HOW MEDIUM-SIZED BUSINESSES ACCESS FINANCE:

Lessons for tomorrow's medium-sized businesses

Research Series

BritishBusinessBank
Unlocking finance for smaller businesses

Contents

Foreword

Andrew van der Lem

Managing Director, Strategy & Market Analysis,
British Business Bank

The British Business Bank's core mission is to make finance markets for small and medium-sized businesses more efficient and effective, allowing businesses to prosper, innovate and grow.

In order to do this, we need to ensure that we have the full breadth and depth of knowledge of how these markets operate to inform the development of focused and targeted solutions and to prioritise resources to areas of the market that are not working well.

This report represents the first of a rolling programme of research pieces that the British Business Bank will be conducting to improve and refresh our understanding of the market and how businesses use finance to grow. We are aware that simply improving the availability of finance is not enough. We also need to understand how businesses use and manage different type of finance, their degree of financial sophistication and openness to using the fill range of finance options available.

As part of this programme we commissioned Ipsos MORI to conduct research on the financing of medium sized businesses. The purpose was twofold: to understand whether medium-sized businesses faced any specific challenges in accessing finance and to identify lessons, behavioural or otherwise, that could be learnt by smaller growing businesses as they strive to become the 'mid-sized businesses of tomorrow'.

On the former, the survey revealed that the vast majority of medium-sized businesses are largely able to access the finance they need, whether this is traditional mainstream sources of finance or newer, more tailored finance solutions such as leasing and hire purchase. This is in part due to their greater financial strength and solid growth and export performance, but also has to do with their financial sophistication and their ability to shop around for different forms of finance.

So what are the main lessons the report holds for smaller businesses seeking to emulate them?

- **Make better use of the range of alternative finance options available** - The survey revealed that mid-sized businesses are far more sophisticated in their approach to using financing. Instead of relying purely on traditional forms of bank finance, they use a wide range of financing sources depending on what they are seeking to fund. For smaller businesses that often lack collateral or track record using asset-based forms of finance can therefore be important sources of capital to enable them to grow.

- **Business should shop around**. While the large majority of mid-sized businesses applying for a bank loan went to their main bank, over 30% shopped around and used another bank or financial institution. This is not just a matter of good business practice, but one of driving better value and more appropriate solutions for the businesses financing needs.

- **Equity finance can play an important role in business growth** – Only a small proportion of medium-sized businesses currently use external equity finance. But of those businesses that did the vast majority were overwhelmingly positive about the impact equity finance had had on their business and the advice received by private equity partners. Over 70% of businesses using such equity finance were either fairly satisfied or very satisfied. Equity finance can be an important source of growth capital for businesses seeking high growth.

- It is clear that **there is greater competition between finance providers to attract medium sized businesses**, resulting in a wider range of products and providers available to meet their needs. A key element of the British Business Banks proposition is to support the development of a similarly diverse and competitive landscape for smaller businesses.

I hope you find this report useful and interesting.

Andrew van der Leur

1. Executive summary

Access to finance is a key determinant for growth for mid-sized businesses. These businesses make a significant contribution to the economy, yet they have very different needs and face different challenges with regard to financing compared to micro and small firms. This report presents the findings from a research conducted for the British Business Bank to investigate issues around the use of finance by mid-sized businesses.

Characteristics of mid-sized businesses:

- The majority of mid-sized businesses had a turnover of £10m to less than £25m (57%). 21% had a turnover between £25m and £50m and only 10% had a turnover of over £100m.

- The most common mid-sized business sectors were wholesale and retail trade and repair or motor vehicles (29%) and manufacturing (18%).

- Just under half of the businesses (45%) were majority owned by founder directors or family, while 30% were majority owned by a parent company or group. Firms with turnover between £10m and less than £25m were more likely to be independent, without a parent company or a subsidiary. They are also more likely to be founder directors or family owned businesses.

- Only 10% of mid-sized businesses held intellectual property or other knowledge assets on their balance sheet and just over half (54%) exported goods or services outside of the UK.

- Mid-sized businesses in the ICT sector were twice as likely as businesses in other sectors to hold intellectual property. While mid-sized businesses in the manufacturing sector or professional, scientific and technical activities were more likely to export.

- Around nine in ten (87%) of mid-sized businesses made a profit in the last financial year. Half (49%) increased their profits from the previous year.

- Mid-sized businesses are very low risk. Just over half of firms (54%) had a very low risk credit score with 9% having a credit score of above average or high risk.

- Firms that had grown by over 20% in the last year were twice as likely as firms that had remained constant or declined over the past year to have above average or high risk.

- Mid-sized businesses were experiencing recovery from the adverse economic conditions. Over half of mid-sized firms (55%) reported that their turnover had grown in the last 12 months, including 11% who said this growth was by more than 20%. Seven in ten (70%) mid-sized businesses expected to grow in the next 12 months, and a further 25% anticipate no change. Only 5% expect to decline.

- Mid-sized businesses that sought finance in the past year were more likely to have grown in the past year, as were firms that were seeking finance to enter new markets or make some form of capital expenditure.

Current use and dependency on finance:

- Retained earnings/sale of assets was the form of finance most widely used (73%), followed by trade credit (59%). Leasing or hire purchase was used by half (52%) of mid-sized businesses and a similar proportion (46%) used credit cards. Only 9% used equity finance.

- Almost two-fifths (38%) of mid-sized businesses had tried to obtain new external finance or extend existing credit facilities in the past 12 months.

- The most common reason for needing new finance was for working capital/cash flow (61%), followed by capital expenditure such as investing in new machinery or new property or improving buildings (47%).

- The most common form of finance sought in the last 12 months by all businesses was overdrafts (22%), followed by leasing or hire purchase (17%) and trade credit (13%).

- The most common reasons for not trying to access external finance centered around a perceived lack of need, with happiness using internal finance being mentioned most often (74%). Other key reasons were being happy with existing external finance/lines of credit (52%) or not undertaking large investments (52%).

- Mid-sized businesses with turnover between £10m to less than £25m were more likely to report that they did not seek finance because they preferred not to take additional risk or that it was too expensive.

Loans:

- Approximately 33% of mid-sized businesses currently have a loan facility. One in six of all mid-sized businesses had sought an unsecured or secured loan in the last twelve months (16%).

- Businesses were most likely to have sought their most recent loan from their main bank (73%), while a further 12% obtained a loan from a bank or building society they have an account with. Businesses with turnover between £10m and £50m were more likely than average to apply for a loan from their main bank, while businesses with turnover between £100m and £500m were more likely than average to apply to another bank or building society that they have no account with.

- Most of the businesses had all or some of their loan approved (89%). Only one in twenty (5%) were refused any part of the loan.

- Among businesses who were either turned down or received a smaller loan than they had applied for, insufficient security (15%) and the business sector/trading environment being too risky (14%) were the reasons given most often. Applying for too much (8%), a weak balance sheet (8%) and complex terms (8%) were among the other reasons given.

- Among the eight respondents who were refused a loan, five of them talked to another bank and managed to agree a loan of the same size. Only one talked to the same bank and accepted a smaller loan. Another firm decided not to have a facility at all, while one injected personal funds into the business.

- The businesses who were unable to raise some or all of the finance required reported cash flow issues (4 respondents) and cancelled/postponed investment (4 respondents) as a result of this. One business said the implication of not receiving the finance meant that they had lower sales and another mentioned they had to lay off staff. Two respondents reported using internal funds to make up for the shortfall.

Overdrafts:

- Three in ten mid-sized businesses currently have an existing overdraft facility (32%) and around one in five of all businesses had sought an overdraft in the last twelve months (22%).

- Seven in ten businesses had no difficulties (72%) obtaining an overdraft. One in ten (10%) obtained some but not all the overdraft required, while 8% obtained the overdraft required but with problems. One in twenty (6%) were unable to obtain any overdraft at all.

- Reasons for difficulties in obtaining all or some of the overdraft included insufficient or no security, weak balance sheet, bank policies, business sector/trading environment deemed too risky.

Leasing and hire purchase:

- Around half of mid-sized businesses (52%) used leasing or hire purchase, while 17% had sought it in the previous 12 months. Following retained earnings and trade credit, this was one of the most popular sources of finance used by mid-sized businesses.

- Businesses with turnover between £10 million and less than £50 million were more likely to use leasing or hire purchase compared with larger firms.

- Overall success rates were very high with 94% of mid-sized businesses who sought leasing or hire purchase having no difficulty or not being rejected.

- While a third (33%) arranged their leasing or hire purchase finance direct with the equipment manufacturer, a majority (58%) used another leasing provider and a fifth (21%) arranged this through a bank.

- Businesses most commonly used leasing or hire purchasing for cars or light commercial vehicles (accounting for 45% of businesses using these finance forms). One in three (33%) used this type of finance for commercial and heavy vehicles. This was followed by 24% who used leasing or hire purchasing for plant/machinery (24%) and office printers and photocopiers (20%).

Equity finance

- Only one in twenty mid-sized businesses currently use private equity (5%). Fewer used public equity (2%) or corporate venturing (1%). Fewer still had sought these forms of finance in the last 12 months.

- Among those businesses using equity finance, the most common reason for seeking this type of finance was to raise additional funds without taking on any more debt (26%). One in ten mentioned no other finance option was available (11%), owners cashing out (10%) or the nature of the business (10%).

Businesses with turnover between £10m and £25m were more likely to report that no other finance was available compared with businesses with turnover over £25m.

- A private equity house was the most common source of equity finance, used by just over one in three of businesses (35%). This was followed by public equity (21%), equity investment from shareholders, board or directors (14%), a business angel (10%) and a parent company (9%).

- Most sought equity from a UK investor (83%) rather than from an overseas investor (29%).

- Most companies who used private equity finance had some sort of involvement in the business from their private equity partner. In three-fifths of cases (59%) the partner sat on the board.

- Most companies using private finance were satisfied with the advice they received from their private equity advisors – 70% were very or fairly satisfied.

- Overall the impact of equity finance on the business was perceived as positive. Just under a quarter (24%) reported that equity finance had helped growth or expansion of the business. A further 13% reported that it had improved working capital/cash flow and 7% reported that it had improved the day to day running of the business.

- Contrary to popular perception, ceding control of the business was not the most common reason for firms not using equity finance. Only 7% mentioned that they did not want to cede control of the businesses. This compares with 42% who said that it was not necessary/the business had sufficient funding. A further 10% said that their business does not need the large amount of capital investment that equity finance would raise. Business structure was an issue for this form of finance. For example, 17% saying that they were owned by a parent company/their parent company was against using this type of finance.

Future finance needs:

- Around one quarter of mid-sized businesses (27%) said it is likely that their organisation will try to obtain external finance in the next 12 months.

- Of those who intended to try to obtain new external finance in the next 12 months, half were seeking it for working capital/cash flow, while the same proportion was seeking it for investment.

- There was variation in how mid-sized businesses viewed the ease of accessing different forms of finance. Of all the types asked about, leasing or hire purchase was the finance businesses expected to access most easily (85%), followed by factoring or invoice discounting (62%). Far fewer believed other forms of finance could be accessed easily such as public equity, issuing corporate bonds and mezzanine finance (which is likely to be related to the generally low awareness of it).

- Just under two-fifths reported that if finance were more available or on more favourable terms they would purchase additional assets or expand their business in the UK.

Summary:

The following tables show current borrowing among mid-sized businesses, the types of external finance these businesses have sought in the last twelve months and the outcome of the application by company size and business growth.

Table 1.1 Dependency on finance and outcome of application by company size

	All	£10m to less than £25m	£25m to less than £50m	£50m to less than £100m	£100m to £500m
Current use of finance	(1,012)	(473)	(250)	(165)	(124)
Loans	33%	32%	32%	33%	35%
Overdrafts	32%	33%	31%	36%	24%
Leasing and hire purchase	52%	53%	55%	45%	47%
Factoring or invoice discounting	16%	15%	19%	14%	18%
Equity finance	8%	7%	10%	4%	10%
Finance sought in the last 12 months	(1,012)	(473)	(250)	(165)	(124)
Loans	16%	14%	18%	20%	18%
Overdrafts	22%	22%	23%	23%	14%
Leasing and hire purchase	17%	16%	22%	16%	11%
Factoring or invoice discounting	9%	8%	14%	7%	7%
Equity finance	3%	3%	2%	2%	3%
Initial response from first source					
All/some approved					
Loan*	89%	91%	88%	88%	88%
Overdraft**	91%	92%	87%	85%	95%
Rejected					
Loan	5%	6%	7%	6%	0%
Overdraft	6%	7%	7%	6%	6%
*Base: All who sought a secured/unsecured loan in the last 12 months (177); **Base: All who have applied for an overdraft in the last 12 months (113).					

Table 1.2 Dependency on finance and outcome of application by business growth							
	All	Grown in last 12 months	Stayed the same	Dec-lined in last 12 months	Grow in next 12 months	Stay the same	Decline in next 12 months
Current use of finance	(1,012)	(572)	(252)	(179)	(701)	(248)	(50)
Loans	33%	36%	28%	30%	34%	29%	27%
Overdrafts	32%	32%	30%	37%	32%	34%	32%
Leasing and hire purchase	52%	52%	51%	54%	53%	49%	46%
Factoring or invoice discounting	16%	18%	12%	17%	18%	13%	15%
Equity finance	8%	8%	8%	8%	8%	8%	10%
Finance sought in the last 12 months	(1,012)	(572)	(252)	(179)	(701)	(248)	(50)
Loans	16%	19%	10%	15%	18%	10%	17%
Overdrafts	22%	22%	19%	23%	22%	20%	22%
Leasing and hire purchase	17%	17%	15%	18%	18%	15%	14%
Factoring or invoice discounting	9%	10%	7%	10%	10%	7%	10%
Equity finance	3%	3%	2%	1%	2%	4%	4%
Initial response from first source							
All/some approved							
Loan*	89%	91%	85%	84%	89%	86%	100%
Overdraft**	91%	93%	93%	86%	88%	91%	100%
Rejected							
Loan	5%	2%	11%	12%	5%	7%	0%
Overdraft	6%	6%	6%	8%	7%	5%	0%
*Base: All who sought a secured/unsecured loan in the last 12 months (177); **Base: All who have applied for an overdraft in the last 12 months (113).							

2. Introduction

This report presents the findings from a research study conducted for the British Business Bank to investigate issues around mid-sized businesses accessing finance. The definition of mid-sized businesses used is those with a turnover of between £10 million to £500 million.

Previous surveys were conducted in 2009 and 2010 and found that while most mid-sized businesses could obtain finance, a small proportion experienced difficulties. This latest survey examined in more detail the steps mid-sized businesses go through in accessing finance and the difficulties they experience, and is part of a wider consultation in the run up to the launch of the Business Bank in 2014.

2.1 Background

Access to finance is a key determinant for business development and growth for mid-sized businesses. These businesses make a significant contribution to the economy, yet they have very different needs and face different challenges with regard to financing compared to micro and small businesses. Moreover, the recent economic climate has brought mid-sized business needs into particular focus, especially given the media coverage on those that have downsized or gone out of business.

Vince Cable, Business Secretary, called the problem of access to finance "one of the biggest risks to economic recovery" and added "we need bold action to fix what has always been a weakness in the UK economy". The Business Bank is a core part of the new industrial strategy supporting long term growth and investment in the UK, and will become the vehicle through which all government finance initiatives are administered.

2.2 Aims of the research

The main aim of the research was to understand current borrowing and future borrowing intentions among mid-sized businesses. In particular, the research looked at what prompts mid-sized businesses to seek different types of finance and how the decision-making process differs by reason for seeking finance, size of business, ownership structure and other key firmographics. The research also examined mid-sized businesses' awareness and usage of alternative non-bank sources of finance, including non-bank debt finance and equity. As the research builds on earlier surveys conducted in 2009 and 2010, key trends in access to finance for mid-sized businesses were also examined.

2.3 Methodology

The research comprised two phases: Thirty-one depth interviews with representatives of mid-sized businesses between 26th June and 27th August 2013; and a 20 minute CATI survey of 1,012 representatives of mid-sized businesses conducted between 15th October and 22nd November 2013. This report focuses primarily on the findings from the quantitative survey.

A sample of mid-sized businesses was derived from the IDBR (Inter-Departmental Business Register) from the ONS. In total the sample comprised 25,102 mid-sized business leads that according to IDBR were eligible for the research (i.e. UK business head offices with a turnover of between £10 million and £500 million that are not government-financed).

Just over half of the sample had telephone numbers (14,165) and a further 3,647 leads were matched to telephone numbers using publically available data provided by UK

Changes, bringing the total sample for the study to 17,812 businesses. Analysis by Ipsos MORI and BIS concluded that the profile of businesses without telephone numbers was not significantly different to those with numbers.

The survey was conducted as a quota survey consistent with the 2009 and 2010 surveys. Quotas were set by region, turnover, sector and whether or not the company is owned by a parent. All quota targets were based on a proportionate split of the mid-sized business population profile from the IDBR records, aside from size of business whereby the number of interviews in the £10 million to under £25 million turnover band was restricted and subsequently those in the other turnover bands oversampled. The Appendix shows the sample composition.

Prior to interviewing, there was a short warming up period for businesses in the largest turnover band (between £100 million and £500 million) whereby potential respondents were telephoned in advance of the main survey and appointments made. All potential respondents were given the opportunity to be emailed an advance letter and datasheet to verify the survey and help them prepare for the interview.

The survey results were weighted by region, turnover, sector and whether or not the company is owned by a parent, to represent the profile of the 25,102 mid-sized businesses in the IDBR. The design weight for oversampling larger businesses had a marginal impact on the effective base size (from 1,012 to 939 interviews) while improving the robustness of findings in the larger turnover bands.

2.4 Interpretation of the data

It should be remembered that final data from the quantitative survey is based on a sample of mid-sized businesses, rather than the entire population. Therefore, results are subject to sampling tolerances, and not all differences are statistically significant. Throughout this report, only differences that are statistically significant at the 95% level of confidence are reported (although calculations of statistical significance should be considered indicative, given that the approach is not based on a simple random sample design). A guide to the statistical reliability of the data is in the Appendix.

Where percentages do not sum to 100%, or to aggregated scores (e.g. 'know a great deal' plus 'know a fair amount'), this is due to computer rounding, or when questions allow multiple answers. An asterisk (*) denotes any value less than half a per cent but greater than zero.

Much of the analysis is by size of business based on turnover. Mid-sized businesses are not a homogenous group when it comes to using or seeking different types of finance and the size of business is an important factor. Analysis has also been provided by a range of other variables including sector, ownership structure, growing businesses and those that are stagnating or declining, and reasons for seeking finance. Some of the base sizes are small (less than 50) and care must be taken when interpreting these findings. In most cases where bases are less than 30 unweighted numbers are reported.

Where relevant, analysis has also been provided by external risk rating. This is for those interviews that agreed to data linking and were successfully matched to Experian credit scores[1]. In total, 799 mid-sized businesses matched to Experian credit scores. The credit score bands that we have analysed by in this report are: very low risk; low risk; below

[1] Experian matched Commercial Delphi Risk Band Text for Limited Companies and Non Ltd Risk Band Text for Non Limited Businesses.

average risk; above average/high/very high risk (includes maximum risk) and; other (i.e. Risk Score Suppressed and Dissolved/Serious Adverse Info).

Comparative data is provided from the 2009 and 2010 surveys of mid-sized businesses. The 2009 survey consisted on 401 interviews conducted between 22nd September and 29th October 2009. The 2010 survey consisted of 400 interviews conducted between 23rd September and 21st October 2010. The definition of mid-sized businesses was the same in the 2009 survey (£10m-£500m) and narrowed in the 2010 survey (£25m-£500m).

Comparative data is also provided to the SME Finance Monitor (Q3, 2013). This surveys 5,000 businesses every quarter about past borrowing events and future borrowing intentions. Where comparisons are made, this is based on the 3,000 medium-sized businesses (50 to 240 employees) that participated in the survey.

The Appendix includes case studies from the depth interviews conducted as part of this study. These findings are intended to add further insight to the survey results, rather than be statistically representative.

3. Characteristics of mid-sized businesses

Key Findings:

- This chapter provides the business demographic context for subsequent chapters.
- Six in ten mid-sized businesses had a turnover of £10m to less than £25m (57%), while 10% had a turnover of over £100m.
- The majority of mid-sized businesses (81%) fell within the standard definition of an SME by employment, with fewer than 250 employees.
- The most common mid-sized business sectors were wholesale and retail trade and repair or motor vehicles (29%) and manufacturing (18%).
- There was a concentration of mid-sized businesses in London and the South East, with 24% based in London and another 15% based in the South East. Mid-sized businesses were least likely to be located in the North East and Wales.
- Just under half of the businesses (45%) were majority owned by founder directors or family, while 30% were majority owned by a parent company or group or subsidiary.
- Only 10% of mid-sized businesses held intellectual property or other knowledge assets on their balance sheet and just over half (54%) exported goods or services outside of the UK. Of those who exported, for 31% exports accounted for half or more of their sales.
- Just over half of firms (54%) had a very low risk credit score with 9% having a credit score of above average or high risk.
- Mid-sized businesses were experiencing recovery from the adverse economic conditions. Over half of mid-sized firms (55%) reported that their turnover had grown in the last 12 months, including 11% who said this growth was by more than 20%.
- Firms that had grown by over 20% were more likely to have worse credit scores compared with firms that had shown no growth.
- Those that had sought finance over the past year were also more likely to have experienced growth (60% compared with 52% that had not sought finance).
- Seven in ten (70%) mid-sized businesses expected to grow in the next 12 months, and a further 25% anticipate no change. Only 5% expect to decline.
- Of those who expected to grow, almost nine in ten planned to achieve this by increasing sales (86%). However, a wide variety of means of growth were planned, such as introducing more products or services (54%), taking on more employees (46%) and investing in new capital or equipment (36%).
- The vast majority (87%) of mid-sized businesses made a profit in the last financial year, with 9% making a loss. For half (49%) of businesses their profit increased in the last 12 months, and for 23% it decreased.

3.1 Size

The distribution of mid-sized businesses by turnover is shown in Table 3.1. Almost six in ten had a turnover of £10m to less than £25m while a minority (10%) had a turnover of at least £100m.

Table 3.1: Turnover	
Base*	(1,012)
£10m to less than £25m	57%
£25m to less than £50m	21%
£50m to less than £100m	12%
£100m to £500m	10%
*Base: All respondents	

The majority of mid-sized businesses (81%) fell within the standard definition of an SME by employment that is an enterprise with less than 250 employees. Five per cent of mid-sized businesses had between 1 and 9 employees (classified as micros), one quarter (25%) had between 10 and 49 employees (classified as small businesses), around half (51%) had between 50 and 249 employees (classified as medium-sized businesses), while only 19% had at least 250 employees (classified as large businesses).

Table 3.2: Number of employees by turnover

Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Up to 9	5%	5%	4%	5%	3%
10 to 49	25%	33%	16%	17%	7%
50 to 249	51%	54%	58%	41%	33%
250+	19%	8%	21%	38%	56%
*Base: All respondents					

- As might be expected, there was a relationship with turnover, with larger businesses tending to employ more people. While only 8% of firms with a turnover of £10m to less than £25m employ at least 250 staff, this rises steadily as turnover increases so that 56% of firms with a turnover of £100m-£500m also have at least 250 employees.

- There was some variation by sector, with firms in the construction and manufacturing sectors, as well as those operating in professional, scientific and technical activities, tending to employ more people. Those in the wholesale and retail trade and repair of vehicles sector had relatively few employees.

- There was also some variation by credit score, as 12% of businesses in the above average, high or very high risk category had up to 9 employees, whereas for each of the lower risk categories of business only 3% employed up to 9 staff.

3.2 Profit

Most mid-sized firms reported making a profit in the last financial year (87%). Only nine per cent reported making a loss.

Table 3.3: Proportion making a profit and loss during the last financial year by turnover

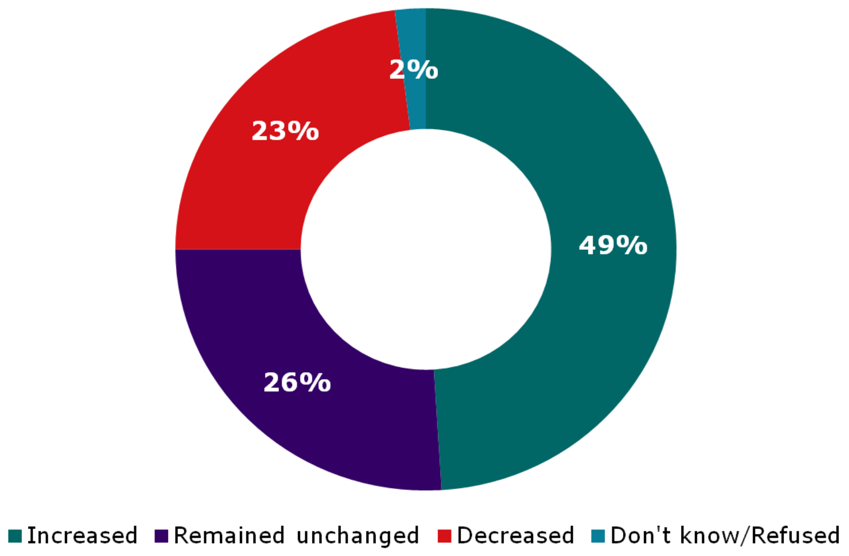
Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Profit	87%	85%	84%	92%	95%
Loss	9%	10%	13%	7%	5%
Broke even	2%	3%	1%	0%	0%
Don't know/Refused	2%	3%	2%	1%	1%

*Base: All respondents

- Businesses with larger turnovers were more likely to have reported a profit – for example, 93% with a turnover of £50m or more made a profit.
- There was little difference by sector in relation to profit and loss, with the exception of transport and storage businesses which were more likely to have made a loss than the average (22% compared with 9%).
- As might be expected, those businesses in the very low risk category fared better (92% made a profit, 5% a loss) than those in the above average, high or very high risk category (though 75% still made a profit and 18% a loss).

For half of the firms their profit increased over the 12 months to September 2013 (49%), though for a quarter (23%) it decreased.

Figure 3.1: Profit in last 12 months



Base: All (1,012)

3.3 Sector

The most common mid-sized business sectors were wholesale and retail trade and repair or motor vehicles (29%) and manufacturing (18%). No other sector accounted for more than one in twelve businesses as shown in Table 3.4.

Table 3.4: Sector by turnover

Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	29%	29%	34%	25%	20%
Manufacturing	18%	18%	20%	18%	14%
Professional, Scientific and Technical Activities	8%	7%	8%	11%	10%
Business Administrative and Support Service Activities	7%	7%	8%	6%	9%
Construction	7%	9%	5%	5%	8%
Financial, Insurance and Property Services	7%	6%	5%	9%	12%
ICT services	6%	6%	4%	6%	7%
Transport and storage	5%	4%	4%	7%	6%
Education and Health	4%	5%	4%	1%	2%
Agriculture, Forestry and Fishing; Mining and Quarrying; Utilities	3%	2%	4%	4%	4%
Accommodation and Food Service Activities	2%	3%	1%	3%	1%
Other Service Activities	2%	3%	1%	1%	5%
Travel/sport/leisure/art/ entertainment	1%	1%	0%	3%	0%
*Base: All respondents					

- Businesses in the wholesale and retail trade, repair of motor vehicles and motorcycles sector were more concentrated among smaller turnover bands (less than £50m). By contrast, businesses in the financial, insurance and property services were more concentrated in the highest turnover band (£100m to £500m).

3.4 Region

Around one in four (24%) mid-sized businesses was based in London, while another 15% were based in the South East and 10% in the East of England. The North East and Wales had relatively few mid-sized businesses (3% each).

Table 3.5: Region by turnover

Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
East Midlands	6%	6%	6%	12%	2%
East of England	10%	10%	11%	7%	10%
London	24%	23%	18%	27%	35%
North East	3%	2%	4%	1%	2%
North West	10%	10%	12%	7%	7%
Northern Ireland	2%	2%	5%	0%	1%
Scotland	6%	6%	6%	8%	4%
South East	15%	15%	15%	16%	17%
South West	6%	6%	5%	8%	4%
Wales	3%	3%	3%	2%	3%
West Midlands	8%	8%	7%	6%	11%
Yorkshire and the Humber	7%	8%	9%	4%	4%

*Base: All respondents

- From Table 3.5 above, it can be seen that businesses with larger turnover were significantly more likely to be based in London.

3.5 Ownership

Over eight in ten mid-sized businesses were private limited companies, limited by shares (84%). Six per cent were public limited companies; other legal statuses were not widespread.

Table 3.6: Ownership by turnover

Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
A private limited company	84%	86%	83%	84%	77%
A public limited company	6%	4%	7%	9%	14%
A partnership	2%	3%	1%	3%	2%
A sole proprietorship	1%	1%	1%	1%	1%
A co-operative	1%	1%	1%	1%	1%
Other	5%	5%	6%	3%	5%

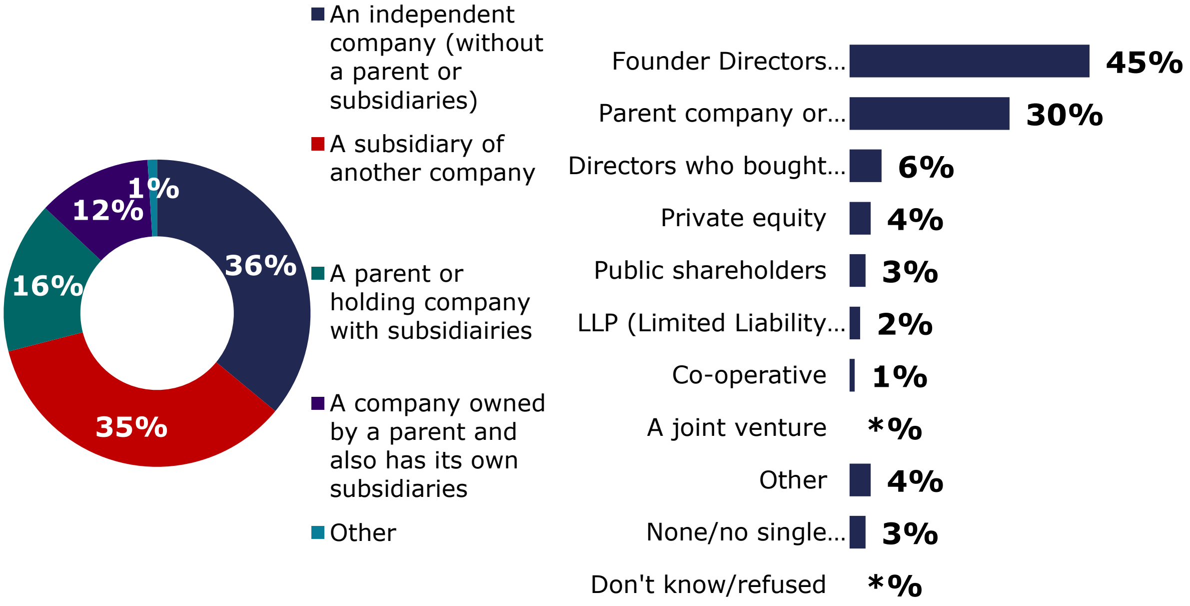
*Base: All respondents

- Private limited companies tended to have smaller turnovers (86% of those in the £10m to less than £25m band compared with 77% in the £100m to £500m band). By contrast, public limited companies tended to be more concentrated among larger businesses (14% with £100m to £500m turnover compared with 4% of the £10m to less than £25m band).

- There was some variation by sector: those in the construction sector (98%), manufacturing (91%) and the wholesale and retail trade and repair of vehicles sectors (91%) were especially likely to be private limited companies. Businesses in the ICT services sector (14%) were more likely than average to be public limited companies.

Just over one third (36%) of the businesses were independent (i.e. without a parent company or subsidiaries). Around half were subsidiaries of another company or owned by a parent but also had their own subsidiaries (47%). One in six was a parent or holding company with subsidiaries (16%).

Figure 3.2: Ownership



Base: All (1,012)

- Independent companies tended to have smaller turnovers than those that were subsidiaries or were parent companies, as can be seen in Table 3.7.

Table 3.7: Company ownership by turnover					
Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
An independent company (without a parent or subsidiaries)	36%	45%	30%	25%	16%
A subsidiary of another company	35%	32%	40%	37%	36%
A parent or holding company with subsidiaries	16%	13%	17%	21%	23%
A company owned by a parent and also has its own subsidiaries	12%	9%	13%	15%	22%
Other	1%	1%	1%	1%	2%
*Base: All respondents					

- There were also some key differences by sector. Those in manufacturing were more likely than average to be a subsidiary of another company (48%). Those in financial, insurance and property services (30%) were more likely than average to be a parent or holding company.

Just under half of the businesses (45%) were majority owned by founder directors or family, while 30% were majority owned by a parent company or group or subsidiary.

Table 3.8: Majority ownership by turnover					
Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Founder directors or family	45%	51%	41%	40%	27%
Parent company or group/subsidiary	30%	25%	33%	33%	42%
Directors who bought	6%	7%	5%	9%	3%
Private equity	4%	4%	4%	5%	7%
Public shareholders	3%	2%	5%	2%	7%
LLP	2%	2%	2%	3%	1%
Co-operative	1%	2%	2%	1%	0%
A joint venture	*%	*%	0%	1%	1%
Other	4%	4%	4%	3%	8%
*Base: All respondents					

- Once again there were differences by size. Founder director and family owned companies tended to be smaller in terms of turnover and staff numbers. Mid-sized businesses in the smallest turnover group (£10m to less than £25m) were twice as likely to be majority owned by a founder director or family than they were to be owned by a parent company, group or subsidiary (51% compared with 25%). In contrast, firms in the largest turnover group (£100m to £500m) were more likely than average to be majority owned by a parent company or group/subsidiary (42% compared with 30%) with only one in four (27%) of these large turnover businesses being majority owned by founder directors or family.

- There were also differences by sector. Construction (69%) and wholesale and retail trade and vehicle repair companies (58%) were also more likely than average to be family or founder owned. Manufacturing companies (42%) were more likely than average to be parent companies or subsidiaries.

3.6 Intellectual property and knowledge assets

Only 10% of mid-sized businesses reported holding intellectual property or other knowledge assets on their balance sheet.

Table 3.9: Holding intellectual property/knowledge assets by turnover

Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Yes, hold intellectual property/ knowledge assets	10%	7%	9%	13%	19%
No, do not hold intellectual property/ knowledge assets	90%	92%	90%	86%	81%
Don't know	1%	1%	2%	1%	1%
*Base: All respondents					

- The largest firms in terms of turnover (£100m to £500m) were more likely to hold intellectual property (19% compared with 10% overall).

- ICT companies were also more likely to hold intellectual property (24% compared with 10%).

Table 3.10: Holding intellectual property/knowledge assets by sector				
	Base*	Yes, hold intel-ectual property/ know-ledge assets	No, do not hold intel-ectual property/ know-ledge assets	Don't know
Base*	(1,012)	10%	90%	1%
Accommodation and Food Service Activities	(27)	3%	97%	0%
Agriculture, Forestry and Fishing; Mining and Quarrying; Utilities	(34)	5%	95%	0%
Business, Administrative and Support Service Activities	(59)	7%	92%	1%
Construction	(83)	10%	90%	0%
Education and Health	(42)	7%	93%	0%
Financial, Insurance and Property Services	(82)	4%	96%	0%
ICT services	(48)	24%	76%	0%
Manufacturing	(192)	9%	88%	2%
Professional, Scientific and Technical Activities	(82)	13%	87%	0%
Transport and storage (include. postal)	(56)	13%	86%	2%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	(254)	8%	91%	*%
Other Service Activities	(38)	8%	84%	9%
*Base: All respondents				

3.7 Export activity

Just over half (54%) of the mid-sized businesses exported goods or services outside of the UK. Of those who export, for 31% exports accounted for half or more of their sales.

Table 3.11: Proportion exporting out of the UK and proportion of sales made up of exports by turnover

Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Export goods out of the UK					
Yes	54%	51%	57%	55%	59%
No	46%	49%	42%	45%	41%
Don't know	*%	0%	*%	0%	0%
Base**	(532)	(232)	(139)	(90)	(71)
Percentage of business sales made up of exports					
Less than 50%	68%	72%	61%	69%	64%
50% or more	31%	28%	38%	29%	36%
Don't know	*%	0%	1%	2%	0%
*Base: All respondents; **All who export goods or services out of the UK					

- There were no significant differences by turnover. However, firms with 50-249 staff (58%) were significantly more likely than average to export, but firms with under 10 staff and those with at least 250 staff were both significantly less likely than average to export (38% and 45% respectively compared with 54% overall).

- There were key differences by sector in terms of export activity. Those in manufacturing (88%) and professional, scientific and technical activities (66%) were the sectors most likely to export. Construction (88%) and financial, insurance and property services (76%) companies were most likely not to export.

- Ownership had a significant effect on the likelihood of exporting: 65% of businesses majority owned by a parent company exported compared with 49% of those owned by founder directors or family. Those owned by a parent were more likely than average to have half or more of their sales accounted for by exports (39% compared with 26% of those owned by founder directors or family).

3.8 Credit score

Risk bandings based on credit scores provided by Experian was applied to the data for analysis. Just over half of the mid-sized businesses (54%) had a very low risk credit score with only 9% having a credit score of above average or high risk.

Table 3.12 overleaf shows credit score bands of mid-sized firms analysed by growth in the last 12 months: it can be seen that high-growth firms, that is, firms with growth of over 20% in the last year were more likely to have higher risk credit scores.

Table 3.12: Credit scores by growth in last 12 months					
Base*	All (799)	Grown by more than 20% (90)	Grown but by less than 20% (367)	Stayed the same (190)	Declined (146)
Very low risk	54%	34%	62%	47%	54%
Low risk	15%	14%	14%	18%	17%
Below average risk	17%	30%	13%	20%	17%
Above average/ High/Very high risk	9%	19%	7%	9%	8%
Other[2]	5%	3%	5%	7%	4%
*Base: All with a credit score appended					

- There were no significant differences on credit scores by whether the firm has intellectual property/knowledge assets.

- In terms of sector, those in the construction sector tended to have higher risk credit scores: just 18% of construction firms had a very low risk credit score, compared with 54% of all firms having a score in this band.

[2] This is made up of 'Risk Score Suppressed' and 'Dissolved/Serious Adverse Info'.

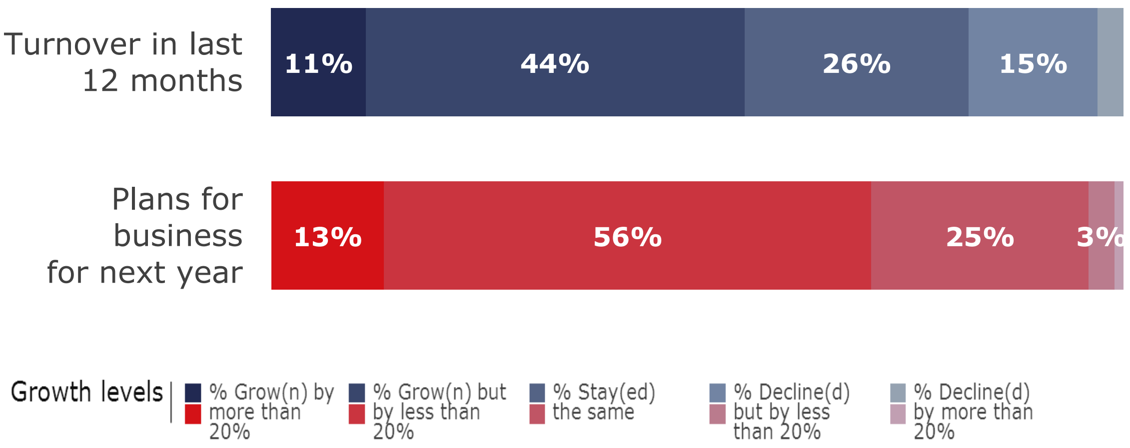
Table 3.13: Credit scores by sector						
	Base*	Very low risk	Low risk	Below aver-age risk	Above aver-age/ High/ Very high risk	Other
Base*	(799)	54%	15%	17%	9%	5%
Accommodation and Food Service Activities	(15)	73%	9%	9%	9%	0%
Agriculture, Forestry and Fishing; Mining and Quarrying; Utilities	(25)	61%	11%	11%	0%	17%
Business, Administrative and Support Service Activities	(48)	43%	15%	28%	13%	2%
Construction	(68)	18%	25%	33%	25%	0%
Education and Health	(29)	59%	17%	10%	7%	7%
Financial, Insurance and Property Services	(58)	48%	6%	16%	14%	16%
ICT services	(42)	53%	20%	4%	18%	4%
Manufacturing	(166)	61%	18%	13%	5%	4%
Professional, Scientific and Technical Activities	(58)	51%	12%	23%	9%	5%
Transport and storage (include. postal)	(47)	56%	15%	17%	2%	10%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	(207)	61%	13%	15%	7%	3%
Other Service Activities	(22)	69%	8%	8%	8%	8%
*Base: All with a credit score appended						

3.9 Business growth

Mid-sized businesses were experiencing recovery from the adverse economic conditions. Over half of mid-sized firms (55%) reported that their turnover had grown in the last 12 months, including 11% who said this growth was by more than 20%. Around one in five (18%) said their turnover had declined.

Mid-sized businesses tended to be more optimistic about the next year than their assessment of the year just passed. Seven in ten (70%) expected to grow (and 13% expected this to be by more than 20%) while one in twenty (5%) expected to decline. A quarter (25%) expected to stay roughly the same.

Figure 3.3: Past and future plans for growth



Base: All (1,012)

While the questions are not directly comparable, due to differences in wording, the more positive outlook on both past and future growth from the 2010 survey of mid-sized businesses was maintained in this latest survey.

Table 3.14: Past and future plans for growth in 2009, 2010 and 2013

Base*	2013	2010	2009
Grown in last 12 months	55%	54%	24%
Plan to grow in next year	70%	58%	37%
*Base: All respondents			

- As in the 2010 survey of mid-sized businesses, larger mid-sized businesses were more likely to have grown in the previous 12 months as illustrated in Table 3.15: 69% of those with turnovers of £50m to less than £100m had grown, compared with 52% of businesses with turnovers of £10m to less than £25m growing. However, businesses with the largest turnover of £100m to £500m were less likely than those in the next highest turnover group of £50m to less than £100m to have grown (57% compared with 69%).

Table 3.15: Turnover in the last 12 months by turnover					
Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Grown by more than 20%	11%	9%	13%	13%	12%
Grown by less than 20%	44%	42%	43%	55%	45%
Stay the same	26%	30%	23%	15%	25%
Declined but by less than 20%	15%	15%	17%	11%	13%
Declined by more than 20%	3%	3%	2%	3%	4%
Don't know/Refused	1%	*%	1%	1%	1%
Total Grown	55%	52%	56%	69%	57%
Total Declined	18%	18%	20%	15%	17%
*Base: All respondents					

- However, in contrast to the previous survey, those that had sought finance were also more likely to have grown (60% had grown).

- Furthermore those seeking finance to enter new markets were particularly likely to have grown (71%), as were those who sought it for capital expenditure (63% compared to 55% overall).

- Businesses in the £25m to less than £50m turnover bracket were more likely than average (and compared to the businesses with £100m to £500m turnover) to be expecting growth.

Table 3.16: Expectations for turnover in the next 12 months by turnover					
Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Grow by more than 20%	13%	13%	15%	14%	8%
Grow by less than 20%	56%	56%	60%	53%	56%
Stay the same	25%	26%	19%	24%	30%
Decline but by less than 20%	3%	3%	3%	6%	3%
Decline by more than 20%	1%	1%	1%	1%	1%
Sell it/pass it on/Close	*%	*%	0%	1%	1%
Don't know/Refused	1%	1%	2%	2%	2%
Total Grow	70%	69%	75%	67%	64%
Total Decline	5%	5%	4%	7%	4%
*Base: All respondents					

- Growing businesses were more likely to have higher investments in fixed assets, 73% of those with investments of £5 million or more and 63% of those with £1 million -£4,999,999 were growing, compared with 55% overall.

- Growing businesses were also more likely to be profit-making: 59% of those who made a profit in the last 12 months also grew in that time, compared with 29% of those who made a loss or broke even.

- There were few differences by what specific forms of finance the businesses currently use, though those using a unsecured or secured loan were slightly more likely that the average to have gown (61% compared with. 55%).

- Larger businesses in terms of employees were the most likely to have grown: 62% of those with at least 250 employees had grown, compared with 37% of those with fewer than 10 employees.

- There was also a relationship between having grown in the last year and expecting future growth: 80% of those who had grown recently expected more growth next year.

- There were some sub-group differences among the 11% of businesses that experienced high growth, of 20% or more, in the last 12 months. These businesses were more likely to be:

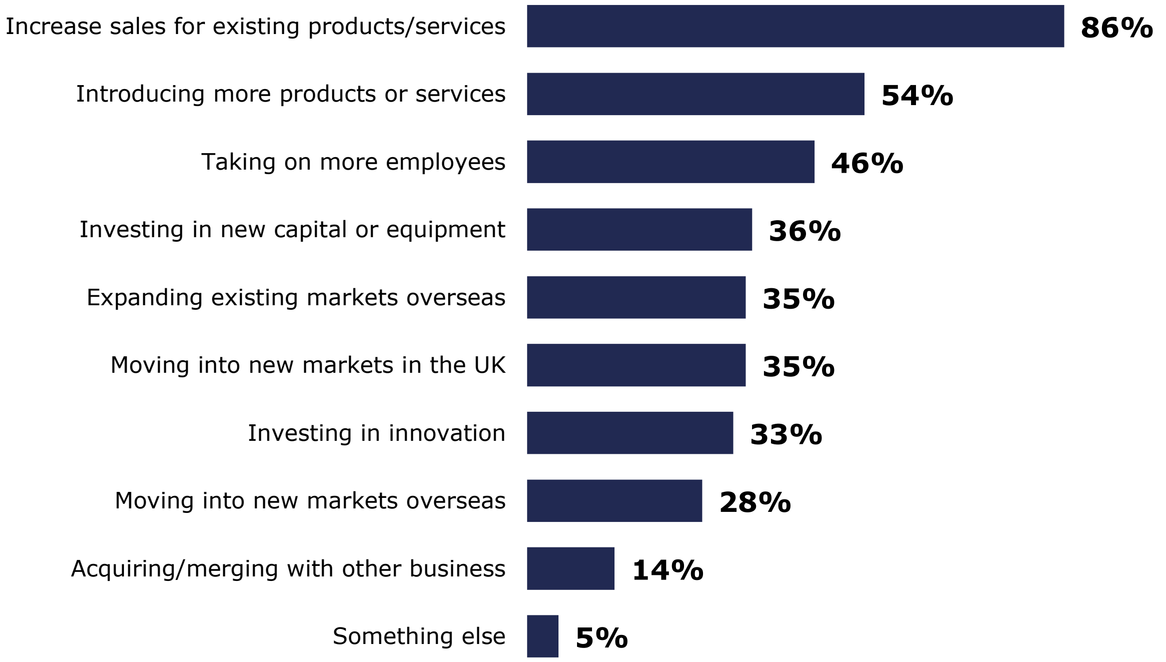
- Using equity finance (18%) as opposed to using an overdraft (7%) or leasing/hire purchase (10%).

- Those with turnover of £25m to 500m (13% compared to 11% overall).

- Exporting 50% of more of their sales (15% compared with 11% overall).

Of those who expected to grow, 86% planned to achieve this by increasing sales, as can be seen in Figure 3.4. However, a wide variety of means of growth were planned; just over half (54%) planned to introduce more products or services, and slightly less than half (46%) planned to take on more employees. Around one in three planned to invest in new capital or equipment (36%) or innovation (33%), or to move into new markets in the UK (35%) or overseas (28%), or expand existing overseas markets (35%).

Figure 3.4: Achieving growth[3]



Base: All who are planning to grow in the next year (701)

There were some key variations by sector:

- ICT services firms were more likely than average to achieve growth by introducing more products and services (74%), moving into new markets overseas (47%), or acquiring or merging with another business (30%).

- Businesses in the Professional, scientific and technical activities sector were more likely than average to take on more staff (73%) and expand existing or move into new markets overseas (47% and 42% respectively).

- Manufacturing companies were more likely than average to invest in new capital or equipment (51%), introduce more products or services (62%), expand existing markets overseas (54%) and invest in innovation (47%).

- Wholesale and retail trade and vehicle repair companies were more likely than average to seek growth by introducing more products and services (65%).

- Business, administration and support services firms were more likely than average to take on more staff (63%), expand existing markets overseas (57%), and invest in innovation (52%).

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[3] This question allowed respondents to select more than one response from the options read out.

In the survey there appeared to be less mention of the economic climate affecting growth or as a reason for not obtaining finance than in 2009 and 2010 surveys of mid-sized businesses. Indeed, the SME Finance Monitor (Q3, 2013) also reported a fall in the proportion of medium-sized businesses (50-249 employees) seeing the current economic climate as a barrier.

4. Current use and dependency on finance

Key Findings:

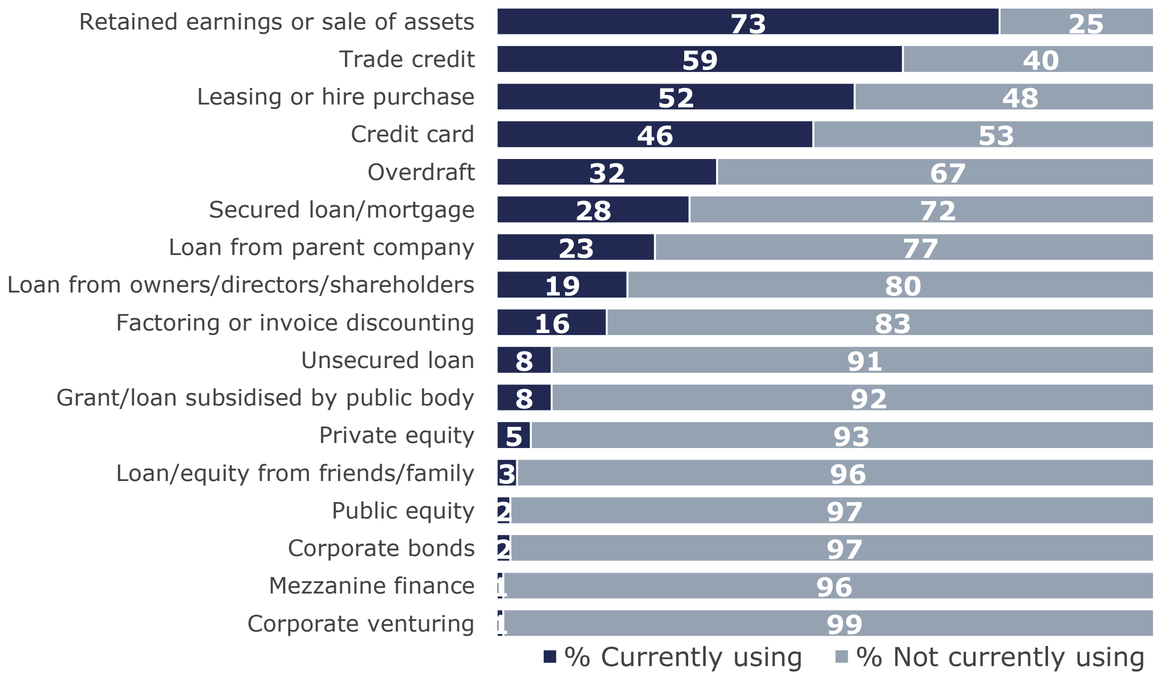
- This chapter examines current borrowing among mid-sized businesses and the types of external finance these businesses have sought in the last 12 months. It then provides an overview of the reasons for not seeking external finance and the appetite to use certain types of finance in the future.
- Retained earnings/sale of assets was the form of finance most widely used (73%), followed by trade credit (59%). Leasing or hire purchase was used by half (52%) of businesses and a similar proportion (46%) used credit cards.
- A range of different loan facilities were utilised, with a third (32%) using an overdraft, just over a quarter (28%) a secured loan/mortgage, around a fifth a loan from the parent company (23%) or owners/directors/shareholders (19%).
- Almost two-fifths (38%) of mid-sized businesses had tried to obtain new external finance or extend existing credit facilities in the past 12 months.
- The most common reason for needing new finance was for working capital/cash flow (61%), followed by capital expenditure such as investing in new machinery or new property or improving buildings (47%).
- Those more likely to seek finance for capital expenditure include companies with at least 250 employees (60% compared with 47% overall). Construction and retail companies were less likely to seek finance for capital expenditure (32% and 38% respectively).
- The most common form of finance sought in the last 12 months by all businesses was overdrafts (22%), followed by leasing or hire purchase (17%) and trade credit (13%).
- Most businesses who tried to access finance in the past 12 months (79%) did not use any third party help.
- The most common reasons for not trying to access external finance centered around a perceived lack of need, with happiness using internal finance being mentioned most often (74%). Other key reasons were being happy with existing external finance/lines of credit (52%) or not undertaking large investments (52%).
- Among businesses not currently using external finance, the appetite to use certain types was limited in many cases. There were higher levels of willingness to consider using leasing or hire purchase (42% were either very or fairly willing) than alternative forms of finance such as private equity (13%), public equity (4%), or mezzanine finance (6%).

4.1 Financing of day-to-day business operations

Retained earnings/sale of assets was the form of finance most widely used (73%), followed by trade credit (59%). Leasing or hire purchase was used by half (52%) of mid-sized businesses and a similar proportion (46%) used credit cards. A range of different loan facilities were utilised, with a third (32%) using an overdraft, just over a quarter (28%) a secured loan/mortgage, around a fifth used a loan from the parent company (23%) or owners/directors/shareholders (19%). Less commonly employed forms of loan finance were unsecured loans (8%) and loans/equity from friends/family (3%). On average businesses used approximately four different types of finance to fund their business.

The SME Finance Monitor (Q3, 2013) found that 74% of medium-sized businesses (with 50-249 employees) had used external finance in the past five years. Figures for specific forms of finance were mostly in line with this study, although leasing was notably higher among mid-sized businesses (52% compared with 35% in the SME Finance Monitor).

Figure 4.1: Use of finance



Base: All (1,012)

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Unlocking finance for smaller businesses

Use of different forms of finance is fairly similar to the 2010 and 2009 surveys of mid-sized businesses. With the exception of retained earnings/sale of assets (which was not asked about in the previous surveys), trade credit, leasing or hire purchase and credit cards were the most commonly used forms of finance.

Table 4.1: Use of finance in 2009, 2010 and 2013[4]

Currently using Base*	2013 (1,012)	2010 (401)	2009 (223)
Retained earnings or sale of assets	73%	n/a	n/a
Trade credit	59%	58%	n/a
Leasing or hire purchase	52%	51%	59%
Credit card	46%	56%	56%
Overdraft	32%	41%	46%
Secured loan/mortgage	28%	28%	33%
Loan from parent company	23%	n/a	n/a
Loan from owners/directors/shareholders	19%	24%	21%
Factoring or invoice discounting	16%	n/a	n/a
Unsecured loan	8%	7%	5%
Grant/loan subsidised by public body	8%	9%	9%
Private equity	5%	n/a	n/a
Loan/equity from friends/family	3%	2%	1%
Public equity	2%	n/a	n/a
Corporate bonds	2%	4%	2%
Mezzanine finance	1%	1%	4%
Corporate venturing	1%	n/a	n/a
*Base: All respondents			

- There was considerable variation in the types of finance used according to the nature of the business as shown in Table 4.2 below. Ownership structure was a key variable. Companies associated with a parent were more likely to use funding from their parent, while independents and businesses majority owned by founder directors/family were more likely to use forms of finance such as overdrafts and secured loans/mortgages.

[4] Comparative data is provided from the 2009 and 2010 surveys of mid-size businesses. Details of these surveys are provided in the introduction to this report.

Table 4.2: Use of finance by type of business					
Currently using Base*	Subsidiary (636)	Independent (363)		Majority parent owned (295)	Majority founder directors/ family owned (452)
Overdraft	27%	41%		19%	40%
Secured loan/mortgage	25%	31%		13%	32%
Factoring or invoice discounting	14%	20%		9%	21%
Loan from owners/directors/shareholders	17%	23%		11%	22%
Loan/equity from friends/family	2%	5%		*%	5%
Loan from parent company	34%	2%		45%	12%
Corporate bonds	2%	*%		1%	*%
*Base: All respondents					

- Company size was also an influence on the type of finance used. The largest companies were more likely to use more niche types of finance. Companies with a turnover of £100m to £500m were most likely to use corporate bonds (8%), public equity (6%) and mezzanine finance (4%).

- Conversely businesses with a turnover of £10m to less than £25m and £25m to less than £50m were more likely than larger companies with a turnover of £100m to £500m to use trade credit (61% each compared with 45%), and credit cards (49% and 48% compared with 31%).

- The smallest companies with a turnover of £10m to under £25m were more likely than the larger companies with a turnover of £100m to £500m to use loans from owners, directors or shareholders (21% compared with 11%) and overdrafts (33% compared with 24%). Also, companies with a turnover of £50mto under £100m were also more likely to use an overdraft compared with larger businesses (36% compared with 24%).

Table 4.3: Use of finance by turnover					
Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Retained earnings or sale of assets	73%	72%	77%	72%	74%
Trade credit	59%	61%	61%	56%	45%
Leasing or hire purchase	52%	53%	55%	45%	47%
Credit card	46%	49%	48%	42%	31%
Secured/unsecured loans	33%	32%	32%	33%	35%
Overdraft	32%	33%	31%	36%	24%
Loan from parent company	23%	20%	25%	24%	28%
Loans from owners/ directors/shareholders	19%	21%	18%	18%	11%
Factoring or invoice discounting	16%	15%	19%	14%	18%
Grant/loan subsidised by private body	8%	7%	10%	8%	7%
Private equity	5%	5%	8%	4%	4%
Loans/equity from friends/family	3%	3%	4%	2%	0%
Public equity	2%	1%	2%	0%	6%
Corporate bonds	2%	1%	2%	2%	8%
Mezzanine finance	1%	1%	*%	1%	4%
Corporate venturing	1%	1%	*%	0%	0%
*Base: All respondents					

- Turning to numbers of employees, firms with more employees tended to be more likely to use a range of different types of finance. Companies with at least 250 employees were more likely to use internal finance than other firms overall (81% compared with 73%), and were also more likely to use secured loans/mortgages than smaller companies (38% compared with 28%), as well as grants/loans subsidised by a public body (16% compared with 8%) and corporate bonds (6% compared with 2%).

- Companies with less than 10 employees were less likely to use credit cards (20%), an overdraft (19%), leasing or hire purchase (14%), while companies with 50-249 employees were more likely to use leasing or hire purchase (59% compared with 52%) and trade credit (63% compared with 59%).

The type of finance used also varied according to why businesses had sought new external finance in the past 12 months as shown in Table 4.4.

Table 4.4: Use of finance by reason for seeking finance			
Currently using Base	Sought finance for working capital/cash flow (237)	Sought finance for capital expenditure (187)	Sought finance to enter new markets (59)
Overdraft	69%	61%	59%
Secured loan/mortgage	48%	56%	43%
Leasing or hire purchase	60%	72%	56%
Factoring or invoice discounting	32%	21%	34%
Grant / loan subsidised by public body	11%	17%	17%
Corporate bonds	1%	4%	3%
*Base: All respondents			

- There were also a number of differences by sector. For example, financial, insurance and property service companies tended to use less mainstream forms of finance such as corporate bonds, while construction companies were greater users of credit cards and wholesale and retail firms were more likely to use overdrafts.

- ICT firms were more likely to use alternative forms of finance such as public equity and mezzanine finance.

Figure 4.2: Use of finance by sector			
Type of Finance	All (%)	More likely	Less likely
Trade credit	59	Wholesale and retail (67%)	Financial, insurance and property services (28%)
Leasing or hire purchase	52	Transport and storage (73%) Manufacturing (62%)	Financial, insurance and property services (35%)
Credit card	46	Construction (63%) Education and health (63%)	Financial, insurance and property services (30%)
Overdraft	32	Wholesale and retail (41%)	
Secured loan/mortgage	28	Agriculture, forestry and fishing (44%)	Professional, scientific and technical (17%)
Loan from parent company	23	Manufacturing (33%)	
Loan from owners/ directors/shareholders	19	Agriculture, forestry and fishing (33%)	Manufacturing (14%) Other service activities (6%)
Factoring or invoice discounting	16	Business, administrative and support service (27%) Wholesale and retail (23%) Manufacturing (22%)	Construction (7%) Financial, insurance and property services (3%)
Grant/loan subsidised by public body	8	Manufacturing (14%)	Wholesale and retail sector (3%)
Private equity	5	Manufacturing (9%)	Wholesale and retail (2%)
Public equity	2	Financial, insurance and property service (7%) ICT services (6%)	
Corporate bonds	2	Financial insurance and property service *11%)	
Mezzanine finance	1	ICT service (7%) Construction	

- Other variables linked to different forms of finance were growth, profitability, being listed, having equity, exporting and having intellectual property/knowledge assets.

Figure 4.3: Use of finance by other key variables

Type of Finance	All (%)	More likely	Less likely
Retained earnings or sale of assets	73	Making a profit (5%)	Running at a loss/break even (64%)
Trade credit	59	Plan to grow in the next 12 months (62%)	Plan to stay the same in the next 12 months (53%)
Credit card	46	Plan to stay the same in next 12 months (52%)	Plan to grow in the next 12 months (43%)
Secured loan/mortgage	28	Do not export/export less than 50% of their sales (29%) Grown in the last 12 months (31%) With equity (35%)	Export more than 50% of their sales (21%) Without equity (26%)
Loan from parent company	23	Running at a loss/break even (38%)	Making a profit (21%)
Loan from owners/directors/ shareholders	19	Do not export/export less than 50% of their sales (20%) With equity (31%) Grown 20%+ in the past 12 months (27%) Plan to grow more than 20% in the next 12 months (27%)	Export more than 50% of the sales (13%) Without equity (17%)
Factoring or invoice discounting	16	Plan to grow by less than 20% in next 12 months (18%)	
Unsecured loan	8	Grown 20%+ in the past 12 months (15%)	
Grant/loan subsidised by public body	8	Grown by less than 20% in the last 12 months (11%) Plan to grow by less than 20% in the next 12 months (9%)	
Private equity	5	With equity (42%) Intellectual property/ knowledge assets (13%)	Without equity (0%) No intellectual property/ knowledge assets (5%)
Loan/equity from friends/family	3	With equity (6%)	Without equity (3%)
Public equity	2	Listed firms (42%) With equity (14%) Intellectual property/ knowledge assets (6%)	Without equity (0%) Unlisted firms (0%) No intellectual property/ knowledge assets (1%)
Corporate bonds	2	Grown by less than 20% in the last 12 months (3%) Listed firms (8%)	Unlisted companies (1%) Without equity (1%)

- There were also some differences by the business' credit score. Those considered as above average risk were less likely to currently be using internal funds: 62% of those of above average or higher risk currently used internal funds, compared with 77% of those very low risk and 80% of those low risk.

Businesses with a poorer credit score (above average or higher risk) were also more likely than average to use loans from various alternative sources:

- Loan from a parent company (39% compared with 23%).
- Loan from owners/directors/shareholders (30% compared with 19%).
- Loan/equity from family/friends (nine per cent compared with three per cent).

By contrast, those considered as low risk were more likely to be using trade credit (68% compared with 59% overall).

Table 4.5: Loans from alternative sources by credit score

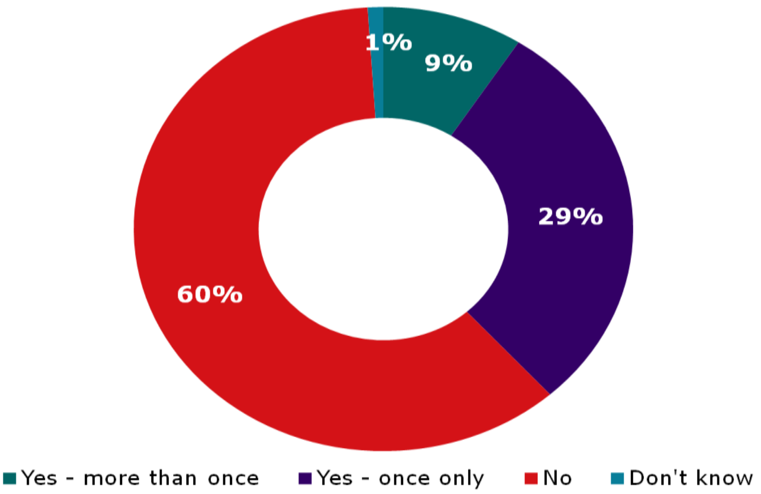
	All	Very low risk	Low risk	Below average risk	Above average/ High/ Very high risk	Other
Base*	(1,012)	(425)	(128)	(135)	(71)	(40)
Internal finance (i.e. retained earnings or sale of assets)	73%	77%	80%	70%	62%	87%
Trade credit	59%	60%	68%	58%	52%	61%
Loan from a parent company	23%	20%	21%	26%	39%	21%
Loan from owners/directors/ shareholders	19%	16%	24%	22%	30%	21%
Loan/equity from family/friends	3%	3%	5%	2%	9%	0%
*Base: All with a credit score appended						

4.2 Obtaining new external finance in the last 12 months

Almost two fifths (38%) of mid-sized businesses had tried to obtain new external finance or extend existing credit facilities in the past 12 months. While the majority (29%) sought new finance just once, 9% sought it more than once.

This was a similar proportion to mid-sized businesses seeking finance in the 2009 survey of mid-sized businesses (41%) and a significant increase from the 2010 survey (32%).

Figure 4.4: Obtaining new external finance in the last 12 months



Base: All (1,012)

- Three types of businesses were more likely to have sought external finance in the past 12 months; independents (45% compared with 34% of subsidiaries), businesses majority owned by founder directors/family (48% compared with 20% of parent owned companies) and firms with equity (48% compared with 37% of firms without equity).
- Businesses with a turnover of £25m to less than £50m were more likely to have sought new external finance more than once in the last 12 months than over businesses overall (14% compared with 9%).

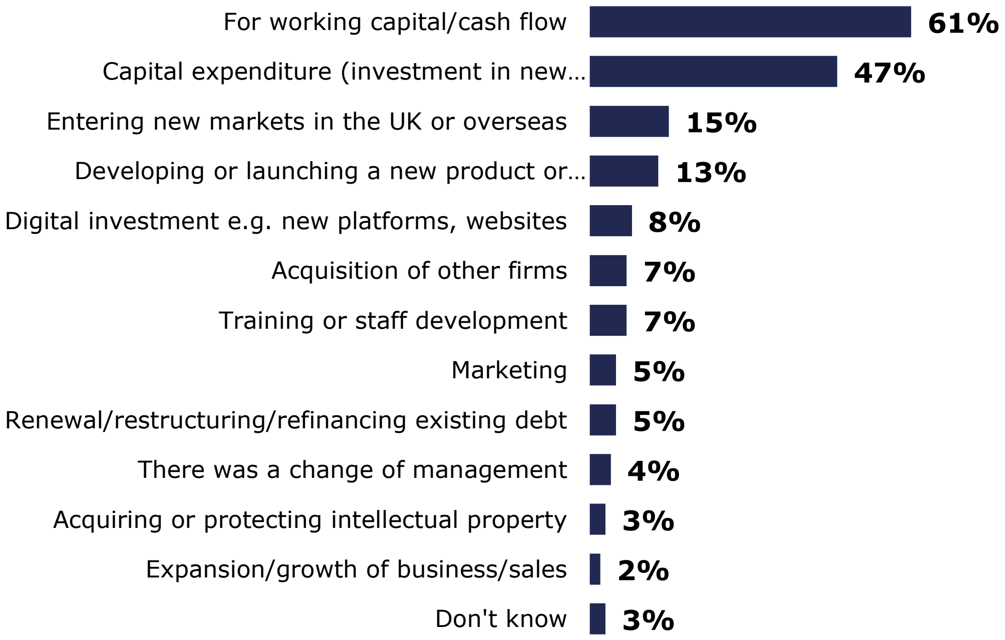
Table 4.6: Sought new external finance by turnover

Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Yes – more than once	9%	8%	14%	6%	7%
Yes – once only	29%	28%	30%	31%	30%
No	60%	62%	55%	60%	62%
*Base: All respondents					

4.3 Reasons for seeking new finance

As in previous studies, the most common reason for needing new finance was for working capital/cash flow (61% in 2013 compared with 69% in the 2010 survey of mid-sized businesses and 79% in the 2009 survey). This was followed by capital expenditure such as investing in new machinery or new property or improving buildings (47%). Many of the other reasons given were expansion or growth related (e.g. entering new markets, developing new products/services) or represented an investment in the business (e.g. digital investment, staff training, marketing). Only one in twenty mentioned refinancing (5%) or change of management (4%).

Figure 4.5: Reasons for seeking new finance[5]



All mentions below 2% excluded
Base: All who had tried to access finance in the last 12 months (400)

- There were some differences in responses on the basis of both growth and profitability. Businesses which had grown by more than 20% were more likely to have sought finance for marketing (16% compared with 5% overall). Conversely businesses that had declined were less likely to have sought finance to develop a new product or service (5% compared with 13% overall). Firms running at a loss/breaking even in the past 12 months were more likely to have sought finance for a change of management (10% compared with 4% of companies making a profit) and for acquiring or protecting intellectual property (12% compared with 3%).

- Other types of businesses which were more likely to seek finance to enter new markets were companies in the £25m to less than £50m turnover band (23%) and firms exporting more than 50% of their sales (28% compared with 13% of firms exporting less than this). Companies who export 50% or more of their sales were also more likely to mention seeking new finance for working capital/cash flow (76% compared with 50% of those who export less than this).Companies with at least 250 employees were more likely to mention capital expenditure (60% compared with 47% overall).

Other key differences were as follows:

- Construction and retail companies were less likely to seek finance for capital expenditure (32% and 38% respectively).

- Businesses holding intellectual/property assets were more likely than those without these assets to need new finance for marketing (15% compared with

[5] This question allowed respondents to select more than one reason from the options read out.

4%), a change of management (16% compared with 3%) and to acquire new intellectual property (17% compared with 2%).

- Firms majority owned by a parent were more likely than firms owned by founder directors/family to have sought finance for expansion/growth of business sales (6% compared with 1%), as were subsidiaries compared to independents (3% compared with 0%).

- There was also some evidence that those with higher risk credit scores were more likely to have sought finance for working capital: 55% of those rated very low risk required finance for this reason, compared with 81% of those with below average risk.

Table 4.7: Sought finance for working capital by credit score

Base*	All (400)	Very low risk (168)	Low risk (60)	Below average risk (61)	Above average/ High/ Very high risk (28)	Other (15)
Working capital/ cash flow	61%	55%	70%	81%	57%	71%

*Base: All who tried to access finance in the last 12 months with a credit score appended

Businesses who sought new finance for working capital/cash flow were asked why this was required. The time lag between cash going out and coming in was mentioned most often (24%), with a further 9% citing seasonal impacts on cash flow. The next most popular reason was growth/expansion of the business (14%). Other growth-related factors included an increase in sales (7%) and investing in improving the business (7%). Some of the other reasons were more defensive; an increase in overheads (12%) and poor sales/income to business (9%). Around one in eight (12%) mentioned renewal/refinancing of existing facilities.

- Again there were some key differences by business type. Businesses which had grown in the past 12 months were more likely to say growth/expansion of the business (19% compared with 5% of businesses which have declined). There was a similar pattern with businesses which were planning to grow, with 18% mentioning growth/expansion. Businesses that planned to grow by less than 20% were more likely to mention the time lag between cash going in and coming out (31%).

- Exporters were more likely than firms exporting less than 50% of their sales to mention growth/expansion of the business (24% compared with 11%) and increases in sales/business/turnover (18% compared with 5%).

- Subsidiaries were more likely than independents to cite stock increases (6% compared with 0%). However independents were more likely than subsidiaries to mention increase in overheads (18% compared with 8%), poor sales/income to business (15% compared with 5%) and bad debt (5% compared with 0%) – all reasons which are problematical for businesses.

4.4 Types of finance sought in the last 12 months

The most common form of finance sought in the last 12 months was an overdraft (22% of all mid-sized businesses), followed by leasing or hire purchase (17%) and trade credit (13%) as shown in Table 4.8. The order is similar to the types of finance currently being used, although trade credit and overdrafts have switched places.

Among the mid-sized businesses who sought finance in the last 12 months, some comparisons are provided to the 2009 and 2010 surveys. The proportion of businesses seeking different types of finance is fairly similar to the 2010 survey, although there has been an increase in 2013 of mid-sized businesses seeking leasing or hire purchase (similar to the proportion in 2009).

Table 4.8: Seeking finance in 2009, 2010 and 2013[6]

	2013	2013	2010	2009
	All businesses	All who sought finance in last 12 months		
Base*	(1,012)	(400)	(160)	(120)
Overdraft	22%	56%	60%	64%
Leasing or hire purchase	17%	44%	32%	47%
Trade credit	13%	35%	n/a	n/a
Secured loan/mortgage	13%	34%	31%	54%
Credit card	9%	24%	19%	21%
Factoring/invoice discounting	9%	23%	n/a	n/a
Unsecured loan	5%	13%	7%	12%
Loan from owners/directors/shareholders	5%	12%	n/a	n/a
Grant/loan subsidised by public body	3%	8%	n/a	n/a
Loan from parent company	3%	8%	n/a	n/a
Private equity	2%	5%	7%	4%
Loan from friends/family	1%	4%	n/a	n/a
Mezzanine financing	1%	3%	n/a	n/a
Corporate bonds	1%	2%	n/a	n/a
Public equity	*	1%	3%	7%
*Base: All respondents				

As was the case with the types of finance currently being used, there were significant differences in what finance was sought according to the nature of the business.

- Company ownership was one of the key variables where differences were seen. For example, companies majority owned by founder directors/family were more likely to have pursued an overdraft than parent owned firms (29% compared with 8%) Similarly, independents were more likely to have sought an overdraft (30% compared with 17% of subsidiaries) and less likely to have looked for a loan from a parent company (0% compared with 5%).

- Growth was another key factor. Companies that had grown by more than 20% in the past 12 months were less likely to have sought a secured loan (19%), and more likely to have pursued factoring/invoice discounting (16%), a credit card (15%), an unsecured loan (14%) or a loan from parent company (7%).

[6] This question allowed respondents to select more than one finance type from those read out. Comparative data is provided from the 2009 and 2010 surveys of mid-size businesses. Details of these surveys are provided in the introduction to this report.

Companies planning to grow by more than 20% were more likely to have sought factoring or invoice discounting (14%) or mezzanine finance (3%). Companies which ran at a loss or broke even were more likely than firms making a profit to have pursued factoring or invoice discounting (14% compared with 8%)

- There were some differences according to firms' reasons for seeking new finance. Overdrafts were more associated with companies requiring finance for working capital/cash flow, while secured loans and leasing/hire purchase were more closely linked to capital expenditure.

Table 4.9: Finance sought by reason for seeking finance

Base*	For working capital/cash flow (237)	Capital expenditure (187)	Entering new markets in the UK or overseas (59)
Overdraft	65%	56%	58%
Leasing or hire purchase	44%	59%	49%
Trade credit	40%	42%	57%
Secured loan/mortgage	30%	48%	37%
Factoring or invoice discounting	30%	19%	37%
Credit card	29%	28%	36%
Loans from owners/directors/shareholders	15%	13%	27%
Grant/loan subsidised by public body	8%	13%	12%
Loan from parent company	9%	7%	14%
*Base: All respondents			

There were also some differences by company size, sector and whether or not the firm was an exporter:

- Businesses with a turnover of £25m to less than £50m were more likely to have pursued leasing or hire purchase (22% compared with 17% overall) or factoring/invoice discounting (14% compared with 9% overall).

Table 4.10: Sought new external finance by turnover

Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Leasing or hire purchase	17%	16%	22%	16%	11%
Factoring/invoice discounting	9%	8%	14%	7%	7%
*Base: All who sought external finance					

- Companies with up to 9 employees were less likely to have sought an overdraft (6% compared with 22% overall). Companies with 250+ employees were more likely than average to seek secured loan/mortgage (20% compared with 13%), grant or loan subsidised by a public body (6% compared with 3%) and corporate bonds (3% compared with 1%).

- Companies in the agriculture, forestry and fishing sector were more likely to have sought a secured loan (38%) or trade credit (29%), manufacturing companies were more likely to have sought factoring or invoice discounting (13%) or a grant or loan subsidised by a public body (6%). Construction companies were more likely to have sought a secured loan (20%) or a loan from owners, directors or shareholders (13%) while companies in the wholesale and retail trade were more likely to seek an overdraft (27%). Companies in the transport and storage sector were more likely than average to have sought leasing or hire purchase (34%) or credit cards (23%).

- Companies exporting less than 50% of their sales were more likely than companies exporting 50% or more of their sales to have pursued leasing or hire purchase (18% compared with 9%).

4.5 Advice on seeking finance

Most businesses who tried to access finance in the past 12 months (79%) did not use any third party help. Among the fifth that sought advice, paid advice (13%) was slightly more popular than unpaid advice (9%).

The following businesses were more likely to have sought paid advice:

- Companies with a turnover of £100m-£500m were more likely to have sought paid advice (23% compared with 13%). A similar pattern emerged with firms with at least 250 employees (22% sough paid advice compared with 11% of smaller companies).

- Companies with a low risk credit score were more likely than companies with very low risk or below average risk (21% compared with 8% and 5%). Companies with very low risk scores were more likely to not take any advice (84% compared with 79% overall).

- Companies that have grown in the past 12 months were more likely than average to have sought unpaid advice (17% compared with 9%). While companies that plan to grow by more than 20% were more likely than average to have sought paid advice (24% compared with 13%).

- Companies seeking finance for capital expenditure (18%).

- Companies with equity (22%).

- Firms with intellectual property/knowledge assets (28%)

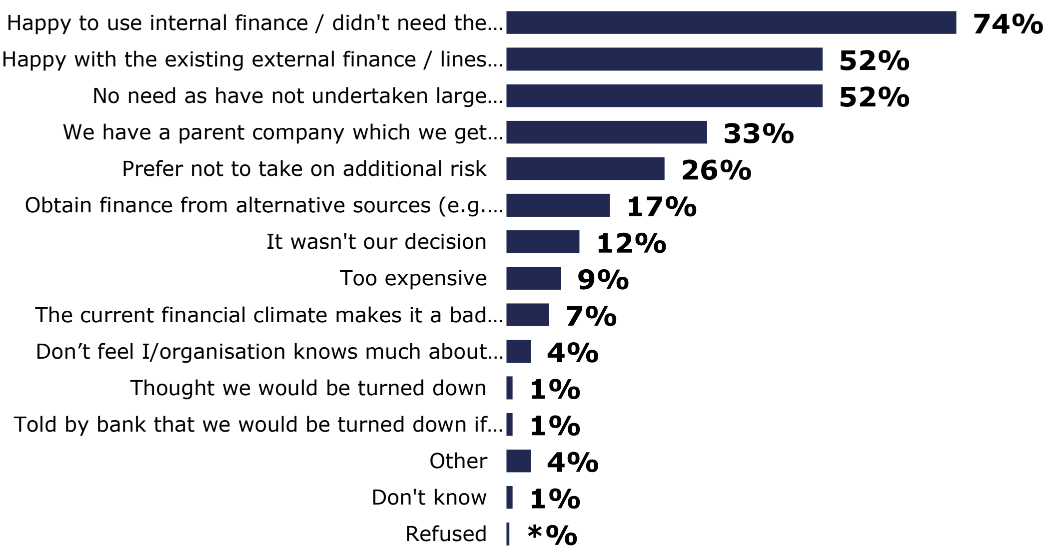
4.6 Reasons for not seeking finance

Turning to those businesses which did not try to obtain external finance in the last 12 months, the most common reasons centred around a perceived lack of need, with happiness using internal finance being mentioned most often (74%). Other key reasons were being happy with existing external finance/lines of credit (52%) or not undertaking large investments (52%). As in the previous surveys the findings suggest there was not significant numbers of businesses being discouraged from seeking finance. The majority simply did not have a need.

Some companies had sought alternative forms of finance, in particular funding from a parent company (33%) and finance from alternative sources such as directors (17%). Finance being too expensive (9%), the current financial climate (7%) and lack of knowledge (4%) were all mentioned less often. Fear of being turned down (1%) or being told they would be turned down (1%) accounted for a minority of decisions. Around one in eight (12%) said it wasn't their decision.

Again this is similar to the 2010 study when just 1% said they thought they would be turned down and a further 1% did not apply because they were told by their bank they would be rejected.

Figure 4.6: Reasons for not seeking finance in the last 12 months



Base: All who have not tried to obtain finance in the last 12 months (612)

- The reasons for not seeking new external finance varied according to the type of business. Ownership was one key factor. Subsidiaries were more likely than independents to say they get funding from a parent company (47% compared with 4%) and that it was not their decision (16% compared with 3%).

- Firms that made a profit in the past 12 months were more likely to be happy using internal finance (77% compared with 64% of firms running a loss/breaking even). Firms running at a loss or breaking even were also more likely to get funding from their parent company than firms making a profit (54% compared with 30%) and to say that they did not know what finance was available (9% compared with 3%).

- Businesses in the professional, scientific and technical activities sector were more likely to be happy to use internal finance (87%). Manufacturing companies were more likely to mention funding from a parent company (44%) and that it was not their decision (23%).

There were some other differences by type of business:

- Firms with a turnover of £10m to less than £25m were more likely to say they preferred not to take on additional risk (31%) or that it was too expensive (12%).

- Firms without equity were more likely to be happy using internal finance (75% compared with 63% of those with equity). Firms with equity were more likely to have been told by a bank that they would be turned down if they applied (5% compared with 1%).

- Reflecting that businesses with higher risk credit scores were more likely to currently use funding from a parent, these businesses were also more likely to say they had not sought finance in the last 12 months as they have funding from a parent (46% compared with 29% of those who are very low risk) or because they thought they would be turned down (5% compared with *% who are very low risk).

Table 4.11: Reasons for high risk companies not seeking finance by credit score

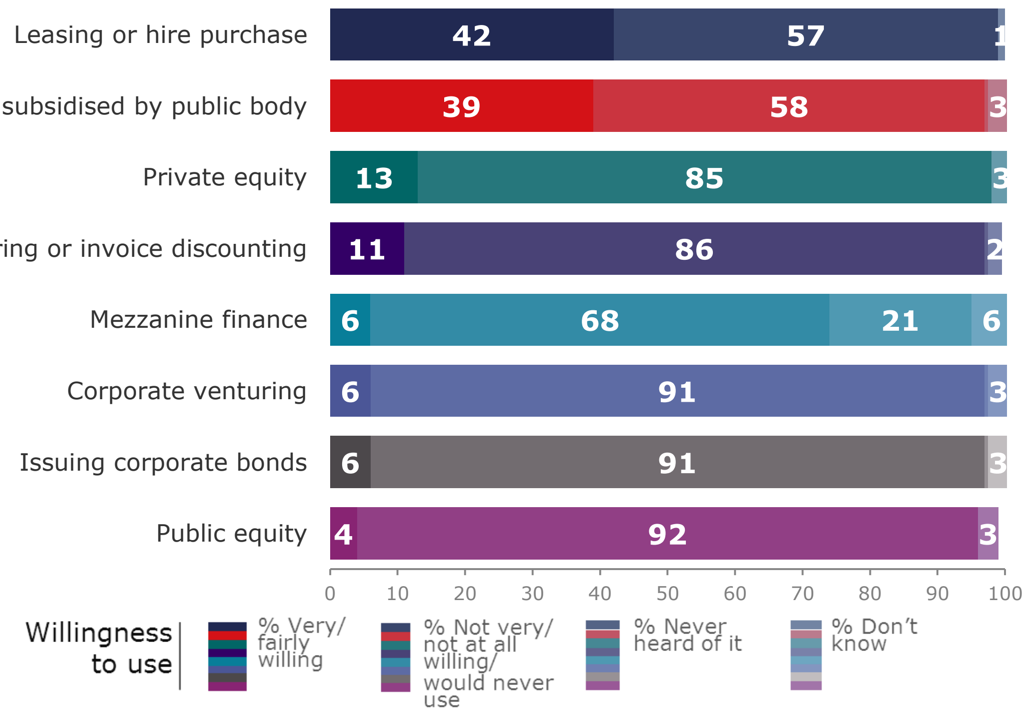
Base*	All (612)	Very low risk (257)	Low risk (68)	Below average risk (74)	Above average/ High/ Very high risk (43)	Other (25)
We have a parent company which we get funding from	33%	29%	37%	37%	46%	37%
Thought we would be turned down	1%	*%	0%	2%	5%	5%
*Base: All with a credit score appended						

Companies which said the decision not to seek external finance was not theirs were asked the reasons for this. The top reason given was parent company decision/funded (45%), followed by director/board/owner/HQ decision (17%), A further 14% said that it was not needed/required/company policy and 9% said that it was a group decision/structure.

4.7 Willingness to use external finance

Among businesses not currently using external finance, the appetite to use certain types was limited in many cases. Only one in twenty would be willing to use public equity (4%), corporate bonds (6%), mezzanine finance (6%) or corporate venturing (6%). Consideration levels were higher for private equity (13%) and factoring/invoice discounts (11%). With the exception of mezzanine finance, which 21% have never heard of, almost all have at least heard of each of these forms of finance. There was much greater willingness to consider using leasing or hire purchase (42% were either very or fairly willing) and a grant/loan subsidised by a public body (39%).

Figure 4.7: Willingness to use different types of finance



Base: All who do not currently use any alternative form of external finance (359)

There was not a great deal of variation in the propensity to consider different types of finance but the following differences were found:

- Manufacturing companies were less likely than average to be very or fairly willing to consider private equity (3%) but were more likely to be willing to consider a grant/loan subsidised by a public body (53%).

- Companies majority owned by founder directors/family were more likely than companies owned by a parent to consider a public grant/loan (42% compared with 28%).

- Companies with a turnover of £25m to under £50m were more likely to be willing to consider public equity (12%) and corporate venturing (11%).

5. Loans

Key Findings:

- This chapter examines mid-sized businesses that use and seek loans. It looks at why loans are required, the application process for the loan and whether any problems were experienced. Among mid-sized businesses that obtained a loan, an overview is provided of the terms and conditions of the finance.
- Approximately 33% of mid-sized businesses currently have a loan facility (28% have a secured loan and 8% have an unsecured loan). One in six of all mid-sized businesses had sought an unsecured or secured loan in the last twelve months (16%).
- As with loan finance more generally, businesses were most likely to have sought their most recent loan from their main bank (73%), while a further 12% obtained a loan from a bank or building society they have an account with.
- The most common reason for needing loan finance was capital expenditure (56%), followed by working capital/cash flow (42%).
- Businesses that sought finance for capital expenditure were more likely to have applied for a new loan in their most recent application (54% compared with 46% overall), and businesses that sought finance for working capital cash flow were more likely to have looked into renewing an existing loan on the same terms as before (25% compared with 17% overall).
- Among businesses seeking to fund a project or product with a loan, a quarter (27%) were seeking to fund all of it through a loan. A similar proportion (26%) were looking to fund 50% or less with the loan.
- Most of the businesses had all or some of their loan approved (89%). Around two-thirds (63%) reported no difficulties obtaining a loan, while 18% had all of it approved but with some problems. One in twelve (8%) had some, but not all, of the loan approved. One in twenty (5%) were refused the loan.
- Among businesses who were either turned down or received a smaller loan than they had applied for, insufficient security (15%) and the business sector/trading environment being too risky (14%) were the reasons given most often.
- Four in five firms offered loans in their recent application were offered a term of 10 years or under (77%), evenly split between those with a tenure of under 5 years and those with a tenure of 5 to 10 years (38% and 39% respectively).
- Four fifths (78%) of firms had to pay fees or charges to the bank to arrange the loan.
- Around three-fifths (58%) of businesses offered a loan were required to provide security and around two-fifths (42%) covenants. Business property (53%), a floating charge (30%) and stock or debtors (22%) were the most common types of security provided. The most commonly required covenants were information reporting requirements (77%) and financial covenants (71%).

5.1 Current use of loans

Approximately 33% of mid-sized businesses currently have a loan facility (28% have a secured loan and 8% have an unsecured loan).

Table 5.1: Proportion currently using loan finance by turnover

Base*	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Currently using					
Secured loan/mortgage	28%	28%	27%	27%	26%
Unsecured loan	8%	8%	9%	8%	10%
Total	33%	32%	32%	33%	35%
*Base: All respondents					

- Businesses with a low risk score were more likely to be using a secured loan (36% compared with 28% overall), although counter to what might be expected there were no significant differences by credit score among those who were using an unsecured loan.

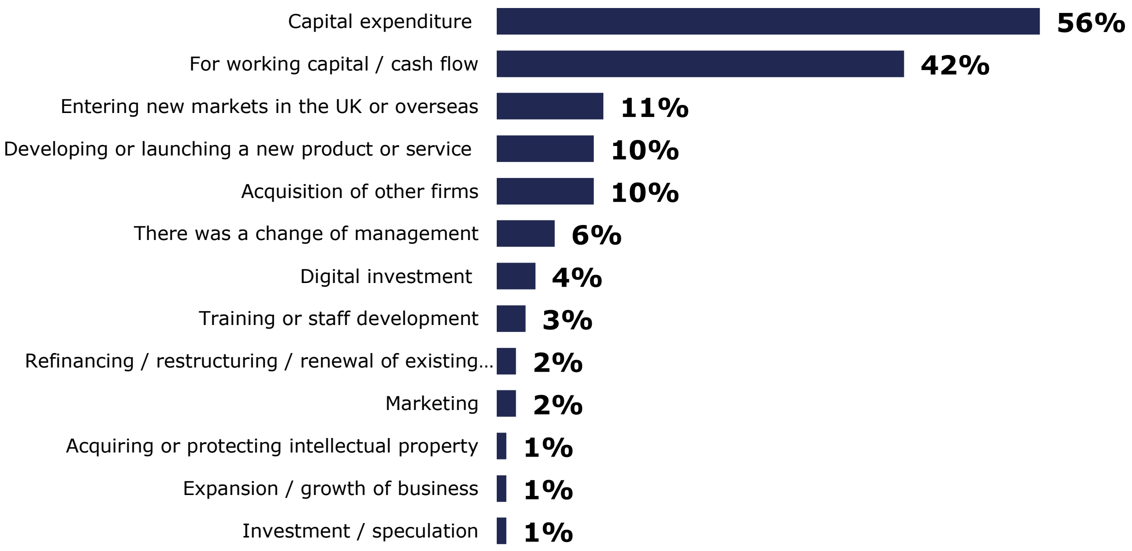
- Businesses who sought external finance in the last 12 months were more likely to have a secured (48% compared with 14% of those who had not sought finance) or unsecured loan (16% compared with 3%).

- Firms in the professional, scientific and technical activities sector were more likely to be using an unsecured loan (17%), as well as those who had grown by more than 20% in the last 12 months (15%).

5.2 Reasons for seeking loans

The most common reason for needing loan finance was capital expenditure (56%), followed by working capital/cash flow (42%).

Figure 5.1: Reason for seeking loan finance[7]



Base: All respondents whose firm is currently using a secured/unsecured loan (344)

- Those in the £25m to under £50m turnover band were more likely to require a loan for the purposes of capital expenditure (72% compared with 56% overall) and those in the £50m to under £100m band were more likely to state they required a loan to develop or launch a new product or service (17% compared with 10% overall).

Table 5.2: Top four reasons why needed loan finance by turnover

Base*	All (344)	£10m to less than £25m (161)	£25m to less than £50m (82)	£50m to less than £100m (57)	£100m to £500m (44)
Capital expenditure	56%	52%	72%	50%	54%
For working capital/ cash flow	42%	39%	50%	45%	43%
Entering new markets in the UK or overseas	11%	9%	13%	15%	8%
Developing or launching a new product/ service	10%	11%	6%	17%	5%
Acquisition of other firms	10%	8%	11%	11%	16%

*Base: All currently using secured/unsecured loan

- Businesses that had grown by less than 20% in the last 12 months (64% compared with 40% of those that have declined) and businesses majority owned by founder directors/family were more likely to require a loan for capital expenditure (59% compared with 40% of parent owned business).

[7] This question allowed respondents to select more than one reason from the options read out.

- Manufacturing businesses (55%) and subsidiaries (47% compared with 36% of independents) were more likely to have sought a loan for working capital/cash flow.

Around one in ten sought loan finance for the purposes of business expansion – entering new markets in the UK or overseas (11%), developing/launching a new product or service (10%) or acquiring other firms (10%). The following types of companies were more likely to give these reasons:

- Businesses that have grown in the past 12 months were more likely to have sought loan finance for the purposes of entering new markets (16%) and developing or launching a new product or service (13%).

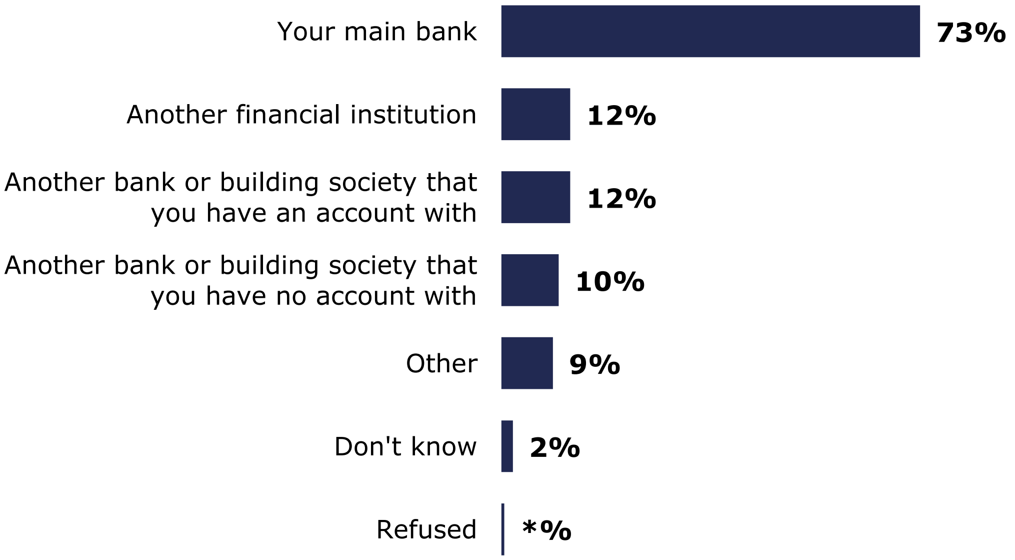
- Businesses in the £50m to £100m turnover band were more likely to mention developing or launching a new product or service (17%).

- Companies that have declined in the past 12 months were more likely to cite seeking loan finance because of a change of management (13% compared with 6% overall).

5.3 Source of loans

Most businesses currently using a secured/unsecured loan obtained it from their main bank (73%), while a further 12% obtained a loan from a bank or building society they have an account with. Around one in ten used another financial institution (12%) or a bank/building society they had no account with (10%).

Figure 5.2: Source of loan[8]



Base: All respondents whose firm sought a secured/unsecured loan in the last 12 months (177)

- Businesses with a turnover of £100 million to 500 million were more likely to use another bank that they had no account with than those with a turnover under £50 million (23% compared with 6% with a turnover of £10 to less than £25m and 8% with a turnover of £25 to less than £50m).

[8] This question allowed respondents to select more than one provider from those read out.

Table 5.3: Institution providing loan by turnover					
Base*	All (344)	£10m to less than £25m (161)	£25m to less than £50m (82)	£50m to less than £100m (57)	£100m to £500m (44)
Your main bank	73%	74%	75%	71%	66%
Another financial institution	12%	11%	11%	11%	18%
Another bank or building society that you have an account with	12%	11%	11%	13%	15%
Another bank or building society that you have no account with	10%	6%	8%	17%	23%
Other	9%	9%	9%	6%	9%
Don't know	2%	2%	0%	2%	5%
Refused	*%	0%	1%	0%	0%
*All currently using secured/unsecured loan					

- Businesses owned by founder directors/family were more likely to use their main bank (80%). While only 8% were using other institutions, this rises to 20% among businesses owned by a parent company.

5.4 Value of outstanding loans

Of those businesses with a loan facility, the total value of outstanding secured and unsecured loans varied considerably: 15% had outstanding loans of less than £100,000; at least a quarter (25%) had loans valued at £100,000-£999,999; 31% had outstanding loan of £1 million - £9,999,999 and 26% had £10 million plus.

Table 5.4: Total value of your business's outstanding loans*	
Less than £50,000	10%
£50,000 - £99,999	5%
£100,000 - £499,999	13%
£500,000 - £999,999	12%
£1 million - £1,999,999	12%
£2 million - £4,999,999	13%
£5 million - £9,999,999	6%
£10 million - £19,999,999	7%
More than £20 million	18%
Don't know	2%
Refused	2%
Base: All who currently using a secured/unsecured loan (344)	

*Excluding loans from friends, family, owners, directors, shareholders or from a parent company

- The value of outstanding loans was related to both turnover and number of employees. Broadly speaking, the larger the company, the larger the value of the outstanding loan. Companies in the lowest band turnover band (between £10m and less than £25m) were more likely to have outstanding loans of less than £1 million, a fifth had outstanding loans of less than £100,000 (20% compared with 15% overall), and three in ten had outstanding loans of between £100,000 and £999,999 (30% compared with 25% overall). Companies in the £25m to less than

£50m bracket were more likely to have outstanding loans of £1 million - £9,999,999 (47%). Companies with a turnover of £100m to £500m were more likely to have loans outstanding of £1 million or more (50% compared with 26% overall).

Table 5.5: Total value of outstanding loans by turnover					
Base*	All (344)	£10m to less than £25m (161)	£25m to less than £50m (82)	£50m to less than £100m (57)	£100m to £500m (44)
Less than £100,000	15%	20%	8%	11%	8%
£100,000-£999,999	25%	30%	22%	17%	10%
£1million - £9,999,999	31%	26%	47%	29%	22%
£10 million +	26%	20%	22%	34%	50%
*All currently using secured/unsecured loan					

- A similar pattern was seen with number of employees: Businesses with 10-49 employees were more likely to have loans of less than £100,000 (28% compared with 15%). Businesses with at least 250 employees were more likely to have loans outstanding of £10 million + (47%% compared with 26% of firms overall).

There was also a clear link between the value of the outstanding loan and reasons for seeking finance, with businesses seeking finance for working capital/cash flow tending to have lower value loans.

Table 5.6: Value of outstanding loan by reason for seeking finance			
Value of outstanding loan Base*	Overall (344)	Sought finance for working capital/cash flow (139)	Sought finance for capital expenditure (123)
Less than £100,000	15%	17%	8%
£100,000-£999,999	25%	30%	22%
£1million - £9,999,999	31%	30%	38%
£10 million +	26%	19%	29%
*All currently using secured/unsecured loan			

- Company structure was another key factor linked to the size of loans. Businesses majority owned by founder directors/family tended to have smaller amounts outstanding than businesses owned by a parent: Founder directors/family owned businesses were more likely to have loans outstanding of a value of £100,000-£999,999 (31% compared with 22%), and £1 million - £9,999,999 (36% compared with 25%). Founder directors/family owned businesses were less likely to have loans of £10 million plus (14% compared with 29%).

- Similarly, independents were more likely than subsidiaries to have outstanding loans of between £100,000 and £999,999 (31% compared with 20%) and less likely to have loans of at least £10 million outstanding (16% compared with 33%).

- Firms with equity were more likely than those without equity to have outstanding loans of more than £10 million (42% compared with 22%). Conversely firms without equity were more likely to have loans of £100,000-£999,999 (27% compared with 12%).

- There was not much of a relationship between the value of loans and growth in the past 12 months, but companies that have stayed the same were more likely to have outstanding loans of less than £100,000 (25% compared with 15% overall).

- There were some differences by sector. Companies in the manufacturing sector were more likely than average to have outstanding loans of less than £100,000 (23%) and of £1million - £9,999,999 (41%). Wholesale and retail companies were also more likely to have outstanding loans in the latter band (40%).

5.5 Seeking a loan in the last 12 months

One in six of all businesses had sought an unsecured or secured loan in the last twelve months (16%).

Table 5.7: Proportion sought loan finance by turnover

	All	£10m to less than £25m	£25m to less than £50m	£50m to less than £100m	£100m to £500m
Base*	(400)	(178)	(111)	(63)	(48)
Sought in last 12 months					
Secured loan/mortgage	34%	31%	35%	44%	40%
Unsecured loan	13%	13%	14%	11%	13%
Total	42%	38%	42%	53%	48%
Base**	(1,012)	(473)	(250)	(165)	(124)
All businesses					
Secured loan/mortgage	13%	11%	15%	17%	15%
Unsecured loan	5%	5%	6%	4%	5%
Total	16%	14%	18%	20%	18%
*Base: All whom tried to access finance in the last 12 months; **All respondents					

- Firms in the agriculture, forestry and fishing sectors (38%) and those in the construction sector were more likely to have sought a secured loan (20% compared with 13% overall) although this was not the case for unsecured loans.

- Founder director businesses were more likely than parents/subsidies to seek a secured loan (17% compared with 6%).

- Businesses that had grown more than 20% in the last 12 months were more likely to have sought both secured and unsecured loans (19% and 14% respectively).

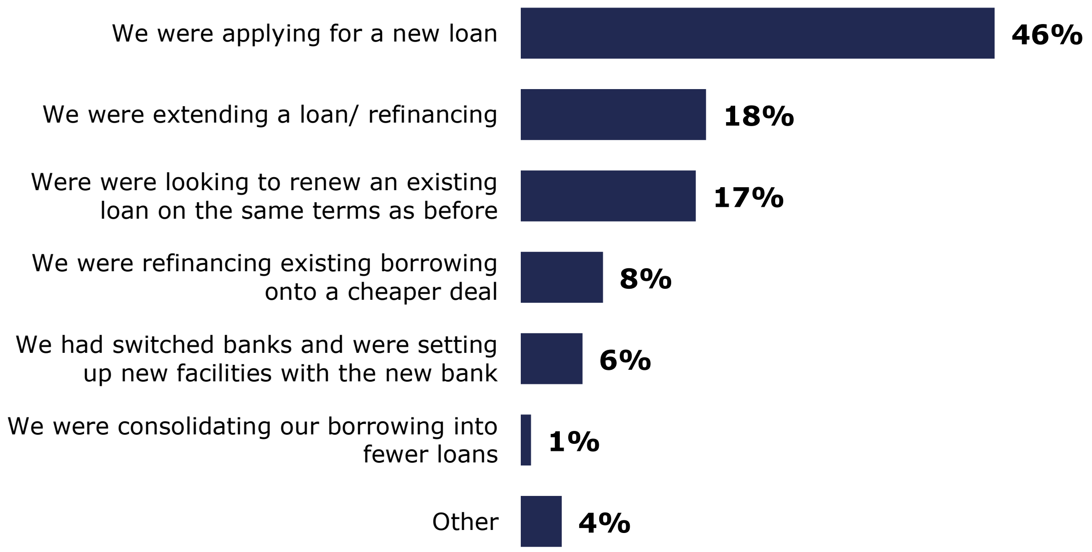
- There were no significant differences by credit score.

As with loan finance more generally, businesses were most likely to have sought their most recent loan from their main bank (74%). Less than one in ten sought a loan from another bank/building society they had an account with (7%) or no account with (6%) or another financial institution (4%).

- There were few differences by the main sub-groups, although firms in the wholesale, retail and motor vehicle sector were more likely to initially approach their main bank (87% compared with 74% overall). The same was true of businesses that plan to grow by more than 20% in the next 12 months (89%).

Almost half (46%) of the most recent loans sought were new. Just under a fifth were an extension/refinancing (18%) or renewal (17%) of existing loans.

Figure 5.3: Type of loan applied for



Base: All respondents whose firm sought a secured/unsecured loan in the last 12 months (177)

- Businesses that sought finance for capital expenditure were more likely to have applied for a new loan in their most recent application (54% compared with 46% overall), and businesses that sought finance for working capital cash flow were more likely to have looked into renewing an existing loan on the same terms as before (25% compared with 17% overall).

- Subsidiaries were more likely to refinance existing borrowing into a cheaper deal (12% compared with 8% overall).

Among businesses seeking to fund a project or product with a loan, a quarter (27%) were seeking to fund all of it through a loan. A similar proportion (26%) were looking to fund 50% or less with the loan.

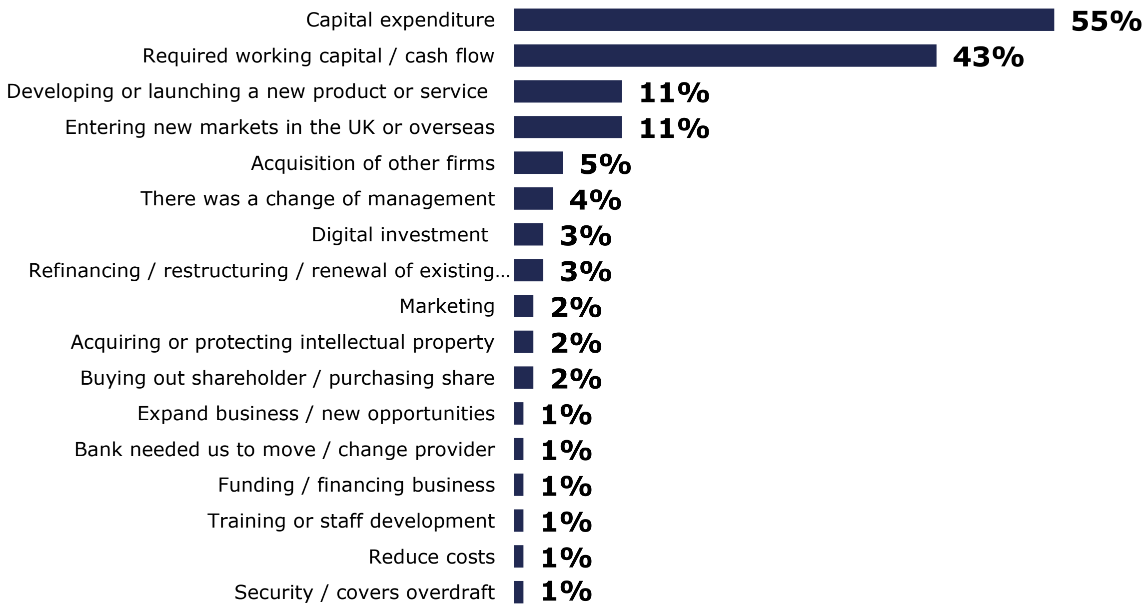
Table 5.8: Proportion of project or product sought to fund through a loan by turnover					
Base*	All (160)	£10m to less than £25m (63)	£25m to less than £50m (42)	£50m to less than £100m (32)	£100m to £500m (23)
All of it	27%	31%	26%	21%	25%
Less than all of it, but more than 75%	18%	23%	19%	3%	16%
51%-75%	24%	17%	31%	41%	17%
25%-50%	14%	16%	9%	19%	12%
Less than 25%	12%	11%	10%	9%	23%
Don't know	3%	2%	6%	4%	6%
*Base: All who sought to fund a project or product with a loan					

- Firms with a turnover of £10m to less than £25m were more likely to fund between 76%-99% with a loan compared with firms with a turnover of £50m to less than £100m (23% compared with 3%). Firms with turnovers of £50m to under £100m were more likely to fund between 51% and 75% with a loan (41% compared with 24% overall).

5.6 Reasons for seeking a loan in the last 12 months

Turning to why businesses had sought a loan in the last 12 months, the reasons were very similar to those who are currently using loans, with 55% mentioning capital expenditure and 43% working capital/cash flow.

Figure 5.4: Reason for seeking loan[9]



Base: All respondents whose firm sought a secured/unsecured loan in the last 12 months (177)

- Businesses with a turnover of £25m to less than £50m were more likely to have sought a loan for working capital or cash flow reasons (57% compared with 43%

[9] This question allowed respondents to select more than one reason from the options read out.

overall). Only 32% of businesses with a turnover of £15m to less than £25m had sought a loan for capital expenditure (compared with 55% overall).

Table 5.9: Top four reasons why sought loan finance by turnover					
Base*	All (177)	£10m to less than £25m (72)	£25m to less than £50m (46)	£50m to less than £100m (34)	£100m to £500m (25)
Capital expenditure	55%	49%	62%	60%	56%
Required working capital/ cash flow	43%	42%	57%	28%	39%
Developing or launching a new product/ service	11%	11%	13%	13%	5%
Entering new markets in the UK or overseas	11%	9%	18%	11%	4%
*Base: All who sought a secured/unsecured loan					

- Businesses with a very low risk score were significantly more likely than average to have sought a loan for capital expenditure (71% compared with 55%) and much more likely to not require it for working capital/cash flow (29% compared with 43%).

- Businesses seeking loan finance in the last 12 months for working capital/cash flow were more likely than average to be looking to renew an existing loan (25% compared with 17% overall). Conversely business seeking finance for capital expenditure were more likely to be applying for a new loan (54%).

5.7 Amount of loan applied for and obtained

Two-fifths of businesses (40%) applying for a loan sought an amount in the region of £1 million-£9,999,999, while 29% applied for an amount between £100,000-£999,999. Similar proportions (41% and 28% respectively) obtained loans in these brackets.

- Firms with a turnover of £10 to less than £25m were more likely to apply for loans in the region of £100,000 - £999,999 (39% compared with 29% overall). Larger firms with a turnover of £25 to £500 million were more likely to apply for loans of £10 million or more (32% compared with 18% of firms with a turnover of £10 to less than £25m).

Table 5.10: Proportion of loan finance applied for by turnover					
Base*	All (177)	£10m to less than £25m (72)	£25m to less than £50m (46)	£50m to less than £100m (34)	£100m to £500m (25)
Less than £100,000	3%	2%	2%	5%	0%
£100,000 - £999,999	29%	39%	33%	11%	4%
£1 million - £9,999,999	40%	36%	48%	48%	28%
£10 million or more	25%	18%	15%	30%	69%
Don't know	2%	2%	2%	0%	0%
Refused	2%	3%	0%	6%	0%
*Base: All who sought a loan in the last 12 months					

- Independents were more likely than subsidiaries to have applied for loans worth £100,000-£999,999 (40% compared with 20%) and were less likely to have applied for more than £10 million (13% compared with 34%). A similar pattern was seen in the loan obtained.

Although the amounts applied for and obtained were similar, a greater proportion of businesses obtained than applied for less than £50,000 (7% compared with 1%).

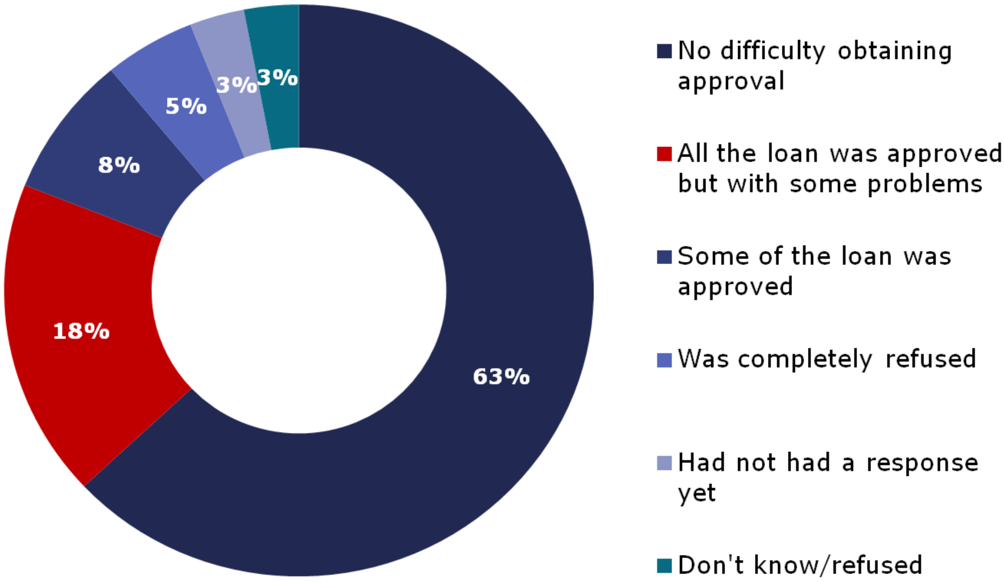
Table 5.11: Loan finance applied for and offered

Base:	Loan finance applied for in last 12 months (177)	Loan finance offered in recent application (162)
Less than £50,000	1%	7%
£50,000 - £99,999	1%	2%
£100,000 - £499,999	15%	15%
£500,000 - £999,999	15%	13%
£1 million - £1,999,999	13%	12%
£2 million - £4,999,999	19%	18%
£5 million - £9,999,999	8%	10%
£10 million - £19,999,999	10%	6%
More than £20 million	15%	13%
Don't know	2%	3%
Refused	2%	1%
*Base: All respondents		

5.8 Outcome of application

Most mid-sized businesses had all or some of their loan approved (89%). Around two-thirds (63%) reported no difficulties obtaining a loan, while 18% had all of their loan approved but with some problems. One in twelve (8%) had some, but not all, of the loan approved. One in twenty (5%) were refused any part of the loan. However, the proportion of mid-sized businesses that experienced *no difficulties* in their loan applications has significantly increased from 36% in 2009 to 50% in 2010 and 63% in 2013.

Figure 5.5: Outcome of the loan application



Base: All respondents whose firm sought a secured/unsecured loan in the last 12 months (177)

- There were no significant differences in obtaining loan finance by turnover, although businesses seeking finance for reasons other than working capital/cash flow, capital expenditure or entering new markets were more likely to have been refused (13%).

- There was no evidence that firms with a higher risk score are refused the loans they apply for, although firms with a very low risk score were more likely to have no difficulty obtaining approval (73% compared with 63% overall).

Table 5.12: Difficulty obtaining a loan by credit score					
	All	Very low risk	Low risk	Below average risk	Above average/ high/very high risk
Base*	(177)	(63)	(27)	(27)	(11)
You had no difficulty obtaining approval of the loan from this source	63%	73%	46%	58%	60%
All the loan required was approved but with some problems	18%	11%	23%	33%	30%
Some, but not all, of the loan required was approved	8%	8%	17%	5%	0%
You were completely refused any part of the loan from the source	5%	1%	0%	4%	9%
Don't know	2%	1%	7%	0%	0%
Refused	1%	0%	4%	0%	0%
Have not received a response on the loan yet	3%	5%	3%	0%	0%
*All who sought a loan in the last 12 months					

5.9 Reasons for difficulties

Mid-sized businesses who had all the loan approved but with some difficulties said this was because they were asked for more security/collateral (28%), had to supply further information (26%) or had delays such as waiting for decisions to be made or for valuations or legal work to be carried out (24%) or due to negotiating terms with the bank (21%). For 15% rising/high interest rates or charges were problematic.

Among businesses who were either turned down or received a smaller loan than they had applied for, insufficient security (15%) and the business sector/trading environment being too risky (14%) were the reasons given most often. Applying for too much (8%), a weak balance sheet (8%) and complex terms (8%) were among the other reasons given. The 'current economic climate' appeared to be more frequently reported in 2010.

Of the 13 respondents whose company was offered some but not all the loan applied for, six of them accepted a smaller facility with the same bank. Four businesses agreed a larger loan and one business a smaller loan with another bank while. Three injected personal funds into the business. One business decided to use trade credit rather than a loan to finance their project.

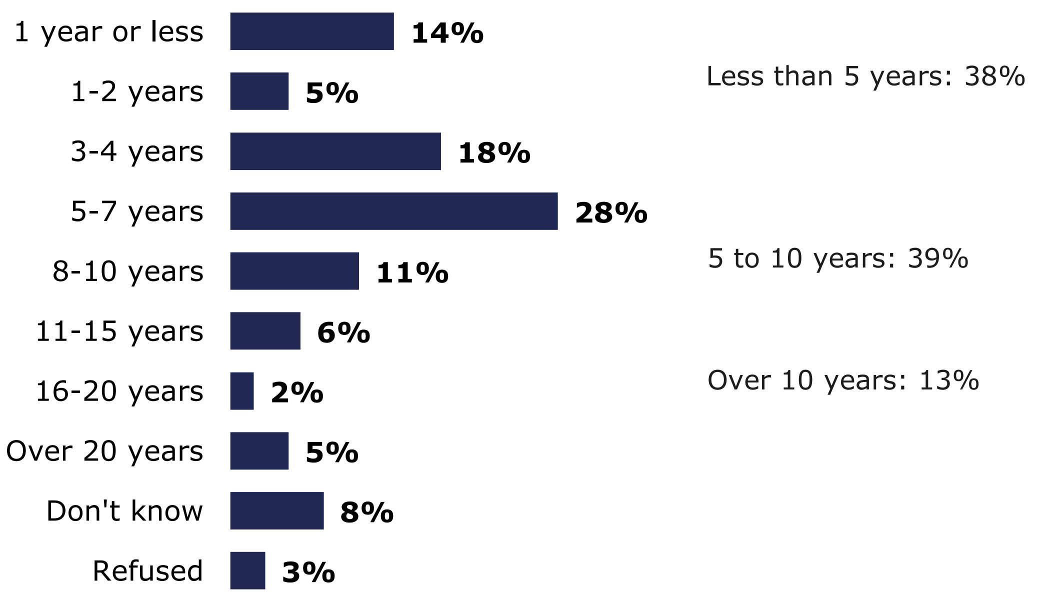
Among the nine respondents who were refused a loan, five of them talked to another bank and managed to agree a loan of the same size. Only one talked to the same bank and accepted a smaller loan. Another firm decided not to have a facility at all, while one injected personal funds into the business.

The businesses who were unable to raise some or all of the finance required reported cash flow issues (3 respondents) and cancelled/postponed investment (3 respondents) as a result of this. One business said the implication of not receiving the finance meant that they had lower sales and another mentioned they had to lay off staff. Two respondents reported using internal funds to make up for the shortfall.

5.10 Costs, terms and conditions

Four in five firms offered loans in their recent application were offered a term of 10 years or under (77%), evenly split between those with a tenure of under 5 years and those with a tenure of 5 to 10 years (38% and 39% respectively). Only 13% were offered a tenure over 10 years.

Figure 5.6: Tenure of the loan



Base: All respondents offered a loan in their recent application (162)

- Businesses which were offered a tenure of 1 year or less (21%) or between three and four years (26%) were more likely than average to have sought finance for working capital or cash flow reasons. While businesses that were offered a tenure of between 11 and 15 years were more likely than average to have sought finance for capital expenditure (10%).

Table 5.13: Top two reasons why sought loan finance by tenure				
Base*	All (177)	Less than 5 years (61)	5 to 10 years (64)	Over 10 years (22)
Capital expenditure	55%	33%	68%	79%
Required working capital/ cash flow	43%	70%	24%	15%
*Base: All who sought a secured/unsecured loan				

Most (87%) respondents obtained the term of loan they had sought. Among those who did not, equal proportions received a loan which was longer (7%) or shorter (6%) than they had originally sought.

A majority (56%) of businesses were offered loans on a variable rate. Equal proportions obtained a loan with the Bank of England base rate (43%) or LIBOR (44%) as the reference rate, while one in ten (10%) were offered the bank's own internal rate/another rate. Just over a fifth (27%) of businesses obtained loans less than 2 percentage points over the reference rate, while 67% obtained loans which were 2-6.99 percentage points over.

- There are no significant differences on turnover or credit score on the number of percentage points above the base rate.

A third (35%) of businesses obtained fixed rate loans. A third (33%) were offered a current overall interest rate below 3%, while half (47%) had a rate between 3-6.99%.

Four-fifths (78%) of firms had to pay fees or charges to the bank to arrange the loan. Almost nine in ten (86%) had to pay a one-off charge, while a fifth (20%) paid an on-going charge. One in twelve (8%) paid both.

- Businesses likely to try to obtain external finance in the next 12 months were more likely to pay an on-going charge than businesses that were not (27% compared with 12%) and less likely to pay a one-off charge (69% compared with 88%).

- There were no significant differences by credit score.

Under half (44%) of those who paid a one-off charge paid less than £20,000, while 41% paid £20,000 or more (including 25% who paid over £50,000).

- Businesses seeking finance for capital expenditure were more likely than average to pay a charge of less than £20,000 (54%). Subsidiaries were more likely than independents to pay a charge of over £20,000 (53% compared with 30%).

Around three fifths (58%) of businesses offered a loan were required to provide security and around two-fifths (42%) covenants. Three in ten (28%) needed to provide both.

Table 5.14: Provision of security and covenants by turnover

Base*	All (162)	£10m to less than £25m (68)	£25m to less than £50m (41)	£50m to less than £100m (31)	£100m to £500m (22)
Security	58%	52%	51%	75%	74%
Covenants	42%	33%	56%	40%	60%
No	20%	22%	21%	14%	18%
Don’t know	7%	9%	6%	3%	0%
Refused	2%	3%	0%	0%	0%

*Base: All whose firm was offered a loan in their recent application

- Companies with a turnover of £50 million to under £100 million (which, as discussed above, tended to apply for larger loans) were more likely to be asked to provide security (75% compared with 58% overall). Smaller companies with turnover over £25m to under £50m were more likely to be asked to provide covenants (56% compared with 42%).

- Subsidiaries were more likely than independents to be required to provide covenants (50% compared with 33%).

Business property (53%), a floating charge (30%) and stock or debtors (22%) were the most popular forms of security provided, followed by equipment/vehicles (13%) and directors/personal guarantees (13%). Mixed property (10%) and business securities or deposits (10%) were other common forms of security.

Figure 5.7: Security for loan[10]

Base: All respondents providing security (98)

- Parent or subsidiary companies were more likely than average to have a floating charge (39% compared with 30%).

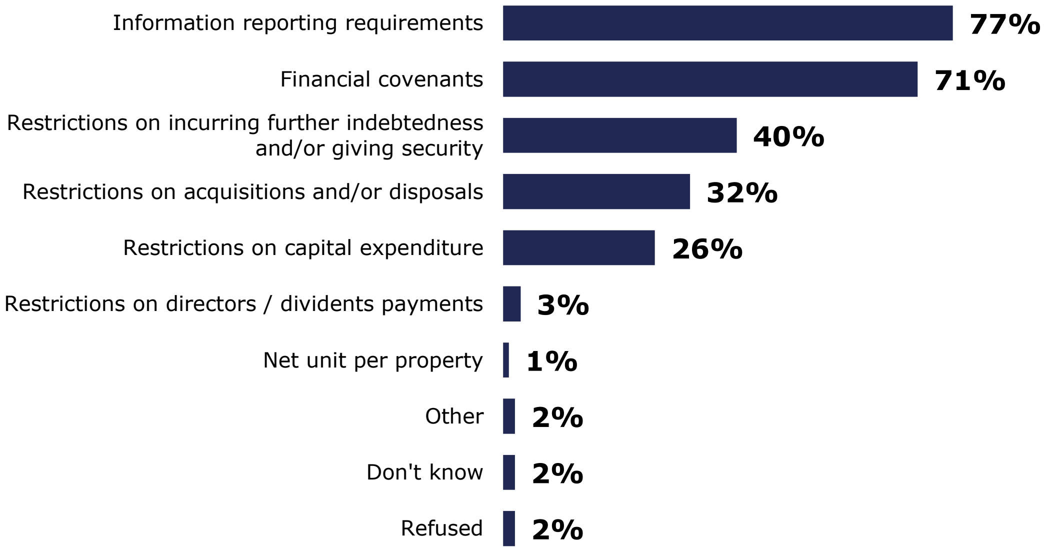
Half (52%) had to provide security worth 76% or more of the value of the total loan provided and for a third (35%), the value of the security exceeded the value of the loan.

Table 5.15: Value of security as a percentage of the total loan provided	
25% or less	5%
26%-50%	10%
51%-75%	19%
76%-100%	26%
Over 100%	35%
Don't know	3%
Refused	2%
Base: All that provided security (93)	

The most commonly required covenants were information reporting requirements (77%) and financial covenants (71%). Restrictions on further indebtedness and/or giving security (40%) and on acquisitions and/or disposals (32%) and capital expenditure (26%) were other conditions imposed.

[10] This question allowed respondents to select more than one type of security from the options read out.

Figure 5.8: Covenants provided for loan[11]



Base: All respondents with covenants built into the loan agreement (72)

[11] This question allowed respondents to select more than one type of covenant from the options read out.

6. Overdrafts

Key Findings:

- This chapter examines mid-sized businesses that use and seek overdrafts. It looks at why overdrafts are required, the application process for the overdraft and whether any problems were experienced. Among mid-sized businesses that have an overdraft, an overview is provided of the terms and conditions of the facility.
- Three in ten mid-sized businesses currently have an existing overdraft facility (32%).
- Almost all (98%) of businesses currently using an overdraft facility were provided with it by their main bank.
- Around one in five of all businesses had sought an overdraft in the last twelve months (22%).
- Most businesses (80%) applied for an extension of their existing overdraft facility in their most recent application, while 16% applied for a new overdraft. Among companies whose overdraft application was for an extension, 63% of these were an automatic renewal of their overdraft facility.
- By far the most common reason for applying for an overdraft was for working capital/cash flow (76%). The next most common reason was as a precautionary measure (30%).
- Most applications were for overdrafts worth between £100,000-£999,999 (42%) or £1 million-£9,999,999 (40%). The overdraft facilities obtained were generally in line with the amounts applied for.
- Seven in ten businesses had no difficulties (72%) obtaining an overdraft. One in ten (10%) obtained some but not all the overdraft required, while 8% obtained the overdraft required but with problems. One in twenty (6%) were unable to obtain any overdraft at all.
- Reasons for difficulties in obtaining all or some of the overdraft included insufficient or no security, weak balance sheet, bank policies, business sector/trading environment deemed too risky
- Of those who were offered less overdraft finance than they originally sought, most decided to take a smaller facility with the same bank or institution.
- Of the seven businesses whose initial approach was turned down, four decided not to have a facility at all, two injected personal funds into the business and one took the same size facility with another bank or institution.
- Most businesses (87%) had to pay fees to arrange their overdraft.
- Business property (44%) and stock or debtors (43%) were the most popular forms of security provided, followed by a floating charge (38%). Information reporting requirements (76%) and financial covenants (65%) were the most popular types of covenants provided.

6.1 Current use of overdrafts

Three in ten mid-sized businesses currently have an existing overdraft facility (32%).

Table 6.1: Proportion currently using overdraft finance by turnover					
	All	£10m to less than £25m	£25m to less than £50m	£50m to less than £100m	£100m to £500m
Base*	(1,012)	(473)	(250)	(165)	(124)
Currently using overdraft	32%	33%	31%	36%	24%
*Base: All respondents					

- Businesses with a turnover of £50m to less than £100m were more likely to currently use an overdraft than businesses with a larger turnover of at least £100m (36% compared with 24%).

- There were differences by company structure with independent companies also more likely to use an overdraft than parent or subsidiary companies (41% compared with 27%).

- There were no significant differences by credit score on using an overdraft to finance business operations.

6.2 Provider of overdraft facility

Almost all (98%) of businesses currently using an overdraft facility were provided with it by their main bank. Very few used an alternative bank or another financial institution (1%).

- As with loans, companies owned by founder directors/family were more likely than companies owned by a parent company to be using their main bank (99% compared with 95%).

6.3 Size of overdraft limit

Around half of businesses (47%) with an overdraft had a limit in the region of £100,000-£999,999, while two fifths (37%) had a limit of £1 million-£9,999,999.

- The amount of the overdraft limit was linked to company size. Businesses in the £10m to less than £25m turnover bracket were more likely to have limits of £100,000-£999,999 (59%), while business with a turnover of £25m to less than £50m and £50m to less than £100m were more likely to have limits of £1 million-£9,999,999 (49% and 59% respectively).

Table 6.2: Value of existing overdraft limit by turnover					
	All	£10m to less than £25m	£25m to less than £50m	£50m to less than £100m	£100m to £500m
Base*	(331)	(161)	(79)	(60)	(31)
Less than £100,000	5%	6%	4%	3%	8%
£100,000 to £999,999	47%	59%	36%	22%	19%
£1 million to £9,999,999	37%	27%	49%	59%	48%
£10 million or more	7%	5%	6%	10%	23%
Don't know	1%	0%	3%	5%	2%
Refused	2%	3%	1%	2%	0%
*Base: All who currently use an overdraft facility (331)					

- A similar pattern existed with number of employees, with companies with 10-49 employees being more likely to have an overdraft limit of £100,000-£999,999 (61%), while companies with at least 250 employees were more likely to have a limit between £1 million-£9,999,999 (59%).

- There were also differences by ownership. Companies who were not owned by a parent were more likely than companies owned by a parent as well as subsidiaries to have a limit in the region of £100,000-£999,999 (52% compared with 38% and 40% respectively).

A third (35%) of businesses currently using an overdraft facility were almost always overdrawn to some degree. At the other end of the spectrum, one in seven (14%) were overdrawn less than once a year/have the facility as a precautionary measure.

Table 6.3: Frequency of using overdraft facility in a typical year	
Almost always overdrawn to some degree	35%
Two to four times a month	13%
Once a month	7%
Once every couple of months	6%
Once every three or four months	11%
Once every 6 months	8%
Once a year	4%
Less often/just a precautionary measure	14%
Don't know	*%
Refused	*%
Base: All who currently use an overdraft facility (331)	

- There was a clear relationship between being almost always overdrawn and company growth in the past 12 months. Businesses which have stayed the same (46%) or declined (42%) were more likely to be almost always overdrawn to some degree compared to businesses which have grown (27%). Businesses which have sought finance for working capital/cash flow were also more likely to be almost always overdrawn (42%).

- Businesses with a below average risk credit score were more likely to be almost always overdrawn (48% compared with 35% overall). Furthermore, those with a very low risk score were more likely to use the overdraft less frequently (46% once every three months or less compared with 38% overall).

Table 6.4: Use of overdraft facility by credit score

Base*	All (331)	Very low risk (146)	Low risk (43)	Below average risk (47)	Above average/ high/ very high risk (20)
Almost always overdrawn to some degree	35%	26%	43%	48%	31%
Two to four times a month	13%	12%	18%	9%	36%
Once a month	7%	8%	5%	8%	15%
Once every couple of months	6%	7%	7%	0%	3%
Once every three or four months	11%	15%	3%	9%	4%
Once every 6 months	8%	12%	6%	4%	8%
Once a year	4%	4%	8%	4%	3%
Less often/just a precautionary measure	14%	14%	9%	14%	0%
Don’t know	*%	0%	0%	4%	0%
Refused	*%	0%	0%	0%	0%

*Base: All who currently use an overdraft facility

- Businesses which have sought finance in the last 12 months more than once were more likely to be almost always overdrawn (49%), while businesses which have not sought finance were more likely to have an overdraft as a precautionary measure (26%). A similar pattern was seen with businesses who were likely/not likely to try to obtain external finance in the next 12 months.

- Businesses in London were more likely to state they are always overdrawn to some degree than businesses in the South East (41% compared with 20%), and businesses in the South East were more likely than average to use their overdraft once a month (16% compared with 7%).

Turning to what proportion of the overdraft facility was typically used, just over half of businesses (56%) used 50% of it or less. This was evenly split between 0-25% and 26-50%. Just under two fifths (38%) used more than 50% of their facility, with 2% going over their limit.

Table 6.5: Proportion of overdraft facility typically used	
25% or less of your limit	28%
Between 26% and 50% of your limit	28%
Between 51% and 75% of your limit	26%
Between 76% and 100% of your limit	13%
More than 100% of your limit	2%
Don't know	4%
Refused	*%
Base: All who currently use an overdraft facility (331)	

- There were no significant differences by turnover on this measure, but businesses with a very low risk credit score were more likely than average to use 50% or less of their limit (71% compared with 56% overall).

6.4 Seeking an overdraft in the last 12 months

Over one in five of all businesses had sought an overdraft in the last twelve months (22%).

- Among businesses who had sought finance, larger businesses with at least £100m turnover were much less likely to have sought an overdraft in the last twelve months (14% compared with 22% overall).

Table 6.6: All who have sought overdraft by turnover					
Base*	All (400)	£10m to less than £25m (178)	£25m to less than £50m (111)	£50m to less than £100m (63)	£100m to £500m (48)
Sought overdraft in last 12 months	56%	60%	53%	62%	37%
Base**	(1,012)	(473)	(250)	(165)	(124)
Sought overdraft in last 12 months (all businesses)	22%	22%	23%	23%	14%
*Base: All whom tried to access finance in the last 12 months; **All respondents					

- Independent businesses were more likely than parents or subsidiaries to have sought an overdraft (30% compared with 17%).

- Wholesale and retail companies were more likely to have sought an overdraft than overall (27% compared with 22% overall).

- There were no differences by credit score on seeking an overdraft.

Most businesses (80%) applied for an extension of their existing overdraft facility in their most recent application, while 16% applied for a new overdraft.

- Businesses with a very low risk score were more likely to have applied for an extension to an existing facility (91% compared with 80% overall)

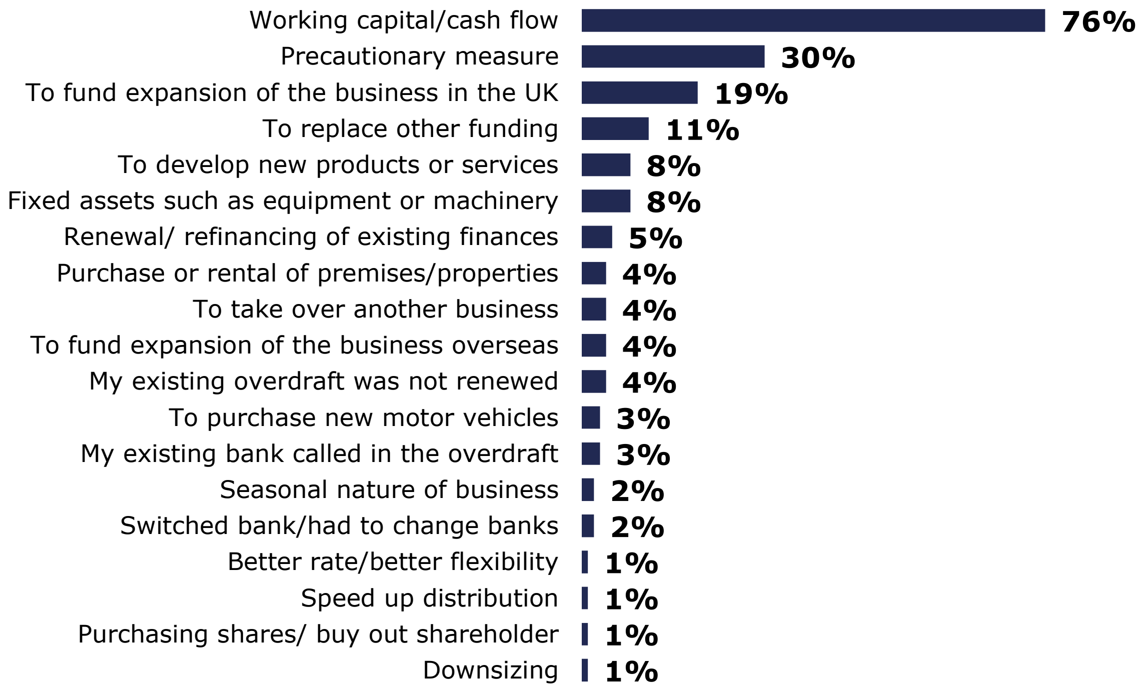
- Wholesale and retail companies were also more likely to have applied for an extension (88% compared with 80% overall).

Among companies whose overdraft application was for an extension, 63% of these were an automatic renewal of their overdraft facility without them having to do anything, rising to 69% of businesses which had grown in the past 12 months.

6.5 Reasons for seeking an overdraft in the last 12 months

By far the most common reason for applying for an overdraft was for working capital/cash flow (76%). The next most common reason was as a precautionary measure (30%). A fifth (19%) sought an overdraft to fund expansion of the business in the UK, while 4% did the same for overseas. Around one in nine (11%) sought an overdraft to replace other funding. Other reasons related to fixed assets (8%) and developing new products/services (8%).

Figure 6.1: Reason for seeking an overdraft[12]



Base: All respondents who applied for an overdraft in the last 12 months (113)

- Subsidiaries were more likely than independents to say they applied for an overdraft as a precautionary measure (40% compared with 21%).

- Businesses which have grown in the past 12 months were more likely to have applied for an overdraft as a precautionary measure (39%) and to fund expansion in the UK (27%).

- There were no significant differences on reasons for seeking an overdraft by turnover, but those businesses with a very low risk credit score were less likely

[12] This question allowed respondents to select more than one reason from the options read out.

than average to want to use an overdraft to replace other funding (2% compared with 11% overall). .

6.6 Amount of overdraft applied for and obtained

Most applications were for overdrafts worth between £100,000-£999,999 (42%) or £1 million-£9,999,999 (40%).

- Businesses with a turnover of £10m to under £25m were more likely than average to apply for an overdraft of between £100,000 and £999,999 (56% compared with 42% respectively).

Table 6.7: Value of overdraft applied for by turnover

	All	£10m to less than £25m	£25m to less than £50m	£50m to less than £100m	£100m to £500m
Base*	(113)	(51)	(29)	(18)	(15)
Less than £100,000	5%	6%	0%	5%	8%
£100,000 to £999,999	42%	56%	31%	17%	19%
£1 million to £9,999,999	40%	30%	55%	53%	53%
£10 million or more	7%	0%	10%	20%	20%
Don't know	1%	2%	0%	0%	0%
Refused	5%	6%	4%	5%	0%

*Base: All who applied for an overdraft in the last 12 months (113)

The overdraft facilities obtained were generally in line with the amounts applied for.

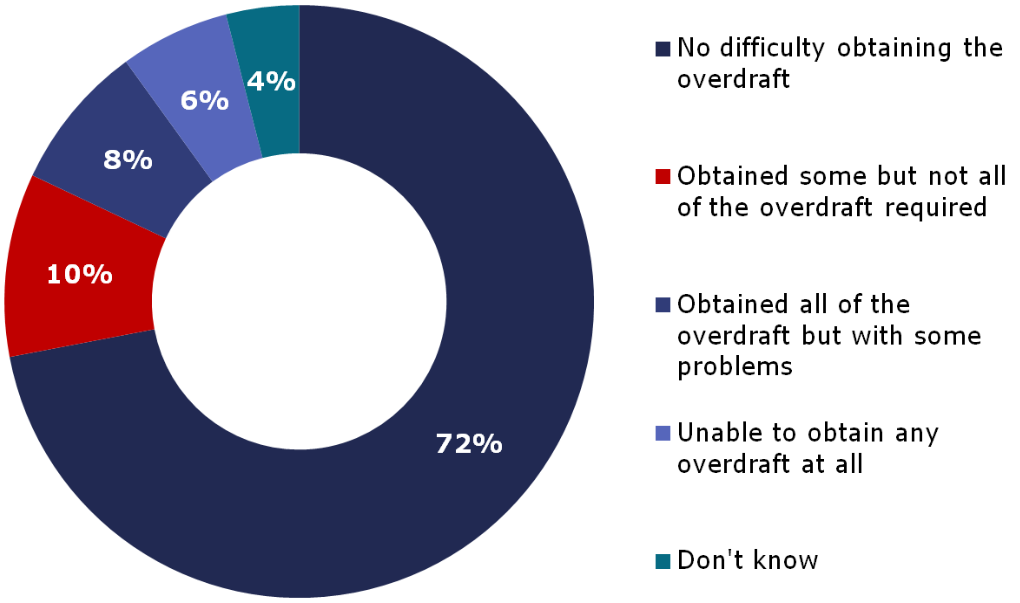
Table 6.8: Overdraft facility applied for and obtained

	Overdraft applied for in the last 12 months	Overdraft obtained
Base:	(113)	(103)
Less than £50,000	2%	4%
£50,000 - £99,999	3%	2%
£100,000 - £499,999	27%	31%
£500,000 - £999,999	15%	13%
£1 million - £1,999,999	16%	13%
£2 million - £4,999,999	18%	17%
£5 million - £9,999,999	7%	9%
£10 million - £19,999,999	5%	3%
More than £20 million	2%	2%
Don't know	1%	1%
Refused	5%	5%

6.7 Outcome of application

Seven in ten businesses had no difficulties (72%) obtaining an overdraft. One in ten (10%) obtained some but not all of the overdraft required, while 8% obtained the overdraft required but with problems. One in twenty (6%) were unable to obtain any overdraft at all.

Figure 6.2: Initial response from first source



Base: All respondents who applied for an overdraft in the last 12 months (113)

- Businesses with a very low risk credit score were more likely to have no difficulty obtaining the overdraft (85% compared with 72% overall).

Table 6.9: Use of overdraft facility by credit score

Base*	All (113)	Very low risk (41)	Low risk (19)	Below/ above average risk/ high/ very high risk (32)
You had no difficulty obtaining the overdraft	72%	85%	45%	70%
Obtained some but not all of the overdraft required	10%	5%	21%	10%
Obtained all the overdraft required but with some problems	8%	6%	10%	10%
Were unable to obtain any overdraft at all	6%	2%	13%	10%
Don't know	4%	2%	11%	3%

*Base: All who applied for an overdraft in the last 12 months

- Those who are likely to try to obtain external finance in the next 12 months are more likely to have obtained the entire overdraft required but with some problems (15% compared with 8% overall).

- Businesses seeking finance for working capital/cash flow were more likely to obtain some but not all of the overdraft they sought (15% compared with 10% overall).
- There were no significant differences by turnover or sector on this measure.

6.8 Reasons for difficulties

The following reasons were given for difficulties in obtaining all or some of the overdraft applied for:

- Insufficient security (7 mentions)
- Weak balance sheet (5 mentions)
- Bank policies (3 mentions)
- No security (3 mentions)
- Business sector/trading environment deemed too risky (3 mentions)
- External reasons/problems (3 mentions)

Nine businesses were offered less overdraft finance than they originally sought. Of these, six decided to take a smaller facility with the same bank or institution, two renegotiated and managed to obtain the same size facility with the bank while another took the same size facility with a different bank. One business injected personal funds into the business to make up for the shortfall offered.

Of the seven businesses whose initial approach was turned down, four decided not to have a facility at all, two injected personal funds into the business and one took the same size facility with another bank or institution.

6.9 Costs, terms and conditions

Interest rates on overdrafts offered in the most recent application were more likely to be variable (61%) than fixed (34%). A Bank of England base rate was the most common reference rate (59%), followed by LIBOR (26%) and the bank's own internal rate/other rate (12%).

A quarter (23%) of firms offered overdrafts with variable rates had an interest rate up to 1.99% above the base rate, while two thirds (64%) had rates between 2-4.99%. Only 1% were paying an interest rate of more than 5%.

- Those who have grown (but by less than 20%) were less likely to be charged 2-4.99% than overall (54% compared with 64%).

Two-thirds of businesses (67%) were required to provide security and/or have covenants built into their overdraft agreement. One-third (35%) were required to provide security, 14% covenants and 18% both security and covenants. A third (32%) of businesses did not have to provide any security or covenants.

Those more likely to have provided security or covenants (or both) were:

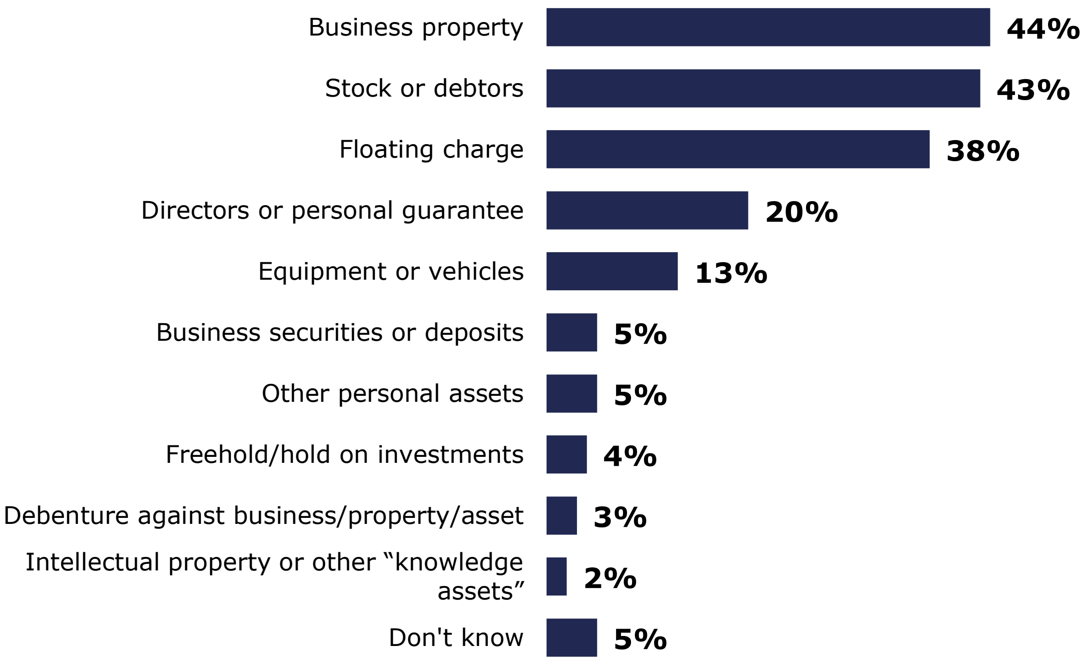
- Businesses with a turnover of £10m to less than £25m (77% compared with 67% overall).

- Those owned by a parent/subsidiary (77% compared with 55% of independent firms).

- Businesses with 50-249 employees (80% compared with 67% overall).

Business property (44%) and stock or debtors (43%) were the most popular forms of security provided, followed by a floating charge (38%) and directors/personal guarantees (20%) and equipment or vehicles (13%).

Figure 6.3: Security for overdraft[13]



Base: All respondents providing security (53)

Half had to provide security worth 76% or more of the value of the total overdraft provided (52%).

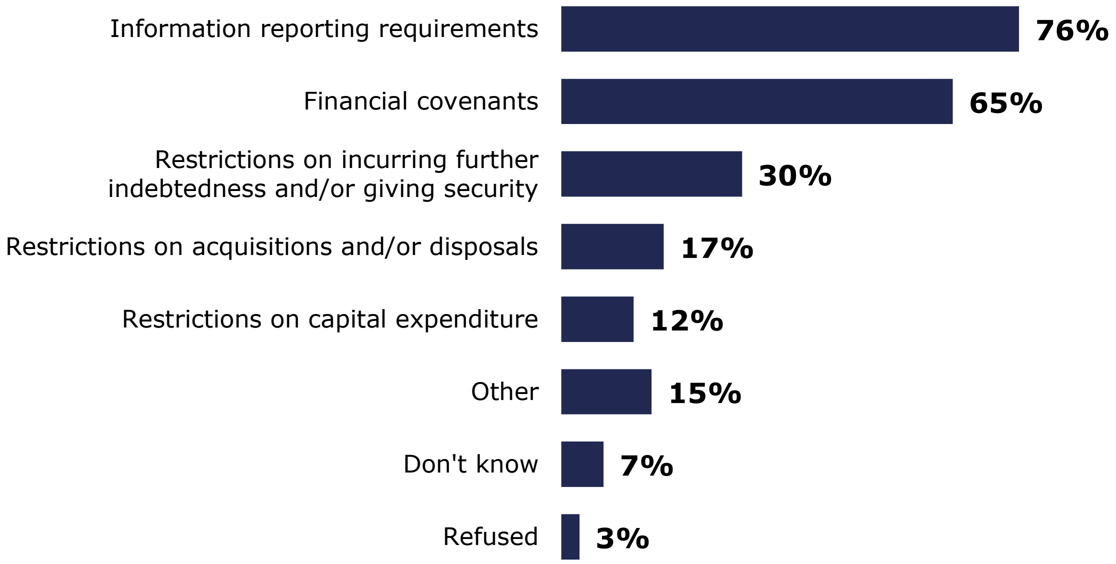
[13] This question allowed respondents to select more than one type of security from the options read out.

Table 6.10: Value of security as a percentage of the total overdraft provided	
25% or less	7%
26%-50%	13%
51%-75%	5%
76%-100%	22%
Over 100%	30%
Don't know	21%
Refused	3%
Base: All that provided security (53)	

- There were no significant differences by the main sub-groups.

Information reporting requirements (76%) and financial covenants (65%) were the most popular types of covenants provided, followed by restrictions on incurring further indebtedness and/or giving security (30%).

Figure 6.4: Covenants provided for overdraft[14]



Base: All respondents with covenants built into the overdraft agreement (33)

Most businesses (87%) had to pay fees to arrange their overdraft. Of those that did have to pay, most (60%) had to pay 1% or less of the value of their overdraft and only 1% paid more than 3% of the value.

[14] This question allowed respondents to select more than one type of covenant from the options read out.

7. Leasing and hire purchase

Key Findings:

- This chapter examines mid-sized businesses that use and seek leasing and hire purchase. It looks at the reasons for using this finance, the application process and whether any problems were experienced. Among mid-sized businesses that use leasing and hire purchase, an overview is provided of the terms and conditions of the finance.

- Around half of mid-sized businesses (52%) used leasing or hire purchase, while 17% had sought it in the previous 12 months. Following retained earnings and trade credit, this was one of the most popular sources of finance used by mid-sized businesses.

- Businesses with a turnover of £10m up to £25m, those with 50 or more employees, those in the transport and storage sector as well as those who needed finance for capital expenditure were more likely to have sought leasing or hire purchase compared to the average.

- Among businesses currently using leasing or hire purchase or who had sought these forms of finance in the last 12 months, more were using leasing (54%) than using hire purchasing (22%). A fifth (21%) was using both.

- Businesses tended not to finance all of their assets using leasing or hire purchase: 69% used it for 20% or less of their fixed assets.

- While a third (33%) arranged their leasing or hire purchase finance direct with the equipment manufacturer, a majority (58%) used another leasing provider and a fifth (21%) arranged this through a bank.

- Businesses most commonly used leasing or hire purchasing for cars or light commercial vehicles (accounting for 45% of businesses using these finance forms). One in three (33%) used this type of finance for commercial and heavy vehicles. This was followed by 24% who used leasing or hire purchasing for plant/machinery (24%) and office printers and photocopiers (20%). There was a similar distribution with equipment/assets sought with this type of finance in the last 12 months.

- The most common reason for using leasing/hire purchase was cash flow management (35%), followed by price (12%). Other key reasons related to the equipment itself and the perceived advantages of this type of finance – the type of equipment funded (12%), more flexibility (10%), ease of administration (9%) and keeping equipment up-to-date (8%) were all mentioned.

- Overall success rates were very high with 94% of mid-sized businesses who sought leasing or hire purchase having no difficulty or not being rejected.

- Those whose turnover had declined in the last 12 months were more likely to have had difficulties or been rejected for this type of finance.

7.1 Using leasing and hire purchase

- Leasing and/or hire purchase was used by around half (52%) of mid-sized businesses, and was sought by 17% in the last 12 months. These were among the most popular sources of finance used by mid-sized businesses, along with retained earnings and trade credit.

Table 7.1: Proportion currently using and have sought leasing/hire purchase finance by turnover

Base:	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Currently using leasing or hire purchase	52%	53%	55%	45%	47%
Sought leasing or hire purchase in last 12 months	17%	16%	22%	16%	11%

When it comes to having *sought* leasing or hire purchasing in the last 12 months:

- Table 7.1 above shows that twice as many businesses with £25m to less than £50m turnover had sought this finance in the last 12 months compared with businesses in the £100m to £500m bracket (22% compared with 11%).

- Businesses in the transport and storage sector were significantly more likely to have sought leasing or hire purchase compared with other sectors: 34% had done so.

- Firms that are not owned by a parent were more likely to have sought leasing or hire purchase than owned firms (21% compared with 12%).

- Those who don't export or have less than 50% of their sales to other countries were more likely to have sought leasing/hire purchase: 18% compared with 9% of those for whom exports made up 50% or more of their sales.

- There was no significant relationship between mid-sized businesses' credit scores and either currently using leasing and hire purchase or having sought it in the last 12 months.

Among businesses who were currently leasing or using hire purchase or who had sought it in the last 12 months, more were using leasing (54%) than using hire purchasing (22%). A fifth (21%) was using both.

Table 7.2: Proportion of those who use/have sought leasing or hire purchase using/sought either by turnover					
Base*	All (534)	£10m to less than £25m (257)	£25m to less than £50m (140)	£50m to less than £100m (77)	£100m to £500m (60)
Leasing only	54%	52%	59%	53%	58%
Hire purchase only	22%	23%	22%	23%	15%
Both	21%	22%	15%	22%	28%
*Base: All who currently use or have tried to access leasing/hire purchase finance in the last 12 months					

Of those who have used both leasing and hire purchase, 61% had used leasing most recently and 34% hire purchasing.

Among all of those currently using or who have sought leasing or hire purchase in the last 12 months:

- There were no significant differences by turnover.

- In terms of sector, firms in the wholesale and retail trade; repair of motor vehicles and motorcycles sector were more likely than the average overall to be using or have sought hire purchasing (29% compared with 22%). Those in the transport and storage sector were more likely to both lease and hire purchase (37% compared with 22% overall).

- Subsidiaries were more likely than independents to use or have sought leasing (60% compared with 45%) but less likely than independents to be using or have sought hire purchase (16% compared with 31%).

- The same pattern was true of parent owned compared to founder directors/family companies, with the former more likely to be leasing or to have sought it (74% compared with 40%) and less likely to be using or have sought hire purchase (8% compared with 32%).

7.2 Percentage of fixed assets funded

Among businesses using leasing or hire purchase, around seven in ten (69%) only used this to fund 20% or less of their fixed assets, while 27% used it for more than 20%.

Table 7.3: Percentage of fixed assets funded using leasing/hire purchase	
Up to 20%	69%
More than 20% to less than or equal to 40%	8%
More than 40% to less than or equal to 60%	7%
More than 60% to less than or equal to 80%	5%
More than 80%	7%
Don't know	3%
Refused	*%
Base: All who currently use leasing or hire purchase (520)	

- Subsidiaries were more likely than independents to have less than 20% of their fixed assets covered by leasing or hire purchase (75% compared with 59%).

- There was a similar pattern with companies owned by a parent (78%) who were more likely to have less than 20% of their fixed assets covered by leasing or hire purchase compared to companies owned by founder directors/family (60%).

- In terms of sector, construction companies were more likely to fund more than 20% of their fixed assets using leasing or hire purchase (47% compared with 27% overall). Manufacturing companies were less likely than average to fund more than 20% of their fixed assets using leasing or hire purchase (17%).

- Other companies which were more likely to have 20% or less of their assets covered were companies who export 50% or more of their sales overseas (82%) and companies with intellectual property/knowledge assets (83%).

7.3 Reasons for using leasing or hire purchase

Cash flow management was the most common reason for choosing to use leasing or hire purchase, cited by one in three (35%) of those using it. Other relatively common reasons included its price (12%), flexibility (10%) as well as that it was appropriate for that sort of equipment (12%).

- Once again there were differences by ownership, with independents (44%) and those not owned by a parent (39%) more likely to use it for cash flow reasons.

Table 7.4: Main reason for using leasing or hire purchase by ownership[15]					
Base*	All (528)	Owned by a parent (243)	Not owned by a parent (285)	Parent subsidiary (324)	Indep-endent (197)
Top six answers					
Cash flow management	35%	31%	39%	30%	44%
Price	12%	11%	14%	13%	11%
It was appropriate for that sort of equipment/all of that sort of equipment are funded that way	12%	12%	12%	13%	11%
Greater flexibility	10%	10%	9%	11%	7%
Ease of administration	9%	11%	8%	11%	7%
Helps keep equipment up to date	8%	9%	7%	9%	6%
*Base: All who currently use leasing or hire purchase (528)					

7.4 Source of leasing and hire purchase

Only one in five (21%) businesses using leasing or hire purchase did so through a bank. One in three (33%) leased or hire purchased directly from the equipment manufacturer, but a majority of three in five (58%) used another leasing provider.

- There were differences by sector: those in transport and storage were especially likely to have used a bank (36% did so compared with 21% overall).

- There also were differences by ownership: Table 7.5 shows that independents and those not owned by a parent were more likely to access leasing or hire purchase through a bank, whereas those owned or with a parent/subsidiary were more likely to use a provider other than a bank or direct from the manufacturer.

[15] This question allowed respondents to select more than one reason from the options read out.

Table 7.5: Source of leasing and hire purchase by ownership[16]					
Base*	All (528)	Owned (243)	Not owned (285)	Parent subsidiary (324)	Inde-pendent (197)
Through a bank	21%	16%	25%	16%	29%
Direct from the equipment manufacturer	33%	33%	33%	32%	36%
Through another leasing provider	58%	60%	55%	62%	50%
*Base: All who currently use leasing or hire purchase (528)					

- Those with founder directors or family directors were also more likely to use a bank (26% did compared with 21% overall).

- Those using a bank also tended to require the finance for entering new markets (39% of those requiring finance for this used a bank compared with 21% overall) and capital expenditure (34%) rather than for working capital (25%).

7.5 Outcome of application

The vast majority of firms that use or had sought leasing or hire purchase in the last 12 months were not rejected nor faced any difficulties in getting the finance: this applied to 94% of these firms, with 5% having difficulties or being rejected.

Table 7.6: Outcome of leasing or hire purchase application by growth in last 12 months				
Base*	All (180)	Grown (104)	Stayed the same (41)	Declined (35)
Not been rejected/had difficulties	94%	98%	94%	84%
Been rejected/had difficulties	5%	2%	6%	14%
Don't know	*%	0%	0%	2%
*Base: All who currently use or have tried to access leasing/hire purchase finance in the last 12 months				

- Those who were rejected or faced difficulties were not concentrated in a particular sub-group such as sector, though they were disproportionately likely to be companies whose turnover had declined in the last 12 months (14% of these companies were rejected or had difficulties compared to 5% overall).

- There was no significant relationship between a business' credit score and having difficulties or being rejected for leasing or hire purchase. It was the case though that of the ten mid-sized businesses that were rejected or had difficulties, four said that this was because of a poor credit score. A range of other reasons for being rejected were given, such as having a weak balance sheet and that the equipment they required was too specialised.

[16] This question allowed respondents to select more than one channel from the options read out.

There was a similar picture with those firms who had sought leasing or hire purchase finance in the last 12 months: 95% were successful in their application and 4% were not.

Table 7.7: Applications for leasing/hire purchase being successful by growth in last 12 months

	All	Grown	Stayed the same	Declined
Base*	(180)	(104)	(41)	(35)
Yes, successful	95%	97%	100%	86%
No, unsuccessful	4%	3%	0%	12%
Don't know	*%	0%	0%	2%

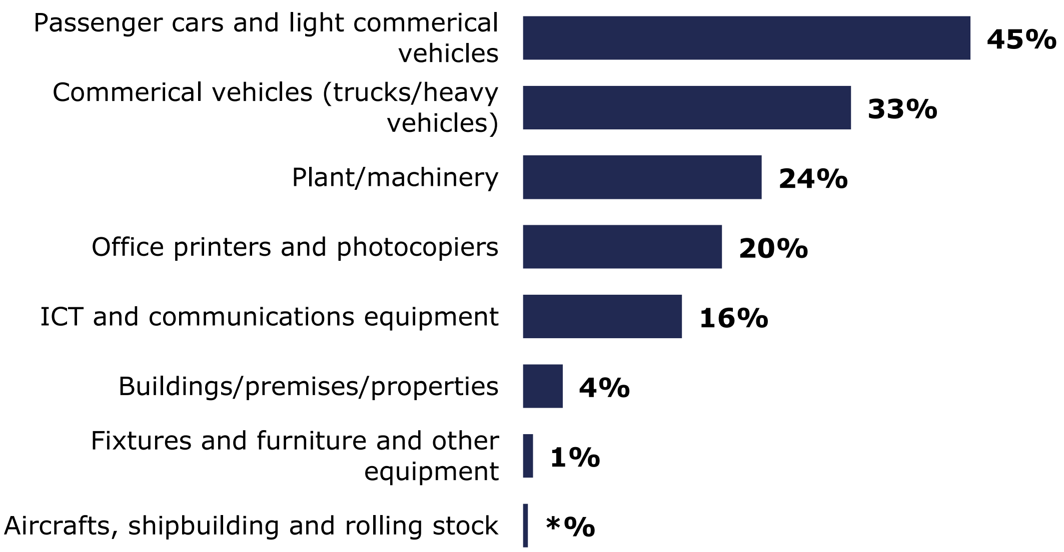
*Base: All who currently use or have tried to access leasing/hire purchase finance in the last 12 months

- The only significant pattern by sub-group was that those businesses whose turnover had declined the last 12 months were more likely to not be successful in their application (12% of firms that declined were turned down compared with 4% overall).

7.6 Equipment and assets leased or hire purchased

Cars and light commercial vehicles (45%) were the assets most commonly subject to lease or hire purchase agreements, followed by commercial and heavy vehicles (33%), as shown in Figure 7.1.

Figure 7.1: Equipment or assets leased or hire purchased[17]



Base: All currently using leasing or hire purchase (520)

There was some variation in the type of asset covered according to the nature of the business:

- Firms making a profit were more likely than those running at a loss to lease/hire purchase passenger cars/light commercial vehicles (48% compared with 31%).

[17] This question allowed respondents to select more than one response from the options read out.

- Companies majority-owned by founder directors or family directors were more likely to lease/hire purchase commercial vehicles (41% compared with 27% of parent owned companies).

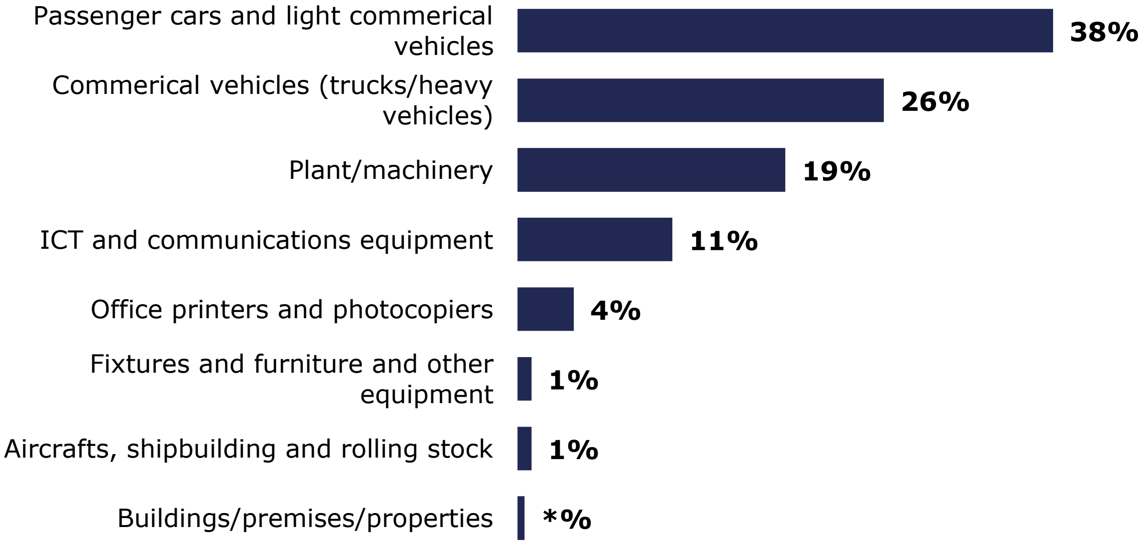
- Manufacturing companies were more likely to lease/hire purchase plant/machinery (40%), while wholesale and retail companies were more likely to use this finance for passenger cars/light vehicles (57%).

- Companies that export 50% or more of their sales were more likely to hire or lease office printers/photocopiers (33% compared with 18% of companies that export less than 50%) and buildings/premises/properties (10% compared with 3%).

- Companies with equity were more likely to lease/hire purchase ICT and communications equipment than those without (28% compared with 14%).

There was a similar pattern among those who have sought leasing or hire purchase in the last 12 months. Again vehicles are the most commonly sought assets from these forms of finance, 38% seeking passenger cars/light commercial vehicles and 26% commercial vehicles.

Figure 7.2: Equipment or assets sought via leasing or hire purchasing[18]



Base: All who have sought leasing or hire purchase in the last 12 months (520)

7.7 Time period of leasing and hire purchase agreement

More than four in five businesses (84%) had their leasing or hire purchase agreement over more than two years up to five years.

[18] This question allowed respondents to select more than one response from the options read out.

Table 7.8: Time period of the purchase agreement of those using leasing or hire purchase by turnover					
Base*	All (520)	£10m to less than £25m (250)	£25m to less than £50m (135)	£50m to less than £100m (75)	£100m to £500m (60)
Up to 2 years	8%	8%	6%	12%	5%
More than 2 years up to 5 years	84%	86%	85%	84%	72%
More than 5 years up to 10 years	4%	5%	3%	1%	8%
More than 10 years	1%	0%	2%	1%	10%
*Base: All leasing or using hire purchase to purchase equipment/assets					

- As can be seen in Table 7.8, purchase agreements of more than 5 years were more common among businesses with higher turnovers of £100m to £500m.
- Those in the manufacturing sector were especially likely to have a purchase agreement of more than 2 years up to 5 years (91% did so), while those in the transport and storage sector were significantly more likely to have an agreement of more than 10 years (6% did so).
- There was also a difference by the investment in fixed assets: 7% of those with assets of £5m or more had a purchase agreement of more than 10 years, compared to just 1% overall.

7.8 Value of assets leased or hire purchased

One-third (33%) of those currently using this finance, leased or hire purchased equipment or assets of £100,000 up to less than £500,000 and one in five (21%) £500,000 or more. Only one in twelve (8%) had leased or hire purchased equipment or assets worth less than £10,000.

Table 7.9: Value of assets leased/hire purchased by turnover					
Base*	All (520)	£10m to less than £25m (250)	£25m to less than £50m (135)	£50m to less than £100m (75)	£100m to less than £500m (60)
Less than £10,000	8%	9%	8%	4%	4%
£10,000 to £49,999	25%	26%	25%	20%	21%
£50,000 to £99,999	12%	13%	9%	20%	5%
£100,000 to £499,999	33%	35%	33%	27%	26%
£500,000 or more	21%	16%	22%	26%	44%
*Base: All leasing or using hire purchase to purchase equipment/assets					

- As might be expected, there was a relationship between turnover and the value of the assets leased/hire purchased; for example, a greater proportion of businesses with larger turnovers of £100m to £500m leased or hire purchased assets of £500,000 or more (44% compared with 21% overall).
- Those in transport and storage sector were also more likely to have leased or hire purchased assets of £500,000 or more (36% compared with 21% overall).

There was a fairly similar pattern with the value of equipment or assets leased or hire purchased *in the last 12 months*: 29% were worth less than £50,000, 12% were worth £50,000 to £99,999 and 32% were worth £100,000 to £499,999 and 24% was worth £500,000 or more.

Around three in five (58%) successful applicants for leasing or hire purchase were required to provide 0-10% of the asset's purchase cost, while for 33% it was more than 10%. There was also a variety of deposit values required, though the most common was three months rental, which was the case for 39% of successful applicants, however, 13% of successful applicants stated that no deposit was required.

Table 7.10: Value of deposit required for the finance of the equipment or assets

Base*	All (172)
One month's rental	16%
Three month's rental	39%
Six month's rental	2%
2-12 month's rental**	7%
10% capital/ equipment**	8%
15% - 30% of rental value**	4%
£5,000 - £1 million**	4%
No deposit required**	13%
Don't know	6%

*Base: All whose application for leasing or using hire purchase in the last 12 months was successful. **Derived from the 'other' response.

Among successful applicants there were few significant differences by factors such as sector, credit score or growth in terms of the value of the assets that they leased or acquired on hire purchase, or on the size of the deposit or the percentage of the purchase cost that they were obliged to provide.

- Generally there were not differences in behaviour in seeking or accessing leasing or hire purchase related to credit scores.

8. Factoring and invoice discounting

Key Findings:

- This chapter examines mid-sized businesses that use and seek factoring and invoice discounting, including why this finance is required, the amount of facility typically used and terms and conditions associated with this finance. Reasons for not using factoring and invoice are also examined.
- Relatively few mid-sized businesses (16%) used factoring and invoice discounting and fewer (9%) had sought it in the last 12 months.
- As with leasing and hire purchase, businesses with a turnover of £10m up to £25m were more likely to have sought factoring or invoice discounting. Growing companies were also more likely to have sought this type of finance.
- Those with credit scores of low risk or below average risk were more likely to use or have sought factoring or invoice discounting than those with credit scores more towards higher or lower extremes.
- Three-quarters (74%) of those using factoring or invoice discounting used their main bank as the provider.
- The most common perceived benefits of factoring and invoice discounting were their flexibility and that they aid cash flow.
- Around half (52%) of businesses that used factoring or invoice discounting used their arrangement for 80% or more of their sales. One in eight (12%) had less than 20% of their sales covered this way.
- Around six in ten businesses (57%) typically used over 50% of their factoring or invoice discounting facility. Firms who were likely to try to obtain external finance in the next 12 months were more likely to use over three-quarters of their limit.

8.1 Using factoring and invoice discounting

Factoring or invoice discounting was used by 16% of mid-sized businesses and was sought by 9% of mid-sized businesses in the last 12 months.

- Table 8.1 shows that businesses with a turnover of £25m to under £50m were most likely to have sought this form of finance in the last 12 months (14% compared with 9% overall). Just 7% of those mid-sized businesses with a turnover of £50m or more sought this finance in the last 12 months.

Table 8.1: Using and seeking factoring or invoice discounting by turnover					
Base	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Currently using factoring or invoice discounting	16%	15%	19%	14%	18%
Sought factoring or invoice discounting	9%	8%	14%	7%	7%

- Growing companies were more likely to have sought factoring or invoice discounting in the last 12 months (16% of those who had grown by 20% or more in the last year compared with 7% of those who stayed the same size in that period).

- Those who sought factoring or invoice discounting were likely to have lower levels of investment in fixed assets of under £1 million (10% of these businesses sought factoring or invoice discounting compared with 5% for those with an investment of £1 million or more).

- Businesses with founder directors or family-owned businesses were more likely to have sought factoring or invoice discounting than those owned by a parent company or subsidiary (12% compared with 4%).

- Manufacturing (13%) and wholesale and retail trade and repair of motor vehicles and motorcycles (12%) companies were most likely to have sought factoring or invoice discounting.

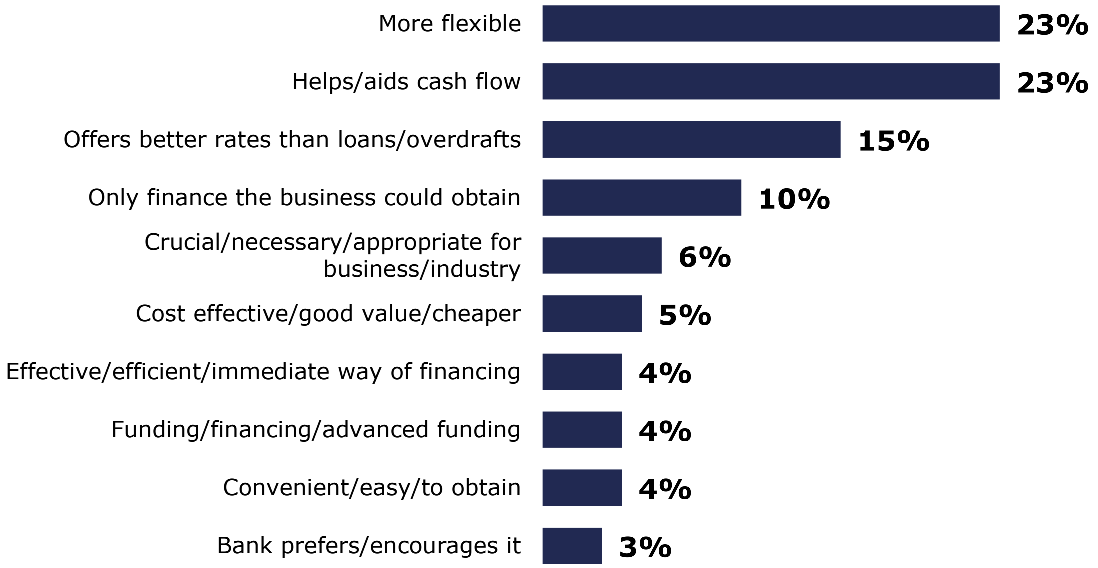
- Table 8.2 shows those with above average or higher risk credit scores were relatively unlikely to be using or to have recently sought factoring or invoice discounting. Instead, businesses with below average risk or low risk were most likely to be using or to have sought it (although those with very low risk credit score were relatively unlikely to be using it).

Table 8.2: Using and seeking factoring or invoice discounting by turnover by credit score					
Base	All (1,012)	Very low risk (425)	Low risk (128)	Below average risk (135)	Above average/ High/Very high risk (71)
Currently using factoring or invoice discounting	16%	14%	28%	24%	7%
Sought factoring or invoice discounting	9%	8%	15%	12%	2%

8.2 Reasons for using factoring and invoice discounting

The most common reasons for using factoring or invoice discounting are its flexibility and that it can assist cash flow (both cited by 23% of businesses who have used this finance). One in seven (15%) chose it on the basis that it offered better rates than loans or overdrafts, while for 10% it was the only finance that they could obtain.

Figure 8.1: Reasons for using factoring or invoice discounting[19]



Base: All currently using factoring or invoice discounting (164)

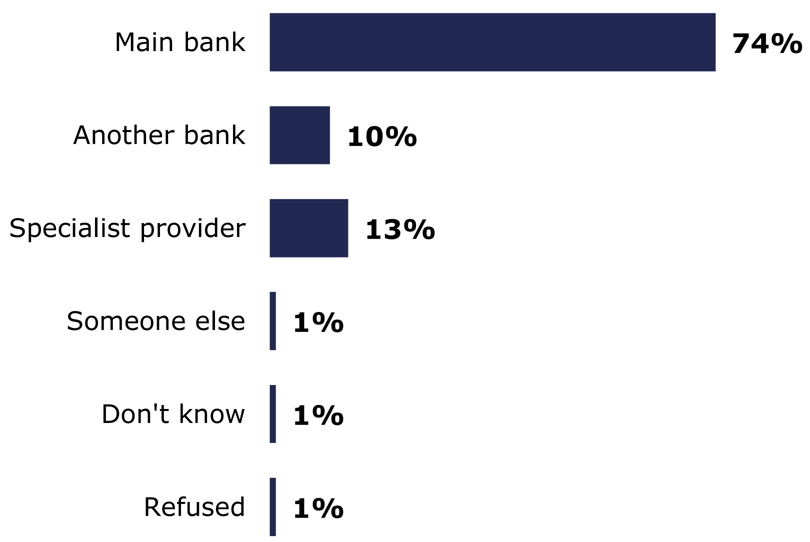
- The businesses that used factoring or invoice discounting because it was the only finance they could obtain were not concentrated in a particular group. However, they were more likely to indicate they required finance for cash flow (16% compared with 10% overall).

[19] This question allowed respondents to select more than one reason from the options read out.

8.3 Source of factoring and invoice discounting

Most businesses obtain factoring or invoice discounting through their main bank (74%. Around one in ten used a specialist provider (13%) or another bank (10%).

Figure 8.2: Source of invoice discounting and factoring



Base: All currently using factoring or invoice discounting (164)

- Table 8.3 shows that using their main bank is more common among those with a turnover of £25m up to less than £50m, while using a bank that is not their main bank is much less common among this group.

Table 8.3: Provider of factoring or invoice discounting finance by turnover

Base*	All (164)	£10m to less than £25m (71)	£25m to less than £50m (48)	£50m to less than £100m (23)	£100m to £500m (22)
Main bank	74%	72%	85%	73%	65%
Another bank	10%	13%	2%	4%	17%
Specialist provider	13%	13%	14%	17%	10%
Someone else	1%	0%	0%	0%	9%
Don't know	1%	3%	0%	0%	0%
Refused	1%	0%	0%	5%	0%

*Base: All who currently use factoring or invoice discounting finance

8.4 Proportion of sales covered by invoice discounting and factoring

Half of businesses that used factoring or invoice discounting had 80% or more of their sales covered by this finance (52%). One in eight (12%) had less than 20% of their sales covered this way.

Table 8.4: Proportion of sales covered by factoring or invoice discounting facility	
Up to 20%	12%
More than 20% to less than or equal to 40%	6%
More than 40% to less than or equal to 60%	8%
More than 60% to less than or equal to 80%	19%
More than 80%	52%
Don't know	1%
Refused	1%
Base: All who currently use factoring or invoice discounting (164)	

Six in ten businesses (57%) used over 50% of their factoring or invoice discounting facility.

Table 8.5: Proportion of factoring or invoice discounting facility typically used	
25% or less of your limit	20%
Between 26% and 50% of your limit	19%
Between 51% and 75% of your limit	29%
Between 76% and 99% of your limit	21%
100% of your limit	6%
Don't know	4%
Refused	1%
Base: All who currently use factoring or invoice discounting (164)	

- Businesses in the £25m to under £50m turnover band were the most likely to use more than half of their limit (76% compared with 57% overall).
- Businesses that are owned were more likely to use typically half or less of their limit: 49% do so compared with 32% of non-owned businesses.
- Firms that were likely to try to obtain external finance in the next 12 months were more likely to use over three-quarters of their limit.

8.5 Rates used on factoring or invoice discounting facility

Just under half of businesses (47%) with a factoring or invoice discounting facility had the Bank of England base rate as the reference rate for their facility. One in five (22%) businesses had LIBOR, while slightly fewer (18%) had the bank's own internal rate or another rate.

- Independents were more likely to use the bank's own internal rate (25% compared with 18% overall), while parent companies and subsidiaries were more likely to use LIBOR (29% compared with 22% overall).

The most common interest rate on the factoring or invoice discounting facility was in the range of 2-2.99 percentage points above the base rate (42%). For 26% it was 1-1.99 percentage points over.

- Again the main difference was by ownership: parent companies and subsidiaries were more likely than independents to be paying an interest rate 1-1.99 percentage points above the base rate (33% compared with 19%).

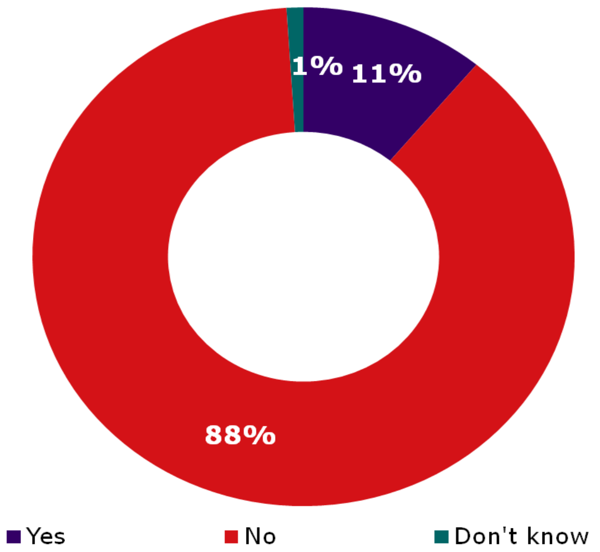
As was the case with leasing and hire purchase, there were very few instances of the use or terms of factoring or invoice discounting varying by the business's credit score.

- One area in which it did vary however was in the proportion of the factoring or invoice discounting facility typically used: companies with better credit scores tended to use a lower proportion of their facility (30% of those with a very low risk credit score used 25% or less of their limit compared with 20% overall).

8.6 Difficulties in obtaining factoring or invoice discounting

Among businesses who have sought factoring or invoice discounting in the last 12 months, most (88%) had no difficulties or were not rejected. One in nine (11%) were rejected or had difficulties.

Figure 8.3: Rejection or having difficulties in obtaining factoring or invoice discounting



Base: All who have sought factoring or invoice discounting in the last 12 months (90)

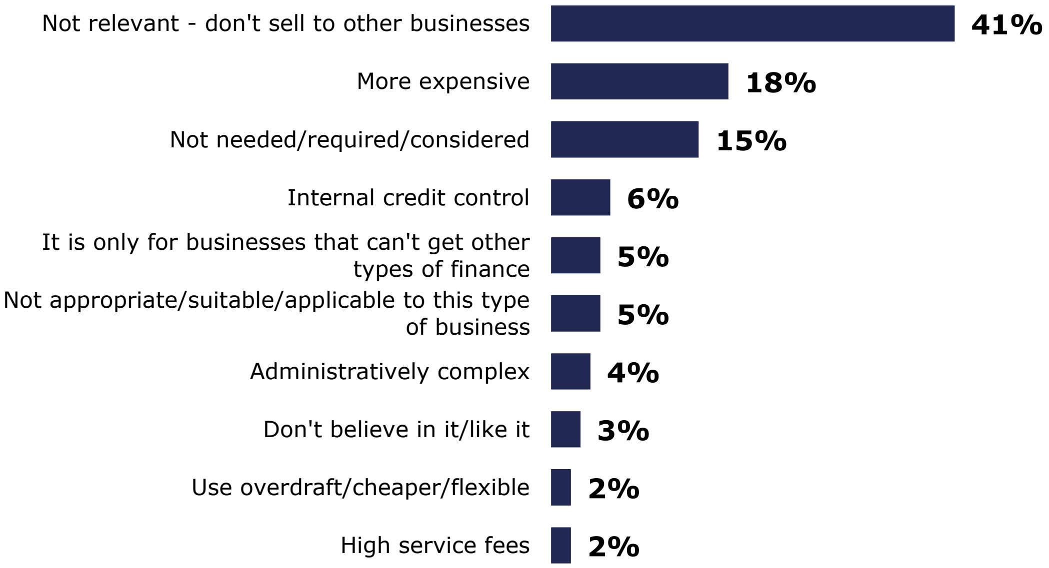
- Businesses that had grown in the last 12 months were more likely to have had no difficulties obtaining factoring or invoice discounting (95% compared with 88%).

A variety of reasons were given for difficulties encountered or being rejected, including not having enough collateral or being in an inappropriate sector.

8.7 Reasons for not using factoring and invoice discounting

Of those who have not sought factoring or discounting in the last 12 months, the most common reason for this was simply that it was not relevant because the firm did not sell to other businesses (41%), and 15% said that it was not needed or required. There were some negative perceptions of this form of financing, with reasons for not using it including that it is a more expensive form of finance (18%), that it is administratively complex (4%), it may ruin relationships with customers (2%) and would only be used as a 'last resort' form of finance.

Figure 8.4: Reasons for not using factoring or invoice discounting[20]



Base: All who have not sought factoring or invoice discounting in the last 12 months (310)

- Those in the construction sector were especially likely to say that factoring or invoice discounting wasn't relevant to them (60% did so compared with 41% overall) while those in manufacturing were significantly more likely to cite expense (32% compared with 18% overall).

- Businesses seeking finance for capital expenditure were also more likely to perceive it as expensive (23%).

[20] This question allowed respondents to select more than one reason from the options read out.

9. Equity finance

Key Findings:

- This chapter examines mid-sized businesses that have used equity finance, including reasons for using this finance, the type of equity finance used and the percentage of the business' equity given up for the money. Reasons for not using equity finance are also examined.
- Only one in twenty mid-sized businesses currently use private equity (5%). Fewer used public equity (2%) or corporate venturing (1%). Fewer still had sought these forms of finance in the last 12 months.
- Those in manufacturing were most likely to be using private equity – 9% were doing so compared with 5% overall, while those in wholesale and retail trade, repair of motor vehicles and motorcycles were most likely to not be using it (97% compared with 93% overall). Larger firms, with a turnover of £100m or more, were more likely to use public equity than those with smaller turnovers.
- Of the remaining businesses that did not use or had not recently sought these forms of equity finance, most (91%) had not ever considered equity finance, while 2% had actively sought to raise equity finance and a further 5% had considered it.
- Around three-quarters (73%) of businesses who have ever sought equity finance obtained the investment. Four in five (80%) had no difficulties in obtaining the investment.
- A private equity house was the most common source of equity finance, used by just over one in three of businesses (35%). This was followed by public equity (21%); equity investment from shareholders, board or directors (14%); a business angel (10%) and a parent company (9%). Using a business angel for equity investment was concentrated largely among those with the smallest turnovers, of £10m up to less than £25m.
- Most sought equity from a UK investor (83%) rather than overseas (29%).
- Equity finance was most commonly used to fund the day-to-day running of the business, rather than to purchase fixed capital assets.
- Most companies who used private equity finance had some sort of involvement in the business from their private equity partner. In three-fifths of cases (59%) the partner sat on the board. Only 8% of businesses were sure that their private equity partner had no involvement.
- Most companies using private finance were satisfied with the advice they received from their private equity advisors – 70% were very or fairly satisfied. Overall the impact of equity finance on the business was perceived as positive.
- The most common reason for not using equity finance was that it was not necessary/the business had sufficient funding (42%). A further 10% said that their business does not need the large amount of capital investment that equity finance would raise.

9.1 Using equity finance

One in twenty mid-sized businesses (5%) was currently using private equity. Fewer currently used public equity (2%) or corporate venturing (1%).

Fewer still had sought these in the previous 12 months: 2% had sought private equity, and less than half a per cent had sought public equity or corporate venturing.

Table 9.1: Proportion currently using or have sought various forms of equity finance by turnover

Base	All (1,012)	£10m to less than £25m (473)	£25m to less than £50m (250)	£50m to less than £100m (165)	£100m to £500m (124)
Currently using private equity	5%	5%	8%	4%	4%
Sought private equity	2%	2%	2%	2%	2%
Currently using public equity	2%	1%	2%	0%	6%
Sought public equity	*%	1%	0%	0%	1%
Currently using corporate venturing	1%	1%	*%	0%	0%
Sought corporate venturing	*%	*%	0%	0%	0%

- The largest firms in turnover (£100m to £500m) were significantly more likely to be using public equity (6% compared with only 1% of those with a turnover of £10m to less than £25m).

- Those in manufacturing were the most likely sector to be using private equity – 9% were doing so compared with 5% overall, while those in wholesale and retail trade; repair of motor vehicles and motorcycles were most likely to not be using it (97% compared with 93% overall).

- Owned firms (7%) were almost twice as likely to be using private equity compared to non-owned companies (4%).

Of the remaining businesses that did not use or had recently sought these forms of equity finance, most (91%) had not considered equity finance. Only 2% had actively sought to raise equity finance, while a further 5% had considered it. This meant 10% of all mid-sized businesses had actively sought to raise equity finance.

- Firms that made a loss or broke even in the last 12 months were more likely to have ever actively sought equity finance: 5% had done so compared with 1% of those who made a profit in the last 12 months.

Firms that had grown in the past 12 months and firms that made a profit in that time were not more likely to have ever sought or considered equity finance, or to be using it currently or to have sought in in the last 12 months. However the picture was different when it came to *planning to* grow, with those planning high growth of 20% or more in the *next* 12 months more likely to have ever actively considered (but not sought) equity finance (9%) than those who planned to stay the same (3%).Businesses that were more likely to have sought equity finance were:

- Firms running at a loss or breaking even (17% compared with 9% of companies making a profit).

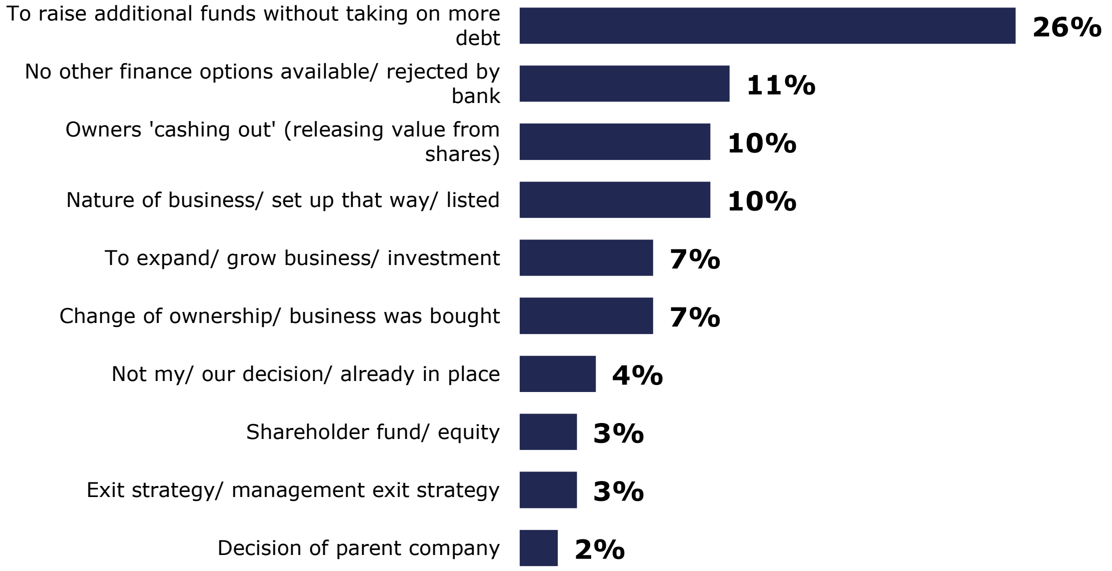
- Businesses seeking finance to enter new markets in the UK or overseas were also more likely to have sought or considered it (27% compared with 10% overall).

- Companies that export 50% or more of their sales to other countries (14%).

9.2 Reasons for using equity finance

Among businesses using equity, the most common reason for seeking this form of finance was to raise additional funds without taking on more debt (26%). One in ten mentioned no other finance options being available (11%), owners cashing out (10%) and the nature of the business (10%). Expansion (7%) and change of ownership (7%) were also cited.

Figure 9.1: Reasons for seeking equity finance



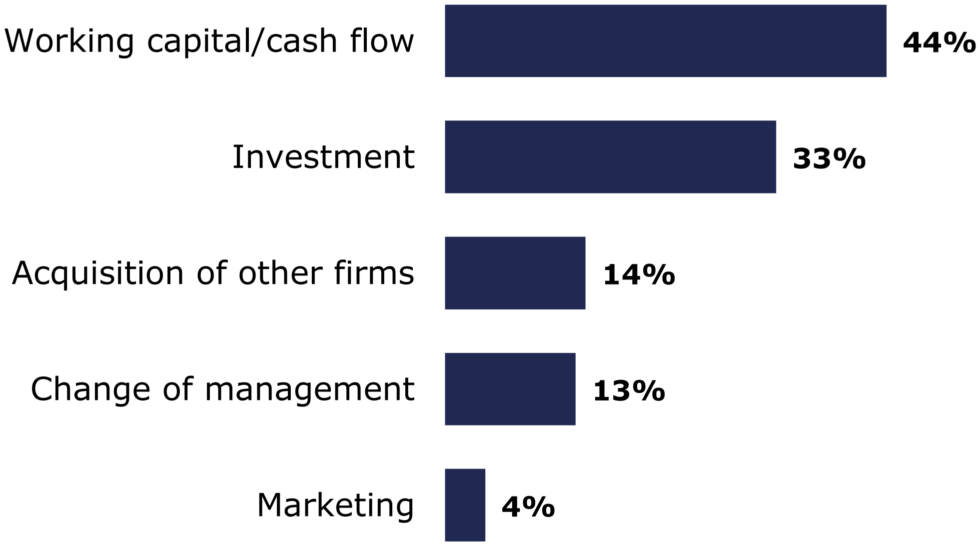
Base: All who use equity finance or corporate venturing or those who have sought to use equity finance or corporate venturing (100)

- Firms with a turnover of £25m to less than £500m were less likely to report that no other finance options were available (5% compared with 11% overall).

- Perhaps as expected, the owners cashing out was a reason given by more non-owned companies than owned companies (18% compared with 4%).

The funds obtained through equity finance were most commonly used for working capital/cash flow (44%), followed by investment (33%). Acquisition of other firms (14%) and change of management (13%) were less commonly cited, while only 4% mentioned marketing.

Figure 9.2: Use of funds raised through equity finance[21]



Base: All who use equity finance or corporate venturing (92)

- Firms that stayed the same or declined in the last 12 months were more likely to have raised equity finance for working capital – 59% of these firms did so respectively, compared with 31% of firms that grew.

- The largest firms also were less likely to have raised equity finance for working capital – 34% of firms with a turnover of £25m-£500m did so.

9.3 Source of equity finance

Businesses used a number of sources for equity finance. A private equity house was the most common source (used by 35%), followed by public equity (21%). One in seven (14%) used shareholders/directors to fund equity. One in ten were currently using equity from business angels (10%) or venture capitalists (9%), while 3% were using equity from a parent company.

[21] This question allowed respondents to select more than one reason from the options read out.

Table 9.2: Type of equity finance currently used by turnover				
Base*	All (92)	£10m to less than £25m (38)	£25m to less than £50m (30)	£50m to less than £500m[22] (24)
Private equity house	35%	31%	38%	39%
Public equity	21%	18%	19%	33%
Shareholders/board/ directors/fund equity	14%	16%	14%	11%
Business angel	10%	17%	3%	0%
Venture capital	9%	10%	7%	11%
Parent company	3%	2%	0%	11%
Trade buyer	1%	0%	4%	0%
Other	2%	3%	3%	0%
*Base: All who currently use equity finance or corporate venturing				

- Using a business angel for equity investment was concentrated among those with the smallest turnovers, of £10m up to less than £25m.

Those who had sought equity investment (including corporate venturing) were more likely to seek it from a UK investor (83%) than an overseas investor (29%).

- There were no significant differences by sub-group on this measure.

9.4 Outcome of seeking equity investment

Around three-quarters of the businesses who have ever sought equity finance obtained the investment (73%). Four in five of businesses who sought equity finance had no difficulties in obtaining the investment (80%).

Table 9.3: Difficulty obtaining equity finance	
Base*	All (37)
Difficult market/ type of equity	6%
There was no offer of investment in business	5%
Haven't applied for or don't want this type of finance	4%
Stake asked for was too high	2%
Note enough investment in business for the stake	2%
Had no difficulties	80%
Don't know	3%
*Base: All who sought to use equity finance or corporate venturing	

9.5 Amount of money raised by equity finance

There was a wide range of amounts of money raised using equity finance as shown in Table 9.4, with 29% raising under £2m and slightly more (34%) raising more than this (5% raised more than £50m). A large proportion (28%) did not know the amount raised.

[22] Note that the two categories '£50m up to less than £100m' and '£100m to less than £500m' have been combined due to the small base sizes,

Table 9.4: Amount raised from equity finance used by turnover				
Base*	All (92)	£10m to less than £25m (38)	£25m to less than £50m (30)	£50m to less than £500m[23] (24)
Up to £100K	11%	13%	11%	6%
More than £100K up to £500K	10%	15%	8%	0%
More than £500K up to £2m	8%	6%	11%	11%
More than £2m up to £10m	17%	14%	23%	17%
More than £10m up to £50m	12%	7%	14%	17%
More than £50m	5%	2%	0%	22%
Don't know	28%	28%	33%	22%
Refused	9%	15%	0%	6%
*Base: All who currently use equity finance or corporate venturing				

- Larger firms were more likely to raise larger amounts from equity – 46% of firms with a turnover of £25m to £500m raised more than £2m from equity (compared with 34% overall).

- Independents were more likely to raise smaller amounts – 38% of firms not owned raised less than £2m, compared with 18% of those with a parent or group/subsidiary relationship.

In terms of the percentage of the business' equity given up for the finance, one in three (34%) gave up more than a 40% stake, but the next most common group was the 22% who gave up 10% or less.

- Businesses that were not owned were more likely to give up 10% of the firm or less (28% compared with 17% of companies that were owned).

[23] Note that the two categories '£50m up to less than £100m' and '£100m to less than £500m' have been combined due to the small base sizes.

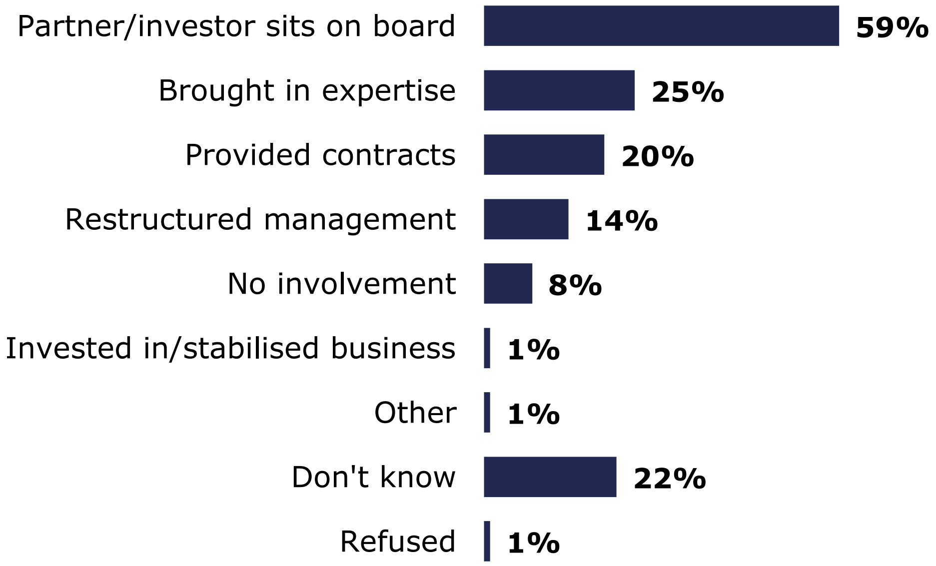
Table 9.5: Amount of firm given up for equity finance by ownership			
Base*	All (92)	Owned by a parent (49)	Not owned by a parent (43)
0-10%	22%	17%	28%
10.01%-20%	8%	4%	12%
20.01%-30%	7%	7%	5%
30.01%-40%	3%	3%	2%
More than 40%	34%	36%	31%
Don’t know	19%	25%	11%
Refused	8%	7%	9%
*Base: All who currently use equity finance or corporate venturing			

9.6 Involvement of private equity partners in the business

Most companies who used private equity finance had some sort of involvement in the business from their private equity partner. In three-fifths of cases (59%), the partner sat on the board. Bringing in expertise (25%) and providing contacts (20%) were other common forms of assistance. Only 8% said they had no involvement while another 22% said they did not know.

- The only significant difference by sub-group was that firms that do not export or export less than 50% of their sales to other countries were less likely to have their private equity partner take on no involvement (4% compared with 8% overall).

Figure 9.3: Involvement of the private equity partner in the business[24]



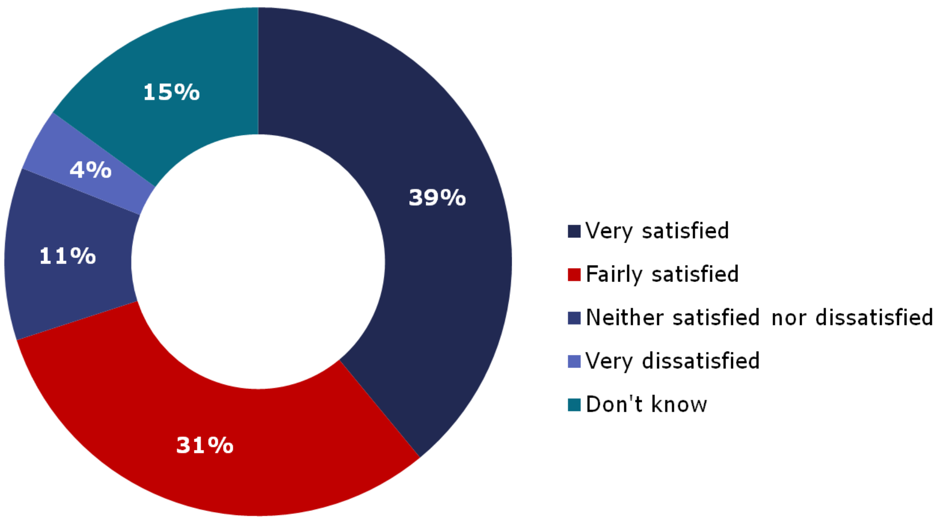
Base: All who use private equity finance (73)

Most companies using private finance were satisfied with the advice they received from their private equity advisors, although they were almost as likely to be ‘fairly’ (31%) as ‘very’ (39%) satisfied. Only a few (4%) were dissatisfied.

- Businesses with a turnover of £25m to less than £500m were less likely to be satisfied with the advice they received (60% compared with 70% overall).
- Companies that are owned were more likely to be satisfied with the private investor’s advice (81%) than non-owned companies (57%).

[24] This question allowed respondents to select more than one response from the options read out.

Figure 9.4: Satisfaction with the private investor's advice

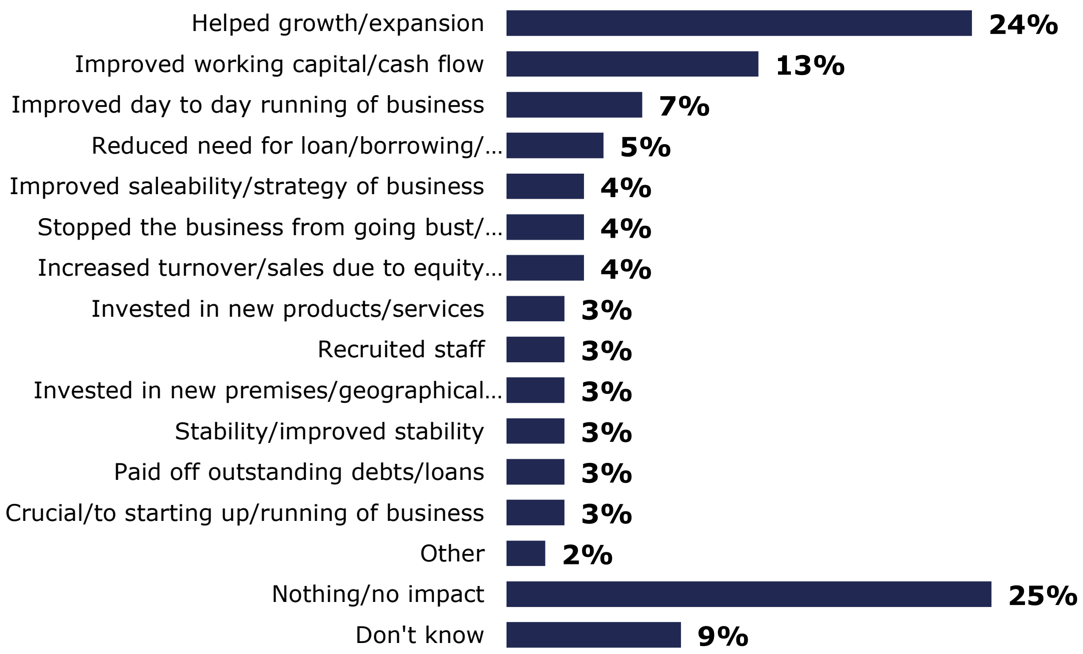


Base: All who use private equity finance (73)

9.7 Impact of using equity finance

Overall the impact of equity finance on the business had been positive. For a quarter (24%), it had helped growth/expansion, while for 13% it improved working capital/cash flow. It also helped the day to day running of the business for 7% of firms and 4% mentioned an improvement in the saleability/strategy of the business. The only negative comments were more debt/weakened the balance sheet (2%) and not adequate enough investment (1%).

Figure 9.5: Equity finance impact on business[25]



Base: All respondents who use equity finance or corporate venturing (92)

9.8 Reasons for not using equity finance

The most common reason for not using equity finance was that it was not necessary/the business had sufficient funding (42%). These types of businesses were more likely to give this response:

- Those majority owned by founder directors/family (46%).
- Companies making a profit in the last 12 months compared to companies running at a loss/break even (44% compared with 27%).
- Companies that have grown in the past 12 months compared to those that have stayed the same (46% compared with 37%).
- Business administrative and support services companies (62%).

[25] This question allowed respondents to select more than one impact from the options read out.

Figure 9.6: Reasons for not seeking equity finance[26]

Base: All respondents all who would not consider or have not actively sought equity finance (893)

A further 10% said that their business does not need the large amount of capital investment that equity finance would raise.

- Businesses in the financial, insurance and property services sector were more likely than average to give this reason (18%), as were independents (14%).

Business structure was an issue for this form of finance, with 17% saying that they were owned by a parent company/their parent company was against using this type of finance. These types of business were more likely to give this response:

- Manufacturing companies (27%).
- Companies that export more than 50% of their sales (24%).
- Companies running at a loss (32%).
- Companies which are majority owned by a parent company (37%).
- Companies with a turnover of £50 million or more (22% compared with 16% of companies with a turnover below £50 million).

A similar proportion (17%) said that their ownership structure meant that this form of finance was not appropriate.

A further 7% said they did not want to cede control of the business to investors. Companies in the £15m to less than £25m turnover bracket were more likely to mention this (11%).

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[26] This question allowed respondents to select more than one reason from the options read out.

Around one in twenty (4%) said that it was not their decision. This was more common among subsidiaries compared to independents (6% compared with 2%). When asked why it was not their decision, the most common reason given was that it was a parent company decision (14 mentions) or the decision was made by the owners/directors/shareholders (11 mentions).

10. Future finance needs

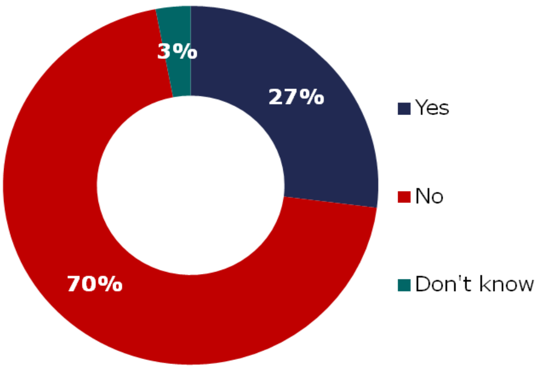
Key Findings:

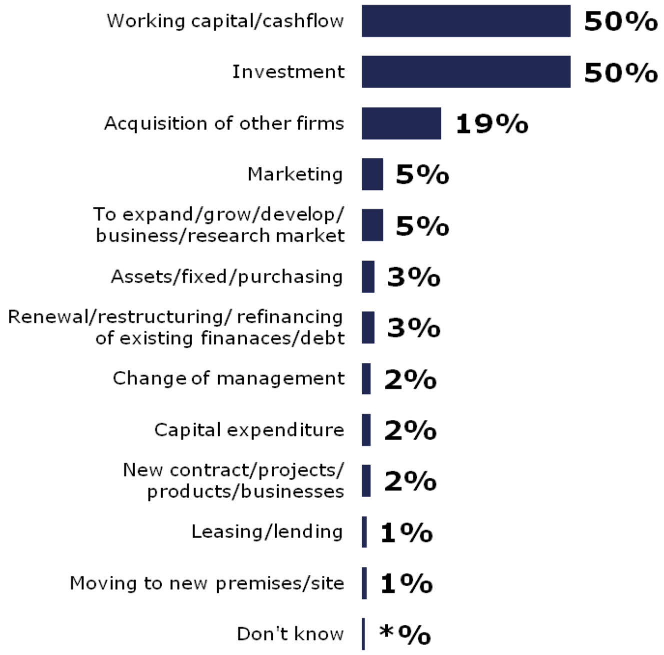
- This chapter examines mid-sized businesses' future intentions for needing external finance. It also looks at perceptions of the ease of accessing different forms of finance and the types of investment businesses would consider with more readily available finance.
- Around one quarter of mid-sized businesses (27%) said it is likely that their organisation will try to obtain external finance in the next 12 months.
- Of those who intended to try to obtain new external finance in the next 12 months, half were seeking it for working capital/cash flow, while the same proportion were seeking it for investment.
- There was variation in how mid-sized businesses viewed the ease of accessing different forms of finance. Of all the types asked about, leasing or hire purchase was the finance businesses expected to access most easily (85%), followed by factoring or invoice discounting (62%).
- Far fewer believed other forms of finance could be accessed easily such as public equity, issuing corporate bonds and mezzanine finance (which is likely to be related to the generally low awareness of it).
- The forms of investment that these businesses would be at least fairly likely to consider with more available finance were purchasing more fixed assets and the expansion of the business in the UK, with this applying to around one in three (36%) in both cases. Around three in ten (28%) would be at least fairly likely to develop new products/services in such circumstances.

10.1 Obtaining finance in the next 12 months

Around one quarter of mid-sized businesses (27%) said it is likely that their organisation will try to obtain external finance in the next 12 months. Seven in ten (70%) said it was not likely.

Figure 10.1: Obtaining finance in the next 12 months[27]





Base: All (1,012)

- Businesses in the following sectors were more likely to seek finance over the next 12 months: 50% of those in the agriculture, forestry, fishing, mining, quarrying and utilities sectors and 37% of those in the financial, insurance and property services sectors also anticipating this.

- Those most likely to have said they were *not* likely to try to obtain external finance in the next 12 months were: Business, administrative and support service activities (76%); professional, scientific and technical activities (75%) and wholesale and retail trade and repair of vehicles (73%).

There were also differences by size, growth and ownership:

- There were no significant differences by turnover, although businesses with at least 250 employees were more likely to think they would seek to access finance in the next year (33% compared with 27% overall). This mirrors the 2009 and 2010 surveys when larger mid-sized businesses were more likely to expect a greater need for finance in the next 12 months[28].

- Businesses that planned to grow by more than 20% in the next 12 months were more likely than those that planned to stay the same to intend to access external finance (37% compared with 22%).

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[27] This question allowed respondents to select more than one reason for needing new finance in the next 12 months from the options read out.

[28] However, caution must be taken when interpreting the trends as the 2009 and 2010 survey asked a slightly different question about whether mid-sized businesses expected a lower or higher demand for finance in the next 12 months.

- One-third of those not owned by a parent said they would be likely to seek external finance in the 12 months (32%), while only 22% of those owned by a parent felt the same way.

Those who were using or had already sought forms of finance were more likely to intend to use them in the future:

- Four in ten of those who used four or more types of finance currently intended to obtain new external finance next year (37%), compared with just seven per cent of those that used just one form.

- Businesses that have sought finance in the last 12 months were more likely to seek it next year than those who had not sought it in the last 12 months (47% compared with 14% - and it rose to 61% among those who had sought finance more than once in this time).

- Interestingly, while there were few significant differences by turnover, those with more investment in fixed assets were more likely to intend to seek new external finance: 50% of those with investment of £5m or more intended to seek new external finance, compared with just 29% whose investment was less than £50,000.

- There were also some differences by credit score, with those in the middle of the scale more likely to think they would seek finance in the next 12 months: 35% of those with low risk and 36% of those with below average risk believed they would try to obtain finance, compared with 25% of those with a very low risk score.

Of those who intended to try to obtain new external finance in the next 12 months, half were seeking it for working capital/cash flow, while the same proportion would need it for investment. Other reasons were less common: one in five (19%) intended to seek it for acquiring other companies and fewer for marketing (5%) or change of management (2%). Using future finance for working capital was the most common reason given in the 2009 and 2010 surveys. While slightly less said they would use it for investment in 2010 (42%) the proportion did increase from 22% in 2009.

- There were few sub-group differences in reasons for seeking finance although needing it for investment was far more likely among businesses majority owned by a founder director/family than those owned by a parent (52% compared with 28%).

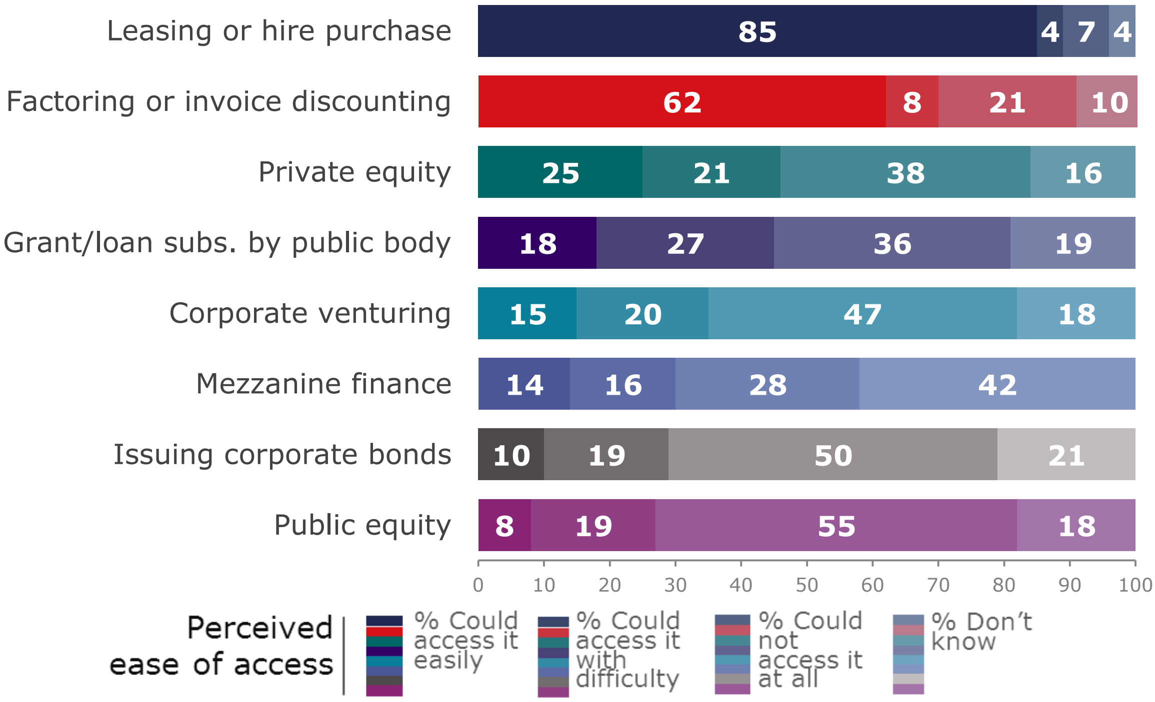
- Businesses with a turnover of £100m to £500m were more likely than average to seek finance in the next 12 months for leasing/ lending (7% compared with 1%).

- Businesses with low risk credit score are more likely to state they needed finance for acquisition of other firms (35% compared with 19% overall) or because of a change in management (9% compared with 2%). Businesses with a below average risk score were more likely to state they needed finance for working capital/ cash flow (66% compared with 50% overall).

10.2 Ease of accessing finance

There was variation in how mid-sized businesses viewed the ease of accessing different forms of finance. Most expected that they could access leasing or hire purchase easily (85%), and around three in five (62%) thought they could access factoring or invoice discounting easily. Far fewer believed other forms of finance could be accessed easily. In the case of mezzanine finance, over four in ten did not know if they would be able to access it which is likely to relate to the generally low awareness of it.

Figure 10.2: Ease of accessing alternative forms of finance



Base: All (1,012)

- The business's credit score appeared to influence how confident businesses were in being able to access certain forms of finance, with those with above average/higher risk scores more likely to foresee problems in accessing a grant or loan subsidised by a public body, private equity, issuing corporate bonds or mezzanine finance.

Table 10.1: Could access finance with difficulty by credit score

	All	Very low risk	Low risk	Below average risk	Above average/ High/Very high risk
Base*	(1,012)	(425)	(128)	(135)	(71)
Grant/loan subsidised by a public body	27%	25%	32%	32%	39%
Private equity	21%	19%	23%	29%	36%
Issuing corporate bonds	19%	19%	18%	20%	33%
Mezzanine finance	16%	16%	22%	16%	26%
*Base: All with a credit score appended					

10.3 Likelihood of investing with more available finance

The forms of investment that mid-sized businesses would be at least fairly likely to consider with more available finance were purchasing more fixed assets such as equipment and machinery, and expanding the business in the UK (applying to 36% in both cases). Around three in ten (28%) would be at least fairly likely to develop new products/services in such circumstances, while around one in five would be as likely to undertake the other forms of investment asked about (e.g. taking over another business or expansion overseas, or additional purchase of new vehicles or premises).

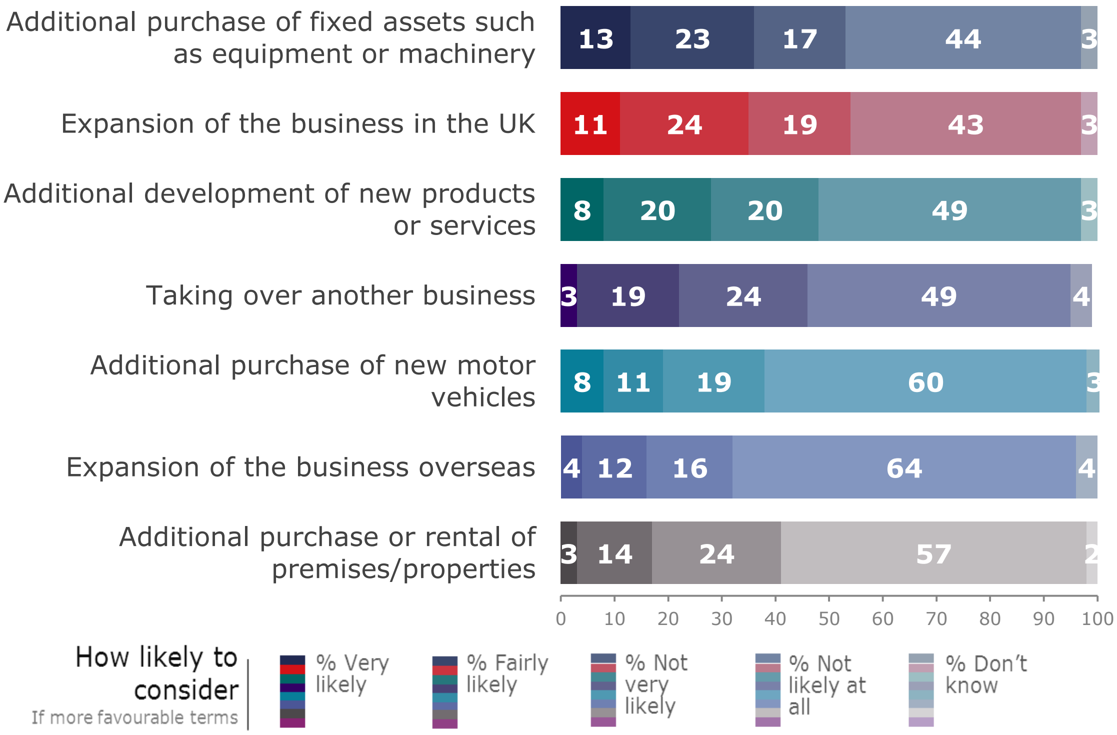
- Manufacturing were more likely to say they would be *very* likely to invest in additional purchase of fixed assets such as equipment or machinery if finance was more available: 23% of these firms would be very likely to do so, compared with just 3% of construction firms and 11% of those in wholesale and retail trade and repair and repair of motor vehicles and motorcycles.

- By contrast more of those in construction were *very* likely to invest in expansion in the UK if finance was more available: 25% would do so compared with just 9% of those in manufacturing and 8% of those in wholesale and retail trade and repair and repair of motor vehicles and motorcycles.

- There was also a difference by turnover, with those in the smallest band of £10m up to less than £25m more likely to be *very* or *fairly* likely to invest in expansion in the UK if finance was more available than were those with higher turnovers (40% compared with 27% of those in the £100m to £500m band)

- Regarding overseas expansion, those in ICT and business, administrative and support services were most likely to invest with more available finance: 33% and 30% were *very* or *fairly* likely to do so in those circumstances compared with 17% overall.

Figure 10.3: Likelihood of investment if finance was more available



Base: All who have not tried to access finance in last 12 months (612)

Appendices

Sample breakdown

Weighted and unweighted sample breakdowns			
Region (from sample information)	**Unweighted number of achieved interviews (n)**	**Unweighted percentage of achieved interviews (%)**	**Weighted profile**
East Midlands	61	6.03%	6.10%
East of England	95	9.39%	9.58%
London	230	22.73%	23.90%
North East	26	2.57%	2.54%
North West	103	10.18%	9.89%
Northern Ireland	26	2.57%	2.46%
Scotland	66	6.52%	6.24%
South East	154	15.22%	15.47%
South West	65	6.42%	5.87%
Wales	29	2.87%	2.79%
West Midlands	80	7.91%	7.85%
Yorkshire and The Humber	77	7.61%	7.31%
Grand Total	1,012	100.00%	100.00%
Turnover (from the survey)			
£10m to less than £25m	473	46.74%	57.10%
£25m to less than £50m	250	24.70%	21.14%
£50m to less than £100m	165	16.30%	11.66%
£100m to less than £250m	88	8.70%	7.37%
£250m to £500m	36	3.56%	2.74%
Grand Total	1,012	100.00%	100.00%

Weighted and unweighted sample breakdowns (cont)			
	Unweighted number of achieved interviews (n)	**Unweighted percentage of achieved interviews (%)**	**Weighted profile**
Sector (from the survey)			
Accommodation and food service activities	27	2.67%	2.16%
Agriculture, Forestry and Fishing; Mining and Quarrying; Utilities	34	3.36%	2.52%
Business Administrative and Support Services	59	5.83%	7.43%
Construction	83	8.20%	7.39%
Education and Health	42	4.15%	4.18%
Financial, Insurance and Property Services	82	8.10%	7.08%
ICT Services	48	4.74%	5.60%
Manufacturing	192	18.97%	18.13%
Other service activities	38	3.75%	2.42%
Professional, Scientific and Technical Activities	82	8.10%	8.18%
Transport and storage (incl. postal)	56	5.53%	4.83%
Wholesale and retail trade; repair of motor vehicles and motorcycles	254	25.10%	28.61%
Grand Total	1,012	100.00%	100.00%
Parent company ownership (from sample information)			
Not owned	543	53.66%	51.19%
Owned	469	46.34%	48.81%
Grand Total	1,012	100.00%	100.00%

Guide to statistical reliability

The respondents to the research are a sample of the total 'population' of mid-sized businesses, so we cannot be certain that the figures obtained are exactly those we would have if all mid-sized businesses had been interviewed (the 'true' values). However, the variation between the sample results and the 'true' values can be predicted from the knowledge of the size of the samples on which the results are based and the number of times that a particular answer is given. The confidence with which this prediction can be made is usually chosen to be 95% - that is, the chances are 95 in 100 that the 'true' value will fall within a specified range. The table below illustrates the predicted ranges for different effective[29] sample sizes and percentage results at the '95% confidence interval'.

Approximate sampling tolerances for various base sizes			
Size of sample on which survey result is based	**Approximate sampling tolerances applicable to percentages at or near these levels**		
	10% or 90%	**30% or 70%**	**50%**
	±	±	±
100 interviews	6	9	10
400 interviews	3	5	5
500 interviews	3	4	4
600 interviews	3	4	4
800 interviews	2	3	4
939 interviews (total effective base size of mid-sized businesses)	**2**	**3**	**4**
1,000 interviews	2	3	4

For example, with an effective base size of 939 mid-sized businesses, where 70% give a particular answer, the chances are 19 in 20 that the 'true' value (which would have been obtained if the whole of this population had been interviewed) will fall within the range of ±3 percentage points from the sample result (i.e. between 67% and 73%).

When results are compared between separate groups within a sample, different results may be obtained. The difference may be 'real', or it may occur by chance (because not everyone in the population has been interviewed). To test if the difference is a real one - i.e. if it is 'statistically significant', we again have to know the size of the samples, the percentage giving a certain answer and the degree of confidence chosen. If we assume '95% confidence interval', the differences between the results of two separate groups must be greater than the values given in the table overleaf.

[29] Note that the *effective* base size is the base size that is used for statistical reliability calculations, as it takes into account the impact on survey reliability from things like the weighting of the data, and as a consequence is often slightly lower than the actual number of interview achieved.

Approximate sampling tolerances for various comparisons of base sizes			
Size of sample on which survey result is based	**Approximate sampling tolerances applicable to percentages at or near these levels**		
	10% or 90%	**30% or 70%**	**50%**
	±	±	±
100 and 400	7	11	11
200 and 400	6	8	9
300 and 500	5	7	8
300 and 700	5	7	7
400 and 400	5	7	7
400 and 700	4	6	7
500 and 500	4	6	7
182 and 79 (effective base sizes of mid-sized businesses in the manufacturing and construction sectors respectively)	**8**	**13**	**14**
435 and 506 (effective base sizes of owned and not owned mid-sized businesses)	**4**	**6**	**7**

The British Business Bank programme is currently run directly by the Department for Business, Innovation and Skills and is not authorised or regulated by the Financial Conduct Authority or the Prudential Regulation Authority.

Once HM Government has received European Commission State aid clearance, which is expected in 2014, this programme will be transferred in its entirety to the British Business Bank plc, which will operate as a Government-owned financial institution.

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