



Hilton-Baird's SME Trends Index

September 2014



Introduction



“The sustained economic recovery, which has seen the UK outgrow its pre-recession peak, continues to be a source of increasing confidence for businesses across the country. Yet our experiences tell us that, in reality, confidence isn’t quite as high as one might expect.

“Many businesses – and particularly the smallest ones – continue to sit on their cash, wary of making bold investment decisions out of fear of what may lie ahead. Along with the well-publicised problems of late payment and the ongoing concerns regarding winning new orders, businesses continue to struggle to access the funding they need to maintain healthy cash flows and help fund growth.

“Now in its fifth year, this survey delves deep into the recent experiences of business owners and finance directors to understand how they’re performing, what their expectations are for the future and which aspects are holding them back. Access to finance features highly in this regard, as many respondents point the finger of blame in the direction of the lenders and government for a perceived lack of support.

“We feel that the findings contained in this report are invaluable in providing insight into what drives businesses to review their funding arrangements and where they turn when searching for new facilities, especially given the rate at which the funding market evolves.

“We hope that you find this study interesting, insightful and, most importantly, useful in your everyday efforts in running a business.

“I would like to thank everyone who participated in this research for their honest assessments of their business’s position, and for helping us to really understand what challenges you face on a daily basis. This insight will help us in our everyday efforts to help businesses just like yours.

“Each completed survey we received prompted us to donate £3 to ChildLine, allowing us to raise a total of £654 for this wonderful charity.

“Thank you for your continued support.”

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 over 3,000 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.

This latest wave of research was conducted throughout September 2014, generating 238 responses that provide a valuable snapshot of the evolving and current business sentiment.

Key findings



British businesses are financially healthier than they have been at any point since our very first SME Trends Index was conducted in November 2010. By taking into account a range of factors, including trends in turnover, profitability, bad debt levels and tax arrears, the Business Health Index increased to 1.61 in September 2014.

A natural result of this is that businesses are growing increasingly confident about the future. 55% of respondents now expect their company to expand over the next six months, which is also a record high for the survey.

However, unease remains over their ability to win new business. More than one in three now say generating new business is their primary concern over the next six months, ahead of customers taking too long to pay and general cash flow management.

Also of concern is businesses' ability to access funding. Exactly half of the business owners and finance directors questioned said that the level of funding support that's available from lenders and the government is inadequate, with 16% seeing at

least one funding application rejected in the past 12 months.

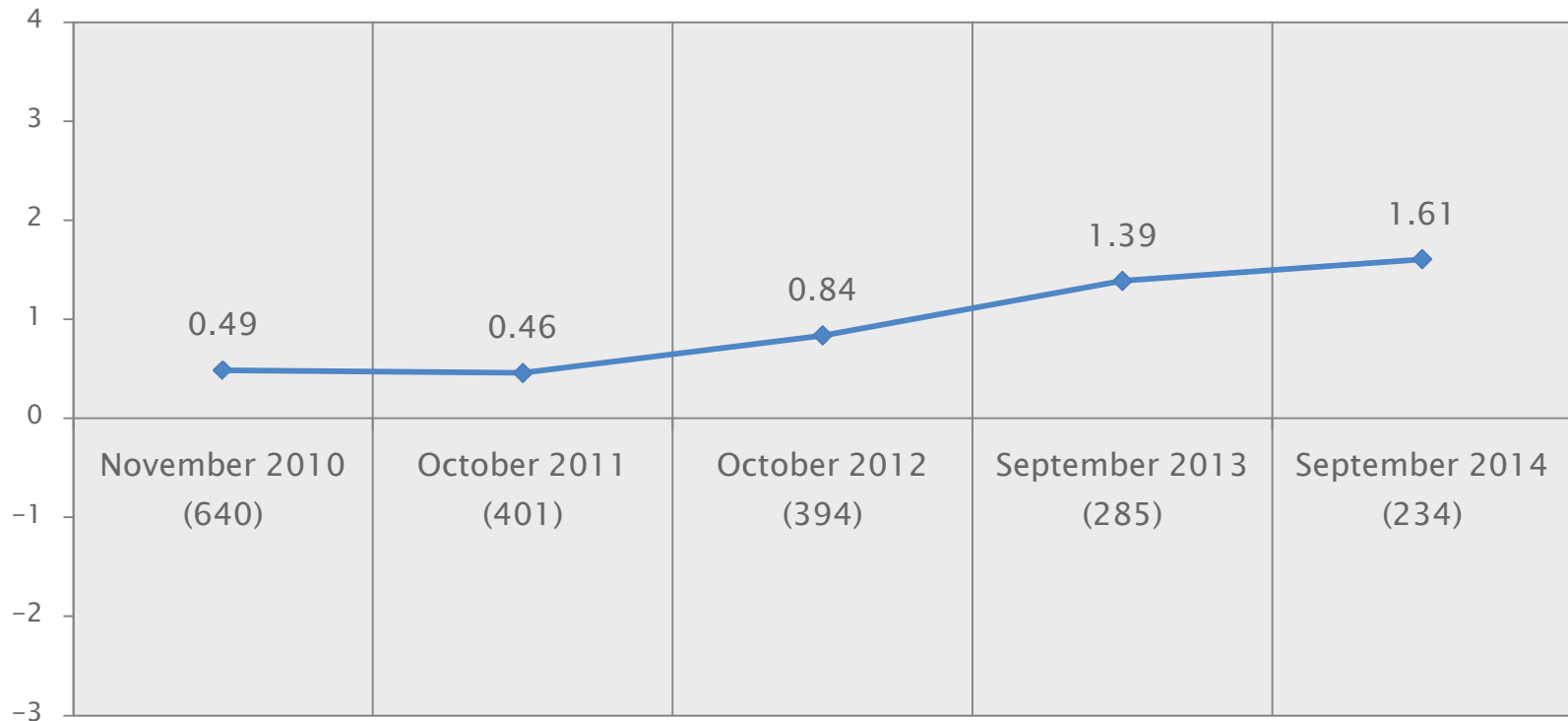
When searching for new funding, 50% of respondents approach their current bank manager for assistance, with more than one in four relying on their in-house expertise. But when reviewing their existing facilities, reducing costs is the key driver for 57% of businesses, far ahead of accessing additional funding (32%) or obtaining a better service (17%).

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 2014 to its highest level since the survey began in November 2010.

This marks the third successive year in which this Index has increased, a result of annual increases in the proportion of businesses reporting a rise in turnover (50%) and profitability (41%) during the past six months.



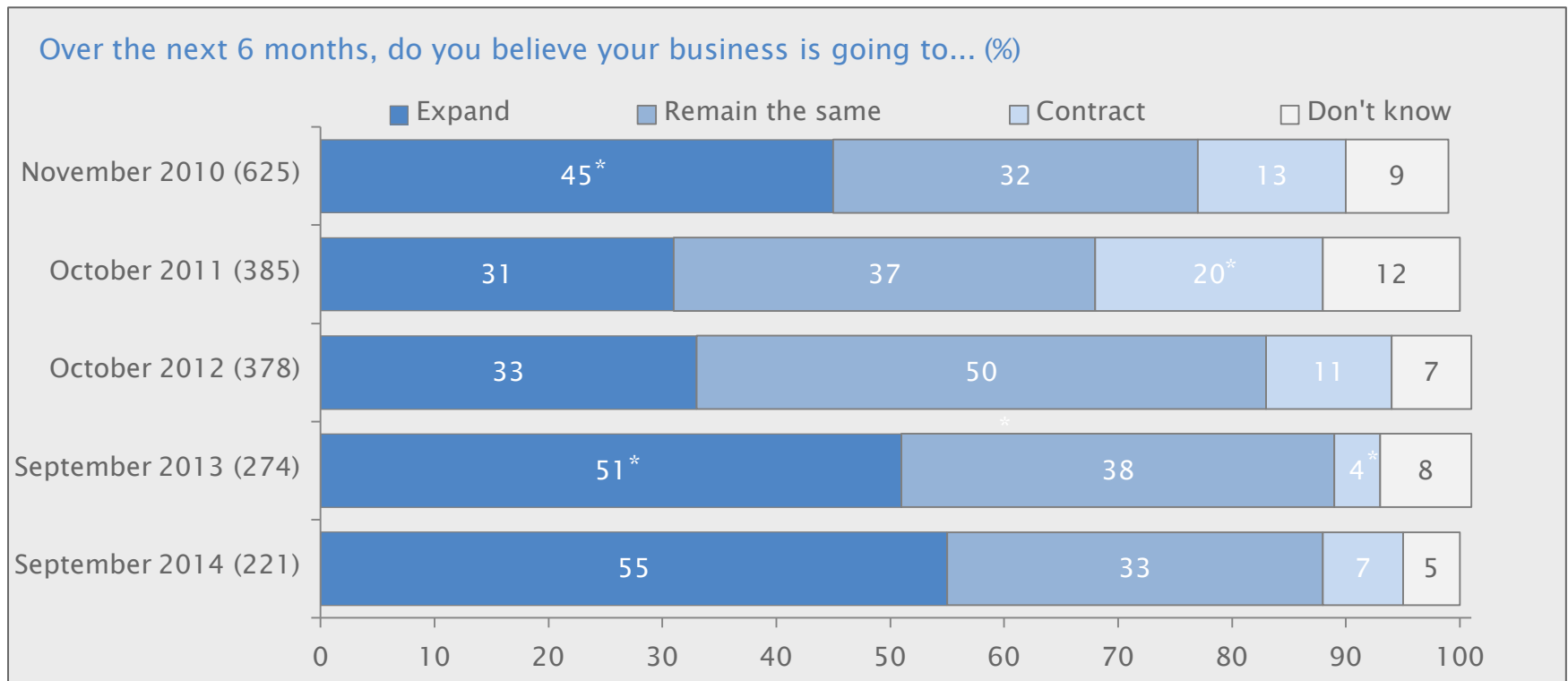
¹ See Appendix for an explanation of how the Business Health Index is calculated
Base: 1,954 (all answering questions 1 & 2)

Business confidence



There was an annual increase in the proportion of respondents expecting their business to expand in the next six months. 55% anticipate expansion, which is the highest figure recorded since the survey began in November 2010.

However, there was a small increase in the proportion of businesses expecting to contract over the next six months, rising from 4% to 7% on an annual basis.



* Significantly different from the total score at 1% significance level
Base: 1,883 (all)

Business concerns



Generating and winning new business remains the primary concern for businesses over the next six months, with the proportion reporting this increasing on an annual basis.

Customers taking too long to pay increased as respondents' primary concern over the same period, climbing above managing cash flow into second place.

Biggest concern for next six months (%)	Sep '13 (281)	Sep '14 (228)	Variance
Generating and winning new business	30	35	↑
Customers taking too long to pay	16	17	↑
Managing cash flow	17	15	↓
Inability to access funding	11	10	↓
Rising material / fuel costs	12	9	↓
Rising inflation	2	1	↓
Rising interest rates	1	1	↔
Other	5	6	↑
No concerns	5	4	↓

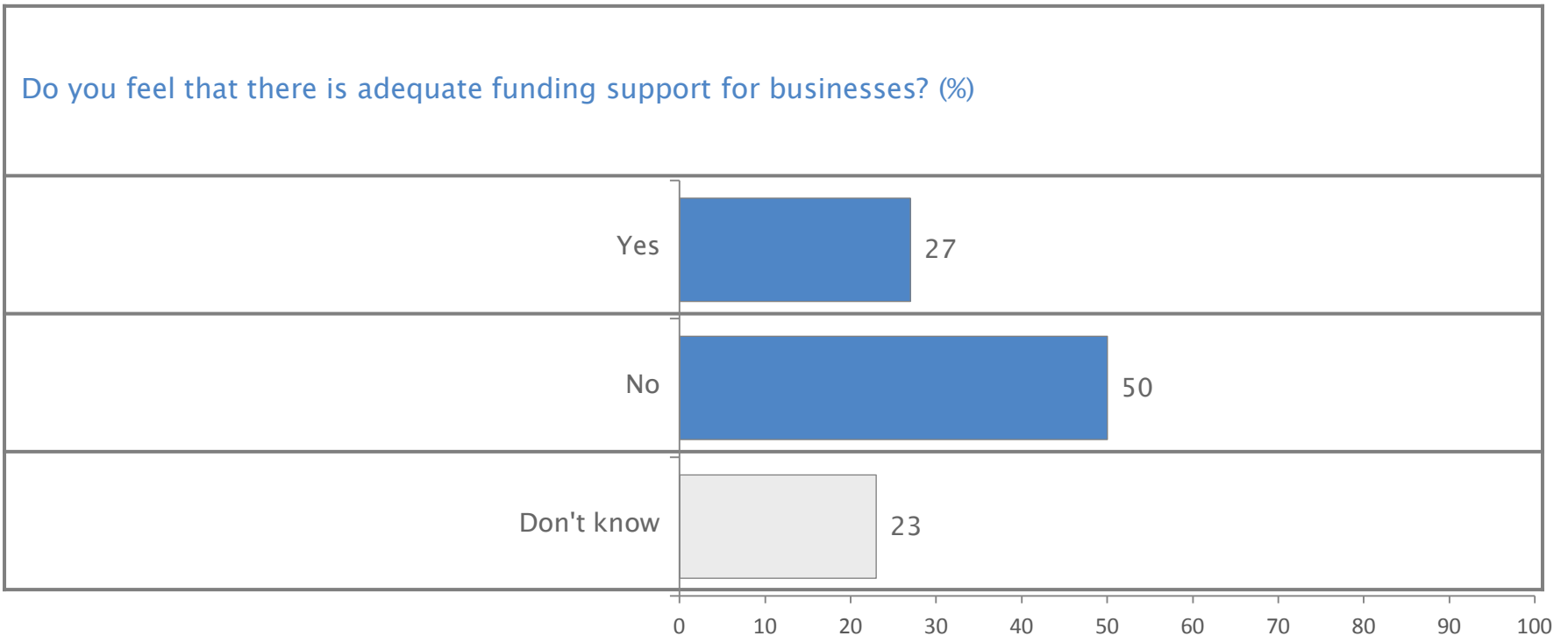
Base: 509 (all)

Level of funding support



Exactly half of the respondents believe that the level of funding support that's available to them from lenders and the government is inadequate.

Only 27% feel that the level of support is adequate.



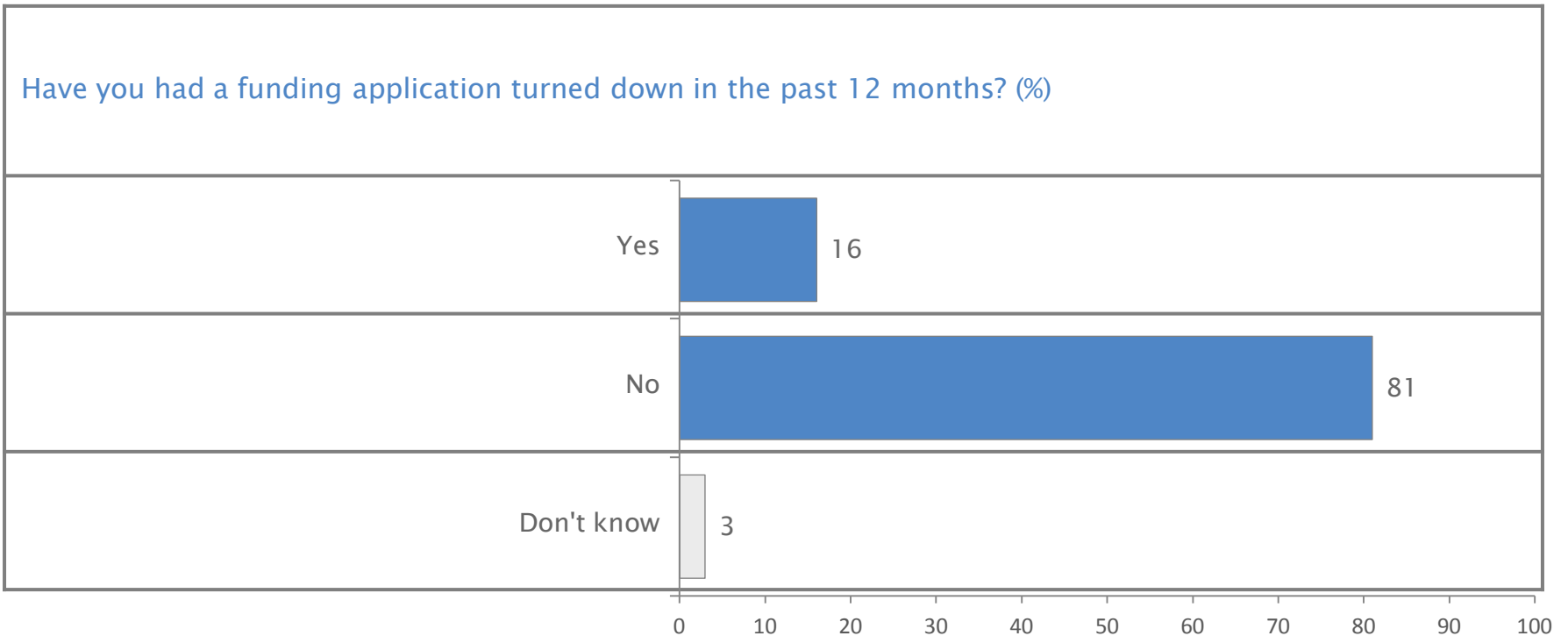
Base: 228 (all)

Funding application success



More than one in seven businesses have had at least one funding application rejected in the past 12 months.

However 81% of respondents have not had a funding application rejected during the same period.



Base: 222 (all)

Sources of funding assistance



When searching for new funding, exactly half of respondents turn to their current bank manager for assistance.

Just over one in four rely on their in-house expertise, with fewer than one in five turning to an accountant/IFA and only 13% using an independent finance broker.



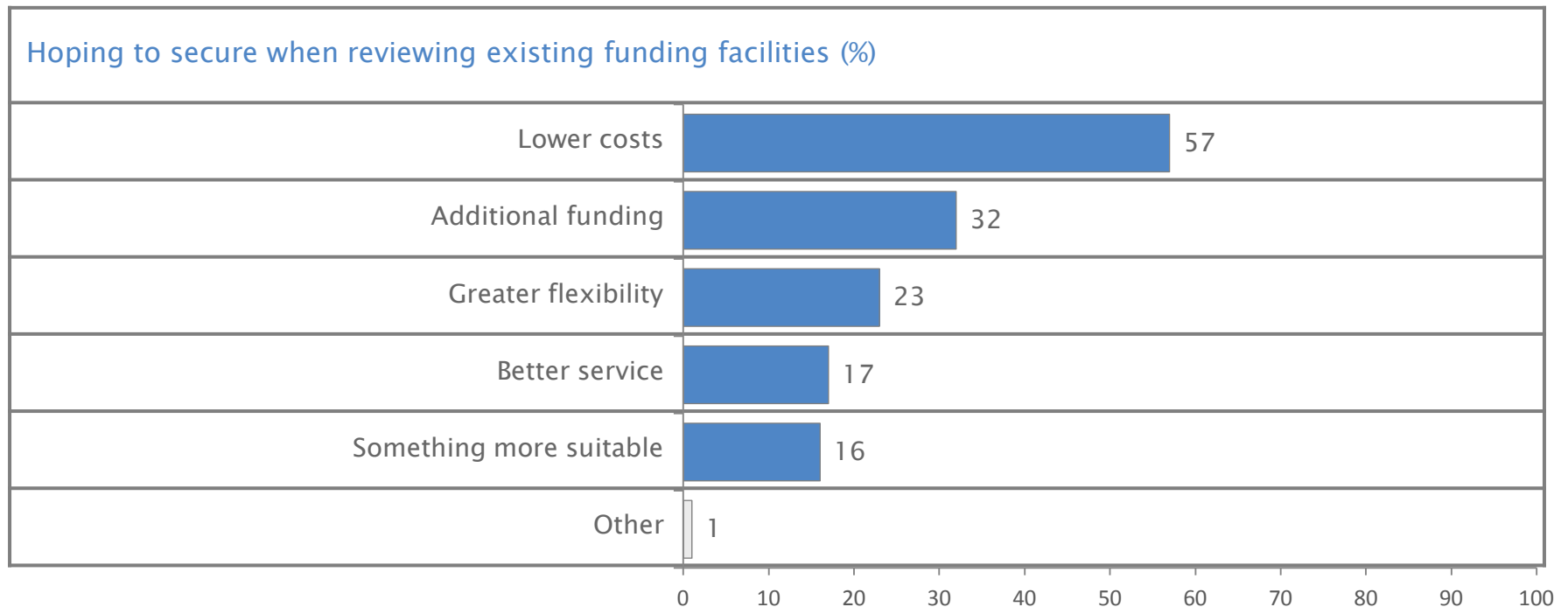
Base: 204 (all)

Objectives of reviewing funding



When reviewing their existing funding facilities, securing lower costs is the primary objective for more than half of the respondents.

Fewer than one in three are simply on the hunt for additional funding, with 17% looking for better service levels from their funding provider.



Base: 197 (all)

Routes to finance



Types of finance currently used (%)	Sep '13 (284)	Sep '14 (231)	Variance
Existing cash flow	51	56	↑
Business credit cards	45	47	↑
Bank overdraft	42*	30	↓
Asset finance (including HP & leasing)	28	29	↑
Bank loans	23	21	↓
Invoice finance (including factoring & invoice discounting)	22	21	↓
Loans from family & friends	19	17	↓
Personal credit cards	15	12	↓
Credit insurance	8	9	↑
Government schemes	3	3	↔
Export finance	1	2	↑
Venture capital funding	1	1	↔
Other	3	3	↔
None of the above	8	7	↓

* Significantly different from the total score at 1% significance level
Base: 515 (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)

Contact details



Hilton-Baird Financial Solutions
Ashwood House
Ashwood Gardens
Southampton
SO16 7LF

+44 (0)23 80 707390
+44 (0)23 80 707391

info@hiltonbaird.co.uk
www.hiltonbaird.co.uk/fs

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