

The Wave Report on Getting Paid 2021

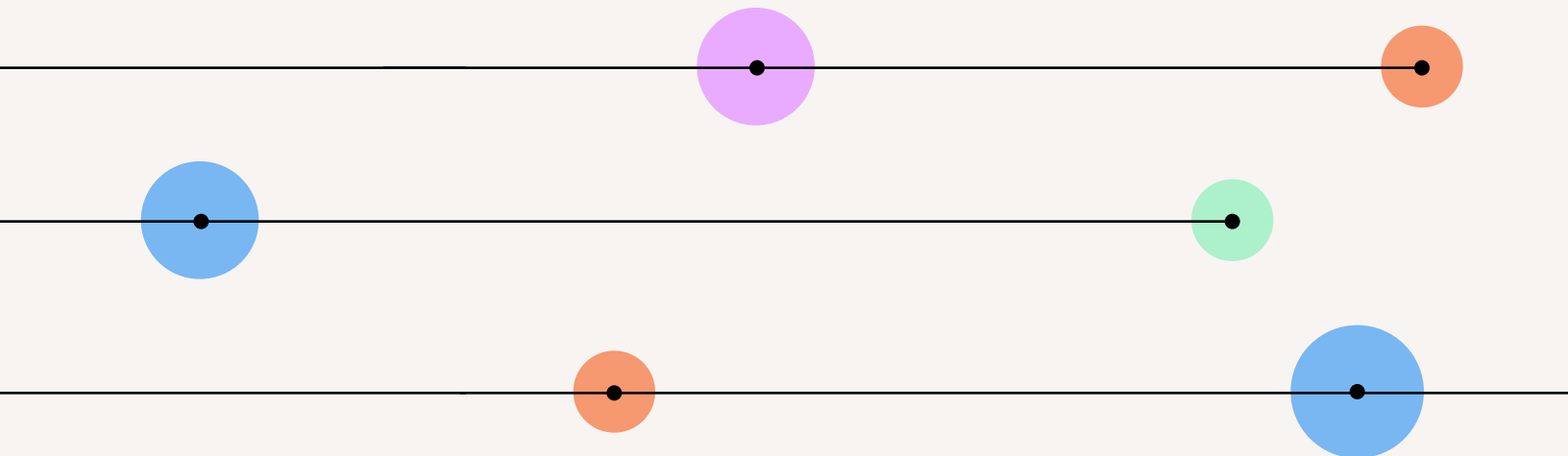
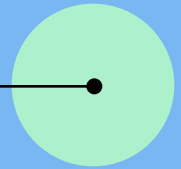


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Executive summary



The COVID-19 pandemic forced staggering changes in the world.

In the face of uncertainty and unforeseen challenges, people found refuge in starting their own business.

Line cooks began operating pop-up food delivery services. Waiters opened up flower shops. Event planners started crafting home goods.

In fact, a stunning 4.3 million Americans filed paperwork to open their own business in 2020.¹ That's a 24% jump from the previous year, representing an unprecedented increase in entrepreneurship.

Microbusinesses, defined by the US Small Business Administration as having fewer than 10 employees², make up **92% of all businesses** in the US, and are a small but mighty economic force.³

The economic impact of microbusiness is well documented. These business contribute to, on average, 38% of their owners' household incomes, according to a study from the Microenterprise Fund for Innovation, Effectiveness, Learning, and Dissemination (FIELD) at the Aspen Institute.⁴

They are also important sources of job creation and play an integral role in economic recovery post-pandemic.

Millions of small business owners, however, struggle to achieve financial success—and it's not due to a lack of skill, passion, or effort.

According to a report from the Center for Financial Services Innovation, the financial health needs of microbusiness owners are largely overlooked, but the volatile nature of running a small business makes the need to plan for irregular income and expenses all the more important.⁵

Throughout Wave's 10+ years of serving microbusiness owners, we know there's one challenge almost every one of them faces: **getting paid.**

No matter how much experience an entrepreneur has, receiving payment for work can often be more challenging than the work itself.

¹ <https://www.nytimes.com/2021/08/19/business/startup-business-creation-pandemic.html>

² <https://cdn.advocacy.sba.gov/wp-content/uploads/2019/06/06120136/508FINALAug17Microbusiness.pdf>

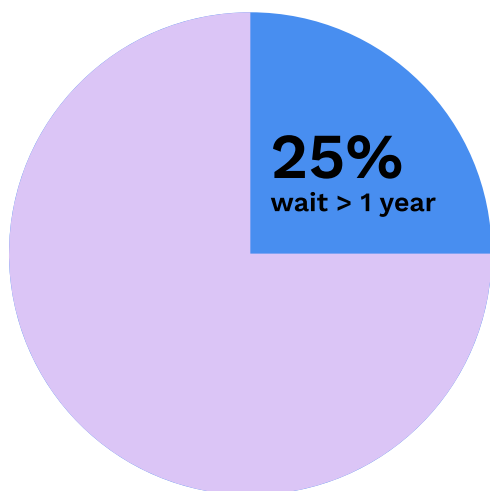
³ Association for Enterprise Opportunity report:

https://aeoworks.org/wp-content/uploads/2019/03/aeo_microbusiness_fact_sheet_landscape.pdf

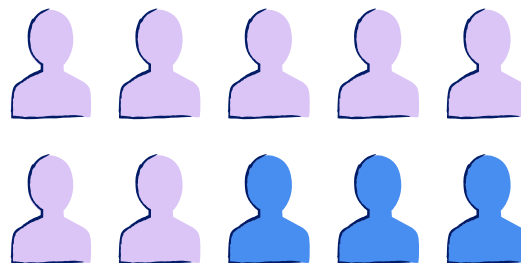
⁴ https://ssir.org/articles/entry/the_macro_benefits_of_microbusinesses#

⁵ https://prosperitynow.org/files/PDFs/financial_capability_planning_guide/Entrepreneurship_policy_proposal.pdf

We recently ran a poll to quantify the issue and understand exactly how long microbusinesses wait to get paid. When we asked 1,000 of these US business owners to share their experiences collecting payment from customers, we learned that one out of four (25%) have waited more than a year to get paid or haven't been paid at all for work.



And, seven out of 10 (70%) have waited between one and six months to get paid as a result of overdue invoices.⁶



7/10 microbusiness owners wait 1-6 months to get paid

Many small business owners, especially service-based businesses, rely on paper or digital invoices to get paid rather than collecting payment at a point of sale or on the job. This means payment terms are set up by the business owner, and it's up to their customers to follow those terms—or they risk not getting paid on time.

So, we started asking questions.

- Why exactly do some microbusiness owners struggle to get paid while others don't?
- How do region, age, industry, and demographics impact payments?
- What kinds of microbusinesses get paid on time most frequently?
- And, what can microbusiness owners do to increase the chance of that happening?

For small business owners, invoices are a currency. Looking at anonymized payment data from the Wave invoices of US small business owners, we set out to answer these questions to determine the factors that set microbusinesses up for macro success.

This is what we found.

⁶ <https://www.globenewswire.com/news-release/2021/07/27/2269650/0/en/Microbusinesses-at-Risk-1-in-4-Report-not-Receiving-Payments-or-Waiting-Over-a-Year-to-Be-Paid-Wave-Survey-Finds.html>

The impact of digital invoices and payments



Good news for microbusiness owners: Digital invoices are being paid on time more often each year.

Percentage of invoices paid within 30 days



Despite dramatic impacts to cash flow caused by the pandemic, on-time payments continue to rise. Growing adoption of digital payments is likely responsible for a portion of this increase, which you'll see throughout this section.

This still leaves approximately 22% of invoices overdue. Imagine a full-time, salaried employee at a company not receiving **1 out of every 5** paychecks on time.

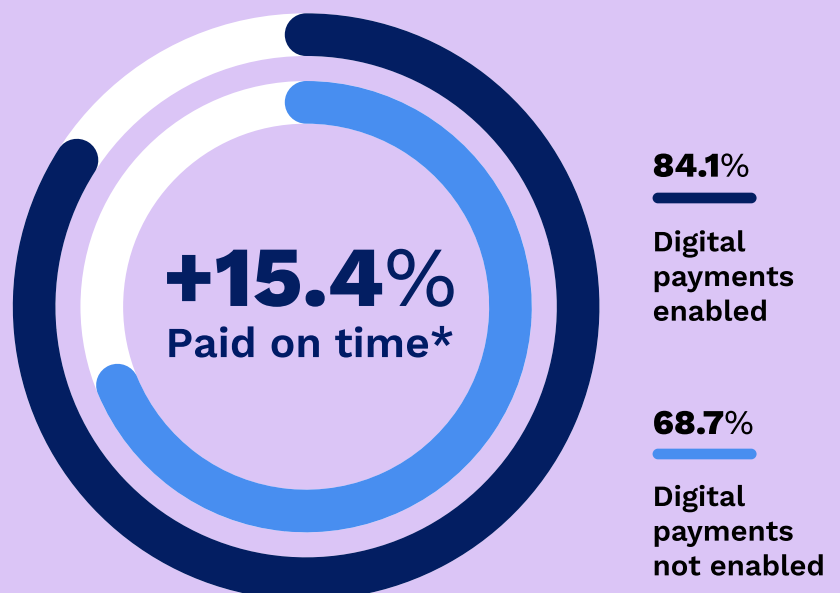
Late payments can even make it difficult to pay suppliers and employees, leading to customer project delays and issues with staffing.

When microbusinesses make it easier for their customers to make online payments directly from a digital invoice, their customers are more likely to make payments quickly.

As shown below, 15.4% more invoices were paid on time when digital payments were enabled on invoices.

Percentage of digital invoices that are paid on time

Enabling payments on digital invoices is an undeniable way of getting paid faster, and also has other advantages. Coupling invoices tightly with payment history makes cash flow tracking significantly easier, and saves countless headaches come tax time.



*Paid on Time = % of invoices paid in any way within 30 days of when the invoice was created (30 days are the default payment terms set by over 80% of microbusinesses)

What does this look like for a microbusiness owner? Here's a hypothetical example:

Sam, 26, is a freelance writer living in Washington Heights, New York who bills about \$50,000 annually for her copywriting services. This is her first business, having recently left a full-time job at an ad agency to experience the flexibility and freedom of life as a freelance writer.

\$50,000 annually is approximately
\$4,200 / month before taxes.

If only 68.7% of Sam's invoices are paid on time, that equates to **\$2,856 / month before taxes.**

Although she runs a home-based business and doesn't have many overhead costs, she lives in a borough in New York City, and has fixed expenses:

Monthly rent for studio apartment = \$1750.00
Monthly grocery and food bill = \$500.00
Monthly transportation costs = \$150.00
Monthly internet and cell phone bill = \$150.00

If she enables digital payments, allowing customers to pay for her services directly from the invoices she sends, she can potentially see 15% more of her invoices being paid on time.

If 84.1% of her invoices are paid on time, her monthly earnings go up \$605 per month.

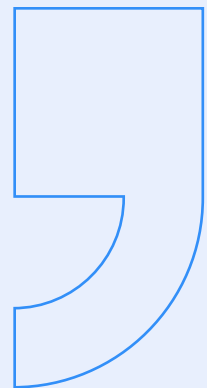
84.1% of invoices paid on time = **\$3,532 / month before taxes.**

For a microbusiness owner like Sam, consistency in cash flow can make a major difference in her ability to plan ahead for other expenses, grow her business, and avoid turning to high-interest loans or personal savings to bridge the gap.

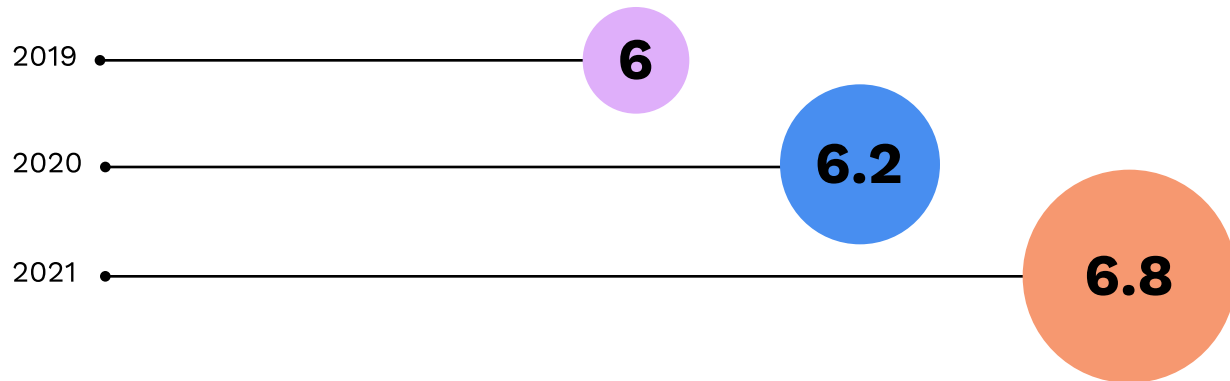


It's easy to assume that income volatility, turning to personal savings to cover expenses, and financial stress are all part of being a small business owner, especially when there's a lack of available resources to say: this is what getting paid looks like for other business owners, and these are the factors that can make a difference to your business. Our data shows the real impact of simply embedding digital payment options on digital invoices. Even a few hundred dollars a month can make a material difference to cash flow.

Alo Mukerji
VP, Product, Wave



Average number of invoices sent per month



Our study uncovered another positive trend: Microbusiness owners are also increasing the amount of invoices they send.

This rise took place during the COVID-19 pandemic, where we saw a shift to more transactional, service-based businesses.



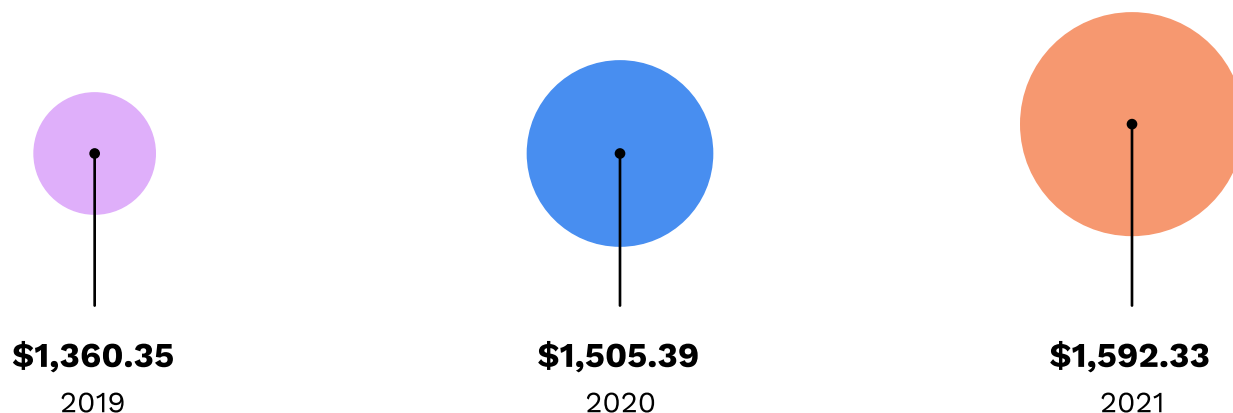
As more people start side hustles, or abandon traditional 9-5 jobs to become their own boss, transactional businesses are an appealing option. These often have a lower barrier to entry and can be managed by one person with a limited budget, rather than the teams of people and significant capital required for complex project work.

An increase in invoices per month may point to a rise in service-based businesses: owners that perform frequent jobs for a large client base. For example, yardwork, personal training, and dog-walking, rather than ‘project work’, which includes larger pieces of work for fewer clients and invoices.

David Axler

GM, VP, Books, Banking & Tax, Wave

Average invoice value over six months



More good news: The average value of invoices is also steadily growing, meaning business owners are charging more for their services which can lead to higher earning potential.

This growth represents a 17.1% increase from 2019 to 2021, greatly outpacing the inflation rate of 4.4% during the same time period.⁷

⁷ <https://www.in2013dollars.com/us/inflation/2019>



In 2020, we saw an interesting shift across several industries. Many businesses pivoted from point of sale transactions to offering larger orders for shipment or pick up. Online bulk orders led to significantly higher invoice values from previous years.

From restaurants offering take-home meals, to PPE manufacturers selling to large businesses, this shift helped many small business owners recognize new revenue streams and think beyond brick and mortar locations as their primary, if not only, avenue for sales.

David Axler

GM, VP, Books, Banking & Tax, Wave



**Meet Mags Cathey,
Executive Beauty Coach, Licensed
Esthetician, Makeup Artist
Glendora, California**

When the pandemic hit, I had to shut down my in-person business like many people. But because my husband's business had completely gone away, I ended up being financially responsible for supporting our family. Even though it was nerve racking to take on that responsibility for my family, I felt more prepared than most because the year before I received accounting coaching from Wave Advisors. Up until then, I wasn't really paying any attention to my finances and even after the summer of 2020, I had still only been keeping a close eye on profit, not revenue.

Once I looked at my business revenue for the previous 2 years, I realized I had actually been making enough money to support my family well before the pandemic hit and before I was the main breadwinner. Seeing that on a report gave me the confidence I needed to push forward through a difficult time.

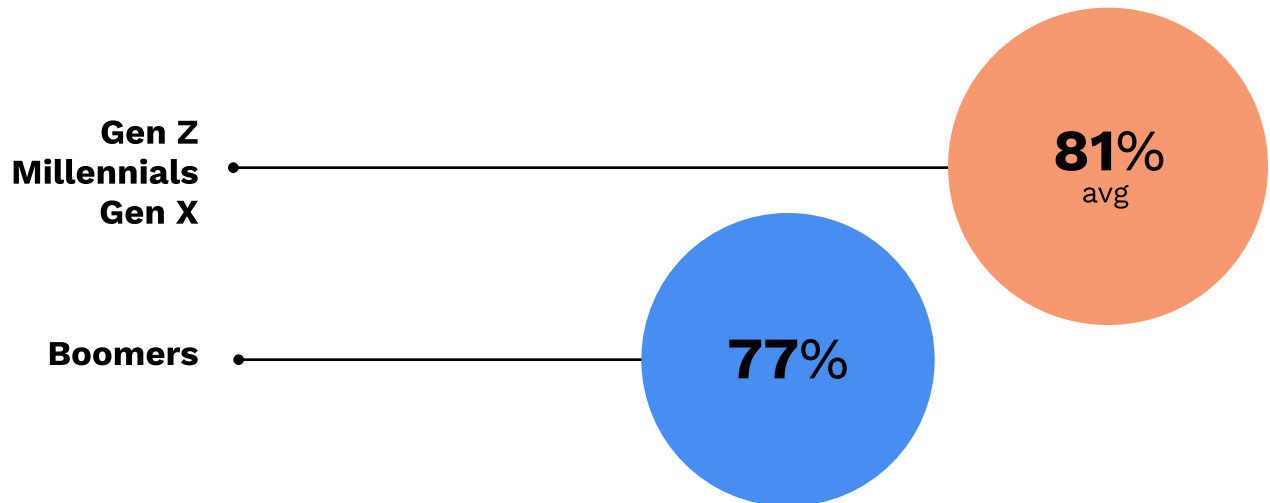
Understanding the money going in and coming out of my business also

helped me come up with new revenue streams when my in-person services were on hold. These included an online course that will continue to be an amazing source of passive income for me many years from now. I also launched virtual beauty deep dives (online beauty consultations), and these became an easy-to-sell revenue stream. I was able to upsell products, my course, and even offer virtual skin coaching (another new service I created last year) to those clients.

Between my spa, beauty consultations, product sales, and more, I have six different revenue streams, and that's key to finding success as a small business owner. My advice to other entrepreneurs is to really stay on top of money management—don't keep your head in the sand. Understanding your finances gives you the freedom to explore new paths like I have.

Received Services For Testimonial.

Percentage of invoices paid on time, by business owner age group⁸



We considered whether the age of a business owner, or the age of their business, has an impact on whether they get paid on time, but the differences across age groups are minor.

⁸ <https://www.pewresearch.org/fact-tank/2019/01/17/where-millennials-end-and-generation-z-begins>



Despite our hypotheses, we discovered that the age of a business was not a factor in getting paid on time, and business owners under 55 have only a slight advantage over those who are 55 and older.

But the data clearly shows that making it easy for customers to pay by accepting digital payments is a significant driver to getting paid on time—and that applies to businesses and business owners of all ages.

Reza Rahimi

Director, Financial Capabilities, Wave

Main takeaways

1

Microbusinesses are sending more invoices, invoicing for higher amounts, and getting paid on time more frequently. A rise in service-based, transactional businesses spurred by the pandemic may account for this trend.

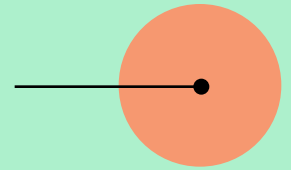
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While younger generations have a slight edge over other age groups when it comes to getting paid on time, neither age of business owner nor age of the business itself are major factors impacting who gets paid.

3

Sending digital invoices and allowing customers to pay directly from those invoices makes a huge impact on speed of payment. The proportion of invoices paid on time increases by 15.4 percentage points when payment features are digitally embedded.

The rise of service- based businesses



The pandemic has dramatically shifted the way people work, and industries that offer flexibility have become even more favorable.

Before digging into state-level trends, we wanted to identify the top five industries with the highest levels of microbusiness invoice activity across the country, as these are indicative of potential opportunities for would-be entrepreneurs.

Most active industries for microbusinesses



The COVID-19 pandemic took a tremendous toll on restaurants, events, and brick and mortar retailers—businesses that rely on in-person interactions.

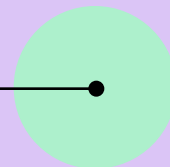
Although many of these businesses are bouncing back after vaccine rollouts, service-based industries present a unique opportunity for budding entrepreneurs—provided they understand the changing landscape and stay responsive to what customers need and expect.

Today's digital tools offer so many opportunities for new ways of working, and challenging times often spur great ideas.

Kirk Simpson

Co-founder and CEO, Wave

How different states stack up



While we started by uncovering overall trends, a closer look at the state level data revealed interesting geographic differences.

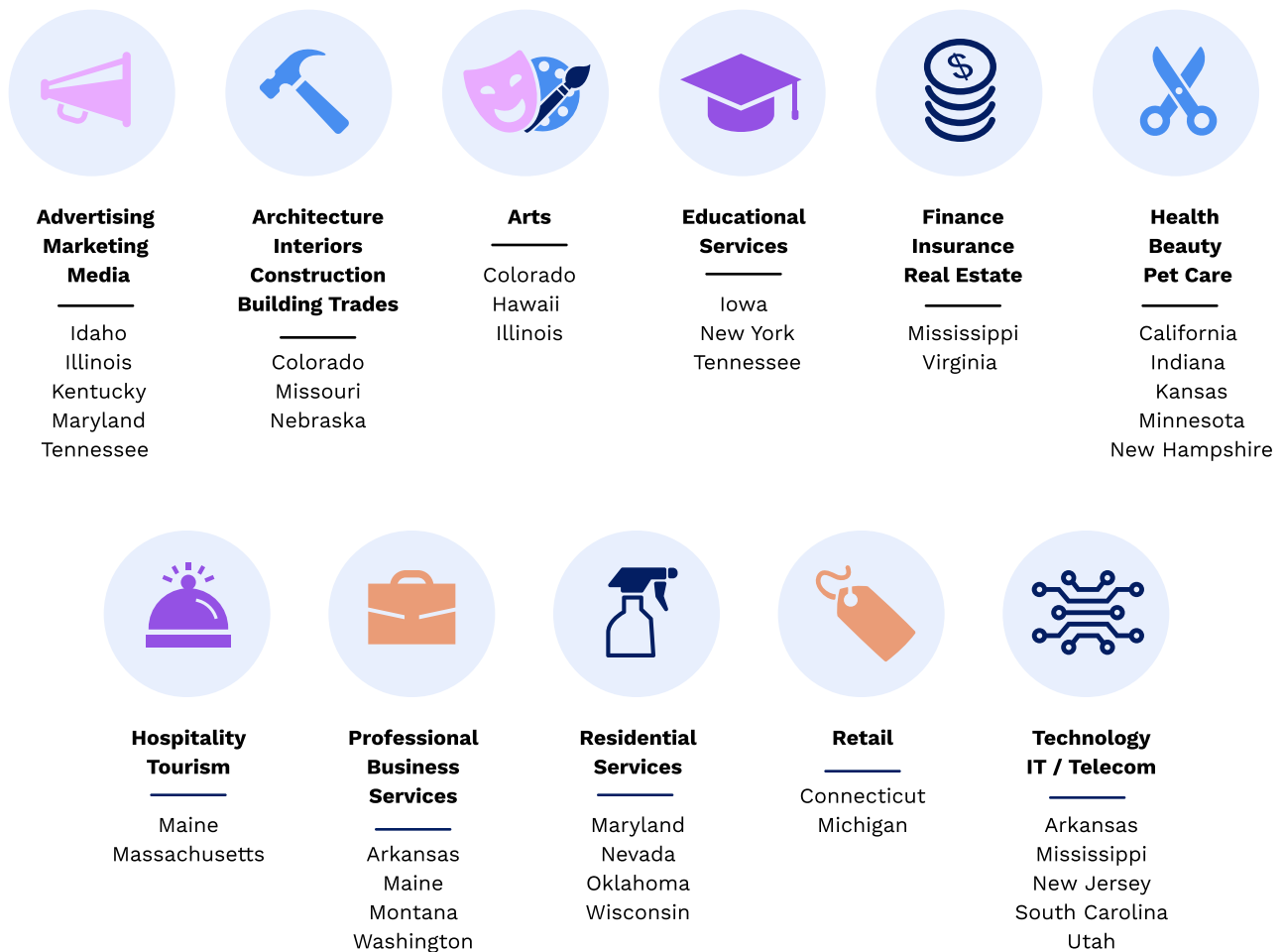
Microbusiness creation surged during the pandemic, as did migration throughout the country. In fact, more than 7 million Americans moved during the pandemic—a half million more than in 2019.⁹

We looked at which states seem the most promising for business owners in key

industries by analyzing which industries are driving the most invoice activity.

As movements like remote work, side hustles, and the Great Resignation continue to reshape the job market, prospective business owners may want to consider these areas.

Most active states for microbusinesses by industry



⁹ <https://www.wsj.com/articles/americans-up-and-moved-during-the-pandemic-heres-where-they-went-11620734566>

We also examined which industries enable microbusiness owners to make the most income with the fewest number of invoices. These industries seem ideal for microbusiness owners looking to earn more money with fewer projects.

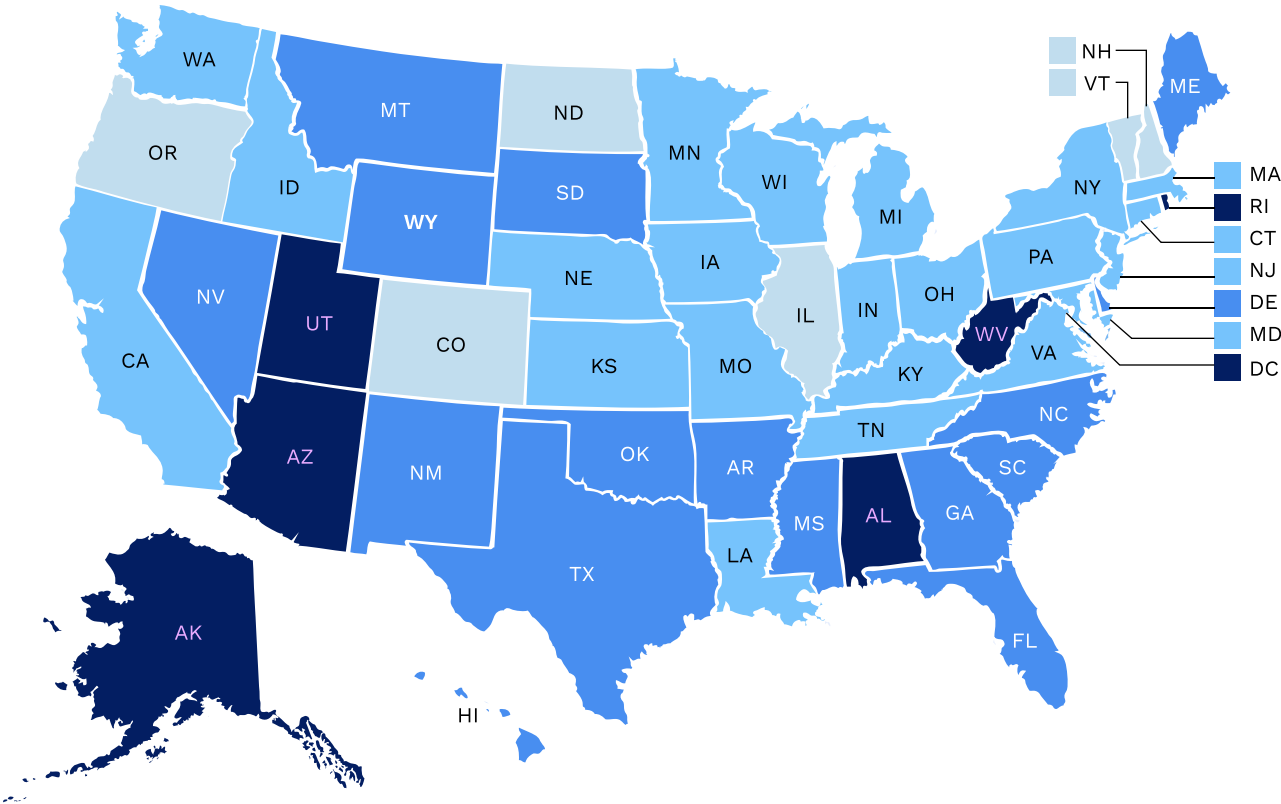
Microbusiness invoicing activity by industry

— Highest invoice values with fewest invoices

Industry	Average # invoices/mo.	Average invoice value
Advertising / Marketing / Media	6.7	\$1,128.79
Architecture / Interiors / Construction / Building Trades	7.4	\$1,851.40
Arts	7.0	\$635.81
Educational Services	8.4	\$880.04
Finance / Insurance / Real Estate	8.8	\$979.10
Health / Beauty / Pet Care	11.5	\$567.56
Hospitality / Tourism	8.4	\$692.33
Professional Business Services	7.6	\$1,090.93
Residential Services	17.4	\$389.38
Retail	8.5	\$2,053.20
Technology / IT / Telecom	7.0	\$1,231.85

Percentage of invoices paid on time by state

We looked at how getting paid on time varies across the US, and used this map to show how different states stack up.

































% Paid on Time (POT)

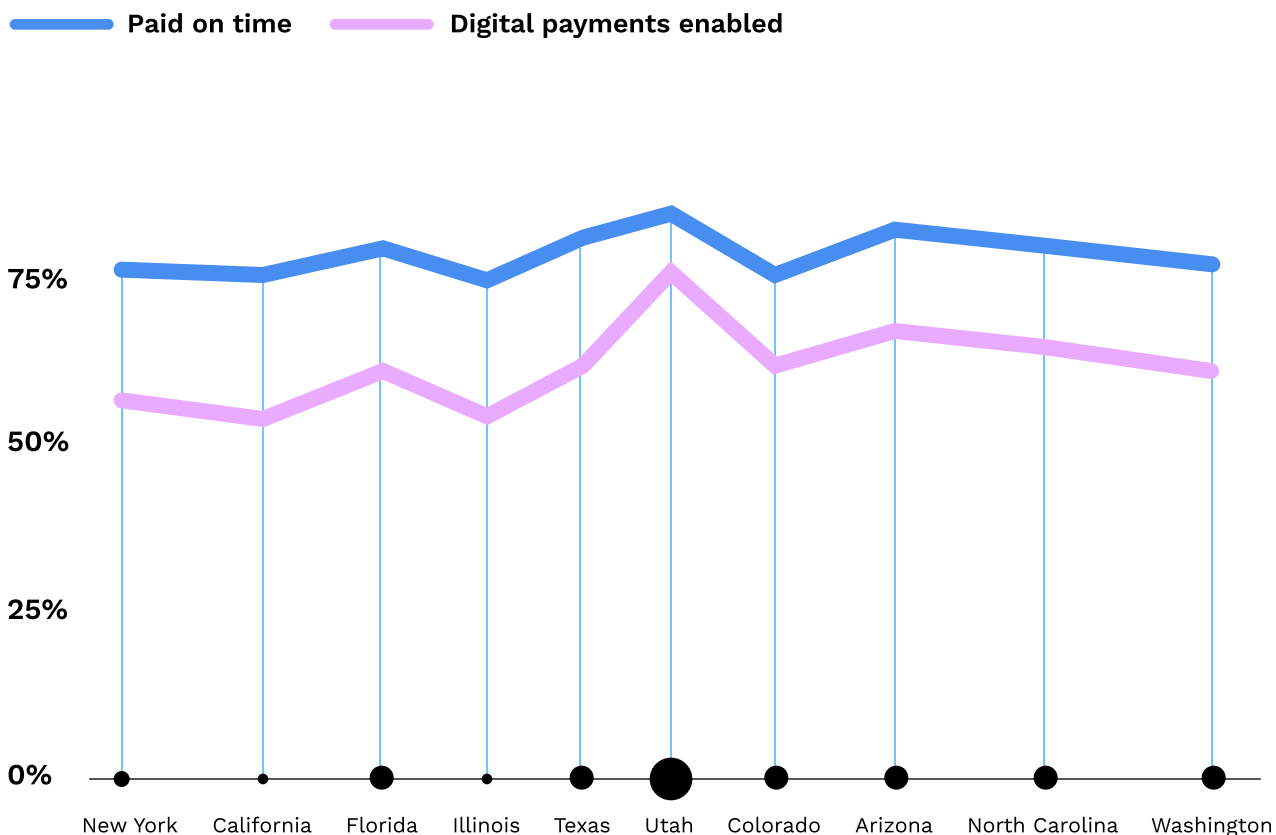
District Of Columbia	88%	South Carolina	81%	Iowa	78%	California	76%
Utah	85%	South Dakota	81%	Maryland	78%	Connecticut	76%
Alaska	84%	Texas	81%	Missouri	78%	Idaho	76%
Alabama	82%	Wyoming	81%	Pennsylvania	78%	Michigan	76%
Arizona	82%	Florida	80%	Tennessee	78%	New York	76%
Rhode Island	82%	Hawaii	80%	Kansas	77%	Wisconsin	76%
West Virginia	82%	Mississippi	80%	Kentucky	77%	Colorado	75%
Arkansas	81%	Nevada	80%	Louisiana	77%	Illinois	75%
Delaware	81%	North Carolina	80%	Massachusetts	77%	Oregon	75%
Georgia	81%	Oklahoma	80%	Minnesota	77%	New Hampshire	74%
Maine	81%	Ohio	79%	Nebraska	77%	North Dakota	74%
Montana	81%	Virginia	79%	New Jersey	77%	Vermont	74%
New Mexico	81%	Indiana	78%	Washington	77%		

Diving deeper into 10 key states

We then took a deeper dive into payment activity across 10 states. Here's what stood out at the state level, plus the most active industries in each state based on invoicing volume.

State	Avg. # of invoices per mo.	Avg. invoice value	Avg. % invoices paid on time	% of invoices payments-enabled	Most active industries based on invoice volume		
Arizona	8.7	\$1,096.97	82%	67%			
California	6.9	\$1,840.79	76%	54%			
Colorado	6.0	\$2,478.73	75%	62%			
Florida	8.2	\$1,440.24	80%	61%			
Illinois	7.0	\$2,080.04	75%	55%			
New York	6.3	\$2,209.02	76%	57%			
North Carolina	6.8	\$1,317.90	80%	65%			
Texas	7.8	\$1,597.18	81%	62%			
Utah	9.5	\$1,161.29	85%	76%			
Washington	6.3	\$1,373.91	77%	61%			

Percentage of invoices paid on time vs. digital payments enabled by 10 key states



The data is clear—giving customers a digital payment option has a positive impact on the number of invoices paid on time.

Utah is a great example. Just over three quarters of invoices from business owners are payments-enabled, and 85% of invoices are paid on time, which means better cash flow potential for business owners in that state.

Gita Ravindran

Senior Product Manager, Wave

States that stood out

Monthly average number of invoices sent per owner

Top 5

1. Utah
2. Mississippi
3. Arizona
4. Florida
5. Oklahoma

Bottom 5

1. Oregon
2. Colorado
3. Idaho
4. New Hampshire
5. Maryland

Percentage of invoices paid on time

Top 5

1. Utah
2. Arizona
3. South Carolina
4. Arkansas
5. Texas

Bottom 5

1. Connecticut
2. California
3. Colorado
4. Illinois
5. New Hampshire

Average invoice value over six months

Top 5

1. Colorado
2. New York
3. New Jersey
4. Illinois
5. California

Bottom 5

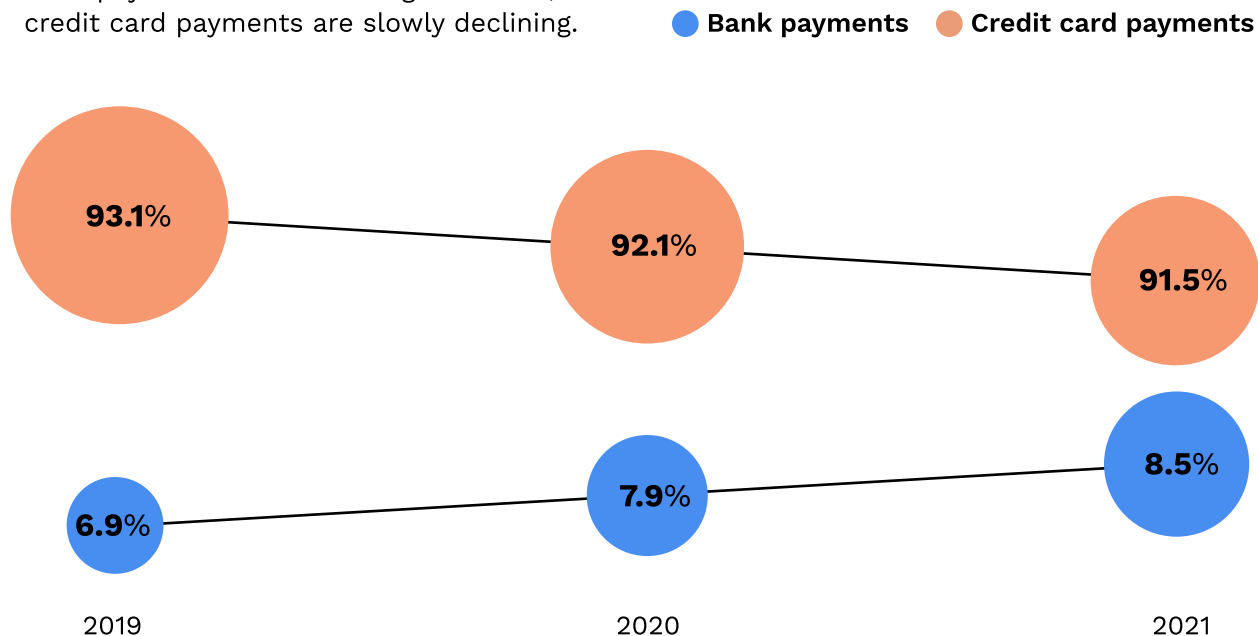
1. Arkansas
2. Mississippi
3. South Carolina
4. Oklahoma
5. Wisconsin

Report wrap-up: The future of payments —

A look at the trends that microbusiness owners can learn and benefit from most.

1. Bank payments are on the rise

Bank payments are increasing over time, while credit card payments are slowly declining.



While credit cards are slightly declining in popularity, they remain the most common way customers pay for small business services digitally, with just over 91% of invoices paid by credit card in 2021.

However, bank payments, which involve sending money from one bank account to another (rather than through a credit card network), are on the rise.

Why the steady increase? Bank payments are a cost-efficient way to transfer money, offering security and speed without the fees that come with using credit card networks.

The pandemic is also driving this growth. With in-person transactions largely unavailable, business owners need a way to keep money moving.



On a \$10,000 invoice, a microbusiness owner can realize a savings of about \$200 in fees when they accept bank payments. Those fees are much easier to absorb if you're more established and have already reached profitability.

Reza Rahimi

Director, Financial Capabilities, Wave

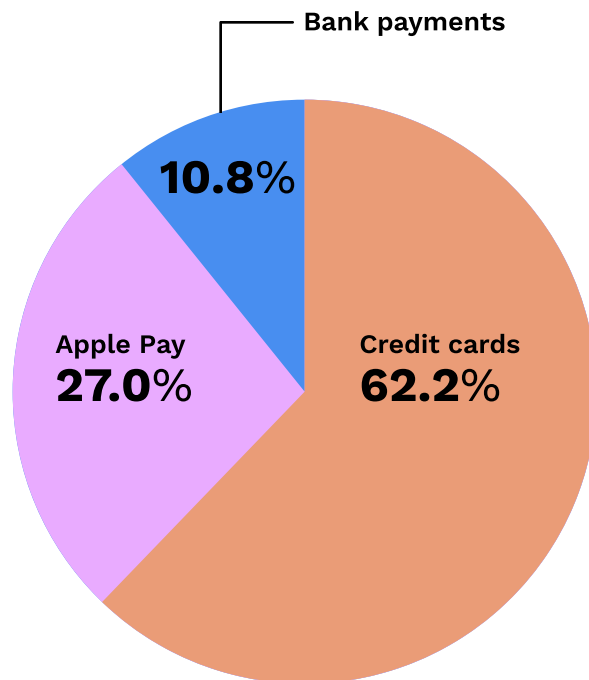
2. Customers push for more payment choices

Our research clearly shows that making it easier for customers to pay by enabling card and bank payments on invoices gets microbusinesses paid faster. But what's next?

Digital wallets are a frictionless form of digital payment that microbusiness owners should consider. In fact, in the US, Apple Pay® is the top mobile payment player, with over 43 million users in 2021.¹⁰

We looked at 12 weeks' worth of 2021 invoice data from customers with bank payments, credit card, and Apple Pay payment features on their invoices to understand how their customers prefer to pay. When presented with different payment options, 27% selected Apple Pay.

Apple Pay is a registered trademark of Apple Inc.



¹⁰ <https://techcrunch.com/2021/04/05/fueled-by-pandemic-contactless-mobile-payments-to-surpass-half-of-all-smartphone-users-in-u-s-by-2025>



Digital wallets, like Apple Pay, are becoming increasingly popular payment options as they allow customers to pay for products and services almost instantly and on-the-go. We've seen that paying an invoice by manually inputting credit card information can take as long as 2 minutes, but digital wallets allow consumers to enjoy the convenience and ease of a frictionless payment process. Fewer barriers to payment can speed up cash flow for microbusinesses.

Reza Rahimi

Director, Financial Capabilities, Wave

3. Microbusiness owners should think holistically about money management

Digital payment app usage accelerated during the pandemic as more small business owners shifted to offering virtual or service-based solutions. According to findings by Apptopia, which studies app usage, the use of popular money transfer apps like CashApp, Venmo, and PayPal rose nearly 11% in the first few months of the pandemic.¹¹

While these apps are a short-term solution for speeding up cash flow,

they lack the essential direct record-keeping and bookkeeping abilities that all microbusinesses need.

Business owners who use Paypal, Venmo, or similar money transfer apps as the primary means of payment without a complementary system may be exposed to increased risk and a host of time consuming manual tasks during tax season.

¹¹ <https://fortune.com/2020/05/20/venmo-paypal-cash-app-use-coronavirus-pandemic-mobile-payments>



While there are plenty of studies on small- and medium-sized businesses, the smallest of these businesses lack access to actionable data. Without key industry benchmarks, microbusiness owners are missing out on insights that help or hinder their success.

All too often, we hear of microbusiness owners turning to personal savings or loans to keep their businesses afloat, but this can usually be mitigated with a focus on improving cash flow.

At Wave, we've built our ecosystem with the unique needs of these business owners in mind. Improving cash flow is at the core of what we offer, from free invoicing tools to a small business bank account.

These past several months have reinforced just how vital small businesses are to the fabric of our communities, and we hope the findings in this report equip existing and soon-to-be entrepreneurs with valuable insights and knowledge.

Kirk Simpson

Co-founder and CEO, Wave



Research — methodology

Summary

We used anonymized customer data from Wave to uncover payment trends among small business owners in the US.

Size of customer pool: We pulled and combined data from two sources:

A - Wave's Invoicing customer database:

Wave's database of customers who created an invoice in the first 6 months of 2019, 2020, or 2021. Overall, this amounted to 311,000 unique businesses.

Any reference to Apple Pay usage on Wave invoices is specific to customers who created an invoice with Apple Pay as a payment option between August 28 and October 28 2021.

B - Wave customer profiling survey overlay:

Any data points that include industry, user age, and/or business age were collected from 13,000 Wave customers via an email survey conducted July 20, 2021 to August 20, 2021.

Geography: US only.

Definition of key terms

Paid on time: Percentage of invoices paid in any way within 30 days of invoice create date (80% of Wave customers cite invoice payment terms within 30 days).

Payments-enabled: Invoices that accept online payments through Wave Payments, directly tied to the Wave invoicing product.

Non payments-enabled: Invoices that do not accept online payments through Wave Payments, but may collect payment elsewhere (i.e. offline, PayPal, Venmo).

Bank payments: Electronic Money Transfer (EMT) accepted or used as a form of payment.

Credit card payments: Credit cards (Visa, American Express, Mastercard) accepted or used as a form of payment.

Most active industries for microbusinesses: Industries that represent the highest proportion of Wave customers.

Most active states per industry: States with the highest number of invoices in each industry.

Most active industries per state: Industries with the highest number of invoices in each state.

About Wave

Wave Financial Inc. (waveapps.com) combines powerful money management tools with business banking built for service-based small businesses. Wave's comprehensive platform includes accounting, banking, invoicing, payroll, and payments software solutions, as well as bookkeeping services. Wave Money, a business bank account, provides small business owners with quick access to payments, and their bookkeeping is managed automatically.

Over 300,000 small businesses use Wave's small business software. Wave has won awards for growth, innovation, and company culture, including Deloitte Fast 50, Deloitte North American Fast 500, KPMG Fintech 100, CB Insights Fintech 250, Canadian Innovation Awards (Financial Services), Canada's Best Workplaces, and many more.

