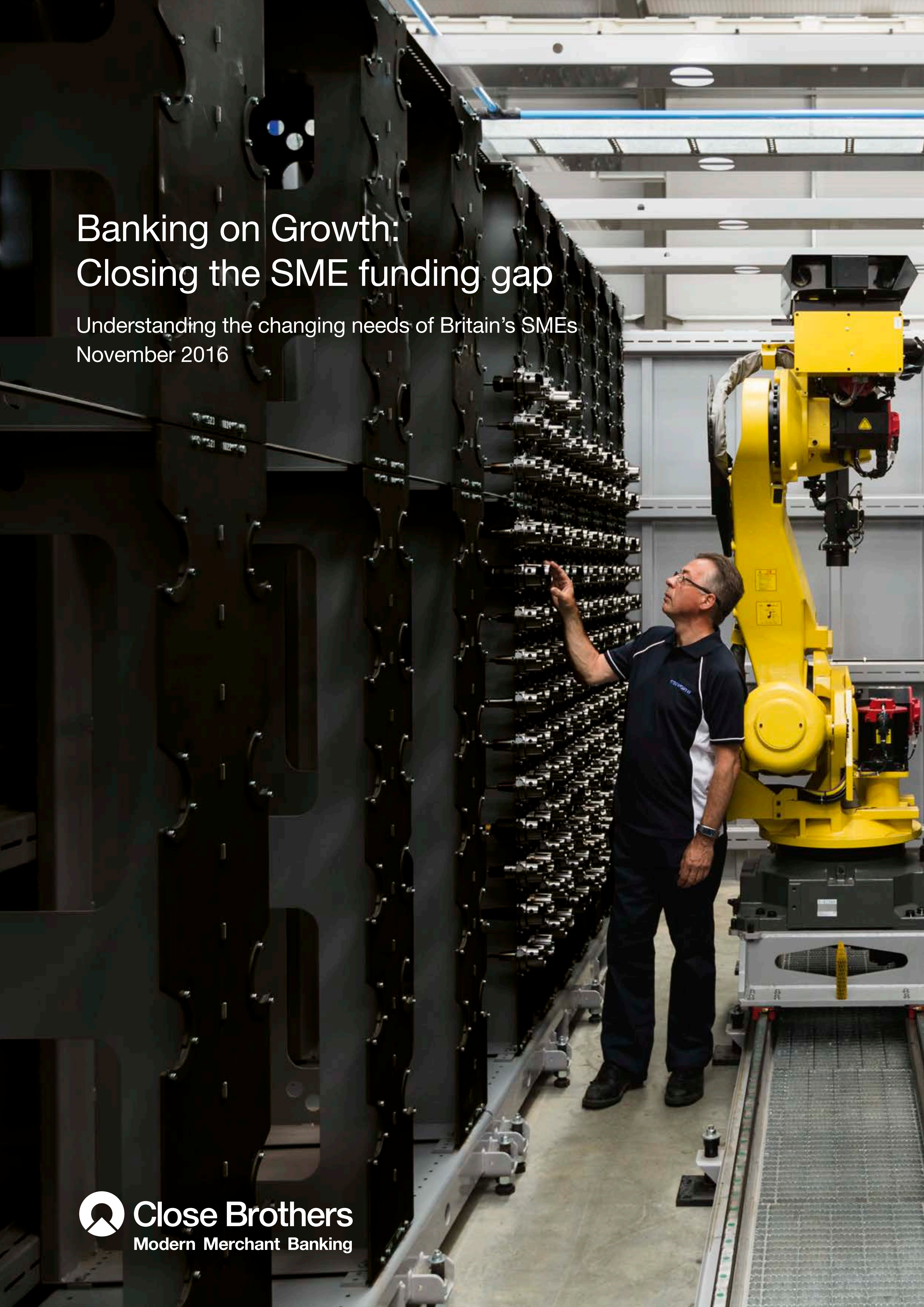


Banking on Growth: Closing the SME funding gap

Understanding the changing needs of Britain's SMEs
November 2016

Close Brothers
Modern Merchant Banking

Foreword – Adrian Sainsbury, CEO Close Brothers Commercial Division

I am delighted to present our new SME report, **Banking on Growth: Closing the SME Funding Gap**, which explores the changing needs of UK SMEs and how lenders are meeting these needs.

SMEs play a huge role in the success of the UK economy. It's vital that lenders, and the wider market, understand how best to support them – including properly differentiating SMEs according to their size, growth stage and sector.

The report illustrates how the growth stage of an SME can determine its financial needs, and explores the peaks and pitfalls of banks and other lenders' ability to provide specialist support. It is clear that SMEs' individual financing needs are not being sufficiently met, and too many SMEs rely on poorly structured financial products.

We examine the finance that SMEs have access to, and their requirements as they develop and grow, highlighting the need for tailored and specialist funding services and advice. Amid the post-EU referendum uncertainty, we also assess the immediate impact of Britain's decision to leave the EU on SMEs.

Close Brothers has a rich history of working closely with SMEs across the UK. We firmly believe that helping SMEs unlock their potential, through access to the right finance at the right time, is essential for the UK's economic wellbeing and productivity.

Executive Summary

The report is based on a survey of over 1,000 financial decision makers in UK SMEs across all sectors, conducted in August 2016 by Opinium. Respondents were from micro (1- 9 employees), small (10-49), smaller-medium (50-99) and larger-medium (100-249) enterprises.

All statistics in the report, unless stated otherwise, come from the August 2016 survey.

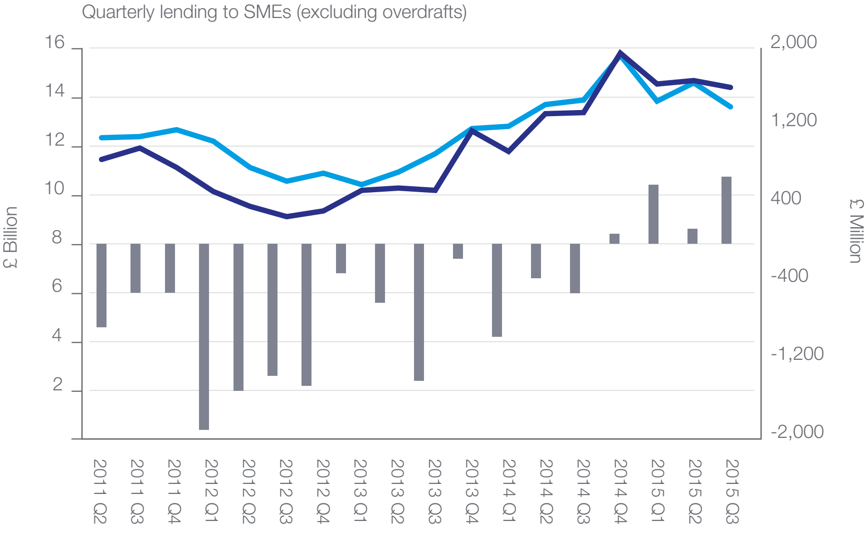
Introduction:
SMEs: The backbone of the economy

Small and medium-sized enterprises (SMEs) make up the backbone of the British economy[1]. The 5.4 million account for 99.9% of all private sector businesses and employ over 60% of all private sector workers – 15.6 million people. At the start of 2015, there were over four million sole traders operating in the UK, over a million micro SMEs (1-9 employees), over 200,000 small SMEs (10-49 employees) and 33,000 smaller-medium (50-99 employees) and larger-medium (100-249 employees) SMEs combined[2].

SME combined turnover also constitutes almost half (47%) of private sector turnover in the UK, reaching an annual total of £1.8 trillion[3]. Put simply, the contribution SMEs make to the UK economy makes it all the more important that they are supported, and vital that we understand the reasons why many SMEs are struggling when it comes to finance.

For SMEs to grow, whether at the point of startup, or making the leap from small to medium, they need to be operating in a supportive financial environment. Many suffered in the wake of the financial crisis in 2008, as generalist banks withdrew lending and SMEs had to put growth plans on hold.

Quarterly Gross and Net flows of bank loans to SMEs



Source: Bank of England Bankstats table A8.1

Figure 1

[1] Department for Business, Innovation and Skills, Business Population Estimates 2015
[2] As above
[3] As above

The Bank of England confirmed in October 2015 that lending to small and medium-sized businesses in the UK had grown for the first time since the recession, increasing for four consecutive quarters in the run up to October 2015 for the first time since the financial crisis[4]. Despite this growth, however, there are still significant issues to address.

As we shall see, product complexity and choice is bringing with it confusion, which in turn affects decision making. Different types of financing have appeared since the recession, as lending has rebounded, whether traditional bank loans to peer-to-peer loans and crowdfunding, asset finance and invoice finance. It is crucial that SMEs understand and secure the right finance type for their business plans.

It is also easy to look at total lending growing, and assume all SMEs are benefiting. But the reality is that SMEs vary enormously. Size, above all, is a crucial differentiator – SMEs all have different needs when it comes to financing their business, according to their stage in their lifecycle. However, as we shall examine, many are not adequately planning or adequately informed to make the right decisions about financial products to best suit their unique circumstances. They are missing the tailored advice and relevant products they need and in many instances lacking access to the specialist lenders who could provide them with this support.

[4] Small Business Finance Markets Report 2015/16 – source Bank of England data

Chapter one:
The evolving financial requirements of an SME

A record 80 new companies have been born every hour so far in 2016, with over 342,000 new businesses registering in just the first six months of this year[5].

Some of these companies may go on to become success stories, with perhaps even a unicorn amongst them, but others will have to face real challenges in order to both survive and thrive.

As SMEs reach different stages of their lifecycle, we need to ensure they have access to the right financial products and advice in order to continue, and subsequently grow.

1.1 The financial factor: short-termism

SMEs use different types of finance to grow their business at different stages of their lifecycle. While 38% have used bank loans to grow their business, there is a clear divide between larger, more established SMEs (100-249 employees) who are turning to more traditional forms of finance to grow, such as bank loans, overdrafts, invoice finance and asset finance, and micro SMEs (1-9 employees) which are far more likely to use personal savings.

Meanwhile, the fall in the use of bank loans and personal savings used to grow the business as SMEs grow in size (from an equal 25% for micro SMEs, to 51% bank loans compared to 13% personal savings for larger SMEs), emphasises the widening range of options that businesses have available to them as they expand.

26% of all SMEs have used overdrafts to grow their businesses. This figure increases from 23% at the micro end to 30% at the larger end of the SME spectrum, suggesting that greater education for SMEs is required as they grow. As a way of increasing liquidity, overdrafts bring with them many negatives, not least a lack of security for companies.

Adrian Sainsbury, CEO Close Brothers Commercial Division, on the use of overdrafts: "Some SMEs still see overdrafts as a positive option for increasing liquidity but in fact it's not a great way to borrow money. In many cases an overdraft will not provide enough cash to fund the much needed new vans, computers or machine tools, and at any time the bank can withdraw the facility leaving little or no time to repay the money. I believe a better option is to work with a professional and experienced funder who understands how to help with liquidity issues and use the assets of the business to unlock potential financial solutions."

Type of finance used to grow businesses

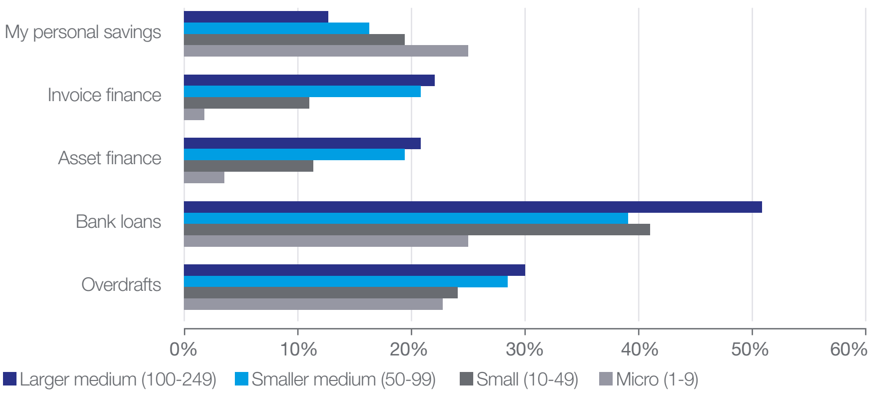


Figure 2

[5] Research from StartUp Britain, a Government-backed national enterprise campaign

Smaller SMEs may not yet have significant assets within the business which leaves them with fewer options and potentially more reliant on personal savings. However, one in eight larger-medium SMEs, which in many cases have those assets to leverage, admitted to having used personal savings in order to grow their business. This implies a worrying behaviour pattern; the habits which began as a startup can continue even in companies with a workforce of over 100.

On a day to day basis, the widespread use of credit cards highlights a desire for quick access to finance. 47% of SMEs have used a personal credit card for their business and 19% do so regularly. We can glean positives from the British Business Bank Small Business Finance Markets report[6], which shows that nearly 80% of small businesses pay off their credit card balance each month, but it is hard to avoid the conclusion that the short term need for financing cash flow that is driving costly credit card use in the first place.

The reasons behind this centre on the need for fast decision making from institutions and lenders. Having to wade through swathes of red tape often before they can even apply for, let alone access finance, is costly. Each additional day without access to finance can harm their business and their growth prospects.

Generalist lenders, who account for a large proportion of lending to SMEs, often cannot meet these requirements. SMEs require lenders to understand the importance of speed, and a short application process, and who can quickly tailor their offering to suit individual business requirements.

540,000
businesses in the UK are unsure about being able to access the finance they may need to grow or even survive.

1.2 Accessing finance: Making the options count

By opting for immediate financing options and sticking with what they know, whether or not it is actually the best route for them, many SMEs are not taking advantage of the range of financial options that are available to them.

While 90% of SMEs are confident about accessing additional finance for their business if they need it, one in ten is not. While this seems like a low number, this is equivalent to 540,000 businesses across the UK.

Size plays a huge role in confidence. 17% of SMEs with a turnover of £100,000-250,000 are not confident about accessing additional finance, with this figure decreasing as companies' revenue increases. The tipping point at which SME confidence about accessing additional finance really takes hold, rising above the 90% mark, is when revenues go above £5million.

[6] British Business Bank Small Business Finance Markets report 2015/2016

1.3 Diversifying Finance: Beware of credit volatility

Diversifying finance is increasingly important when credit markets are volatile and credit conditions may tighten. For example, two recent OECD reports highlight the need for SMEs to broaden their sources of finance to make them less vulnerable to credit markets[7], especially in the wake of financial crises. As banks struggle, history has shown that many withdraw lending to SMEs (figure 1) which can leave SMEs vulnerable. Yet not all SMEs are aware of the importance of diversifying finance. While two fifths of SMEs intend to diversify how their business accesses finance in future, just one in nine are in the process of doing it.

Micro businesses are far less likely to diversify how they access finance. Just a quarter say they plan to diversify, compared to 58% of larger SMEs. Overall, 46% of SMEs say they don't need to or plan to diversify, a worryingly proportion in times of uncertainty. Equally, it is vital that SMEs understand difference between banks, so that they are able to access finance from those that maintain lending, even while others are turning off the taps.

1.4 Financial Planning: mind the gap

The diversity of available financial products is only one part of the story. Having the right advice and the right plan in place at each stage of an SME's lifecycle supports the future success of a business. Central to this is long-term financial planning, working in conjunction with a strategic business plan.

Our research shows a clear issue with long-term formal business planning; Short term planning is ruling the day for the majority of SMEs. Only 28% of SMEs plan their needs for finance more than a year in advance, while 64% only plan up to a year in advance. A worrying 8% of SMEs do not engage in planning at all.

[7] Financing SMEs and Entrepreneurs 2015: An OECD Scoreboard (2015) and New approaches to SME and entrepreneurship financing: Broadening the range of instruments (2015)

How far in advance do you plan your business's needs for finance?

Figure 3

Micro businesses are planning further ahead than small SMEs; small SMEs' average planning period is just seven weeks to six months compared to micro SMEs who plan for the most part seven months to a year ahead. Only one in nine SMEs look beyond the next year and a half. Planning far enough ahead in advance is vital for SMEs to build financial plans which include investment in new equipment, staff and training and any other elements which support long-term growth.

The planning timeframe doesn't vary significantly by sector of operation. SMEs across all industries tend to plan at an average of seven months to a year ahead. However, when you delve further there are differences by industry; while just one in nine engineering SMEs plan only a month to six weeks ahead, the same is true of 20% of construction SMEs. It is the deep knowledge of the differences between sectors, as well as size of company, that is valuable to SMEs and will help them to access the right financial products.

1.5 Financial advice: small and misunderstood

Getting the right information and advice about suitable products is intrinsic to financial planning. Two fifths (38%) of financial decision makers in SMEs go to high street banks for information and advice, yet just 19% of SMEs say that the advice their bank gives them always meets their needs. Moreover, those small SMEs who plan the least far in advance (figure 3) are those who are more likely to say they don't feel that their bank understands their needs (figure 4).

Adrian Sainsbury, CEO Close Brothers Commercial Division, on the need for long term planning: "When starting a business, a great deal of time and energy is spent on planning and developing strategies to establish and maintain a place in the market. However once up and running, it's very easy to focus on 'business as usual' and this can often adversely impact on opportunities to expand and grow the business. Longer term planning is essential to maximise potential future success."

I don't feel my bank understand my needs

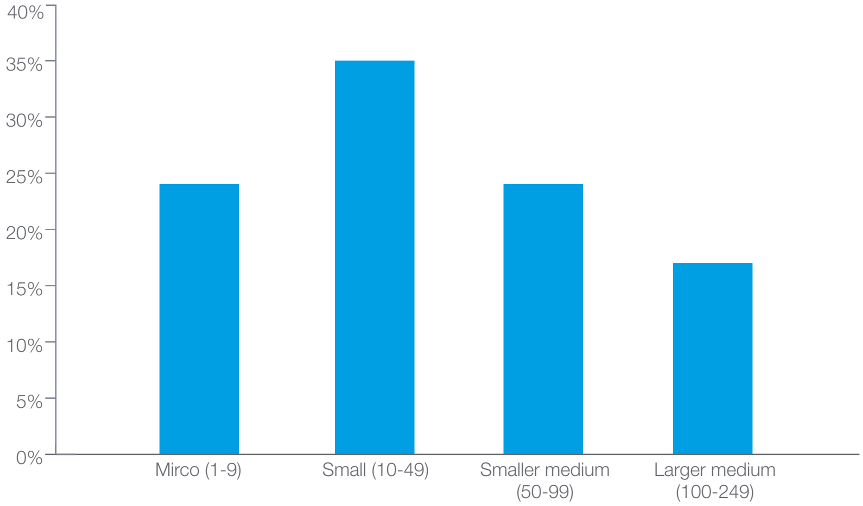


Figure 4

It is clear SMEs do not currently feel properly understood by the very institutions they are going to for that help. Many high street banks are generalist lenders who do not necessarily differentiate between different sizes of SME, the sectors in which they operate, or individual circumstances. This results in confusion from SMEs, and at worst, the wrong products being secured.

It is crucial the lending industry improves how it caters for the differences between sectors and each's distinct planning challenges; specialist knowledge, and bespoke approaches are vital to helping individual clients choose the right products and plan in the right way.

A combination of feeling misunderstood by the institutions they turn to for advice, and suffering from a planning gap in their mid-stage development is leaving many SMEs without the resources they need to grow. Working to educate SMEs on the benefits of certain types of finance at certain points in their lifecycle will be crucial to helping SMEs unlock their potential for growth.

Adrian Sainsbury, CEO Close Brothers Commercial Division, on lenders providing advice for SMEs: "Smaller businesses often need to look to others for advice and support on how best to deal with their finance requirements and this is where a lender with specialist knowledge and experience in their sector is invaluable. From explaining the options available, to providing the funds, to helping overcome issues that may arise along the way, the right finance provider can make all the difference."

Chapter two:
The challenges to accessing finance

Lending to the SME sector has broadly improved since the recession, as has the range of financial options available to them. We have examined how many SMEs are using and planning for those financial options. That doesn't tell the whole story, with thousands still finding it difficult to access the finance they need to grow from lenders who don't understand their sector or specific needs.

2.1 Barriers to accessing finance

Many SMEs still face a multitude of barriers when trying to access finance, which has a knock on effect on the economy. Slower growth of SMEs, caused by an inability to borrow sufficiently, is estimated to have cost the UK economy as much as £2.9 billion turnover in the last five years[8].

Our research shows 46% of UK SMEs have experienced barriers in accessing finance, with the main challenges for businesses being the ability to afford the cost of taking out finance (16%), lenders not understanding the sector (12%) and lenders not understanding the borrower's individual needs (10%). This lack of understanding and bespoke support is a recurrent theme, given that only a fifth of SMEs say their bank's advice always meets their needs.

2.2 Levelling the lending playing field

The challenges to accessing finance can appear difficult for many to overcome. Just over a fifth of SMEs have been turned down for finance, with half of this group having been turned down more than once.

Currently, many SMEs only approach the biggest banks for finance and, in the case of first time borrowers, the rejection rate is around 50%[9]. Over a third of these SMEs reportedly gave up after their first rejection[10], unaware of alternative forms of financing and other lenders that could be approached.

The reason many SMEs are being refused finance links back to the banks not understanding their needs. If generalist lenders, who make up the lion's share of the market, are looking at the most obvious factors for credit suitability, such as cash flow and capital, it is no wonder they turn

The main reasons SMEs are refused finance:

- Cash flow not considered strong enough – 27%
- Banks not lending to SMEs at the time – 23%
- SMEs don't have enough capital – 20%
- Business plan not robust enough – 19%

[8] Funding Options research, October 2015
[9] SME finance: help to match SMEs rejected for finance with alternative lenders, published December 2014
[10] SME Journey Towards Raising Finance, BMG Research Report on behalf of the Department for Business, Innovation and Skills, 2013

down many SMEs. However, specialist lenders will look at other aspects of the business to compare SMEs to similar size and similar structured companies in their sector, allowing for a more detailed decision making process behind granting or refusing finance.

The government's initiative to tackle the issue of so many SMEs being refused finance saw details of the designated finance platforms for the Small and Medium Sized Business (Finance Platforms) Regulations announced in the 2016 Budget[11]. In the near future, high street banks will be obliged to offer the SMEs they turn down a referral to the designated platform.

While this move is by no means a silver bullet, it should help many SMEs access the finance they need to develop and should go some way to helping alleviate the problems SMEs currently face. For more meaningful change, we need to see this applied in conjunction with a more tailored approach to lending across the industry.

The failure to access finance easily is true of growing SMEs, not just start-ups. A quarter of SMEs turned down said they were mostly refused at the very stage when they looked to grow, compared to 18% who said they were turned down when they wanted to start their business. This worrying trend of lenders not putting their faith in early stage SMEs looking to grow, due to a lack of capital or cash flow, may well be stifling growth, having a knock on effect on the wider economy in the long-term.

Which of the following best describes at what stage you were refused finance or credit?

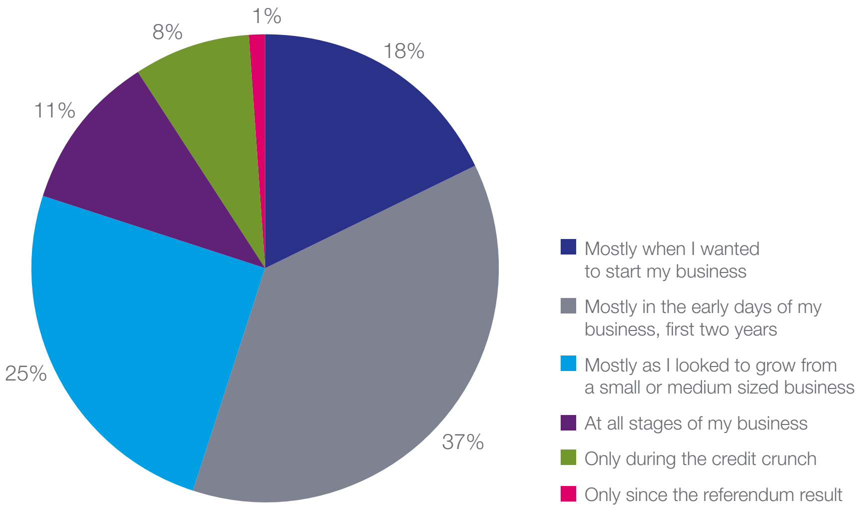


Figure 5

Adrian Sainsbury, CEO Close Brothers Commercial Division, on levelling the playing field:
"Historically SMEs have not always found it easy to source the appropriate funding required to sustain or grow their businesses, but times have changed. The recently announced Government initiative means that in the near future high street banks will be required to offer a referral to any SMEs they turn down for finance, and that's a positive and purposeful step both for businesses and the economy."

[11] Designation of banks and credit reference agencies for credit information regulations, April 2016

2.3 Alternative financing: complicated and unsuitable?

We know that after being rejected for finance once, over a third of SMEs give up. While this should change somewhat with the government's designated referral platforms, there is still a question around why SMEs are not going to alternative lenders in the first instance.

Alternative financing has enjoyed incredible media exposure of late. And not without cause – a study by Nesta, Cambridge University and KPMG found that alternative financing in 2015 saw 84% growth on the previous year, with the sector representing £3.2 billion worth of loans, investments and donations. Despite this, alternative financing still pales in comparison to traditional bank loans, when you consider that total lending to all non-financial businesses in the UK in 2015 totalled over £205 billion[12].

Angel investing (3%), crowdfunding (4%) and peer-to-peer loans (5%) remain a tiny proportion of the finance which has ever been accessed by SMEs, according to our survey. These products are most prevalent among larger-medium SMEs, with one in eleven having used crowdfunding, compared to one in a hundred micro SMEs.

Most SMEs see new forms of financing as unsuitable and complicated. The financial options SMEs least consider to be suitable for their business are angel investing (20%), crowdfunding (21%), peer-to-peer loans (23%) and venture capital (23%). This compares to 73% of SMEs saying bank loans are suitable.

Over a quarter of SMEs who say they feel negatively towards peer-to-peer loans attribute this to them being too complicated, while 35% of SMEs who feel negatively about crowdfunding share the same criticism. Perception can differ substantially across industries, with one in ten SMEs in the construction sector saying peer-to-peer loans are too complicated, compared to one in five in the engineering sector. This compares to a third of manufacturers and professional services SMEs viewing peer-to-peer negatively because it is too complicated. Just like the big banks, if lenders in these sectors want to prove themselves to SMEs they will need to take the sufficient time required to understand the concerns of each size and sector of SME.

[12] Bank of England Monetary financial institutions' loans to non-financial businesses, by size of business Total for 2016

The most favourably viewed financial product is a bank loan (48%). Credit cards are viewed as a positive or neutral for 85% of SMEs, which can be attributed to their use for cash flow, and ease of access. Any negative sentiment towards credit cards is largely due to them being considered too expensive to repay (69%), yet SMEs continue to use them in spite of this criticism.

Micro SMEs feel the least positive and most negative about credit cards while smaller-medium SMEs feel the most positive and least negative. With mid-sized SMEs suffering most from a planning gap, it seems they are using credit cards to meet short-term financing requirements, unaware of more appropriate alternatives.

The barriers many businesses face when accessing finance links back to the failure of the majority of lenders to understand and match SMEs' individual needs, looking beyond standard measures such as cash flow. This is particularly serious at the stage at which SMEs are looking to grow and most need support around financial planning and financial products. It's clear alternative finance has not become a funding panacea for SMEs, considered too complicated in many instances. Government intervention should help level the playing field a little for lenders, but lenders also have a much greater role to play.

Chapter three:
Brexit impact

The result of the EU referendum has prompted countless questions about the impact it will have on planning, finance and support for the UK's SMEs. With no shortage of data available on a daily basis showing hugely varied predictions for the UK economy, we might have justifiably expected SMEs to put all investment and growth plans on ice until we know what kind of deal the government will strike with the EU. This is not the case. UK SMEs are by and large forging ahead as best they can, with many showing their agility and resilience in the face of uncertainty.

However, as SMEs consider how a Brexit event might affect them, this could act as a catalyst for financial planning, with many securing much needed financial advice to support changing business and financial plans.

3.1 Complicated relationship with the EU

The Close Brothers Business Barometer showed there was clear uncertainty among SMEs in the first quarter of the year, as the UK moved closer towards the EU referendum. Data in June revealed that SMEs were pretty much evenly split between thinking the referendum would benefit them positively and negatively, with the remaining third admitting they simply didn't know[13].

Much of the nervousness was due to the direct relationship many UK SMEs have with the EU. Almost half of SMEs trade with the EU and two in five both import and export. By sector this varies enormously of course, with wholesale and distribution, manufacturing and transport trading internationally far more than SMEs in sectors like construction or professional and business services. On top of this, 22% of all SMEs have received EU funding at some point in the past, with one in twenty five hoping to receive it in future. Whether or not this will be replaced with some form of government subsidy in yet to be established.

216,000

SMEs in the UK had hoped to receive EU funding at some point.

[13] Close Brothers Business Barometer, June 2016. Survey of 900 UK SMEs done on a quarterly basis

3.2 Business planning: déjà vu for large SMEs

Despite concerns from some SMEs about the impact a vote to leave the EU would have on their business, borrowing data in the run up to the referendum was positive. With lending to SMEs rising to pre-crisis levels in the 12 month run up to the referendum[14], it appeared that perhaps SMEs did not anticipate a Leave vote, or the prospect of significant change, and therefore were taking a ‘businesses as usual’ approach to borrowing.

A notable change then came after the result, with a surge in SME funding enquiries at the start of August, with the National Association of Commercial Finance Broker’s online platform receiving twice the total request volumes than the same period the year before[15].

At the same time, there was a perceptible shift in SME planning in the immediate wake of Brexit, part of which may explain the increase in appetite to borrow. A third of UK SMEs have changed, or are in the process of changing their business plans as of August 2016, which range from hiring to investing in growth opportunities. This may be a direct result of the referendum result which has led SMEs looking at how they can either take advantage of or mitigate against the impact the result may have in the medium term, channelling more resource into planning ahead and acquiring capital now.

Nearly one in five will now be looking to invest in training and skills for their workforce, as they adapt to changing economic and operating conditions. This is twice as many as the number who now no longer plan to hire or invest in skills at all[16].

Micro SMEs appear to be the least fazed in the immediate aftermath of the Brexit vote, with 85% saying their funding plans have not changed, compared to 57% of larger SMEs. The larger the SME, the more hesitant to borrow money too, and also the least optimistic about being able to get finance from their preferred lender. This may be attributable to the preference of larger SMEs for bank loans and overdrafts and the relative longer heritage of these bigger companies means they know the effect of financial crises on credit availability from many banks. Planning ahead with lenders will be critical as the discussions around the UK’s deal with the EU take shape and SMEs start to build a picture of how they might be affected in reality in Brexit Britain.

[14] National Association of Commercial Finance Brokers (NACFB), figures from between July 2015 and June 2016 (published September 2016)
[15] NACFB figures August 2016
[16] Close Brothers Business Barometer, August 2016

Has your business changed its funding plans as a result of the EU referendum?

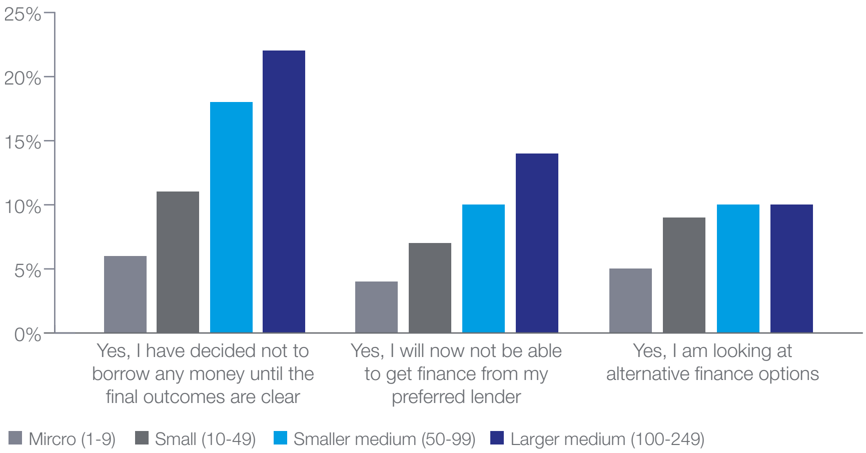


Figure 6

3.3 Brexit a catalyst for financial advice

Many SMEs are considering diversification of funding since the referendum, with 22% of SMEs acknowledging they will need new types of finance post-Brexit. This varies by SME size, with just 13% of micro SMEs saying they will need new types of finance compared to 31% of larger SMEs.

The referendum may act as a catalyst for improving the spread of financial advice among SMEs, making it even more important that the advice they receive is right, and from lenders that understand their needs. Since the result, 44% of financial decision makers have sought advice about their business' finances, with the main sources being banks.

3.4 The end of red tape?

SMEs are keen to capitalise on Brexit to reduce the red tape they face. The government support SMEs most want is ensuring EU red tape is not replicated in UK law post-Brexit, with over a third asking for this as a priority. This is followed by business rates being cut (29%) and using the money saved from EU contributions (29%). Three in ten SMEs also want the UK government to keep them informed of changes, highlighting the importance of communication in the Brexit negotiations as SMEs look to plan for the future landscape.

As it stands, half of SMEs justifiably say they do not yet know what the impact of the referendum will be for them. Micro SMEs are least certain about what the impact will be on them, with six in ten saying it's too soon to tell, with this number decreasing to less than four in ten larger SMEs.

Adrian Sainsbury, CEO Close Brothers Commercial Division, on SMEs getting the right financial advice: "We know how important it is for SMEs to diversify the types of finance they access and to seek financial advice as part of their strategic planning process. Positively, SMEs are turning to lenders for advice in the wake of the referendum, which should better prepare them for when the full implications of the UK's Brexit deal are known."

How has your business been affected since the EU referendum result?

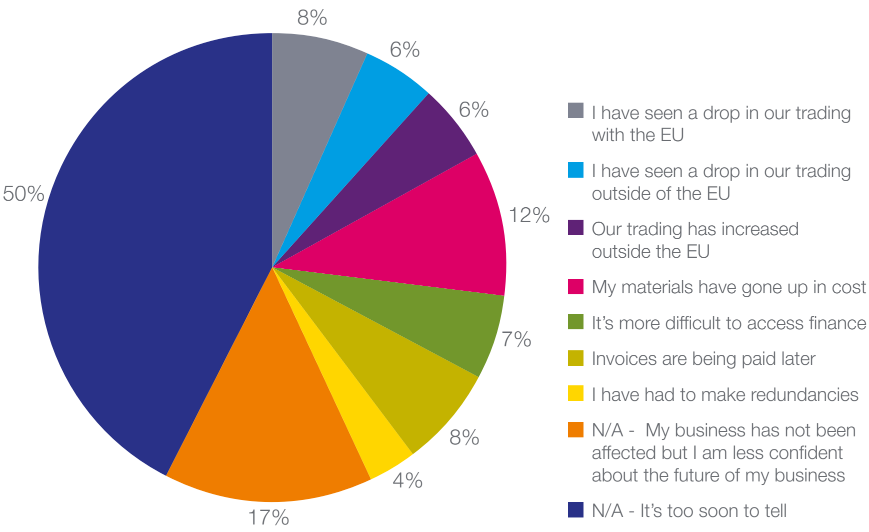


Figure 7

It's not just SMEs who see the potential to reduce red tape following the decision to leave the EU. The week after the Brexit result, a group of challenger banks wrote to the Treasury select committee to outline how the government and Bank of England would have the discretion to determine which aspects of legislation derived from the EU they wished to maintain and which they wished to reform. With the government taking strides to level the playing field for SMEs with its transferral platform, many smaller lenders see Brexit as an opportunity to level the playing field against the big banks. Whether this will happen, and whether it will lead to a net benefit for SMEs, remains to be seen.

SMEs are showing resilience in the face of the referendum outcome. However, many businesses will be affected either as a direct or indirect result of Brexit, and the effects will vary by both sector and size. Appropriate financial advice and planning support is more important than ever, and Brexit could well be a natural catalyst for this, and industry needs to match this demand. We are already seeming many SMEs adapt their planning, and in some cases, accept the need to diversify sources of finance. However, greater education is needed on which financial products and approached to funding will provide them. As we have seen, 'one size-fits-all' approach from lenders is not the answer.

Conclusion

SMEs are complex, diverse and cannot be bundled together in one group. They face different challenges at different stages of their lifecycle, and it is clear they need more tailored support from the lending industry and government as they move through different stages of growth.

This is not the case for many, who are being failed by the high street institutions they turn to for advice on their financial planning and products. A large number of SMEs feel they are misunderstood by lenders, with just one fifth saying that the advice their bank gives them always meets their needs. A lack of suitable advice and education is resulting in many utilising the wrong financial products for their circumstances and lifecycle stage, as well as being turned down for finance.

A lack of long-term planning is compounding the problem, preventing many businesses from strategic financial decision-making which would better serve their business in the longer term. However, this planning must go hand in hand with advice and education. Without a real understanding of what products best suit their needs at what stage, planning takes a backseat as SMEs focus could simply revert to the overdraft facilities and credit cards they are used to. Specialist support from lenders that understand them must become the norm if SMES are to have the best chance of growing or even keeping their business afloat.

Broadly, lenders need to understand and recognise the different stages at which SMEs are struggling with planning, and accessing finance, and improve efforts to step in and provide the right advice. Planning for Brexit should be a key catalyst for this; as we have seen, SMEs are increasingly seeking guidance as they consider what steps they must take when it comes to their finances.

In parallel, the government must continue its efforts to facilitate joining up lenders and SMEs who are most suited to each other. SMEs and specialist lenders will hope the government continues on its trajectory of supporting small businesses, with Chancellor Phillip Hammond showing support for them in his Autumn Statement and 2017 Budget. A move to increase long-term financial planning education for SMEs would be a welcome starting point.

Only by providing the right advice and products to individual SMEs at each stage of their lifecycle can the UK help its SMEs to unlock the potential in their businesses and fuel the country's economic growth.

Close Brothers Group plc
10 Crown Place
London EC2A 4FT
Tel: +44 (0)20 7655 3100

www.closebrothers.com

Close Brothers
Modern Merchant Banking