



How to Solve the \$16 Trillion Small Business Liquidity Trap



Earlier payment is **better** than borrowing.

The greatest financial relief we can give small and mid-sized businesses in this economic crisis is faster payment of their outstanding invoices – liquidity. The lending programs being launched by the world’s governments and central banks and directed to small and mid-sized businesses are extraordinary, needed and laudatory, but will fall short not just in terms of dollars, but more critically, they will not arrive soon enough for tens of millions of the world’s small and mid-sized businesses in dire need.

Small businesses rarely have more than a few weeks of cash on hand, yet many have considerable accounts receivable, often representing 60 to 90 days of sales that are yet to be collected from their customers. A small business with \$4 million in annual sales and terms of 90 days has nearly \$1 million trapped in accounts receivable. Moreover, with the pandemic, payment terms are extending rapidly as even the largest companies in the world look for ways to increase cash on their balance sheets.

The World Bank estimates that there are more than 150 million small and mid-sized businesses globally, employing 60% of the world’s working population and generating nearly 50% of the world’s GDP. Using that data and 60-day payment terms, these businesses are owed more than \$16 trillion by their customers, half of which are large companies.

What if we created low-cost funding specifically for larger companies to pay their small and mid-sized suppliers immediately? We would eliminate the need to credit underwrite, generate loan documents and approval processes for tens upon tens of millions of businesses which are already vastly overwhelming traditional finance channels. Instead of borrowing, businesses would now simply be paid more rapidly by their large company customers, something that likely is much preferred over borrowing by all small business owners. Do this at scale

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and we can create \$8 trillion of immediate relief for the world’s small and mid-sized businesses without causing them to have to borrow a penny. A fund designed to move money to large buyers of small suppliers’ goods and services not only eliminates the need for the small businesses to borrow, but likely more effectively protects the loans made because they are to larger, higher credit-rated businesses. Further, a typical large company has thousands of suppliers, the majority being small and mid-sized businesses. So, for one credit facility to a larger company with a sizable supply chain, you can

Short on Cash

The median cash buffer that U.S. small businesses have on hand if revenue stops:

Source: JPMorgan Chase & Co.



Retail Businesses



Construction



All Small Businesses

150 Million

small- to mid-sized businesses worldwide
(more than 30 million in the U.S.)

Sources: World Bank, IFAC



90% of all businesses
in the United States

60% of global
employment

55% of GDP in
developed countries

advance funds to upwards of 1,000 small and mid-sized businesses, a 1:1000 amplifier effect.

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Funding help is needed even by larger companies in this crisis; central banks and government treasuries have stepped in to help stabilize the debt markets on which many large companies rely. All are being challenged by the global economic downturn. And, importantly, even before this crisis the average large company had much more accounts payable than cash, which is why a fund to pay their accounts payable more rapidly to their small and mid-sized suppliers is so necessary right now.

Ten years ago, I helped found a small business that was born from the liquidity trap I had faced in another company struggling to survive in a previous economic

crisis. The idea for our new business was simple: everyone's account payable is someone else's account receivable. Our vision at C2FO was to build a platform that matches accounts payable and accounts receivable, and let suppliers order their cash payment earlier from their customers at rates they name. No borrowing, no advance rates, collateral or personal guaranties; just earlier payment. Today we are fortunate to have more than 1 million businesses around the world on our platform. These businesses generate \$10.5 trillion of annual sales and more than 90% of them are small businesses. Last month, we surpassed \$100 billion in lifetime early payment funding to our customers, but they need much more help than we can give them, and they need it now.

Over the last few weeks we have heard from so many businesses that are in such great need. I hope that this letter gives voice and a possible solution to their concerns.

Sandy Kemper

Founder and CEO, C2FO

The Math and Mechanics of Our Proposal

Small and Mid-sized Businesses (SMBs)ⁱ around the world are owed \$16 trillionⁱⁱ on any given day. In other words, they have \$16 trillion of accounts receivable from their customers. They were owed that amount yesterday, are owed it today and they will be owed that amount tomorrow, and in the weeks and months to come. And, while there is nothing inherently bad about having accounts receivable, creating liquidity by having those accounts receivable paid immediately is a much better thing if it can be done.

Our proposal is that low-cost, emergency funding be made available to the larger customers of the millions of small and mid-sized businesses, allowing for faster payment of those businesses' outstanding accounts receivable. Typical payment terms can be greater than 60 days globally. We are advocating for immediate payment of all approved invoices of small and mid-sized businesses facilitated via direct loans made to their large customers.

We suggest that globally there could be as many as 20,000 large companies to which governments and central banks could loan in order to speed the payment of invoices owed to their small and mid-sized suppliers. However, this short paper will focus on the specifics of emergency funding to the Global 2000, the largest 2,000 companies in the world ranked by revenue and the Fortune 1000, the largest 1,000 companies ranked by revenue in the United States.

For the year ending 2019, the average Global 2000 business generated \$20 billion in sales. In aggregate, the G2000 businesses produced a bit more than \$40 trillion in total sales.ⁱⁱⁱ Typical Cost of Goods Sold (COGS), a term that describes what they buy from their direct suppliers, is 75% of total revenue for a G2000

According to current data, the average Global 2000 company spent \$4.5 billion with its SMB suppliers in 2019 and the average Fortune 1000 company spent \$3.5 billion with its SMB suppliers.

company, or approximately \$15 billion. In aggregate, the G2000 businesses spend \$30 trillion with their direct suppliers. That number is even higher when you include indirect suppliers who sell goods and services that are not for resale by the G2000 (maintenance, supply and operations, computers and laptop repair suppliers, paper suppliers, cleaning services, etc.).

For the year ending 2019, the average Fortune 1000 business generated \$15.3 billion in sales. In aggregate, the F1000 businesses produced \$15.3 trillion in total sales.^{iv} Using 75% COGS, the average F1000 business

**2019 SMB
Supplier Spend**

\$9T

**Global 2000
Companies**

\$3.5T

**Fortune 1000
Companies**

SMB Employment

78-130 million
SMB suppliers to G2000



39-65 million
SMB suppliers to F1000



spent \$11.5 billion with its direct suppliers, or \$11.5 trillion in aggregate for all F1000 companies.

Using data from C2FO as well as public data, we estimate that **the average G2000 and F1000 company spends approximately 30% of their COGS with small and mid-sized businesses.** Larger companies tend to need larger suppliers to meet their purchasing and distribution scale needs, so while a broader look at purchasing by large companies will likely mirror the global data that SMBs are 50% of total worldwide COGS, the G2000 and F1000 are less.

Given the data in the paragraph above, **aggregate G2000 purchases from SMBs totaled \$9 trillion in 2019. Aggregate F1000 purchases from SMBs totaled \$3.5 trillion in 2019.** The average G2000 company spent **\$4.5 billion with its SMB suppliers** in 2019 and the average F1000 spent **\$3.5 billion with its SMB suppliers.**

Using data from C2FO and public data, we estimate that the average G2000 and F1000 company has approximately **3,000 SMB suppliers.** We also estimate that the average SMB sells to 2.3 G2000 or F1000 companies. The total number of SMB suppliers to the G2000 is therefore approximately **2.6 million** while the total number of F1000 suppliers is **1.3 million.** Using a range of 30-50 employees per SMB supplier, the number

of employees for all G2000 SMB suppliers is between **78 million and 130 million.** Using that same range of employees per supplier for a F1000 SMB supplier, the number of employees for all F1000 SMBs is between **39 million and 65 million.**

Using 40-60 day payment acceleration of approved invoices, the emergency loans needed to support the 2.6 million SMB suppliers to the G2000 and the jobs they sustain ranges from **\$1 trillion to \$1.5 trillion** (\$500 million to \$750 million per G2000 company). Early payment funding per G2000 SMB supplier would therefore range from **\$384,000 to \$576,000.**

Using 40-60 day payment acceleration of approved invoices from the F1000, the emergency loans needed to support their 1.3 million SMB suppliers and the jobs they sustain ranges from **\$389 billion to \$583 billion** (\$389 million to \$583 million per F1000 company). Early payment funding per SMB supplier would be **\$299,000 to \$449,000.**

The United States has created the Payroll Protection Plan for small and mid-sized suppliers; we would argue that it is time for the **Small Business Supplier Protection Plan** in the United States and around the world. Low-cost loan funding to the G2000 and F1000 would be completely tied to immediate payment of their outstanding approved invoices.

C2FO has offered to assist our large corporate customers at no cost to achieve this goal and we will on-board for free any large corporate that will use our services to accelerate their payments to small and mid-sized suppliers in their supply chain. We will contact their suppliers and manage all their on-boarding and

The average Global 2000 and Fortune 1000 company spends approximately 30% of Costs of Goods Sold with small and mid-sized businesses.

communications for free as well. Our platform is open and simple to use for all. All we need is a vendor file with contact information for the suppliers to be brought onto the C2FO platform. After that, a nightly file of invoices approved and outstanding is uploaded to all suppliers via C2FO for early payment if the supplier so desires. All early payment can be tracked and reported in C2FO so that funding of all SMB suppliers is transparent and validated.

Note that C2FO does not have to be used to accelerate payment to small and mid-sized suppliers. Most accounts payable systems of large companies can track early payment once certain code changes are made and suppliers contacted and on-boarded if the large company has resources to do so. However, we can simplify and streamline the process as a partner in solving this financial crisis, as it is our core business function. We are not advocating for C2FO; we are simply saying that we will help in any way possible and at no cost if we are needed.

We can't manufacture masks, medical equipment or other PPE, but we stand ready to help create early funding for small and mid-sized businesses, and the hundreds of millions of jobs they support.^v



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ⁱ "Small and medium-sized enterprises (SMEs) are non-subsiary, independent firms which employ fewer than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees." Source: The Organization for Economic Co-operation and Development

ⁱⁱ "Gross output (GO) is the value of the goods and services produced by the nation's economy. It is principally measured using industry sales or receipts, including sales to final users (GDP) and sales to other industries (intermediate inputs)," according to the Bureau of Economic Analysis, U.S. Dept. of Commerce. Global gross output is approximately \$200 trillion. SMBs are approximately 50% of the world's total sales, producing approximately \$100 trillion of annual sales. On 60-day terms for payment, \$100 trillion/6 = \$16.6 trillion of accounts receivable.

ⁱⁱⁱ Source: Forbes magazine annual ranking of the Global 2000.

^{iv} Source: Fortune magazine annual ranking of the Fortune 1000.

^v SMBs employ more than 50% of the working population (source: The World Bank). The number of jobs impacted by emergency funding to just the G2000 and F1000 total 100-200 million, based on estimates of 30-50 employees per SMB supplier.