SME Finance Equity Survey

November 2006

Enterprise Ireland

Jointly with the Department of Enterprise, Trade and Employment

Forfás

Executive Summary

Background

The Business Expansion Scheme (BES) was introduced in the Finance Act 1984 as an income-tax based incentive for private investors to invest long-term equity in companies. In 1993, the Seed Capital Scheme (SCS) was introduced in the Finance Act as an adjunct of the BES to help employees, unemployed persons or those made redundant to acquire additional funds with which to start their own business. Both schemes are due to expire on December 31, 2006. The Departments of Finance, and Enterprise, Trade & Employment and the Revenue Commissioners are undertaking a review of both schemes.

Forfás has been requested by the Department of Enterprise Trade & Employment to carry out a survey to examine the current market conditions faced by Irish small and medium enterprises (SMEs) in accessing finance and submit observations in respect of the two schemes for inclusion in their review. Similar surveys were undertaken by the DETE in 1992, 1995 and 2002.

The findings of this survey will be required by the Department of Finance in any submission to the European Commission that might seek a continuation of the schemes. The results will also be used by Enterprise Ireland for wider analysis of the finance needs of SMEs.

A copy of the questionnaire which was completed by the respondents is attached in Appendix 1.

The 2006 SME Finance/Equity Survey was based on companies selected from the Forfás Business Information System (BIS) database being clients of Enterprise Ireland and the County Enterprise Boards.

A total of 1018 companies were selected by stratified random sampling accounting for sector and size. 441 responses were received giving a response rate of 43.3 percent. It should be noted that of the 441 responses, not all of them responded to all the questions and hence some of the totals for particular questions are less than the total 441 responses. In the case of questions where respondents had the choice of selecting more than one item, overall response total could be higher than the 441 responses.

Key Findings from the Survey- Past 3 years

1) The climate for raising finance/equity has improved

- The climate for raising finance/equity in Ireland improved over the past three years with 56 percent of companies which attempted to raise finance/equity in the past three years in the survey indicating that it is difficult to raise finance/equity today, compared to the 98 percent in 2002, 77 percent in 1995 and 78 percent in 1992[1].

2) However it is still more difficult to raise finance/equity for smaller companies than larger ones and for start-up and development phase companies than companies in other stages of development.

- Nearly 70 percent of companies with less than 10 employees find it difficult to raise finance/equity today.

- Among the companies that attempted to raise finance/equity from all sources in the past three years, 170 companies or 66 percent indicated that they were able to raise all of the finance required. This varies significantly across various size groups ranging from 43 percent in the "less than 3" category to 86 percent in the "51-100" category.

- The requirement to raise finance/equity was highest among start-up and development phase companies, however only 48 percent of start-up and 53 percent of development phase companies were able to raise all of the finance/equity between 2003 and 2005.

3) The role of BES/SCS as a source of finance/equity increased

- BES remains a key source of finance/equity with 21 percent of companies raising finance/equity utilising it, compared to 14 percent usage in the 2002 survey.

- Bank loans/mortgages/overdrafts (48 percent) were the most significant source of finance used, followed by state grants (43 percent) and other private investors (38 percent).

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[1] The figure for 2002 should be considered in the context of the downturn in the global economy after 2001 and associated difficulties in raising external finance/equity in that environment, particularly in the ICT industry.

4) The importance of BES/SCS is greater for smaller companies in start-up and development phase

- BES is more important to small companies (employing between 3 and 50 employees) than companies in other employment size categories. The SCS is predominantly used by companies with less than 20 employees.

- Both BES and SCS are predominantly used by companies in the development phase (53 percent BES, 55 percent SCS) followed by companies in the start-up stage (16 percent BES, 27 percent SCS).

5) Experience of high risk companies in raising finance/equity

- A significant number of companies, 55 percent, indicated that they were considered high risk and hence were not able to raise all of the finance/equity required. The lack of collateral was the second most significant issue with 30 percent of companies citing it.

6) Finance/equity shortage has a significant impact on investing in marketing/advertising/R&D

- The effects of finance/equity shortage indicated by companies in the survey are:

Working capital and cash flow constraints	65%
Unable to invest in marketing/advertising	59%
Unable to finance R&D	51%
Unable to hire new employees	51%
Dependent on bank finance	26%
Unable to update technology/equipment	21%
Unable to purchase land/buildings	9%

Key Findings from the Survey- Future Finance/Equity Requirements

- 39 percent of companies surveyed believe that it will be difficult to raise finance/equity in the next three years compared to the 55 percent in the 2002 survey.

7) Usage of BES is expected to increase in the next three years

- 30 percent of companies expect to use BES as a source of finance/equity in the next 3 years and around 8 percent to use SCS.

8) At the same time there is a need to improve awareness about the BES/SCS

- Around 85 percent of respondents are aware of the BES and 63 percent are aware of the SCS.

- However 42 percent of respondents do not know whether they are eligible for the BES and 57 percent are in the same position in relation to the SCS.

1. Methodology and Sample

The 2006 SME Finance/Equity Survey was based on companies selected from the Forfás Business Information System (BIS) database being clients of Enterprise Ireland and the County Enterprise Boards.

A total of 1018 companies were selected by stratified random sampling accounting for sector and size. 441 responses were received giving a response rate of 43.3 percent. An analysis of the sample and respective response rates by employment size category is given below. The response rates vary from 17.6 percent in the “less than 3” category to 72 percent in the “20-50” category.

Table 1 Summary of Survey Sample and Survey Response by Employment Size Category

Firms employing	Sample Surveyed Number	Completed Number	Response Rate To Survey (%)
less than 3	347	61	17.6
3-9	240	114	47.5
10-19	160	88	55.0
20-50	154	111	72.1
51-100	57	34	59.6
100+	60	33	55.0
Total	1018	441	43.3

It should be noted that of the 441 responses, not all of them responded to all the questions and hence some of the totals for particular questions are less than the total 441 responses. In the case of questions where respondents had the choice of selecting more than one item, the overall response total could be higher than the 441 responses. Companies in the 20-50 employment size category account for just over 25 percent of total responses. Around 85 percent of the respondents are in the less than 50 employees category.

Table 2 Responses by Employment Size of Companies

	Less than 3	3-9	10-19	20-50	51-100	100+	Total
Number	61	114	88	111	34	33	441
%	13.8	25.8	20	25.2	7.7	7.5	100

Companies were asked to indicate their annual sales as well as exports as a percentage of these sales; the responses to these questions are summarised below. The most significant annual sales category is the less than €500k with 28.1 percent of the respondents indicating their annual sales in this category. Over 58 percent of respondents indicated that they have annual sales less than €2,000,000.

On the exports side, just over 35 percent of companies indicated that their exports account for more than 50 percent of their annual sales with around 21 percent indicating that they have no export sales.

Table 3 Responses by Annual Sales and the percentage of Exports to Sales

Sales	No.	%	Exports	No.	%
0-€500,000	122	28.1	No exports	91	20.9
€500,001-€1,000,000	58	13.4	< 20 %	125	28.7
€1,000,001-€2,000,000	73	16.8	20%-50%	66	15.2
€2,000,001-€5,000,000	89	20.5	>50 %	153	35.2
€5,000,001-€10,000,000	41	9.4	Total	435	100.0
€10,000,000+	51	11.8			
Total	434	100.0			

Around 40 percent of the companies which responded to the survey indicated that they were established in the past 5 years. Companies which are established for more than 10 years account for around 44 percent of responses, with companies which were established between 6 and 10 years ago accounting for the remaining 16 percent of respondents.

Table 4 Responses by Age

Age	No.	%
Less than one year	24	5.5
1-3 years	79	17.9
4-5 years	72	16.3
6-10 years	72	16.3
Over 10 years	194	44.0
Total	441	100.0

In terms of the development stage of the respondents, 34 percent consider their companies as “steadily growing” with 23 percent as in “development phase” and around 14 percent in the “start-up” phase.

Table 5 Responses by Development Phase

Development Phase	No.	%
Start-up	61	13.8
Development Phase	102	23.1
Steadily growing	150	34.1
Considering Expansion	54	12.2
Consistent Sales but not growing	74	16.8
Total	441	100.0

2. Past Experience in Raising Finance/Equity

Companies were asked if they had attempted to raise finance/equity in the past three years and 257 or around 58 percent indicated that they raised finance/equity during this period.

The table below analyses the total number of firms that successfully raised finance by employment category. Among the companies that attempted to raise finance/equity in the past three years, 170 companies or 66 percent indicated that they were able to raise all of the finance required. This ratio varies significantly across various employment size categories ranging from 43 percent in the "less than 3" and 58 percent in the "3-9" categories to 86 percent in the "51-100" category.

Table 6 Firms that raised finance/equity by employment size category, 2003-2005

Level of Employment	No of respondents	No. of firms that raised finance/equity	As a percentage of total (%)	No. of firms that raised all of the finance required	Percentage of companies that attempted to raise finance and were successful in raising all
Less than 3	61	30	49	13	43
3-9	114	65	57	38	58
10-19	88	51	58	32	63
20-50	111	68	61	51	75
51-100	34	22	65	19	86
100+	33	21	64	17	81
Total	441	257	58	170	66

The table below examines the total number of firms that raised finance by their development stage. The results show that the requirement to raise finance was highest among start-up and development phase companies, with 66 and 74 percent of companies in these categories raising finance in the past three years. However only 48 percent of start-up and 53 percent of development phase companies were able to raise all of the finance/equity required in the past three years; indicating the difficulty of raising finance/equity for companies in these two categories compared to companies in other development stage categories.

Table 7 Firms that raised finance/equity by development stage, 2003-2005

Development Stage	No of respondents	No. of firms that raised finance/equity	As a percentage of total (%)	No. of firms that raised all of the finance required	Percentage of companies that attempted to raise finance and were successful in raising all
Start-up	61	40	66	19	48
Development phase	102	75	74	40	53
Steadily growing	150	83	55	68	82
Considering Expansion	54	34	63	23	68
Consistent sales but not growing	74	25	34	20	80
Total	441	257	58	170	66

2.1 Amount of Finance/Equity Raised

Companies were asked to specify the amount of finance/equity raised in the past three years. The following table shows the percentage of respondents who were able to raise all of the finance required in the six categories of finance/equity requirements. The lowest rates are observed in the "less than €100,000" and "€250,001-€500,000" categories, with 58 and 53 percent of respondents being able to raise all of the finance required, respectively.

Table 8 Firms that raised finance/equity by amount categories, 2003-2005

	No. of Respondents	No. of firms that raised all of the finance required	Percentage
0-€100,000	33	19	58
€100,001-€250,000	36	27	75
€250,001-€500,000	40	21	53
€500,001-€1,000,000	49	33	67
€1,000,001-€2,000,000	37	27	73
€2,000,000+	49	34	69
Total	244	161	66

The table below analyses the companies which raised finance/equity in the past three years in terms of employee numbers. Around one third of companies with less than 10 employees and a quarter of companies in the 3-9 employee category raised finance/equity of less than €100,000. Nearly two thirds of companies with more than 100 employees raised more than €2,000,000 in the past three years.

Table 9 Amount of finance/equity raised by employment size categories (percentages)

Level of Employment	0-100,000	100,001-250,000	250,001-500,000	500,001-1,000,000	1,000,001-2,000,000	2,000,000+	Total
Less than 3	31	28	24	14	3	0	100%
3-9	24	21	14	14	16	11	100%
10-19	6	18	16	22	20	18	100%
20-50	6	10	18	27	15	24	100%
51-100	9	0	18	23	23	27	100%
100+	0	0	6	17	11	66	100%
Total number of companies that raised finance/equity	33	36	40	49	37	49	244

We further examine the amount of finance/equity raised in the past three years by development stage categories as indicated by companies. Around 40 percent of "start-up" companies raised finance/equity of less than €250,000 in the past three years. Around 60 percent of companies which consider themselves as in the "development phase" raised finance/equity in the region of €250,000 to €2,000,000. Nearly one third of companies which are considering expansion raised finance/equity of between €500,000 and €1,000,000.

Table 10 Amount of finance/equity raised by development stage categories (percentages)

Development stage	0-100,000	100,001-250,000	250,001-500,000	500,001-1,000,000	1,000,001-2,000,000	2,000,000+	Total
Start-up	16	24	11	18	16	15	100%
Development Phase	8	9	20	18	20	25	100%
Steadily Growing	19	12	13	17	17	24	100%
Considering Expansion	6	16	23	35	6	14	100%
Consistent Sales but not growing	17	26	17	22	4	14	100%
Total number of companies that raised finance/equity	33	36	40	49	37	49	244

2.2 Sources of Finance/Equity

Companies were asked to specify the sources of finance/equity raised during the past three years. Due to some respondents indicating more than one source of finance/equity source, the total number of responses is greater than the total number companies that responded to the survey and percentage figures in the table below add up to more than 100 percent.

Bank loans/mortgage and overdrafts were the most significant source of finance used by the respondent companies over the last three years, with around 48 percent of companies using this source, followed by state grants with around 43 percent and other private investors with 38 percent.

Over 21 percent of companies indicated that BES was used as a source of finance/equity in the past three years, which is significantly higher than the 14.2 percent usage in the 2002 survey. In the 1995 and 1992 surveys, the ratios were 36 and 27 percent, respectively. Around 9 percent of companies used seed capital scheme as a source of raising finance/equity in the past three years.

Table 11 Sources of Finance/Equity, 2003-2005

	Number of Responses	Percentage
BES	55	21.7
Seed Capital Scheme	22	8.7
Seed and Venture Capital	47	18.5
Family and Friends	24	9.4
Other Private Investors	97	38.2
Leasing/Hire Purchase	46	18.1
State Grants	108	42.5
Bank loan/mortgage/overdraft	122	48.0
Other	22	8.7
Total number of companies that raised finance/equity and indicated a source in the survey	254	

The sources of finance are further examined by size categories in the table below. Firms within the 3-9, 10-19 and 20-50 categories rely more on the BES than companies in the other size categories, with 35, 25 and 26 percent of the usage of the BES scheme being accounted for by companies in these categories, respectively. Overall companies employing less than 50 employees (small companies) account for around 95 percent of BES usage. The highest usage of the Seed Capital Scheme is in the 3-9 and 10-19 employment size categories. Companies employing less than 20 employees account for around 87 percent of the total SCS usage. Bank loan/mortgage/overdraft and state grants are most commonly used in the 20-50 employment size category.

Table 12 Sources of Finance/Equity by Employment Size Categories (percentage)

	less than 3	3-9	10-19	20-50	51-100	100+	Total
BES	9	35	25	26	5	0	100
Seed Capital Scheme	14	32	41	5	8	0	100
Seed and Venture Capital	11	28	28	25	2	6	100
Family and Friends	17	42	17	24	0	0	100
Other Private Investors	12	29	27	22	8	2	100
Leasing/Hire Purchase	4	17	26	30	10	13	100
State Grants	10	22	26	31	7	4	100
Bank loan/mortgage/overdraft	7	22	16	31	14	10	100
Other	5	14	23	27	5	26	100

Next we examine the sources of finance/equity by the development stage of companies as indicated by them in the survey. BES is most widely used by companies which see themselves as in the “development phase”, with 53 percent of the total usage of the BES scheme is accounted for by this group of companies. In the Seed Capital Scheme, results are similar with companies in their “development phase” accounting for 55 percent of usage of the scheme, followed by 27 percent accounted for by the “start-up” companies. Bank loan/mortgage and overdrafts are mainly used by companies who consider themselves as “steadily growing”.

Table 13 Sources of Finance/Equity by Development Stage percentage)

	Start-up	Development Phase	Steadily Growing	Considering Expansion	Consistent Sales but not growing
BES	16	53	15	11	5
Seed Capital Scheme	27	55	14	0	5
Seed and Venture Capital	17	53	26	4	0
Family and Friends	17	50	21	8	4
Other Private Investors	20	37	24	11	8
Leasing/Hire Purchase	4	17	43	17	17
State Grants	20	34	29	14	3
Bank loan/mortgage/overdraft	7	28	35	14	16
Other	9	36	36	9	9

Finally the table below outlines the sources of finance/equity by amounts required in the past 3 years. BES usage, with 31 percent, was highest among companies which tried to raise between €500,000 and €1,000,000, followed by companies that tried to raise between €250,000 and €500,000 as well as between €1,000,000 and €2,000,000, with 25 percent in each.

Table 14 Sources of Finance/Equity by Amount Categories (percentage)

€	BES	SCS	SVCS	Family and Friends	Other Private Investors	Leasing/Hire Purchase	State Grants	Bank loan/mortgage/overdraft	Other
0-100k	4	14	4	9	11	12	10	11	11
100k-250k	4	14	0	18	16	14	14	18	6
250k-500k	25	19	13	18	16	16	15	15	17
500k-1,000k	31	15	15	18	16	16	17	18	11
1,000k-2,000k	25	33	21	14	19	23	22	18	17
2,000k+	12	5	47	23	22	19	22	20	38
Total	100	100	100	100	100	100	100	100	100

2.3 Effects of Finance/Equity Shortage

Companies were asked to indicate in what way the shortage of finance/equity impacted on their development plans. Many companies noted more than one effect on their business and the table below outlines the results of 243 responses from 86 companies. The greatest effect of finance/equity shortage indicated by companies was working capital and cash flow constraints with 65 percent of respondents giving this answer. This was followed by 59 percent of companies not being able to invest in marketing and advertising and as well as being unable to finance R&D.

Table 15 Effects of Finance/Equity Shortage in the past 3 years

	No of responses	% of companies
Unable to finance RD	44	51
Unable to update technology/equipment	18	21
Unable to finance purchase of land and buildings	8	9
Unable to invest in marketing and advertising	51	59
Unable to hire new employees	44	51
Working capital and cash flow constraints	56	65
Dependent on bank finance	22	26
Total Number of Companies	86	

The impact of finance/equity shortage is further examined by development stage of respondents in the table below. Nearly 94 percent of "start-up" companies indicated that the finance/equity shortage had an impact on investing in marketing and advertising, with 50 percent indicating that they were not able to finance R&D.

Two thirds of companies in the "development phase" indicated that shortage of finance/equity had an impact on their financing of R&D, with 61 percent indicating an impact on marketing and advertising activities.

Table 16 Effects of Finance/Equity Shortage in the past 3 years (percentage)					
	Start-up	Development Phase	Steadily Growing	Considering Expansion	Consistent Sales but not Growing
Unable to finance RD	50	66	19	45	60
Unable to update technology/equipment	6	24	13	36	40
Unable to finance purchase of land and buildings	13	11	6	0	20
Unable to invest in marketing and advertising	94	61	38	45	40
Unable to hire new employees	69	58	25	64	0
Working capital and cash flow constraints	63	61	81	55	80
Dependent on bank finance	13	32	19	36	20
Total Number of Companies	16	38	16	11	5

2.4 Problems Encountered in Raising Finance/Equity

Companies which failed to raise all of the finance required were asked to indicate the main reasons, as they perceived, for this. Many companies noted more than one reason for not being able to raise all of the finance/equity required and the table below outlines the results of 85 responses from 56 companies. A significant number of companies, 55 percent, indicated that they were considered high risk and hence were not able to raise all of the finance/equity required, followed by the lack of collateral requirements, with 30 percent.

Table 17 Problems Encountered in Raising Finance/Equity in the Past Three Years		
	No of responses	% of companies
Lack of Collateral Requirements	17	30
Considered High Risk	31	55
Unclear Business Plan	7	13
Lack of Track Record	14	25
Amount of Finance/Equity required not attractive to investors	16	29
Total Number of Companies	56	

We further examine the main reasons for companies not being able to raise all of the finance/equity required by the development stage. A significant portion of "start-up" companies, 73 percent, indicated that being considered high risk was the most significant reason for them not being able to raise finance, followed by lack of track record with 36 percent. Over 50 percent of "development phase" companies also indicated being considered high risk as the main reason for not being able to raise all of their finance/equity requirements, followed by lack of track record with 33 percent. Lack of collateral requirements is seen as a significant reason for not being able to raise finance/equity for companies which are "steadily growing" and "considering expansion".

Table 18 Problems Encountered in Raising Finance/Equity by Development Stage in the Past Three Years					
	Start-up	Development Phase	Steadily Growing	Considering Expansion	Consistent Sales but not Growing
Lack of Collateral Requirements	18	25	43	50	n/a
Considered High Risk	73	54	50	50	n/a
Unclear Business Plan	27	13	0	0	n/a
Lack of Track Record	36	33	7	17	n/a
Amount of Finance/Equity required not attractive to investors	27	25	29	50	n/a
Total Number of Companies	11	24	14	6	n/a

3. Present and Future Finance/Equity Requirements

3.1 Difficulty in Raising Finance/Equity Now and in the Next 3 Years

Companies were asked whether they think it is difficult to raise finance/equity now and in the next three years. Among the companies which raised finance/equity in the past three years 56 percent think that it is difficult to raise finance/equity now, however this ratio goes down to 38 percent when they are asked about the difficulty of raising finance/equity in the next three years. The table below compares the results with those of the 2002, 1995 and 1992 surveys.

Table 19 Difficulty in raising finance/equity (percentage of Respondents)

	2006	2002	1995	1992
Yes- Now	56	98	77	78
Yes- In 3 years	38	55	49	-

It is important to note that the perceptions about the difficulty in raising finance/equity now and in the next three years varies significantly in different size classification as set out in the table below. Nearly 70 percent of companies with less than three employees find it difficult to raise finance now whereas this ratio decreases significantly in the larger employment size categories.

Table 20 Difficulty in raising finance/equity by size categories (percentage of Respondents)

	less than 3	3-9	10-19	20-50	51-100	100+
Yes-Now	69	67	56	47	42	16
Yes-in the next 3 years	45	42	45	37	27	19

3.2 Expected Amount of Finance/Equity Required in the Next 3 Years

Companies were asked whether they saw a requirement for additional finance/equity in the next three years and around 78 percent of the respondents indicated that they will have a requirement. The table below examines the amount of equity/finance required by the respondents in the next three years.

The greatest equity requirement is in the range of greater than €2,000,000 with over 23 percent of the companies indicating a finance/equity requirement in the next three years in this category. In total, 202 companies or around 60 percent of the companies have a requirement of less than €1,000,000.

Table 21 Amount finance/equity requirement in the next 3 years

€	No. of Respondents	No. of firms as a percentage indicating a requirement	Cumulative Percentage
0-100,000	25	7.5	7.5
100,001-250,000	53	15.9	23.4
250,001-500,000	65	19.5	42.9
500,001-1,000,000	59	17.7	60.6
1,000,001-2,000,000	54	16.3	76.9
2,000,000+	77	23.1	100.0
Total	333	100	

In order to calculate the total finance/equity requirement of the companies which responded to this survey, we take the mid point of the range of each category and assume the average for the over €2,000,000 category is €3,000,000, in line with the calculations used in the previous surveys. Considering the data in the table above, total finance/equity requirements of the 333 respondent companies for the next 3 years is €391,150,000. This compares with a total estimated finance/equity requirement of €242,750,000 from 233 companies in the 2002 survey and €145,000,000 from 226 companies in the 1995 survey.

We further analyse the finance/equity requirements of the respondents in the next three years by firm size categories in the table below. Around 92 percent of companies which require less than €100,000 in the next three years employ less than twenty. In addition around 77 percent of companies that require between €100,001 and €250,000 also employ less than twenty, which perhaps shows the importance of early stage capital to these companies.

Table 22 Amount finance/equity requirement in the next 3 years by employment size categories (percentage)						
	0-100,000	100,001-250,000	250,001-500,000	500,001-1,000,000	1,000,001-2,000,000	2,000,000+
Less than 3	36	26	11	17	9	5
3-9	48	26	32	19	32	12
10-19	8	25	15	25	17	18
20-50	8	17	28	25	25	37
51-100	0	2	9	8	8	13
100+	0	4	5	5	9	14
Number of Firms in Each Category	25	53	65	59	53	76

3.3 Expected Sources of Finance/Equity in the next 3 Years

Next we analyse the expected sources of finance/equity in the next three years as indicated by respondents in the survey by employment size categories. Companies employing less than ten account for 56 percent of expected BES usage in the next three years. Around 88 percent of expected SCS usage is accounted for by companies employing less than ten. Companies with 20-50 employees see bank loan/mortgage/overdraft as a significant source of raising finance/equity in the next three years, with 30 percent of expected usage of this source is accounted for by these companies.

Table 23 Expected Sources of finance/equity requirement in the next 3 years by employment size categories (percentage)							
	less than 3	3-9	10-19	20-50	51-100	100+	Total
BES	23	33	19	19	5	1	100
SCS	44	44	4	4	4	0	100
SVCF	15	38	18	20	5	4	100
Family and Friends	27	46	18	9	0	0	100
other private investors	19	33	22	19	4	3	100
leasing/hire purchase	8	17	24	26	7	18	100
state grants	16	30	18	24	6	6	100
bank loan/mortgage/overdraft	11	20	17	30	11	11	100
other	20	40	0	40	0	0	100

An examination of expected sources of finance/equity requirement in the next 3 years according to development stage of companies support the findings of the same analysis by employment size categories. Companies that are in the start-up or early development phase account for around 63 percent of companies that expect to use BES in the next 3 years, while 84 percent of companies which expect to use SCS are in the start-up or early development phase.

Table 24 Expected Sources of finance/equity requirement in the next 3 years by development stage (percentage)						
	Start-up	Development phase	Steadily Growing	Considering Expansion	Consistent Sales but not Growing	Total
BES	29	34	16	14	7	100
SCS	57	27	12	4	0	100
SVCF	31	44	15	8	2	100
Family and Friends	35	30	9	4	22	100
Other private investors	26	30	21	15	8	100
Leasing/hire purchase	12	14	46	17	11	100
State grants	22	31	24	16	7	100
Bank loan/mortgage/overdraft	10	21	35	18	16	100
Other	33	17	33	17	0	100

3.4 Expected Usage of Finance/Equity in the next 3 years

Companies were asked to indicate the expected usage of external finance/equity capital in the next three years. Many companies noted more than one usage and the table below outlines the results of 844 responses from 301 companies out of 333 respondents which indicated that they see a requirement for additional finance/equity capital in the next three years. A significant number of companies, 63 percent, indicated that they expect to use external finance/equity capital in order to finance R&D, followed by around 53 percent of companies planning to invest in marketing and advertising.

Table 25 Expected Usage of Finance/Equity in the next 3 years (percentage)		
	No of. responses	Percentage of Companies
Finance RD	190	63.1
Update technology/equipment	134	44.5
Finance purchase of land and buildings	67	22.3
Invest in marketing and advertising	158	52.5
Hire new employees	159	52.8
Maintain working capital requirements	133	44.2
Other	3	1.0
Total Number of Companies	301	

We further examine the expected usage of external finance/equity capital in the next three years by development stage. A significant portion of "start-up" companies, 81 percent, indicated that their main usage of external finance/equity will be to finance R&D with 72 percent also planning to use external finance/equity to invest in marketing and advertising. Around 73 percent of "development phase" companies also indicated the financing of R&D as their main expected usage of external finance/equity. Around half of "steadily growing" companies expect to use external finance/equity to finance R&D along with updating technology and equipment. It is interesting to note that among companies which have "consistent sales but not growing" the main usage of expected external finance/equity is to maintain working capital requirements.

Table 26 Expected Usage of Finance/Equity in the next 3 years (percentage)					
	Start-up	Development Phase	Steadily Growing	Considering Expansion	Consistent Sales but not Growing
Finance RD	81	73	55	58	36
Update technology/equipment	28	33	55	68	47
Finance purchase of land and buildings	8	16	28	38	31
Invest in marketing and advertising	72	64	43	43	28
Hire new employees	74	68	39	53	17
Maintain working capital requirements	49	52	38	33	44
Other	0	1	1	3	0
Total Number of Companies	53	90	82	40	36

4. Business Expansion Scheme and Seed Capital Scheme

Around 85 percent of respondents indicated that they are aware of the BES, however awareness about the SCS is much lower at around 63 percent. On the other hand respondents' knowledge of their eligibility for both schemes is much less than the awareness levels observed. Around 42 percent of respondents do not know whether they are eligible for the BES and the corresponding figure for the SCS is much higher with around 57 percent.

Table 27 Awareness of BES and SCS

	Yes	No	Don't Know
Are you aware of BES	84.5	15.5	n/a
If yes, are you eligible to apply for funds?	44.9	12.9	42.2
Are you aware of SCS	62.5	37.5	n/a
If yes, are you eligible to apply for funds?	20.5	22.3	57.3

Companies seem to be more successful in raising finance from the BES compared to the SCS, with nearly 52 percent of respondents stating that they were not successful in raising finance through the SCS, compared to around 29 percent not being successful in raising finance through the BES.

Table 28 Success in Raising Funds through BES/SCS

	Yes	No
If applied, were you successful in raising funds from BES?	71.2	28.8
If applied, were you successful in raising funds from SCS?	48.1	51.9

Appendix 2

DEPARTMENT OF ENTERPRISE, TRADE AND EMPLOYMENT

SME FINANCE/EQUITY SURVEY 2005 QUESTIONNAIRE

Company ID: ________________________________

Part 1: Profile of the Company

Please tick the appropriate box.

1. How many years has your company been established?

Less than one year ☐ 1 - 3 years ☐ 4 – 5 years ☐ 6 – 10 years ☐ Over 10 years ☐

2. (Including yourself) How many people are currently employed in your company?

Less than 3 ☐ 3 – 9 ☐ 10 – 19 ☐ 20 – 50 ☐ 51 – 99 ☐ 100+ ☐

3. Please indicate the annual sales of your company

€0 - €500,000 ☐

€500,001 - €1,000,000 ☐

€1,000,001- €2,000,000 ☐

€2,000,001 - €5,000,000 ☐

€5,000,001- €10,000,000 ☐

€10,000,001+ ☐

4. What percentage of your annual sales do you export?

0% ☐ Less than 20% ☐ 20% - 50% ☐ More than 50% ☐

5. In your own opinion - Which of the following would best describe the current development stage of your business?

Starting Up ☐

Development Phase ☐

Steadily Growing ☐

Considering Expansion ☐

Consistent sales but not Growing ☐

Part 2: Past Experience in Raising Finance/Equity for your Company

The following questions are designed to identify the sources that your company has used to date in raising finance/equity and your experience with using these sources.

6. Did your company attempt to raise finance/equity in the past three years?

Yes ☐ No ☐ (if no please go to Part 3)

7. What was the total amount of finance/equity required?

€0 – €100,000
€100,001 - €250,000
€250,001 – €500,000
€500,001 - €1,000,000
€1,000,001 – €2,000,000
€2,000,001+

8. From which of the following sources did you attempt to raise/actually raise funds? *(tick more than one source if you requested/received funds from multiple sources)*

Source:	Attempted to Raise Finance From	Actually Raised Finance From	% of Total Finance Required
Business Expansion Scheme (BES)			%
Seed Capital Scheme			%
Seed and Venture Capital Funds			%
Family and Friends			%
Other Private Investors (Including Directors Loans)			%
Leasing/Hire Purchase			%
State Grants (Enterprise Ireland or County Enterprise Board)			%
Bank loan/Mortgage/Overdraft			%
Other (specify) ___________________________			%

9. (a) Did you raise all of the finance/equity required? Yes ☐ No ☐

9. (b) If no, in what way did the shortage of finance/equity impact on the development plans of your firm?

Unable to finance R&D	
Unable to update technology/equipment	
Unable to finance the purchase of Land & Buildings	
Unable to invest in Marketing and Advertising	
Unable to hire new employees	
Working Capital and cash flow constraints	
Dependent on bank finance	
Other	Please Specify …..

9. (c) If you failed to raise finance/equity, which of the following best describes the reason you were unable to raise the finance/equity?

Lack of collateral requirements	
Considered high risk	
Unclear business Plans	
Lack of track record	
Amount of equity/finance required not attractive to investors	
Other	Please specify …………………..

Part 3: Present and Future Finance / Equity Requirements

The following questions are designed to establish your current and future financing/equity needs and your perception of the availability of finance from a variety of external sources.

10. (a) Does your company see a requirement for additional finance/equity capital in the next five years?

Yes	☐	No	☐

10. (b) If yes, please indicate the total amount of finance/equity capital you will require?

€0 – €100,000
€100,001- €250,000
€250,001 – €500,000
€500,001 - €1,000,000
€1,000,001 – €2,000,000
€2,000,001 +

11. Do you think that it will be difficult to raise finance/equity?

Now

Yes	
No	

(b) In the next 3 years

Yes	
No	

12. (a) From which of the following sources will you attempt to raise finance/equity over the next three years? *(tick more than one source if appropriate)*

Business Expansion Scheme (BES)
Seed Capital Scheme
Seed and Venture Capital Funds
Family and Friends
Other Private Investors (Including Directors Loans)
Leasing/Hire Purchase
State Grants (Enterprise Ireland or County Enterprise Board)
Bank loan/Mortgage/Overdraft
Other (specify)………

12. (b) Please indicate, with a tick, your expectations for raising finance /equity required (from your chosen sources of finance) over the next three years

	High	Low
Business Expansion Scheme (BES)		
Seed Capital Scheme		
Seed and Venture Capital Funds		
Family and Friends		
Other Private Investors (Including Directors Loans)		
Leasing/Hire Purchase		
State Grants (Enterprise Ireland or County Enterprise Board)		
Bank loan/Mortgage/Overdraft		
Other (specify) …………		

12. (c) Please indicate the expected use of the external finance/equity raised over the next three years?

Financing R&D
Financing update of technology/equipment
Financing the purchase of Land & Buildings
Marketing & Advertising
Hiring new employees
Maintaining working capital requirements
Financing the purchase of Stock

Part Four: Business Expansion Scheme & Seed Capital Scheme

13. (a) Is your company aware of the Business Expansion Scheme (BES)? Yes ☐ No ☐

Seed Capital Scheme? Yes ☐ No ☐

13. (b) If Yes, Are you eligible to apply for Funds from the

Business Expansion Scheme (BES) **Yes** ☐ **No** ☐ **Don't Know** ☐

Seed Capital Scheme **Yes** ☐ **No** ☐ **Don't Know** ☐

14. If you have applied for funds from the BES, were you successful in raising funds?

Yes ☐ No ☐

What was your overall experience?

Satisfied ☐

Dissatisfied ☐ please specify ____

____

15. If you have applied for funds from the Seed Capital Scheme were you successful in raising funds?

Yes ☐ No ☐

What was your overall experience?

Satisfied ☐

Dissatisfied ☐ specify ____

Please make any comments you wish on the funding for your company and for Irish Industry financing in general.