

SME follow-up survey results

Published 20 August 2015

- In December 2014 we commissioned Charterhouse Research to conduct three short, focused surveys with previous respondents to the main Charterhouse Business Banking Survey (BBS).
- The follow-up surveys were intended to fill specific evidence gaps, not covered by the BBS or our qualitative research.
- The surveys were focused on the following topics:
 1. SMEs applying for finance;
 2. How start-ups choose their business bank account (BCA); and
 3. What happens after the end of the free banking period.
- These slides present the findings from all three surveys.
- These slides are structured as follows:
 1. Background: Research Objectives
 2. Methodology
 3. Results survey 2a: How start-ups choose their BCA?
 4. Results survey 2b: What happens after the free banking period?
 5. Results survey 1: SMEs applying for finance

We wanted to understand the following:

- **Start-ups**

1. Why do SMEs go to their PCA bank when choosing their BCA and do they consider other banks?
2. What do SMEs consider are important factors when they choose their BCA and do they consider a wider range of factors beyond their immediate business needs?
3. How easy is it for SMEs to compare between different banks when they are starting out?
4. What are the barriers to entry in attracting start-ups?

- **End of free banking**

1. Do businesses consider switching at the end of free banking?
2. If they did, why did they not switch?
3. Do SMEs negotiate? If they do, how successful are they?

- **Applying for finance**

1. Why did the business need finance?
2. What types of finance & organisations did they consider and what information did they use?
3. Why did or didn't they use their main bank?
4. Did they seek to compare prices and products?
5. Did they attempt to negotiate on the price?

- **Eligible sample identified from the main Charterhouse BBS in 2014** (of those willing to be re-contacted).
 - Start-ups identified as businesses that started trading in 2013 or 2014. As such they were up to two years old at point of our survey.
 - The sample for survey 2b were businesses that had started trading in 2010, 2011 or 2012 according to the 2014 BBS, so they were between 2 and 5 years old at the point of our survey.
 - The sample for survey 1 (SMEs applying for finance) were simply those that applied for finance in the last 12 months (at the time of the main 2014/2013 BBS interview).*
- **The eligible SMEs were then re-contacted to take part in one of our follow-up surveys**
 - Questionnaires were approximately 10 minutes long
 - Fieldwork March, April and May
- **In total Charterhouse Research achieved 252 interviews in each survey 2a and survey 2b, and 406 interviews in survey 1 on applying for finance. All surveys covered all the regions and nations in the UK.**

* Note: Those that were simply renewing an overdraft facility were excluded from the survey

- **Weighting**

- The interviews are not representative of the population in terms of region. Scotland is over-sampled in the BBS, which has fed through to the follow-up interviews while London received a lower response rate than other regions. To correct for this we have **weighted the data** so that London interviews receive more weight and Scottish interviews receive less. Additionally the weights for survey 1 (applying for finance) also correct for the turnover profile of the SMEs in our achieved follow-up interviews. Specifically:
 - The population targets for each survey were estimated by the weighted distribution of region from the GB Charterhouse BBS filtering on the particular population of interest (either start-ups, 2-5 year old businesses, or those applying for finance). For survey 1 (applying for finance) the same was done for SME turnover.
 - Weights were then applied on region to bring the achieved sample in line with the estimated population targets (London, Scotland, and rest of UK for all three surveys, and additionally 3 turnover bands for survey 1).

- **Caveats:**

- Due to filtering of the questions, occasionally our sample/base size falls below 70 interviews. As the precision of our results deteriorates as the sample size falls, we have not reported results as percentages where the unweighted base size is below 70. In these cases we simply report the number of people that give a certain response.

Results: Start-up survey (2a)

Summary of Key Findings

- 1. Why do SMEs go to their PCA bank when choosing their BCA and do they consider other banks?**
 - Just over a third of start-ups go straight to their main bank and do not search elsewhere when choosing their BCA. Just over half (55%) search around other banks.
 - Satisfaction with their personal bank is the most common reason why start-ups do not search and go straight to their main bank. Ease and knowledge of transaction history are the next most popular reasons for going straight to their main bank.
 - Regardless of whether start-ups search around half (50%) end up taking out their BCA with their personal bank provider.

- 2. What do SMEs consider are important factors when they choose their BCA and do they consider a wider range of factors beyond their immediate business needs?**
 - The most important factor for start-ups when choosing their BCA is the offer of free banking (26%). But branch location and their personal bank are also important (and when considering all factors there are almost as many mentions of branch location as free banking). Other factors such as the offer of relationship managers, offer of a wide range of products and services, overdrafts and willingness to lend are less important in their choice of BCA.
 - Some start-ups do consider longer-term aspects such as future fees. Over 70% of start-ups reported that they considered or looked at future fees. However, at least half (52%) were prompted by the bank.

Summary of Key Findings

3. How easy is it for SMEs to compare between different banks when they are starting out?

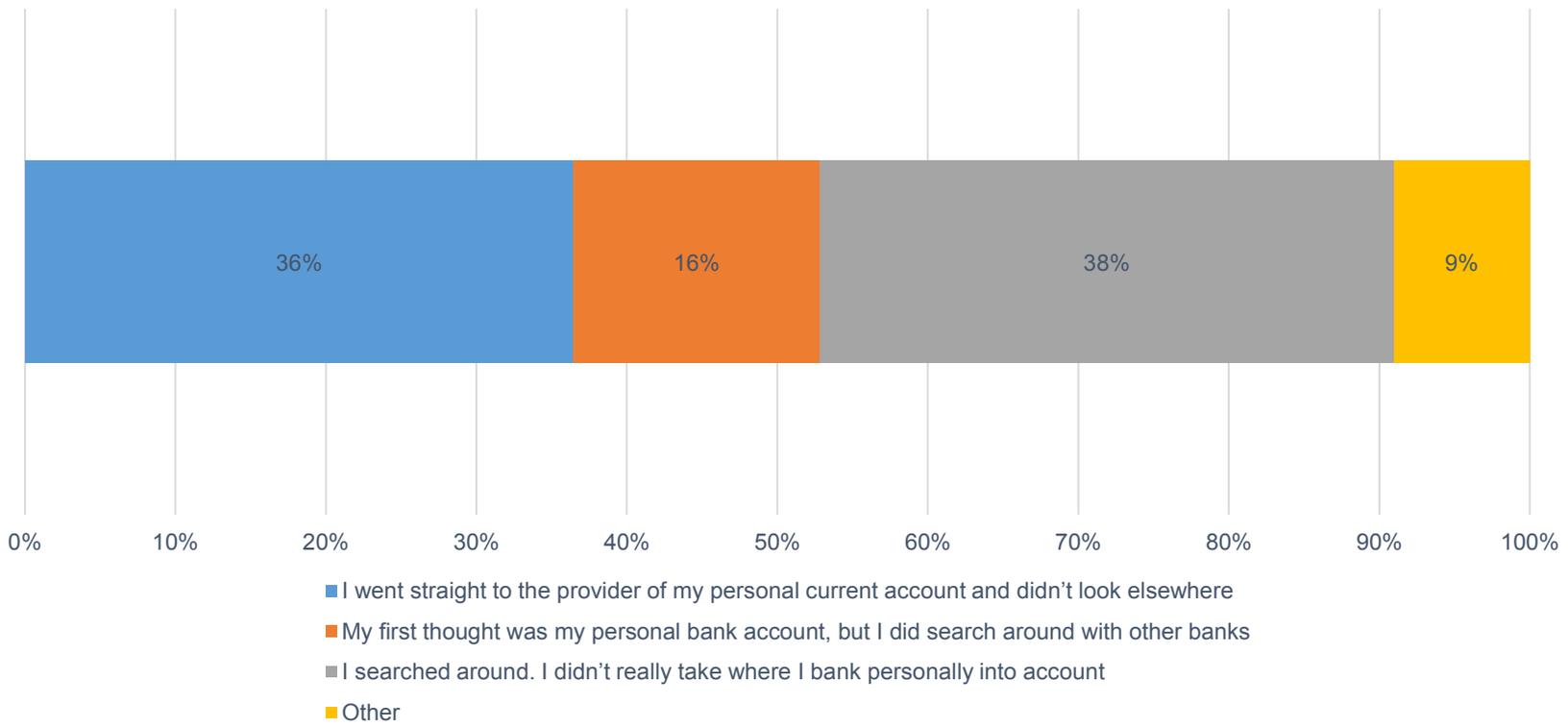
- When choosing their BCA the majority of start-ups (58%) do not compare different banks. Of those that did compare banks, over half did so superficially.
- Bank website and branch visits were the most common information sources for start-ups to collect information. Only 9% reported that they looked at price comparison websites.
- Prices on the whole were considered to be transparent. Over 73% of SMEs that considered future fees reported that it was very easy or quite easy to find this information.

4. What are the barriers to entry in attracting start-ups?

- The importance and use of branches by start-ups was particularly noticeable, with at least 84% reporting that it is either very important or quite important to their decision of who to bank with, and 82% using their local branch to open their BCA account. Paying in cash or cheques and taking out cash were the main reasons start-ups needed access to branches
- Similarly, the need to offer a PCA alongside a BCA is also important for new banks as this is a significant source of customer acquisition. Satisfaction with main bank, ease and having a transaction history are important factors driving SMEs choice to bank with their personal bank

Over half of start-ups went straight to their personal bank or thought about their personal bank when deciding to open a BCA

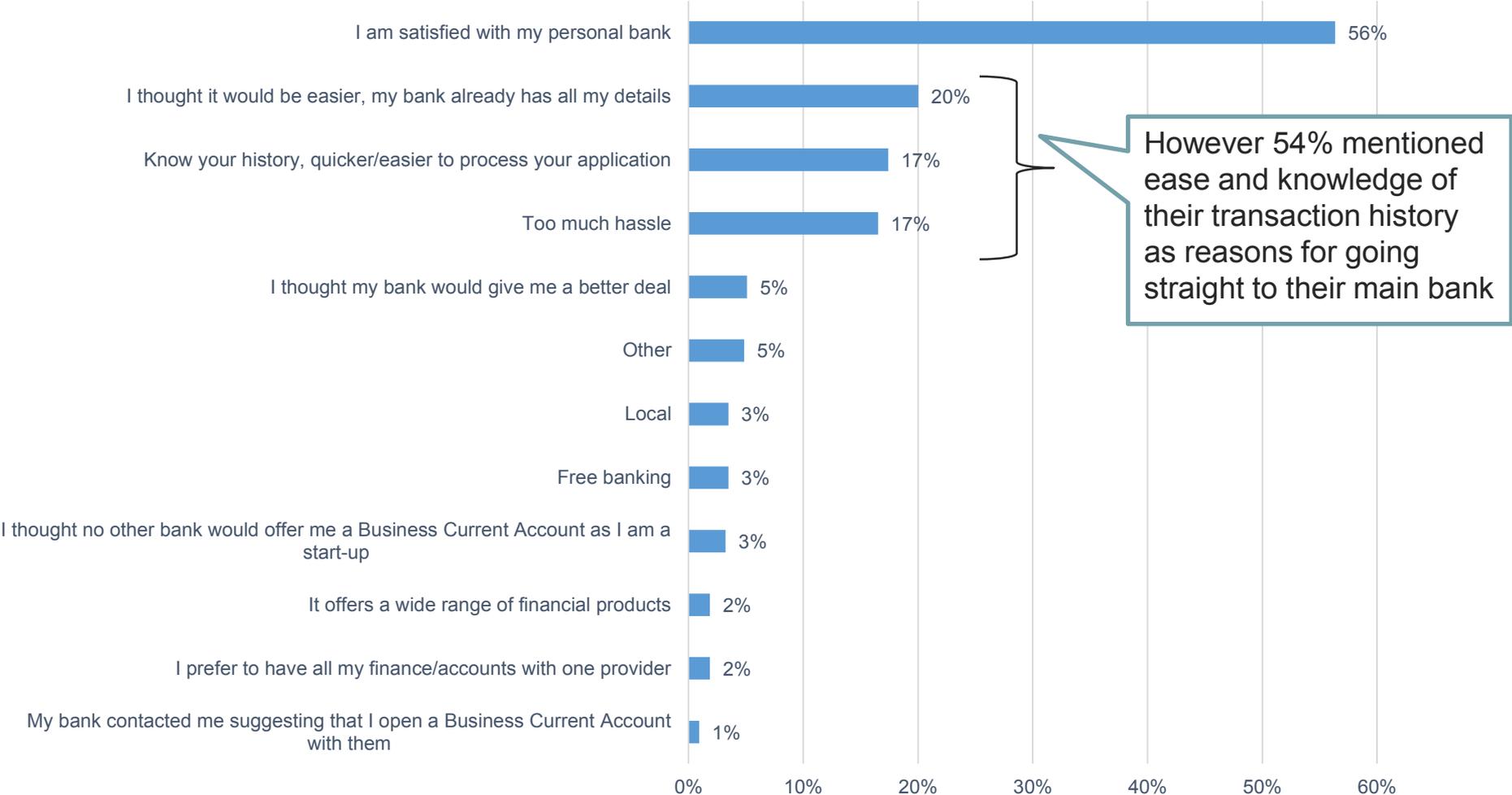
When you initially decided to open a business bank account would you say...?



50% of start-ups had the BCA with the same bank as their PCA.

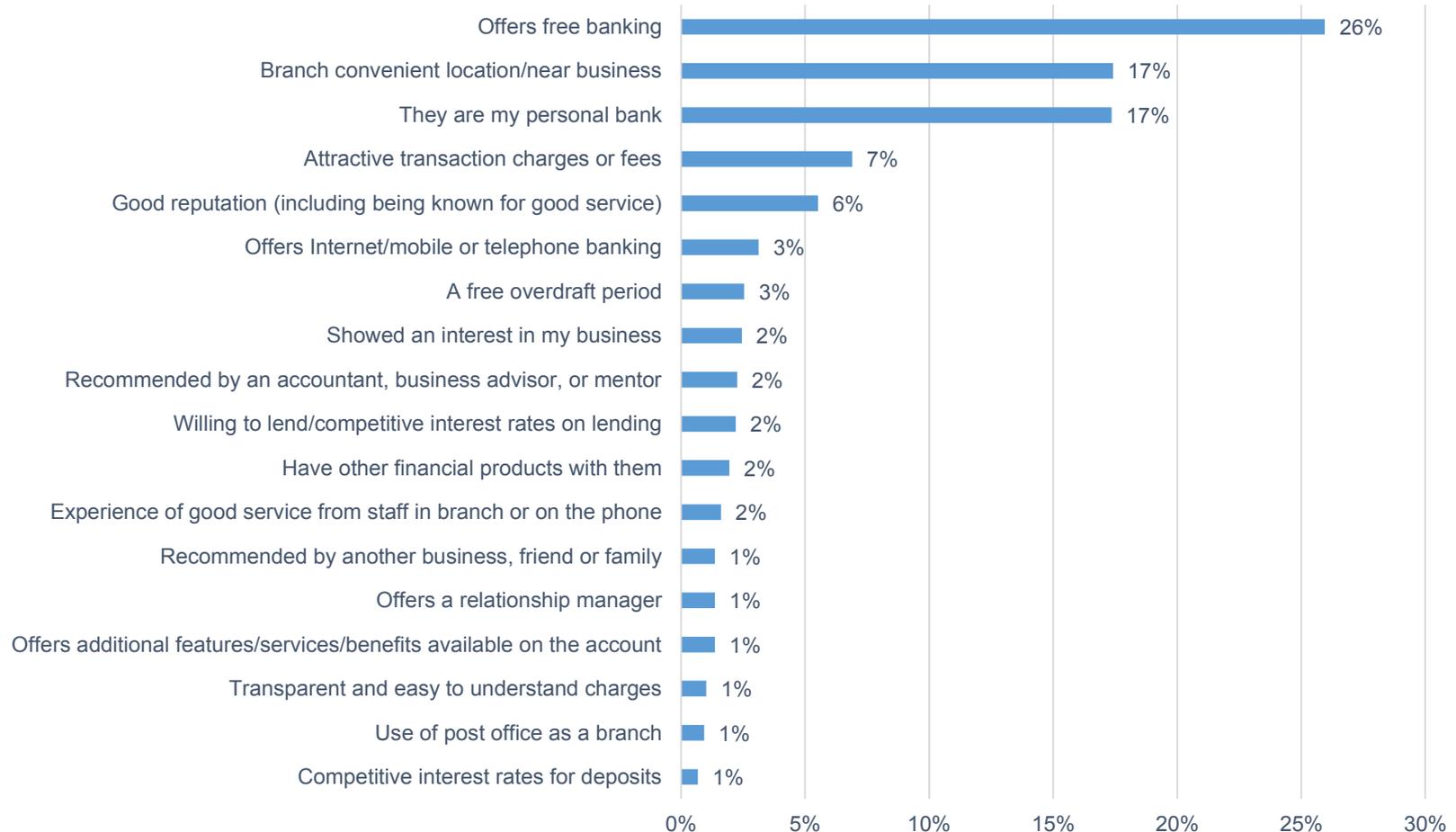
Satisfaction with their personal bank was the most common reason these start-ups did not look elsewhere

Why did you not look elsewhere?



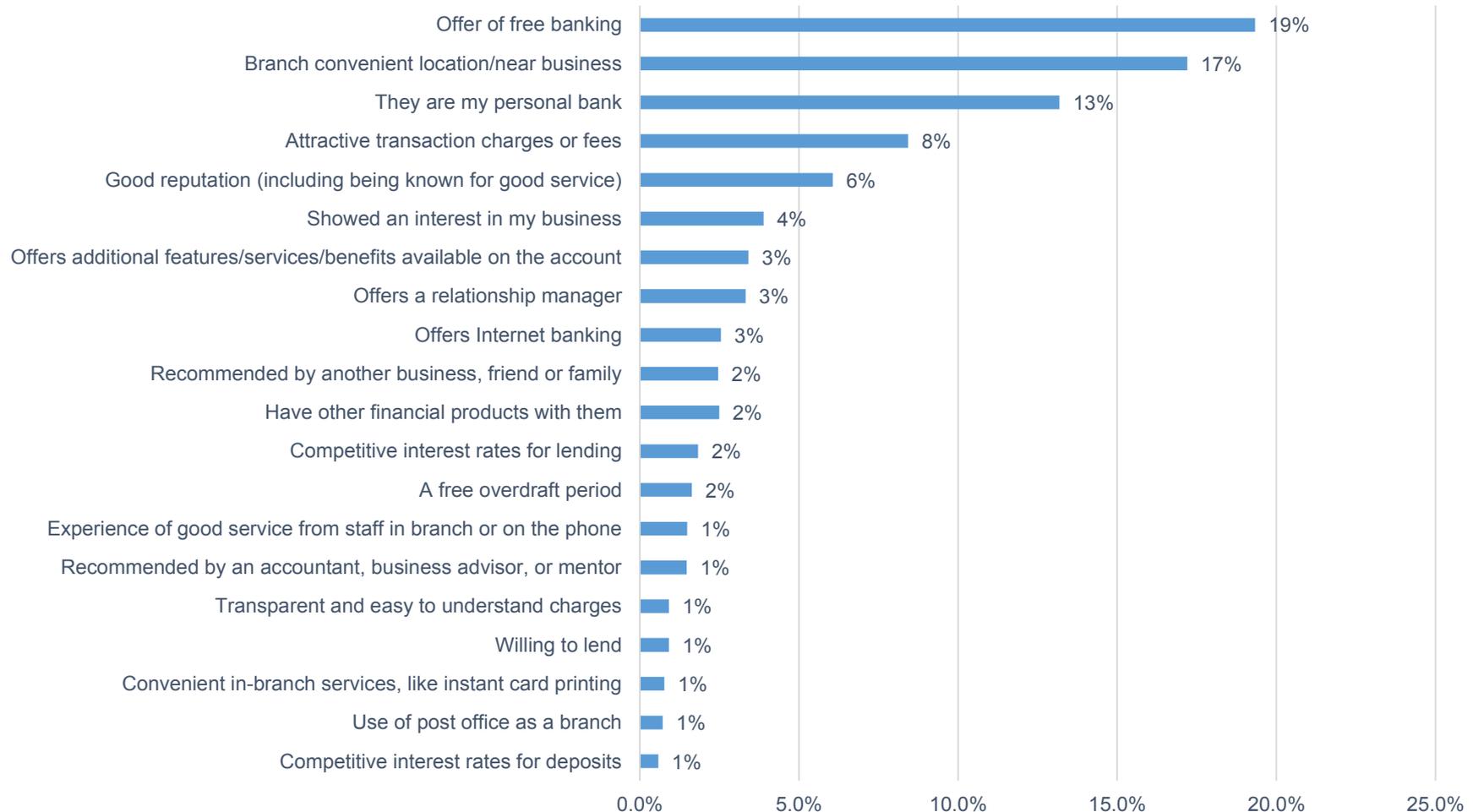
When choosing their BCA provider the offer of free banking was the most important factor, but location and their personal bank were also important

What were the most important factors you took into account when choosing which bank to open your BCA with...?



When asked to mention all important factors there were almost as many mentions of branch location as free banking

What were the important factors you took into account when choosing which bank to open your BCA with . . . ?



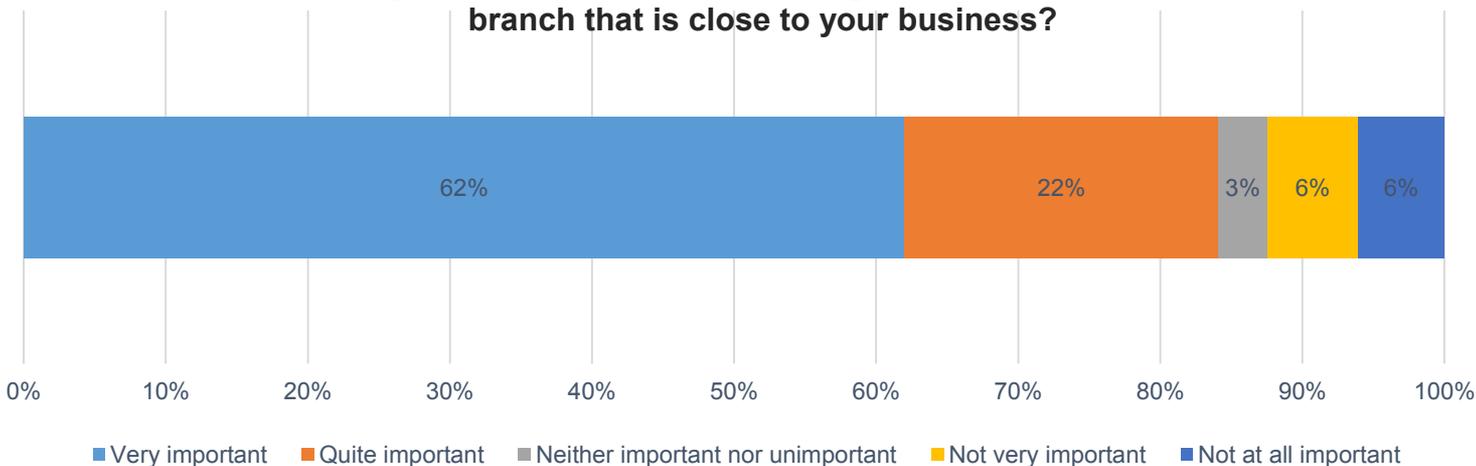
Survey 2a (Start-ups), Question B3 (multicode)

Base: All (252)

Note: The percentages record the proportion of all factors mentioned (rather than all SMEs)

This is consistent with other results in our survey, where the majority of start-ups reported that branch location was either “very important” or “quite important” to their choice of bank

How important to you choice of bank was having a convenient branch location / or a branch that is close to your business?



Why do you need access to a physical branch?

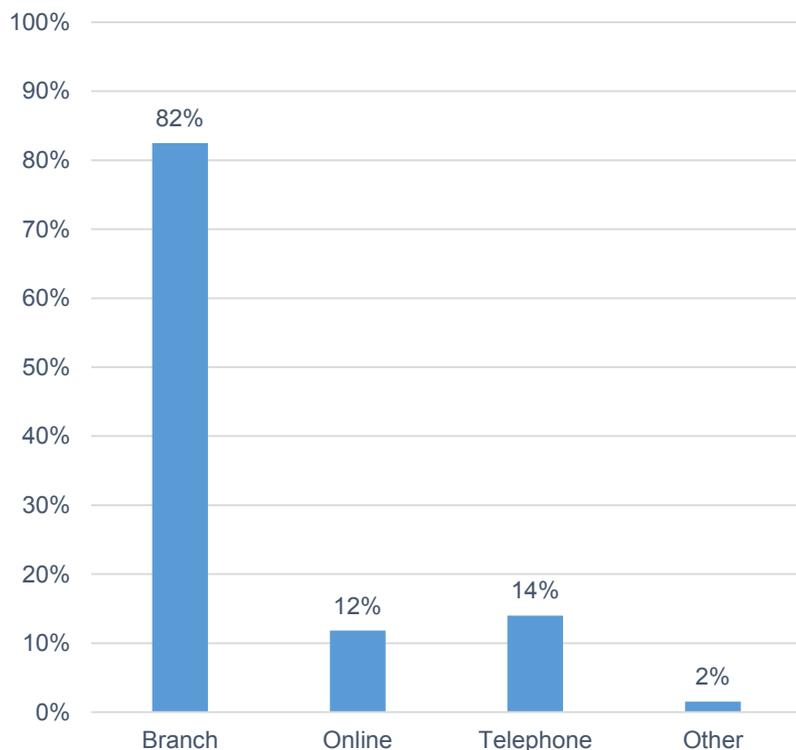


Paying cash or cheques was the main reason why start-ups needed access to a local branch

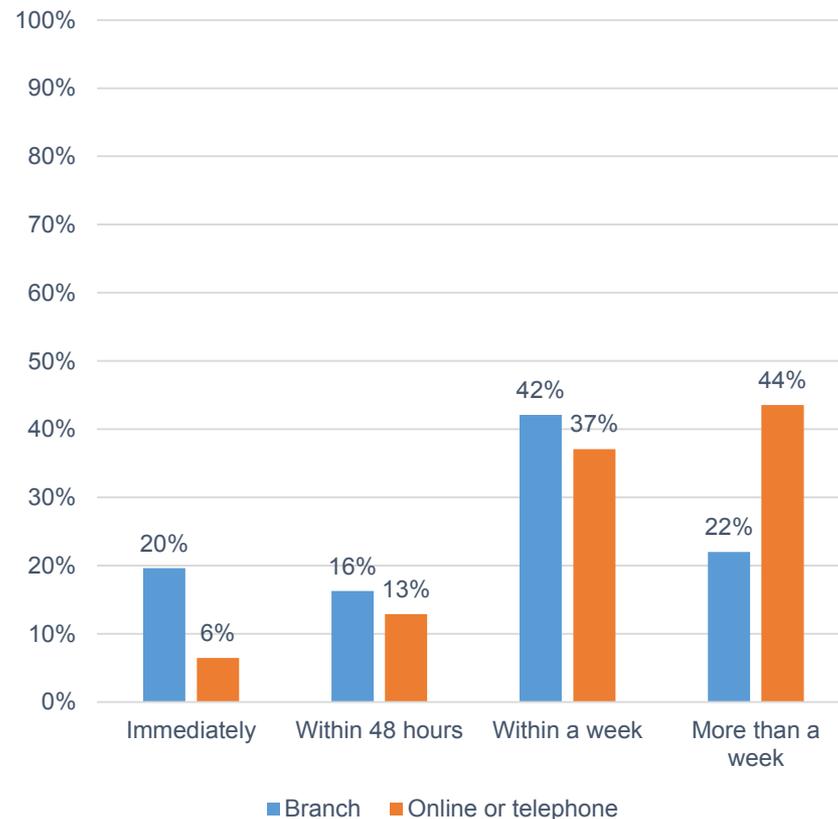
Access to a network of branches across the country was viewed as “not very important” or “not at all important” for the majority of start-ups (62%). Although, 29% did view it as very/quite important.

The majority of start-ups opened their BCA in their local branch, highlighting the importance of branches to customer acquisition of new start-ups

What channels did you use to open your account?

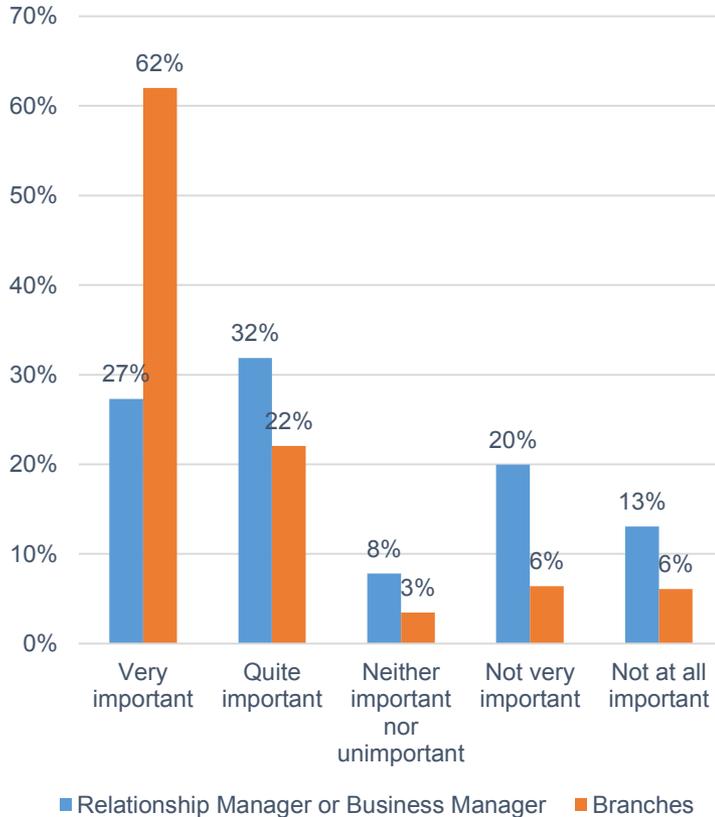


How long did it take to open your bank account?

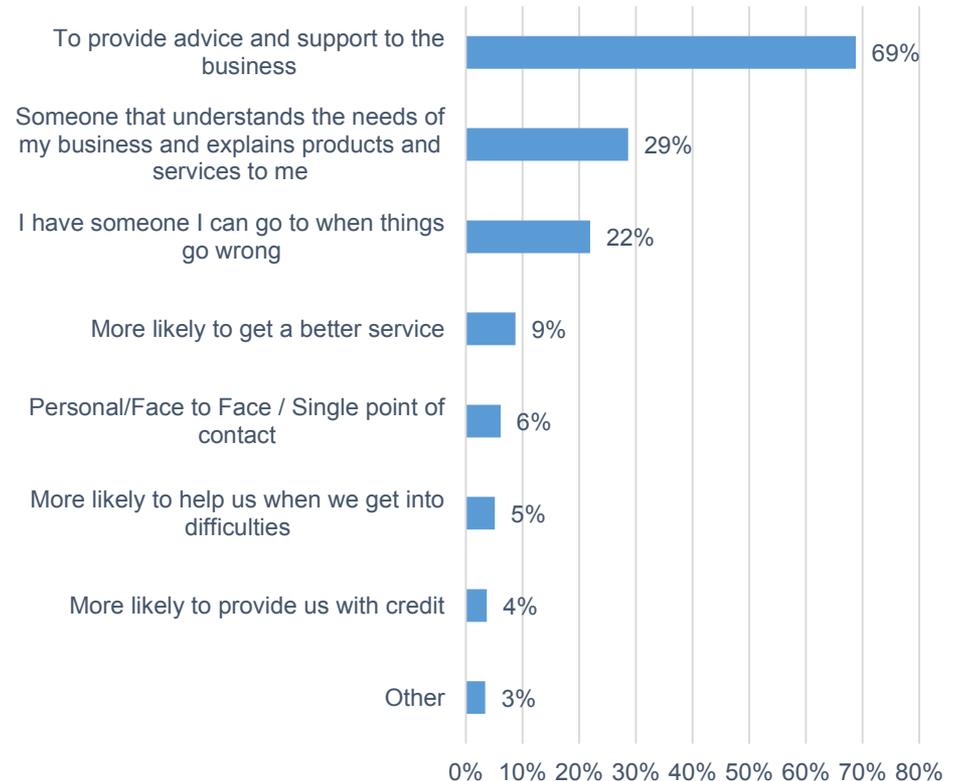


Although some start-ups felt that relationship managers were important to their choice of bank, this was much lower compared with the proportion reporting that branches were important

How important to your choice of bank was having a relationship manager/branch?



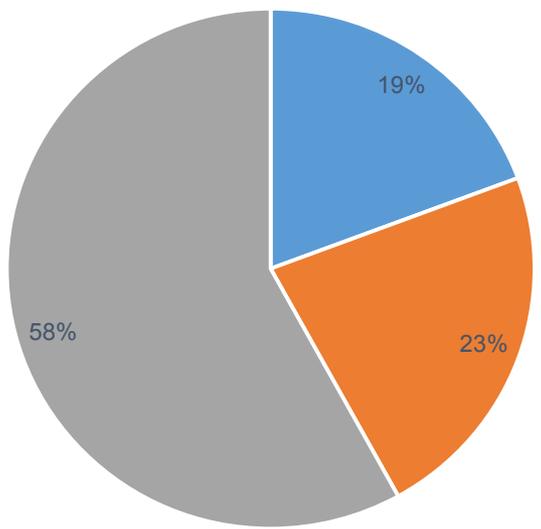
Why is your relationship manager important to you?



However, this may be related to the fact that they are start-ups and have relatively simple needs

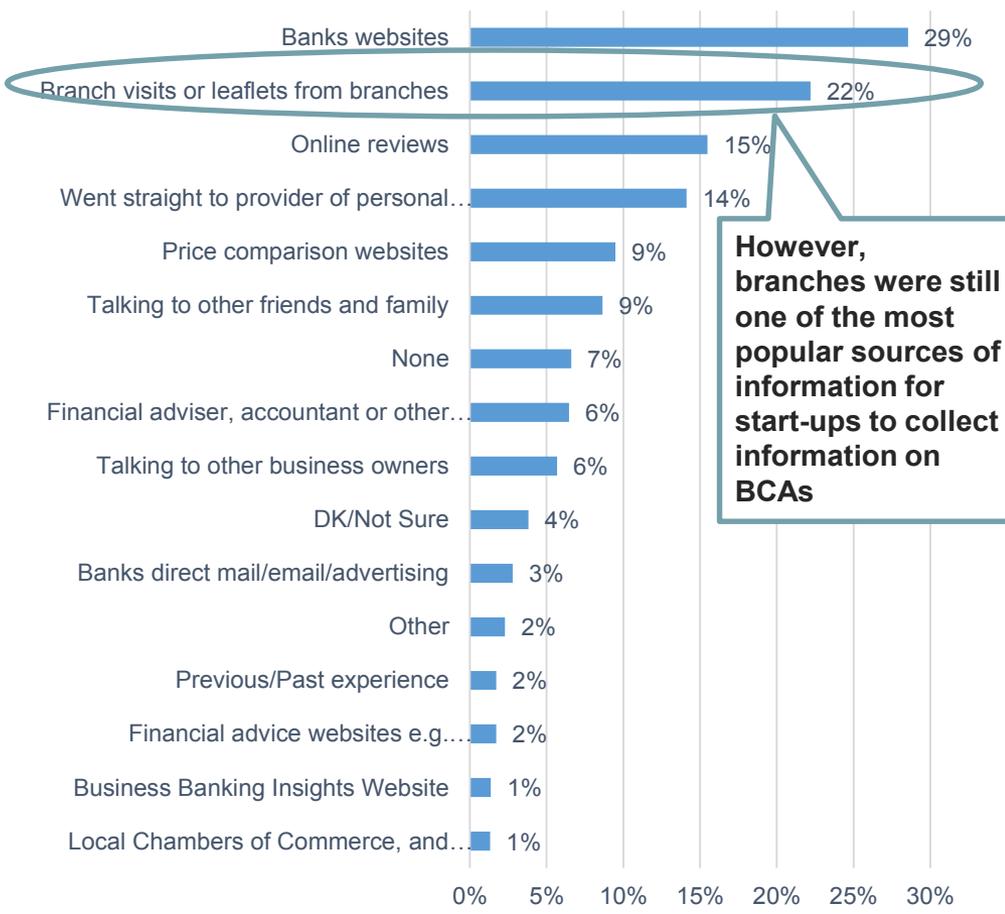
When choosing their BCA the majority of start-ups (58%) did not compare different banks against each other and most used banks' own websites to find out information, rather than price comparison site or other search tools

Did you compare a number of banks against each other?



- In an organised way considering each factor one at a time
- More superficially/considered all the factors in the round
- Not really at all

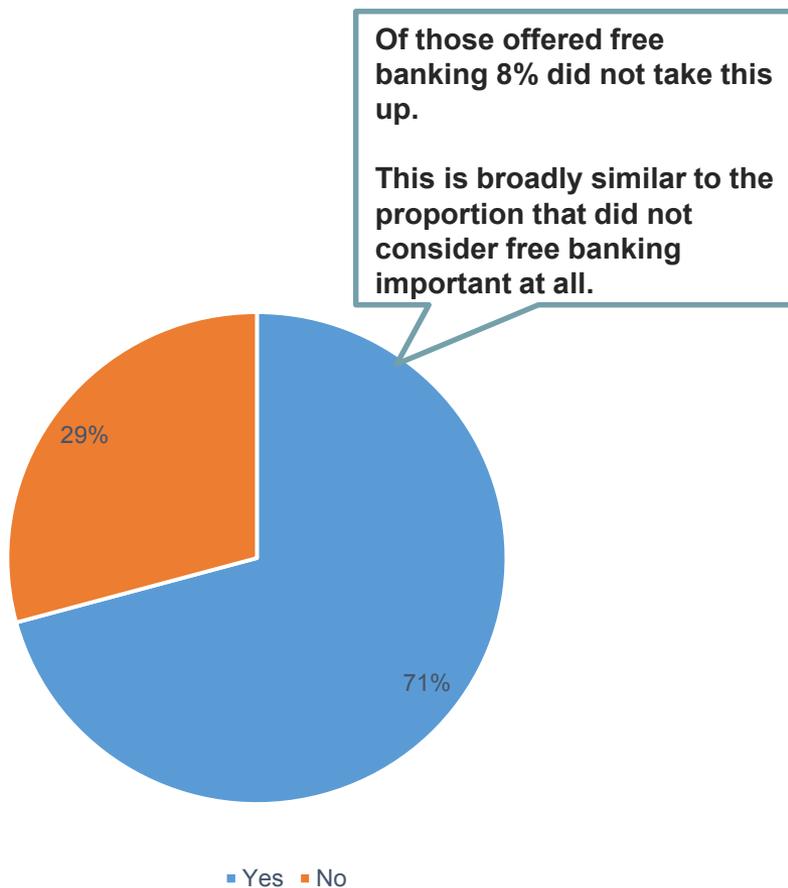
What information sources did you consider when choosing your BCA bank?



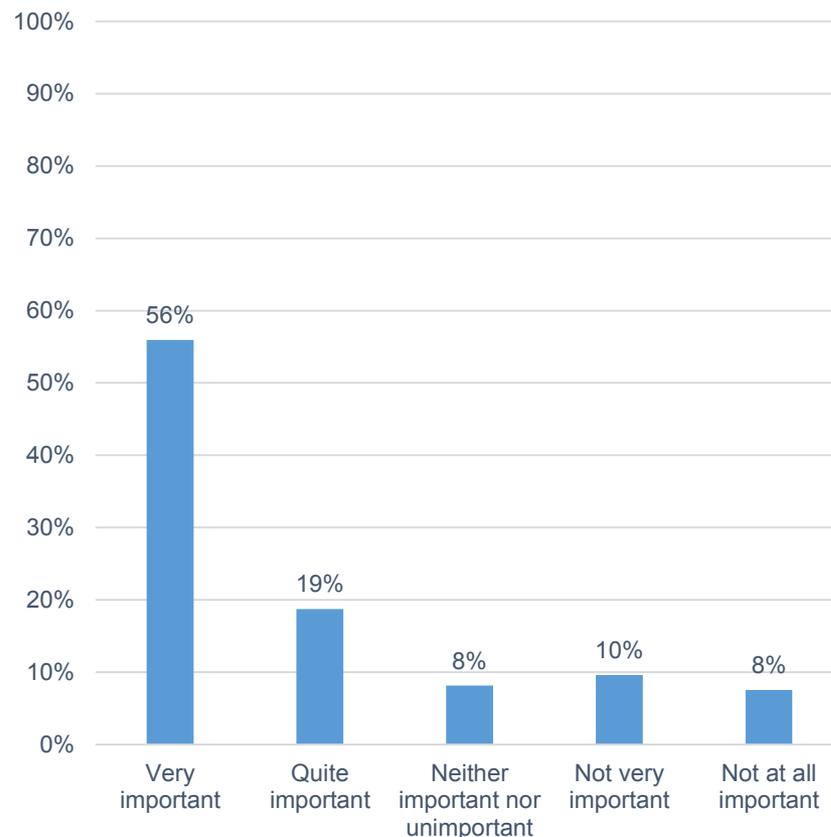
However, branches were still one of the most popular sources of information for start-ups to collect information on BCAs

Not all SMEs were offered free banking and of those that were, 8% did not take this up suggesting that other factors such as convenience and personal banking are more important to some than the offer of free banking

When choosing your bank were you offered free business banking by any of the banks you considered?

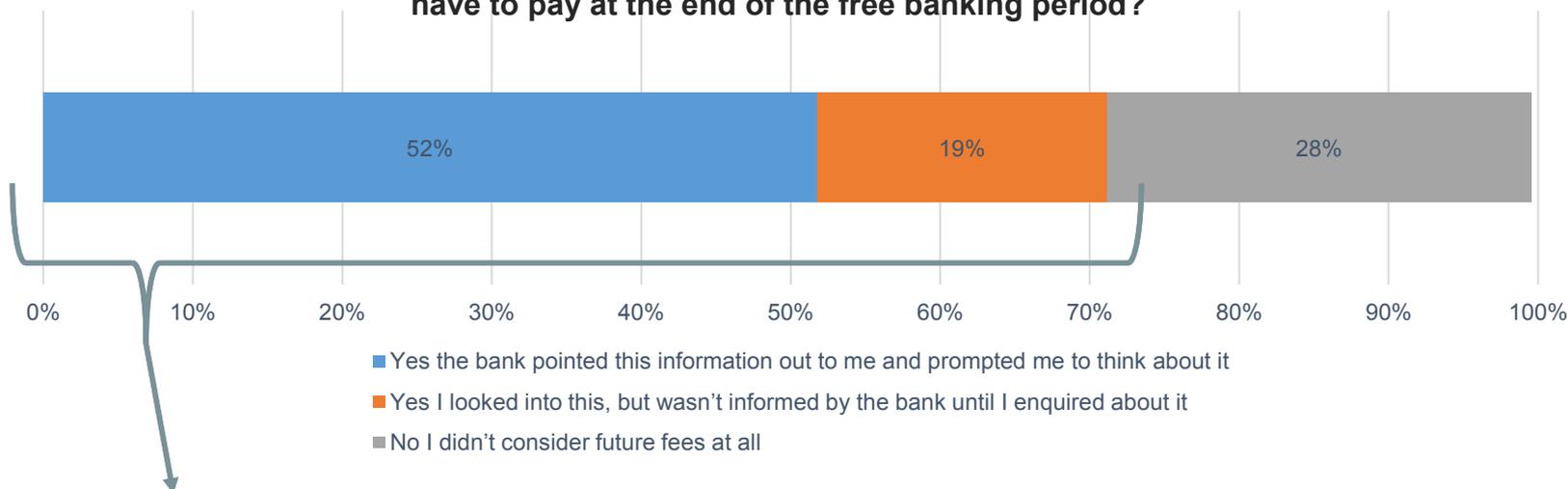


How important was free banking to your choice of bank?

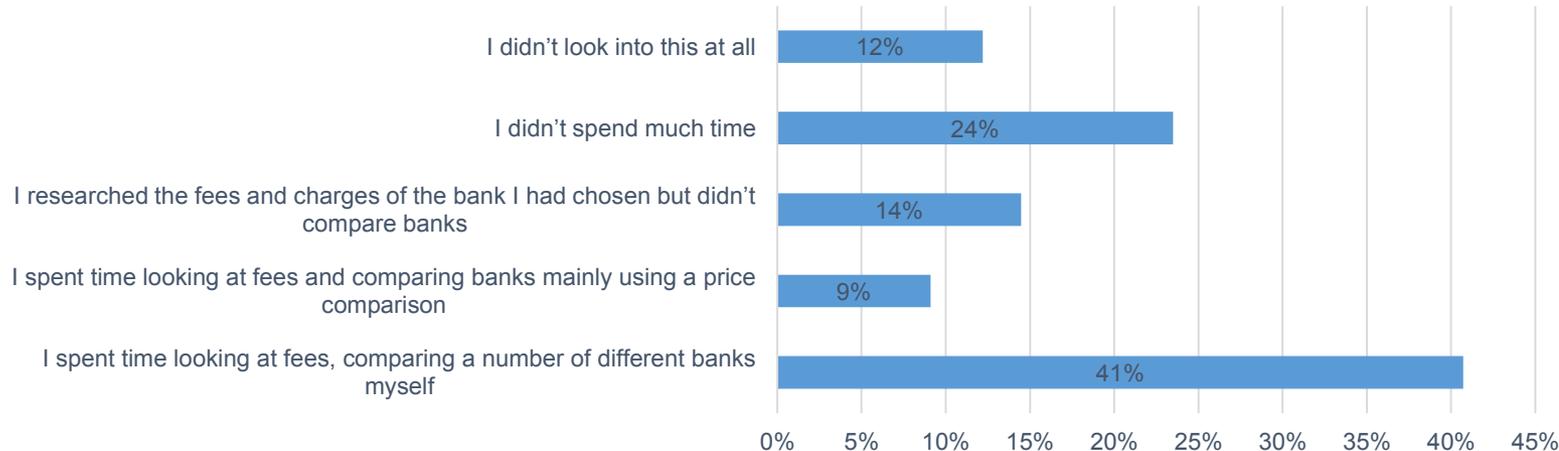


Over 70% reported that they considered or looked at the fees they would have to pay at the end of the free banking period. However, 52% were prompted by their bank

Before you chose who to bank with did you consider, or look in any way at the fees you would have to pay at the end of the free banking period?

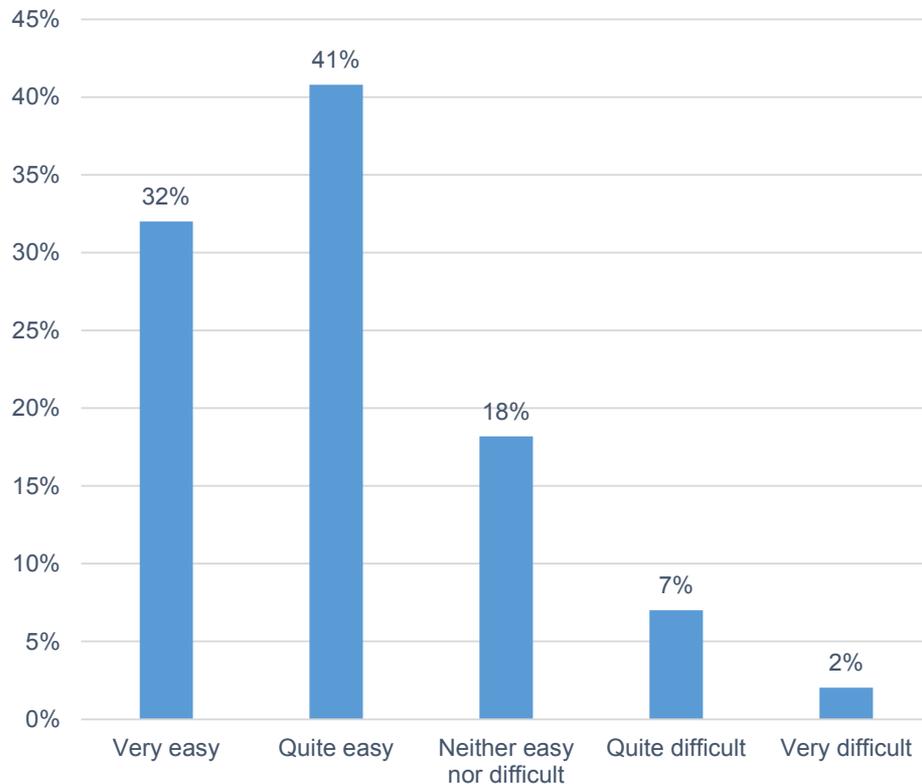


How much did you look into or research these fees? Which of the following is closest to your actions?

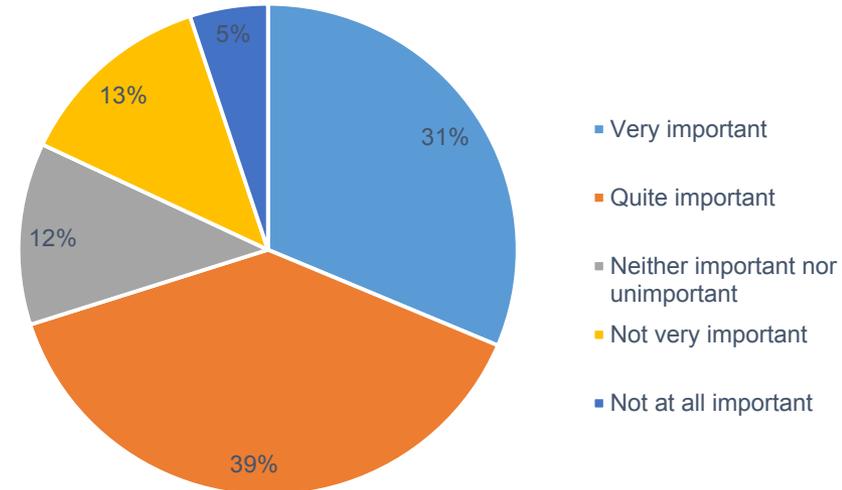


Of those start-ups that did consider future fees, most found it very easy or quite easy to find this information

How easy was it to find this information on these fees?

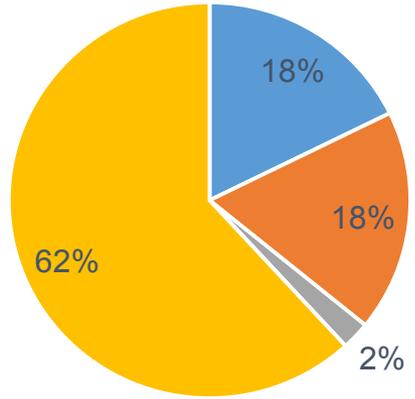


How important were these future fees to your final decision?



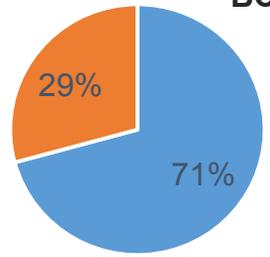
SMEs did not really consider unauthorised overdraft charges when choosing their BCA

Were you offered an overdraft facility with your bank account?



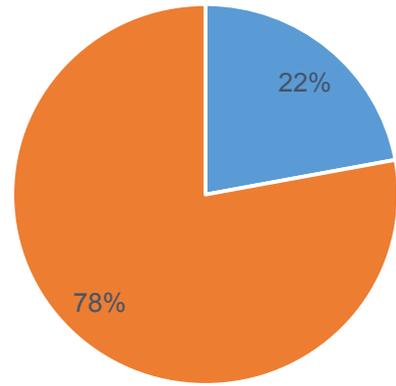
- A free overdraft facility
- An overdraft facility at the standard rates
- An overdraft facility at a negotiated rate;
- No overdraft facility

Were you informed about unauthorised overdraft charges when you opened your BCA?



- Yes
- No

Did you consider these charges when choosing your BCA?

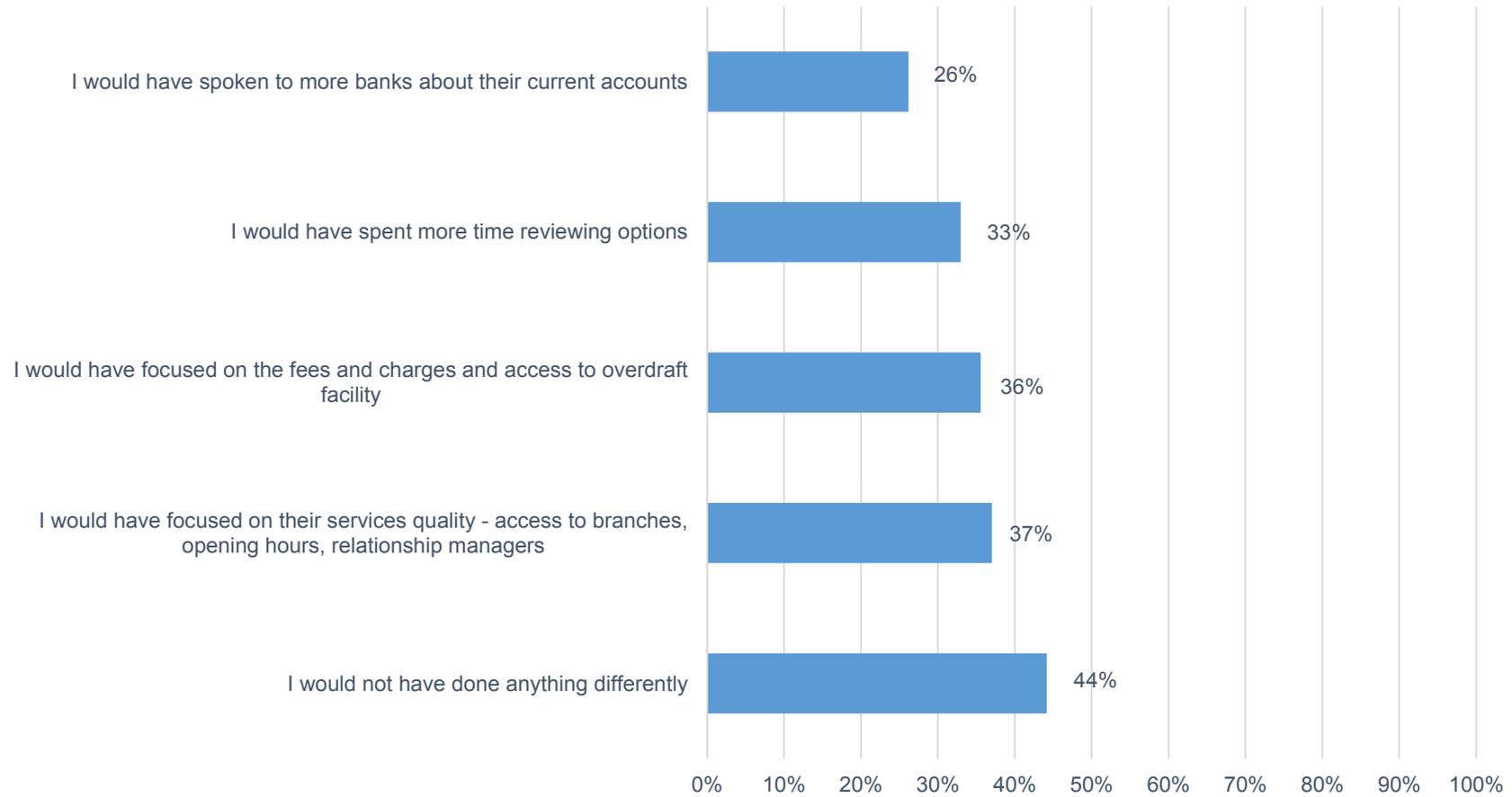


- Yes
- No

In hindsight over one-third would have focused more on service quality when choosing their BCA



And finally thinking back to when you originally chose your BCA, with the benefit of hindsight, would you . . . ?



Results:

End of free banking (2b)

Summary of Key Findings

1. Do businesses consider switching at the end of free banking?

- Two-thirds (67%) of SMEs did not consider switching banks at the end of the free banking period.
- Of these approximately 45% reported that this was because they were satisfied with their main bank. But at least 21% reported that it was too much hassle and 7% that it would take too long.
- Of those that did consider switching 46% said they considered switching accounts because it was too expensive and 26% because they were offered free banking elsewhere suggesting that at least to some price and financial considerations matter.

2. If they did, why did they not switch?

- Despite a good proportion of SMEs considering switching, only 6% eventually switched.
- Around half reported that they did not switch because it was too much 'hassle'.

3. Do SMEs negotiate and if they do, how successful are they?

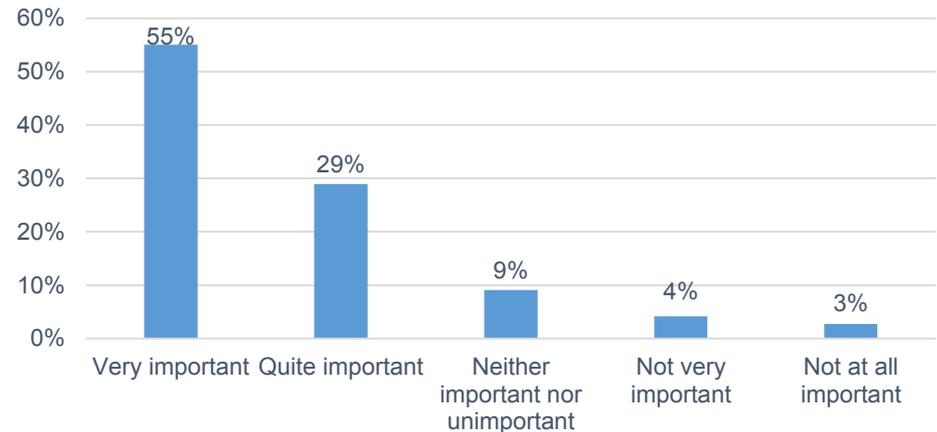
- Even at the smaller end of the SME market there was some evidence of some attempts at negotiation, either to receive an extension on the free banking period or to receive lower fees. But only some were successful.
- Most did not negotiate because they were not aware they could negotiate.

Background

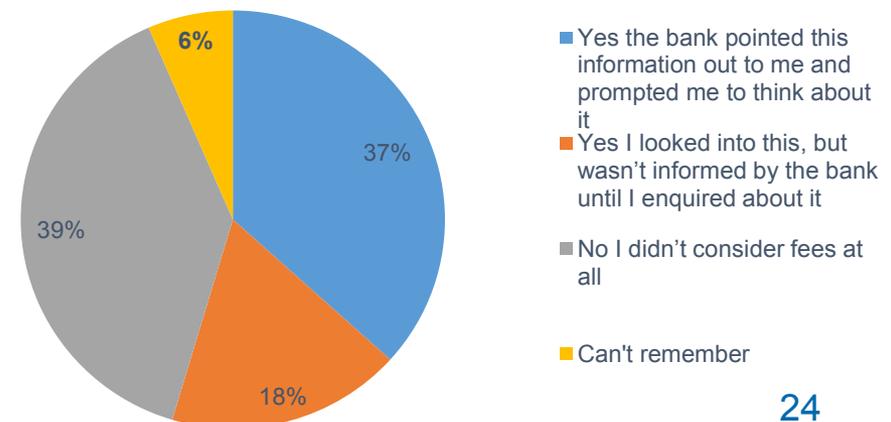
Of our sample:

- All were offered free banking, with approximately half (55%) reporting that free banking had been very important to their choice of BCA (similar to the start-up survey)
- On the other hand, a slightly higher proportion compared with start-ups reported that they did not consider fees at the end of the free banking period when they first chose their BCA.

How important was free banking to your choice of provider?



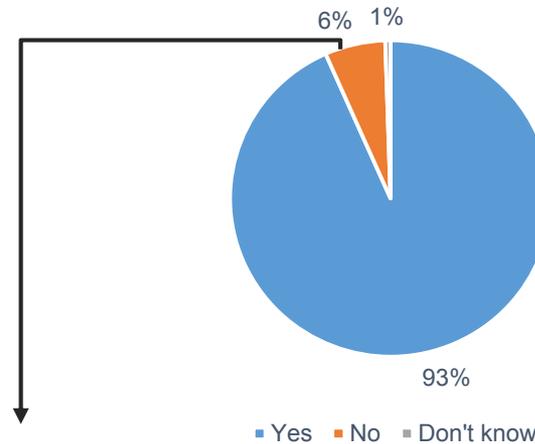
Did you consider post free banking fees?



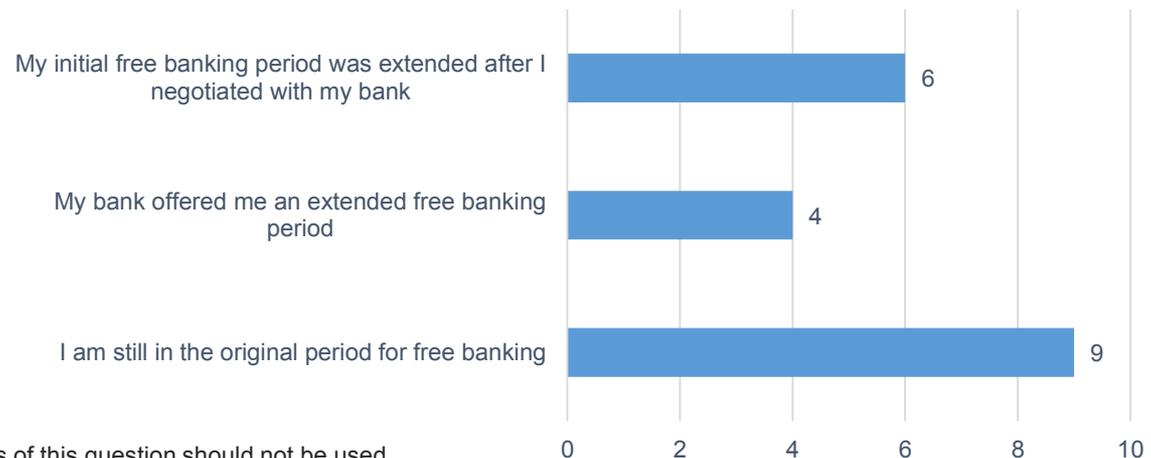
SMEs still on free banking

- 93% of our sampled SMEs were now no longer on free banking. 6% (equivalent to 19 SMEs in our sample) were still on free banking.
- Of the 19 SMEs still on free banking, at least 6 had managed to extend their free banking period by negotiating with their bank.

Has your initial period of free banking now finished?



Which of these is closest to your situation?



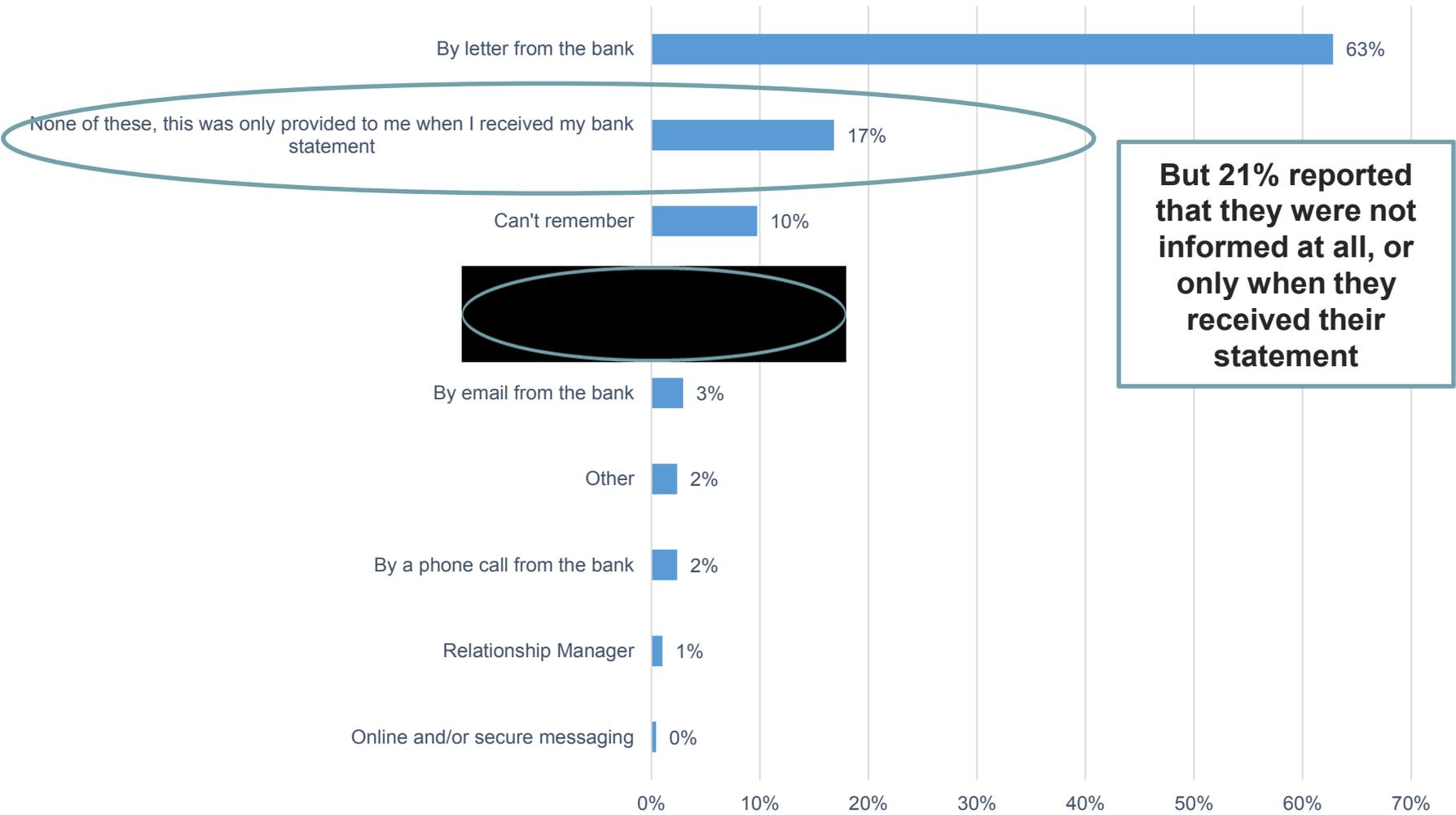
Survey 2b (End of free banking), Question B4 & B6

Base B4: All (252), Base B6: No longer on free banking (19)

Notes: Only 19 respondents were asked B6, therefore results of this question should not be used to infer percentages for the whole population of start-ups.

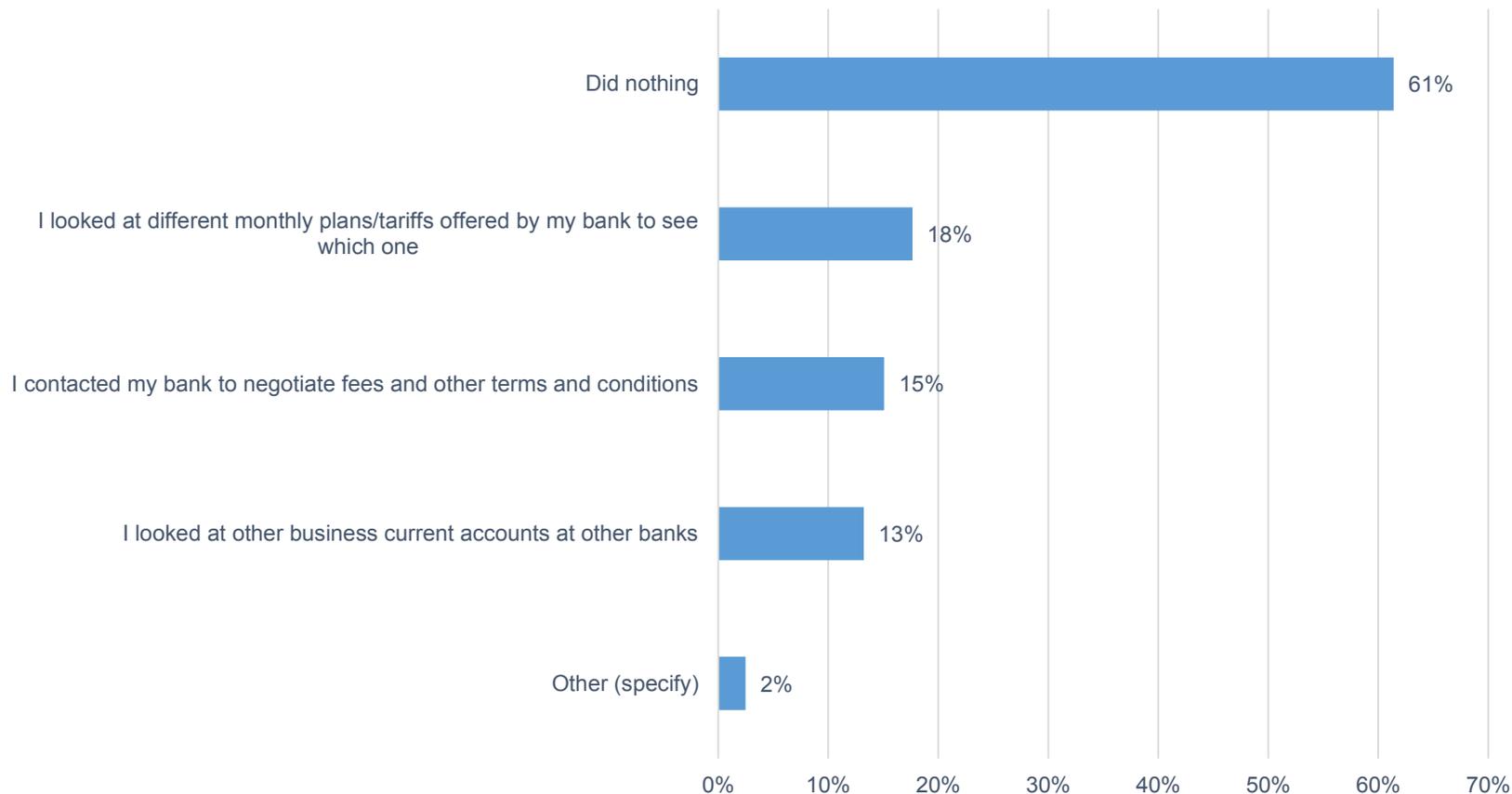
Of those no longer on free banking, around two-thirds were informed about the end of free banking and that new fees would apply by letter

How were you informed about end of free banking?



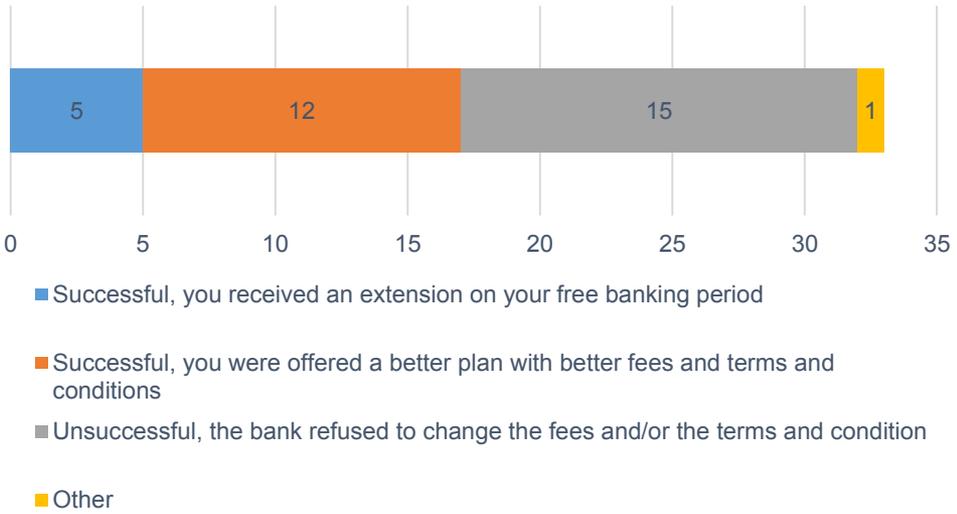
When free banking finished, just under two thirds did nothing, but 18% did look at plans and tariffs offered by their current bank and 15% attempted to negotiate fees with their bank

What did you do when free banking finished?

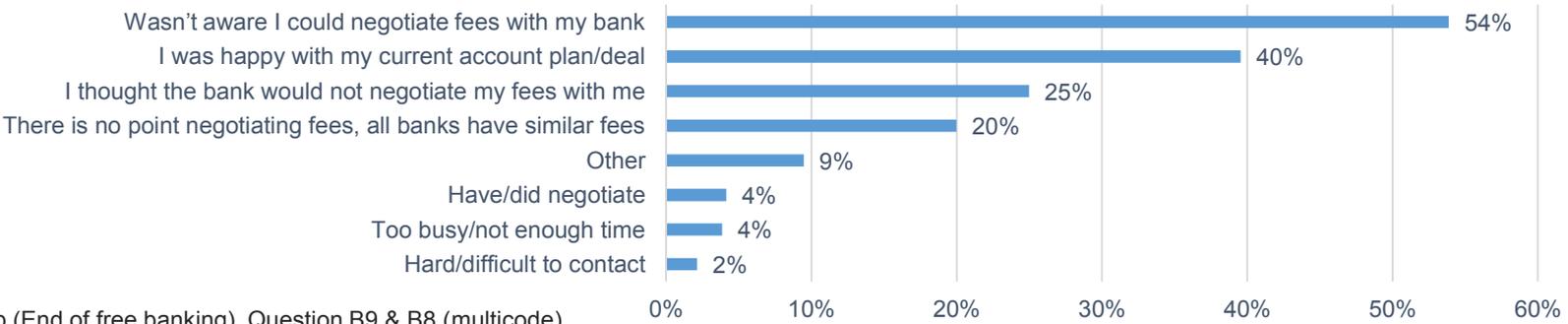


- Of those 38 SMEs (equivalent to 15% in the previous slide) that contacted their bank to negotiate, 17 were successful. A similar number were unsuccessful
- This would suggest that even amongst younger, less experienced SMEs negotiation does occur, but only on a small scale
- Of those that did not negotiate, approximately half reported that they did not negotiate because they were not aware they could and a quarter did not think their bank would negotiate their fees. A further 20% thought there was no point negotiating as all banks have similar fees

How successful do you feel you were at negotiating?



Why did you not negotiate fees/conditions post free banking?

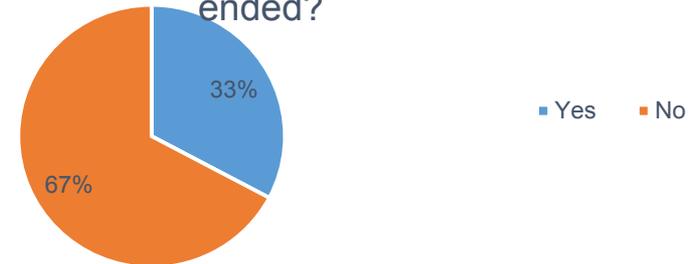


Survey 2b (End of free banking), Question B9 & B8 (multicode)
 Base B9: All who tried to negotiate (33), Base B8: All who didn't try to negotiate (200)
 Notes: Only 38 respondents were asked B9, therefore results of this question should not be used to infer percentages for the whole population of start-ups.

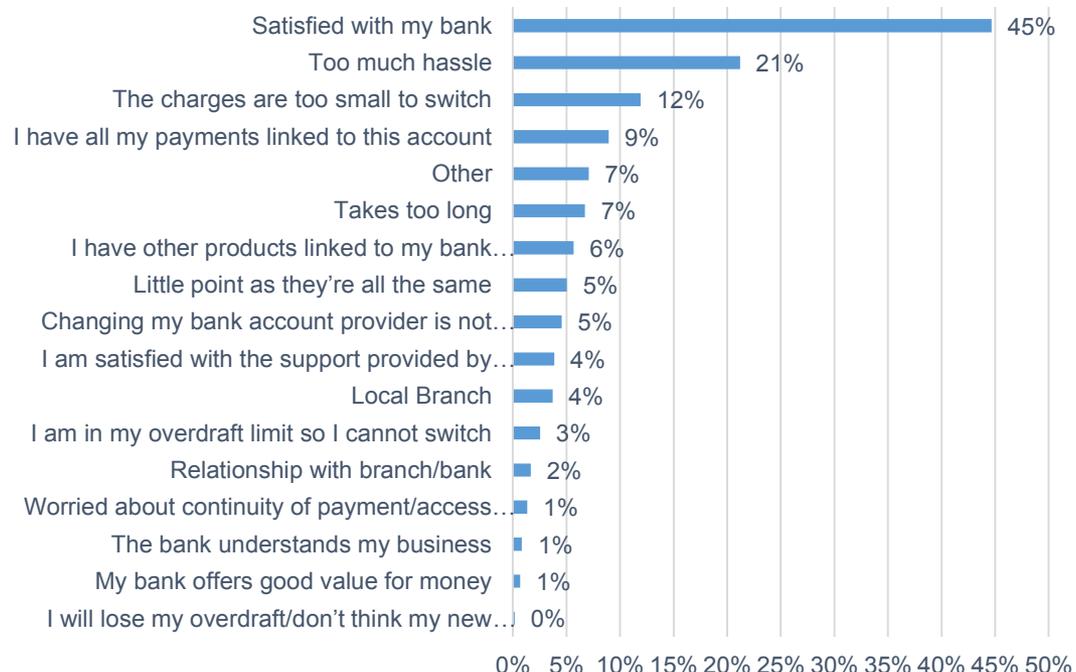
Consideration of Switching

- Two-thirds (67%) of SMEs did not consider switching banks at the end of the free banking period.
- Of the one third that did **not** consider switching 45% said this was because they were satisfied with their main bank
- But 21% reported that it was too much hassle and a further 7% thought it would take too long

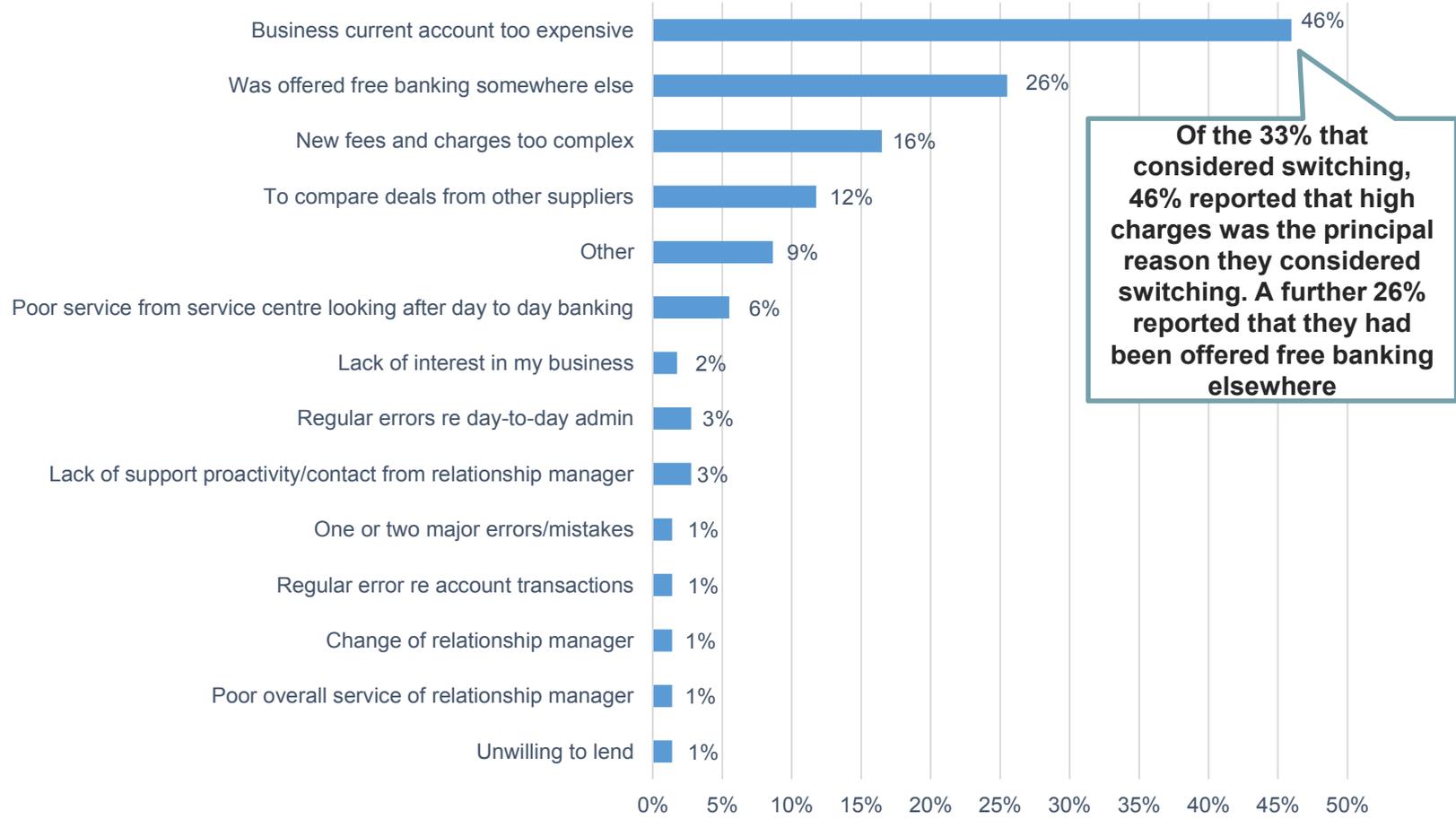
Did you considering switching when free banking ended?



Why did you not consider switching business bank [when free banking ended]?



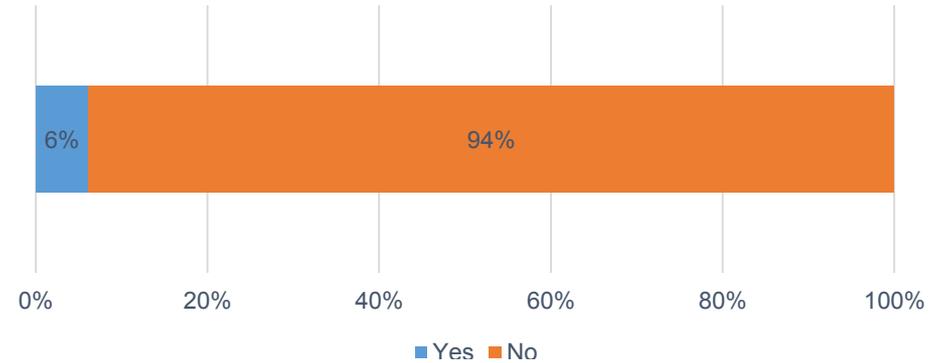
Why did you consider switching [when free banking ended]?



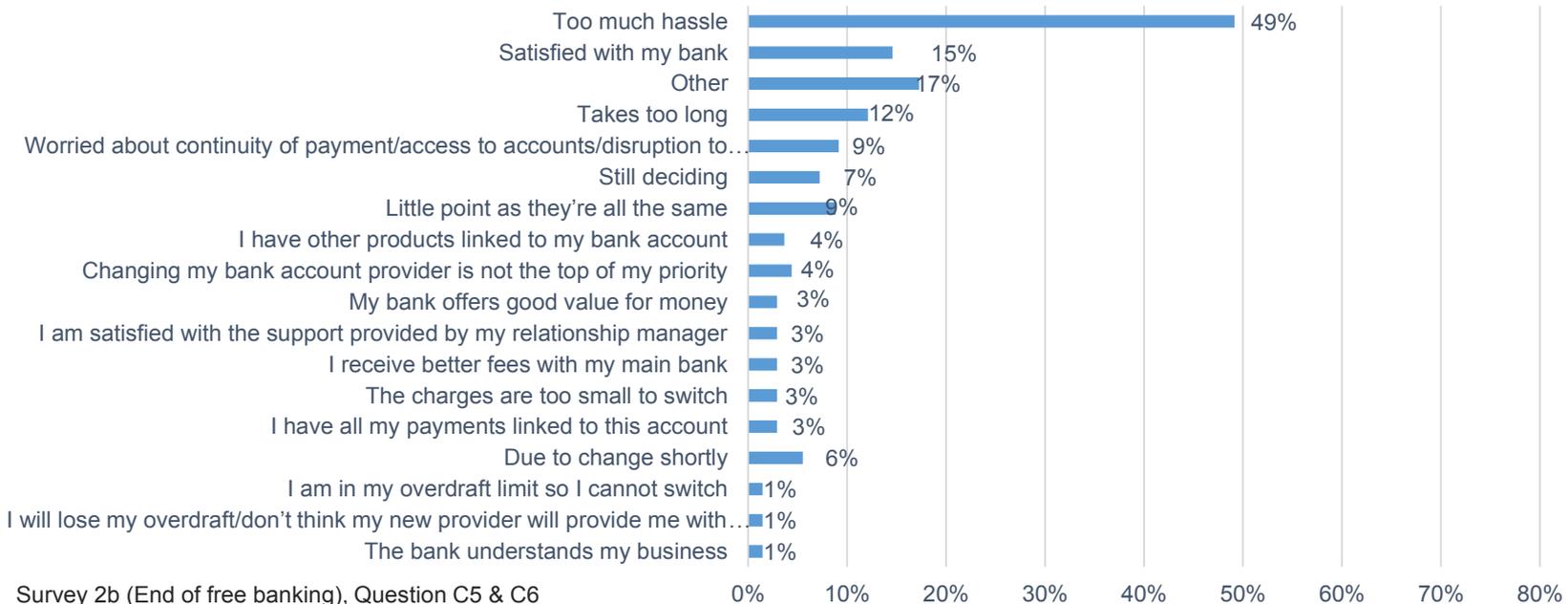
Consideration of switching

- However, only 6% eventually switched
- Of those that considered switching but did not switch, 70% reported that it was either:
 - too much hassle;
 - takes too long; or were
 - worried about continuity of payments/disruption to the business

Did you actually switch?



Why did you decide not to switch?

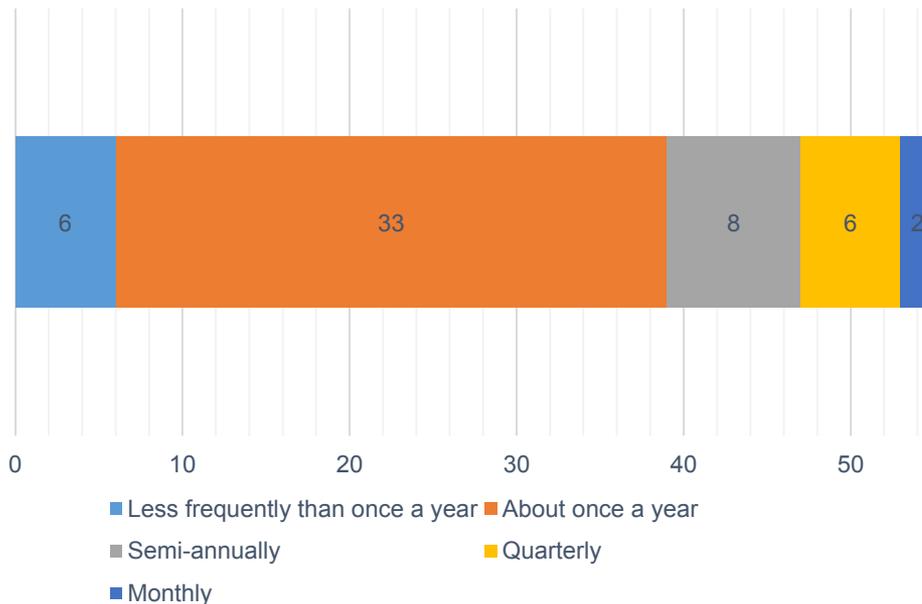


Survey 2b (End of free banking), Question C5 & C6
 Base C5: All considered switching (78), Base C6: All who considered but did not switch (72)

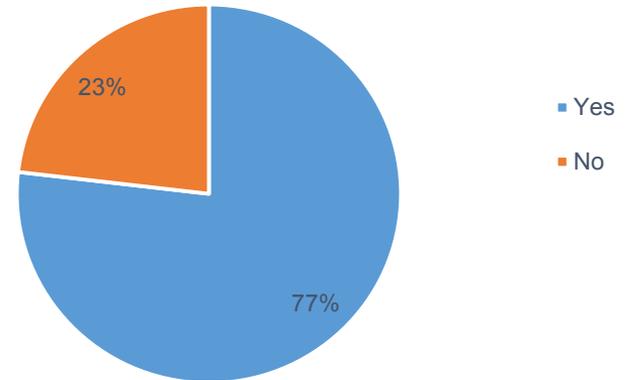
Monitoring the cost of their account

- Most (77%) of our sample said they monitored the cost of their account.
- But 23% said they did not ever compare the cost of their BCA with other providers.
- 33 of the 55 SMEs in our sample who compared costs with other providers said they made comparisons about once a year.

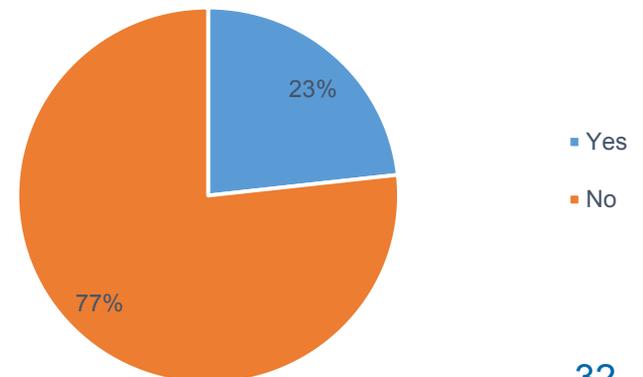
How often do you make these comparisons?



Do you monitor the costs of having your BCA?



Do you ever compare costs to other BCA providers?



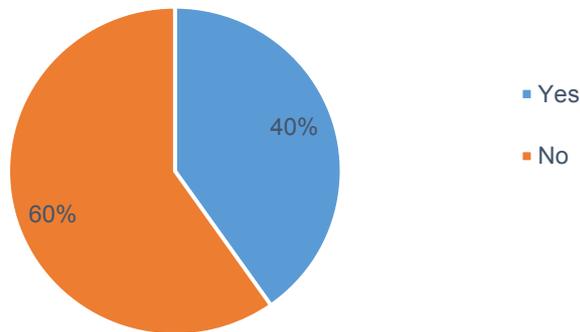
Survey 2b (End of free banking), Question E1 & E2 & E3
 Base E1, E2: All (252), Base E3: All who compare costs to other providers (55)

Notes: Only 55 respondents were asked E3, therefore results of this question should not be used to infer percentages for the whole population of start-ups.

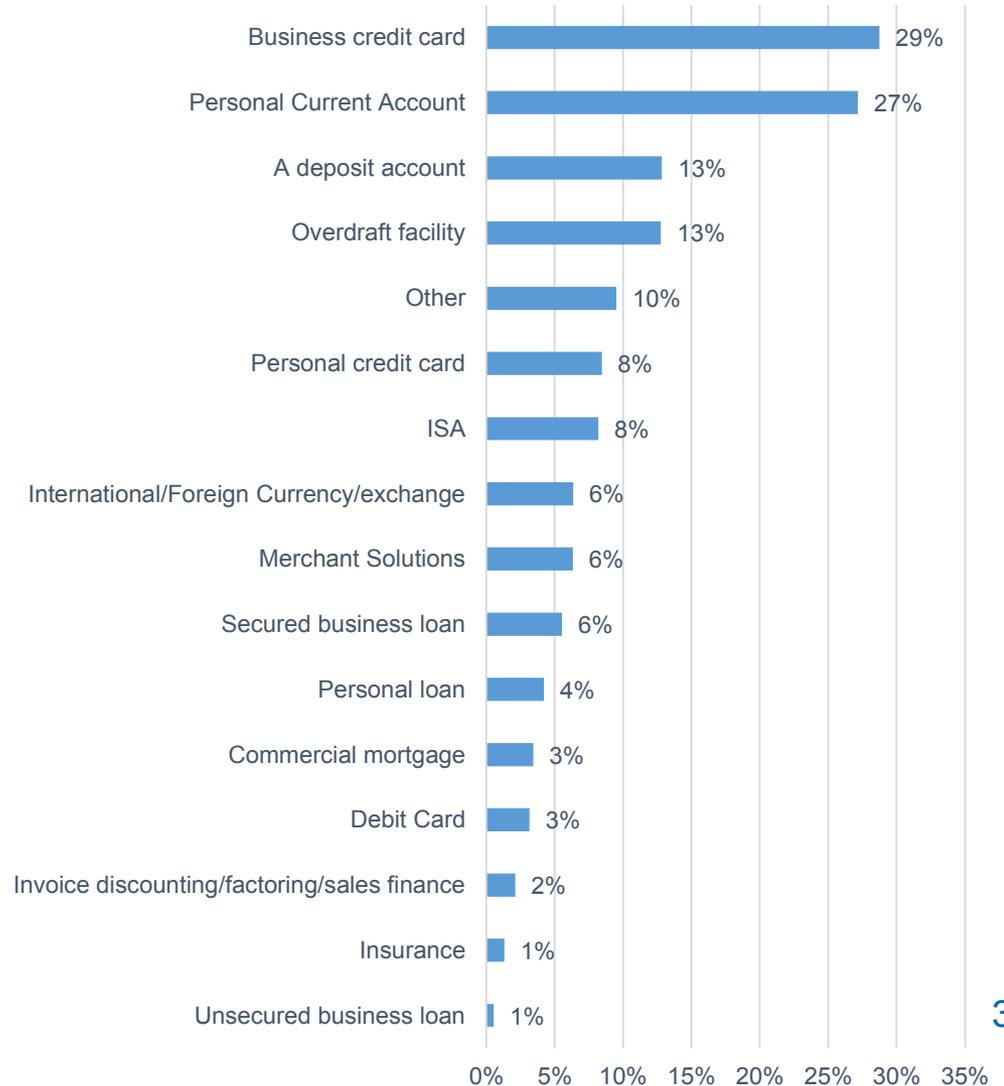
Multiple product holdings

- 40% of our sample had another product with their main bank.
- The most common products held were credit cards and PCAs

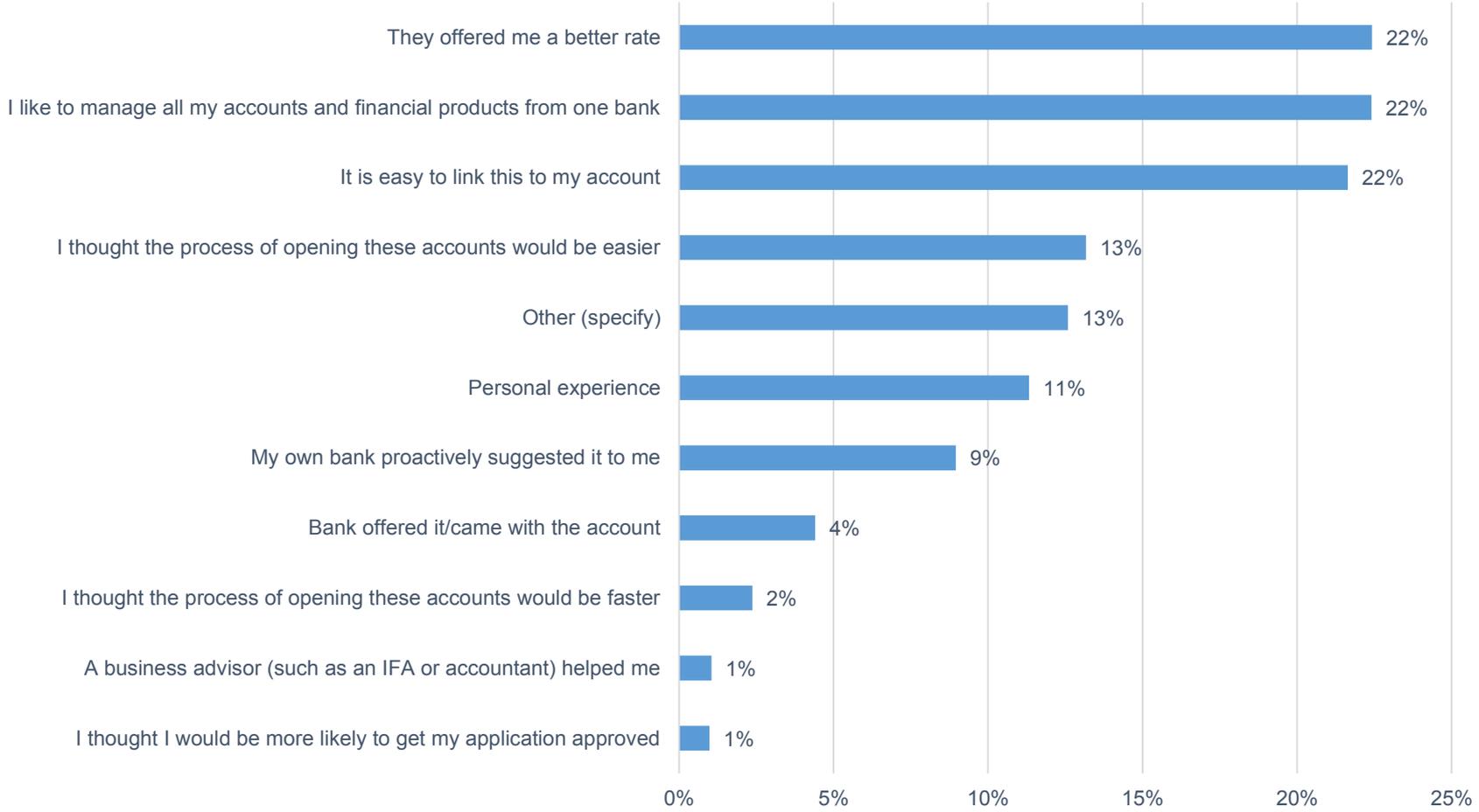
Do you have any other banking products with your main bank?



If yes, what banking products are these?



If yes, why did you take out these banking products with your main bank?



The future

Most businesses within our sample planned to stay with their current bank, but 3% were actively looking to switch.

Of the 52 businesses considering or looking to switch just under half were looking to switch because their BCA was too expensive, but 14 were looking to switch because of poor service with relationship manager, lack of proactivity/ contact from RM or lack of interest in the business

What is your view on whether you will remain with your BCA provider over the coming year?



Why are you considering/looking to switch away from your bank?



Survey 2b (End of free banking), Question F1 & F2

Base F1: All (252), Base F2: All considering switching (52)

Notes: Only 52 respondents were asked F2, therefore results of this question should not be used to infer percentages for the whole population of start-ups.

Results: Applying for finance (1)

Summary of Key Findings

1. Why did the business need finance?

- Larger SMEs were more likely to seek finance to expand their business, while smaller SMEs were more likely to seek finance due to a shortfall in cash flow

2. What types of finance & organisations did they consider and what information did they use?

- Most SMEs only considered one provider as a source of finance (in the vast majority of cases, their main bank).
- For those who only considered one organisation, the most common reason given was because they were satisfied with their main bank. However approximately one quarter also mentioned hassle and time as a reason for not going to other providers.

3. Why did or didn't they use their main bank?

- The main reasons why SMEs applied to their main bank for finance were because they knew them and had a relationship with them (27%), because it was convenient (26%) or because they were satisfied with them/they have been given good service in the past from them (23%).

4. Did they seek to compare prices and products?

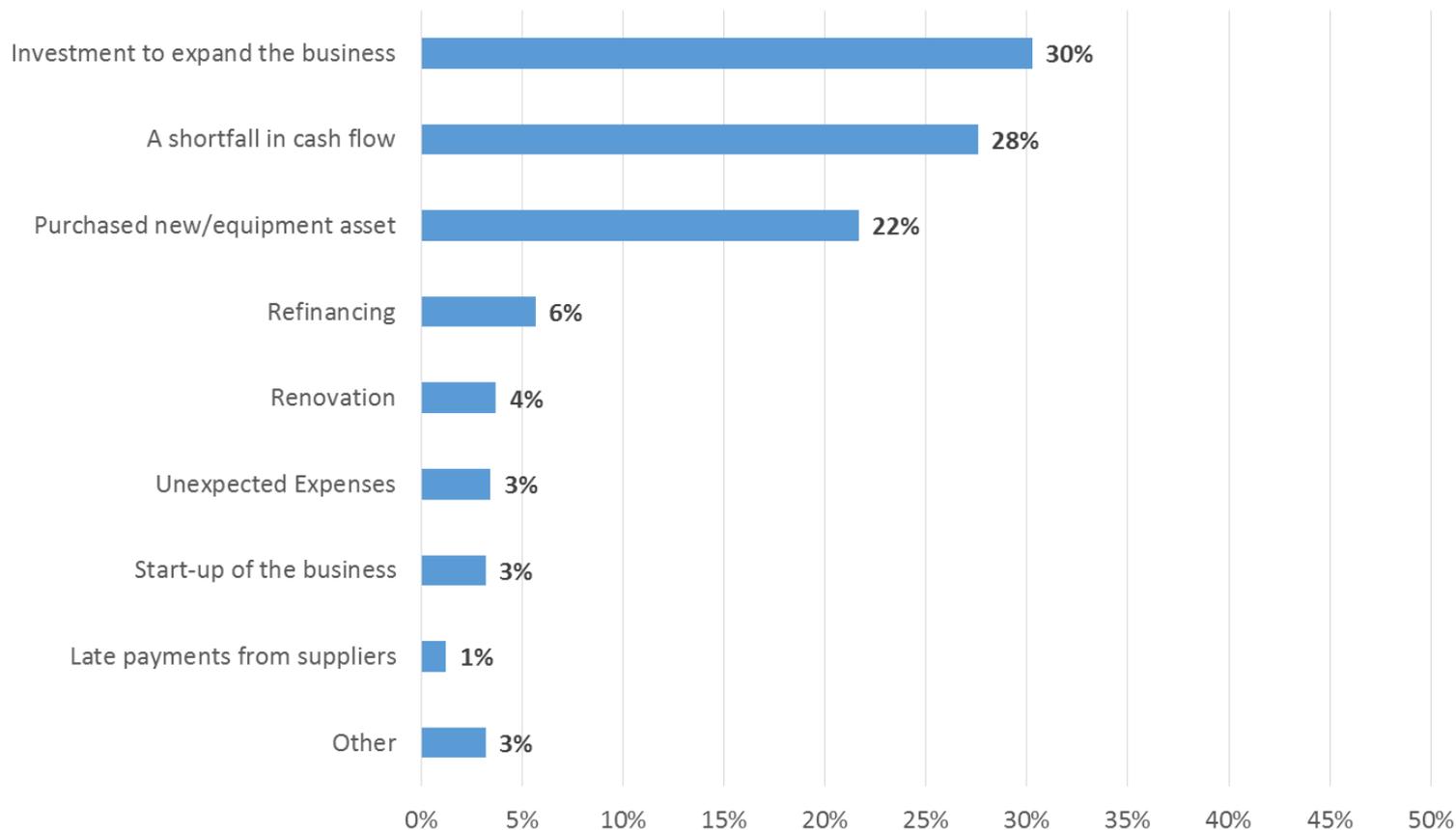
- To find out information about finance, most SMEs looked on financial organisation websites, spoke to financial advisors or finance brokers or visited branches. Only 4% used price comparison websites.
- Of those SMEs who applied to more than one organisation, over one third did not compare institutions against each other. Of the remainder, only a minority compared providers in a organised way.

5. Did they attempt to negotiate on the price?

- Most SMEs who were approved for finance did not try and negotiate on the rates, charges or other terms and conditions.

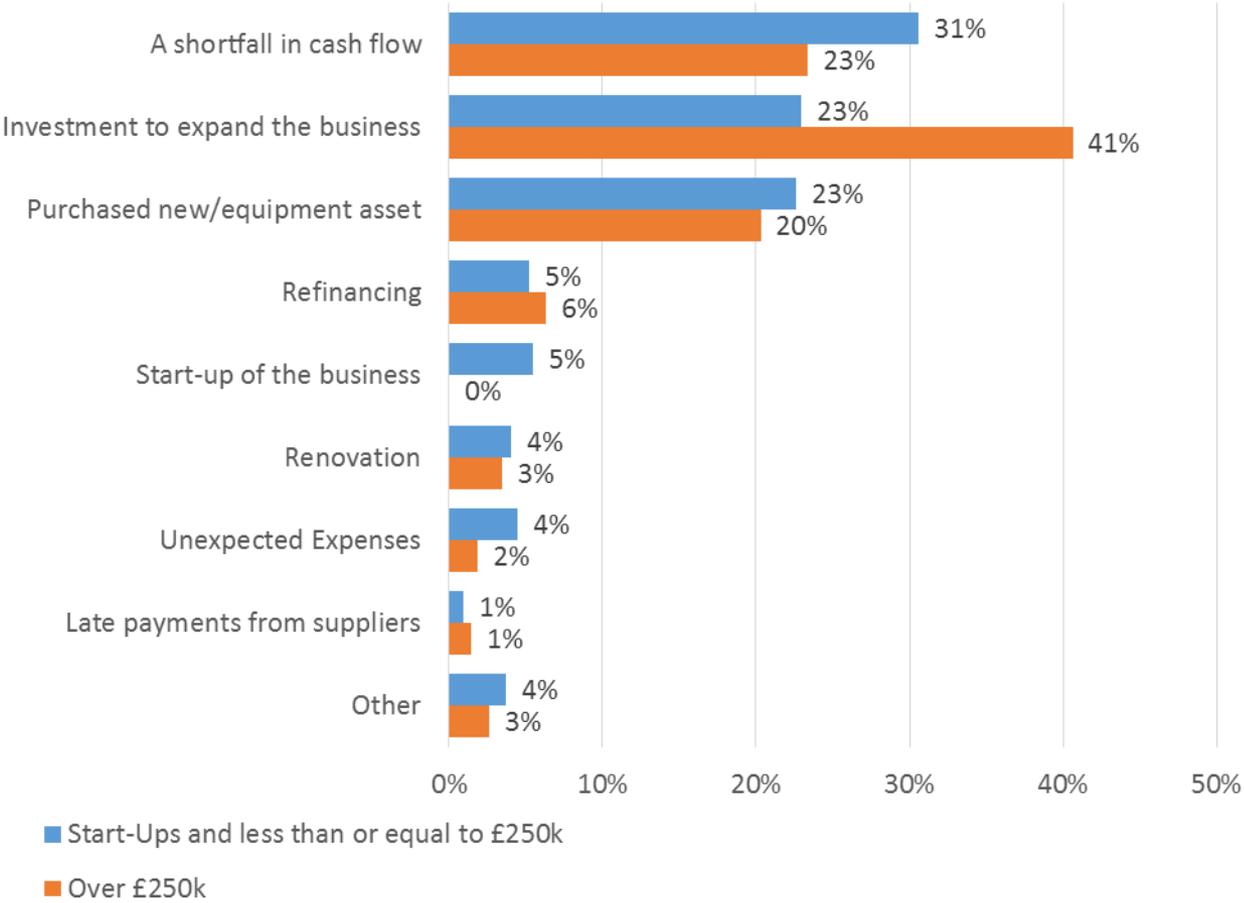
Investment to expand business was the main reason why SMEs sought finance, followed by a shortfall in cash flow.

What prompted your business to seek finance?



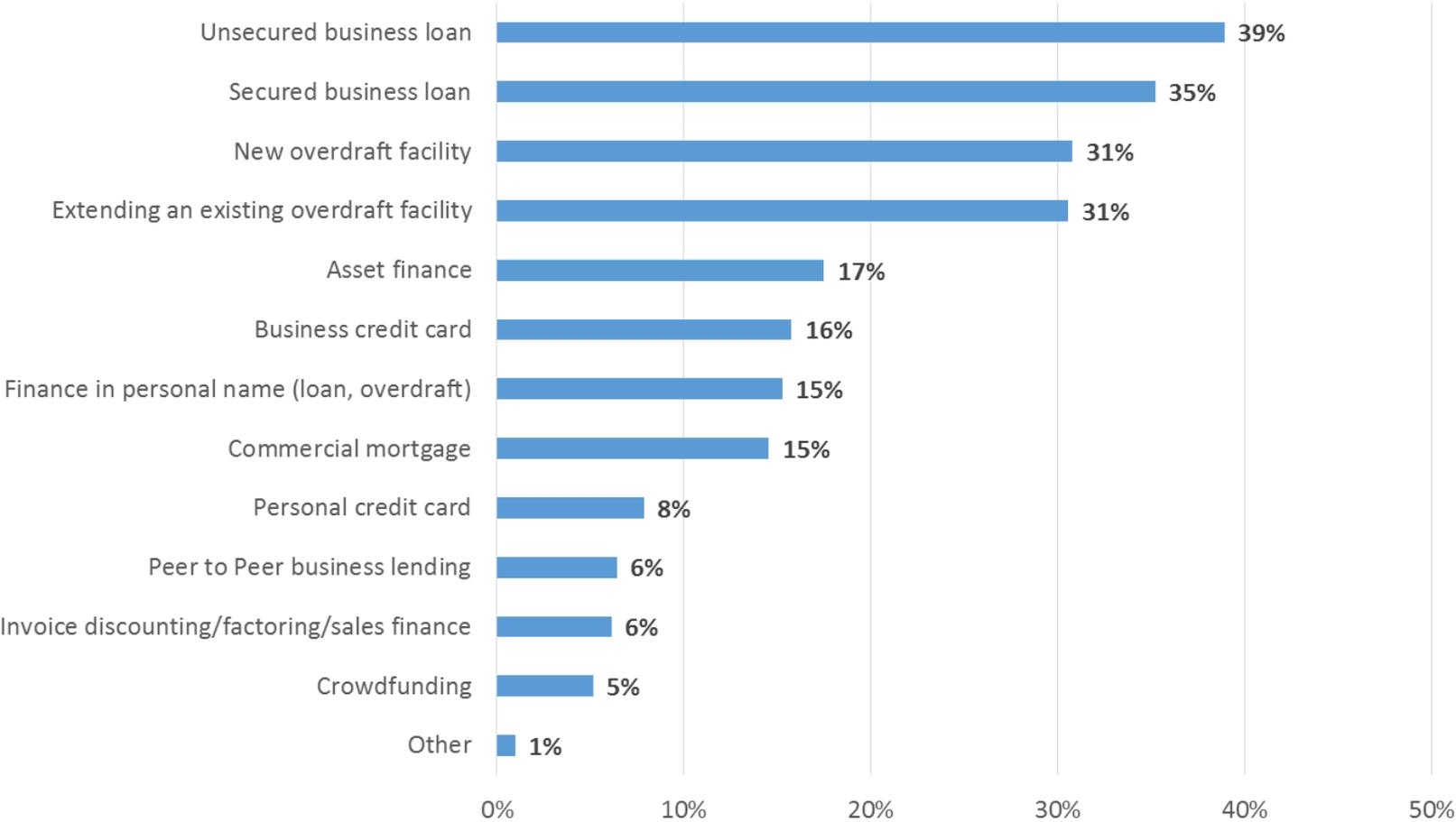
However, larger SMEs were more likely to seek finance to expand their business, while smaller SMEs were more likely to seek finance due to a shortfall in cash flow

What prompted your business to seek finance?



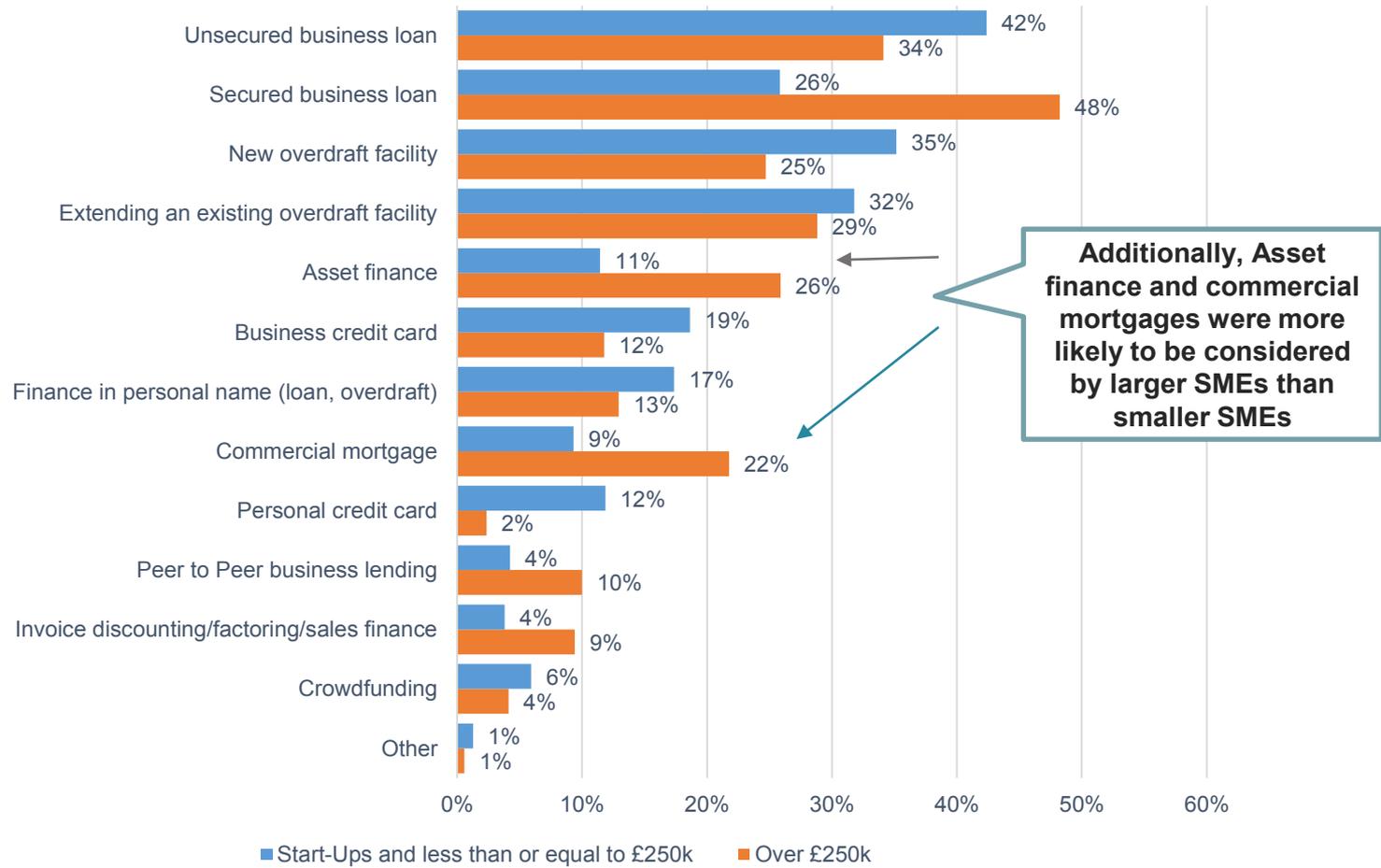
Business loans (secured and unsecured) were the most common type of finance considered, followed by overdraft facilities (either new or extension of an existing facility).

Which of these types of finance did you consider?



Larger SMEs were more likely to consider secured loans whilst smaller SMEs and start-ups were more likely to consider unsecured loans

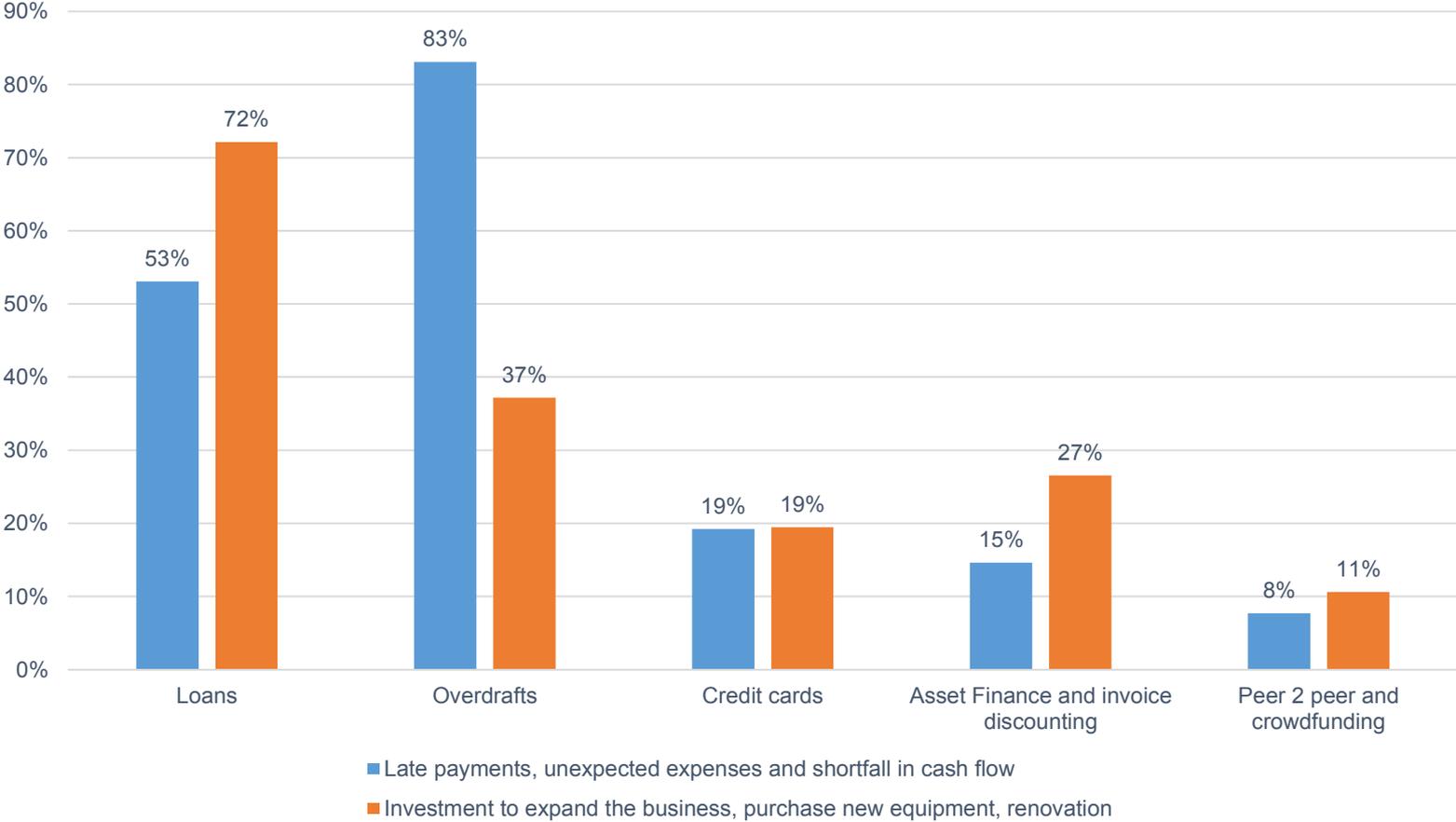
Which of these types of finance did you consider?



Survey 1 Applying for Finance, Question B2 (multicode)
 Base: All by turnover, start-ups and less than or equal to 250k (182), over 250k (224)

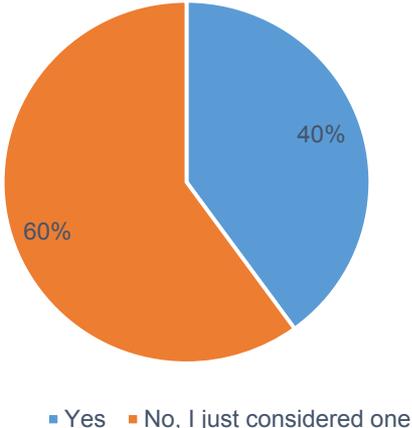
The reason for needing finance can influence the type of finance considered

Which of these types of finance did you consider?

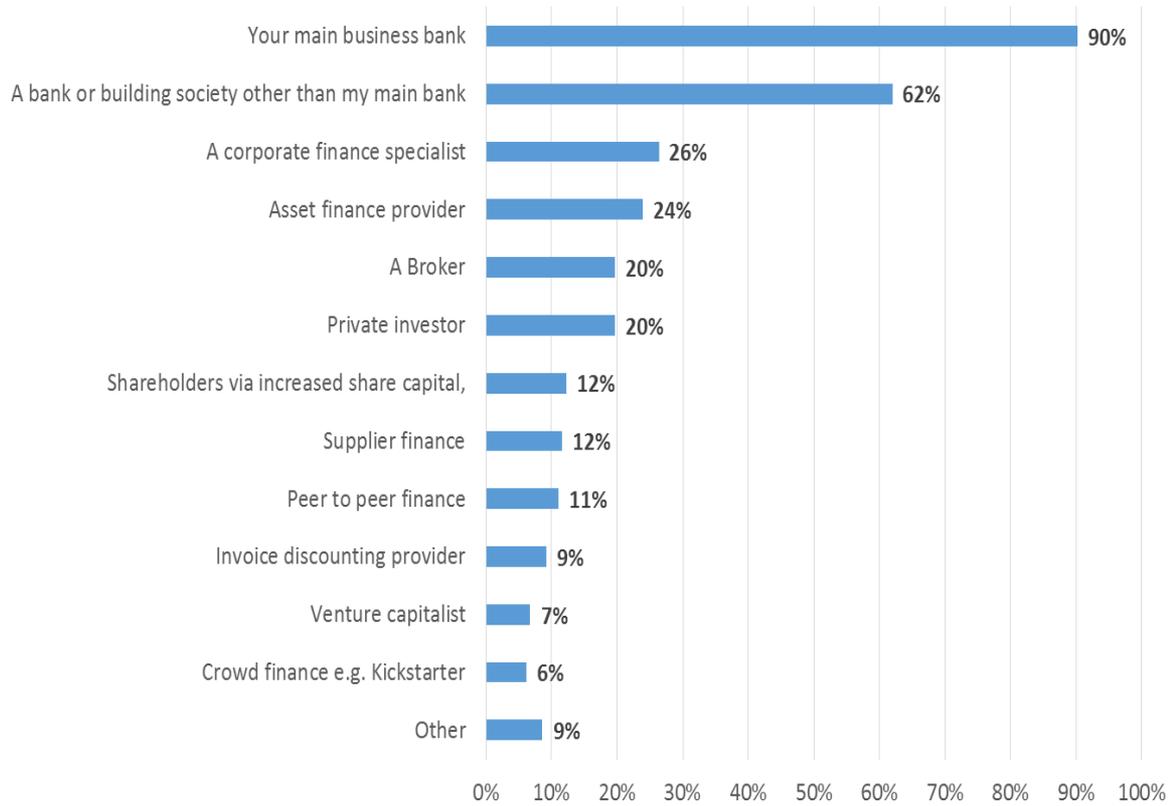


Most SMEs only considered one organisation for their finance. Of those SMEs that considered more than one organisation, nine in ten considered their main bank, while just under two-thirds considered an alternative bank. Smaller proportions considered other types of providers.

Did you consider a number of different organisations for your finance?



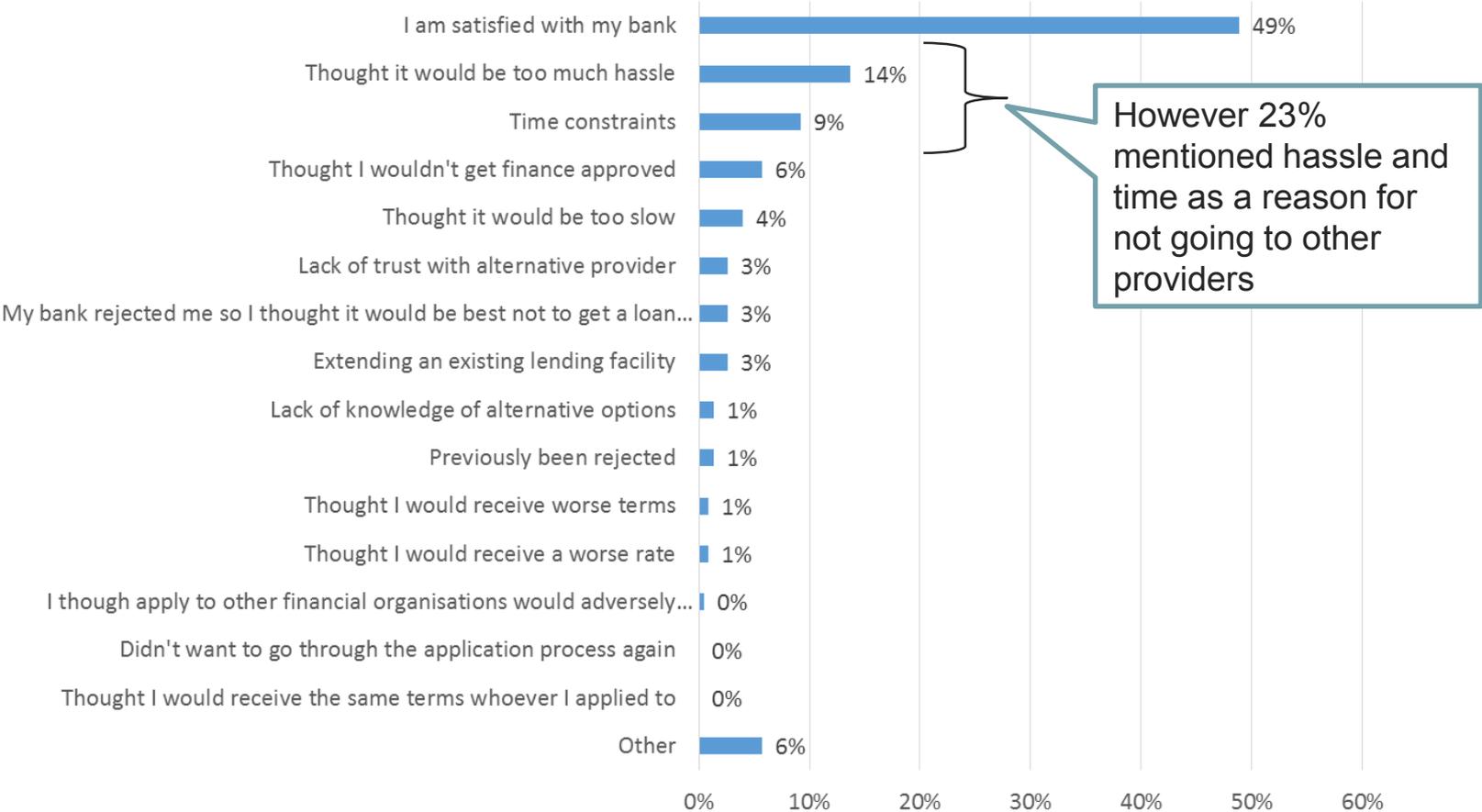
Which of these did you consider?



Survey 1 Applying for Finance, Question B3 and B4a (multicode)
 Base: B3 All SMEs (406); B4a All who considered more than one organisation (182)

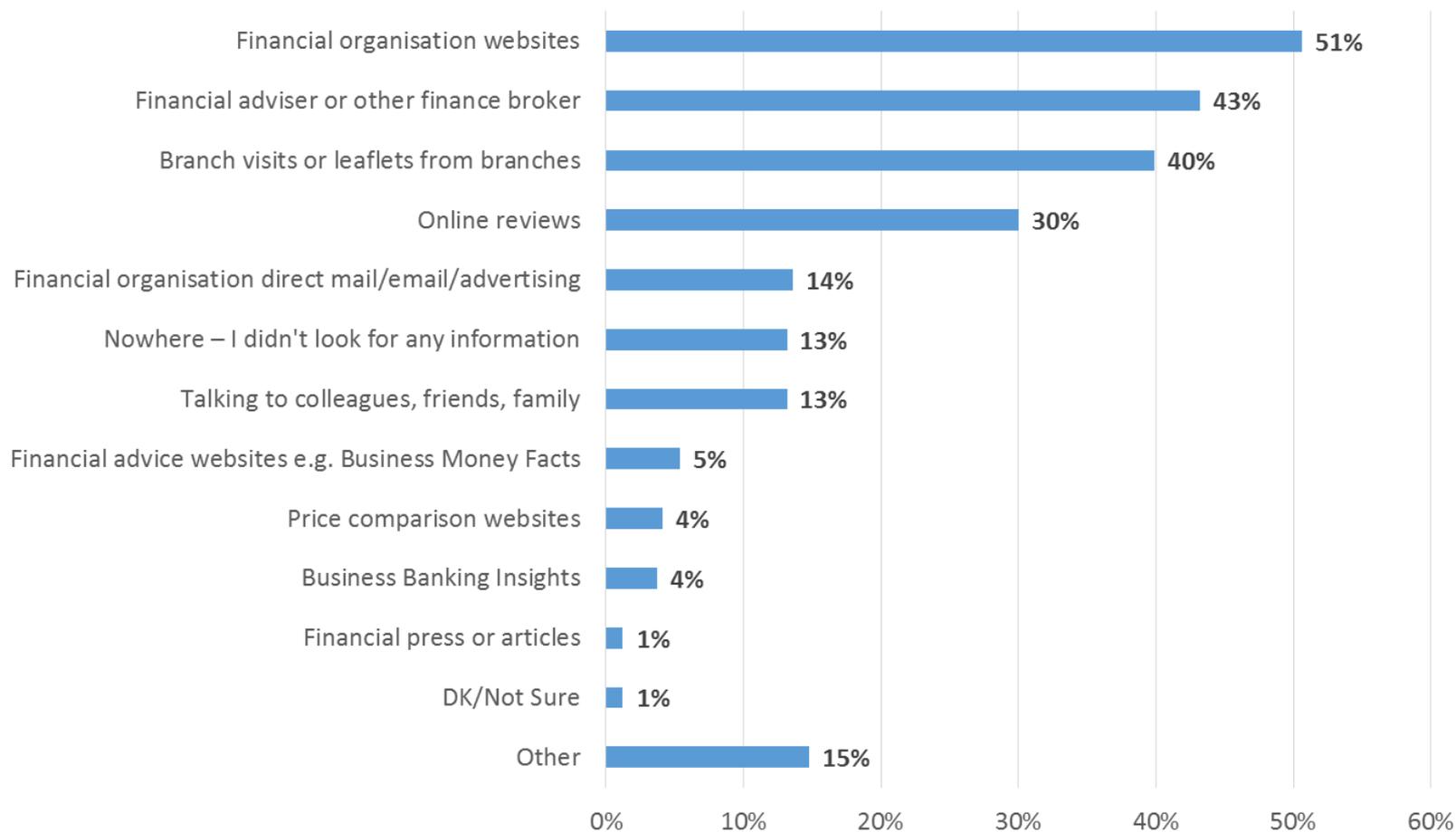
For those who only considered one organisation, the most popular reason was because they were satisfied with their bank

You said earlier that you didn't consider other organisations, why didn't you?

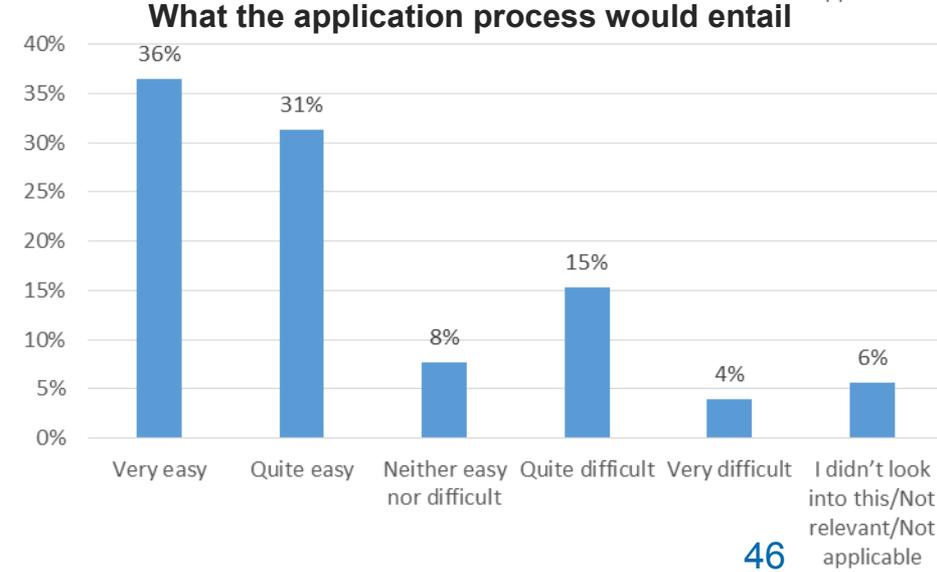
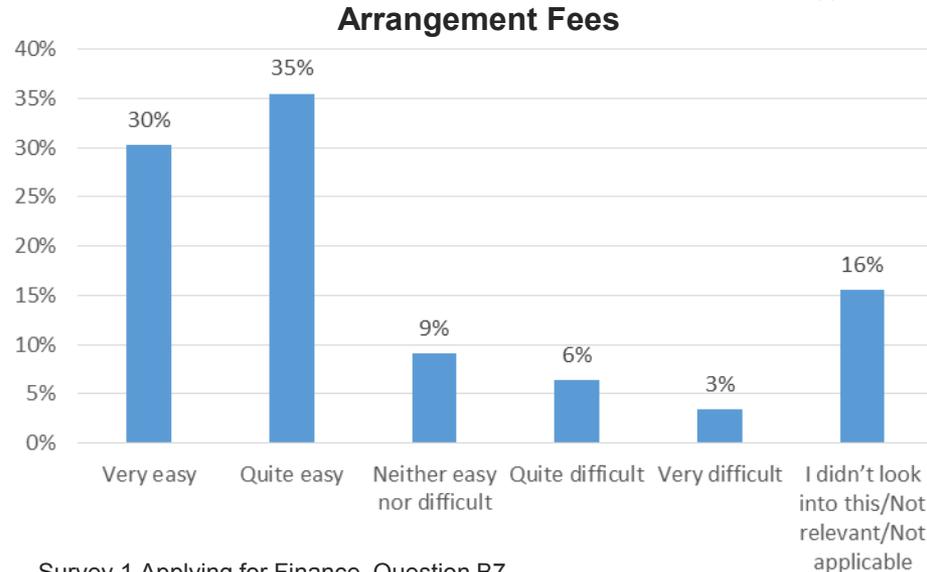
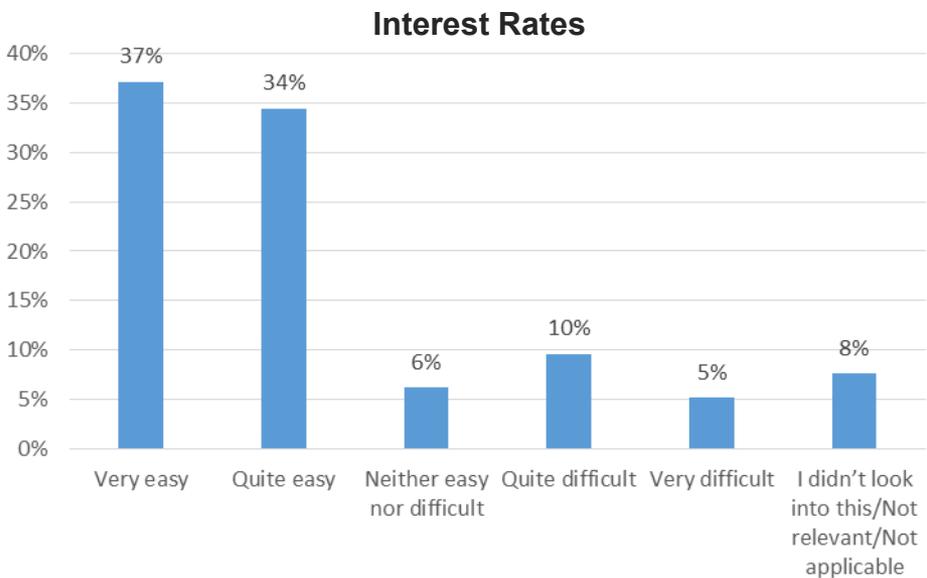


The most common sources of information used were financial organisation's websites and financial advisors or finance brokers

Where did you look to collect information?

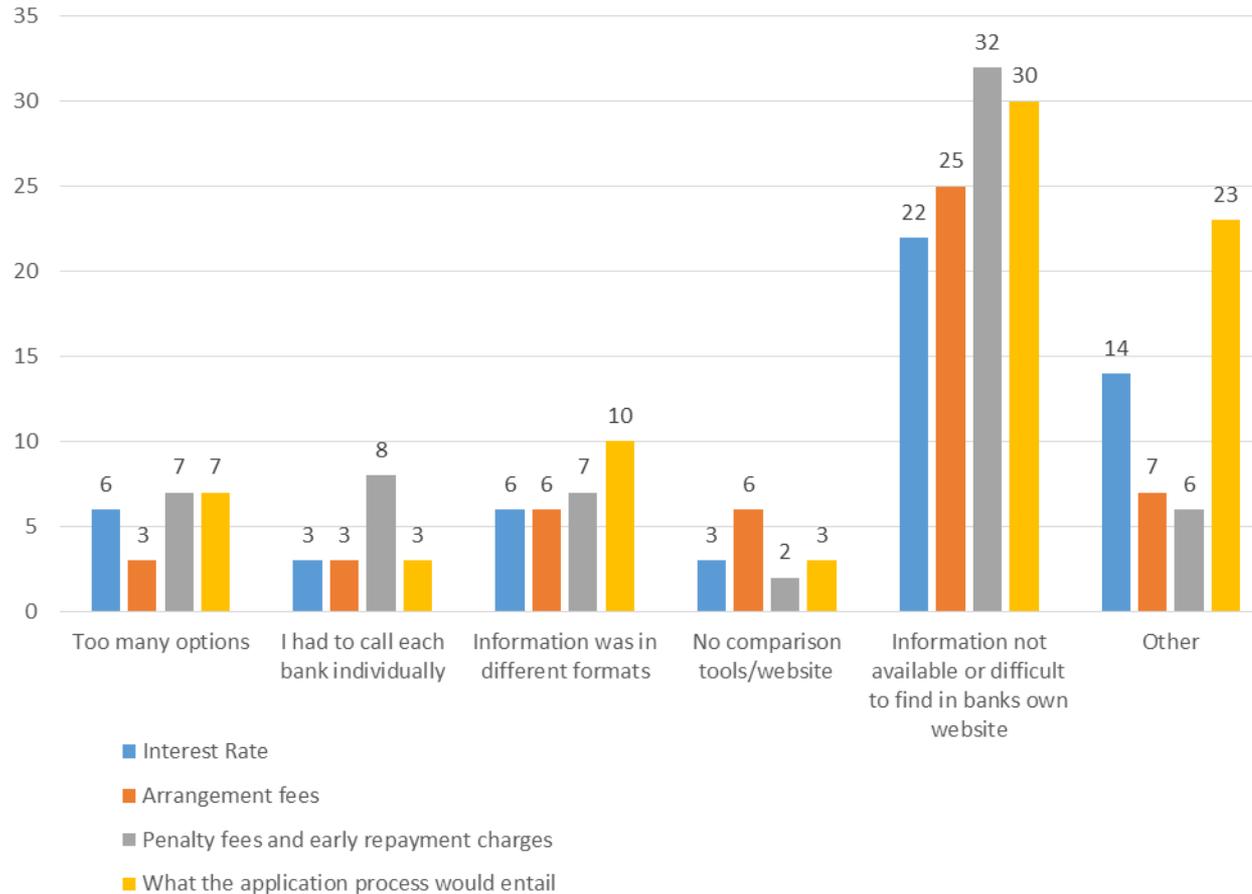


When asked how easy it was to find information, the majority of SMEs said it was either very easy or quite easy. However, at least 15% of SMEs found it difficult to find information on interest rates and 19% on details of the application process.



Of our sample of SMEs who found it difficult to find information the most common reason given was because the information was not available or it was difficult to find the information on the website

What made it difficult?



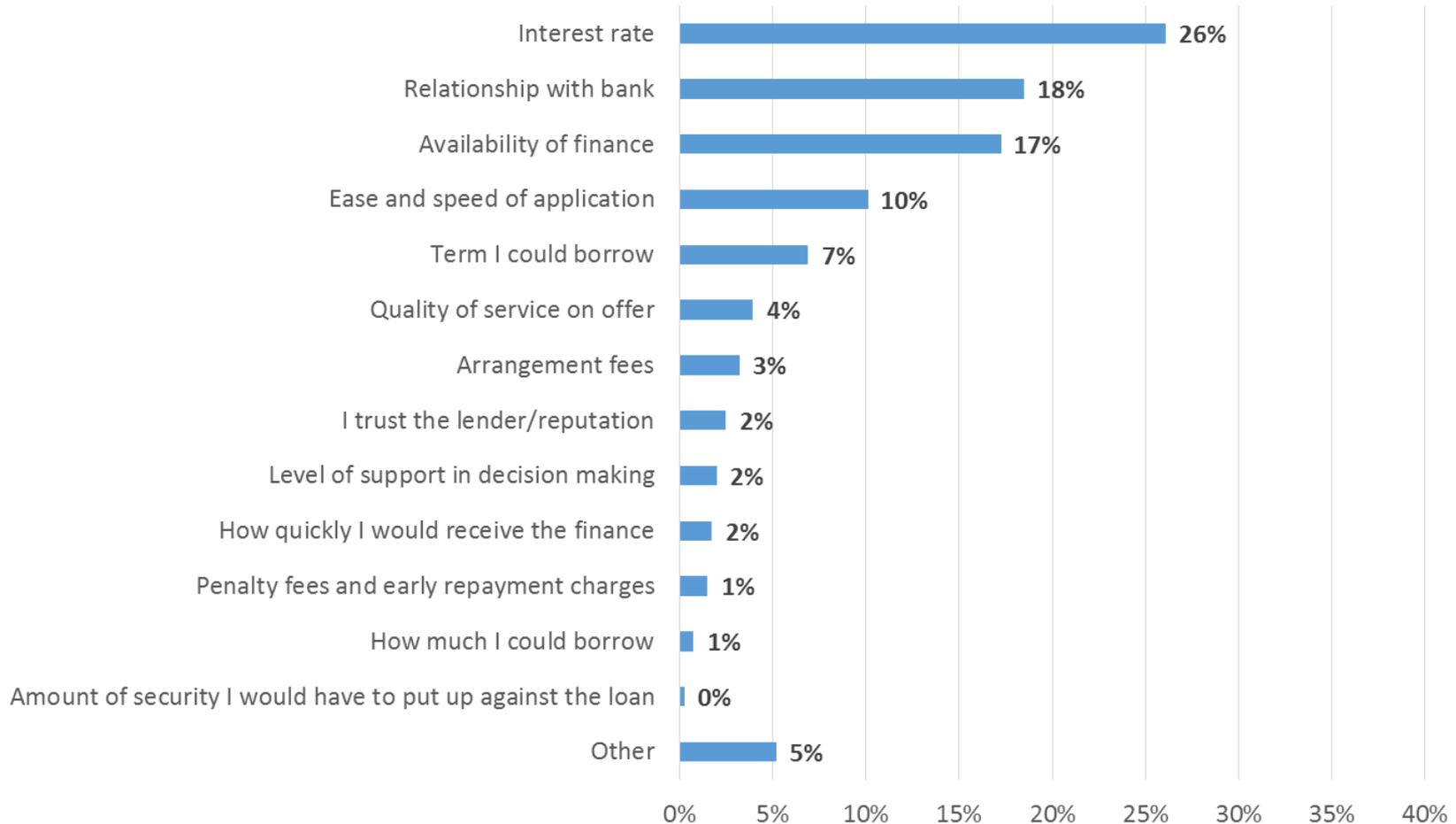
Survey 1 Applying for Finance, Question B8

Base: All who found difficult in B7, Interest rates (45), Arrangement Fees (43), Penalty Fees and Early Repayment Charges (52) and what the application process would entail (71)

Notes: Between 43 and 71 respondents were asked B8, therefore results of this question should not be used to infer percentages for the whole population of start-ups.

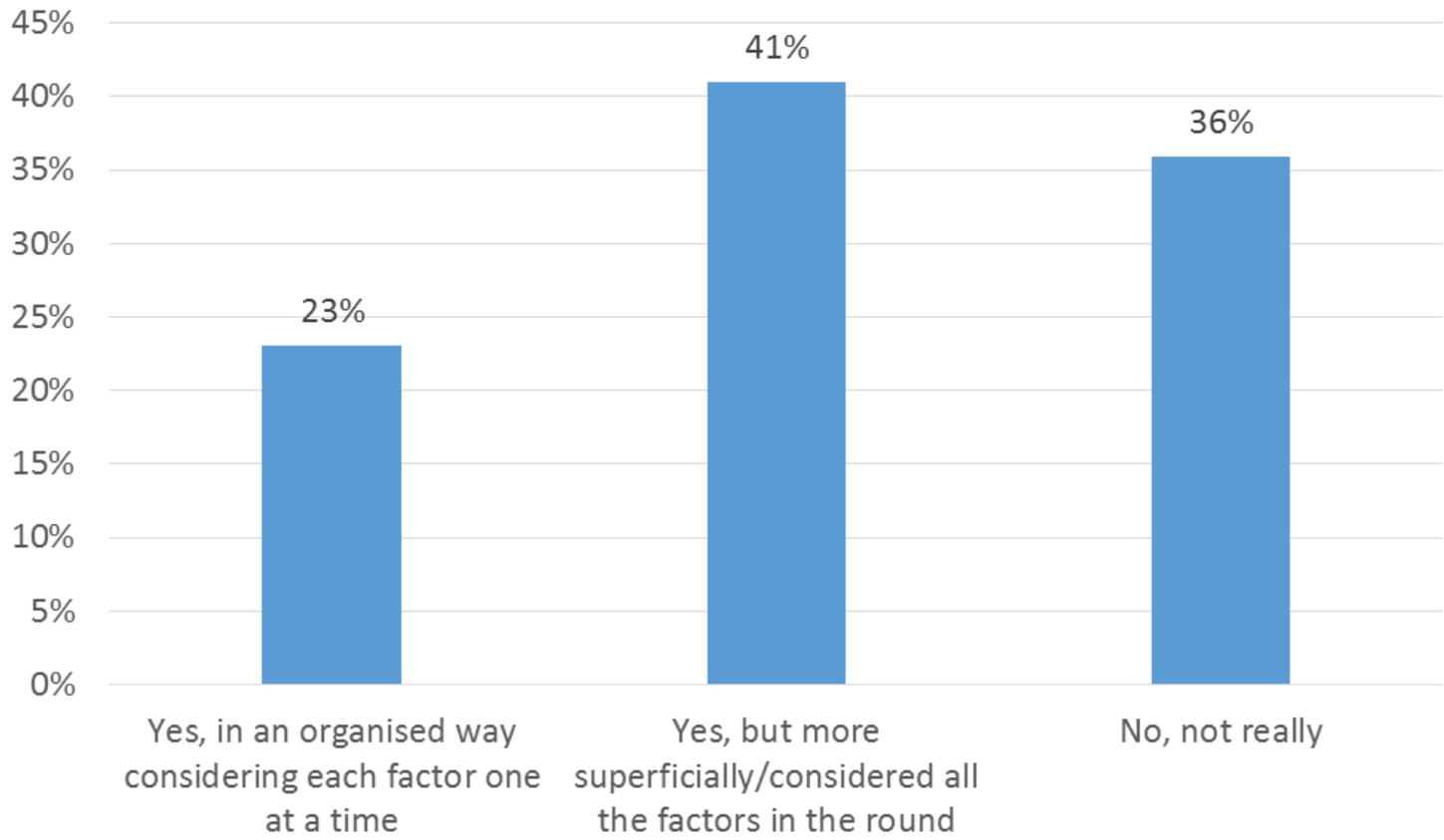
The interest rate appeared to be one of the most important factors when deciding where to go for finance. This was followed by relationship with the bank and availability of finance.

What type of features were important to you when deciding where to go for finance?



Over one third of SMEs did not compare financial organisations against each other

Did you compare a number of financial organisations against each other (for example rates, charges & terms & conditions) to help you make the decision of where to apply?

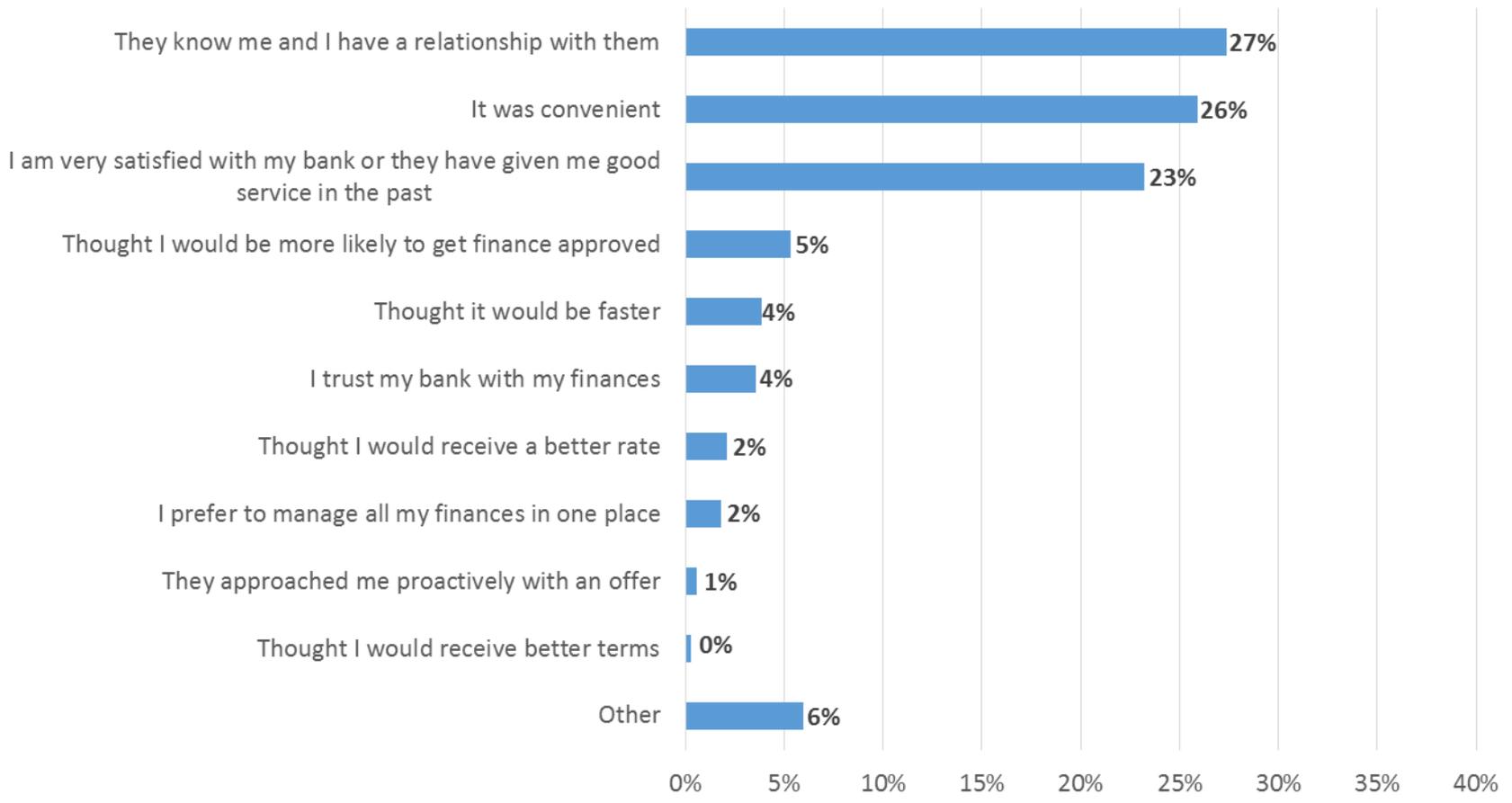


Survey 1 Applying for Finance, Question B9
Base: All who considered more than one organisation (182)

Convenience and relationship were the most common reasons given for applying to their main bank

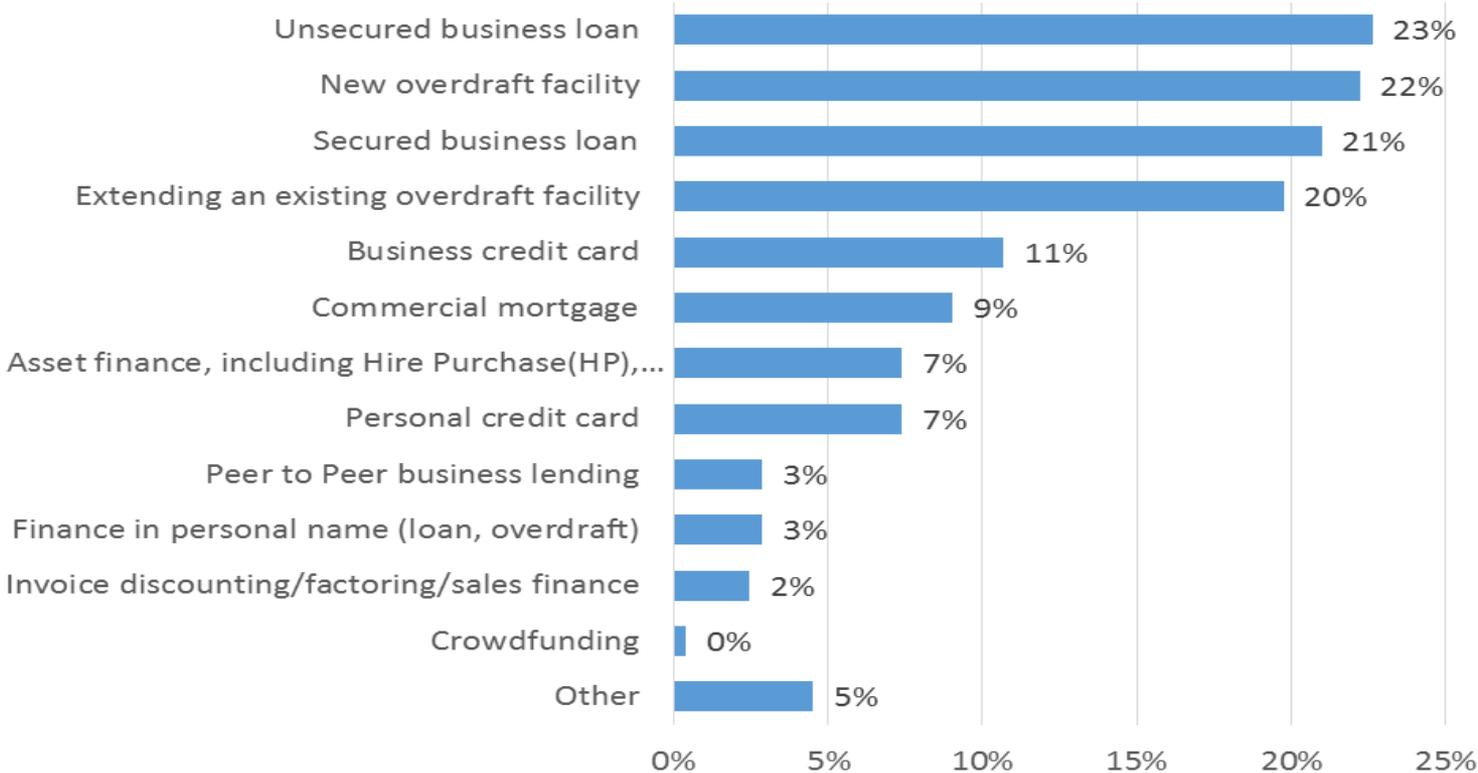


Why did you apply to your main bank?



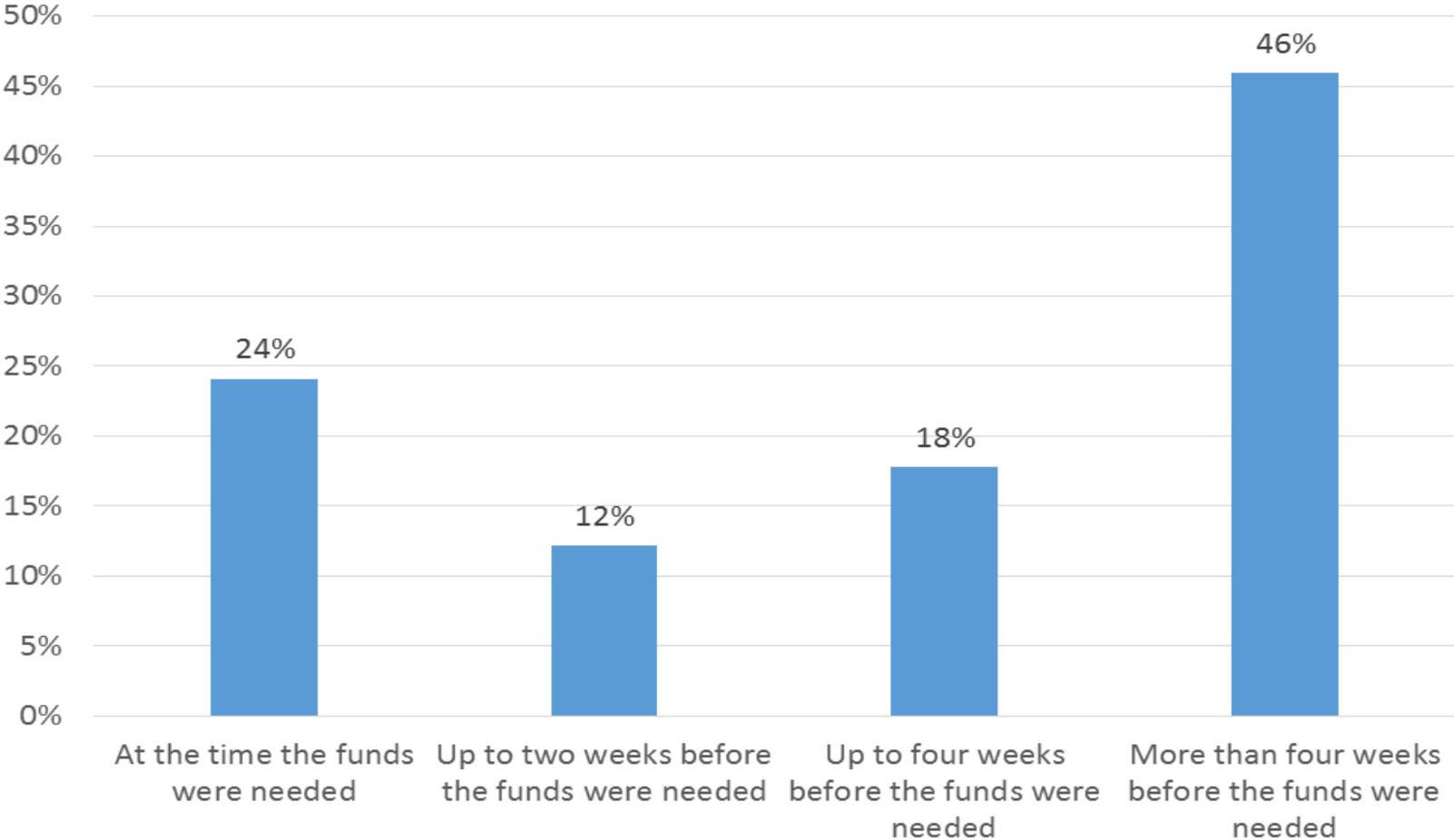
The most popular form of finance applied for by SMEs at their main bank was for an unsecured business loan, followed by a new overdraft facility.

Earlier you said you had considered more than one type of finance which of these did you actually apply for?



While just under half of SMEs applied for finance more than four weeks before the funds were needed, around one-quarter applied at the time the funds were needed.

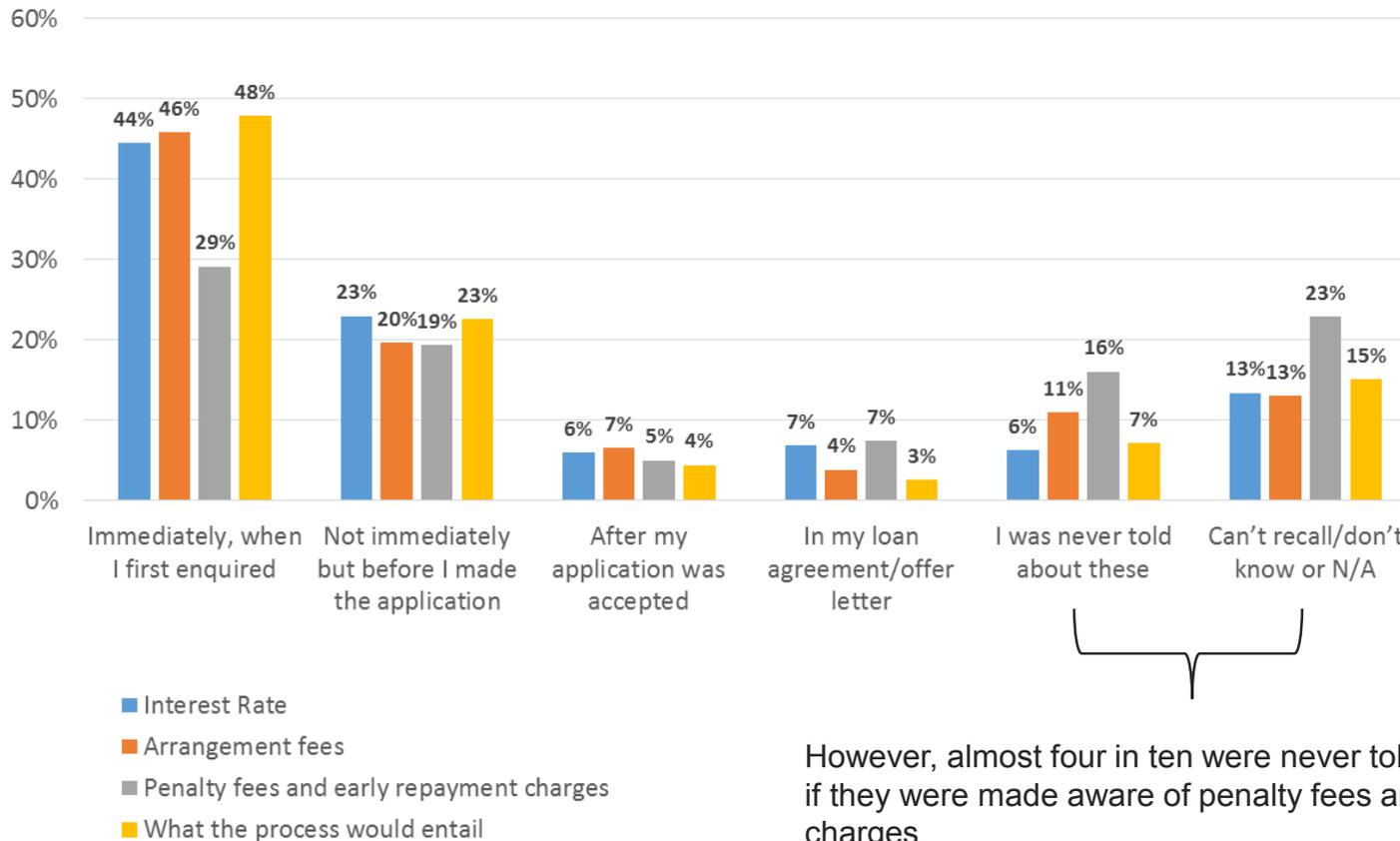
When did you apply for finance, relative to the time the funds were needed?



Survey 1 Applying for Finance, Question C3
Base: All who applied to their main bank (329)

Most SMEs were aware of the interest rate, arrangement fees, penalty fees and early repayment charges and what the process would entail prior to application

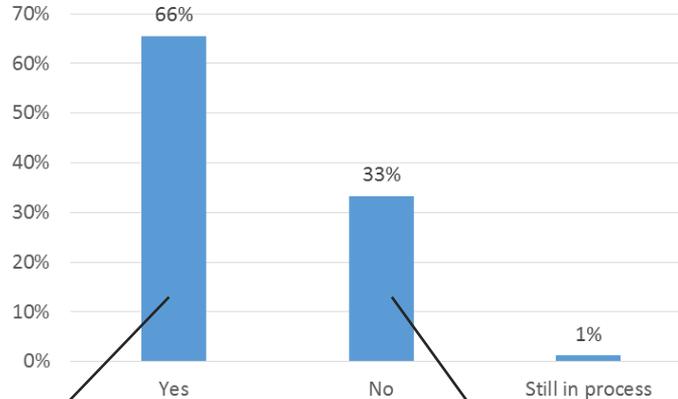
At what stage in the application process were you made aware of the following?



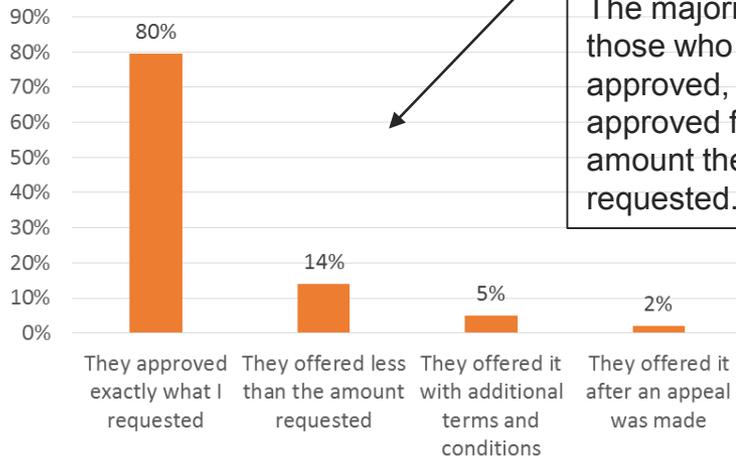
However, almost four in ten were never told or cant remember if they were made aware of penalty fees and early repayment charges

Of SMEs that applied to their main bank, two thirds were successful. Most SMEs were approved for the amount they had requested

Was your application for finance with your main bank approved?

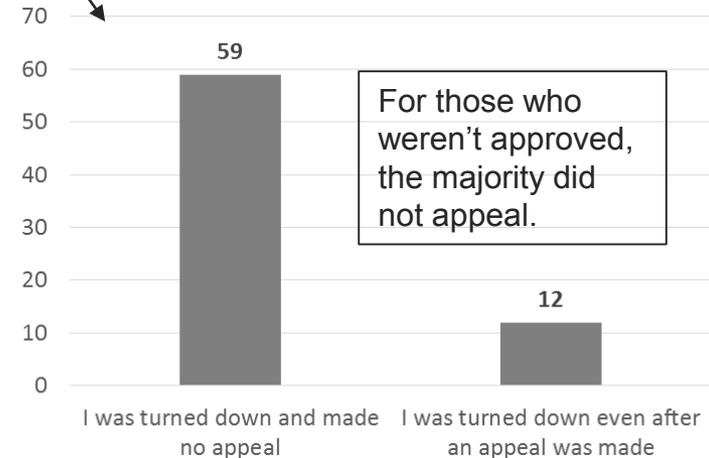


You said it was approved, which of these would you say is closest to the truth?



The majority of those who were approved, were approved for the amount they had requested.

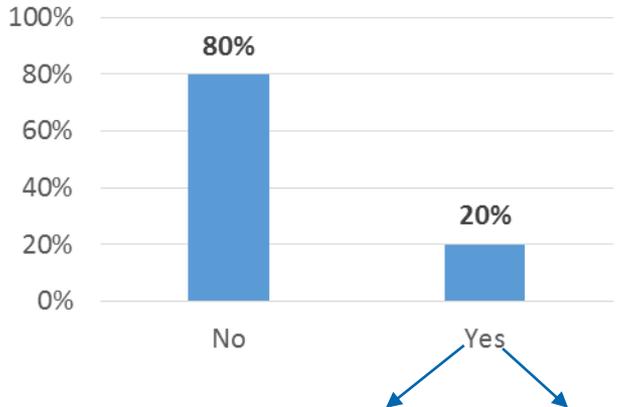
You said it wasn't approved, which of these would you say is closest to the truth?



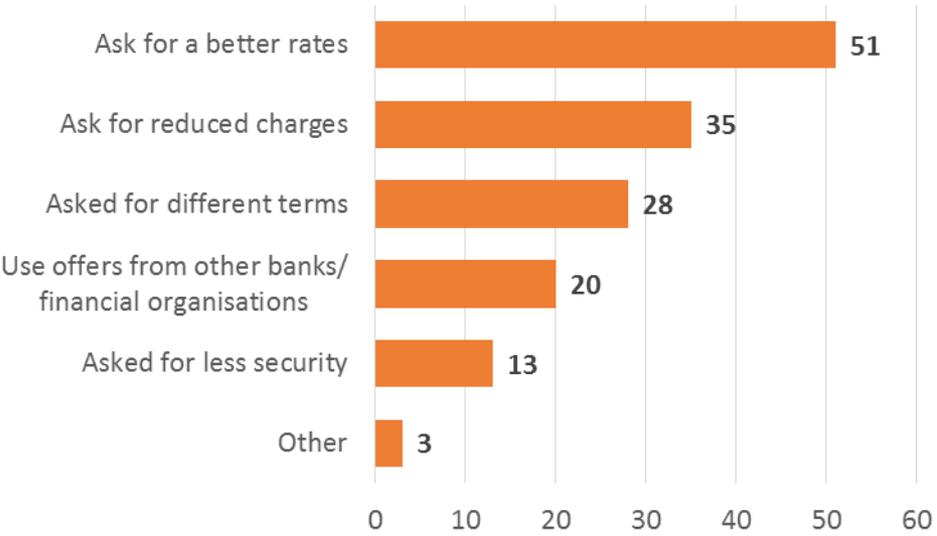
For those who weren't approved, the majority did not appeal.

The majority of those SMEs who were approved for finance did not try to negotiate on the rates, charges or other terms and conditions.

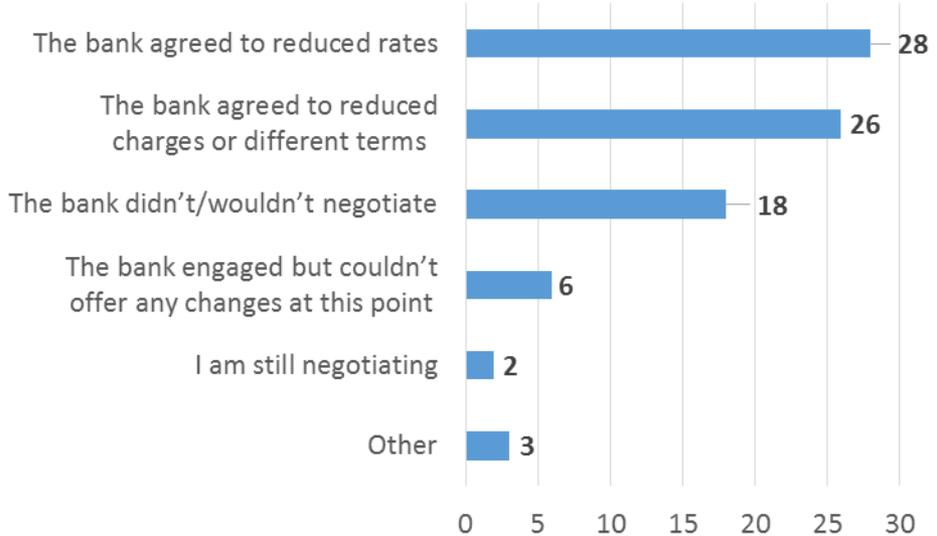
Did you try to negotiate on the rates or any charges or other terms and conditions with the supplier of this finance?



How did you negotiate?



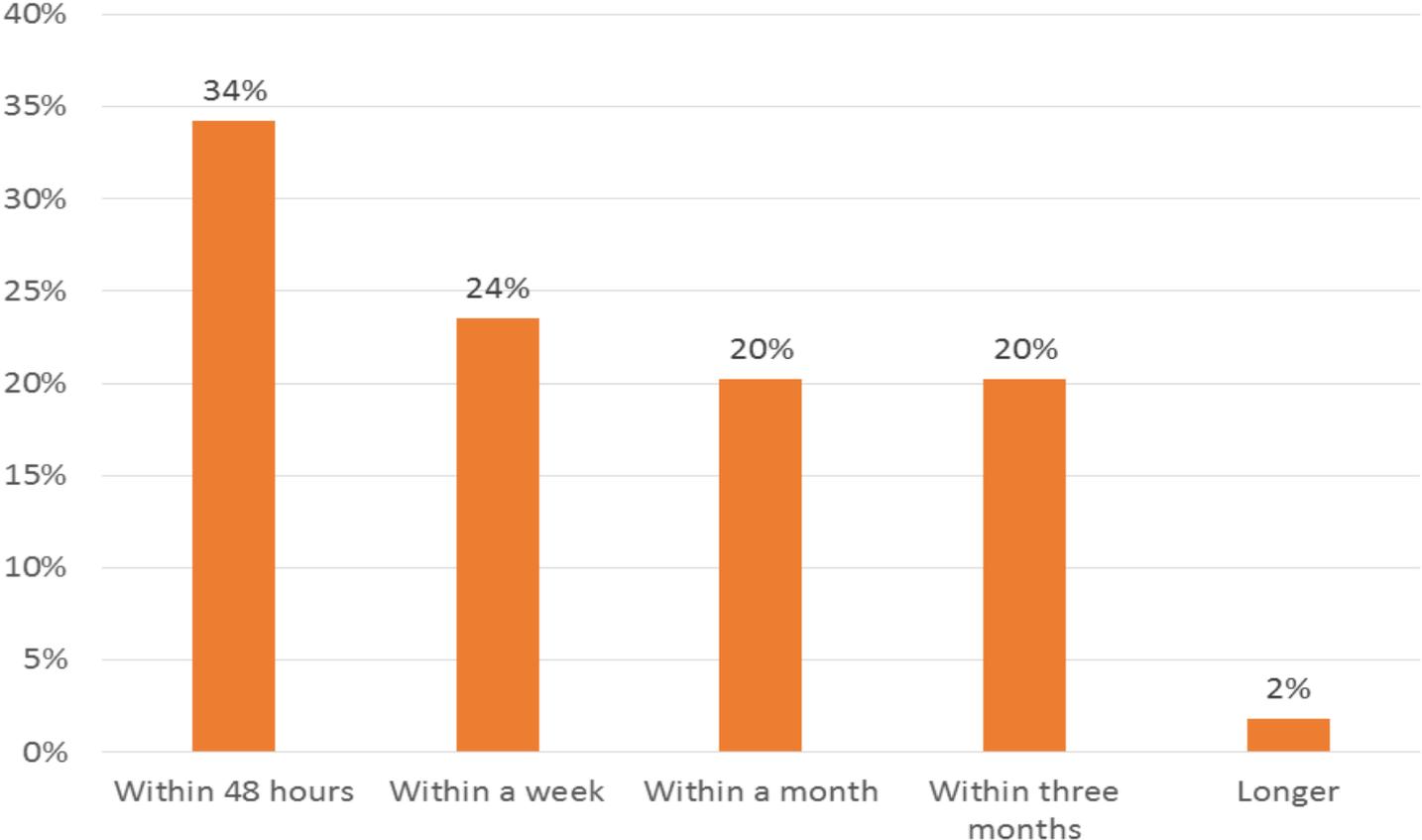
What was the outcome of the negotiation?



Survey 1 Applying for Finance, Question E6, E7 and E8
 Base: All who applied to their main bank and were approved (329) and tried negotiate (83)

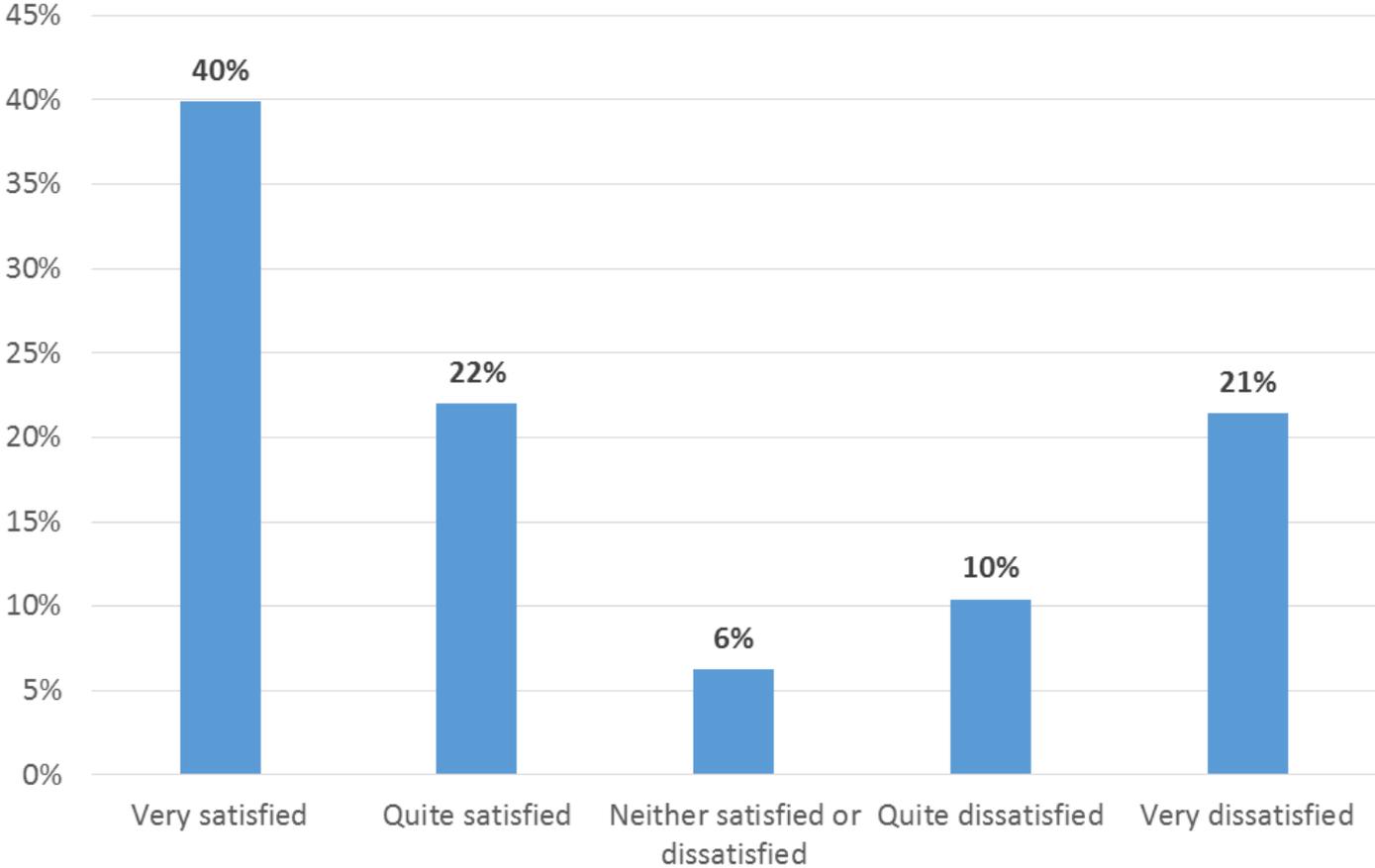
Of those who applied to their main bank, over half found out the outcome within a week, however one in five were waiting more than one month

How long did the process take from submitting an application to finding out whether it was approved/rejected?



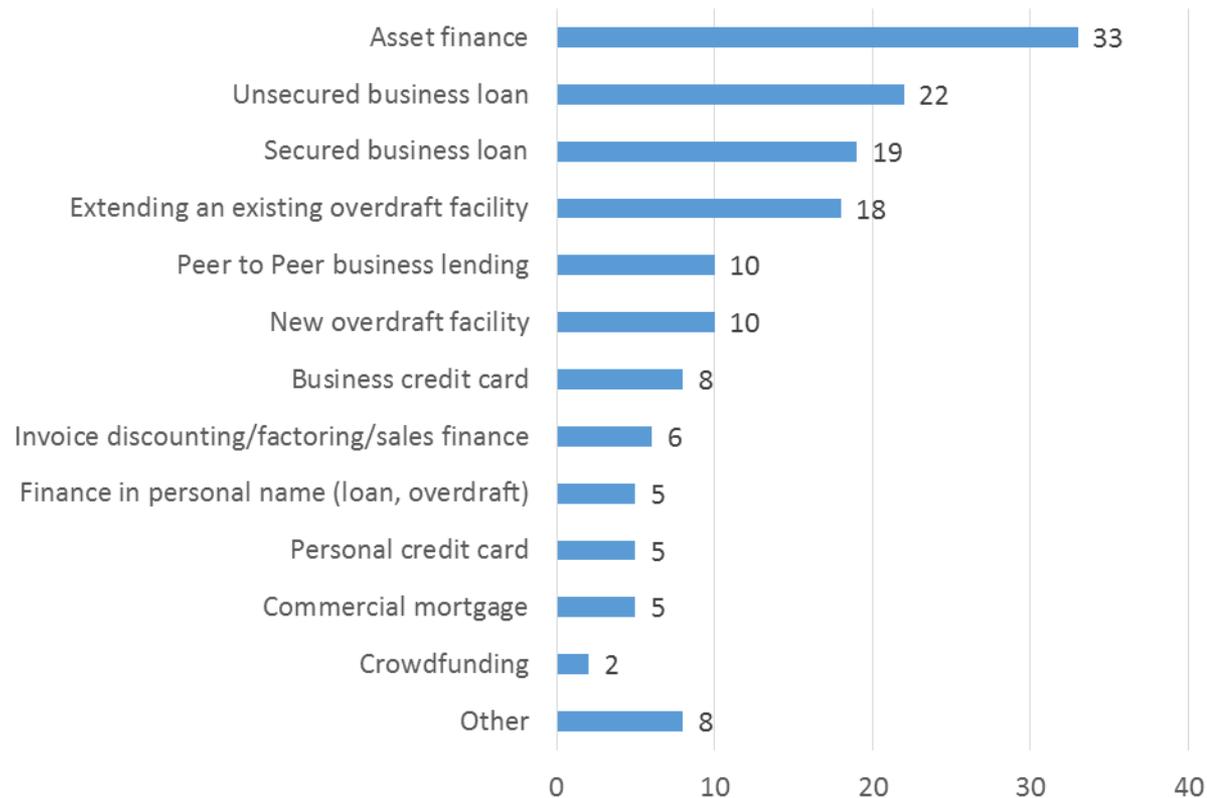
Almost two thirds of customers were very satisfied or quite satisfied with the application process to their main bank. However, almost a third were quite dissatisfied or very dissatisfied

Overall how satisfied were you with the application process with your main bank?



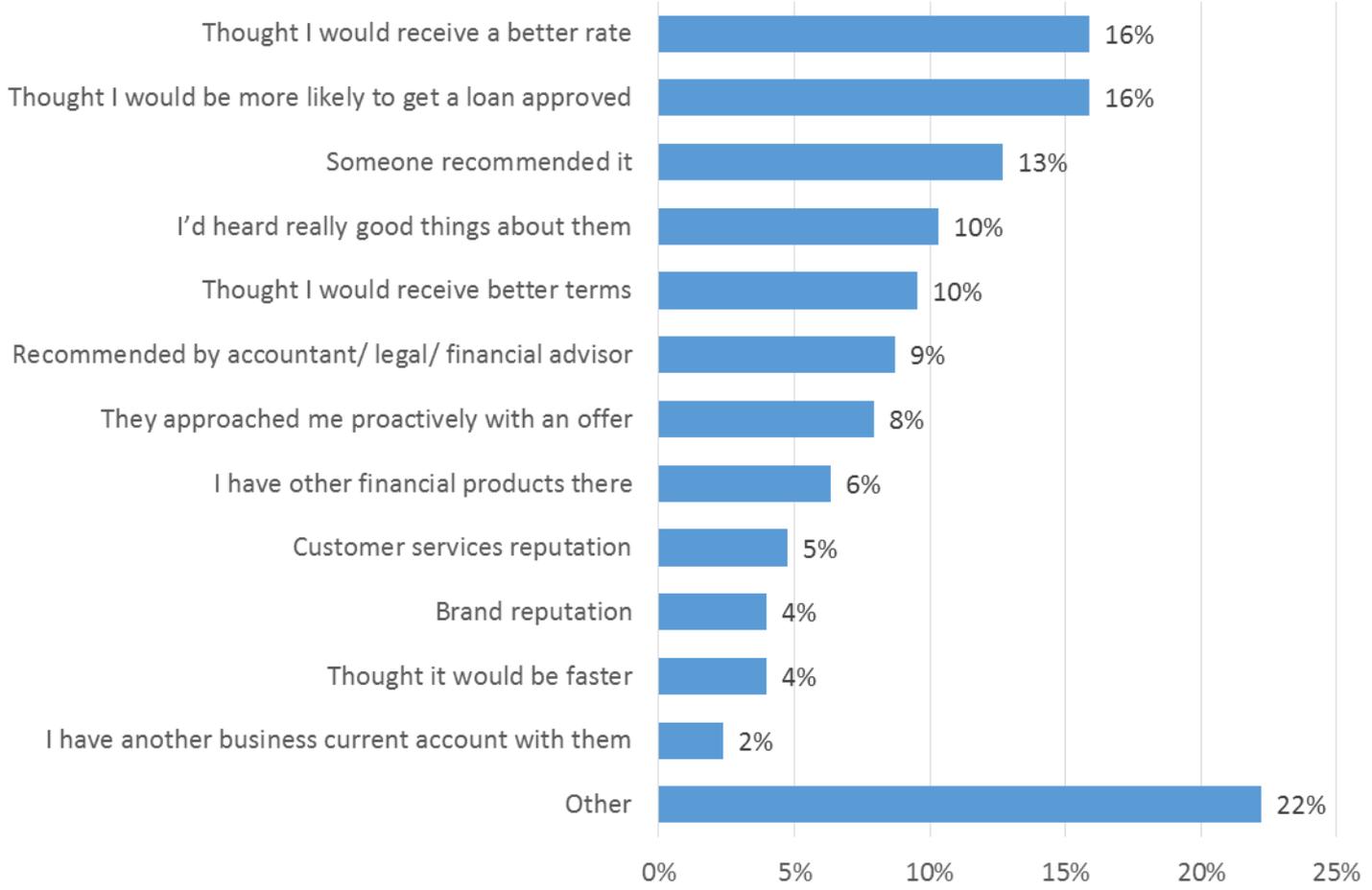
Of those SMEs in our sample who had applied for more than one type of finance at an organisation other than their main bank, asset finance was the most common type of finance applied for

Earlier you said you had considered more than one type of finance, which of these did you actually apply for?



The most common reasons given for an SME to apply to an organisation other than their main bank was because they thought they would receive a better rate or they thought they would be more likely to get a loan approved

Why did you apply to this organisation?



Survey 1 Applying for Finance, Question D4 (Multicode)
Base: All who applied to an organisation other than/as well as their main bank (138)

Just over half of SMEs wouldn't have done anything differently if they applied for finance again. However, just over one-third would have spoken to more organisations and just over one-third would have spent more time reviewing options

Thinking back to you application for finance, with the benefit of hindsight, would you...?

