SME Finance Monitor

Q3 2015: Management Summary

An independent report by
BDRC Continental, November 2015

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OVERVIEW: The Q3 2015 analysis confirms the trends seen in recent waves. Success rates for those who had applied for new/renewed loan or overdraft finance were at the highest levels seen to date on the Monitor. This improvement includes groups who have previously found it harder to access finance, such as smaller businesses and those applying for the first time. Amongst those planning to apply for finance an increasing proportion are confident the bank will say yes.

More generally, many SMEs reported a range of positive indicators about themselves including profitability, growth and credit balances held.

Use of and demand for finance, though, remained limited overall with some evidence that SMEs are using Trade Credit, credit balances or personal funds to reduce their need for external finance, or making plans that can be self-funded.

CONTEXT: SMEs report a range of positive indicators about their business in terms of profitability, credit balances and risk ratings and see limited barriers for the future:

General context	
8 in 10 SMEs reported a profit	80% of SMEs interviewed in Q3 2015 reported making a profit in their last trading period (excluding DK). This was unchanged from Q2 but has increased steadily over time (it was 69% in Q3 2013)
More SMEs held over £10,000 in credit balances	Almost all SMEs held a credit balance. In 2015 to date, 23% of all SMEs held more than £10,000 in credit balances, up from 17% in 2011. Over time, SMEs holding £10,000 or more of credit balances have become less likely to use external finance
3 in 10 SMEs received injections of personal funds	30% of SMEs in Q3 2015 reported an injection of personal funds, slightly higher than the 26% reported for the first half of 2015. This injection was as likely to have been a choice (15%) as something they felt that they had to do (15%). The proportion receiving an injection of personal funds has declined over time (42% received an injection of funds in 2012) primarily due to fewer SMEs feeling that they 'had' to put funds in
More SMEs had a minimal or low external risk rating	25% of SMEs had a minimal or low external risk in Q3 2015 and this has increased steadily over time, having been 16% at the start of 2013
The economic climate is no longer the barrier it once was	From a peak of 37% at the start of 2012, the proportion of SMEs seeing the current economic climate as a major barrier has declined steadily and was 13% in Q3 2015. This means that 'legislation and regulation' is now just as much of a barrier as the economic climate (13% overall)
…and fewer saw access to finance as a barrier	6% rated access to finance as a major barrier and this has also declined over time. Those with any future appetite for finance were more likely to see it as a barrier (13%) but this is also lower than in previous waves

APPLICATIONS FOR NEW/RENEWED LOAN & OVERDRAFTS: 80% of all applications made in the 18 months to Q3 2015 resulted in a facility. Overall success rates and those for overdrafts and loans individually continue to show improvement, and future applicants are more confident of success:

The outcome of applications	
80% of all applications in the last 18 months resulted in a facility	80% of applicants ended the process with a facility in the 18 months to Q3 2015. The success rate for new/renewed loan and overdraft facilities continued to improve over time – up from 68% in the 18 months to Q4 2013
Success rates for new money improved	Almost all loan/overdraft renewal applications had been successful (97% for the 18 months to Q3 2015) and this has changed little over time (96% for the 18 months to Q4 2013) Success rates for new money were 70% for the 18 months to Q3 2015 but remain higher than previously seen (49% for the 18 months to Q4 2013). 62% of those applying for the first time were successful, a steady improvement over time (from 39% in the 18 months to Q4 2013) but still somewhat less likely to be successful than those who have borrowed before (74% in the 18 months to Q3 2015)
85% of overdraft applicants were successful, the highest proportion recorded to date with first time applicants twice as likely to be successful as they were in 2013	85% of overdraft applications made in the 18 months to Q3 2015 resulted in a facility (74% were offered what they wanted and took it while 11% had their facility 'after issues') The proportion of overdraft applicants who have been successful has improved steadily over time (it was 74% for the 18 months to Q4 2013). This improvement includes SMEs previously less likely to be successful such as smaller SMEs, those with a worse than average risk rating and first time applicants (where 68% were successful, up from 34% in the 18 months to Q4 2013)
7 in 10 loan applicants were successful and this has also improved over time	70% of loan applications made in the 18 months to Q3 2015 resulted in a facility (55% were offered what they wanted and took it while 15% had their facility 'after issues') The proportion of loan applicants who have been successful has also increased steadily over time (it was 58% for the 18 months to Q4 2013)

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Those planning to apply in future were increasingly confident their bank would say yes	60% of SMEs planning to apply for finance after Q3 2015 were confident the bank would say yes, compared to half or less in recent waves This remains below actual success rates but the 'perception gap' is narrowing. For the last 18 months: • 97% of renewals have been successful compared to a confidence level of 72% • 70% of new money applications have been successful compared to a confidence level of 54%

FINANCIAL APPETITE: There are a number of indicators that use of / demand for finance remains subdued overall. Use of external finance remains lower than previously seen across all sizes of SME, notably for the core forms of finance. Half of SMEs meet the definition of a Permanent non-borrower and many SMEs continue to exhibit 'debt-averse' attitudes.

Financial appetite	
Use of external finance remained stable but lower than in previous years	36% of SMEs were using external finance in Q3 2015. This has been stable for the past year, having previously declined from 46% in 2011 to 37% in 2014, a decline seen across all sizes and risk rating of SME
Use of 'core' forms of finance was also stable after previous declines	In 2011 39% of SMEs used 'core' forms of finance (loans, overdrafts and/or credit cards). By Q1 2014 this had declined to 27% and has remained fairly stable ever since (29% in Q3 2015) 16% of SMEs in Q3 2015 used one or more of the other forms of finance specified (leasing, invoice finance etc) and their use has been more stable over time
Two thirds of SMEs used any 'business funding'	'Business funding' comprises any use of external finance (described above), trade credit and/or injections of personal funds 1 in 3 SMEs received trade credit from their customers and a similar proportion reported an injection of personal funds into the business Including the receipt of trade credit and injections of personal funds alongside external finance saw 63% of SMEs using business funding YEQ3 2015, compared to 36% of SMEs using only external finance. The biggest uplift was seen for those with 0 employees (from 32% to 60%)

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Half of SMEs were 'Permanent non-borrowers'	46% of SMEs met the definition of a 'Permanent non-borrower' in Q3 2015. This has stayed fairly stable for the past year but is higher than seen previously, having been 34% in 2011. Smaller SMEs remained more likely to be a PNB (52% of those with 0 employees in 2015 to date) but a third of SMEs with employees were PNBs (35%)
Many SMEs plan according to what they can fund themselves	In a new question for Q3 2015, 80% of SMEs agreed that their plans for the business were based on what they can afford to fund themselves. This was somewhat more likely to be the case for the smallest SMEs (82% with 0 employees) but over half of the largest SMEs agreed with the sentiment (65% of those with 50-249 employees)
27% of SMEs were 'debt averse' while 39% might borrow in the right circumstances	27% of all SMEs wanted to pay down any existing debt and then remain debt free and would not be happy to borrow to help the business grow – these might be described as 'debt averse' 39% of all SMEs also wanted to pay down debt /be debt free, but would be happy to borrow to finance growth, and so might apply in the right circumstances. This proportion has increased somewhat since the question was first asked in Q3 2014 (32%)

BORROWING EVENTS IN LAST 12 MONTHS: 16% of SMEs had experienced any form of borrowing 'event'. There were few 'Would-be seekers' of finance and most were 'Happy non-seekers'. There is some evidence that SMEs may be using trade credit, credit balances or injections of personal funds to reduce their need for finance:

Borrowing events	
8% applied for a new/renewed loan or overdraft	In Q3 2015, 8% of SMEs reported a Type 1 event (an application for a new/renewed loan or overdraft) in the previous 12 months. This is unchanged over recent quarters but remains lower than in 2012
16% had experienced any loan or overdraft borrowing 'event'	In Q3 2015, 16% of all SMEs reported any borrowing event in the previous 12 months including the automatic renewal of an overdraft facility. This has been stable over recent quarters but lower than the 1 in 4 reporting an event when the Monitor started in 2011
Few SMEs had wanted to apply but felt something had stopped them	In Q3 2015, 3% of SMEs were 'Would-be seekers' of finance who would have liked to apply for a loan/overdraft but felt that something stopped them. This proportion has declined over time (it was 7% in Q3 2013). Discouragement (almost all of it indirect) and the process of borrowing remained the two main barriers to application for this group

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8 in 10 SMEs had been 'Happy non-seekers' of finance	In Q3 2015, 80% of SMEs were 'Happy non-seekers' of finance for the 12 months prior to interview. This proportion has been relatively stable over time (it was 78% in Q3 2013)
Almost half of SMEs may be reducing their need for finance through other means	In Q3 2015, 44% of SMEs agreed with one or more of the following: • In a new question the equivalent of 15% of all SMEs said that because they held more than £10,000 in credit balances they had less need for external finance • 24% of all SMEs said that the Trade Credit available to them reduced their need for external finance • 15% of all SMEs said they had chosen to inject personal funds into the business to help it develop and grow
There has been little evidence to date of crowd funding playing a significant role	1% of all SMEs are currently using crowd funding. Most (two thirds) of these users are also using other forms of external finance (the net figure of 36% of SMEs using external finance does not currently include crowd funding). This means that if the "any external finance" figure were to include crowd funding it would increase by 0.3%

FUTURE EXPECTATIONS: SMEs are planning future growth but future appetite for finance remains flat. As before, most SMEs expect to be future 'Happy non-seekers' of finance. The likely impact of peer to peer lending remains limited:

Looking ahead	
Half of SMEs plan to grow...	48% of SMEs in Q3 2015 planned to grow in the next 12 months, increasing by size of SME from 46% of those with 0 employees to 64% of those with 50-249 employees Over time exporters have been consistently more likely to be planning to grow (69% in Q3) than their non-exporting peers (46%) and this is true across size bands
... with most of this growth coming from existing markets	For the year ending Q3 2015, 89% of those expecting to grow said that they would do so through increased sales in existing markets, primarily in the UK (86%) rather than overseas (8%). Meanwhile a quarter (24%) planned to sell into new markets, again predominantly in the UK (22%) rather than overseas (6%) Overall 12% of all SMEs planning to grow thought they would do so by selling more overseas. Most of these were already exporting

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Plans for future applications remained limited with most meeting the definition of a 'Happy non-seeker' of finance	12% of SMEs planned to apply for new/renewed finance in the 3 months after Q3 2015, at the lower end of the narrow range seen over recent years (12-15%) 76% of SMEs expected to be 'Happy non-seekers' of finance in the following 3 months. Over time, more SMEs have met this definition – in Q3 2013, 70% were 'Future happy non-seekers' 12% of SMEs in Q3 2015 were 'Future would-be seekers'. This group is decreasing in size over time (in Q3 2013, 17% of SMEs were FWBS)
The potential upturn in demand seen once the PNBs are excluded was not maintained in Q3	In the first two quarters of 2015, excluding the PNBs revealed signs of increased use of and appetite for finance amongst remaining SMEs. Q3 results have not continued that trend but this will be monitored over future waves
There is some appetite for using crowd funding in future	37% of SMEs (excluding the PNBs), had heard of crowd funding and this has changed very little during 2015 7% of all SMEs were considering using crowd funding in future. Just under half of these potential users are not currently using any other external finance. If all these potential users were converted, this would boost the proportion of all SMEs using external finance (including crowd funding) by 3%


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