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Quality Research • Quality Decisions

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THE IMPACT OF EXTENDED PAYMENT TERMS FOR SMALL BUSINESSES IN THE MARKETING RESEARCH INDUSTRY

Small businesses/enterprises make up **a significant part of the South African economy** in general, and the Services sector in particular. In the marketing research industry in South Africa, SAMRA defines small enterprises as having fewer than 10 employees and/or an annual turnover below R 5 million. Such enterprises make up about half of the Organisation members who belong to SAMRA, and a significant part of the Independent membership of SAMRA.

- **Small enterprises fulfil an important role in economic growth**. The larger the number of limited demand sets that are being fulfilled, the more prosperous the economy. For many products and services the demand or market is too small to be serviced by large enterprises (i.e. economies of scale do not apply).
- However, because of this absence of economies of scale, small marketing research enterprises are generally not as profitable as larger ones and **financing a small enterprise's operations is always challenging**. Small enterprises use mostly profit retention and short term debt as a source of financing, especially in the face of higher interest rates and credit rationing due to their lack of financial guarantee or collateral.
- In the United Kingdom, small enterprises have the legal right to charge interest from 30 days after the invoice date. The assumption is that **a small enterprise, without the economies of scale of a larger enterprise, cannot afford to fund operational costs (and their clients' debt) beyond 30 days**.

What happens to small marketing research enterprises if clients implement payment terms of more than 30 days?

- The small marketing research enterprise spends time and money to deliver work, often making use of and contracting various suppliers, who are often also small enterprises or freelancers, for recruiting research participants, hiring venues for group discussions, conducting interviews, processing and analysing data, etc. All of this take place well in advance of final delivery to the client (e.g. of a research report) and, in addition, overheads are carried throughout.
- Until such time as the client pays for delivery of the services, the small marketing research enterprise funds costs incurred to carry out the research, usually through profit retention or expensive short term debt mechanisms such as bank overdrafts. Unlike a large enterprise, the small marketing research enterprise does not have a pool of human, financial and other resources that can be employed in parallel, to cross-subsidise and fund the costs incurred on one project with income from another project, while awaiting payment. If projects are run in parallel or consecutively in the small enterprise context, the funding dilemma multiplies.
- A marketing research business headline EBITDA is generally below prime lending rate in South Africa. In effect, by funding costs associated with a specific client's project for more than 30 days, a small marketing research enterprise starts running at a loss on day 31 after incurring operational costs, and this is exacerbated by the fact that an invoice is often issued on final delivery, which could already be more than 30 days after incurring research project costs.

Thus, a small marketing research enterprise ends up funding their client's business by incurring expensive debt and/or forfeiting profit, effectively jeopardising future operations by limiting profit retention. That is why the market research industry standard is to require 60% upfront payment when field work is involved. Payment terms of 120 days will almost certainly result in the type of loss that a small business cannot carry or make up, which will ultimately result in closure. It would be an economic travesty if small marketing research enterprises are forced to close, simply because they cannot afford to fund large enterprises.

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