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## SMALL BUSINESS

# Late Payments Cost Small Businesses \$3 Trillion Per Year

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Late payments cost small and mid-sized businesses as much as \$3 trillion globally, according to a new economic report from [Sage](#). With 1 in 10 invoices failing to be paid on time, the study reports up to 10% of payments are either never paid or paid so late that businesses are forced to write them off as bad debt.

Undertaken by Plum Consulting, the research analyzed responses from over 3,000 business builders to look at the effects of late payments on Small & Medium businesses. It highlights significant implications for our entrepreneurs and their ability to operate, plan and grow.

[‘The Domino Effect: The Impact of Late Payments’](#) highlights that almost 40% of Small & Medium Businesses experience direct negative impacts from late payments. As a consequence of late payments, 16% in the US say they will struggle to pay bonuses around the festive period, and nearly 25% expect an impact on staff pay.

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However, when looking at the reasons why Small & Medium businesses don't chase payments, the overwhelming response of those surveyed is to protect client relationships, indicating that there is a stigma around chasing payments. Over 30% noted that they weren't "chasing" the payment because they felt it would negatively impact client relationships, and over 40% explained that they had no real reason for not chasing the late payment. Similarly, over 30% of those making late payments couldn't pinpoint a reason for why that payment was late.

"Late payments create unnecessary financial stress, especially for Small & Medium Businesses that depend on these funds to maintain day-to-day operations, pay staff and suppliers, and support future growth," said Nancy Harris, Executive Vice President and Managing Director of Sage North America. "Our survey reveals that 13% of invoice payments to these organizations in the United States are paid late, and a proportion of those invoices – 10% – are written off as bad debt. With most respondents citing not wanting to chase payments to protect the client relationship coupled with a high percentage of those actually making the payments not able to explain why the payment was late in the first place, is a clear indicator of the proactive role businesses must take to ensure invoices are paid on time. It is clear the stigma around late payments and keeping a healthy client relationship needs to change, so small businesses can get on with doing what they love – running their business – rather than worrying about when the money will come in."

The SME sector accounts for a sizeable portion of the US economy. Small & Medium Businesses employ 48% of the country's workforce, and they contribute 53% of total gross value add (GVA) per year. GVA measures the contribution to an economy of an individual producer, industry, sector or region. A significant proportion of companies with which SMEs have commercial relationship make their payments late in the US. In total, 11% of all payments to SMEs are made late; these payments represent 13% of total invoices.

Furthermore, 10% of invoices are written off as bad debt. Medium-sized companies in the US see the highest proportion of invoices for which payment is overdue become bad debt, with micro firms seeing the lowest proportion of such invoices. More than a third of SMEs currently experience or expect to experience all types of impact regarding late payments, with over 30% expecting impacts in staff pay (both periodic and discretionary).

**Global snapshot: Late Payments Landscape – The Domino Effect**

Across the 11 countries analysed, Small & Medium Businesses account for at least 96% of total enterprise. ‘Protecting client relationships’ is the most cited reason for not chasing late payments – leading Sage to call for a fundamental shift in culture for Small and Medium businesses to be proud to chase for work undertaken.

Country	Proportion of invoices that are paid late (%)	Average number of days per year spent by SMEs chasing up late payments	Top barrier to chase late payments for SMEs in each country	Proportion of invoices that become bad debt (%)
UK	<b><u>18</u></b>	15	Protect client relationship (40%)	9
South Africa	15	<b><u>20</u></b>	Protect client relationship (40%)	9
France	11	6	Protect client relationship (21%)	8
Ireland	15	7	Protect client relationship (43%)	8
Australia	9	5	Protect client relationship (29%)	7
Brazil	7	14	Protect client relationship (35%)	7
Canada	10	7	Protect client relationship (31%)	8
Singapore	<b><u>18</u></b>	15	<b><u>Protect client relationship (41%)</u></b>	9
Spain	12	18	Protect client relationship (37%)	8
United States	13	15	Protect client relationship (32%)	<b><u>10</u></b>
Germany	9	5	Protect client relationship (31%)	8

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