

4. The general context



This chapter presents

an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on all interviews conducted in the year-ending Q2 2016 (YEQ2 16).



Key findings

SMEs have reported a stable picture over recent quarters:

81% made a profit YEQ2 2016 (excluding DK answers). This has changed little over recent quarters (80% in 2015), having previously increased over time from 69% in 2012.

- Larger SMEs remained somewhat more likely to report a profit (91% of those with 50-249 employees compared to 80% of those with 0 employees).

40% of SMEs (excluding Starts) reported having grown in the previous 12 months and this has changed little since 2012, when 40% of SMEs also reported having grown.

- This was due to a consistent 1 in 3 of the smallest SMEs reporting growth each year (38% YEQ2 2016) while those with 1-9 or 10-49 employees have become increasingly likely to report growth (46% and 54% for YEQ2 2016 respectively).
- 6% of all SMEs excluding Starts reported achieving 'scale-up growth' that is growing by 20% or more for three consecutive years. This is the equivalent of 5% of all SMEs.

48% of SMEs had a worse than average external risk rating and this was much more likely to be the case for smaller SMEs (55% of those with 0 employees compared to 6% of those with 50-249 employees).

- This proportion declined somewhat between 2012 and 2014 (from 53% to 45%) but is showing some signs of increasing again (in H1 2016, 49% had a worse than average risk rating), due to an increasing proportion of 0 employee SMEs with such a rating (50% in 2014 to 56% in H1 2016).

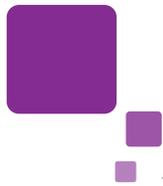


Almost all SMEs hold some credit balances. In the first half of 2016, 21% held £10,000 or more. Most of these SMEs went on to say that holding such sums reduced their need for external finance.

- Between 2012 and 2015 the proportion of SMEs holding £10,000 or more increased from 16% to 24%. The slightly lower figure for H1 2016 (21%) is due to fewer 0 employee SMEs holding such sums.

The proportion of SMEs undertaking international trade has stabilised after previous increases. In 2012, 10% of SMEs were international (6% exported and 7% imported) increasing to 16% in 2014. In 2015, 17% of SMEs were international and in H1 2016 15% (9% exported and 10% imported). Larger SMEs remained more likely to be international.

- 16% of exporters said that international trade made up 50% or more of all sales and this proportion has declined over time (in 2013, 24% of exporters sold 50% or more overseas).



This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 19,007 interviews conducted in the year-ending Q2 2016 (that is Q3 and Q4 of 2015 and Q1 and Q2 of 2016). There were a number of trading challenges when the survey started in 2011,

and analysis of this data over time provides an indication of how SMEs have managed and continue to manage as conditions change. Note that all this data was collected prior to the EU referendum result being known (with Q1 and Q2 2016 data collected during the referendum campaign).

Profitability

In Q2 2016, 74% of SMEs reported making a profit in their most recent 12 month trading period, maintaining the improvement seen since 2013, when around two thirds of those interviewed each quarter reported making a profit.

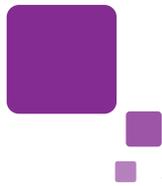
The proportion unable or unwilling to give an answer has varied over time, so the table also reports the proportion that made a profit once those ‘don’t know’ answers had been excluded. On this basis there has also been an increase over time in the proportion of SMEs reporting a profit for the previous year and in Q2 2016 itself 80% of SMEs (excluding the DK/refused answers) were profitable, maintaining the higher levels seen in recent quarters:

Business performance last 12 months

Over time	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2014	2014	2014	2015	2015	2015	2015	2016	2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Made a profit	71%	73%	72%	74%	76%	75%	75%	75%	74%
Broke even	11%	10%	11%	10%	10%	10%	9%	10%	12%
Made a loss	12%	12%	10%	10%	9%	9%	8%	8%	6%
DK/refused	6%	6%	8%	6%	5%	6%	8%	7%	7%
Median profit made	£9k	£8k	£9k	£9k	£9k	£9k	£9k	£8k	£8k
Made profit (excl DK)	76%	77%	78%	79%	80%	80%	81%	81%	80%

Q241 All SMEs/ * All SMEs making a profit and revealing the amount

Note that because consistently unprofitable SMEs tend to go out of business, there will be an element of ‘survivorship bias’ in the profit figures, potentially underestimating the proportion of unprofitable businesses in the population.



For the period YEQ2 2016, 75% of all SMEs had been profitable (81% once the DK answers were excluded), increasing by size of SME as the table below shows. The median profit, where made, was £9k, and the median loss £2k. Both increased by size of SME:

Business performance last 12 months		0	1-9	10-49	50-249
YEQ2 16 – all SMEs		emp	emps	emps	emps
	Total				
Unweighted base:	19,007	3800	6203	6103	2901
Made a profit	75%	74%	76%	80%	83%
Broke even	10%	11%	9%	7%	5%
Made a loss	8%	8%	8%	5%	4%
DK/refused	7%	7%	8%	9%	9%
Made profit (excl DK)	81%	80%	82%	87%	91%
Median profit made	£9k	£7k	£13k	£51k	£193k
Median loss made	£2k	£2k	£3k	£13k	£155k

Q241 All SMEs/ * All SMEs making a profit/loss and revealing the amount

Amongst SMEs with employees, 83% reported making a profit YEQ2 2016 (once the DK and refused answers were excluded).

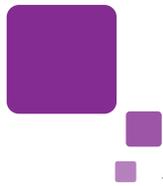
Over recent quarters larger SMEs have remained consistently more likely to be profitable than smaller ones, as the table below shows:

Made a profit in last 12 months

Over time

Row percentages – excl DK	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
By date of interview	2014	2014	2014	2015	2015	2015	2015	2016	2016
All SMEs	76%	77%	78%	79%	80%	80%	81%	81%	80%
0 employee	74%	76%	76%	78%	79%	79%	81%	80%	79%
1-9 employees	80%	82%	81%	79%	82%	83%	82%	84%	80%
10-49 employees	87%	84%	85%	88%	87%	86%	88%	87%	88%
50-249 employees	89%	89%	85%	90%	87%	89%	93%	94%	87%

Q241 All SMEs excluding DK



By sector, once the 'don't know' answers were excluded, there was relatively little difference in the proportion reporting a profit YEQ2 2016, with the possible exception of the Health sector where 76% reported a profit:

Business performance last 12 months

YEQ2 16 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWork	Other Comm
Unweighted base:	1350	1790	3349	1912	1500	1909	3550	1645	2002
Made a profit	70%	74%	75%	74%	72%	73%	77%	71%	77%
Broke even	11%	10%	12%	10%	11%	11%	10%	10%	8%
Made a loss	10%	6%	7%	8%	10%	8%	8%	11%	8%
DK/refused	8%	8%	6%	8%	7%	9%	5%	8%	7%
Made profit (excl DK)	77%	82%	80%	80%	78%	80%	82%	76%	83%
Median profit made	£9k	£11k	£8k	£11k	£9k	£7k	£10k	£6k	£8k
Median loss made	£2k	£2k	£2k	£2k	£5k	£2k	£2k	£2k	£2k

Q241 All SMEs/ * All SMEs making a profit/loss and revealing the amount

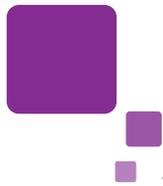
Median profits reported for YEQ2 2016 varied slightly, between £6-11k by sector, with little change over time. Reported median losses for YEQ2 2016 were £2k overall and for all sectors, with the exception of those who reported making a loss in the Hotel & Restaurant sector (£5k).



The table below takes a longer term view of profitability (since 2012) by key demographics. This shows increasing profitability across all size bands, and that Permanent non-borrowers are now no longer more likely to be profitable than their peers:

Made a profit in last 12 months					
Over time (excl DK)					H1
By date of interview – row percentages	2012	2013	2014	2015	2016
All	69%	70%	77%	80%	80%
0 emp	67%	69%	75%	79%	80%
1-9 emps	72%	75%	81%	82%	82%
10-49 emps	80%	81%	86%	87%	88%
50-249 emps	81%	84%	88%	90%	91%
Minimal external risk rating	83%	83%	84%	84%	86%
Low	81%	84%	82%	87%	87%
Average	71%	73%	80%	82%	84%
Worse than average	63%	65%	72%	76%	77%
Agriculture	74%	73%	79%	78%	76%
Manufacturing	69%	74%	80%	81%	79%
Construction	67%	68%	78%	80%	79%
Wholesale/Retail	67%	70%	74%	79%	82%
Hotels & Restaurants	59%	65%	73%	75%	77%
Transport	65%	66%	76%	78%	80%
Property/ Business Services	73%	73%	80%	81%	82%
Health	70%	69%	76%	78%	78%
Other	66%	73%	67%	83%	81%
PNBs	74%	73%	80%	82%	81%
All excl PNBs	66%	69%	74%	78%	80%

Q241 All SMEs excl DK



Sales growth

From Q4 2012, all SMEs that had been trading for 3 years or more were asked about their growth in the previous 12 months. Those that had grown by 20% or more were asked whether they had also achieved this level of growth in each of the previous 2 years.

As the table below shows, the proportion of SMEs (excluding Starts) reporting that they had grown at all in the previous 12 months has remained fairly stable over recent quarters at around 4 in 10, while the proportion reporting growth of 20% or more has declined slightly:

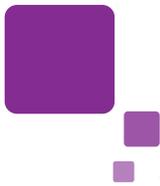
Growth achieved in last 12 months

All SMEs excluding Starts By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	4005	4074	4046	4157	4146	4184	4203	3729	3686
Grown by more than 20%	15%	14%	12%	10%	11%	11%	12%	10%	9%
Grown but by less than 20%	27%	28%	30%	31%	26%	29%	28%	33%	31%
Grown	42%	42%	42%	41%	37%	40%	40%	43%	40%
Stayed the same	43%	45%	44%	48%	51%	47%	49%	46%	49%
Declined	15%	13%	14%	12%	13%	13%	11%	10%	11%

Q245a All SMEs trading for 3 years or more excl DK

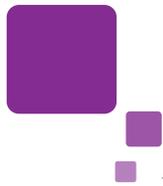
For the period YEQ2 2016:

- 10% of SMEs more than 3 years old said they had grown by 20% or more in the previous 12 months while 30% had grown but by less than 20%
- This means that for YEQ2 2016, 40% of SMEs reported having grown at all in the previous 12 months
- 48% had stayed the same size and 11% had got smaller.



The table below shows how these growth patterns varied by SME demographics, with larger (but also younger) SMEs more likely to report growth, as were those who also reported a borrowing event:

Business Growth	Further analysis (excluding Starts) YEQ2 2016
Size of SME	<p>There was relatively little difference in the proportion of SMEs in each size band that had grown by 20% or more (10-12%).</p> <p>Larger SMEs were more likely to have grown by up to 20% and so were more likely to have grown overall:</p> <ul style="list-style-type: none"> • 38% of 0 employee SMEs reported having grown at all • 46% of those with 1-9 employees had grown • Half of those with 10-49 (54%) or 50-249 (53%) employees had grown
Risk rating	<p>There was relatively little difference in reported overall growth by risk rating (38-43%). 9% in each risk rating band had grown by 20% or more, with the exception of those with an above average risk rating (13%).</p>
Age of business	<p>SMEs trading for 2-5 years remained the most likely to report growth (53%) of which 19% reported growth of 20% or more.</p> <p>Levels of growth then declined by age. 45% of those trading for 6-9 years reported growth compared to 34% of those trading for more than 15 years. The proportion growing by 20% or more also declined slightly (10% to 6%).</p>
Sector	<p>Half of those in Manufacturing (49%) reported growing. Growth in other sectors was between 40% and 46% with the exception of SMEs in Agriculture (35%), Construction (35%) or Health (37%), where a third reported having grown.</p> <p>The proportion reporting growth of 20% or more was 7-9% for Agriculture, Construction, Hotels & Restaurants and Health and slightly higher (10-14%) for those in Manufacturing, Wholesale/Retail, Transport, Business Services and the Other Community sector.</p>
Appetite for finance	<p>45% of those who reported a borrowing event in the 12 months prior to interview had grown in the previous year, compared to 37% of Would-be seekers and 38% of Happy non-seekers.</p> <p>Permanent non-borrowers (with no immediate appetite for finance) were not quite as likely to have grown (39%) as those who did not meet the definition (43%).</p>



The table below takes a longer term view of growth by key demographics. This shows a consistent proportion overall saying that they have grown over time, due to the performance of the 0 employee SMEs. SMEs with 1-49 employees were somewhat more likely to have grown in recent years:

Growth achieved in last 12 months				
All SMEs over time (excluding Starts)				
By date of interview – row percentages	2013	2014	2015	H1 2016
All	40%	42%	39%	41%
0 emp	38%	39%	36%	38%
1-9 emps	43%	48%	45%	48%
10-49 emps	49%	55%	56%	55%
50-249 emps	54%	61%	57%	54%
Minimal external risk rating	36%	44%	38%	41%
Low	40%	40%	39%	44%
Average	35%	38%	37%	39%
Worse than average	44%	45%	41%	45%
Agriculture	40%	40%	31%	41%
Manufacturing	44%	46%	45%	50%
Construction	35%	37%	35%	36%
Wholesale/Retail	38%	46%	43%	47%
Hotels & Restaurants	37%	43%	45%	45%
Transport	35%	38%	35%	43%
Property/ Business Services	44%	42%	41%	42%
Health	40%	45%	38%	39%
Other	44%	45%	41%	41%
PNBs	38%	40%	37%	40%
All excl PNBs	41%	43%	41%	43%

Q245a All SMEs excl DK



Scale up growth

Amongst those who reported for YEQ2 2016 that they had grown by 20% or more, 6 in 10 (61%) went on to report that they had also achieved this level of growth for each of the two previous years, increasing slightly by size by size (60% for 0 employee SMEs that had grown by 20% or more to 68% of such SMEs with 50-249 employees).

This is the equivalent of 6% of all SMEs 3+ years old achieving 3 years of 20%+ growth, also known as 'scale-up' growth. This increased

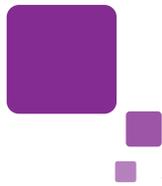
slightly by size (5% for 0 employee SMEs to 8% for those with 50-249 employees). By sector, 7% of those in the Wholesale/Retail and Other Community sectors had achieved such growth compared to 4% in Health.

The equivalent of 5% of all SMEs had achieved scale-up growth. Again this increased by size of SME (4% to 8%) but there was no variation by risk rating. By sector it varied from 3% in the Health sector to 6% in Wholesale/Retail.

Past and future growth

The Monitor has recorded *future* growth expectations since it started in early 2011. This allows a comparison to be made between growth expectations recorded from 2011 onwards and growth subsequently achieved, albeit that these are based on **different** samples of SMEs and so this is not a direct comparison between prediction and achievement.

The table below shows the proportion of SMEs 3+ years old that predicted they would grow in the first time period, and compares it to the proportion of SMEs 3+ years old that reported having achieved growth in the second period. When this analysis started, the predictions made typically proved to be very close to the growth figures subsequently reported (by a different sample of SMEs).



Back in Q1 2015, 38% of SMEs 3+ years old *predicted* that they would grow in the next 12 months. In Q2 2016 as many, 39%, (of a *different* sample of SMEs) reported that they *had* grown in the previous 12 months:

Growth predictions against expectations

All SMEs excluding Starts By date of interview	All SMEs	All SMEs	0-9 emps	0-9 emps	10-249 emps	10-249 emps
	Predicted growth	Achieved growth	Predicted growth	Achieved growth	Predicted growth	Achieved growth
Predicted Q1 13/Achieved Q2 14	41%	42%	41%	42%	56%	55%
Predicted Q2 13/Achieved Q3 14	47%	42%	47%	42%	58%	60%
Predicted Q3 13/Achieved Q4 14	41%	42%	40%	41%	61%	56%
Predicted Q4 13/Achieved Q1 15	44%	41%	43%	40%	65%	61%
Predicted Q1 14/Achieved Q2 15	43%	36%	42%	35%	68%	59%
Predicted Q2 14/Achieved Q3 15	49%	40%	48%	39%	67%	54%
Predicted Q3 14/Achieved Q4 15	41%	39%	39%	39%	69%	52%
Predicted Q4 14/Achieved Q1 16	39%	44%	38%	43%	64%	53%
Predicted Q1 15/Achieved Q2 16	38%	39%	36%	38%	65%	57%
Predicted Q2 15/Achieved Q3 16	40%		38%		67%	

Q225a and Q245a All SMEs trading for 3 years or more excl DK

The growth predicted versus achieved was close both overall and for those with 0-9 employees, However, amongst those with 10-249 employees, 57% achieved growth against a prediction of 65% (albeit this is a narrower gap than in recent periods).

Growth levels achieved have typically been quite consistent, both overall and by size of SME. In those instances where a higher level of

growth was *predicted* (for example predictions made across Q1-3 2014) there has therefore been a bigger gap between predicted and achieved growth. For the last few quarters there has been a bigger gap between predicted and achieved growth for larger SMEs in particular with two thirds predicted to grow and around half achieving that growth.



Financial Risk Profile

In earlier Monitor reports two assessments of financial risk were provided. The first was a self-reported risk from the survey itself, which over time affected a decreasing minority of SMEs (8% YEQ2 2015). As a result, from Q3 2015 this question has been ‘rested’ from the main survey and will be re-run from time to time to understand whether any changes have occurred.

The second assessment of financial risk is the external risk rating supplied by ratings agencies Dun & Bradstreet and Experian. They use a range of business information to predict the

likelihood of business failure and their ratings have been combined to a common 4 point scale from minimal to worse than average risk. Although not all SMEs receive this external risk rating, most do (85%) and it is commonly used and understood by lenders. It has thus been used in this report for all risk related analysis.

The overall risk profile over recent quarters is shown below. Just under half of SMEs had a worse than average risk rating with limited variation:

External risk rating

(Where provided) over time By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	4607	4609	4584	4560	4594	4601	4546	4139	4093
Minimal risk	7%	7%	8%	9%	7%	8%	7%	6%	8%
Low risk	16%	15%	17%	18%	17%	17%	16%	13%	16%
Average risk	30%	33%	33%	30%	31%	27%	28%	28%	32%
Worse than average risk	47%	45%	43%	44%	45%	48%	48%	53%	44%

All SMEs where risk rating provided



Looking over the longer term, the proportion of SMEs with a minimal or low external risk rating increased over time from 16% in 2012 to 25% in 2015 (and 22% in H1 2016). The proportion with a worse than average risk rating was lower in 2014 and 2015 than in earlier years but is currently slightly higher for 2016 to date:

External risk rating (Where provided) over time By date of interview	2012	2013	2014	2015	H1 2016
Unweighted base:	18,270	18,183	18,330	18,301	8232
Minimal risk	5%	6%	7%	8%	7%
Low risk	11%	10%	15%	17%	15%
Average risk	31%	29%	32%	29%	30%
Worse than average risk	53%	54%	45%	46%	49%

All SMEs where risk rating provided

The overall YEQ2 2016 ratings are shown below by size of SME, and continue to report a better risk profile for larger SMEs:

External risk rating YEQ2 16 – all SMEs where rating provided	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	17,379	3166	5474	5892	2847
Minimal risk	7%	5%	12%	19%	34%
Low risk	16%	10%	28%	50%	45%
Average risk	29%	30%	26%	23%	16%
Worse than average risk	48%	55%	35%	9%	6%

All SMEs where risk rating provided

Amongst SMEs with employees, 45% had a minimal or low external risk rating, 25% an average risk rating and 30% a worse than average risk rating.



The proportion of all SMEs with a worse than average external risk rating is driven by the ratings for 0 employee SMEs. YEQ2 2016, 55% of SMEs with no employees had such a rating. The table below shows the proportion with this rating over the longer term, in each size band. Amongst the 0 employee SMEs the proportion with a worse than average risk rating declined between 2012 to 2014 but then increased somewhat in recent periods. Amongst those with employees there has been a steadier decline over time in the proportion with a worse than average risk rating:

Worse than average risk rating					
Over time	2012	2013	2014	2015	H1 2016
Row percentages					
Total	53%	54%	45%	46%	49%
0 employee	58%	60%	50%	52%	56%
1-9 employees	43%	43%	37%	34%	35%
10-49 employees	17%	17%	11%	9%	8%
50-249 employees	13%	15%	9%	6%	6%

All SMEs where risk rating provided

An analysis for YEQ2 2016 by sector shows that SMEs in Agriculture remained much more likely than other sectors to have a minimal or low risk rating (48% YEQ2 2016) while those in Construction (15%) and Transport (13%) remained the least likely to have such a rating:

External risk rating

YEQ2 16	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWork	Other Comm
Unweighted base:	1208	1693	3034	1754	1369	1712	3258	1510	1841
Minimal risk	27%	8%	4%	9%	6%	5%	6%	13%	6%
Low risk	21%	19%	11%	25%	22%	8%	14%	22%	16%
Average risk	21%	31%	30%	24%	27%	24%	31%	31%	29%
Worse than average risk	30%	41%	55%	43%	45%	63%	48%	34%	50%
Total Min/Low	48%	27%	15%	34%	28%	13%	20%	35%	22%

All SMEs where risk rating provided



Credit balances

Almost all SMEs reported holding some credit balances. In H1 2016, 3% did not hold any, and this proportion has changed relatively little over time, nor does it vary much by size of SME, or risk rating.

Credit balances held					H1
Over time – all SMEs	2012	2013	2014	2015	2016
<i>Unweighted base:</i>	15,020	14,752	13,039	13,182	5684
None	4%	4%	5%	3%	3%
Less than £5,000	66%	64%	58%	55%	59%
£5,000 to £10,000	14%	15%	17%	18%	17%
£10,000 to £50,000	11%	12%	14%	17%	14%
More than £50,000	5%	4%	6%	7%	7%
<i>Average balance held</i>	£25k	£24k	£31k	£39k	£30k

Q244 All SMEs excluding DK/refused

The median value of credit balances held has increased and was just over £2,000 for YEQ2 2016. This amount continued to vary by size of SME, and for YEQ2 2016 was:

- £1,900 for 0 employee SMEs
- £5,700 for 1-9 employee SMEs
- £32,000 for 10-49 employee SMEs
- £136,000 for 50-249 employee SMEs

The median value of credit balances varied little by sector.

From Q3 2015, new questions have been asked of all those holding £10,000 or more in credit balances (21% of all SMEs in H1 2016) and so the analysis in this section now reflects that split at £10,000 rather than at £5,000 as previously.



The table below shows the proportion of SMEs holding more than £10,000 in credit balances over time, and how this increased between 2012 and 2015 across all sizes of SME, notably for the smaller ones. The proportion in H1 2016 with £10,000 or more was slightly lower, due to fewer 0 employee SMEs holding such sums. The proportion of SMEs with employees holding £10,000 or more was unchanged from 2015:

£10,000+ Credit balances held					
Over time – all SMEs					H1
Row percentages	2012	2013	2014	2015	2016
All SMEs	16%	17%	20%	24%	21%
0 employee	10%	10%	14%	17%	14%
1-9 employees	32%	33%	38%	41%	41%
10-49 employees	66%	66%	68%	70%	70%
50-249 employees	77%	80%	82%	81%	81%

Q244 All SMEs excluding DK/refused

The next chapter reports on the use of external finance amongst SMEs. The table below shows the proportion of SMEs in each group that also hold £10,000 or more in credit balances:

£10,000+ Credit balances held					
Over time – row percentages	2012	2013	2014	2015	H1
					2016
All SMEs	16%	17%	20%	24%	21%
SMEs who use any external finance	18%	20%	23%	27%	26%
SMEs who use core finance	18%	20%	22%	27%	25%
SMEs who use no external finance	14%	14%	19%	22%	18%

Q244 All SMEs excluding DK/refused

This shows that over time, those using external finance have become more likely to also hold £10,000 or more in credit balances (in H1 2016 a quarter of those using external finance (26%) also hold such credit balances). Amongst those who don't use external finance (typically smaller SMEs), there has been a smaller increase in the proportion also holding £10,000 in credit balances (18% in H1 2016).



From Q3 2015, all SMEs holding £10,000 or more of credit balances were asked whether holding such balances meant that the business had less need of external finance. 8 in 10 SMEs with such credit balances said that it did, declining slightly by size of business (from 86% of 0 employees SMEs with £10,000 or more of credit balances to 78% of those with 50-249 employees). The table below shows that this is the equivalent of 14% of all SMEs saying their need for external finance is lower due to the credit balances they hold:

Impact of £10k+ of credit balances		0	1-9	10-49	50-249
YE Q2 2015 – all SMEs	Total	emp	emps	emps	emps
Unweighted base:	19,007	3800	6203	6103	2901
£10k+ reduces need for external finance	14%	10%	23%	31%	31%
£10k+ does not reduce need for finance	3%	2%	5%	7%	9%
Hold less than £10k of credit balances	54%	60%	38%	14%	6%
No credit balances/DK/Refused	30%	28%	35%	47%	53%

Q244x All SMEs

Analysis shows that, over time, SMEs with £10,000 or more of credit balances have become somewhat less likely to actually use any external finance *at all* (51% in 2012 to 45% in H1 2016) and specifically core finance:

Use of finance over time					
Over time					H1
All with £10k+ in credit balances	2012	2013	2014	2015	2016
Unweighted base:	6296	6319	5926	6376	2706
Use any external finance	51%	52%	44%	44%	45%
• <i>Use core finance</i>	41%	40%	32%	35%	34%
Do not use finance	49%	48%	56%	56%	55%



How SMEs are managed

Interviews were conducted with the main financial decision maker. In almost all cases, this person was also the owner, managing director, or senior partner.

A series of questions collected information about the structure and control of the business. Those reported below (planning, trading internationally and having someone in charge of the finances who is qualified) reflect their contribution to other

areas of analysis or external action such as applications for finance.

From Q1 2016, SMEs have also been asked whether the business has ‘a mentor who provides help and advice’ and these figures are reported below for the first time.

The table below shows that the proportion of SMEs undertaking these activities has varied relatively little over recent quarters:

Business formality elements

Over time – all SMEs By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Planning (any)	56%	55%	54%	53%	51%	56%	56%	54%	52%
- Produce regular management accounts	44%	41%	41%	40%	38%	44%	42%	41%	39%
- Have a formal written business plan	33%	32%	33%	30%	29%	34%	33%	32%	29%
International (any)	16%	17%	15%	15%	15%	20%	18%	15%	15%
- Export goods or services	9%	11%	9%	9%	9%	12%	11%	10%	9%
- Import goods or services	11%	11%	11%	10%	11%	14%	13%	10%	10%
Mentors	-	-	-	-	-	-	-	13%	10%
Have qualified person in charge of finances	28%	27%	25%	24%	28%	26%	24%	23%	22%

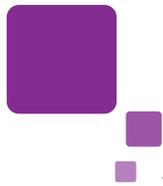
Q223/251 All SMEs



The table below provides further analysis by key demographics for YEQ2 2016:

Business Formality Further analysis YEQ2 2016

Planning	<p>54% of SMEs planned increasing by size of SME from 48% of those with 0 employees to 69% of those with 1-9 employees, 85% of those with 10-49 employees and almost all (91%) of those with 50-249 employees.</p> <p>Starts were more likely to plan (59%) with levels of planning then declining slightly by age of business to 50% of those trading for over 15 years.</p>
International	<p>17% of SMEs identified as international for YEQ2 2016. Larger SMEs remained more likely to be international. 15% of 0 employee SMEs were international, compared to 21% with 1-9 employees, 29% with 10-49 employees and 35% with 50-249 employees.</p> <p>Starts were less likely to be international (14%) with no clear pattern for older businesses (15-19%).</p>
Financial specialist	<p>24% of SMEs had a financially qualified person looking after their finances and the larger the SME, the more likely they were to have a financial specialist: 20% of 0 employee SMEs had a financial specialist, compared to 31% with 1-9 employees, 50% with 10-49 employees and 66% with 50-249 employees.</p> <p>By age of business around a fifth of SMEs trading for less than 10 years had a financial specialist, increasing to 26% of those trading for 10 years or more.</p> <p>Where such a person was in charge of the finances, SMEs were somewhat more likely to plan (68% v 50% of those where there was no financial specialist).</p>
Excluding the 0 employees	<p>For YEQ2 2016, the smallest SMEs remained less likely to plan or to undertake international trade. Excluding these 0 employee businesses sees the proportion of SMEs (with employees) who:</p> <ul style="list-style-type: none"> • Plan increase to 72% (from 54%) • Have a qualified person in charge of the finances increase to 34% (from 24%) • Trade internationally increase to 23% (from 17% overall).
Sector analysis	<p>65% of those in the Hotels & Restaurants or the Wholesale/Retail sectors planned. The least likely to plan were those in the Health sector (47%).</p> <p>Those in Wholesale/Retail, together with those in Manufacturing, were also more likely to be international (both 29%). Those in Construction (7%) were the least likely to be international.</p> <p>30% of those in Business Services had someone in charge of the finances who was qualified, compared to 17% of those in Construction.</p>



Taking a longer term view back to 2012, there has been something of an increase in SMEs that identify as international with increases for both importing and exporting. Levels of planning and financial qualification have changed very little:

Business formality elements					
Over time – all SMEs					H1
By date of interview	2012	2013	2014	2015	2016
Unweighted base:	20,055	20,036	20,055	20,046	9000
Planning (any)	55%	55%	54%	54%	53%
- Produce regular management accounts	41%	42%	42%	41%	40%
- Have a formal written business plan	33%	32%	32%	32%	30%
International (any)	10%	13%	16%	17%	15%
- Export goods or services	6%	8%	10%	10%	9%
- Import goods or services	7%	9%	11%	12%	10%
Have qualified person in charge of finances	25%	26%	27%	26%	23%

Q223/251 All SMEs

A new question from Q1 2016 asked whether the business was using a mentor for business help and advice. Initial results for H1 2016 show that 12% did, with larger SMEs much more likely to have such support:

- By size, the use of mentors increased from 10% of those with 0 employees to 14% of those with 1-9 employees and was 23% for those with either 10-49 or 50-249 employees.
- The presence of mentors declined slightly by risk rating: from 17% of those with a minimal risk rating compared to 14% of those with a low risk rating, 12% with an average and 11% with a worse than average risk rating.
- By sector those in Construction (8%) or Manufacturing (9%) were less likely to have a mentor, with little variation across the other sectors (12-15%).
- Permanent non-borrowers were slightly less likely to have a mentor (10% v 13% who are not PNBs).



From Q4 2012, SMEs who export have been asked how important such trade was to their business with additional granularity provided from Q2 2014. 7 out of 10 exporters reported that less than a quarter of their total sales came from overseas:

Percentage of turnover as sales overseas

All SMEs who export YEQ2 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	2518	285	669	996	568
Less than 25% of sales overseas	72%	74%	68%	68%	59%
25-50%	12%	11%	14%	16%	20%
51-75%	8%	6%	12%	11%	14%
76-100% of sales overseas	8%	9%	6%	5%	7%
Average proportion	26%	25%	26%	26%	30%

Q223x All SMEs who export, excluding DK/refused

16% of exporters said that international trade made up 50% or more of sales. This is a declining trend:

- In 2013, 24% of exporters said that overseas sales made up half or more of all sales, falling to 17% in 2014
- In 2015 this proportion dropped again to 13%, but is currently 19% for the first half of 2016

10% of all SMEs export. This is made up of the equivalent of 2% of all SMEs where exports made up 50% or more of their sales, and 8% of all SMEs where exports made up less than 50% of their sales. 90% of all SMEs do not export.

New questions were asked for the first time in Q1 and Q2 2014 about whether the business holds intellectual property or other knowledge assets on its balance sheet such as patents, copyrights, trademarks or goodwill (6% did). When the questions were asked again for 2015

there was little change: 5% held intellectual property or other knowledge assets on their balance sheet, increasing by size from 4% of 0 employee SMEs to 12% of those with 50-249 employees (The questions were not asked in Q3 and Q4 2014). The latest figures for YEQ2 2016 are marginally higher, with 6% of all SMEs holding intellectual property or other knowledge assets on their balance sheet, increasing by size from 6% of 0 employee SMEs to 15% of those with 50-249 employees.



Membership of business groups or industry bodies

From Q4 2012 SMEs have been asked whether the owner, senior partner or majority shareholder belonged to any business groups or industry bodies.

YEQ2 2016 a fifth of SMEs (22%) said that this was the case (excluding DK answers). This has varied relatively little over time (in 2013, 24% of SMEs said that they belonged to a business group)

Business Groups	Further analysis YEQ2 2016
By size of SME	Membership was higher amongst the largest SMEs: <ul style="list-style-type: none">• 21% of 0 employee businesses belonged to a group/body• 22% of 1-9 employee businesses• 25% of 10-49 employee businesses• 31% of 50-249 employee businesses.
By external risk rating	There was relatively little difference by risk rating: SMEs with a worse than average external risk rating were slightly less likely to belong to such groups (20%), compared to 22-24% of SMEs in the other 3 risk rating bands.
By sector	The most likely to belong to such groups remained those in the Health sector (28%) and Property/Business Services (27%) while those in Transport were less likely (16%).
PNBs and those using external finance	Those currently using external finance were slightly more likely to belong to such groups (24%) than those that did not use external finance (20%). There was also a slight difference by whether the SME met the definition of a Permanent non-borrower or not (18% v 23% if not a PNB).
Other demographics	There was limited variation by age of business. Starts were less likely to belong to a business group (16%) with between 21-26% being members in the other age bands. Those who had someone in charge of the finances who was qualified (more common in larger SMEs) were more likely to belong to a business group (30% v 18%).



Business Ownership

65% of *companies* had one owner, ranging from 82% of 0 employee companies to 36% of those with 50-249 employees. This means that of *all* SMEs, 93% are either sole proprietorships or companies with one owner.

A broader question explored the extent to which the owner of the SME was also involved in other businesses. For YEQ2 2016 (and excluding DK answers):

- 88% reported that this was the only business the owner was involved in, managerially or strategically, decreasing with size from 90% of 0 employee SMEs, to 76% of those with 50-249 employees.
- 9% reported that the owner currently ran another business as well (8% amongst 0 employee SMEs increasing to 18% amongst those with 50-249 employees).
- 4% reported that the owner had set up and run a business before (with little variation by size).
- 1% said the owner had provided funds for another business in the past few years, again with little variation by size of SME.

From Q3 2014, SMEs with employees were asked whether theirs was a family business. For YEQ2 2016:

- 17% have employees and are family owned
- 8% have employees and a different ownership structure
- 74% of all SMEs have no employees (so are not asked the question).

A high level analysis of family owned businesses suggests similarities with their peers that are not family owned. They are as likely to be using external finance (51%), or to be a PNB (34%). They are slightly more likely to have had a borrowing event (23% v19%) but less likely to be planning to grow (52% v 61%).