2017 Business Finance Survey: SMEs

BRITISH BUSINESS BANK
Unlocking finance for smaller businesses

A report by Ipsos MORI to the British Business Bank

February 2018

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Survey Methodology

- 2,070 CATI interviews conducted between 30th August and 7th November 2017 with average interview length of 25 minutes
- SMEs defined as businesses having 0 to 249 employees
- Quotas set by employment size, sector and region
- Interviews with person responsible for managing business finances
- Data weighted to BEIS's Business Population Estimates 2016 (BPE) by size and sector:
  - 855 with no employees interviewed (weighted to 76%)
  - 700 micros (1-9) interviewed (weighted to 20%)
  - 331 small (10-49) interviewed (weighted to 4%)
  - 184 medium (50-249) interviewed (weighted to 1%)
- Findings labelled by an asterisk mean less than half a per cent but not zero

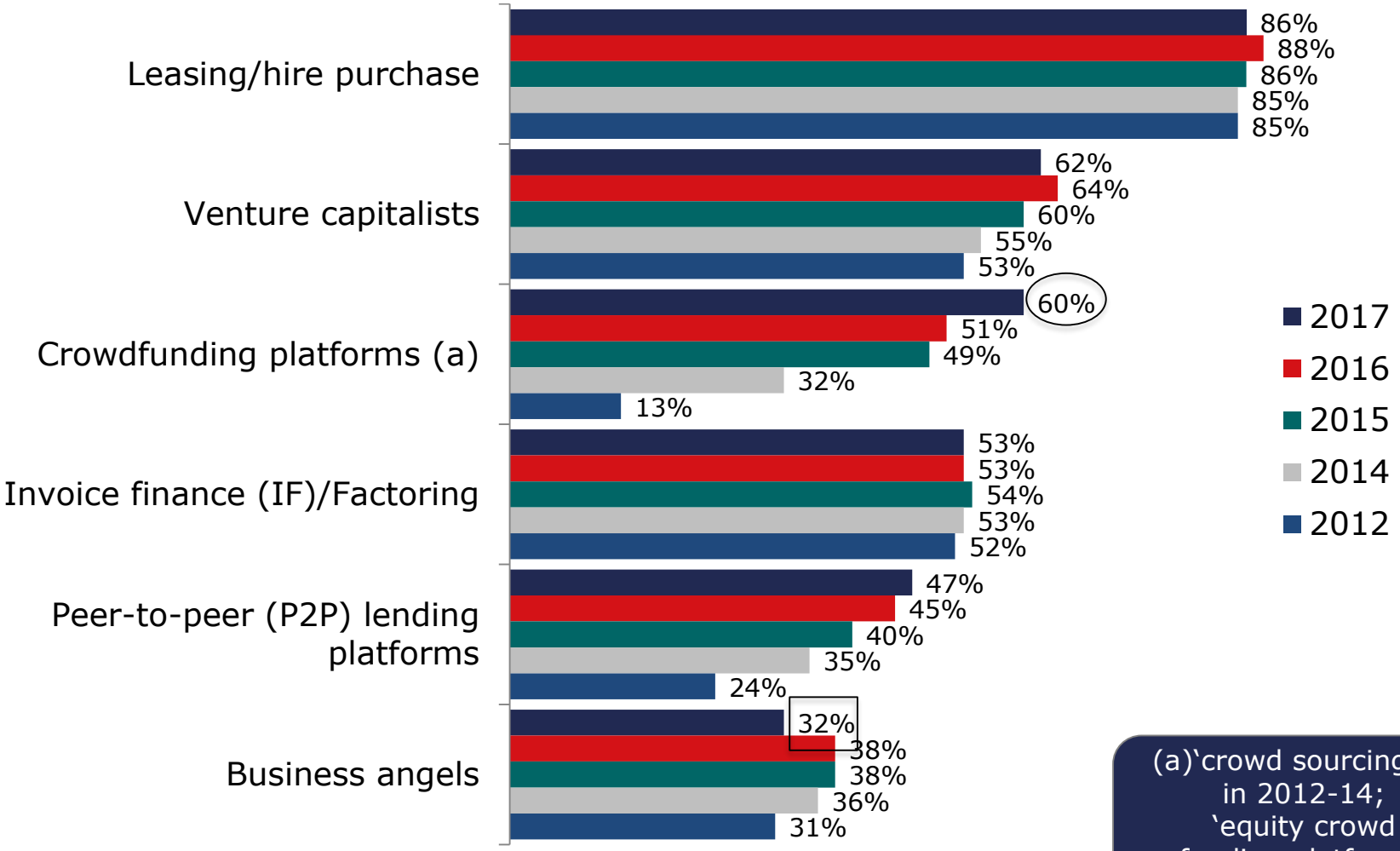
Background

- In 2012, BIS commissioned a new survey exploring the stages SMEs go through when considering the need to raise external finance and the specific actions they take (1,500 SMEs interviewed by CATI)
- Survey was repeated in 2014 (1,000 SMEs interviewed), in 2015 (1,608 SMEs) and 2016 (1,535 SMEs)
- 2017 survey is based on 2,070 interviews with SMEs. Some new questions were added, but core questions remain the same enabling comparison over time
- Statistically significant changes between the 2016 and 2017 surveys (at 95% confidence level) are identified by circles (increases) and squares (decreases)

Awareness of different types of finance

Awareness of crowdfunding continues to grow

Awareness of forms of external finance 2012-2017

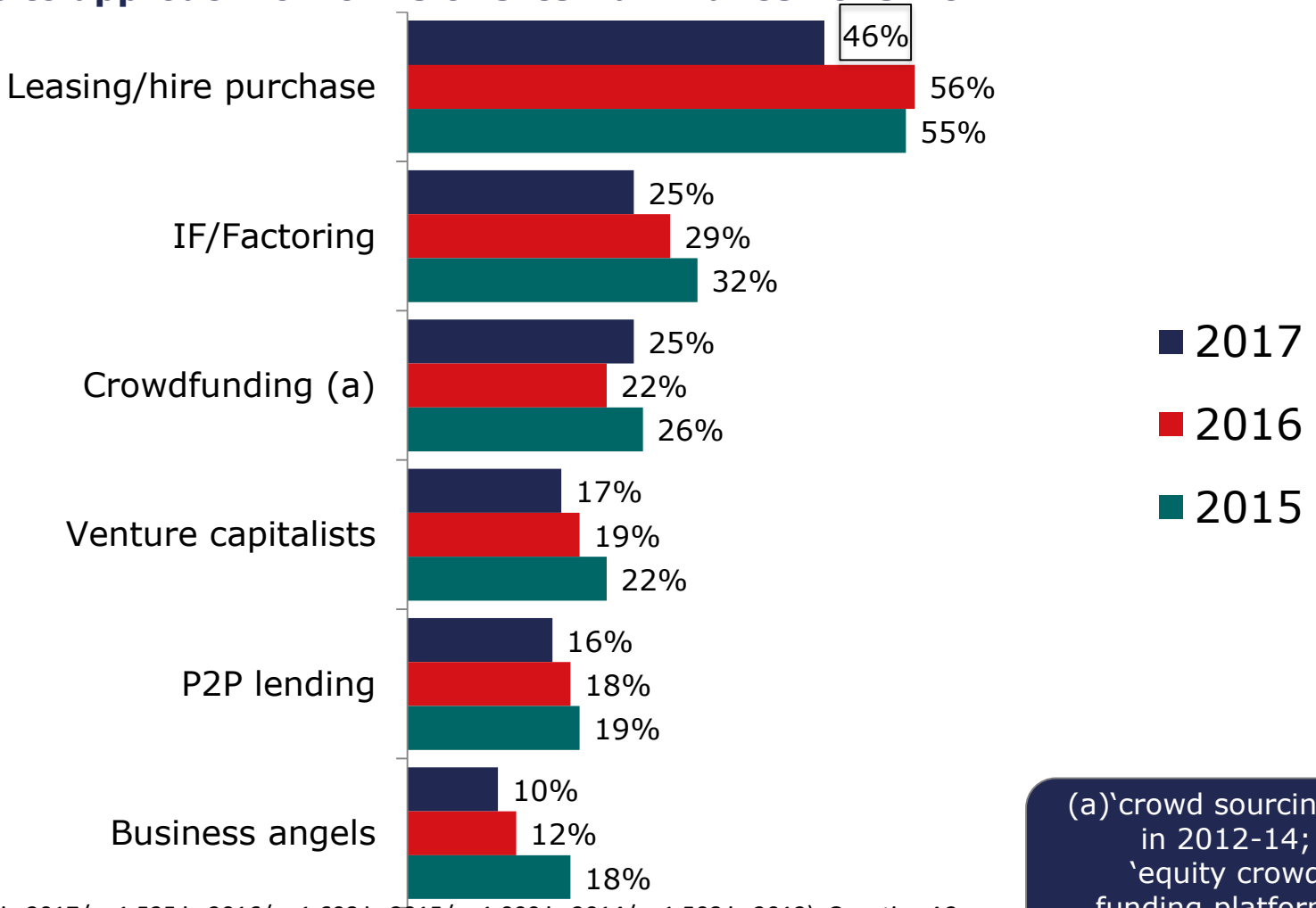


(a)'crowd sourcing' in 2012-14; 'equity crowd funding platforms' in 2015-16

Base = all SMEs (n=2,070 in 2017/n=1,535 in 2016/ n=1,608 in 2015/ n=1,000 in 2014/ n=1,508 in 2012). Question A1 (multi code, prompted). Note credit cards, government/LA grants, trade finance and mezzanine finance not shown

Awareness of who to approach is plateauing, and for some products it has fallen

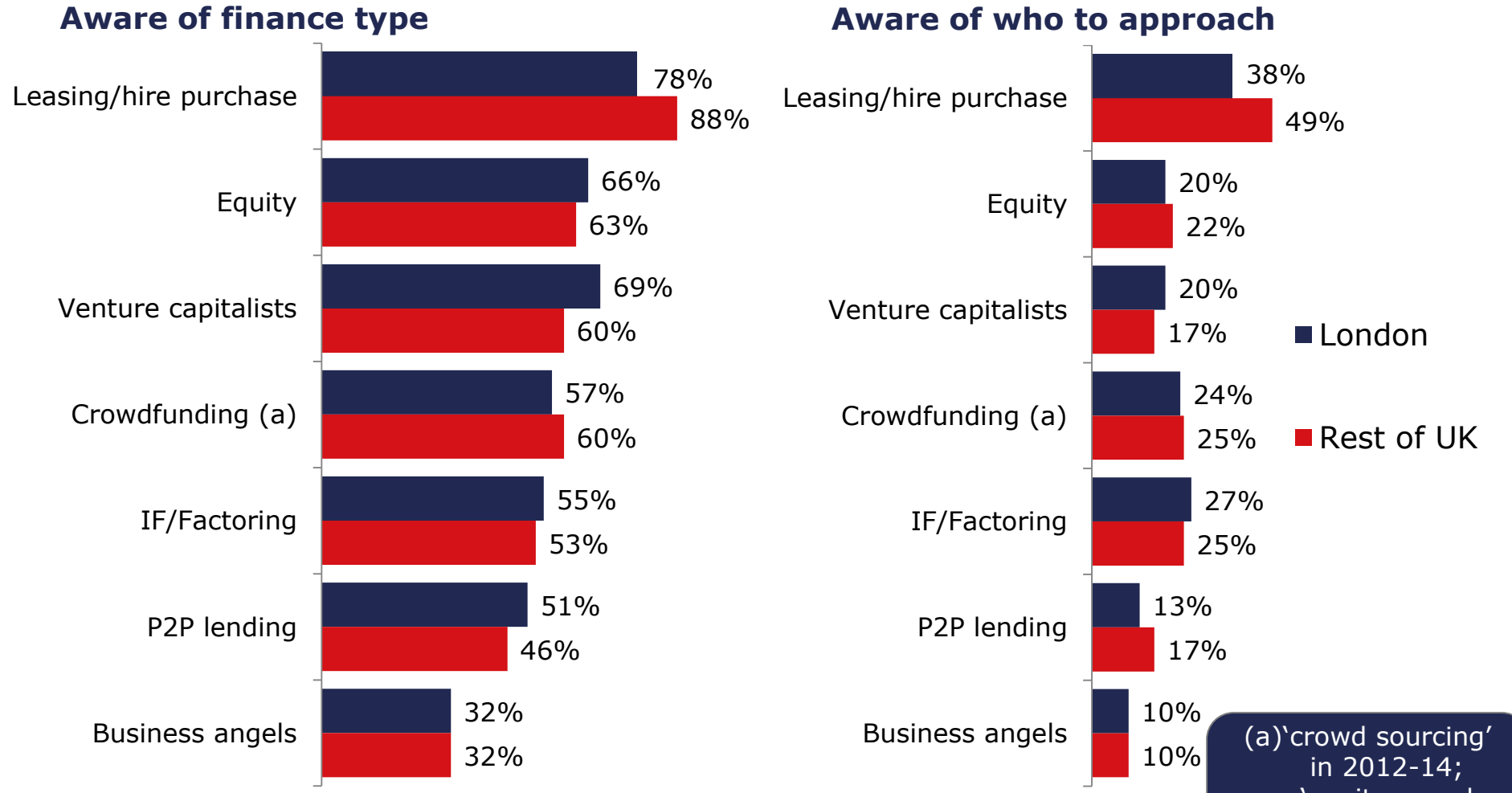
Aware of who to approach for forms of external finance 2015-2017



Base = all SMEs (n=2,070 in 2017/n=1,535 in 2016/n=1,608 in 2015/n=1,000 in 2014/n=1,508 in 2012). Question A2 (multi code, prompted). Note credit cards, government/LA grants, trade finance and mezzanine finance not shown

(a)'crowd sourcing' in 2012-14; 'equity crowd funding platforms' in 2015-16

Awareness of leasing/HP higher outside of London; awareness of venture capitalists higher in London



Base = all SMEs (n=2,070 in 2017/n=1,535 in 2016/n=1,608 in 2015/n=1,000 in 2014/n=1,508 in 2012). Question A1 (multi code, prompted). Question A2 (multi code, prompted). Note credit cards, government/LA grants, trade finance and mezzanine finance not shown

(a)'crowd sourcing' in 2012-14; 'equity crowd funding platforms' in 2015-16

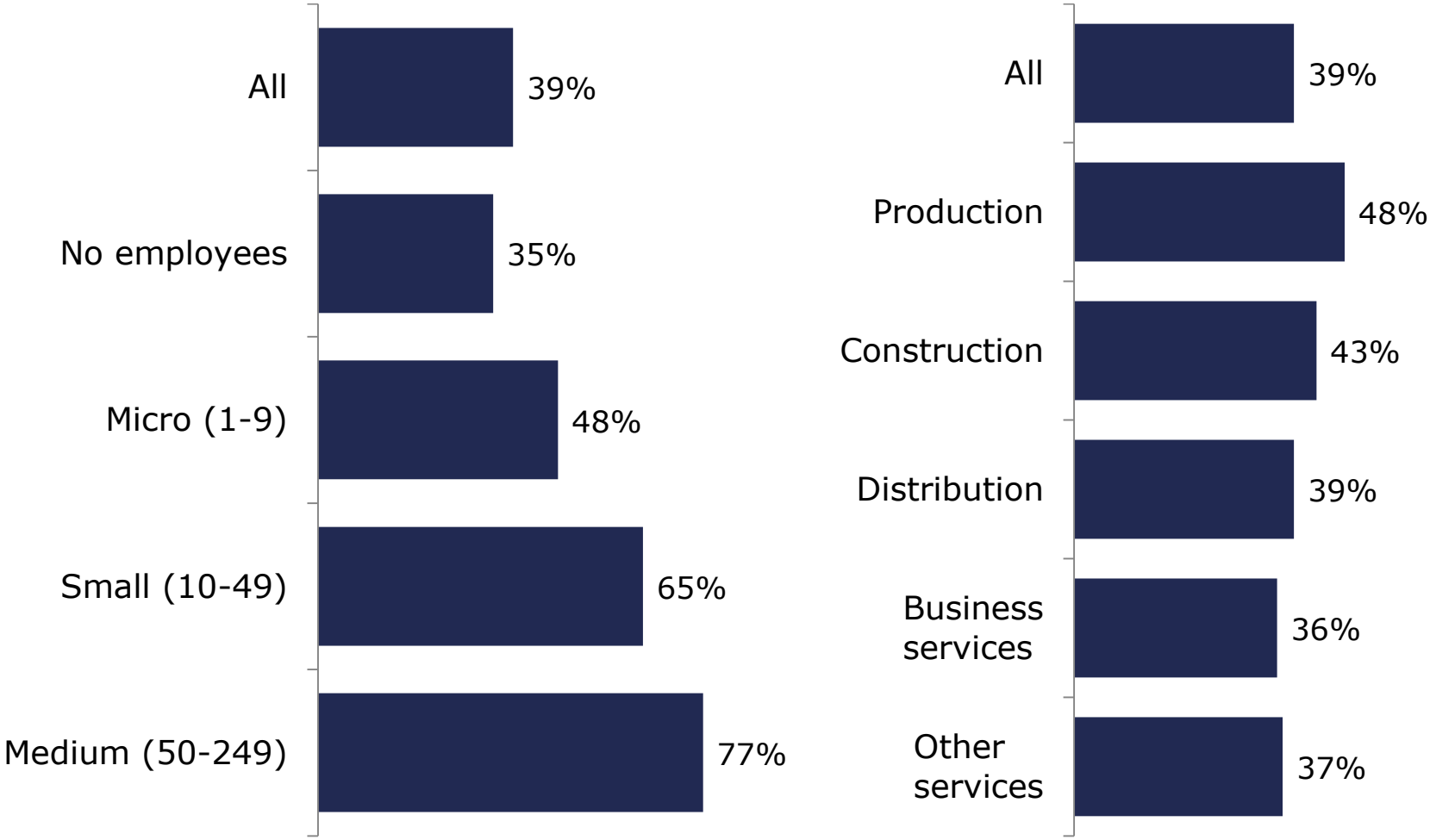
Awareness of finance products and providers by region

- Awareness of leasing and hire purchase is lowest in London (78%) and highest in the North West (92%), South East (91%), Scotland and Wales (both 90%).
- Awareness of crowdfunding is highest in the East of England (69%), as is awareness of specific providers of crowdfunding (34%).

Finance usage and application

Medium-sized businesses more likely to have sought external finance, also most common in production

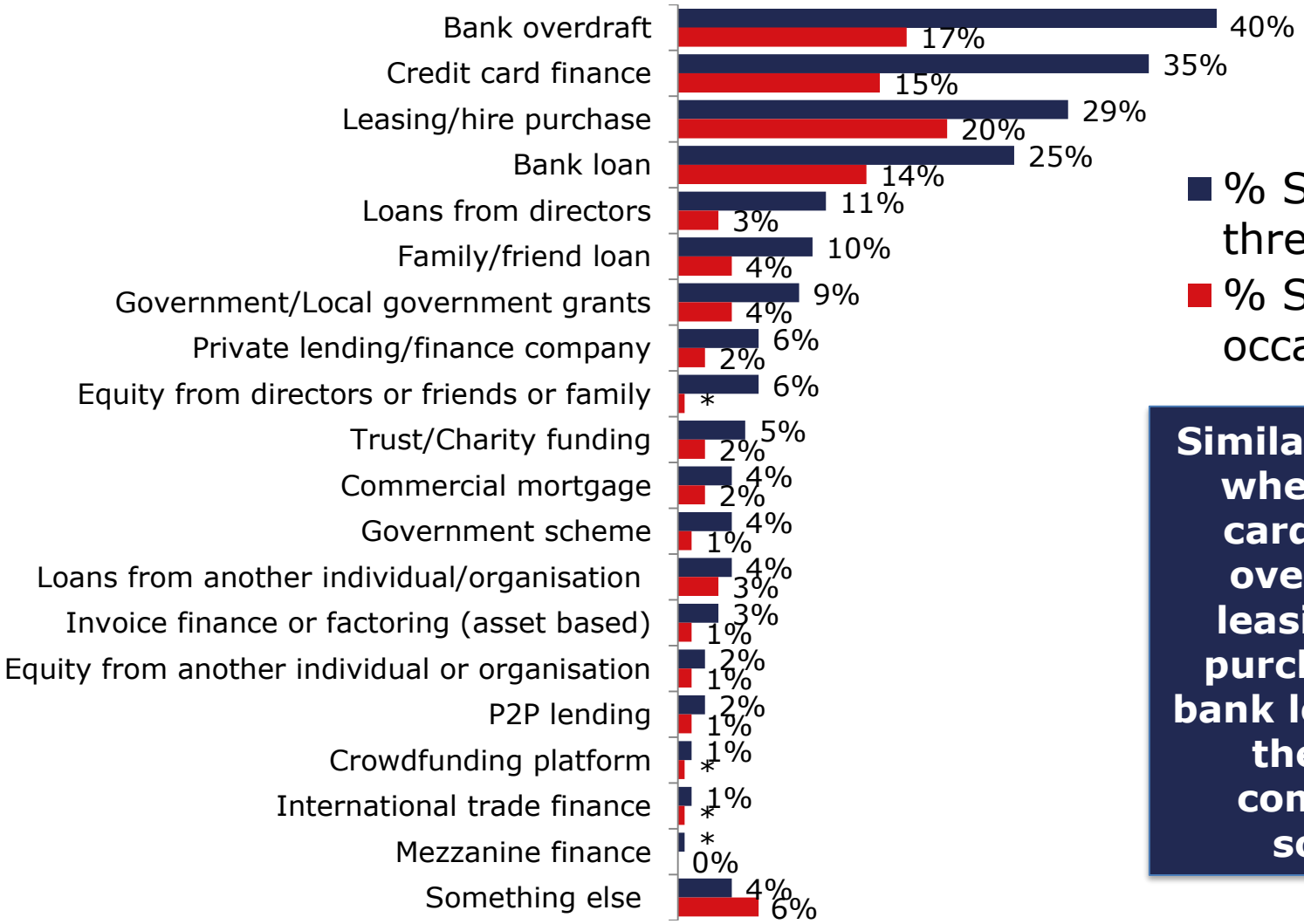
Sought external finance in the previous three years - by employee size and sector



Base = all SMEs (n=2,070 in 2017). A6a (single code, prompted)

Overdrafts and credit cards most common types of finance sought

Products sought in previous three years

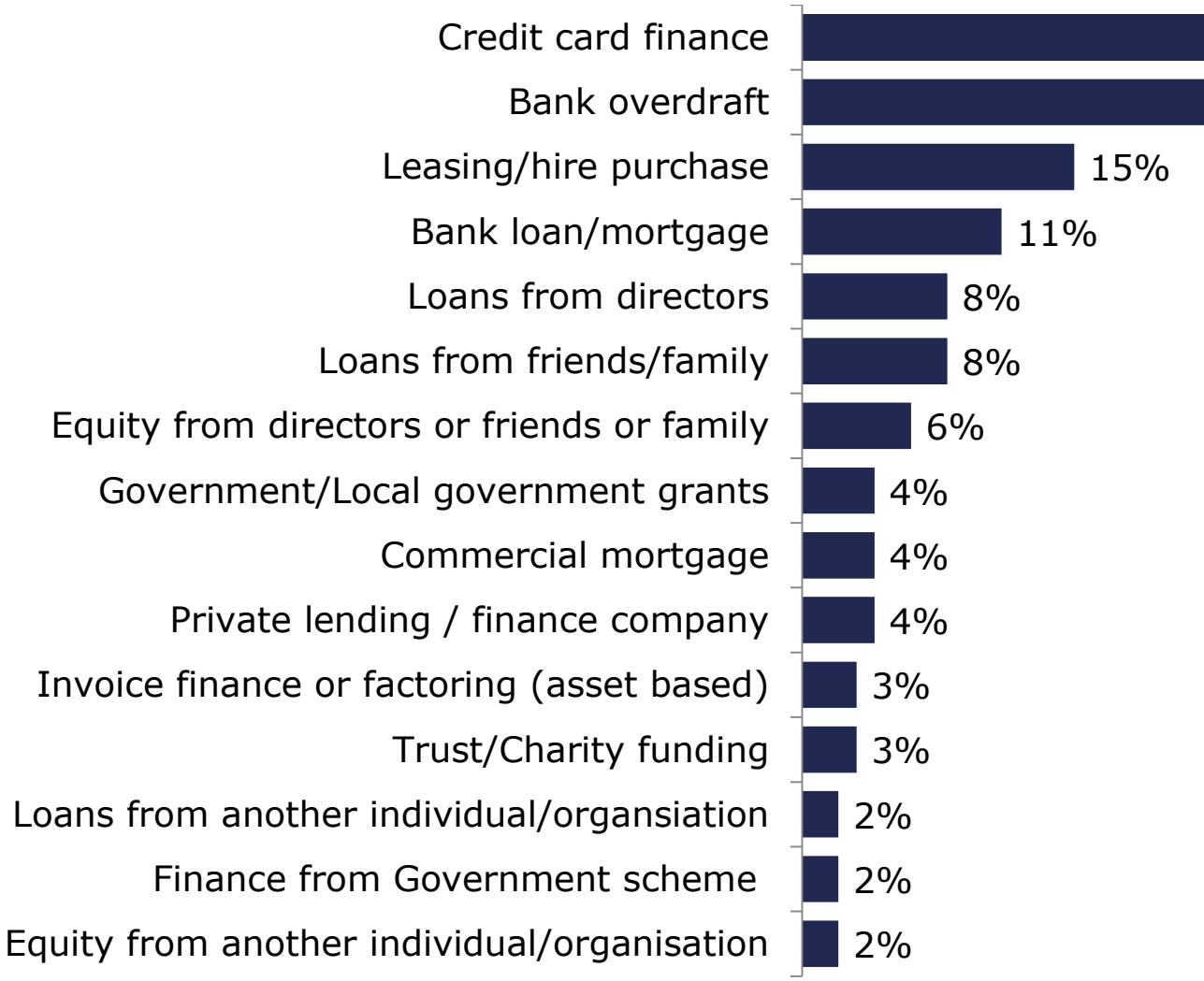


Similar to 2016, when credit cards, bank overdrafts, leasing/hire purchase and bank loans were the most commonly sought

Base = all SMEs that sought finance in the last three years (n=932 in 2017). Question A6a (multi code, prompted), A11b (multi code, unprompted). Those not shown less than half a per cent.

Credit cards and overdrafts most commonly used currently, but two in five use no external finance

Forms of finance currently used – top mentions



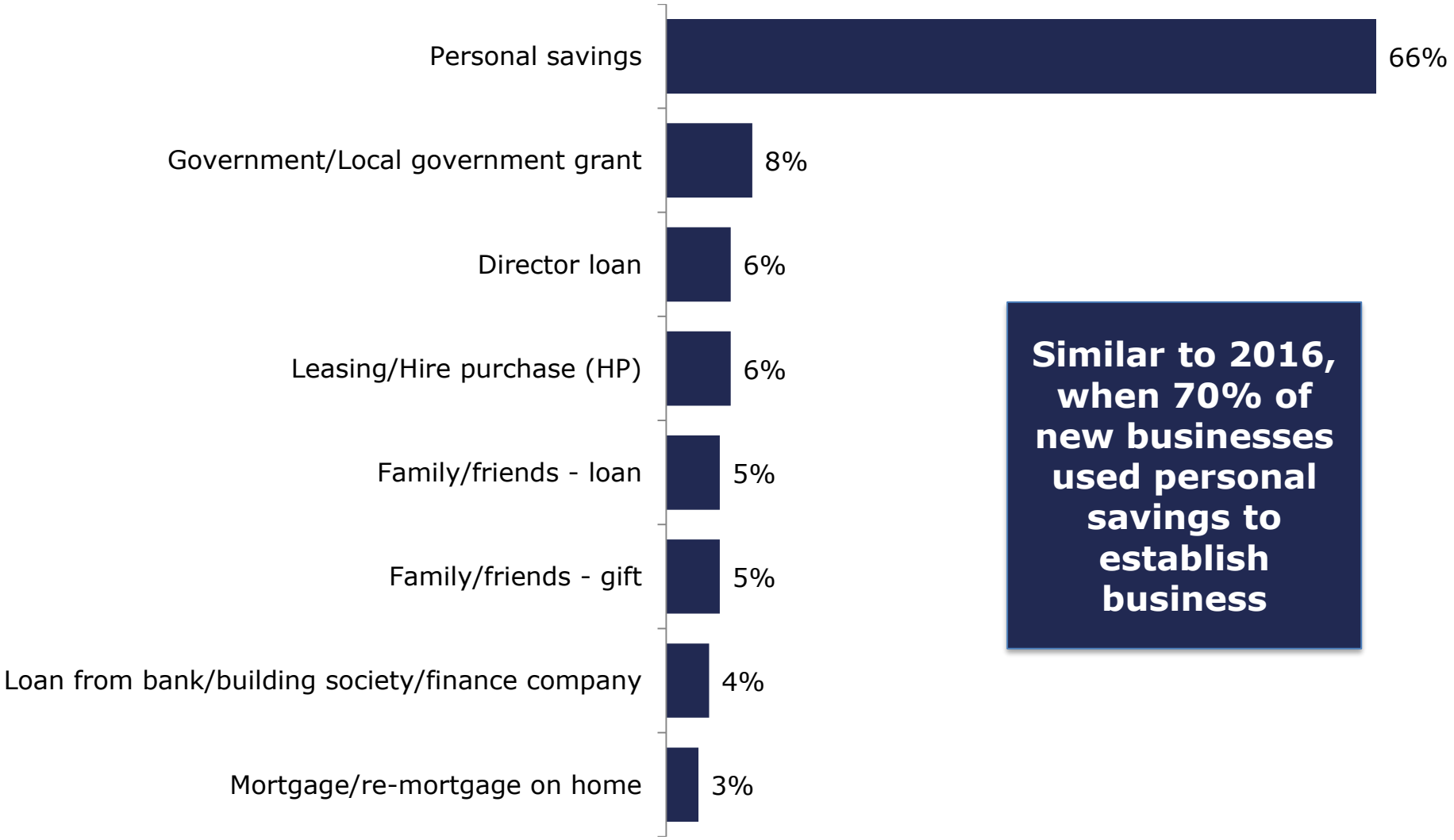
42% are not currently using any form of finance

88% of those not currently using any form of external finance have not used any form of external finance in the last five years

Base = all SMEs (n=2,070 in 2017). Question A5bi (multi code, prompted). Those not shown 1% or less.

Personal savings used most commonly in setting up business

Finance used in establishing business, if started in last two years – top mentions

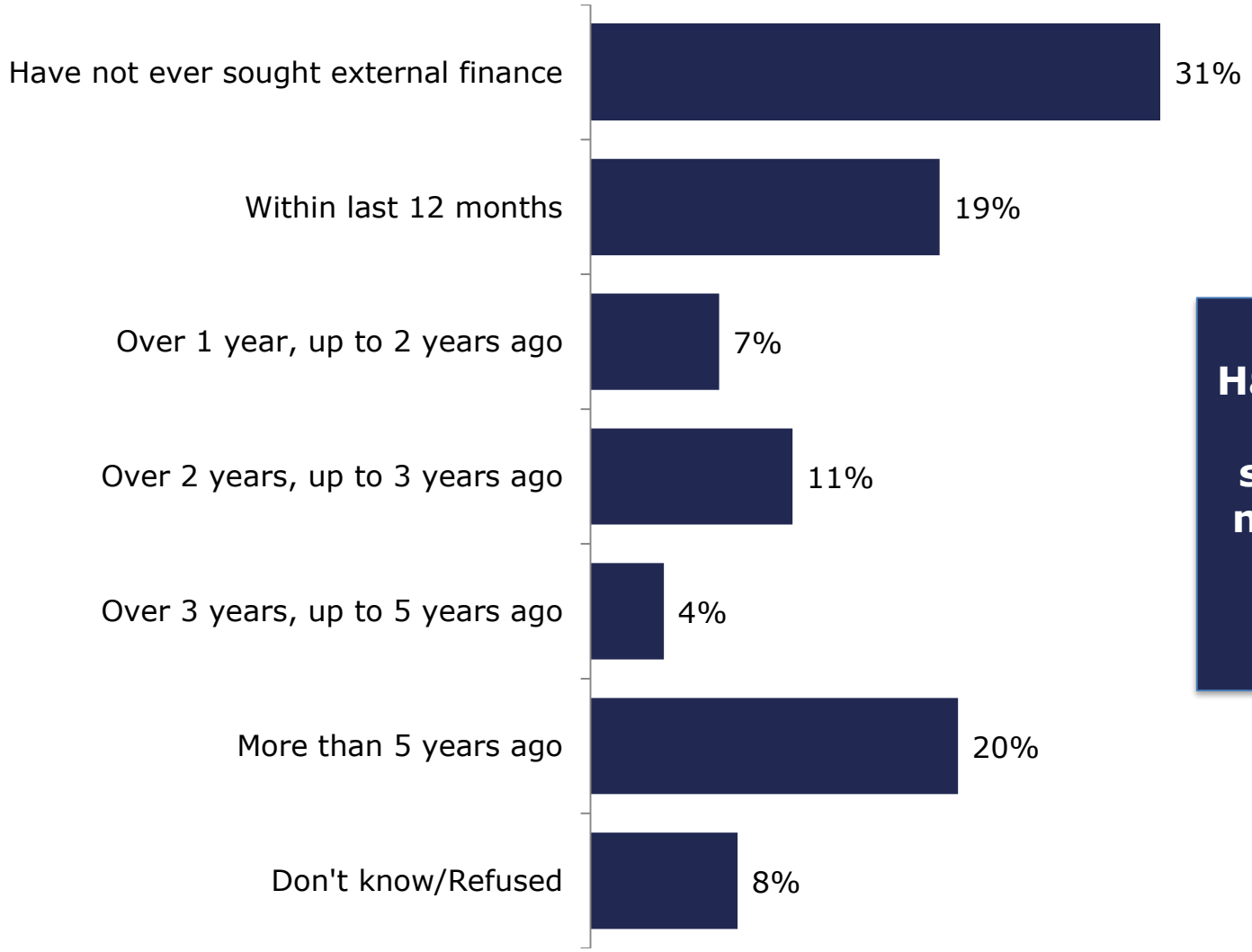


Similar to 2016, when 70% of new businesses used personal savings to establish business

Base = all SMEs who started business in last two years (n=60 in 2017). Question A3 (multi code, prompted). Those not shown 1% or less.

Around two in three SMEs had sought external finance previously, one in five sought it in the last 12 months

When last sought external finance

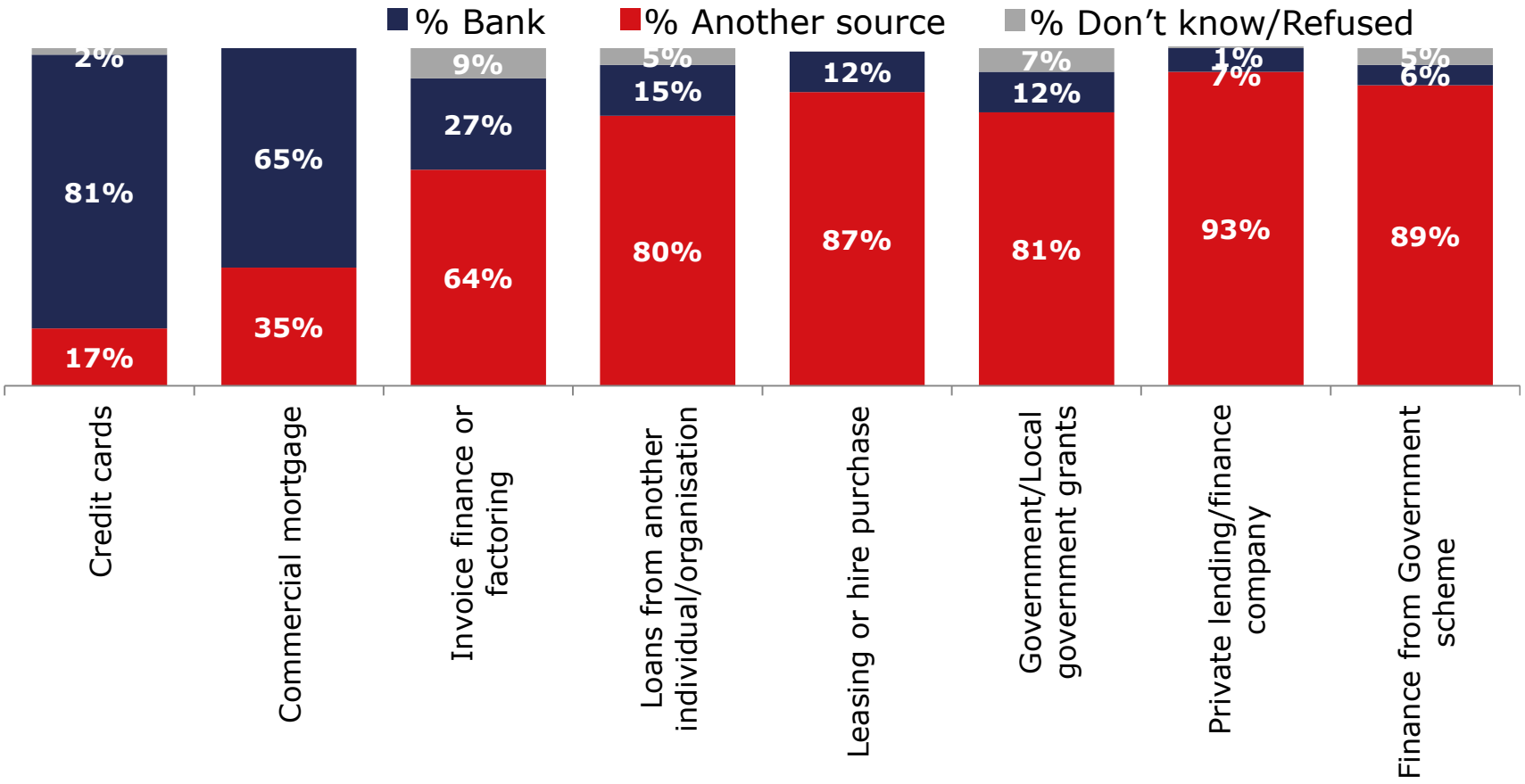


Half (51%) have either never sought finance nor sought it in the last five years

Base = all SMEs (n=2,070 in 2017). Question A11a (single code, prompted).

Finance other than credit cards and mortgages tends to come from non-bank sources

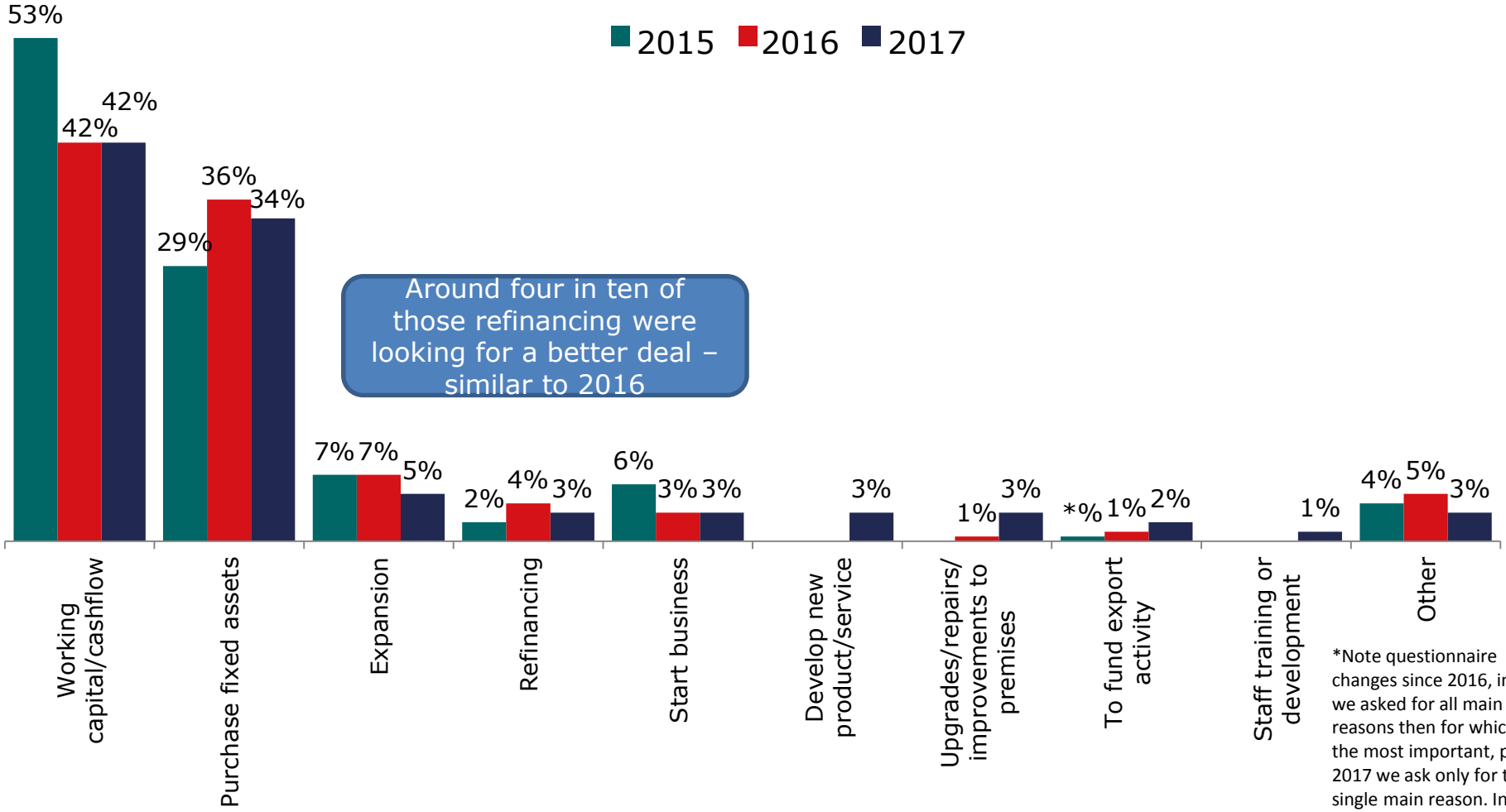
Seeking finance from bank vs. another source



Base = all SMEs who sought each form of non-bank finance (n=373 for credit cards/n=87 for commercial mortgage/n=81 for invoice finance or factoring/n=40 for loans from another individual/organisation/n=126 for Government/local government grants/n=398 for leasing or hire purchase/n=72 for private lending/finance company/n=61 for finance from Government scheme). Finance types with a base of 30 or below and those that cannot come from a bank not shown. Question A6c (single code, prompted)

Main reason for seeking finance continues to be working capital followed by finance to purchase fixed assets

Main reason for seeking finance 2015-2017 - last occasion in last three years

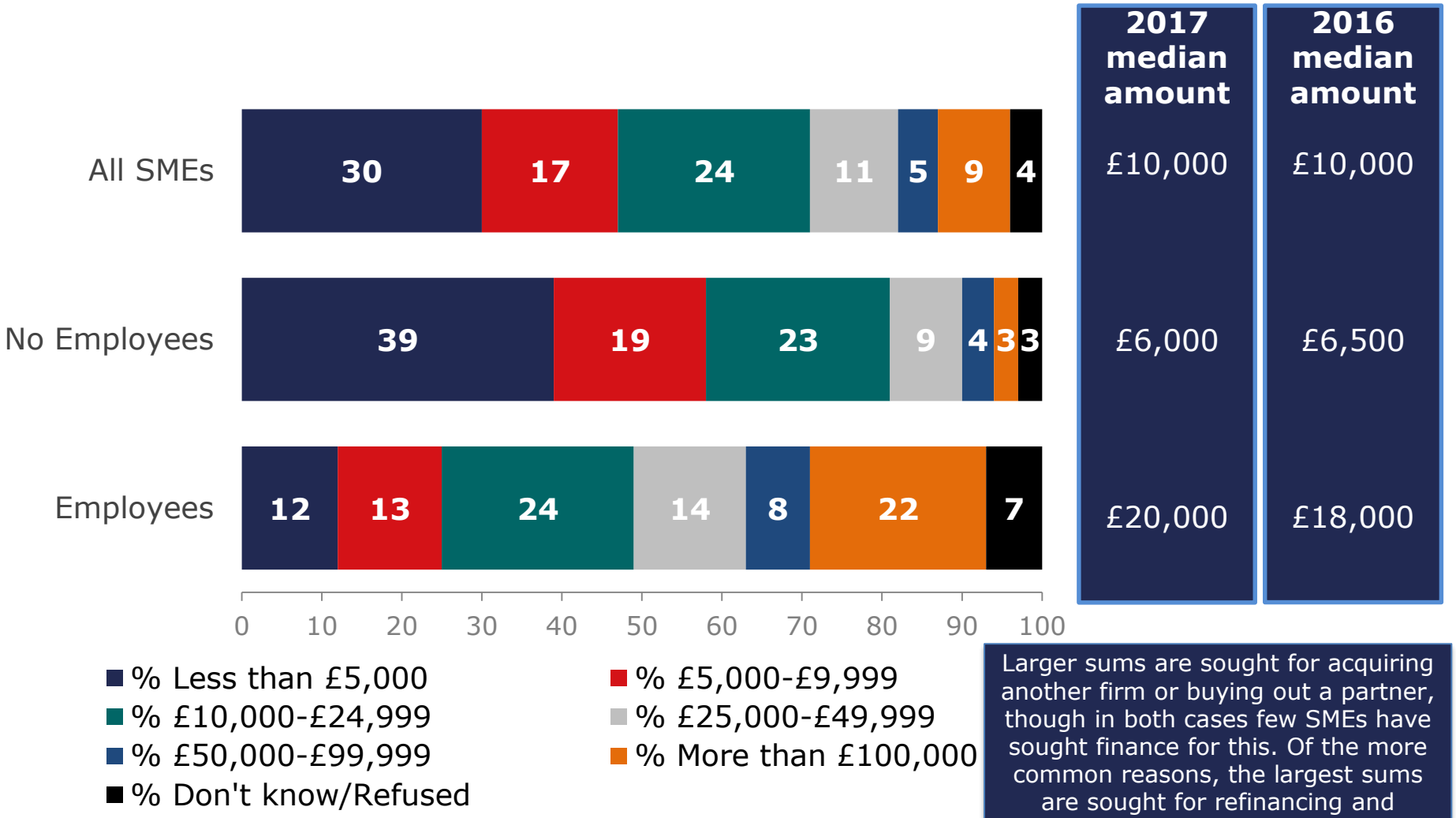


*Note questionnaire changes since 2016, in 2017 we asked for all main reasons then for which is the most important, prior to 2017 we ask only for the single main reason. In 2017 several new categories were added to the prompted list.

Base = all SMEs that sought finance in the last 3 years (n=932 in 2017/n=886 in 2016/n=715 in 2015), all SMEs seeking finance for working capital (n=388 in 2017), all SMEs seeking finance for refinancing (n=37). Question A13b/A14/A15 (single code, prompted)

Seven in ten SMEs sought less than £25,000 of external finance on the last occasion

Amount of finance sought on last occasion by employee size



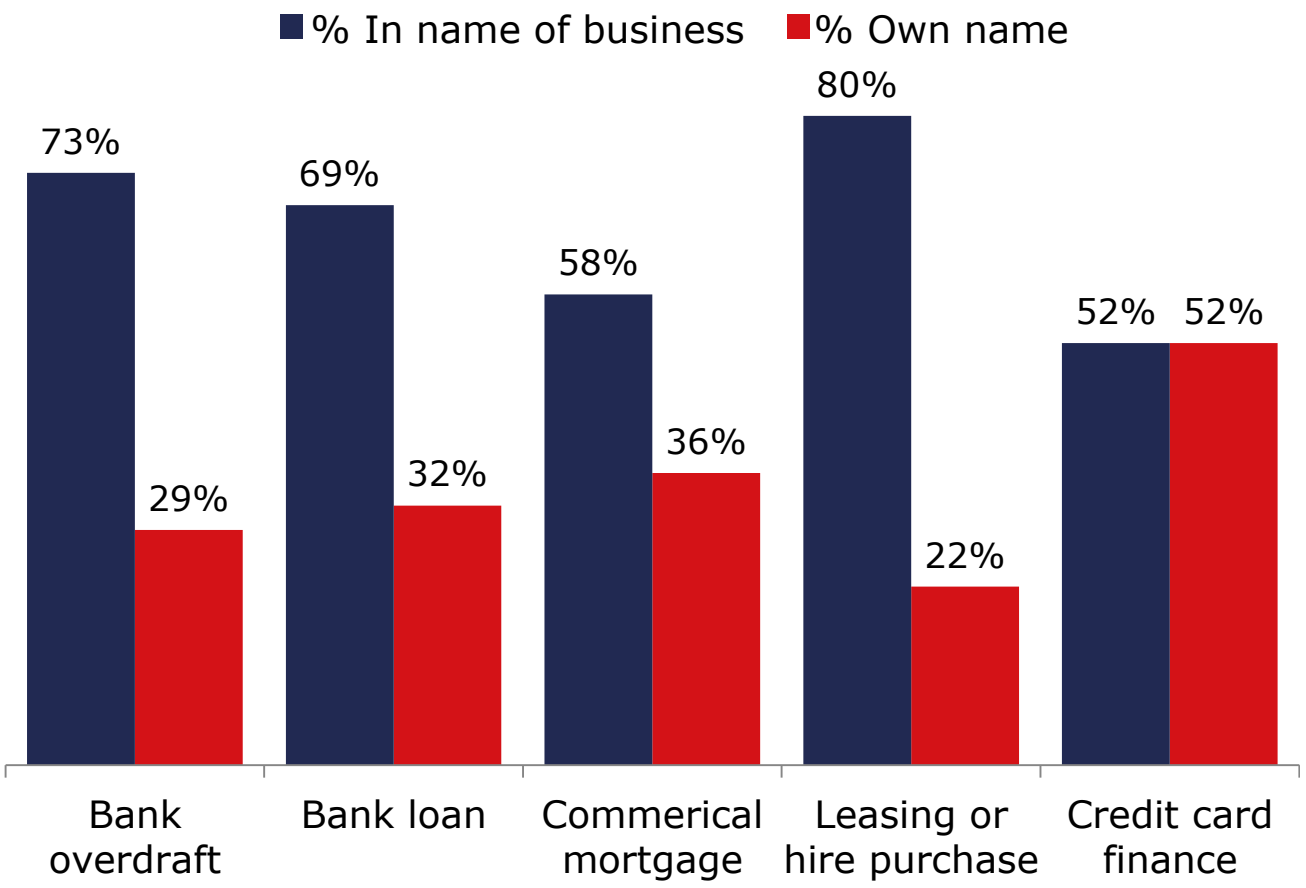
	2017 median amount	2016 median amount
All SMEs	£10,000	£10,000
No Employees	£6,000	£6,500
Employees	£20,000	£18,000

Larger sums are sought for acquiring another firm or buying out a partner, though in both cases few SMEs have sought finance for this. Of the more common reasons, the largest sums are sought for refinancing and expansion.

Base = all SMEs that sought finance in the last 3 years (n=932 in 2017). Question A28/A29 (single code, unprompted)

SMEs are more likely to take finance out in business's name than own name, though with credit cards it is split

Taking out finance in business's name vs. own name



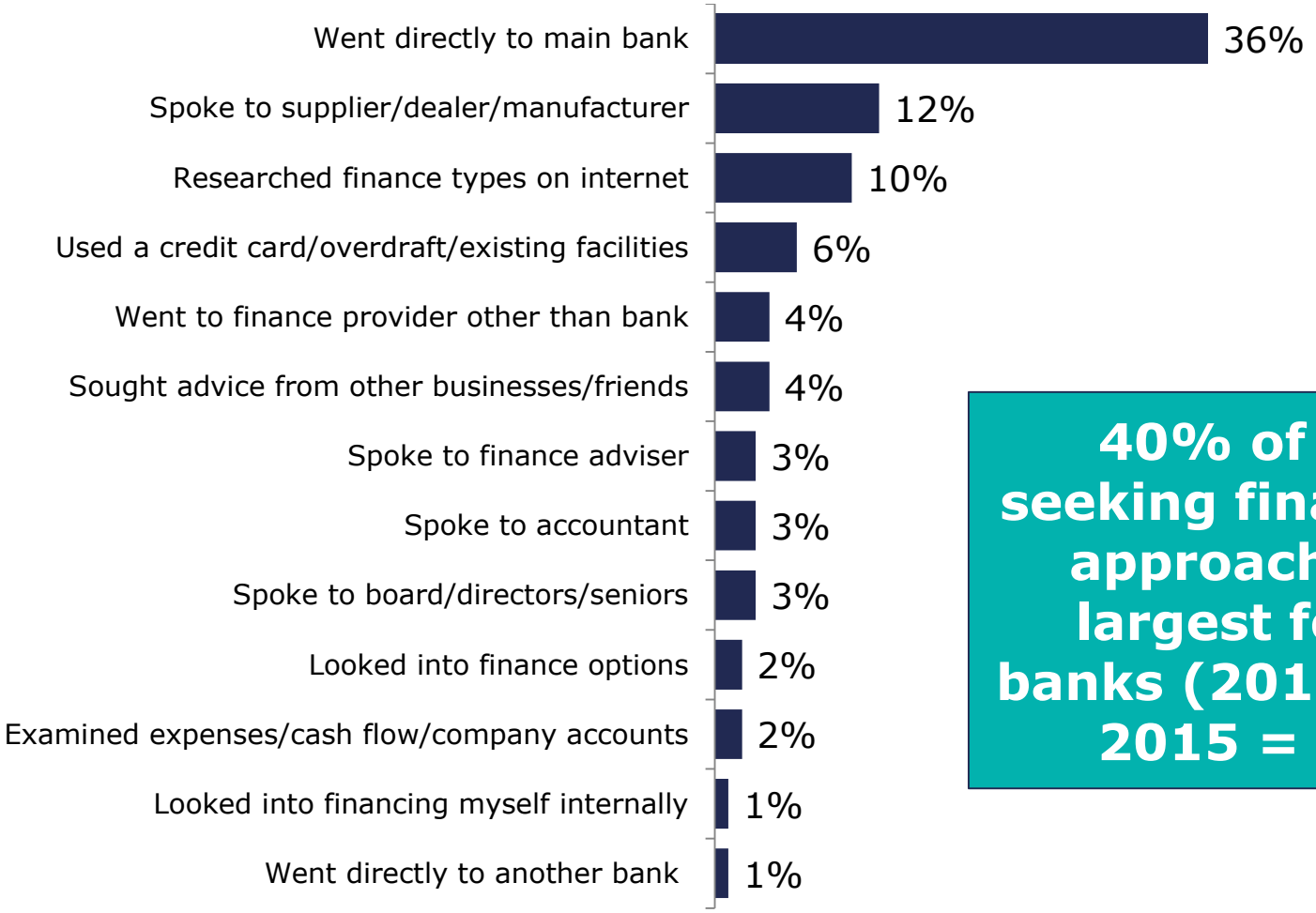
Small proportions of businesses have taken out finance *both* in their own name and the business's name – this is more common for credit cards (6% have taken out a credit card in both names, vs 3% for other finance types)

Nanos and micros more commonly took finance out in their own name while small and medium businesses tended to take out finance in the business's name. Micro businesses were more likely to take credit cards out in both names

Base = all SMEs who obtained each form of finance (n=612 for bank overdraft/n=311 for bank loan/n=163 for commercial mortgage/n=527 for leasing or hire purchase/n=742 for credit card finance). Question A10 (multi code).

SMEs are most likely to go to their main bank when they need finance, but going to big four in decline since 2015

Who spoke to first when finance need identified



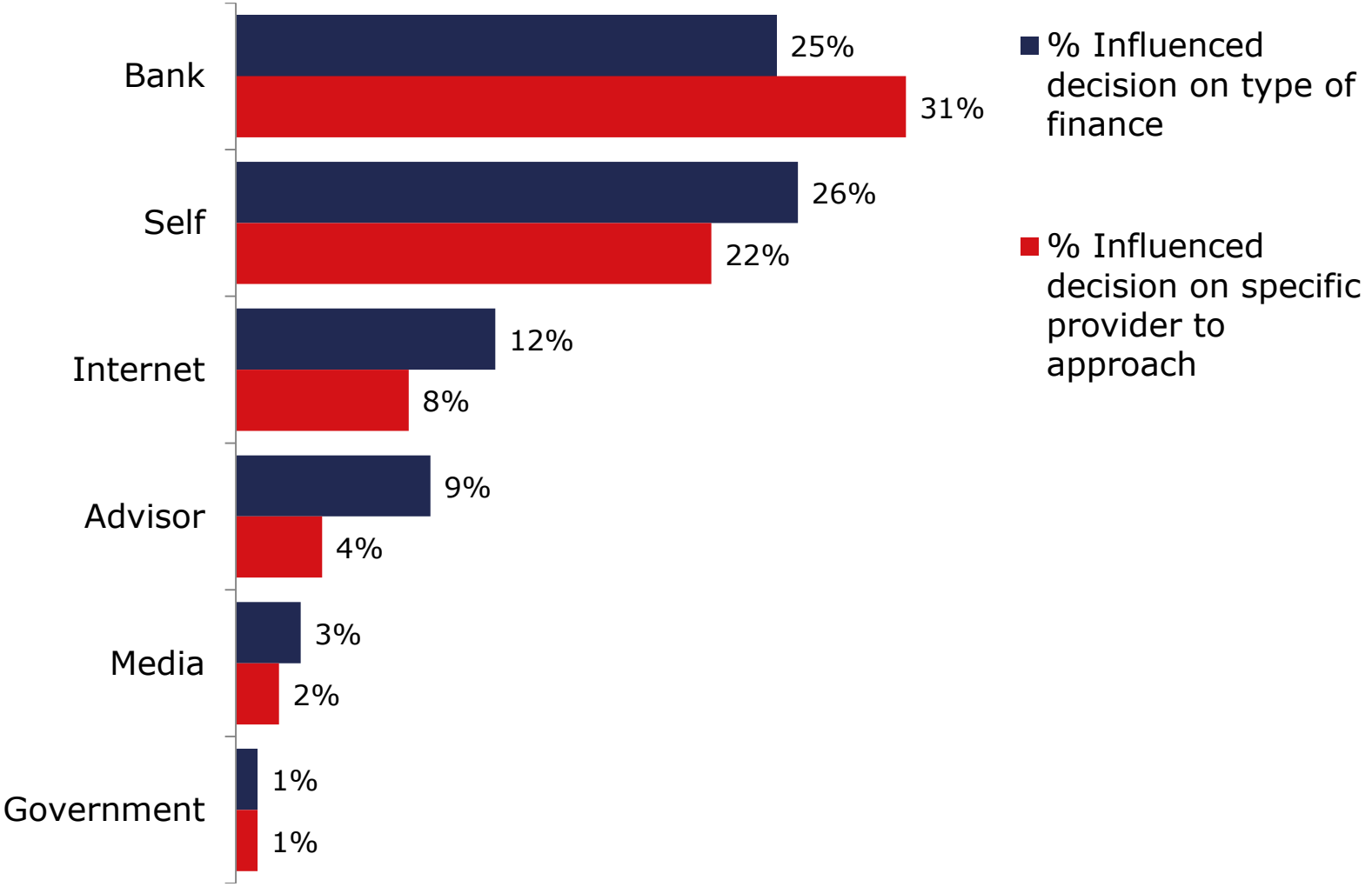
38% went directly to main bank in 2016*

40% of those seeking finance only approached the largest four UK banks (2016 = 43%, 2015 = 50%)

Base = all SMEs that sought finance in the last 3 years (n=932 in 2017). Question A19 (single code, unprompted). Those not shown 1% or less. *Note change in base since 2016, when those who sought finance by being proactive were excluded.

Banks and own knowledge most common information sources on type of finance and provider

Sources of information that influenced decision



Base = all SMEs that sought finance in the last 3 years (n=932 in 2017). Question A16/A19 (single code, prompted).
Only top five sources for influence on finance type shown.

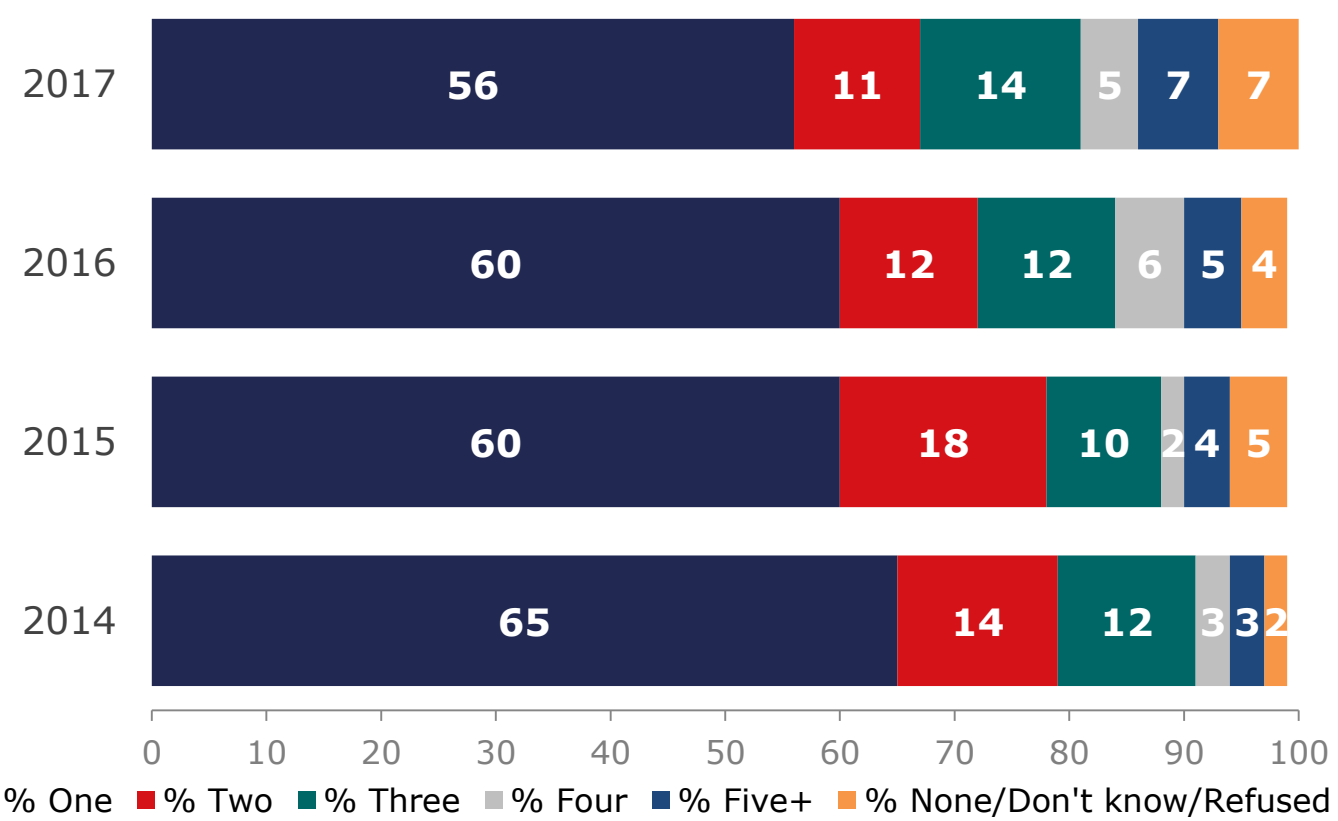
Just over half of SMEs considered only one provider when they last needed finance – a decrease since 2014

Number of providers considered 2014-2017

Small businesses (with 10-49 employees) were least likely to consider only one provider (41% vs. 56% overall)

Those who stayed the same size in last 12 months were most likely to consider only one provider (60%)

Those who considered only one provider more likely to have sought bank than non-bank finance (55% vs. 49%)



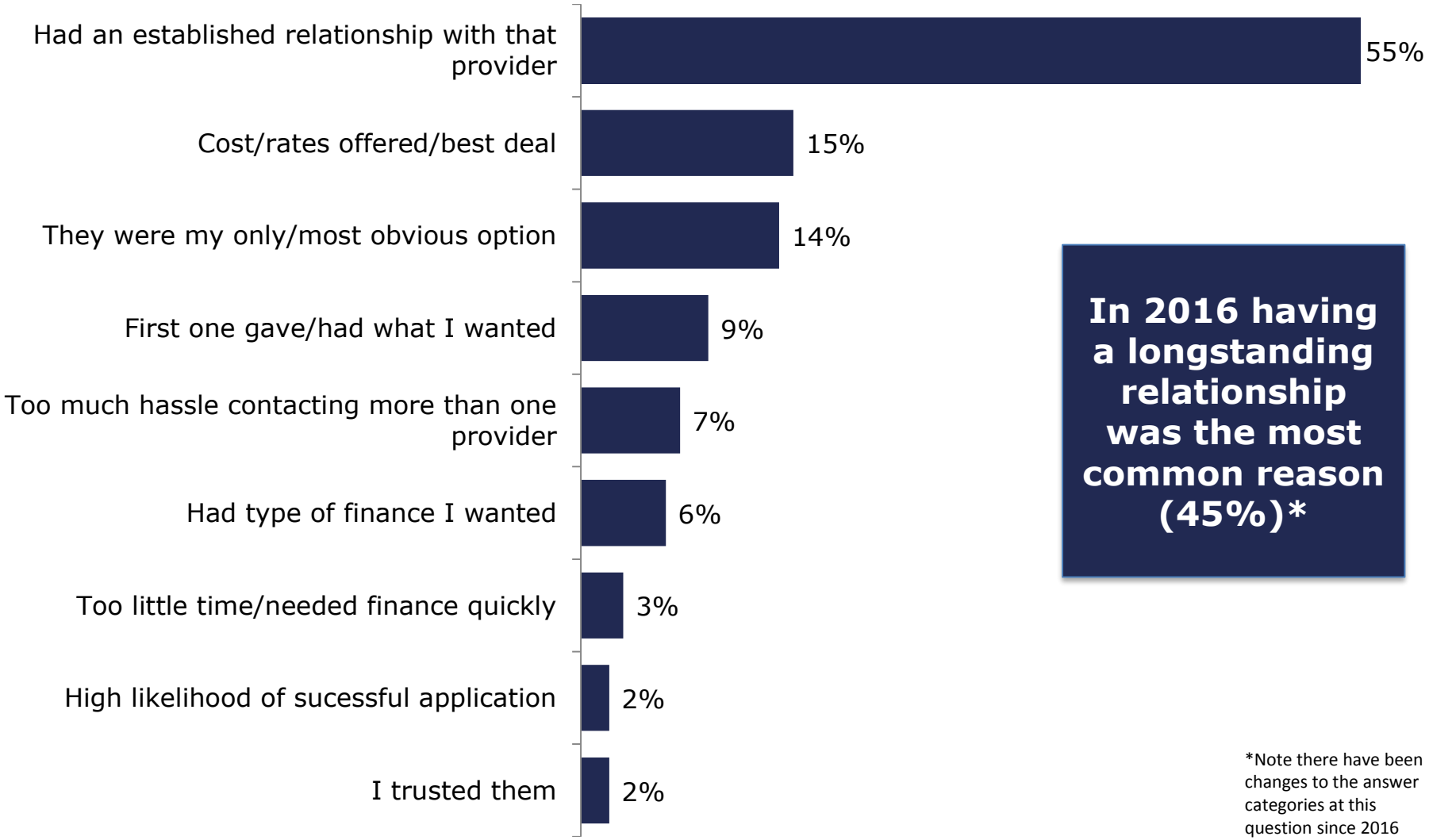
Mean = 1.8
(working capital = 1.5, purchase assets = 2.0, expansion = 2.5)

Mean = 1.8
(working capital = 1.6, purchase assets = 1.9, expansion = 2.1)

Base = all SMEs that sought finance in the last 3 years (n=932 in 2017/n=886 in 2016/n=715 in 2015/n=325 in 2014). Question A22 (single code, unprompted)

Having an established relationship is the most common reason for contacting only one provider

Reasons for only approaching one provider on last occasion – top mentions



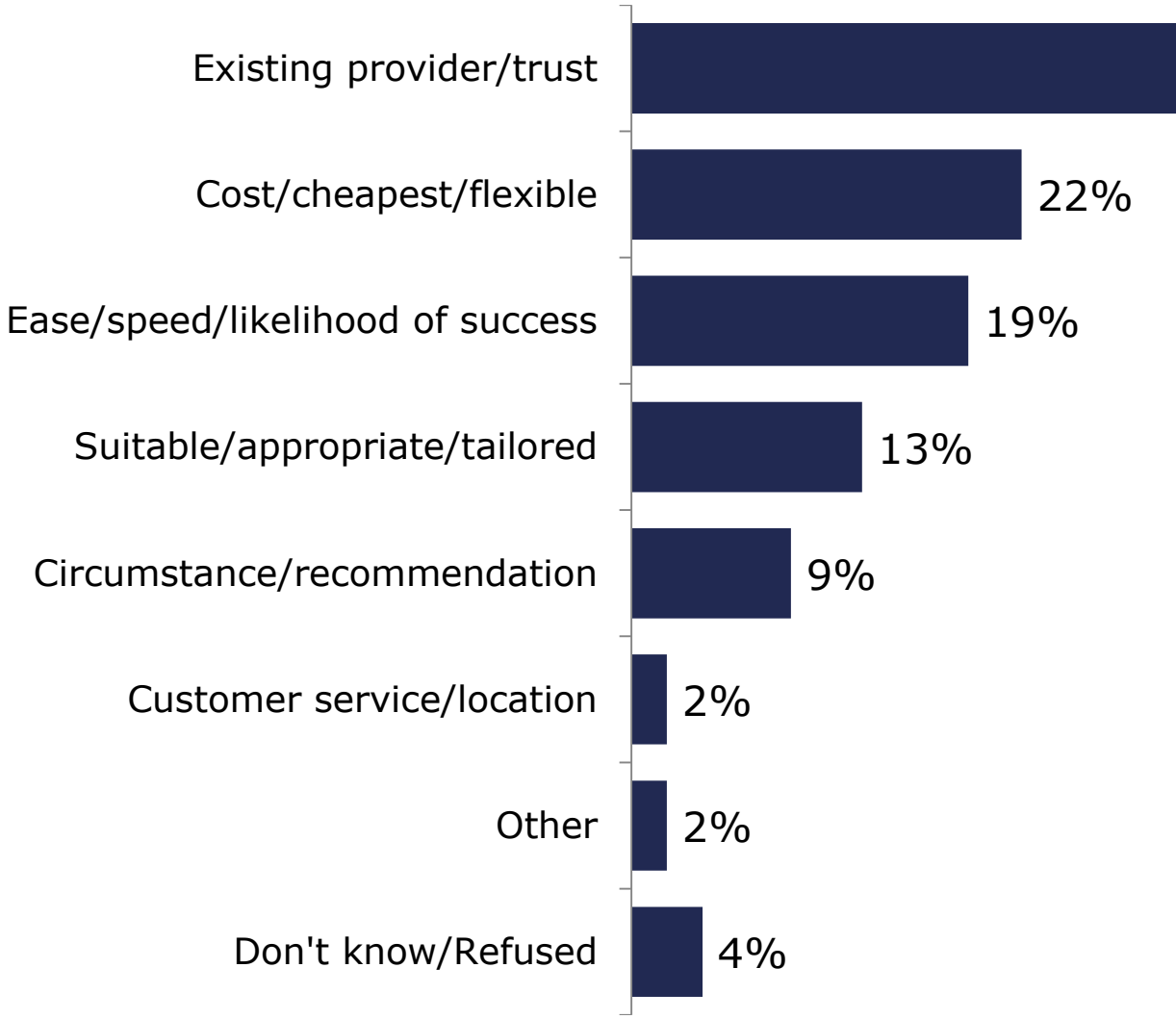
In 2016 having a longstanding relationship was the most common reason (45%)*

*Note there have been changes to the answer categories at this question since 2016

Base = all SMEs that contacted only one provider (n=469 in 2017). Question A26 (multi code, unprompted). Those not shown 1% or less.

Having an existing relationship, followed by cost and ease, are the most common reasons

Reasons for choosing provider

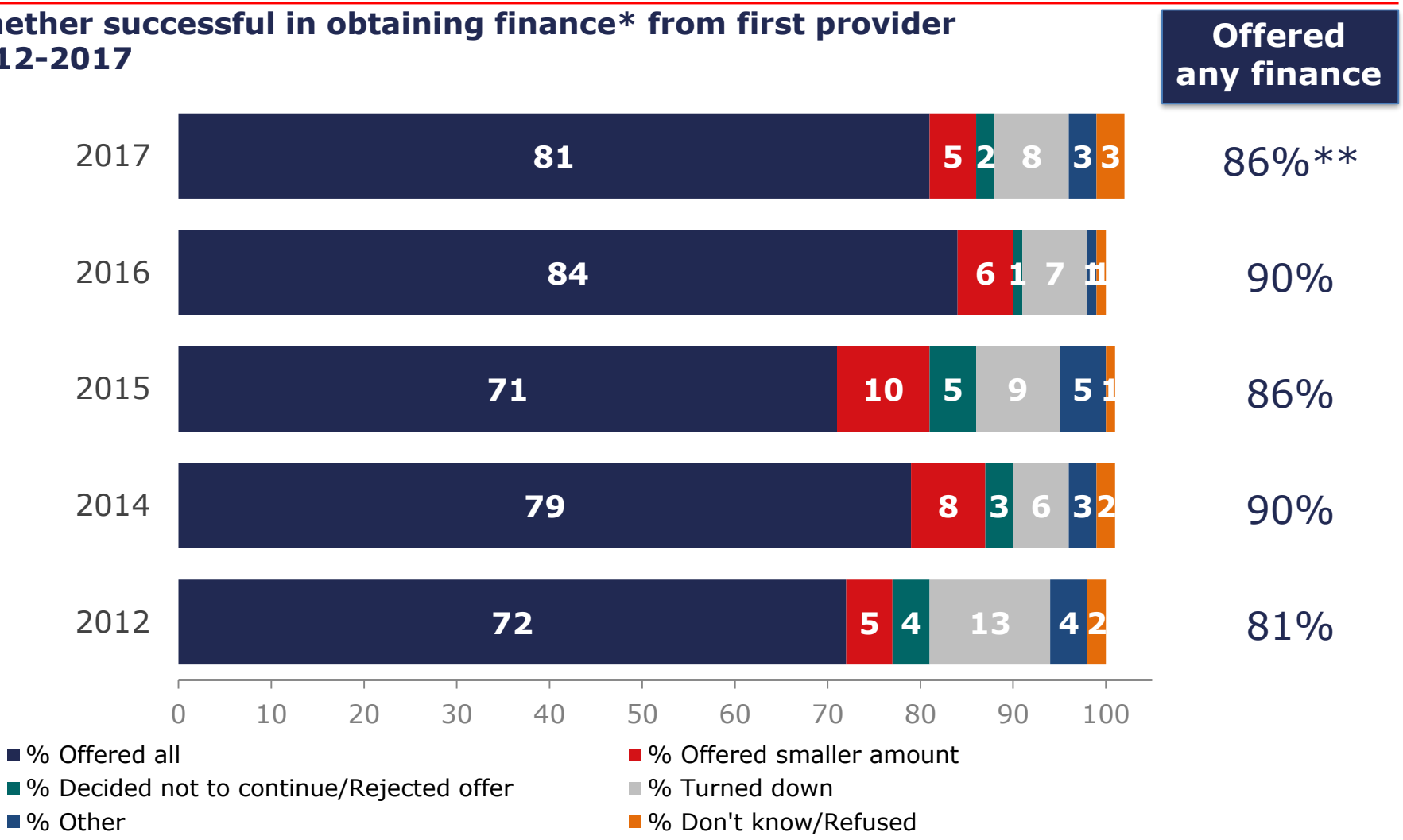


Existing provider is the most common single main reason (37%)

Base = all SMEs that sought external finance in the last 3 years (n=932 in 2017). Question A20 (multi code, unprompted). Those not shown less than 1%.

Last year's increase in proportion of SMEs getting all the finance needed from first provider broadly maintained

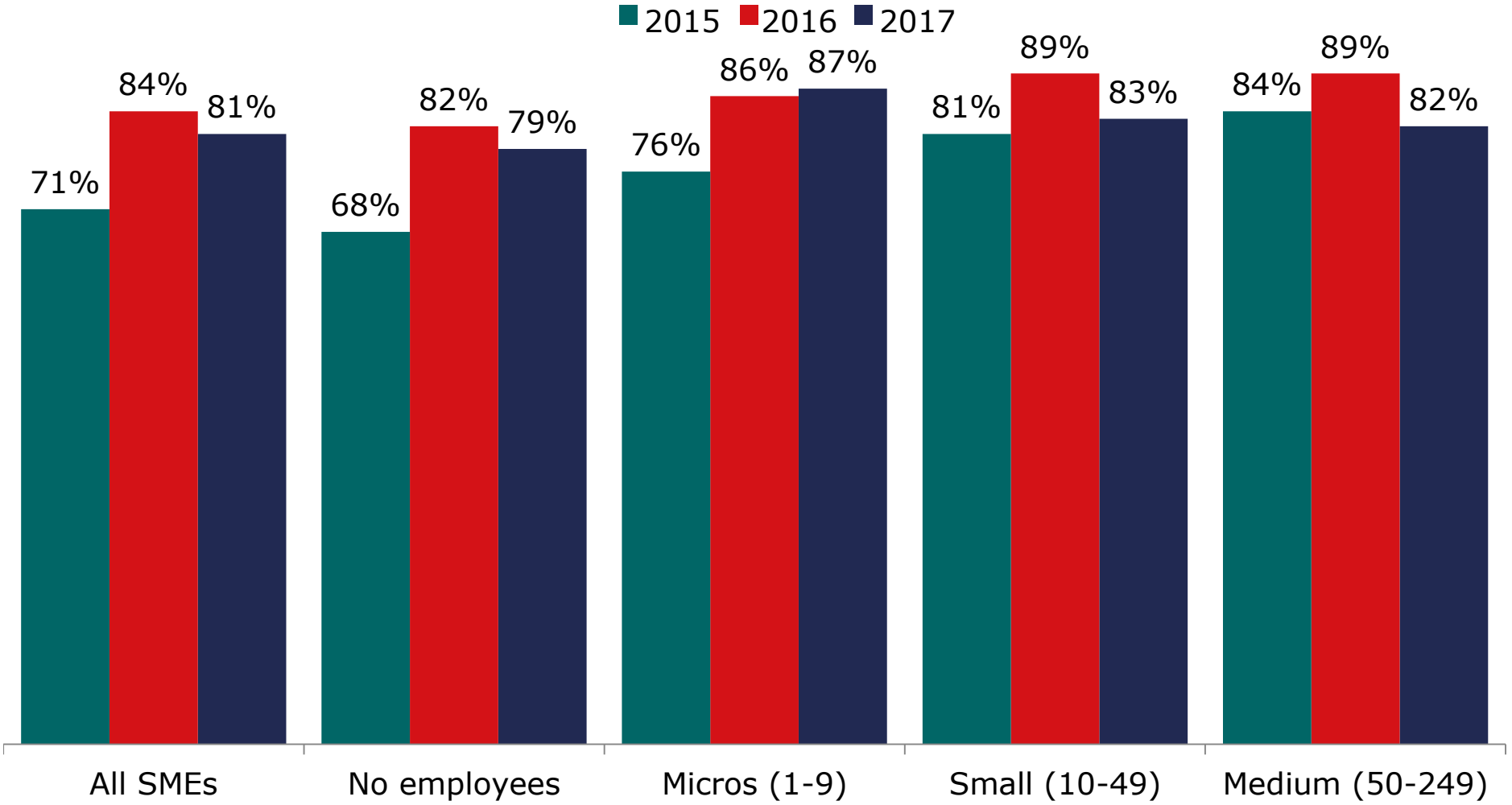
Whether successful in obtaining finance* from first provider 2012-2017



Base = all SMEs that sought finance in the last 3 years (n=932 in 2017/ n=886 in 2016/n= 715 in 2015/n=325 in 2014/n=588 in 2012).
Question A30 (single code, prompted). *Note this was the type of finance sought most recently **Note question wording changes since 2016

The success rate in obtaining finance across different size bands is fairly consistent with 2016

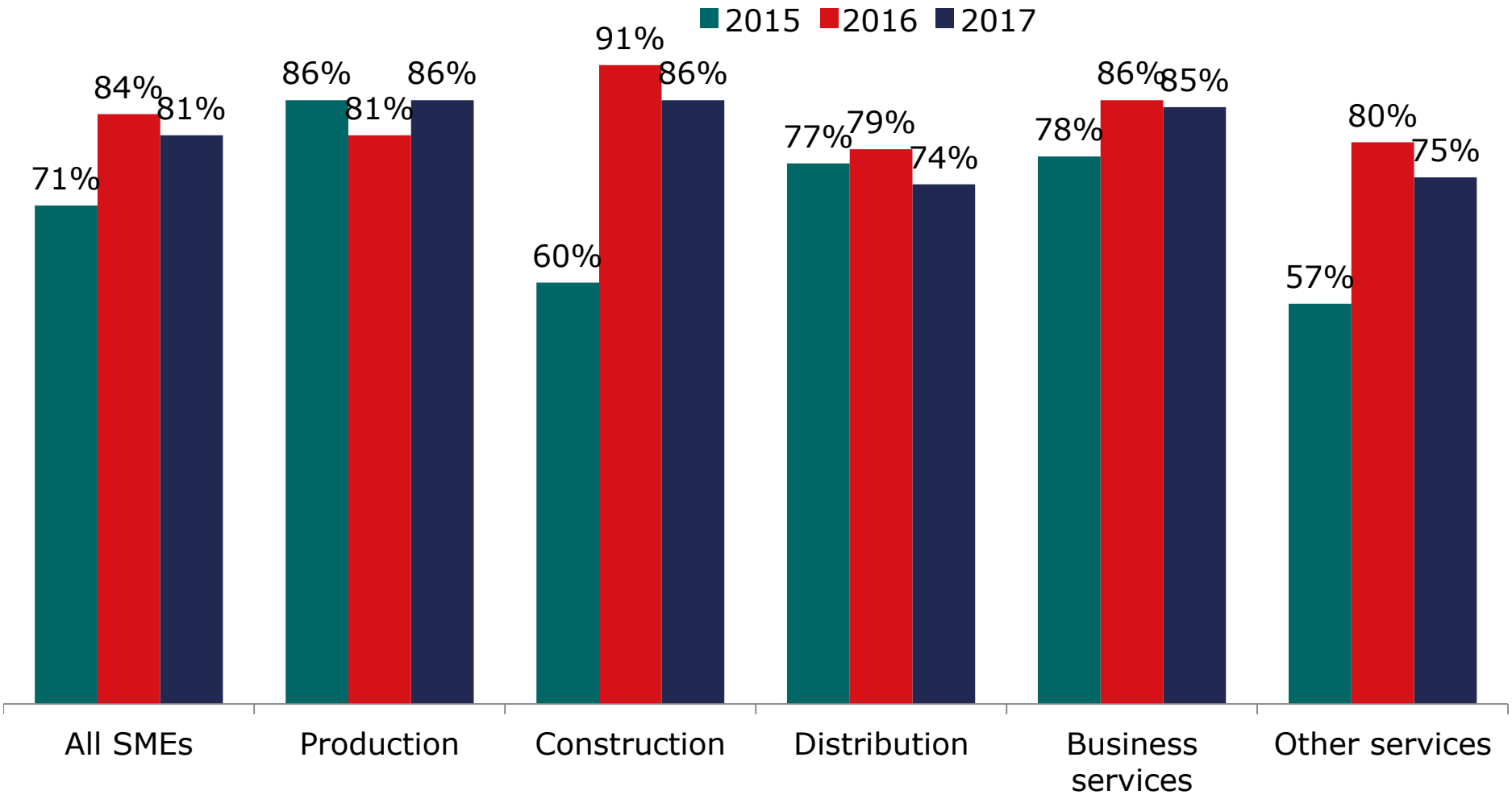
Successful getting all finance – by size of business 2012-2017



Base = all SMEs that sought external finance in the last 3 years (n=932 in 2017/n=886 in 2016/n=715 in 2015; 2017: no employees n=278/micros n=316/small n=200/medium n=138). Question A30 (single code, unprompted)

There is a similar picture for success rate in obtaining finance across different sectors since 2016

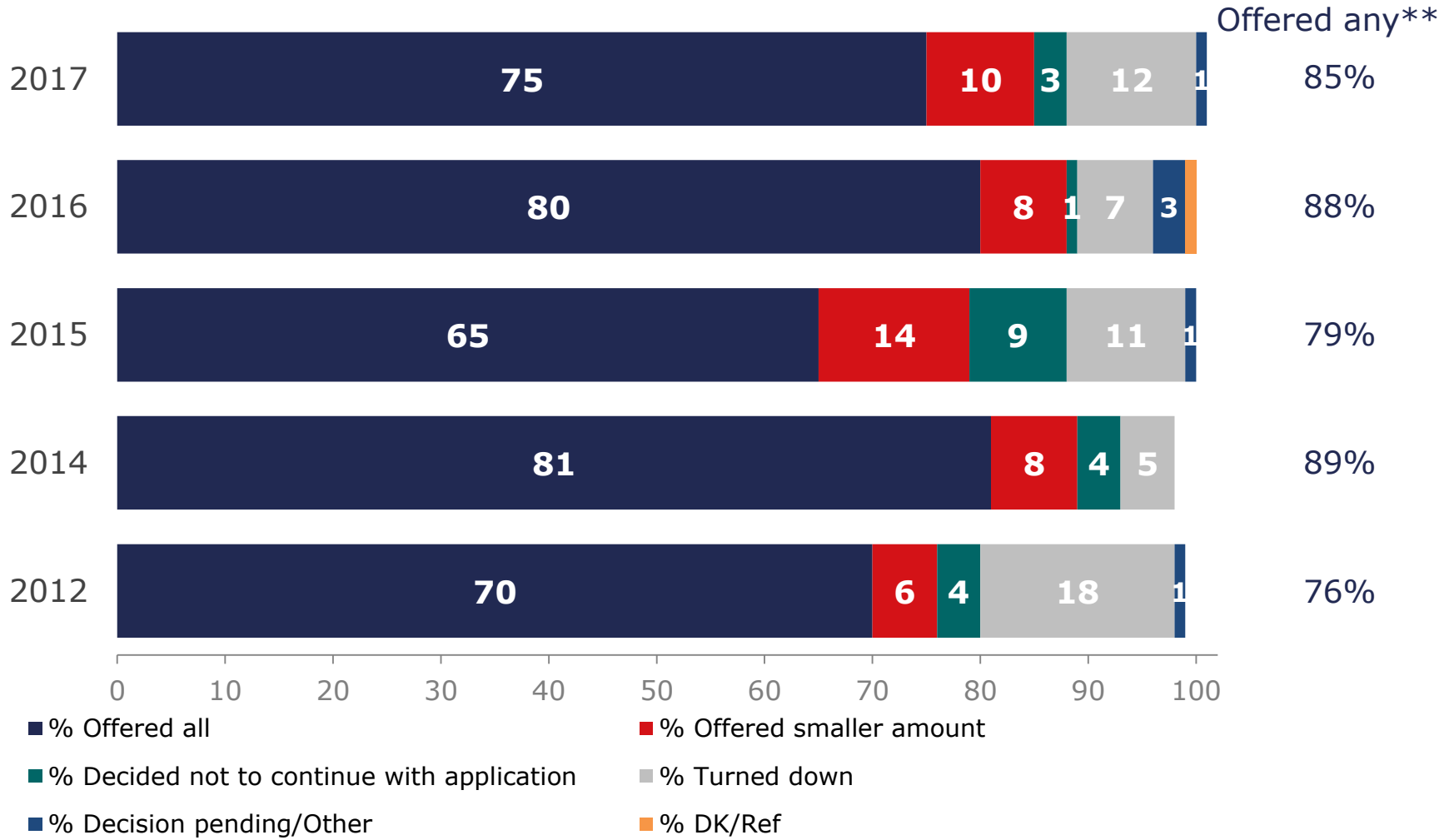
Successful getting all finance – by sector of business 2015-2017



Base = all SMEs that sought external finance in the last 3 years (n=932 in 2017/n=886 in 2016/n=715 in 2015; 2017: production n=158/construction n=127/distribution n=199/business services n=291/other services n=155). Question A30 (single code, unprompted)

The success rate is also fairly consistent when looking at those seeking bank loans/mortgages

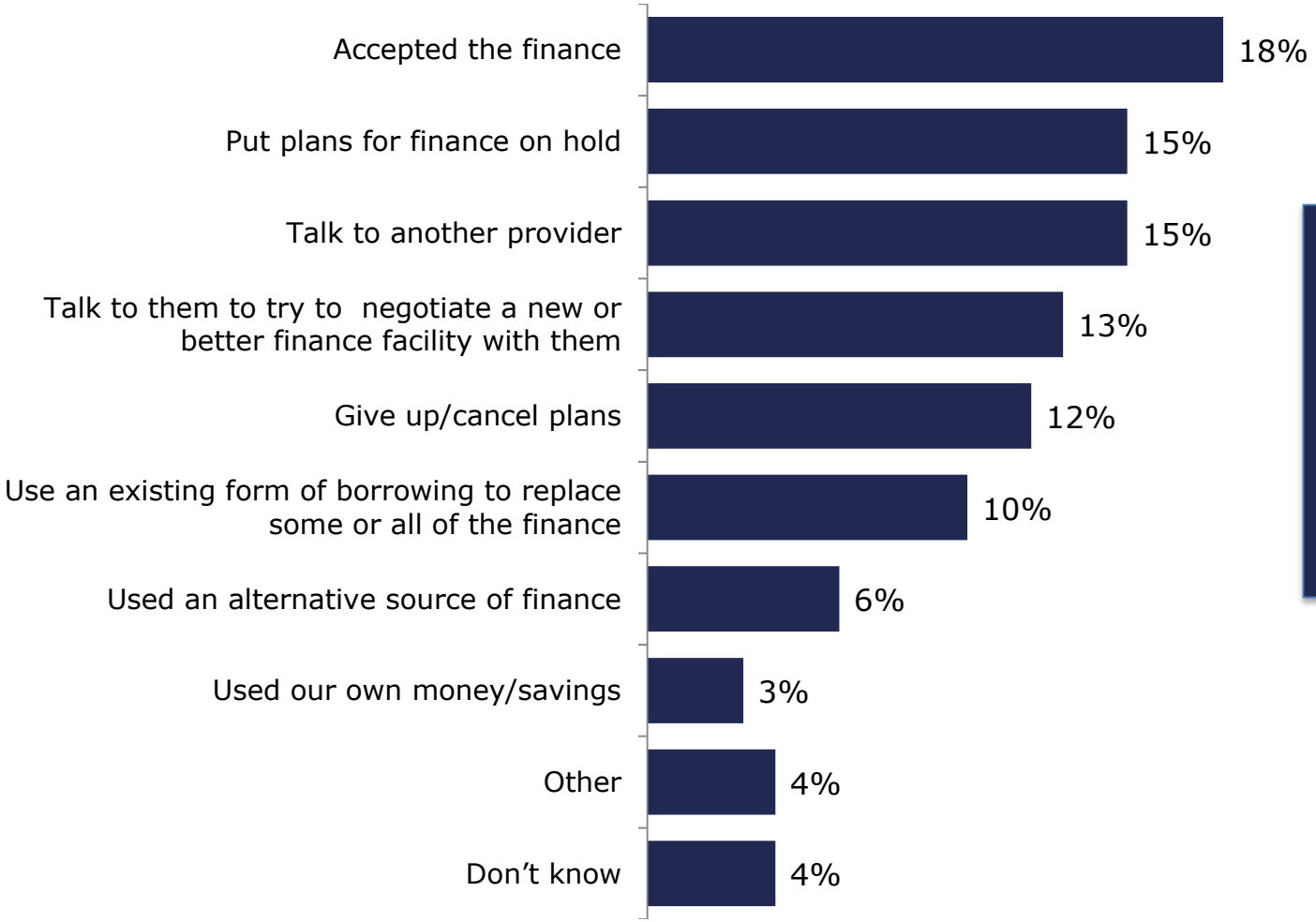
Whether successful in obtaining from first provider*



Base = all SMEs that sought bank loans/mortgages in the last 3 years (n=125 in 2017/n=168 in 2016/n= 208 in 2015/n=112 in 2014/n=185 in 2012). Question A30 (single code, prompted). *Note this refers only to seeking a bank loan or mortgage **Note question wording changes since 2016.

SMEs take a variety of steps if not offered full amount, though changing plans is common

What was done next if not offered full amount – 2017

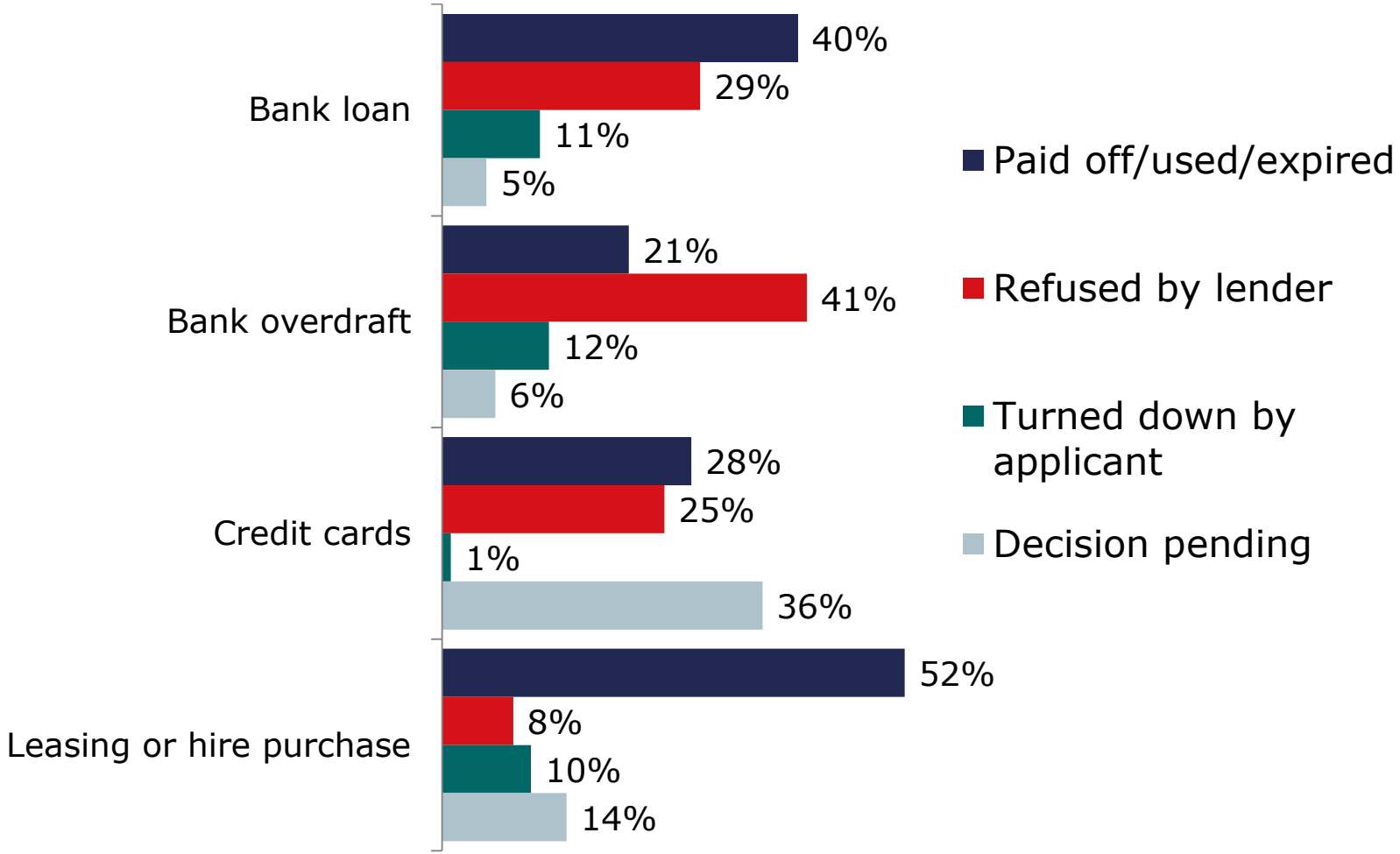


Putting plans on hold and giving up together account for a quarter of cases (27%)

Base = offered smaller amount/worse terms/turned down/didn't accept finance (n=92 in 2017). Question A32 (single code, prompted).

Finance types sought but not now using often are paid off or were refused by the lender

Stage at with finance types that they have sought but are not currently using



Base = all SMEs who sought a form of finance in last 3 years but are not currently using it (bank loan n=69, bank overdraft n=62, credit cards n=25*, leasing or hire purchase n=35). All response with base of 35 or below, expect Credit Cards, not shown. Other categories not shown. *Note very small base, findings should be viewed as indicative only. Question A6b (single code, prompted).

Experience of raising finance shows improvement year-on-year and more reporting exceeded expectations

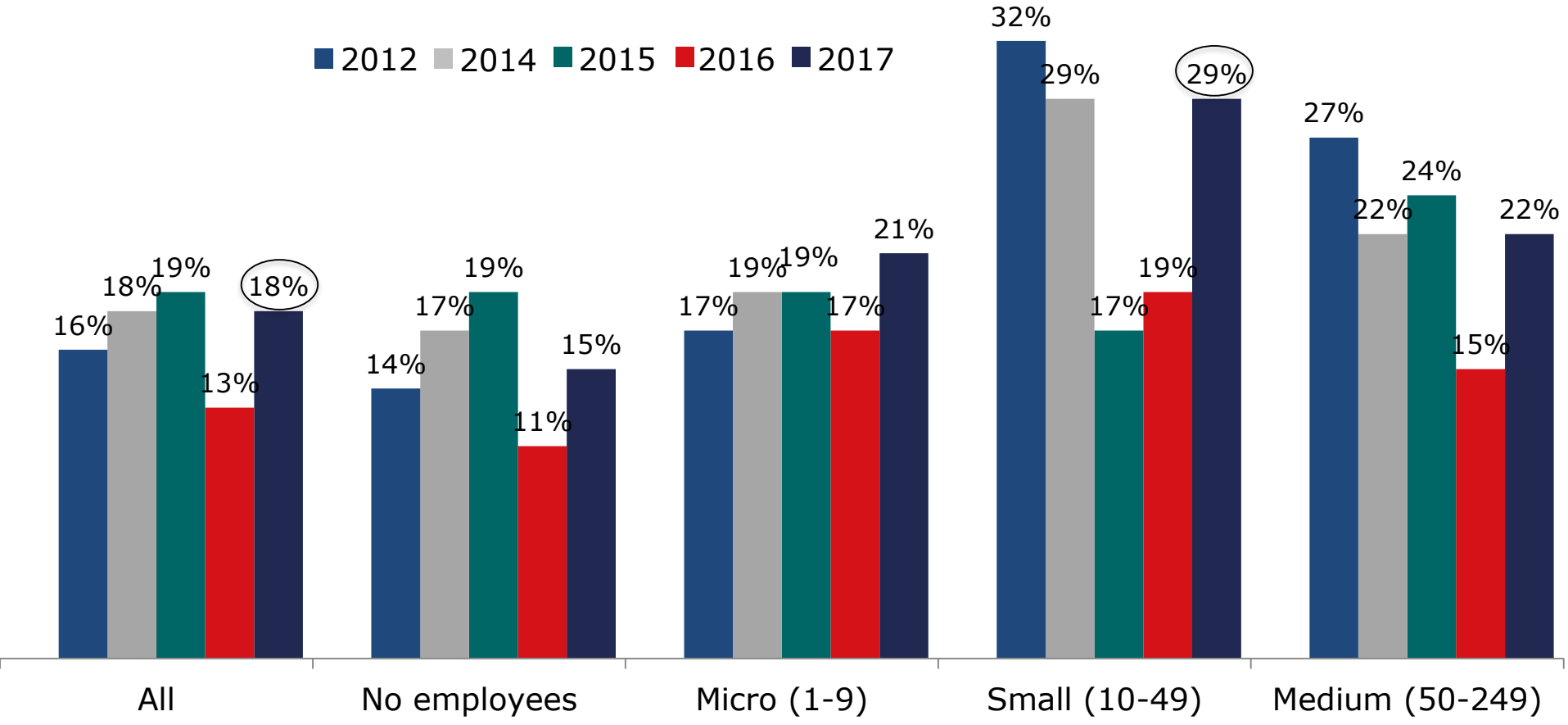
Experience of raising finance vs. expectations, why was worse than expected 2015-2017

Three in five (58%) of those whose experience was worse than expected gave customer service related reasons for this

Base = all SMEs that sought finance in the last 3 years (n=932 in 2017/n=886 in 2016/n=715 in 2015), Base = all for whom experience of raising finance was worse than expected (n=124 in 2016). Question A37 (single code, unprompted), A38 (multi code, unprompted). Top answers shown for why it was worse.

Proportion of SMEs using advice when seeking finance has increased, particularly for small businesses

Sought external advice when applying for finance on last occasion* - 2012-2017 - by employee size

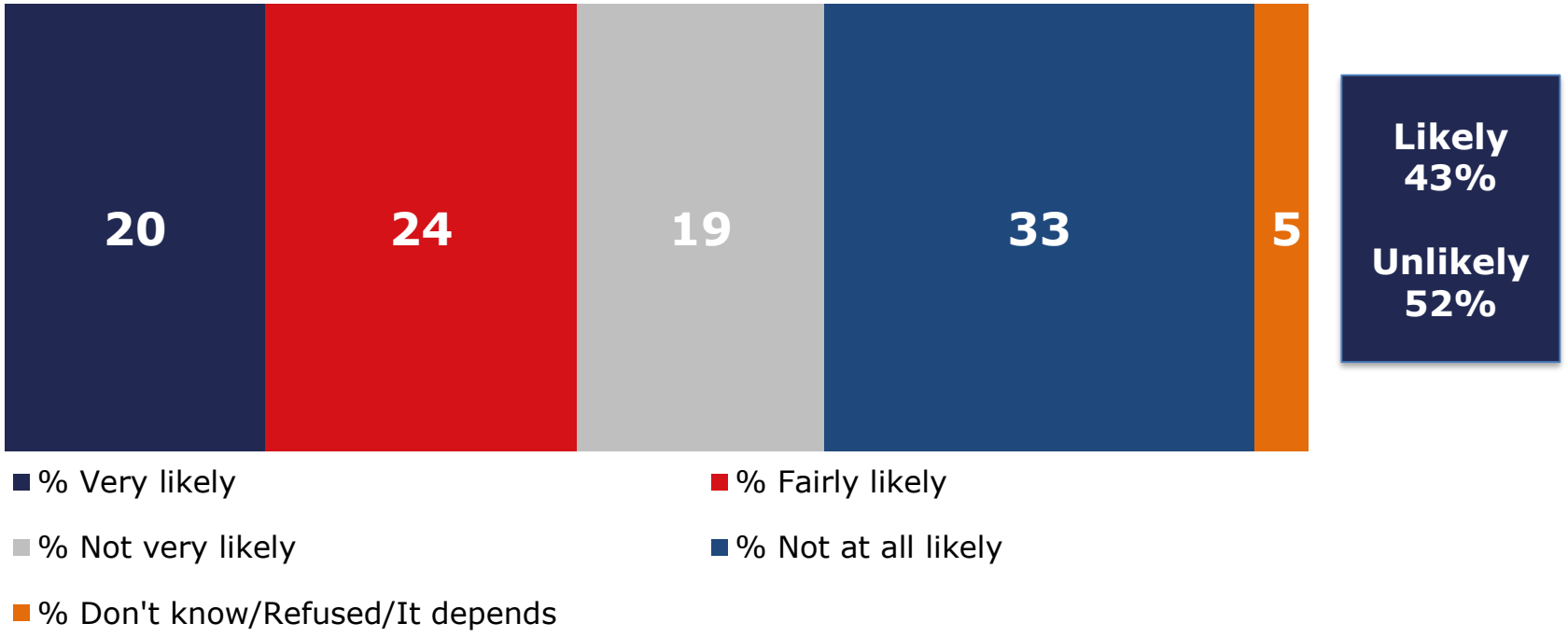


*Note this is a net variable generated from use of at least one source of advice on the last occasion

Base = all SMEs that sought finance in the last 3 years (n=932 in 2017/2016=886/2015=715/2014=325/2012=588). A36 (single code, unprompted)

SMEs are divided on seeking external advice if they needed external finance

Likelihood of seeking external advice if needed external finance in future – 2017



47% of those that would take advice willing to pay for it (43% in 2016)

Base = all SMEs (n=2,070 in 2017). Question D6 (single code, prompted)

Alternative finance

One in five who have not sought alternative finance forms would consider applying for them in future

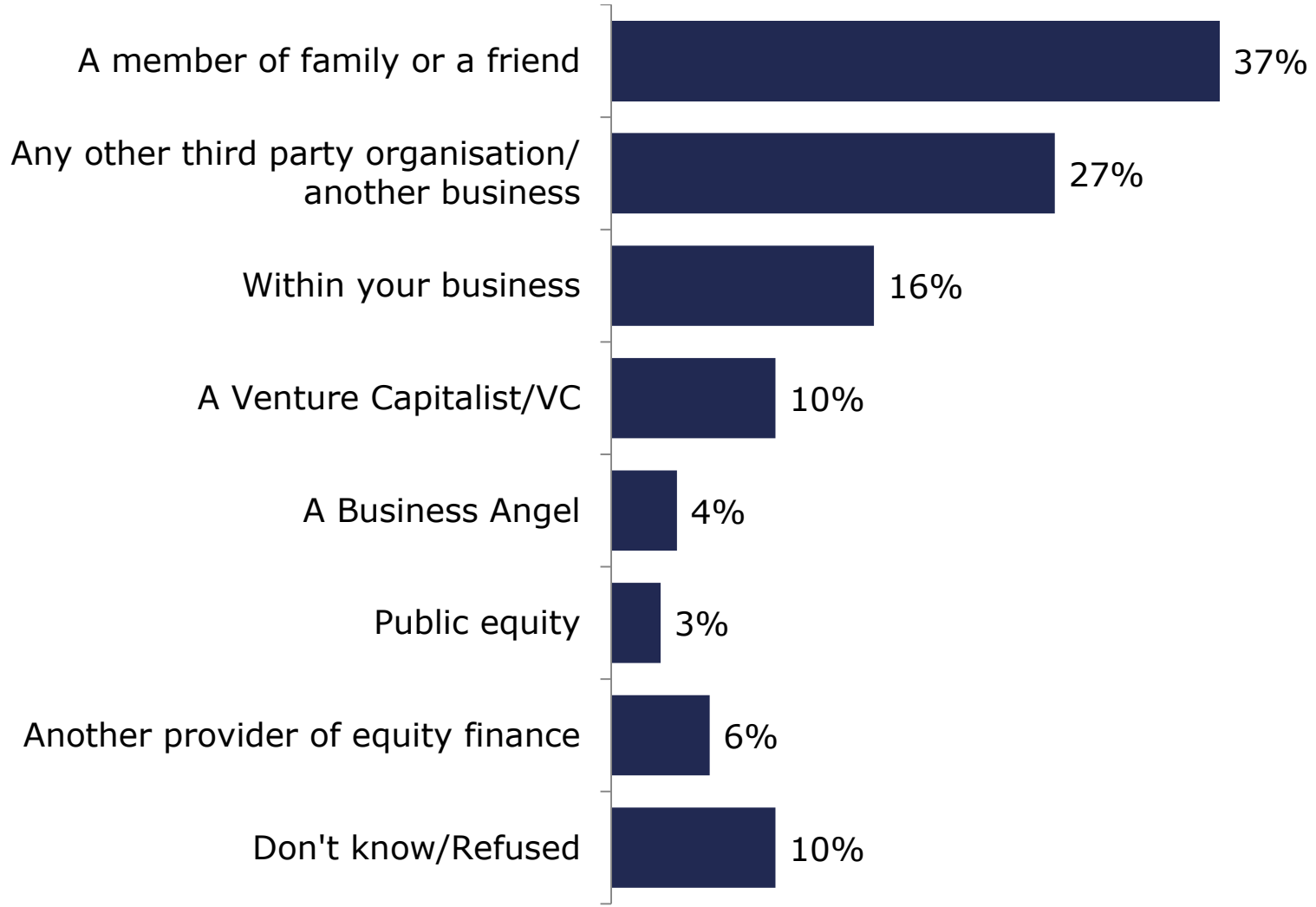
Considering alternative finance forms

Findings labelled by an asterisk mean less than half a per cent but not zero

Base = all SMEs aware of alternative finance forms and not using/sought (n=1,245 for equity finance/n=1,055 for peer to peer lending/ n=1,292 for crowdfunding). Question A6d (multi code, prompted).

Family members/friends most common equity source, though over half use sources outside of these

Where sought equity finance from – multiple responses allowed

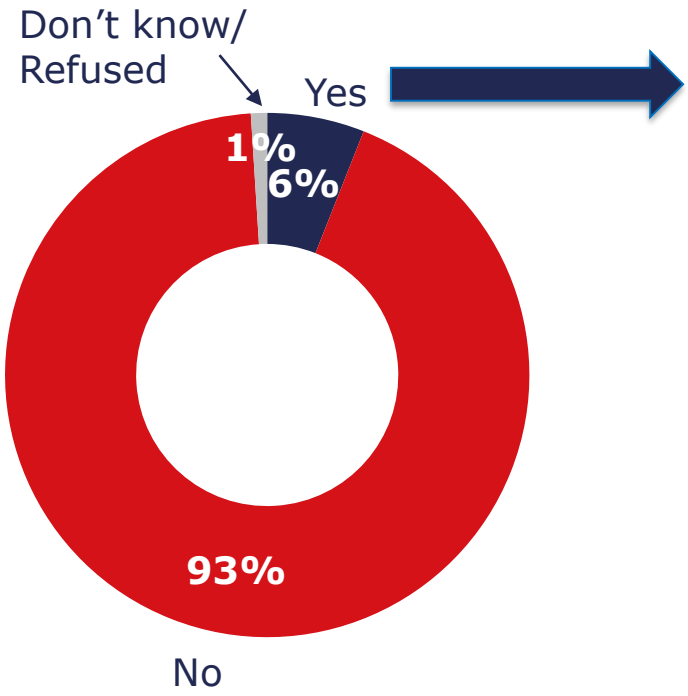


Base = all SMEs that have sought equity finance in the last 3 years (n=78 in 2017). Question A7 (multi code, unprompted)

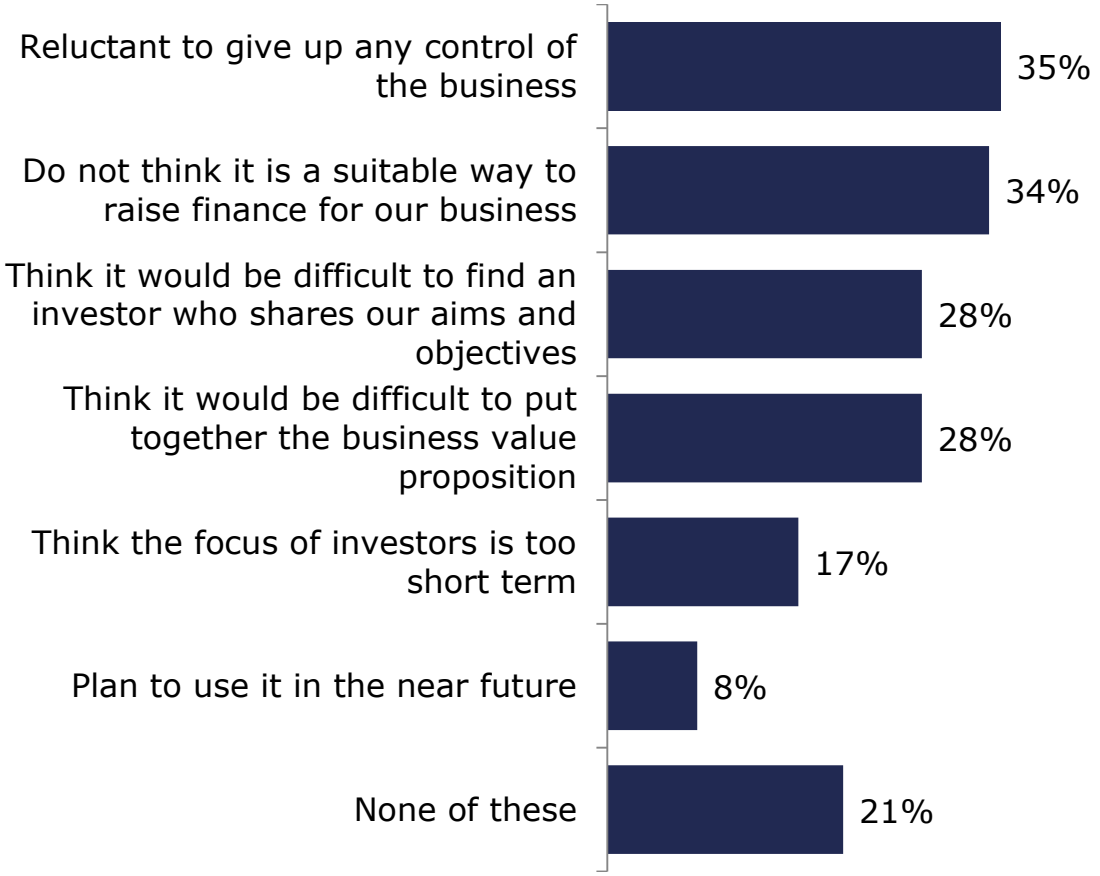
Around one in twenty have considered equity – giving up control and suitability are the most common barriers

Whether considered equity finance and reasons for considering it

Ever considered?



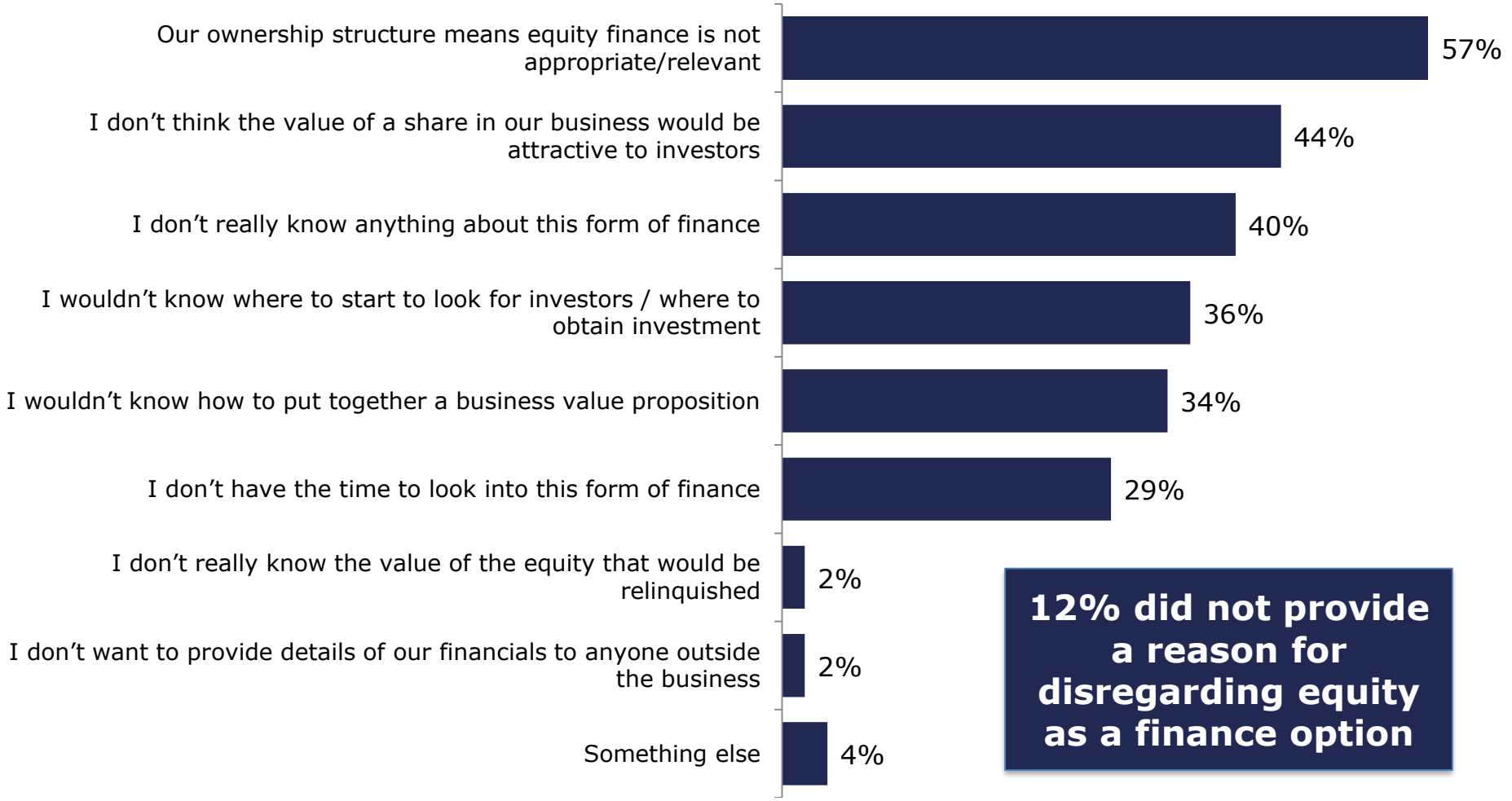
Views of those who've considered equity finance



Base = all SMEs that are aware of equity and did not seek equity (n=1,617 in 2017), all who have considered raising equity finance (n=108 in 2017). Question A8 (single code, prompted), A9a (multi code, unprompted). Those not shown less than 1%.

Ownership structure most common reason for not considering equity finance

Views of those who've not considered equity finance



12% did not provide a reason for disregarding equity as a finance option

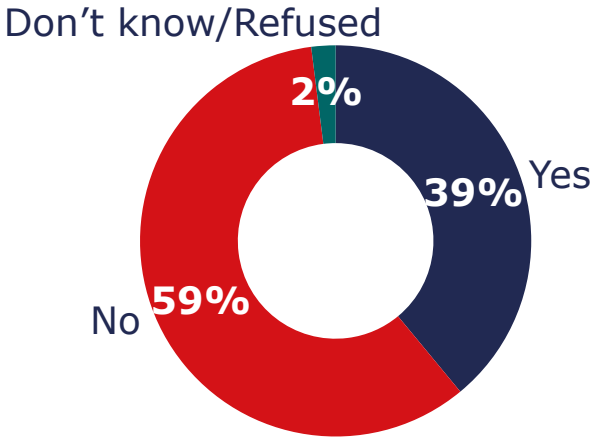
Base = all who have not considered raising equity finance (n=1,496 in 2017). Question A9b (multi code, unprompted). Those not shown less than 1%.

Trade credit

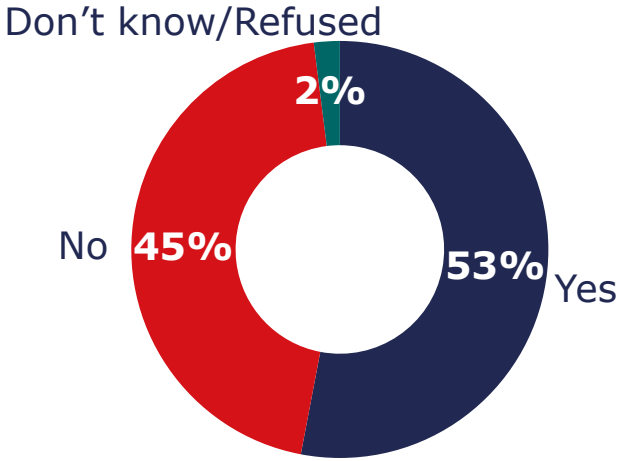
Half of SMEs receive trade credit; easing cash flow is the main reason

Giving and receiving trade credit and reasons for using it

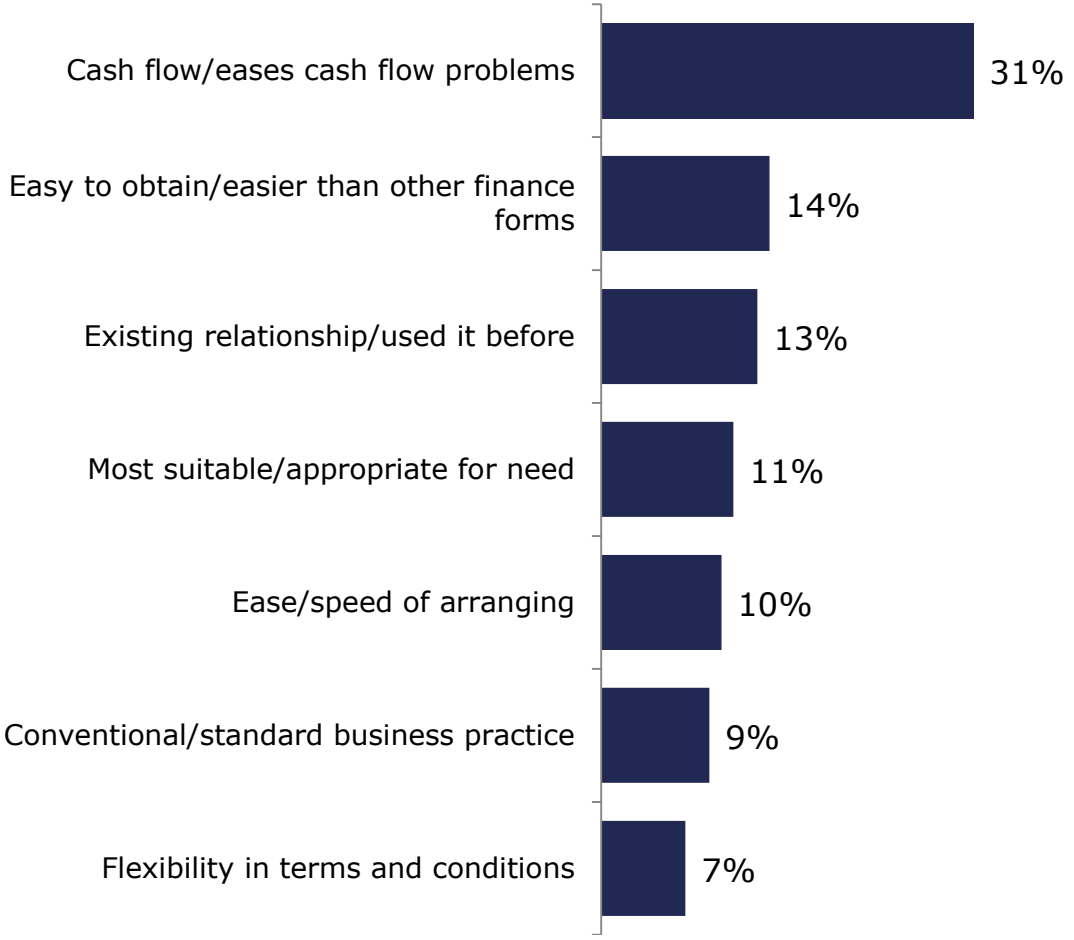
Give trade credit to customers



Receive trade credit



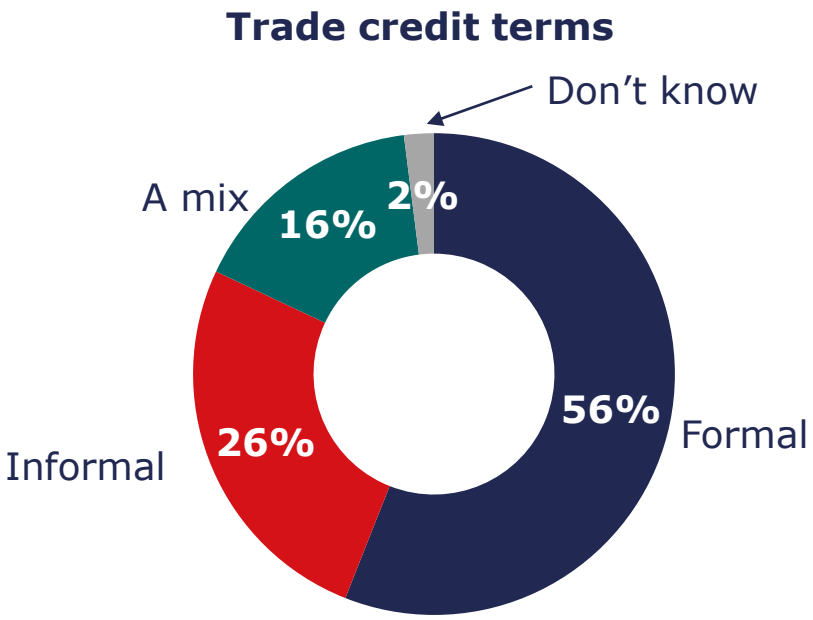
Why use trade credit – top mentions



Base = all SMEs (n=2,070 in 2017), all SMEs that receive trade credit (n=1,285 in 2017). Question D1 (single code, prompted), D2 (single code, prompted) and D3 (multi code, unprompted). Those not shown 5% or less.

Trade credit terms are more likely to be formal than informal, and just three per cent are charged

Terms of trade credit received



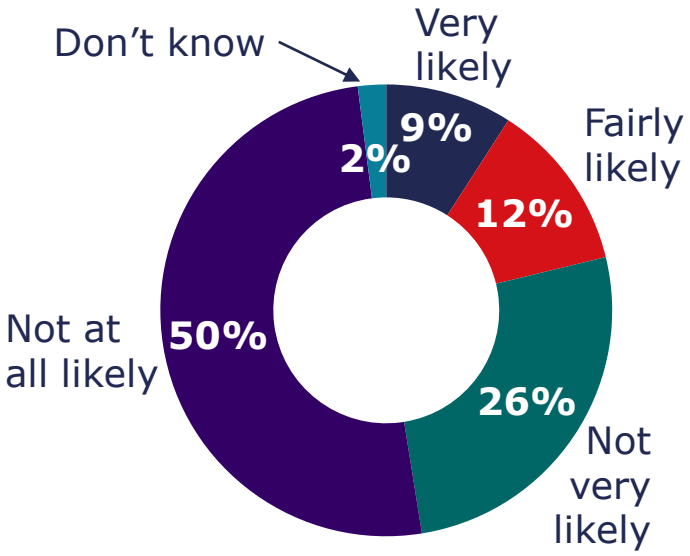
Just three per cent of SMEs that use trade credit are charged interest

Base = all SMEs that receive trade credit (n=1,285 in 2017). Question D4a (single code, prompted), D4b (single code, prompted)

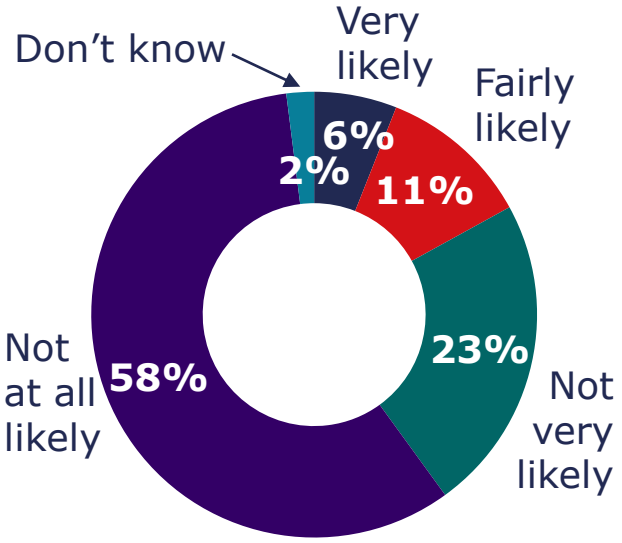
Most would discontinue using trade credit if charged interest, but also would not need alternative finance

Circumstances that would continue to use trade credit

Need alternative finance if trade credit not available



Continue to use if charged interest



Of those not receiving trade credit, 18% have been offered it and rejected it

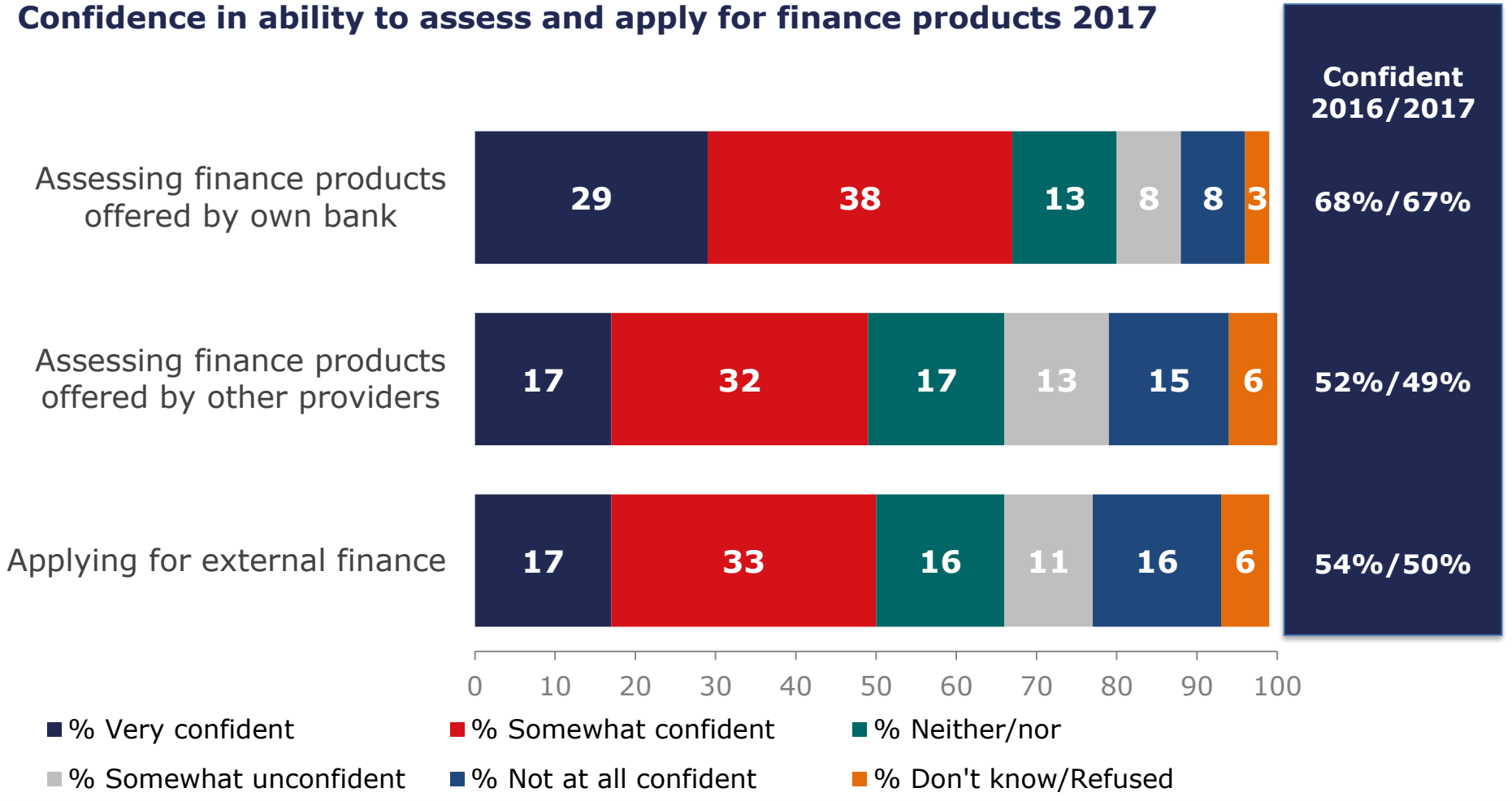
For 63% of them it was on grounds of it not being needed

Base = all SMEs that receive trade credit (n=1,285 in 2017), all that do not receive trade credit (n=759), all who ever have been offered trade credit and rejected it (n=122). Question D4c (single code, prompted), D4d (single code, prompted), D4e (single code, prompted), D4f (multi code, unprompted)

Perceptions of raising finance and future use

On balance SMEs are confident about assessing finance products, from own bank and from other banks

Confidence in ability to assess and apply for finance products 2017

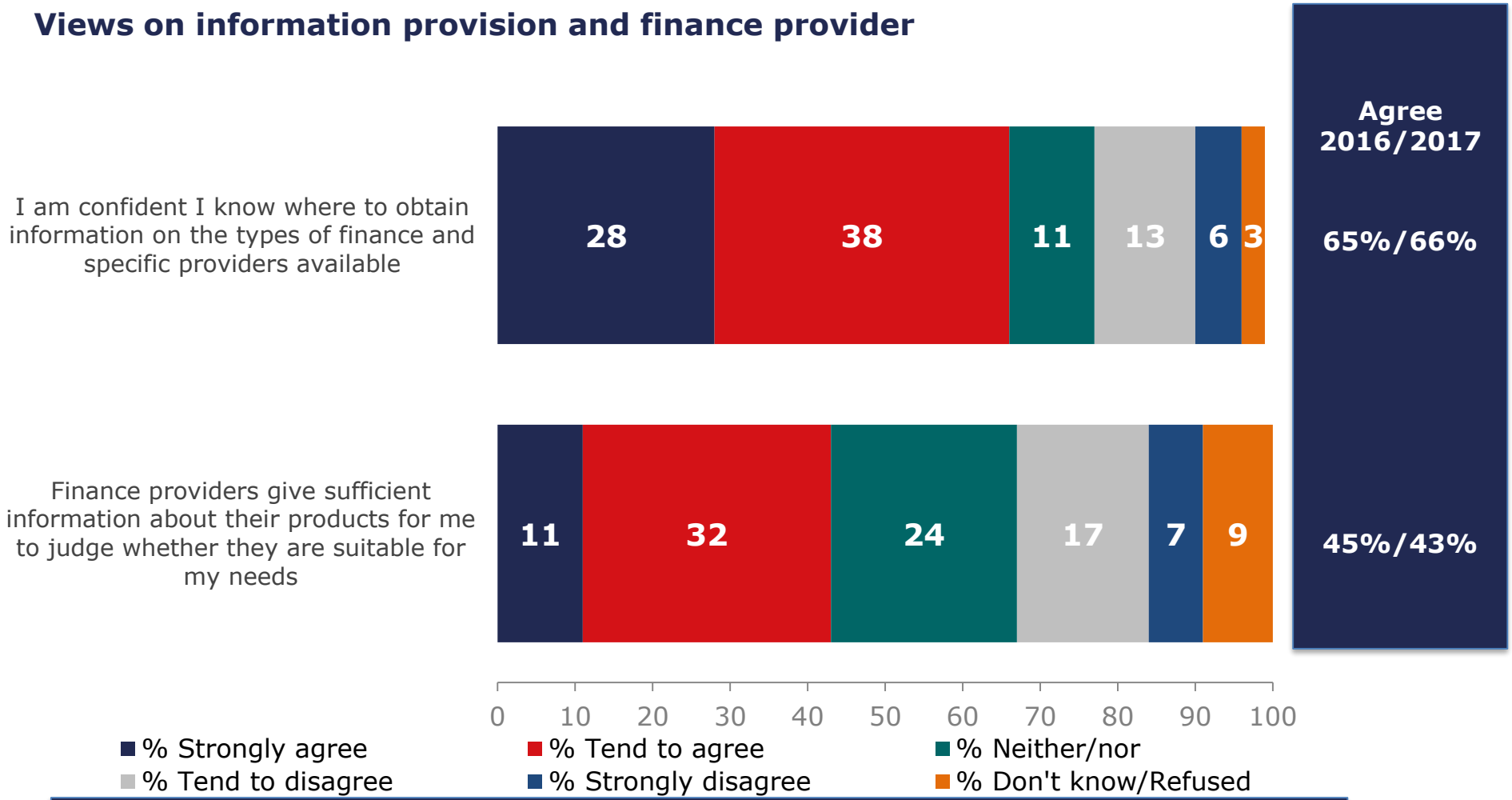


Confidence levels strongly correlated with size of business – larger businesses consistently more confident, e.g. 75% of medium firms are confident applying for external finance vs 47% with no employees

Base = all SMEs (n=2,070 in 2017). Question A4 (single code, prompted)

SMEs are confident in their ability to source information on types of finance

Views on information provision and finance provider

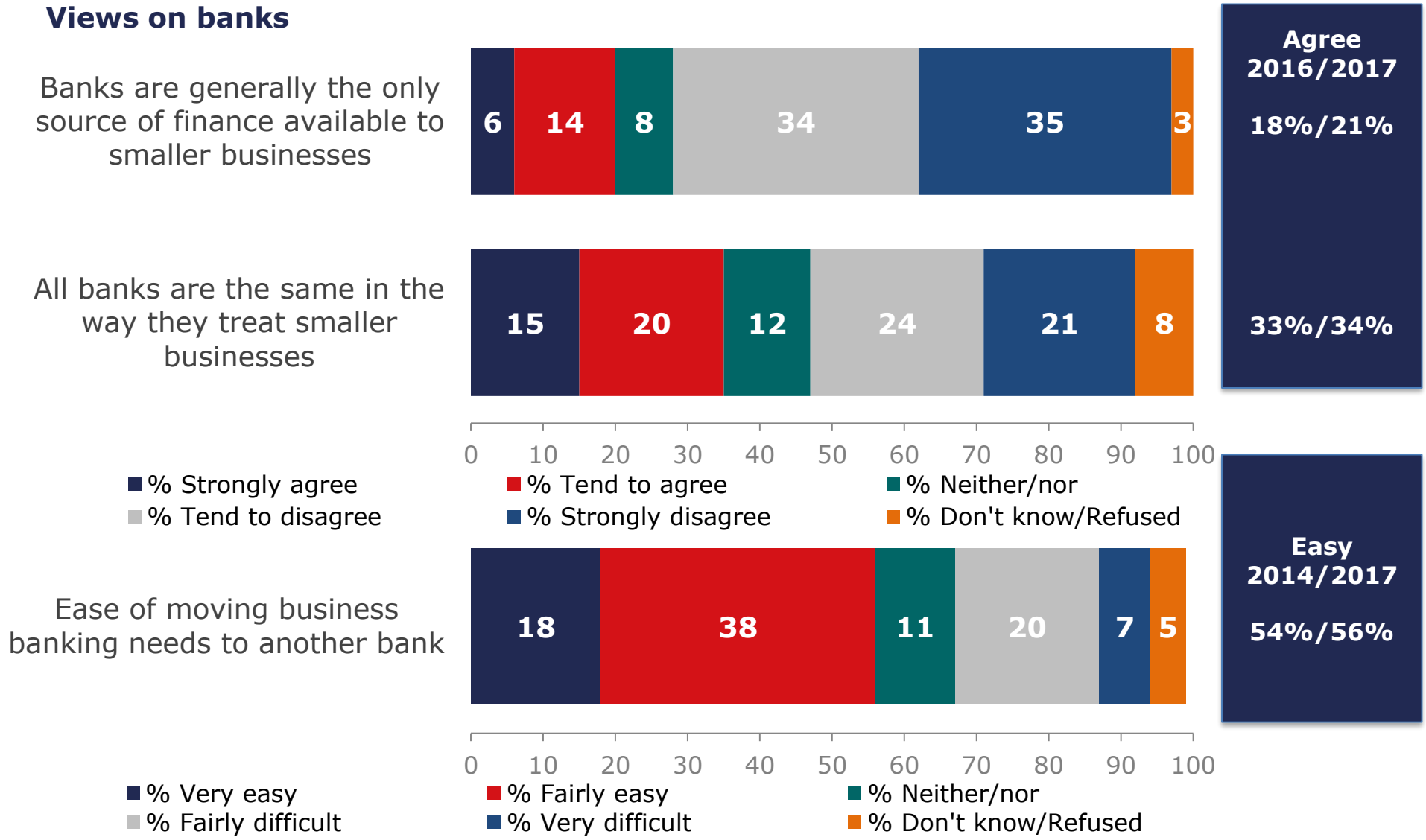


Confidence levels strongly correlated with size of business. Larger businesses more confident on information - e.g. 61% of medium business vs 40% of nanos agree providers give sufficient information

Base = all SMEs (n=2,070 in 2017). Question A5 (single code, prompted)

Most disagree banks are the only finance source and agree would be easy to switch banks

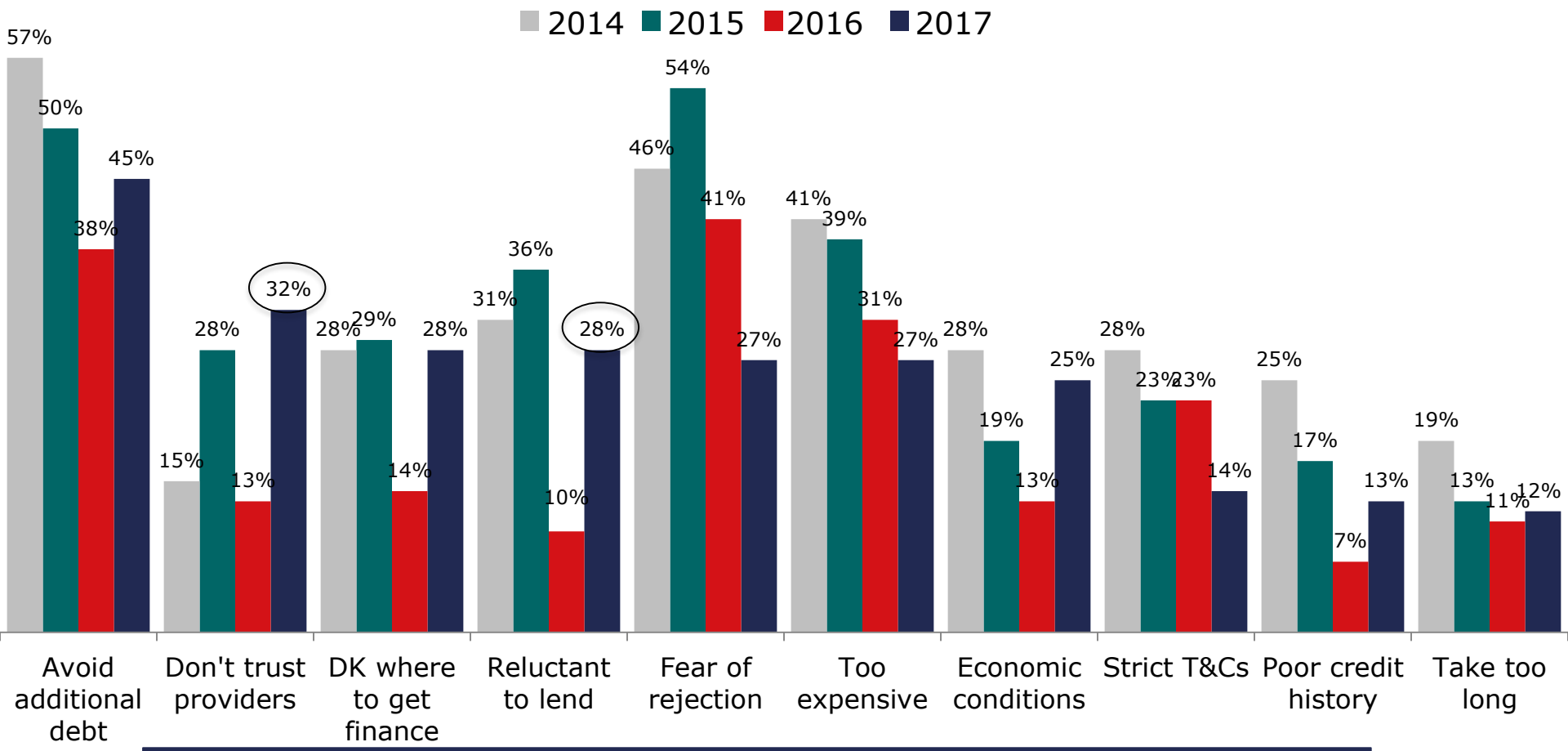
Views on banks



Base = all SMEs (n=2,070 in 2017). Question A5b (single code, prompted)

Fear of rejection has declined as reason for not applying for finance, replaced by avoiding debt, lack of trust and not knowing where to go

Reasons for not applying for finance 2014-2017

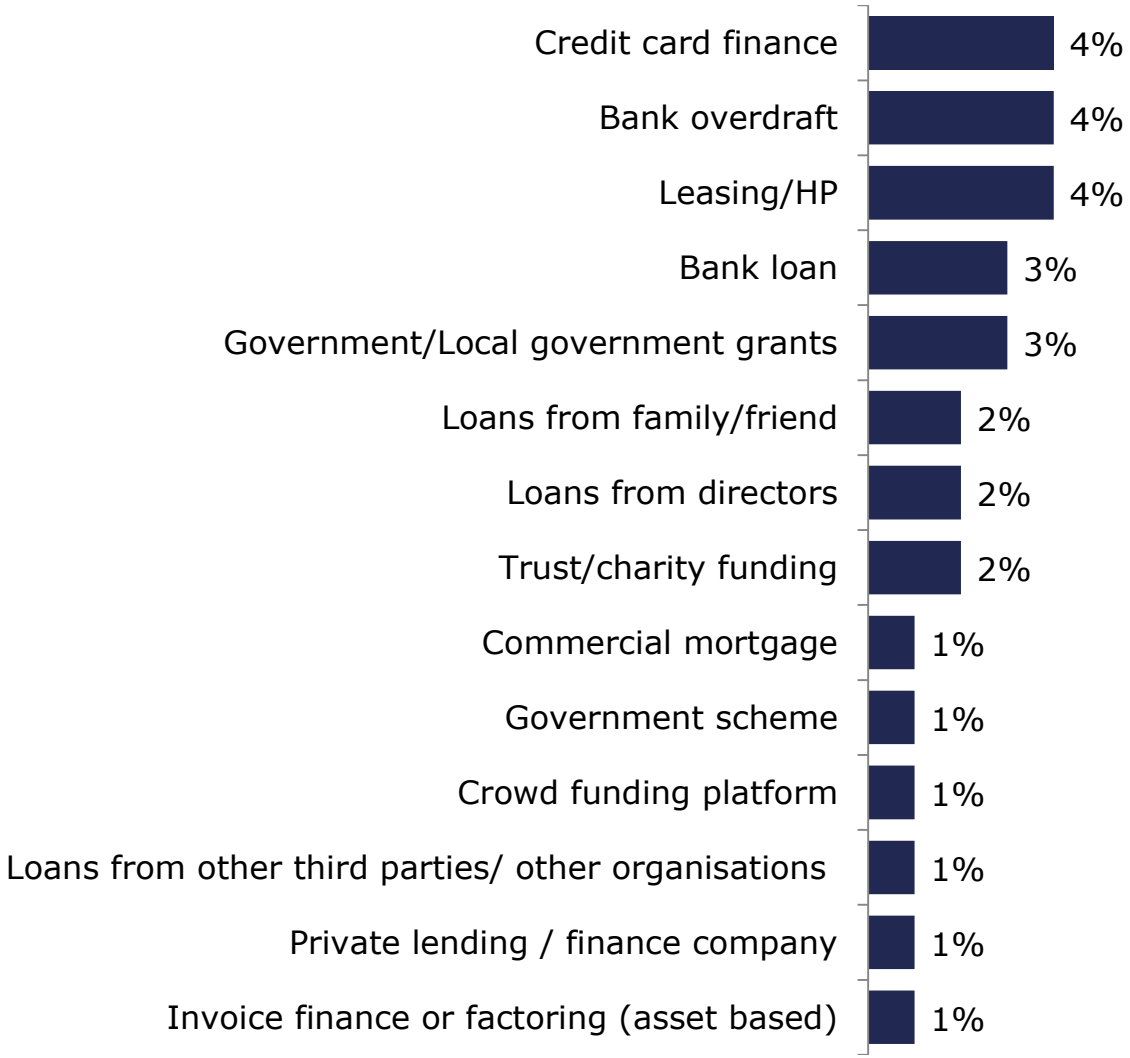


Avoiding additional debt is the most common <u>single</u> main reason (25%), followed by fear of rejection (19%)

Base = all SMEs that had a need for finance in the last 12 months but did not apply (n=85 in 2017/n=62 in 2016/n=95 in 2015/n=63 in 2014). Question B2 (multi code, prompted)

One in five (18%) expect to apply for at least one external finance product in the next three months

Products sought in next three months*



82% do not expect to apply for any finance in the next three months

*Responses not mutually exclusive

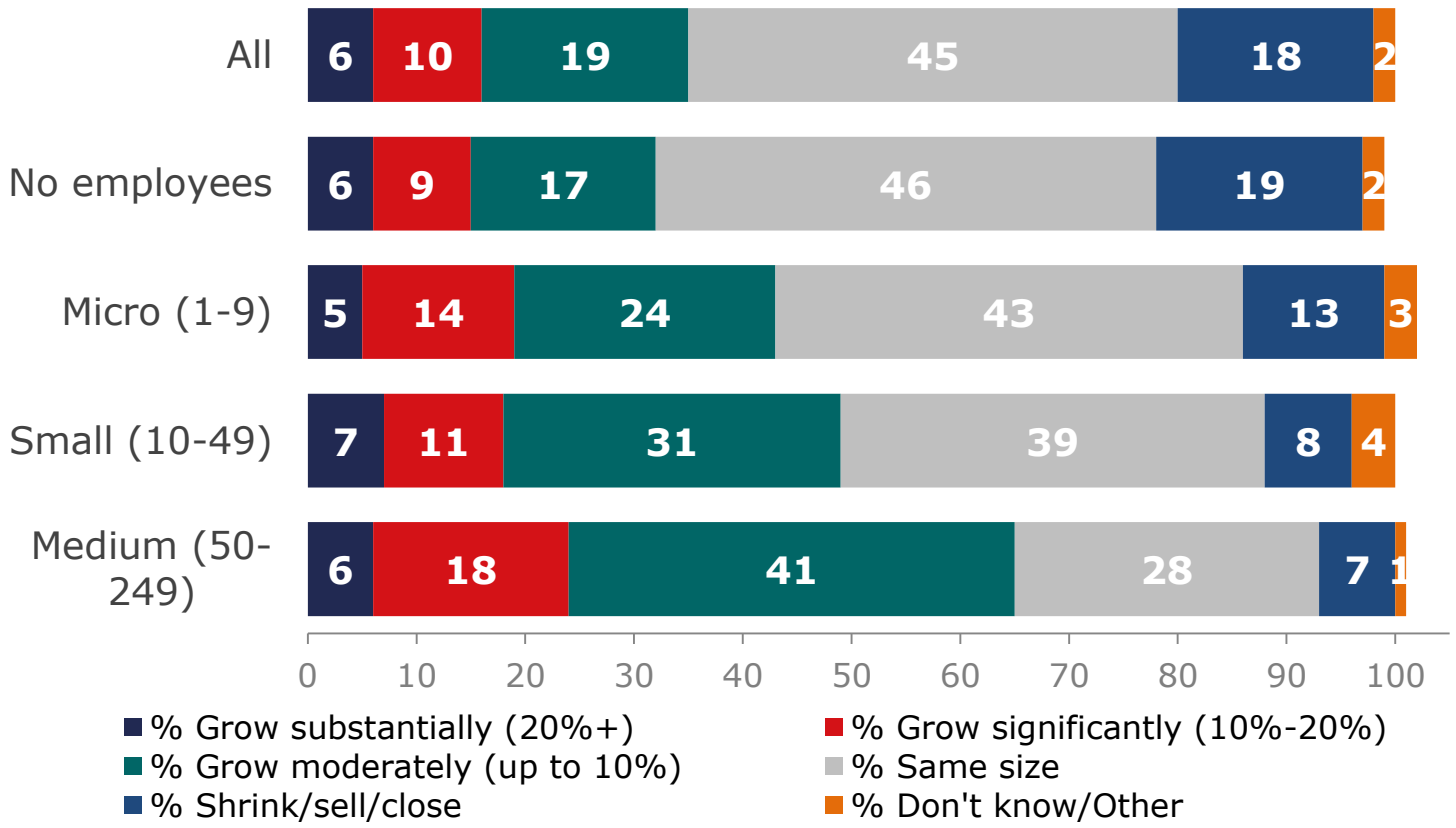
Base = all SMEs (n=2,070 in 2017). Question D5 (multi code, prompted). Those not shown less than 1%.

Growth

Growth expectations are broadly the same as 12 months ago after decrease in 2016

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

Proportion expecting to grow: 2015 = 56%; 2016 = 37%



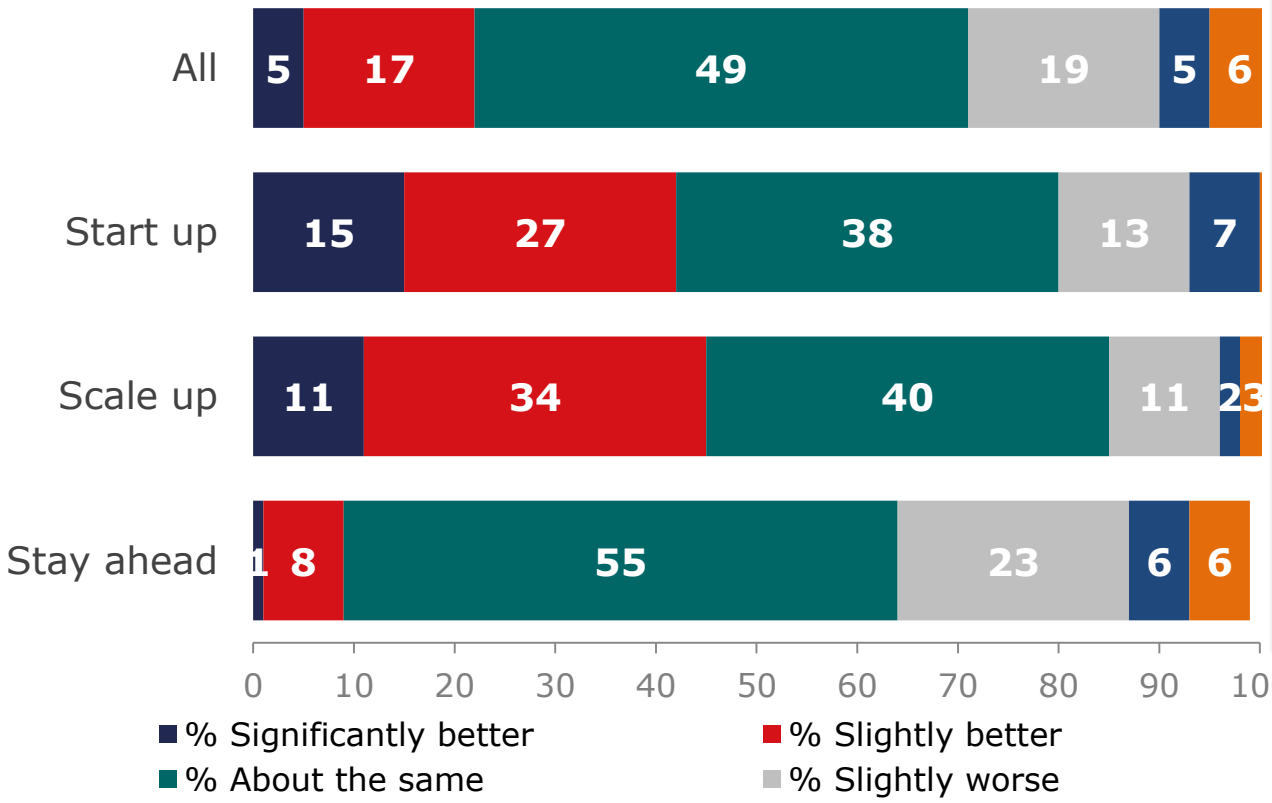
Expect to grow 2016/2017
37%/35%
32%/32%
49%/43%
57%/49%
60%/65%

Base = all SMEs (n=2,070 in 2017; no employees n=855/micros n=700/small n=331/medium n=184). Question B6 (single code, prompted)

Decline in perception that trading conditions will improve, start ups less optimistic since 2016

Perceived change in trading conditions in the next 12 months

Thinking trading conditions will improve: 2016 = 27%; 2017=22%*



	Improve/ Worsen	Net improve 2016/2017 ±
All	23%/24%	+3/-1
Start up	42%/20%	+32/+22
Scale up	45%/13%	+35/+32
Stay ahead	9%/29%	-18/-20

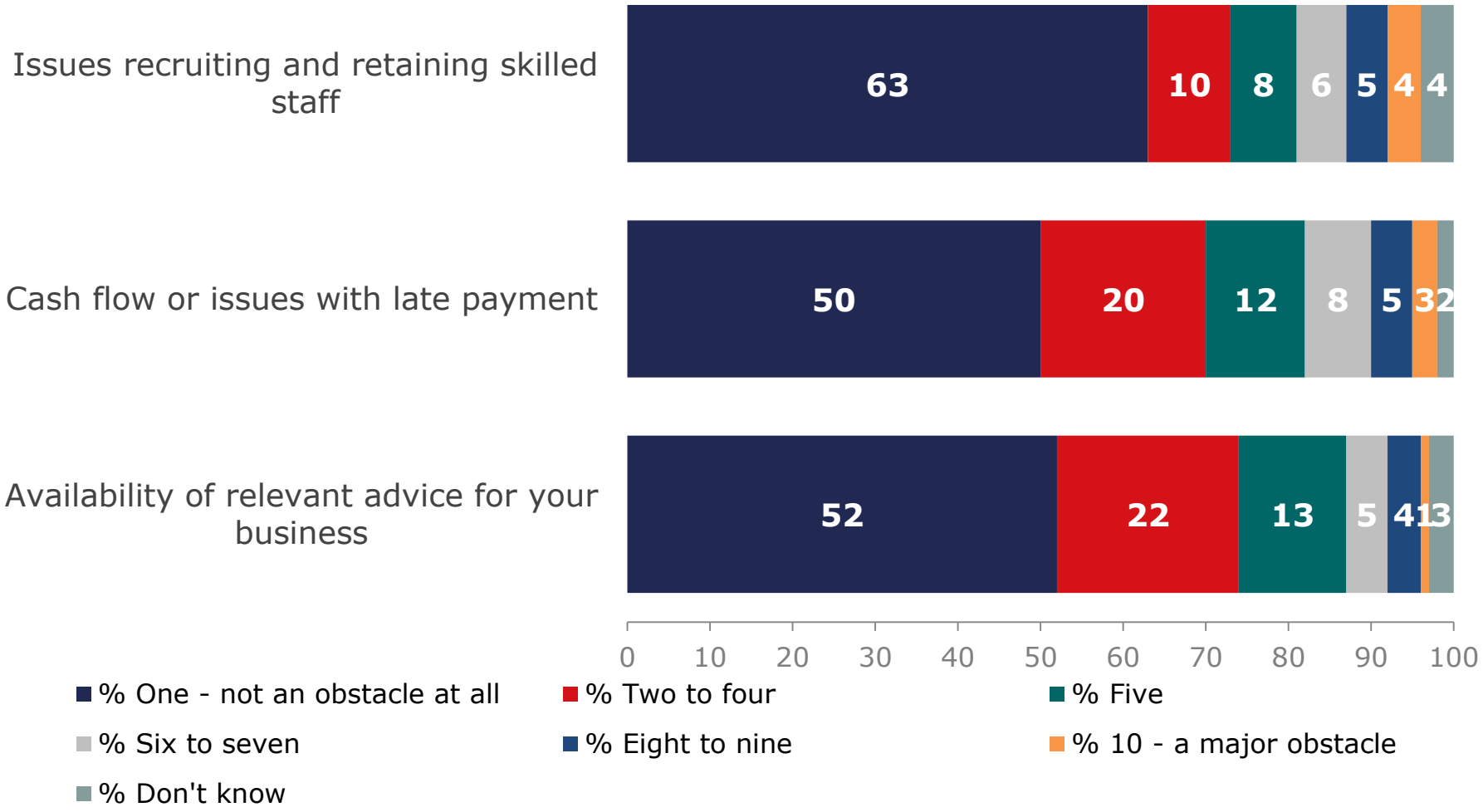
*Substantial decline thinking conditions will get better since 2015 – 44% then thought things will improve

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

Base = all SMEs (n=2,070 in 2017; start up n=151/scale up n=762/stay ahead n=1,151). Question B7 (single code, prompted)

At least half of SMEs perceive cash flow, availability of advice and skilled staff are not an obstacle

Obstacles in the next 12 months

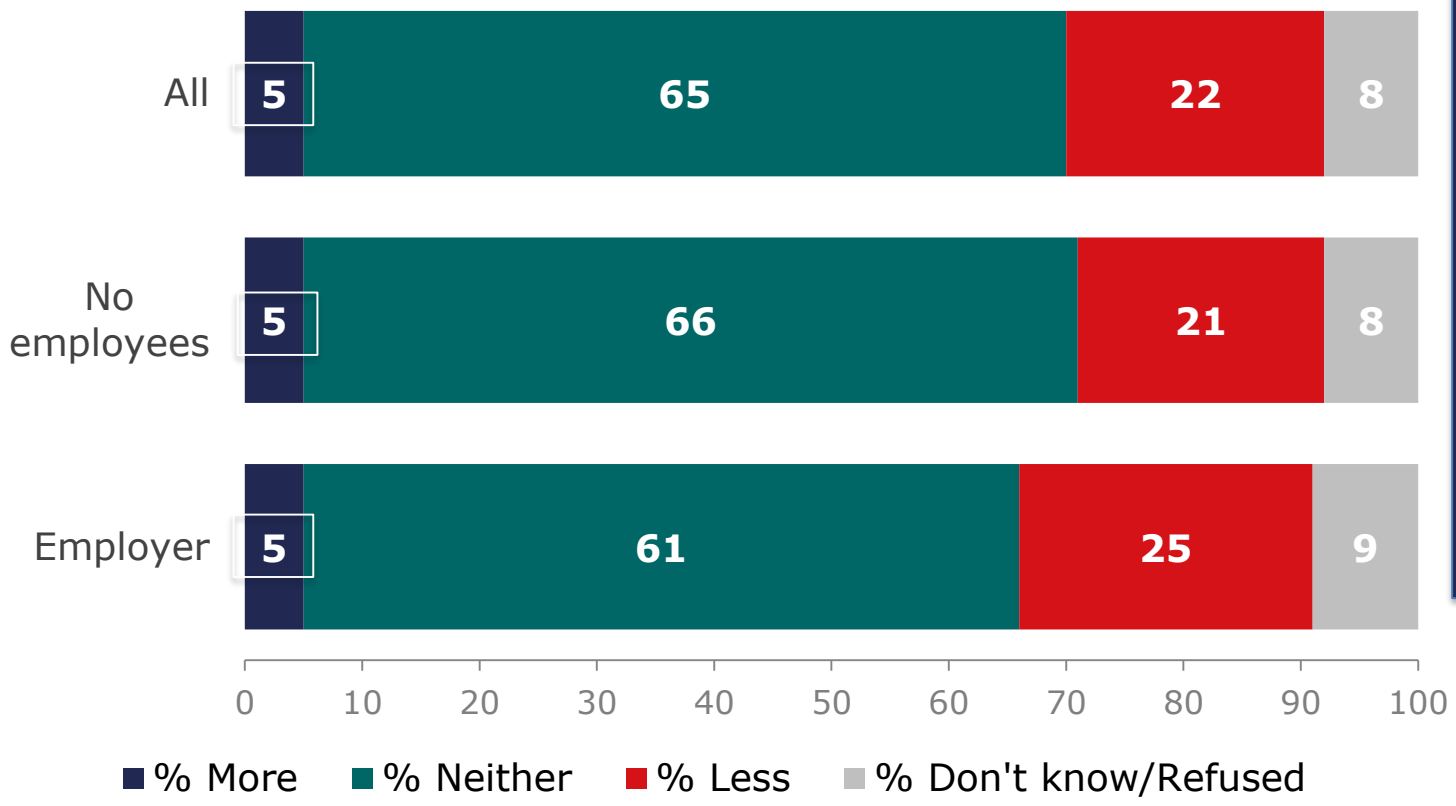


Base = all SMEs (n=2,070). Question B8 (single code, prompted)

Leaving the EU

A majority of SMEs expect no impact from leaving EU, but fewer since last year think they'll grow more

Grow more/less as result of leaving EU - by number of employees



	Net more 2016/2017* ±
All	-13/-17
No employees	-12/-16
Employer	-18/-19

*Note change in question from 'impact of referendum' in 2016 to 'impact of leaving EU' in 2017

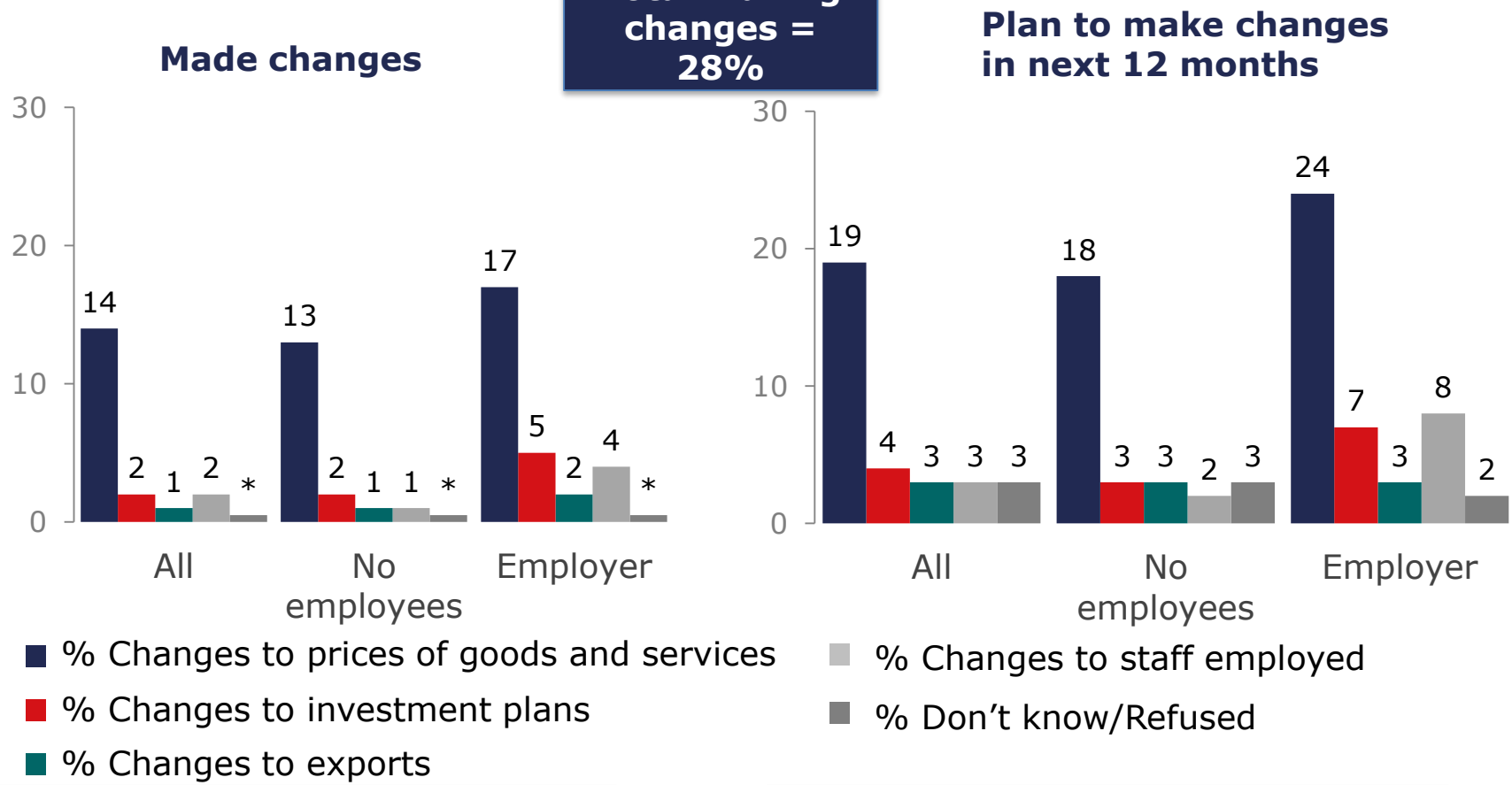
Expecting less growth most common in distribution sector (29%) and least common in construction (13%)

Base = all SMEs (n=2,070 in 2017; no employees n=855/employees n=1,215). Question C6 (single code, prompted)

Majority neither have made nor expect to make changes – more anticipate changes than have made them

Changes/planned changes as result of leaving EU - by number of employees

Total making changes = 28%



Changes = 17%. More likely for those with employees (23% vs. 16% with no employees)

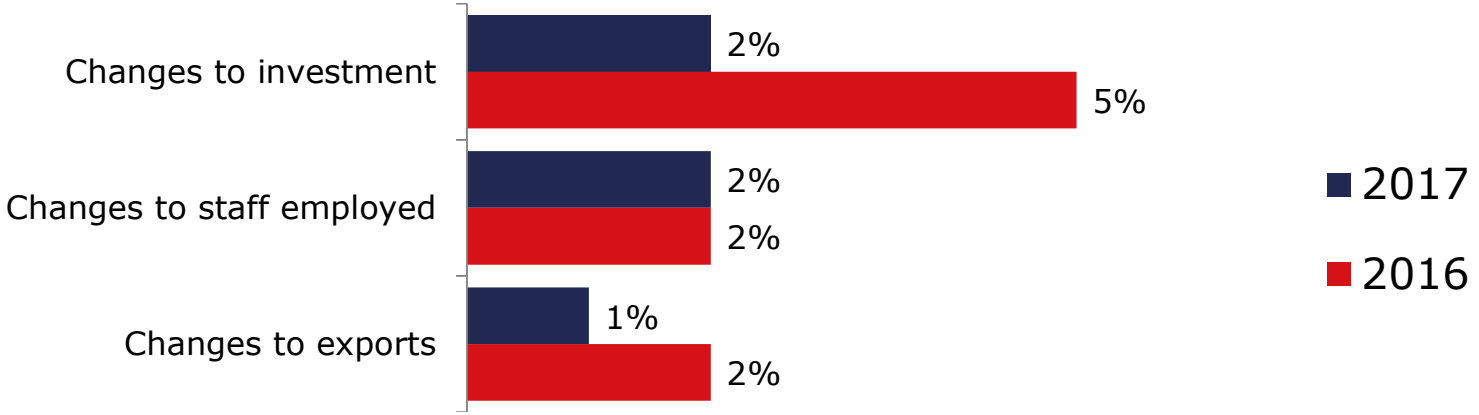
Changes = 24%. More likely for those with employees (31% vs. 22% with no employees)

Base = all SMEs (n=2,070 In 2017). Question C7/C8 (multi code, prompted)

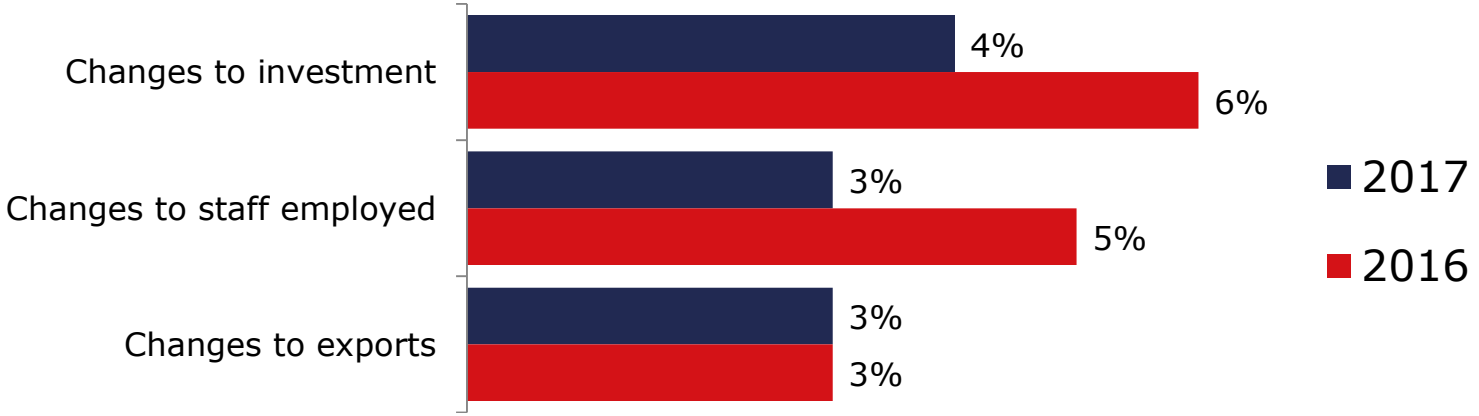
Individual changes similar to 12 months ago

Changes/planned changes as result of leaving EU

Changes made as result of leaving EU

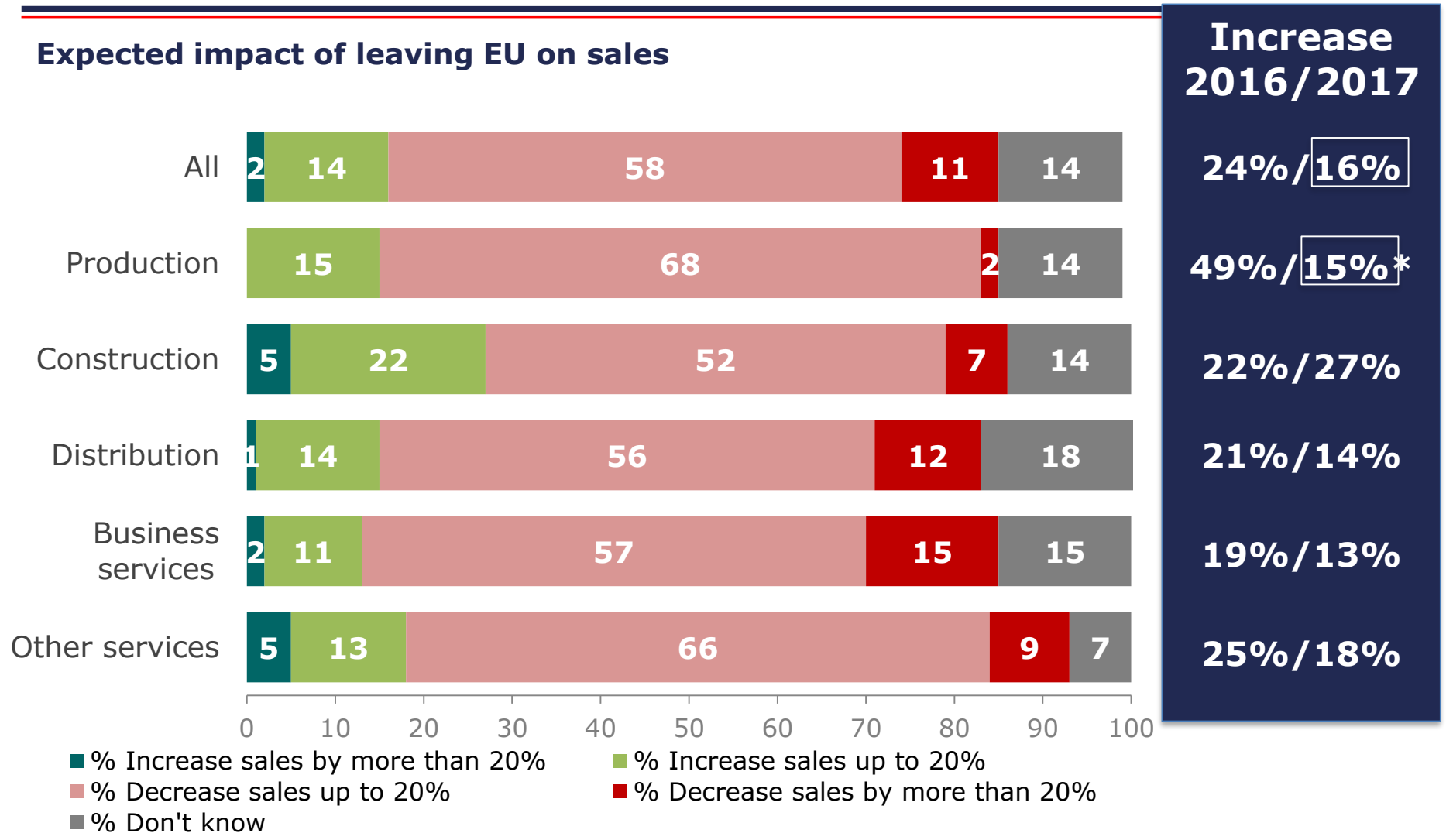


Changes planned as result of leaving EU



Base = all SMEs (n=2,070 In 2017/n=1,535 in 2016). Question C7/C8 (multi code, prompted)

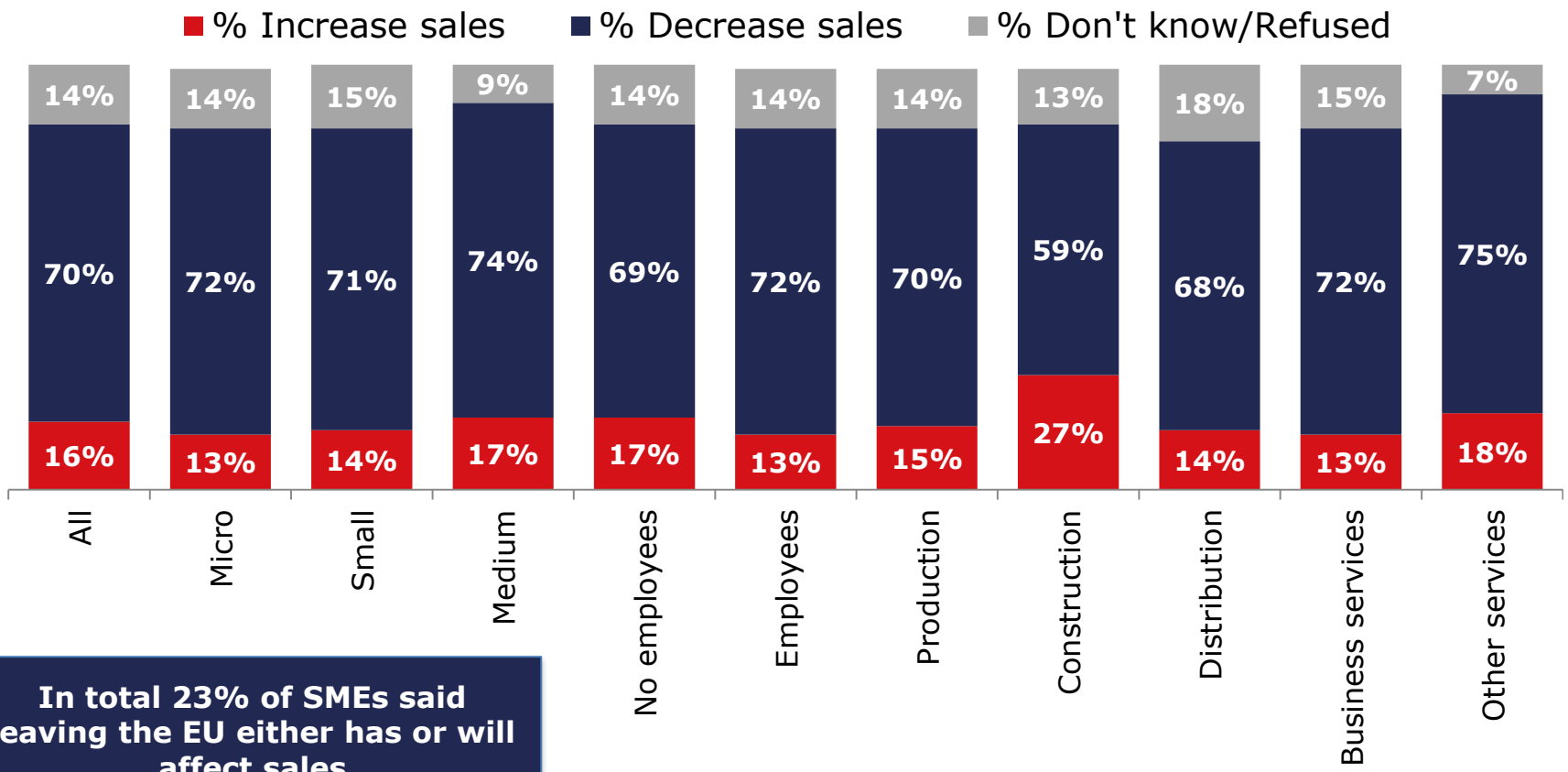
Decline in proportion of SMEs expecting an increase in sales compared to 2016, especially those in production



Base = all SMEs that have or expect changes to sales as a result of leaving EU (n=558 in 2017, Production n=100, Construction n= 51, Distribution n=159, Business services n=196, Other services n=49). Question C12 (single code, prompted). *Note small base: n=93 in 2016, n=100 in 2017

On balance SMEs expect a decrease in sales, though those in construction are more optimistic

Impact of leaving EU on sales by sector - by employee size and sector



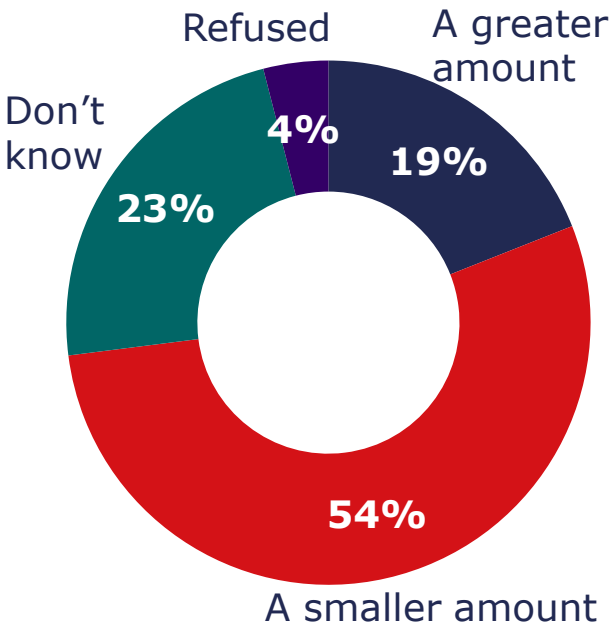
In total 23% of SMEs said leaving the EU either has or will affect sales

Base = all who already had or expect to have changes to sales (n=558 in 2017, Micro n=205, Small n=103, Medium n=58, No employees n=192, Employees n=366, Production n=100, Construction n= 51, Distribution n=159, Business services n=196, Other services n=49), all SMEs (n=2,070 In 2017). Question C12 (single code, prompted), Question C11 (multi code, prompted)

On balance, a greater proportion of employers are looking to reduce investment and staff

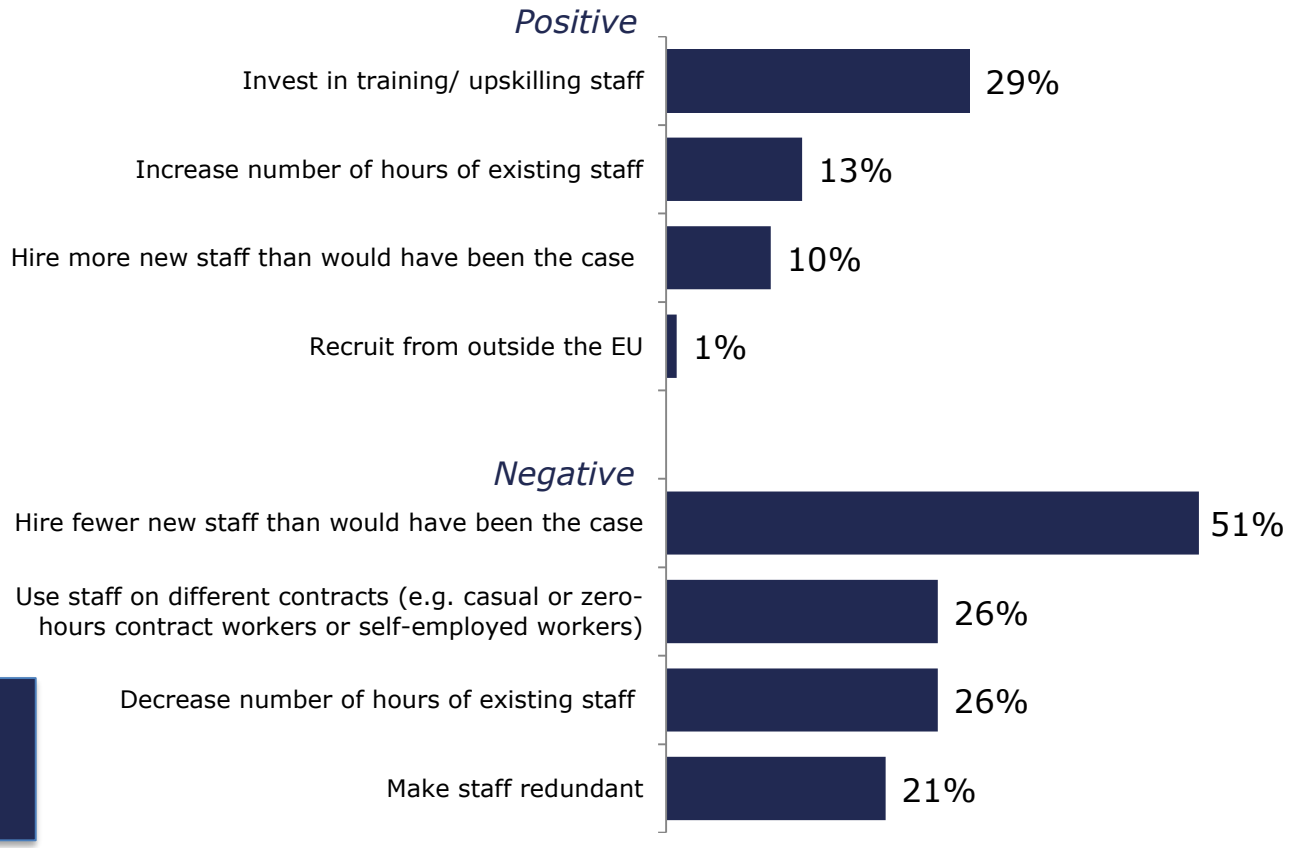
Changes to investment and staff as a result of leaving the EU – employers only

Changes to investment



Similar picture to 2016 – when 28% employers said a greater amount* and 52% a smaller amount

Changes to staff

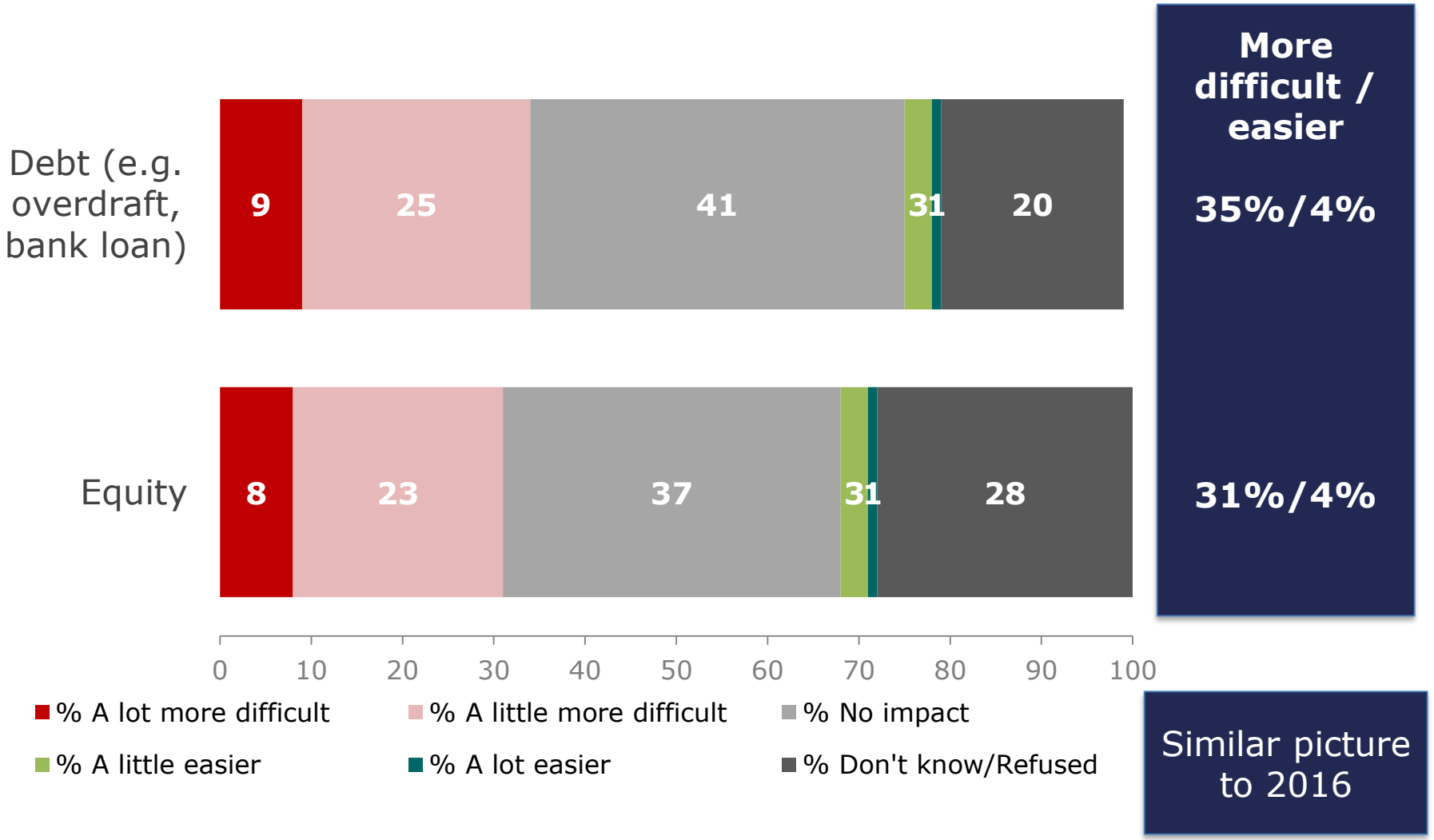


Base = all with employees who have already made or plan to make changes to investment (n=108 in 2017), all with employees who have already made or plan to make changes to staff employed (n=129 in 2017), all with employees who have already made or plan to make changes to exports (n=70 in 2017). Question C9 (single code, prompted), C10 (multi code, unprompted)

*Not a significant difference with 2017

On balance more SMEs think obtaining equity or debt finance will be more difficult

Impact of leaving EU on obtaining debt and equity



Base = all SMEs (n=2,070 in 2017). Question C14 (single code, prompted)

Summing up

Summing up - 1

- Awareness of many finance products among SMEs is plateauing, but awareness of **crowdfunding continues to rise** (though levels seeking and using it are low).
- **Two in five have sought finance in the last three years.**
- **Bank overdrafts and loans, credit cards and leasing/hire purchase remain the most commonly sought and used**. Personal savings remain the overwhelming means of setting up a business.
- **SMEs appear to be shopping around more** when they have a finance need – fewer consider just one provider than in 2014 and consult only the 'big four' banks compared with 2015.
- **Banks remain the default provider approached for many and the most common source of information** on external finance decisions. Having an existing relationship is influential in the decision.
- More are having a better than expected experience in raising finance than in previous years.

Summing up - 2

- **One in five SMEs would consider alternative finance forms such as equity and peer to peer lending**. Few use equity finance currently and the business's ownership structure and a reluctance to give up control are the main barriers.
- **Half of SMEs use trade credit** – cash flow and that it's easy to obtain are the main reasons. Most wouldn't use it if interest was charged, nor would they need alternatives if it wasn't available.
- **SMEs are confident in their ability to obtain finance and to move banks**. They feel banks don't treat all businesses the same.
- Four in five SMEs aren't planning to apply for finance in the next three months – **fear of debt has grown as reason not to apply** and fear of rejection has declined.
- The **proportion of SMEs that expect trading conditions to improve continues to fall**, while growth expectations have flat-lined after the fall in 2016.
- Most think **the impact of leaving the EU will be neutral**, though among those expecting a change more think it will have a negative impact.

Start up segment

Defined as SMEs less than 5 years old

- As was the case in 2016, start ups are more likely to have sought certain types of finance such as from a Government scheme (7% did so on the last occasion vs. 1% of all SMEs). They also remain most likely to have ever considered equity finance (10% vs. 5% of stay aheads).
- Start ups appear more minded to 'shop around' for finance than others – they are the most likely to disagree that banks are the only source of finance (77% disagree vs. 66% of stay aheads) and least likely to have gone directly to their main bank when they last needed finance. They instead are more likely to talk to a finance adviser or to fund themselves.
- However they also are less likely than other segments to be aware of certain finance types such as credit cards and invoice financing, as well as less likely to be aware of a multitude of finance types (9% say they're only aware of one type vs. 3% of scale ups and 5% of stay aheads)
- They are most likely to have needed their recent finance for starting up and were least likely to consult sources of information on the decision.
- However, they are the segment most likely to think they'll seek external advice when they next need finance – 53% think they will compared with 40% of stay aheads.
- They are also the most likely to have been turned down for finance on the last occasion (15% were vs. 8% of all SMEs being turned down).
- They are the most likely to have grown in the last 12 months (55% vs 30% overall) and to have grown by 20% or more (21% vs. 6% overall). They are the most likely to expect to grow in the next 12 months too (65% vs. 35% overall) and to grow by 20% or more (24% vs. 6% overall).
- They are the segment most likely to have a formal written business plan (42% do so vs. 23% overall).

Scale up segment

Defined as SMEs 5+ years old and planning to grow

- This segment is most likely to be using a variety of finance types – 26% of them are using four or more types currently vs. 13% of stay aheads saying the same. They also are the most likely to give and receive trade credit.
- Scale ups also are most likely to have sought four or more finance types in the last three years – 19% have done vs. 11% in the other segments. They are more likely than other segments to have sought an overdraft and credit card finance.
- Scale ups also tend to be the most confident with banks – they are the most confident is assessing bank products (72% of them are vs. 65% of stay aheads) as well as most likely to think it is very easy to move banks (23% think this vs. 16% of stay aheads).
- They are the most likely to have spoken to an accountant when they last needed finance (12% did so vs. 3% of start ups and 5% of stay aheads), and are most likely to have a dedicated finance person (66% vs. 59% overall).
- Start ups' awareness of finance products and suppliers are fairly similar to other segments, though scale ups are more likely than others to be aware of trade finance suppliers (25% are vs. 19% of stay aheads).
- They are the most confident segment in regard to the UK leaving the EU – they are most likely to think they'll increase sales as a result (27% vs. 11% of stay aheads) as well as to expect no impact in accessing debt (45% vs. 39% of stay aheads) and equity finance (42% vs. 35% of stay aheads).
- They also are the most likely to have made changes to prices as a result of leaving the EU (20% vs. 11% of stay aheads) and to expect to make various other changes (67% expect no changes vs. 76% of stay aheads).
- They are also the most likely segment to perceive an obstacle in recruiting and retaining skilled staff in the future.

Stay ahead segment

Defined as SMEs 5+ years old and have no plans to grow

- As in 2016 the need and seeking of finance is lowest in this segment. They are most likely to have not sought any external finance in the last three years (65% have not vs. 52% of start ups and 54% of scale ups) and to have last sought finance five or more years ago (23% vs. 18% of scale ups and 3% of start ups). They also are the most likely to not expect to seek any external finance in the next three months (85% vs. 78% of scale ups).
- They also are the least likely to consider alternative finance including equity, and to not consider equity on the grounds of their ownership structure making it not appropriate or relevant.
- They also tend to be more pessimistic than other segments – just 9% of stay aheads expect trading conditions to improve in the next 12 months, compared with 42% of start ups and 44% of scale ups. They also are most likely to expect the UK leaving the EU to result in a decrease of their sales (76% vs. 62% of scale ups expect this).
- Stay aheads are however the least likely to have made changes as a result of the UK leaving the EU (86% have made no changes compared with 75% of scale ups) or to plan changes (76% don't plan changes vs. 67% of scale ups).
- They are the least likely to need external advice were they to need finance in the future – 55% would be not very likely or less vs. 41% of start ups feeling this way. Perhaps related to this, stay aheads are least likely to perceive the availability of relevant advice as an obstacle.
- Stay aheads are less likely than other segments to run regular monthly or quarterly accounts (35% do so vs. 47% of start ups and 43% of scale ups), regular cash flow forecasts (21% vs. 39% and 33%) or to have a formal written business plan (17% vs. 42% and 30%).

Government finance

- Relatively few SMEs currently use, have sought or intend to seek government finance – for example 4% of SMEs currently use a government or local government grant while 2% use finance from a government scheme currently. Similar proportions have sought recently or intend to seek in the next three months these forms of government finance.
- Use and seeking of government finance is more common among larger businesses (in terms of employees and turnover).
- Use and seeking also are more common among businesses in the other services sector and those such as Community Interest Companies and Co-operatives.
- As noted use of government finance is also more common in Northern Ireland and to a lesser extent in Scotland.
- In the cases of government grants and finance from a government scheme around two in five who have sought it but are not currently using it were refused by the lender, and refusal rates for government finance appears higher than for many other finance types.
- Government finance is sought overwhelmingly from sources other than a bank – this was the case for 81% who had sought grants and 89% who had sought finance from a government scheme.

Cost of finance

- There is little evidence in the survey that the cost of finance is among the main barriers to SMEs accessing external finance.
- Of the 13% of SMEs that said their experience of seeking finance was worse than expected, 8% (or 1% of all SMEs that had sought finance recently) said that high cost was among the reasons for feeling this way. Instead customer service, being rejected and feeling the provider did not understand their business were more common reasons for their experience not meeting expectations.
- It appears that the smallest firms are more likely to feel that cost is a barrier – only nano and micro firms cited high cost as a reason for feeling their experience was worse than expected.
- Of the 5% who wanted to apply for finance in the last 12 months but something stopped them, 27% (or 1% of all SMEs) said this was because they thought the finance would be too expensive.
- Cost also tends to be one among multiple reasons for not applying for finance, as only three businesses said finance being too expensive was their *main* reason for not applying despite wanting to.

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