

2015 Business Finance Survey: SMEs



**A report by BMG Research to
the British Business Bank**

February 2016

Background

- In [2012](#), BIS commissioned a new survey exploring the stages SMEs go through when considering the need to raise external finance and the specific actions they take when seeking, applying and obtaining finance. 1,500 SMEs were interviewed by telephone using CATI.
- The survey was repeated in [2014](#) with 1,000 SMEs being interviewed.
- This latest 2015 survey is based on 1,608 interviews with SMEs. Some new questions are added, but core questions remain the same allowing a comparison over time.
- 300 mid-cap businesses were also surveyed and these results are presented separately.
- Statistically significant changes between the 2014 and 2015 surveys (at 95% confidence level) are identified by circles (increases) and squares (decreases). Other changes are not as significant, and care should be taken in interpreting these findings.

Survey Methodology

- 1,608 CATI interviews conducted between 2nd October and 16th November 2015. The average questionnaire length was 22 minutes.
- **SMEs defined as businesses having 0 to 249 employees.** Sample structured by employment size and sector (2007 SIC).
- Interviews with person responsible for managing business finances.
- Data weighted to BIS's Business Population Estimates 2014 (BPE) by size, sector and age:
 - 390 with no employees interviewed (weighted to 76%)
 - 652 micros (1-9) interviewed (weighted to 20%)
 - 364 small (10-49) interviewed (weighted to 4%)
 - 202 medium (50-249) interviewed (weighted to 1%)
- The results for SMEs overall are dominated by zero employee businesses that have different characteristics to SME employers, and this should be borne in mind when interpreting the results.

Survey Findings

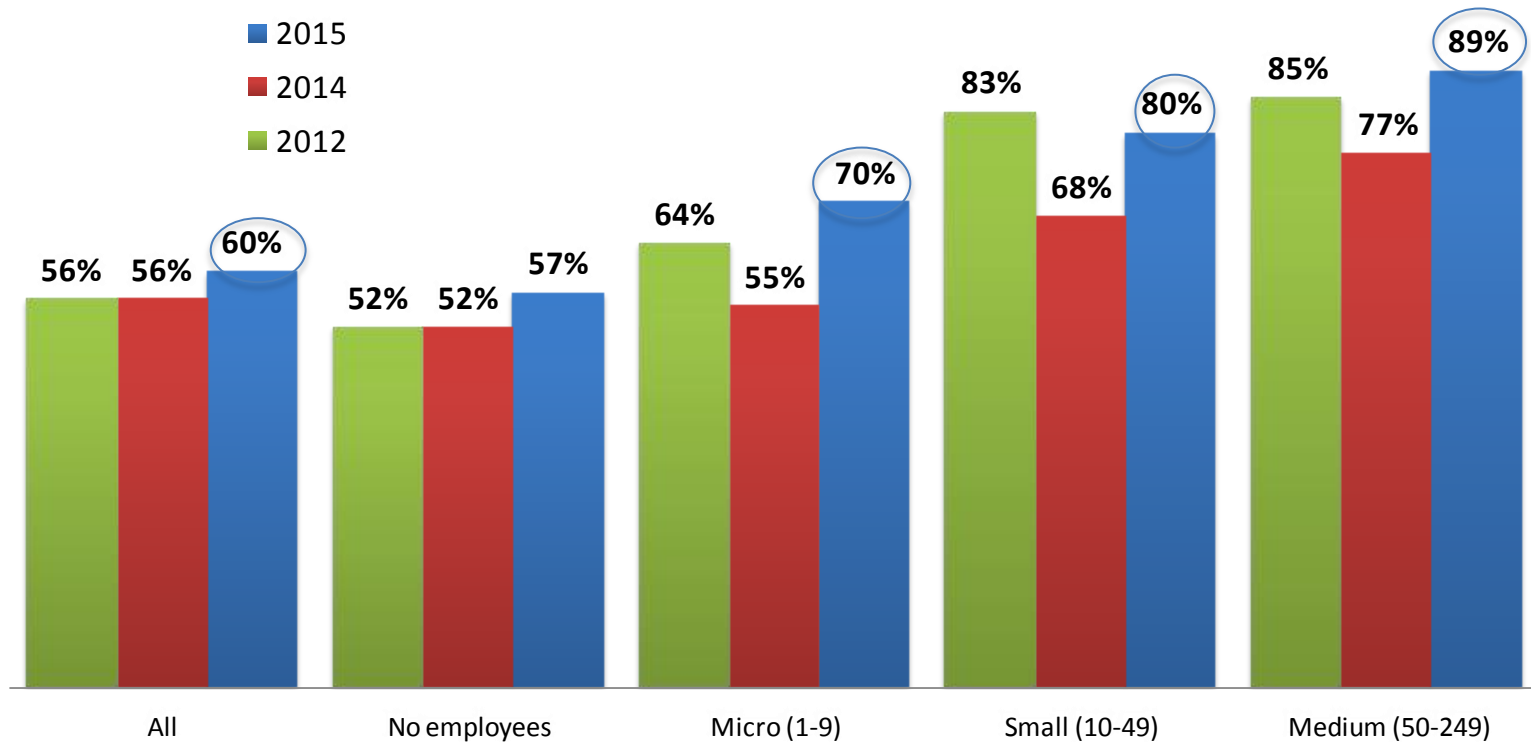
The report is structured into the following sections:

1. Finance usage and application
 2. SMEs awareness of different types of finance
 3. SME perceptions of raising finance
 4. Growth
 5. Use of finance in the future and discouragement
 6. Export finance
 7. Conclusions
- The mid-cap survey report contains greater information on differences between SMEs overall and SME employers.

1) Finance usage and application

Increased use of finance among employers evident in 2015 compared to 2014

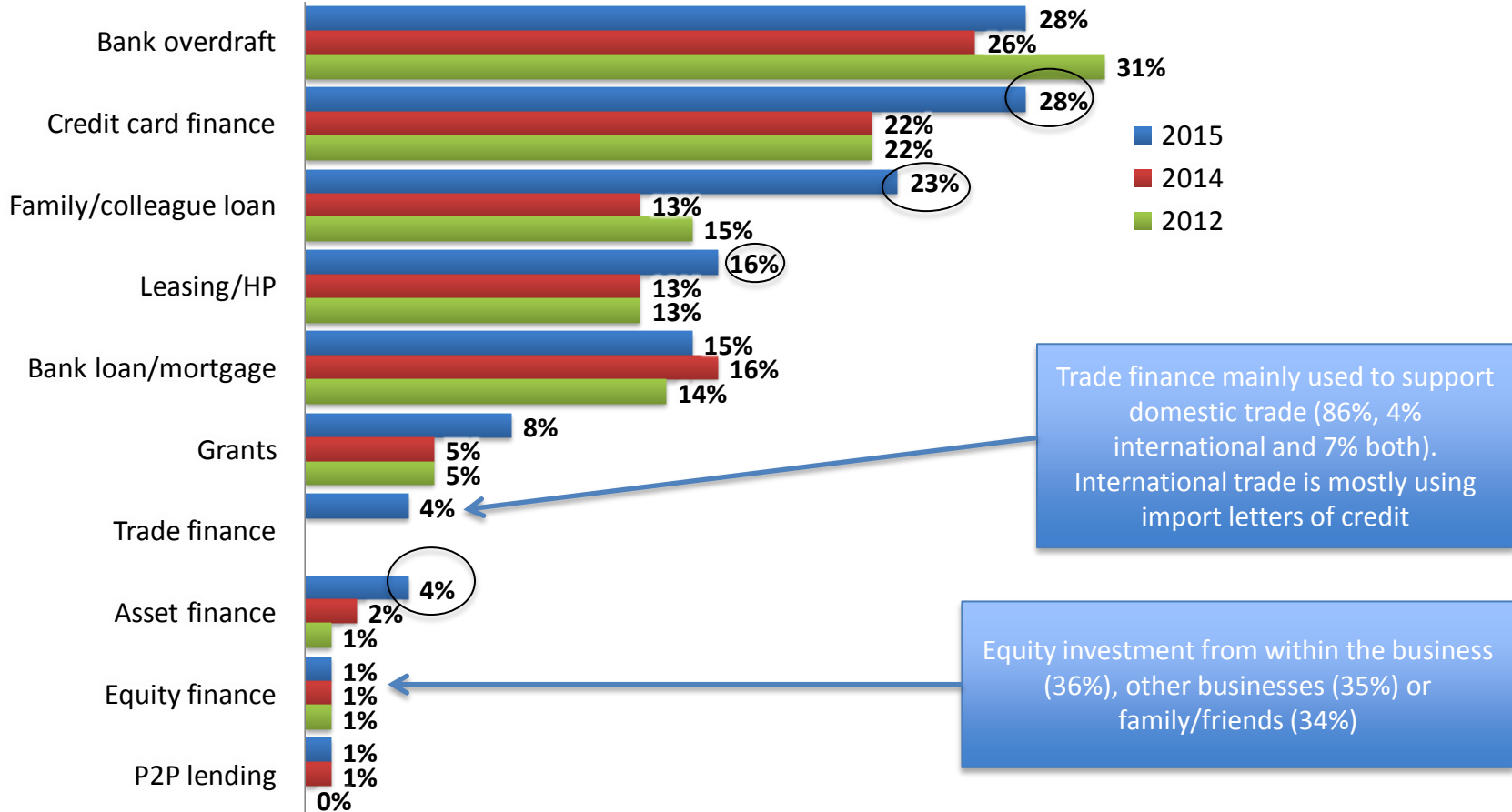
Used external finance in last 3 years - 2012-15 - by employee size



Base = all SMEs (2015=1,608/2014= 1,000/2012 = 1,508). A5a (single code, prompted)

With increased use of credit cards, family/colleague loans, leasing/HP and asset finance compared to 2014

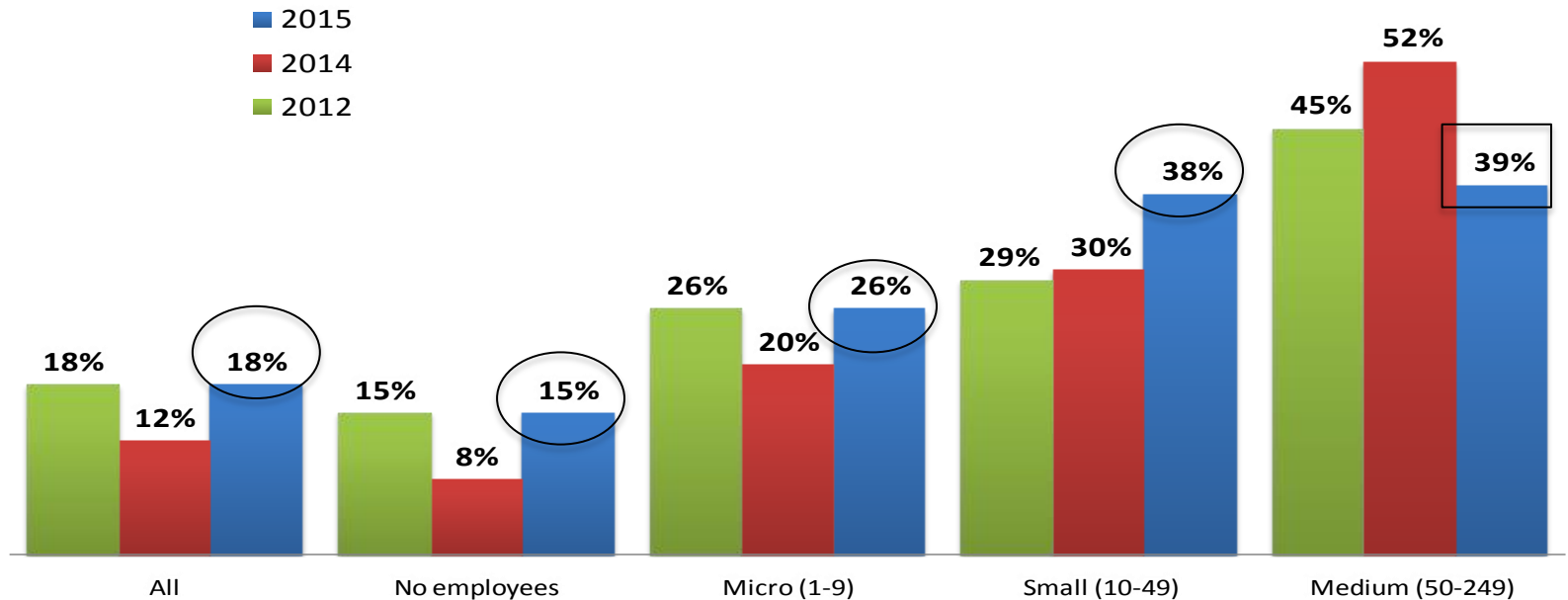
Use of forms of finance in the previous 3 years - 2012-2015



Base = all SMEs (n=1,608 in 2015/n=1,000 in 2014/n=1,508 in 2012). Question A5a (multi-code, prompted)

More SMEs have sought finance in the last year compared to 2014, but similar to 2012 levels

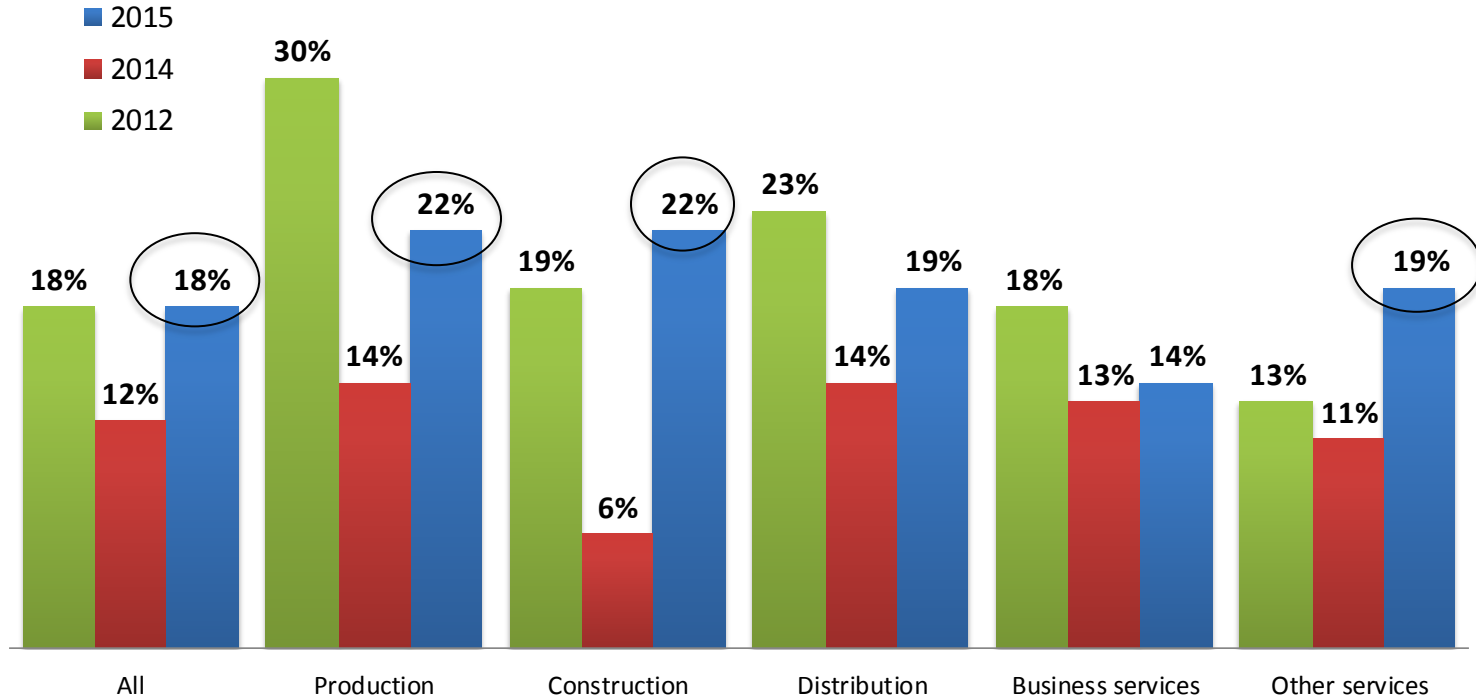
Sought external finance in the last year - 2012-15 - by employee size



Base = all SMEs (2015=1,608/2014 = 1,000/2012 = 1,508). A14 (single code, prompted)

Applications for finance increased in production, construction and other service sectors

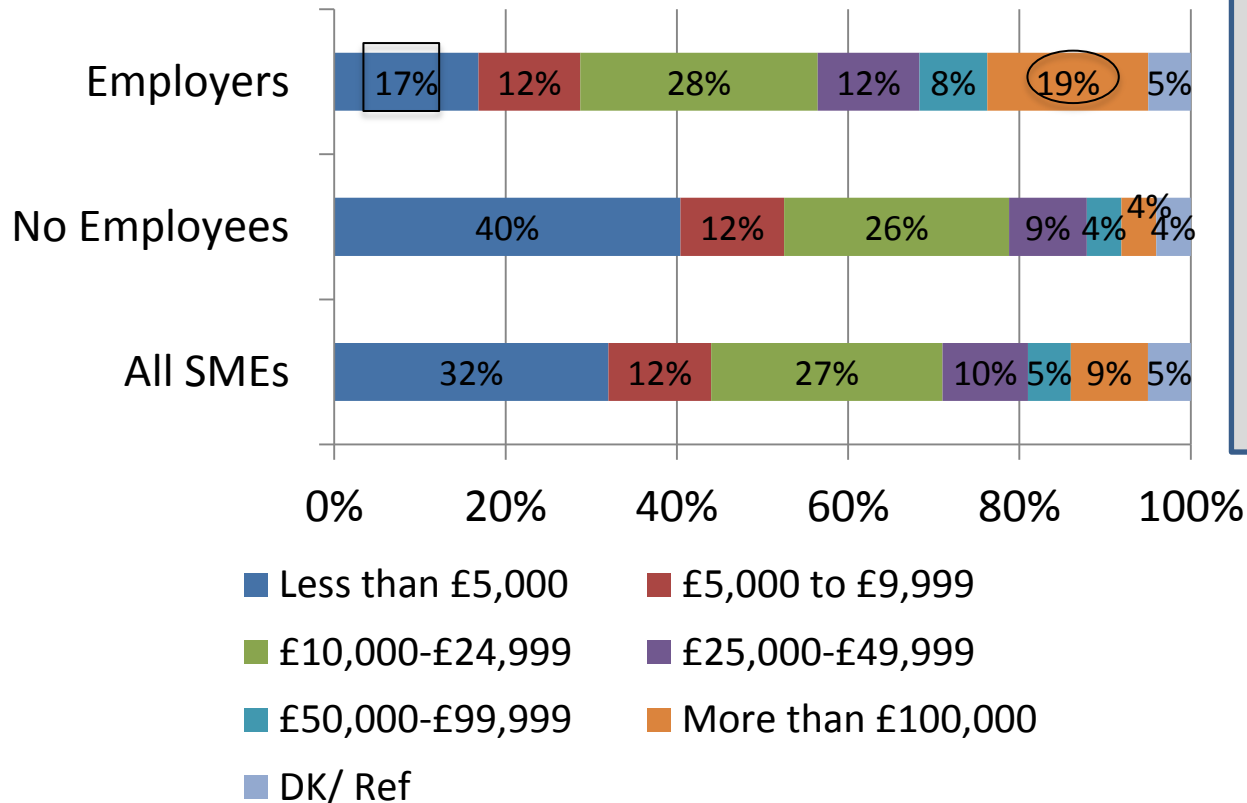
Sought external finance in the last year - 2012-15 - by sector



Base = all SMEs (2015=1,608/2014=1,000/2012=1,508). A14 (single coded, prompted)

The majority of SMEs (71%) seek less than £25,000 of external finance

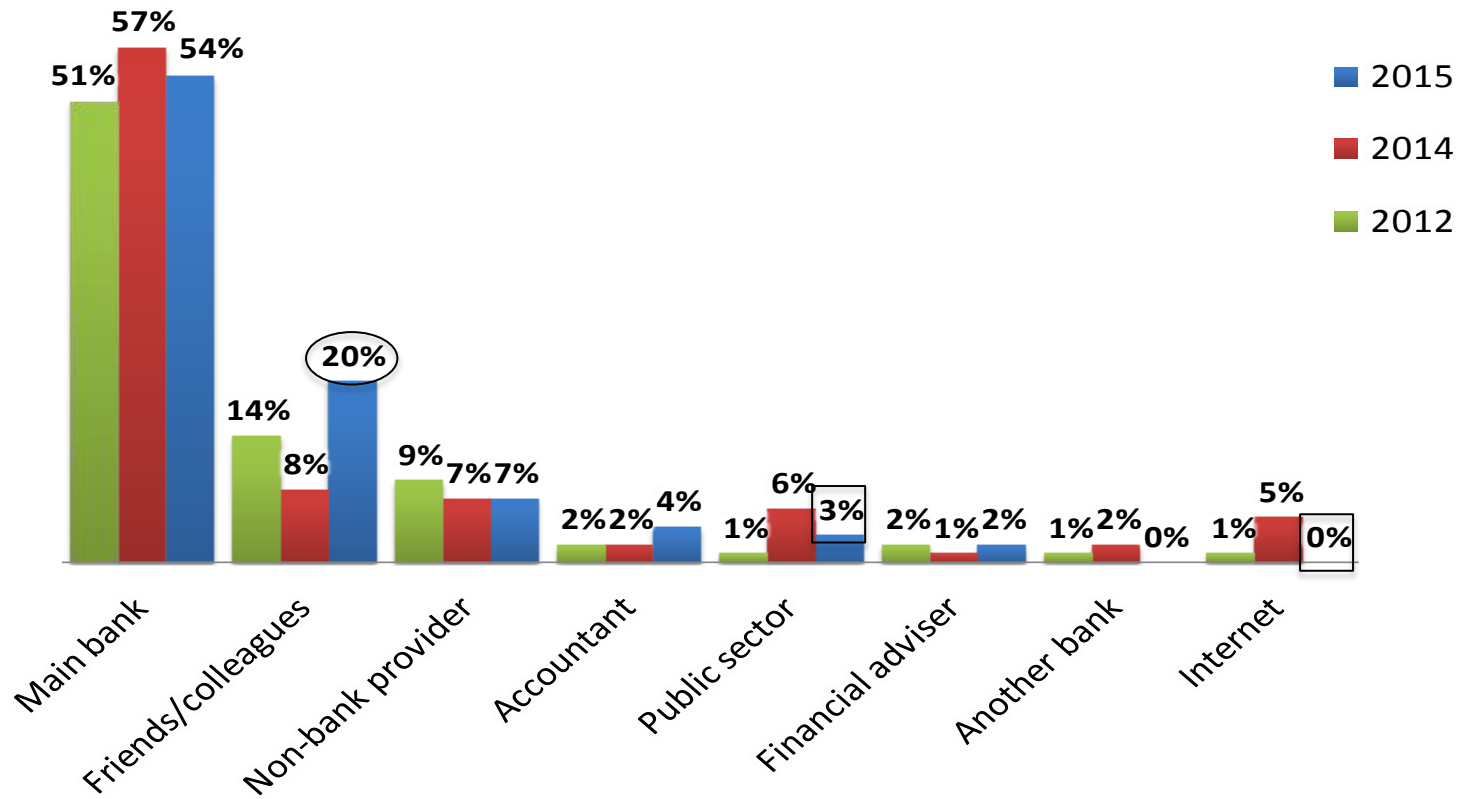
Amount of finance sought on last occasion by employee size



Mean amount	Median amount
£880,000	£20,200
£25,000	£8,140
£320,000	£12,030

SMEs are still most likely to go to their main bank when they realise they need finance, but more are asking the advice of friends/colleagues than previously

Who spoke to first when finance need identified 2012-2015

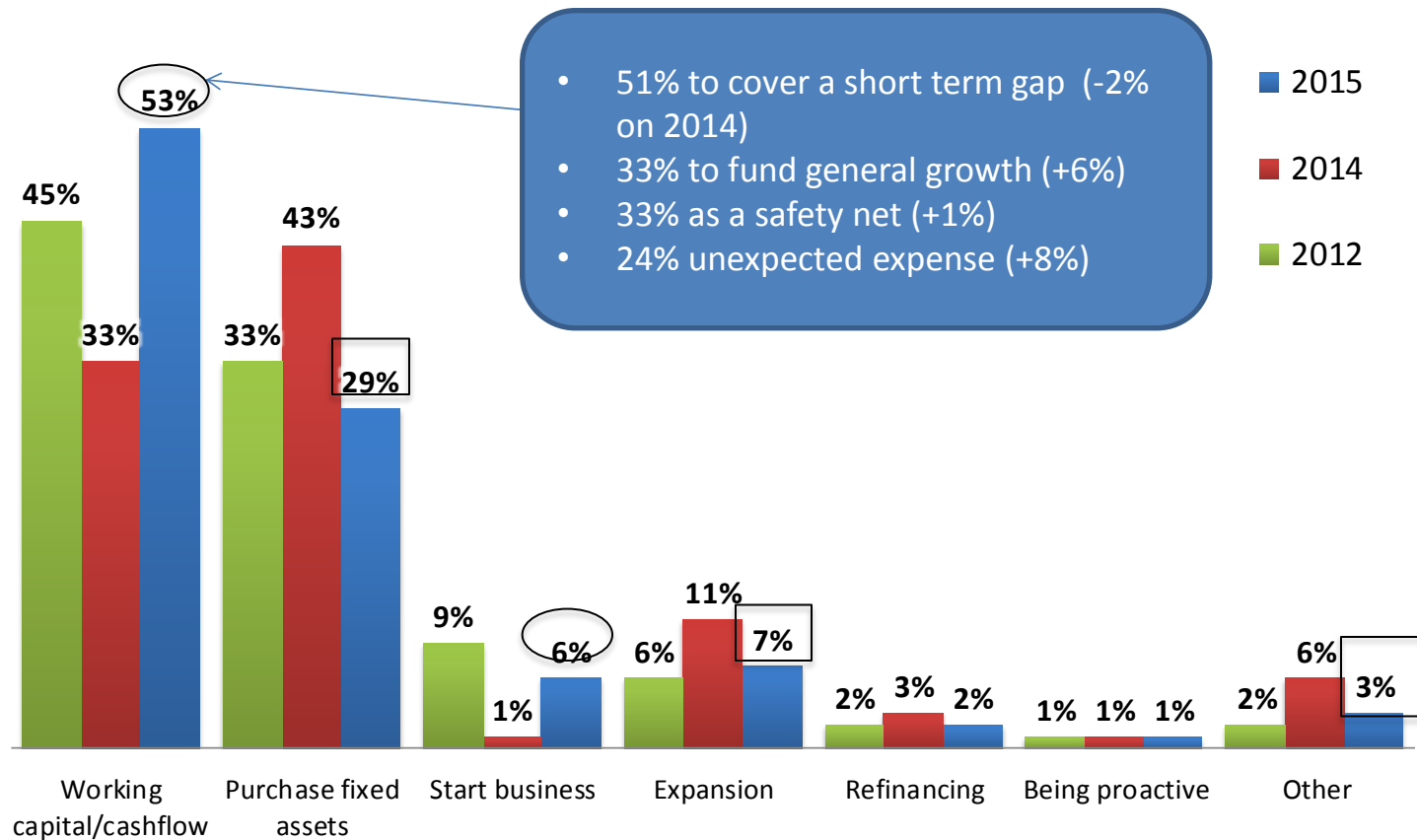


50% of those seeking finance only approached the largest four UK banks (2014 = 49%)

Base = all SMEs that sought particular types of external finance in the last 3 years (n=706 in 2015/n=296 in 2014/n=552 in 2012). Question A16 (single code, unprompted)

The main reason for seeking finance has changed compared to 2014 with more seeking working capital and fewer seeking finance to purchase fixed assets

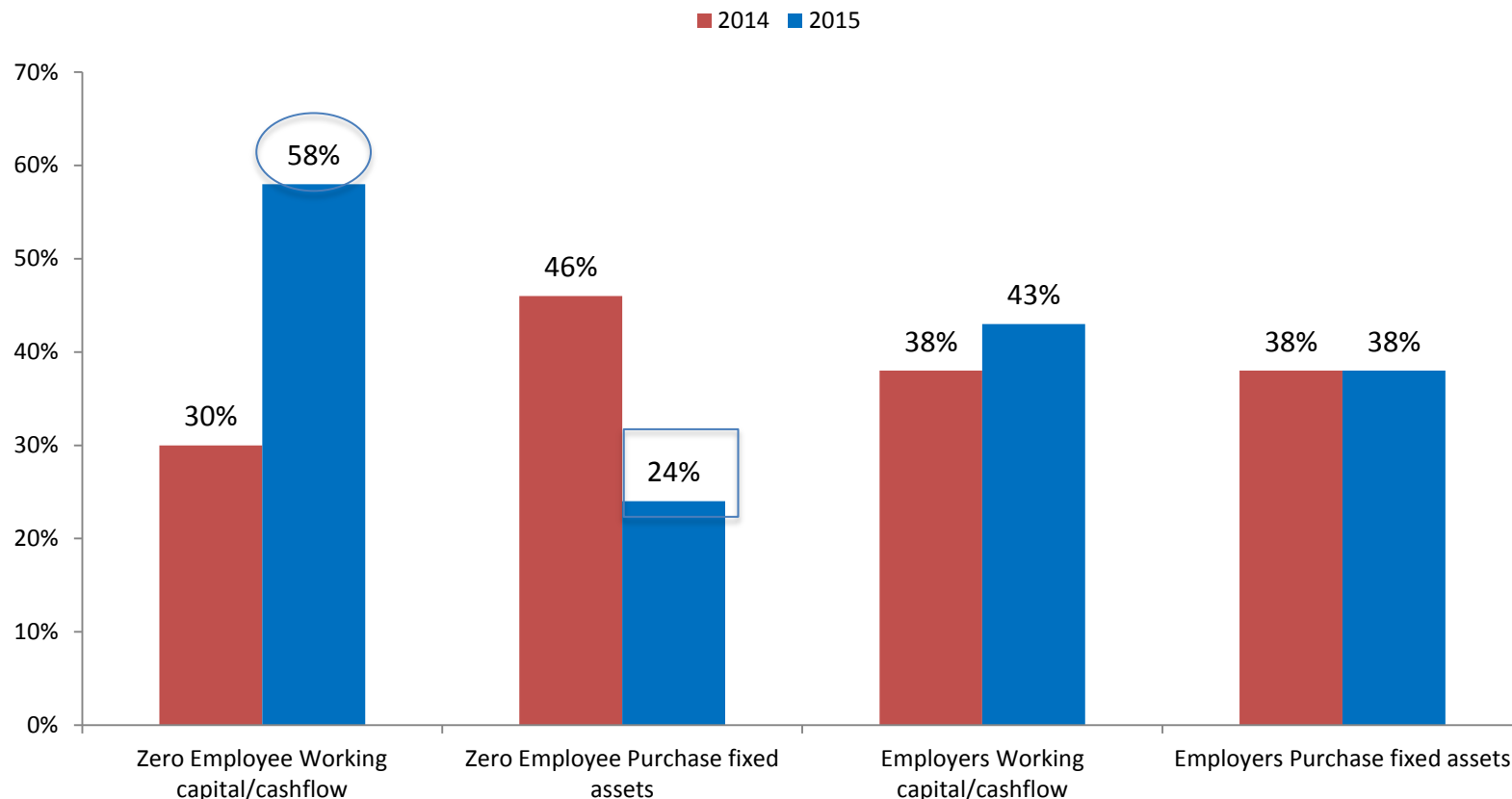
Main reason for seeking finance 2012-15 - last occasion in last 3 years



Base = all SMEs that sought finance in the last 3 years (n=715 in 2015/n=325 in 2014/n=588 in 2012). Question A15a (single code, prompted)

The reduction in seeking finance for funding fixed assets is largely driven by zero employee SMEs

Main reason for seeking finance 2012-15 - last occasion in last 3 years

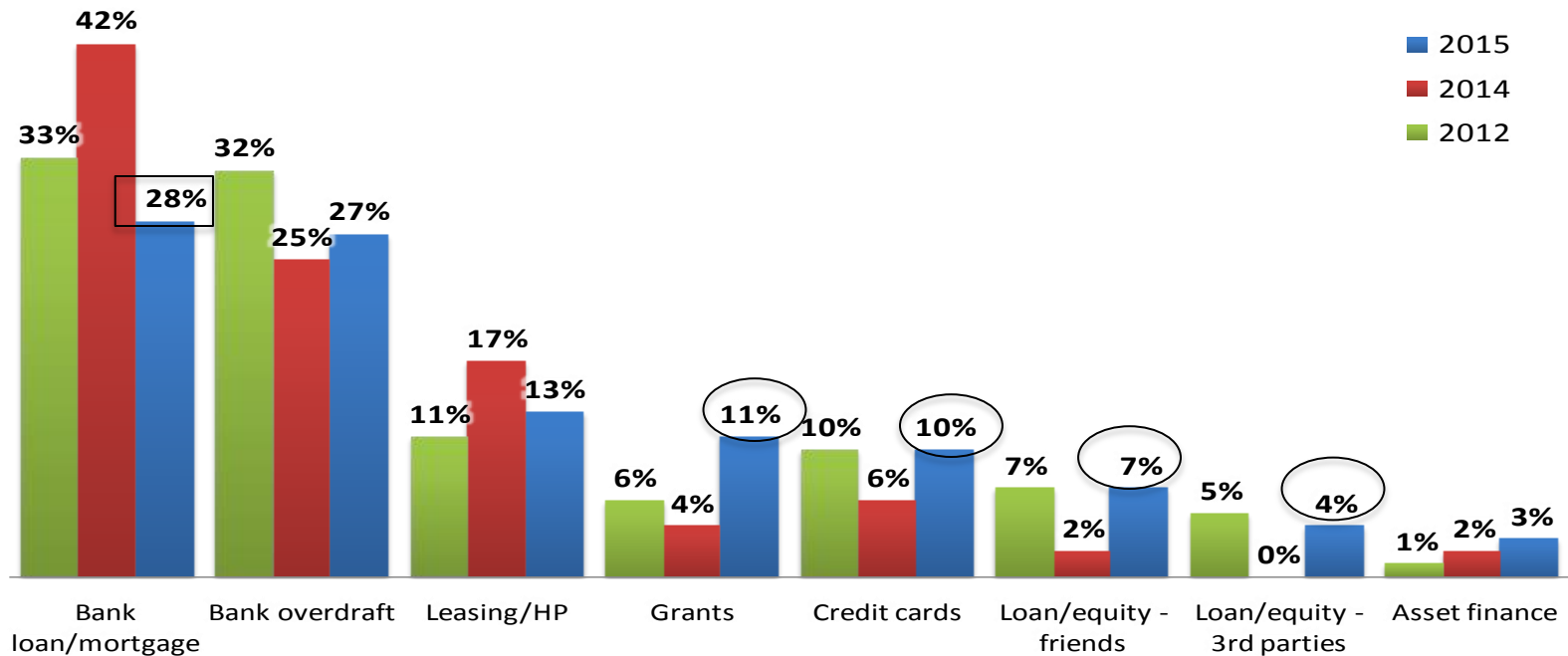


Base = all SMEs that sought finance in the last 3 years (n=715 in 2015/n=325 in 2014). Question A15a (single code, prompted)

Greater demand for working capital is leading to fewer bank loans being sought. Also, increased demand for grants, credit cards, and other loans

Products sought on the last occasion 2012-15

Although demand for type of product has changed overall, this is largely down to those with no employees. Only applications for credit cards amongst employers has changed.



Others = Government scheme finance (1%); equity from 3rd parties (1%); director loans/equity (1%); crowd funding , trade finance, P2P, corporate bonds (all less than 0.5%)

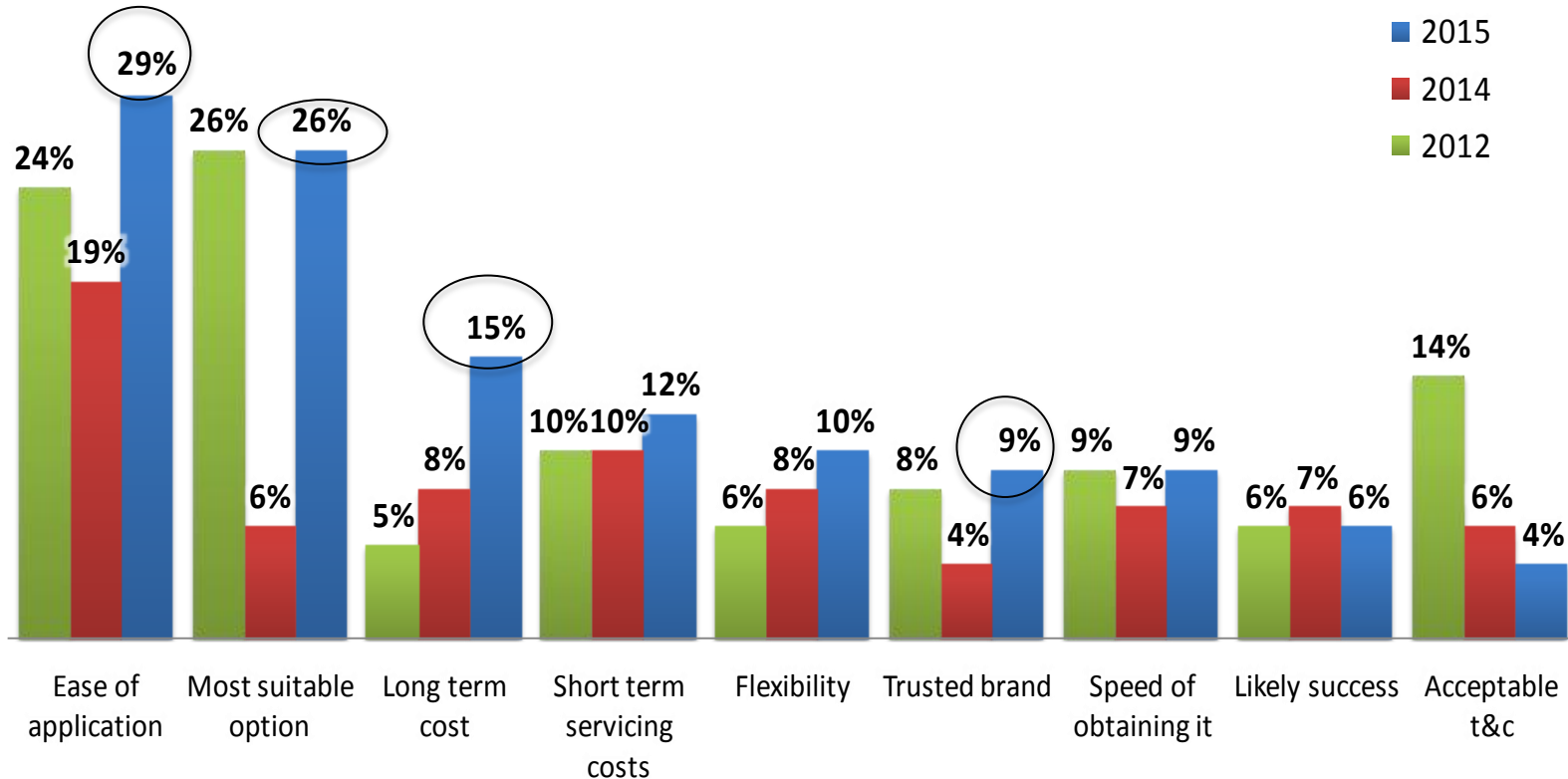
Base = all SMEs that sought external finance in the last 3 years (n=715 in 2015/n=325 in 2014/n=588 in 2012).

Question A17a (multi code, unprompted)

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There is increased consideration of the long term cost and ease of application when choosing finance

Reasons for choosing type of finance 2012-15



Base = all SMEs that sought external finance in the last 3 years (n=715 in 2015/n=325 in 2014/n=588 in 2012).

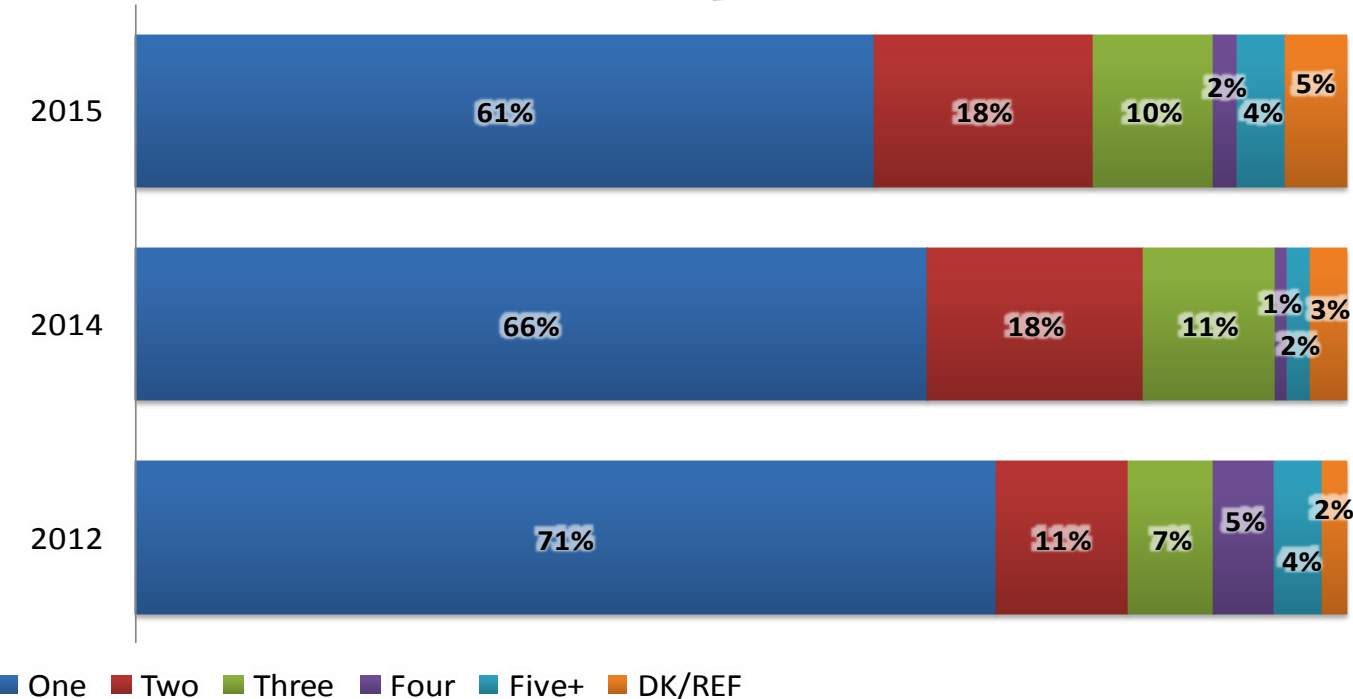
Question A17b (multi code, unprompted)
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Some indication that SMEs are considering/ contacting more suppliers for finance than was the case in 2012

Number of providers contacted 2012-2015

Main reasons for only approaching one provider

- Longstanding relationship 48% (2014 = 59%)
- Got all they needed from first approached 23% (2014 = 10%)
- Too much hassle to shop around 11% (2014 = 12%)



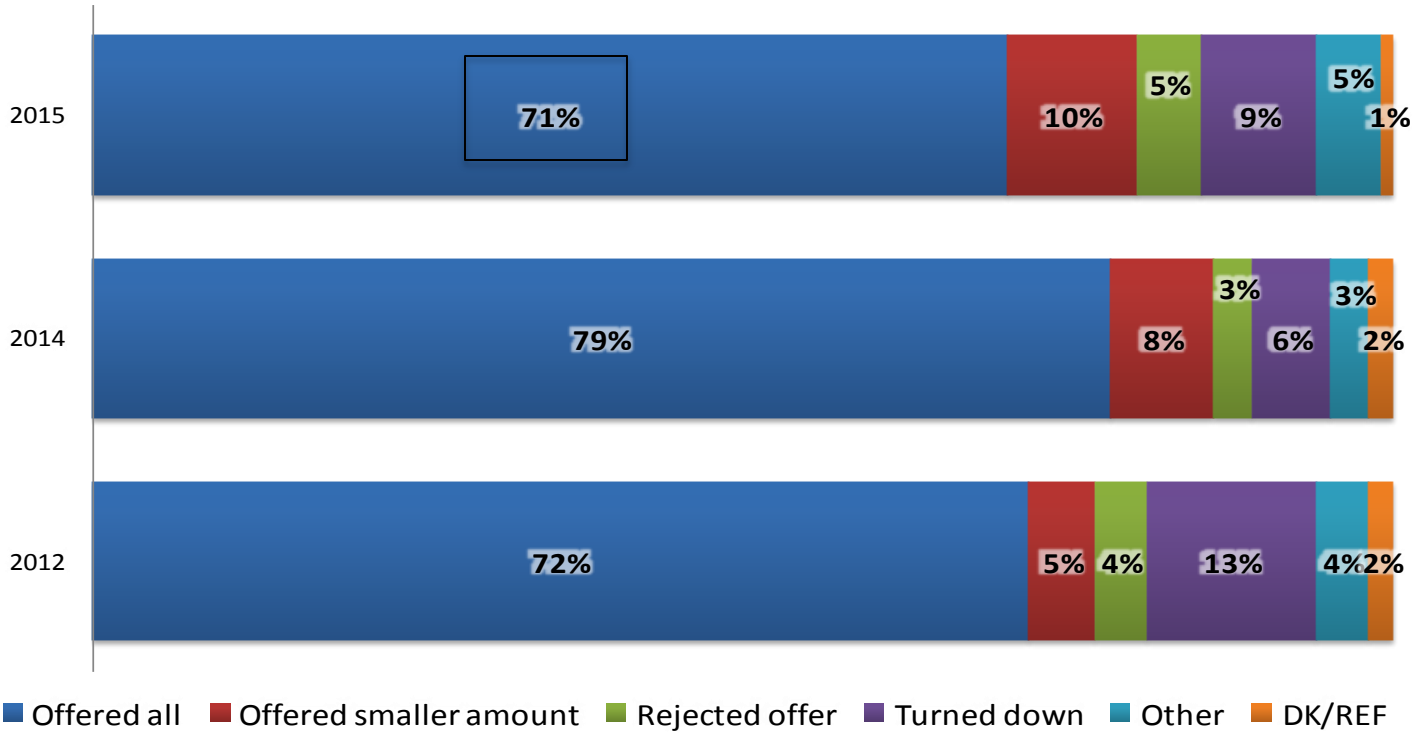
Mean = 1.7
 (working capital = 1.5,
 purchase assets = 1.7,
 expansion = 2.3)

Mean = 1.5
 (working capital = 1.3,
 purchase assets = 1.6,
 expansion = 1.9)

Mean = 1.7
 (working capital = 1.5,
 purchase assets = 1.7,
 expansion = 2.6)

... But number of suppliers contacted may be related to fewer SMEs getting all they needed from the first supplier approached

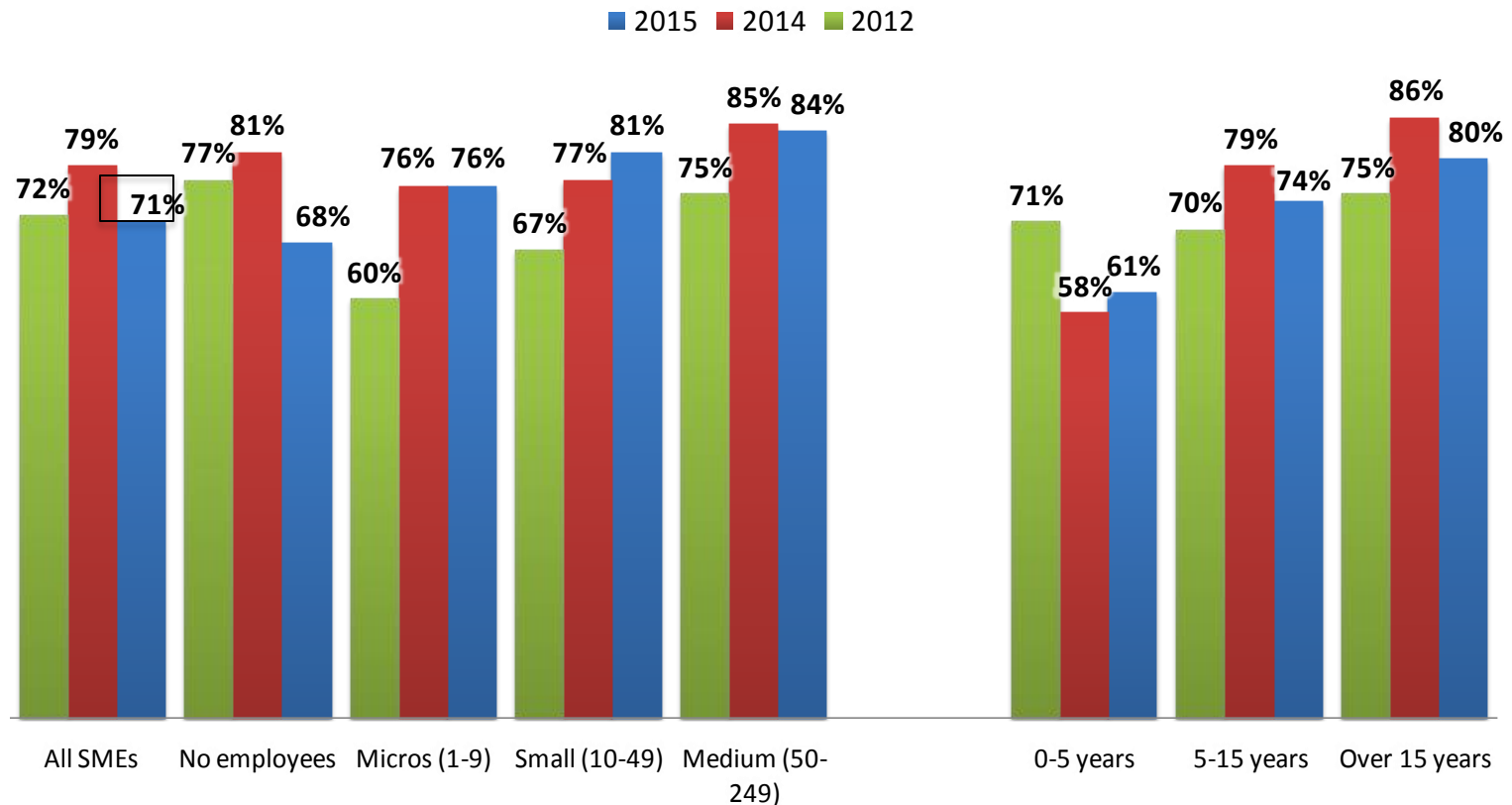
Whether successful in obtaining finance from first provider 2012-2015



Offered any finance:
 2015 = 86%
 2014 = 90%
 2012 = 81%

Although success rate in obtaining finance is down overall, this is due to zero employee SMEs (figures unchanged for employers)

Successful getting all they wanted – by size and age of business 2012-2015



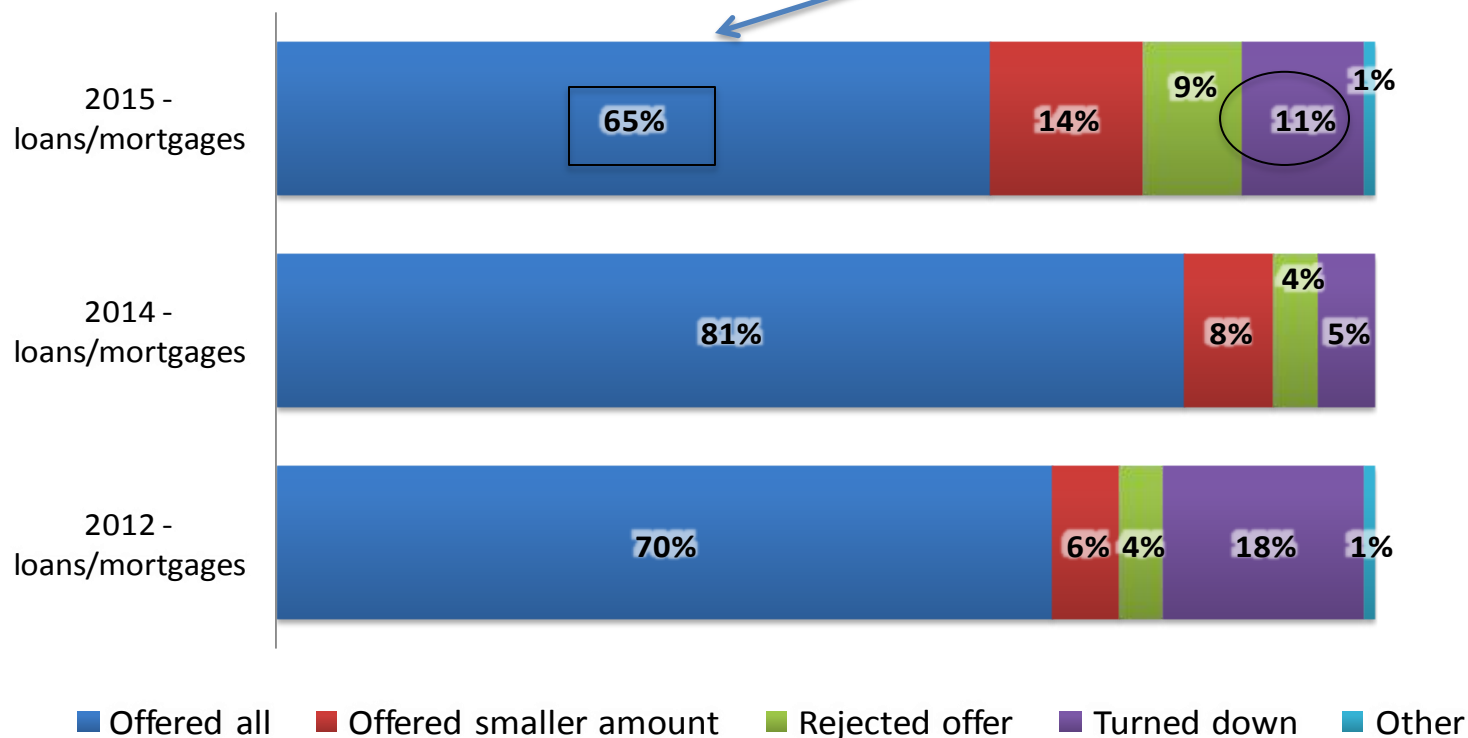
Base = all SMEs that sought external finance in the last 3 years (n=715 in 2015/n=325 in 2014/n=588 in 2012).

Question A23a (single code, unprompted)

Fewer loans/mortgages approved in 2015 with more SMEs turned down than 2014

Outcome of applications for bank loans/mortgages 2012-2015

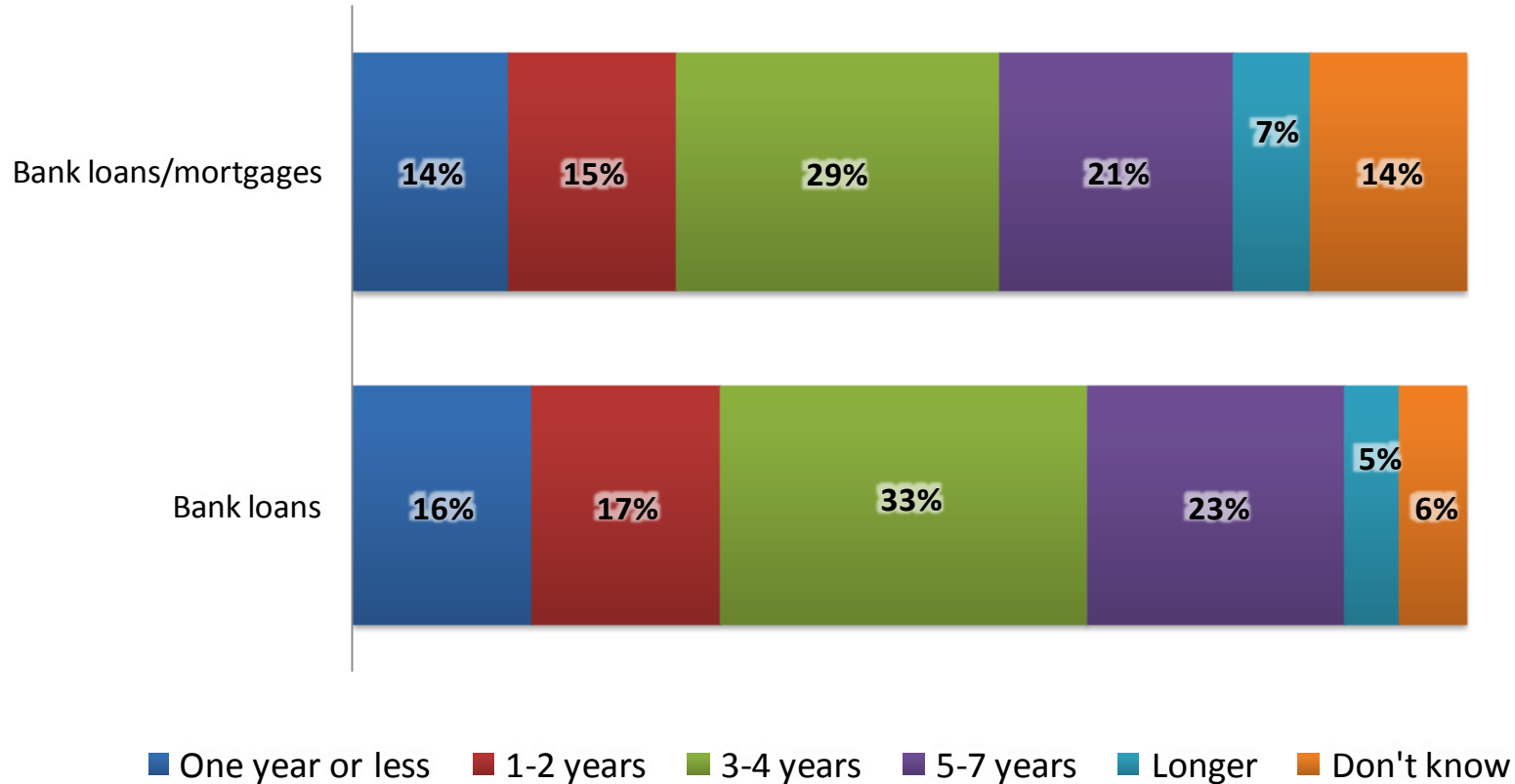
Change in success rate down to zero employee firms (81% successful 2014/65% in 2015)



Base = all SMEs that sought bank loans/mortgages in the last 3 years (n= 208 in 2015/n=112 in 2014/n=185 in 2012).
Question A23a (single code, prompted)

SMEs typically seek loans of 3-4 years, with only 5% seeking longer than 7 years

Loan tenor periods 2015



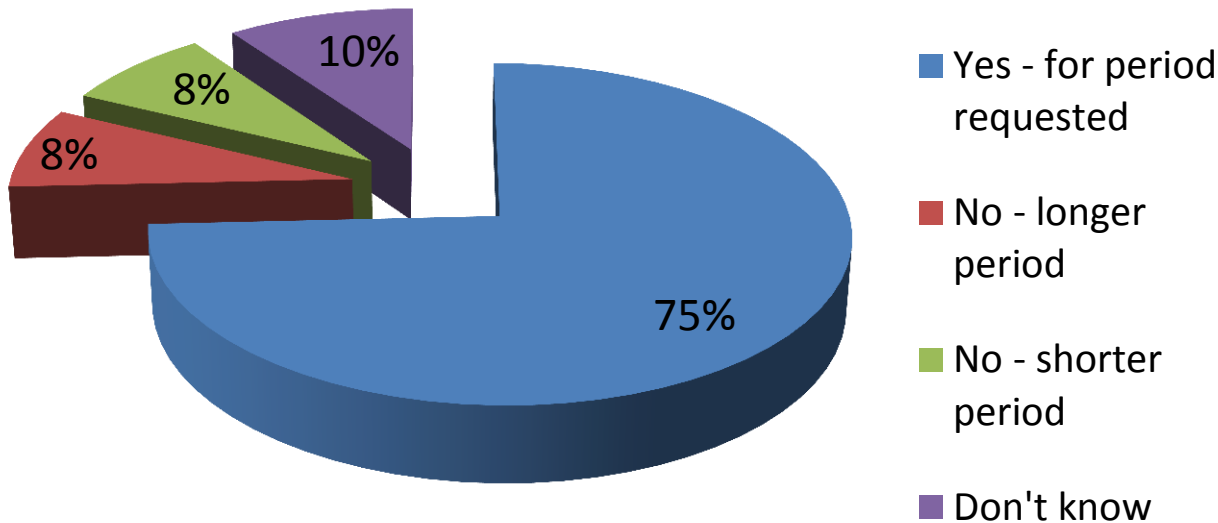
Base = all SMEs that sought bank loans or mortgages (n=208)

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Slide 20

At least three quarters of bank loans/mortgages are granted at the tenor period requested by the SME

Whether bank loan/mortgage obtained was for the same tenor period requested



Reasons for getting a mortgage/loan for a different period:

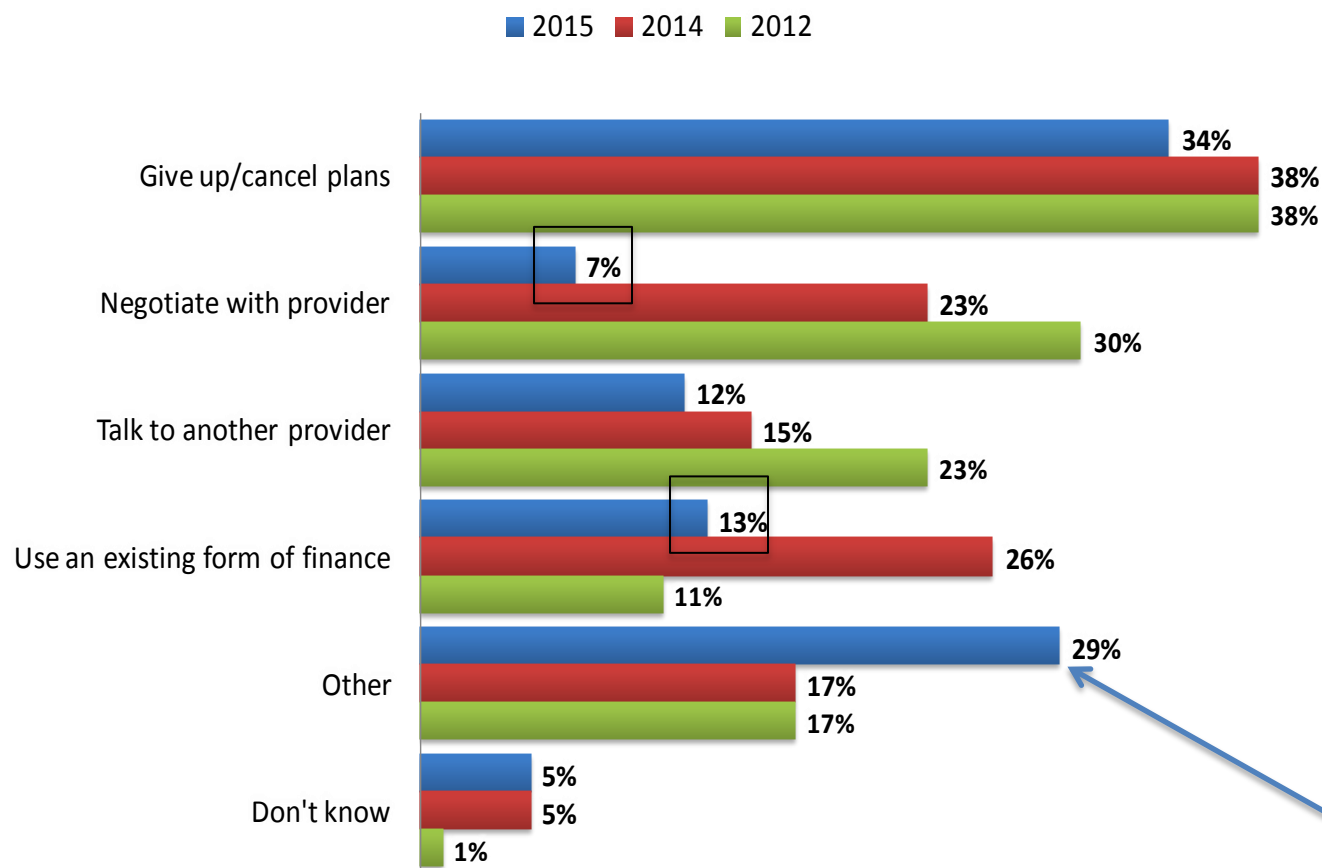
"At the time the bank was searching for money itself."

"The minimum tenor period was 12 months."

"Complications with planning consent that the bank did not agree with."

SMEs less likely to negotiate than previously if they did not get full amount of finance

If not offered full amount of finance – what would they do next? – 2012-2015

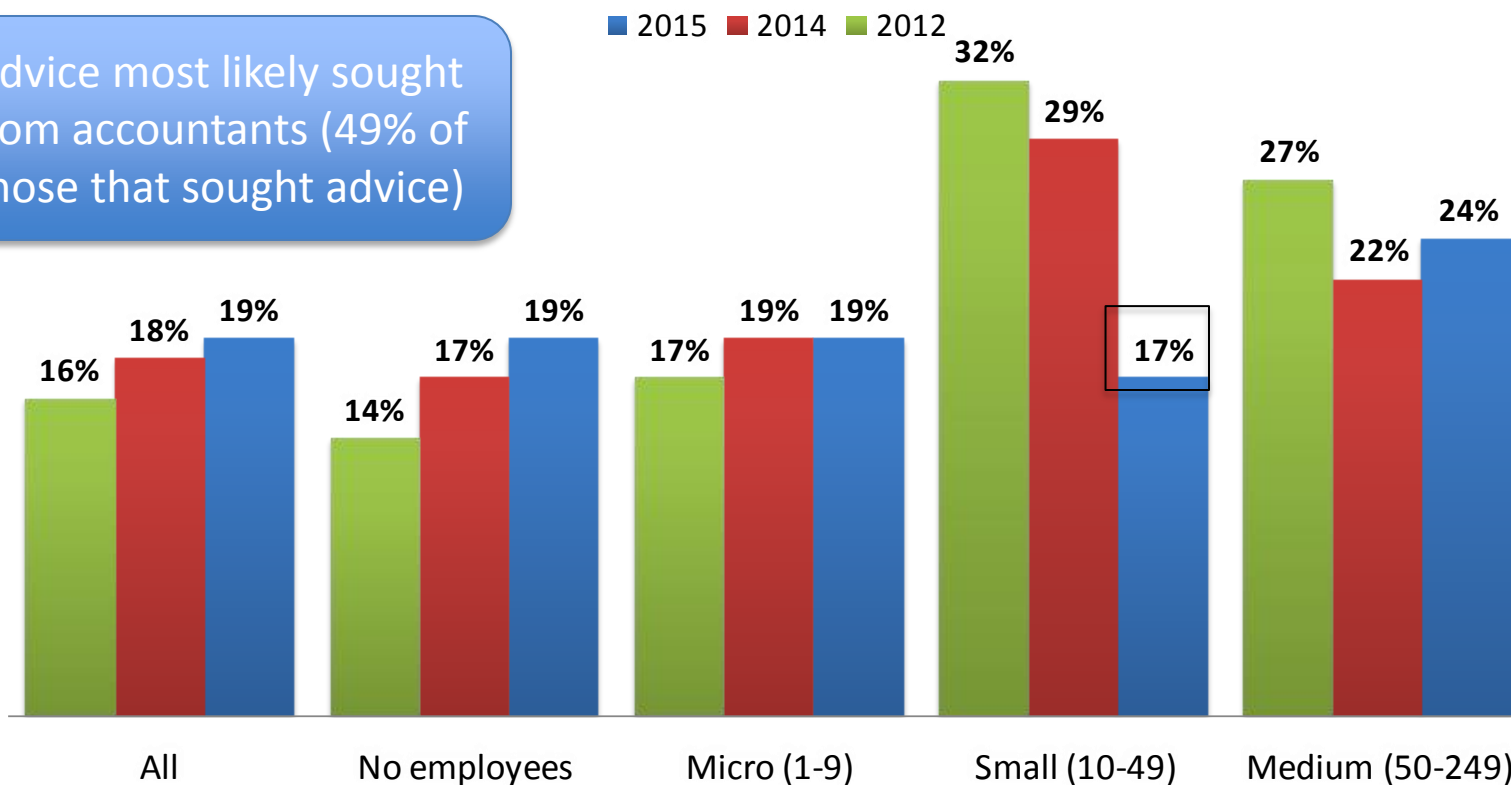


These are mainly people who accepted the bank's decision of a lower offer

The proportion of SMEs overall using advice when seeking finance is unchanged, but lower for small businesses compared to 2014

Ever sought external advice when applying for finance - 2012-15 - by employee size

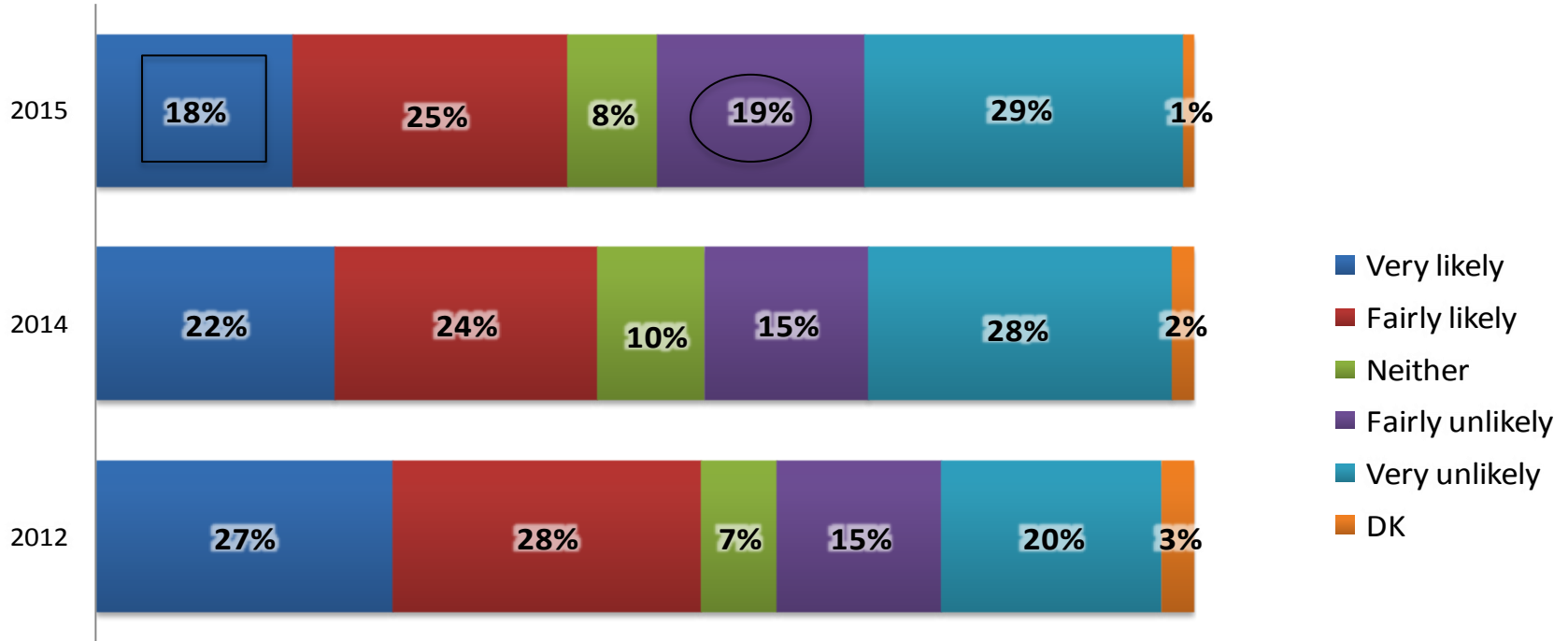
Advice most likely sought from accountants (49% of those that sought advice)



Base = all SMEs that sought finance in the last 3 years (2015=715/2014=325/2012=588). A24 (single code, unprompted)

SMEs are less inclined to want to seek external advice in 2015

Likelihood of seeking external advice if had difficulties obtaining finance – 2012-2015

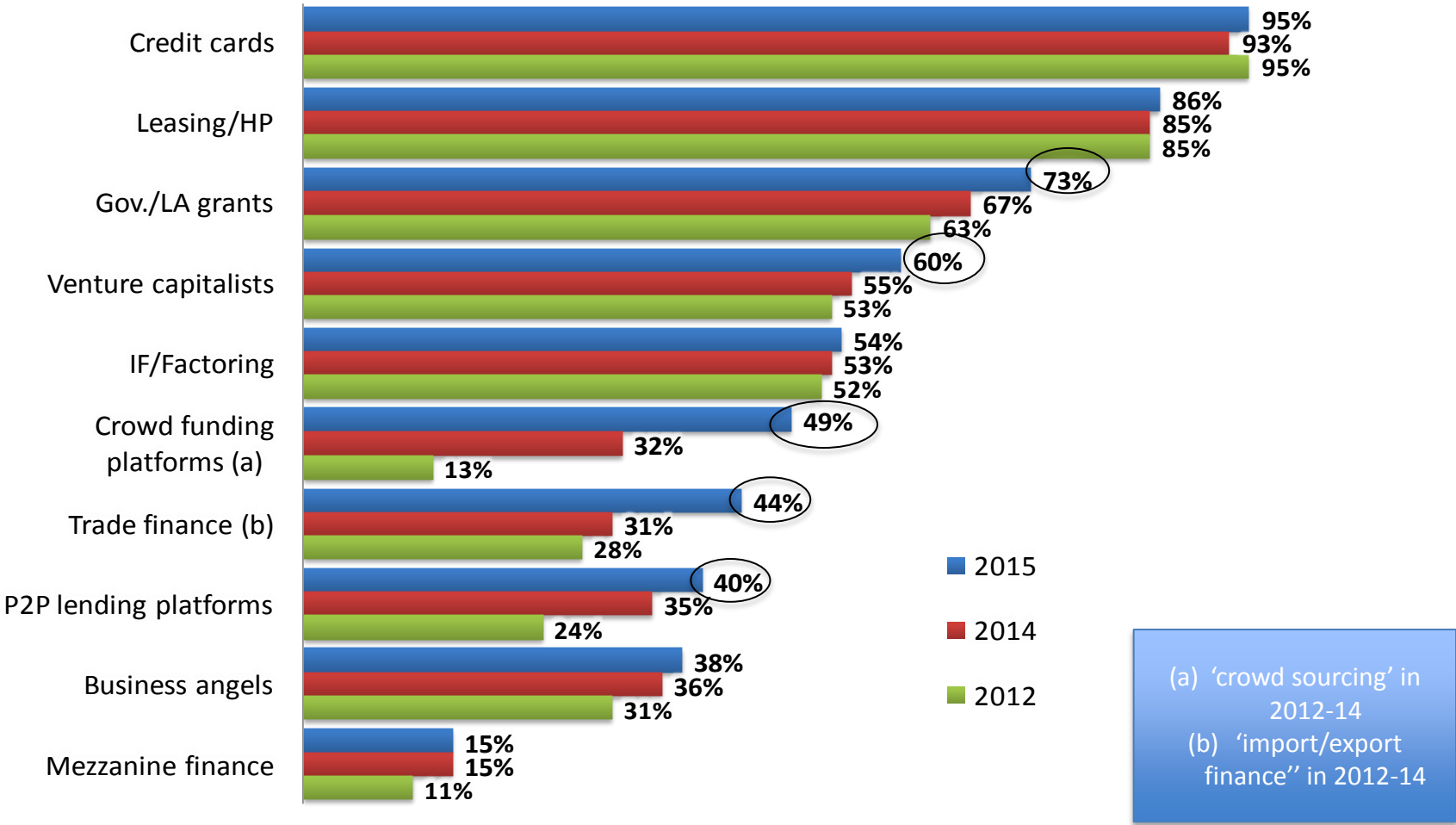


52% of those that would take advice willing to pay for it (46% in both 2012 and 2014)

2) SMEs awareness of different types of finance

Greater awareness of Government grants, crowd funding, trade finance and P2P lending in 2015

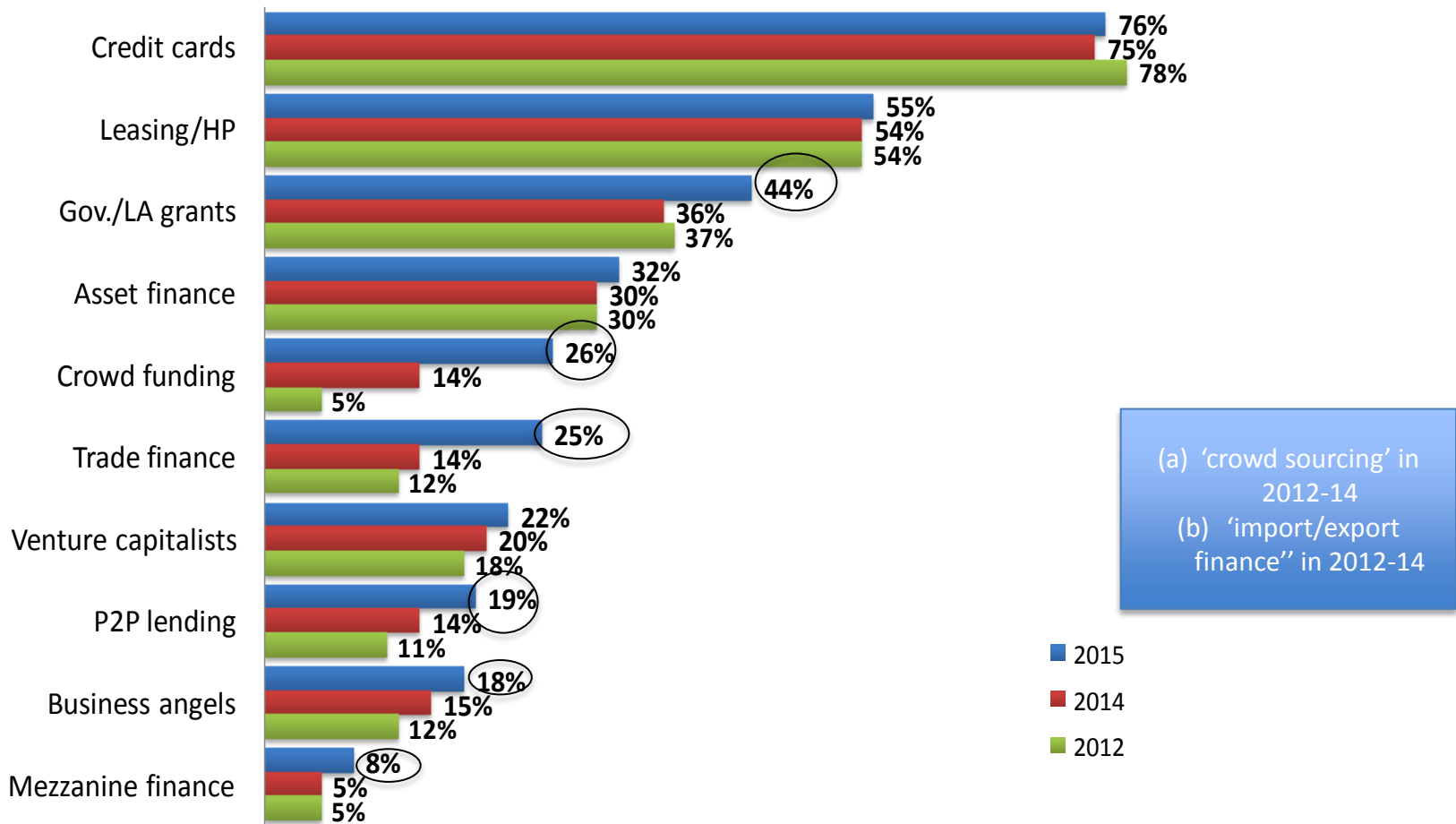
Awareness of forms of external finance 2012-2015



Base = all SMEs (n=1,608 2015/ n=1,000 in 2014/ n=1,508 in 2012). Question A1 (multi-code, prompted)

SMEs more aware of who to approach for these types of products than previously

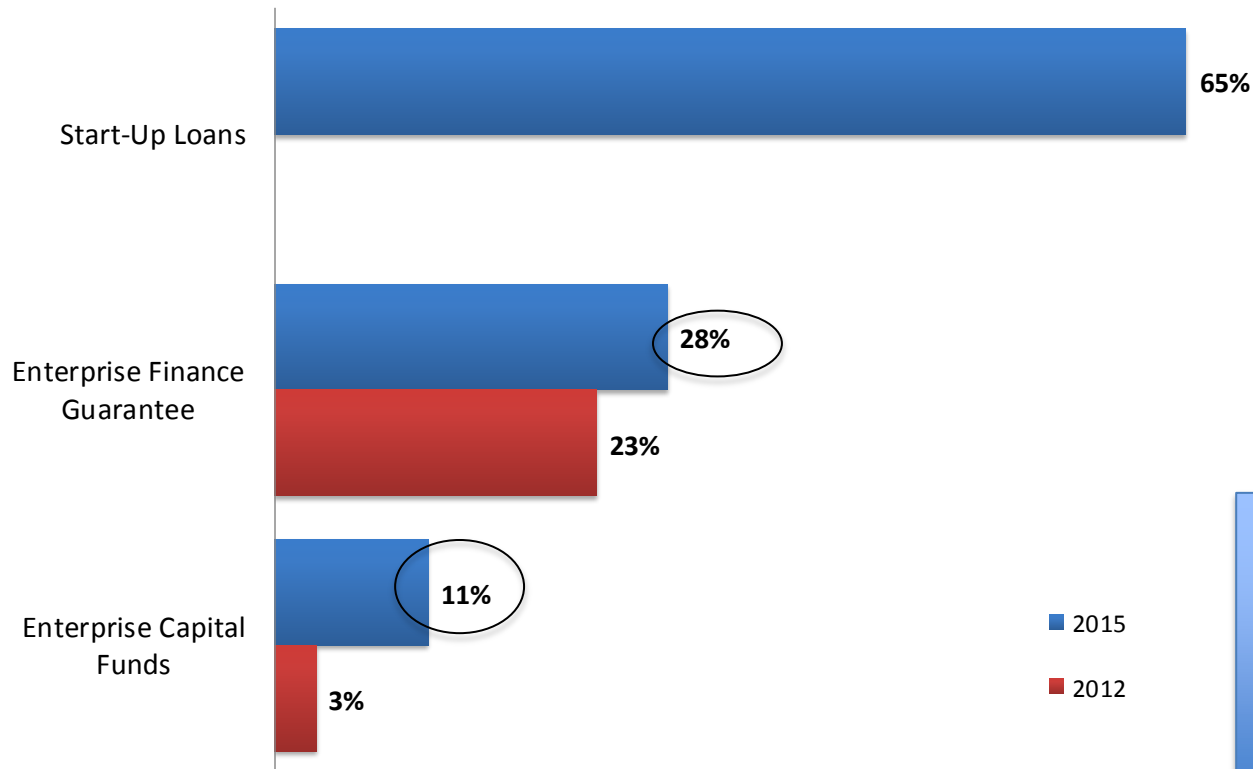
Aware of who to approach for forms of external finance 2012-2015



Base = all SMEs (n=1,608 in 2015/n=1,000 in 2014/n=1,508 in 2012). Question A1 (multi-code, prompted)

Awareness of Business Bank schemes has increased since 2012...

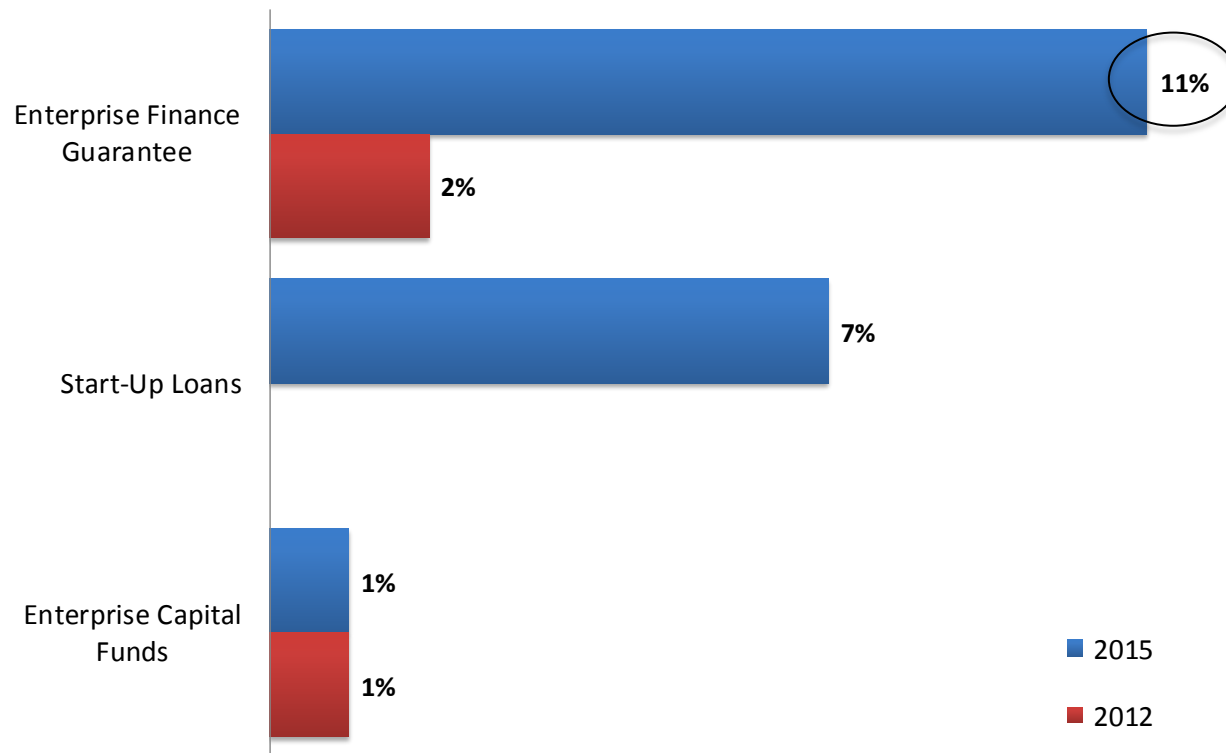
Awareness of Business Bank schemes 2012-2015



With the exception of Start-Up Loans, larger SMEs more likely to be aware of these schemes

...as has knowledge of where to access EFG (but not other finance schemes)

Know how to access funding for schemes: 2012-2015



Base = all SMEs (n=1,608 in 2015/n=1,508 in 2012). Question D2 (multi-code, prompted)

Awareness of the British Business Bank

- 27% aware that UK Government has created a development bank to increase supply of finance to SMEs (2014 = 35%)
- 17% have heard of British Business Bank (2014 = 18%)
- 34% aware of either (2014 = 40%)
- The survey was introduced as a BIS survey to avoid biasing the results of this question.

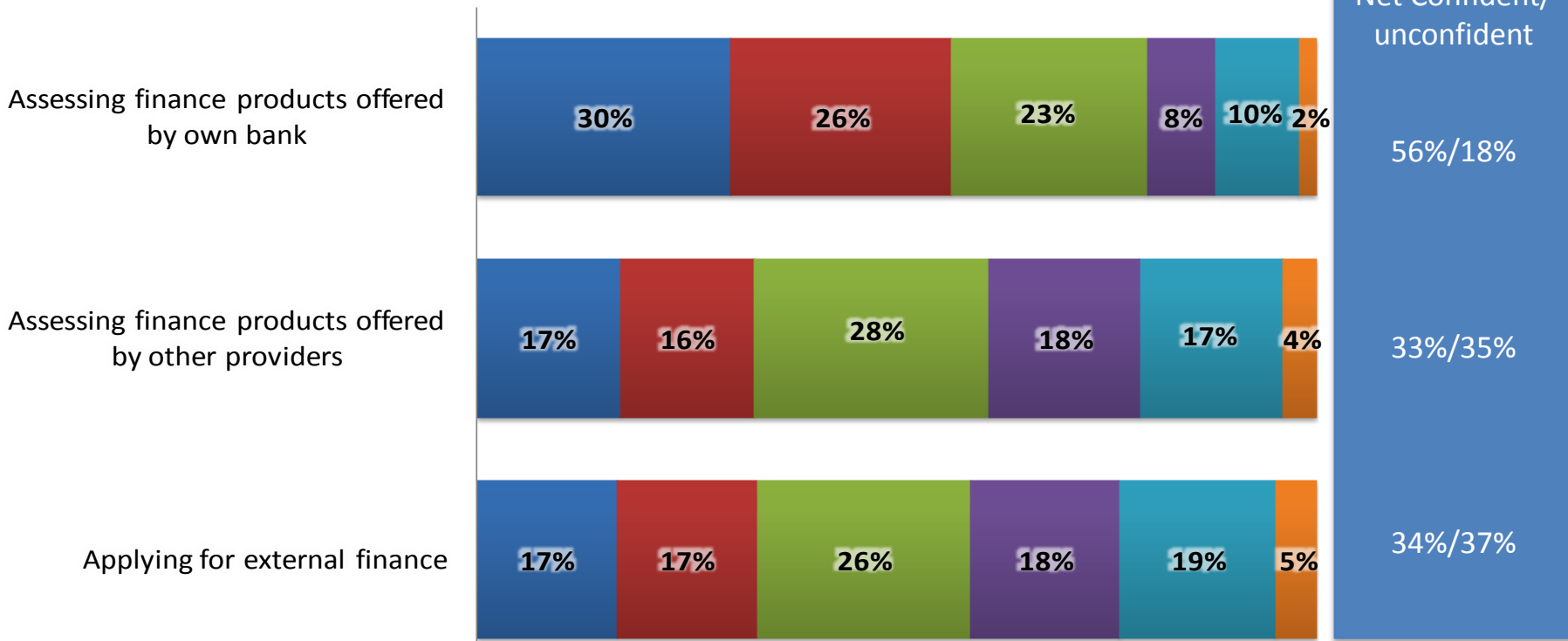
Most likely to have heard:

- Exporters (42%, cf. 32% of non-exporters)
- Aged over 20 years (39%, cf. 28% aged up to 5 years, 33% aged 6-20 years)
- Medium-sized businesses (45%)
- Lower than average awareness in construction (17%), and distribution (25%)

3) SMEs perceptions of raising finance

SMEs are more confident in their ability to assess finance products offered by own bank than assessing other providers' products and applying for financing generally

Confidence in ability to raise finance 2015



■ Very confident ■ Somewhat confident ■ Neither
■ Somewhat unconfident ■ Not at all confident ■ DK

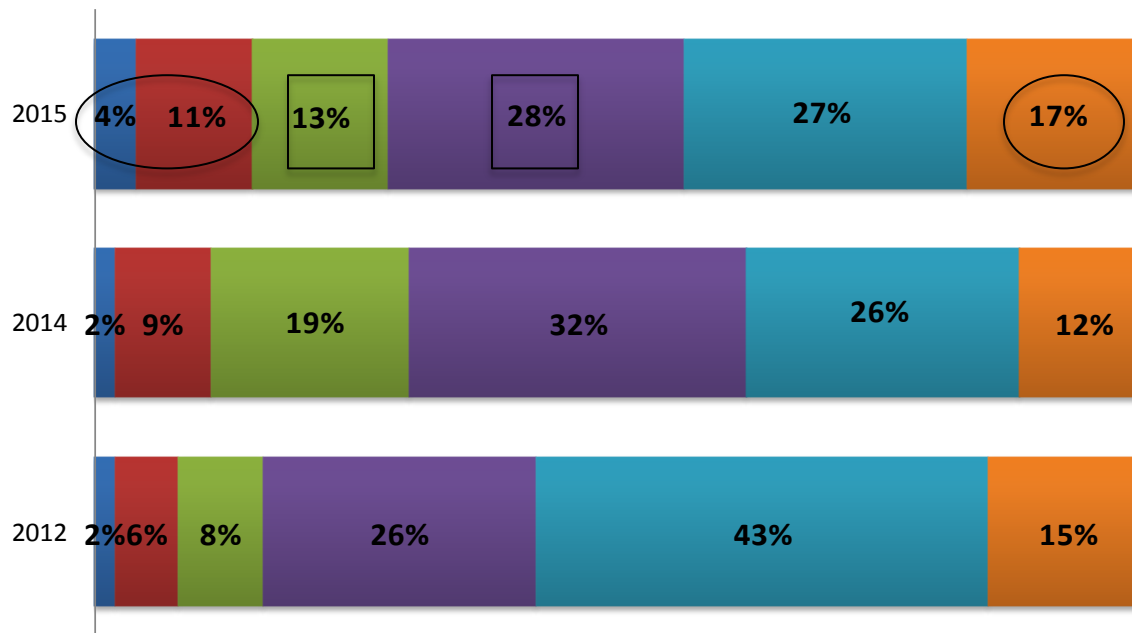
Confidence levels strongly correlated with size of business

Base = all SMEs (n=1,608). Question A5 (single code, prompted)

Slight increase in the proportion thinking it is easy to obtain finance in 2015, but a high proportion still think it is difficult

Perceptions of how easy/difficult it is to gain finance 2012-2015

Those that last sought finance over three years ago are the most likely to think it difficult (62%)



■ Very easy ■ Fairly easy ■ Neither ■ Fairly difficult ■ Very difficult ■ DK/REF

Net Easy/ difficult

15%/55%

11%/58%

8%/69%

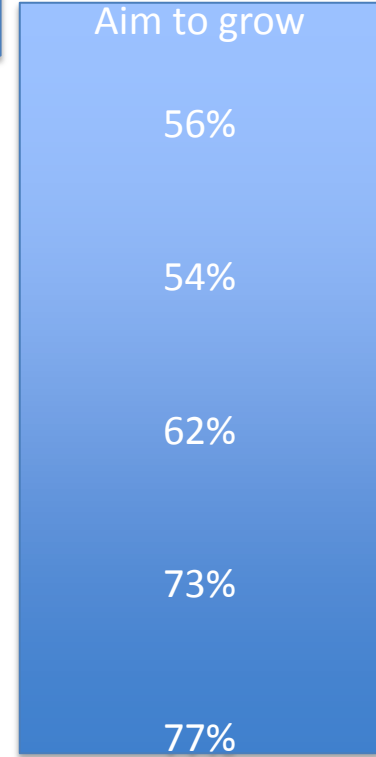
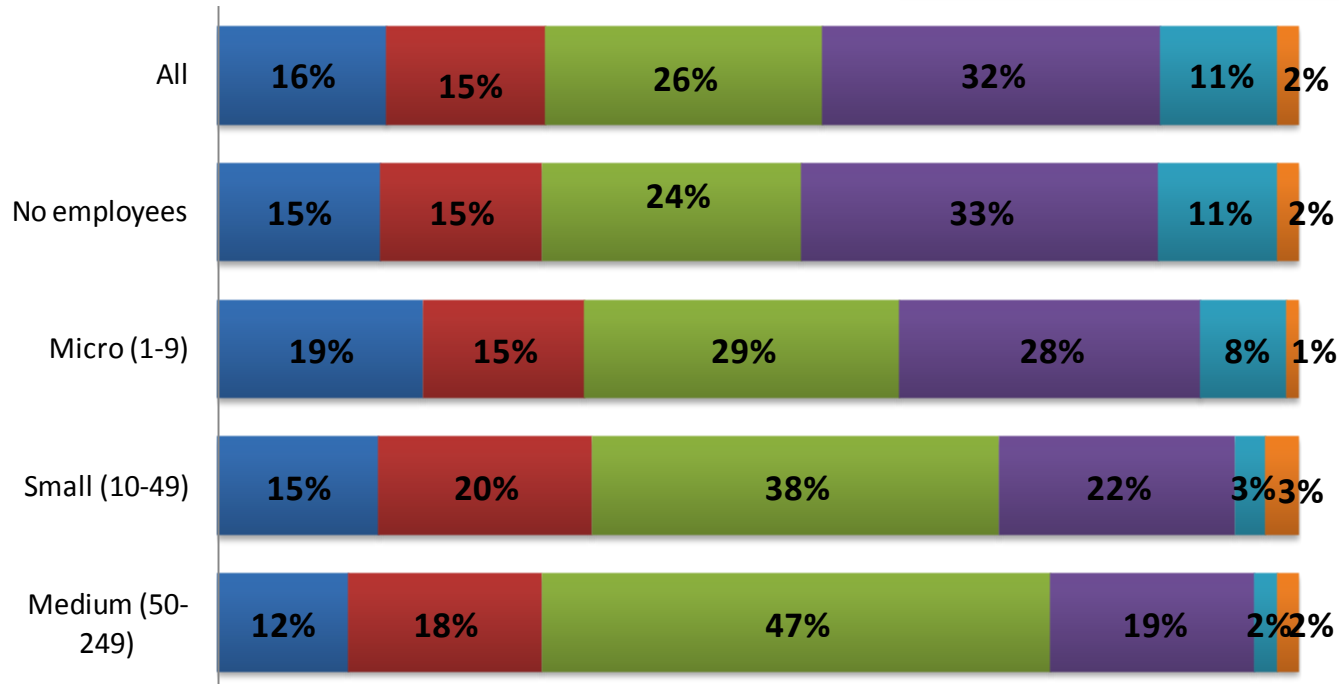
In 2015 SMEs perceived that (on average) 38% of those that apply for bank finance succeed in getting it (2014 = 42%; 2012 = 32%)

4) Growth

Micro businesses are the most likely to want to grow substantially but medium businesses are most likely to want to grow overall

**Growth objectives – by number of employees
(Increase turnover in next 12 months)**

Overall increase in the proportion wanting to grow
(2014 = 46%; 2015 = 56%)

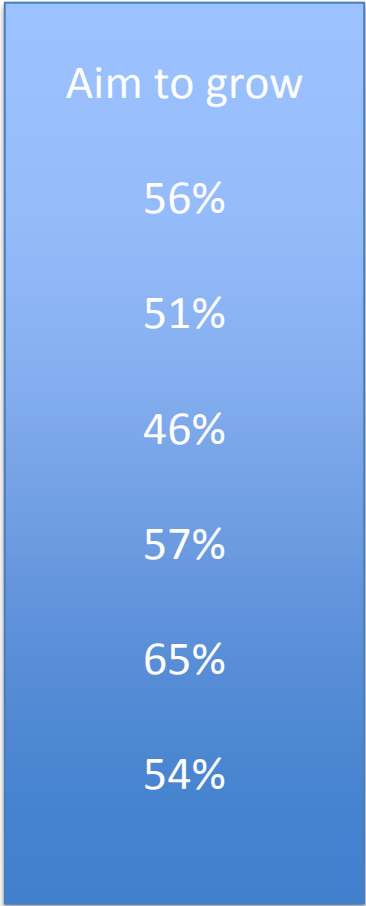
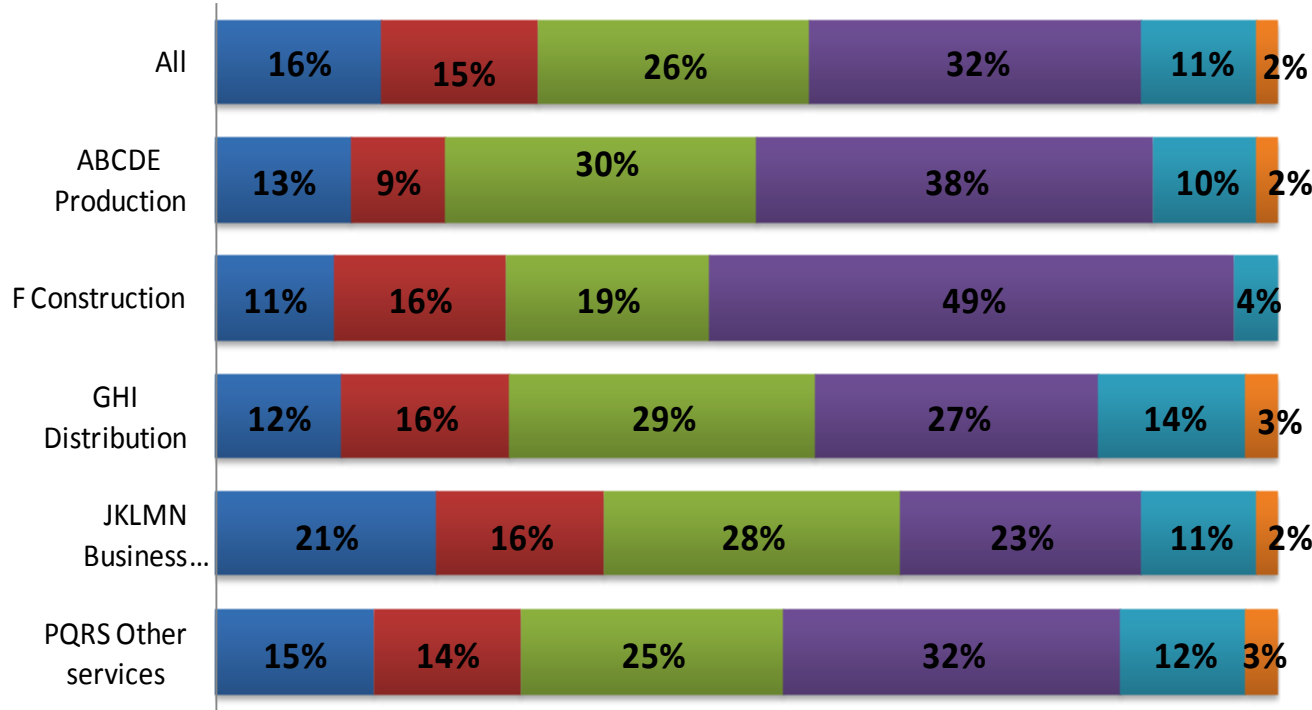


- Grow substantially (20%+)
- Grow significantly (10-20%)
- Grow moderately (up to 10%)
- Same size
- Shrink/sell/close
- Other/DK

Base = all SMEs (n=1,608 In 2015). Question B3c (single code, prompted)

SMEs in business services are the most likely to want to grow substantially

Growth objectives – by sector

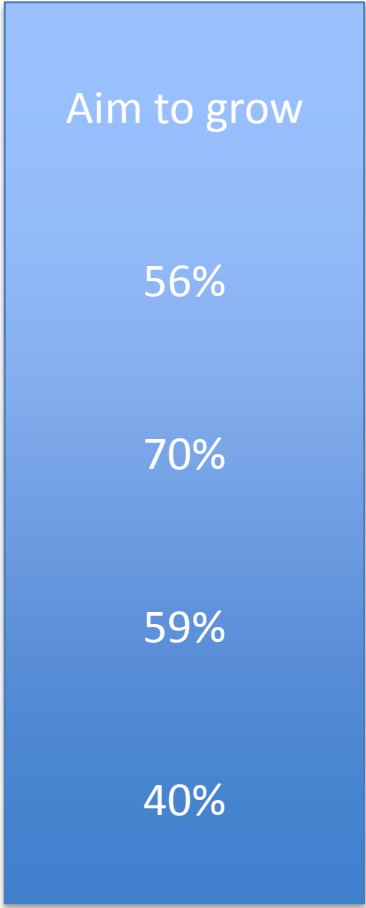
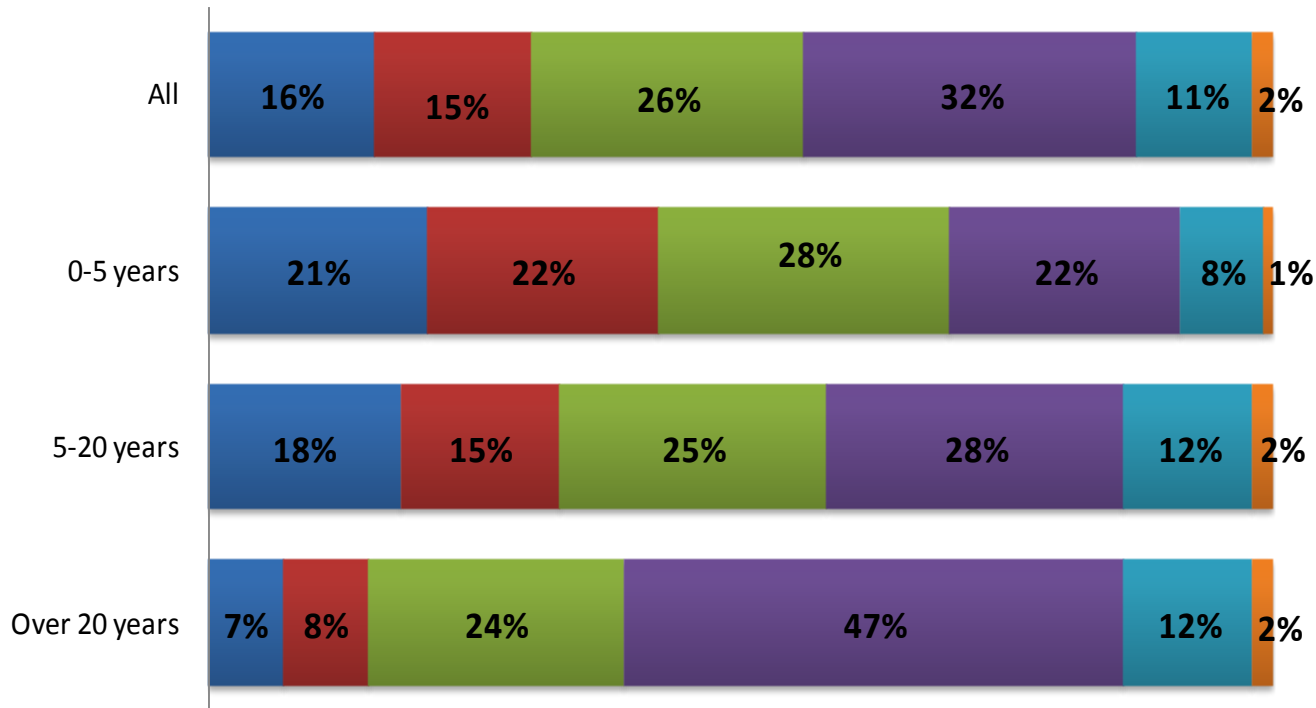


- Grow substantially (20%+)
- Grow significantly (10-20%)
- Grow moderately (up to 10%)
- Same size
- Shrink/sell/close
- Other/DK

Base = all SMEs (n=1,608 In 2015). Question B3c (single code, prompted)

Growth ambition declines when the business is older than 20 years

Growth objectives – by age

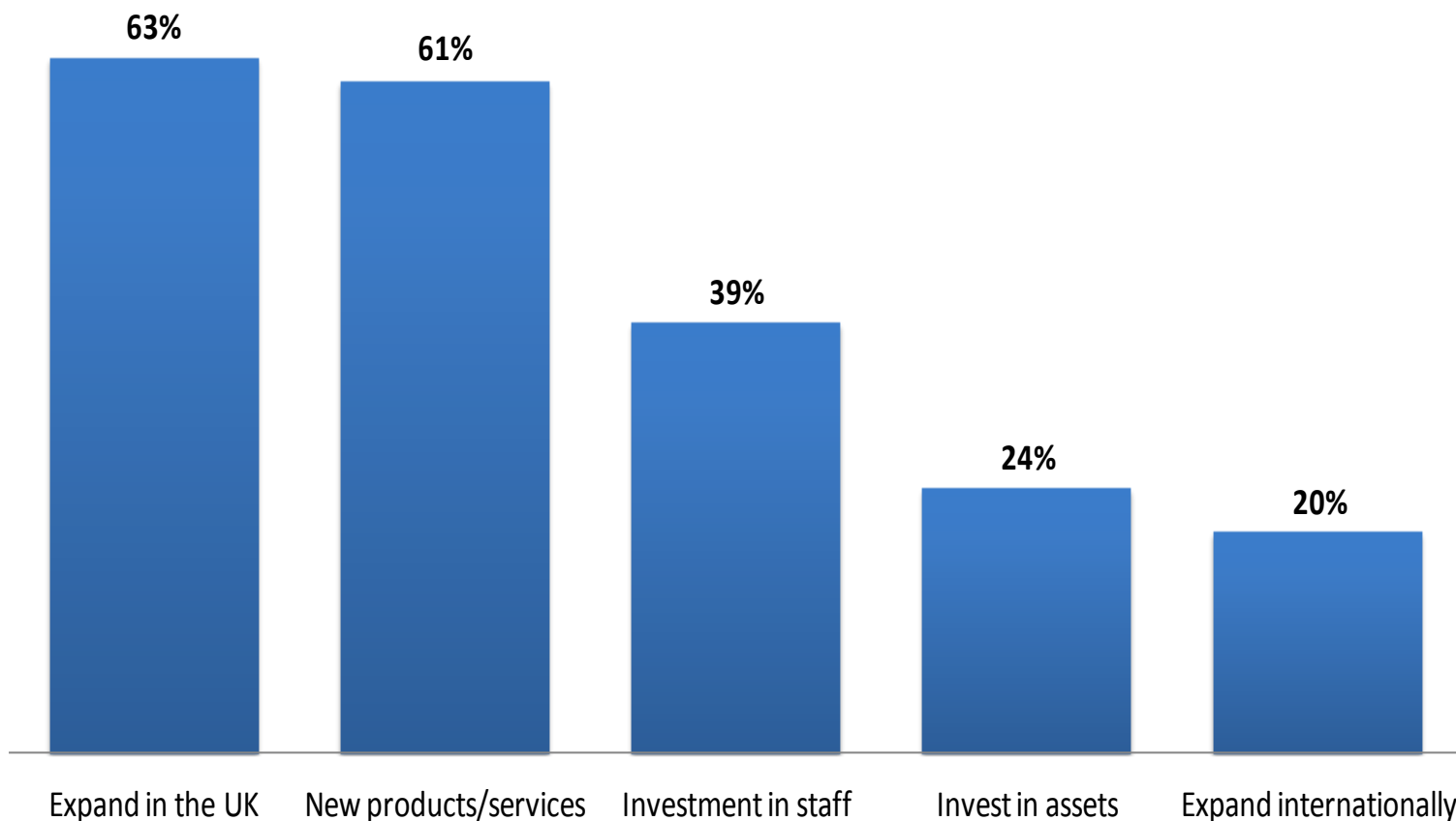


- Grow substantially (20%+)
- Grow significantly (10-20%)
- Grow moderately (up to 10%)
- Same size
- Shrink/sell/close
- Other/DK

Base = all SMEs (n=1,608 In 2015). Question B3c (single code, prompted)

Domestic expansion and introducing new products/ services are the most common ways SMEs aim to achieve growth

Ways in which growth will be achieved 2015



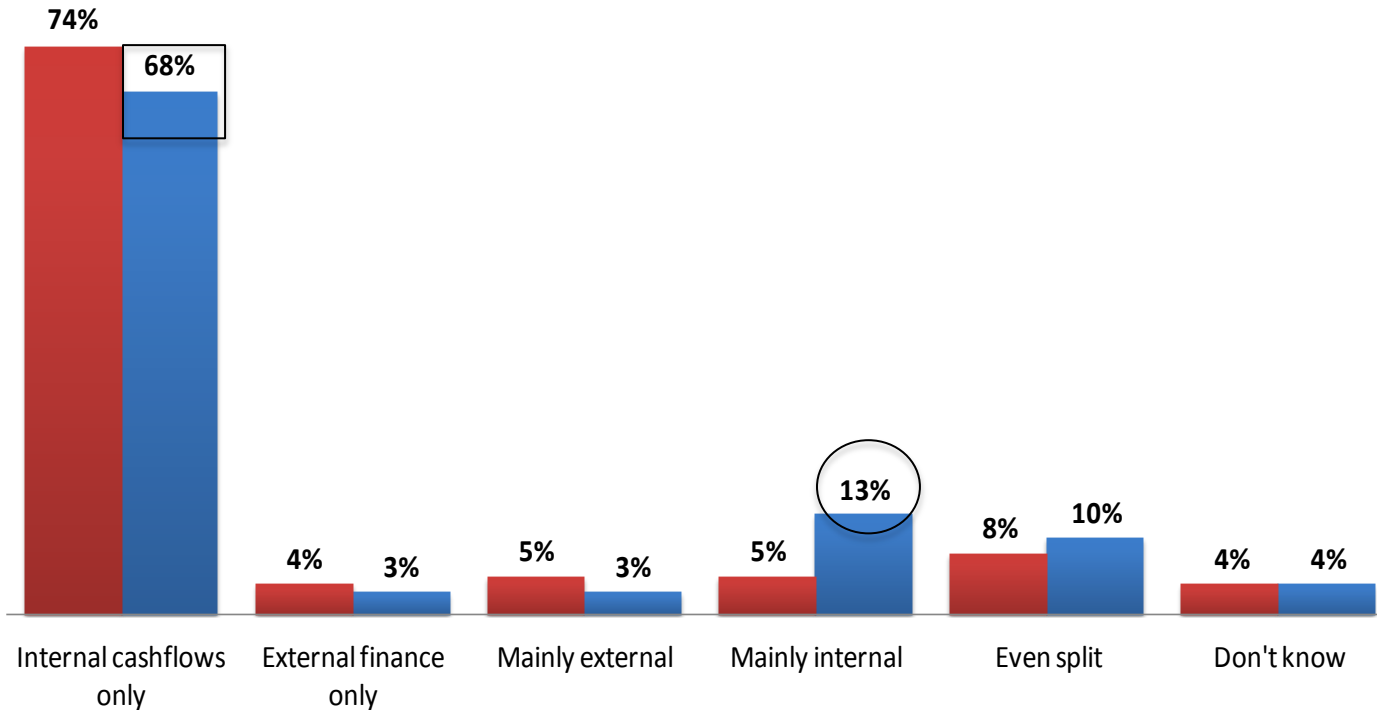
Base = all SMEs that intend to grow (n=1043 in 2015). Question B3d (multi code, prompted)

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Slide 38

SMEs continue to fund growth mainly through internal cashflow, but in 2015 more are willing to consider using some external finance

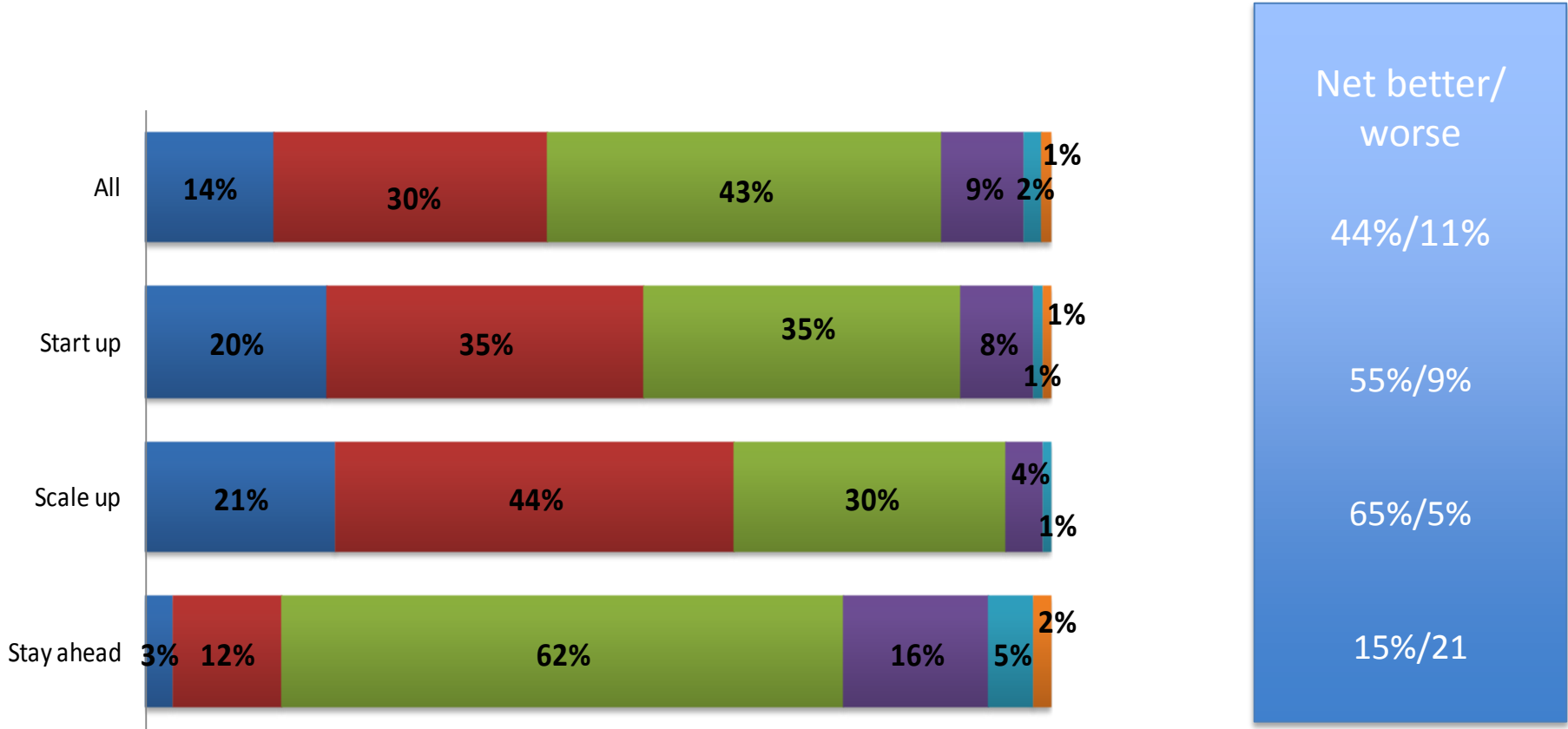
How future growth will be funded 2014-2015



Base = all SMEs that intend to grow (n=1043 in 2015/n=553 in 2014). Question B3e (single code, prompted)

44% of SMEs believe trading conditions in the next 12 months will be better

Whether trading conditions will be better or worse in the next 12 months



•Start ups = less than 5 years old; Scale ups = 5+ years and planning to grow; Stay ahead = 5+ years and no plans to grow

■ Significantly better ■ Slightly better ■ About the same ■ Slightly worse ■ Significantly worse ■ Don't know

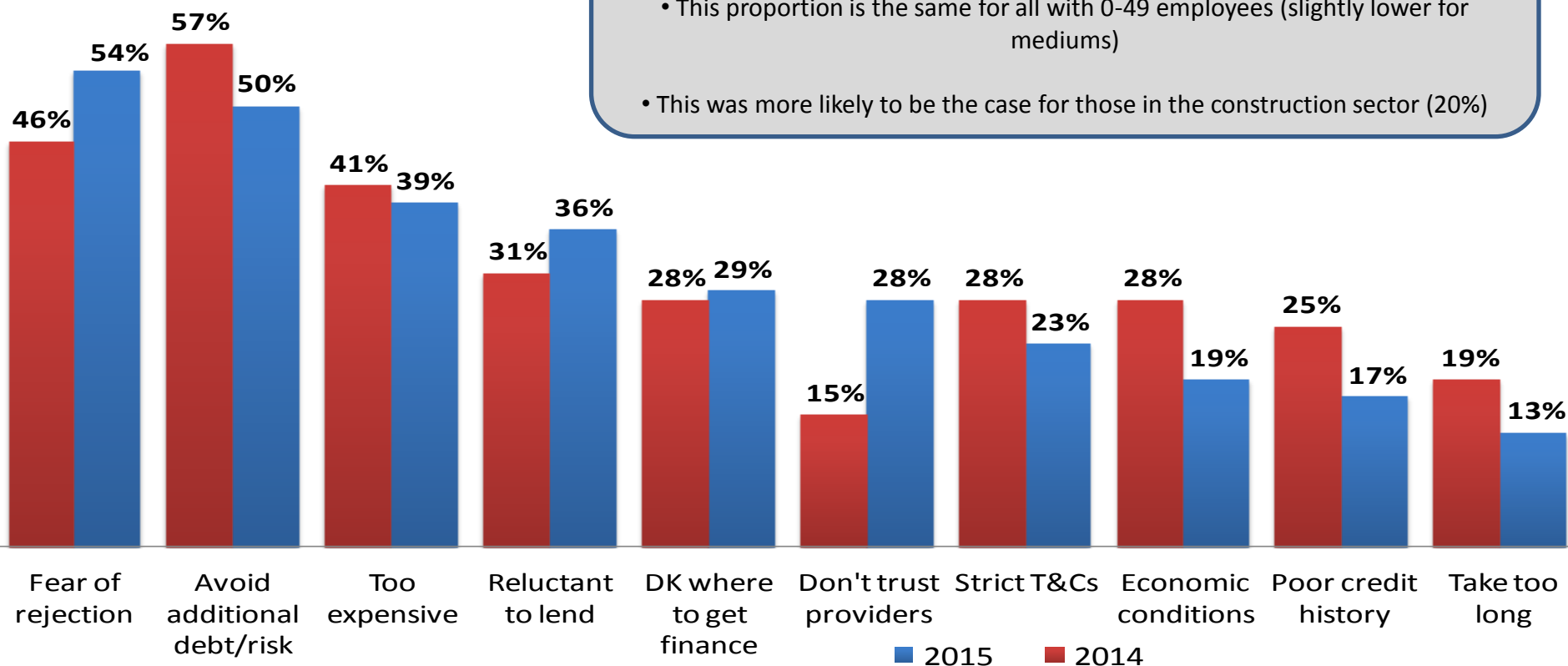
Base = all SMEs (n=1,608 In 2015). Question B3c (single code, prompted)

5) Use of external finance in future and discouragement

Fear of rejection and avoidance of debt continue to be the most frequent reasons not to apply for finance when needed

Reasons for not applying for finance – 2014-2015

- 10% of those that did not apply for finance in the last 12 months had a need for it (8% in 2014)
- This proportion is the same for all with 0-49 employees (slightly lower for mediums)
- This was more likely to be the case for those in the construction sector (20%)



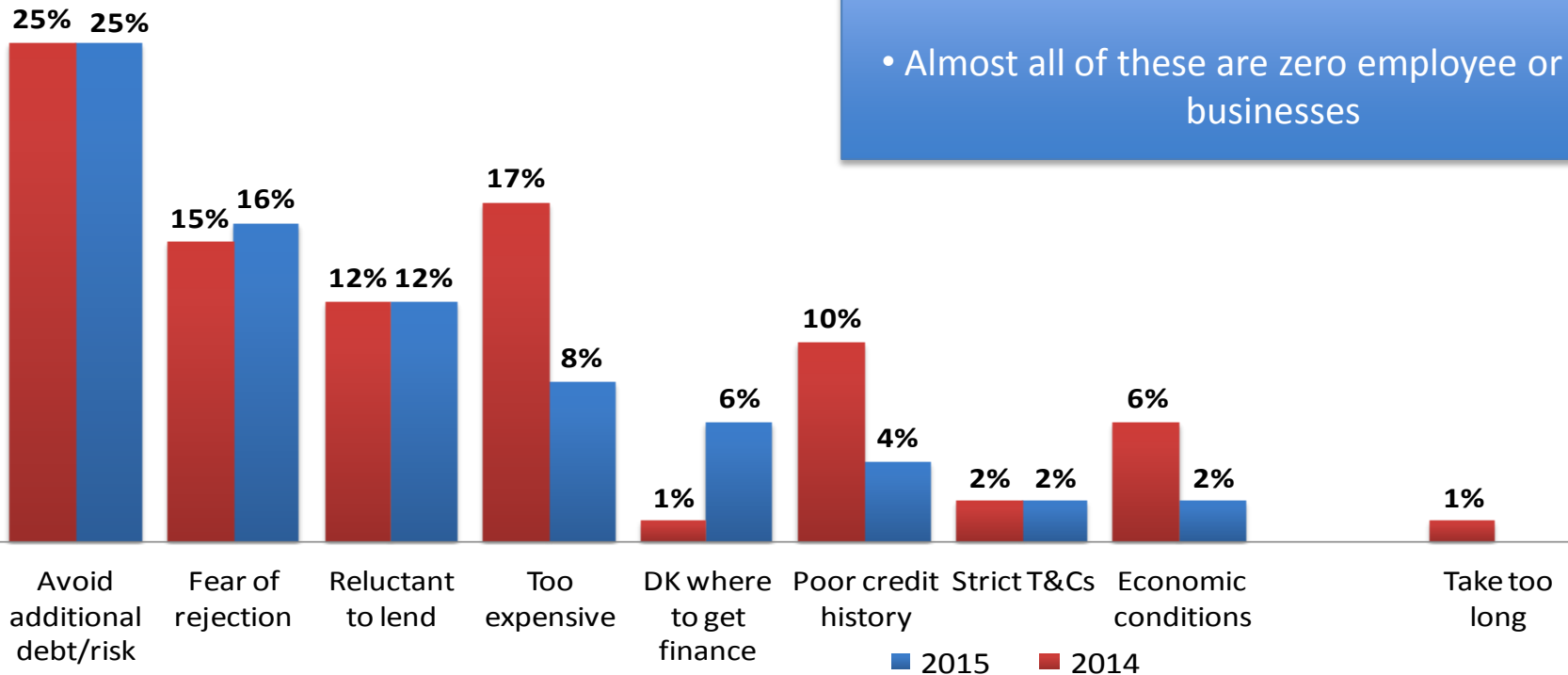
Base = all SMEs that had a need for finance in the last 12 months but did not apply (n=95 in 2015/n=63 in 2014).

Question B3b (multi code, prompted)

Not wanting to take on debt is the main reason not to apply for finance

Main reasons for not applying for finance – 2014-2015

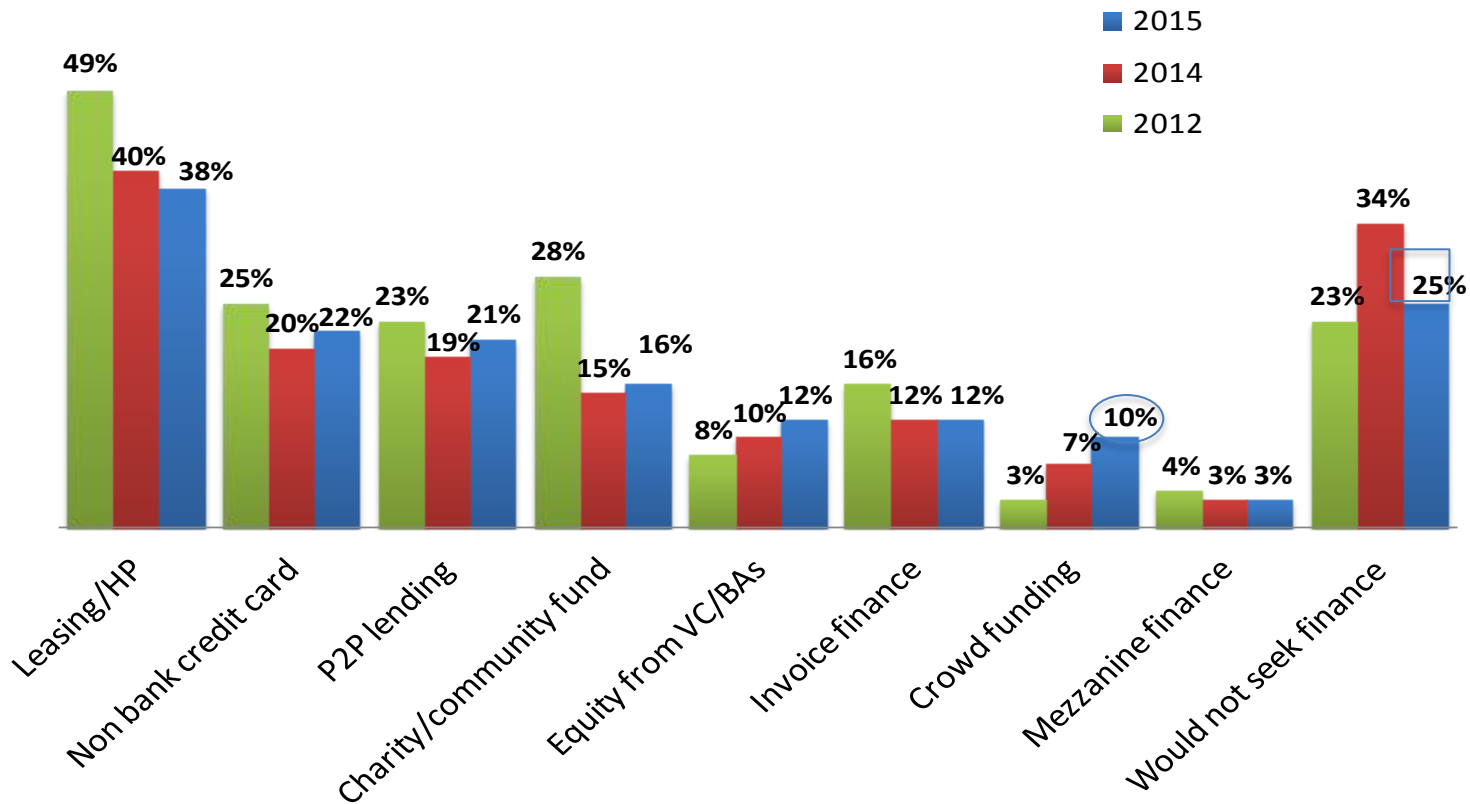
- Overall, 4% of SMEs are discouraged from seeking finance because of fear of rejection (as a main reason, 1%)
- Almost all of these are zero employee or micro businesses



Base = all SMEs that had a need for finance in the last 12 months but did not apply (n=95 in 2015/n=63 in 2014).
Question B3b1 (single code, prompted)

Compared to 2012, leasing/HP less likely to be considered, but crowd funding is more likely to be considered than previously

If had difficulties raising finance in future from a bank, which other forms of finance would be considered 2012-2015

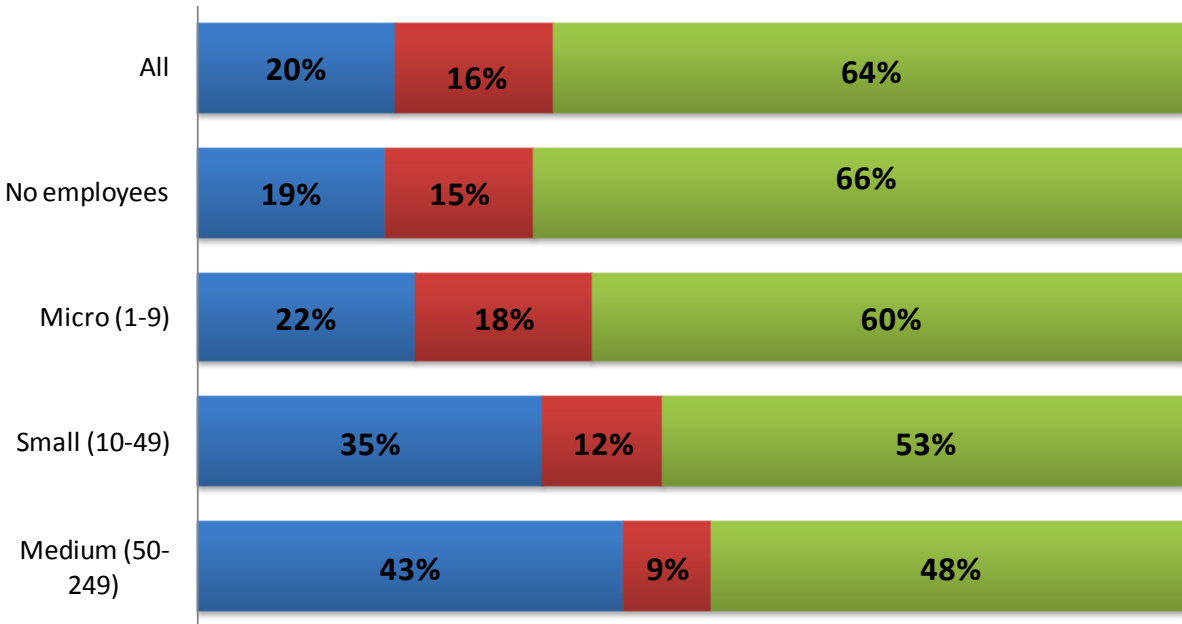


Base = all SMEs (n=1,608 in 2015/n=1,000 in 2014/n=1,508 in 2012). Question B8 (multi code, prompted)

6) Export finance

Propensity to export is strongly correlated with size of business

Whether export/have potential to export - by number of employees



Export % of turnover (mean)	Mean years as exporter
23%	9
22%	8
28%	10
27%	12
28%	17

■ Export already
 ■ Have exportable goods/services
 ■ Neither

- Exporting most common in production (30%), distribution (28%) and business service (26%) sectors. Less common in other services (16%) and construction (4%)

Very few SMEs use trade finance and trade credit insurance

Trade finance

- Although 4% of all SMEs said that they had used trade finance in the past 3 years, only 1% of all exporters (0.2% of all SMEs) applied for it in this period.
- 67% of these were successful and had no difficulties getting it (base size = 17). Of the 3 SMEs that not obtain it, it had a significant impact for one, and no impact for two.
- 16% of exporters said they would increase the amount they exported if they had access to trade finance.
- 15% of non-exporters with exportable goods/services said that would start exporting if they had greater access to trade finance.

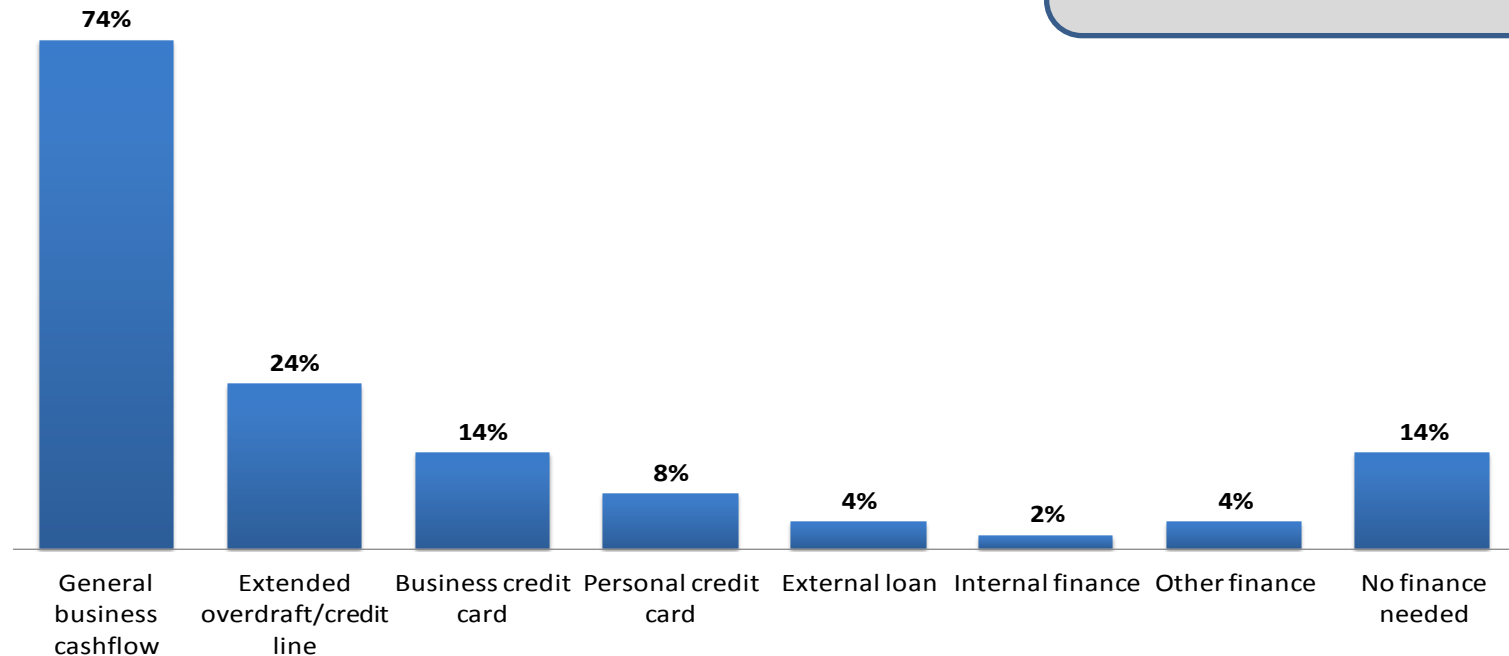
Trade credit insurance

- 1% of exporters (0.3% of all SMEs said that had applied for trade credit insurance in the last 3 years.
- 99% were successful in obtaining it and had no difficulties. Of the two SMEs that did not obtain it, there was a significant impact for one, and no impact for one.

SMEs, particularly larger ones, are most likely to fund their exports through their own general business cash flow

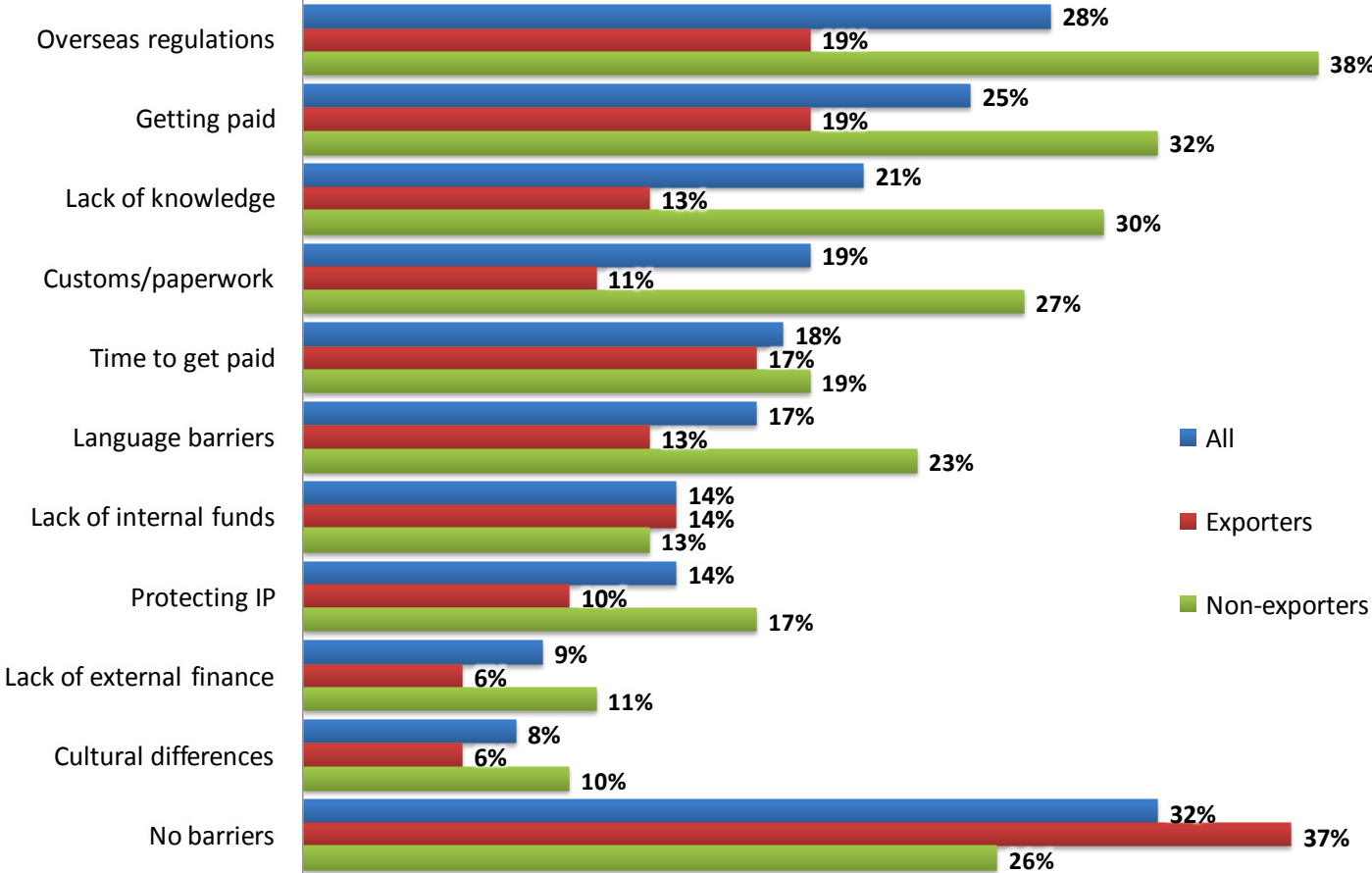
Exporters: ways of financing working capital– 2015

- Larger SMEs more likely to have their own general business cashflow



Overseas regulations and the fear of not getting paid are the main barriers to export for both exporters and potential exporters

Barriers to exporting – 2015



Base = all SME exporters and non-exporters with exportable products/services (n=707 in 2015). Question C20 (multi code, prompted)

7) Conclusions

Conclusions 1

Finance demand and success rate

- 18% applied for external finance in the last 12 months up from 12% in 2014, but at a similar level to 2012.
- Finance is more likely to be sought for working capital in 2015 (53% compared to 33% in 2014), especially for zero employee businesses, with a higher proportion of SMEs seeking grants, credit cards and non-bank loans. The proportion of SMEs seeking bank loans has declined compared to 2014.
- SMEs more likely to consider multiple providers than before (34% in 2015 compared to 27% in 2012), but the main bank is still the most likely first port of call when a finance need is identified.
- Success in obtaining finance from first provider approached appears to have decreased overall compared to 2014, but this is only among those with zero employees. For businesses with employees there has been no change.

Conclusions 2

Perceptions of raising finance

- Although more SMEs perceive raising finance to be difficult rather than easy, the proportion thinking it is difficult is decreasing compared to previous surveys.
- SMEs are more confident in their abilities to assess finance products offered by own bank but are less confident about assessing other providers' products and applying for financing generally.

Awareness of different types of finance

- Awareness of types of non-bank finance has increased since 2012, especially for crowd funding and P2P lending.

Growth

- A higher proportion of SMEs are now aiming to grow (56%), compared to 46% in 2014 survey.
- SMEs are optimistic about the future with 44% believing trading conditions will get better in next 12 months.

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