The Domino Effect: the impact of late payments

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About Plum

Plum is an independent consulting firm, focused on the telecommunications, media, technology, and adjacent sectors. We apply extensive industry knowledge, consulting experience, and rigorous analysis to address challenges and opportunities across regulatory, radio spectrum, economic, commercial, and technology domains.

About this study

This study for Sage looks at the impact on small and medium-sized enterprises of invoices that are paid late, and analyses the sources of these payments. Analysing a survey of over 3000 companies across 11 countries, we seek to understand the scale of the problem, the ways it affects companies, and where there may be remedies to the issue.

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Contents

Foreword by Stephen Kelly

Imagine walking into a shop, taking what you want up to the counter, and then, when the time comes to pay, saying 'thanks – but I think I'll just take these now and pay later', and casually walking out with your items.

You obviously wouldn't dream of it – so why is this kind of behaviour acceptable when it comes to paying small business suppliers?

Acceptable it seems to be, with our report finding that more than one in ten invoices paid to small & medium businesses globally are paid outside payment terms. That equates to a staggering trillion US dollars each year in money that is late, or even worse, missing altogether – with some payments so late that Small & Medium Businesses are forced to write them off as bad debt.

Part of the problem is that many businesses aren't aware of the consequences of not paying a supplier on time – but for small companies that don't have the luxury of being able to absorb these costs, the fallout can be devastating. **Cashflow is the lifeblood of business.** 40% of the small & medium businesses we asked said that they saw a direct, negative impact to their business from late payments – this can range from reducing future investments, to cutting staff pay, to being unable to pay Christmas bonuses.

And that's not including the time these businesses spend each year chasing payments – as high as 20 days a year in some countries. At a time when economies around the world are rightly obsessed with driving up productivity, we must work to help small businesses cut down hours spent on administrative tasks like this, allowing them to spend more time growing their businesses.

We urgently need to change the culture around payments. First, we must remove the stigma around chasing payment for the SMEs themselves. It shouldn't be seen as embarrassing or rude to ask for money that you are owed. And secondly, businesses must recognise that every late payment has a material impact on a small business. It might mean one less bonus paid out. One less investment in innovative technology. One more pay cut.

Small & Medium Businesses are the heroes of our economy – creating jobs and prosperity and knitting our communities together. So let's treat them with the respect that they deserve – **prompt payment**.

Stephen Kelly, CEO, Sage

Summary

This report examines the issue of late payments. When agreeing a contract, two firms will set out the terms of payment, including how many days after an invoice is issued that payment should be received. When this deadline is not met, the payment is considered late – if it is received at all.

These late payments can have significant impacts on smaller businesses, as their cashflow does not allow them to carry out business as usual without a steady flow of funds coming in. Across the survey sample, we find that 11.0% of all invoices issued by SMEs are paid late, which would equal a total of USD 1.01 trillion per year[1]. Worse, 7.5% of invoices are eventually written off as bad debt, which will have an even more significant impact on operations. The proportional impact of late payments varies by country, but in all cases there is a significant issue.

Figure 1: Total late payments and bad debts

Country	SMEs' GVA	Late payments	Bad debt estimate[2]
UK	GBP 678 bn	GBP 112 bn	GBP 60 bn
South Africa	ZAR 190 bn	ZAR 25 bn	ZAR 17 bn
France	EUR 528 bn	EUR 51 bn	EUR 45 bn
Ireland	EUR 60 bn	EUR 7 bn	EUR 5 bn
Australia	AUD 616 bn	AUD 49 bn	AUD 41 bn
Brazil	BRL 1,146 bn	BRL 87 bn	BRL 79 bn
Canada	CAD 1,000 bn	CAD 103 bn	CAD 82 bn
Singapore	SGD 174 bn	SGD 29 bn	SGD 15 bn
Spain	EUR 272 bn	EUR 27 bn	EUR 22 bn
United States	USD 6,486 bn	USD 741 bn	USD 652 bn
Germany	EUR 729 bn	EUR 56 bn	EUR 58 bn

Late payments are found to have an adverse impact on SMEs in a number of ways. Our previous report identified that a significant amount of time and effort was spent by SMEs chasing late payments; again, this varies by country, with the average SME in South Africa losing 20 days to this task while Australian SMEs only require four work days on average. Any time lost on this task could instead be used to increase productivity.

Further, around 40% of respondents to the survey identified some clear direct impacts that late payments have on their business. These included both impacts on the firm (reduced investment, and a delay in paying their own suppliers) and impacts on individuals (reduced pay reviews, and reduced bonuses). This last point was noted in every country other than the US: late payments have a noticeable impact on the payment of annual bonuses, which is likely to have further impacts on staff morale and productivity.

Given these impacts, we have considered if there is a role for intervention. We first examined if there is a particular type of company that is more likely to pay invoices late, but were not able to ascertain any particular

[1] This relies on the assumption that the total GVA from SMEs Is reflective of the revenue that SMEs bring in. In fact, this is likely to be an underestimate, as some SMEs will use inputs from large companies, which will be included in the total revenue but not considered part of the value added.
[2] Estimated based on percentage of invoices that are written off as bad debt.

patterns; contrary to intuition, large companies are not more likely to be late payers than SMEs. Instead, the issue is seen across all payers, meaning any intervention will need to be wide-ranging.

That is not to say the intervention is unlikely to succeed. Analysis shows that firms are often told there is no reason for the late payments, indicating there is a great opportunity for intervention. The question instead must be how to define an effective campaign.

Our evidence indicates that late payments are driven by general business culture. On the side of the payer, it is seen as unimportant if an invoice is paid late – this is shown by the fact that there is often no explanation given when the payment is eventually received. On the side of the payee, the biggest barrier to chasing late payments is a desire to protect the client relationship.

By changing this culture, to one where chasing late payments is considered to be a reasonable – even expected – action, and where there is more of an expectation on payers to meet their obligations, policy makers may be able to help SMEs operate more efficiently, increase investment, and reward their employees better. A first step could be to encourage automated chasing of invoices, which may seem less hostile to payers, and a general education about the impacts these late payments can have.

1 Introduction

This study has been prepared by Plum Consulting for Sage, to analyse the impact of late payments on small and medium enterprises (SMEs). SMEs play a crucial role in national and global economies. However, they also often face high operational burdens, such as late payments, which have significant implications for their ability to operate. In contrast to large companies, SMEs are often not in the position to easily absorb the costs of late payments. This means that companies have to resort to measures such as reducing future investment in companies, reducing annual bonus and in some cases cut staff pay, which may have impact on their ability to grow through investment in company and recruitment.

Our previous report, 'Sweating the Small Stuff: the impact of the bureaucracy burden'[3], examined the impacts of all types of administration on SMEs, and found that chasing late invoices was a significant concern for many firms. This report builds on that analysis, looking at the scale of the problem and how its impacts are felt.

The remainder of this study is structured as follows:

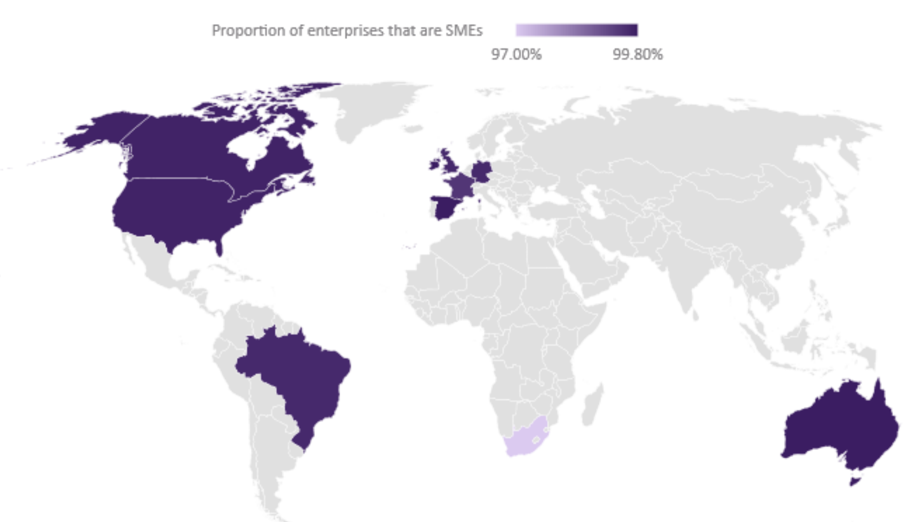
- Section 3 explains what is meant by 'late payments' and the problems associated with them.
- Section 4 outlines the survey that has been commissioned for analysis.
- Section 5 sets out the hypotheses for analysis, and how the results of the survey support or refute these. In particular:
  - Section 5.1 examines the extent of late payments experienced by SMEs and their impacts on SMEs;
  - Section 5.2 analyses whether large companies are more likely than SMEs to pay invoices late;
  - Section 5.3 investigates issues associated with chasing late payments; and
  - Section 5.4 explores if and how intervention could help.

[3] This will be referred to as 'Plum Consulting (2017)'.

2 The importance of SMEs

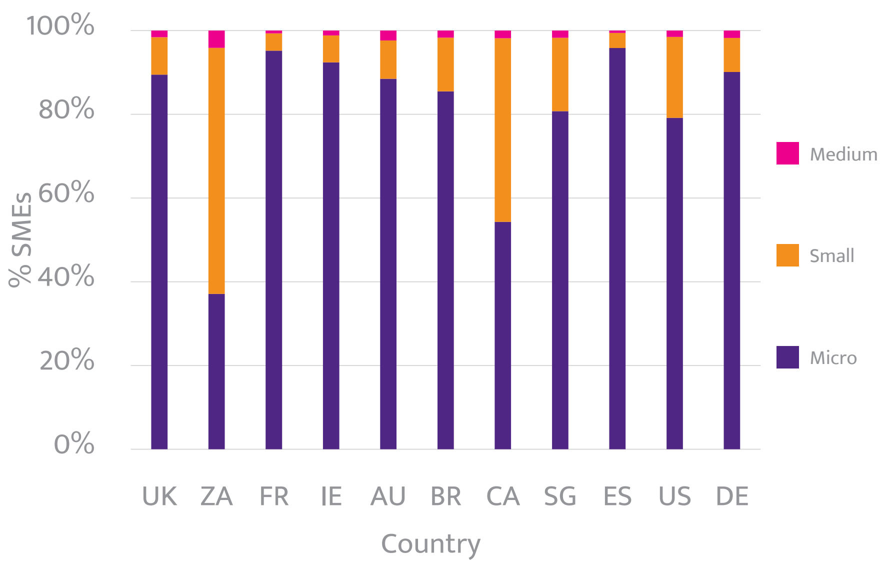
A complementary report to this work is ‘The Importance of Small and Medium Enterprises’, compiled by FTI Consulting[4]. This examines the overall impact of SMEs across the same eleven countries included in our analysis. It also sets out in detail how SMEs contribute to employment, GDP (or GVA), and tax receipts both in total and across different sectors. A high-level overview of this analysis is included as an annex to this paper.

Figure 2-1: Size of SME economy



In all countries, the number of SMEs substantially outweighs the number of large firms; our analysis shows that the greatest proportion of large firms is found in South Africa, but even there 97% of enterprises are SMEs – and this is likely to be an underestimation as not all micro companies will be registered to authorities.

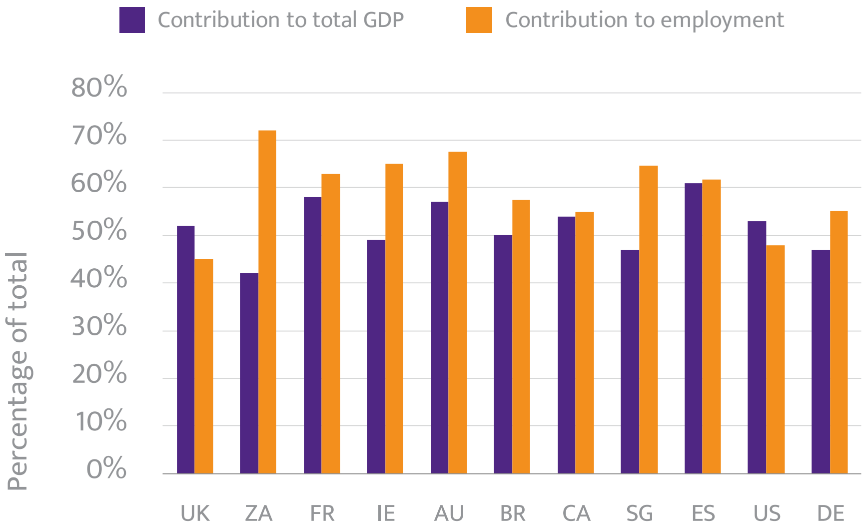
Figure 2-2: Composition of SME economies[5]



[4] This will be referred to as ‘FTI Consulting (2017)’.
[5] Note that the breakdown of SMEs in Singapore has been estimated, using an average of other countries, as no official data is available.

Further, the contribution in terms of GDP and employment varies considerably. In South Africa, in particular, SMEs appear to be significantly less efficient than larger firms, with over 70% of the workforce contributing less than 45% of GDP. Conversely, in the UK and the US SMEs produce over half of GDP, but employ less than half of all employees.

Figure 2-3: Contribution of SMEs in each country



SMEs are also particularly vulnerable to disruptions to their operation due to their size; small enterprises are much less able to absorb operational shocks in the short run because of limited resource. One area of major concern for many SMEs is cashflow. SMEs often have a low cash reserve, which means that any delays to income could have significant impacts on their ability to operate.

When events – such as late payments – lead to a negative cashflow, SMEs are likely to have to draw down any reserve they have for staff bonus. They may even have to reduce staff commission or worse yet staff pay in order to keep business going in the event of an imbalance between income receipts and outgoing payments. This could adversely impact staff morale and productivity.

Furthermore, when experiencing cashflow problems, SMEs are more likely to cut down on future investment in order to stay afloat. Therefore, late payments of their invoices could have debilitating consequences on the sector's growth, which could have a secondary retarding effect on the growth of the economy, given the size of the sector within the whole economy.

Reduced money intake in any period could cause the payee companies to delay payment to their own suppliers in many cases. This creates a knock-on effect if, like their clients, these suppliers also rely on the incoming money to pay their own bills. This type of chain reaction could potentially cause a disruption to the supply chain in the short term. In the longer term, cash-strapped SMEs could go out of business altogether, further dampening the growth of the economy.

3 What are late payments?

All enterprises make financial transactions with other businesses. These transactions could take the form of:

- payments received by the enterprise in exchange for services rendered or goods sold to other companies, or

- payments made by the enterprise for services rendered to them by other companies.

In general, a good balance between these two types of financial transaction needs to be maintained to ensure that there are sufficient funds for the day-to-day running of the business.

Companies agree with their clients upon signing a supplier's contract a specific payment schedule. This can include, for example, milestones for the project as well as the amount that will need to be paid for the different phases. The expectation is that payment will then be made on the agreed date or within a defined number of days of that date. Typically payment terms are 30 days, although sometimes, particularly when dealing with larger firms, these can be extended to 60 days. 'Late payments' are those payments that are not made in the defined time period.

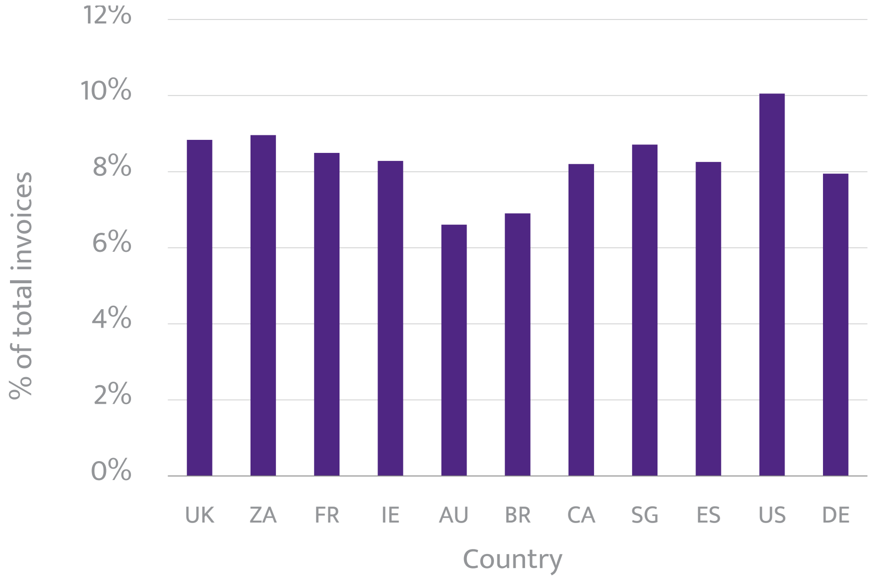
3.1 Impacts on cashflow

Firms rely on a good balance between incoming payments (receipts) and outgoing payments for cashflow. This balance is not necessarily guaranteed, however. This is because many services that a company purchases have to be paid for at regular intervals; many monthly or quarterly services are needed for business administration. Payments received, on the other hand, depend on orders for supply of service. These may not be periodic or at least in alignment with the company's income receipts.

Management accounting methods seek to resolve this imbalance by allowing for variations in cashflow, but in order to do this it is vital that companies know when to expect payments. When payments are late, a positive but small cashflow can turn negative, and the company may have to take drastic measures to raise funds to cover the operating costs for the period.

In some cases, payment of invoices is so delayed that they have to be written off as bad debt. Figure 3-1 shows the percentage of invoices that are written off by SMEs in the 11 study countries, showing that these are a similar problem (although likely with more severe effects) to late payments.

Figure 3-1: Proportions of invoices that become bad debt for SMEs in 11 study countries



3.2 Impacts on SMEs

SMEs are particularly vulnerable to cashflow problems arising from late payments. It is not unusual for significant proportions of an SME's capacity to be dedicated to a specific client or project, meaning that these invoices in turn are a large proportion of the total income. The resulting bumpiness in revenue requires careful management.

Against this uncertain income, SMEs' regular expenses are not proportional to their company size. Accommodation costs and overhead costs per employee are likely to be higher than seen in large firms; further, as found in a previous study, administrative tasks can account for large proportions of total manpower (over 10% of total man days for an SME in some countries)[6]. Such a large fixed cost relative to income receipts means that a negative cashflow can become more likely when payments are not always received in a timely manner.

Late payments also need to be chased up, which creates a further administrative burden to the company. According to Plum Consulting (2017), between 5% and 10% of all administrative work is related to chasing late payments. If there is a way of reducing the incidents of late payment, less time could be spent on this administrative task, freeing up time for more productive work.

[6] Plum Consulting (2017): Sweating the Small Stuff, http://plumconsulting.co.uk/sweating-small-stuff-impact-bureaucracy-burden/

4 Survey methodology

In order to study the impact of late payments on SMEs, we posed three hypotheses.

- Hypothesis 1: A significant proportion of invoices issued by SMEs are not paid on time.
- Hypothesis 2: Large companies are the most likely to pay bills late.
- Hypothesis 3: Late payments have a significant impact on the running of SMEs.

The first hypothesis is conceived to help investigate the extent of late payments. If it becomes clear that businesses do not experience frequent instances of late payment, there may not be a need for intervention. The second hypothesis will look at the type of companies that are most likely to make payments late to SMEs. Then, through the third hypothesis the impact of late payments will be assessed. First, instead of spending time chasing late payments, staff could be more productively employed. Second, where payments are late they may have impacts on the way businesses are run.

Plum commissioned a survey from FTI Consulting to verify these hypotheses. The survey was conducted between July and August 2017 in eleven countries. There were almost three hundred SMEs that responded to the questionnaire sent out in each country. Figure 4-1 shows the countries in which the questionnaire was administered along with the two-letter codes used throughout this report.

Figure 4-1: List of countries (with two-letter codes)

Australia (AU)	Brazil (BR)	Canada (CA)
France (FR)	Germany (DE)	Ireland (IE)
Singapore (SG)	South Africa (ZA)	Spain (ES)
United Kingdom (UK)	United States of America (US)	

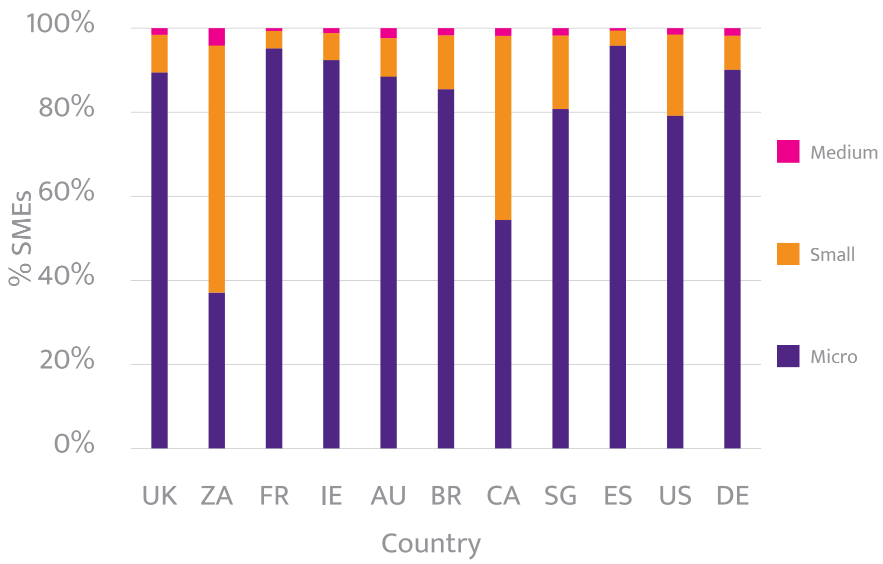
The questions asked in the survey were grouped into five key areas:

- Questions about the business itself, to determine suitability for the survey and to assist with disaggregated analysis;
- Questions about administrative burden;
- Questions on taxation;
- Questions on late payments; and
- Questions on business outlook.

Of these, the first and fourth groups (and a few questions from the second group) are most relevant to this report. The relevant questions from the questionnaire used in the survey can be found in Appendix B.

Once compiled, the responses to the questionnaire for the three types of SMEs are analysed and weighted. This is done to give a picture that is representative of the SME economy. The average for each of the three groups is weighted by the proportion of the company type within the SME economy and combined to arrive at statistics for all SMEs. These proportions can be found on shown below.

Figure 4-2: Composition of SME economies



In the case of Singapore, no such information is publicly available. Therefore, the proportion of all SMEs that each type of company represents is estimated. This is done by average the proportions of the same type of company in the other 10 countries.

5 Hypotheses and analysis

To examine the prevalence and impact of late payments, and to consider how this burden on SMEs can be reduced, we have proposed four key questions for examination, as follows.

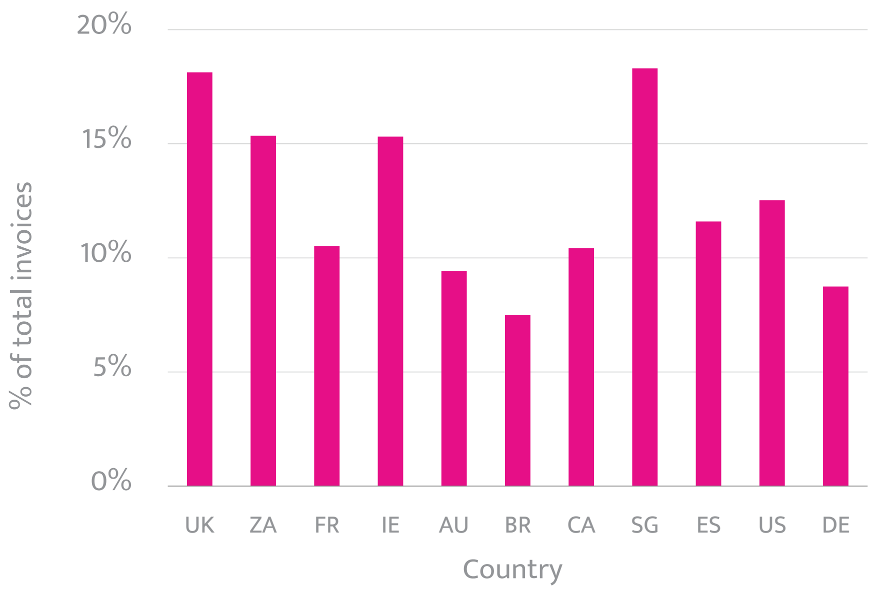
- How significant is the problem of late payments for SMEs?
- Are large companies most likely to pay their invoices late?
- Do late payments have a significant impact on SMEs?
- Is there a role for intervention?

These questions are examined in turn below. For each question, we have analysed impacts in each of the eleven countries overall. We then identify where countries may be outliers based on the compiled statistics.

5.1 How significant is the problem of late payments?

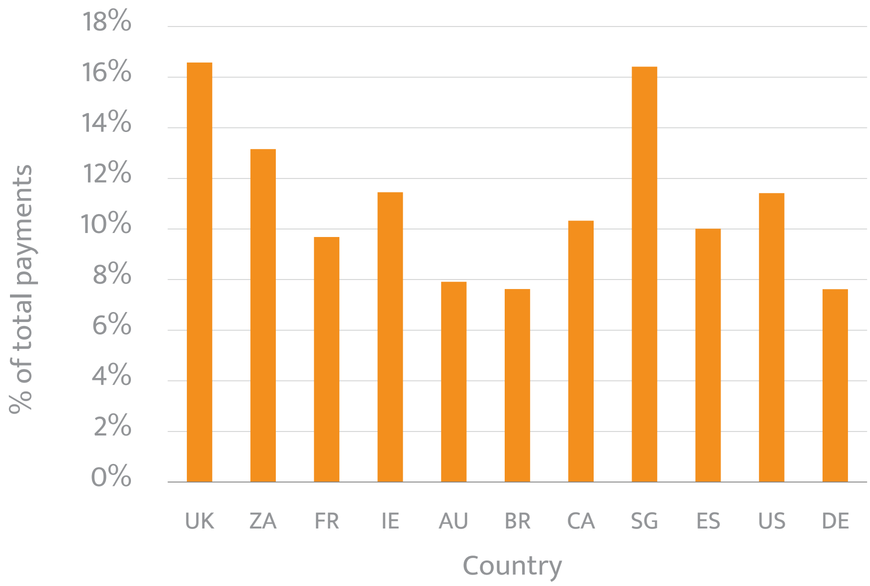
Figure 5-1 compares proportion of total invoices that are paid late for all countries surveyed. This percentage ranges from 7% in Brazil and 18% in the UK and Singapore. This strongly suggests that a significant proportion of invoices are paid late to SMEs in the 11 study countries.

Figure 5-1: Proportion of invoices that are paid late



Further analysis of the survey data shows that there is a strong correspondence between this and the percentage of total revenue that is received late. To construct a picture of the latter, companies were asked to state the proportion of total revenue they receive from different types of companies and then to provide the percentage of revenue that is received late from these companies. From the two sets of results, we derive the percentage of total revenue that is received late. This is shown in Figure 5-2.

Figure 5-2: Proportion of total revenue received late in the 11 study countries



Between 8% and 17% of total revenue to the respondent companies are received late, with Brazil again having the lowest percentage of late payments and the UK and Singapore the highest.

The strong correlation between the incidence of invoices being paid late and the percentage of total revenue that are made late suggests that late-paid invoices are not all either small invoices or large invoices; indeed the average size of a late payment is likely to be similar to the average size of all invoices.

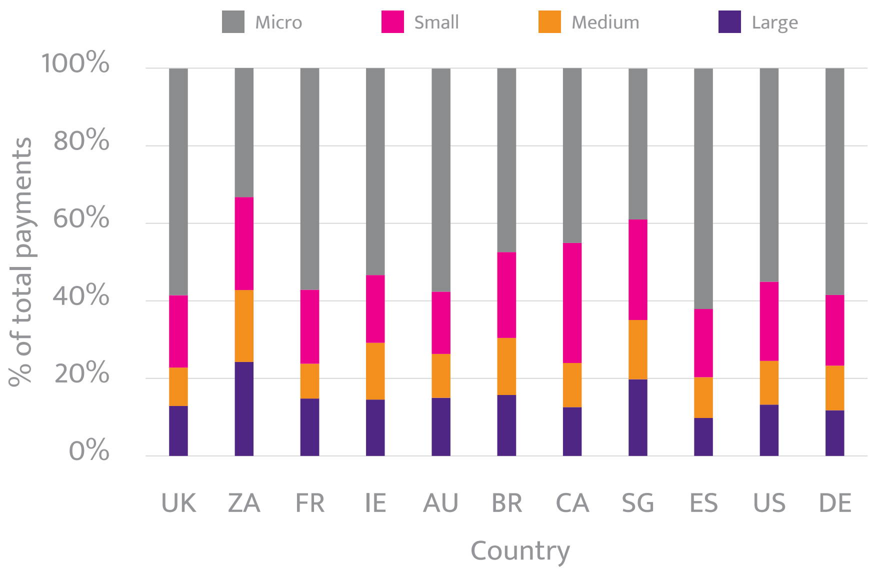
5.2 Are large companies most likely to pay their invoices late?

The analysis in Section 3 illustrates that there are likely to be negative economic impacts stemming from SMEs being paid late, the incidence of which is insignificant. To gain a better understanding of what contributes to the problem of late payment, we further examine the distribution of late payments amongst the different types of paying companies in this section. This will help to ascertain whether large companies are particularly likely to offend where late payments are concerned.

As described above, there is a strong correlation between the proportion of invoices that are paid late and the proportion of payments that are received late. It is assumed, therefore, that late payment of invoices by paying companies is the predominant contributor to payments being received late by an SME. This means that the proportion of payment amounts that are made late to the SME by the different types of firms also reflects the proportion of invoices that are paid late by these businesses.

Respondents to the survey were asked what proportion of their received payments came from each of the four types of company, and also what percentage of the payments received from each company type are late. Figure 5-3 shows the percentages of total payments received from the different types of company.

Figure 5-3: Percentages of total payments from different company types



Similarly, the proportions of total payments that SMEs receive late from these different types of company in the 11 study countries are plotted in Figure 5-4.[7] It can be seen that late payment as a percentage of total payments does not vary significantly across the different types of payer. Small companies make more of their payments late than other company types in all countries except Brazil.

Figure 5-4: Proportions of payments from different company types that are late

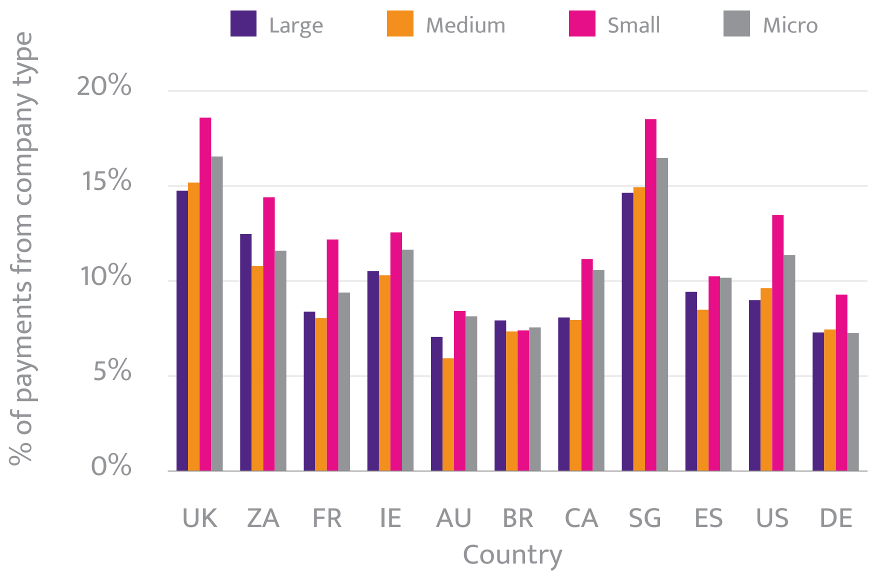
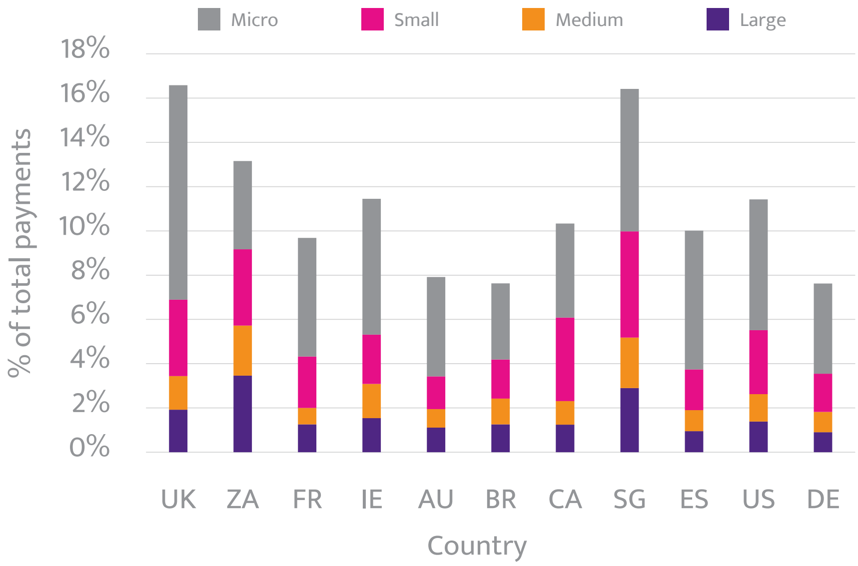


Figure 5-5 shows the contribution from different types of company to all late payments. This is in effect Figure 5-2 disaggregated by company types.

[7] In fact, these two different proportions are multiplied and added across the different company types to derive the percentages in Figure 5-2.

Figure 5-5: Contribution to late payments by different company types



Since the proportion of total payments coming from large companies is quite small as shown in Figure 5-3, their contribution to late payments is also not high. Across the 11 countries surveyed, 11% of revenue is paid late on average, and within this around 2% are payments that are late and made by large companies. This is a significant proportion, but nevertheless it does not demonstrate that large companies are more likely than other types of companies to pay their invoices late.

Indeed, more late payments come from other SMEs when represented as a proportion of total payments. As will be explored later, this may be due to the fact that late payments to SMEs have knock-on effects in causing further invoices to be paid late.

5.3 Do late payments have a significant impact on SMEs?

The problem of late payments is not simply one of inconvenience. Payee companies have their own bills to pay, and so being paid by their customers late can make it more difficult for them to cover their own expenses – possibly leading to further late payments in the economy. To ensure that payments are not late or not even more delayed than they already are, companies need channel their administrative resources from other potentially more productive uses to managing late payments.

More importantly, when payments are late, operational efficiency can be adversely impacted as explained in Section 3. The resulting cash deficit could force SMEs to adopt drastic measures that can potentially undermine future relationship with their suppliers and their growth prospect. How the working of SMEs in the 11 study countries is affected by late payments is the topic of analysis in Section 5.3.2.

5.3.1 The opportunity cost of chasing late payments

As discussed in Plum Consulting (2017), late payments are one major source of administrative burden. This is because when payments are overdue, companies need to allocate human resource to chase up other companies to pay their invoices in order to increase their chance of getting paid without further delay. Figure 5-6 shows the average number of man days each year that SMEs in the 11 study countries need to spend doing this chasing.

Figure 5-6: Average number of man days needed by SMEs to chase up late payments

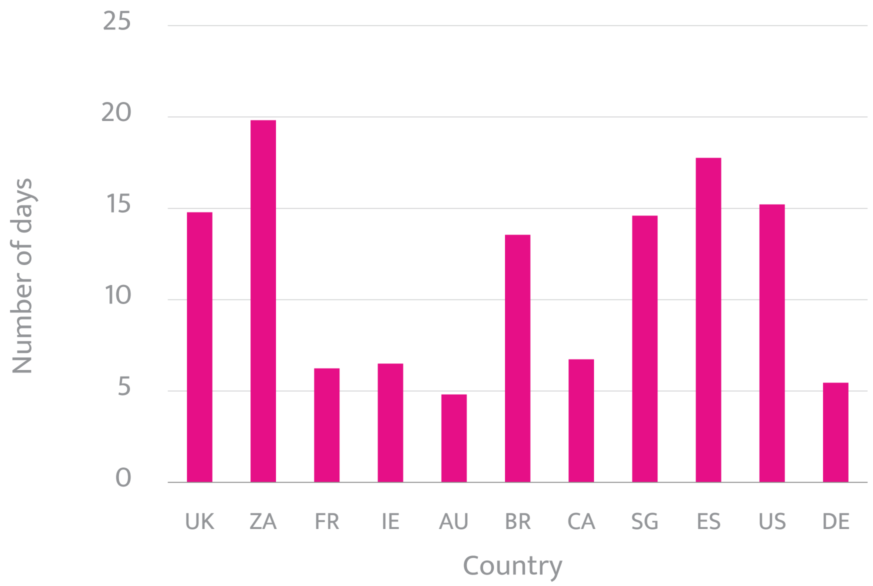
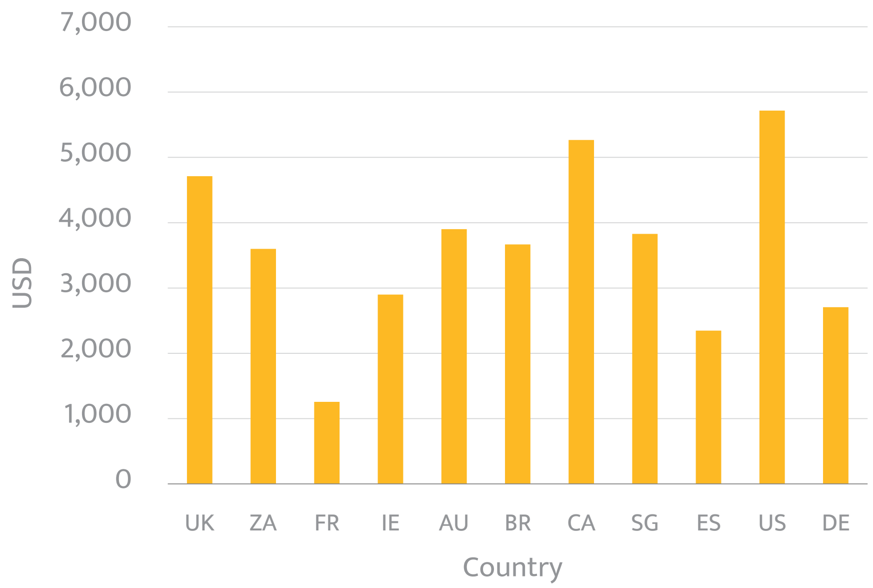


Figure 5-7 shows the cost in monetary terms associated with chasing late payments as an administrative task. These costs include the costs of facilities needed to perform the chasing in addition to the costs of human resource but not software costs.

Figure 5-7: Yearly average cost of chasing up late payments for an SME

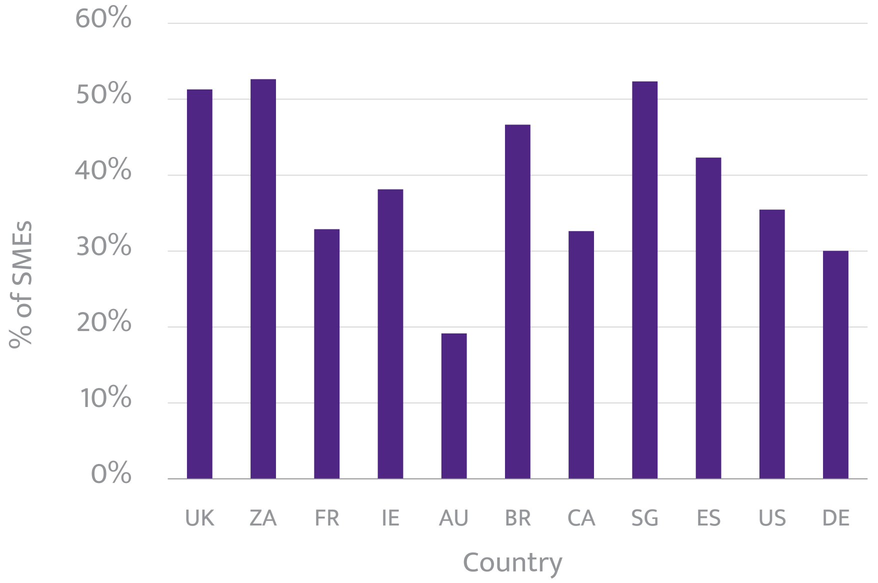


5.3.2 The impact of late payments on operations

In addition to being a source of administrative burden, late payments can cause an imbalance between a company's receipts and outgoing payments. This can lead to a negative cashflow as explained in Section 3. In the absence of borrowing facilities, the company may have to dip into cash reserves that have been set up for nonoperational purposes, to ensure that the day-to-day running of the business remains unaffected. Such reserve may include funds for future expansion and discretionary staff pay.

On average 39% of SMEs in the 11 countries surveyed reported either that they are already experiencing some impact from late payment of their invoices or that they have yet to experience any impact but see the impact as being likely. Figure 5-8 shows the percentage of SMEs in each country that are currently impacted or that expect that there will be an impact.

Figure 5-8: Percentage of SMEs reporting or expecting impacts from late payments



To assess how late payments are currently impacting SMEs, they were asked if they the following aspects of their operation have been impacted by late payment of their invoices:

- Staff commission,
- Staff pay,
- Annual bonus,
- Paying suppliers, and
- Investment into the company

Figure 5-9 shows the top three types of impact on SMEs of late payments in the 11 study countries along with the proportions of companies that experience them.

Figure 5-9: Top 3 impacts of late payments on SMEs in each country

Country	First top impact	Second top impact	Third top impact
UK	Impact on paying suppliers (26%)	Impact on investment (25%)	Impact on annual bonus (22%)
South Africa	Impact on paying suppliers (34%)	Impact on annual bonus (28%)	Impact on investment (28%)
France	Impact on investment (13%)	Impact on staff pay (12%)	Impact on annual bonus (11%)

Country	First top impact	Second top impact	Third top impact
Ireland	Impact on investment (20%)	Impact on paying suppliers (20%)	Impact on annual bonus (15%)
Australia	Impact on investment (10%)	Impact on paying suppliers (10%)	Impact on annual bonus (6%)
Brazil	Impact on investment (37%)	Impact on paying suppliers (25%)	Impact on annual bonus (23%)
Canada	Impact on investment (14%)	Impact on annual bonus (13%)	Impact on paying suppliers (12%)
Singapore	Impact on paying suppliers (26%)	Impact on investment (24%)	Impact on annual bonus (24%)
Spain	Impact on investment (19%)	Impact on annual bonus (18%)	Impact on paying suppliers (17%)
USA	Impact on investment (25%)	Impact on staff pay (23%)	Impact on staff commission (21%)
Germany	Impact on investment (17%)	Impact on annual bonus (12%)	Impact on paying suppliers (11%)

Percentage in brackets denotes the % of SMEs citing that they are experiencing this impact

Based on the table above, the two most commonly experienced impact experienced by SMEs across these 11 countries are:

- impact on investment into the company, and
- impact on the company's ability to pay suppliers.

Both of these will, in turn, have a knock-on effect on the SMEs' ability to grow. Companies that are not able to invest will not be able to expand into new areas and take advantage of new business opportunities. Similarly, firms that find it hard to pay their suppliers are unlikely to be able to increase their order of inputs that is necessary for a larger-scale production. This is because their suppliers are not likely to want to extend their credit lines given their poor paying record. This could also have a secondary impact where the suppliers also rely on payments from the companies to operate and expand. The suppliers could struggle to pay their own suppliers, and growth across the whole value chain could be stifled.

A significant proportion of companies also report that late payments have led to impacts on payment to their staff, which includes direct staff pay and, more commonly, annual bonus. This could have a negative impact on staff morale and potentially productivity.

5.4 Is there a role for intervention?

Late payments can be a drain on resource as well as a source of operational inefficiencies for SMEs as discussed in Section 5.3. In fact, the latter can have knock-on impacts on the wider economy through their second-order effects in hindering companies' growth and productivity. It is, therefore, important for policy makers to understand what kind of intervention, if any, would be most useful in tackling this problem, or at the very least in helping to mitigate it.

One possible way of getting paying companies to pay more punctually is to assist payee companies in chasing late payments. To this end, it is important to identify any barriers that exist to chasing up late payments. It will also help payments to be made on time if paying companies can also be encouraged to make their payments punctually. Therefore, it is imperative that policy makers gain an understanding of why companies are currently making their payments late.

5.4.1 Barriers to chasing late payments

From Section 5.3.1, it is clear that late payments represent an administrative burden to SMEs. The amount of time and effort spent on chasing late payments shown previously could, however, under-report the total necessary to ensure that all payments are made. This is because there are many barriers to chasing late payments, which would likely have curtailed the extent of chasing activities. In the survey, companies were questioned about such barriers. Respondents were asked to identify which of the following barriers they have faced in chasing late payments:

- Staff don't have time;
- Lack of staff members;
- No dedicated resource to chase late payments;
- Protecting relationships with clients;
- Not knowing which invoices are due;
- Other; or
- There are no barriers.

Figure 5-10 compares the three most widely identified barriers to chasing late payments for SMEs in the 11 study countries. The last two responses – other reasons and no barriers – are not considered in this comparison. This is because they indicate that, either other unknown problems are experienced, or there is no problem with chasing late payments. As such they are not instructive for this analysis.

Figure 5-10: Top 3 barriers to chasing late payments for SMEs in each country

Country	First top barrier	Second top barrier	Third top barrier
UK	Protect client relationship (40%)	No dedicated resource (35%)	Lack of staff (18%)
South Africa	Protect client relationship (40%)	No dedicated resource (24%)	No time (13%)
France	Protect client relationship (21%)	Lack of staff (11%)	No time (10%)
Ireland	Protect client relationship (43%)	No dedicated resource (18%)	Lack of staff (14%)
Australia	Protect client relationship (29%)	No dedicated resource (9%)	No time (8%)
Brazil	Protect client relationship (35%)	Lack of staff (13%)	No dedicated resource (12%)
Canada	Protect client relationship (31%)	No time (17%)	No dedicated resource (15%)
Singapore	Protect client relationship (41%)	No dedicated resource (37%)	Lack of staff (17%)
Spain	Protect client relationship (37%)	No dedicated resource (16%)	Lack of staff (8%)
USA	Protect client relationship (32%)	No dedicated resource (13%)	No time (10%)
Germany	Protect client relationship (31%)	Lack of staff (10%)	No time (8%)

Percentage in brackets denotes the % of SMEs citing that indicating that the firm experiences the barrier to chasing late payments.

The most frequently reported barrier to chasing late payments in all countries is the need to protect relationships with clients – a significant proportion of SMEs experiencing the problem of late payments find it difficult to raise the issue and be firm with their clients because doing so could jeopardise future relationships.

The absence of dedicated resource is the second most common barrier. In addition, lack of staff time or personnel for the task are the next most common barriers. These suggest that the administrative task may be:

- Labour intensive, making it difficult to conduct given SMEs' limited workforce and working hours, or
- The gains from the activity are limited because staff cannot freely engage with clients to pressure them to pay as a result of the need to protect relationships with them, making it difficult to justify dedicating resource to the task.

If the second point here were true, it could mean that much of the resources used as shown in Figure 5-6 and Figure 5-7 is wasted or can be more productively employed elsewhere. This would make late payments something over which SMEs have little control but of which they have to absorb the cost.

The most effective means of overcoming this problem for SMEs is then likely to be a policy to incentivise SMEs' clients to make their payment punctually. In the next section, we analyse reasons for making late payments to explore the types of intervention that may help improve punctuality of payments.

5.4.2 Addressing the reasons for late payments

It is necessary to identify factors that have led to companies delaying their payments to other companies, in order to come to a view on what would be required to reduce the incidence of late-paid invoices. The respondents to the survey were asked to pick the reasons that they have been given by the payees when payments are made late. The options given were as follows.

- Didn't receive the invoice;
- Invoice payment is pending;
- Disputing invoice amounts;
- Wanting to pay invoices in particular periods of the year;
- No reason was given;
- Invoices were not paid late; and
- Other

Figure 5-11 shows the 3 most common reasons given to SMEs in the 11 study countries by companies that pay their invoices late.

Figure 5-11: Top 3 reasons given for late payments by paying companies in each country

Country	First top impact	Second top impact	Third top impact
UK	Payment pending (44%)	No reason (35%)	Invoices paid at periods (23%)

Country	First top impact	Second top impact	Third top impact
South Africa	Payment pending (47%)	Invoices paid at periods (25%)	No reason (24%)
France	No reason (33%)	Payment pending (23%)	Invoices paid at periods (15%)
Ireland	Payment pending (32%)	No reason (31%)	Invoices paid at periods (24%)
Australia	No reason (36%)	Payment pending (12%)	Invoices paid at periods (10%)
Brazil	No reason (25%)	Invoices paid at periods (20%)	Invoice not received (14%)
Canada	No reason (31%)	Payment pending (27%)	Invoices paid at periods (17%)
Singapore	Payment pending (46%)	No reason (33%)	Invoices paid at periods (24%)
Spain	No reason (31%)	Invoices paid at periods (26%)	Payment pending (24%)
USA	No reason (34%)	Payment pending (30%)	Invoices paid at periods (20%)
Germany	No reason (42%)	Invoices paid at periods (20%)	Payment pending (16%)

Percentage in brackets denotes the % of SMEs citing that they are have been given the reason by their payer for late payment.

The last two reasons –they don't pay invoices late, and other – have been excluded from the table, as they do not shed further light on what factors have led to invoices being paid late.

For eight of the 11 countries, the most common reason given is no reason. This suggests that there should be no particular reason why invoices should be paid late, and so companies should generally be amenable with a mandate of punctual payment.

SMEs in the study countries also reported payment pending and invoices paid at periods as the other two most common reasons given for late payments. The exception to this is Brazil, where the third most common reason given to SMEs for late payments is that invoices have not been received. This implies that there may be an opportunity for policy makers to improve the punctuality of invoice payment by mandating payment terms that will be conducive to quicker payments.

Appendix A The importance of SMEs

This Annex, based on work by FTI Consulting, considers the importance of SMEs across the world, and their contribution to employment and the economy. Small and Medium Enterprises ("SMEs") are widely considered to be the backbone of the economies of all of the 11 countries that we analyse in this report: Australia, Brazil, Canada, France, Germany, the Republic of Ireland, Singapore, South Africa Spain, the UK and the US.

SMEs not only account for a significant (in many cases the majority) share of economic activity and employ a large share of the working population, but they also drive innovative and vibrant sectors in virtually all parts of these economies and in every region and territory.

In the EU, SMEs are typically defined as enterprises with fewer than 250 employees and micro enterprises are those with fewer than 10 employees. In other parts of the world SMEs and micro enterprises are often defined slightly differently. For example, in Canada and the US, SMEs include larger firms with up to 500 employees. In Canada, Brazil and South Africa, micro enterprises are smaller firms; those with fewer than 5 employees. Figure A-1 below summarises these definitions across the 11 markets considered in this report.

Figure A-1: Definition of size of SME businesses across countries (by employment)

Country	Micro	Small	Medium	Large
Australia	<5	5-19	20-199	>200
Brazil	<5	5-19	20-249	>250
Canada	<5	5-99	100-499	>500
France	<10	10-49	50-249	>250
Germany	<10	10-49	50-249	>250
Ireland	<10	10-49	50-249	>250
Singapore	<10	10-49	50-199	>200
South Africa	<5	5-49	50-199	>200
Spain	<10	10-49	50-249	>250
UK	<10	10-49	50-249	>250
US	<10	10-99	100-499	>500

Note: There are multiple alternative definitions relating to the size of businesses across countries, including those relating to income, profits, assets and amount of tax paid.
Source: National statistics authorities.

We emphasize that the definition of SMEs, somewhat counterintuitively, includes micro enterprises. Therefore, throughout the report when we refer to SMEs we do not only mean small and medium enterprises, as the term would suggest, but micro enterprises as well.

A.1 In terms of number of enterprises, SMEs dominate the economies considered

In each of the economies examined, SMEs account for over 99% of all enterprises (except in South Africa where they account for nearly 97%). The vast majority, typically over 80% of enterprises, is accounted for by micro enterprises. Canada and South Africa stand out as having significantly smaller share of micro enterprises however in these countries micro firms represent a narrower category (fewer than 5 employees) than in most other countries (fewer than 10 employees).

The number of registered SMEs[8] ranges from around 217,000 in Singapore to 5.8 million in the US.

Figure A-2: Number of (registered) SME enterprises (thousands)

	Micro	Small	Medium	Large	Total	Micro Share	SME Share
Singapore		216		1	217		99.4%
Ireland	229	16	3	1	249	92.2%	99.8%
South Africa	200	315	21	17	553	36.2%	96.9%
Canada	638	515	21	3	1,177	54.2%	99.7%
Australia	1,918	199	51	4	2,172	88.3%	99.8%
Germany	2,062	364	67	17	2,510	82.2%	99.3%
UK	2,277	227	40	10	2,555	89.2%	99.6%
France	2,928	122	19	4	3,074	95.3%	99.9%
Spain	3,097	116	18	5	3,237	95.7%	99.8%
Brazil	2,768	415	54	12	3,249	85.2%	99.6%
US	4,597	1,122	88	19	5,825	78.9%	99.7%

Note: Figures are from the latest publicly available data. Figures show registered enterprises where available (e.g. VAT or PAYE registered enterprises in the UK, enterprises with paid employees in the US, enterprises with paid employees in classified industries in Canada, enterprises with paid employees in Brazil and VAT registered enterprises in South Africa). Separate data for micro, small and medium companies in Singapore is not available.
Source: National statistics authorities.

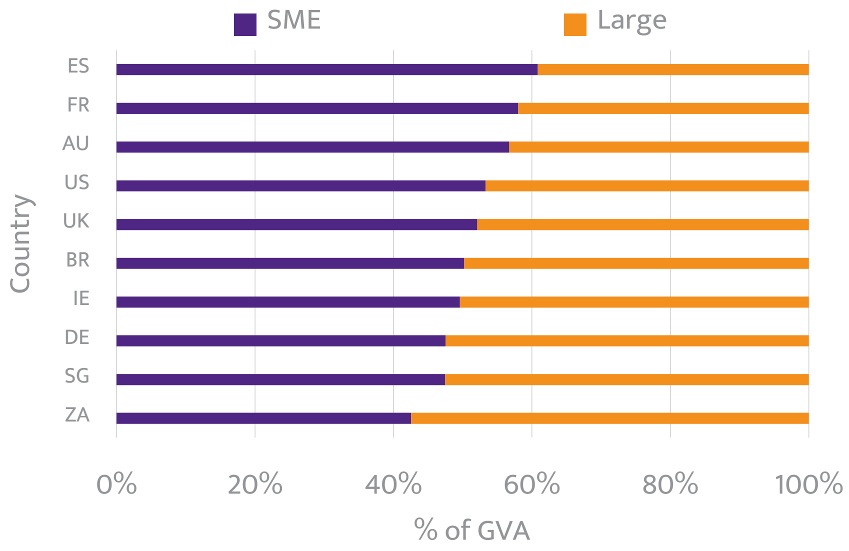
A.2 SMEs contribute a large share of economic activity and employment

Two key indicators of the importance of SMEs to their respective economies are their contribution to Gross Value Added (GVA) and their share of total employment. GVA is essentially the same as the more widely used term of economic activity, Gross Domestic Product (GDP).[9]

In 6 of the 10 markets where data is available, SMEs contribute more to the GVA of the economy than large enterprises, and in some cases significantly so. In Spain and France, for example, SMEs contribute 61% and 58% of GVA. For Canada, the latest figure available is as of 2005 when SMEs contributed 54% of Canadian GDP. Even in South Africa, where the contribution of SMEs is the lowest in terms of percentage, SMEs contribute 43% of the country's value-added.

[8] Some statistical offices separately report the total number of SMEs and the number of SMEs which are tax registered or which have paid employees. When this distinction is made, we use the figures for the latter, narrower categories as these appear more comparable across the board and have more detailed information.
[9] The difference between the two terms relates to the treatment of financial intermediation services, taxes and subsidies. From the perspective of this report, these differences are not material.

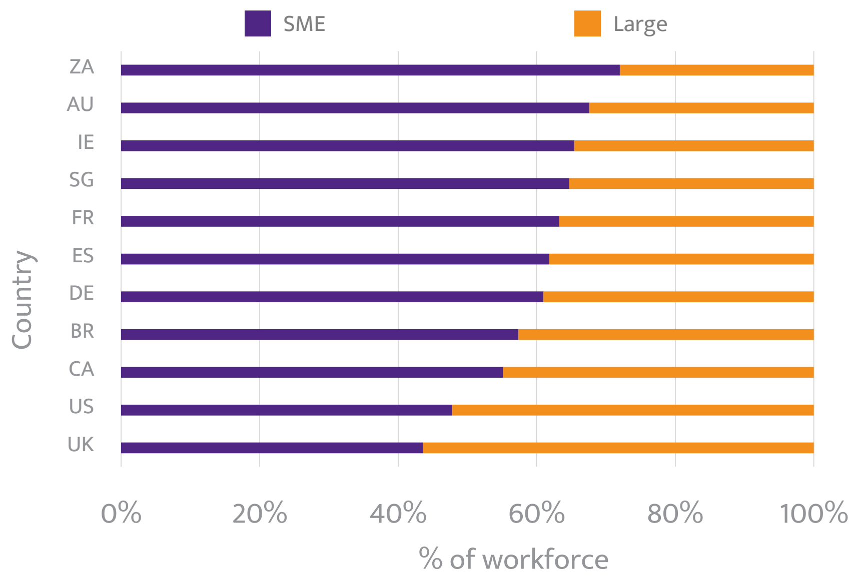
Figure A-3: GVA contribution of SMEs vs large enterprises



Note: Figures are from the latest publicly available data: 2016 for Australia, France, Spain and the UK, 2015 for South Africa and the US, 2014 for Germany, Ireland and Brazil. This statistic is not available for Canada. Data for some countries exclude some sectors; typically agriculture and forestry, defence, health care, public administration.
Source: National statistics authorities

Typically, SMEs account for an even greater share of employment than of GVA across the 11 economies. More than half of the private sector workforce is employed by SMEs in all economies examined with the exception of the US and the UK. These are also the only two countries where SMEs' share of employment is lower than their share of GVA, indicating higher level of productivity of SMEs in these economies than in the rest of the sample. South Africa and Singapore stand out with high level of SME employment but relatively lower levels of SME value-added.

Figure A-4: Employment by business size



Note: Figures are from the latest publicly available data: 2016 for Australia, Canada, France, Singapore, Spain and the UK, 2015 for Ireland, 2014 for Brazil, Germany, South Africa and the US. Data for some countries exclude some sectors; typically agriculture and forestry, defence, health care, public administration.
Source: National statistics authorities

A.3 SMEs pay a substantial share of corporation taxes

The significant contribution of SMEs to economic activity also translates into government corporation tax receipts. Unfortunately, data on corporate taxes paid by SMEs is not readily available in many of the examined economies. In Spain, SMEs account for 59% of corporation taxes in line with their GVA contribution. In Australia, Ireland, and South Africa, SMEs pay around 32%-36% of corporation taxes, which is significant but well below their share of contribution to GVA. In the UK, smaller firms with profits less than GBP 1.5 million also pay around a third of corporation taxes however these companies are likely to represent only a subset of all SMEs.

Figure A-5: Share of corporate tax paid by smaller businesses

Country	Definition of SMEs for the perspective of corporation tax	Proportion of tax paid by smaller businesses
Spain	Number of employees under 250	59.2%
Australia	Total income less than AUD 100m	35.9%
Ireland	Pay less than EUR 10m in corporate tax	35.7%
UK	Profits less than GBP 1.5m	32.4%
South Africa	Income level varies across sectors	32.2%

Notes: For the UK, companies with profits less than GBP 1.5 million was used to approximate smaller firms; however these companies represent a subset of SMEs.
Source: Respective national statistics authorities

A.4 SMEs exist in multiple sectors

Across all economies where the data is available, the majority of SMEs are in services industries. The share is highest in Ireland and the US, where over 80% of SMEs are service firms. By contrast, around 30% of SMEs are in goods industries in Brazil, France, Spain and Germany.

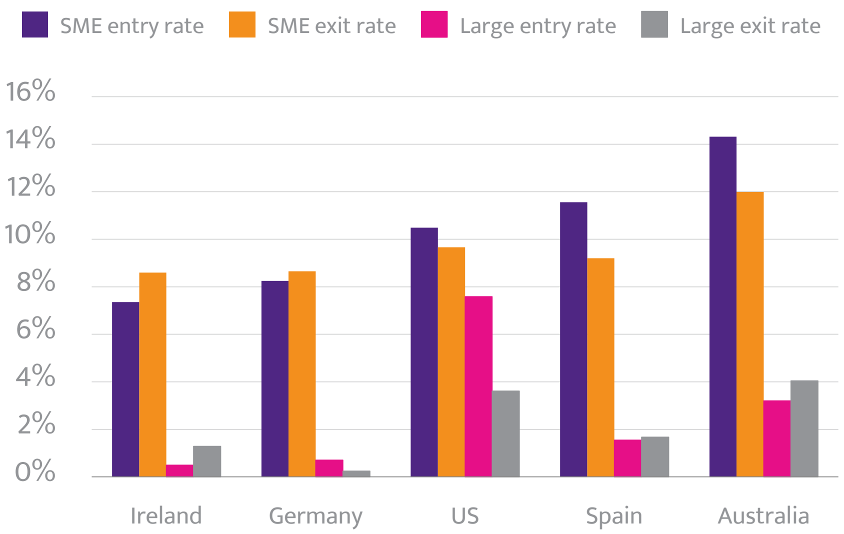
Within the services industries, the professional, scientific and technical sector, which includes legal and accounting services, management consultancies and architecture businesses, and the retail trade sector tend to be the dominant sectors in terms of SME contribution. Within the goods industries, SMEs tend to be concentrated in the construction sector.

A.5 SMEs drive growth, innovation and diversity

The number of SMEs has grown strongly in recent years in several of the countries examined. In the UK, growth in SMEs has outstripped that of large companies in recent decades – the number of SMEs has risen by 25% since 2000, while the number of large enterprises remained broadly unchanged. In Germany, between 2008 and 2014, the number of SMEs increased by 34% compared to that of large enterprises which increased by only 17%. In the US, the number of SMEs declined less steeply than that of large enterprises during the financial crisis however the recovery of SMEs has also been slower. Australia is one of the counter-examples, where the growth of large enterprises has outpaced that of SMEs since 2010.

SMEs maintain steady growth despite having significantly higher failure rates than those of large companies. As shown in Figure A-6, SMEs (micro enterprises in particular) have much higher start up and failure rates than large companies in all of the countries for which data is available.

Figure A-6: Entry and exit rates by business size



Note: Figures are from the latest publicly available data. For Germany, Ireland and Spain, SME entry and exit figures are for micro enterprises (<10) only. The data for the US is at an establishment level, which is defined as a single physical location where one predominant activity occurs, as opposed to a firm, which can consist of several establishments.

In many countries, SMEs are key drivers of employment growth. For example, in Canada, SMEs accounted for 95% of the increase in private sector employment (of 1.2 million jobs) between 2005 and 2015.[10] Similarly in the US, between 1993 and mid-2013, small businesses created 14.3 million jobs out of the total 22.9 million new jobs created in that period, accounting for 63% of the net job creation.[11]

SMEs are also an important driver of innovation, diversification and export growth. For example, in Germany, SMEs are highly innovative and technology driven, with more than 42% of SMEs having launched a product or process innovation in 2014.[12] In the US, of high patenting firms (15 or more patents in a four-year period), small businesses produced 16 times more patents per employee than large patenting firms.[13] Similarly, in Singapore, the Government has identified SMEs as an important driver of innovation of new products and services, particularly in the digital economy.[14]

A.6 SMEs face several challenges particularly in the areas of regulation and taxation

Across all of the countries examined, regulation and taxation are two key challenges regularly cited by SMEs. Late payments, difficulty with staff recruitment and lack of access to finance are also important obstacles for many SMEs.

In the UK, the Small Business Survey conducted by the Government in 2016 reported competition, regulation, taxation and late payments as the major obstacles to the success of SMEs.[15] For example, regulatory compliance costs are much more onerous for small firms than for larger ones:

> *"Fixed cost elements of regulatory compliance produce higher relative compliance costs for small firms. OECD evidence reveals that small firms (with 1–19 employees) incur more than three times higher regulatory costs per employee than medium firms (20–49 employees) and more than five times higher costs than large firms (50–500 employees)."*[16]

In the US, the cost of health insurance appears to be the most severe problem facing small businesses.[17] US SMEs also face a disproportionate burden of regulatory compliance:

> *"Research... estimates annual regulatory compliance costs businesses $1.88 Trillion. At 11% of GDP, that's $280 Billion more than tax receipts... small businesses pay double per employee per year for regulatory compliance than big businesses."*[18]

In Canada, the average employee spends more than a month each year to deal with regulations:

> *"According to Canada's Red Tape Report, the total cost of complying with government rules and paperwork reached $37.1 billion a year in 2014. In the smallest businesses, the average employee can spend more than a month each year (185 hours) just dealing with regulations."*[19]

[10] Key small business statistics, June 2016, Innovation, Science and Economic Development Canada Small Business Branch, page 7.
[11] US Small Businesses Administration, FAQ - https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf
[12] Translated from http://www.bmwi.de/Redaktion/DE/Dossier/politik-fuer-den-mittelstand.html, Federal Ministry of Economics and Technology (Germany), 2017.
[13] US Small Businesses Administration, FAQ - https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf
[14] Singapore SMEs More Optimistic, SG SME, 2017 - www.sgsme.sg/news/government/singapore-smes-slightly-more-optimistic-index
[15] Small Business Survey 2016: SME employers, page 10.
[16] Better regulation, Federation of Small Businesses, page 8.
[17] Small Business Problems and Priorities survey, NFIB Research Foundation.
[18] What Small Business Owners Think About Their Income Tax ROI, Forbes, 2014.
[19] Regulation Costs for Canadian Businesses, CFIB, 2015

In Australia, compliance with Goods and Services Tax (GST) rules draws significant resources, particularly from SMEs:

> *"An SME spends an average of 84.1 hours a year to collect the tax on behalf of the Australian Government - or more than two full working weeks a year...this equates to $6778 a year for each of the estimated 2.02 million SMEs and non-employing business in Australia – or $13.7 billion a year across all SME...The GST represents two full weeks where the owner's attention is dragged away from the day to day running of their business. This is a significant drain on the productivity and profitability of SMEs."*[20]

The complexity of tax systems is also regularly cited as a challenge for SMEs including in France and Brazil. In Brazil companies take 2,600 hours per year to comply with taxes:

> *"The complexity of the Brazilian tax system in terms of number of taxes and ancillary requirements is not sustainable in the long term. The World Bank conducts an annual "Paying Taxes" study together with PwC, which places Brazil as the country in which companies take amongst the most time to comply with taxes (2,600 hours per year, against 1,025 in Bolivia, 286 in Mexico, 291 in Chile or 175 in the US)."*[21]

The failure rate of SMEs in South Africa is one of the highest in the world. Lack of finance is one of the primary reasons, followed by compliance burden and late payments. Late payments are a big problem for small businesses as the lack of cash flow stifles growth and even puts entrepreneurs out of business.

A.7 Conclusion

There are many reasons why SMEs are considered the backbone of the economies of the 11 countries analysed in this report. They typically account for the majority or close to majority of GVA and employment, pay a substantial share of corporation taxes and are key drivers of growth, innovation and diversity. Their contribution is particularly noteworthy given the obstacles they face including lack of financing, difficulties with staff recruitment, late payments and a disproportionate burden of compliance with regulation and tax rules.

[20] SME Compliance Costs, MYOB Australia, 2015

[21] Global Legal Insights – Corporate Tax, Fourth Edition, Global Legal Group, 2016, page 22.

Appendix B Survey questionnaire

Question	Options (where applicable)
In what age range do you fit into?	
What is your gender?	
Which of the following would you use to describe your organisation?	• Privately owned company • Publicly listed (i.e. on the stock market) • Government • NGO/ charity
How involved and knowledgeable are you with decision making on finances and administrative functions for your company?	
How many years has your company been in business?	
In which country are you personally based in?	
Is your HEAD OFFICE also in this country?	
Which of the following would you use to BEST describe the size of your organisation in your country?	
And approximately how many employees does your company directly employ full-time?	
By what percent do you expect the number of your full-time employees to change over the next 12 months?	
And approximately how many employees does your company directly employ on a part-time or casual basis?	
Approximately, what was your net profit (before tax) for the last 12 months?	
By what percent do you expect your net profit (before tax) to change over the next 12 months?	
Approximately, what was your Turnover for the last 12 months?	
By what percent do you expect your Turnover to change over the next 12 months?	
Approximately what percentage of your Turnover is from the country you're headquarted in?	
What geography does your company typically operate in?	• Nationally • Regionally • Globally

Question	Options (where applicable)
In which of the following geographies are your clients / customers based?	• Africa • Asia • Central America • Eastern Europe • European Union • Middle East • North America • Oceania • South America • The Caribbean
Approximately how many clients / customers have you had over the last 12 months?	
By what percent do you expect the number of your clients / customers to change over the next 12 months?	
Which of the following industries is your company in?	• Banking, Financial Services & Insurance • Education • Energy • Food and Beverage • Government Contracting • Healthcare / Wellness • Hospitality & Leisure • Infrastructure, Construction & Transport • Insurance • Life Sciences • Legal • Manufacturing & Aviation • Media, Sport & Entertainment • Mining • Real Estate • Retail • Technology & Telecoms • Other
Would you use any of the following to describe your company?	• Start-up • Technology company • Disruptive to a traditional industry • None of the above
To the best of your knowledge, what is your forecast for your organisation over the next 12 months?	• Rapid growth • Steady growth • Broadly Flat • Decline
Approximately what proportion of administrative tasks over the last 12 months are taken up with the following? • Accountancy tasks • HR tasks • Payroll tasks • Tax-related accounting • Chasing late payments • Processing invoices received • Generating invoices & process payments • Talent acquisition / training	

Question	Options (where applicable)
With regards to all these administrative tasks, how many days of work would you estimate is spent on them in TOTAL over the last 12 months?	
What would you estimate is the overall cost (including wages and specific software) to your company on these administrative tasks?	
What percentage of these overall cost would you appropriate to specific administrative software costs?	
What percentage of your invoices are paid late to your company?	
To the best of your knowledge, what reasons do your suppliers give for paying invoices late?	• Didn’t receive the invoice • Invoice payment is pending • Disputing invoice amounts • Wanting to pay invoices in particular periods of the year • No reason was given • They don’t pay invoices late • Other
What proportion of the total payments you receive come from the following organisations?	• Large-sized • Medium-sized • Small • Micro
Of the total payments you receive from large organisations, what percentage of these are late?	
Of the total payments you receive from medium organisations, what percentage of these are late?	
Of the total payments you receive from small organisations, what percentage of these are late?	
Of the total payments you receie from micro organisations, what percentage of these are late?	
What are the main barriers to chasing up late payments?	• Staff don’t have time • Lack of staff members • No dedicated resource to chase late payments • Protecting relationships with clients • Not knowing which invoices are due • Other • There are no barriers
What percentage of your invoices are written off as bad debt/never paid?	

Question	Options (where applicable)
Has late payment of your invoices impacted the following? • Staff commission • Staff pay • Annual bonus • Paying suppliers • Investment into the company	• Yes, it has • No, but it is likely • No and unlikely