

# 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 Q4 2016 (YEQ4 16).



## Key findings

8 in 10 SMEs reported making a profit in the previous 12 months (excluding DK answers). This was unchanged from 2015 and maintained the increase seen across all sizes of SME since 2012 when 69% reported making a profit.

4 in 10 SMEs (excluding Starts) reported having grown in the previous 12 months with little variation since 2012.

- 5% of these SMEs had achieved ‘scale-up’ growth, growing by 20% or more for 3 consecutive years.
- Larger SMEs were more likely to have *predicted* growth for 2016 than to have achieved it, while smaller SMEs were closer with their predictions (of a lower level of growth)

14% of SMEs traded internationally in 2016, down slightly from 2015 (17%), with a slight decline in both importers (now 10% of SMEs) and exporters (now 8%).

- 1 in 5 exporters (19%) said that international sales made up half or more of their total sales, up from 13% in 2015 but still somewhat lower than the 24% achieving this proportion of overseas sales in 2013.
- In a new question, 23% of exporters said that all (9%) or the majority (14%) of their international sales were to the EU. Half, 46%, made a minority of their sales to the EU while 17% did not export there at all.

The proportion of SMEs holding £10,000 or more of credit balances increased from 16% in 2012 to 24% in 2015. There was no further increase in 2016 (22%)

- This was due to fewer 0 employee SMEs holding this sum in credit balances (14% from 17% in 2015).
- 8 in 10 of the SMEs who hold £10,000 or more said that it reduced their need for external finance.

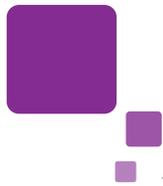


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1 in 8 SMEs (12%) had a business mentor, increasing by size to a quarter of SMEs with 10-249 employees.

- SMEs with a mentor were more likely to have grown (50% v 39% with no mentor), to be planning to grow (61% v 43%) and to be using external finance (45% v 37%) and this was true across all size bands but more markedly for the smallest SMEs.

Larger SMEs continued to have a better risk profile than smaller SMEs. The risk profile of SMEs overall was slightly weaker in 2016 than in 2015 (49% now have a worse than average risk rating compared to 46% in 2015) but it remained stronger than in 2013 when 54% had a worse than average rating.



This chapter presents an overview of the characteristics of SMEs in the UK. Unless otherwise stated, figures are based on the 18,000 interviews conducted in the year ending Q4 2016 (that is Q1 to Q4 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 in 2016, Q1 and Q2 data was collected prior to the EU referendum result being known, while Q3 and Q4 data was collected afterwards.

## Profitability

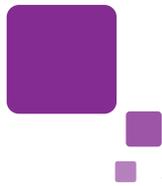
In Q4 2016, 74% of SMEs reported making a profit in their most recent 12 month trading period. The proportion unable or unwilling to give an answer has varied over time, so the table below also reports the proportion that made a profit once those ‘don’t know’ answers had been excluded. Over recent quarters a stable 8 in 10 SMEs have reported making a profit (excluding DK answers):

### Business performance last 12 months

Over time	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2014	2015	2015	2015	2015	2016	2016	2016	2016
<b>Unweighted base:</b>	<b>5024</b>	<b>5038</b>	<b>5001</b>	<b>5004</b>	<b>5003</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>
Made a profit	72%	74%	76%	75%	75%	75%	74%	76%	74%
Broke even	11%	10%	10%	10%	9%	10%	12%	11%	14%
Made a loss	10%	10%	9%	9%	8%	8%	6%	7%	7%
DK/refused	8%	6%	5%	6%	8%	7%	7%	6%	6%
<b>Median profit made</b>	<b>£9k</b>	<b>£9k</b>	<b>£9k</b>	<b>£9k</b>	<b>£9k</b>	<b>£8k</b>	<b>£8k</b>	<b>£8k</b>	<b>£9k</b>
<b>Made profit (excl DK)</b>	<b>78%</b>	<b>79%</b>	<b>80%</b>	<b>80%</b>	<b>81%</b>	<b>81%</b>	<b>80%</b>	<b>81%</b>	<b>78%</b>

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 YEQ4 2016, 75% of all SMEs had been profitable (80% once the DK answers were excluded), increasing by size of SME as the table below shows. The median profit, where made, was £8k, and the median loss £2k. Both increased by size of SME:

<b>Business performance last 12 months</b>		0	1-9	10-49	50-249
YEQ4 16 – all SMEs		emp	emps	emps	emps
	Total				
<b>Unweighted base:</b>	<b>18,000</b>	<b>3600</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
Made a profit	75%	74%	76%	80%	81%
Broke even	12%	13%	9%	6%	6%
Made a loss	7%	7%	7%	4%	4%
DK/refused	7%	6%	8%	10%	9%
<b>Made profit (excl DK)</b>	<b>80%</b>	<b>79%</b>	<b>83%</b>	<b>88%</b>	<b>89%</b>
<b>Median profit made</b>	<b>£8k</b>	<b>£7k</b>	<b>£13k</b>	<b>£51k</b>	<b>£194k</b>
<b>Median loss made</b>	<b>£2k</b>	<b>£2k</b>	<b>£2k</b>	<b>£12k</b>	<b>£128k</b>

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

Amongst SMEs with employees, 84% reported making a profit YEQ4 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	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2014	2015	2015	2015	2015	2016	2016	2016	2016
<b>All SMEs</b>	<b>78%</b>	<b>79%</b>	<b>80%</b>	<b>80%</b>	<b>81%</b>	<b>81%</b>	<b>80%</b>	<b>81%</b>	<b>78%</b>
0 employee	76%	78%	79%	79%	81%	80%	79%	79%	77%
1-9 employees	81%	79%	82%	83%	82%	84%	80%	86%	81%
10-49 employees	85%	88%	87%	86%	88%	87%	88%	90%	87%
50-249 employees	85%	90%	87%	89%	93%	94%	87%	87%	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 YEQ4 2016, ranging from 77% for Agriculture and Health to 82% for Wholesale/Retail:

### Business performance last 12 months

YEQ4 16 – all SMEs	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWork	Other Comm
<b>Unweighted base:</b>	<b>1200</b>	<b>1501</b>	<b>3199</b>	<b>1804</b>	<b>1203</b>	<b>1999</b>	<b>3597</b>	<b>1497</b>	<b>2000</b>
Made a profit	73%	75%	76%	77%	74%	73%	75%	71%	73%
Broke even	12%	12%	13%	10%	10%	12%	12%	13%	11%
Made a loss	9%	6%	5%	7%	9%	9%	6%	8%	8%
DK/refused	6%	7%	6%	7%	6%	6%	7%	7%	8%
<b>Made profit (excl DK)</b>	<b>77%</b>	<b>81%</b>	<b>81%</b>	<b>82%</b>	<b>79%</b>	<b>78%</b>	<b>81%</b>	<b>77%</b>	<b>79%</b>
<b>Median profit made</b>	<b>£8k</b>	<b>£9k</b>	<b>£8k</b>	<b>£11k</b>	<b>£9k</b>	<b>£6k</b>	<b>£9k</b>	<b>£6k</b>	<b>£8k</b>
<b>Median loss made</b>	<b>£2k</b>	<b>£2k</b>	<b>£2k</b>	<b>£2k</b>	<b>£2k</b>	<b>£2k</b>	<b>£2k</b>	<b>£2k</b>	<b>£2k</b>

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

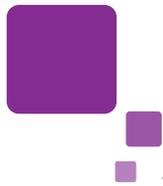
Median profits reported for YEQ4 2016 varied slightly, between £6-11k by sector, with little change over time. Reported median losses for YEQ4 2016 were £2k overall and for all sectors.



The table below takes a longer term view of profitability (since 2012) by key demographics. This shows more SMEs reporting making a profit between 2012 and 2015, and that Permanent non-borrowers are now no longer more likely to be profitable than their peers:

<b>Made a profit in last 12 months</b>					
<b>Over time (excl DK)</b>					
<b>By date of interview – row percentages</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
All	69%	70%	77%	80%	80%
0 emp	67%	69%	75%	79%	79%
1-9 emps	72%	75%	81%	82%	83%
10-49 emps	80%	81%	86%	87%	88%
50-249 emps	81%	84%	88%	90%	89%
Minimal external risk rating	83%	83%	84%	84%	86%
Low	81%	84%	82%	87%	86%
Average	71%	73%	80%	82%	82%
Worse than average	63%	65%	72%	76%	77%
Agriculture	74%	73%	79%	78%	77%
Manufacturing	69%	74%	80%	81%	81%
Construction	67%	68%	78%	80%	81%
Wholesale/Retail	67%	70%	74%	79%	82%
Hotels & Restaurants	59%	65%	73%	75%	79%
Transport	65%	66%	76%	78%	78%
Property/ Business Services	73%	73%	80%	81%	81%
Health	70%	69%	76%	78%	77%
Other	66%	73%	67%	83%	79%
PNBs	74%	73%	80%	82%	80%
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:

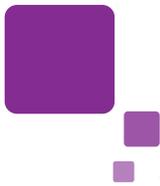
### Growth achieved in last 12 months

All SMEs excluding Starts By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
<b>Unweighted base:</b>	<b>4046</b>	<b>4157</b>	<b>4146</b>	<b>4184</b>	<b>4203</b>	<b>3729</b>	<b>3686</b>	<b>3703</b>	<b>3665</b>
Grown by more than 20%	12%	10%	11%	11%	12%	10%	9%	7%	8%
Grown but by less than 20%	30%	31%	26%	29%	28%	33%	31%	32%	31%
<b>Grown</b>	<b>42%</b>	<b>41%</b>	<b>37%</b>	<b>40%</b>	<b>40%</b>	<b>43%</b>	<b>40%</b>	<b>39%</b>	<b>39%</b>
Stayed the same	44%	48%	51%	47%	49%	46%	49%	51%	52%
Declined	14%	12%	13%	13%	11%	10%	11%	10%	10%

Q245a All SMEs trading for 3 years or more excl DK

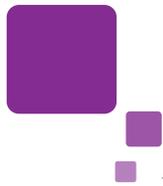
For the period YEQ4 2016:

- 8% of SMEs more than 3 years old said they had grown by 20% or more in the previous 12 months while 32% had grown but by less than 20%
- This means that for YEQ4 2016, 40% of SMEs reported having grown at all in the previous 12 months
- 50% had stayed the same size and 10% 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:

<b>Business Growth</b>	<b>Further analysis (excluding Starts) YEQ4 2016</b>
Size of SME	<p>SMEs with no employees were less likely to have grown by 20% or more (7%) than SMEs in other size bands (all 11%).</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"> <li>• 36% of 0 employee SMEs reported having grown at all</li> <li>• 47% of those with 1-9 employees had grown</li> <li>• Just over half of those with 10-49 (54%) or 50-249 (55%) employees had grown.</li> </ul>
Risk rating	<p>The proportion growing by 20% or more varied little by risk rating (8-9%) 45% of those with a minimal risk rating had grown at all. Those with a low risk rating were almost as likely to have grown (43%), those with an average (37%) or worse than average risk rating (41%) somewhat less likely.</p>
Age of business	<p>20%+ growth varied relatively little by age of business for those trading between 2 and 15 years (9-13%) but was somewhat lower for those trading over 15 years (5%).</p> <p>In terms of overall growth this was higher for those trading for 2-5 years (47%) or 6-9 years (48%), compared to those trading 10-15 years (39%) or more than 15 years (33%).</p>
Sector	<p>SMEs in the Other Community sector were the most likely to report 20%+ growth (12%), along with those in Manufacturing and Property/Business Services (10%). For other sectors the proportion varied from 6-9%.</p> <p>Those in Wholesale/Retail (47%) and Manufacturing (45%) were the most likely to report overall growth, compared to 34% in the Health sector. For other sectors, growth varied from 36-44%.</p>
Appetite for finance	<p>43% of those who reported a borrowing event in the 12 months prior to interview had grown in the previous year, compared to 38% of Would-be seekers and 40% of Happy non-seekers.</p> <p>Permanent non-borrowers (with no immediate appetite for finance) were as likely to have grown (39%) as those who did not meet the definition (41%), unlike previous years where they have been somewhat less likely.</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 employees have seen more of a change over time and those with 1-9 or 10-49 employees were more likely to report growth in 2016 than back in 2013:

<b>Growth achieved in last 12 months</b>				
<b>All SMEs over time (excluding Starts)</b>				
<b>By date of interview – row percentages</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
All	40%	42%	39%	40%
0 emp	38%	39%	36%	37%
1-9 emps	43%	48%	45%	48%
10-49 emps	49%	55%	56%	55%
50-249 emps	54%	61%	57%	55%
Minimal external risk rating	36%	44%	38%	45%
Low	40%	40%	39%	43%
Average	35%	38%	37%	37%
Worse than average	44%	45%	41%	41%
Agriculture	40%	40%	31%	36%
Manufacturing	44%	46%	45%	45%
Construction	35%	37%	35%	36%
Wholesale/Retail	38%	46%	43%	47%
Hotels & Restaurants	37%	43%	45%	44%
Transport	35%	38%	35%	39%
Property/ Business Services	44%	42%	41%	41%
Health	40%	45%	38%	34%
Other	44%	45%	41%	42%
PNBs	38%	40%	37%	39%
All excl PNBs	41%	43%	41%	41%

Q245a All SMEs excl DK



## Scale up growth

Amongst those trading for more than 2 years who reported for YE Q4 2016 that they had grown by 20% or more, 6 in 10 (59%) went on to report that they had also achieved this level of growth for each of the two previous years. Those with 50-249 employees were slightly more likely to report such growth (72%).

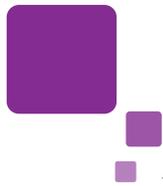
This is the equivalent of 5% of all SMEs 3+ years old achieving 3 years of 20%+ growth, also known as 'scale-up' growth.

- This increased slightly by size (4% for 0 employee SMEs to 7% for those with 50-249 employees)
- By sector, 7% Other Community sector had achieved such growth compared to 3% in Construction
- PNBs were no more or less likely to have achieved scale up growth (4%) than non-PNBs (5%)
- Those using external finance were no more or less likely to have achieved scale up growth (4%) than non-users (5%)
- SMES trading 2-5 years were the most likely to be scale ups (8%) compared to 5% of those trading 6-15 years and 3% of older SMEs.

## 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). For the most recent period, predicted growth was ahead of achieved growth as it was for growth achieved in early 2015.



Back in Q3 2015, 44% of SMEs 3+ years old *predicted* that they would grow in the next 12 months. In Q4 2016 somewhat fewer, 38%, (of a *different* sample of such 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 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%	39%	38%	38%	67%	55%
Predicted Q3 15/Achieved Q4 16	44%	38%	43%	38%	61%	53%
Predicted Q4 15/Achieved Q1 17	43%		42%		60%	

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

SMEs with 10-249 employees have typically been more likely to predict growth than to achieve it. Typically two thirds have expected to grow while around half have achieved that level of 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 with half of SMEs having a worse than average risk rating:

### External risk rating

(Where provided) over time By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
<b>Unweighted base:</b>	<b>4584</b>	<b>4560</b>	<b>4594</b>	<b>4601</b>	<b>4546</b>	<b>4139</b>	<b>4093</b>	<b>4111</b>	<b>4108</b>
Minimal risk	8%	9%	7%	8%	7%	6%	8%	8%	6%
Low risk	17%	18%	17%	17%	16%	13%	16%	14%	16%
Average risk	33%	30%	31%	27%	28%	28%	32%	30%	27%
Worse than average risk	43%	44%	45%	48%	48%	53%	44%	48%	51%

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 2016). The proportion with a worse than average risk rating dropped below 50% for 2014 and 2015 but was slightly higher for 2016:

<b>External risk rating</b>					
<b>(Where provided) over time</b>					
<b>By date of interview</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Unweighted base:</b>	<b>18,270</b>	<b>18,183</b>	<b>18,330</b>	<b>18,301</b>	<b>16,451</b>
Minimal risk	5%	6%	7%	8%	7%
Low risk	11%	10%	15%	17%	15%
Average risk	31%	29%	32%	29%	29%
Worse than average risk	53%	54%	45%	46%	49%

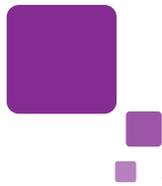
All SMEs where risk rating provided

The overall YEQ4 2016 ratings are shown below by size of SME, and continue to report a better risk profile for larger SMEs:

<b>External risk rating</b>		<b>0 emp</b>	<b>1-9 emps</b>	<b>10-49 emps</b>	<b>50-249 emps</b>
<b>YEQ4 16 – all SMEs where rating provided</b>	<b>Total</b>				
<b>Unweighted base:</b>	<b>16,451</b>	<b>2965</b>	<b>5111</b>	<b>5633</b>	<b>2742</b>
Minimal risk	7%	4%	12%	22%	35%
Low risk	15%	9%	26%	51%	45%
Average risk	29%	31%	27%	21%	15%
Worse than average risk	49%	56%	35%	7%	5%

All SMEs where risk rating provided

Amongst SMEs with employees, 45% had a minimal or low external risk rating, 26% an average risk rating and 29% 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. YEQ4 2016, 56% 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 was somewhat lower in 2014 and 2015 but has increased again in 2016. Amongst those with employees there has been a more consistent decline over time in the proportion with a worse than average risk rating:

<b>Worse than average risk rating</b>					
<b>Over time</b>					
<b>Row percentages</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Total</b>	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%	7%
50-249 employees	13%	15%	9%	6%	5%

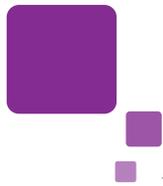
All SMEs where risk rating provided

An analysis for YEQ4 2016 by sector shows that SMEs in Agriculture remained much more likely than other sectors to have a minimal or low risk rating (47% YEQ4 2016) while those in Construction (14%) and Transport (11%) remained the least likely to have such a rating:

#### External risk rating

<b>YEQ4 16</b>	<b>Agric</b>	<b>Mfg</b>	<b>Constr</b>	<b>Whle Retail</b>	<b>Hotel Rest</b>	<b>Trans</b>	<b>Prop/ Bus</b>	<b>Hlth SWork</b>	<b>Other Comm</b>
<b>Unweighted base:</b>	<b>1084</b>	<b>1385</b>	<b>2966</b>	<b>1628</b>	<b>1093</b>	<b>1786</b>	<b>3315</b>	<b>1356</b>	<b>1838</b>
Minimal risk	29%	8%	4%	9%	5%	4%	6%	13%	5%
Low risk	18%	18%	10%	21%	23%	7%	15%	21%	15%
Average risk	25%	35%	28%	25%	29%	27%	31%	33%	31%
Worse than average risk	28%	38%	57%	44%	43%	62%	49%	33%	50%
<b>Total Min/Low</b>	<b>47%</b>	<b>26%</b>	<b>14%</b>	<b>30%</b>	<b>28%</b>	<b>11%</b>	<b>21%</b>	<b>34%</b>	<b>20%</b>

All SMEs where risk rating provided



## Credit balances

Almost all SMEs reported holding some credit balances. In 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. Between 2012 and 2015 the average credit balance held increased from £25,000 to £39,000 but this then declined slightly to £30,000 for 2016 as a whole:

<b>Credit balances held</b>					
<b>Over time – all SMEs</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b><i>Unweighted base:</i></b>	<b>15,020</b>	<b>14,752</b>	<b>13,039</b>	<b>13,182</b>	<b>10,730</b>
None	4%	4%	5%	3%	3%
Less than £5,000	66%	64%	58%	55%	57%
£5,000 to £10,000	14%	15%	17%	18%	18%
£10,000 to £50,000	11%	12%	14%	17%	15%
More than £50,000	5%	4%	6%	7%	6%
<b><i>Average balance held</i></b>	<b>£25k</b>	<b>£24k</b>	<b>£31k</b>	<b>£39k</b>	<b>£30k</b>

Q244 All SMEs excluding DK/refused

The median value of credit balances held remained at just over £2,000 for YEQ4 2016. This amount continued to vary by size of SME, and for YEQ4 2016 was:

- £1,900 for 0 employee SMEs
- £5,800 for 1-9 employee SMEs
- £33,400 for 10-49 employee SMEs
- £137,200 for 50-249 employee SMEs.

The median value of credit balances varied little by sector (£2-3k).



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 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 in 2016 was unchanged from 2015:

<b>£10,000+ Credit balances held</b>					
<b>Over time – all SMEs</b>					
<b>Row percentages</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
All SMEs	16%	17%	20%	24%	22%
0 employee	10%	10%	14%	17%	14%
1-9 employees	32%	33%	38%	41%	41%
10-49 employees	66%	66%	68%	70%	72%
50-249 employees	77%	80%	82%	81%	82%

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:

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

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 2016 a quarter of those using external finance (27%) 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 (19% in 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 87% of 0 employees SMEs with £10,000 or more of credit balances to 76% of those with 50-249 employees). The table below shows that this is the equivalent of 12% of all SMEs saying their need for external finance is lower due to the credit balances they hold:

<b>Impact of £10k+ of credit balances</b>		<b>0</b>	<b>1-9</b>	<b>10-49</b>	<b>50-249</b>
<b>YEQ4 2016 – all SMEs</b>	<b>Total</b>	<b>emp</b>	<b>emps</b>	<b>emps</b>	<b>emps</b>
<b>Unweighted base:</b>	<b>18,000</b>	<b>3600</b>	<b>5800</b>	<b>5800</b>	<b>2800</b>
£10k+ reduces need for external finance	12%	9%	21%	31%	27%
£10k+ does not reduce need for finance	2%	1%	4%	7%	9%
Hold less than £10k of credit balances	51%	58%	35%	12%	5%
No credit balances/DK/Refused	34%	32%	39%	50%	59%

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 46% in 2016) and specifically core finance:

<b>Use of finance over time</b>					
<b>Over time</b>					
<b>All with £10k+ in credit balances</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Unweighted base:</b>	<b>6296</b>	<b>6319</b>	<b>5926</b>	<b>6376</b>	<b>5228</b>
Use any external finance	51%	52%	44%	44%	46%
• <i>Use core finance</i>	41%	40%	32%	35%	36%
Do not use finance	49%	48%	56%	56%	54%



## 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 such as applications for finance.

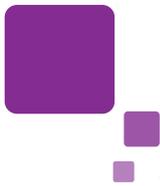
Included for the first time in this report are figures for innovation in the past 3 years. From Q1 2016, SMEs have also been asked whether the business has ‘a mentor who provides help and advice’ and these figures are reported below for the first time.

The table below shows that the proportion of SMEs undertaking planning activities was somewhat higher at the end of 2016 than in the first half of the year, while the proportion trading internationally was somewhat lower and the proportion that had innovated changed little during the year:

### Business formality elements

Over time – all SMEs By date of interview	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
<b>Unweighted base:</b>	<b>5024</b>	<b>5038</b>	<b>5001</b>	<b>5004</b>	<b>5003</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>	<b>4500</b>
Planning (any)	54%	53%	51%	56%	56%	54%	52%	57%	58%
- Produce regular management accounts	41%	40%	38%	44%	42%	41%	39%	45%	41%
- Have a formal written business plan	33%	30%	29%	34%	33%	32%	29%	33%	38%
International (any)	15%	15%	15%	20%	18%	15%	15%	12%	13%
- Export goods or services	9%	9%	9%	12%	11%	10%	9%	7%	7%
- Import goods or services	11%	10%	11%	14%	13%	10%	10%	8%	10%
Innovation (any)	35%	35%	35%	40%	38%	36%	37%	37%	36%
-New product or service (last 3 yrs)	15%	13%	15%	15%	16%	14%	15%	13%	14%
-Improved aspect of business	32%	32%	31%	35%	34%	31%	32%	34%	33%
Mentors	-	-	-	-	-	13%	10%	12%	11%
Have qualified person in charge of finances	25%	24%	28%	26%	24%	23%	22%	23%	25%

Q223/251 All SMEs

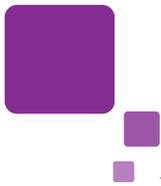


The table below provides further analysis by key demographics for YEQ4 2016:

**Business Formality Further analysis YEQ4 2016**

Planning	<p>55% of all SMEs planned, increasing by size of business from 49% of those with 0 employees to almost all, 89%, of those with 50-249 employees.</p> <p>Levels of planning declined very slightly by age of business: 58% of Starts planned compared to 53% of those trading for more than 15 years.</p> <p>While 64% of those with a minimal or a low risk rating planned, 53% of those with an average rating and 54% of those with a worse than average risk rating planned.</p> <p>65% of SMEs in the Wholesale/Retail and 64% of SMEs in the Hotels &amp; Restaurant sector planned, compared to 49% of those in Construction. Amongst other sectors 51-58% planned.</p>
International	<p>14% of all SMEs were international, increasing by size of business from 12% of those with 0 employees to 30% of those with 50-249 employees.</p> <p>There was little variation by age (12-13%) with the exception of those trading for more than 15 years where 16% were international.</p> <p>18% of those with a minimal or a low risk rating were international, compared to 15% of those with an average rating and 11% of those with a worse than average risk rating.</p> <p>SMEs in the Wholesale/Retail (25%) and Manufacturing (23%) sectors were the most likely to be international, with those in Construction (5%) or the Hotels &amp; Restaurant sector (6%) the least likely. Amongst other sectors 9-17% were international.</p>
Innovation	<p>36% of all SMEs had innovated, increasing by size of business from 33% of those with 0 employees to 56% of those with 50-249 employees.</p> <p>There was no consistent pattern by age of business (from 35% for Starts to 41% for those trading 2-5 years).</p> <p>While 42% of those with a minimal or a low risk rating had innovated, 34% of those with an average rating and 36% of those with a worse than average risk rating had.</p> <p>SMEs in the Hotels &amp; Restaurants (45%), Wholesale/Retail (43%) and Manufacturing (42%) sectors were the most likely to have innovated, with Construction (28%) the least likely. Amongst other sectors 33-39% had innovated.</p>

Continued



Continued

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Financial specialist 23% of SMEs had a financially qualified person looking after their finances increasing by size of business from 19% of those with 0 employees to 67% of those with 50-249.

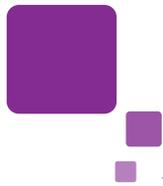
By age of business around a fifth of SMEs trading for less than 10 years had a financial specialist, increasing to 26% of those trading for 10 years or more.

While 30% of those with a minimal and 31% of those with a low risk rating had a financial specialist, 23% of those with an average rating and 21% of those with a worse than average risk rating had one.

Those in Wholesale/Retail (31%) and Property/Business Services (30%) were the most likely to have a financial specialist, compared to 14% in Construction. Amongst other sectors the proportion varied from 18-26%.

The smallest SMEs remained less likely to undertake any of these activities. For YEQ4 2016, excluding these 0 employee businesses sees the proportion of SMEs (with employees) who:

- Plan increase from 55% to 72%
- Trade internationally increase from 14% to 20%
- Innovate increase from 36% to 46%
- Have a qualified person in charge of the finances increase from 23% to 35%.



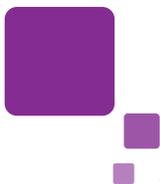
Taking a longer term view back to 2012, there was something of an increase in SMEs that identified as international between 2012 and 2015 with increases for both importing and exporting. Levels of planning and financial qualification have changed very little over time, while levels of innovation are now somewhat lower than 2012:

<b>Business formality elements</b>					
<b>Over time – all SMEs</b>					
<b>By date of interview</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Unweighted base:</b>	<b>20,055</b>	<b>20,036</b>	<b>20,055</b>	<b>20,046</b>	<b>18,000</b>
Planning (any)	55%	55%	54%	54%	55%
- Produce regular management accounts	41%	42%	42%	41%	41%
- Have a formal written business plan	33%	32%	32%	32%	33%
International (any)	10%	13%	16%	17%	14%
- Export goods or services	6%	8%	10%	10%	8%
- Import goods or services	7%	9%	11%	12%	10%
Innovation (any)	40%	38%	37%	37%	36%
-New product or service (last 3 yrs)	17%	16%	16%	15%	14%
-Improved aspect of business	35%	33%	34%	33%	32%
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 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 and 14% of those with 1-9 employees, to a quarter of larger SMEs (23% for those with 10-49 employees and 24% for those with 50-249 employees).
- The presence of mentors declined slightly by risk rating: from 16% of those with a minimal risk rating and 14% of those with a low risk rating, to 11% of those with either an average or a worse than average risk rating.
- By sector those in Construction (7%) were less likely to have a mentor, with little variation across the other sectors (11-14%).
- Permanent non-borrowers were slightly less likely to have a mentor (9% v 14% who are not PNBs).



- Analysis showed that SMEs with a mentor were more likely to have grown (50% v 39% of those without a mentor) and that this was true across all sizes of SME, especially for those with 0 employees (where 47% of those with a mentor had grown v 36% of those without a mentor). They were also more likely to be planning to grow (61% v 43% of those without a mentor) and again this was true across all sizes of SME, especially for those with 0 employees (where 59% of those with a mentor planned to grow v 40% of those without a mentor). SMEs with mentors were also more likely to use external finance (45% v 37%) but were only slightly more likely to be planning to apply for finance (16% v 13%).

Two thirds of exporters (67%) reported that less than a quarter of their total sales came from overseas, with relatively little variation by size:

#### Percentage of turnover as sales overseas

All SMEs who export YEQ4 16	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>1970</b>	<b>230</b>	<b>522</b>	<b>808</b>	<b>410</b>
Less than 25% of sales overseas	67%	67%	69%	66%	59%
25-50%	14%	12%	15%	18%	23%
51-75%	10%	10%	9%	11%	11%
76-100% of sales overseas	9%	11%	7%	5%	7%
<b>Average proportion</b>	<b>28%</b>	<b>29%</b>	<b>26%</b>	<b>27%</b>	<b>29%</b>

Q223x All SMEs who export, excluding DK/refused

19% of exporters said that international trade made up 50% or more of sales, a slight increase after previous declines:

- 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 increased to 19% for 2016.

8% of all SMEs export. This is made up of the equivalent of 1% of all SMEs where exports made up 50% or more of their sales, and 7% of all SMEs where exports made up less than 50% of their sales. 92% of all SMEs do not export.



From Q3 2016, all exporters have been asked about the extent to which they are currently selling to the EU. Base sizes remain limited at this stage but currently 1 in 10 exporters only export to the EU while almost twice as many (17%) said that they do not trade with the EU at all:

- 9% of exporters only export to the EU
- 14% said the majority of their sales are to the EU
- 14% said half of their sales are to the EU
- 46% said a minority of sales were to the EU
- 17% did not export to the EU.

A quarter of exporters (23%) said that all, or the majority, of their sales were to the EU. This was more likely:

- If the exporter had employees (31% v 17% for 0 employee exporters)
- For exporters in Manufacturing (28%).

More analysis will be provided as base sizes increase.

Occasional questions have been asked (starting 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 (in H1 2014, 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 latest figures for YEQ4 2016 are marginally higher, with 7% of all SMEs holding intellectual property or other knowledge assets on their balance sheet, increasing by size from 6% of 0 employee SMEs to 17% of those with 50-249 employees.



## Membership of business groups or industry bodies

SMEs were asked whether the owner, senior partner or majority shareholder belonged to any business groups or industry bodies.

YEQ4 2016 a fifth of SMEs (19%) said that this was the case (excluding DK answers). This was somewhat lower than seen in previous years (in 2013, 24% of SMEs said that they belonged to a business group) due to fewer 0 employee SMEs belonging to such groups:

Business Groups	Further analysis YEQ4 2016
By size of SME	<p>Membership increased somewhat by size of SME:</p> <ul style="list-style-type: none"> <li>• 18% of 0 employee businesses belonged to a group/body</li> <li>• 21% of 1-9 employee businesses</li> <li>• 25% of 10-49 employee businesses</li> <li>• 33% of 50-249 employee businesses.</li> </ul>
By external risk rating	<p>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 (18%), compared to 20-24% of SMEs in the other 3 risk rating bands.</p>
By sector	<p>The most likely to belong to such groups remained those in the Health sector (25%) and Property/Business Services (23%) while those in Transport were less likely (15%).</p>
PNBs and those using external finance	<p>Those currently using external finance were slightly more likely to belong to such groups (22%) than those that did not use external finance (18%).</p> <p>There was also a slight difference by whether the SME met the definition of a Permanent non-borrower or not (17% v 21% if not a PNB).</p>
Other demographics	<p>There was some, limited, variation by age of business. Starts were less likely to belong to a business group (15%) with membership increasing by age of business to 23% of those trading for 15 years or more.</p> <p>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 (28% v 17%).</p>



## Business Ownership

66% of *companies* had one owner, ranging from 85% of 0 employee companies to 37% of those with 50-249 employees. This means that of *all* SMEs, 84% 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 YEQ4 2016 (and excluding DK answers):

- 90% reported that this was the only business the owner was involved in, managerially or strategically, decreasing with size from 91% of 0 employee SMEs, to 82% of those with 50-249 employees.
- 9% reported that the owner currently ran another business as well (8% amongst 0 employee SMEs increasing to 17% 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 YEQ4 2016:

- 17% have employees and are family owned
- 8% have employees and a different ownership structure
- 75% of all SMEs have no employees (so are not asked the question).