

2004 UK Survey of SME Finances

Presentation of Summary Report
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Outline of presentation

- ▣▣▣ Survey aims.
- ▣▣▣ Finance in context (financial advice/skills and business problems).
- ▣▣▣ Access to finance.
- ▣▣▣ SME banking relationships.
- ▣▣▣ Conclusions.

Survey aims

- ❑ Provide benchmarking data on the availability of credit to SMEs and the types of finance used.
- ❑ Collect information on the relationship between SMEs and their providers of finance.
- ❑ Develop a general purpose micro database for quantitative research on business finance (offering, for example, scope for comparisons with US business finances).

Finance in context

- ▣ Main source of financial advice are accountants (31%) and bank managers (16%).
- ▣ 35% use no financial advice (25% amongst female-owned businesses).
- ▣ 16% of sole traders/partnerships have a trained or formally qualified financial manager.
- ▣ 5% of SMEs report experiencing severe problems with finance.
- ▣ Highest problem areas are red-tape (13%) and staffing issues (9%).

ACCESS TO FINANCE

- 80% (2.9m SMEs) have used external finance in the last 3 years (98% among larger SMEs).
- 6% used loans or equity from friends or family (same in US).
- 44% (1.6m SMEs) sought *new* finance in the last 3 years (27% in the US). Higher among:
 - Start-ups (69%).
 - High growth businesses (62%).
 - Ethnic-minority owned businesses (EMBs) (61%).
- Among the other 56% (2.0m SMEs), the overwhelming majority said they had no need for new finance (95%).

Types of financial products used

- ■ ■ 55% of SMEs use credit cards (28% personal credit cards; 34% business credit cards).
 - ■ ■ 21% borrow on personal credit cards.
- ■ ■ 65% of SMEs used any type of loan (55% in the US).
- ■ ■ Total borrowing (£88 bn) less than deposits (£92 bn).
- ■ ■ 3% of SMEs use equity finance.
 - ■ ■ Little indication of an un-met demand for formal VC.

Start-up finance

- ▣ Main sources are: personal savings (65%); bank loan (10%); friends/family loan (6%).
- ▣ Typical amount used at start-up is £15,000.
- ▣ Main problem at start-up: finding customers (26%); obtaining finance (10%).
- ▣ Main reason for starting up: desire for independence (34%); to make money (15%).

Rejected for finance

- ❑❑❑ 11% of businesses needing new finance experienced rejection (same in US).
 - ❑❑ 2 point higher likelihood of rejection amongst EMBs.
 - ❑❑ No difference for female-owned businesses.
 - ❑❑ 3 point lower likelihood of rejection amongst financially skilled businesses.
- ❑❑❑ Among SMEs denied a term loan outright: 59% got funding from another source; 5% dropped their plans; 4% fell into serious financial difficulties.

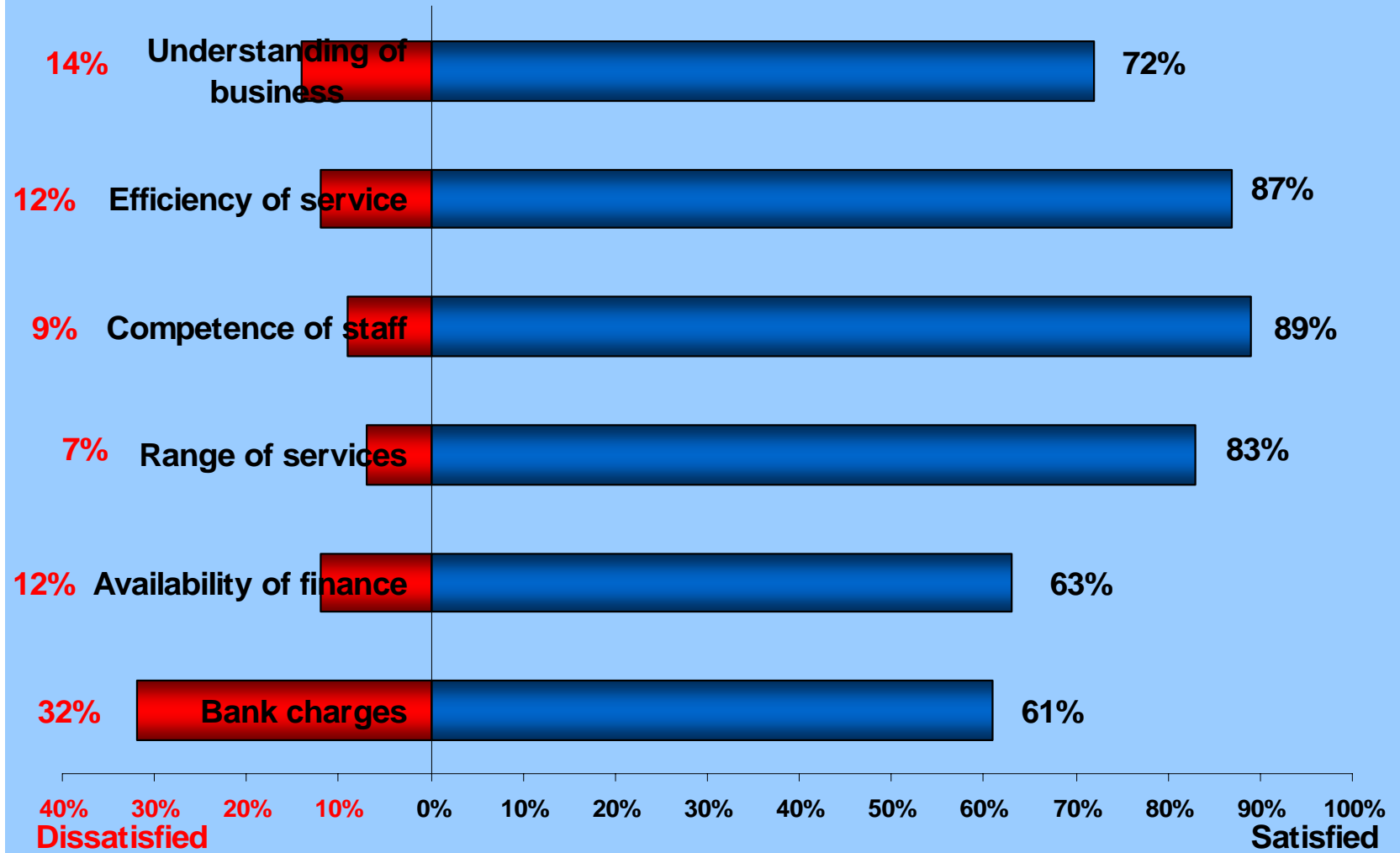
BANKING RELATIONSHIPS

- ■ ■ 59% SMEs have just one main provider of finance.
- ■ ■ The length of this relationship is 15 years on average.
- ■ ■ Big 4 are the main bank to 78% of SMEs.
 - ■ ■ Big 4 in Scotland account for 95% of the market.

Loan margins and bank charges

- ❑ Median margin on bank loans is 2 points over base.
 - ❑ 3 points over base among female-owned businesses.
 - ❑ 1 point over base among EMBs.
- ❑ Average monthly bank charge is about £50 (ranging with firm size from £25 to £430).
 - ❑ By bank, charges vary from £26 to £85 per month.
 - ❑ Similar charges among Big 4.
- ❑ ‘Regulation of charges’ (Comp. Comm, 2002):
 - ❑ 34% receive free transactions.
 - ❑ 56% receive interest on their current account.
 - ❑ 64% receive one or both (79% since Jan. 2003).

Satisfaction with Main Bank



Switching

- Annual switching rate is just over 2%.
 - 3% in businesses with trained/qualified financial managers.
 - 6% in high growth businesses.
- ‘Fast and error free switching’? (Comp. Comm., 2002)
 - Most switchers report finding the process very easy.
- Main reasons for switching:
 - Better service at current bank/dissatisfied with service at previous bank (55% of switches).
 - Lower interest rates/charges at current bank (24% of switches).
 - Refused finance at previous bank (4% of switches).
- A further:
 - 7% are currently considering switching.
 - 29% would consider switching if approached by another bank.

CONCLUSIONS

- ❑ In general most SMEs are not experiencing problems with finance.
 - ❑ Issues for female-owned and EMBs.
 - ❑ SBS EMB booster survey forthcoming.
- ❑ Supply of banking services heavily concentrated in the Big 4; and low rate of switching banks.
 - ❑ Higher latent propensity to switch banks.
 - ❑ Higher switching among dynamic and financially skilled businesses.
- ❑ Only able to give the headline stats today. Full report available online from www.wbs.ac.uk/go/sme0505