

## About us



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SME success in  
challenging times:  
**Bank finance**  
– lost in  
translation



## Foreword

In welcoming this report, I would like to thank Professor David Gray, from the University of Greenwich, and Professor Mark Saunders and Harshita Goregaokar, from the University of Surrey, for producing such an excellent and useful piece of research which builds on their work from last year while expanding our understanding of an important area of economic activity.

Since last year's report, SMEs have only grown in their importance to the UK economy. In 2012, 4.8 million SMEs employed 14.1 million people with an estimated combined turnover of £1,500 billion, over 48% of the UK private sector. From these figures, it is easy to see the impact that SME access to finance has on the wider UK economy.

'Success in challenging times: Key lessons for UK SMEs' identified access to finance, specifically cash flow and liquidity, as a major factor in determining the success or failure of a small business. It also highlighted how successful small business owners and entrepreneurs sought more financial advice and attached greater importance to access to finance than their more mediocre contemporaries. Contrary to popular belief, only a minority of SMEs (20-25%) seek finance within any one year and the majority of these SMEs (74%) obtain it. Encouraging as this is, it does leave a significant number of viable and potentially highly successful small businesses unable to access the finance they need and the research highlighted structural failures in the lending market.

In seeking to address these structural failings, this report includes first-hand information gathered from face-to-face interviews with the senior lending policy makers of four major banks and one challenger bank, as well as business owner-managers from a range of sectors. It demonstrates the paramount importance of understanding lending criteria in successful loan applications.

The opacity of banks' lending criteria and processes are a barrier to SME lending and feedback for unsuccessful loan applications is frequently inadequate and unhelpful to the applicants. More transparent processes and better publicised lending criteria from banks would be a major improvement. However, this would still require SMEs to do the necessary research and prepare their applications properly, with a view to the individual bank's lending criteria.

The findings and recommendations contained within this report would, if implemented, go a long way towards resolving these market failures.

I hope that it will be of interest to small business owners, bankers and policy makers so that the competitiveness and productivity of all UK businesses can be improved.

**Sir Michael Snyder**  
Senior Partner  
Kingston Smith LLP

November 2013



## Executive summary

The conventional wisdom, not just in the UK but also internationally, is that the major banks are not interested in lending to small and medium-sized enterprises (SMEs). One of the main factors cited is that banks find it difficult to gauge whether SMEs have the capacity and/or willingness to repay their debts. In contrast, some studies suggest that most SMEs seeking external funding are successful in their applications.

The current study sets out to investigate the truth of these seemingly contradictory claims and makes recommendations for improvements in SME access to bank finance. In conducting the study, the authors made use of their 2012 national survey on the triggers for SME success (with over 1,000 SME responses), and secondary data analysis of government reports, with new data gathering methods using two SME focus groups, five in-depth SME case studies, and analysis of the major banks' SME lending policies as presented through their websites.

Access was obtained to interview the senior lending policy makers of four major banks and one challenger bank.

Research revealed that the majority of SMEs seeking routes to finance avoid banks and traditional financial institutions. The main source of finance used by SMEs to start their business is personal/family savings, with more established SMEs using retained profits. Although banks are used by SMEs, they are not the primary source of finance. From an SME perspective, not only do banks not provide the capital required, but they also seem to know very little about what businesses (particularly small businesses) need. However, the picture is more nuanced than this. Of those SMEs that seek access to external finance, banks are still the primary source. Furthermore, and contrary to popular myth, the majority of SMEs seeking finance from banks do obtain it. This situation, however, has deteriorated. Before the economic crisis of 2008, 90% of SMEs seeking bank finance successfully attained it, a figure which fell to 74% in 2011. This partly helps to explain the growth in importance of alternative sources of finance such as business angels, peer-to-peer lending and crowd funding.

Drawing upon the literature reviewed, the two focus groups with SMEs, and the five bank interviews, a number of key findings were derived. These are presented in summary form on page 4 and recommendations can be found on page 13.



## Context

In 2012, Kingston Smith LLP commissioned the University of Surrey to undertake a major UK study to identify the triggers for success in challenging times amongst well-established and sustainable small and medium-sized businesses (SMEs), that is, businesses with fewer than 250 employees. The research was successful in eliciting over 1,000 survey responses, and hosting 13 SME focus groups across the UK and conducting 20 detailed, qualitative case studies of successful SMEs. One significant finding of the research was the attitude of SMEs towards banks, which ranged from disappointment to contempt. Personal and family savings and reinvested profits were the primary sources of finance, with many SMEs reporting that not only do banks not provide the capital required, they seem to know very little about what SMEs need. These negative views of banks are well represented in the UK media. Banks, however, report a very different story, claiming that they are lending to SMEs and supporting them. So what is the truth? Kingston Smith LLP commissioned a further study by the Universities of Surrey and Greenwich to see which perspective is right. Are both sides telling their own versions of the truth, and is the dialogue between them, for some reason, getting lost in translation?

The current study builds upon the 2012 survey and includes extensive secondary data analysis of government reports on the banking sector; it also features new primary data gathered through interviews with senior SME lending policy makers from four of the UK's major banks and a challenger bank, as well as data gathered from two SME focus groups and five SME qualitative case studies.

## Acknowledgements

We would like to thank Kingston Smith LLP for financing this research project and in particular the many banks, businesses and individuals that took part in the focus groups, interviews and provided case studies. Special thanks go to Paul Samrah, Chris Lane, Simon Bussell, Annie Knightly, Rebecca Stones and Lizzie Whitlock of Kingston Smith who worked so constructively with us on the project.



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## Summary of key findings

### Key finding one

**SMEs' perceptions of banks' lending policies are more negative than they need to be**

- Many SMEs perceive bank lending policies to be more negative than they actually are and so do not seek finance.
- Bank lending is more internally regulated than in the past, with banks now required to undertake more due diligence. Although banks are lending to SMEs, bank funding has adjusted to a new, lower, post-2008 norm.
- SMEs' negative perception of banks is influenced by the media.
- Traditional banks should consider improving their accessibility, for example by extending their hours of business.

### Key finding two

**SMEs would benefit from greater clarity regarding banks' loan application processes**

- Many SMEs are unaware of, and, do not fully understand banks' or other providers' loan application processes, including the need to share the financial risk.
- Banks' web pages for business loans (for SMEs) differ markedly in their ease of navigation.
- Banks differ as to whether SMEs are required to have any face-to-face contact with a bank representative during the loan application process. Some personal contact is generally preferred by SMEs.
- Some banks provide a checklist of the information required for a loan application.

### Key finding three

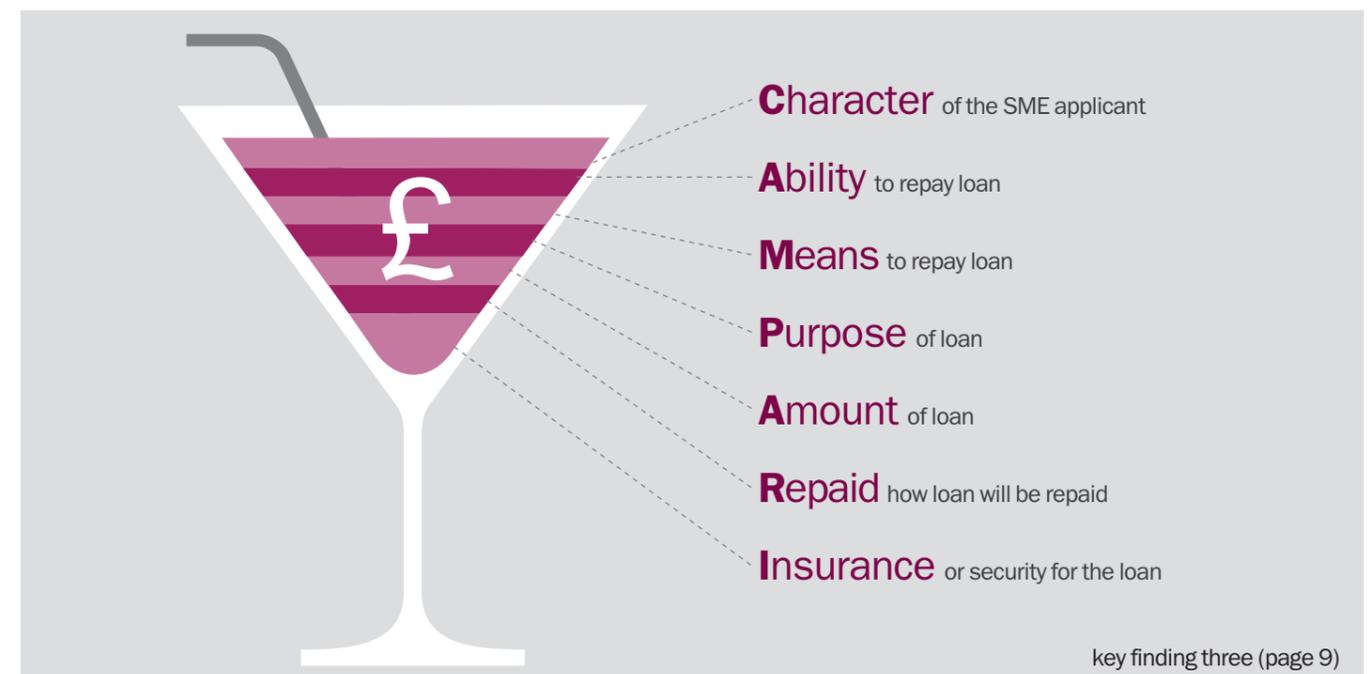
**SMEs are often unaware of banks' lending criteria**

- For the majority of SMEs, each bank's lending decision criteria is a black box, about which they have very little knowledge.
- Many SMEs seem unaware of the need to have both a good credit rating and the need for a realistic business plan, showing growth projections and a sensible level of borrowing linked to a clear purpose.
- Bank lending decisions are made on the basis of a commercially acceptable risk. This comprises two key aspects: firstly, the extent to which the business idea is convincing (as opposed to poor) and, secondly, the quality of financial acumen. In particular evidence of the SME's ability to make good (as opposed to naïve) judgements based upon experience is important.
- SMEs that can build convincing business plans that demonstrate genuine market potential but are let down by poorly informed financial planning are 'good misses' because, with help and better business advice, they can be funded.
- All bank lending decisions involve a considered assessment of available data against criteria rather than just a mechanistic 'scoring system'.

### Key finding four

**Subsequent to the loan decision, banks' feedback and support offered to SMEs is often unclear and inadequate**

- Where banks refuse to offer an SME a loan, they stress that feedback is given and that the SME has the right to reapply for a loan.
- Subsequent to loan decisions being made, SMEs, however, feel that feedback from banks is lacking even where applications have been successful.
- Some SMEs consider banks are not qualified to support them. In contrast, some banks consider this is not their role, arguing that such support is better provided by third party specialists.



key finding three (page 9)

## Key finding one

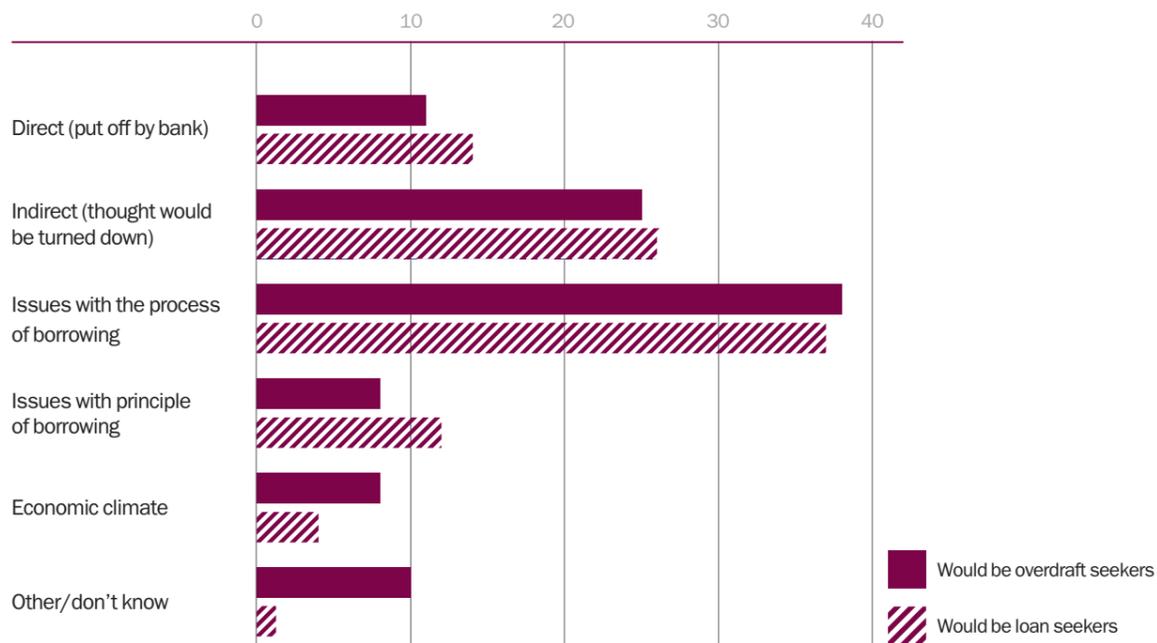
### SMEs' perceptions of banks' lending policies are more negative than they need to be

The two SME focus groups supported research by BDRC Continental that many SMEs perceive banks' lending policies to be more negative than they actually are.

Many SMEs had either personal stories regarding a loan refusal or recounted how other SMEs they knew had been refused funding. They also highlighted stories in the media regarding banks not lending, arguing that "an awful lot of SMEs would not even try [to obtain a bank loan]". Some (happy non-seekers) stated they had not sought, nor were they willing to seek, funding for their businesses. Invariably SMEs made comparisons to pre-recession times, when finance was easier to obtain, some arguing it was too easy: "Pre 2007 I wouldn't have had to give any security and my business model wouldn't have to be anywhere [sic] as robust as it was... I think now it is probably easier to get... More banks are talking about lending at the moment than they were one to two years ago."

A number of those in the SME focus groups, including those who were initially refused, had subsequently been able to secure bank funding, having established a trading history. One, not atypical, business owner talked about making multiple requests for an overdraft facility, commenting how, after two years, "he [the business manager] eventually agreed and sent me an email". In this example, as with others, the owner was unclear regarding why funding had suddenly been granted when it had been previously refused. A minority of those in both SME focus groups highlighted positive experiences when seeking finance, particularly with regard to advisory staff in challenger banks being available outside traditional banking hours.

#### Barriers to SME 'would be' finance seekers (%)



Source of data: BDRC Continental (2013)

Bank interviews, which were conducted with senior lending policy makers, affirmed a current climate in which securing bank funding is more internally regulated than in the past, with banks being required to undertake more due diligence. These policy makers argued it was a "readjustment to a new norm" one referring to it as a "return to good, old fashioned [banking] practices". Another commented: "Clearly there were banks that lent money that shouldn't have been lent to SMEs and I think this has had a negative impact...". All interviewees highlighted their own bank's "cautious optimism" in 2013, stressing they were "open and looking for business" from "quality borrowers". A number of bankers cited higher loan approval rates over the last six months as evidence, whilst others talked about a growth in net lending to SMEs against an overall contraction in business lending. However, they also stressed that start-up SMEs rarely come to the bank for business finance, preferring to use other sources, with many initially continuing to use their personal accounts for business banking.

One bank's senior lending policy maker commented: "If I was an SME I think I might not approach the bank because I'd think I was going to get told 'no' because that's what the press tell me". They also noted that many SMEs wanted to "grow organically and structure the business accordingly", an observation reinforced by the focus groups with SMEs.

**Contrary to popular myth, the majority (74%) of SMEs seeking finance do obtain it.**

## Case study 1

# PRMS Limited



**Business type:** Ethical debt recovery consultancy services

**Founder & Managing Director:** Clayton M Coke

#### Background

Founded in 2002, PRMS provides services for recovering debts and other monies owed to businesses via a structured, ethical mediation-based approach. The consultancy works with SMEs to manage their debt recovery and cashflow, whilst protecting their reputation and brand through the process.

PRMS has enjoyed steady growth over the last three years. The expansion of the company has been financed from its profit, rather than by borrowing from the banks.

#### Director's viewpoint

Clayton believes that since the financial crash of 2008, debt recovery has been taken more seriously. However, he remains sceptical about his chances of obtaining a bank loan even if he wanted one: "No one is going to give you a loan to collect debts," he explains. "I pour the money back in to the business".

Clayton has, however, noticed an increase in the activity by banks, particularly in relation to business networking events, even though he feels small businesses like his who don't often come into contact with banks like to "rough them up a bit" by criticising them in public. He is cynical about bank involvement in such events, commenting that, while banks say they will work with an SME to nurture a business idea, if a plan has already been established they are unwilling to fund it, preferring to plan with the SME from the beginning.

He thinks the banks are misleading, believing that they will want to place a claim on personal property or a director's guarantee; he comments: "These guys can't lose". Clayton comments that even if a business fails, banks get their money back. He also notes that a challenger bank now runs its own networking events, which bring people into the bank, in the hope that they may become customers.

**While banks say they will work with an SME to nurture a business idea, if a plan has already been prepared they will not fund it, preferring to plan with the SME from the beginning.**

#### Director's tip

Being in the debt recovery business, Clayton knows how quickly businesses can fail. He advises SMEs not to spend more than they can realistically afford to repay and to work out whether their plans are genuinely feasible before committing themselves.

## Key finding two

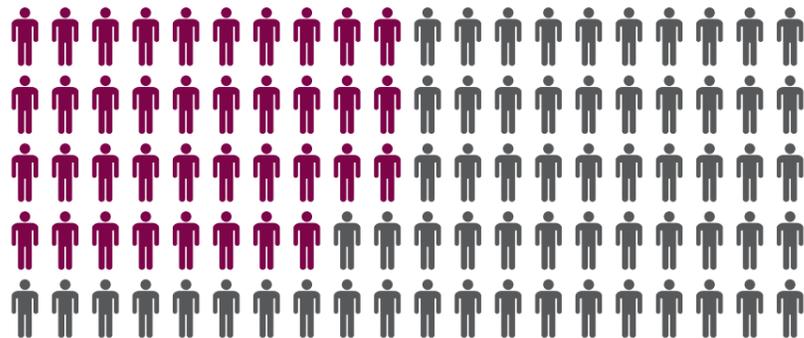
### SMEs would benefit from greater clarity regarding banks' loan application processes

Websites such as *Moneysupermarket.com* offer up-to-date overview comparisons between banks, covering their business accounts, and the lending products on offer from a range of providers. The major banks, along with challenger banks, offer some form of 'start-up' account for new SMEs. These are normally fee-free for between 18 and 24 months and, for most, include a 'negotiable' overdraft facility. Switcher accounts are also available for existing SMEs. Banks, along with other providers such as *Wonga.com* and crowd funders, such as Funding Circle, offer business loans to SMEs. These loans are also dependent upon meeting certain criteria (see key finding three, on page 9).

### Many SMEs are unaware of, and do not understand, banks' or other providers' loan application requirements.

These websites provide a basic overview of some of the lending products available. Findings from the two SME focus groups support research which shows that many SMEs are unaware of, and do not understand, banks' or other providers' loan application requirements. For some, there was a perception that the process would be both difficult and time consuming. Focus group participants talked of their own, and others', "frustration of finding the person to unlock the loan" using phrases such as "break through the system". For most, this perception was reinforced by conversations with other SMEs, media reports and the complexity of banks' websites. However, a minority did understand the application requirements, how the system operated, and the need to build a relationship with their bank.

Our 'walk through' analysis of banks' business banking websites, in the context of an SME seeking to obtain a loan, highlighted banks' SME web pages differed markedly in the ease of navigation that the amount of information available regarding the offerings to SMEs, and the application process itself.



Source of data: BDRG Continental (2013)

For the majority of banks' websites, product details could be reached in two clicks. However, for a minority, multiple clicks through a series of up to five pages were needed to reach details of a particular loan product. Most banks kept the use of technical language and jargon to a minimum.

### There was a perception that the process would be both difficult and time consuming.

All banks expected applicants to have an existing business account; in most cases, the account needed to be with the prospective lender. Whilst some banks allowed online or telephone applications for smaller loans from existing customers, for others the process necessitated discussions with the bank's loan consultant or manager. Some banks included an interactive loan calculator allowing customers to conduct 'what-if' simulations for different loan periods, payment terms and interest rates. For these it was stressed the lending figures were only indicative. Others expected the applicant to consult a business manager. Explanations of the loan application process were provided, although once again these varied markedly in the level of detail. A few provided a checklist of the information required for the actual application.

A minority within the SME focus groups seemed surprised that they were required to have an account with the bank from which they were seeking a loan. Some also spoke of their surprise that they were expected to provide security for the money they borrowed. In contrast, banks expected the SME to share the risk, providing some form of security, matched funding, or both.

## Case study 2

# Hair by Robert John

**Business type:** Hairdressing

**Finance Director:** Caroline Cherryman

### Background

Hair by Robert John is a hairdressing business, started in 2008 through the acquisition of a local business and its subsequent expansion. A lack of local competition was identified, providing confidence in success at the outset, especially given the location of the business in a highly populated, affluent area of the South East. Hair by Robert John is very much a family-owned and run business. The team comprises a mother, father and two grown-up children who, between them, have experience in hairdressing itself, in addition to that of sales, marketing and finance. They have succeeded in increasing sales from £50,000 to £200,000 a year within a five year period. As a result of this year-on-year expansion, they now employ a further six members of staff, two part-time, four full-time, and are about to take on another (who will be bringing with them additional clients).

Before they bought the business, the family devoted several months to writing the most comprehensive and detailed business plan they could. This involved researching what banks were looking for in terms of business plans. Banks were considered as the first port of call, because the family believe it's easier to have a loan in the same place as other finance. In the first instance, they approached the bank that they had used for 30 years, seeking a loan of £84,000; however, the bank would only offer two thirds of this. So they approached a business broker (which they found through a Google search), who recommended another high street bank offering the most competitive rates. The bank believed that the business plan was so strong that they granted 100% of the loan requested. The loan was secured on the equity of the house rather than through them having to put up any of their own hard cash (which they did not have). Before the loan could be accessed, they arranged a £7,000 overdraft with their bank, to stay financially 'comfortable' for a couple of weeks to cover cash flow and pay suppliers. Beginning with the immediate refurbishment of the business premises, they used personal credit cards to fund operations (which could be paid off quickly once the bank loan materialised).

Today, the business continues to grow. The previous owner stayed on to deal with her own, long-standing clients, but they are gradually reducing. The family is now looking to build up clientele with greater spending power. Stepping up the business also involves recruiting new members of staff who bring in new clients. Success is based on referrals, incentives and loyalty schemes; the team is constantly looking at customer care and marketing.

**They don't really connect with you; you have to connect with them! But banks do change their policies, so being refused once does not necessarily mean being refused in the future.**

### Director's viewpoint

Most people rely on simply having a good business idea, Caroline explains, but she believes business owners should also understand finance, cash flow and projections. Her business plan, which was successful in securing the company's loan, is still an operational document; it is frequently reviewed and amended, as necessary. Caroline comments that owners need to know what is going on around them and connect to customers. She notes that they also need to keep putting money into the business; that never stops.

Caroline believes that banks could try harder to connect with businesses, commenting: "They don't really connect with you; you have to connect with them!" But banks do change their policies, so being refused once does not necessarily mean being refused in the future.

### Director's tip

Caroline maintains that the key to accessing bank finance is to have a good business plan that is based on market research. She explains: "It was not just a case of convincing the banks, but convincing ourselves that this would work!" Putting up the home for security, she notes, was another key factor in securing the loan.

Additionally, Caroline advises SMEs to make sure they have a good relationship with their bank, based on a good credit rating. Convince the bank that you are a safe option, she says, and keep talking to them. Finally, she suggests approaching a broker and having a look at grants as a possibility.

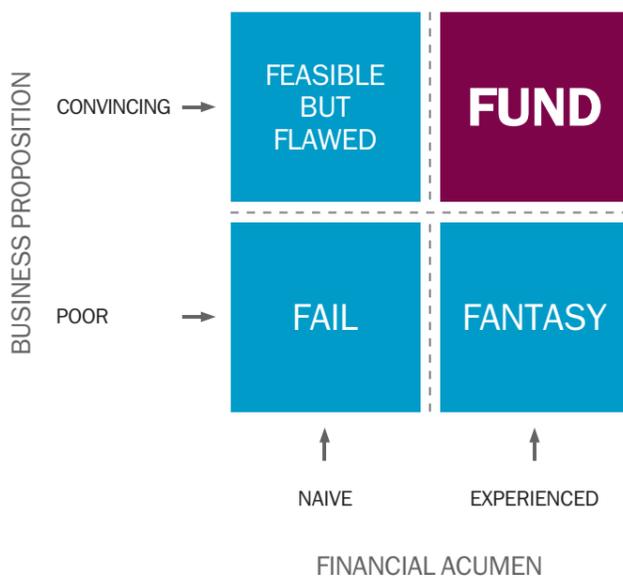
## Key finding three

### SMEs are often unaware of banks' lending criteria

SMEs' understanding of how banks make lending decisions varies markedly. However, for the majority, the lending decision process is a 'black box', about which they have very little knowledge.

Many SMEs seemed unaware that banks expected them to invest in their own businesses and, for example, match the request for a loan with funding from their own savings or the business itself as well as providing some form of security for the loan (such as property). They also appeared unaware that, whilst some banks lent "across the SME range", others emphasised certain business models such as franchising, or had a particular focus such as international SMEs. They were also unaware that, because of the need to have a balanced lending portfolio, a bank's inclination to lend to a specific sector is likely to vary over time.

Banks take a calculated risk and will turn down loan applications they consider to be too risky. In relation to this, many SMEs seemed unaware of the importance of having both a good credit rating and the need for a realistic business plan, showing forecasted growth and a sensible level of borrowing linked to a clear purpose. Others, whilst recognising this, considered that banks were too concerned with minimising their own lending risks, typical comments being, "no matter how good the plan, they [the banks] lean on personal assets," and "they just want a 100% guarantee". For some, it was clear that some form of relationship with the bank was important when applying for a loan. So far as banks are concerned, the importance of a relationship with the SME was also highlighted. A comment from a senior lending policy maker was: "If you've been a customer with us for a couple of years and you hit a hurdle, or you're about to go on a growth plan, you stand a much better chance because we've got to know you".



### Bank lending to SMEs

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All banks highlighted that, as businesses, they only make loans to SMEs where they consider it commercially viable. Consequently, lending decisions are made on the basis of acceptable risk, with SMEs being required to demonstrate evidence of both a convincing business idea and financial acumen (See 'Fund' in matrix below).

However, where one of these criteria is not met, there are 'good' and 'bad' misses as well as outright fails. SMEs that have poor business plans with no credible ideas are, even if they appear financially astute (See 'Fantasy' in matrix below), bad misses, because their business ideas are commercially unsound. However, SMEs that can build convincing business plans that demonstrate genuine market potential of their ideas but are let down by their naivety or poorly informed financial planning ('Feasible but flawed') are 'good misses' because, with help and better business advice, they can be moved to the 'Fund' quadrant. Where SMEs meet both criteria but are unable to offer security on the loan, Government schemes such as the Enterprise Finance Guarantee Scheme may be used to reduce the level of risk to banks.

Banks were also keen to stress that the decision to fund involved more than just some form of 'lending model' or 'scoring system', emphasising that someone was always involved in assessing the data and making the final decision. It was not a case of "computer says no". Some senior lending policy makers, when talking about their lending application assessments, referred to the mnemonic CAMPARI:

**Character** of the SME applicant, **Ability** and **Means** to service the loan, the **Purpose** of the loan, the **Amount** and how it will be **Repaid** and the **Insurance** the bank would have, should the borrower have difficulties in repaying their loan. Where credit scoring was used, banks stressed that, whilst a poor credit score automatically disqualified an applicant, the reasons for this needed to be explained.

All banks emphasised that in coming to a decision, they tried to do what was right, even if it meant refusing to make a loan. They stressed that they needed to lend responsibly, a typical comment being "...we have a responsibility over and above just lending money in that, if the bank makes a wrong decision in this [the SME] sector, it might cost us an impairment. But for those customers I think they typically see if the bank says 'yes' to finance, they see that as a validation of their business plans and their aspirations".

## Case study 3

# MMV Sense Ltd

**Business type:** Smart technology for healthy living

**Director:** Luke Murrell

### Background

Founded in 2009, MMV Sense Ltd provides wearable wireless body sensors to businesses in conjunction with web and mobile services, to support health, fitness and wellbeing among employees. In January 2012 the company launched their first service called Activity4Charity, a team based six week corporate health challenge. Participants are given daily targets of physical activity and wear sensor devices that monitor their health-focused activities and transfer the data to the challenge website. The website includes team leader boards through which participants can see how others are progressing – generating a competitive edge. MMV Sense focuses on engaging companies that wish to motivate and educate their employees towards more physical activity and wellbeing delivering benefits in employee engagement and sickness absenteeism.

MMV Sense has recently started to target a wider audience: the average person who is not currently monitoring their sports activity in any way. The aspiration of director and co-founder Luke is to build a new global business in the area of mobile health. Luke believes that societal trends in the area of increases in chronic diseases, an ageing population and limits on government-financed health spending put a premium on fitness and wellbeing. It is his view that getting the working community into wellbeing programmes will keep them fitter up to retirement age and put fewer demands on the National Health Service.

Current turnover of the business is around £100,000 a year and growing, and 45 companies have to date participated in the programme. In addition to the two founders, MMV Sense employs one permanent member of staff, who deals with channel development (business to business) and one part-time, who supports the challenges and responds to questions. An external software company is commissioned to develop the platform.

The company was set up with funding from directors' loans, and within a year it had been successful in a grant application to SEHTA (South East Health Technologies Alliance), a body founded in 2005 by the South East England Development Agency. The grant was a matched funding grant and covered platform and software development of the company's first service and a research pilot with a London University. By 2012, the company was able to rely on retained profits. Even so, MMV Sense arranged a bank overdraft with its commercial bank to manage some short-term cash flow issues connected with the need to purchase digital sensors. The idea being to generate a credit history with the bank – in case the company should need larger overdraft facilities in the future.

## Financing an early stage technology company is inherently challenging since it requires a large upfront investment in R&D.

"Financing an early stage technology company is inherently challenging since it requires a large upfront investment in R&D. Secured bank loans with high interest rates was unappealing, so the company engaged in seeking capital in exchange for equity and initiated discussions with business angel networks and venture capitalists. The criteria of which is more appropriate, comes down to the stage the business is and the amount of money needed. Business angels typically invest in amounts below £500K and VC's above this amount though there is a fair amount of flexibility depending on who one speaks to, whether a syndicate is formed and the type of business." The company therefore contacted three angel networks in the South East, The Surrey 100 Club an angel investment network established by the University of Surrey, Finance South East (FSE) and Thames Valley Investment Networks (TVIN).

Meeting the right type of angel investors is not easy – especially when many of the angel networks are charging anything from £450 to £5,000 to enable businesses to be connected. Some groups do not charge, but can be very selective as to who they allow to present.

In parallel to these discussions the company also applied for grants, such as TSB (Technology Strategy Board), they considered accelerator programmes that help fund and mentor early stage businesses and also engaged with social impact funds such as one managed by Bridges Ventures. Now in contact with a number of angels they are also looking at crowd funding from the likes of Crowdcube and Seedrs.

### Director's tip

Luke's advice to SMEs is start seeking funding early, network and consider crowd source funding. "The internet is creating the link between the people who need the money and the people who have got the money."

## Key finding four

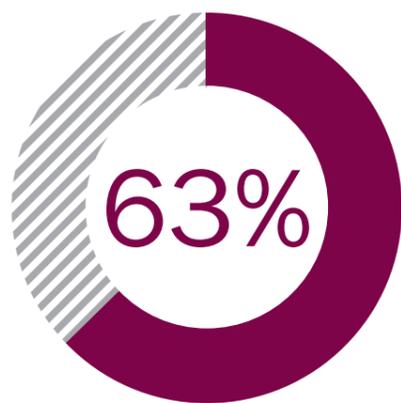
### Subsequent to the loan decision, banks' feedback and support offered to SMEs is often unclear and inadequate

All banks stressed that supporting SMEs was a "fundamental part of the business" and a "key business priority". Senior lending policy makers were, in general, keen to emphasise that when refusing to make a loan offer they provided clear reasons. They stressed the need for SMEs (and the media) to understand the bigger lending picture.

Where banks had refused to offer an SME a loan, they stressed that feedback was given and that the SME had the right to reapply for a loan. However, they also emphasised that SMEs were unlikely to be successful unless new information was made available or circumstances had changed.

SMEs' views of banks' feedback and support was varied. Perhaps inevitably, those who had developed some form of a relationship with their bank considered the feedback they received more positively. However, there was a general feeling that feedback from banks was lacking, even where loans were made.

Where SMEs were successful in the request for an overdraft or loan...



were offered what they wanted and took it.



took the facility once issues such as security, interest and fees had been agreed.

Source of data: BDRC Continental (2013)

## Case study 4

# Field Sullivan Limited



**Business type:** Chartered accountants

**Director:** Tim Sullivan

### Background

Field Sullivan is a firm of chartered accountants, specialising in the not-for-profit sector. Clients include charities, social enterprises, sports clubs and political parties. The business also handles tax returns for private individuals and provides professional advice to commercial businesses.

The directors aspire to grow the business. In the 12 months to August 2013, it grew more rapidly than anticipated, with turnover increasing to over £400,000, so the recruitment of a new partner is being considered. The firm employs eight people working full-time and two part-time.

Director Tim Sullivan negotiated a loan from one of the commercial banks for £150,000 and, since then, has agreed an overdraft facility of £20,000, to allow for seasonality in the company's turnover. The business has also been financed by Tim's own savings. Business angels and venture capitalists were not considered because the business would not have been able to provide the rate of return they would normally expect. Tim's long-term intention is to finance the business by reinvesting profits.

### Director's viewpoint

Securing the loan last year was difficult. Tim negotiated with several banks, but only one was prepared to grant the loan, which was secured on his house. Tim believes that it is essential to have a good business plan in order to acquire finance. As he was buying an existing business, he was able to demonstrate a history of financial viability. Tim does not consider personal relationships with bank managers to be particularly critical, commenting: "If you don't have security, you aren't going to get anywhere; that's the main blockage." However, in his experience, it was helpful to have personal contact with the bank when negotiating the loan, rather than just going through a website. He believes that most information on banks' websites is too generic.

**Business angels and venture capitalists were not considered because the business would not have been able to provide the rate of return they would normally expect.**

### Director's tip

Tim's advice to SMEs is to have a credible business plan, especially with regard to budget estimates. He recommends that directors consider what security can be provided on the loan, warning that this will need to be greater if the business does not have a successful trading history. He advises directors to be willing to put their own money in, which the banks can then match. Tim explains that, following 2008, the banks got overly cautious about lending, but that in the last 12 months there has been a loosening of lending. The key, he says, is to know which banks are in the market for lending, and the sectors at which they are looking; this will vary from month to month.

## Recommendations

### Translating the findings

From the research undertaken, it is clear that many SMEs do not seek external finance. For those that do, banks are the most widely used source. It is also clear that SMEs and those who provide them with finance are in a new era with new norms for lending and borrowing and new expectations of what level of risk is acceptable. Our recommendations to SMEs, banks and policy makers are made within this context.

#### SMEs should:

- Be fully aware that banks are only one of a number of possible sources of finance for their businesses;
- Be aware that banks' lending portfolios will focus on different sectors at different times;
- Recognise that loan decisions will be made on commercial grounds, in particular the level of acceptable risk;
- Prepare a realistic business plan and seek expert feedback before it is submitted;
- Demonstrate financial acumen over a number of years;
- Learn from feedback in relation to loan decisions.

#### Banks should:

- Provide clear details of their loan criteria to SMEs;
- Outline how different factors, including credit history, will impact upon their decision making process;
- Provide clear, tailored, constructive feedback on their loan decisions.

#### Policy makers should:

- Address conflicting pressures in the banking sector, by reconciling current bank liquidity requirements with SMEs' funding needs;
- Develop an independent and interactive online tool to enable potential borrowers to assess their ability to secure finance;
- Advance plans for the Government's Business Bank to bring it to fruition as soon as possible.

**“SMEs and those who provide them with finance are in a new era with new norms for lending and borrowing and new expectations of what level of risk is acceptable.”**



Wednesday  
7 May 2014

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## SME success in challenging times: Generating social capital

Our 2012 research project, *Success in Challenging Times: Key lessons for UK SMEs*, found a strong engagement amongst SMEs with web technology, some of it linked to social media.

SMEs talked about using LinkedIn to target customers and using websites as interactive tools to connect to customers, gauge their needs and even talk to them in real time using live chat. Yet, none of the entrepreneurs regard themselves as experts. The perception was that IT and social media were regarded by many as a “necessary evil”, and there was no choice but to engage very proactively in this area. Respondents saw themselves as using a number of communities including their customers, associates and even former employees, as a means of generating social capital.

A new 2014 study will focus on how SMEs' generate social capital and will address the following questions:

- What are the key business advantages SMEs gain from using social media to generate social capital?
- What are the relative advantages (and disadvantages) of online and traditional forms of social media within this?
- Which forms of social media (if any) have SMEs tried but considered not worth pursuing?
- Which communities do SMEs connect with and for what reasons?
- What criteria do SMEs use when judging which communities to connect to?

Gathering data on what SMEs see as the advantages (and disadvantages) of both online and traditional forms of social media, and the communities they connect to (both virtually and physically), will help make clear SMEs' use of web technologies, as well as their relationship with more traditional ways of accessing social capital.

To register your interest for the launch event on 7 May 2014, please email [events@ks.co.uk](mailto:events@ks.co.uk)