
SME Access to Finance 2012

Office of the Chief Economic Adviser
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<http://www.scotland.gov.uk/Topics/Economy/access-finance>

SME Access to Finance Survey Report 2012

This report presents the latest findings of a Scottish Government survey on access to finance in the Scottish small and medium sized enterprise (SME) sector. In addition to analysing the results of the 2012 Survey, the report also focuses on how credit conditions are perceived to have changed since the 2010 Access to Finance Survey.

Background

1. As at March 2011, there were approximately 305,000 small and medium sized enterprises (SME) in Scotland, comprising 99% of all businesses.¹ These businesses are central to the Scottish economy, accounting for 54% of private sector employment and 37% of output.
2. The onset of the financial crisis at the end of 2008 resulted in increased debate around the levels of lending to the corporate sector and the importance of access to finance as a driver of economic growth. Since the crisis began, there have been a number of improvements in the monitoring and publication of bank lending data at the UK level, but there remains fairly limited data on credit conditions in Scotland.
3. To help address this, the Scottish Government commissioned an SME Access to Finance Survey in 2009 to provide an assessment of the demand and supply of finance to the SME sector in Scotland. The survey was undertaken in a manner which allowed comparison with an earlier UK-wide survey carried out by Continental Research in 2007.^{2,3} The results showed that while demand for finance (working capital) had increased, approval rates for applications had fallen. Many firms also perceived the costs of credit to have risen.
4. A short follow-up report was published in February 2010 which provided an update on credit conditions six months on from the 2009 report.⁴ A more comprehensive survey was undertaken in 2010. This study found evidence of a further decline in lending to Scottish SMEs, reflecting a combination of weak demand and constraints in supply.
5. This latest survey undertaken in February 2012 has been designed to provide consistent comparisons between the 2007, 2009, 2010 and 2012 data. The survey involved 1,011 firms.

¹ Scottish Corporate Sector Statistics 2011, <http://www.scotland.gov.uk/Topics/Statistics/Browse/Business/Corporate>.

² SME Access to Finance Survey 2009, www.scotland.gov.uk/Topics/Economy/access-finance.

³ Financing UK Small and Medium-sized Enterprises: The 2007 Survey, <http://www.cbr.cam.ac.uk/research/policy-evaluation-unit/output13.htm>. The results for this paper are based on the Scottish-only sample extracted from this survey.

⁴ SME Access to Finance Survey 2010, www.scotland.gov.uk/Topics/Economy/access-finance/report.

6. The sections of the report are set out as follows:

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SME ACCESS TO FINANCE

Summary Conclusions

1. Although both the demand and supply for finance has remained broadly stable since the last survey in 2010, there is some evidence of an easing in supply constraints.
2. On demand, 45% of firms sought finance (either renewing existing facilities or new/additional borrowing) over the three year period to 2012, compared to 43% in the three years to 2010 – though both figures are below the 2009 survey estimate of demand.
3. When looking at demand over the last year, 32% were looking to renew existing facilities with only 9% of firms seeking new and/or additional lending.
4. On supply, the percentage of firms who applied for finance but were rejected outright was 17% in 2012, down from 24% in the 2010 survey. Similarly, the overall percentage of total applications rejected outright was 15% in 2012, down from 21% in the 2010 survey.
5. Overall, 84% of firms were able to access 100% of the money that they were seeking. This is up from the 2010 and 2009 surveys. However, the proportion of firms who secured none of the finance sought increased slightly to 11% in the 2012 survey. The average proportion of finance secured across all firms has remained stable.
6. Looking at supply by facility type, loans exhibited a much higher rejection rate than other forms of finance. The outright rejection rate for secured loans was 40%, down 5% on the 2010 survey, with the outright rejection rate for unsecured loans at 25%, up 3% since the 2010 survey.
7. Of those applicant firms applying for new lending over the past year 74% reported that they successfully obtained all the finance required, with only 17% of firms not managing to secure any of it.
8. The evidence suggests that the refinancing/renewing experience has deteriorated slightly compared to the 2010 survey, in comparison to the experience of firms seeking new lending where there was an improvement.
9. Looking at individual sectors, those with the highest application rejection rates were Manufacturing, Other Services and Construction – with the rejection rates increasing in both the Manufacturing and Construction sectors compared to the 2010 survey.

Key Findings

This summary highlights the key findings of the 2012 SME Access to Finance Survey. Comparisons are made against the results of earlier surveys undertaken in 2010 and, where applicable, in 2009 and 2007.

Demand for Finance

1. Demand for finance has remained broadly stable since the 2010 survey, but is below that reported in the 2009 survey. 45% of firms sought finance (either renewing existing facilities or new and/or additional borrowing) over the three year period to 2012, compared to 43% in the three years to 2010.
2. Overdrafts remain the most common form of finance applied for over the last three years, with 29% of all firms applying for this facility, followed by credit cards (17%), leasing/HP, (17%) and loans (12%).
3. There has been an increase in the proportion of firms reporting a downward revision in growth objectives. However, there has been a slight increase in the proportion of firms stating that they expect to grow substantially.

Supply of Finance

4. There has been an improvement in overall supply compared to the 2010 survey in that a greater proportion of firms report that they are offered exactly what they wanted. However, the proportion of firms who ultimately secure none of the finance sought increased slightly to 11%. This compares with similar measures from previous surveys of 8% in 2010 and 15% in 2009.
5. The average (mean) proportion of finance secured across all firms remained broadly similar to that reported in the 2010 survey, with small (10 – 49 employees) and medium (50 – 249 employees) sized firms securing a higher proportion of the amount sought than they did in the 2010 survey.
6. At the same time, the percentage of firms who applied for finance and have been rejected outright has decreased since the 2010 survey, from 24% of all firms to 17% of all firms.
7. Similarly, the overall percentage of total applications rejected outright has decreased from 21% to 15%, but with loans exhibiting much higher rejection rates than any other facility.
8. The outright rejection rate for secured loans was 40%, down 5% on the 2010 survey, with the outright rejection rate for unsecured loans 25%, up 3% since the 2010 survey

9. Nearly half (46%) of these firms reported that they had been turned down at the initial stages of application, slightly down on the 48% reported in the 2010 survey. However, a further 43% were rejected or offered less than the finance sought after a formal application had been made, a 13 percentage point increase on the 2010 survey.

Experience of Renewing Credit and New Borrowing over past 12 months

10. Over the past 12 month period to February 2012, 9% of all firms sought new and/or additional lending, 32% of all firms were looking to renew existing facilities, while 3% of firms applied to both renew existing credit facilities and for new additional lending.
11. The evidence suggests that the refinancing/renewing experience of firms weakened slightly compared to the 2010 survey. Around 37% of firms who reported a change to their finance agreements when renewing a credit facility, highlighted an increase in costs, either in fees or interest rates. There was also an increase in the proportion of firms reporting an increased time taken for decision.
12. However, for firms seeking new lending over the past 12 months, 74% of applicant firms reported that they successfully obtained all the finance required, with a small additional proportion (9%) securing at least something. Only 17% of those firms did not manage to secure any financing.

Perceptions on Costs of New Credit and Ease of Access

13. The perceptions of businesses on the costs of finance appear to have improved marginally relative to the 2010 survey, although there was an increase in the proportion of firms reporting that they did not know if costs had gone up, down or remained the same.
14. The majority of firms surveyed believe that the ease of accessing finance has remained unchanged. However, a net balance of firms (the difference between those stating 'harder' vis-à-vis 'easier') suggests that it has become harder to access most forms of bank lending, particularly for loans/mortgages.

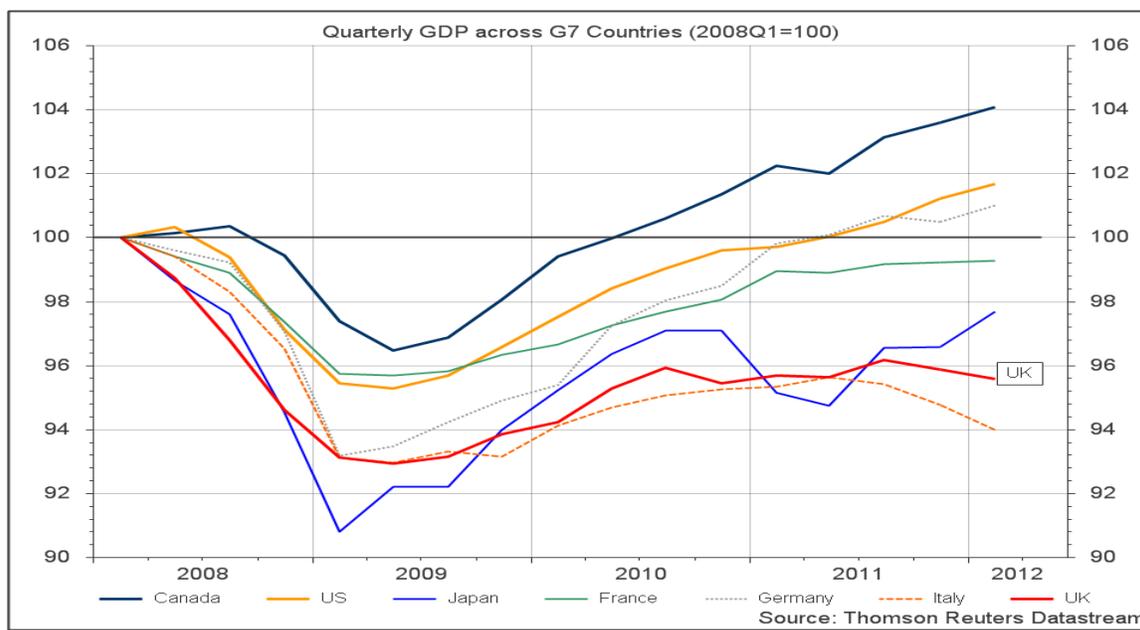
Sector Analysis and Type of Firm

15. Demand for finance has increased across nearly all sectors.
16. The sectors with the highest application rejection rate in the 2012 survey were Manufacturing, Other Services and Construction.
17. However, most sectors experienced an improvement in the (mean) percentage amount of finance secured compared to the 2010 survey.

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18. A greater proportion of new businesses sought finance (55%) compared to the overall SME population (45%). This also held true for exporters and growth firms, 50% and 46% of whom sought finance respectively.
 19. Supply of finance appears to be relatively more constrained for exporting firms, with around 19% of applications from these firms being rejected outright, compared to a national average rejection rate of 15%.

SME Banking

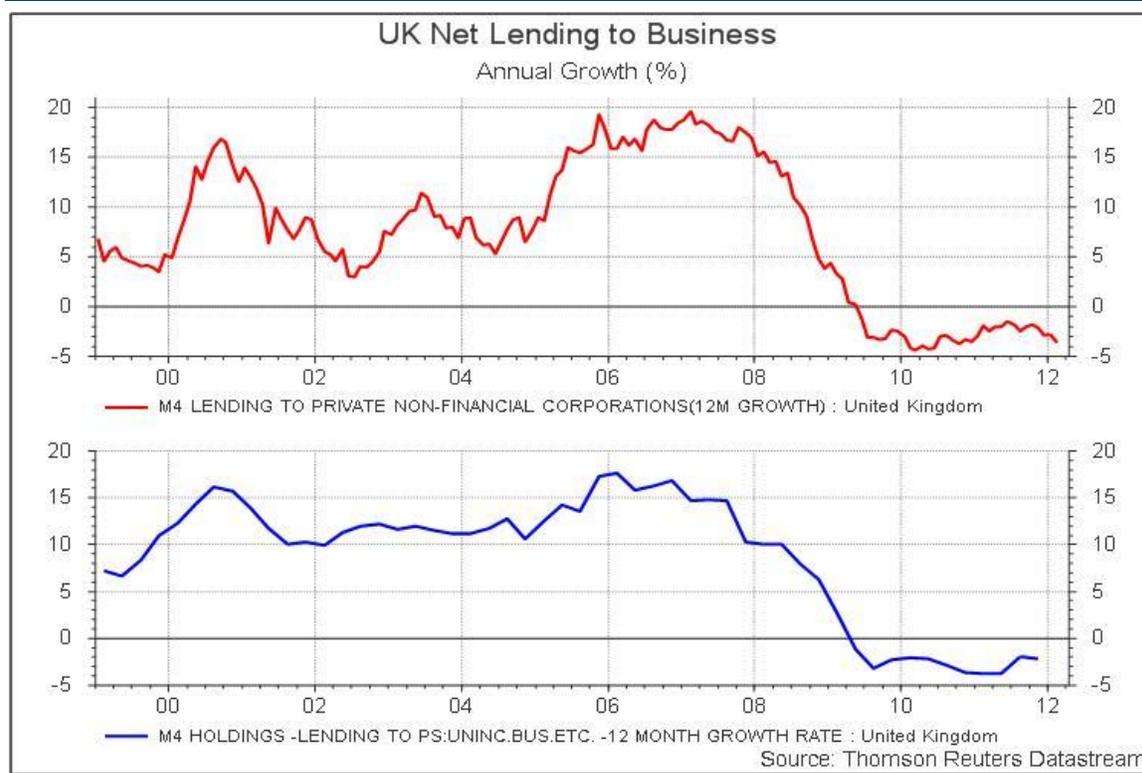
20. Lloyds Banking Group (LBG) and Royal Bank of Scotland (RBS) dominate the SME market in Scotland, accounting for 70% of the total market share. This market concentration has decreased slightly since the 2010, survey when they accounted for 77% of market share.
21. Despite the fact that SME finance market is concentrated, there is some evidence that firms will use other providers for certain finance products.



Section I: Macro-economic Context

- 1.1. The most recent survey was conducted during a time when most advanced economies were in the process of a fragile recovery from the global recession. Output is barely above – or has yet to return to – pre-recession levels in many countries and a great deal of uncertainty remains as to the pace and sustainability of the recovery.
- 1.2. Scotland emerged from recession in Q4 2009 however official data shows that Scottish GDP fell 0.1% during Q4 2011. Scottish GDP grew 0.5% during 2011 compared to 2010.
- 1.3. Within the Scottish economy, the fastest growing sector has been production with output increasing by 1.7% during 2011. The recovery elsewhere in the economy has been more gradual. In 2011, output from the services sector, which accounts for around 75% of output in the Scottish economy, was largely unchanged compared to 2010 (up 0.4%).
- 1.4. The outlook for growth in 2012 is uncertain – particularly in the light of the escalation in the Eurozone crisis. UK GDP contracted by 0.3% in Q1 2012, driven by weakness in the construction sector. This means that the UK is back in technical recession.⁵
- 1.5. Looking forward, the latest independent forecasts predict that Scottish output will continue to expand through 2012 but at a subdued pace.

⁵ Scottish GDP growth figures for Q4 2011 will be available on the 18th July 2011.



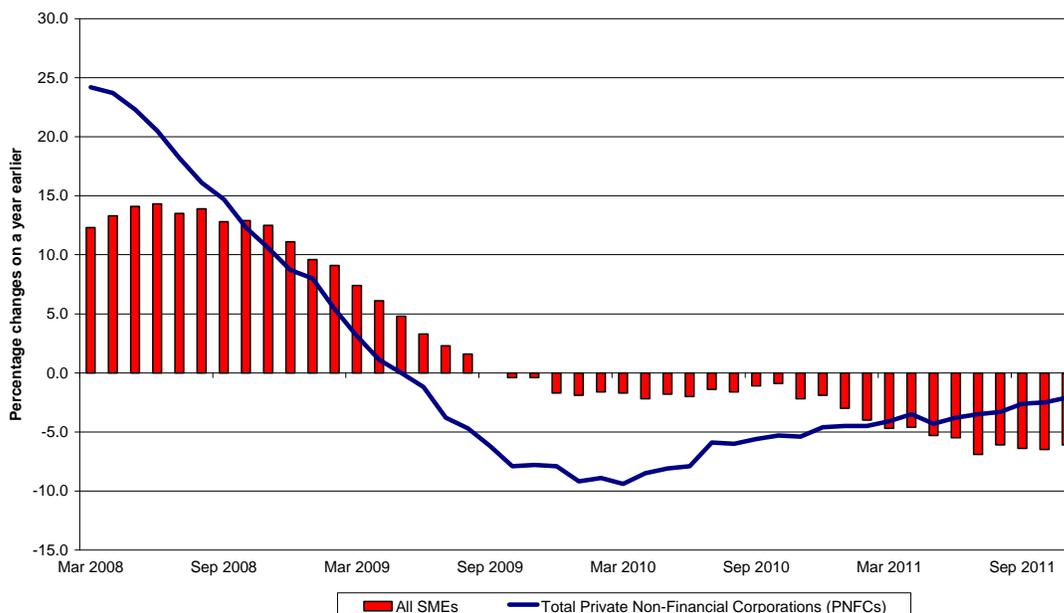
Lending to UK Businesses

- 1.6. Evidence from the Bank of England suggests that credit conditions in the UK continue to remain challenging.
- 1.7. The annual growth rate of lending to businesses, which first started to weaken in 2008, has remained negative since the height of the financial crisis in 2009. Recent data shows little sign of sustained improvement.
- 1.8. The decrease in net lending can partially be attributed to an increase in the amount of debt that firms are repaying. UK lenders have indicated that over the past two years, gross lending has been lower than repayments.
- 1.9. The Banks of England Credit Conditions Survey (2012 Q1) suggests that there has been a fall in demand for finance in the first three months of the year. This may be partly explained by businesses remaining cautious with regard to both investment and expansion.⁶
- 1.10. More recently, Bank of England Agents have reported that many businesses are focusing on building up cash reserves due to concerns that developments in the Euro Area might trigger a tightening in credit conditions.⁷

⁶ Bank of England, Credit Conditions Survey, Q1 2012.

⁷ Bank of England, Agents' summary of business conditions, April 2012

Lending to Small and Medium Sized Enterprises (SME)



Source: Bank of England

Lending to Small and Medium Sized Enterprises (SMEs)

- 1.11. Despite a range of initiatives to boost lending, the latest 'Bank of England Trends in Lending Data', published 23 April 2012, shows the stock of lending to businesses in the UK decreased by a further £9 billion in the 3 months to February 2012. The overall stock of lending has now been contracting on a consistent basis since mid-2009.
- 1.12. Moreover, lending growth to SMEs has been below that of private non-financial corporations (PNFCs) as a whole since March 2011 (see chart above). This is particularly important as SMEs typically have few alternative sources of funds to support new investment.
- 1.13. On June 14, HM Treasury and the Bank of England announced a new "funding for lending" scheme to support bank lending through provision of long-term funding at below-market rates. The scheme aims to increase net lending by 5% through supporting an estimated £80 billion in new loans.
- 1.14. The Bank of England Monetary Policy Committee has maintained the same monetary policy stance since November 2009 with the base rate at 0.5%, and Quantitative Easing of £325 billion. Inflation peaked in late 2011 with the Bank expecting further declines during 2012.
- 1.15. A detailed narrative on the state of the Scottish economy can be found at: <http://scotland.gov.uk/Topics/Economy/state-economy/latestSofE>.

Section II: Survey Design and Methodology

- 2.1. 1,011 small and medium sized businesses in the private sector in Scotland were interviewed for this survey. Fieldwork was undertaken via telephone by Ipsos MORI Scotland, an independent market research company, in February 2012. The data analysis and report was completed by the Office of the Chief Economic Adviser, Scottish Government.
- 2.2. The survey questionnaire was based on a UK-wide survey on SME Financing first conducted in 2007. All subsequent Scottish Government surveys, including this 2012 survey, have been designed to allow for comparisons to be made on a consistent basis. The questionnaire included the following sections:
- demographic questions (both business and respondent) including size of firm, type of firm (growth, exporting, new start), industrial sector and owner characteristics;
 - current use of finance and borrowing patterns;
 - demand for finance, where firms are asked about facilities applied for over the past three years (to February 2012) including types of credit facilities;
 - an assessment of levels of supply of finance based on firm and application rejection rates and final outcomes over the past three years (to February 2012); and,
 - questions relating to accessing finance over the last 12 months to assess levels of demand for new or additional borrowing, and to explore further issues such as the cost of credit (perceived) to firms.
- 2.3. As in previous surveys, the 2012 survey sought to achieve a target of 400 firms who had either sought new additional lending or refinanced over the last 12 months in an effort to support robust analysis of the experience of those firms. In addition, risk ratings were sought to allow the results to be analysed by the credit-worthiness of firms.
- 2.4. The survey design is such that it asks firms about demand for finance over the past three years (to February 2012). The rolling 'three-year' question is consistent with the earlier surveys in 2007, 2009 and 2010. However, the survey also asks firms about their experiences in applying for finance within a shorter 12-month time horizon.

- 2.5. As in previous surveys, the sample of SMEs has been drawn from Dun & Bradstreet.⁸ Quotas, designed to reflect the previous surveys, were set by size of firm (number of employees), by sector (from the sample), for new businesses and for those firms who applied for credit within the 12 months prior to the survey taking place. Larger businesses and smaller sectors were deliberately over-sampled to ensure meaningful results for these groups. The achieved sample is displayed in the table below.

Sectors	Micro (<10)	Small (10-49)	Medium (50-250)	Total
AB Agriculture, Hunting, Forestry, Fishing	79	5	3	87
K Real Estate, Renting and Business Activities	86	59	37	182
F Construction	66	41	12	119
N Health/Social Work	7	20	13	40
H Hotels/Restaurants	53	50	19	122
D Manufacturing	66	30	21	117
O Other Community, Social and Personal Services	37	21	13	71
I Transport, Storage and Communication	17	18	11	46
G Wholesale/Retail	145	53	29	227
Total	556	297	158	1,011

- 2.6. Throughout the analysis, weighting has been applied to the data by size and sector to ensure that results are representative of the overall Scottish SME population. As in 2009 and 2010, some sectors are excluded from the sampling in the 2012 survey, in particular the public sector and not for profit organisations.⁹
- 2.7. The size of the samples in the 2009, 2010 and 2012 surveys means that the findings can be reported with a relatively high degree of statistical reliability. For instance, a finding of 50% at the overall level (all firms included) in 2009, 2010 and 2012 surveys has a statistical error of $\pm 3.1\%$, while the corresponding error for 2007 is $\pm 4.4\%$.

⁸ In a departure from the previous surveys' design, the 2012 sample of SMEs drawn from Dun & Bradstreet was constrained to businesses with a risk rating. For the 2010 survey, businesses without a risk rating were also included. By considering key results by risk rating, we have determined that the impact of this change is small and should not therefore have a significant impact on the comparison of key results over time.

⁹ As in 2009 and 2010, the following sectors are also excluded: **C** Mining and quarrying and **E** Electricity, gas and water supply as they are likely to be small and **J** Financial Intermediation.

2.8. The definitions of firm size and firm type used throughout the report are as follows:

Size of Firm

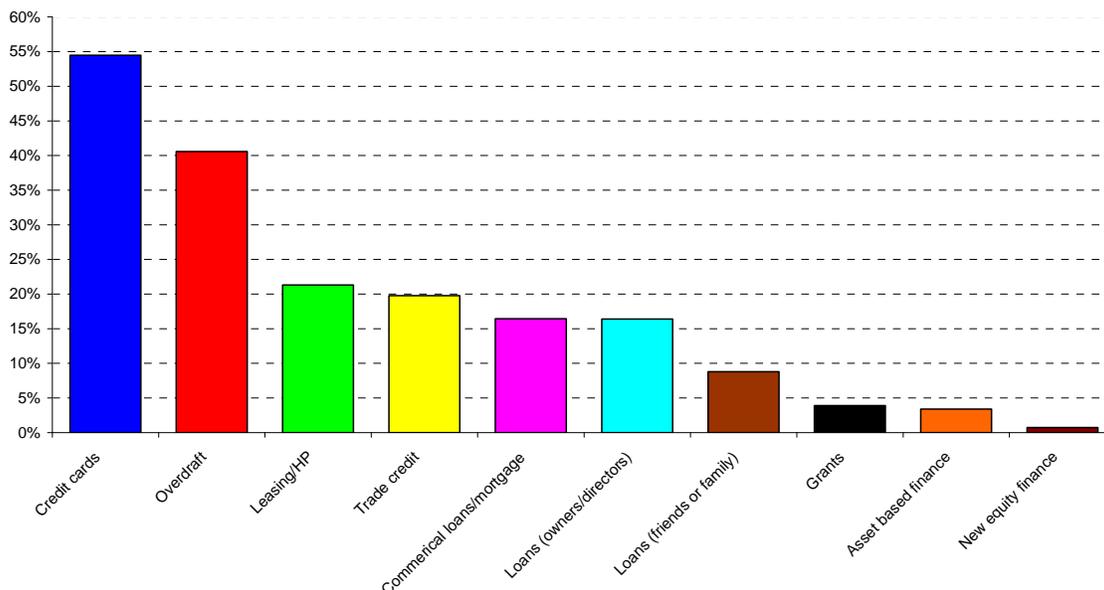
- Micro: 0 – 9 employees (includes sole traders);
- Small: 10-49 employees; and,
- Medium: 50-249 employees.

Type of Firm

- Growth: firms that have stated turnover growth of 30% or more per year over the last three years;
- Exporting: firms that sell goods or services overseas; and,
- New Starts: firms that were established less than 2 years ago (in 2010, 2011 or 2012).

2.9. For the sector analysis in Section VII, two broad categories of firm size are used: 'Sole traders' and 'Employers'.

Percentage of Firms Currently Using External Forms of Finance, 2012



Base (2012): All firms n= 1,011.

Section III: Demand for Finance – Current Use of Finance and Credit Facilities

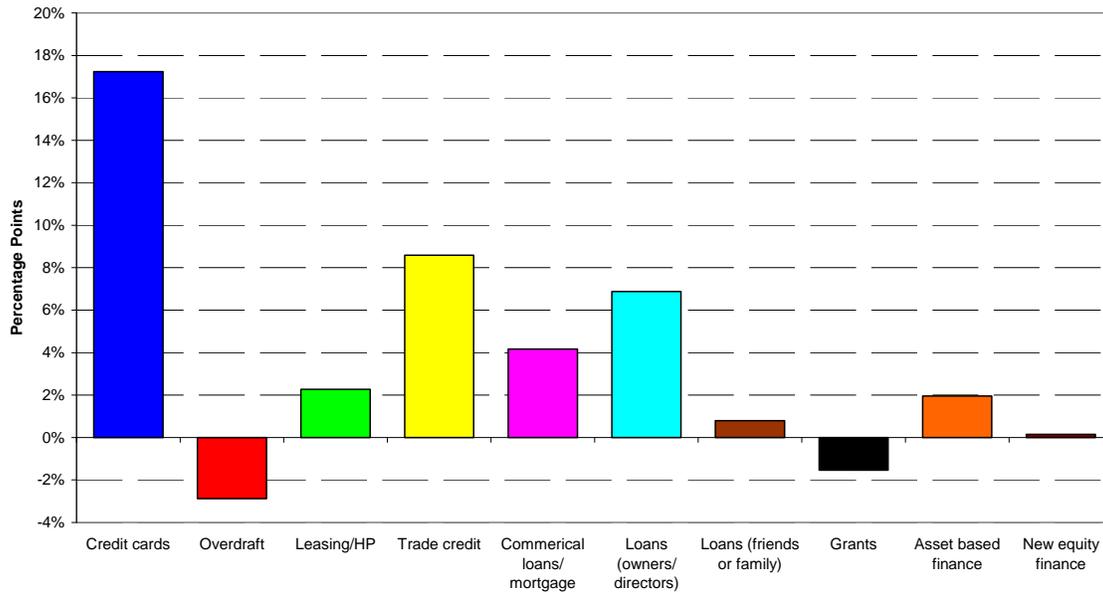
- 3.1. Credit cards are the most common form of finance used, with 54% of firms reporting that their business currently has this facility.¹⁰ This is followed by overdrafts (41%), and leasing/HP (21% of all firms). Commercial loans and mortgages (including secured and unsecured loans) are used by 16% of firms, with a slightly higher percentage using trade credit – at 20%.¹¹
- 3.2. Around 53% of firms that have an overdraft facility reported that they utilised it every month, with 10% of firms stating they never used it.¹² This suggests a slight intensification in the use of overdraft facilities compared to 2010, where only 42% used them every month and 16% did not use it at all.
- 3.3. Around 42% of firms that reported having loans use them to obtain premises for the first time. Additionally, 17% of firms reported using loan financing to help with cash-flow/working capital purposes – a significant decrease (18 percentage points) on the 36% figure reported in the 2010 survey. There was also a shift away from the use of loans to purchase equipment/machinery, down 6 percentage points to 3% in the 2012 survey.

¹⁰ 36% of firms reported that they used business credit cards with a further 30% using personal credit cards for business purposes, with some using both.

¹¹ Note that percentages do not add to 100% as some firms use more than one form of finance.

¹² The most common reason for businesses using overdrafts was for working capital and cash flow purposes with almost 90% of firms citing either (or both) of these reasons.

Change in Forms of Finance Used Between 2010 and 2012

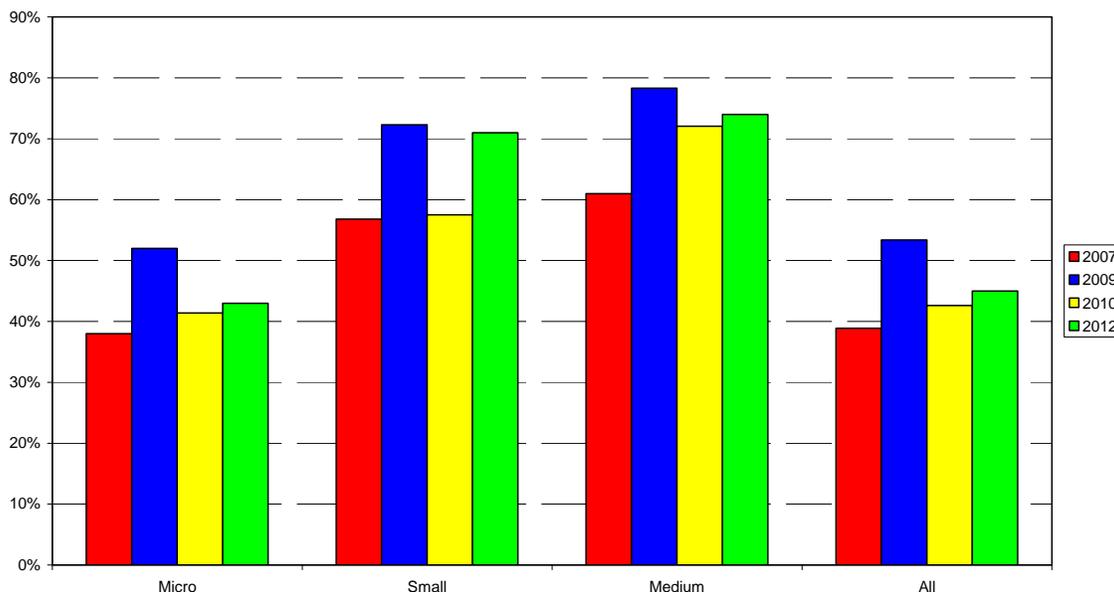


Base (2010): All firms: n=1,004; Base (2012): All firms: n=1,011.

Current Use of External Finance

- 3.4. The pattern of finance usage has remained broadly unchanged since the 2010 survey, with the exception of credit cards which have returned to being the most common form of finance used (previously overtaken by overdrafts in the 2010 survey).
- 3.5. In contrast with the 2010 survey data, the percentage of firms reporting that they use external finance has increased across most facility types, including credit cards, loans and mortgages, and trade credit. For all other forms of external finance, usage has remained broadly stable since 2010.
- 3.6. There has been a sharp increase in the use of credit cards with 54% of firms reporting this compared to 37% in the 2010 survey.
- 3.7. Meanwhile, there was an increase in the percentage of firms reporting the use of non-bank finance such as loans from owners and/or directors, with an increase of 7 percentage points compared to the 2010 survey. Loans from family and friends remained broadly stable.

Demand for Finance, by Size



Base (2007): Micro: n=257; Small: n=151; Medium: n=93; All firms: n= 501; Base (2009): Micro: n=545; Small: n=340; Medium: n=116; All firms n=1,001; Base (2010): Micro: n=568; Small: n=355; Medium: n=81; All firms n=1,004; Base (2012): Micro: n=556; Small: n=297; Medium: n=158; All firms n=1,011.

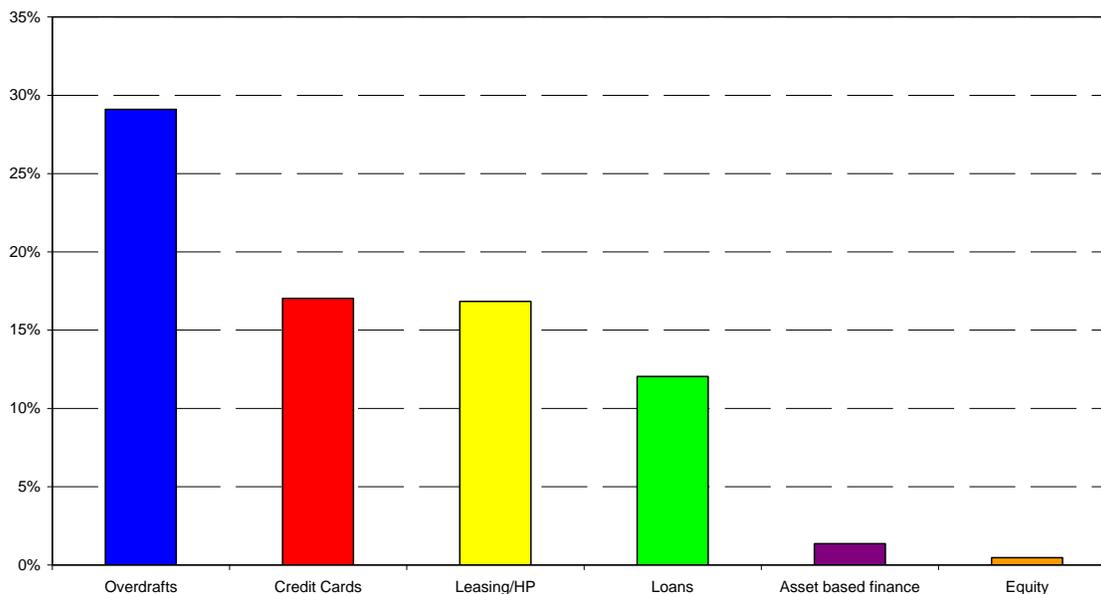
Demand for Finance

- 3.8. This section looks at the demand for finance as measured by the percentage of firms applying for any type of finance.
- 3.9. Demand for finance has remained broadly stable compared to the 2010 survey. Overall, the proportion of firms who applied for finance over the previous three years, irrespective of whether or not they were successful in obtaining it, increased marginally from 43% to 45%.¹³
- 3.10. The greatest increase in the percentage of firms who applied for finance was from small firms (10-49 employees), where demand increased by 13 percentage points. Demand from micro (less than 10 employees) and medium sized (50-250 employees) firms remained broadly constant.
- 3.11. In looking at the reasons for not borrowing, around 74% of firms stated that they did not need to borrow. There was evidence of a decrease in 'discouraged borrowers', with only 22% of reasons for not borrowing based on discouragement, compared to 29% in the 2010 survey.¹⁴

¹³ Demand as measured by the percentage of firms applying for any type of finance remains greater than as reported in the 2007 survey, when lending was at its peak.

¹⁴ Discouraged borrowers are defined as firms who stated that they had 'not wanted to borrow in the current climate', 'thought that they would be turned down', 'thought that it would be too expensive' or 'preferred not to borrow' as reasons for not borrowing.

Demand for Finance by Credit Facility



Base (2012): All firms n=1,011.

Forms of Finance Applied For

3.12. The chart above measures demand based on applications for different types of finance, and shows the percentage of all firms applying for any type of credit facility.

3.13. Overdrafts remain the most common form of finance applied for, with 29% of all firms applying for this facility in the past three years, followed by credit cards (17%), leasing/HP (17%) and loans (12%).¹⁵

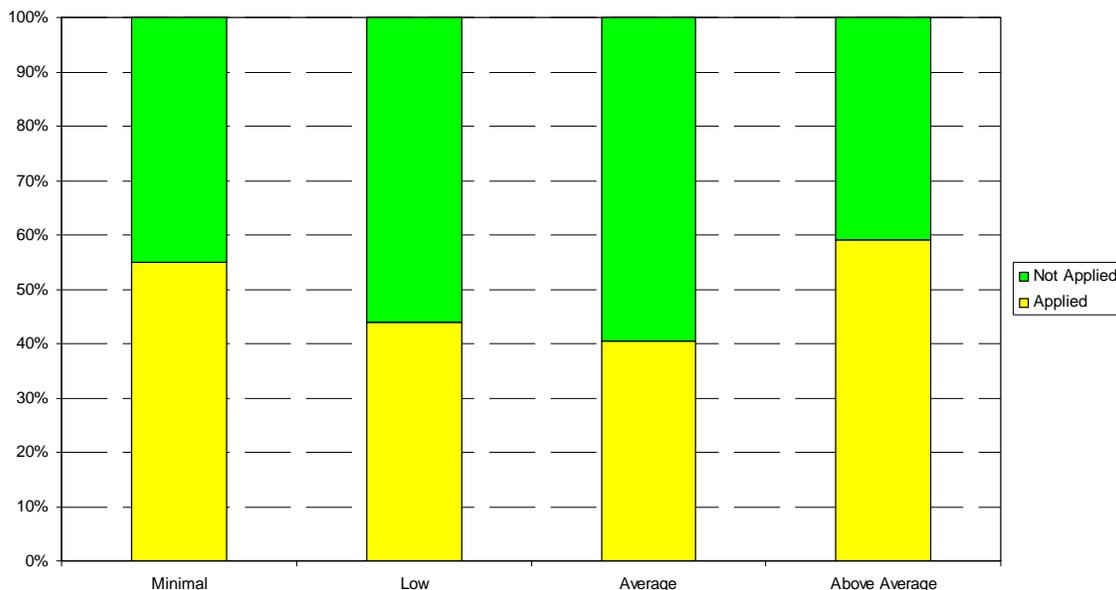
3.14. There is not much difference in the pattern of demand for the different types of credit facilities compared to that reported in the 2010 survey, except that demand for leasing/HP has now overtaken that of loans. This follows a rise in the demand for the former (up 3 percentage points) and fall in demand for the latter (down 3 percentage points).

3.15. A majority of all firms who applied for finance (53% of applicants) made only one application, with a further 28% of firms seeking finance twice, and less than one in 5 firms applying three times or more.

3.16. The mean number of applications per firm in the three years to 2012 was 1.72, down from 1.89 in the 2010 survey.

¹⁵ Note the percentages do not add to 100% as some firms applied for more than one form of finance.

Demand for Finance by Risk Rating (D&B)



Base (2012): Minimal Risk n = 220; Low Risk n=258; Average Risk n = 365; Above Average n =168.

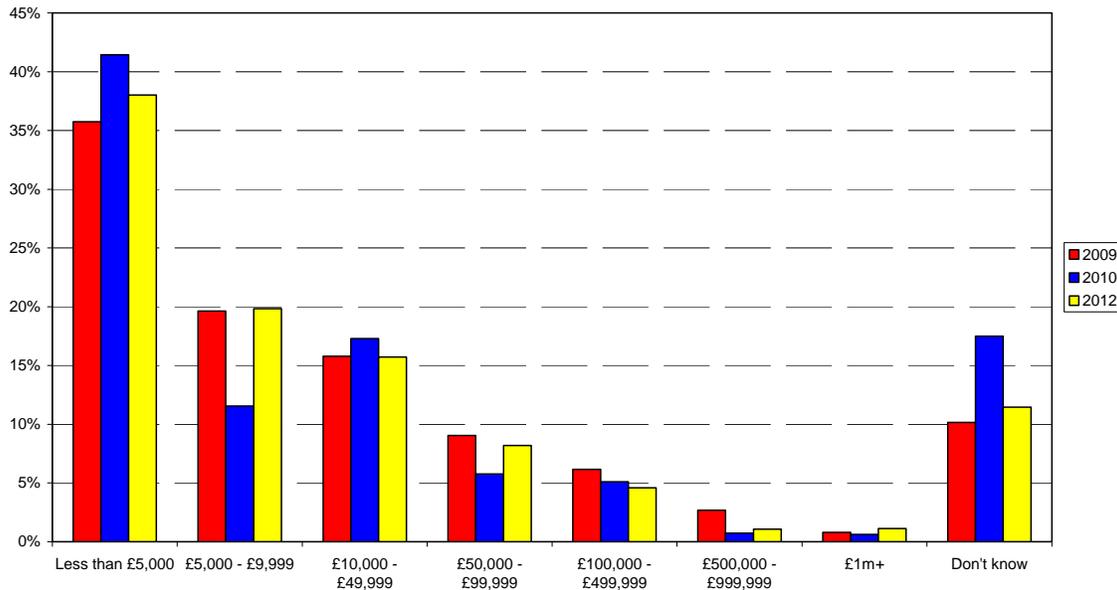
Demand for Finance – Based on Risk Rating

- 3.17. For the 2012 survey, risk ratings were obtained for the sample to enable a more informed picture of demand and supply of finance based on relative credit-worthiness of firms. All firms in the sample have a risk rating where businesses are categorised as having minimal, low, average, or above average risk.¹⁶ These scores are based on a variety of data/information.
- 3.18. The 2012 survey results suggest that the propensity of a firm to apply for finance generally decreases as its risk rating increases.¹⁷ The exception are firms with above average risk ratings which are the most likely to apply.
- 3.19. Around 55% of businesses categorised as having minimal risk applied for finance, compared to 44% of low risk firms and 40% of average risk firms. Meanwhile, 59% of those considered to have an above average risk rating reported that they applied for finance.

¹⁶ In previous surveys, Dun & Bradstreet risk scores were appended to completed survey interviews, and where these were not available risk scores from Experian were used instead. In the 2012 survey, Dun & Bradstreet risk scores were available for the full sample.

¹⁷ Although the finding is invariant to the slightly different sampling frame, it is in contrast to the 2010 survey finding which showed that the proportion of firms that apply for finance increases with risk, with above average risk firms exhibiting the highest propensity to apply for finance.

All Firms - Amounts Held in Deposit Accounts - Credit Balances



Base (2009): All firms n = 1,001; Base (2010): All firms n = 1,004; Base (2012): All firms n = 1,011.

Credit Balances Held in Deposit Accounts

3.20. The graph above shows the change in amounts of credit balances held in deposit accounts by firms between the 2009, 2010 and 2012 surveys.

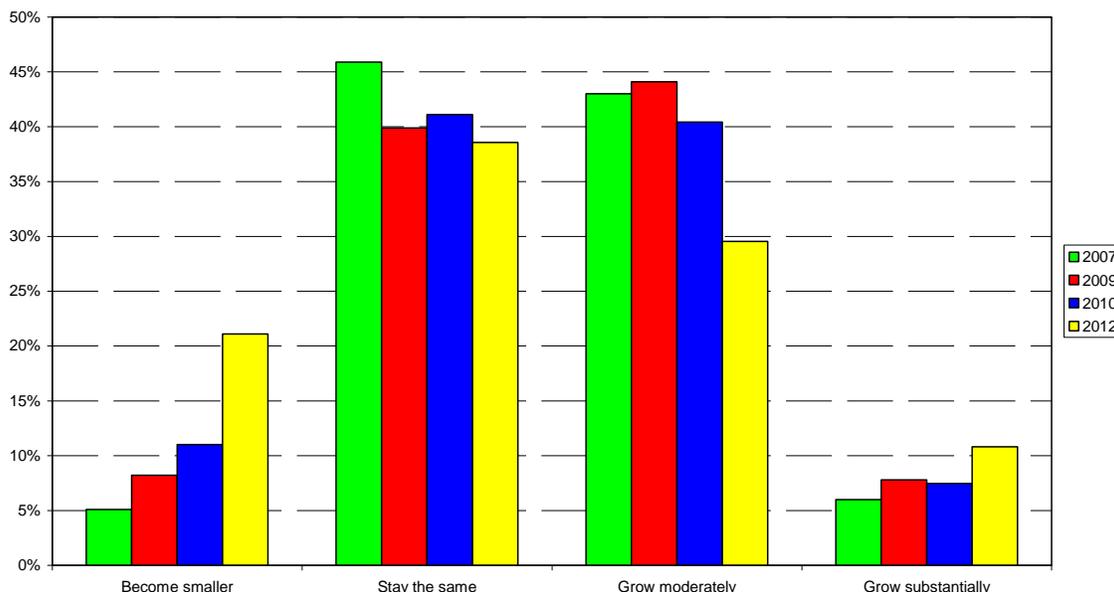
3.21. There has been a decrease in the number of firms reporting that they hold lower amounts of finance and a corresponding increase in the number of firms reporting that they hold higher values of cash in deposit accounts.

3.22. The results from the chart above show that fewer Scottish SMEs are holding cash in the 'less than £5,000', '£10,000 – £49,999' and '£100,000 – £499,999' brackets. Meanwhile, more Scottish companies are holding cash in the '£5,000 – £9,999', '£50,000 – £99,999', '£500,000 – £999,999' and 'over £1 million' brackets than in the 2010 survey.

3.23. Overall the differences between the surveys are relatively marginal. It should be noted that there has been a fall in the proportion of firms reporting that they 'do not know', or do not wish to say, how much is held in deposit accounts.

3.24. At a UK level, it has been suggested that weak demand for finance may be partly explained by businesses having stronger cash holdings. The results from the above chart are not so clear for Scottish firms.

Growth Objectives



Base (2007): All firms, n=500; Base (2009): All firms, n = 1,001;
Base (2010): All firms, n = 1,004; Base (2012): All firms, n = 1,011.

Growth Objectives

3.25. There is evidence of a shift towards firms stating that they will either become smaller or stay the same size. Firms have revised down growth objectives in the 2012 survey, with an increase in the proportion of firms (up 8 percentage points) stating that they will stay the same or become smaller.

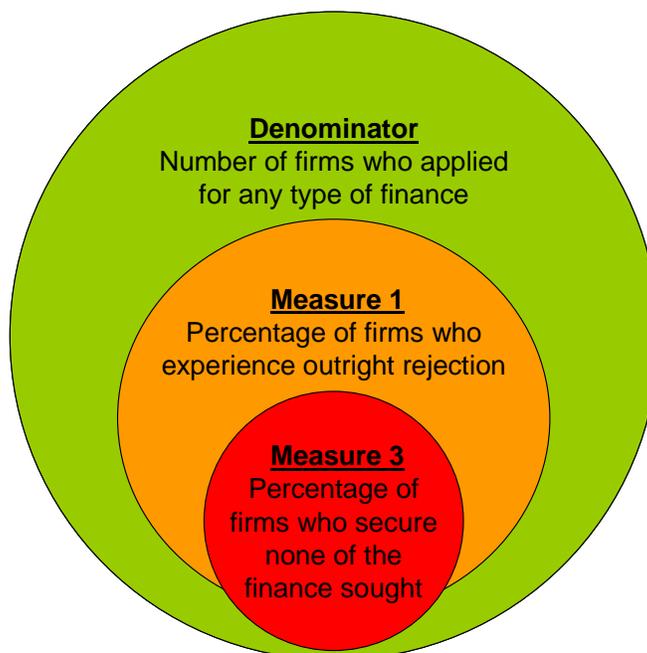
3.26. This is driven by a rise in the proportion of firms who expect to become smaller (up 10 percentage points) and the fall in the proportion of firms who expect to grow moderately (down 11 percentage points).

3.27. Firms which responded 'getting smaller' gave a number of reasons for doing so, including 'lack of demand due to economic conditions' (49%), 'reluctant to take on more staff' (25%), 'reluctant to take on more borrowing' (20%), 'want to stay below VAT threshold' (15%), 'don't have the resources' (17%), 'unable to obtain the finance' (11%) and a number of lifestyle choices.¹⁸

¹⁸ Note that percentages do not add to 100% as some firms gave multiple reasons.

Summary of Section III

- 3.28. Demand for finance has remained broadly stable since the 2010 survey, but is below that reported in the 2009 survey. 45% of firms sought finance (either renewing existing facilities or new and/or additional borrowing) over the three year period to 2012.
- 3.29. Overdrafts remain the most common form of finance applied for over the last three years, with 29% of all firms applying for this facility, followed by credit cards (17%), leasing/HP, (17%) and loans (12%).
- 3.30. There has been an increase in the proportion of firms reporting a downward revision in growth objectives. However, there has been a slight increase in the proportion of firms stating that they expect to grow substantially.

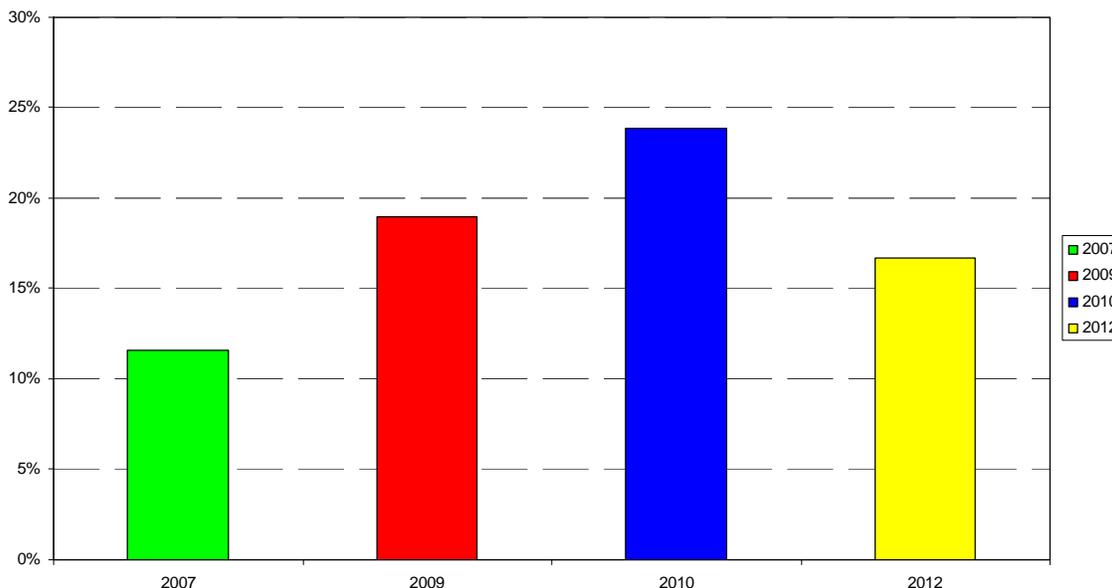
Overlapping Representation of Access to Finance Supply Measures

Section IV: Supply of Finance – Measuring Supply

4.1. This section deals with measuring the supply of finance to firms, and comparing results from previous surveys. There are several ways of measuring levels of lending. These are listed and explained in detail below:

- (1) Measuring supply by calculating the **percentage of firms who applied for any type of finance but were rejected outright in at least one of their applications**. This measure provides an indication of the number of firms who experienced rejection.¹⁹
- (2) Measuring supply by calculating the **percentage of individual applications that were rejected outright**. This measure takes into account each application made by all firms and the overall percentage of these which were rejected.
- (3) Measuring supply by looking at **the end outcomes of all firms that applied for finance by calculating the mean percentage amount of the total finance that was sought and obtained**. This measures the overall success of firms which applied for finance, including those who are rejected outright or receive a 'part offer', and it therefore incorporates an element of both measures above.

4.2. Each measure provides a slightly different insight into the supply of finance.

¹⁹ Note that some firms made several applications and were successful in some and rejected in others. This measure counts a firm as rejected if it was rejected in any of its applications.

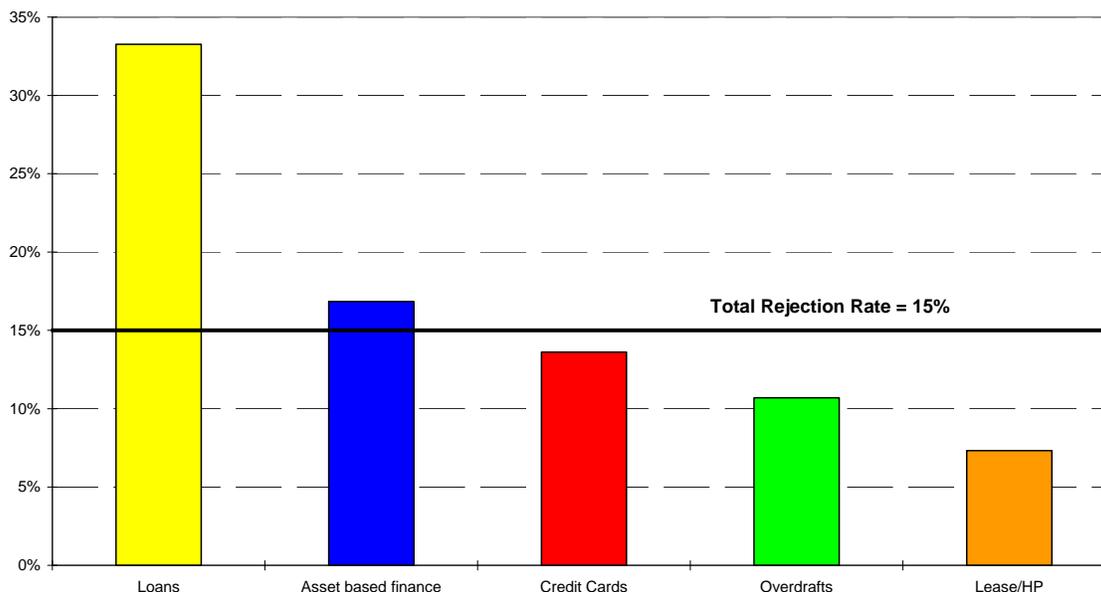
Percentage of Firms Rejected Outright for Finance

Base (2007): Firms which applied for finance; n=251; Base (2009): Firms which applied for finance; n=631;
Base (2010): Firms which applied for finance; n=486; ;Base (2012): Firms which applied for finance; n=631.

(1) Supply: Percentage of Firms Rejected Outright

- 4.3. The percentage of firms who applied for finance over the three year period to February 2012 and report experience of outright rejection was 17% in the 2012 survey. This compares to a rejection rate of 24% in the 2010 survey, 19% in the 2009 survey and 12% in the 2007 survey.
- 4.4. Although rejection rates decreased across micro and medium sized enterprises, they increased marginally for small firms – rising by 3 percentage points compared to the 2010 survey.
- 4.5. Of the total rejected firms, 71% had a viable risk rating; that is, low, minimal or average. To put this in context, of all firms that applied for finance, 87% had a viable risk rating, with a corresponding 13% of firms with a risk rating of above average. Correspondingly, outright rejection rates are higher for above average risk rated firms with 28% of above average risk firms rejected outright compared to 14% for viable (low, minimal or average) risk rated firms.

Application Rejection Rates by Type of Facility

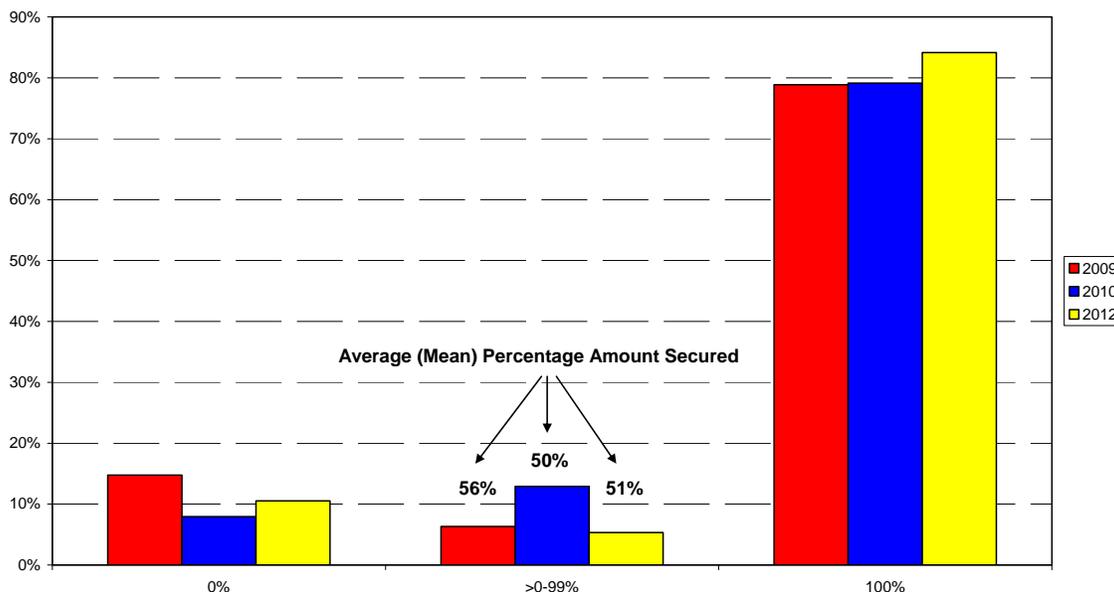


Base (2012): Overdraft: n=400; Leasing/HP: n=358; Credit Card: n=234; Loan: n=215; Asset Based Finance: n=47.

(2) Supply: Percentage of Total Applications

- 4.6. Based on this measure, the 2012 survey findings also suggest a moderation in supply constraints since the 2010 survey. The outright application rejection rate, expressed as a percentage of all applications, was 15% in the 2012 survey, compared to 21% in the 2010 survey and 17% in the 2009 survey.
- 4.7. There appears to be a variation in rejection rates by type of credit facility, with loans exhibiting much higher rejection rates than any other facility.
- 4.8. This is particularly the case for secured loans and mortgages, with the underlying data suggesting that around 40% of all secured loan applications were rejected in the 2012 survey. Although the outright rejection rate for secured loans has fallen 5 percentage points since the 2010 survey, the rejection rate for unsecured loans has increased slightly by 3 percentage points to 25% in the 2012 survey.
- 4.9. Compared to the 2010 survey, there has been a shift in the type of facilities being rejected. There are more rejections for asset based finance (a rise of 12 percentage points), but a marked decrease in rejection rates for overdrafts (down 13 percentage points) and a 6 percentage points fall in the outright rejection rate of credit card applications compared to the results in the 2010 survey.

Proportion of Firms Reporting Success in Securing Finance Applied For



Base (2009): Firms that applied for any kind of finance: n=614; Firms offered some but less than they sought: n=37;
 Base (2010): Firms that applied for any kind of finance: n=480; Firms offered some but less than they sought: n=56;
 Base (2012): Firms that applied for any kind of finance: n=626; Firms offered some but less than they sought: n=59.

(3) Supply: Success in Securing 100% of Finance Sought

- 4.10. The outright rejection rates described in the previous pages take into account only the experiences of those firms who were turned down completely for finance.
- 4.11. This alternative measure (in the chart above) reflects the final outcomes of the application process of all firms who applied by identifying the overall level of success in securing the amount of finance they sought.
- 4.12. It should be noted that this measure includes a number of businesses who were initially rejected or offered less than they wanted (i.e. a part-offer) but who eventually secured all of the finance sought.
- 4.13. On this basis, the chart above shows that there has been an improvement in the overall supply compared to the 2010 survey in that a greater proportion of firms are reporting that they were offered exactly what they wanted (i.e. 100%).
- 4.14. There was also a fall in the proportion of firms who report that they got some, but not all of the finance initially sought. The average percentage of finance secured by this 'part-offer' group remained broadly stable at around half of finance sought.
- 4.15. There was, however, also a slight increase in the proportion of firms who secured none of the finance they sought.

- 4.16. The table below shows that in the 2012 survey, 73% of firms who applied for some form of finance reported being offered exactly what they sought without any experience of rejection or 'part-offers' – an 8 percentage point improvement on the comparable figure for the 2010 survey.²⁰

Success in Applying without Rejection/Part Offer		
Proportion of firms applied reporting rejection or part offer		
	Report rejection/part offer	No report of rejection/part offer
2009	30%	70%
2010	34%	66%
2012	27%	73%

Base (2009): Firms applied: n=614; Base (2010): Firms applied: n=480; Base (2012): Firms applied: n=626.

- 4.17. The table below shows that in the 2012 survey, when compared to the 2010 survey, a higher proportion of the group of firms who experienced rejection or a 'part-offer' were more likely to secure zero finance. Meanwhile, the proportion of firms with experience of rejection or any part offer who ultimately obtained all finance sought remained broadly constant.

Success in Securing 100% with Rejection/Part Offer			
Proportion Reporting Securing 100% of Finance Applied For			
	0%	>0-99%	100%
2009	56%	24%	19%
2010	24%	39%	37%
2012	42%	21%	37%

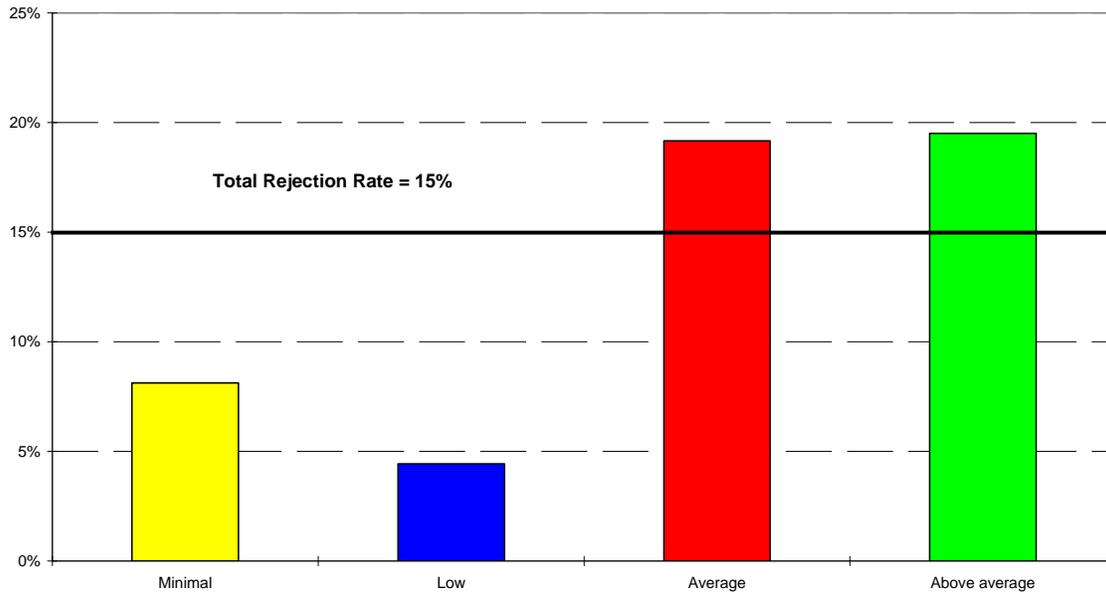
Base (2009): Firms applied and experience rejection or part offer: n=130; Base (2010): Firms applied and experience rejection or part offer: n=145; Base (2012): Firms applied and experience rejection or part offer: n=174.

- 4.18. Meanwhile, the average proportion of finance secured across all firms, and by firm size, has remained broadly the same. Overall, firms are securing a slightly larger proportion (87%) of the amount sought than in the 2010 survey (86%).

Success in Securing Finance Sought				
Average (Mean) Percentage Amount Secured, by Firm Size				
	Micro (<10)	Small (10-49)	Medium (50-250)	ALL FIRMS
2009	81%	95%	96%	82%
2010	86%	86%	88%	86%
2012	86%	90%	92%	87%

Base (2009): Firms that applied for any kind of finance: n=614; Base (2010): Firms that applied for any kind of finance: n=480; Base (2012): Firms that applied for any kind of finance: n=626.

²⁰ The analysis focuses on success in securing finance sought and does not address how levels sought may impact the likelihood of success. That is, expectations may be lower and this, in part, could influence firms' decisions as to what levels (or type) of finance to apply for.

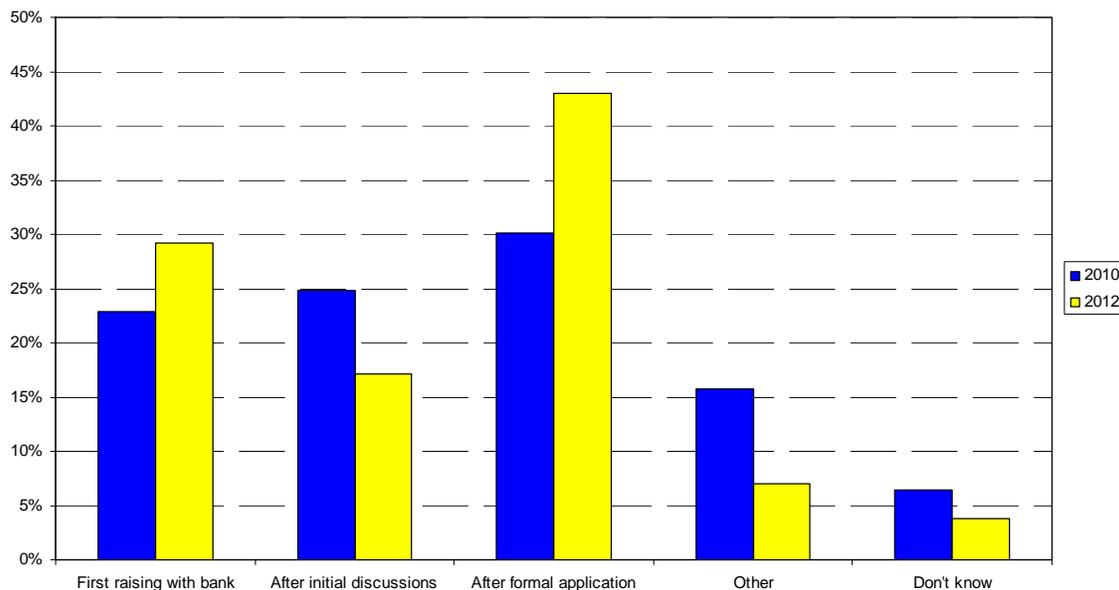
Application Rejection Rates by Risk Rating

Base (2012): Minimal: n=270; Low: n=329; Average: n=399; Above average: n=270; Total Application Rejections: 1,268.

Application Rejections by Risk Rating

- 4.19. The chart above shows application rejection rates by risk profile.
- 4.20. Above average risk rated firms exhibit the highest application rejection rates at 20%, although these rejection rates are broadly similar for average risk rated firms.
- 4.21. Meanwhile, application rejection rates for minimal and low risk rated firms, at 8% and 4% respectively, are considerably below the total application rejection rate of 15%
- 4.22. Businesses with risk ratings considered to be low or minimal risk accounted for 7% and 8% of all rejections respectively.

Stage of Application Rejection (Turned Down or Offered Less)



Base (2010): Firms that have been rejected or offered less: n=151;

Base (2012): Firms that have been rejected or offered less: n=179.

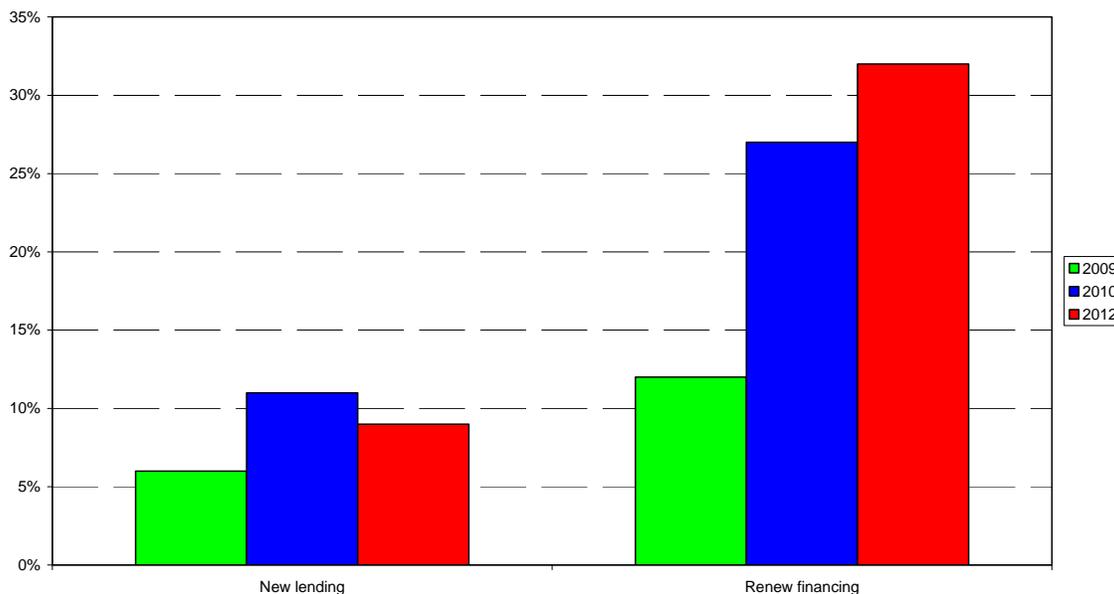
Stage of Rejection in the Application Process

- 4.23. A new question was introduced in the 2010 survey to help provide additional insight into the application process, and to understand why the statistics on application rejections and outcomes in this report may differ from statistics produced by lenders. All firms who had applied and been turned down outright or offered less than they wanted were asked about the stage of application at which the rejection had taken place.
- 4.24. Nearly half (46%) of these firms reported that they had been turned down at the initial stages of application – either when first raising the possibility of financing with the bank, or after some initial discussions, slightly down on the 48% reported in the 2010 survey.
- 4.25. However, a further 43% were rejected or offered less than the finance sought after a formal application had been made, a 13 percentage point increase on the 2010 survey.
- 4.26. There are also fewer rejections at other stages of the application process and respondents who were unsure at what stage their application was rejected.
- 4.27. This anecdotal evidence may suggest that the application process has become more formalised or that applicant firms have become more aware of the process and the stage at which they experience difficulties.

Summary of Section IV

- 4.28. There has been an improvement in overall supply compared to the 2010 survey in that a greater proportion of firms report that they are offered exactly what they wanted. However, the proportion of firms who ultimately secure none of the finance sought increased slightly to 11%. This compares with similar measures from previous surveys of 8% in 2010 and 15% in 2009.
- 4.29. The average (mean) proportion of finance secured across all firms remained broadly similar to that reported in the 2010 survey, with small (10 – 49 employees) and medium (50 – 249 employees) sized firms securing a higher proportion of the amount sought than in the 2010 survey.
- 4.30. At the same time, the percentage of firms who applied for finance and have been rejected outright has decreased since the 2010 survey, from 24% of all firms to 17% of all firms.
- 4.31. Similarly, the overall percentage of total applications rejected outright has decreased from 21% to 15%, but with loans exhibiting much higher rejection rates than any other facility.
- 4.32. The outright rejection rate for secured loans was 40%, down 5% on the 2010 survey, with the outright rejection rate for unsecured loans 25%, up 3% since the 2010 survey.
- 4.33. Nearly half (46%) of these firms reported that they had been turned down at the initial stages of application, slightly down on the 48% reported in the 2010 survey. However, a further 43% were rejected or offered less than the finance sought after a formal application had been made, a 13 percentage point increase on the 2010 survey.

Demand for Finance Over the Past 12 Months

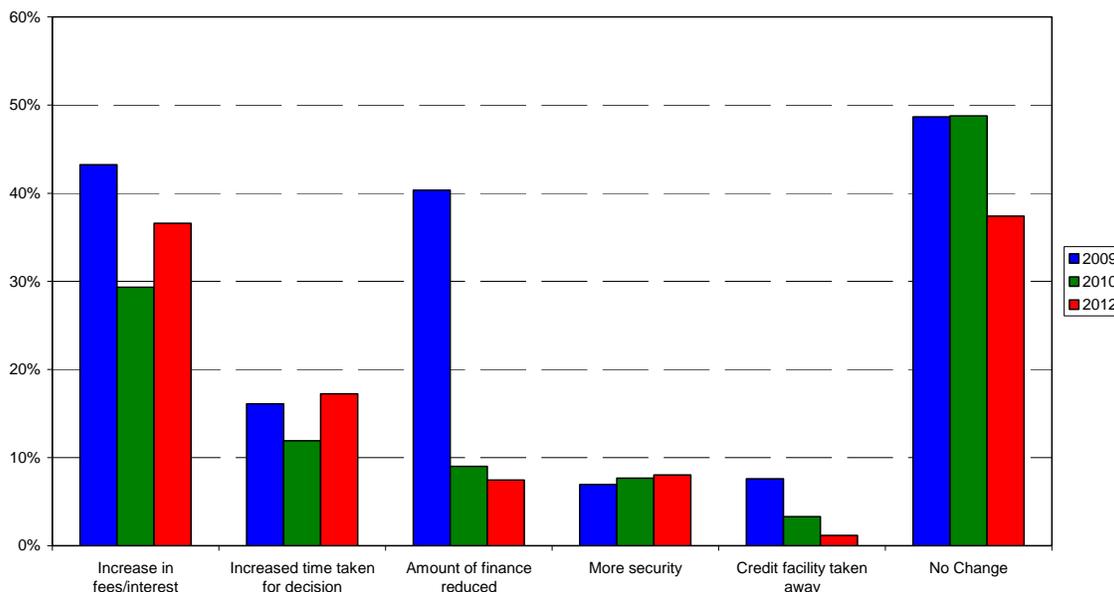


Base (2009): New lending: n = 95; Renew financing: n=186; Base (2010): New lending: n = 103; Renew financing: n=322; Base (2012): New lending: n = 168; Renew financing: n=386.

Section V: Experience of Borrowing Over the Past 12 Months

- 5.1. This section shows the levels of demand for either new lending or renewing existing facilities over the previous 12 month period. The analysis provides a more recent snapshot of firms seeking finance than the previous analyses described in Section III which asked firms about any applications over a three year period.
- 5.2. This was a new section added to the questionnaire in the 2009 survey to pick up the impact of the financial crisis on demand and supply and has been retained in subsequent surveys as it provides a useful insight into the more recent experiences of firms.
- 5.3. The survey design sought to include 400 firms within the sample who had explicitly sought either new lending or renewed/re-confirmed existing financing arrangements in the last 12 months.
- 5.4. The latest survey data shows that 37% of firms either sought to renew existing agreements or to take out new additional borrowing in the twelve months to February 2012.
- 5.5. 9% of firms are seeking new additional borrowing – down from 11% in the 2010 survey. The remaining 32% (up from 27% in the 2010 survey) of all firms were looking to renew existing credit facilities. 3% of firms applied to both renew existing credit facilities and for new additional lending.

Experience of Firms Renewing Credit Facilities in 2009, 2010 and 2012



Base (2009): Firms which renewed existing facilities: n= 186;

Base (2010): Firms which renewed existing facilities: n= 322;

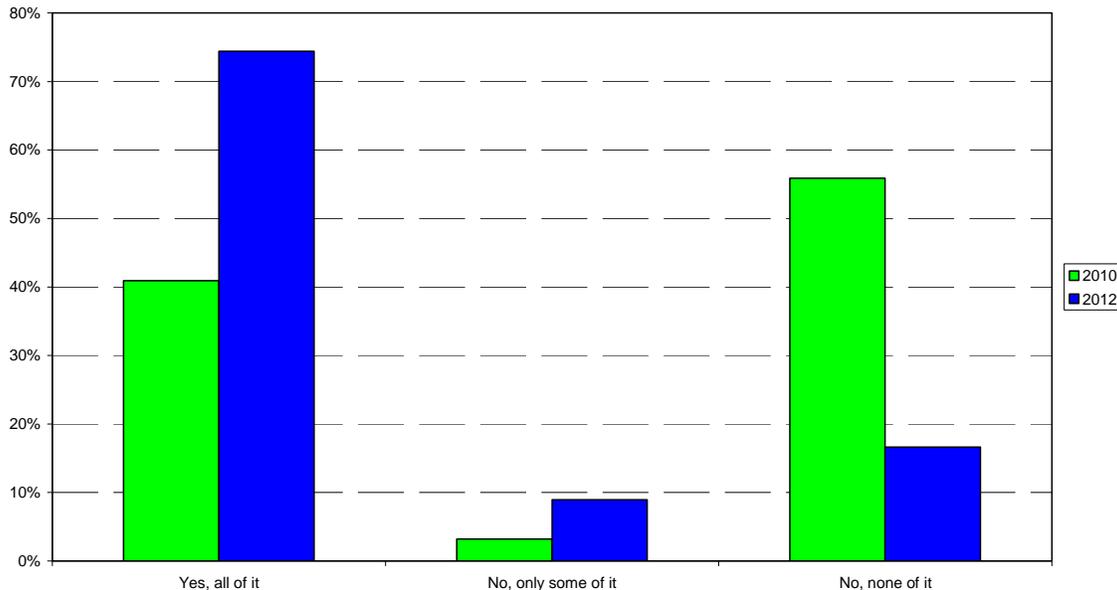
Base (2012): Firms which renewed existing facilities: n= 386.

Renewing Credit Agreements Over Past 12 Months

- 5.6. The evidence suggests that the refinancing/renewing experience of firms has deteriorated slightly compared to the 2010 survey.
- 5.7. For those firms which experienced a change in the renewal process, there was an increase in the percentage of firms reporting negative outcomes in 'fees/interest', 'time taken for decision' and 'more security'²¹
- 5.8. The exception to this was a slight decrease in the percentage of firms reporting that either the 'amount of finance reduced' or 'credit facility taken away', and a decreased percentage stating that there was no change.
- 5.9. Around 37% of firms who reported a change to their finance agreements when renewing a credit facility reported an increase in costs, either in fees or interest rates (with similar proportions, 26% and 27% respectively in each case). This compares to 29% of firms who experienced a change in the cost of their agreement in the 2010 survey.
- 5.10. Furthermore there was a 5 percentage point increase in the proportion of firms reporting an increased time taken for decision.

²¹ Note that percentages do not add to 100% as some firms described more than one change in their experience of renewing credit facilities.

Success in Securing New Lending Over 12 Months, 2010 and 2012



Base (2010): Firms which sought new lending: n = 103; Base (2012): Firms which sought new lending: n= 168.

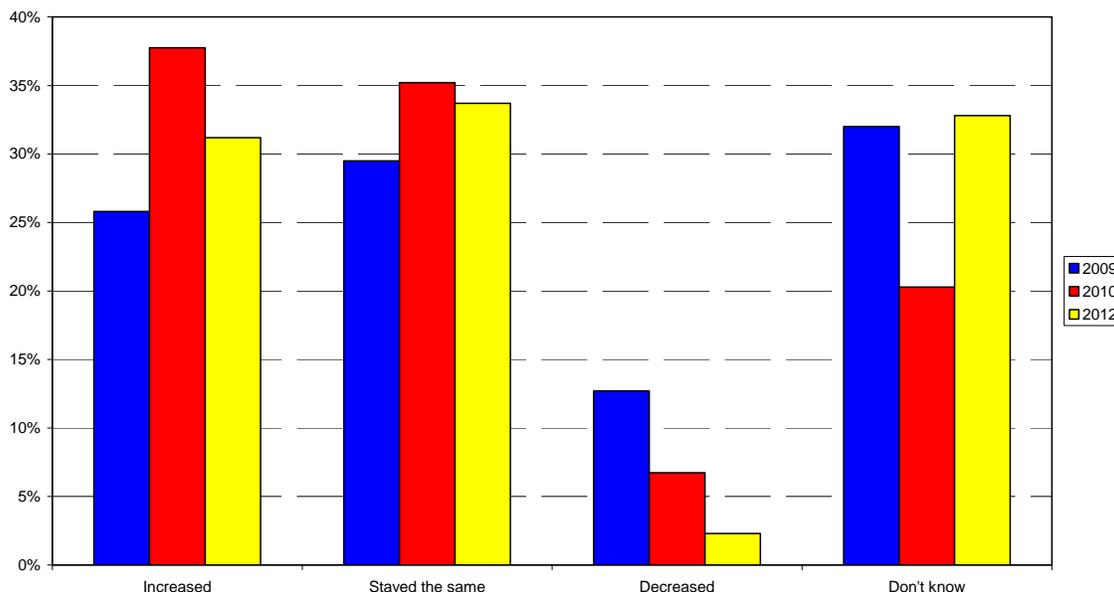
Supply of New Lending over the past 12 months

- 5.11. Survey data suggests that the experience of firms who sought new and/or additional lending over the past 12 months has improved, but with a reduced proportion of businesses seeking new lending.
- 5.12. The majority of firms (74%) who applied for new lending successfully obtained all the financing required, with a small additional proportion (9%) securing some amount. Only 17% of those firms did not manage to secure any financing.
- 5.13. Although the sample sizes are too small to disaggregate further, the results suggest that challenges lie more with renewing credit facilities, rather than securing new lending.
- 5.14. In terms of general business characteristics, it appears to be well established (founded more than 10 years ago) viable (with low, minimal or average risk ratings) firms that are most likely to have been successful in the past 12 months in obtaining all of the new lending they sought.

Summary of Section V

- 5.15. Over the past 12 month period to February 2012, 9% of all firms sought new and/or additional lending, 32% of all firms were looking to renew existing facilities, while 3% of firms applied to both renew existing credit facilities and for new additional lending.
- 5.16. The evidence suggests that the refinancing/renewing experience of firms has become slightly more challenging compared to the 2010 survey. Around 37% of firms who reported a change to their finance agreements when renewing a credit facility, highlighted an increase in costs, either in fees or interest rates. Furthermore, there was an increase in the proportion of firms reporting an increased time taken for decision.
- 5.17. However, for firms seeking new lending over the past 12 months, 74% of applicant firms reported that they successfully obtained all the finance required, with a small additional proportion (9%) securing at least something. Only 17% of those firms did not manage to secure any financing.

Cost of Finance Compared to a Year Ago - Perception of All Firms

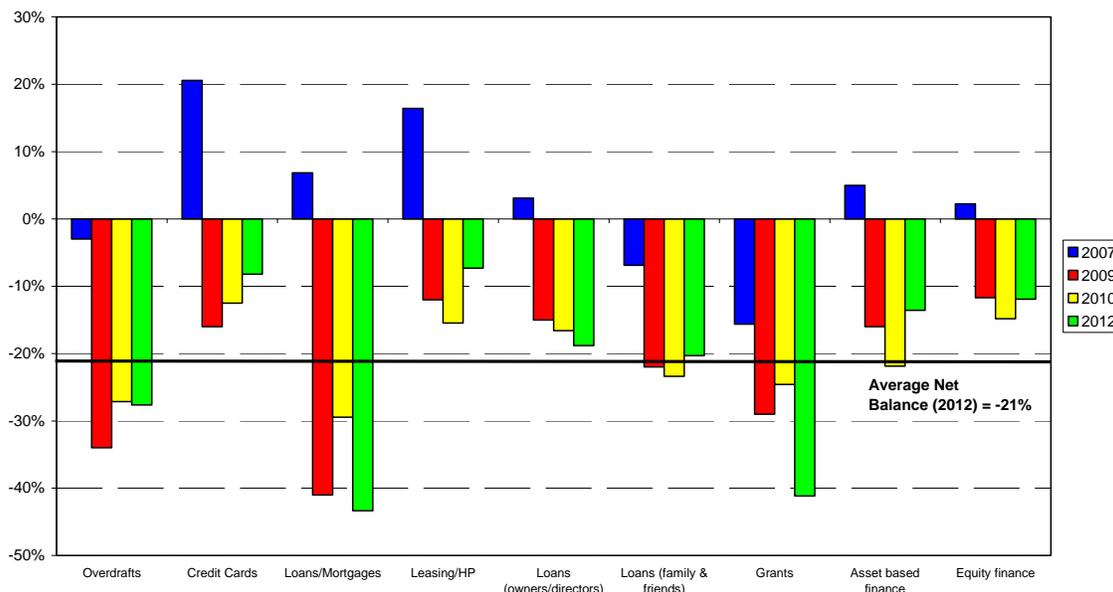


Base (2009): All firms: n =1,001; Base (2010): All firms: n =1,004; Base (2012): All firms: n =1,011.

Section VI: Costs of New Credit – Perceptions of All Firms

- 6.1. The perceptions of businesses on the costs of finance appear to have improved marginally relative to the 2010 survey – albeit with a significant increase in the proportion of firms reporting that they ‘do not know’ if costs had changed.
- 6.2. The 2012 survey data suggests a reduced proportion of firms believe that the costs of finance have increased (31% of all firms) down from 38%.
- 6.3. There has also however, been a fall in the proportions of firms that believe that the costs of finance have decreased over the last 12 months, with only 2% of firms stating this compared to 7% in the 2010 survey and 13% in the 2009 survey.
- 6.4. A third of firms (33%) responded that they ‘did not know’ if costs of finance have either increased or decreased.
- 6.5. Looking at the impact of firm size on perceptions of costs, medium and then small sized businesses had the highest proportions of firms reporting increased perception on costs.

Ease of Obtaining Finance - Net Balance



Base (2007); All firms: n=500; Base (2009); All firms: n=1,001;
 Base (2010); All firms n=1,004; Base (2012) All firms: n = 1,011.

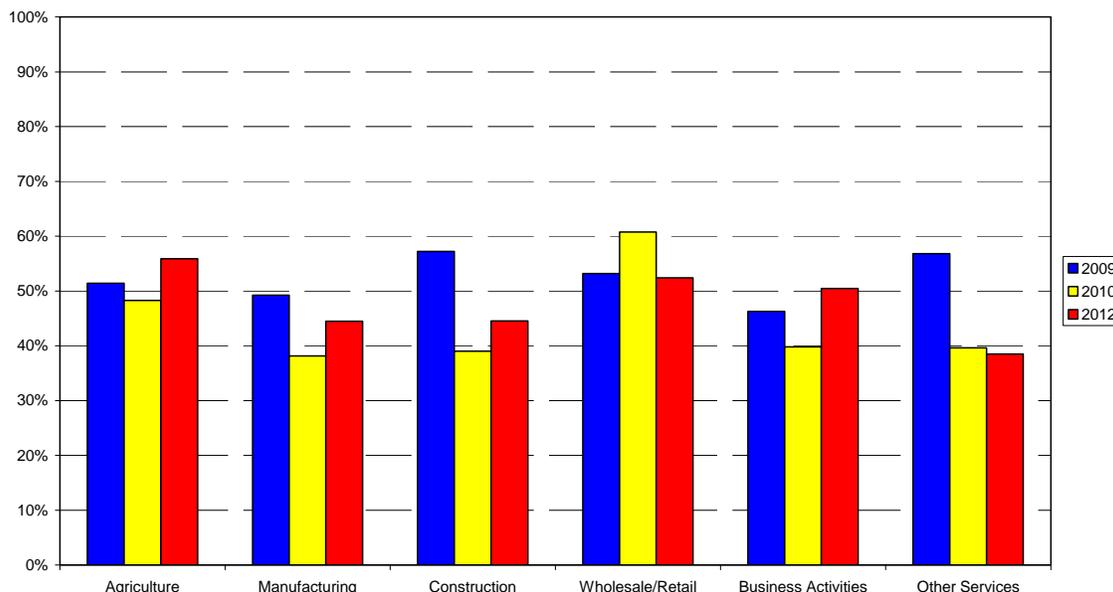
Ease of Access to Finance

- 6.6. The chart above shows the net balance of responses over 2007, 2009, 2010 and 2012 surveys. A negative bar indicates the extent to which firms on balance are reporting 'harder' rather 'easier'.
- 6.7. The majority of all firms reported that ease of access to finance has remained largely unchanged since the 2009 survey. However, of those who said that ease of access had become easier or harder, a net balance of firms reported 'harder' rather 'easier' across most types of credit facility.
- 6.8. Overall, ease of access is reported to be most difficult for loans and mortgages and overdrafts.
- 6.9. The net balance of responses shows access becoming marginally easier for all other sources of lending: credit cards, leasing/HP, asset-based, equity finance and friends and family.

Summary of Section VI

- 6.10. The perceptions of businesses on the costs of finance appear to have improved marginally relative to the 2010 survey, although there was an increase in the proportion of firms reporting that they did not know if costs had gone up, down or remained the same.
- 6.11. The majority of firms surveyed believe that the ease of accessing finance has remained unchanged. However, a net balance of firms (the difference between those stating 'harder' vis-à-vis 'easier') suggests that it has become harder to access most forms of bank lending, particularly for loans/mortgages.

Levels of Demand for Finance by Sector (All Firms)



Base (2009): Agriculture: n=90; Manufacturing: n=147; Construction: n=145; Wholesale/Retail: n=116; Business Activities: n=146; Other Services: n=357;

Base (2010): Agriculture: n=91; Manufacturing: n=152; Construction: n=145; Wholesale/Retail: n=119; Business Activities: n=149; Other Services: n=348;

Base (2012): Agriculture: n=87; Manufacturing: n=117; Construction: n=119; Wholesale/Retail: n=227; Business Activities: n=182; Other Services: n=279.

Section VII: Sector Analysis – Demand for Finance by Sector

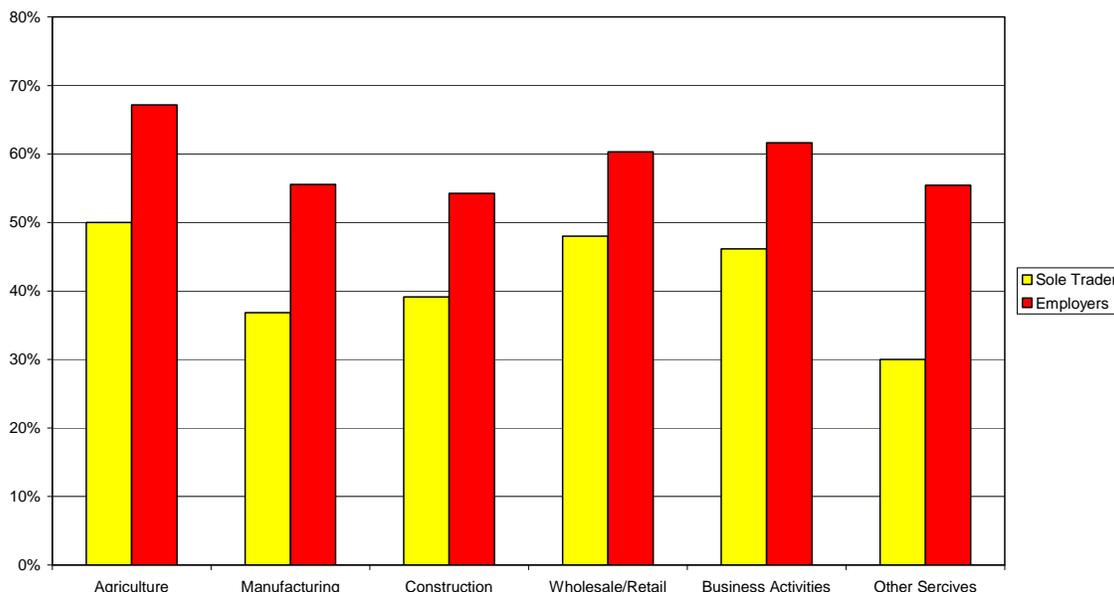
- 7.1. This section presents an overview of demand and supply for six sectors separately.²² The analysis by firm size in this section is based on two categories of firms: ‘Sole traders’ and ‘Employers’.²³ Demand is based on the number of firms who applied for any kind of finance.
- 7.2. The agriculture sector is the most likely to apply, with 56% of firms seeking finance in the 2012 survey, a rise of 8 percentage points on the 2010 survey. Demand for finance from the Business Activities sector increased by 11 percentage points.
- 7.3. The least likely to apply for finance was the “Other Services” sector (at 39%).²⁴
- 7.4. As indicated previously, demand across all SMEs has remained broadly constant. In terms of sectors, demand has increased across most sectors with the exception of Wholesale/Retail which saw an 8 percentage point fall.

²² The ‘Other Services’ sector includes: Hotels & Restaurants, Transport, Storage & Communication, Health & Social Work & Other Community, Social and Personal Service Activities.

²³ Sample sizes within sectors are too small to disaggregate further.

²⁴ Caution is necessary in presenting findings below the aggregated ‘Other Services’ sector, given low sample sizes.

Levels of Demand for Finance by Sector and Size of Firm

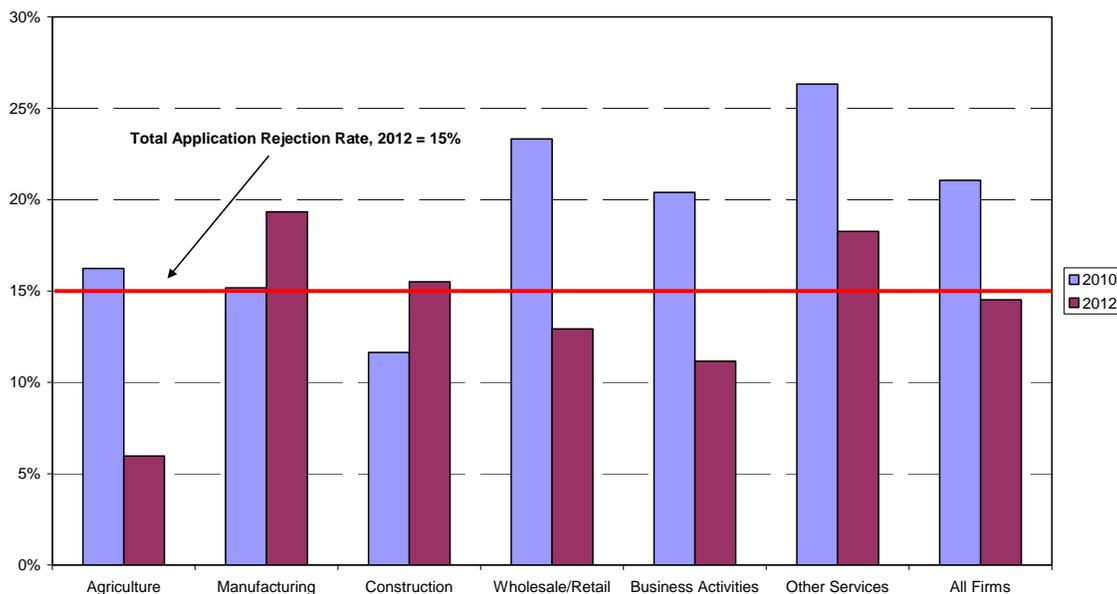


Base (2012) Sole Traders: Agriculture: n=28; Manufacturing: n=19; Construction: n=23; Wholesale/Retail: n=50; Business Activities: n=39; Other Services: n=41; Employers: Agriculture: n=59; Manufacturing: n=98; Construction: n=96; Wholesale/Retail: n=177; Business Activities: n=143; Other Services: n=238.

Demand for Finance by Firm Size

- 7.5. In general terms, demand for finance increases with the size of firm, with a greater percentage of employer firms applying for finance than sole traders.
- 7.6. Employer firms in Agriculture (67%), Business Activities (62%) and Wholesale/Retail (60%) were most likely to seek finance, followed by Manufacturing (56%), Other Services (55%) and Construction (54%), with over half of firms applying for finance in each sector.
- 7.7. Of sole traders, the most likely to have sought finance were those in the Agriculture sector, with 50% applying for finance. Demand was lowest for sole traders in the Other Services sector (30%), Manufacturing (37%) and Construction (39%).
- 7.8. Caution should be exercised when interpreting results on individual sectors as some results are based on relatively low sample sizes.

Application Rejection Rate by Sector



Base (2010): Agriculture: n=92; Manufacturing: n=171; Construction: n=120; Wholesale/Retail: n=127; Business Activities: n=133; Other Services: n=261;

Base (2012): Agriculture: n=105; Manufacturing: n=170; Construction: n=154; Wholesale/Retail: n=286; Business Activities: n=232; Other Services: n=321.

Supply of Finance by Applications Rejected

7.9. For the sector analysis, supply is measured using two methods – the application rejection rate and the average amount of finance secured, based on the success of securing any amount of finance sought. The supply measure using the rejected firm count (percentage of all firms which applied being rejected) has not been used given small sample sizes within the sector breakdowns.

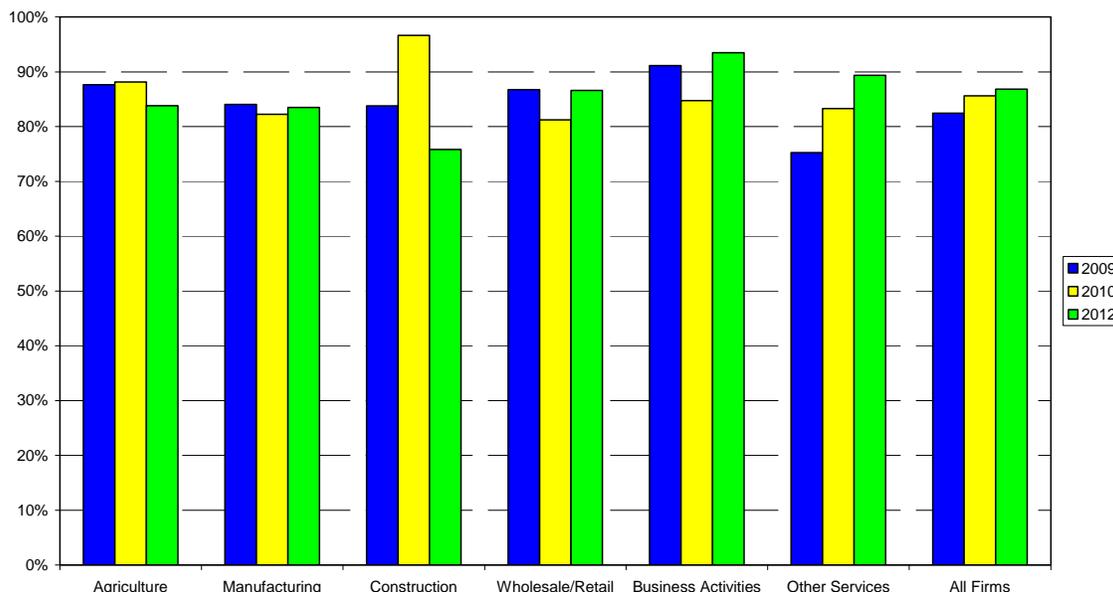
7.10. The application rejection rate for the overall SME population is 15% of applications. There appears to be some variation between sectors in securing finance – Manufacturing and the Other Services sectors faced higher rejection rates than the average at 19% and 18% respectively.

7.11. The lowest rejection rates were for Agriculture (6%), followed by Business Activities (11%) and Wholesale/Retail (13%).

7.12. Four sectors saw a decrease in rejection rates compared to the 2010 survey – these were Wholesale/Retail (10 percentage points), Agriculture (10 percentage points), Business Activities (9 percentage points) and Other Services (8%).

7.13. Meanwhile, Manufacturing (up 4 percentage points) and Construction (4 percentage points) experienced a deterioration in supply relative to the 2010 survey, as measured by increased outright rejection rates.

Mean Percentage Secured of Total Amount Sought, by Sector



Base (2009): Agriculture: n=57; Manufacturing: n=91; Construction: n=93; Wholesale/Retail: n=72; Business Activities: n=88; Other Services: n=213; All Firms: n=614;

Base (2010): Agriculture: n=49; Manufacturing: n=82; Construction: n=68; Wholesale/Retail: n=69; Business Activities: n=64; Other Services: n=148; All Firms: n=480;

Base (2012): Agriculture: n=56; Manufacturing: n=79; Construction: n=70; Wholesale/Retail: n=138; Business Activities: n=117; Other Services: n=166; All Firms: n=626.

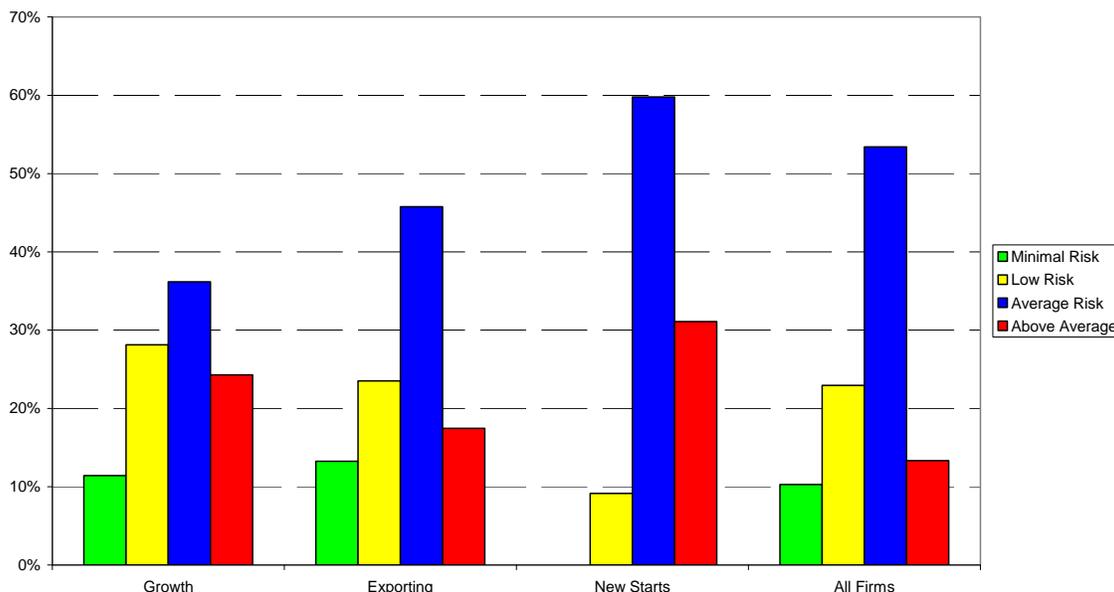
Supply of Finance, by Mean Amount Secured

- 7.14. In absolute terms, the Business Activities sector is most likely to secure a high percentage of the total finance sought, with firms on average obtaining 93% of the total funding sought.
- 7.15. The Construction sector was the least successful, with firms managing to obtain only 76% of the total funding sought.
- 7.16. Meanwhile, the Agriculture sector also experienced a deterioration in the percentage of finance it was able to secure – down 4 percentage points.
- 7.17. The success rate for Manufacturing has stayed broadly the same since the 2010 survey.

Summary of Section VII

- 7.18. Demand for finance has increased across nearly all sectors.
- 7.19. The sectors with the highest application rejection rate in the 2012 survey were Manufacturing, Other Services and Construction.
- 7.20. However, most sectors experienced an improvement in the (mean) percentage amount of finance secured compared to the 2010 survey.

Risk Profile of Firms by Type of Firm



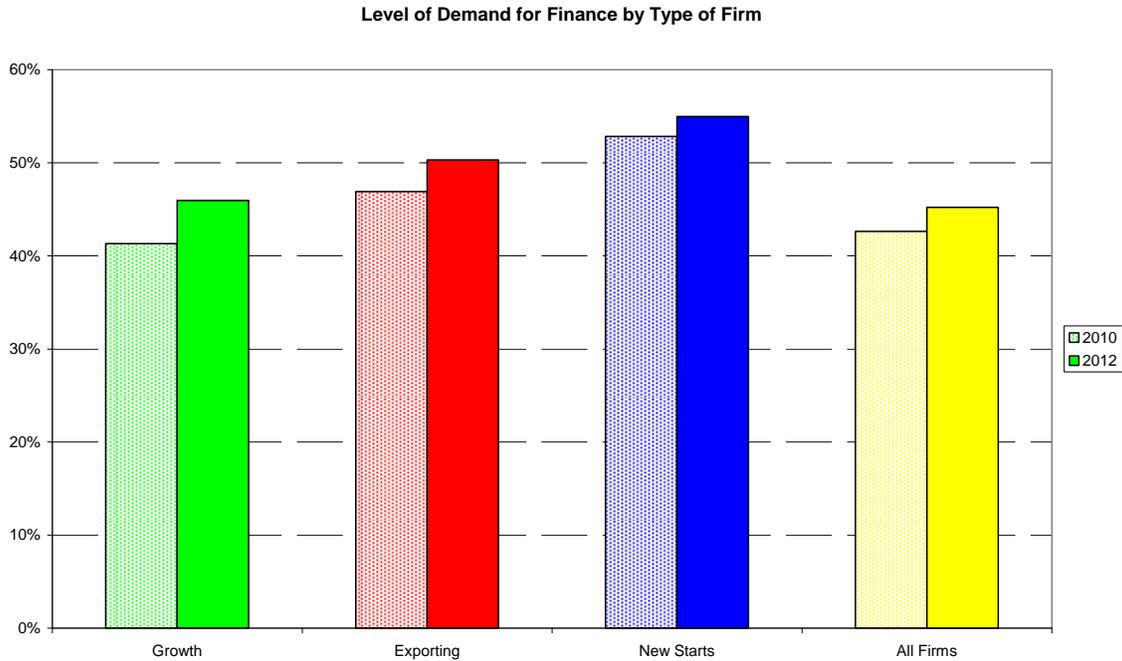
Base (2012): Growth: n=41; Exporting: n=184; New Starts: n=106; All Firms: n=1,011.

Section VIII: Analysis by Type of Firm

- 8.1. This section presents an overview of the demand and supply patterns of different types of firms and compares them to the patterns for all SMEs. The analysis looks at three types of firms: (i) growth; (ii) exporting; and (iii) new starts.²⁵ 'Growth' firms are those firms whose turnover grew by 30% or more per annum over the last three years. 'Exporting' firms are those which sell goods or services to overseas customers. 'New Start' firms are all businesses which were established less than 2 years ago (in 2010, 2011 or 2012).
- 8.2. Firms may fall into more than one type. For ease of comparison, each firm type is shown on the same chart, therefore the bars will contain an element of double counting where firms fall into more than one type.²⁶
- 8.3. The chart above shows the risk profiles for each firm type. Almost a third of new starts (31%) have an above average rating, far higher than the percentage of above average risk firms in the SME population as a whole (13%). A third of growth firms (24%) also have an above average risk rating.

²⁵ Caution should be exercised when interpreting results within individual firm types as some results are based on relatively low sample sizes.

²⁶ For reference, around a quarter of exporting firms are also new starts and around a third of growth firms are exporting firms.

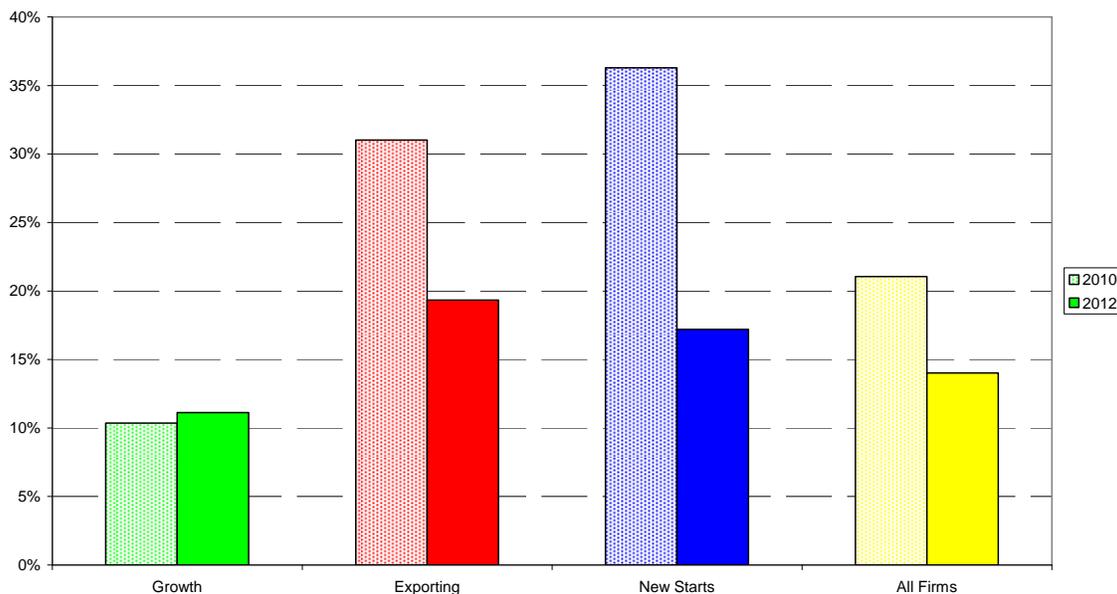


*Base (2010): Growth: n=103; Exporting: n=179; New Starts: n=102; All Firms: n=1,004;
Base (2012): Growth: n=41; Exporting: n=184; New Starts: n=106; All Firms: n=1,011.*

Demand for Finance by Type of Firm

- 8.4. Demand is measured as the percentage of firms of each type who applied for any kind of finance.
- 8.5. New businesses are the most likely to apply for finance (55%), exceeding the demand of all firms by 10 percentage points.
- 8.6. Demand among growth firms does not differ greatly from the overall SME population.
- 8.7. Compared to the 2010 survey, all types of firms witnessed marginal increases in the demand for finance.

Application Rejection Rates by Type of Firm



Base (2010): Growth: n=96; Exporting: n=186; New Starts: n=73; All Firms: n=904;
 Base (2012): Growth: n=73; Exporting: n=279; New Starts: n=132; All Firms: n=1,268.

Supply of Finance by Applications Rejected

- 8.8. For the analysis of different firm types, supply is measured using two methods – the application rejection rate and the average finance secured.²⁷
- 8.9. The application rejection rate for the overall SME population was 15%. However, there is considerable variation in outright application rejection rates between different firm types. Exporting firms (which had the lowest application rate) experienced the highest rejection rates, with 19% of applications rejected, despite the fact that they have a very similar risk profile to the general SME population.²⁸ The rejection rate for new starts was slightly lower at 17% of all applications. Growth firms were the least likely to be rejected for finance, with only 11% of applications turned down.
- 8.10. Application rejection rates fell across most types of firms but most significantly for new starts where the proportion of firms experiencing rejection fell by 19 percentage points compared with a 7 percentage point fall across all firms.^{29,30}

²⁷ The supply measure based on the rejected firm count has not been used due to small sample sizes within the firm type breakdowns.

²⁸ Weighting may play a role as the population of exporters will have a different industry and size composition than the full population.

²⁹ The 2010 estimate for the outright application rejection rates for exporting firms has been corrected to 31% from the 41% reported in the SME Access to Finance Survey 2010 report.

Success in Securing Finance Sought				
Average (Mean) Percentage Amount Secured, by Firm Type				
	Growth	Exporting	New Starts	ALL FIRMS
2010	86%	84%	87%	86%
2012	90%	87%	88%	87%

*Base (2010): Growth: n=51; Exporting: n=95; New Starts: n=39; All Firms: n=480;
Base (2012): Growth: n=30; Exporting: n=128; New Starts: n=62; All Firms: n=626.*

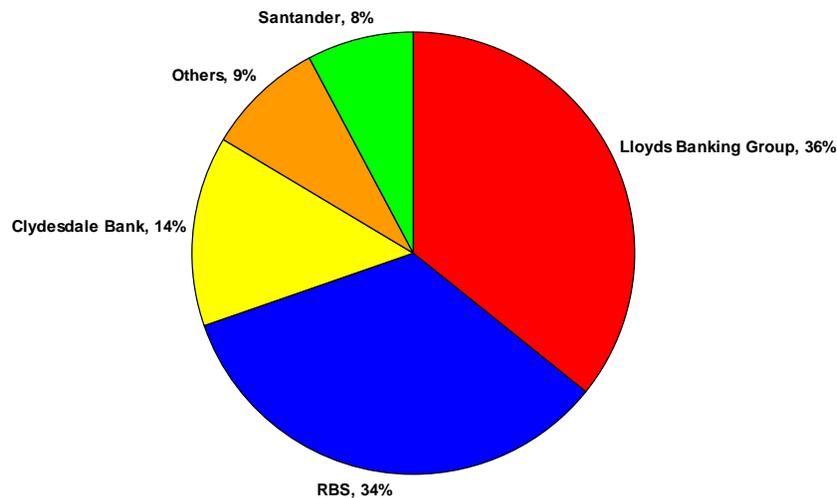
Success in Securing 100% of Finance Sought

- 8.11. Despite high outright rejection rates for exporting relative to other firm types, exporting firms are as successful as the SME population as a whole at securing the finance they sought.
- 8.12. Growth firms, which had very low outright rejection rates, secured on average 90% of the amount they sought.

³⁰ While, low sample sizes imply that rejection rates for exporters and new starts are subject to sampling error, the extent of the drop evidences a downward trend between the 2010 and 2012 surveys.

Summary of Section VIII

- 8.13. A greater proportion of new businesses sought finance (55%) compared to the overall SME population (45%). This also held true for exporters and growth firms, 50% and 46% of whom sought finance respectively.
- 8.14. Supply of finance appears to be most constrained for exporting firms, with around 19% of applications from these firms being rejected outright, compared to a national average rejection rate of 15%.

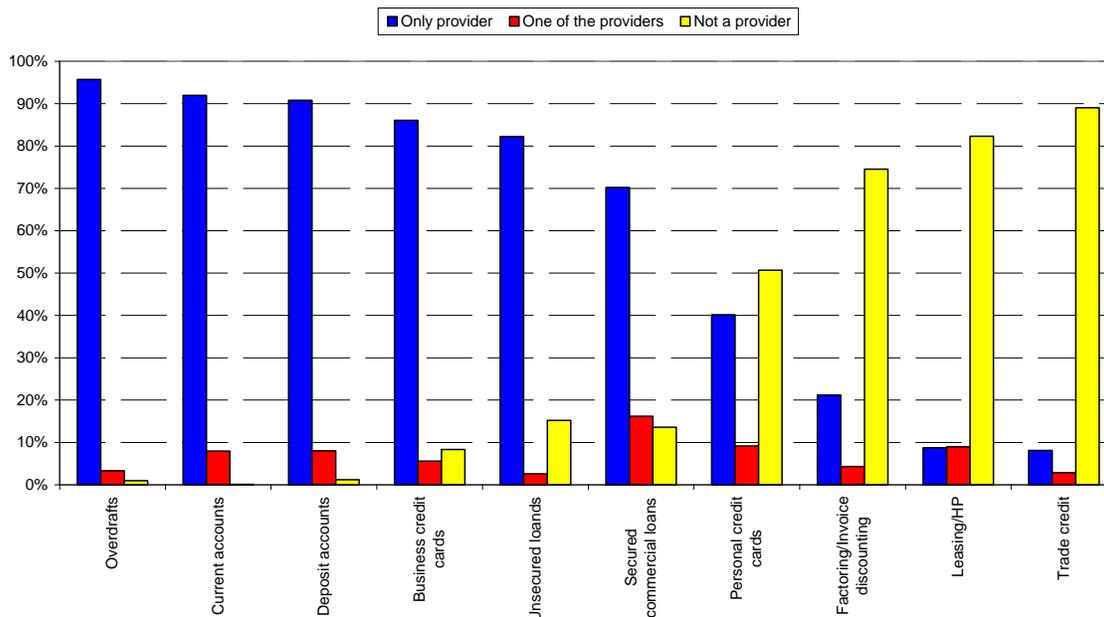
Market Shares in SME Banking

Base (2012): All firms: $n = 1,011$.

Section IX: The Banking Sector – SME Market Shares

- 9.1. The chart above shows the market shares of the main lenders to SMEs in Scotland. This is based on who firms reported to be their main provider of finance.
- 9.2. The Scottish SME finance market remains relatively concentrated in the 2012 survey, although there has been some adjustment in market shares since the 2010 analysis.
- 9.3. 36% of firms banked with Lloyds Banking Group (down 1 percentage point), followed by RBS on 34% (down 6 percentage points), 11% Clydesdale Bank (up 3 percentage points), 8% Santander (up 1 percentage point) and 9% (up from 5 percentage points) 'Other' banks - including The Cooperative Bank (2.4%) and HSBC (2.1%).

Whether Firms' Main Bank is the Main Provider of Types of Credit Facility



Base (2012): All firms: n = 1,011.

Main Provider by Facility

- 9.4. The extent to which firms use an alternative provider of finance for different types of credit facility is shown above. The majority of all businesses use their main bank for overdrafts, business credit cards and secured and unsecured loans. These are the most commonly used forms of finance in the firm population, accounting for around 56% of all current borrowing from financial providers.
- 9.5. Businesses are almost equally likely to use another lender for products such as personal credit cards as they are to use their main lender.
- 9.6. However, for other products such as trade credit, factoring/invoice discounting and leasing/HP, there is a greater tendency for enterprises to use an alternative provider, with very small proportions of firms using their main provider as a source of funding.
- 9.7. The chart indicates potential for competition in financial products and the extent to which businesses are willing to 'shop around' for specific facilities despite greater inertia in switching from their main provider.
- 9.8. The 2012 survey suggests that only 5% of all firms switched their main provider in the last year, with 3% of firms moving some existing business to another provider, or using another provider alongside their main bank.

Summary of Section IX

- 9.9. Lloyds Banking Group (LBG) and Royal Bank of Scotland (RBS) dominate the SME market in Scotland, accounting for 70% of the total market share. This market concentration has decreased slightly since the 2010 survey, when they accounted for 77% of market share.
- 9.10. Despite the fact that SME finance market is concentrated, there is some evidence that firms will use other providers for certain finance products.

SME Access to Finance 2012

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