SME HEROES OR ZEROS 2018

Insight based on the views of over 500 UK SMEs
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I’ve funded everything from software, hardware, and office furniture to plant and machinery. I’ve even funded a giant cheesecake!
An upbeat Spring Statement delivered by the Chancellor Philip Hammond, combined with a revised growth forecast for the UK economy, mean that Britain’s small and medium sized enterprises (SMEs) have reasons to be optimistic about the opportunities that are open to them.

Following stronger than expected consumer spending, the British Chambers of Commerce (BCC) has raised its GDP forecast for 2018 from 1.1% to 1.4%, and in 2019 from 1.3% to 1.5%. The BCC’s first forecast for 2020 is for 1.6% growth and while this figure remains modest, it suggests that with the right support businesses can flourish despite facing ongoing concerns as the UK prepares to exit the European Union.

Today, businesses generate over £200bn to the UK economy and according to research this is expected to rise to £241bn by 2025*. The contribution of UK SMEs in elevating Britain towards a more stable and prosperous future cannot be underestimated. Comprising 5.7 million enterprises, UK SMEs represent 99.99% of total businesses in the private sector with a turnover of £1.9 trillion. Perhaps unsurprisingly, London businesses alone currently contribute £152bn, but firms situated in other major UK cities such as Leeds, Manchester and Birmingham are expected to achieve double-digit growth over the longer-term*.

Wesleyan Bank research reveals continued optimism amongst UK SMEs

Wesleyan Bank’s third annual SME survey reveals how UK firms are performing in a pre-Brexit business climate, their outlook on the main challenges facing them and their knowledge and perceptions of external finance sources. The research also compares the trends identified in previous years’ surveys such as growth and profitability forecasts, propensity for taking risks along with planned areas of investment.

In total, 513 male and female SME owners were surveyed, representing a broad cross section of ages from product and service-based businesses in a variety of sectors. 52% were ‘experienced’ business owners, 19% stated they were ‘serial entrepreneurs’ and 17% regarded themselves as ‘fledgling entrepreneurs’. In addition, 8% had inherited their business through a family member or close connection, while the remaining 6% admitted they were ‘reluctant business owners’ running their firm purely out of necessity.

The survey’s findings highlight a growing sense of positivity amongst Britain’s SMEs and a better understanding of how alternative sources of funding can assist them to drive growth. However, the research also uncovers some worrying trends as firms face rising cost pressures, a greater willingness to take extreme risks and a distant relationship with traditional, high street lenders.

Paul Slapa
Head of Direct Sales
Wesleyan Bank
May 2018

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* Annual research conducted by the Centre for Economics and Business Research in partnership with Hampshire Trust Bank - October 2017
Overall, UK SME owners are feeling positive about the future with just over half (54%) stating that they feel ‘more confident’ about their business’s prospects compared to a year ago. Younger business owners have the brightest outlook with 78% of those aged 18-29 and 62% of 30-44 year-olds admitting they are ‘more confident’ about the future. In contrast only 37% aged 45-59 and 32% over 60 say they feel the same way.

The optimism appears to stem from the strong business performance UK SMEs have enjoyed over the past two years.

- 70% have experienced growth of up to 40%
- Just over a quarter of companies (27%) recorded growth of between 41-80%, up from 16% who achieved this milestone in last year’s survey
- 65% of SMEs also anticipate achieving growth of up to 40% in the next two years
SMEs remain determined despite the potential impact of Brexit

Although Britain’s decision to leave the European Union continues to divide opinion, predictions of an impending financial disaster thus far appear premature. The current UK employment rate has defied expectations to hit a record high and income inequality is approaching a 30-year low, according to the Office for National Statistics. Britain’s manufacturers are also feeling a sense of buoyancy with new orders at their highest level in a generation.

Asked about how their business is likely to fare as Brexit draws nearer, 58% of SMEs in this year’s survey said they are feeling ‘confident’, down slightly from 61% in 2017. Just 11% concede they are ‘concerned’ about its potential impact at a time when UK wages have risen faster than inflation for the first time in a year and the pound has climbed to its highest level since the EU referendum in 2016.

There was a contrast in opinion when business owners were asked how investment would be affected by their view on Brexit. There was a slight fall in those ‘more likely’ to invest from 27% to 24%, but a steep fall from 42% to 26% in those ‘less likely’ to invest. Encouragingly, there was a drastic increase from 28% to 50% of SMEs who were adamant that Brexit would not dictate their business strategy.

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For those planning to invest, IT related purchases and new equipment remain the top choices at 37%. This is likely to include a focus on modern technology such as Artificial Intelligence, Virtual Reality and Internet of Things driven applications to help maintain competitive advantage. Younger business owners are more willing to embrace technology at 31% compared with 20% of other SME owners.

The biggest climbers for investment for growth in this year’s survey are building premises for expansion and refurbishment which has almost tripled from 5% to 13%, along with staff recruitment from 5% to 14%. Interestingly, female SME owners place greater emphasis on staff recruitment (17%) than male owners at 9%.

Overall, just over half (53%) of UK SMEs say they intend to borrow less money in the next 12 months, a 6% fall on 2017. This may reflect that nearly 1 in 2 have experienced rising operating costs in the past few months. Nevertheless, over a quarter (26%) say they will borrow more in 2018.

Over a quarter of UK SMEs say they intend to borrow more money in the next 12 months.

Tip: The results of this survey firmly suggest many SMEs are exceeding expectations and have built solid foundations to prosper in the future. In order to sustain and maximise growth SMEs should continue to invest in their business and look to leverage specialist financial support to do so.

SMEs can benefit from gaining a faster return on investment by utilising flexible funding solutions to spread the cost of new purchases. Given the uncertainty of the UK economy, both pre and post Brexit, this approach is an effective way to preserve cash flow instead of outlaying significant amounts of money which can restrict available working capital. Unless there is a material change and impact on their business today, there is no reason why SMEs should shelve their plans to invest. If they don’t, there is every chance that their competitors will be.
It is recommended to seek a specialist financial provider who can provide complementary financial products such as life insurance, office/surgery insurance, income protection and commercial loan protection, and can offer further trusted advice in line with your personal requirements. Premiums for these insurances can be paid for over time using finance.
A POSITIVE YEAR BUT CHALLENGES LIE AHEAD FOR SMEs

Female business owners worry more about cashflow with 16% admitting concerns compared with only 9% of men.

Given their strong performance, UK SMEs are understandably feeling bullish about their ability to achieve ongoing success. However, optimism does appear to be falling slightly due to rising competitive and financial pressures which are threatening key areas such as staff and skills, product and service quality and management performance.

When subjected to further scrutiny about their outlook, the survey’s findings highlight a divergence of opinion between younger and more experienced business owners.

► 19% aged 45 and over cited they are struggling to compete in the marketplace, and as a consequence a third of them concede their business prospects are ‘poor’. This compares with 64% of those aged 16-29 and 72% of owners aged 30-44 who regard their competitive advantage to be ‘strong’

► Female business owners worry more about cashflow with 16% admitting concerns compared with only 9% of men

► Over two-thirds of SME owners have dipped into their savings and almost a third (29%) have downgraded their lifestyle. The most significant rise is in those who have remortgaged their home – at 19%, which has almost trebled from 7% in the 2016 survey

► Experiences and support received from leading high street banks also presents a mixed picture, and again, differs according to age. Almost a third (32%) of aged 45 and over said they received a ‘poor’ service from their bank while 64% said it was ‘lacking’ compared with just 5% of younger SME owners (18-29).

The fluctuation in opinions may be because older business owners have had a longer relationship with a bank. They may have also traded through testing times, such as a recession, where established, high street

Tip: The majority of SMEs have cash flow funding requirements for a variety of reasons, such as their business being seasonally driven, unpaid invoices or a reduced appetite from their business bank to assist them further. Rather than accumulating more debt by relying solely on a bank overdraft facility, why not consider approaching an alternative finance provider to spread the cost of your short-term working capital liabilities, such as tax (6 or 12 months) and VAT bills (3-12 months)? By doing so, you can gain more predictability over your expenditure allowing your business to smooth over peaks and troughs throughout the year.
lenders may not have been as willing to support them during a challenging trading period. Younger business owners who have formed a recent start-up could well have benefitted from banks being more receptive to their immediate requirements. In addition, they may have received Government grants and have not had to confront more precarious financial situations where they required funding.

Tip: If your business is feeling unsupported it is advisable to seek advice from an accountant or a financial advisor to see what options are available to you. An increasing number of accountants are recommending alternative sources of funding outside of traditional high street lenders and can help you to compare multiple options which are best suited to your requirements. Working with finance experts to analyse your business objectives will not only help you to realise external financial support but also highlight any areas for improvement, therefore enabling you to create a stronger and more sustainable plan.

Over two-thirds of SME owners have dipped into their savings, almost a third have downgraded their lifestyle, and a fifth have previously remortgaged their home to fund their business.
There are signs that SMEs are increasingly open to seeking out external funding rather than using business overdrafts, savings and credit cards to support their short, medium and long-term business needs.

The results of this year’s ‘SME Heroes or Zeros’ survey suggests a growing awareness of the benefits of using external funding to invest in new equipment or technologies to facilitate growth, although female business owners (28%) are less likely to have explored the use of external finance than men (40%).

Almost double (59%) the number of UK SMEs have used external funding on at least one occasion compared to just 30% in 2016

27% of firms regularly turn to external finance, up from 20% two years ago

Opinions once again differ according to age:

Business owners aged 45 - 59 are three times more likely ‘never’ to have sought external funding in comparison to only a fifth (20%) of those aged 18-29

This could reflect the earlier findings in which more experienced business owners described their relationship with their business bank as ‘poor’ or ‘lacking’. They may have no trust or confidence in their bank’s support when broaching the possibility of securing funding.

It appears that business owners are now looking beyond traditional borrowing methods, having gained a wider understanding of how alternative finance solutions can aid their business.

When asked about their knowledge of external funding options, 30% of SMEs have a ‘full’ understanding of equity finance compared to just 17% of respondents in 2016. Asset finance knowledge has grown significantly over the last two years with 29% having a full understanding compared with 21% in 2017 and 16% in 2016. Those with ‘zero’ knowledge has dropped from 38% in 2016 to 22% this year.

These figures are encouraging but show that specialist finance providers still have work to do to highlight the benefits of using alternative finance in helping growth and supporting working capital.

**Tip:** Tailored asset finance solutions from established providers can cover all kinds of investment including IT hardware and software, business and office equipment, plant and machinery, commercial vehicles, premise refurbishments, office relocations and more. By electing to spread the cost, typically over one to five years, SMEs can benefit from having greater flexibility and control over their finances without compromising their existing banking lines. Customised finance plans with structured interest only payments also allow businesses to gain access to the equipment and technology they need to flourish, without being constrained by large, upfront costs.
Traditional funding options previously used by businesses in 2018 v 2017

Alternative funding options previously used by businesses in 2018 v 2017

Future business funding options
SMEs increasingly see alternative finance as the way forward

There appears to be a correlation between use of alternative funding, such as asset finance, short-term loans and equity finance, and having positive feelings towards its role in the business.

- Asset finance – just 8% now feel ‘very negative’ towards it compared with 16% last year and 35% in 2016
- Short-term loans – 48% feel positive about short-term loans which is an increase from 36% in 2017 and 22% in 2016
- Equity finance – a marked change towards equity finance sees 44% feeling ‘positive’ compared to 32% in 2017 and half of that in 2016. Negative feelings have dropped from 56% in 2016 to a quarter (25%) now

Previously used funding options

Businesses appear to be borrowing more money and using a variety of funding options to do so. In Wesleyan Bank’s 2016 SME survey, asset finance didn’t even register as an option and now it is used by one in five businesses (20%). Equity finance is up from 4% in 2016 to 18% this year while short-term loans are used by 28% - an increase of 6% from last year’s survey.

When asked which funding options they are most likely to use in the next 12 months, asset finance was selected by a quarter of firms. SME owners aged 30-44 are most likely to use equity finance (34%) and asset finance (33%) compared with owners aged 45-59 (10% and 9% respectively).

Experienced business owners are most likely to use bank overdrafts and credit cards. 40% of 45-59 year-olds and 50% of SME owners aged 60 and above would use them compared to just 21% of those aged 18-29.

Tip: If you are an associate looking to buy in to a practice, or a partner looking to increase your capital stake, alternative finance could assist you to take the next step in your career. Tailored partner equity loans allow individuals to borrow between £25,000 and £500,000, providing business professionals with a manageable means of buying into their firm.

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MORE SME OWNERS PREPARED TO TAKE EXTREME RISKS REGARDLESS OF THE CONSEQUENCES
This year’s survey highlights a worrying trend that more business owners are prepared to do whatever it takes to keep their business afloat if the need arose.

**Appetite for risk**

- There has been a surge of SME owners aged 30-44 that are prepared to resort to illegal activities. 28% would embark on unscrupulous activities (up from 13% last year), while in direct contrast 14% of younger business owners (18-29) would not contemplate such action, down from 24% last year.
- 86% of owners aged 45-59 and 90% aged 60 and over said they would never embark on unscrupulous activities.
- Intriguingly, owners of established businesses appear to be experiencing greater financial pressures and are more likely to consider taking drastic actions to preserve their future. 27% said they were prepared to ‘gamble at high stakes’ to salvage their business, compared with just 16% of younger SME owners.
- Perhaps surprisingly, female business owners (19%) are more likely to resort to illegal activities than male owners at 15% based on the findings of this year’s survey.
- 55% of SME owners admitted they would continue to dip into their personal savings, in contrast to the 67% of those who have already done so. It is unclear why fewer are prepared to do so but it could suggest that some SME owners are beginning to exhaust their remaining funds in order to sustain their current business model.

For the first time, this year’s survey asked SME owners what measures they would take if they needed to tighten their belts:

- 56% would elect to put a hold on recruitment and just 7% would refuse to hire more staff regardless of their business circumstance.
- 30% would be ‘likely’ to make staff redundant to cut costs with 8% saying they ‘definitely’ would. Almost half of business owners aged 30-44 are prepared to lay off staff if necessary.
- Reducing or sub-letting office space would be considered by 36% although 21% said they would ‘never’ do this.
- Almost half of those surveyed said they would take the risky step of reducing business insurance. Again, the 30-44 year olds showed themselves to be the biggest risk takers with 35% seeing this as a step worth considering.
- 36% said they would reduce costs with a small but significant 11% saying they would ‘never’ resort to cutting costs to keep their business trading.

**Female business owners are less likely to have explored the use of external finance than men.**

**Tip:** A lack of awareness and full understanding of alternative finance solutions that are available to their business could be why some SME owners are open to taking unnecessarily high personal risks. It’s important to be aware of all potential funding options to allow you to make the correct decision which suits both yourself and your business.

For example, if you have a commercial mortgage check with your provider whether your loan agreement entitles you to sub-let your commercial property to other businesses and generate a rental income. Funding outside of traditional high street lenders can help you to compare multiple options which are best suited to your requirements.

**Tip:** Whilst it is understandable that SMEs want to maximise revenues and profitability, cutting corners on your insurance policies could cost you your business. Cheaper isn’t always better and may result in you being vastly underinsured which could result in severe costs to your business in the unfortunate event of something going wrong. Specialist insurance brokers have gained years of experience and can offer extensive knowledge to save you time by selecting from a panel of leading providers, so you can always be confident you are getting cover that’s right for your business.
BUSINESS OWNERS BECOMING MORE INQUISITIVE IN PURSUIT OF GROWTH

Year-on-year, SMEs are becoming more inquisitive and educating themselves by seeking out financial advice. Asked which sources they were most likely to use, responses saw ‘asking a bank’ still at number one, however finding an ‘independent financial advisor’ has soared from just 18% last year to 59% in this year’s survey.

The findings raise a question as to whether the internet is quelling a thirst for knowledge? Reading specialist SME business publications has climbed from 19% in 2016 to 46% in 2018 and half of male business owners read SME publications for guidance on finance.

It is likely that online business publications rank highly in online searches. 56% of business owners use search engines when looking for financial guidance and 38%

Where do businesses turn for advice on funding options?

1. Ask a bank (65%)
2. Independent advisor (59%)
3. Google advice (56%)
4. Ask business contacts (53%)
5. Ask family (49%)
6. Alternative finance provider (46%)
7. Read SME publications (46%)
8. LinkedIn/social media (38%)
use LinkedIn and other forms of social media, a figure which has more than doubled since 2016 (16%).

Not surprisingly, 70% of the younger business owners aged 18-29 are more likely to seek financial advice from the internet and, in line with earlier findings about attitudes to banks, 79% of those 18-29 would broach the issue of finance with their bank in the first instance compared to just 45% of owners 45-59.

The findings also recognise that alternative finance can be more flexible and help a growing business. Indeed, 29% see the value of access to finance as ‘vital’ or ‘intrinsic’ to success, up from 10% two years ago.

### Percentage of business owners who seek funding advice, by age

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<thead>
<tr>
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<th>Under age 45</th>
<th>Over age 45</th>
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<tbody>
<tr>
<td>Ask a bank</td>
<td>76%</td>
<td>50%</td>
</tr>
<tr>
<td>Independent advisor</td>
<td>72%</td>
<td>43%</td>
</tr>
<tr>
<td>Google advice</td>
<td>69%</td>
<td>31%</td>
</tr>
<tr>
<td>Ask business contacts</td>
<td>63%</td>
<td>31%</td>
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<tr>
<td>Ask family</td>
<td>60%</td>
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<tr>
<td>Alternative finance provider</td>
<td>59%</td>
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<tr>
<td>Read SME publications</td>
<td>49%</td>
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<tr>
<td>Linkedin/social media</td>
<td>54%</td>
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30% of businesses stated a lack of financial/commercial knowledge or a poor understanding of available funding options as a reason for not borrowing money for their business.

### Five reasons why SMEs should consider external finance

1. **Drive growth and innovation** – specialist payment over time financial solutions can allow your business to expand and take advantage of market opportunities when they are ripe. Whether you need to finance investment in more staff, office or new equipment and technology, tailored funding can make this happen when you need it, without you having to be solely reliant on your business bank.

2. **Strengthen your business plan** – partnering with finance experts, such as accountants and financial advisors, will assist you to break down your business strategy and outcome objectives. Experienced financial services providers, such as Wesleyan, employ over 300 regional financial advisors who can assist by providing business healthchecks to help SMEs to better plan for the future.

3. **Gain greater flexibility by approaching different finance providers** – while it can be tempting to approach a single provider for all your finance requirements, it’s also a good idea to separate your commercial finance requirements from your day-to-day business needs. High street lenders offer everyday working capital but the fluctuating UK economy has impacted their appetite towards lending to SMEs. Don’t settle for what you know, instead go and seek knowledge as to whether alternative finance could specifically fulfil your business requirements. By comparing multiple sources of financial options you will be in a more informed position to secure the right deal for you and your business.

4. **Boost cash flow** – do you have a major annual expense coming up, such as a looming VAT or tax bill? If so, flexible finance solutions can help during these costly periods. Instead of having to pay out a large lump sum and stifling your ability to invest, businesses can spread the cost over a year into smaller, more manageable chunks.

5. **You don’t have to rely on your bank** – your day-to-day business bank may not be the preferred or only option for your business. With many funding sources available to SMEs, it’s important to understand how alternative finance providers may be able to add greater value and long-term support by fulfilling your ongoing business requirements.
MORE UK SMEs USE ALTERNATIVE FUNDING SOURCES

Conclusion: More UK SMEs use alternative funding sources as confidence levels rise

Whisper it quietly, but there is more than circumstantial evidence to suggest Britain’s businesses that are prepared to invest, are on the up. This view is shared by the findings of Wesleyan Bank’s 2018 ‘SME Heroes or Zeros’ research.

Over half of UK SMEs have an overall positive view about the future and only 16% of the 513 business owners surveyed admit they are feeling ‘less confident’ in comparison to 12 months ago, while the remaining 30% said they felt ‘the same’. This optimism appears to stem from the strong business performance UK SMEs have enjoyed over the past two years.

In a social and economic climate so often reflected by negativity, research compiled from actual UK business owners suggests otherwise as many continue to exceed their growth and profitability targets.

Given the fluctuating appetite towards lending from high-street banks it’s understandable that SMEs are cautious about making financial investments. The research reveals that 38% of UK SMEs are less likely to seek funding based on their previous experiences of approaching high street lenders. More surprisingly, 87% of those surveyed were in agreement that SMEs should separate their financial needs from their day-to-day banking requirements.

With greater access to funding and lower interest rates, more SMEs are exploring alternative finance as a growth accelerator and have a wider understanding of how it can benefit their business. Talk to your business’s bank but prepare to be open-minded by comparing which providers are best placed to support your business at every stage of its lifecycle, with a range of flexible and tailored finance solutions.

Over two-thirds of the firms surveyed have experienced growth of up to 40%.

With greater access to funding and lower interest rates, more SMEs are exploring alternative finance as a growth accelerator.
GET IN TOUCH

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