SME Finance Monitor

Q3 2014: Management Summary

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SME Finance Monitor Q3 2014 – Headlines

CONTEXT: SMEs continue to exhibit a range of positive indicators – more made a profit, fewer have a 'worse than average' risk rating and fewer have injected personal funds into the business. This is not (yet) impacting on current use of external finance which remains stable at 4 out of 10 SMEs, with as many SMEs meeting the definition of a 'Permanent non-borrower'

General context	
The proportion of SMEs making a profit continues to increase steadily	77% of SMEs interviewed in Q3 2014 reported being profitable, up from 69% in the equivalent quarter of 2013 (both excluding don't know answers)
The proportion of SMEs with a 'worse than average' external risk rating has declined steadily	The proportion of SMEs with a 'worse than average' external risk rating has declined steadily since the middle of 2013, when 56% had such a rating. In Q3 2014, 45% had this external risk rating. These changes were driven by the 0 employee SMEs, where the proportion of SMEs with a worse than average risk rating has declined from 62% in Q1 2013 to 50% in Q3 2014
40% of SMEs reported using external finance in Q3 2014, and this has been relatively stable over time.	40% of SMEs were using external finance, ranging from 35% of those with 0 employees to 65% of those with 50-249 employees 31% were using one of the 'core' forms of finance (loans, overdrafts and/or credit cards) and this has now stabilised, having declined from 40% at the start of 2012. Use of 'other' forms of finance (including leasing and invoice finance) was 20%, and more variable, with no consistent pattern over time. The gap in usage between the two forms of finance has narrowed over time
As many SMEs meet the definition of a 'Permanent non-borrower' as use external finance	In 6 of the last 7 quarters there have been at least as many SMEs meeting the definition of a 'Permanent non-borrower' as there have been SMEs using external finance (currently 40%). 0 employee SMEs remain the most likely to meet the definition of a PNB - currently 44% meet the definition compared to 28% of those with employees
Fewer SMEs reported an injection of personal funds into the business (28%)	The proportion of SMEs reporting an injection of personal funds continues to decline steadily over time, from 46% in Q3 2012 to 28% in the most recent quarter. The proportion saying they felt they 'had' to inject funds has fallen from 26% to 15% over this period, while the proportion 'choosing' to inject funds has also declined from 20% to 13%
A similar proportion, (32%) regularly use Trade Credit	In Q3 2014, 32% of SMEs regularly use Trade Credit from their suppliers, ranging from 27% of those with 0 employees to 59% of those with 10-249 employees
Including these other forms of finance increases *net* use of 'finance' from 37% to 64% of SMEs	Adding this form of funding plus injections of personal funds to external finance gives an overall 'business finance' total of 64% for Q1-3 2014. There is more of an 'uplift' for smaller SMEs – amongst those with 0 employees 60% use any business finance compared to 35% using external finance

BORROWING EVENTS IN LAST 12 MONTHS: The proportion of SMEs reporting a borrowing 'event' in the year prior to interview has stabilised (18%) but remains at lower levels than previously seen. Most SMEs (77%) were 'Happy non-seekers' of finance for the period, and this has also stabilised. Two thirds of SMEs agreed that their aim was to pay down debt and then remain debt free, albeit half of this group (and 39% of SMEs overall) were prepared to use external finance to help the business grow and develop

Borrowing events	
18% of SMEs reported that they had experienced a borrowing 'event'	In Q3 2014, 18% of SMEs reported a borrowing 'event' in the previous 12 months (including the automatic renewal of overdraft facilities) Over time, the proportion reporting an 'event' has fallen somewhat, having been around a quarter in 2012, but it has been around the current level since early 2013
5% of SMEs met the definition of a 'Would-be seeker' of finance	In Q3 2014, 5% had wanted to apply but felt that something had stopped them. This proportion has also stayed fairly constant since early 2013. The main reasons why these 'Would-be seekers' have not applied remained discouragement, (most of it indirect, ie where the SME assumes that they will be turned down and so does not apply) and the process of borrowing (expense, hassle etc.)
Three quarters of SMEs (77%) met the definition of a 'Happy non-seeker' of finance	The proportion of all SMEs that are 'Happy non-seekers' increased steadily over time, from around two thirds of SMEs in 2012 to 79% in Q4 2013, and has remained around this level since then (77% in Q3 2014)
68% of SMEs agreed that they aimed to pay down debt and then remain debt free	In a new question for Q3 2014, SMEs were asked about their attitude to finance in the business: 68% agreed that they aimed to pay down debt and then remain debt free, with relatively little variation by size of business 39% agreed that they were happy to use external finance to help the business grow and this was less likely to be the case for the 0 employee SMEs (35%) than those with employees (58% of those with 50-249 employees) Half of those who agreed that they were aiming to pay down debt also agreed that they *would* use external finance to help the business grow – the equivalent of 32% of all SMEs. Almost as many (28% of all SMEs) wanted to pay down debt and would not be prepared to use external finance to help them grow

THE OUTCOME OF APPLICATIONS FOR NEW/RENEWED LOAN & OVERDRAFTS: 71% of all applications made in the last 18 months resulted in a facility. The success rate is improving over time, due to higher success rates for new facilities, and overdrafts generally, in recent quarters.

The outcome of applications	
71% of applications made in the last 18 months resulted in a facility	71% of applications made for new/renewed loans and overdrafts in the last 18 months (Q2 2013 to Q3 2014) resulted in a facility, up from 66% for the previous 18 month period to Q2. Applications made in 2014 to date have been more likely to be successful than those made in 2013
99% of those applying to renew an existing facility were successful	99% of those applying to renew an existing facility in the past 18 months (to Q3 2014) were successful, and this has changed very little over time
This remains higher than the success rate for new money (56%), which is improving	This remains higher than the success rate for new money (56% for the past 18 months) but the success rate for new money is improving over time – for new applications recorded to date for 2014, more than 6 in 10 have been successful
The success rate for first time applicants has also improved	Amongst those applying for new loan/overdraft facilities, there remains a clear difference between those who are applying for their first facility (45% success rate for applications made Q2 2013 to Q3 2014), and those applying for other new money (65% success rate over the same period). That said, the success rate for first time applicants has improved, after previous declines (it was 38% for the 18 months to Q2 2014)
79% of overdraft applications resulted in a facility	79% of overdraft applications made Q2 2013 to Q3 2014 resulted in a facility, the highest 18 months success rate seen to date. This is due to improving success rates for the most recent quarters (80%+) an improvement which is not entirely explained by an analysis of the profile of SMEs applying for overdrafts in those quarters
56% of loan applications resulted in a facility	56% of loan applications made Q2 2013 to Q3 2014 resulted in a facility, back to levels previously seen. The predicted success rate, based on the profile of applicants, has been stable since the end of 2012. Actual success rates have fluctuated but have recently become closer to those predicted, although the current higher success rate for applications made in Q2 2014 (70%) is not explained by an improving applicant profile

THE FUTURE: The economic climate is a decreasing barrier, and half of SMEs are planning to grow. A steady 15% plan to apply for new/renewed facilities, with improved confidence that their bank would agree, although confidence remains lower than actual success rates, notably so for renewals. Awareness of support initiatives remains limited.

Looking ahead	
46% of SMEs said that they planned to grow in the next 12 months	46% of SMEs in Q3 2014 said that they planned to grow in the next 12 months, in line with earlier quarters, but down slightly on Q2 2014 (53%): This is due to varying growth prospects for 0 employee SMEs (from 50% in Q2 2014 to 40% in Q3 2014, and now more in line with earlier quarters), whereas for all other size bands an increasing proportion of SMEs are planning to grow (increasing by size in Q3 2014 to 69% of those with 10-49 or 50-249 employees)
The current economic climate remains the main (but declining) barrier to running the business	The current economic climate remains the main barrier to running the business (cited by 16% of SMEs in Q3 2014) This proportion has been declining steadily since the start of 2012 (when 37% saw it as a major barrier). It is more of a barrier for those with any aspiration to external finance in the next 3 months (23%) than it is amongst future 'Happy non-seekers' (13%), and this is also true for the other barriers tested Access to finance is also less likely to be perceived as a major barrier in Q3 2014 (7%), including amongst those with any plans/aspirations to apply for finance in future (17% in Q3 2014 compared to 27% in Q1 2013)
Looking forward, most SMEs met the definition of a 'Future Happy non-seeker' of finance	The proportion of Future Happy non-seekers has stabilised after previous increases. 69% of SMEs were 'Future Happy non-seekers' in Q3 2014, an increase on Q3 2012 (63%) and at the same level as Q3 2013 (70%).
16% met the definition of a 'Future would-be seeker' of finance	This is made up of 2% with a specific need for finance that they did not think they would apply for, and 14% with no specific need. This is similar to recent quarters, but longer term this proportion has declined somewhat (having been 25% in Q1 2012) The main barrier to a future application remains a reluctance to borrow in the current economic climate, mentioned in Q3 2014 by 53% of all 'Future would-be seekers', but down over time from 72% in Q4 2013. 13% felt discouraged from applying, almost all of it indirect (where the SME assumes they will be turned down and so does not apply)
15% planned to apply for new/renewed facilities	15% planned to apply for new/renewed facilities in the next 3 months, and this has remained relatively stable over time. Excluding the Permanent non-Borrowers increases the proportion planning to apply to 25% of remaining SMEs

Looking ahead (cont)	
Amongst those planning to apply, 46% were confident that their bank would agree to their request	Amongst those planning to apply, 46% were confident that their bank would agree to their request, and confidence has been higher in 2014 than in 2013 Larger potential applicants, with 10-249 employees, remain more confident than smaller ones (70% v 45% in Q3 2014) and their confidence has also increased steadily over time (having been 54% in Q3 2012)
The confidence 'gap' continues to exist	Typically there has been a wider confidence 'gap' between anticipated and actual success rates for those seeking the renewal of an existing facility than for those seeking a new facility For Q2 2014 (the latest quarter for which sufficient success rate data is available), confidence amongst those seeking a renewal was at one of the highest levels seen to date (62%) but still lower than the 99% of renewal applications that were successful. Confidence amongst those seeking new money is starting to improve, but still for Q2 2014 32% were confident of success compared to an actual success rate (to date) of 66%
28% of SMEs *thought* they were aware of schemes to support access to finance	Before prompting with specific schemes, SMEs were asked whether they were aware of *any* Government or other initiatives designed to help make funding available to SMEs. 28% said that they were, ranging from 27% of those with 0 employees to 38% of those with 50-249 employees
While half (52%) were actually aware of any of five specific initiatives tested	Awareness increased after prompting to 52% of SMEs: 35% were aware of Start-up loans, 25% of the Funding for Lending scheme, 22% of the Enterprise Finance Guarantee scheme, 16% of the Business Growth fund and 13% of the British Business Bank. Overall awareness ranged from 50% of those with 0 employees to 59% of those with 50-249 employees Awareness of other initiatives such as the appeals process, which have been tracked for longer, remains stable
32% of SMEs (excluding PNBs) were aware of crowd funding	In Q3 2014, 32% of SMEs (excluding PNBs) were aware of crowd funding, the highest level seen to date. Awareness compares well with other initiatives, but use remains very limited (1% for Q1-3 2014) while 8% of SMEs (excluding PNBs) said that this was a form of funding they would consider using

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