SME Finance Monitor

Q1 2015: Management Summary

An independent report by
BDRC Continental, May 2015

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SME Finance Monitor Q1 2015 – Headlines

CONTEXT: SMEs continue to exhibit a range of positive indicators – more made a profit, more have a 'minimal' or 'low' risk rating and fewer have injected personal funds into the business. Use of external finance has changed little over recent quarters and in Q1 2015 SMEs were more likely to meet the definition of a Permanent non-borrower than to be using external finance.

General context	
The proportion of SMEs making a profit continues to increase steadily	79% of SMEs interviewed in Q1 2015 reported being profitable, up from 69% in the equivalent quarter of 2013 (both excluding don't know answers)
The proportion of SMEs with a 'minimal' or 'low' external risk rating has also increased 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) to 44% in Q1 2015. At the other end of the scale, the proportion of SMEs with a minimal or low risk rating has increased from 14% at the end of 2012 to 27% in Q1 2015
36% of SMEs reported using external finance in Q1 2015, and this has been relatively stable over recent quarters.	36% of SMEs were using external finance in Q1 2015, ranging from 32% of those with 0 employees to 61% of those with 50-249 employees 29% were using one of the 'core' forms of finance (loans, overdrafts and/or credit cards) and use has now stabilised, having previously declined from 40% at the start of 2012. Use of 'other' forms of finance (including leasing and invoice finance) was 16%, and more variable over time. The gap in usage between the two forms of finance has narrowed over time
More SMEs now meet the definition of a 'Permanent non-borrower' than use external finance	In Q1 2015, 48% of SMEs met the definition of a 'Permanent non-borrower'. Over time the proportion of PNBs has increased and there are now more of these SMEs than there are SMEs using external finance. 0 employee SMEs remain more likely to be a PNB (53%) but the proportion of SMEs with employees that meet the definition has also increased somewhat (currently 35%) The increasing presence of the PNBs helps to mask other changes amongst SMEs. For example, once the PNBs are excluded, 70% of remaining SMEs use external finance and this has increased steadily during 2014 (it was 63% in Q1 2014) back to levels previously seen in 2013

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Fewer SMEs reported an injection of personal funds into the business (26%)	The proportion of SMEs reporting an injection of personal funds into the business continues to decline steadily over time, from 46% in Q3 2012 to 26% in the most recent quarter. The proportion saying they felt they 'had' to inject funds has fallen from 26% to 11% over this period, while the proportion 'choosing' to inject funds has also declined from 20% to 14%
One in three SMEs (33%) regularly use Trade Credit	33% of SMEs regularly use Trade Credit from their suppliers (Q3 14-Q1 15), ranging from 27% of those with 0 employees to 63% of those with 50-249 employees. 30% offer Trade Credit to their customers. Receiving TC is more likely to reduce an SME's need for finance than offering it is to increase it
Including these other forms of finance increases *net* use of 'business finance' from 38% to 65% of SMEs	Adding Trade Credit and injections of personal funds to external finance gives an overall 'business finance' total of 65% for YEQ1 2015. There is more of an 'uplift' for smaller SMEs – amongst those with 0 employees 61% use any business finance compared to 33% using external finance

BORROWING EVENTS IN LAST 12 MONTHS: The proportion of SMEs reporting a borrowing 'event' in the year prior to interview is stable (18%) but remains at lower levels than previously seen. Most SMEs (79%) were 'Happy non-seekers' of finance for the period, and this has also stabilised. A quarter of SMEs can be described as 'debt averse' while 1 in 3 would ideally be debt free but are prepared to borrow to help the business grow

Borrowing events	
18% of SMEs reported that they had experienced a borrowing 'event'	In Q1 2015, 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 Excluding the PNBs increases the proportion of remaining SMEs reporting a borrowing event to 35%, the highest proportion since 2012. There is also some evidence that there have been more applications for new/renewed finance in the last 2 quarters than might be expected and this could be signs of an increasing appetite for finance amongst SMEs than are not PNBs
3% of SMEs met the definition of a 'Would-be seeker' of finance	In Q1 2015, 3% had wanted to apply but felt that something had stopped them. This proportion has been declining over time having been 6% for 2013 as a whole. 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 (79%) 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 68% of SMEs in 2012 as a whole to 79% by the end of 2013, and has remained around this level since then (79% in Q1 2015)
72% of SMEs agreed that they aimed to pay down debt and then remain debt free	From Q3 2014, SMEs have been asked about their attitude to finance in the business: 72% agreed that they aimed to pay down any existing debt and then remain debt free, with relatively little variation by size of business 43% agreed that they were happy to use external finance to help the business grow. This was less likely to be the case for the 0 employee SMEs (40%) than those with employees (58% of those with 50-249 employees) Combining these two questions, the equivalent of 36% of all SMEs agreed that, whilst they would prefer to be debt free, they would use external finance to help the business grow. Meanwhile a quarter (27% of all SMEs) were 'debt averse' – they wanted to pay down any existing debt and would not be prepared to use external finance to help them grow

THE OUTCOME OF APPLICATIONS FOR NEW/RENEWED LOAN & OVERDRAFTS: 76% of all applications made in the last 18 months resulted in a facility. These are the highest success rates seen to date with the increase due to higher success rates for new facilities, and overdrafts generally, in recent quarters.

The outcome of applications	
76% of applications made in the last 18 months resulted in a facility	76% of applications made for new/renewed loans and overdrafts in the last 18 months (Q4 2013 to Q1 2015) resulted in a facility. This was in line with the figures for Q4 2014, but an increase on the 66% for the 18 month period to Q2 2014, due to increasing success rates for new money applications
98% of those applying to renew an existing facility were successful	98% of those applying to renew an existing facility in the past 18 months (to Q1 2015) were successful, and this has changed very little over time
This remains higher than the success rate for new money (65%), which is improving	65% of those applying for new money in the past 18 months were successful. There has been an improvement in the success rate for new money over time – it was 46% for the 18 months to Q2 2014
The success rate for first time applicants has improved	Amongst those applying for new loan/overdraft facilities, there remains a clear difference between those who are applying for their first facility (55% success rate for applications made in the 18 months to Q1 2015), and those applying for other new money (73% success rate over the same period) That said, the success rate for first time applicants has been improving over recent quarters, after previous declines (it was 37% for the 18 months to Q4 2013)
82% of overdraft applications resulted in a facility	82% of overdraft applications made Q4 2013 to Q1 2015 resulted in a facility, the highest 18 months success rate seen to date (75% were successful in the 18 months to Q1 2014). This improvement is not entirely explained by an analysis of the profile of SMEs applying for overdrafts in recent quarters
67% of loan applications resulted in a facility	67% of loan applications made Q4 2013 to Q1 2015 resulted in a facility, also higher than seen in previous periods (it was 59% for the 18 months to Q1 2014). The predicted success rate, based on the profile of applicants, was slightly higher for 2014 than in previous years, with actual success rates fluctuating around those predicted

THE FUTURE: The economic climate is a decreasing barrier overall and half of SMEs with employees are planning to grow. A steady 14% plan to apply for new/renewed facilities, with improved confidence that their bank would agree (although confidence remains lower than actual success rates). Awareness of support initiatives remains limited as awareness of crowd funding increases again.

Looking ahead	
43% of SMEs said that they planned to grow in the next 12 months	43% of SMEs in Q1 2015 said that they planned to grow in the next 12 months, broadly in line with recent quarters (45% for Q1 2014) In Q1 2015, SMEs with 10-49 or 50-249 employees were as likely to be planning to grow as in the equivalent quarter of 2014 (65% and 70%). Those with 0 employees were about as likely (39%) while those with 1-9 employees were less likely (51% having been 57%)
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 13% of SMEs in Q1 2015) 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 apply for external finance in the next 3 months (25% - and not declining over recent quarters as it is for SMEs overall) than it is amongst future 'Happy non-seekers' (9%). This is also true for the other barriers tested Access to finance is also less likely to be perceived as a major barrier in Q1 2015 (6%), including amongst those with any plans/aspirations to apply for finance in future (18% in Q1 2015 compared to 27% in Q1 2013)
Looking forward, most SMEs meet the definition of a 'Future Happy non-seeker' of finance	The proportion of Future Happy non-seekers has stabilised after previous increases. 75% of SMEs were 'Future Happy non-seekers' in Q1 2015, unchanged from Q4 2014, but an increase over time on Q1 2013 (67%)
11% met the definition of a 'Future would-be seeker' of finance	This 11% is made up of 1% with a specific need for finance that they did not think they would apply for, and 10% with no specific need. Over time this proportion has declined somewhat (having been 25% in Q1 2012 and 16% in Q1 2014) The main barrier to a future application remains a reluctance to borrow in the current economic climate, mentioned in Q1 2015 by 54% 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)

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14% planned to apply for new/renewed facilities	14% 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 27% of remaining SMEs, one of the highest figures to date
Amongst those planning to apply, 49% were confident that their bank would agree to their request	Amongst those planning to apply, 49% were confident that their bank would agree to their request, and confidence has been higher in recent quarters than in 2013 Larger potential applicants, with 10-249 employees, remain more confident than smaller ones (66% v 49% in Q1 2015). Confidence for both groups has increased over time (having been 60% and 40% respectively in Q1 2013)
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 Q4 2014, the most recent quarter for which comparable data is available, 96% of renewal applications were successful against a confidence level of 50% amongst those planning to apply in that quarter. For those applying for new facilities, levels of confidence were higher for Q4 2014 (45%) than in previous quarters but still below the actual success rates (61%)
31% 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. 31% said that they were, ranging from 30% of those with 0 employees to 39% of those with 50-249 employees (and 34% when the PNBs were excluded)
While half (53%) were actually aware of any of five specific initiatives tested	Awareness increased after prompting to 53% of SMEs: 40% were aware of Start-up loans, 23% of the Funding for Lending scheme, 18% of the Enterprise Finance Guarantee scheme, 15% of the Business Growth fund and 11% of the British Business Bank. Overall awareness ranged from 53% of those with 0 employees to 64% of those with 50-249 employees. Excluding the PNBs increased awareness to 58% Awareness of other initiatives such as the appeals process, which have been tracked for longer, remains stable
38% of SMEs (excluding PNBs) were aware of crowd funding	In Q1 2015, 38% of SMEs (excluding PNBs) were aware of crowd funding, the highest level seen to date (it was 17% in Q1 2014). Awareness compares well with other initiatives, but use remains very limited (2% for YE Q1 2015) while 10% of SMEs (excluding PNBs) said that this was a form of funding they would consider using. As in previous quarters two thirds of SMEs that were aware of crowd funding said that it was not something they would consider for their business


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