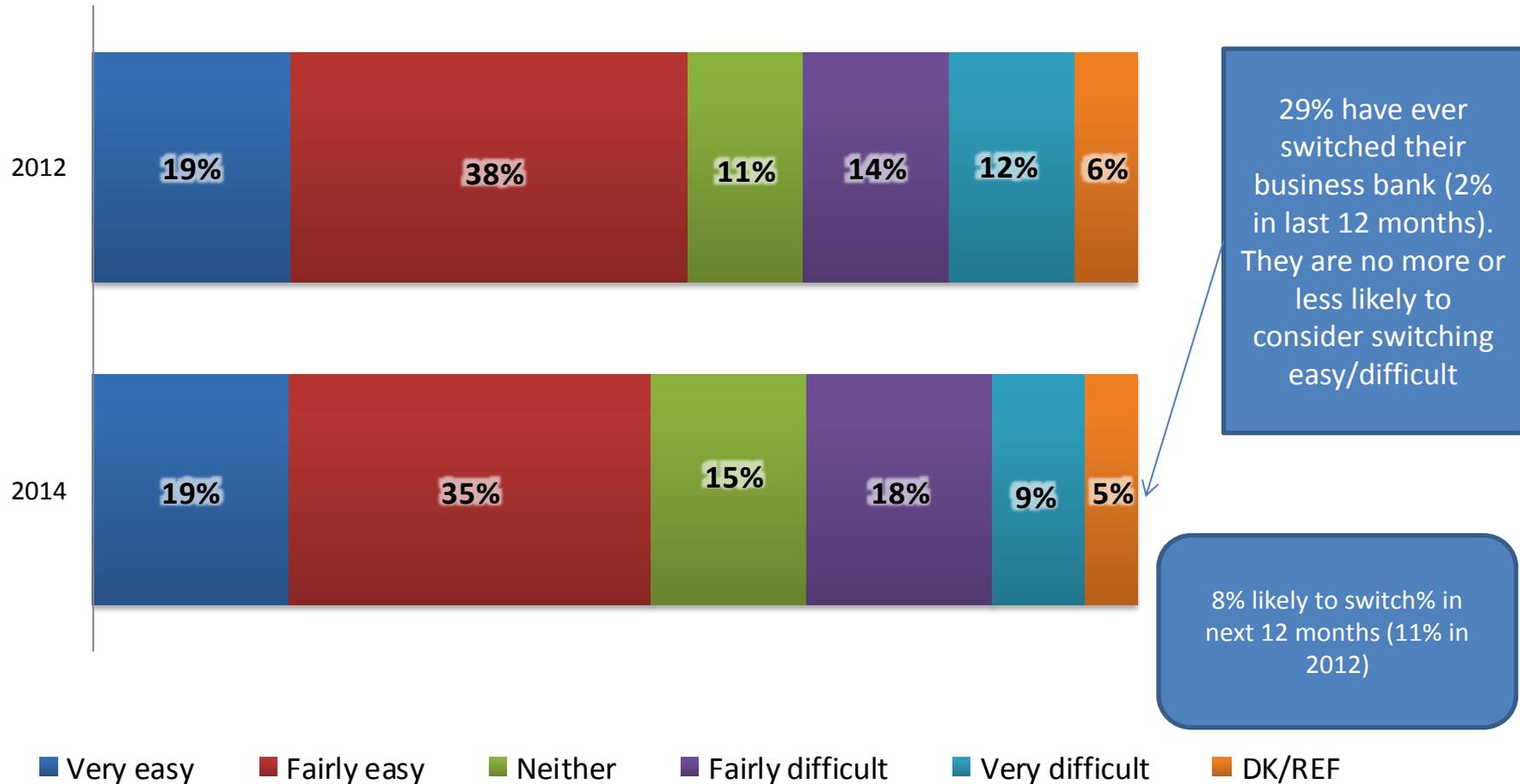
Attitudes to banks and finance in general (ii) – 2014



Base = all SMEs (n=1,000). Question A4e (single code, prompted)

Over half of businesses think it is easy to switch bank accounts...

Perceptions of how easy/difficult it is to move to a different bank – 2012-2014



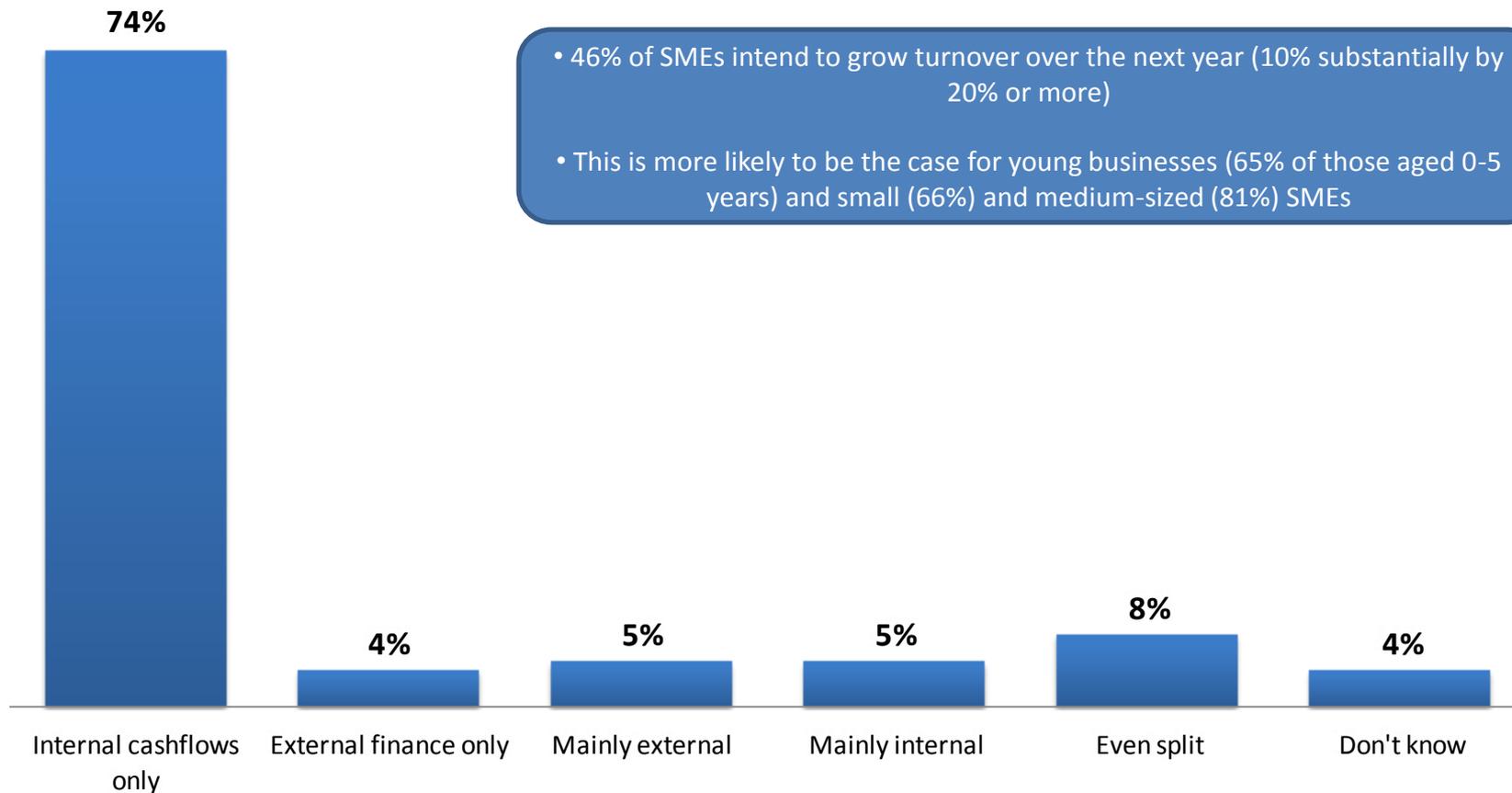
Base = all SMEs (n=1,000 in 2014/n=1,508 in 2012). Question A33/A35/A36 (single code, prompted)

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6) Use of external finance in future and discouragement

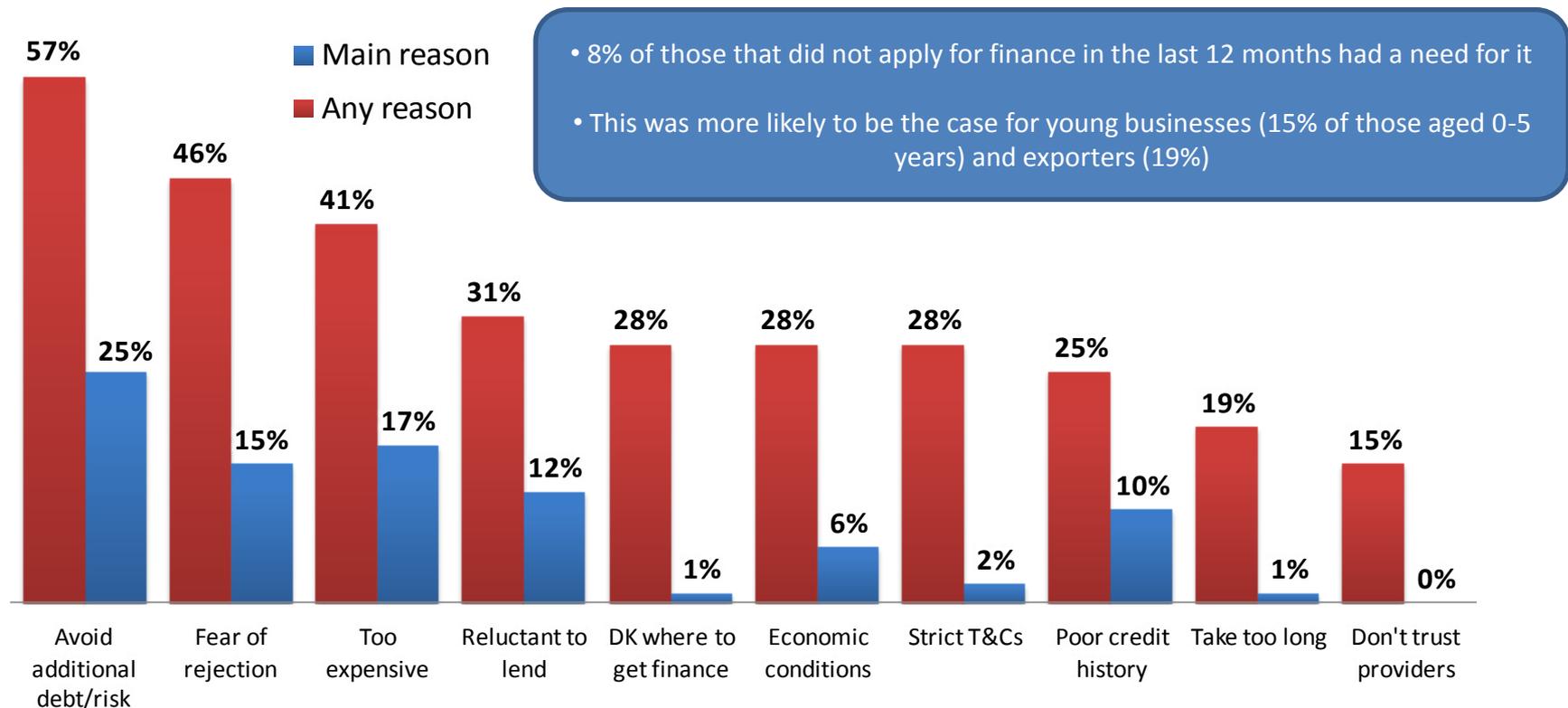
Nearly half of businesses are looking to grow but most will only use internal funds...

How will fund future growth - 2014



A significant proportion of businesses are discouraged from seeking finance because they think they will be rejected...

Reasons for not applying for finance - 2014



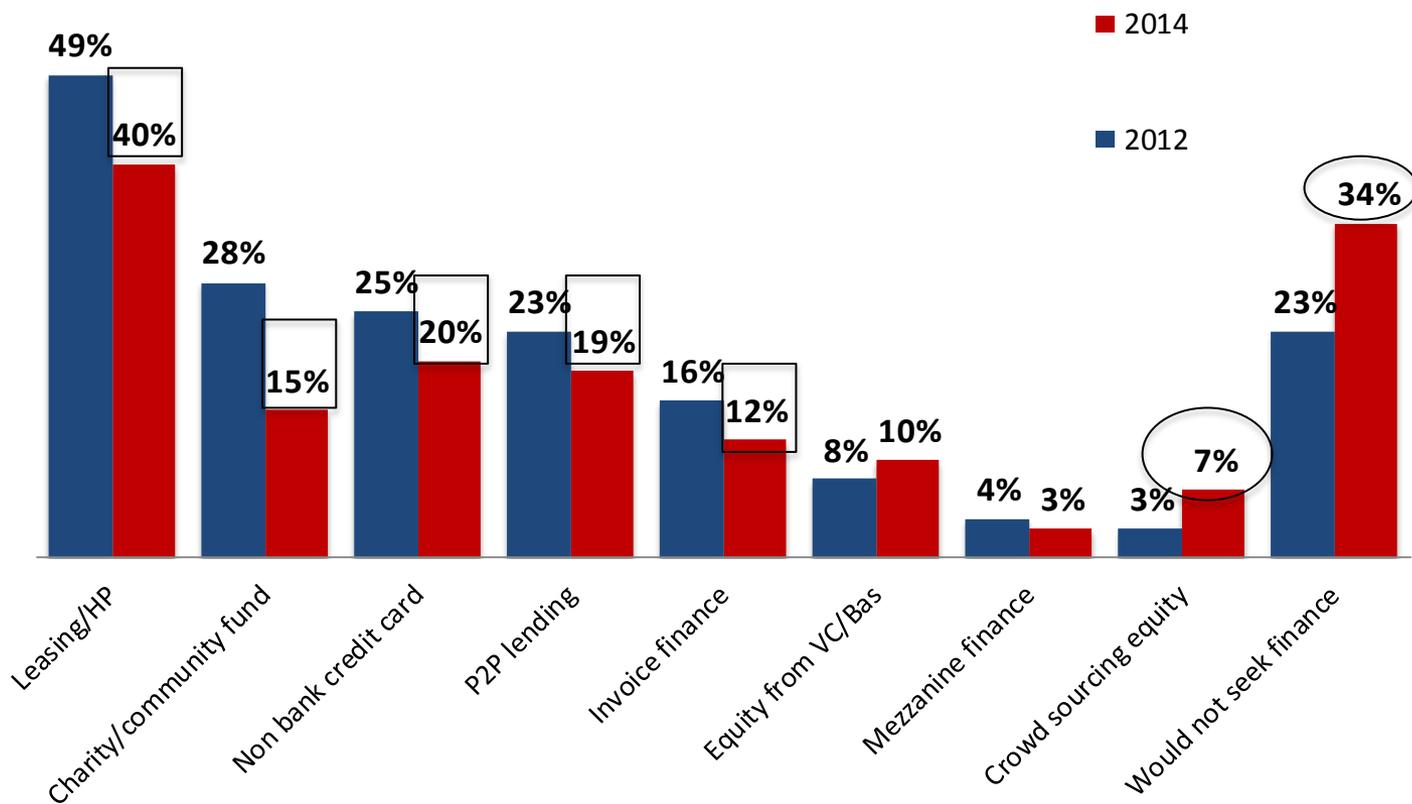
Base = all SMEs that had a need for finance in the last 12 months but did not apply (n=63).

Question B3b (multi code, prompted)/B3c (single code, prompted)

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Relatively low awareness of alternative sources of finance mean that businesses are less likely to consider them....

If had difficulties raising finance in future from a bank, which other forms of finance would be considered? - 2012-14



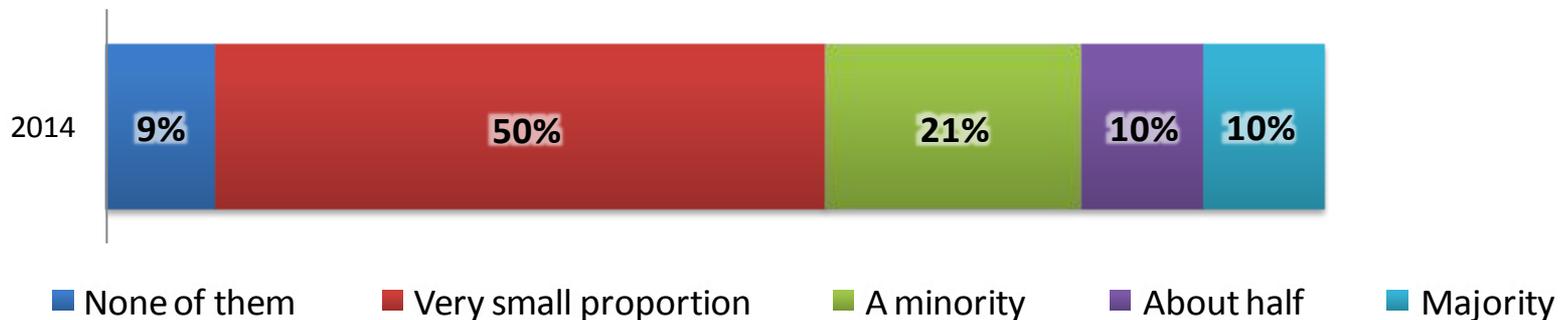
Base = all SMEs (n=1,000 in 2014/n=1,508 in 2012). Question B8 (multi code, prompted)

7) Trade Credit/ Late Payment

Half of SMEs offer trade credit to their customers but late payment can be a problem...

- 49% of SMEs give their customers trade credit (I.e time to pay after the delivery of the good or service)
- Increases with size of business from 46% of zero employee businesses to 74% of medium businesses

Proportion of customers that pay invoices late



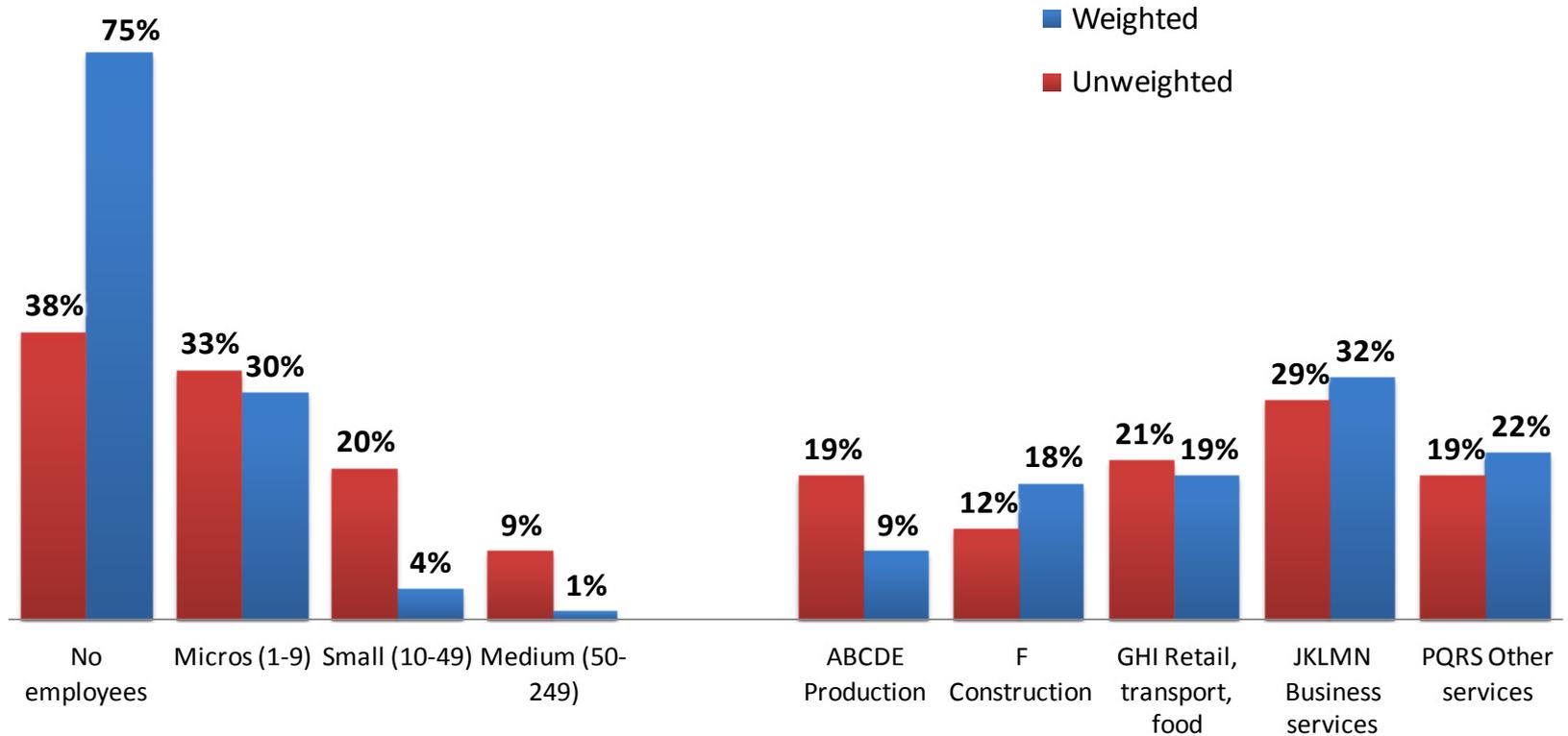
- For those SMEs whose customers pay late, for 37% this causes small problems to business cash flow but for 18% it is significant. This is equivalent to 8% of all SMEs.

8) Conclusions

Conclusions

- Lower use of finance by SMEs overall compared to 2012 (mainly relating to 0-9 employees SMEs).
- Reduced need for working capital but finance shifting to assets and expansion (also demonstrated through types of products sought).
- SMEs taking slightly longer to choose sources of finance compared to 2012, but half of businesses that sought finance only sought finance from four largest banks.
- Slight improvement in business view on availability of finance
- 40% aware of the BBB (either name or idea), having mainly heard in the News/ Press/ Ministerial Speech.
- Although awareness is still low, SMEs have increased awareness of P2P and crowd sourcing compared to 2012, and more would consider crowd sourcing as an alternative finance source to the banks.
- A proportion of SMEs are discouraged from seeking finance
- Majority of business will fund future growth from internal cash flows only.

Sample profile 2014 (unweighted/weighted %) – by size and sector



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