Department for Business Innovation & Skills

SMALL AND MEDIUM SIZED ENTERPRISE (SME) JOURNEY TOWARDS RAISING EXTERNAL FINANCE

A report by BMG Research

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Contents

Executive Summary **1**

Introduction 1

Conclusions and policy implications 4

Chapter 1: Introduction **5**

Background 5

Research method 6

Chapter 2: Business financial planning **7**

Bank accounts held 7

Personal funds in the business 8

Financial management 9

Credit scores 13

Chapter 2 conclusions 16

Chapter 3: Usage of external finance **17**

Usage of differences sources of external finance in the past 3 years 17

When last sought finance 20

Chapter 3 conclusions 22

Chapter 4: Applying for external finance **23**

Main reason for seeking finance 23

Types of finance sought in the last 3 years 24

Amount of finance sought 27

Preparations for applying for finance 28

Reasons for choice of finance and provider 35

Success in gaining finance 40

Chapter 4 conclusions 44

Chapter 5: Financial advice 45

Use of external advice when applying for finance..45

Reasons for not seeking advice..47

Likelihood of seeking external advice in future 48

Chapter 5 conclusions 51

Chapter 6: Perceptions of ease of getting finance 53

Experience of raising finance compared to expectations...53

Ease or difficulty of getting finance 55

Chapter 6 conclusions 60

Chapter 7: Preferred sources of finance 62

Preferred sources of finance..62

Chapter 7 conclusions 65

Chapter 8: Non-bank sources of finance...66

Awareness of finance...66

Sources that would be considered if difficult to get bank finance 71

Chapter 8 conclusions 74

Chapter 9: Awareness and perception of Government schemes 75

Awareness of Government schemes 75

Perceptions of Government finance schemes 79

Improvements to Government schemes 80

Chapter 9 conclusions 83

Appendix...84

Sample profiles 84

Quantitative Research methodology 89

Qualitative research sample and methodology 93

Executive Summary

Introduction

BMG Research conducted a survey in September 2012 to explore the steps that SMEs go through when considering the need to raise external finance, and the specific processes they go through to obtain this finance. The findings of the survey will be useful to inform Government policy in this area to enable Government finance schemes to be better promoted and tailored to the needs of SMEs. Fieldwork consisted of 1,508 quantitative telephone interviews, and 30 qualitative telephone depths with SMEs in the UK.

Main Findings

In most SMEs, the owner is the person responsible for seeking finance. A substantial proportion of businesses have never reviewed their financing needs or checked their business credit score. Over half of SMEs do not have a contingency plan in case of cash shortages, leaving them vulnerable to business shocks…

- Most SMEs have a business bank account (75 per cent) to run their business with only 21 per cent using a personal bank account only. However, personal funding sources and collateral are important as nearly half of SMEs have injected funds or used personal property to act as security to fund the business.

- There is a wide variation in how often SMEs review their need for finance. Whilst a quarter of SMEs review their financing needs every month, 27 per cent have never reviewed their financial needs. Under half of SMEs have a contingency plan in place to cover shortages in cash flow. Existing savings, overdrafts and credit cards are the most common contingencies in place for those that do.

Just over half of SMEs have used finance in the last three years, with finance from banks being the most frequent form of finance used. Equity and non bank sources of finance are used by a minority of businesses…

- 56 per cent of SMEs have used finance in the last three years. Bank overdrafts, credit cards, and a loan from an individual were the most common forms of finance used, followed by a bank loan or commercial mortgage or leasing/hire purchase. Equity finance is less commonly used.

Most SMEs do not shop around when they need finance. They typically approach just their main bank within a week of needing the finance. This is because they have an existing relationship with their bank, and view the application process to their bank to be easier. Most SMEs spend less than an hour considering their finance options and less than an hour filling in the application forms…

- The reason for seeking finance influences the type of finance products being sought. SMEs seeking finance for working capital reasons are more likely to use bank overdraft, and credit card finance. Those looking to purchase assets most commonly seek bank loans, followed by leasing or hire purchase. Businesses seeking finance for expansion mainly do so through bank overdrafts or bank loans. Those that need the finance to start a business also tend to seek bank loans, but an above average proportion also seek loans or equity from friends/family and grants.

- Businesses generally do not plan ahead and seek finance as soon as they need it. 46 per cent of SMEs apply for finance a week before needing it or after it is needed.

- Over half the SMEs that sought finance in the past 3 years went directly to their main bank. This was particularly the case for those that needed finance for working capital.

- 71 per cent of those seeking finance contacted just one provider on the last occasion finance was sought, usually because they had a longstanding relationship with them. Some businesses did not need to go elsewhere because the first provider they approached gave them what they wanted. Others felt it was too much hassle to shop around, or did not have time to shop around because they needed the finance quickly.

- The median time spent finding out about sources and providers of finance is less than 1 hour. The median time spent completing application forms or otherwise preparing to apply for finance is also about one hour.

- The main reasons given for choosing a type of finance is the ease of application, and because a prior relationship existed with the provider. SMEs seeking finance for working capital, place higher importance on speed in getting the finance.

Only a minority of SMEs seek external advice when applying for finance, but of those that do, the vast majority of SMEs find the advice they receive to be useful. Accountants and financial advisors are the most common sources of advice used, with accountants in particular being viewed as a trusted source of information…

- Sixteen per cent of SMEs that had sought finance in the last 3 years sought external advice on the type of finance to apply for, or the provider to approach. Of those seeking advice, accountants and financial advisors were mostly used.

- Sixty-one per cent of those that received advice had this advice before they had decided on the type of finance to apply for, 27 per cent before seeking a specific provider, and 36 per cent once they had started to speak to providers. The majority of those that had received advice found it useful (91 per cent).

- Accountants were the most trusted source of advice, followed by friends, family or business associates, a Chamber of Commerce or business representative organisation.

SMEs perceive that banks are not lending and underestimate the chance of success in obtaining finance, with the media influencing these perceptions…

- There is a strong perception amongst SMEs that banks are not lending, even though the majority (around three quarters) of those that apply for finance do get all that they need. Sixty-eight per cent of SMEs thought it was difficult to obtain funding.

- The main influences on the perception of SMEs that think it is difficult to access finance are newspapers, television and the experiences of others.

The vast majority of SMEs think of banks when they have a need for external finance. Awareness of other forms of finance is lower, and fewer businesses know of a specific supplier. SMEs are also cautious about using these alternative funding sources...

- Regardless of need, a bank loan or commercial mortgage is the preferred option for finance, followed by a bank overdraft and loans/equity from friends and family.

- Although awareness of bank finance is high, awareness of other forms of finance from non-bank sources is lower. The vast majority of SMEs were aware of credit card finance (95 per cent), and leasing/hire purchase is known by 85 per cent of SMEs. However, less than a third were aware of business angels, export/import finance, peer to peer lending, and less that 12 per cent were aware of crowd sourcing or mezzanine finance. Awareness of specific suppliers to approach for other forms of finance was much lower than overall awareness.

- SMEs are cautious about using these alternative funding sources, even if they could not obtain finance from a bank. Whilst forty-nine per cent would consider leasing or hire purchase, only 23 per cent would consider peer to peer lending, 16 per cent invoice finance, eight per cent equity investments from VCs or business angels, four per cent mezzanine finance, and three per cent equity through crowd sourcing.

SMEs are not very aware of Government finance schemes and how to access them. SMEs would welcome steps to simplify and promote the schemes through a single brand or website, with banks, accountants and direct contact being used to notify them of their existence…

- Overall, only 15 per cent of SMEs that had used finance in the last 3 years claimed they were aware of Government finance schemes. However, of these, the majority were not able to say which financial products were covered by the schemes. When prompted with the name of a specific scheme, the majority of SMEs were still not aware of the existence of the finance scheme mentioned.

- The most common way of becoming aware of Government finance schemes was through news/press releases or Government speeches (51 per cent of those that had heard of any scheme). This was followed by friends/word of mouth, internet searches and actual experience of applying for them.

- Ninety-one per cent of SMEs agreed that having a single brand and website covering all Government schemes would be a good idea. Eighty-four per cent of all SMEs agreed that greater awareness amongst banks to direct businesses to appropriate Government schemes would be an improvement. Also popular was the idea that there should be greater awareness amongst accountants to direct businesses to appropriate Government schemes. Having simpler or fewer schemes was also a popular idea, with 78 per cent of SMEs saying they would like to see this. Seventy-two per cent of SMEs would like to be automatically contacted if there was a relevant Government finance scheme appropriate to them.

Conclusions and policy implications

- The evidence from this survey suggests that most SMEs do not allow themselves enough time to research the best form of finance that they might use, do not seek financial advice because they do not think they need it, and are not aware of alternative financing options from non-bank sources. Instead, the majority simply go to their main bank and accept any offer they are given. There is also qualitative evidence to suggest that SMEs are discouraged from seeking further finance if they are turned down by their bank.

- Most SMEs that apply for finance do get it from the first source they approach, normally their main bank, yet the perception is that banks are not lending, and that only around a third of businesses that apply get what they need. This discrepancy between perception and reality could be addressed by media campaigns that point out actual business success rates in applying for finance. Financial awareness and knowledge among business owners is an area that could be improved, especially with regards to credit scores.

- SMEs are generally not aware of the existence of Government finance schemes and how to access funding. These schemes could be better promoted. SME owners agreed that access to Government finance could be improved through simplification and provision of a single brand and website. SMEs view accountants are a trusted source of advice, and the targeting of financial advice through industry trade bodies is another possible action.

Steve Lomax,

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December 2012

Chapter 1: Introduction

Background

The Government is committed to supporting the establishment and growth of SMEs through improving their access to external finance.

The SME Finance Monitor identifies that around half of SMEs access external finance (including bank overdrafts, credit cards, loans and equity [either from banks, directors, friends and family or others], leasing or hire purchase, invoice finance, grants and export/import finance).[1] However, research undertaken by the Forum of Private Business shows that many businesses remain distrustful of alternative lending (including alternative financial products or alternative providers) and, businesses are not sure about the long-term viability of such schemes with over one in four stating they were a temporary phenomenon due to current economic conditions.[2]

To make obtaining finance easier for SMEs the Government has implemented a range of finance schemes including the Enterprise Finance Guarantee (EFG), the Enterprise Capital Funds programme, and lending commitments agreed with RBS and Lloyds Banking Group and the Financial Ombudsman Service. However, there is a suggestion that media continues to widely publicise the difficulties faced by SMEs in obtaining external finance.

Further to this the Breedon review highlights that the variety and number of access to finance schemes and the acronyms used is confusing to businesses, and recommends that the communication of Government support programmes could be improved through the creation of a single brand for its interventions.[3]

Sources of support used by businesses when seeking external finance may also impact on the types of funding that businesses may access. The FPB shows that the majority of businesses would speak to an accountant or financial consultant regarding general or alternative finance. However, the success of these outcomes may depend on the individuals' awareness of the different schemes available. The Business Link website was less likely to be seen as a source of support in this area in the FPB report.

BIS commissioned BMG Research to undertake the SME Journey Towards Raising External Finance survey with the main objectives of the research being:

- To explore the specific steps that SMEs go through when considering the need to raise finance, and the processes they go through

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[1] BDRC Continental (2011) "SME Finance Monitor Survey" (November 2011)

2 Forum for Private Business. (2012) "Cash flow and finance: panel report" Forum of Private Business: Cheshire

[3] BIS (2012) "Boosting finance options for business" http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/12-668-boosting-finance-options-for-business.pdf

- To find out what prompts an SME to seek finance in the first place

- How the steps taken to raise finance differ according to size, age of business, sector and the main reasons for seeking finance

- To find out how aware SMEs are of alternative non-bank finance options, and the extent to which they shop around to get the most advantageous deal

- To explore perceptions of how difficult it is to obtain finance

- To explore awareness and perceptions of Government access to finance schemes

The knowledge derived from this survey will help the Government in its targeting of its finance schemes towards SMEs, helping to address the issues raised in the Breedon Review. Although there are a large number of surveys among SMEs that explore access to finance issues, this is the first survey to specifically cover in detail the journey SMEs go through in obtaining finance.

Research method

The survey consisted of both quantitative and qualitative interviews.

1508 Computer Assisted Telephone Interviews (CATI) were conducted with ‘the ‘person responsible for managing the businesses finances’ between the 5th and 27th September 2012.

30 qualitative interviews were conducted with finance directors and owners of businesses who had either taken part in this survey or the Small Business Survey.

A more detailed description of the methodology used in this survey, the sample design and weighting, is contained in the appendix to this report.

The research shows business size characteristics highly affects business use of finance. Care should be taken in interpreting the results for SMEs overall, as the overall figures are dominated by zero employee businesses who have distinct characteristics to SME employers. It is for this reason that results are reported for zero employees and SME employers separately.

Chapter 2: Business financial planning

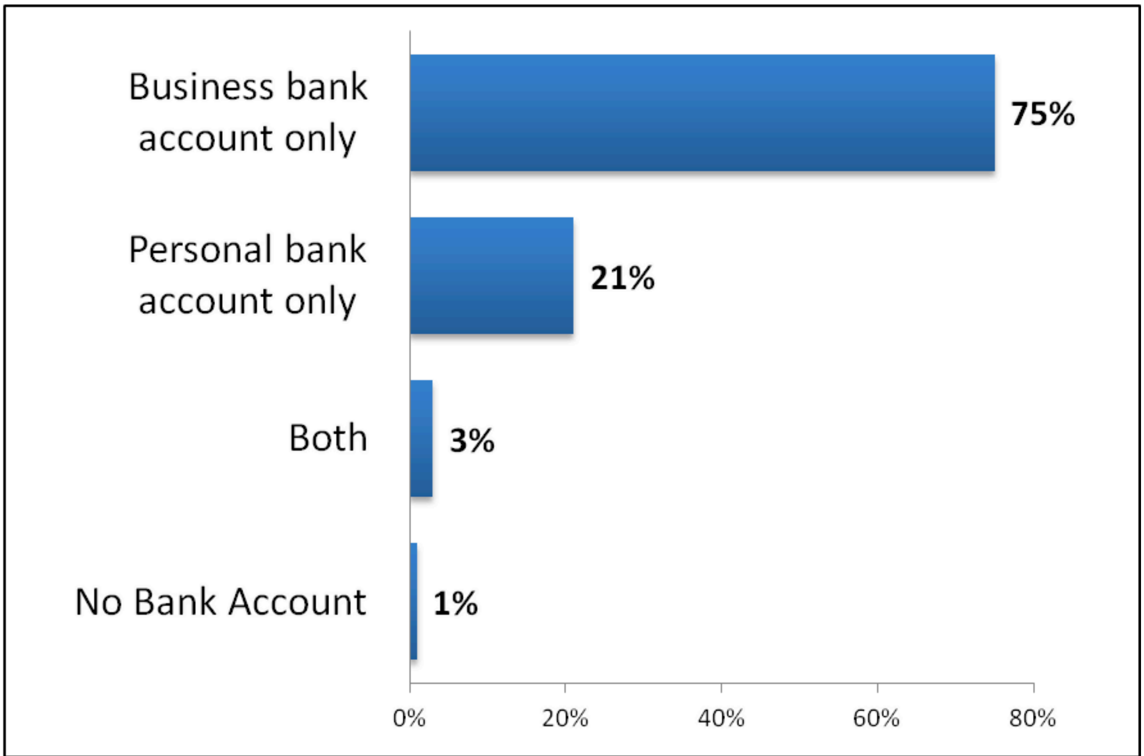
Prior to actually seeking finance, this section provides a background to the practices that SMEs have in place to manage the finances in their business, as well as general business practices that influence how SMEs are run.

Bank accounts held

Business vs. Personal accounts

Seventy-eight per cent of SMEs have a bank account in the name of the business, whilst 24 per cent have one in the name of the business owner (three per cent have both, which is why these figures add to over 100 per cent).

Figure 1: whether business or personal bank accounts held



Base = all SMEs (n=1508)

Among employers, 92 per cent had a business bank account and 11 per cent a personal one. The larger the SME, the greater the likelihood that the bank account was in the name of the business rather than a personal one.

The strong correlation with size explains why only 69 per cent of women-led businesses and 59 per cent in the other service sector had a business bank account (these businesses tend to be smaller than average). However, construction is another sector where there are a high proportion of no employee businesses, and 84 per cent of SMEs in this sector were found to have business bank accounts.

Banks used for finance

Of those using bank finance[4] in the last 3 years, the bank most frequently used was HSBC (24 per cent), followed by NatWest (20 per cent), Barclays (18 per cent), Lloyds TSB (18 per cent), the Royal Bank of Scotland (six per cent) and Santander (six per cent). The Halifax, Clydesdale Bank, Co-operative Bank, First Direct, Bank of Scotland, Ulster Bank, Yorkshire Bank, Nationwide, Northern Bank and the Bank of Ireland were also mentioned.

Satisfaction with main bank

Overall, SMEs that had used bank finance were much more likely to be satisfied than dissatisfied with their banks. The highest rates of dissatisfaction were with the Royal Bank of Scotland (31 per cent dissatisfied) and Lloyds TSB (29 per cent). Of the larger banks, the highest rates of satisfaction were with HSBC (73 per cent satisfied) and NatWest (70 per cent).

Personal funds in the business

Whilst most SMEs use a business bank account, the owners' personal finances are still important for the business. Nearly half of all SMEs have injected or used personal funds as security for their businesses in the past 3 years. This was most likely to be the case for micro businesses (53 per cent), but was less likely for the small (42 per cent) and medium sized (31 per cent) enterprises. These personal funds were most likely to take the form of savings into the business, although a minority remortgaged personal property or used this as security for the business, or took out personal unsecured loans to support the business.

Table 1: Whether injected personal funds into the business in the past 3 years

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
YES – ANY	49	49	51	**53**	**42**	**31**
Injected personal savings into business	46	47	45	48	**32**	**23**
Remortgaged personal property to inject funds into business	3	3	**5**	**4**	**6**	3
Used personal property as security to secure finance for the business	3	2	**6**	**5**	**11**	**9**
Took out personal unsecured loan	2	1	2	2	1	3
NO - NONE	51	51	49	**47**	**58**	**69**

Base = all SMEs (n=1508)

[4] Loan, overdraft or credit card

Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A4. Multiple answers allowed at this question

Least likely to have used personal funds were social enterprises (65 per cent), and businesses aged 5-10 years (62 per cent) and over 10 years (60 per cent).

By contrast, businesses formed in the last 5 years were much more likely to have injected personal funds into their businesses – 77 per cent of those aged 1-5 years, and 83 per cent of start-ups. Sixty-three per cent of SMEs in the transport, retail and distribution sector had used personal funding in the last 3 years. It was also the case that those who sought finance in the last 3 years were more likely than average to have used personal funds (64 per cent).

Financial management

Financial and management characteristics of businesses

The table below shows SMEs across the size bands have a number of different characteristics relating to how the business is operated and its financial management. The larger the business, the more likely they were to have each of these characteristics.

Table 2: Financial and management characteristics of businesses

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
Dedicated finance person that manages accounts or compiles tax returns	72	**68**	**84**	**82**	**91**	**95**
Give customers trade credit	50	48	**55**	51	**70**	**85**
Produce regular monthly or quarterly management accounts	48	**41**	**68**	**64**	**86**	**96**
Member of a business representative organisation	28	**25**	**39**	**37**	**47**	**69**
Have a formal written business plan	28	**22**	**45**	**41**	**62**	**79**

Base = all SMEs (n=1508)

Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. E2. Multiple answers allowed at this question

Seventy-two per cent of SMEs have a **dedicated finance person** that manages their accounts or compiles tax returns. This proportion was 84 per cent for employers, rising to 95 per cent of medium-sized businesses.

Despite the fact that social enterprises tend to have more employees than average, only 58 per cent had a dedicated finance person. Start-ups were less likely to have such a person (65 per cent) than older businesses, as was also the case in the information/communications sector (59 per cent) – a sector that is no smaller than average, and no more likely to contain start-ups.

Fifty per cent of SMEs give **trade credit**. This proportion depends on both size and sector, depending on whether that sector tends to sell to other businesses. Therefore, we found that 67 per cent of production SMEs gave trade credit, compared to 41 per cent in transport, retail and distribution, and 28 per cent in other services. Businesses aged less than 5 years were less likely to offer trade credit (41 per cent of start-ups, 43 per cent of those aged 1-5 years), but this is largely explained by the fact that a higher proportion of newer businesses are in sectors less likely to have business customers.

Of those offering trade credit, 50 per cent have a dedicated payments system for managing customer payments. This was most likely to be the case in the larger SMEs.

Forty-eight per cent of SMEs produce **regular monthly or quarterly management accounts**. This proportion is highly correlated with size and annual turnover, although 41 per cent of those with no employees, and 41 per cent with turnovers under the £73k VAT threshold claimed they did this.

Social enterprises were more likely than average to produce regular accounts (70 per cent), despite being less likely than average to have a dedicated finance person. Also, perhaps surprisingly, newer businesses were more likely to file regular accounts than older ones (55 per cent of start-ups, 58 per cent of those aged 1-5 years, 43 per cent of those aged 10 years or more).

By sector, regular accounting was more likely than average in transport, retail and distribution (54 per cent). Those that had sought finance in the past 3 years were more likely to have regular accounting (54 per cent compared to 45 per cent of those that have never sought finance).

Twenty-eight per cent of SMEs are **members of a business representative organisation**. This was most likely to be sector specific (51 per cent of those who are members of an organisation), with 36 per cent being members of the Federation of Small Businesses (FSB), 10 per cent members of the British Chamber of Commerce, two per cent members of local Chambers of Commerce, and one per cent respectively members of the Institute of Directors and Forum of Private Businesses.

Those in business services (42 per cent) and technology businesses (35 per cent) were more likely than average to be members of a business representative organisation, as were the more established businesses (31 per cent of those trading for 10 years or more).

Twenty-eight per cent of SMEs had a **formal business plan**. This was more likely to be the case among social enterprises (47 per cent), start-ups (52 per cent) and businesses aged 1-5 years (47 per cent, compared to just 19 per cent of those aged 10 years or more). By sector, business plans were more likely to found in technology businesses (37 per cent), and were least likely in construction (15 per cent). Thirty-eight per cent of those that had sought finance in the past 3 years had a business plan, compared to 24 per cent of those that had never sought finance.

Responsibility for raising finance

For 89 per cent of SMEs, the owner was the person within the business responsible for obtaining external finance. This proportion was 96 per cent for those with no employees, decreasing to 27 per cent for medium-sized businesses.

Table 3: Who is responsible for raising finance for the business – by employment size

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	749	272	477	301	124	52
	%	%	%	%	%	%
Owner	89	**96**	**69**	**77**	**41**	**27**
CEO/ Manager (but not owner)	6	**2**	**19**	**17**	**28**	**22**
Dedicated Finance Manager	1	*	**5**	2	**16**	**28**
Accountant	1	*	2	1	**6**	2
Adviser	*	0	*	0	1	0
Other	1	*	3	2	**5**	**16**
Nobody	1	1	1	1	2	**4**
Don't know	*	0	*	0	*	0
Refused	*	0	*	*	0	0

Base = all SMEs (half sample only n=749)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. C8. Single answer only allowed at this question

For women-led businesses (96 per cent) and start-ups (96 per cent) it was the owner's responsibility to raise finance. For sectors that tend to have more employees this proportion was less (82 per cent in production).

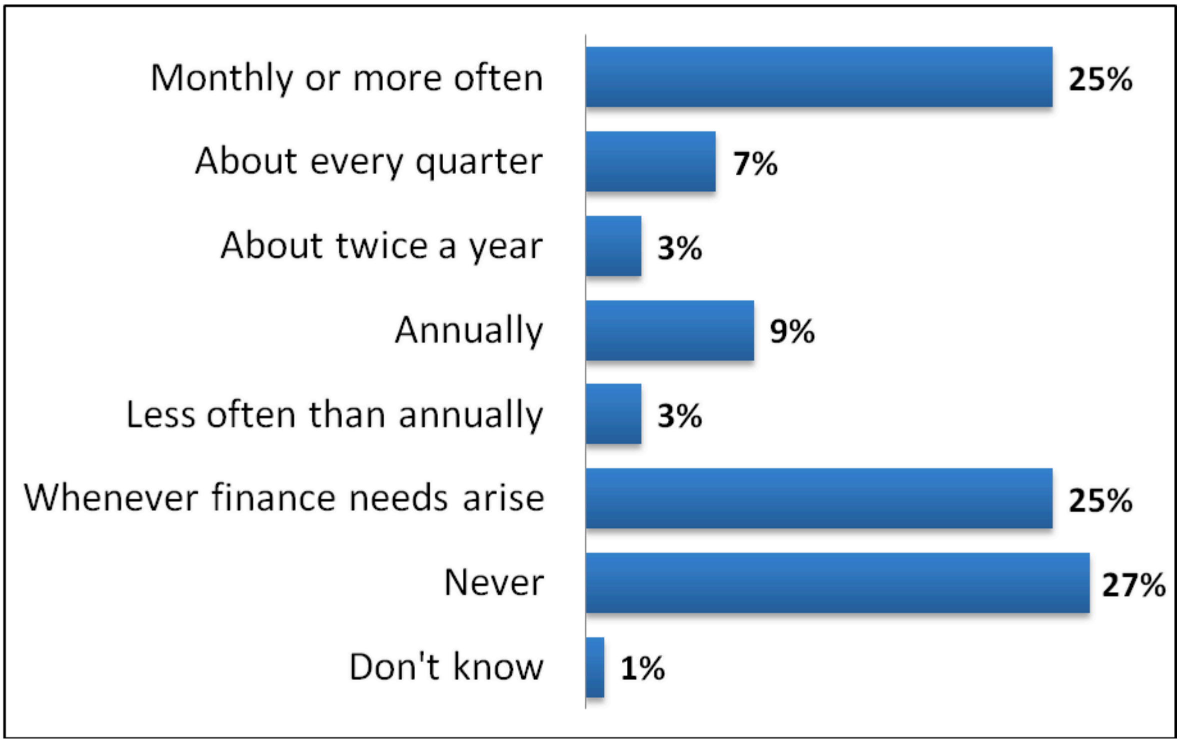
Frequency of assessing financial needs[5]

Twenty-five per cent of SMEs assessed their need for external finance monthly or more often. Seven per cent do so quarterly, three per cent twice yearly, nine per cent annually and three per cent less often. In addition to these, 25 per cent claimed they assessed the need for finance whenever the need arose. However, 27 per cent of SMEs claimed they never assess their financial needs.

Small (40 per cent) and medium-sized (45 per cent) businesses were more likely to assess their needs monthly or more often. Those with no employees were most likely to assess needs whenever they arose (27 per cent) or never (30 per cent).

[5] In order to cut down on interview length, this question was only asked of half the sample (at random)

Figure 2: Frequency of assessing financial needs



Base = all SMEs (half sample only n=759)

More likely than average to assess needs monthly or more often were MEG-led businesses (41 per cent), younger businesses (start-ups 34 per cent, 1-5 years old 37 per cent), and those in production (33 per cent) and transport, retail and distribution (33 per cent). Thirty-five per cent of those that had sought finance in the last 3 years assessed their needs monthly or more often.

Contingencies[6]

Forty-seven per cent of SMEs had contingency plans in place to cover shortages in cash flow, such as late payment or unexpected expenses.

Employers (56 per cent) were more likely to have contingencies than those with no employees (43 per cent). However, this proportion did not increase for the larger SMEs. Contingency plans were less likely among start-ups (36 per cent), and were more likely in the business service sector (61 per cent).

Of those with contingency plans, most commonly savings or cash were kept in the company (66 per cent), followed by overdraft facilities (24 per cent), credit cards (nine per cent), personal savings (eight per cent), potential loans from family, friends and directors (six per cent). Only one per cent counted invoice finance as a form of contingency.

[6] In order to cut down on interview length, this question was only asked of half the sample (at random)

Credit scores

Awareness of credit scores[7]

Eighty-eight per cent of SMEs were aware that business and personal credit scores produced by external credit reference agencies such as Experian or Dun and Bradstreet might be used by suppliers and financial institutions to decide whether to give businesses credit, or whether to trade with businesses.

There were no major differences in this proportion according to the size of the business, but those in information/communications tended to be more aware (99 per cent) compared to those in other services (79 per cent).

When credit scores last checked[8]

Of those aware that credit scores might be used in this way, 69 per cent had never checked their business's or their own score. This was most likely to be the case for those with no employees (73 per cent), whereas only 16 per cent of medium-sized businesses aware of credit scores had never checked. Medium-sized businesses checked their scores roughly every two months, compared to around once a year for SMEs overall.

Table 4: When credit score last checked

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	681	240	441	272	118	51
	%	%	%	%	%	%
Never checked it	69	73	**58**	**62**	**44**	**16**
Last month	6	4	**10**	**8**	**17**	**29**
Last quarter	5	5	**7**	6	**9**	**21**
Last year	5	4	**9**	**8**	**14**	7
Within last 3 years	6	6	**8**	7	**11**	*
3-5 years ago	3	3	3	3	*	**8**
6-10 years ago	2	2	1	1	0	0
Over 10 years ago	1	2	0	0	0	0
Other	1	1	1	1	0	0
Don't know	2	2	3	2	**5**	**20**
Mean Score (Times per year)	1.02	0.78	1.73	1.39	2.76	5.43

Base = all SMEs aware of credit scores (half sample only n=681)

[7] In order to cut down on interview length, this question was only asked of half the sample (at random)

[8] In order to cut down on interview length, this question was only asked of half the sample (at random)

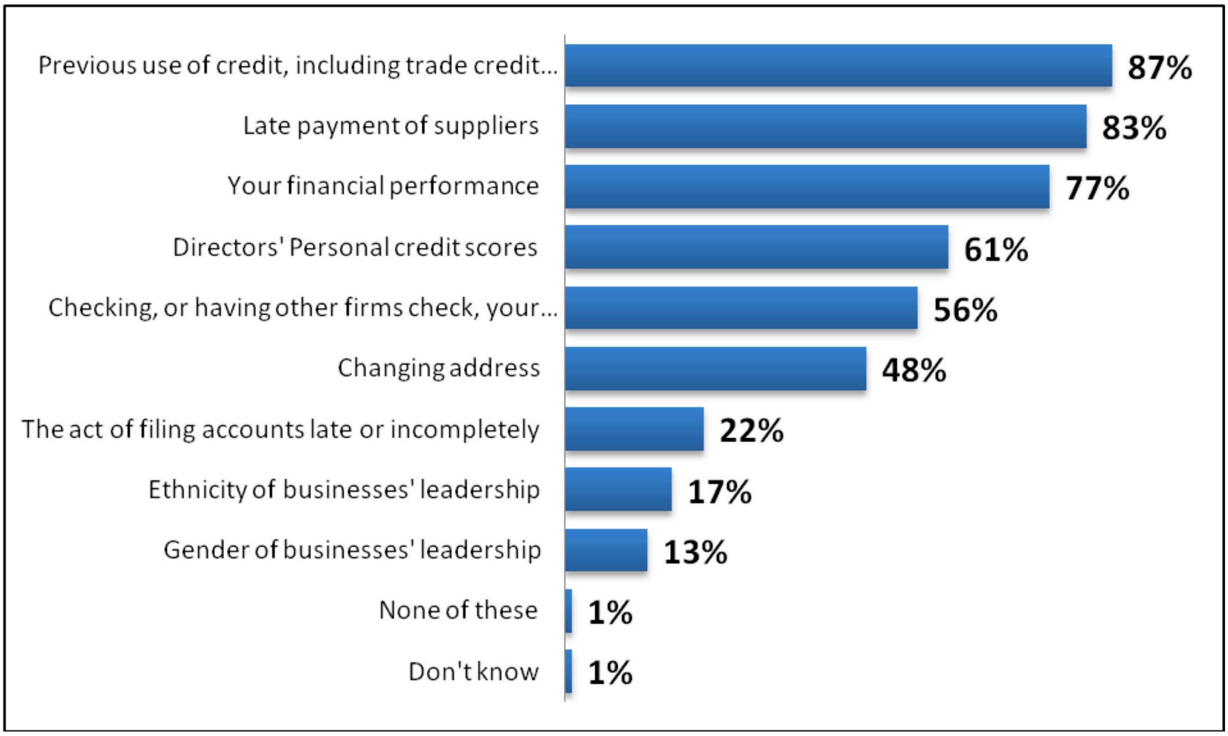
* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. C4. Single answer only allowed at this question

Those that tended to check their scores more regularly were those that sought finance in the last 3 years (mean = 1.57 times per year), business services (1.78 times per year), engineering/pharmaceutical manufacturing (2.44 times per year), and SMEs in Scotland (2.23 times per year).

Factors perceived to affect credit scores[9]

Those aware of credit scores with business bank accounts were asked which, from a prompted list, were factors that they believed affected credit scores.

Figure 3: Factors perceived to affect credit scores[10]



Base = all SMEs aware of credit scores with business bank accounts (half sample only n=593)

Eight-seven per cent of these SMEs believed that previous use of credit, including trade credit from suppliers, affected their credit scores. Eight-three per cent believed that late payment of suppliers affected credit scores, 77 per cent their financial performance, 61 per cent Directors' personal credit scores, 56 per cent checking or having other firms check your credit scores, and 48 per cent changing addresses.

[9] In order to cut down on interview length, this question was only asked of half the sample (at random)

[10] Not all of these factors do actually affect credit score, for instance ethnicity and gender. These were included to assess SMEs views.

Only 22 per cent believed that filing accounts late or incompletely affected credit scores, although this question was only asked of companies, 69 per cent of whom believed this to be the case.

There were few notable differences in these perceptions by size of business. Women-led businesses were more likely than average to believe that checking credit scores and changing address (61 per cent) affect credit scores, but they were no more likely than average to believe that gender affected them. Similarly, MEG-led businesses were no more likely than average to think that ethnicity affected credit scores.

Active steps taken to manage credit scores[11]

Seventeen per cent of SMEs take active steps to manage their credit scores. This is slightly more likely among employers than those with no employees, but there were no significant differences in this proportion between the smaller and larger employers.

Table 5: Whether active steps to manage credit scores are taken

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	681	240	441	272	118	51
	%	%	%	%	%	%
YES	17	17	**20**	19	23	22
- Good relations with suppliers/pay bills on time	13	13	14	14	17	13
- File accounts/other statutory requirements on time	4	3	6	5	**9**	**11**
- Retain profit within business	3	2	3	3	4	3
- Check credit score regularly	2	2	4	4	2	**9**
- Give relevant info to credit reference agencies	1	1	**3**	**3**	2	**10**
- Review business capitalisation regularly	1	1	2	2	3	3
- File full accounts where possible	1	0	**3**	2	**4**	*
- Other measures	1	1	1	1	**4**	0
NO	81	82	**79**	80	**73**	78
DON'T KNOW	1	1	1	1	**4**	0

Base = all SMEs aware of credit scores (half sample only n=681)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. C6/C7.Multiple answers allowed at C7

[11] In order to cut down on interview length, this question was only asked of half the sample (at random)

Those that manage their credit scores are most likely to do this through maintaining good relations with suppliers and paying bills on time (77 per cent of those that manage their score/13 per cent of all SMEs).

Small and medium-sized businesses were more likely than average to make an effort to file accounts and other statutory requirements on time (nine per cent of all smalls, 11 per cent of all mediums). Medium-sized businesses were more likely than average to check their scores regularly (nine per cent)) and to give relevant information to credit reference agencies (ten per cent).

Women-led businesses were more likely than average to take active steps to manage credit scores (24 per cent), as were start-up and businesses aged 1-5 years (27 per cent each), those in the transport, retail and distribution sector (26 per cent), those that had sought finance in the past 3 years (21 per cent) and those with dedicated finance people (20 per cent).

Chapter 2 conclusions

- Most SMEs have a business bank account with only 21% using a personal bank account only. However, personal finances are important in the running of the business with nearly half of SME owners have injected funds or used personal property to act as security to fund the business.

- In the majority of SMEs, it is the owner that is responsible for raising finance, but this falls as the size of the business increases. However, the majority of SMEs use or have a dedicated finance person that manages the accounts or completes tax returns.

- There is a wide variation in SMEs financial planning. Whilst a quarter of SMEs review their financing needs every month, 27% never review their finance needs.

- Although the majority of SMEs are aware of the existence of business and personal credit scores, most SMEs have never checked them and very few businesses take active steps to manage their credit score.

- Nearly half of SMEs have a contingency plan in place to cover shortages in cash flow, with savings, overdrafts and credit cards being the most common.

Chapter 3: Usage of external finance

This section explores the types of external finance used by the business, and when SMEs last sought finance.

Usage of differences sources of external finance in the past 3 years

Fifty-six per cent of SMEs in the UK have used any form of external finance in the last 3 years. Most commonly this was a bank overdraft (31 per cent), followed by credit card finance (22 per cent), a loan from an individual (16 per cent), a bank loan or commercial mortgage (14 per cent) or leasing/hire purchase (13 per cent).

Table 6: Usage of different sources of external finance in the past 3 years

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
ANY FINANCE	56	**51**	**69**	**65**	**85**	**85**
Bank overdraft	31	**28**	**40**	**38**	**50**	**43**
Credit card finance	22	20	**28**	**26**	**35**	**47**
Loan from family/business partner/directors	16	**12**	**26**	**25**	**28**	**29**
Bank loan or mortgage	14	**11**	**23**	**20**	**33**	**40**
Leasing or hire purchase	13	**8**	**25**	**18**	**56**	**59**
Grants	5	5	**8**	6	**15**	**23**
Factoring/invoice discounting (asset based finance)	1	*	**3**	**2**	**6**	**10**
Equity investment	1	*	**2**	**2**	**3**	2
Loan from a Peer to peer lending network	*	*	**1**	**1**	**1**	0
Export/import finance e.g. document credits	*	*	**1**	*	**1**	**5**
Mezzanine finance	*	0	**1**	*	**2**	**4**
Crowd sourcing	*	*	*	*	0	0
Other	1	1	1	1	1	*
NO EXTERNAL FINANCE	44	**49**	**31**	**35**	**15**	**15**

Base = all SMEs (n=1508)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A5. Multiple answers allowed at this question

Use of finance is very much correlated with the size of a business. Employers were much more likely to use external finance than businesses with no employees. Sixty-nine per cent of all employers used finance, and this proportion was greater the larger the SME, with 85 per cent of both small and medium sized businesses having used finance in the past 3 years. For all types of finance, small and medium sized companies were more likely to have used it than micros and those with no employees.

By sector, external finance was most likely to be used in production (62 per cent used in last 3 years), transport, retail and distribution (63 per cent). It was least likely to be used in business services (50 per cent) and other services (44 per cent).

Sixty-six per cent of businesses aged between 1 and 5 years used finance, but only 43 per cent of those formed in the previous 12 months.

Only 43 per cent of women-led businesses have used finance in the past 3 years.

Bank overdrafts were the most frequently used form of finance for companies aged 10 years or more (37 per cent, compared to just 12 per cent of start-ups). They were most used in the construction (39 per cent) and transport, retail and distribution (38 per cent sector), and least used in production (25 per cent), information/communications (24 per cent), other services (22 per cent) and by ‘technology’ businesses (25 per cent).

Seventy-six per cent of bank overdrafts were taken out in the businesses’ name, rising to 88 per cent of employers. Twenty-nine per cent of those with no employees used overdrafts taken out in their own name.

Credit card finance was used most by businesses aged 1-5 years (28 per cent), but less so by start-ups (15 per cent). It was particularly likely to be used by those in the information/communication sector (39 per cent) and technology businesses (39 per cent).

Overall, the same proportion of credit cards were in the businesses name as they were in the name of the business owner (49 per cent each, with two per cent not knowing or wanting to say). These proportions did of course vary according to the size of business, with 69 per cent of employers having credit cards in the name of the business, and 59 per cent of those with no employees having them in their own name.

As was the case with bank overdrafts, **Bank loans and commercial mortgages** were most often used by companies aged 10 years or more (16 per cent, compared to nine per cent of start ups). They were most common in the production sector (22 per cent) and transport, retail and distribution (18 per cent). Female-led businesses were less likely than average to use these (ten per cent).

Sixty per cent of bank loans were taken out in the businesses’ name, rising to 78 per cent of employers. Those with no employees were more likely to have taken out loans in their own name (52 per cent).

Overall, 45 per cent of SMEs used **any form of traditional bank finance** (loans, mortgages, credit cards or overdrafts). Twenty-seven per cent only used bank finance, and 18 per cent both bank and alternative forms of finance. Eleven per cent only used alternative finance and 44 per cent no finance in the last 3 years.

Those with no employees (28 per cent) and micros (25 per cent) were more likely to only use bank finance than small businesses (14 per cent) and medium-sized ones (ten per cent).

Loans from family, directors and partners were almost as likely to be used by micro businesses as they were to small and medium sized businesses. By age of business, these were most likely to be given to businesses of 1-5 years (29 per cent). By sector they were more often used in transport, retail and distribution (22 per cent) and engineering/pharmaceutical manufacturing (22 per cent), but not technical testing/science (five per cent).

Leasing/hire purchase was used by 56 per cent of small businesses, 59 per cent of medium sized ones, but only 18 per cent of micros and eight per cent of those with no employees. Only four per cent of start-ups used leasing, compared to 14 per cent of businesses aged 10 years plus. By sector, leasing was most used in production (20 per cent), and engineering/pharmaceutical manufacturing in particular (24 per cent). Only four per cent of female-led businesses used leasing.

A large range of institutions were mentioned as having provided leasing or hire purchase finance. Lombard was the most mentioned of individual companies (12 per cent of those with leasing/HP), and the main vehicle manufacturers mentioned were VW (six per cent), Mercedes (three per cent) and BMW (two per cent). The main UK banks were also mentioned in this context to a lesser degree.

Perhaps surprisingly, **grants** were more likely to be given to the larger SMEs, although this seems to be due to medium sized businesses containing a larger than average proportion of social enterprises and charities.[12] Twenty-two per cent of those considering themselves to be social enterprises received grants in the last three years, as did 16 per cent in the production sector. There were no differences in the proportion according to age of the business.

Grants were most likely to have been given by local authorities (31 per cent of those using a grant), charities (13 per cent), Regional Development Agencies (RDAs – nine per cent), training organisations (eight per cent), Defra (four per cent), the Scottish Government (four per cent), the European Union (three per cent) and BIS departments (three per cent).

Asset based finance (factoring/invoice discounting) was used by one per cent of SMEs overall, but six per cent of small businesses, and ten per cent of medium sized businesses. This type of finance was more commonly used in production (three per cent), administrative/support (four per cent) and engineering/pharmaceutical manufacturing (five per cent).

Those that had used this type of finance were most likely to have got it from the main UK banks – Lloyds TSB, HSBC, Barclays and RBS.

[12] See sample profiles in the appendix to this report

Equity investments were most likely to have been granted in production (four per cent), and engineering/pharmaceutical manufacturing in particular (six per cent). There were no differences according to the age of the business.

The equity investments gained were predominantly from family or friends (29 per cent), within the business (26 per cent) or from other businesses/third parties (12 per cent). Only nine per cent were from venture capitalists, and three per cent from business angels.

Other forms of finance were mentioned by less than 0.5 per cent of SMEs. Those that used **export/import finance** such as document credits tended to be medium sized businesses (five per cent), as was also the case with those using **mezzanine finance** (four per cent of medium sized businesses). Those using **peer to peer lending** and **crowd sourcing** came from a range of different sectors.

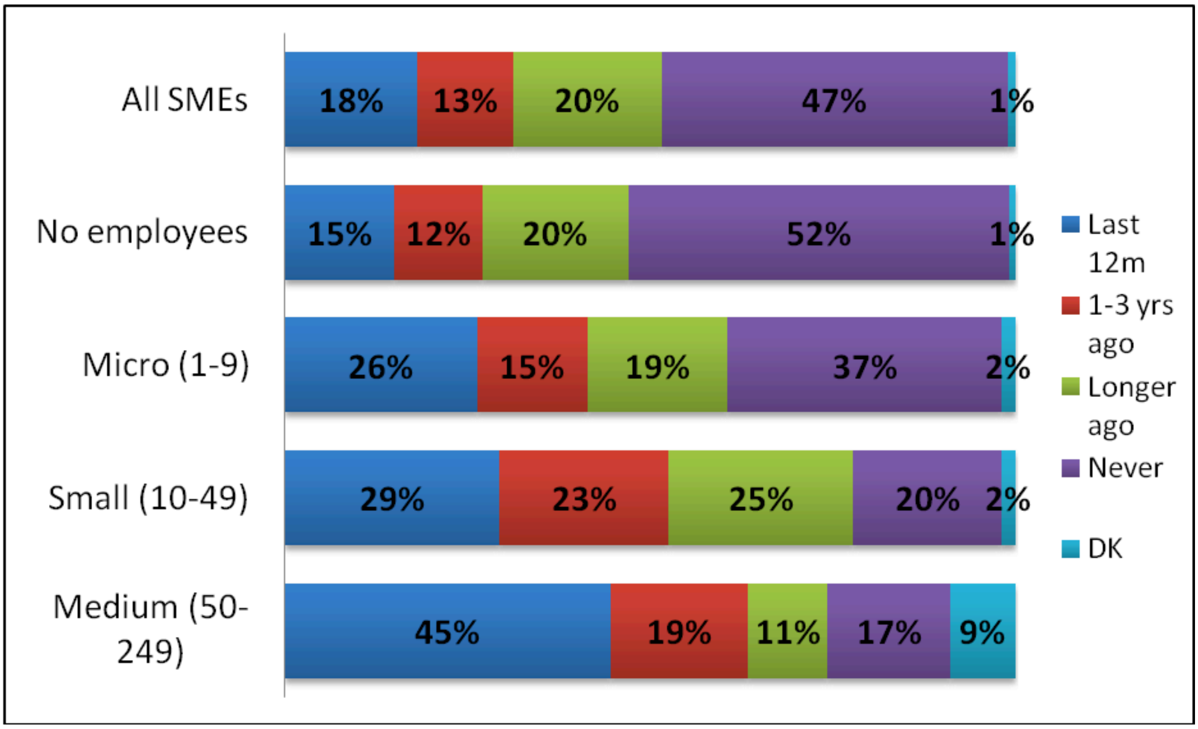
Providers of mezzanine finance mentioned included Lloyds TSB, Lombard, Oakbridge and Graphite Capital. Export/import finance was mainly provided by the main UK banks, as was the case for peer to peer lending (which might suggest that respondents were confused over the definition of this type of finance, as it cannot be supplied by banks).

When last sought finance

The previous paragraphs describe use of finance in the past three years, but some of this refers to products that might have been arranged longer ago, such as overdraft and credit card borrowing agreements.

Eighteen per cent of SMEs actively sought external finance in the past 12 months (whether they were successful in obtaining it or not). This was least likely to be the case for those with no employees (15 per cent), and most likely to be the case for medium-sized businesses (45 per cent).

Figure 4: When last sought external finance – by employment size



Base = all SMEs (n=1508)

By sector, finance was most likely to have been sought in the last 12 months by those in production (30 per cent), and engineering/pharmaceutical manufacturing in particular (26 per cent), and by those in transport, retail and distribution (23 per cent). It was least likely to have been sought in the last 12 months by those in business services and other services (13 per cent each).

Table 7: When last sought external finance – by sector[13] (row percentages)

			Last 12 months	1-3 years ago	Longer ago	Never	Don't know
All SMEs	n=1508	%	18	13	20	47	1
ABCDE Production	n=239	%	**30**	13	18	**37**	3
F Construction	n=137	%	19	14	21	46	*
GHI TRAD	n=293	%	**23**	12	**26**	**38**	1
J Information/comms.	n=242	%	18	11	21	48	2
KLM Business services	n=301	%	**13**	12	20	**53**	2
N Administrative	n=96	%	18	7	15	55	3
PQRS Other services	n=200	%	**13**	17	17	53	0
Technology	n=414	%	17	11	22	49	1

Base = all SMEs (n=1508) * = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A14. Single answer only allowed at this question

[13] Please see appendix for details on 2007 SIC sector groupings

Despite being the least likely to have actually used external finance in the past three years, start-ups were the most likely to have applied for it in the last 12 months (28 per cent). Twenty-five per cent of businesses aged 1-5 years applied in the last 12 months, compared to 16 per cent of those aged 10 years or more.

Twenty-seven per cent of MEG-led businesses applied for finance in the past 12 months.

SMEs in Scotland were more likely to have applied for finance in the past 12 months (34 per cent) than elsewhere.

Chapter 3 conclusions

- Over half of SMEs have used finance in the last three years. Bank overdrafts, credit cards, and a loan from an individual were the most common forms of finance used, followed by a bank loan or commercial mortgage or leasing/hire purchase.

- Equity finance is less commonly used. Of those businesses using equity finance this was mainly from friends and family or other businesses rather than venture capitalists and business angels.

- Non-bank sources of finance including mezzanine and peer to peer lending were used by less than one per cent of businesses.

- Only 18 per cent of SMEs have sought finance in the last year and 13 per cent within 1-3 years. Nearly half of SMEs have never sought finance. Finance use is related to the size of the business

Chapter 4: Applying for external finance

This section examines the reasons for seeking finance, the types and amounts of finance applied for, and the specific processes SMEs go through in order to obtain finance.

Main reason for seeking finance

Forty-five per cent of SMEs that had sought finance in the last 3 years did so in order to obtain working capital or for cashflow (as their main reason for needing the money). This category covers a range of reasons for needing finance, such as late payment by customers, payment of salaries for a period with irregular sales, payment of bills (to suppliers or tax/national insurance), and ordering stock to service a demand.

One third of SMEs had the purchase of fixed assets such as machinery, vehicles or buildings as their main reason for needing finance in the past three years. Nine per cent needed finance to start their business, six per cent to fund expansion (e.g. a marketing campaign), two per cent for refurbishment or renovation, and two per cent for refinancing. Only one per cent sought finance proactively, e.g. because they were attracted by a favourable offer.

Table 8: Main reason for seeking finance – by employment size

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	588	141	447	267	105	75
	%	%	%	%	%	%
Working capital/cashflow	45	46	43	44	38	43
Purchase fixed assets (e.g. machinery/buildings)	33	35	**30**	**28**	36	41
Starting up business	9	8	9	11	**3**	**0**
Fund expansion (e.g. marketing)	6	3	**10**	**10**	**12**	4
Refurbishment/ Renovation	2	3	2	2	3	1
Refinancing	2	2	2	2	4	7
Being proactive/attractive offer of finance	1	1	1	1	*	0
Other	2	2	2	2	0	3
Don't know/refused to say	*	0	2	2	**4**	0

Base = all who have sought finance in the last 3 years (n=588)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A15a. Single answer only allowed at this question

For those that sought working capital, the main reason was to cover a short term funding gap until funds were received from customers (54 per cent). Less common was the need to cover a short term gap due to unexpected expenses (16 per cent). Working capital was also needed to fund general growth (33 per cent), and as a safety net (27 per cent).

With the exception of expansion, which was more likely to have been the main reason for needing finance among employers (ten per cent) than those with no employees (three per cent), there were surprisingly few differences in the reasons for needing finance according to size of the business.

By sector, working capital was more likely to have been needed in information/ communication (67 per cent of those that had sought finance as a main reason[14]), and technical testing/science (65 per cent). Construction was the sector most likely to have needed finance to purchase fixed assets (45 per cent), whilst a higher than average proportion in the other services sector needed finance to start a business (18 per cent) or for renovation/refurbishment (eight per cent). Refinancing was more commonly needed in the transport, retail and distribution sector (six per cent).

By age of business, starting up a business was of course the main reason for finance among start-ups (54 per cent). Those aged 5-10 years were most likely to have needed finance for the purchase of assets (48 per cent).

MEG-led businesses were more likely than average to have needed finance to start a business (28 per cent) or for expansion (20 per cent). Women-led businesses were more likely than average to need the finance to start a business (20 per cent).

Types of finance sought in the last 3 years

Although only the fourth most used type of finance in the last 3 years, those that sought finance in the last 3 years were most likely to have applied for a bank loan or commercial mortgage (33 per cent), followed by a bank overdraft (32 per cent).

The reason for seeking finance does influence the type of finance sought. For those that sought working capital, 48 per cent sought a bank overdraft, with an above average proportion seeking credit card finance (17 per cent). For those looking to purchase assets a bank loan was most commonly sought (43 per cent), followed by leasing or hire purchase (27 per cent). Those seeking expansion mainly did so through bank overdrafts (45 per cent) or bank loans (43 per cent). Those that needed the finance to start a business also tended to seek bank loans (42 per cent), but an above average proportion also sought loans or equity from friends/family (20 per cent) and grants (19 per cent).

[14] The software industry, which is a large part of this sector, is notable for irregular payment patterns and long periods devoted to R&D. See http://www.berr.gov.uk/assets/biscore/enterprise/docs/a/11-900-access-to-finance-for-creative-industry-businesses-appendix-2.pdf

Table 9: Products sought on the last occasion in the last 3 years – by main reason for seeking finance

	Total	Working capital	Purchase assets	Expansion	Start business
n=	588	262	166	54	54
	%	%	%	%	%
Bank Loan / Commercial mortgage	33	**23**	**43**	43	42
Bank Overdraft	32	**48**	**15**	**45**	**20**
Leasing or hire purchase	11	**3**	**27**	**2**	**2**
Credit cards	10	**17**	**5**	*	10
Loans or equity from friends or family	7	7	6	3	**20**
Grants	6	**1**	**2**	11	**19**
Loans from other third parties/ other organisations	2	1	1	*	1
Invoice finance or factoring (asset based)	1	1	1	3	1
Loans or equity from directors	1	2	*	*	1
Equity from other third parties	1	1	0	1	0
Finance from Government scheme	*	*	*	**3**	0
Loan through peer to peer lending platform	*	*	*	0	0
Mezzanine finance	*	*	0	0	0

Base = all who have sought finance in the last 3 years (n=588)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A17a. Multiple answers allowed at this question

It is notable that the majority sought traditional bank finance such as overdrafts or loans. Alternative forms of finance such as asset finance, equity, peer to peer and mezzanine were only sought by a very small minority.

The qualitative research supports this finding with most businesses indicating that the type of finance sought primarily related to their reasons for accessing finance e.g. start-ups sought bank loans and grants, whilst others used leasing/HP only when looking to replace equipment or vehicles.

By employment size, bank loans were most likely to have been sought by micros seeking finance (38 per cent), and less so by medium sized businesses (22 per cent). Medium sized businesses were also less likely than average to have sought bank overdrafts (19 per cent), and were most likely to have sought leasing or hire purchase (37 per cent). Asset finance was more likely to have been sought by small businesses (eight per cent) than others.

Table 10: Products sought on the last occasion in the last 3 years – by employment size

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	588	141	447	267	105	75
	%	%	%	%	%	%
Bank Loan/Commercial mortgage	33	31	**37**	**38**	33	**22**
Bank Overdraft	32	31	33	32	38	**19**
Leasing or hire purchase	11	8	**15**	12	**25**	**37**
Credit cards	10	13	**5**	**6**	*****	10
Loans or equity from friends or family	7	9	**3**	**4**	*****	**0**
Grants	6	6	6	6	6	9
Loans from other third parties/ other organisations	2	3	2	2	*	1
Invoice finance or factoring (asset based)	1	0	**3**	2	**8**	2
Loans or equity from directors	1	1	1	1	2	1
Equity from other third parties	1	*	**1**	**1**	**2**	*
Finance from Government scheme	*	0	1	**1**	0	*
Loan through peer to peer lending platform	*	0	*	0	**2**	0
Mezzanine finance	*	0	*	0	0	**4**

Base = all who have sought finance in the last 3 years (n=588)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A17a. Multiple answers allowed at this question

MEG-led businesses were more likely than average to have sought bank loans (50 per cent). Female-led businesses were more likely than average to have sought credit card finance (19 per cent) and loans/equity from family and friends (12 per cent).

By sector, overdrafts were most likely to have been sought in transport, retail and distribution (43 per cent) and business services (also 43 per cent). Leasing/HP was most commonly sought in production (23 per cent), and credit card finance in information/communications (20 per cent). Grants were most likely to have been sought in the other services sector (16 per cent).

Overdrafts were most sought by businesses that were 1-5 years old (47 per cent), and leasing/HP by those aged 5-10 years (17 per cent).

Amount of finance sought

The mean average amount of finance sought (on the last occasion applied in the last 3 years) was £93,500, although the median average was much lower than this at around £8,500.

This figure is low because those with no employees generally sought modest amounts, with 40 per cent needing less than £5,000. Among employers, the mean amount sought was £199,000 (median £20,500), and this rises to an average of £547,000 sought by medium sized businesses (median £289,000).

Table 11: Amount applied for on the last occasion in the last 3 years – by employment size

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	588	141	447	267	105	75
	%	%	%	%	%	%
Less than £5,000	31	**40**	**16**	**19**	**7**	**5**
£5,000 - £9,999	22	26	**15**	**17**	**8**	**8**
£10,000 - £24,999	22	20	**25**	**28**	17	6
£25,000 - £49,999	6	3	**12**	**11**	**16**	6
£50,000 - £99,999	5	2	**10**	**10**	**14**	2
£100,000 - £499,999	4	*****	**11**	**7**	**23**	**37**
£500,000 - £999,999	2	1	2	1	2	**8**
£1m - £4.9m	1	1	2	*	**6**	**17**
£5m+	*	0	1	*	**5**	*
Don't know/refused to say	6	6	5	6	2	**11**
Mean amount	£93,462	£36,376	£199,102	£47,899	£776,230	£547,227
Median amount	£8,635	£6,345	£20,500	£15,890	£53,570	£289,190

Base = all who have sought finance in the last 3 years (n=588)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A21. Single answer only allowed at this question

The size of the business is the main factor in explaining how much money was sought, and this is why more established businesses needed more than start-ups and those aged 1-5 years, and why production businesses, which tend to have more employees, needed more than those in information/communications and other services.

Those looking to fund expansion sought more money (mean average £86,382) than those seeking finance for working capital (mean £43,804), looking to purchase fixed assets (£41,970) and those wanting to fund a start-up (mean £15,390).

Preparations for applying for finance

This section looks at the amount of preparation made by SMEs that sought finance, and the amount of consideration given to different finance options.

How soon before needing it is finance applied for

Three per cent of those that sought finance in the past 3 years said that they applied for finance after it was needed, e.g. because they had gone overdrawn. Twenty-four per cent applied up to two days before needing the money, and 19 per cent up to a week before needing the money. The average period between applying for and needing the finance was eight days.

Table 12: How soon before needing it is finance applied for – by main reason for seeking finance

	Total	Working capital	Purchase assets	Expansion	Start business
n=	588	262	166	54	54
	%	%	%	%	%
After it is needed	3	4	1	2	0
Up to 2 days	24	23	29	22	14
2-7 days	19	22	22	**9**	19
1-4 weeks	19	22	**15**	25	23
4-8 weeks	12	9	13	**22**	**21**
Longer	15	14	12	19	19
Don't know/refused to say	8	5	8	1	6
Median average (days)	8	6.5	5.5	21	20.5

Base = all who have sought finance in the last 3 years (n=588)

Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A22. Single answer only allowed at this question

This period does vary according to the main reason for needing finance. For working capital the mean average period was 6.5 days, for purchase of assets it was 5.5 days, but it was much longer for expansion and to start a business (21 and 20.5 days respectively). This seems to indicate that more thought and preparation is given for expansion and starting a business than is the case when there is a need for working capital or, perhaps surprisingly, when there is a need to purchase assets.

There is some correlation with size. Larger SMEs tended to apply for finance earlier, with only 26 per cent of medium sized businesses applying up to a week before needing the finance, compared to 36 per cent of micros and 48 per cent of those with no employees.

First thing done when realising the need for finance

When the need for finance was realised, over half (51 per cent) of those that sought finance in the past 3 years went directly to their main bank. This was particularly the case for those that needed finance for working capital (56 per cent).

Table 13: First thing done when finance need realised – by main reason for seeking finance

	Total	Working capital	Purchase assets	Expansion	Start business
n=	552	262	166	54	54
	%	%	%	%	%
Went directly to main bank	51	**56**	50	57	**27**
Sought advice from other businesses / friends	14	12	16	17	23
Went to finance provider other than bank	9	**3**	**17**	3	10
Spoke to finance adviser	2	1	**4**	1	0
Spoke to accountant	2	2	1	0	1
Did not speak to anyone	1	2	1	0	0
Went directly to another bank	1	1	1	*	2
Consulted public sector body	1	**0**	0	3	**10**
Researched finance types and products on internet	1	0	1	0	**3**
Something else	4	3	5	2	**11**
Don't know	14	**19**	**4**	16	13

Base = all who have sought finance in the last 3 years for cashflow, purchasing assets, expansion, starting a business or refinancing (n=552)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A16. Single answers only allowed at this question

Those that sought finance to buy assets were more likely than average to approach other financial providers in the first instance (17 per cent), mainly leasing or HP providers.

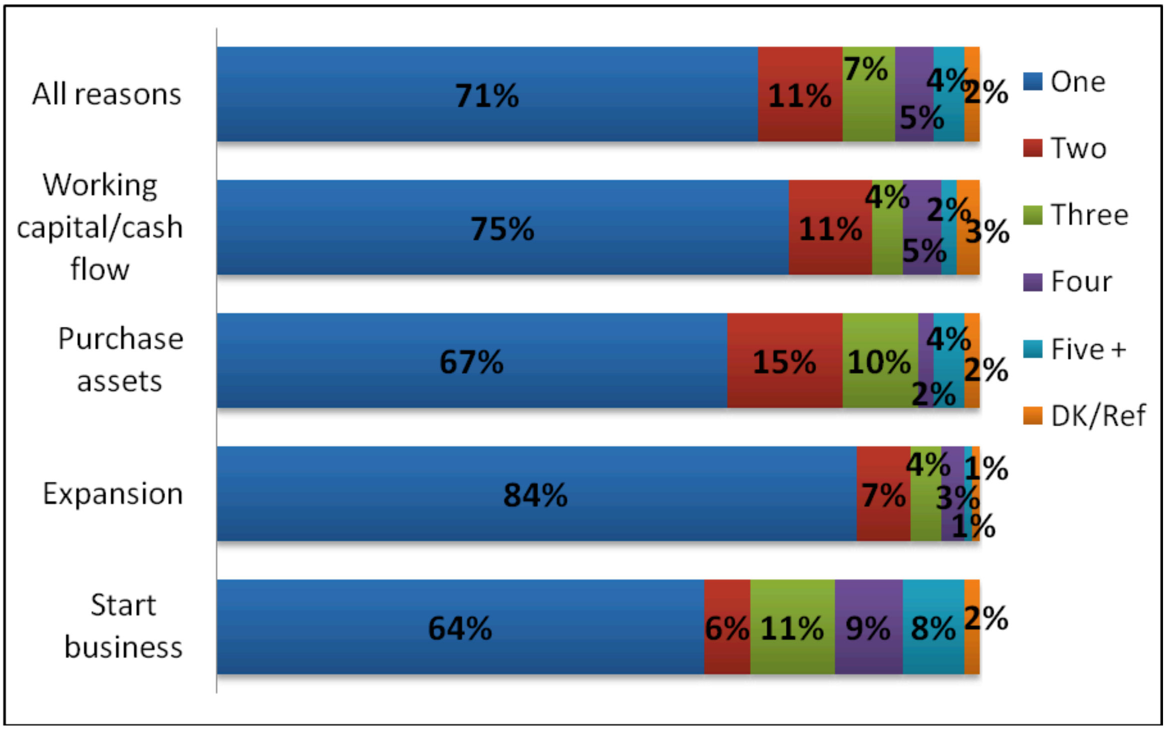
Those that did not go to their main bank were most likely to seek advice, but this was most likely to come from business colleagues, other businessmen, family and friends (14 per cent). Those seeking finance to start a business were the most likely to seek advice, with ten per cent consulting public sector bodies such as Business Link.

There was no particular pattern to this behaviour by employment size, but start-ups were less inclined to go to their main bank (31 per cent), as were those in the technology sectors (43 per cent).

Numbers of providers approached for finance

On the last occasion that finance was sought, 71 per cent of those seeking it contacted just one provider. Eleven per cent contacted two providers, seven per cent three, five per cent four and four per cent five or more. This did vary by the main reason for seeking finance, with those seeking working capital and to expand being more likely to contact a single provider than those seeking to purchase assets or start a business.

Fig 5: Numbers of providers approached – by main reason for seeking finance



Base = all who have sought finance in the last 3 years (n=588)

Those with no employees were the most likely to approach just one provider – 75 per cent – yet the majority of employers also contacted just a single provider (63 per cent). This proportion decreases with employment size, with 62 per cent of medium sized businesses approached more than one provider.

Table 14: Number of providers approached – by employment size

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	588	141	447	267	105	75
	%	%	%	%	%	%
Just one	71	75	**63**	**66**	**57**	**34**
Two	11	10	**13**	10	**19**	**30**
Three	7	4	**11**	**10**	**14**	**17**
Four	5	4	6	5	7	6
5 or more	4	5	**2**	3	*****	**9**
Don't know/refused to say	2	1	**5**	**5**	2	**4**
Mean	1.57	1.53	1.65	1.6	1.7	2.24

Base = all who have sought finance in the last 3 years (n=588)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A17d. Single answer only allowed at this question

Women-led businesses were more likely than average to approach just one supplier (80 per cent).

Those in the production sector were less likely than average to approach just one supplier (56 per cent), but this is related to the larger than average employment size for the sector. Those in business service were the most likely to approach just one supplier (81 per cent). There were no differences according to the age of business.

Those in the North of England were the most likely to approach a single supplier (81 per cent).

One of the reasons why only a single provider was approached may be a lack of time. Sixty-seven per cent of those with a dedicated finance person approached just one provider, compared to 80 per cent of those without one.

Of those that approached just one provider, the main reason given for this spontaneously was that they had a longstanding relationship with them (48 per cent). Twenty-three per cent said that it was because the first they approached gave them what they wanted, nine per cent that it was too much hassle to shop around, and six per cent that they had no time to shop around and needed the finance quickly. Five per cent said they had no other choice but to go with the one provider. Only three per cent approached a single provider because they had shopped around and found them to offer the best deal.

Of those that approached just one provider, 87 per cent said that they had a longstanding relationship with them – i.e. they had previously provided finance, or had a bank account with them. This was less likely to be the case for start-ups that only approached one provider (72 per cent).

Preparations for applying for finance – qualitative evidence

The qualitative research offers further insight into these findings. SMEs that had only approached one provider did so either because of a long-standing relationship, or because they were not aware of any other providers.

> *'I thought they were the best place to go and they know what goes through our accounts because they have immediate access. It made sense to me.'*

Where SMEs were granted the finance they needed on their first application, they did not see a need to apply elsewhere. Where they were not successful but did not apply elsewhere this tended to be due to being 'put-off' by the negative experience of rejection. This was mostly the case when rejected by their main bank.

Of those that had approached more than one provider, most had approached their main bank in the first instance but, when refused finance, looked at other options. Several interviewees indicated that they believed their chances of raising finance were greater because their main bank would have more knowledge about their business and history.

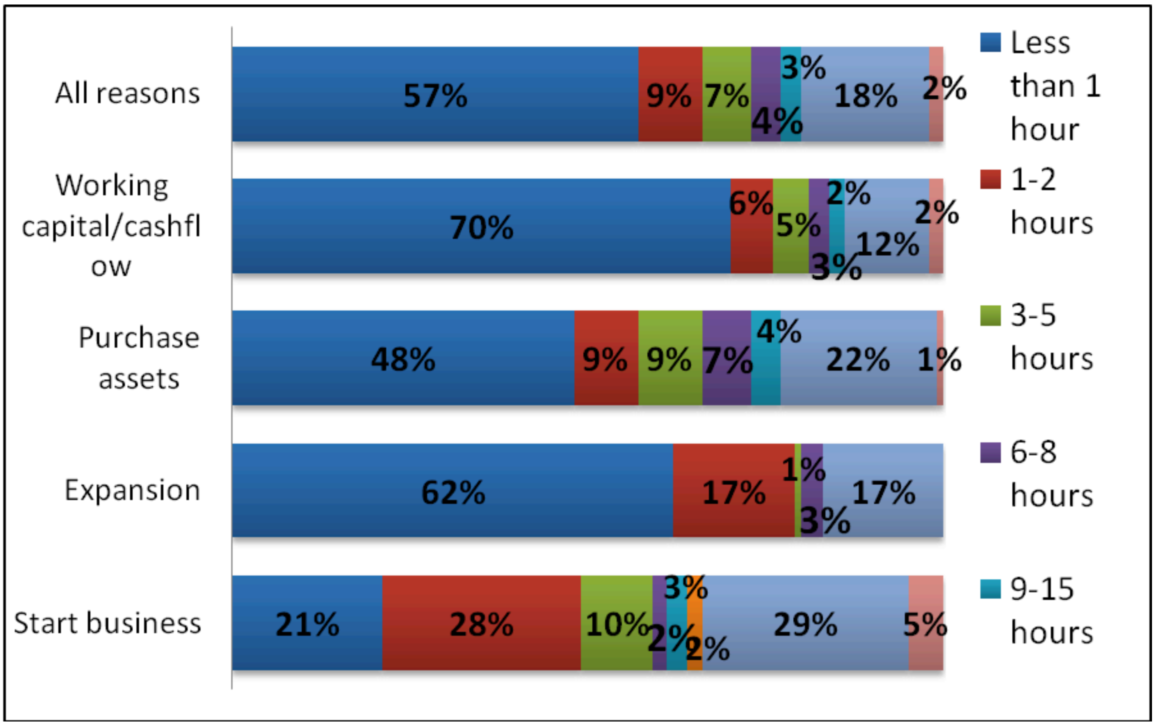
> *'The reason we went to our existing provider first was because they knew our history and could see the monies coming in and out of the accounts. So you'd expect them to look at us more favourably.'*

A few had applied for several sources of finance (including combinations of bank loans, asset finance and invoice finance). These businesses tended to be larger and more experienced in accessing finance. Reasons for applying for more than one source of finance included targeting different sources for different purposes so as not to 'exhaust' one lender. One provider highlighted that for them it was important for their business to access *'the right finance at the right time'*.

Time taken to decide on type of finance and provider

Fifty-seven per cent of those that sought finance in the last 3 years claimed they spent less than one hour finding out about different sources of finance, or providers of finance, before making a decision on where to go. This proportion was higher for those seeking working capital (70 per cent), and for expansion (62 per cent), than for those seeking finance to purchase assets (48 per cent) or to start a business (21 per cent).

Figure 6: Time spent finding out about sources and providers of finance – by main reason for seeking finance



Base = all who have sought finance in the last 3 years (n=588)

While the median average time spent finding out about sources and providers of finance was less than 1 hour, the mean average time was 5.44 hours. This amount of time increased the larger the SME, with a mean average of 4.89 for those with no employees, and 8.84 for medium sized businesses.

MEG-led businesses were more likely to give consideration to finding out about sources and suppliers (mean average = 11.12 hours), although this may be related to the higher than average proportion of this group that sought start-up finance.

Time taken to fill out application form/otherwise prepare

The mean average time spent filling out application forms or otherwise preparing to apply for finance was 3.07 hours, but the median average time was less at about one hour. Forty-eight per cent of SMEs seeking finance in the past 3 years spent less than one hour on forms, with this proportion being higher among those with no employees (54 per cent) than micros (40 per cent), small businesses (38 per cent) and medium-sized businesses (27 per cent).

This proportion did not vary by the main reason for seeking finance, although 14 per cent of those seeking finance for expansion spent more than 20 hours preparing their application, resulting in a higher mean average of 6 hours for this group.

Table 15: mean average amount of time spent finding out about sources/providers; filling out applications forms; reviewing offer of finance before making decision

			Finding out about providers	Filling out application form	Reviewing offer of finance
All applying for finance	n=588	Mean =	5.44 hours	3.07 hours	3.73 hours
Main reason for finance					
Working capital/cashflow	n=262	Mean =	3.93 hours	2.51 hours	2.41 hours
Purchase fixed asset	n=166	Mean =	6.65 hours	1.97 hours	4.95 hours
Expansion	n=54	Mean =	4.52 hours	6.02 hours	3.42 hours
Start business	n=54	Mean =	8.53 hours	2.55 hours	6.28 hours
Employment size					
No employees	n=141	Mean =	4.89 hours	2.01 hours	3.23 hours
All employers	n=447	Mean =	6.45 hours	4.87 hours	4.63 hours
Micro (1-9)	n=267	Mean =	6.37 hours	4.88 hours	4.08 hours
Small (10-49)	n=105	Mean =	6.27 hours	4.76 hours	6.40 hours
Medium (50-249)	n=75	Mean =	8.84 hours	5.18 hours	5.37 hours

Base = all who have sought finance in the last 3 years (n=588)

A20a/A20b/A20c. Single answers only allowed at each question

The time taken by qualitative interviewees to complete the paperwork and processes varied depending on the type and amount of finance applied for. Some interviewees cited a relatively simple process, particularly when applying for asset finance. However, bank applications tended to involve more paperwork. Documents that were required by banks included annual accounts, bank statements, business plans, cashflow forecasts, and evidence of orders. Businesses that were required to provide several of these types of documents tended to be those applying for higher levels of funding. However, a few businesses reported proactively providing a variety of these documents to help support their case.

> *'I provided everything I thought that to a reasonable person who had money would have thought it was a good bet. I even gave them a forecast of a cash flow as to how quick it would be paid back. I wanted to pay it back as soon as I could'*

Time taken to review offer of finance before making a decision whether to accept

Forty-seven per cent of SMEs that sought finance in the past 3 years spent less than 1 hour reviewing their offer of finance before deciding whether to accept it (making the media average time one hour). This proportion was highest for those with no employees (53 per cent), and decreased with employment size.

Of those receiving an offer (23 per cent did not get one), the mean amount of time to review it was 3.73 hours. This was higher among those seeking finance to purchase assets (4.95 hours) and those needing finance to start a business (6.28 hours). MEG-led enterprises spent longer reviewing their offers (mean 6.44 hours), as did those in the information/communications sector (5.4 hours) and businesses aged 5-10 years (6.92 hours).

Several qualitative interviewees indicated that they were not in a position to take much time deciding whether to accept the offer of finance as they felt this was their 'only option'.

Reasons for choice of finance and provider

Choice of type of finance

The main spontaneous reasons given for choosing a type of finance were the ease of application, and because a relationship existed with the provider.

Table 16: Reasons for choosing type of finance (spontaneous) – by main reason for seeking finance

	Total	Working capital	Purchase assets	Expansion	Start business
n=	588	262	166	54	54
	%	%	%	%	%
Ease of application (e.g. little paper work)	24	25	26	26	16
Already had relationship with provider	18	17	19	12	**8**
Acceptable terms and conditions (e.g. security required)	14	**10**	17	6	**31**
Short term servicing costs of finance	10	12	12	3	**1**
Speed of obtaining finance	9	**14**	**3**	7	4
Most suitable/ appropriate option for business	8	9	5	4	11
Trusted brand	8	**5**	**14**	11	5
Flexibility in drawing down and repaying money as needed	6	7	7	12	5
Likelihood of successfully obtaining the finance	6	**9**	**2**	9	9
Most cost effective option	5	3	4	**21**	1
Long term costs of finance	5	3	6	7	5
Limited choice/only option available	4	4	3	*	**11**
Was aware of it	3	2	4	3	**10**
Followed advice/was advised to	2	**3**	**0**	3	0
Customer service	1	**0**	**3**	0	0
High street presence	1	**0**	*	**3**	**7**
Didn't have to pay it back	*	0	0	**3**	0
Other	12	10	**18**	5	4
Don't know/refused to say	1	*	0	0	**3**

Base = all who have sought finance in the last 3 years (n=588). * = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A17b. Multiple answers allowed at this question

For those that sought finance for working capital, the speed of getting the finance was more important than average (14 per cent). These SMEs were also more likely than average to choose a type of finance that they were confident they would get (nine per cent).

Those that sought to purchase assets were more likely than average to go with a trusted brand (14 per cent).

Those seeking expansion were more likely to choose the most cost effective option (21 per cent), indicating a greater degree of shopping around.

Those seeking finance to start a business were most influenced by receiving acceptable terms and conditions (31 per cent), but there are also indications that their knowledge of the finance options available was less than for more established businesses, with an above average proportion mentioning that there was limited choice (11 per cent), that they chose the option they were familiar with (ten per cent), and because the provider had a high street presence (seven per cent).

Businesses aged between 5 and 10 years were the most likely to cite the ease of application as a reason for choosing a provider (36 per cent), whilst those aged 10 or more years were more likely than average to spontaneously mention their existing relationship with the provider (22 per cent). There were no major differences according to the employment size of the business.

Most qualitative interviewees reported that they used providers as they had existing relationships with them which they felt would benefit them (although this was not always the case). In some instances, in the case of leasing/HP and asset finance, interviewees reported that they chose to use a particular provider as they had approached them and indicated that they would be eligible for finance.

Information influencing choice of type of finance

Forty-four per cent of those that sought finance in the past 3 years spontaneously mentioned that previous experience (personally or within the business) was the main influence on the decision to seek a particular type of finance. Twenty per cent spontaneously mentioned that they had shopped around, particularly via the internet, to inform their decision.

Previous experience (50 per cent) was the main influence on those that sought working capital, but they were also more likely than average to have shopped around (25 per cent). Those that sought finance to fund purchases were more likely than average to be influenced by newspapers (perhaps through advertising – five per cent), and to have received advice from an external adviser (eight per cent).

Those that sought finance to start a business were also more likely than average to have consulted an external adviser (13 per cent), and they were more likely than average to receive advice from family (seven per cent). Nine per cent of this group received information on where to get finance from a job centre.

Table 17: Information influencing type of finance sought (spontaneous) – by main reason for seeking finance

	Total	Working capital	Purchase assets	Expansion	Start business
n=	588	262	166	54	54
	%	%	%	%	%
Previous experience within the business/staff of obtaining finance	44	**50**	38	39	44
Shopped around/ Internet research	20	**25**	16	23	**7**
External adviser	5	3	**8**	4	**13**
No other choice	4	3	5	3	8
Bank/Bank Manager	4	6	**1**	7	*
Word of mouth	4	**2**	5	3	8
Accountant	3	2	5	3	1
Newspapers	3	**1**	**5**	0	0
Family	1	1	*	0	**7**
Took what was offered	1	*	*	0	**4**
Terms & Conditions	1	*	**3**	0	0
Television	1	1	2	0	0
Job Centre	1	0	0	0	**9**
Government - Ministerial speeches / reports	*	1	0	**3**	0
Business Link Website	*	*	0	0	**3**
Business Link regional office	*	0	0	**3**	0
Social media	*	0	*	0	0
Other	4	3	4	5	3
Don't know	11	11	12	18	7

Base = all who have sought finance in the last 3 years (n=588). * = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A19a. Multiple answers allowed at this question

Those that sought finance to start a business were also more likely than average to have consulted an external adviser (13 per cent), and they were more likely than average to receive advice from family (seven per cent). Nine per cent of this group received information on where to get finance from a job centre.

Businesses aged between 1-5 years were more likely than average to have shopped around (29 per cent). This was also the case for information/communication businesses (29 per cent), and particularly those in this sector with a technical angle (36 per cent).

The reasons for choosing a specific provider were very similar to those given for choosing a type of finance, with 59 per cent citing previous experience within the business of that provider.

The qualitative research supports these findings; most SMEs reported that they used their own knowledge or that of other individuals in their organisation when making decisions on finance. Several businesses also reported using online sources such as the Business Link website. Other sources interviewees reported were local authority support, and support from the Federation of Small Businesses. One interviewee cited using a regional mentoring scheme, and the government Growth Accelerator scheme.

In a few instances SMEs reported that they did not feel they knew enough about raising finance and had not found information on the internet useful. In these cases employers had only tried to apply for one source of finance and had mostly been unsuccessful in raising it. At this point businesses had tended not to seek further advice due to being generally frustrated with the process, or being discouraged from applying further.

Case study 1 hire purchase user

This commercial vehicle repair and manufacturing business has 1 employee. It has accessed £17,000 external finance through hire purchase in order to buy computer software and large vans to ensure they are able to operate in London.

The business identified that it needed new computer software and large vans in order to keep up with changes in their sector, to be more responsive to changing technology, and ensure vehicles meet weight criteria when travelling in London. The company were committed to these changes to ensure they were able to continue to meet current demand and win new business opportunities.

'You've got to improve the technology you have'

In the first instance the employer approached their bank. The bank agreed to offer them the required finance. However, the respondent felt the interest rate was too high.

Following this the respondent approached two more non-bank finance companies that he was aware of from personal knowledge and experience within the business. Again, the business was offered the finance required, but refused it as they felt the interest rate they were being offered was too high.

'The rate they were going to lend at wasn't worth taking out...not just the interest but the actual cost of taking out the loan'

Finally, the company approached the manufacturers of the software and vehicles to acquire these through a hire purchase option.

'I just went into the garage where the vehicle was and asked "what can you do"'

The process of acquiring finance was undertaken by the respondent due to the small size of the company, and he did not receive any additional advice and support, as he did not feel he needed it. All sources of finance approached were known to him from his own experience. The respondent reported that he would have shopped around more to compare hire purchase offers, but the vehicles he wanted to acquire were relatively rare so there were not many providers who could offer them.

The respondent reported that the process of arranging the hire purchase arrangement was quite straightforward and was arranged on the same day. He felt it was easier in this instance as he was dealing with a salesperson

'Being a salesperson they didn't give you that much time to read the smallprint'

The respondent was happy with the hire purchase arrangement as it was less expensive overall than the other offers of finance received. However, he did need to use personal assurance and assets to secure this arrangement, which he would have preferred not to.

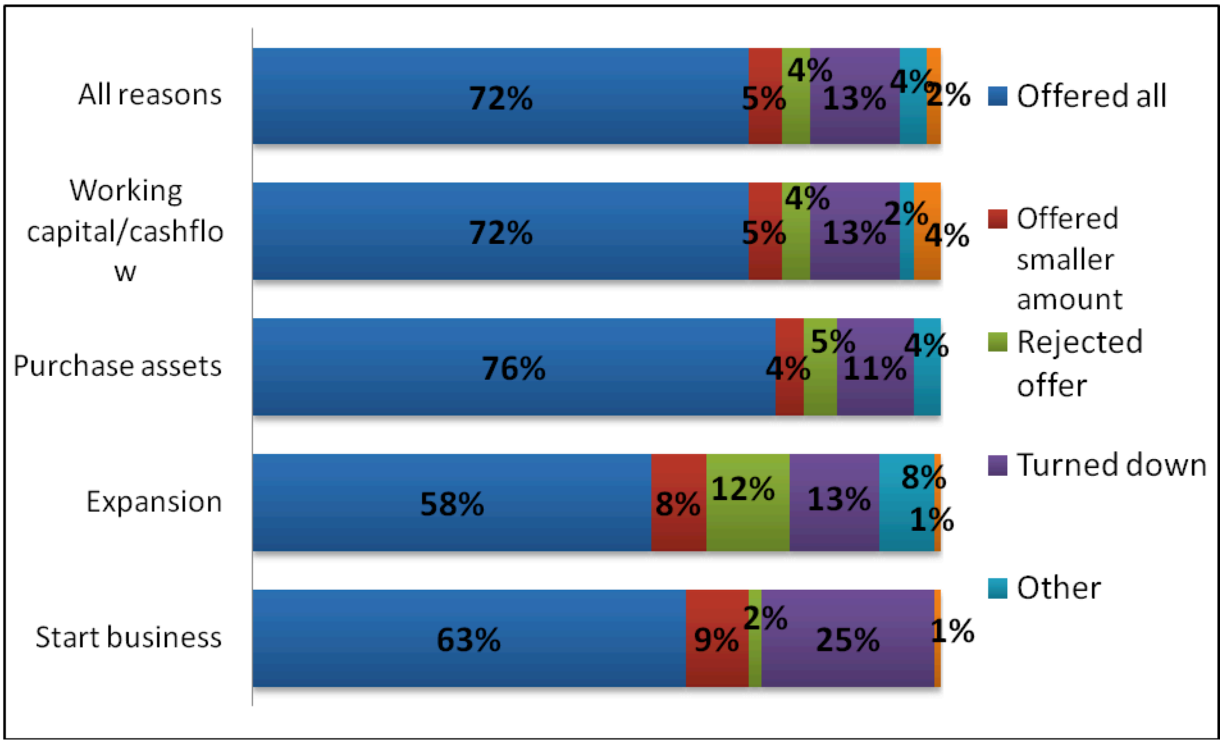
'If I put everything down in my company name no one wants to know, it all has to be back by me personally like a personal loan'

Success in gaining finance

Whether successful in obtaining finance from first provider approached

Seventy-two per cent of those that sought finance in the past 3 years were offered all the finance they wanted. Five per cent were offered a smaller amount than they wanted, four per cent declined the offer they were given, and 13 per cent were turned down. Other outcomes included still waiting for a decision.

Figure 7: Whether successful in obtaining finance from first provider – by main reason for seeking finance



Base = all who have sought finance in the last 3 years (n=588)

Those that sought finance for working capital and to purchase assets were more likely to be given all they wanted than those that sought finance for expansion or to start a business. A quarter of those that sought start-up finance were turned down.

Whilst 72 per cent received all the finance they needed, this proportion varies according to employment size. Seventy-seven per cent of those with no employees got all they needed, but only 63 per cent of employers. Micro businesses in particular were less likely to get all they needed (60 per cent).

The figures, when compared to other survey sources[15], appear to over-estimate the proportion successful in gaining finance from the first supplier, and under-estimate the

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[15] E.g. BIS (2011) Small Business Survey 2010 http://www.bis.gov.uk/assets/biscore/enterprise/docs/b/11-p74-bis-small-business-survey-2010. The 2012 survey report will be published in early 2013.

proportion rejected. However, this can be explained by the survey methodology, whose primary focus was to explore the journey SMEs go through when seeking finance rather than measure approval rates. The SME JTREF survey prompts respondents on types of finance they might use or have applied for, including credit card applications and rearrangements of bank overdrafts, which are often not considered when respondents are asked the types of finance they have sought. Therefore, this survey has more types of finance where positive decisions are more likely to be given.

When analysing success and rejection rates by type of finance sought, those that went to a bank for a loan, mortgage or overdraft were less likely to be successful (66 per cent offered all the finance they needed from the first source, 17 per cent rejected) than those that went elsewhere (83 per cent offered all, five per cent turned down). Of those that only went to a bank, 67 per cent were successful and 16 per cent rejected – but interestingly of those that went both to banks and alternative sources only 48 per cent were successful and 38 per cent were unsuccessful. This suggests that for most of this group alternative suppliers were sought as a result of bank rejection.

Table 18: Whether successful in obtaining finance from first provider – by employment size

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	588	141	447	267	105	75
	%	%	%	%	%	%
You were offered all the finance that you wanted	72	77	**63**	**60**	69	76
You were offered a smaller amount than you wanted	5	4	**9**	**9**	7	7
You were offered the finance but with terms and conditions that you didn't accept	4	2	**7**	**8**	4	4
You were turned down for the finance	13	12	13	13	13	10
Still waiting for decision	1	1	2	2	2	1
Other	3	1	**5**	**5**	4	1
Don't know	2	3	2	2	2	2

Base = all who have sought finance in the last 3 years (n=588)

Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A23a. Single answer only allowed at this question

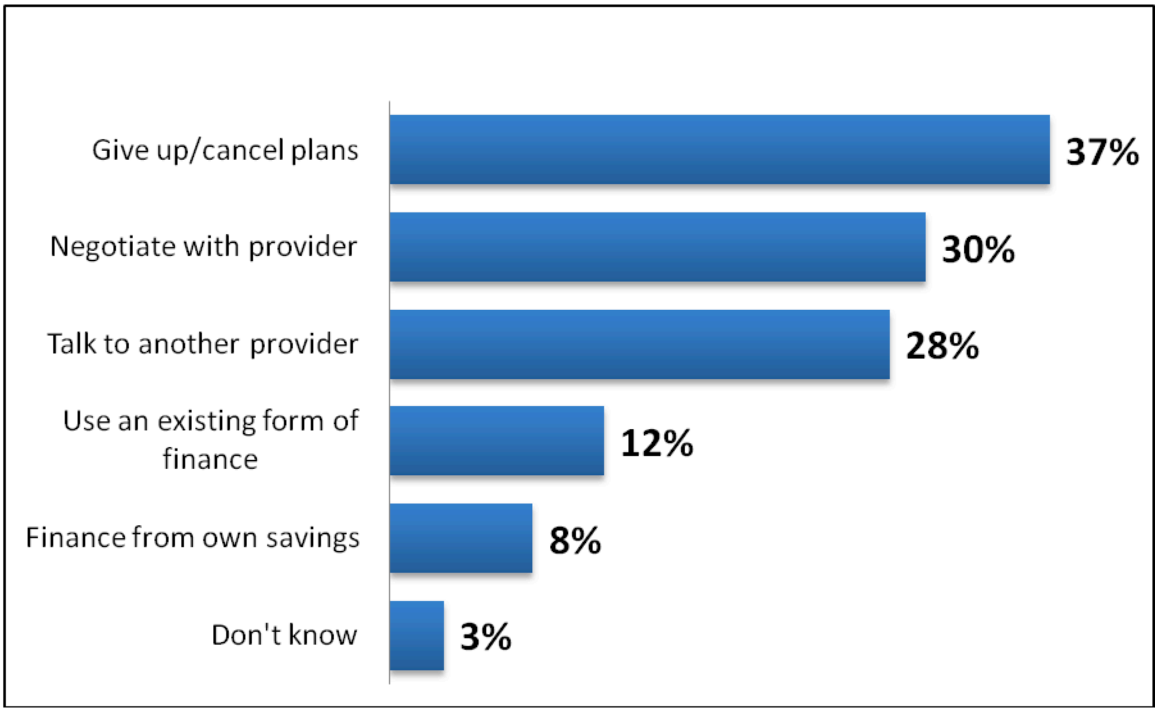
Employers and micro businesses were no more likely to be turned down for finance, but they were more likely to experience difficulties. Nine per cent of employers were offered a smaller amount than they wanted, and seven per cent rejected their offer because they did not find the terms and conditions acceptable.

A higher than average proportion of MEG-led businesses that applied for finance (26 per cent) were turned down, as were those in the North of England (18 per cent). There were no differences in this proportion by age of business or sector.

Actions if not successful in obtaining full amount of finance needed

Of those that were turned down for finance, offered a smaller amount or who rejected the terms and conditions of their offer, 30 per cent negotiated with the provider they had approached, 28 per cent approached different providers, 12 per cent used an existing form of borrowing (e.g. an existing overdraft or credit card facility), and eight per cent made up the shortfall in finance from their own savings. However, 37 per cent gave up on their plans.

Figure 8: What did they do next if not offered the full amount of money



Base = all who did not receive the full amount of finance applied for from the first institution approached (in the last 3 years) (n=154)

Most qualitative interviewees that had been unsuccessful in their first attempt to secure finance reported that they had been rejected by their main bank. In most instances those applying for non-bank sources of finance had been successful.

What qualitative interviewees did next tended to depend on what they were seeking finance for. Most of those that were unsuccessful accessing bank finance to pay for fixed assets such as machinery or vehicles proceeded to apply for leasing/HP finance which they were successful in gaining. In some cases interviewees reported using personal sources of finance including loans from friends and family, and in one case releasing finance from personal pension schemes.

Case study 2 bank loan and hire purchase user

The business offers the provision of hydraulic, industrial and pneumatic equipment to engineers and has 15 employees. The business has accessed £50,000 in external finance using bank loans to move to new premises, and hire purchase in order to acquire vans for the company.

Over the last 3 years the business has moved to new premises and acquired new vans to support the continued growth of the business. It was identified by the company directors that in order to support this, external finance was needed.

The move to larger premises was financed through a bank loan, whilst the vans were acquired through hire purchase. The decision was made to use two sources of finance to ensure different business needs were being funded in the most appropriate ways. The company identified that it was preferable to use hire purchase than leasing arrangements, so the vehicles would belong to them.

'When we are expanding as quickly as we have, we like to keep our cashflow and bank account for expansion rather than equipment, and that's what we hire purchased the van.'

The bank and hire purchase companies used both had existing relationships with the business. In both instances (loan and hire purchase) they were successful on their first application so did not look into any alternative sources of finance.

The company did not access any external support whilst applying for finance. However, they did report that they meet with their accountant annually to discuss the company's budget, and provide an overview on how they intend to raise finance over the next year.

The respondent reported that they have never had any difficulty in accessing vehicles through hire purchase due to existing relationships, and because they have a good credit rating. Many companies approach them to offer them hire purchase arrangements.

'Traditionally we've just kept dealing with them as they give us good interest rates. It gives you a sense of security'

In addition, the company works to keep a strong relationship with the bank and send them their accounts annually. However, the employer reported that this is becoming increasingly challenging due to frequent changes in bank staff.

'The bank are a little bit faceless and they do change their staff around quite a lot'

They would be reluctant to change banks as they do have an established relationship and account 'history' which they believe will work in their favour if applying for finance in the future.

The respondent reported the main challenge for them is insurance as this is getting very expensive for their drivers due to a 'claims culture'. Therefore, if insurance goes up and has a negative impact on their profit margins, they may need to access further finance in future for working capital, or else restrict their company growth.

Chapter 4 conclusions

- The main reason SMEs seek finance is for working capital/ cashflow, followed by purchasing fixed assets and starting up the business.

- The reason for seeking finance does influence the type of finance sought. For those that sought working capital, a bank overdraft, and credit card finance was generally sought. For those looking to purchase assets a bank loan was most commonly sought followed by leasing or hire purchase. Those seeking expansion mainly did so through bank overdrafts or bank loans. Those that needed the finance to start a business also tended to seek bank loans, but an above average proportion also sought loans or equity from friends/family and grants.

- SMEs generally seek finance just before requiring it with 46 per cent of SMEs applying a week before needing it or after it is needed. When the need for finance was realised, over half of those that sought finance in the past 3 years went directly to their main bank. This was particularly the case for those that needed finance for working capital.

- SMEs do not tend to shop around for finance. On the last occasion that finance was sought, 71 per cent of those seeking it contacted just one provider.

- Of those that approached just one provider, the main reason given for this was that they had a longstanding relationship with them. Others said that it was because the first they approached gave them what they wanted. A minority reported that it was too much hassle to shop around and that they had no time to shop around and needed the finance quickly.

- The median average time spent finding out about sources and providers of finance was less than 1 hour, and the median average time spent filling out application was also about one hour.

- The main reasons given for choosing a type of finance were the ease of application, and because a relationship existed with the provider. For those that sought finance for working capital, the speed of getting the finance was more important than average.

Chapter 5: Financial advice

This section examines SMEs use of external support and advice when applying for finance on the type of finance or provider to use.

Use of external advice when applying for finance

Whether external advice used

Sixteen per cent of SMEs that had sought finance in the last 3 years had sought external advice on the type of finance to apply for, or the provider to approach.

Table 19: Whether external advice used when applying for finance – by main reason for seeking finance

	Total	Working capital	Purchase assets	Expansion	Start business
n=	588	262	166	54	54
	%	%	%	%	%
NO ADVICE	84	86	85	83	**74**
ANY ADVICE	16	14	15	17	**26**
- Accountant	6	8	7	3	3
- Financial advisor	5	4	4	**11**	8
- Friends and family	2	2	4	0	0
- Government organisation/agency	2	**0**	2	0	3
- Solicitor	1	1	*	3	2
- Business representation organisation (e.g. CBI, FSB, FPB)	*	1	0	*	0
- Business mentor	*	*	1	0	0
- Website	*	*	0	1	**1**
- Managing consultant	*	*	*	**3**	0
- Business colleagues	*	*	*	*	0
- Trade Body or Association	*	*	0	0	**1**
- Business Link	*	0	0	0	**1**
- Other	2	1	*	*	**12**

Base = all who have sought finance in the last 3 years (n=588)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A24. Multiple answers allowed at this question

Most likely to have sought advice were those that had sought start up capital (26 per cent). They were most likely to have gone to a financial adviser (eight per cent).

Employers were more likely to have sought advice than those with no employees (18 per cent compared with 13 per cent). This was most likely to be the case with the small businesses that had sought finance (30 per cent), who were most likely to have consulted an accountant (16 per cent) or solicitor (10 per cent).

By sector, advice was most likely to be sought in production (25 per cent). Only eight per cent of businesses in the Midlands that had sought finance received advice.

In the qualitative research most businesses had not sought any advice. A few spoke to their accountants. However, others reported that they would not be willing to pay this expense.

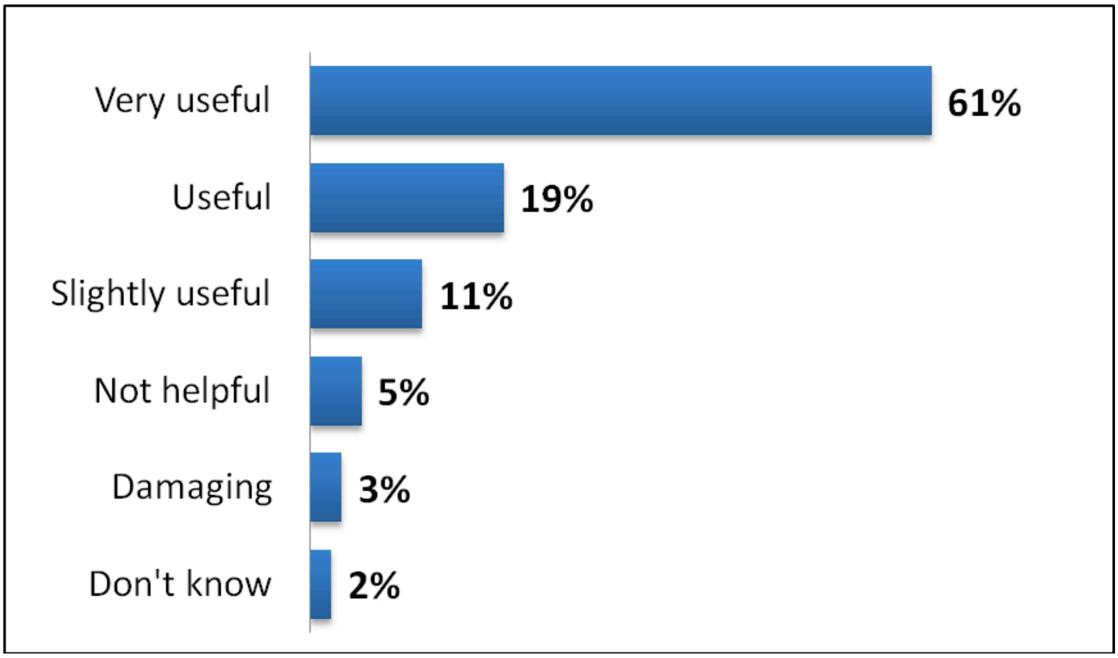
When was advice received

Sixty-one per cent of those that received advice had this before they had decided on the type of finance to apply for, 27 per cent before seeking a specific provider, and 36 per cent once they had started to speak to providers.

Usefulness of advice

The majority of those that had received advice found it useful (91 per cent – 61 per cent very useful, 19 per cent 'useful' and 11 per cent slightly useful). Only eight per cent found it not helpful or even damaging. The reasons given for saying this were that the advice was ineffective, too basic, a waste of money and did not lead to a finance offer.

Figure 9: Usefulness of advice offered



Base = all that received advice when applying for finance on the last occasion (n=122)

Reasons for not seeking advice

The majority of those that sought finance in the last 3 years (84 per cent) received no advice. The main reason for this was that they did not think it was needed (67 per cent), or that they did not think it would make any difference (24 per cent). Thirteen per cent did not know who to ask, and 11 per cent did not know who to ask.

Table 20: Reasons for not seeking advice – by main reason for seeking finance

	Total	Working capital	Purchase assets	Expansion	Start business
n=	461	212	133	39	38
	%	%	%	%	%
Didn't think it was needed	67	65	**78**	62	**40**
Did not think it would make any difference	24	26	23	19	30
Did not know who to ask	13	13	11	23	**25**
External advice is too expensive	11	10	15	7	6
Did not have time to ask	5	6	5	11	1
Did not think the quality of advice on offer was good enough	3	2	1	0	9
None of these	8	7	7	8	10
Don't know	1	*	0	0	3

Base = all who applied for finance in the past 3 years, but did not seek external advice on the last occasion (n=461)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A26. Multiple answers allowed at this question

Those that sought finance to purchase assets were the most likely to think it was not needed (78 per cent). This was less likely to be the case for those that sought start-up funds, however, and a quarter of this group admitted that they did not know who to ask.

Medium-sized businesses in particular did not think they needed the advice (84 per cent), or that it would not make any difference (38 per cent). Those in the construction sector were the most likely to think they did not need advice (86 per cent), but those in technology businesses were less likely than average to think this (55 per cent).

MEG-led businesses that had applied for finance (42 per cent), and also female-led ones (52 per cent) were less likely than average to think they did not need advice.

Those businesses with a dedicated finance person were more likely than average to think they did not need advice (71 per cent).

Those in the production sector (20 per cent) were more likely than average to not know who to ask.

Likelihood of seeking external advice in future

Likelihood of seeking external advice if have difficulties accessing finance

If they had difficulties obtaining external finance in the future, 54 per cent of SMEs think it likely that they would seek external advice. This was more likely to be the case among employers (58 per cent) and small businesses in particular (63 per cent).

Table 21: Likelihood of seeking external advice if have difficulties obtaining finance in the future

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
ANY LIKELY	54	53	**58**	57	**63**	53
Very likely	27	26	28	28	32	23
Fairly likely	28	27	29	29	31	31
NEITHER LIKELY NOR UNLIKELY	7	7	7	8	5	14
ANY UNLIKELY	35	37	**32**	**32**	**28**	32
Fairly unlikely	15	15	15	15	17	18
Very unlikely	20	21	**16**	**17**	**11**	14
DON'T KNOW	3	3	3	3	4	*

Base = all SMEs (n=1508)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. B4. Single answer only allowed at this question

Start-up businesses were the most likely to consider external advice (75 per cent, compared to 48 per cent of those aged 10 years or more). By sector, those in information/communications (61 per cent) were the most likely to consider external advice.

Sixty-nine per cent of those that had sought finance in the last 3 years were likely to consider advice, compared with 55 per cent who had sought finance longer ago, and 45 per cent of those that had never sought finance.

Those in the South West were the most likely to seek advice (76 per cent), compared to 49 per cent in the Midlands, and 50 per cent in London or the South East.

Whether prepared to pay for advice

Of those likely to seek advice in the future if they had difficulty obtaining external finance, 46 per cent would be prepared to pay for it. This proportion was greater for employers (54 per cent), and medium-sized businesses in particular (61 per cent).

MEG-led businesses were less likely than average to want to pay for advice (32 per cent).

Most likely to pay for advice were those in the production sector (58 per cent of those likely to want advice), information/communications (53 per cent), business services (54 per cent) and technology businesses (55 per cent). Least likely were those in the other services sector (36 per cent).

Fifty-seven per cent of start-ups would pay for advice, compared to 34 per cent of those aged between 5 and 10 years.

Sixty per cent of those in Scotland would pay for advice, compared with 39 per cent of those in the North of England.

Most SMEs in the qualitative interviewees had not previously paid for financial advice, and tended to avoid situations where they would need to pay (such as support from accountants).

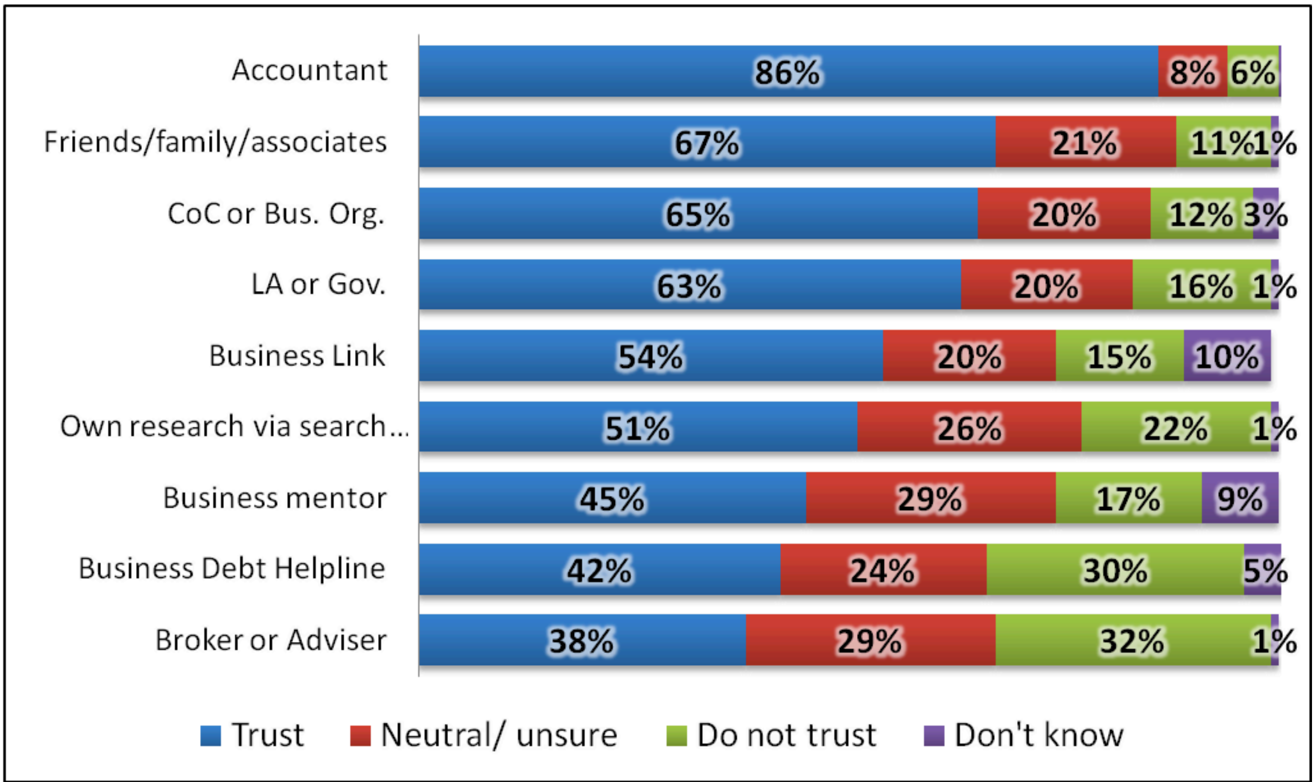
> *‘We've utilised as much free advice as we can.’*

One qualitative interviewee had previously accessed online advice at a cost of approximately £100. They were not sure whether they would use it again in the future as they would prefer to access free advice if it was of sufficient quality.

Sources of advice trusted

Those that would seek advice were asked who they would trust to help them raise external finance.

Figure 10: Whether sources of advice are trusted



Base = all SMEs who would seek advice for difficulties obtaining finance (n=892)

Accountants were the most trusted, by 86 per cent of those likely to use advice in future if they had difficulties raising finance. Next were friends, family or business associates (67 per cent), a Chamber of Commerce or business representative organisation (65 per cent), a local authority, enterprise agency or Government department (63 per cent) and Business Link (54 per cent).

Less likely to be trusted were the Business Debt Helpline[16] (42 per cent trust, 30 per cent not trust) and brokers/advisers (38 per cent trust, 32 per cent not).

Accountants were most likely to be trusted by employers (90 per cent), those in the production (97 per cent) and technology (89 per cent) sectors. They were least likely to be trusted in the administrative/support sector (75 per cent). Accountants were more likely to be trusted in London/South East (90 per cent) and Scotland (96 per cent) than in the North of England (81 per cent).

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[16] It is unclear whether businesses are actually referring to the Business Debt Line or other commercial debt management consolidation companies.

Friends, family and business associates were most trusted by MEG-led businesses (86 per cent) and businesses aged 1-5 years (80 per cent). They were less likely to be trusted by businesses aged 10 years or more (62 per cent trust).

Chambers of Commerce/business representation organisations were most trusted by those in the information/communications sector (73 per cent), technology businesses (72 per cent), and SMEs in Scotland (80 per cent).

Local authorities, enterprise agencies and the Government were most trusted by women-led businesses (72 per cent), the other services sector (74 per cent) and SMEs in Scotland (79 per cent).

Business Link was most trusted by employers (58 per cent), and medium-sized business in particular (68 per cent). Businesses aged between 1 and 5 years were the most likely to trust it (69 per cent), as were those in the administrative/support sector (74 per cent).

Business mentors were most trusted by start-ups (59 per cent) and businesses aged between 1 and 5 years (54 per cent), but were not trusted by 25 per cent of businesses aged 10 years or more. They were more likely to be trusted by those in the business service sector (52 per cent).

Business Debt Helpline was not trusted by 37 per cent of small businesses and 44 per cent of medium-sized ones. It was most likely to be trusted by those in the other services sector (50 per cent), the Midlands (49 per cent) and start-up businesses (54 per cent).

Brokers/advisers were least likely to be trusted by older businesses aged 10 years or more (37 per cent do not trust), those working in construction (43 per cent) and transport, retail and distribution (39 per cent), and those who had sought finance to buy fixed assets (44 per cent). They were most likely to be trusted by those who had never sought external finance (42 per cent).

Chapter 5 conclusions

- Only a minority of businesses seek external advice when seeking finance. Sixteen per cent of SMEs that had sought finance in the last 3 years had sought external advice with accountants and financial advisors being most frequently used.

- Sixty-one per cent of those that received advice had this before they had decided on the type of finance to apply for, 27 per cent before seeking a specific provider, and 36 per cent once they had started to speak to providers. The majority of those that had received advice found it useful (91 per cent).

- The majority of those that sought finance in the last 3 years (84 per cent) received no advice. The main reason for this was that they did not think it was needed (67 per cent), or that they did not think it would make any difference (24 per cent). Thirteen per cent did not know who to ask, and 11 per cent did not know who to ask.

- If SMEs were to have difficulties obtaining external finance in the future, 54 per cent thought it likely that they would seek external advice. However, of those likely to seek advice in the future if they had difficulty obtaining external finance, only 46 per cent would be prepared to pay for it.

- Accountants were the most trusted source of advice, by 86 per cent of those likely to use advice in future if they had difficulties raising finance followed by friends, family or business associates.

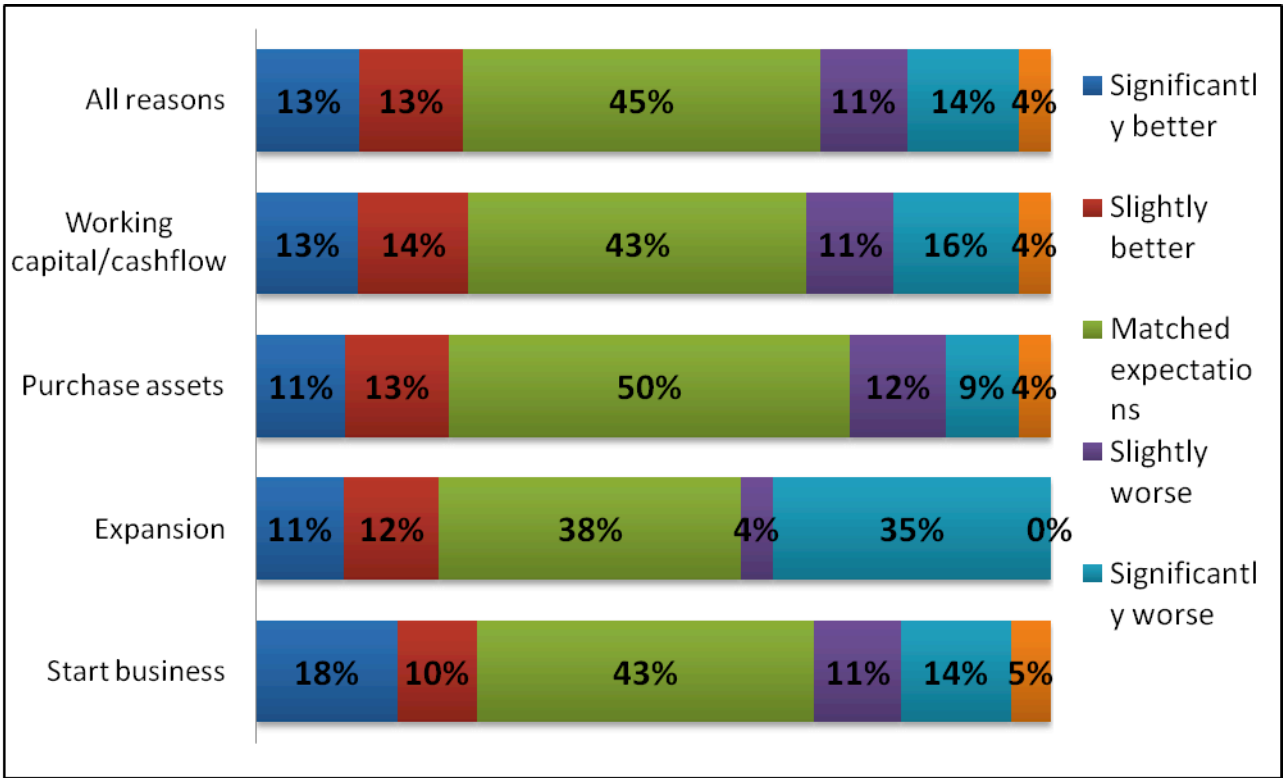
Chapter 6: Perceptions of ease of getting finance

This section looks at SMEs perceptions of how easy or difficult it is to raise finance, and how this compares this actual experiences.

Experience of raising finance compared to expectations

Of those that sought finance in the last 3 years, roughly equal numbers considered that that their experience of raising it was better than expected (26 per cent), as considered their experience worse than expected (24 per cent). For 45 per cent, it was as expected.

Figure 11: How experience of raising finance compares with expectations



Base = all who have sought finance in the last 3 years (n=588)

Those seeking finance for expansion were more likely to consider their experiences worse than expected (39 per cent) than better (23 per cent). For the other groups the proportions saying better and worse were roughly equal.

Employers that had sought finance were more likely to consider their experiences worse than expected than those with no employees. Thirty per cent of employers had a bad experience, and it was only better than expected for 17 per cent. This compares to 32 per cent of those with no employees considering the experience better than expected, and 22 per cent thinking it was worse. Micro businesses in particular had worse than expected experiences.

Those that had sought finance in the production (36 per cent) and technology (32 per cent) sectors were more likely than average to consider their experiences worse than expected. There were no differences according to the age of the business.

In the qualitative interviews most had expected that they would be able to access finance and therefore, if they were successful, the process was ‘as expected’. However, where they were unable to get finance they tended to view their experience as being more difficult than expected.

Businesses that were unsuccessful in getting loans from banks tended to believe that this was due to banks *‘just not lending’* rather than a reflection of their ability or the quality of the business. In particular this was the case for organisations in the retail and construction sectors.

> *‘One of the bank managers was honest, he just said, “we don't have the money to lend, we're not allowed to lend to construction, we have limited funds”. I can only speak for construction but it is an issue. I have four, five, six, customers and we could all be working on projects if the banks would lend us money.’*

SMEs that had bad experiences were put off applying for other sources of finance. Over half of those that had been refused loans that took part in the depth interviews reported that a lack of support or constructive feedback from their bank was discouraging or frustrating.

Several reported that they did not feel their local bank branches or business managers had sufficient authority to make decisions regarding whether or not to lend. This was particularly frustrating to businesses which had been established a while, and who felt they were not having their experience and previous financial histories recognised.

Ease or difficulty of getting finance

Perceptions of how easy or difficult it is to gain bank finance

Eight per cent of SMEs thought it was easy for SMEs in general to obtain bank finance. Sixty-eight per cent thought it was difficult (43 per cent very difficult, 26 per cent fairly difficult).

Table 22: Perceptions of how easy or difficult it is to gain bank finance – by employment size

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
ANY DIFFICULT	68	67	**73**	**72**	**79**	67
- Very difficult	43	42	45	45	**50**	26
- Fairly difficult	26	25	28	27	28	**41**
NEITHER DIFFICULT NOR EASY	8	9	7	8	**4**	13
ANY EASY	8	7	**10**	**10**	8	**13**
- Fairly easy	6	5	**8**	**9**	5	**13**
- Very easy	2	2	1	1	2	1
DON'T KNOW	15	17	**10**	**10**	**10**	**6**

Base = all SMEs (n=1508)

Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A29. Single answer only allowed at this question

Employers were more likely to think it difficult to gain bank finance than those with no employees (73 per cent compared with 67 per cent). However, employers were also more likely to consider it easy. This apparent discrepancy is explained by a higher proportion of those with no employees not knowing how easy or difficult it is to get finance, and because there is lower finance use for this group.

Among those that have actually sought finance in the last 3 years, the proportion thinking it hard to get bank finance is even higher – 76 per cent – with just 7 per cent thinking it easy. Those that were most likely to think it easy to get finance had last applied for it over three years ago (13 per cent thought it easy, 64 per cent difficult).

The sectors that were most likely to think it difficult to obtain bank finance were production (78 per cent) and business services (75 per cent). Start-ups (78 per cent) and those aged 1-5 years (also 78 per cent) were more likely to think it difficult than those aged 10 years or more (64 per cent).

SMEs in Northern Ireland were the most likely to think it difficult (91 per cent), compared to 63 per cent of those in the midlands.

Those who had sought finance for expansion were also the most likely to think it difficult (91 per cent).

All qualitative interviewees felt that it was difficult for SMEs to access finance in the current economic climate. This included those that had been successful themselves, but who felt that their success was due to the strength of their own skills and business record, rather than support from within the financial system itself. In particular, finance from a bank was thought to be the most challenging to access.

> *'We know the banks are not particularly keen on lending money… we are in a minority area and we are high risk [construction] so they are not going to be interested in what we're doing. What you hear in the media, and that's what I take in I guess, is that banks are not helpful in helping small businesses. Banks don't tend to be that approachable anyway. There's nobody ever there who can make decisions and to get an appointment with them, especially if you are a small business, is not easy. They tend not to have people there all the time.'*

Skills needed to access finance

The qualitative interviews explored the skills required in order to successfully access finance. Skills cited tended to be a combination of personal attributes accompanied by necessary supporting documentation.

Personal attributes included having strong background knowledge and experience of raising finance, as well as the tenacity and ability to form well structured arguments that may positively influence lenders (both written and verbally).

Most businesses also stressed the importance of the business having up-to-date and thorough documentation for their business such as accounts, business plans and forecasts in order to demonstrate their strengths to lenders.

> *'Being able to provide accurate figures, the ability to put them across to finance providers, show them that we have the skills to back it up too.'*

It is important to note that in most instances the interviewees were confident in their ability and felt they had the relevant skills and supporting documents to make a good finance application, but the overwhelming perception was that the banks were 'just not lending'.

Perceptions of the percentage of businesses successful when applying for bank finance

SMEs were asked what percentage of small businesses overall did they think were successful in obtaining bank finance (of those applying). Twenty-nine per cent did not know, but of those that gave an estimate, over half thought that less than 30 per cent were successful in obtaining finance.

Table 23: Perceptions of the percentage of businesses that are successful when applying for finance

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
0% -9%	10	9	10	10	12	5
10%-19%	13	13	15	15	13	**4**
20% -29%	15	14	**18**	**17**	**20**	14
30%-39%	11	10	**13**	12	**15**	**17**
40%-49%	6	6	5	6	5	2
50%-59%	11	11	10	11	**7**	**19**
60%-69%	3	2	3	3	2	5
70%-79%	2	1	2	3	1	**6**
80%-89%	1	1	2	2	1	**3**
100%	*	*	*	*	0	0
Don't know	29	31	21	21	25	25
Mean Score	31.89	31.82	32.07	32.35	28.66	42.62

Base = all SMEs (n=1508)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A30. Single answer only allowed at this question

The mean average was 32 per cent. This perception did not vary much by employment size, although medium sized businesses gave a high estimation (mean = 43 per cent).

Those that had sought finance in the past 3 years estimated a slightly lower percentage (mean = 30 per cent) than those that had last sought finance longer ago (mean = 34 per cent) and those that had never sought finance (mean = 32 per cent).

Those in transport, retail and distribution gave a below average estimation (mean = 29 per cent). Those in the South West gave the highest estimation (mean = 38 per cent).

There is strong evidence here that SMEs have the perception that banks are not lending, even though the majority of those SMEs that apply for finance get all that they need.

Those that have applied for finance (the majority of whom apply for bank finance) do not help to dispel the perception – in fact they are even more likely to think that banks are not lending than those that have not sought finance.

Sources of information influencing perceptions

SMEs were asked what specific sources of information influenced their perceptions of how difficult or easy it was to access finance.

Table 24: Sources of information that influence perception of ease of accessing finance – based on all thinking it difficult to access finance (unprompted)

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1089	366	723	469	166	88
	%	%	%	%	%	%
Media- Newspapers	34	35	**32**	**30**	39	**52**
Experience from colleagues/ family etc in obtaining finance.	34	34	32	33	31	**20**
Media- Television	34	33	34	35	30	**58**
Actual experience of obtaining finance	23	**19**	**32**	**30**	**41**	**31**
Media - Radio	5	5	5	5	4	7
Internet/websites	5	4	6	6	5	6
Banks / Accountants	4	3	4	5	3	**8**
Clients/customers	2	1	**4**	**5**	*	0
Government - Ministerial speeches/ reports	2	2	1	1	3	0
Trade / professional magazines / journals	2	2	1	1	1	0
Trade Association	2	2	1	1	1	*
Business support orgs. e.g. Business Link	1	2	1	1	0	0
Other	5	5	4	5	2	*
Don't know	5	5	4	4	5	3

Base = all SMEs that think it is difficult to access finance (n=1089). * = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A31. Multiple answers allowed at this question

For the majority of SMEs that think it is difficult to access finance, the main influences were newspapers, television and the experiences of others (34 per cent for each). Personal experience (23 per cent) was also important in shaping perceptions.

Specific newspapers mentioned were (in order of mentions) the Times, Telegraph, Daily Mail, Guardian, Financial Times and the Sun.

For television, 'the news' was the most common answer. When a TV channel was mentioned, this was most likely to be the BBC, although Channel 5, Sky, ITN and

Bloomberg were also mentioned. Of specific other programmes, Newsnight was the most mentioned.

Personal experience was more likely to be cited by those with employees (32 per cent), and small businesses in particular (41 per cent), and by MEG-led businesses (35 per cent).

Newspapers were more likely to be mentioned by medium-sized businesses (52 per cent), by businesses aged 10 years or more (40 per cent), those in the information/ communications (48 per cent) and business services (41 per cent) sector.

Television was more likely than average to be mentioned in the production (41 per cent) and other services (42 per cent) sectors.

Among those that thought it was easy to obtain finance, the biggest influence was actual personal experience (30 per cent). This was followed by television (27 per cent), the experience of others (22 per cent) and newspapers (21 per cent).

Perceived ease/difficulty of moving banks

Fifty-seven per cent of SMEs thought it would be easy to move their main bank account to another bank, 26 per cent thought it would be difficult.

Table 25: Perceived ease/difficulty of moving to a different bank – by turnover

	Total	< £73k	£73k - <£250k	£250k - <£1m	£1m - <£5m	£5m +
n=	1508	438	256	186	147	144
		%	%	%	%	%
ANY DIFFICULT	26	26	29	**33**	**48**	**37**
- Very difficult	12	13	12	**17**	**25**	**20**
- Fairly difficult	14	14	17	16	**23**	18
NEITHER DIFFICULT NOR EASY	11	10	14	13	10	7
ANY EASY	57	58	51	52	**40**	**49**
- Fairly easy	38	40	34	31	32	38
- Very easy	19	17	17	20	**9**	**11**
DON'T KNOW	6	6	6	**3**	**2**	6

Base = all SMEs (n=1508). Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A33. Single answer only allowed at this question

The measure is correlated both to size and turnover. Twenty-four per cent of SMEs with no employees think it would be difficult to change banks, compared to 33 per cent of employers (31 per cent of micros, 42 per cent of small businesses, and 33 per cent of medium sized businesses).

By turnover, forty-eight per cent of those earning £1m-£5m a year thought that changing banks would be difficult, as did 37 per cent of those earning over £5 million.

Businesses aged between 1 and 5 years were the most likely to think changing banks would be difficult (33 per cent), although 55 per cent of this group thought that it would be easy.

Women-led businesses (63 per cent) and social enterprises (76 per cent) were more likely than average to think changing banks would be easy.

It would appear that the perception of how easy or difficult it is to move banks is linked to outstanding loans and overdrafts held. Forty per cent of those that applied for finance in the last 3 years thought it would be difficult to change banks, compared to 20 per cent of those that applied for finance longer ago and 19 per cent of those that have never applied for finance.

In the qualitative several interviewees also cited existing loans as a barrier to moving banks. A few also had concerns regarding the transition process and how any errors or additional bureaucracy (such as changing payment details) would affect their customers' perceptions of their business.

Whether ever moved banks

Twenty-four per cent of SMEs have moved their main business bank account to a different provider – three per cent in the last 12 months, and 21 per cent longer ago. Seventy-four per cent have never moved their bank, and two per cent have never had a business bank account.

Larger SMEs were the most likely to have moved in the last 12 months (6 per cent of medium sized businesses, seven per cent of those earning £5 million or more per annum). By sector, moving bank in the last 12 months was most common in production (five per cent).

Moving bank is also linked to whether finance has been applied for (and the application possibly turned down). Twenty-nine per cent of those that sought finance in the last 3 years have ever changed banks, compared to 20 per cent of those that have never sought finance.

While it might be thought that having a dedicated finance person might ease the transition from one bank to another, and thus encourage switching bank, this is not the case. Only 22 per cent of those with a dedicated finance person have ever changed bank, compared to 30 per cent of those without.

Chapter 6 conclusions

- Generally SMEs experience of seeking finance match their expectations. Of those that sought finance in the last 3 years, roughly equal numbers considered that that their experience of raising it was better than expected (26 per cent), as considered their experience worse than expected (24 per cent).

- The majority of SMEs perceive that it is currently difficult to obtain finance. Sixty-eight per cent of SMEs thought it was difficult (43 per cent very difficult, 26 per cent fairly difficult). Among those that have actually sought finance in the last 3 years, the proportion thinking it hard to get bank finance is even higher at 76 per cent.

- There is strong evidence that SMEs have the perception that banks are not lending. On average SMEs perceive only around a third of businesses get funding when it is actually around three quarters of those that apply for finance get all the finance they need. Of those SMEs that think it is difficult to access finance, the main influences were newspapers, television and the experiences of others. Personal experience was also important in shaping perceptions.

Chapter 7: Preferred sources of finance

This section explores the types of finance that SMEs might choose to seek in the future if they had a particular need for finance, along one of the following scenarios:

(a) If they needed working capital to cover late or non payment by a major customer, for example if a month's revenue was delayed by four weeks

(b) If they needed working capital to boost cashflow to enable expansion, e.g. to pay for a new marketing campaign

(c) If they wanted to make a significant investment in premises or purchasing of new equipment, machines, vehicles etc.

One third of the sample (at random) was asked about each of these three scenarios. These questions are useful for examining SMEs behaviour in what they might do if they had a need for finance, to test what financial products SMEs seek in the first instance.

Preferred sources of finance

Finance for different reasons/scenarios

Overall, regardless of reason, a bank loan or commercial mortgage was the preferred option for finance (36 per cent). This was followed by a bank overdraft (23 per cent) and loans/equity from friends and family (10 per cent).

Where bank loans or overdrafts were mentioned, the bank that would be approached was predominantly the main one they dealt with (94 per cent, but slightly less likely with investments in premises/assets – 91 per cent).

For working capital to cover late/non payment, a bank overdraft was the most preferred option (40 per cent), followed by bank loans or mortgages (18 per cent). This group was more likely than average to consider credit cards (five per cent), personal savings/loans (five per cent) and factoring (two per cent).

Within this group, overdrafts were more likely to be considered by employers (50 per cent) than those with no employees (37 per cent). The latter were more likely than average to consider loans or equity from friends and family (11 per cent, compared to four per cent of employers), and credit cards (six per cent, compared to three per cent of employers). Both groups were as likely as each other to consider bank loans.

For working capital to boost expansion, a bank loan was the most preferred option (39 per cent), followed by a bank overdraft (22 per cent) and loans/equity from family and friends (13 per cent).

As was the case of working capital to cover late payment, overdrafts were more likely to be considered by employers (25 per cent) than those with no employees (21 per cent), and loans/equity from friends and family were more likely to be considered by those with no employees (16 per cent, compared to three per cent of employers).

Table 26: Preferred sources of finance for different scenarios

	Total	Working capital to cover late/non payment	Working capital to boost expansion	Investment in premises or fixed asset
n=	1508	488	498	522
	%	%	%	%
Bank Loan/ mortgage	36	**18**	39	**50**
Bank Overdraft	23	**40**	22	**7**
Loans/equity -friends/ family	10	9	**13**	**7**
Credit cards	4	**5**	2	3
Grants	3	**0**	4	**5**
Personal savings/loans etc.	3	**5**	2	2
Leasing or hire purchase	3	**0**	*	**7**
Loans or equity from directors	1	1	1	*
Factoring	1	**2**	*	**0**
Equity from third parties	1	**0**	1	1
Loans from third parties	1	1	0	1
Invoice discounting	*	1	*	*
Internal funding	*	*	*	*
Finance company	*	0	*	1
Peer-to Peer lending	*	*	*	*
Crowd sourcing	*	0	*	0
Mezzanine finance	*	0	*	0
Other	4	2	2	**6**
Not applicable	7	7	6	7
Don't know	5	**7**	5	2
Refused	1	1	1	*

Base = all SMEs (n=1508)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. B1a. Single answer only allowed at this question

For investment in premises or a fixed asset, a bank loan or commercial mortgage was the preferred option for fifty per cent of SMEs. Seven per cent each preferred a bank overdraft, loans/equity from family and friends and leasing/hire purchase. Five per cent would seek a grant.

In this scenario bank loans/mortgages were preferred by employers (56 per cent) than those with no employees (48 per cent). Loans or equity from family and friends were more likely to be preferred by those with no employees (nine per cent, compared to two per cent of employers). This was also the case for bank overdrafts (eight per cent of those with no employees, five per cent of employers).

Leasing/HP was preferred by 11 per cent of employers and five per cent of those with no employees. It is notable that 27 per cent of those that actually sought finance for premises or fixed assets in the last 3 years chose this option, a much higher proportion than that seen here.

Overall, the picture is that most SMEs, regardless of purpose, think of banks in the first instance when they have a need for finance. The (lack of) awareness and consideration of non-bank sources of finance is explored in the next chapter.

Actions that would be taken if refused finance from preferred source

If SMEs were refused finance from their preferred source, 46 per cent claim they would talk to another financial institution offering the same type of product. Thirty per cent would try to negotiate a new finance facility with the provider originally approached, and 24 per cent would talk to another financial institution to arrange an alternative form of borrowing. Eighteen per cent would give up on their plans.

Table 27: What would happen if refused finance from preferred source – by different scenarios

	Total	Working capital to cover late/non payment	Working capital to boost expansion	Investment in premises or fixed asset
n=	1508	488	498	522
	%	%	%	%
Talk to another financial institution offering same type of product	46	**40**	49	48
Talk to the finance institution to negotiate a new finance facility with them	30	33	31	**26**
Talk to another financial institution to arrange an alternative form of borrowing	24	25	**21**	27
Nothing/ give up	18	**14**	18	**21**
Use personal savings/credit card/remortgage	3	**5**	3	2
Get a loan from friends/family	2	2	*	**3**
Approach the bank	2	2	2	1
Talk to an advisor	2	**3**	1	1
Other	4	5	4	4
Don't know	3	6	2	2

Base = all SMEs (n=1508)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. B2. Multiple answers allowed at this question

The planned behaviour here was different according to scenario. Those needing money for working capital were less likely than average to talk to another financial institution (40 per cent), but were also less likely to give up their plans (14 per cent). They were also more likely than average to use personal savings, credit cards or to remortgage (five per cent). Those investing in premises or fixed assets were more likely to give up on their plans (21 per cent).

Of those saying they would seek an alternative product, 65 per cent were not sure what product this would be. The most common products mentioned were traditional ones – 13 per cent would seek a bank loan or mortgage, five per cent an overdraft and four per cent credit card finance.

Chapter 7 conclusions

- Overall, regardless of purpose, most SMEs think of banks when they have a need for finance. A bank loan or commercial mortgage was the preferred option for finance followed by a bank overdraft and loans/equity from friends and family. Where bank loans or overdrafts were mentioned, the bank that would be approached was predominantly the main one they dealt with.

- If they were refused finance from their preferred source, nearly half of SMEs claim they would talk to another financial institution offering the same type of product. Thirty per cent would try to negotiate a new finance facility with the provider originally approached, and 24 per cent would talk to another financial institution to arrange an alternative form of borrowing. However, eighteen per cent would give up on their plans.

Chapter 8: Non-bank sources of finance

This section explores whether the preference for bank finance is due to a lack of awareness of non-bank sources, or because these have been considered by SMEs but rejected for various reasons.

Awareness of finance

SMEs were asked whether they were aware of different sources of non-traditional bank finance, and whether they knew of specific suppliers they might approach if they ever needed this type of finance.

Awareness of different sources

The vast majority of SMEs were aware of credit card finance (95 per cent). Leasing/hire purchase is known by 85 per cent, Government or local government grants by 63 per cent, venture capitalists by 53 per cent, and asset based finance by 52 per cent. Less than a third were aware of business angels, export/import finance, peer to peer lending, and less that 12 per cent were aware of crowd sourcing or mezzanine finance.

Table 28: Awareness of different source of finance

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
Credit cards	95	94	96	95	96	97
Leasing or hire purchasing	85	84	**89**	87	**96**	**97**
Government or local government grants	63	60	**70**	**69**	**75**	**79**
Venture capitalists	53	50	**62**	**59**	**77**	**83**
Invoice finance or factoring (asset based finance)	52	**47**	**68**	**64**	**84**	**85**
Business angels	31	28	**40**	**38**	**48**	**51**
Export or import finance, such as document credits	28	**24**	**37**	**35**	**45**	**68**
Peer to peer lending	23	21	**30**	**28**	**39**	**34**
Crowd sourcing	12	12	**14**	**14**	14	15
Mezzanine finance	11	9	**16**	**14**	**20**	**40**
None of these	3	3	2	2	0	3

Base = all SMEs (n=1508)

Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A1. Multiple answers allowed at this question

With the exception of credit cards, which almost everyone was aware of, awareness of these products was very correlated to size, with medium-sized businesses tending to be the most aware of each source of finance.

Those that sought finance in the last 3 years were also more likely than average to be aware of most finance types. Social enterprises were generally less aware than SMEs on average to be aware of all finance types.

Lower than average proportions of MEG led (68 per cent), female-led (78 per cent) and social enterprises (59 per cent) were aware of **leasing/hire purchase**. This is a product more likely to be associated with certain sectors such as production (92 per cent aware), information/communications (95 per cent) and business services (90%). Those in other services were less likely to be aware (77 per cent) as were start-ups (76 per cent).

The sectors that were more likely to be aware of **Government/local government grants** were production (75 per cent), information/communications (78 per cent), business services (73 per cent) and technology businesses (80 per cent). Construction (43 per cent) and administrative/support (53 per cent) were less aware. There were no differences according to age of business.

Sixty per cent of businesses aged 1-5 years were aware of **venture capitalists**, but only 44 per cent of start-ups. Eighty-one per cent of information/communication businesses, and 80 per cent of business services and technology businesses were aware of these, but only 33 per cent in construction, and 46 per cent in other services.

Fifty-nine per cent of start-ups and businesses aged 1-5 years were aware of **asset finance**. Sixty-three per cent of those in production, 74 per cent of those in information/communication, 60 per cent in transport, retail and distribution and 70 per cent in business services were aware. Awareness was again lowest in construction and other services.

Those who knew about any type of asset finance were most likely to be aware of factoring (80 per cent), followed by invoice discounting (63 per cent). Twenty-eight per cent were aware of supply chain finance (reverse factoring).

Fifty-three per cent in information/communications, 59 per cent in business services and 50 per cent of technology businesses were aware of **business angels**, compared to 12 per cent in construction and 20 per cent in other services.

Export/import documents were best known in production (34 per cent), information/communications (41 per cent) and business services (41 per cent). Only 17 per cent of start-ups were aware of these.

Peer to peer lending was known by 46 per cent in information/communications and 39 per cent in business services.

Those aware of peer to peer lending were most likely to have come across it through articles in the media (27 per cent), by word of mouth (16 per cent) and through internet searches (15 per cent).

Crowd sourcing was known by 27 per cent in information/communications and 26 per cent in business services.

Those aware of crowd sourcing were most likely to have come across it through internet searches (21 per cent), articles in the media (19 per cent) and by word of mouth (17 per cent).

Mezzanine finance was known by 20 per cent in business services. This was best known by mature companies of 10 years or more, 12 per cent of whom were aware of this type of finance.

Those aware of mezzanine finance were most likely to have come across it through their current or previous job (18 per cent), word of mouth (16 per cent), general knowledge (10 per cent) and, to a lesser degree the media (nine per cent) and internet searches (8 per cent).

The picture that emerges is that larger SMEs and those in certain sectors (information/communication, business services and technology) have much greater awareness of non-traditional forms of finance. Those in other sectors (construction, other services) and social enterprises have the least awareness[17].

The qualitative interviews support these findings. Most respondents were aware of leasing/HP and invoice financing, but very few had heard of mezzanine finance, peer to peer lending or crowd sourcing.

[17] In the cases of construction and other services this is likely to be because they tend to have fewer employees. This is not the case for social enterprises.

Case study 3   user of asset finance

The business has 35 employees and provides construction support in the area of renewable energy. The business currently uses factoring in order to generate finance to allow it to grow (level of finance accessed not disclosed).

The company had a venture capital investment over 3 years ago as the business needed significant additional capital to allow it to grow. In order to minimise the funds the venture capital provider would need to invest, an agreement was reached that in the future some finance could come through other external finance options such as leasing, hire purchase or asset finance.

Due to the nature of the business (using limited large equipment), leasing/HP was thought to be inappropriate by the venture capitalist and company directors; therefore, asset finance was sought.

When deciding on possible asset finance companies to work with the provider was given advice by the VC, who recommended a provider. The company entered into a factoring arrangement with the provider in 2011.

The company received support from their solicitors but found that they did not have relevant experience, which meant they were not helpful. They then sought out alternative solicitors who would have the relevant skills.

'To be able to negotiate a good deal with invoice financers you have to have lawyers who have experience in this area'

Overall, the company found the process relatively straightforward; however, retrospectively they have found that the ease of the process may have come at the cost of overall efficiency, savings and some personal risk to the directors who had to use their personal assets to guarantee the finance.

'The provider requires personal guarantees from all the directors to underwrite the credit risk which is pretty Draconian really'

The employer believes that at the time many asset finance providers would not have taken them on as a client as they are a relatively young company, and do not have the track record other banks would require. As such they perceive that at the time they had no other alternative as: *'the company had its back to the wall and promptly signed'*

The respondent believes that overall it is very difficult for SMEs to raise finance as they are perceived to be 'risky'. In their case they had an advantage as the nature of their business makes them appealing to investors. However, beyond asset finance they are not very confident in businesses ability to raise finance.

Awareness of specific suppliers for different sources of finance

Whereas 85 per cent of SMEs were aware of leasing/hire purchase, only 54 per cent knew who they might approach for this. Similarly, awareness of who to approach for other forms of finance was much lower than overall awareness. In general, about half of those aware of a form of finance knew who to approach, but this proportion was even lower in the case of venture capital and business angels.

As for overall awareness, larger SMEs and those in certain sectors (information/ communication, business services, production, technology) were more likely than average to know who to approach, as were those that had sought finance in the last 3 years. Those with no employees were the least aware.

Table 29: Awareness of specific suppliers for different source of finance

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
Credit cards	78	77	**83**	**82**	**86**	**89**
Leasing or hire purchasing	54	**50**	**66**	**62**	**81**	**89**
Government or local government grants	37	34	**44**	**42**	**48**	**62**
Invoice finance or factoring (asset based finance)	30	**23**	**48**	**44**	**65**	**77**
Venture capitalists	18	**15**	**28**	**25**	**40**	**47**
Business angels	12	**10**	**20**	**19**	**22**	**31**
Export or import finance, such as document credits	12	**9**	**18**	**16**	**26**	**46**
Peer to peer lending	11	9	**15**	**14**	**23**	**15**
Crowd sourcing	5	5	**7**	**8**	5	7
Mezzanine finance	5	**3**	**9**	**8**	**12**	**31**
Do not know any specific suppliers	12	13	**9**	10	**6**	**5**
Not aware of any of these types of finance	3	3	2	2	0	3

Base = all SMEs (n=1508)

Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. A2. Multiple answers allowed at this question

Sources that would be considered if difficult to get bank finance

SMEs were asked which of the following types of finance they would be willing to use if they had difficulties raising finance from a bank in the future.

Forty-nine would consider leasing or hire purchase, 28 per cent a charity or community funder, 25 per cent a non-bank credit card, 23 per cent peer to peer lending, 16 per cent invoice finance, eight per cent equity investments from VCs or business angels, four per cent mezzanine finance, and three per cent equity through crowd sourcing.

Table 30: If had difficulties getting bank finance, which sources of non-bank finance would they consider

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
Leasing or hire purchase	49	46	**57**	**55**	**67**	**73**
Charity or community funder	28	29	**24**	**24**	24	23
Non bank credit card	25	25	**23**	24	**17**	18
Peer to peer lending loan	23	23	25	24	**30**	19
Invoice finance	16	14	**23**	**20**	**34**	**48**
Equity from Business Angels or Venture Capitalist	8	**3**	**21**	**19**	**30**	**23**
Mezzanine finance	4	3	**8**	**7**	**12**	**21**
Equity through Crowd sourcing	3	**2**	**7**	**6**	**13**	**12**
None of these	23	24	**18**	**19**	**13**	**13**
Don't know	3	2	3	4	3	4

Base = all SMEs (n=1508)

Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. B8. Multiple answers allowed at this question

Forty-nine would consider leasing or hire purchase, 28 per cent a charity or community funder, 25 per cent a non-bank credit card, 23 per cent peer to peer lending, 16 per cent invoice finance, eight per cent equity investments from VCs or business angels, four per cent mezzanine finance, and three per cent equity through crowd sourcing.

Employers were more likely than those with no employees to consider most of these types of finance, the exceptions being charity/community funding and non-bank credit cards.

Compared to overall awareness and the proportions that knew who they might approach for different sources of funding, consideration of peer to peer lending is very high. Only 23 per cent were aware of this option, yet the same proportion would consider it if they had difficulties getting bank finance. The same cannot be said for the other forms of finance, where consideration was much lower than awareness.

Leasing/HP was more likely than average to be the choice of businesses aged 10 years or more (53 per cent). It was more likely to be considered in production (62 per cent) and business services (55 per cent).

Charity/community funding was most likely to be considered by start-ups (42 per cent), businesses aged 1-5 years (39 per cent), the other service sector (39 per cent), female-led businesses (35 per cent) and social enterprises (48 per cent).

Non-bank credit cards were most likely to be considered by start-ups (32 per cent), businesses aged 1-5 years (33 per cent), and those in information/communication (37 per cent).

Peer to peer lending loans were most likely to be considered by start-ups (32 per cent), and the information/communications sector (32 per cent).

Invoice finance was most likely to be considered by start-ups (24 per cent), businesses aged 1-5 years (26 per cent), and those in information/communication (23 per cent).

Equity from business angels or VCs was only given as an option for companies. Thirty-two per cent of companies would consider this option, making it a more popular form of finance among them than any other type of finance apart from leasing/HP. Younger SMEs appeared to be more willing to use equity finance than older businesses.

Mezzanine finance was most likely to be considered by start-ups (11 per cent).

Equity through crowd sourcing was again only given as an option for companies. Thirteen per cent of companies would consider this option, making it a more popular form of finance than mezzanine finance. Again, younger SMEs appeared to be more keen on this type of finance than older businesses.

The overall picture here is that younger SMEs (aged up to 5 years, but particularly start-ups) are more open to consideration of non-bank types of finance.

In the qualitative SMEs were only likely to consider alternative types of finance if they had difficulty gaining bank finance. They tended to feel that many of the options were not relevant to them, e.g. smaller employers did not think equity finance was relevant to their situation.

Several respondents had specific concerns about factoring and invoice finance and how it would impact on their customers. They did not want third parties contacting their clients and demanding payment as it may damage their relationship with them.

Most respondents also had concerns regarding equity finance, as they did not want to give up control of their businesses to third parties. One interviewee also felt the terms for equity investment were often too stringent.

'I know there are schemes where they put you in with venture capitalists. But I'm not interested in them - it's ridiculous what they ask. With the (equity) percentage they demand you may as well shut your business and go home.'

Case study 4 non bank regional lender

The business provides window films for commercial and residential properties. It has accessed £15,000 external finance through a non-bank lender in the North West in order to expand the business through purchasing more products.

The business required external finance in order to enable expansion and growth as, with bigger cash reserves, they can buy more products and respond better to increasing customer demand.

In the first instance the employer approached their own bank to apply for a loan. They were successful in their application, but they felt the interest rate of 12% was too high to accept.

'*The interest rate was prohibitive shall we say'*

The business was put off approaching other banks as the bank they had applied to had not shown any flexibility. They were only able to offer the interest rate generated by their computer.

Following this the respondent did a lot of research on the internet to identify alternative sources of finance. They felt business angel finance was not appropriate as they did not want to give away shares in their company, and there were too few grants available.

'I did a google search and found a list sites that showed different sources of finance and went from there'

The respondent identified a regional lender through online search engines which offered a preferable rate of interest. They believe that this is the best option to enable them to grow their business and believe future business success is reliant on successively accessing this.

'If I get this I can grow the business massively, but if I can't I'm stuck. This loan is 4% interest'

The respondent identified that the business had committed significantly more time to their application to the non-bank lender than they did to their bank, as the questions and information needed are more rigorous and there are more applicants for it. Unlike the regional lender, the employer felt the bank was primarily concerned with their credit score.

Chapter 8 conclusions

- Whilst the vast majority of SMEs are aware of finance from a bank, awareness of other sources of finance is lower. For instance, 53 per cent of SMEs were aware of venture capitalists, and 52 per cent were aware of asset based finance. However, less than a third were aware of business angels, export/import finance, peer to peer lending, and less that 12 per cent were aware of crowd sourcing or mezzanine finance. Fewer businesses were actually aware of specific suppliers for these non-bank types of finance.

- Businesses were cautious about using alternative funding sources. Whilst forty-nine per cent would consider leasing or hire purchase if they could not obtain bank finance, only 23 per cent considered peer to peer lending, 16 per cent invoice finance, eight per cent equity finance from VCs or business angels. Just four per cent would consider mezzanine finance, and three per cent equity through crowd sourcing.

Chapter 9: Awareness and perception of Government schemes

This chapter examines SMEs awareness of Government finance schemes that are intended to help SMEs gain the finance they need, and the perceptions of how easy or difficult it is to find out about these schemes, and apply for them.

Awareness of Government schemes

Types of financial products covered by Government schemes

Those that had used finance in the last 3 years were asked whether they were aware of any financial support that was available from the Government, e.g. a guarantee or tax relief for investors. If they were aware, they were asked which types of finance were covered by these schemes.

Overall, 15 per cent claimed they were aware of such schemes. However, the majority were not able to say which financial products were covered by the schemes. Only six per cent of those that had used finance could name a recognisable financial product (bank loans, bank overdrafts and leasing/HP all accounted for two per cent each), with the remaining nine per cent remembering the existence of schemes, but not knowing which products they applied to.

Employers were more likely than average to be able to name specific products covered (ten per cent compared to five per cent of those with no employees). This proportion increased to 16 per cent among small businesses, and 15 per cent among medium-sized ones. By sector, those in production (ten per cent) and business services (ten per cent) were more likely to know which products were covered.

Awareness of specific Government schemes (spontaneously[18])

Those that had used finance and who claimed they were aware of Government financial schemes were asked to name these spontaneously. Four per cent of these named the Enterprise Guarantee Scheme, two per cent Small Business Rate Relief. There were a few mentions for the Enterprise Investment Scheme, National Loan Guarantee Scheme, Research & Development Relief Scheme and Technology Strategy Board, and a variety of mentions for institutions through which the schemes had been provided (financial providers, RDAs, Government bodies etc.). However, 65 per cent were unable to mention anything.

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[18] Where answers are described as spontaneous, the interviewer does not prompt the respondent with possible responses. Where the question is described as prompted, possible answers are read to the respondent, and he/she has to say which they are aware of (or which they agree with, or which apply to them). Therefore, there are always higher levels of recognition for prompted rather than spontaneous questions.

Awareness of specific Government schemes (prompted)

When prompted with the names of these schemes, 23 per cent of all SMEs were aware of the Enterprise Finance Guarantee. Nineteen per cent were aware of the National Loan Guarantee Scheme, 13 per cent the Community Development Finance Initiative, seven per cent Venture Capital Trusts, four per cent the Enterprise Investment Scheme and Business Growth Fund respectively, and three per cent Enterprise Capital Funds.

Table 31: Whether aware of the following Government schemes (prompted)

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
AWARE OF ANY	39	36	**46**	41	**68**	**63**
The Enterprise Finance Guarantee (EFG)	23	22	**27**	25	**38**	**42**
National Loan Guarantee Scheme (NLGS)	19	18	**22**	20	**35**	**32**
Community Development Finance Initiative (CDFI)	13	13	12	**10**	**18**	**19**
Venture Capital Trusts (VCT)	7	**2**	**19**	**15**	**32**	**39**
Enterprise Investment Scheme (EIS)	4	**1**	**13**	**10**	**24**	**26**
The Business Growth Fund (BGF)	4	**1**	**11**	**9**	**20**	**20**
Enterprise Capital Funds (ECFs)	3	**1**	**7**	**6**	**12**	**13**
None of these	61	64	**54**	59	**32**	**37**

Base = all SMEs (n=1508)

Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. D1. Multiple answers allowed at this question

Among those that had sought finance in the past 3 years, awareness of the schemes was not higher than for SMEs as a whole. In fact, awareness of the EFG was lower than average at 20 per cent, and 64 per cent had not heard of any of the schemes.

Most schemes (CDFI excluded[19]) had better awareness levels among employers. They were all better known by small and medium sized businesses than by micros.

The **Enterprise Finance Guarantee** (EFG) was more likely to have been heard of by businesses aged 10 years or more (27 per cent), and those in production (37 per cent) and business services (35 per cent).

[19] This may be because CDFIs provide micro finance and are targeted at smaller businesses.

The **National Loan Guarantee Scheme** (NLGS) was best known by businesses aged 10 years or more (23 per cent), and those in information/communications (34 per cent), business services (37 per cent) and technology businesses (34 per cent).

The **Community Development Finance Initiative** (CDFI) was best known by businesses aged 10 years or more (15 per cent), but also by start-ups (17 per cent). By sector, it was best known in business services (16 per cent), engineering/pharmaceutical manufacturing (25 per cent) and technical testing/science (21 per cent). Twenty per cent of social enterprises were aware of this, but the finding is not statistically significant because of small sample sizes.

Venture Capital Trusts (VCTs) were better known by those in information/ communications (18 per cent) and business services (ten per cent).

The **Enterprise Investment Scheme** (EIS) was best known by information/ communications and technology businesses (10 per cent each).

The **Business Growth Fund** (BBGF) was best known in the information/communications (eight per cent), production (nine per cent) and technology (nine per cent) sectors.

Enterprise Capital Funds (ECFs) were best known by start-ups (five per cent), and those in production (four per cent), information/communications (five per cent) and technology businesses (five per cent).

In general, the level of awareness of most of these schemes was lower than average among women-led businesses and social enterprises.

The most common way of becoming aware of these schemes was through news/press releases or Government speeches (51 per cent of those that had heard of any scheme). This was followed by friends/word of mouth (18 per cent), internet searches (12 per cent) and actual experience of applying for them (seven per cent). Three per cent had heard of the schemes through Business Link, three per cent through their bank, three per cent through financial advisers, two per cent from trade press and two per cent through their accountants.

Overall, current knowledge of government schemes amongst qualitative interviewees tended to be low. Those that felt they were more aware of government schemes tended to be from larger businesses that had higher levels of expertise in accessing finance.

Knowledge of how to access Government schemes

Nine per cent of all SMEs knew how to access funding through any of these schemes. This proportion was higher for employers (15 per cent), and highest for medium-sized businesses (32 per cent). The proportion was no higher among SMEs that had sought finance in the past 3 years (eight per cent).

By sector, awareness of how to access any of these schemes was highest in business services (20 per cent). Although awareness of the schemes was high in the information/communications and technology sectors, higher than average proportions in these did not know how to access the schemes.

The ranking of the schemes in terms of where SMEs were most likely to know how to access funds follows the order of overall awareness.

Table 32: Whether know how to access funds through Government schemes (prompted)

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
KNOW HOW TO ACCESS ANY	9	7	**15**	**12**	**23**	**32**
The Enterprise Finance Guarantee (EFG)	5	4	**7**	**7**	**9**	**15**
National Loan Guarantee Scheme (NLGS)	4	3	**6**	4	**13**	**14**
Community Development Finance Initiative (CDFI)	2	2	2	2	2	4
Venture Capital Trusts (VCT)	2	*****	**6**	**5**	**7**	**17**
Enterprise Investment Scheme (EIS)	1	**1**	**4**	**3**	**4**	**13**
The Business Growth Fund (BGF)	1	*	**2**	**2**	**5**	**9**
Enterprise Capital Funds (ECFs)	1	*	1	1	1	**9**
Aware of some, but don't know how to access funds	30	29	31	29	**45**	31
Not aware of any	61	64	**54**	59	**32**	**37**

Base = all SMEs (n=1508)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. D2. Multiple answers allowed at this question

Finance finder

When prompted, nine per cent of SMEs said they were aware of the finance finder tool on the Business Link website. This proportion was eight per cent for those with no employees, and 11 per cent of employers (ten per cent of micros, 17 per cent of small businesses and nine per cent of mediums).

Fourteen per cent of MEG-led businesses were aware of finance finder, as were 16 per cent of start-ups, 17 per cent of businesses aged 1-5 years, 14 per cent of transport, retail and distribution businesses, 14 per cent of those in information/communications, and 12 per cent of technology businesses.

By contrast, only three per cent of businesses aged 5-10 years, seven per cent of those aged 10 years or more, and one per cent of construction businesses were aware of the tool.

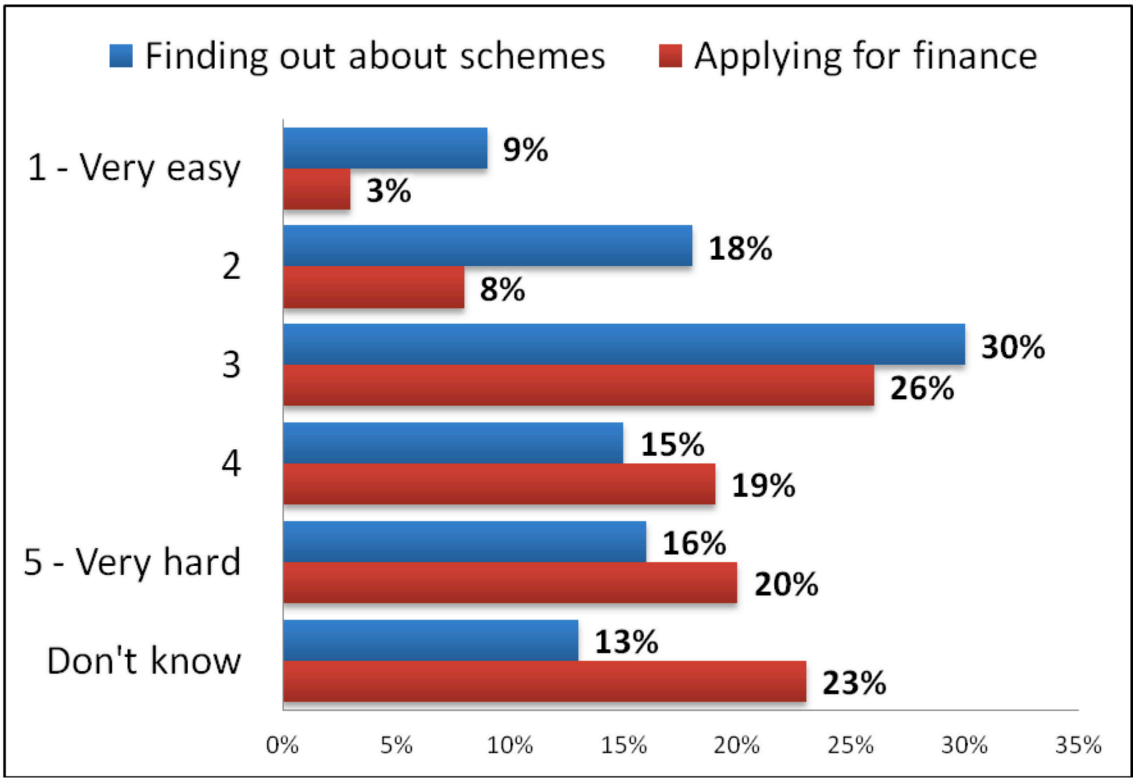
Perceptions of Government finance schemes

Ease of finding out and applying for Government finance schemes

SMEs were asked to rate how hard it was to find out about Government access to finance schemes on a scale of one to five, where one was very easy and five very hard, (see blue bars in chart below).

As a follow up question, on the same scale, they were asked to rate how hard it was to apply for finance under Government access to finance schemes (see red bars in chart below).

Figure 12: How easy or hard is it to find out about and apply for Government finance schemes



Base = all SMEs (n=1508)

Twenty-seven per cent of SMEs thought it was easy to find out about Government access to finance schemes (nine per cent very easy, 18 per cent quite easy), whilst 31 per cent thought it was hard. Employers were more likely to think it hard than those with no employees (no employees = 29 per cent, micros 37 per cent, small 38 per cent, mediums 34 per cent).

Thirty-six per cent of those that had sought finance in the past 3 years thought it was hard, compared to 29 per cent of those that had not.

Start-ups (45 per cent) and those with businesses aged 1-5 years (39 per cent) were more likely to think it hard than older businesses.

By sector it was most likely to be thought hard by those in transport, retail and distribution and administrative/support (41 per cent each).

By contrast, only 11 per cent of SMEs thought it was easy to apply for finance under Government schemes, and 39 per cent thought it was hard (lower percentages for this question are accounted for by a higher instance of SMEs not knowing enough to rate).

Of those that sought finance in the past 3 years, ten per cent thought it was easy to apply for Government finance schemes, and 45 per cent thought it was hard.

Start-ups (49 per cent) and those aged 1-5 years (52 per cent) were the most likely to think it hard, as were those in transport, retail and distribution (44 per cent). Employers (44 per cent) were more likely to think it hard than those with no employees (37 per cent).

Where would SMEs go to find out more information on Government access to finance schemes

If SMEs wanted to find out more about Government access to finance schemes, the majority of SMEs would make a general search on the internet (53 per cent). Others would go to specific internet sites (17 per cent), Business Link (13 per cent), their accountant (seven per cent), a business representation organisation (six per cent), a friend or colleague (three per cent), their bank (three per cent) or a financial adviser (three per cent).

In general, younger companies (0-5 years old) were more likely than average to rely on the internet, and older companies more likely than average to consult individuals such as accountants.

Specific websites mentioned include Direct.gov, Google, Business Link, Business Gateway, and HMRC. Mainly, however, those that said they would go to specific internet sites could not remember their names, other than that they were provided by the Government.

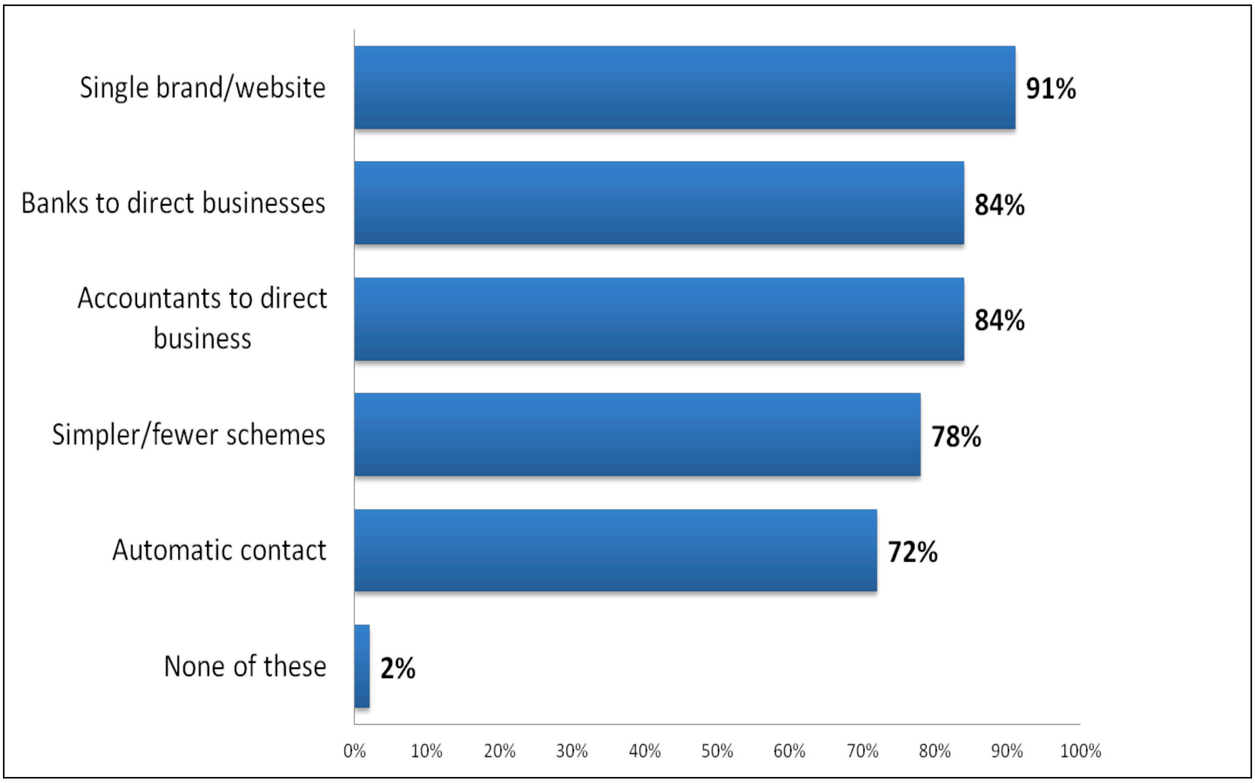
Improvements to Government schemes

From a prompted list, SMEs were asked whether a number of potential measures would make Government support for schemes easier to identify and understand.

Ninety-one per cent of SMEs agreed that having a **single brand and website** covering all Government schemes would be a good idea. This concept appealed to the vast majority of all SMEs, but especially female-led businesses (94 per cent), businesses aged 1-5 years (96 per cent), and those that had sought finance in the past 3 years (93 per cent).

Eighty-four per cent of all SMEs agreed that greater awareness amongst **banks to direct businesses** to appropriate Government schemes would be an improvement. This particularly appealed to micro businesses (87 per cent), social enterprises (95 per cent), those in the transport, retail and distribution sector (88 per cent) and those that had sought finance in the last 3 years (88 per cent).

Figure 13: What would make Government schemes easier to identify and understand (prompted)



Base = all SMEs (n=1508)

Similarly popular was the idea that there should be greater awareness amongst **accountants to direct businesses** to appropriate Government schemes, which 84 per cent of SMEs agreed would be a good idea. This was most likely to appeal to micro businesses (87 per cent), businesses aged 1-5 years (90 per cent), and those that had sought finance in the past 3 years (89 per cent).

Having **simpler or fewer schemes** was also a popular idea, with 78 per cent of SMEs saying they would like to see this. This was most likely to appeal to employers (82 per cent), and particularly small businesses (85 per cent) and those in transport, retail and distribution (83 per cent).

Seventy-two per cent of SMEs would like to be **automatically contacted** if there was a relevant Government finance scheme appropriate to them (presumably through registration on a website). This idea was especially appealing to micro businesses (75 per cent), social enterprises (85 per cent), start-ups (86 per cent) and those that sought finance in the past 3 years (78 per cent).

The qualitative interviews support these findings; overall SMEs felt that more could be done to raise awareness of Government finance schemes, with emphasis on more information being available to businesses through a variety of sources including through their banks, information from accountants, and advertisements in the press. However, some businesses stated that they felt the Government could be more proactive in promoting schemes through television and radio adverts. In particular, interviewees felt that the Government should work more with banks to ensure they are willing to lend to small businesses, and that bank managers should be allowed more flexibility when making their decision to lend.

Case study 5 EFG, mezzanine finance

The business is an IT and communications specialist with 12 employees. The business has accessed £1,000,000 external finance through a combination of sources including a bank loan (supported by the Enterprise Finance Guarantee), Hire Purchase and are currently applying for a mezzanine loan.

It was identified that external finance was needed to support the ongoing delivery of the business. Using the expertise of key members of staff including a finance director, it was decided that rather than seeking one large source of funding, different sources of external funding should be accessed to ensure sufficient cashflow.

In the first instance the business approached their bank for a £250,000 loan which was initially refused. However, the business was advised that they may be eligible for the Enterprise Finance Guarantee (EFG) and was able to access a loan of £100,000 (approximately 60 per cent less than was originally applied for). Without the guarantee they would not have been able to access any finance through the bank.

The business is currently in the process of addressing this shortfall in funding by applying to extend their EFG loan. The business believes that at this point in time the bank may be willing to offer them a loan without the EFG, but the extra security allowed them to access this sooner. To additional cost over time of an EFG loan was a risk the business decided it was willing to take.

'*The reality is that as long as it is not too way out on the market prices you need to go with it*'

In addition, the business has also used hire purchase to provide new vehicles. These were accessed through a provider they had an existing relationship with.

The business is also currently in the process of applying for mezzanine finance. They were aware of this source through their own internal expertise and decided to consider this as an alternative to equity finance, as they did not believe that equity investors would want to invest, as they are not a high growth company.

The business has mainly relied on their own internal expertise to find out about and apply for external finance. They have also used the internet to find out more about sources of funding, as well as books on equity finance and finance in general. Previously they have paid external consultants such as specialist accountants to support them in applying for finance. They no longer do so because they have built up the skills and resources (e.g. business plans, forecasts, budgets) in-house over time, and are now more successful and efficient when utilising their own resources.

'The more you go through it the more you realise what people want to see...the business built its processes to ensure we are best placed to access the funds we are looking for.'

Chapter 9 conclusions

- Overall, only 15 per cent of SMEs that had used finance in the last 3 years claimed they were aware of Government finance schemes. However, of these, the majority were not able to say which financial products were covered by the schemes. When prompted with the name of a specific scheme, the majority of SMEs were still not aware of the existence of the finance scheme mentioned.

- The most common way of becoming aware of Government finance schemes was through news/press releases or Government speeches (51 per cent of those that had heard of any scheme). This was followed by friends/word of mouth, internet searches and actual experience of applying for them.

- Ninety-one per cent of SMEs agreed that having a single brand and website covering all Government schemes would be a good idea. Eighty-four per cent of all SMEs agreed that greater awareness amongst banks to direct businesses to appropriate Government schemes would be an improvement. Also popular was the idea that there should be greater awareness amongst accountants to direct businesses to appropriate Government schemes. Having simpler or fewer schemes was also a popular idea, with 78 per cent of SMEs saying they would like to see this. Seventy-two per cent of SMEs would like to be automatically contacted if there was a relevant Government finance scheme appropriate to them.

Appendix

This section is in two parts. The first shows (weighted) sample profiles from the study, which help to explain the characteristics of sub-groups, and how they correlate in different categories; the second part explains the survey methodology, and shows the effect of the weighting.

Sample profiles

Legal status

Legal status was not a weighting criterion in this study, and the overall proportions may not match those from official Government sources.

Sixty-eight per cent of SMEs in this study were sole proprietors, with 24 per cent private limited companies limited by shares, and six per cent partnerships.

Table 33: Sample profile: legal status

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
Sole proprietorship	68	**85**	**21**	**26**	**1**	**4**
Private limited company, limited by shares (LTD.)	24	**12**	**57**	**52**	**76**	**70**
Partnership	6	**2**	**16**	**18**	**13**	**0**
Limited liability partnership	1	0	2	2	**4**	**11**
Private company limited by guarantee	1	*	2	1	**4**	**10**
Public Ltd Company (PLC)	*	0	*	*	1	1
Community Interest Company (CIC, limited by guarantee or shares)	*	0	*	*	1	*
Other	1	1	*	*	0	0
Don't know	*	0	1	*	1	**3**

Base = all SMEs (n=1508). * = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. S3. Single answer only allowed at this question

The preponderence of sole proprietorships is due to 74 per cent of UK SMEs having no employees[20]. Legal status is very correlated with employment size, with 85 per cent of those with no employees being sole proprietors.

Start-up businesses are no more likely than average to be sole proprietorships or private limited companies. Businesses aged 1-5 years are more likely to be private limited companies (40 per cent) and are less likely to be sole proprietorships (55 per cent).

Of those that are private companies limited by guarantee, the majority were social enterprises. This explains why this legal status is more common among medium-sized businesses, a higher than average proportion of which are social enterprises.

Age of business

Because the number of start-up businesses (aged up to one year) was boosted at the design stage, age of business was a weighting criterion.

Ten per cent of SMEs were founded in the last 12 months, 15 per cent between 1 and 5 years ago, 17 per cent between 5 and 10 years ago, and the majority (58 per cent) are 10 years old or more.

There is a strong correlation between age and size of business, as businesses grow over time. Even so, there was little different in the age profiles between micro business and those with no employees.

Table 34: Sample profile: age of business

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
Up to 12 months ago	10	10	9	10	**2**	*****
Over one year, up to 2	5	5	5	6	**1**	**0**
Over 2 years, up to 5	10	10	10	10	10	**1**
Over 5 years, up to 10	17	18	16	17	**10**	14
Over 10 years, up to 15	15	15	15	15	14	10
More than 15 years ago	43	42	45	41	**60**	**75**
Mean (years old)	12.19	12.04	12.63	11.97	15.24	17.34

Base = all SMEs (n=1508)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. S5. Single answer only allowed at this question

[20] Based on BIS population estimates, the main source for weighting targets.

Start-ups are more likely to be found in certain sectors, such as transport, retail and distribution (30 per cent, compared to 18 per cent of all SMEs), and other services (28 per cent compared to 21 per cent of all SMEs). It is well known that retail and catering businesses, which form the bulk of the TRAD sector, have shorter lifespans than most other businesses, and hence constitute a greater proportion of the start-ups.

A higher than average proportion of information/communication businesses (30 per cent) are aged between 5 and 10 years old, whereas 71 per cent of production businesses are over 10 years old.

Sector

Certain sectors and the 'technological' ones in particular, were boosted at the sample design stage to allow for analysis of these. Hence sector was a weighting criterion in the survey, in order to correct the boosted proportion.

The most populous sectors according to BIS Business Population Estimates (BPE) are other services and construction. These constitute an above average proportion of the no employees group (47 per cent), and according to the BPE make up 34 per cent of all SMEs in the UK. Therefore, to a certain extent their behaviour is influential on the findings for all SMEs.

Table 35: Sample profile: sector[21]

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
C1 Engineering/pharma manufacture	1	1	1	1	1	**4**
ABC2DE Other production	8	7	**11**	**11**	**15**	**18**
F Construction	20	23	**13**	**14**	**9**	**7**
GHI TRAD	18	**14**	**32**	**32**	**33**	**27**
J1 Technological infocomms	5	6	4	5	3	3
J2 Other infocomms	1	1	1	1	1	1
M1 Technical testing/science	*	*	*	*	1	0
KLM2 Other business services	17	17	17	18	14	13
N Administrative/Support	8	8	8	8	7	12
PQRS Other Services	21	**24**	**13**	**12**	17	**13**

Base = all SMEs (n=1508)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. S4. Single answer only allowed at this question

[21] The classification of sectors used is SIC 2007. This is explained late in this appendix

Production businesses, which are mainly constituted of manufacturing industries, tend to be larger employers. They make up eight per cent of SMEs overall, but 18 per cent of medium-sized businesses. Similarly, the TRAD sector which mainly consists of retail and catering businesses constitutes 18 per cent of all SMEs, but 27 per cent of medium-sized businesses.

Turnover

Fifty-nine per cent of SMEs in this study had a turnover below the VAT threshold of £73,000. Turnover is very much correlated with employment size.

Table 36: Sample profile: turnover

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1305	435	870	543	208	119
	%	%	%	%	%	%
Less than £73,000	59	**73**	**19**	**24**	**1**	**0**
£73,000 to £249,999	17	**13**	**28**	**34**	**5**	**0**
£250,000 to £499,999	5	**3**	**12**	**14**	7	2
£500,000 to £999,999	3	**1**	**10**	**9**	**18**	5
£1 million to £2.49 million	3	*****	**10**	**5**	**31**	**10**
£2.5 million to £4.99 million	1	**0**	**2**	*	**11**	**9**
£5 million to £9.99 million	1	**0**	**3**	*	**11**	**20**
£10 million to £24.99 million	*	0	**2**	*	**4**	**29**
£25 million or more	*	0	**2**	*	**4**	**18**
Don't know	2	1	3	3	3	3
Refused	9	9	10	11	**5**	**4**
Mean Average ('000s)	£1,078k	£65k	£3,787k	£2,923k	£4,615k	£16,313k

Base = all SMEs trading for at least one year (n=1508)

* = a figure greater than zero, but less than 0.5%. Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. E1. Single answer only allowed at this question

Turnover is also correlated with age of business, with the mean turnover for businesses aged 1-5 years being £140,000, rising to £534,000 for businesses aged over 10 years. There are big differences according to sector to – for production the mean average annual turnover is £5,401,000 and £2,921,000 for administrative/support. This declines to £222,000 in construction, £235,000 in business services and £168,000 in other services.

Ownership

Twenty-three per cent of SMEs in this study are **women-led**, defined as those with no employees where the owner is a woman, or employers which are more than 50% owned by women.

Women-led business are slightly smaller than SMEs generally. Seventy-seven per cent have no employees (compared to 74 per cent overall), and a smaller than average proportion of small and medium sized businesses are women-led, although mean turnover is about average. A third of women-led businesses were founded in the last five years (compared to 25 per cent overall).

Women-led businesses are more likely than average to be found in other services (42 per cent compared to 21 per cent). This sector comprises education, healthcare, arts and leisure and personal services such as hairdressing and beauty treatments.

Table 37: Sample profile: ownership

	Total	No employees	Have employees	Micro (2-10)	Small (11-50)	Medium (51-250)
n=	1508	533	975	640	215	120
	%	%	%	%	%	%
Women-led business	23	23	**18**	22	**12**	**5**
Minority ethnic group (MEG) led business	6	6	7	8	4	6
Social enterprise	4	4	4	4	3	**10**
Not for profit (e.g. charity)	2	1	3	2	4	**14**
None of these	69	68	**72**	70	**81**	**77**

Base = all SMEs (n=1508)

Figures in bold are statistically significant higher (red) or lower (blue) findings for individual SME sub-groups against other SME sub-groups, at the 95% confidence level. E6b/E7. Multiple answers allowed at these question

Six per cent of SMEs in this study are **MEG-led**, defined as those with no employees where the owner is from an ethnic minority background, or employers where the business is 50% or more owned by people from an ethnic minority background. MEG-led businesses may be women-led or male-led.

MEG-led businesses are of a similar employment size to SMEs overall. They tend to be younger, with 22 per cent being start-ups (compared to ten per cent of all SMEs), and 45 per cent being founded in the last five years (compared to 25 per cent for all SMEs). They are more common in certain regions of the UK, with 40 per cent being in London (compared to ten per cent overall in this study). They are most likely to be found in the TRAD sector (27 per cent, compared to 18 per cent of all SMEs). The mean average turnover is much higher than average at £3,440,000.

Four per cent of SMEs in this study are **social enterprises**, defined as those that are run for primarily social objectives with any surpluses being used to further these objectives.

Social enterprises tend to be larger than the average SME, and they constitute 10 per cent of all medium-sized businesses in this study. They are more likely than average to be in the other services sector (42 per cent), although they are actually less likely than average to be women-led.

Social enterprises have a lower than average turnover of £269,000.

Quantitative Research methodology

Sample design and data collection

The universe for this study is all private sector SMEs within the UK, SMEs being classified as having between 0 and 249 employees.

The unweighted sample design included ‘boosts’ or certain sub-groups, where these were sampled above their actual proportion in the SME population. This was so that sample sizes could be achieved that would allow for analysis of these groups with statistical confidence. The sub-groups that were boosted include employers (and particularly those with 10-249 employees), certain ‘technology sectors’ and start-up businesses formed less than one year before the survey fieldwork period. This boosting was largely at the expense of construction, business services and other service businesses.

The sample frame was mainly purchased from Dun & Bradstreet’s commercial database, which is a comprehensive source of registered enterprises, and which contains information on SIC (sector), employment size and credit scores. However, because Dun & Bradstreet’s database is largely sourced from Companies House records and annual returns, it does not contain many records of businesses aged up to one year. Therefore, the sample was supplemented by records from the Thomson New Connections database, which includes first time entries in business directories.

Within each enterprise, the ‘person responsible for managing the businesses finances’ was targeted. For smaller businesses this tended to be the owner, proprietor or managing director. For larger SMEs there was more likelihood of a dedicated financial specialist. The most common job titles encountered in the survey were (in order) owner/proprietor, director, managing director, partner, finance director, financial controller, accountant, finance manager, company secretary, accounts administrator and manager.

1,508 Computer Assisted Telephone Interviews (CATI) were conducted between the 5th and 27th September 2012. The average length of the interview was 25 minutes.

Because of the need to manage the interview length, some questions were only asked of half the overall sample (chosen at random).

There were many open ended and other answers in the questionnaire which required back-coding to existing precodes, and the creation of further codes.

At the analysis stage, data were weighted according to Sector (SIC 2007), employment size and age of business to targets drawn from BIS's 2011 Business Population Estimates (BPE[22]).

Weighting

The table below shows unweighted (actual interviews), and the weighted profile according to employment size, sector and age of business.

Table 38: Sample profile, unweighted vs. weighted

Employment size	Unweighted		Weighted	
	n=	%	n=	%
No employees	533	35	1115	74
Any employees	975	65	394	26
Micro (1-9 employee)	640	42	320	21
Small (10-49 employees)	215	14	62	4
Medium (50-249 employees)	120	8	11	1
Sector	**Unweighted**		**Weighted**	
	n=	%	n=	%
C1 Engineering manufacturing	107	7	10	0.7
ABC2DE Other production	132	8	127	8
F Construction	137	9	303	20
GHI Transport, Retail and Distribution	293	19	278	18
J1 Technological infocomms.	197	13	79	5
J2 Other information/communications	45	3	16	1
M1 Technical testing/science	110	7	5	0.3
KLM2 Other business services	191	12	258	17
N Administrative/support	96	6	116	7
PQRS Other Services	200	13	318	21
C1J1M1 Technology	414	27	94	6
Age of business	**Unweighted**		**Weighted**	
	n=	%	n=	%
Start-up (less than one year)	203	13	151	10
One year, less than five	181	12	227	15
Five years, less than ten	239	16	259	17
Ten or more	881	58	871	58

[22] http://www.bis.gov.uk/analysis/statistics/business-population-estimates. This was the latest data available at the time of analysis

The main effect of the weighting was to increase the proportion of SMEs with no employees from 35 to 74 per cent, and subsequently to decrease the proportion of employers, especially the small and medium-sized businesses.

'Technology' businesses were also boosted. The weighting corrected the proportion they constituted in the sample from 27 to six per cent. Subsequently the proportions of construction, business services and other service businesses decreased.

The proportion of start-ups decreased from 13 to ten per cent after weighting.

Note on sectors

This final section explains the sector classification used in this report.

At all stages sectors have been classified by UK Standard Industrial Classification 2007 (SIC 2007).

ABCDE, which is known as **production** in this report, consists of agriculture, forest and fishing (A – SIC 2007 codes 01-03), mining and quarrying (B – 05-09), manufacturing (C – 10-33), (D – 35) electricity, gas, steam and air conditioning supply and (E – 36-39) water supply, sewerage, waste management and remediation activities. Within this group, manufacturing is the most populous of these categories in terms of numbers of enterprises (238,000[23]), followed by agriculture etc. (150,000). Sectors B, D and E consist of 25,000 enterprises between them.

In this survey the number of interviews with 'engineering/pharmaceutical manufacturing (SIC 26-28)' were boosted, this sector being of particular interest. At the analysis stage the boost was corrected through weighting.

F is **construction** (41-43). This is the largest of the individual sectors in terms of numbers of enterprises (876,000), and the second largest sector grouping in this survey. Within the sector SIC 43 (specialised construction activities) is the largest (543,000 enterprises), followed by SIC 41 (building construction – 297,000).

GHI, which is known as **transport, retail and distribution** (or TRAD) in this report, consists of wholesale and retail trade including repair of motor vehicles (G – 45-47), transportation and storage (H – 49-53), and accommodation and food service activities (I – 55-56). G is the largest of these three sectors, consisting of 484,000 enterprises. The predominant sub-sector within this is retail (256,000). H accounts for 251,000 enterprises and mainly consists of SIC 49 (land transport, 202,000 enterprises). Sector I consists of 147,000 enterprises, most of which are food service (SIC 56 – 121,000 enterprises).

J is **information and communication** (58-63). This has 269,000 enterprises across the UK. Within this sector computer programming and consultancy (SIC 62) is the largest category with 153,000 enterprises, followed by motion pictures, video and television

[23] For the sake of consistency, 2011 BPE estimates have been used in this sector

programme production, sound recording and music publishing (SIC 59 – 51,000 enterprises) and publishing (SIC 58 – 35,000).

In this survey the number of interviews with 'technological information/communications (SIC 58.2, 61-63)' were boosted, this sector being of particular interest. At the analysis stage the boost was corrected through weighting.

KLM, which is known as **business services** in this report, consists of financial and insurance activities (K – 64-66), real estate activities (L – 68), and professional, scientific and technical activities (M – 69-75). M is by far the largest in terms of number of enterprises (606,000), and within this the largest groups are head office and management consultancy (SIC 70 - 159,000), legal and accounting (SIC 69 - 126,000), architectural and engineering (SIC 71 - 129,000) and other professional (SIC 74 - 136,000). Financial and insurance accounts for 83,000 enterprises, and real estate for 87,000.

In this survey the number of interviews with 'technical testing/science (SIC 71.2, 72)' were boosted, this sector being of particular interest. At the analysis stage the boost was corrected through weighting.

N is **administrative and support sector activities** (77-82). This comprises 340,000 enterprises, with the largest codes within the sector being services to building and landscaping (SIC 81 – 189,000), and office administration and support (SIC 82 – 69,000). The sector also includes employment agencies, travel agents and tour operators and security and investigation.

PQRS, which is known as **other services** in this report, consists of education (P – 85), human health and social work (Q – 86-88), arts, entertainment and recreation (R – 90-94), and other service activities (S – 95-96). This is the largest sector grouping in this survey. Education accounts for 231,000 enterprises and human health for 309,000 (SIC 86 – human health – 169,000; SIC 88 – social work – 119,000). Arts and leisure constitutes 195,000 enterprises (SIC 90 – creative arts and entertainment – 113,000; SIC 93 - sport and recreational activities 72,000). Other services (252,000 enterprises) is largely comprised of personal services (181,000 enterprises), which includes dry cleaning, hairdressing and other beauty activities.

The sectors O (public administration and defence), T (activities of households as employers) and U (activities of extraterritorial organisations) are not generally considered to be private sector SMEs, and as such are excluded from the sample design for this survey.

Qualitative research sample and methodology

Qualitative interviews were recruited from a combination of respondents to the SME Journey Towards Raising External Finance quantitative survey, and SMEs who had taken part in the 2012 Small Business Surveys. Respondents had all indicated they would be willing to take part in further research.

SMEs were selected to take part in the qualitative based on the type of finance they had tried to access, and their reasons for accessing finance. Due to low incidence it was not possible to have many interviews with those that had accessed mezzanine finance and peer to peer lending.

The table below provides an overview of the SMEs that took part based on our selection criteria.

Primary source of finance sought	Number of interviews
Sought a bank loan in the past year	6
Sought to arrange (or re-arrange) a bank overdraft in the past year	3
Sought equity finance from VCs, business angels or other private equity	3
Sought leasing/hire purchase	5
Sought asset finance (invoice discounting/factoring)	5
Sought peer to peer lending	1
Sought mezzanine finance	1
Discouraged from applying for finance	6
Reasons for seeking finance	**Number of interviews**
Working capital	8
Purchase assets	11
General growth	7
Refinancing	2
Start up	2

Interviews were conducted by senior qualitative researchers at BMG by telephone and lasted approximately 30 minutes. Interviewers used a topic guide which was used flexibly to ensure the main issues were discussed, whilst allowing interviewers to follow up any additional points as required.

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