



NEWS RELEASE

Hong Kong SMEs Face Rising Operational Costs and Pressure from Late Payments

Visa payment solution with longer payment period can allow greater financial flexibility for SMEs

Hong Kong, April 10, 2013 – Visa today announced the results of a survey on cash flow and expenditure management of Hong Kong’s small- and medium-sized enterprises (SMEs)¹. The survey found that more than 45 percent of local SMEs have experienced payment delays from customers for two months or longer, and 58 percent of respondents are concerned about the pressure of late payment on cash flow. The survey also revealed that about half of the SMEs regard operational costs as a major challenge, yet 51 percent of the companies have no plan to reduce cost.

Conducted by the Public Opinion Programme at the University of Hong Kong (POP), the Survey aims to identify the challenges faced by local SMEs, particularly relating to their financial management, current payment practices and expense management.

“This survey and the financial well-being of SMEs are important as SMEs are the backbone of the local economy,” said Tom Tobin, Country Manager, Visa Hong Kong and Macau. “In Hong Kong, SMEs account for over 98 percent of the total business enterprises². By understanding their cash flow management situation we can assess and identify the challenges and opportunities that they need to address.”

Key findings of the survey include:

- **Business challenges:**
 - 54 percent of SMEs are facing the challenges of rising operational costs;
 - 54 percent of respondents are experiencing decreasing business volume;
 - About half of the surveyed SMEs (51 percent) do not have a plan to deal with rising operational costs;
- **Cash flow management:**
 - Over 45 percent of respondents received late payment from customers (two months or longer) and in general the average payment time is 1.9 months;

¹ The survey was conducted by the Public Opinion Programme at the University of Hong Kong (HKUPOP) on behalf of Visa between February and March 2013. It successfully interviewed 515 SMEs in Hong Kong. Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as SMEs in Hong Kong.

² Support and Consultation Centre for SMEs, Trade and Industry Department, HKSAR, updated as of March 2013.



- Nearly 70 percent of respondents admit delayed payment from customers would affect their operation;
- Among them, about six in 10 (58 percent) SMEs worry about the pressure that late payment places on cash flow;
- Twenty four percent of SMEs said late payment results in delayed payment to suppliers;
- **Expenses management:**
 - The primary regular expenses for local SMEs are business travel (32 percent), business services (28 percent) and office supplies (15 percent), excluding labour cost, rent and materials;
 - For over half of the respondents (54 percent) it takes more than three days to handle expense administration;
 - Cheques (66 percent) remain the most frequently used payment method for settling payment, followed by bank transfer (26 percent) and cash (four percent);
 - Less than one percent of respondents use corporate credit cards to settle payment.

To stay competitive, SMEs must achieve greater cash flow control and cost savings by leveraging different payment tools.

“Effective receivables and payables management can increase working capital, reduce the cost of funding and support business growth,” said Dr. Michael Wong, Associate Professor, Department of Economics and Finance, City University of Hong Kong. “Selecting appropriate payment methods for customer transactions and business expenses is crucial to improving SMEs’ cash flow.”

“Apart from rent and labor costs, other overhead costs form a significant portion of business expenses in most organizations. Yet they are often overlooked. Cost reduction that addresses overhead costs can positively impact the bottom line,” added Dr. Wong.

According to Mr Tobin, Visa has been working closely with financial institutions and industry partners such as the Hong Kong Trade Development Council (HKTDC) to assist SMEs in finding solutions to better manage their finances.

“Visa’s wealth of knowledge regarding SMEs enables Visa to provide a range of commercial solutions that meets their needs. Visa payment card products help SMEs to streamline payment processes and manage cash flow, information and supply chains, while also reducing administrative costs,” said Mr Tobin.



Fion Sen, Managing Director of Bridges Executive Centre (a Hong Kong SME) said cash flow and expenses control are two essential elements that help her company stay competitive in the marketplace.

“Any tool that can assist a business manage its cash flow and operational costs is always of our interest. For this reason, we have been using Visa Business cards for 10 years. The card has provided my business with greater financial control and cost savings that we have been unable to find elsewhere,” said Ms Sen.

While consumers frequently use credit cards for personal consumption, many SMEs do not realize the benefits of using corporate payment cards to enhance their cash flow management. Corporate payment cards allow better cash flow and expenditure management with clear statements for expenses, offering greater convenience for SMEs. Visa has a range of business payment card solutions that can help companies transform the process of making and receiving payments into a strategic business advantage. The benefits include:

- **Greater Cash Flow Management** - SME buyers can enjoy an interest-free credit period for up to 56 days; while as a seller, they can receive payments in as short as two weeks' time instead of up to 30 days or longer;
- **Greater Financial Control** - Track expenses by category, issue cards to key employees, set spending limits, and better manage the company's cash flow;
- **Purchasing Flexibility** - Expenses including office supplies, furniture, computers and software, travel and entertainment, etc., can be purchased with Visa Business card;
- **Offers and Discounts** - The Visa Business card provides an array of B2B offers which SMEs can hardly negotiate;
- **Online Convenience** - Save time by buying goods and services online;
- **Detailed Reporting** - Monitor business spending and account balances easily including date, place of purchase, and amount spent, along with annual statement summaries for supporting business tax return.

In addition, Visa Commercial Directory (VCD) (<http://www.visacommercial.com.hk/>) is another popular one-stop procurement solution for SMEs. It enables SMEs to make more connections with the right suppliers and explore more business opportunities. VCD has a searchable database of over 3,000 Hong Kong-based, business-to-business merchants that accept Visa card payment. VCD allows SME Visa cardholders to make payments conveniently and for suppliers to receive payments promptly. Also listed on the Directory are supplier discounts and offers, as well as bonus points and cash



rebates offered by participating banks, which help improve cardholders' purchasing power.

About Visa

Visa is a global payments technology company that connects consumers, businesses, financial institutions and governments in more than 200 countries and territories to fast, secure and reliable electronic payments. We operate one of the world's most advanced processing networks—VisaNet—that is capable of handling more than 24,000 transaction messages a second, with fraud protection for consumers and assured payment for merchants. Visa is not a bank and does not issue cards, extend credit or set rates and fees for consumers. Visa's innovations, however, enable its financial institution customers to offer consumers more choices: pay now with debit, ahead of time with prepaid or later with credit products. For more information, visit www.corporate.visa.com.

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