



Hilton-Baird's SME Trends Index

September 2013



Introduction



“SLOWLY but surely, the economy is fighting its way back to recovery. Recent figures from the Office for National Statistics indicating that the UK recorded its third successive quarter of growth between July and September is testament to this.

“However there remain a great number of challenges facing the country’s 4.9 million businesses that are both holding them back from reaching their full potential, as well as tempering the improving outlook with an err of caution.

“The UK’s commercial finance industry remains integral to equipping businesses to drive the economy back to pre-recessionary levels, yet certain aspects continue to be criticised for what is being perceived as a lack of support.

“The Bank of England recently announced another annual contraction in traditional lending to small businesses but, in a sign of the evolving lending landscape, non-bank finance such as invoice finance and asset finance reached a five-year high in 2013.

“As a commercial finance broker, Hilton-Baird Financial Solutions conducts this SME Trends

Index in a bid to gauge changing trends and sentiment amongst the UK’s SME population.

“By looking at their recent performance, future confidence and funding habits, we are able to paint a vivid picture that monitors these changes over time and gain a fascinating insight into a range of businesses across different sectors, regions and sizes.

“I hope that you find this report of interest. I would welcome any feedback or comments you may wish to share.

“Finally, a sincere and big thank you to all the business owners and finance directors who have taken the time to contribute to our research so far. Your answers have been invaluable and we look forward to supporting you should you require our services over the coming months and years.”

Evette Orams
Managing Director
Hilton-Baird Financial Solutions

Background to research



HILTON–BAIRD Financial Solutions' SME Trends Index began in November 2010 and has so far questioned 2,875 owners and finance directors from businesses across a wide variety of sectors, regions and sizes in order to provide a representative sample of the UK's SMEs.

To date, six waves of research have been conducted:

- Wave 1: November 2010 (717 respondents)
- Wave 2: March & April 2011 (576 respondents)
- Wave 3: October 2011 (417 respondents)
- Wave 4: April 2012 (454 respondents)
- Wave 5: October 2012 (415 respondents)
- Wave 6: September 2013 (296 respondents)

While the SME Trends Index was initially conducted on a biannual basis, it is now conducted annually to provide us with a yearly snapshot of the evolving and current business sentiment.

Key findings



THE FINANCIAL health of the UK's businesses increased for the second successive year in September 2013 to its highest level since our survey began three years ago. This is signified by the Business Health Index, which uses a range of factors such as turnover, profitability, bad debt levels and tax arrears to calculate a score for each respondent, reaching 1.39.

It is therefore little surprise to see respondents in confident mood, with 51% expecting their business to expand in the next six months. This marks a significant annual increase and is also the highest level since the survey began.

The proportion of businesses most concerned about generating new business (30%) and managing cash flow (17%) both fell marginally over the same period. However there were increases in the proportion whose primary concern for the next six months is their customers taking too long to pay (16%) and an inability to access funding (11%).

Business credit cards (used by 45%) and bank overdrafts (42%) both increased in popularity year

on year, as did the proportion using [asset finance](#) (28%) and [invoice finance](#) (22%) to fund their business's activity.

Almost half of respondents have reviewed their existing funding facilities within the last three months (46%), with a further 17% doing so in the last three to six months. The purpose of which is to reduce costs for 45%, with 28% hoping to secure additional funding.

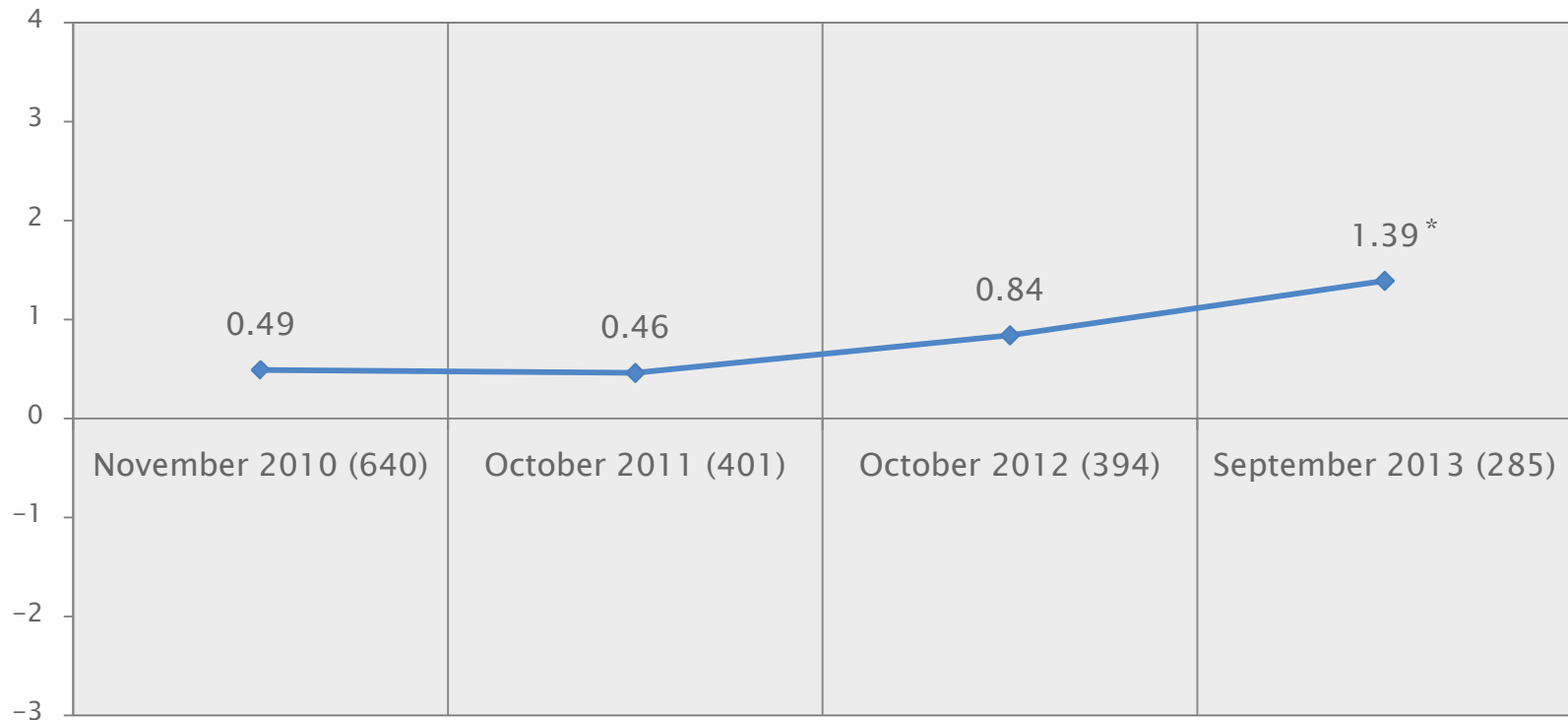
Interestingly, 37% of respondents think that asset based finance isn't right for their business, with 24% regarding it as too expensive. However 15% believe it's a perfect fit.

Business Health Index



THE BUSINESS Health Index¹, which uses a range of factors such as turnover, profitability, operating costs and bad debts to calculate a true reflection of the financial health of UK businesses, rose in September 2013 to its highest level since the survey began in November 2010.

This marks the second successive year in which this Index has increased, a result of annual increases in the proportion of businesses reporting a rise in turnover (48%) and profitability (36%) during the past six months.



¹ See Appendix for an explanation of how the Business Health Index is calculated

* Significantly different from the total score at 1% significance level

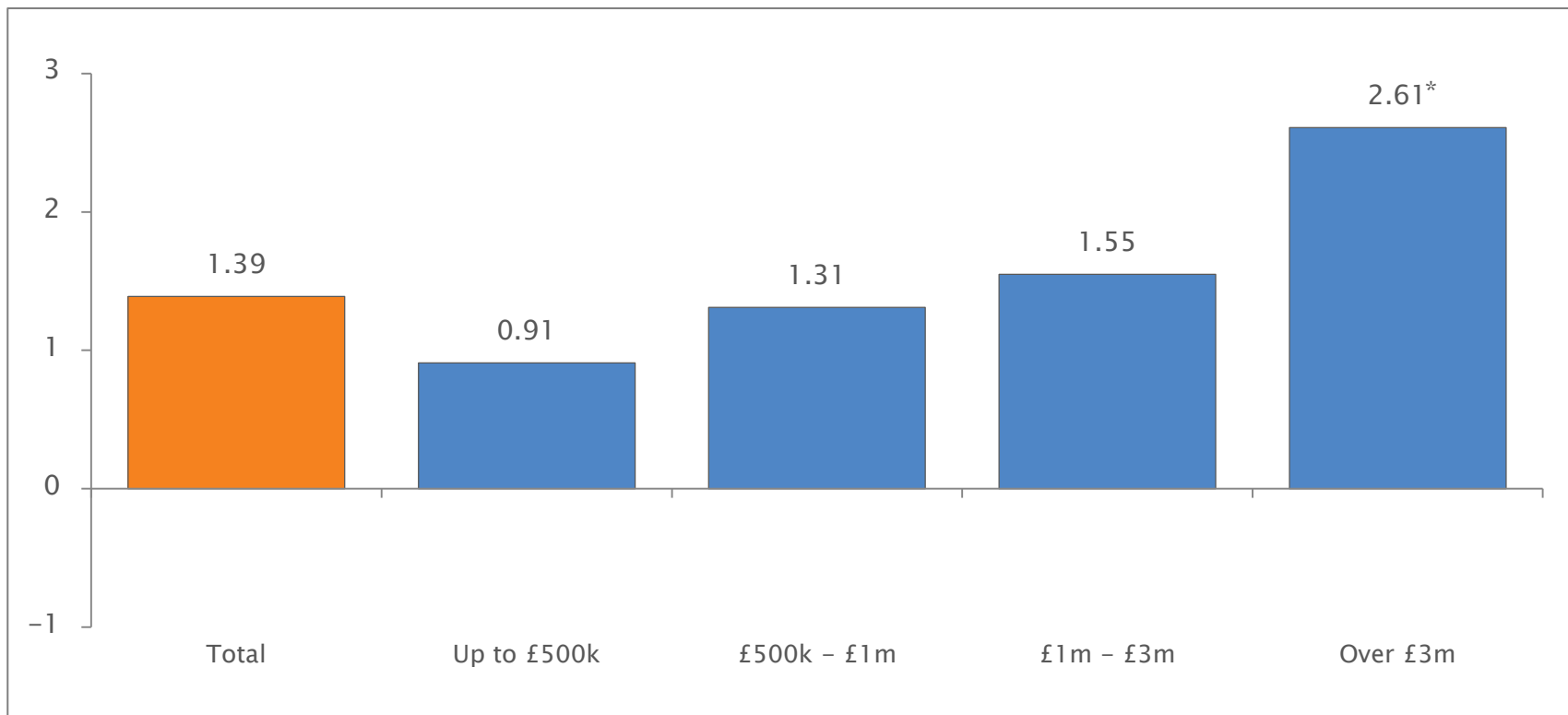
Base: 2,382 (all answering questions 1 & 2)

Business Health Index – Turnover



BUSINESSES with a turnover of more than £3 million are significantly stronger financially than their smaller counterparts, helped by the fact 70% of this group reported an increase in turnover during the preceding six months.

The smallest businesses, those with a turnover of less than £500,000, remain the weakest financially, with a below average 44% growing their turnover over the same period.



1 See Appendix for an explanation of how the Business Health Index is calculated

* Significantly different from the total score at 1% significance level

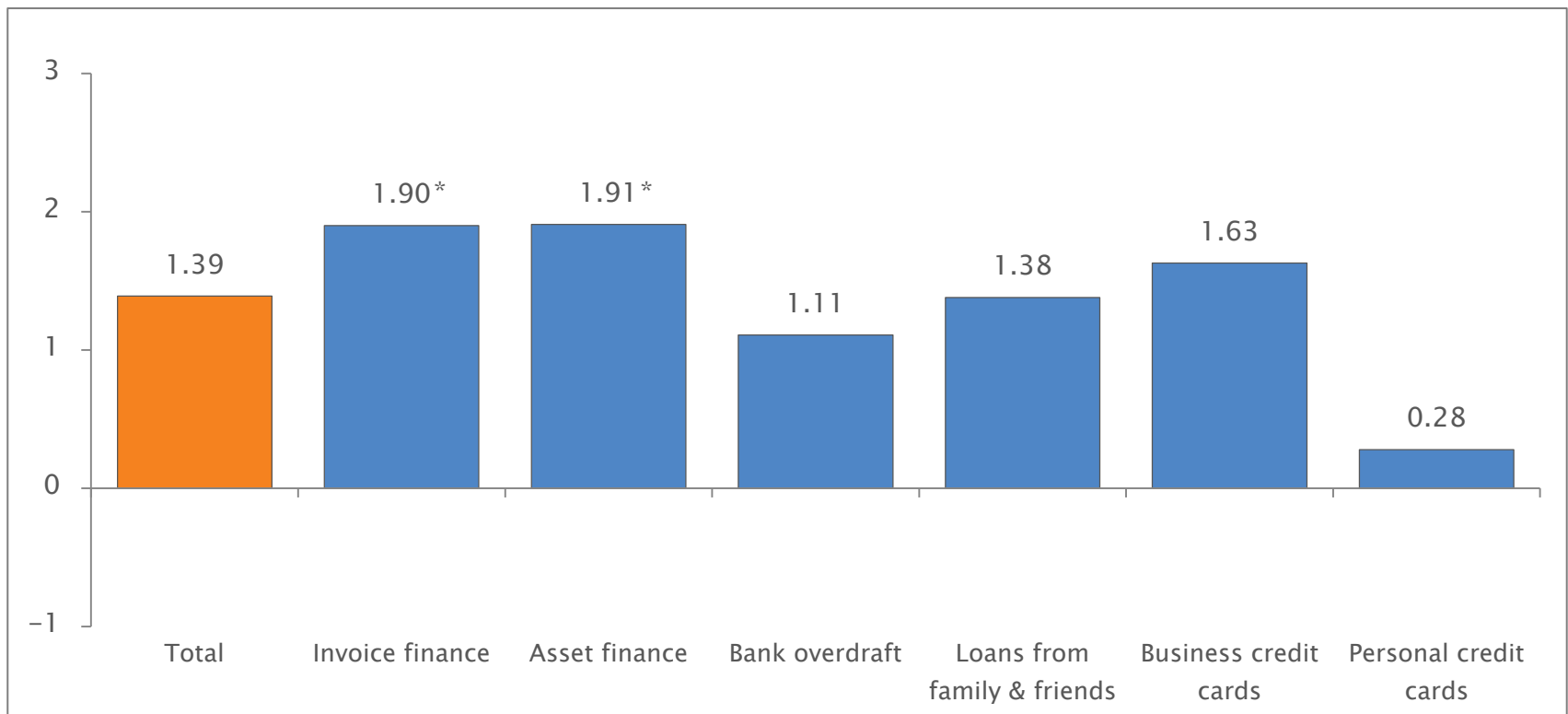
Base: 285 (all answering questions 1 & 2)

Business Health Index – Finance



ASSET finance users posted the highest Business Health Index, closely followed by invoice users, as both groups saw above-average proportions increase their turnover and profitability during the preceding six months.

Businesses relying on personal credit cards and bank overdrafts to fund their activity are the weakest financially, closely followed by those using loans from their family and friends.



1 See Appendix for an explanation of how the Business Health Index is calculated

* Significantly different from the total score at 1% significance level

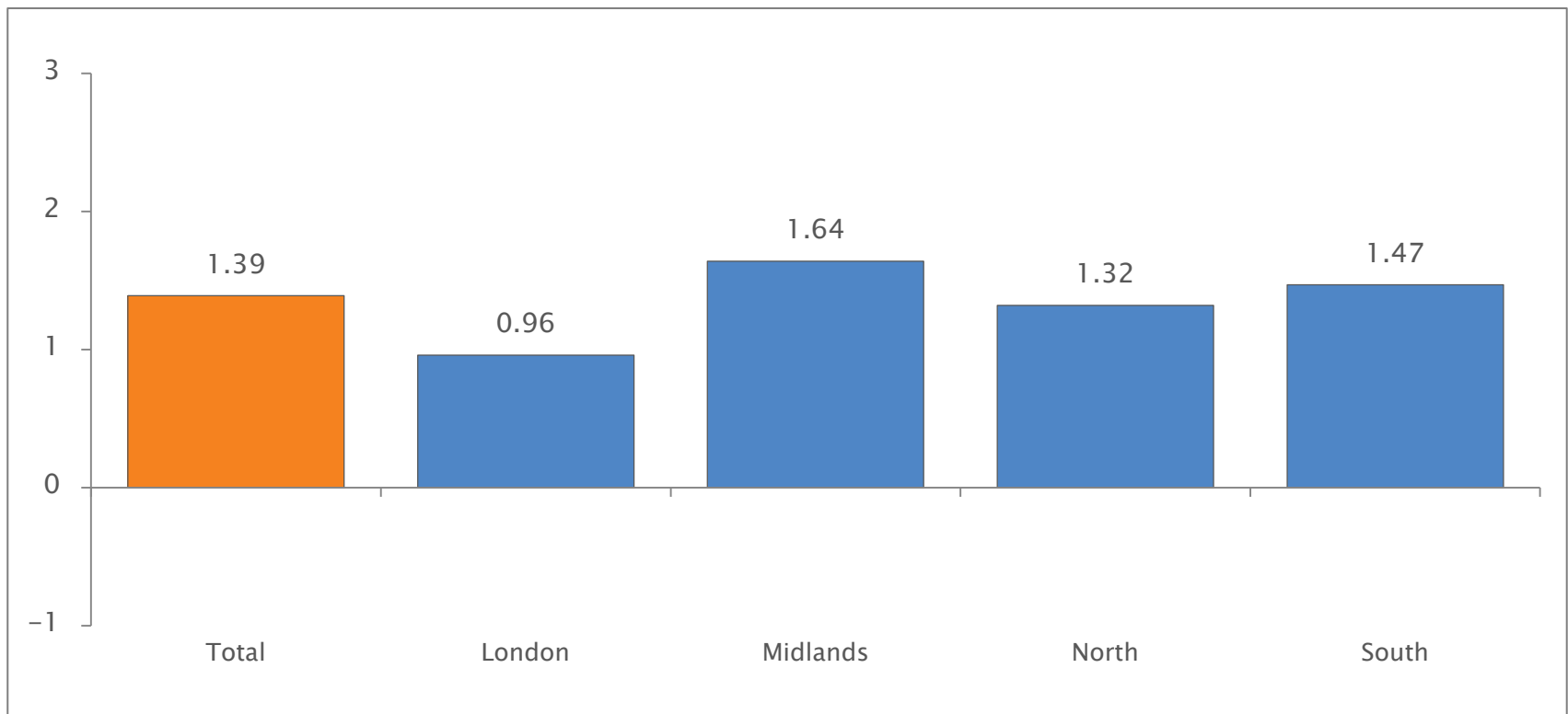
Base: 285 (all answering questions 1 & 2)

Business Health Index – Region



BUSINESSES based in the Midlands are outperforming their neighbours, with companies in the south of England not far behind.

Those based in London and the north of England posted Business Health Indices which were below the average.



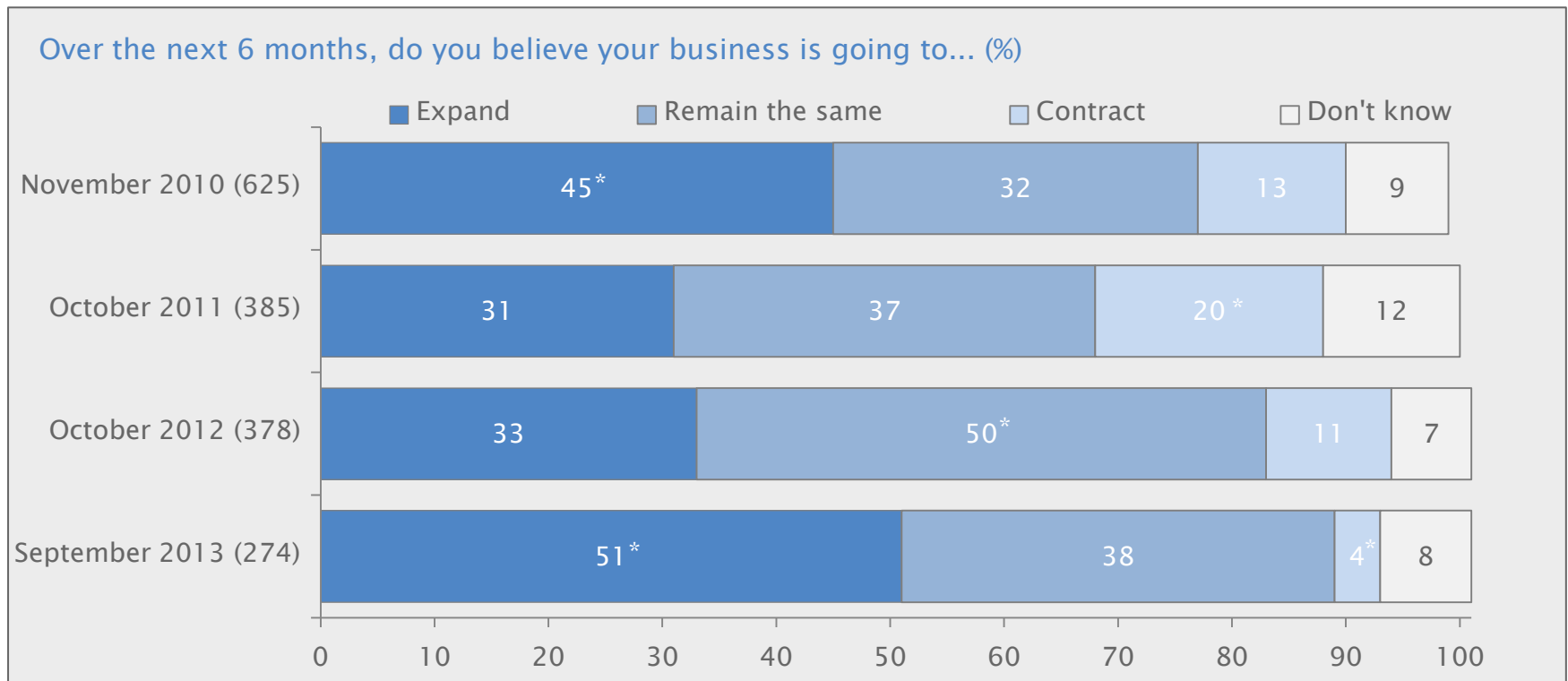
1 See Appendix for an explanation of how the Business Health Index is calculated
Base: 285 (all answering questions 1 & 2)

Business confidence



THERE WAS a significant annual increase in the proportion of respondents expecting their business to expand in the next six months. The 51% who anticipate expansion is the highest figure recorded since the survey began in November 2010.

The 4% who expect their business to contract over the same period is also the lowest figure recorded, and fell significantly on an annual basis.



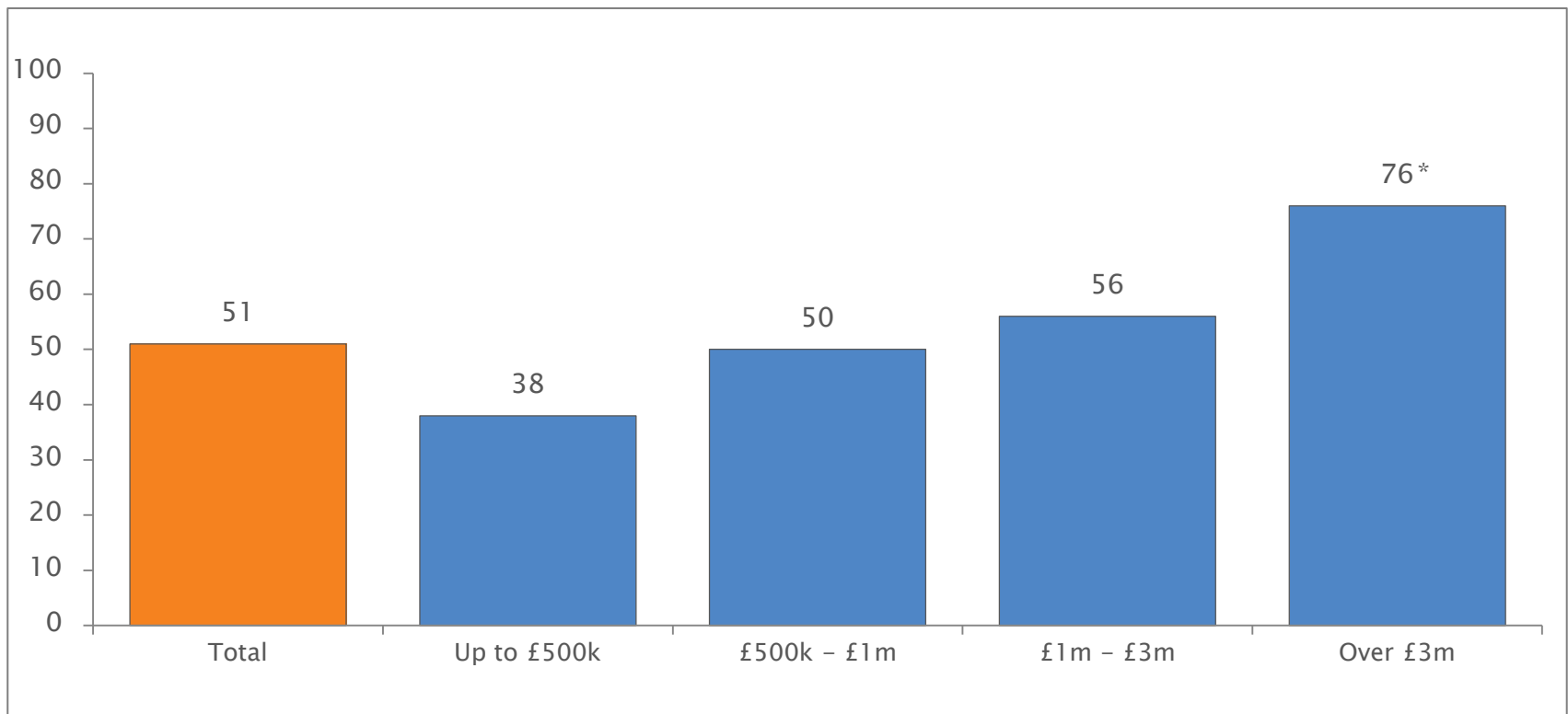
* Significantly different from the total score at 1% significance level
Base: 1,662 (all)

Business confidence – Turnover



BUSINESSES with a turnover of more than £3 million are significantly more confident about their growth prospects over the next six months than other businesses.

The 76% recorded is double that of the proportion of businesses turning over less than £500,000, who remain the most apprehensive about their immediate prospects.



* Significantly different from the total score at 1% significance level

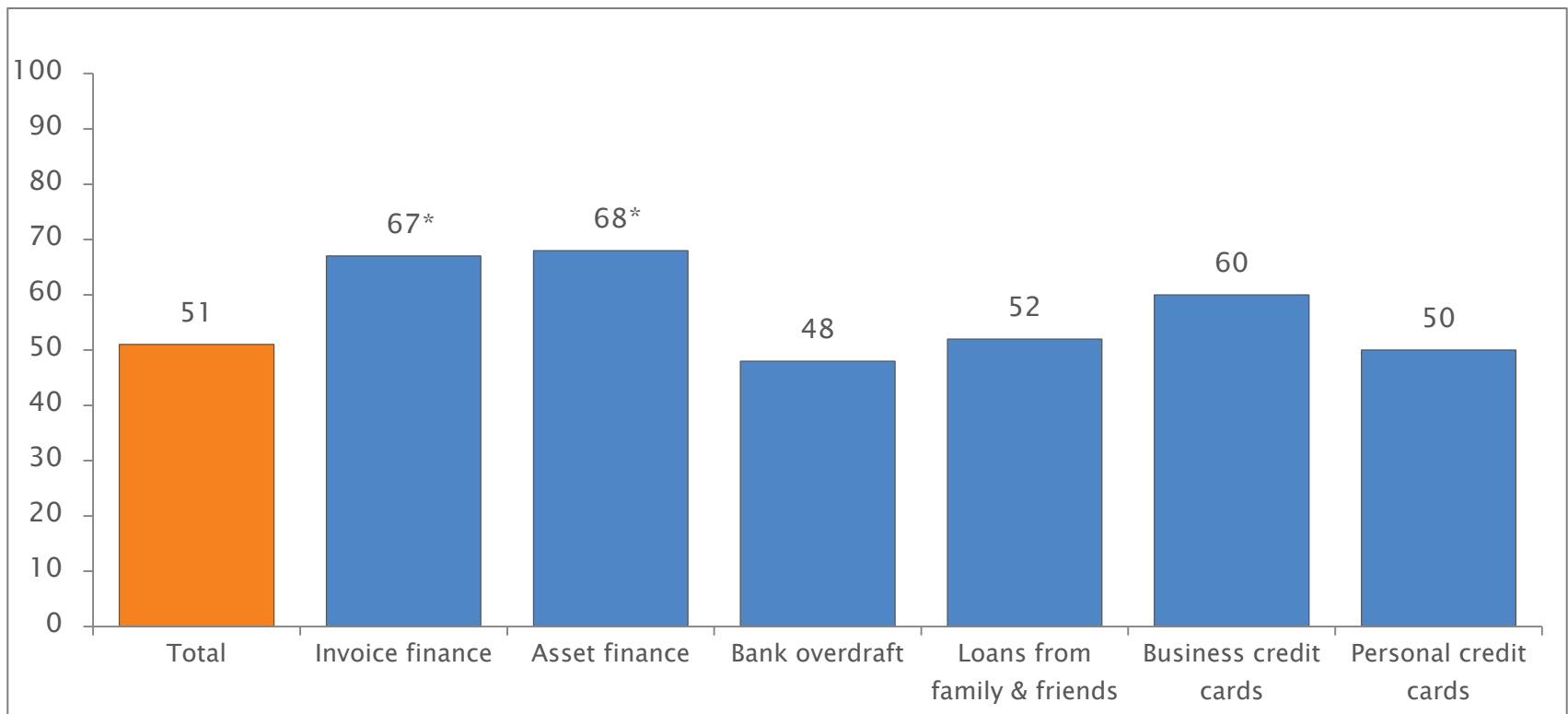
Base: 274 (all)

Business confidence – Finance



BUSINESSES currently benefiting from asset finance and/or invoice finance facilities are significantly more optimistic than those using any other forms of business finance at present.

Business overdraft users are by far the least confident about growing over the next six months, closely followed by those using personal credit cards and loans from family and friends to fund their activity.



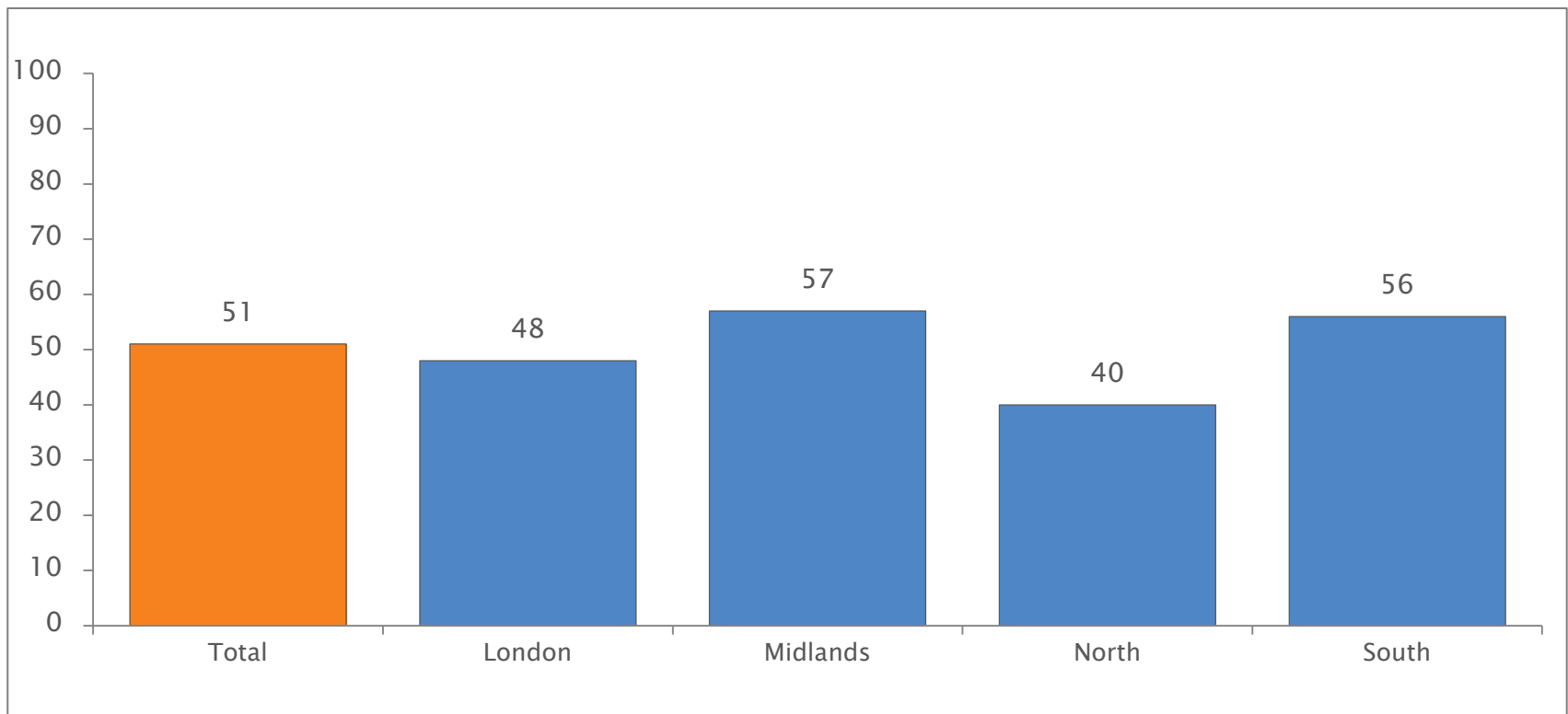
* Significantly different from the total score at 1% significance level
Base: 274 (all)

Business confidence – Region



MIDLANDS and southern England based businesses are most confident about the future, with both groups seeing higher than average proportions expecting to grow during the next six months.

Businesses in the north of England are less confident about their growth prospects.



Base: 274 (all)

Business concerns



GENERATING and winning new business remains the primary concern for businesses over the next six months, although the proportion reporting this did fall on an annual basis.

Customers taking too long to pay and an inability to access funding both increased as primary concerns over the same period, with the former rising above the rising cost of fuel and raw materials into third place.

Biggest concern for next six months (%)	Oct '11 (391)	Oct '12 (384)	Sep '13 (281)	Variance
Generating and winning new business	34	33	30	↓
Managing cash flow	17	18	17	↓
Customers taking too long to pay	10	12	16	↑
Rising material / fuel costs	16	16	12	↓
Inability to access funding	11	7	11	↑
Rising inflation	4	3	2	↓
Rising interest rates	2	1	1	↔
Other	4	4	5	↑
No concerns	3	4	5	↑

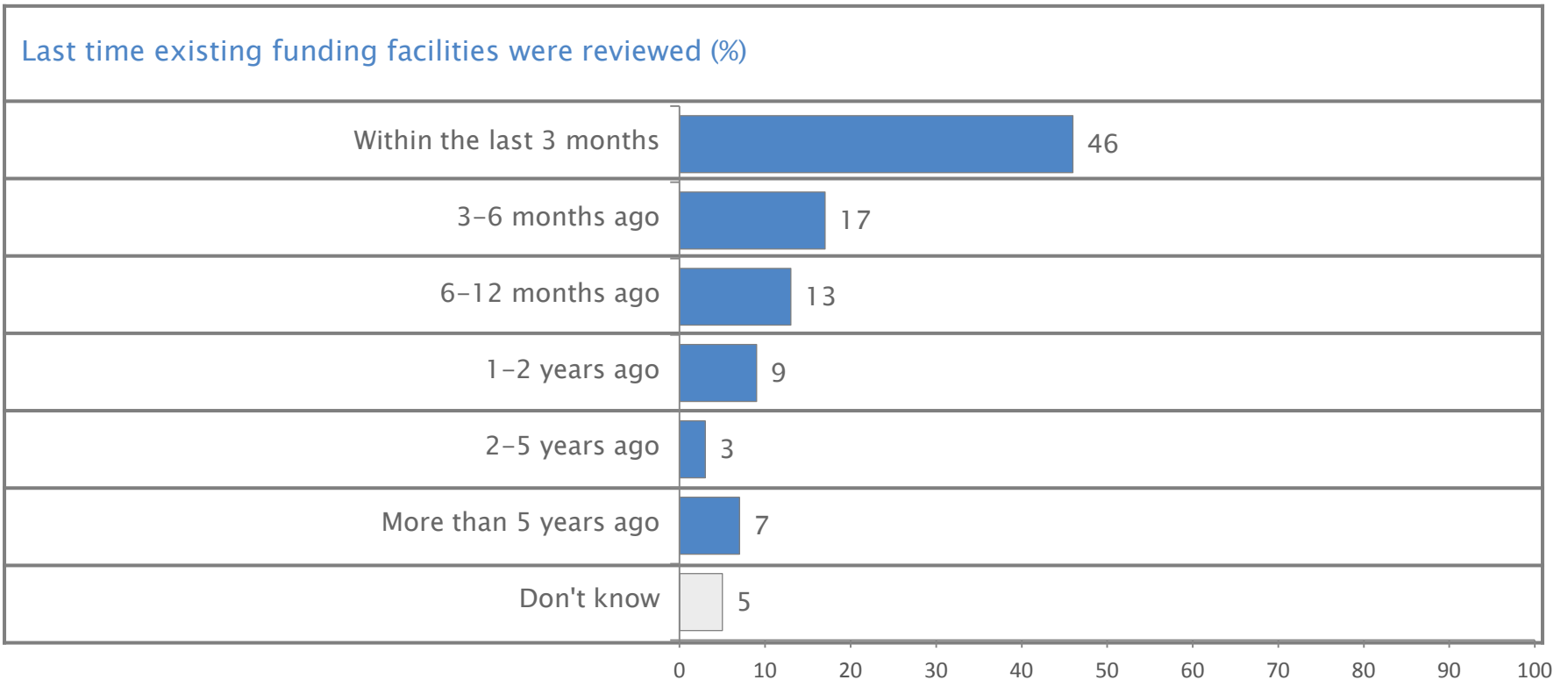
Base: 1,056 (all)

Reviewing funding



ALMOST half of the UK's businesses have reviewed their existing funding facilities in the past three months, with 63% doing so within the past six months.

However almost one in five haven't done so within the past year, despite the evolving commercial finance landscape.



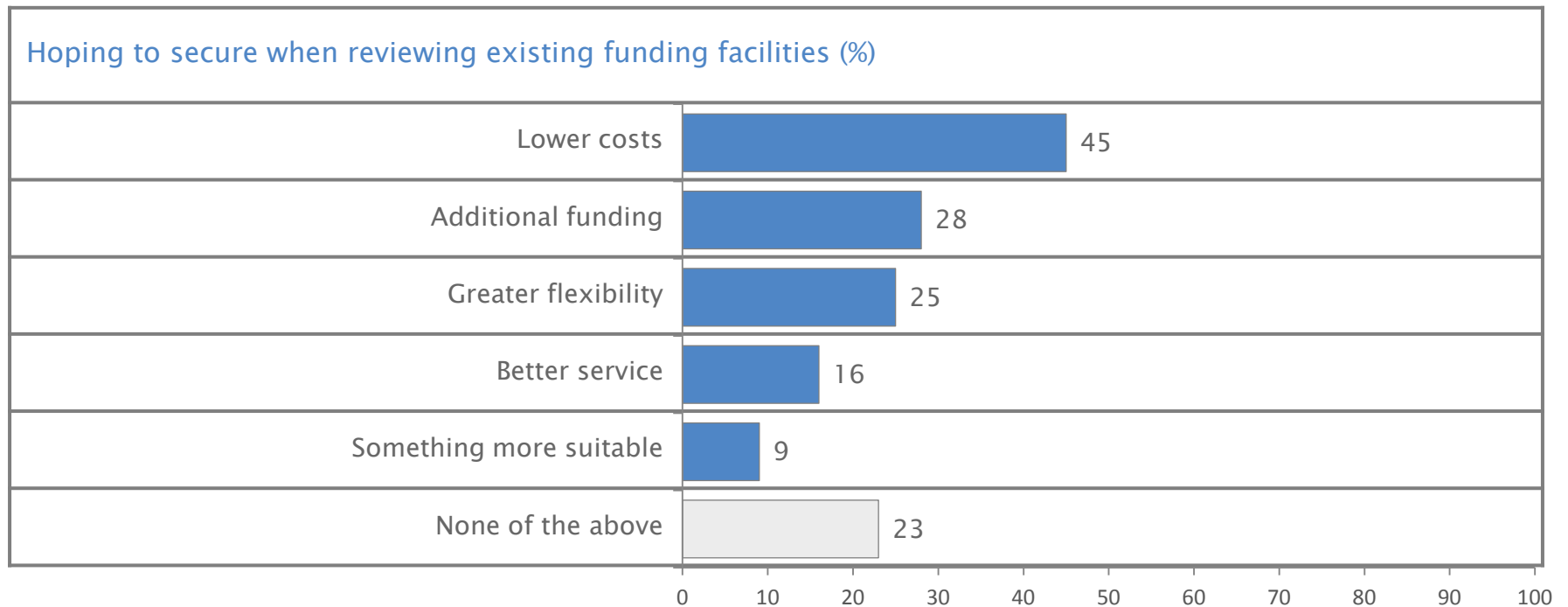
Base: 281 (all)

Objectives of reviewing funding



WHEN reviewing their existing funding facilities, securing lower costs is the primary objective for almost half of the respondents.

Fewer than one in ten are on the hunt for something more suitable, with 16% looking for better service levels from their funding provider.



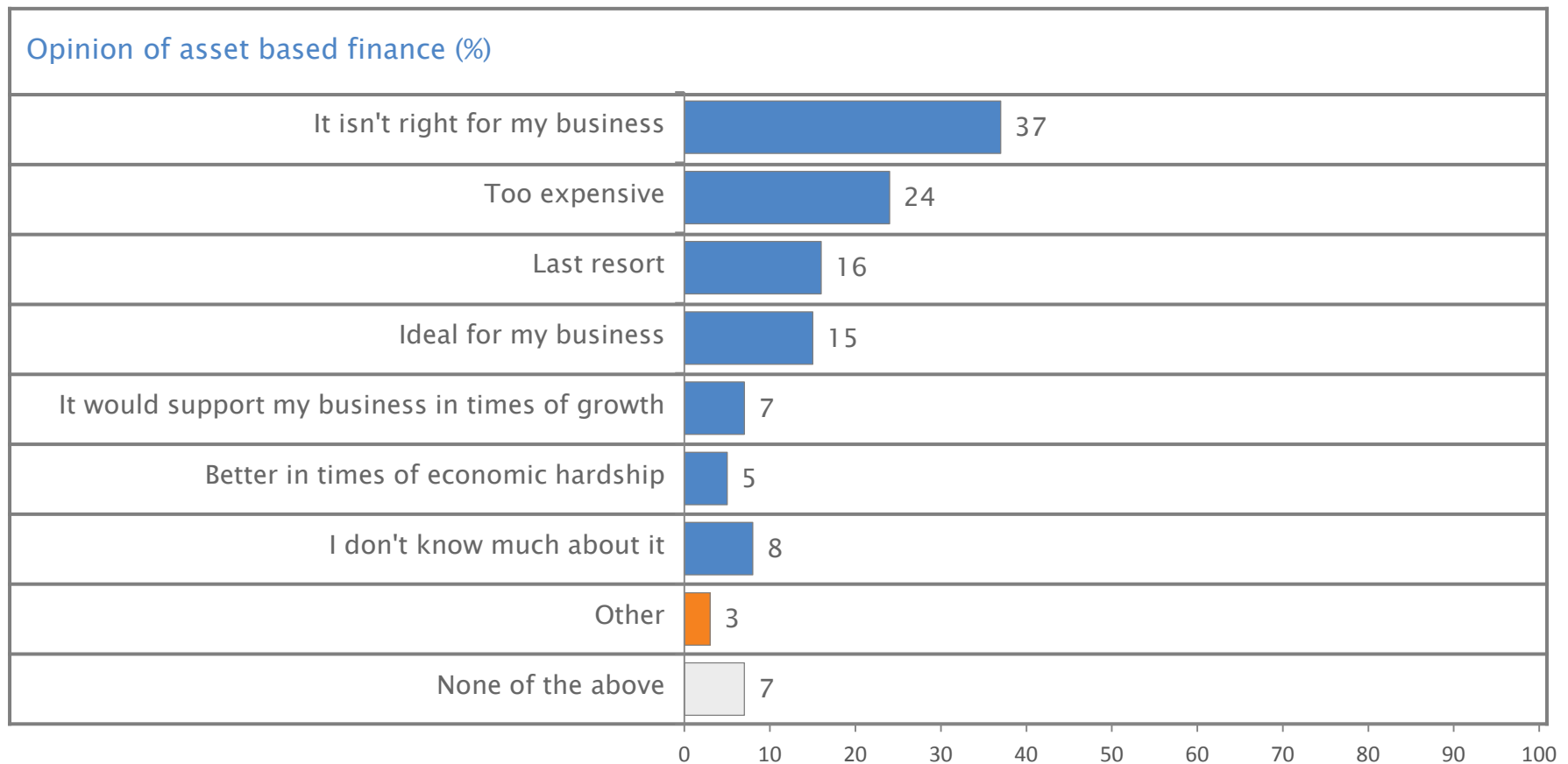
Base: 277 (all)

Opinion of asset based finance



MORE THAN one third of respondents don't think that [asset based finance](#) is right for their business, with one in four believing it to be too expensive as a funding solution.

Just 15% think it is right for their business, with 8% admitting that they don't know much about it in and amongst the range of other commercial finance solutions on the market.



Base: 275 (all)

Routes to finance



Types of finance currently used (%)	Oct '11 (395)	Oct '12 (387)	Sep '13 (284)	Variance
Existing cash flow	51	48	51	↑
Business credit cards	49	44	45	↑
Bank overdraft	48	37	42	↑
Asset finance (including HP & leasing)	23	21	28*	↑
Bank loans	24	23	23	↔
Invoice finance (including factoring & invoice discounting)	17	21	22	↑
Loans from family & friends	20	11*	19	↑
Personal credit cards	18	15	15	↔
Credit insurance	7	6	8	↑
Government schemes	3	4	3	↓
Venture capital funding	2	2	1	↓
Export finance	0	1	1	↔
Other	3	2	3	↑
None of the above	7	8	8	↔

* Significantly different from the total score at 1% significance level
Base: 1,066 (all)

About Hilton–Baird



AS the UK's leading independent commercial finance broker, Hilton–Baird Financial Solutions specialises in identifying the exact funding needs of businesses and matching them with suitable funding providers in the UK and overseas.

Hilton–Baird's independent status has enabled the company to foster strong relationships with more than 70 dedicated lenders, ranging from major banking groups through to smaller boutique funders. This objective approach and market expertise delivers real benefits for clients, enabling the right business solution to be sourced and ensuring that Hilton–Baird always delivers positive and innovative financial solutions allied to exact business requirements.

Established in 1997, Hilton–Baird Financial Solutions has helped in excess of 5,500 businesses in this time. It is part of the Hilton–Baird Group, one of the UK's leading independent business finance groups consisting of a team of 50 professionals with expertise in all aspects of commercial fundraising and risk management across a wide range of industries and sectors.

The emphasis Hilton–Baird places on delivery of a tailored service that meets all of our clients' needs is central to its business proposition and has played a large role in the company's growing success. As a member of the Asset Based Finance Association (ABFA), Finance and Leasing Association (FLA) and the National Association of Commercial Finance Brokers (NACFB), the company maintains the highest service standards at all times.

Hilton–Baird also recognises that its highly trained team is its true strength and is fully committed to supporting them, creating a vibrant working environment with a team that is dedicated to delivering beyond expectations.

Appendix



1 The Business Health Index incorporates the answers from two questions for each respondent:

Q1 Over the last 6 months, what shift have you seen in the following...			
	Increased	Decreased	Other
Bounced cheques from your debtors	-1	+1	0
Level of bad debts	-1	+1	0
VAT arrears	-1	+1	0
PAYE arrears	-1	+1	0
Profitability of your business	+1	-1	0
Turnover of your business	+1	-1	0
Q2 In the last 6 months, what activities has your business undertaken...			
	Yes	No	
Won new contracts	+1	0	
Entered new markets	+1	0	
Launched new products	+1	0	
Increased number of employees	+1	0	
Reduced number of employees	-1	0	
Closed or contracted premises	-1	0	

Best score: +10

(e.g. a company has grown and increased its profitability whilst reducing debt and/or VAT/PAYE arrears)

Worst score: -8

(e.g. a company has contracted in size and its profits decreased but debt and/or VAT/PAYE arrears increased)

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