



SMEs report reduced demand for external finance

Largest independent survey of UK SMEs highlights “discouragement” and economic climate as main barriers to borrowing

London 17th November 2011: BDRC Continental (www.bdrcc-continental.com) today publishes the second quarterly SME Finance Monitor which investigates the availability of finance for the UK’s small and medium-sized enterprises (SMEs). The research has been commissioned by the Business Finance Taskforce and is the largest and most frequent study of its kind in the UK.

The findings are based on 10,118 telephone interviews conducted amongst UK businesses with up to £25 million turnover between February and September 2011. The full report can be found online at <http://www.sme-finance-monitor.co.uk/>

Current demand for finance

At present, only half of SMEs use external finance such as loans, overdrafts, credit cards, leasing and invoice finance. The latest research from the SME Finance Monitor shows that very few SMEs are applying for new and/or renewed finance in the form of loans and overdrafts. In Q3, 74% or 3.37 million SMEs hadn’t felt the need to seek a loan or overdraft during the previous 12 months (these are classified as “happy non-seekers”). Indeed, looking at the SME market as a whole, a third of them (33%) are in fact completely “disengaged” from borrowing and are happy to be so. This equates to 1.5 million businesses that haven’t, don’t currently and don’t want to use external finance now or in the immediate future.

The report identifies a segment of SMEs called “would-be seekers” - companies that wanted to borrow in the past 12 months but didn’t apply for a variety of reasons. The number of these companies has remained consistent over the period of the report – moving only one percentage point between Q1-2 at 13% and Q3 at 12%.

Key findings include:

- **Demand for loans/overdrafts has fallen recently.** SMEs interviewed in Q3 were less likely to report any loan/overdraft application or renewal in the previous 12 months compared to SMEs in Q1-2 (15% in Q1-2 compared to 12% in Q3).
- **Demand is unlikely to increase in the next three months.** In Q1-2 19% of all SMEs thought they would apply for new or renewed facilities in the next three months. In Q3 it had dropped to 13% of all SMEs.
- **The majority of new/renewed loan or overdraft applicants were successful.** 79% of overdraft applicants and 63% of loan applicants now have a facility. Older, more established businesses had the highest success rate.
- **2% of all SMEs were unsuccessful with an overdraft application, and 1% were unsuccessful with a loan application.** 70,000 SMEs that applied for an overdraft were unsuccessful: 51,000 of those were applying for their first ever overdraft. This means that overall, 16% of overdraft applicants were unsuccessful, but of those applying for their first ever overdraft, 52% were unsuccessful. For loans, 54,000 SMEs applied and were unsuccessful: 25,000 of those were first time applicants. This means that overall, 31% of loan applicants were unsuccessful, but of those applying for their first ever loan, 41% were unsuccessful.
- **Success rates have declined slightly over time for overdrafts, but for loans, success rates picked up** in Q2 2011 after previous declines. Qualitatively, early signs are of improving success rates for overdraft and loan applications made in Q3 2011.

Understanding future demand

Two thirds (65%) of SMEs have no plans to apply for new or renew existing finance in the next three months and are happy with that scenario. 13% of SMEs plan to apply, and of those twice as many are confident of being successful than are not (43% vs 20%).

2% of all SMEs have an identified need for finance in the next three months but think it is unlikely they will apply. The two key reasons they gave were “discouragement” (i.e. they have informally approached a bank and felt put off or they haven’t asked but assume a negative response) and a reluctance to borrow in the current economic climate.

20% of all SMEs, whilst having no specific immediate need, said that were a need to emerge they too would be unlikely to apply. For almost half, 44%, of this group, the key barrier is the current economic climate.

In the past 12 months, 3% of all SMEs have been put off applying for or renewing facilities by the economic climate. Looking forward, 9% of all SMEs cite the economy as a reason for not applying or renewing in the future. That equates to 409,000 businesses. At the same time, the impact of “discouragement” has dropped from 5% of all SMEs to 2%.

Shiona Davies, Director at BDRC Continental, said: “This latest research shows that demand and predicted future demand for SME finance remain low, and that the current economic climate is clearly affecting SMEs’ appetite for external funding. Most of those that do apply are successful. However, now that we have more interviews to analyse, we can see the challenges faced by first time applicants in particular.”

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Note to editors/Methodology

1. Worse than average risk businesses are those classified as “above average” risk (by Dun & Bradstreet) or “above average/high/maximum/serious adverse information” (by Experian).
2. A full copy of the SME Finance Monitor is available at: <http://www.sme-finance-monitor.co.uk/>.
3. The BBA Taskforce was set up in July 2010 to review the key issue of bank finance and how the banks could help the UK to return to sustainable growth. It has made a commitment to fund this independent survey to identify (and track) business demand and needs.
4. The SME Finance Monitor is the first in a series of independent quarterly reports and covers the first and second wave of 10,118 telephone interviews, conducted February-September 2011. Quotas were set by size, sector and region, to a carefully constructed sample design that ensured that sufficient interviews were conducted with businesses of all sizes to allow for robust analysis. The results have then been weighted to be representative of SMEs with up to 250 employees and a turnover of less than £25 million. The respondent was the person identified as the main financial decision maker.
5. A further quarter of 5,000 telephone interviews to the same sample structure will be conducted October-December 2011 and reported in February 2012.
6. The survey work is being overseen by the Business Finance Roundtable which comprises business groups and banks. Its Survey Steering Group has an independent chairman, Mike Young.
7. The Business Finance Round Table represents a unique body of stakeholders in this field and comprises:
 - Association of Chartered Certified Accountants
 - British Bankers' Association
 - British Chambers of Commerce
 - British Marine Federation

- British Venture Capital Association
- Confederation of British Industry
- Engineering and Machinery Alliance
- Engineers Employers Federation
- Federation of Small Businesses
- Forum of Private Business
- Growth Companies Alliance
- Institute of Chartered Accountants in England & Wales
- Institute of Directors
- Quoted Companies Alliance
- Barclays Bank
- Lloyds Banking Group
- HSBC Bank
- RBS Group
- Santander UK

* See <http://www.bba.org.uk/taskforce> for more information about the Taskforce.

About BDRC Continental

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