

FIXING SMALL BUSINESS PAYMENTS

HOW **INSTANT PAYMENTS** HELP BUYERS SOLVE THE AD HOC PAYMENTS PROBLEM

Fixing Small Business

Payments, a PYMNTS and Ingo Money collaboration, explores SMBs' interest in instant payments to receive ad hoc payments from buyers, how demand has changed during the 19 months since March 2020 and how SMBs would use instant payments in their businesses.

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TABLE OF CONTENTS

Introduction.....	01
Ad hoc adds up	05
How late is late?	09
The discount dilemma.....	13
A mounting need for speed	17
The instant opportunity	21
Conclusion.....	25
Methodology.....	26

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Fixing Small Business Payments was produced in collaboration with Ingo Money, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

INTRODUCTION

Small to mid-sized businesses (SMBs) in the United States have a \$456-billion payment problem.

A PYMNTS study of 693 U.S. SMBs conducted between July 18 and Aug. 19 finds that SMBs receive roughly 38 percent of their sales from buyers with whom they work on an irregular, ad hoc basis — once, twice, maybe a few times a year. These payments can range from commission payments to payments for freelance or contract work to invoice payments for products sold to other businesses.

The SMBs studied were those generating between \$100,000 and \$5 million in annual revenue in 20 key segments.

On average, we find that SMBs receive 72 of those payments from an average of 15 different buyers each year, totaling about \$1.2 trillion of outstanding receivables.

Here's the problem. Thirty percent of those receivables — \$456 billion — are paid late, past the net terms. Sixty percent of those payments are late by one month or more.

SMBs rarely have the leverage or even the long-standing relationship to persuade these buyers to make payments according to terms. The irregular nature of the payments also makes it easier for buyers to default to the easiest way to make a payment — by check — adding friction to both the buyer and the supplier.

What's worse is that SMBs offer discounts to buyers in an effort to accelerate payment, and these discounts can be as high as 4.5 percent.

This study, produced with the support of Ingo Money, reveals two important insights for buyers who find themselves wrestling with how to remove the friction from making ad hoc payments to their smaller suppliers.

The first is that there is an appetite for SMBs to pay for speed — and therefore an opportunity for buyers to monetize both speed and the choice in how those payments will be received. The study reveals that 54 percent of SMBs would be willing to pay a fee to receive instant payments from buyers.

The second is that instant payments drive supplier loyalty and choice. Perhaps not surprisingly, 75 percent of SMBs in this study want to do business with buyers that offer free instant payments. But, in today's fragile supply chain environment, there is growing evidence that buyers want to do right by their small suppliers — they just may not have the right systems and processes in place to offer choice, including instant payments, to those suppliers.

Vendors are tapping money-out networks and disbursements rails, which streamline the delivery of ad hoc payments such as claims payments, refunds and rebates, legal settlements, gaming winnings and the like, to enable ad hoc vendor payments. The incentive for buyers is not only to accommodate SMBs' need for working capital, but also to monetize speed and choice.

Fixing Small Business Payments: How Instant Payments Help Buyers Solve The Ad Hoc Payments Problem, a PYMNTS and Ingo Money collaboration, explores SMBs' interest in instant payments to receive ad hoc payments from buyers, how demand has changed during the 19 months since March 2020 and how SMBs would use instant payments in their businesses.

This is what we learned.

01

Fifty-two percent of U.S. SMBs receive ad hoc vendor payments, accounting for 38 percent (\$1.2 trillion) of their sales.

The average SMB receives 72 one-off or non-recurring ad hoc payments for services rendered or products delivered each year — roughly six per month. These payments represent 38 percent of their total sales.

The most common type of ad hoc vendor payment SMBs receive are invoices for freelance, contract and consulting services, followed closely by invoice payments for products sold to other businesses. Twenty-two percent and 20 percent of SMBs receive invoice payments for consulting services and invoice payments for products sold to other businesses, respectively. This represents 26 percent and 28 percent of their sales, respectively.

02

Thirty percent of all SMB ad hoc vendor payments are received late. Six out of 10 of those late payments are received one month or more after they are due.

Commissions payments tend to arrive the latest of all. One-third of all commissions payments and one-third of all business-to-business (B2B) marketplace payments are received later than all other types of ad hoc payments. Invoice payments for consulting services and products sold to other businesses are the least likely to be received late, but still, 28 percent and 26 percent of them, respectively, are received after their due dates.

Late ad hoc vendor payments have a very real impact. U.S. SMBs expect roughly \$360 billion in late ad hoc vendor payments tied up in accounts receivable (AR) at any given time. This may be due to the fact that the SMBs lack the leverage necessary to persuade buyers to pay on time because of their size and the irregular nature of their relationships.

03

SMBs spend a collective \$28 billion offering discounts of up to 4.8 percent to encourage buyers to pay on time. Thirty-nine percent of their ad hoc vendor payments still arrive late.

SMBs often offer discounts to incentivize their business partners to make payments early. SMBs that give their buyers 60 days to pay invoices offer discounts for payments made during the first 43 days of that term, on average. SMBs that give their buyers 10 days to pay invoices offer discounts for payments made within the first 4.1 days, on average.

Discounts often do not have their intended effect, however. Thirty-nine percent of all ad hoc vendor payments for which SMBs offer discounts are received late, while 31 percent are paid on time — not earlier.

04

Instant ad hoc vendor payments have been more frequent in 2021, but there remains a massive untapped demand for them. Only nine percent of all ad hoc payments SMBs receive are paid instantly, even though 75 percent of SMBs want to do business with buyers that offer free instant payment capabilities.

With 9 percent of all ad hoc vendor payments being instant, instant payments still are less common than those made to PayPal accounts, sent to bank accounts and made via credit card. Lacking instant payment options is a missed opportunity, however. At 75 percent, more SMBs would want to do business more with vendors that offer free instant payments than with those that offer other payment options.

05

Fifty-five percent of SMBs would be willing to pay an added fee to receive instant payments for ad hoc vendor payments.

SMBs are most interested in paying for instant payments for goods and services sold on B2B marketplaces and for instant commissions payments, which also are the most likely payments to be received late. Sixty-nine percent and 68 percent of SMBs would pay extra to receive these types of payments instantly, respectively.

Ad hoc adds up

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\$1.2 TRILLION

U.S. SMBs received a collective \$1.2 trillion in ad hoc vendor payments last year.

Ad hoc payments are an integral part of U.S. SMBs' revenue streams. Fifty-two percent of roughly 4.4 million SMBs across the U.S. report having received at least one ad hoc vendor payment in 2020, and the average SMB relies on such payments for 38 percent of its annual revenue. This means an SMB generating \$1.2 million — the market average — will receive \$506,489.90 in ad hoc vendor payments per year, working out to a collective total of \$1.2 trillion per year.

The most common type of ad hoc payment SMBs receive are invoices for products and services sold to other businesses, with 21 percent of all ad hoc vendor payments U.S. SMBs received in 2020 being invoice payments for such B2B transactions.

TABLE 1:

How many ad hoc vendor payments U.S. businesses receive

Market valuations of ad hoc vendor payments U.S. SMBs received and total value of vendor payments received, by regularity of payment

• Total number of firms generating revenues between \$100K and \$5M	4.4M
• Total number of firms receiving ad hoc payments	2.3M
• Average revenue	\$506K
• Market total (Trillion USD)	\$1.2T
• Regular basis	61.9%
• Irregular basis	38.1%

Source: PYMNTS | Ingo Money
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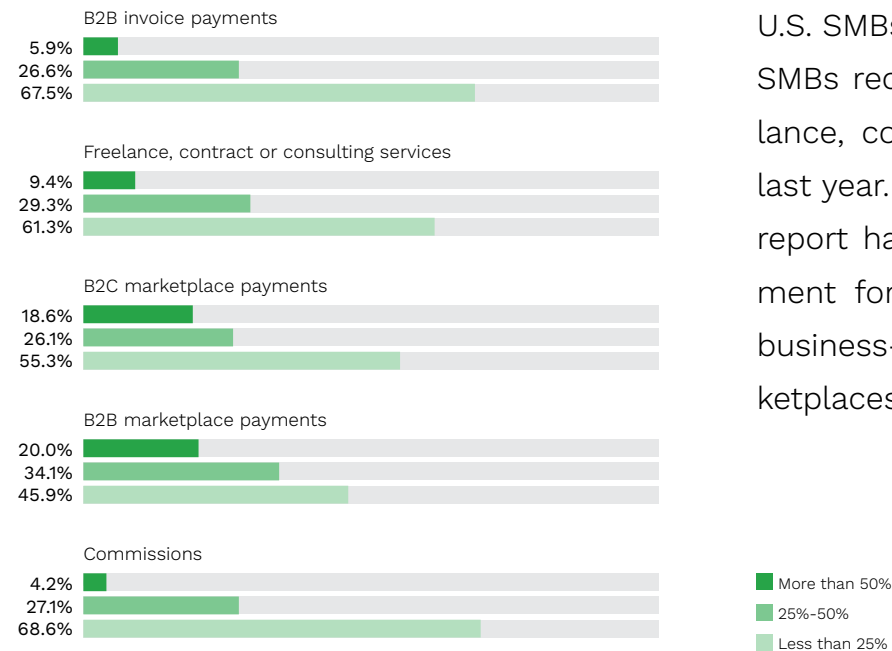
¹ Author unknown. 2017 SUSB Annual Data Tables by Establishment Industry. The United States Census Bureau. 2021. <https://www.census.gov/data/tables/2017/econ/susb/2017-susb-annual.html>. Accessed November 2021.

TABLE 2:
How many SMBs receive ad hoc vendor payments
 Share that receive select types of payments

	Regular	Irregular	Both	TOTAL
• At least one ad hoc vendor payment				52.5%
• B2B invoice payments	25.3%	9.6%	11.3%	46.2%
• Freelance, contract or consulting services	17.5%	11.2%	10.7%	39.4%
• B2C marketplace payments	19.5%	9.1%	8.3%	36.9%
• B2B marketplace payments	17.7%	7.3%	6.8%	31.8%
• Commissions	12.2%	6.4%	6.4%	23.1%

N = 3,067; Entire sample (SMB receivers)
 Source: PYMNTS | Ingo Money
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FIGURE 1:
How much SMBs rely on ad hoc vendor payments to generate revenue
 Average share of SMB receivers' revenues that come in via select types of ad hoc payments



N = Receivers of each ad hoc type
 Source: PYMNTS | Ingo Money
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Invoices for freelance contract and consulting projects are the second-most common type of ad hoc payments that U.S. SMBs receive. Twenty-two percent of SMBs received at least one ad hoc freelance, contract and consulting payment last year. Also, 17 percent of all U.S. SMBs report having received at least one payment for products or services sold via business-to-consumer (B2C) digital marketplaces in 2020.



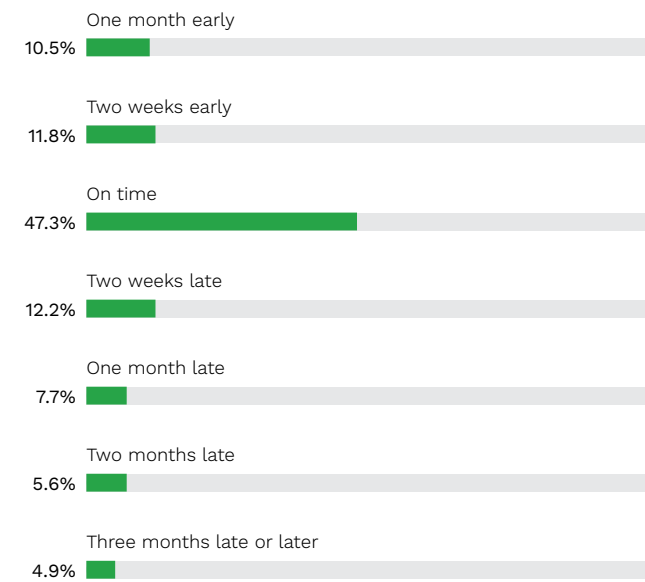
Fifty-two percent of all SMBs received at least one ad hoc payment in the last year,

with ad hoc B2B invoice payments being the most common of all.

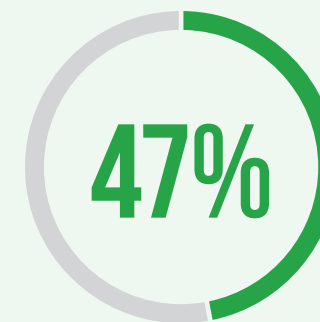
How late is late?

SMBS' heavy reliance on ad hoc payments is a double-edged sword. Ad hoc payments may generate a considerable amount of revenue, but that means they also can have a detrimental impact on their financial health when they are received late — and this is a common problem. Thirty percent of all ad hoc vendor payments that U.S. SMBs receive are added to their ledgers after their contractual due dates. This means that, at any given time, U.S. SMBs collectively have \$360 billion tied up in AR.

FIGURE 2:
When ad hoc payments are received versus when they are due
Share of payments received early, on time or late, relative to when payment is due



N = 862; SMB receivers' ad hoc payments
Source: PYMNTS | Ingo Money
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Share of SMBs that receive ad hoc vendor payments when they are due and no earlier



Portion of SMBs that receive ad hoc vendor payments after their contractual due dates



LATE ACROSS THE BOARD

Each and every type of ad hoc vendor payment is likelier to come in late than it is to come in early.

Twelve percent of that \$1.18 trillion market total of receivables is received two weeks after the due date, and as much as 18 percent is received one month or more after the due date. It is easy to see the negative impact that this market-wide problem might have on an individual firm's cash flow.

Certain types of ad hoc payments tend to be received later than others. Commissions payments are the most likely of all to be received late, with 34 percent of all commissions payments U.S. SMBs received in 2020 added to their ledgers after their contractual due dates. B2B marketplace payments are a close second. Thirty-three percent of these payments were received late last year.

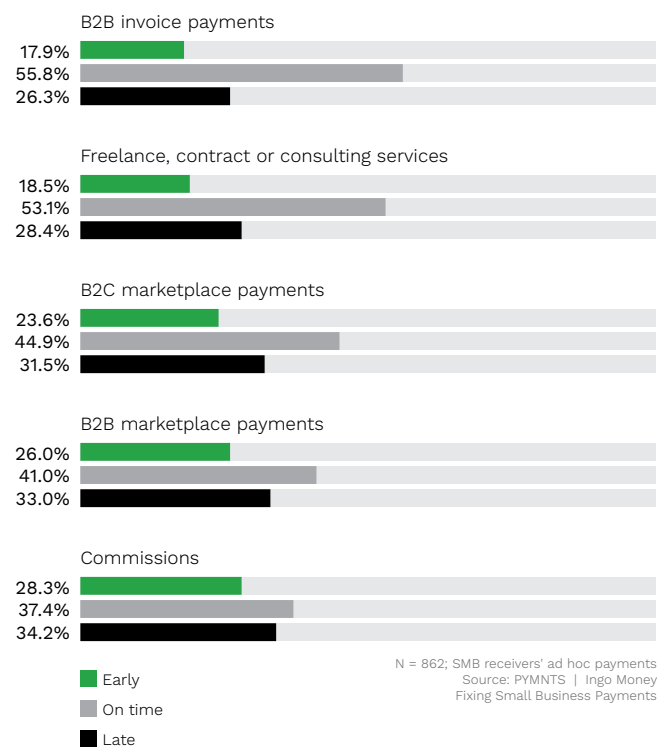
B2B invoice payments are the least likely to be received after their due dates, but 26 percent still arrive late.



Commissions payments are the most likely of all ad hoc payments to be received late,

while B2B invoice payments are the most likely to be received right on time.

FIGURE 3:
When SMBs receive different types of ad hoc vendor payments
Share received early, on time or late, by type of payment



The discount dilemma



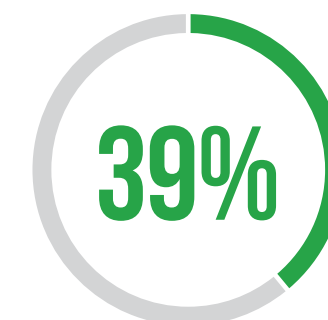
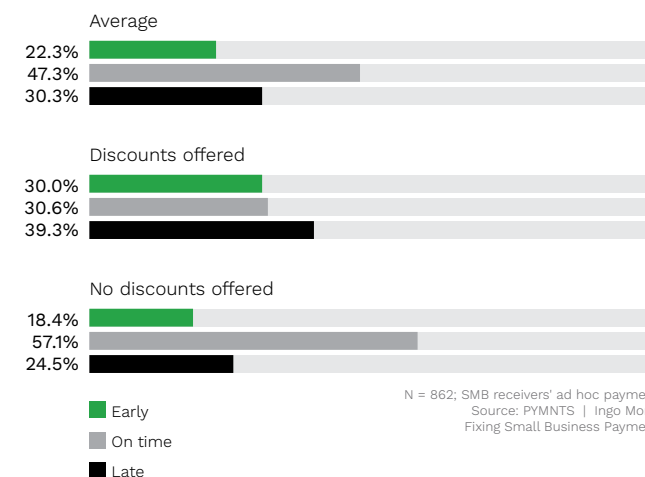
NO GUARANTEE

Many SMBs use discounts to encourage buyers to pay early, but there is scant evidence to suggest that they work.

As much as late ad hoc payments might tie up an SMB's cash flow, the hard truth is that there is not much they can do to incentivize their buyers to pay on time. Many SMBs offer buyers discounts for early payments as an added incentive, but there is little evidence to suggest that these discounts have their desired effect.

Ad hoc vendor payments for which buyers are offered discounts are received either early or late, rather than on time. Payments for which discounts are offered are 63 percent more likely to be received early than those for which discounts are not offered, but they also are 61 percent more likely to be received after their contractual due dates.

FIGURE 4:
How discounts impact the likelihood of ad hoc payments being received on time
 Share received early, on time or late, by whether a discount is offered



Share of ad hoc vendor payments for which discounts are offered that still arrive late

The opposite is true for payments for which buyers do not offer discounts: They receive most of their payments on time, rather than early or late. Fifty-seven percent of these ad hoc payments are received on their contractual due dates — no earlier or later.

It is difficult to say for sure what impact — if any — these discounts for early payments play in shaping these trends.

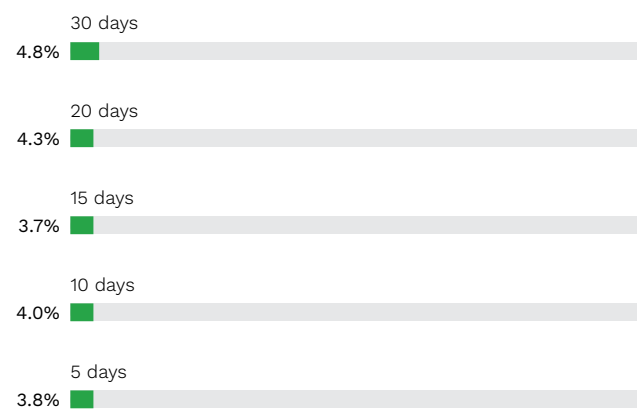
This uncertainty about discounts' efficacy does not stop SMBs from offering them with the hope that it will be enough to persuade their buyers to pay on time. The average discount offered for early payment is 4.1 percent. Keeping in mind that the average dollar value of an ad hoc payment is \$10,026, this means SMBs are offering discounts of \$411 per payment, on average.

Many SMBs offer even higher discounts for longer payment terms. The average discount given on payments with 20-day terms is 4.3 percent, for example, while the average discount given on those with 30-day terms is as high as 4.8 percent. For the average \$10,026 ad hoc payment, this could mean spending as much as \$481 of that payment on the chance it might entice the buyer to pay by the contractual due date — even though there is little evidence to suggest that it will have any effect.

FIGURE 5:

How the dollar value of discounts offered changes with the length of payment terms

Average discount offered based on the number of days in which ad hoc payments must be received to obtain a discount



N = 862: SMB receivers' ad hoc payments
Source: PYMNTS | Ingo Money
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The longer that buyers have to make ad hoc payments,

the greater the discount SMB receivers offer in exchange for early payment.

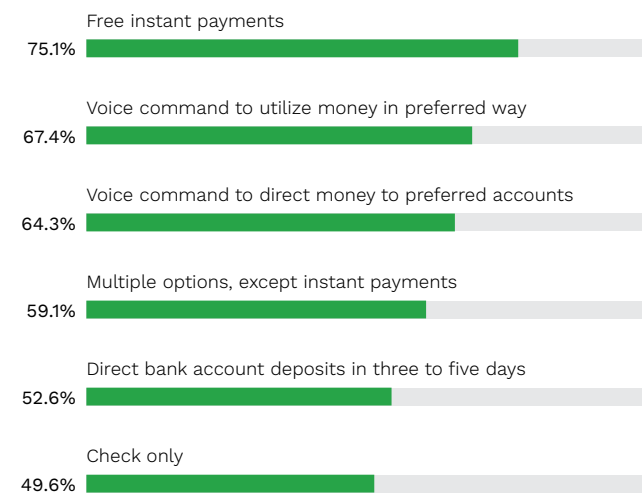
A mounting need for speed

Instant payments can be an attractive payment option for SMBs looking to put their ad hoc payments on the books as quickly as possible. Our research shows that 75 percent of U.S. SMBs would be “very” or “extremely” likely to continue business relationships with buyers that offer free instant payments options, in fact — more than those that say the same of buyers that offer any other payment feature.

FIGURE 6:

Which factors will encourage SMBs to keep doing business with their buyers

Share that would be “very” or “extremely” likely to continue doing business with buyers that offered select features



N = 470; SMB receivers' ad hoc payments
Source: PYMNTS | Ingo Money
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Share of SMBs that would be “very” or “extremely” interested in continuing relationships with buyers that offer free instant payments



Portion of SMBs that would be “very” or “extremely” interested in continuing relationships with buyers that only pay via check



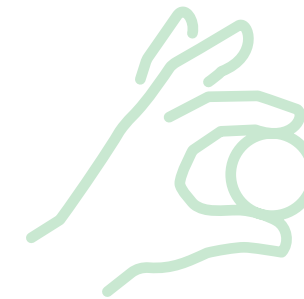
A RARITY

Only 9.5 percent of all ad hoc payments are received instantly.

The two next-most common features SMBs that receive ad hoc payments say would encourage them to continue doing business with buyers center around voice commands. Sixty-seven percent of SMBs are “very” or “extremely” likely to continue working with buyers that allow them to use voice commands to utilize money in their preferred ways, and 64 percent would do the same if buyers offer the ability to use their voices to direct money into preferred accounts.

Despite SMBs’ widespread interest in using instant payments, only 9 percent of all ad hoc vendor payments they receive are made via instant payments.

B2B marketplace payments are the most likely of all ad hoc payments to be received via instant payment, though SMBs report just 10 percent of all such payments come in this way. Payments for freelance, contract and consulting projects and services are next, with 9.5 percent being instant payments. This underscores a massive gap between SMBs’ interest in and usage of instant payments for ad hoc payments receivables — one that, as we shall see, buyers have a chance to monetize.

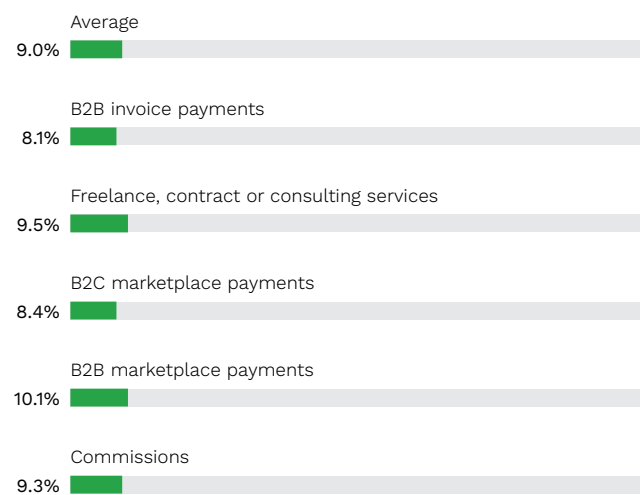


Instant payments are still rare

despite SMBs’ strong interest in using them.

FIGURE 7:
How many ad hoc vendor payments are received instantly

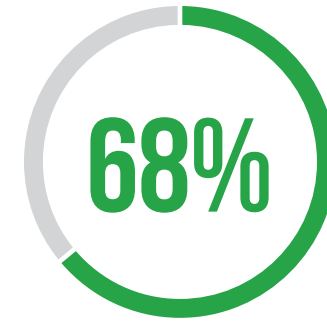
Share that are received via instant payments, by type



N = 862: SMB receivers' ad hoc payments
Source: PYMNTS | Ingo Money
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The instant opportunity



Portion of SMBs that have used instant payments before that would be willing to pay extra if it meant they could receive ad hoc vendor payments instantly

Instant payments present an opportunity for buyers, as 54 percent of all SMBs would be “very” or “extremely” likely to pay an added fee for the chance to receive ad hoc vendor payments instantly.

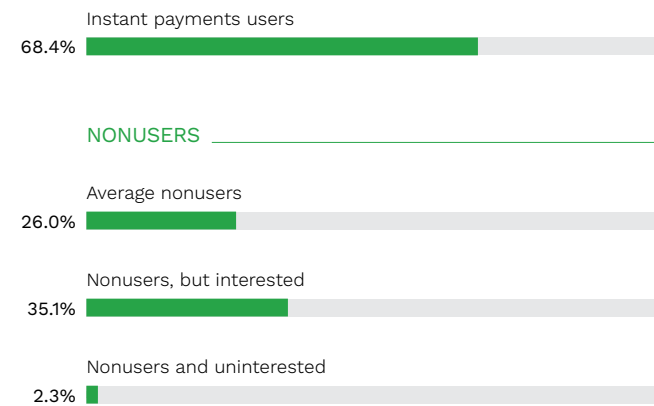
Interest in paying an added fee for instant payments options is particularly high among SMBs that already receive at least one instant payment per year. Sixty-eight percent of these SMBs would be “very” or “extremely” willing to pay an added fee if it meant being able to receive instant ad hoc payments if they so choose.

Even SMBs that have never used instant payments before could be persuaded to pay an added fee to use them. Twenty-six percent of these never-before users say they would be “very” or “extremely” willing to pay such a fee to receive their ad hoc payments instantly. This means there could be as many as 2.4 million SMBs across the U.S. that would be willing to pay extra for this opportunity.

FIGURE 8:

How many SMBs would pay extra for instant payments

Share that are “very” or “extremely” likely to pay a fee to use instant payments, by usage and interest



N = 862; SMB receivers' ad hoc payments
Source: PYMNTS | Ingo Money
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INSTANT DEMAND

The majority of SMBs would pay extra for the ability to receive ad hoc vendor payments instantly.

Interest in paying an added fee for payments for sales made via B2B digital marketplaces and commissions payments is especially high: 69 percent of U.S. SMBs would be “very” or “extremely” willing to pay extra to receive the former ad hoc payments instantly, and 68 percent said the same for the latter.

It is no coincidence that commission payments and B2B marketplace payments also happen to be the two types of ad hoc payments most likely to be received after their contract date. The more likely a certain type of ad hoc payment is to be received late, the more willing SMBs are to pay extra to receive them instantly. Therefore, it is clear that many SMBs see instant payments not only as a value-added service, but also as an opportunity to mitigate their widespread late payment problems.



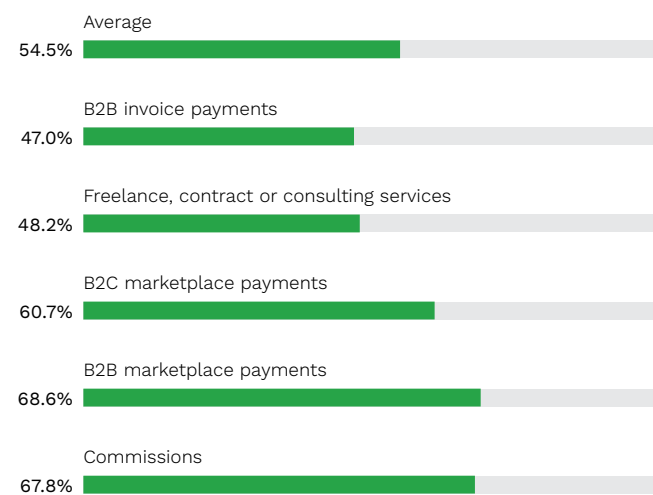
The more likely it is that a certain type of ad hoc payment will be received late,

the more willing SMBs are to pay extra to receive such payments instantly.

FIGURE 9:

Which types of ad hoc vendor payments are in highest demand

Share that are “very” or “extremely” likely to pay a fee to use instant payments, by type of payment



N = 862: SMB receivers' ad hoc payments
 Source: PYMNTS | Ingo Money
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CONCLUSION

Ad hoc payments account for 38 percent of U.S. SMB sales, and 30 percent of those receivables — totaling \$456 billion — are paid late. U.S. receivers face an uphill battle in persuading their buyers to pay ad hoc payments on time. With limited leverage, they often have little recourse other than to offer their buyers discounts for paying on time, and those prove to be only marginally effective. Instant payments stand out as a key service buyers can implement to help alleviate their SMB receivers' late payment problems.

Methodology

Fixing Small Business Payments, a PYMNTS and Ingo Money collaboration, is based on two separate surveys conducted in tandem. The first study surveyed 693 U.S. SMBs with annual revenues ranging between \$100,000 and \$5 million about how they receive vendor payments. The second study surveyed 880 business buyers of any size about how they made B2B payments of any type. The SMB receiver survey was conducted between July 18 and Aug. 19, while the business buyer survey was conducted between July 13 and Aug. 12.

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