2022 WORKING CAPITAL SURVEY

Challenges, Opportunities —
and the Overlooked Threat
Businesses Need to Prepare For

Contents

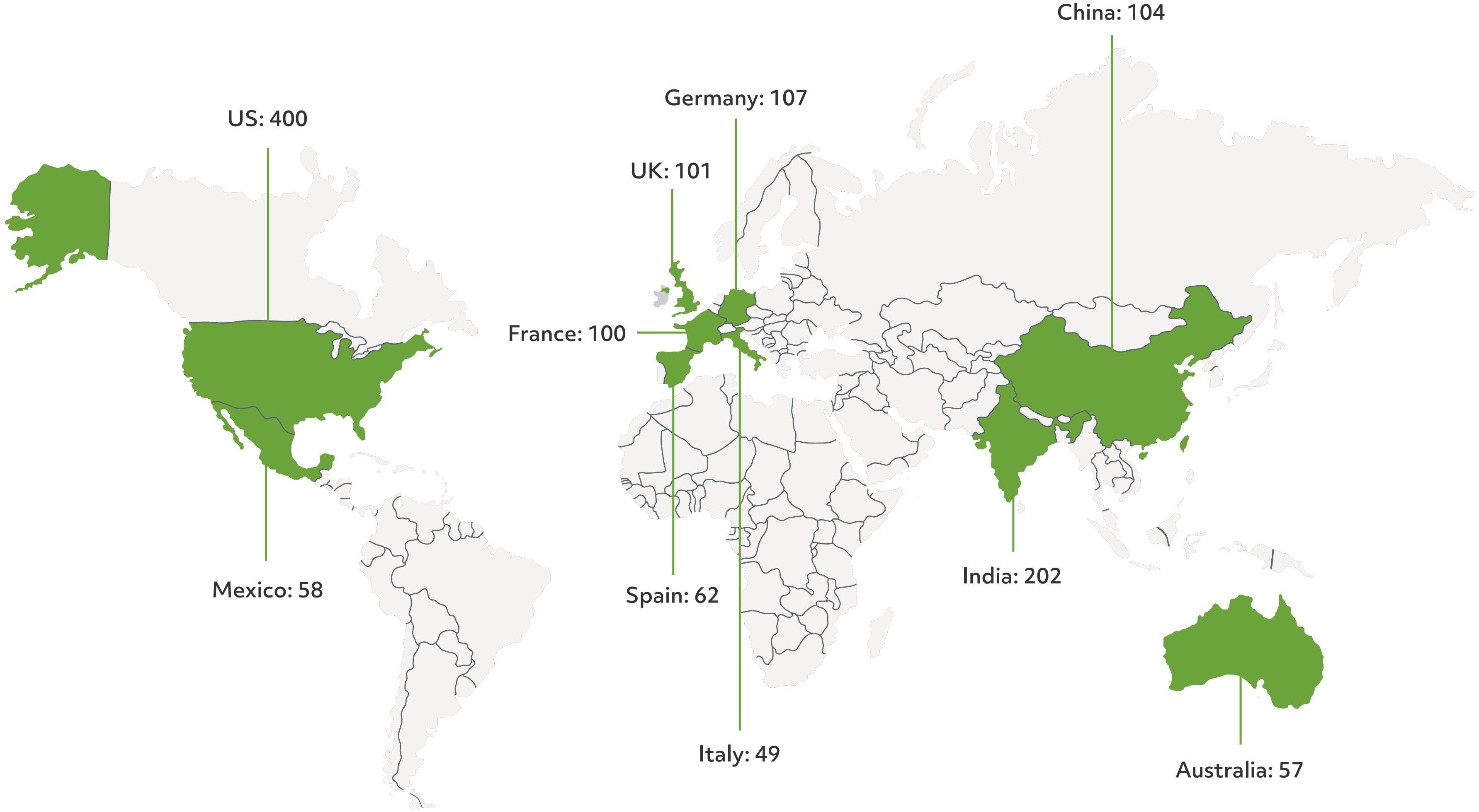
About the Survey

Businesses need working capital the same way that human beings need oxygen and water. A reliable source of funding is absolutely essential for any venture's growth and survival.

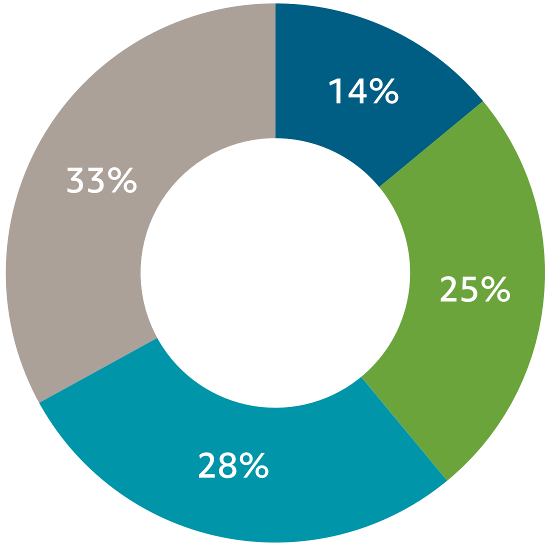
This past spring, C2FO surveyed companies around the world about their access to financing. Our goal was to create a clear picture of how — or even if — companies can secure the money they need to thrive.

Respondents by Country

1,240 respondents in 10 countries — each with final say or influence over financial decisions in their business.

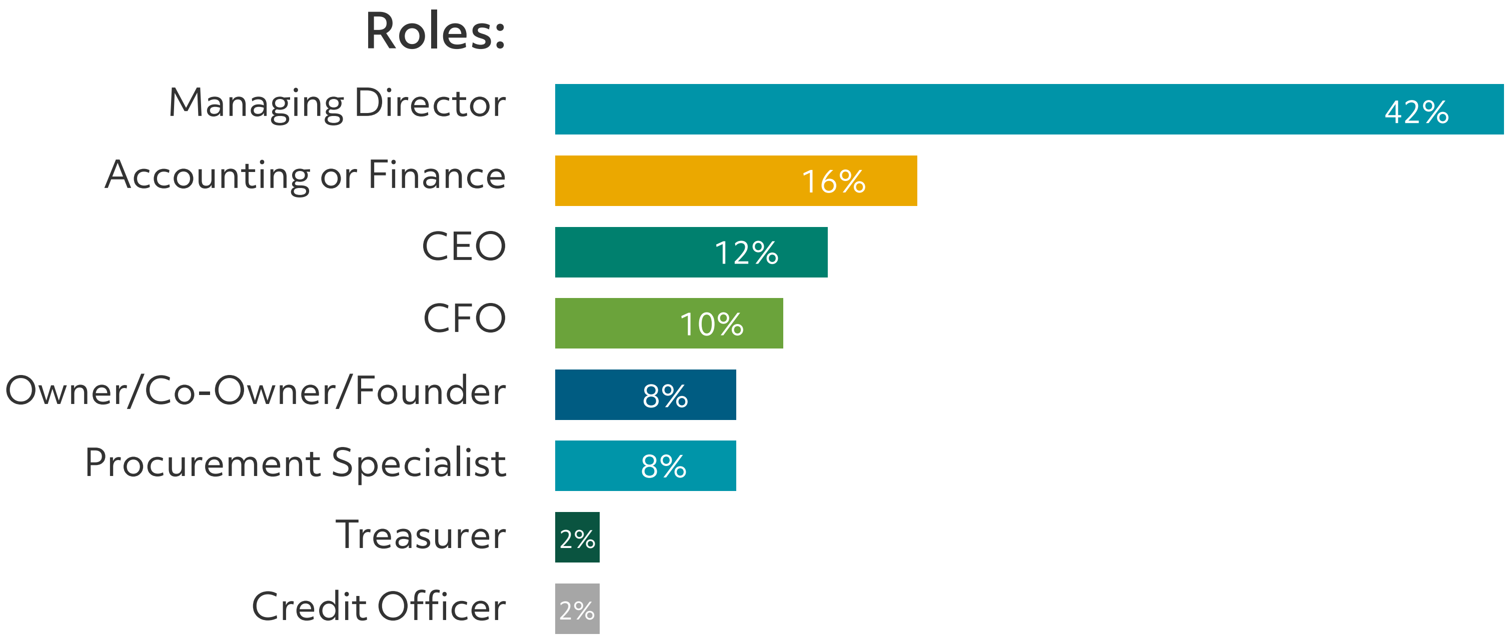


A Closer Look at the Survey Respondents



Company Size:
Full-Time Employees

- 10-49
- 50-249
- 250-999
- 1,000+



Industries Represented:

- Manufacturing: **13%**
- Professional, Scientific & Technical: **11%**
- Finance & Banking: **11%**
- Retail: **8%**
- Tech: **8%**
- Construction: **7%**
- Health Care: **7%**
- Education: **5%**
- Accommodations & Food Service: **5%**
- Transport & Warehousing: **4%**

Other Industries : **21%**

Introduction

After more than two years of COVID-19 and other disruptions, we're unlikely to return to the same pre-pandemic state. Businesses around the world continue to face major disruptions related to skyrocketing inflation, rate hikes, global conflict, supply chain shortages and — yes — more COVID-19. Despite that, most expect better things in the near future.

KEY FINDINGS

CURRENT SENTIMENT: NEGATIVE

39% of global respondents view their country's current economy negatively, vs. **28%** who see it as positive.
50% of US respondents said the economy was not very good or not good at all.

FUTURE OUTLOOK: POSITIVE

68% of global respondents predict higher revenues at their company over the next 12 months.
83% of respondents from Mexico expect higher revenue.

TOP THREAT: INFLATION

63% believe inflation will have a negative impact on their business over the next 12 months, more than any other concern.
25% of those surveyed said they expect to raise prices by 6% or more.

WARNING SIGNS

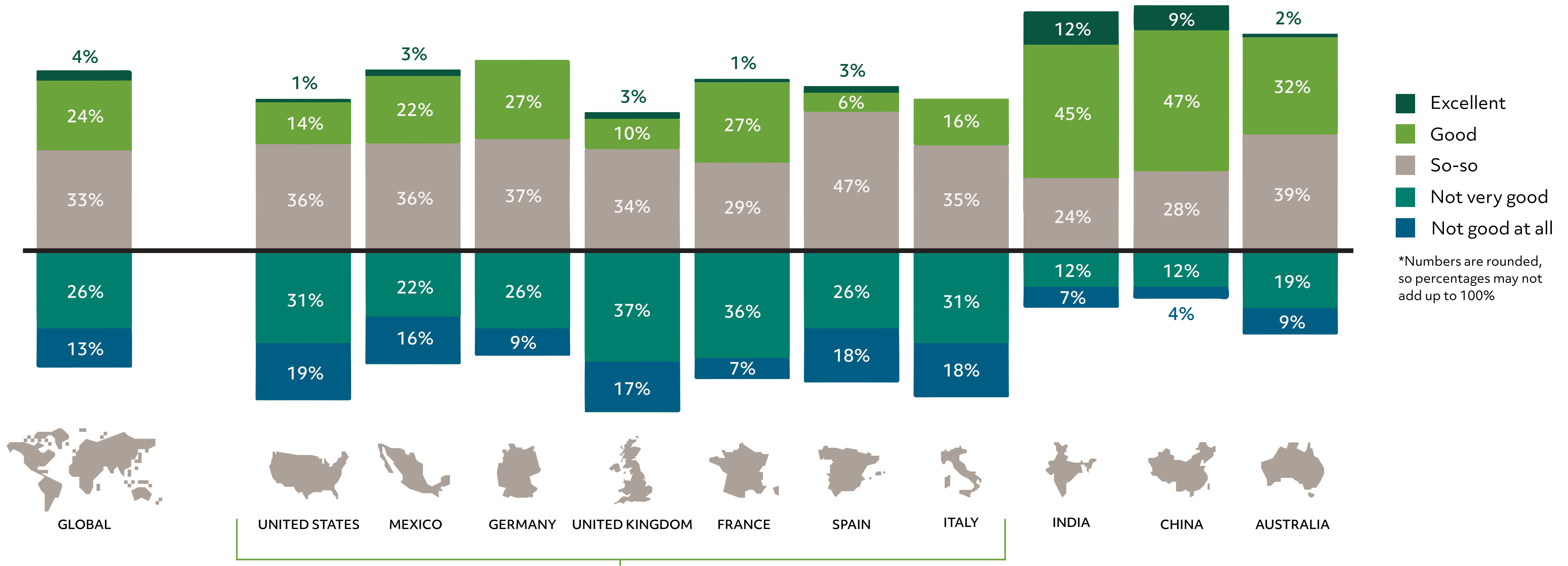
Higher inflation → Higher interest rates

Higher interest rates could eventually make it harder for many businesses to access credit when needed. Most businesses say they have enough access to liquidity, but that could change. And many ventures — especially smaller ones — may not be ready for the shift.

Globally, inflation is viewed as the top concern among respondents. The coronavirus pandemic — which has dominated the conversation for the past 2+ years — is still weighing on respondents' minds.

How Do Businesses View the Economy in Their Country?

ECONOMIC SENTIMENT



European and North American markets were more negative than Asia Pacific.

Economic Sentiment Is Negative...

Current Economic Conditions

39%
Not very good or not good at all

28%
Good or excellent

After another year of continued disruptions, it's probably not surprising that, globally, respondents were more likely to view their country's economic conditions negatively — **39%** said they were not very good or not good at all, compared with **28%** who called them good or excellent.

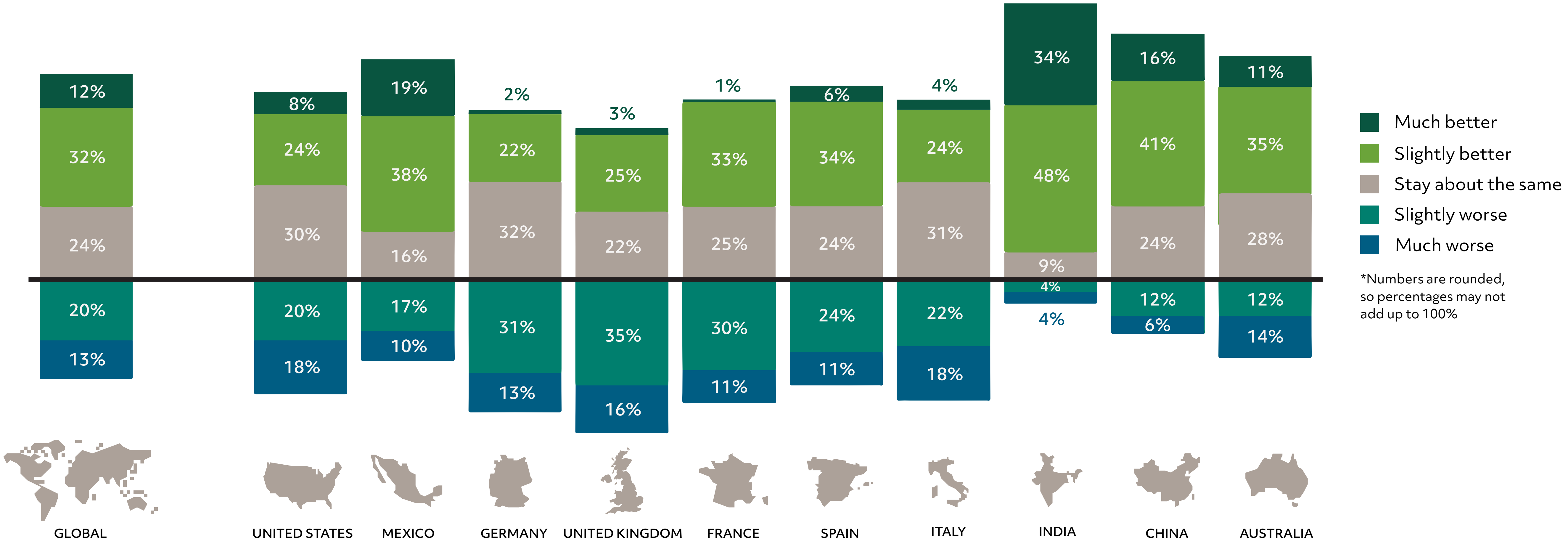
Rising inflation was one of the leading reasons respondents gave for viewing the economy poorly.

The US was substantially more negative — **50%** of its respondents described the economy as bad, compared with **57%** of respondents from India, who rated conditions as good or excellent. Mexico, meanwhile, was in line with the global average.

… but Many Expect a Brighter Future

More businesses are optimistic about the next 12 months, both for themselves and the overall economy.

44% of respondents expect the economy to improve, though North American and European countries were more negative generally.



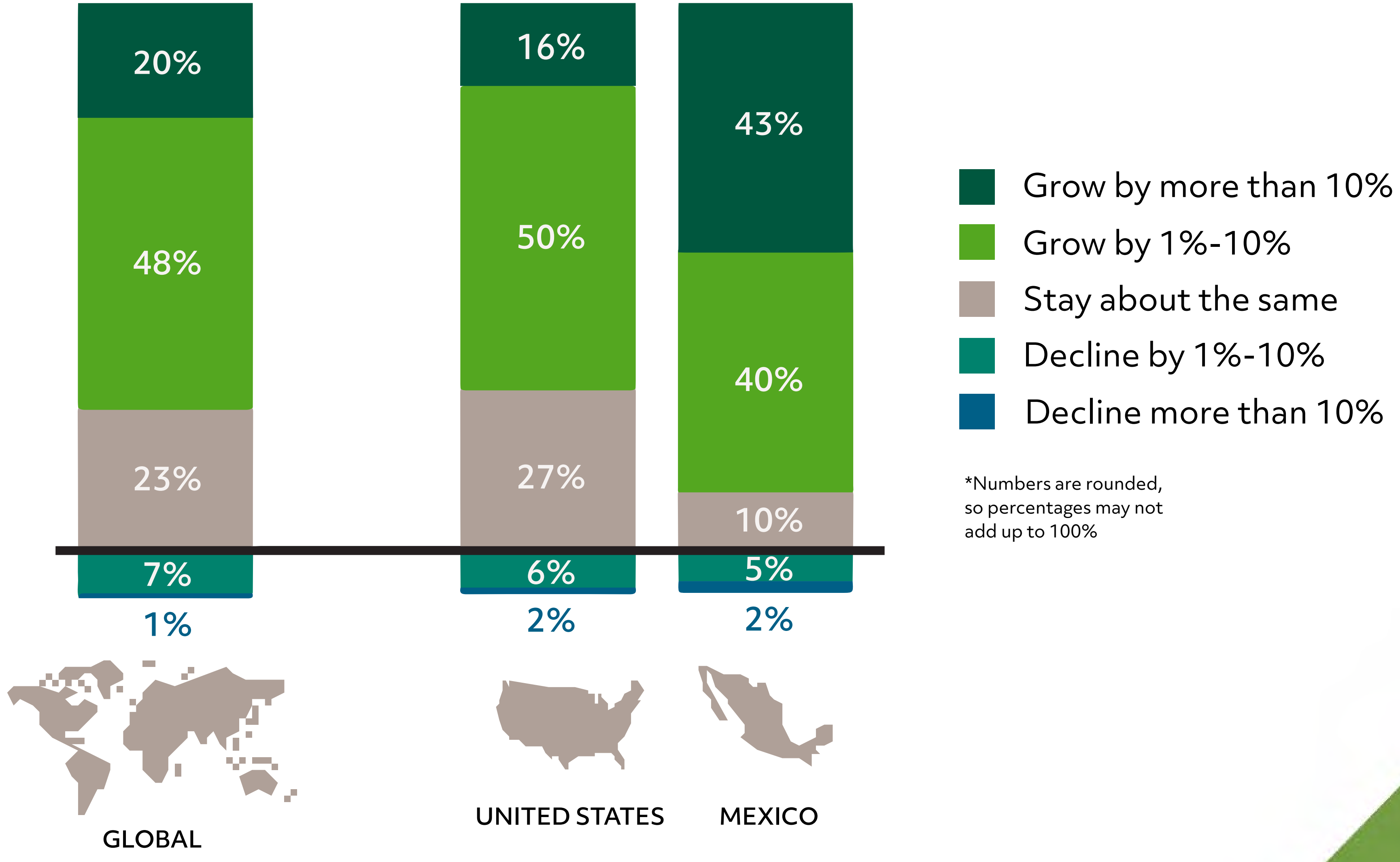
ECONOMIC SENTIMENT

68%
Predict growth

The majority of respondents believe their company revenue will grow over the next 12 months vs. 8% who predict a decline.

83%
Optimistic

Mexico was one of the most optimistic countries about revenue growth. (The US was closer to the global average.)



*Numbers are rounded, so percentages may not add up to 100%

The No. 1 Threat: The High Price of … Well, *Everything*

Globally and in North America, inflation is now viewed as the biggest threat to businesses over the next 12 months. COVID-19, the previous top threat, remains No. 2 while many regions grapple with outbreaks and lockdowns as new variants emerge.

While inflation tops the list, many of the threats are tied to each other. For example, inflation has risen sharply because of supply chain shortages, which are being driven by worker shortages, COVID-related lockdowns and global conflict, among other factors.

Two biggest threats to businesses globally over the next 12 months

- **No. 1** **Inflation**
- **No. 2** **COVID-19**

63% of global respondents expect a negative impact from inflation over the next 12 months.

76% of all respondents said COVID had a negative impact on their business over the previous 12 months, more than any other factor.

Over the Past Year, What Impact Did the Following Factors Have on Your Business?

(Percentage of respondents who rated each factor a "very negative" effect.)

THREATS

GLOBALLY
Greater Negative Impact in Last Year

	GLOBAL	UNITED STATES	MEXICO	GERMANY	UNITED KINGDOM	FRANCE	SPAIN	ITALY	INDIA	CHINA	AUSTRALIA
Overall, COVID-19 Pandemic	22%	18%	19%	13%	18%	18%	13%	37%	30%	33%	25%
Global conflict or war	19%	12%	17%	19%	14%	22%	31%	29%	24%	27%	16%
Supply chain shortages (availability of materials)	17%	18%	12%	23%	16%	19%	19%	8%	15%	20%	14%
Inflation pressures	17%	20%	21%	11%	16%	19%	24%	12%	14%	12%	12%
Cost of raw materials/inputs	15%	14%	9%	20%	13%	25%	21%	10%	14%	9%	12%
Worker shortages	14%	17%	14%	11%	14%	13%	6%	8%	13%	13%	12%
Shipping delays and costs	12%	12%	3%	15%	15%	10%	10%	10%	15%	13%	14%
Government restrictions like forced closures or capacity reductions	12%	13%	10%	5%	13%	14%	8%	12%	17%	12%	11%
Natural disasters	12%	8%	14%	6%	14%	9%	18%	8%	23%	13%	7%
Theft/shrinkage/losses	11%	8%	21%	1%	10%	14%	11%	14%	14%	18%	7%
Interest rates on loans	8%	8%	7%	7%	6%	5%	13%	10%	9%	5%	11%
Government regulations	8%	8%	9%	3%	6%	13%	10%	2%	10%	3%	12%
Wage increases	7%	6%	3%	8%	9%	4%	8%	0%	10%	5%	11%
Changing regulations/laws	7%	7%	3%	5%	8%	5%	6%	12%	8%	3%	11%
Transaction fees from payment providers	6%	5%	2%	4%	7%	7%	8%	14%	7%	5%	11%
Government loans, stimulus or bailouts	6%	6%	7%	3%	6%	6%	8%	6%	6%	3%	7%
Changing customer demand	6%	5%	3%	4%	6%	6%	2%	8%	7%	8%	9%
Access to short-term funding	5%	4%	2%	2%	6%	5%	2%	6%	7%	4%	9%
Access to long-term funding	5%	5%	3%	3%	8%	3%	10%	6%	7%	3%	9%
Promptness of payment from customers	5%	5%	2%	3%	7%	3%	3%	8%	5%	5%	9%
Shifting record keeping and invoicing from paper to digital	4%	2%	2%	0%	2%	5%	8%	4%	8%	4%	11%
Customer shift to e-commerce/digital	3%	2%	0%	1%	5%	7%	3%	8%	6%	3%	4%

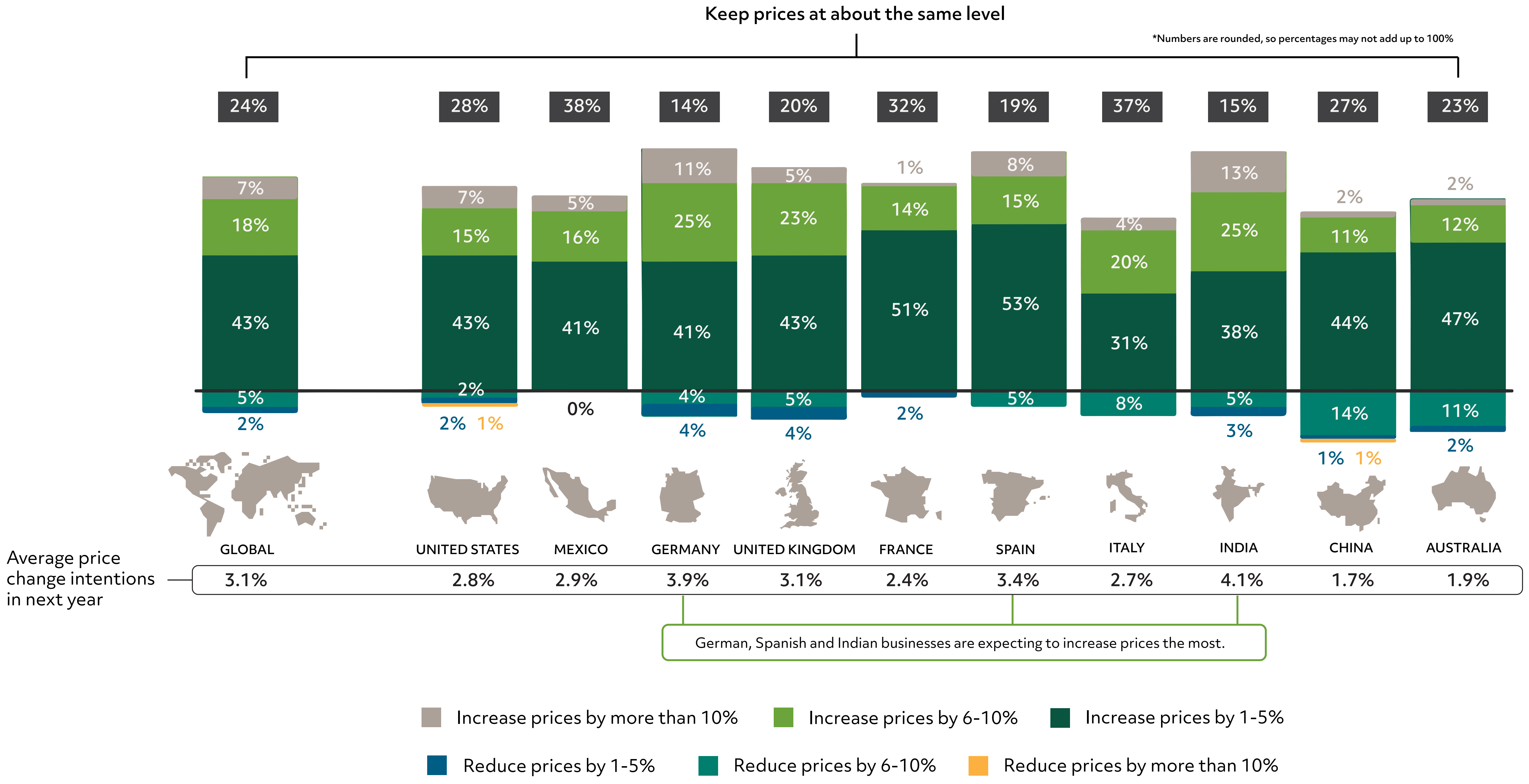
Higher Prices Lead to Even Higher Prices

Inflation has risen at a pace unseen in decades across essentially all verticals.

As a result, many respondents said they planned to increase their prices. Globally, **25%** of those surveyed said they expect to raise prices by **6%** or more.

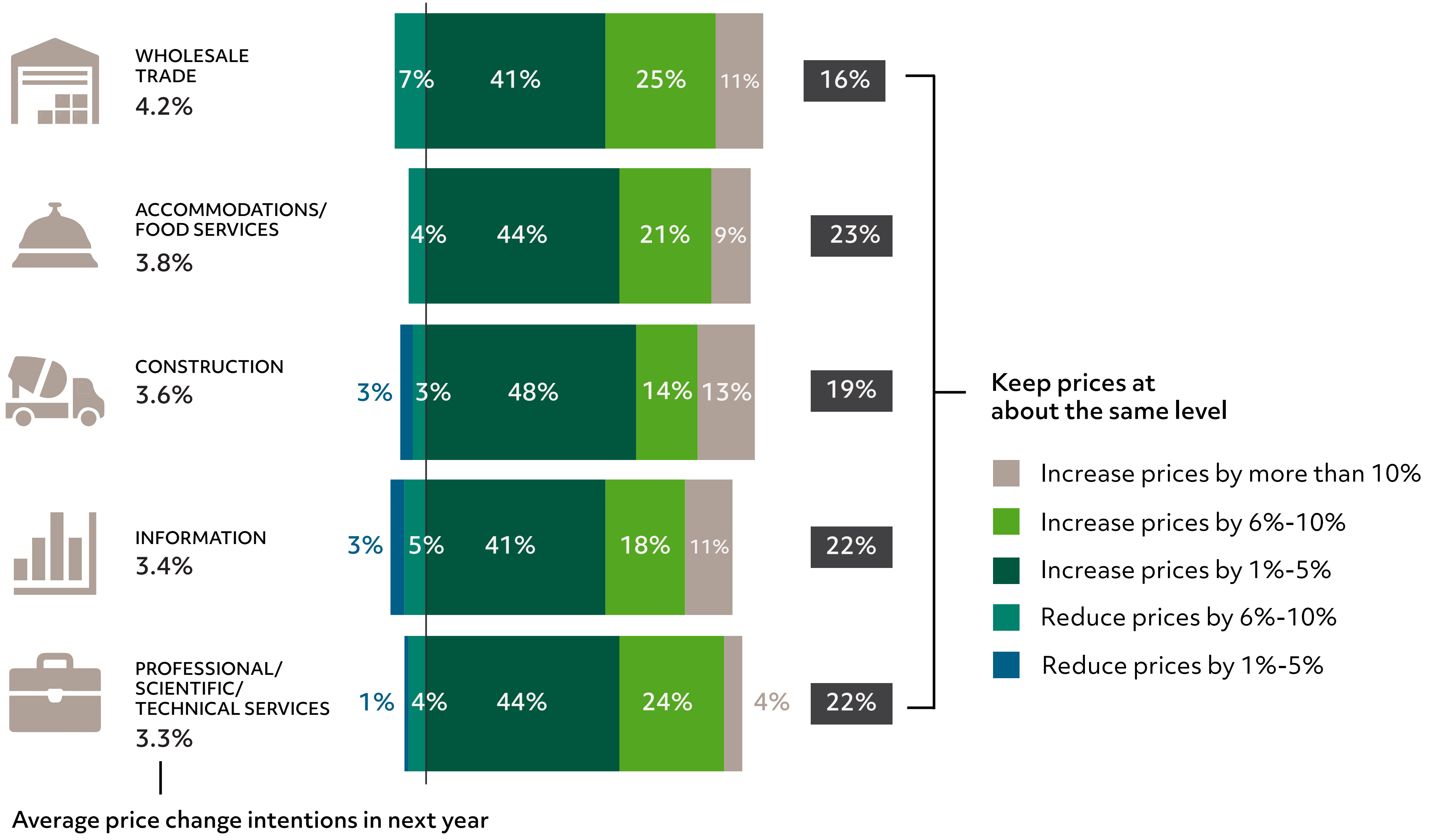
On average, across all countries, respondents said they intended to raise their prices by **3.1%**. Respondents from the US and Mexico expected slightly smaller increases of **2.8%** and **2.9%** respectively.

How Much Do You Expect to Raise (or Lower) Prices?



Where You'll See the Biggest Price Increases

Wholesale trade, accommodations and food services, and construction are expected to raise prices to a greater extent than other sectors.



To Fight Inflation, Interest Rates Are Rising Sharply

When selecting a new source of financing, respondents said interest rates were the top factor.

The US Federal Reserve and other central banks have issued a series of rate hikes in an effort to cool inflation, with the potential for more later this year.

When C2FO's survey was conducted in April, respondents said their average annual percentage rate (APR) rose from **7.5%** to **7.8%** over the previous 12 months, or **0.3** percentage points.

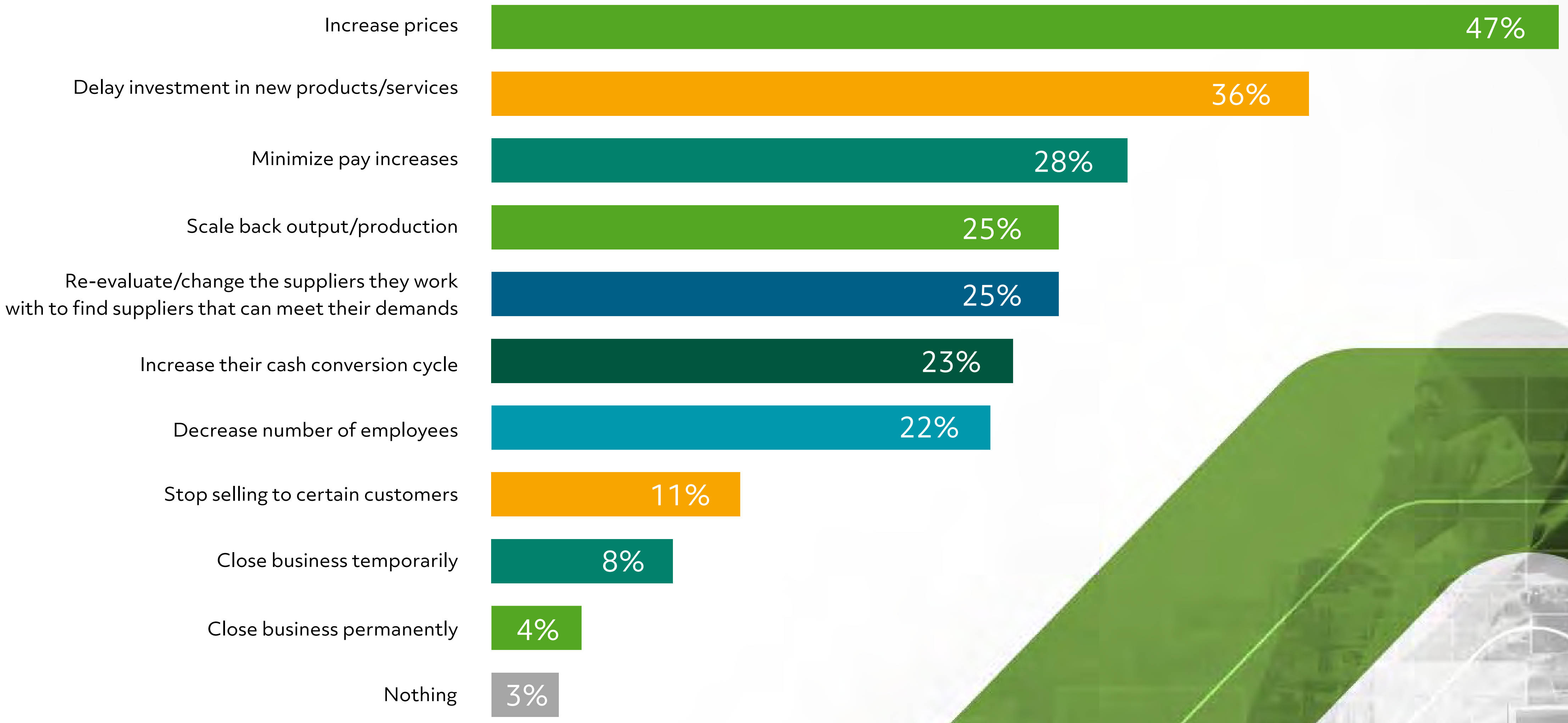
- In the US, the average APR grew by **0.2** percentage points.
- Respondents from Mexico said their APR declined from **8.0%** to **7.7%**.

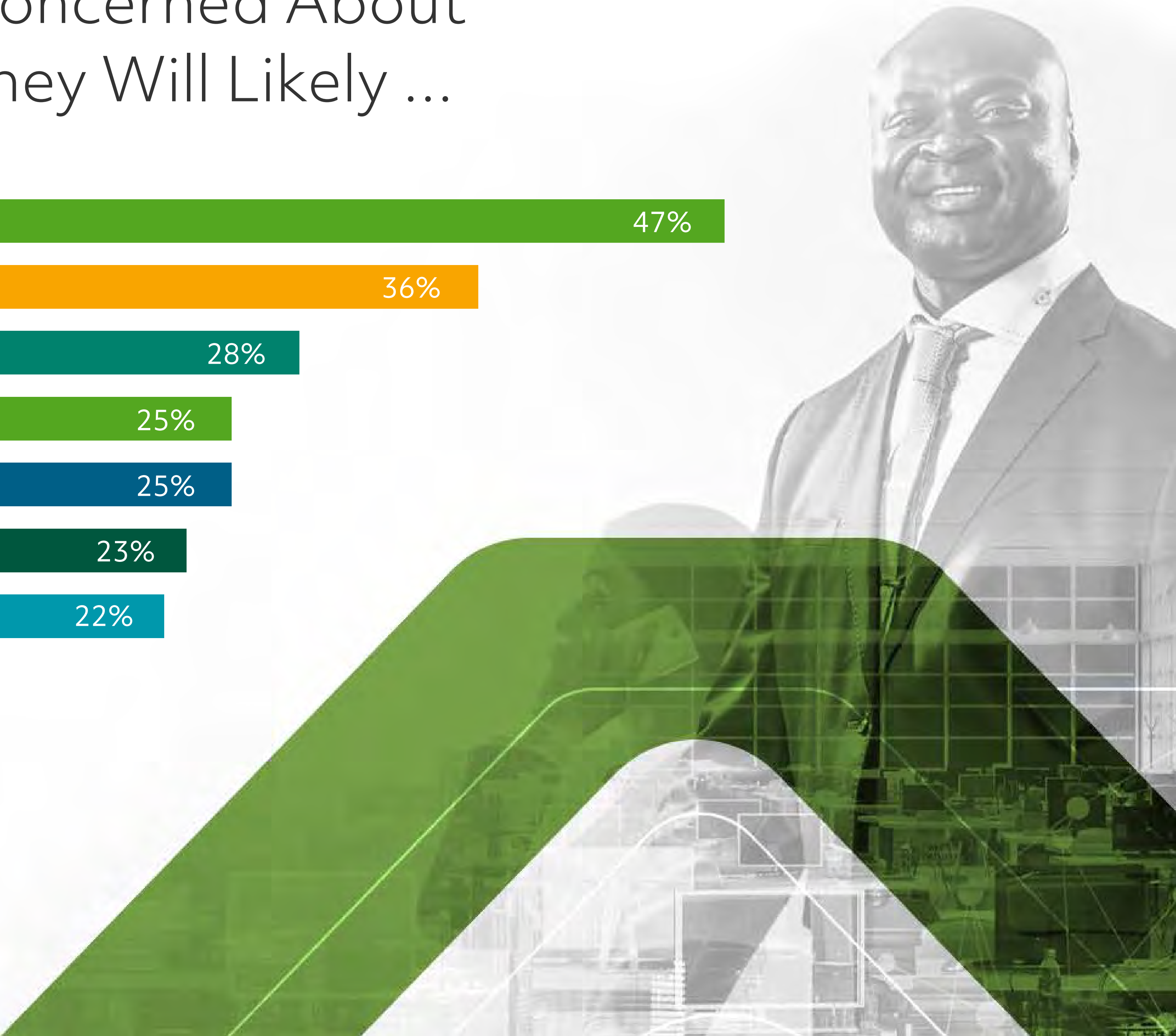
Higher interest rates help reduce inflation because — by raising the cost of borrowing — they increase the cost of consumption and decrease demand. Unfortunately, higher rates also make it more expensive for businesses to access the capital they need to fund growth or even continue to operate.

Among the global respondents who expected a negative impact from higher interest rates, **47%** said they would increase prices if rate hikes are as bad as feared. Others said they would postpone investments in new products or services, scale back pay increases or throttle their production.

Interest rates were the most cited factor when selecting a new source of financing, with **46%** of all respondents listing it as a concern.

Decision-Makers Who Are Concerned About Higher Interest Rates Said They Will Likely ...





Liquidity Could Worsen — and Too Many Businesses Aren't Ready

Good news first: Most of those surveyed said they had access to adequate liquidity right now — enough to run their business for the next 12 months. Most also said they had enough cash in reserve to weather several months of nonpayment.

However, a significant minority — **21%** globally — said they don't have enough liquidity. That number was slightly higher among US respondents (**23%**) and slightly lower for respondents from Mexico (**19%**).

The smallest businesses were less likely to have enough access to liquidity for the next 12 months — **27%** of companies with fewer than 50 employees had liquidity concerns vs. **20%** of companies with 1,000+ headcount.

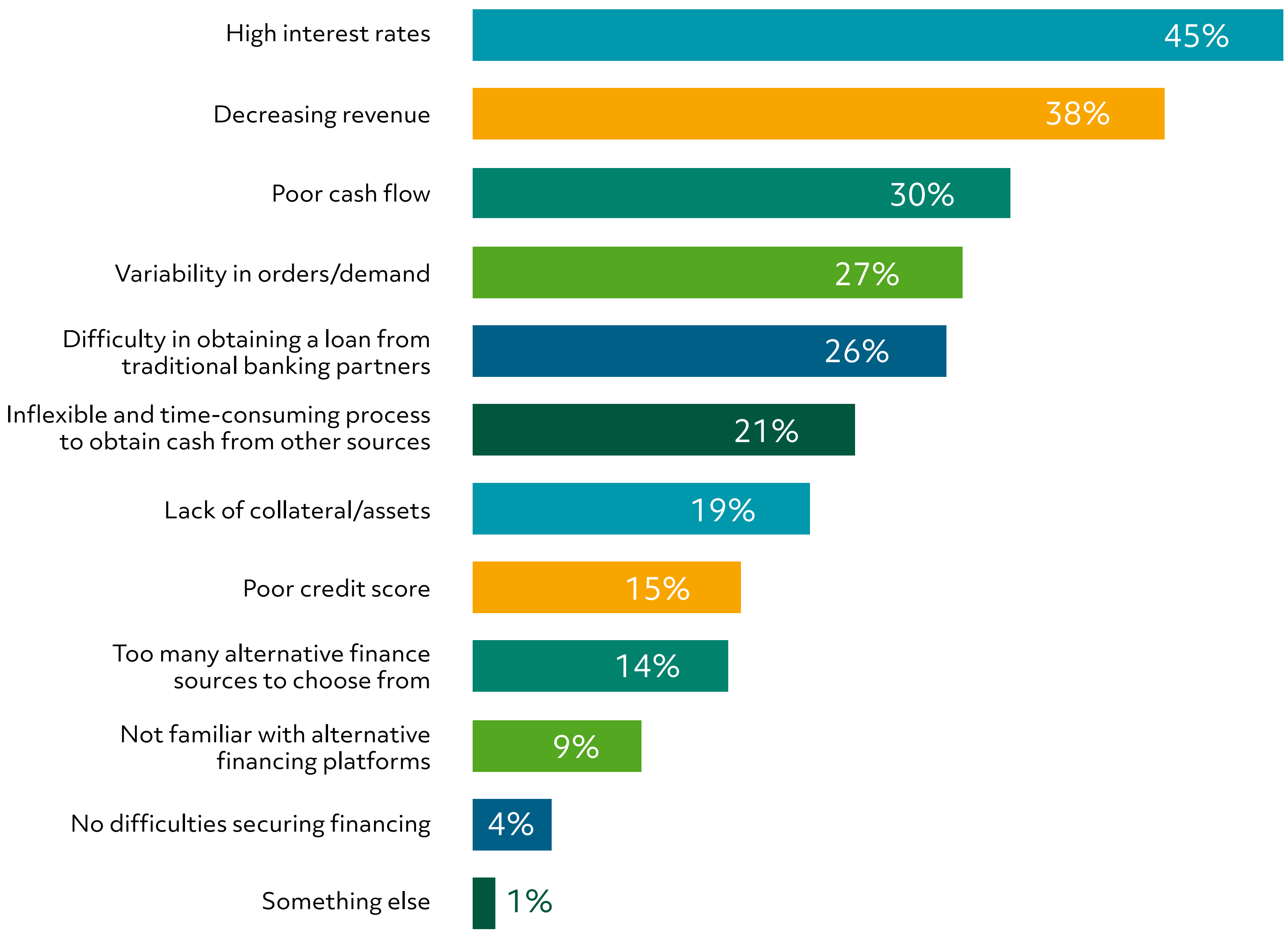
Higher interest rates could make it harder for small businesses to get funding from traditional lenders.

LIQUIDITY

Problems Accessing Funding Driven by High Interest Rates, Lower Revenue and Poor Cash Flow

Globally, about **22%** of businesses said a lack of access to funding had a negative impact on them.

What were the biggest obstacles to them getting capital?



Too Many Businesses Are Missing the Best Solution for Liquidity Problems

ALTERNATIVES

Among the survey's respondents, the top three sources of working capital were the **company's cash flow**, the **owner's investment** and **revolving lines of credit or term loans** from a bank. As interest rates increase, though, businesses should identify alternatives that are credit-flexible or credit-agnostic.

Dynamic discounting, for example, can help businesses get paid faster for their outstanding receivables in exchange for a discount. It can also be easier to secure than a loan from a traditional lender.

Dynamic discounting isn't always available. One alternative is **invoice factoring**, an arrangement where a business sells its receivables to a third party. The third party provides the business with cash immediately, then collects on the receivables under the original payment terms.

Unfortunately, factoring can interrupt a business's relationship with its customers — it's no longer responsible for collecting from them. Plus, many factoring relationships involve fees and rules that aren't present with dynamic discounting.

Cash Flow, Owner's Capital and Lines of Credit Are the Most Used Sources of Financing

	Used Now	Available
Cash flow from operations	53%	70%
Owner's investment/capital	46%	64%
Revolving line of credit or term loan from a bank	45%	65%
Government support like grants, tax incentives or subsidies	41%	60%
Supply chain financing	35%	50%
Private institutional funding (e.g., venture capital, private equity)	34%	51%
Government loans	33%	56%
Factoring of invoices	30%	48%
Revolving line of credit or term loan from an alternative lender (not a bank)	28%	52%
Asset-based loan	28%	53%
Funding from friends and family	28%	34%
Peer-to-peer lending	28%	34%
Dynamic discounting (early payment program)	27%	43%

Definitions

Dynamic discounting: A type of invoice discounting where a greater discount may be offered in exchange for earlier payment, as compared with static discount terms like 2/10 net 30. This is a frictionless way to accelerate payment from buyers to sellers.

Invoice factoring: A type of financing where businesses sell their invoices to a third party in exchange for immediate payment, less fees. The third party then collects from the original customer. Factoring arrangements often come with extra fees and rules, and they can interfere in the customer relationship.

88% of respondents were somewhat or very satisfied by dynamic discounting's ease of use.

85% of respondents said they were somewhat or very satisfied by dynamic discounting's flexibility.

84% were satisfied by how much money from their invoices was released straightaway.

How a Faster Cash Flow Protects Businesses

Dynamic discounting is important because it accelerates a company's cash flow, helping it get paid faster. Instead of waiting 30, 60 or 90 days, many businesses receive payment in **less than 10 days**.

And that allows them to speed up their cash conversion cycle — the amount of time it takes a business to turn its investment in inventory or materials back into cash. A shorter cycle generally means the business is using its capital more efficiently.

A high-functioning cash conversion cycle is especially important during times of high inflation. By getting paid faster, businesses can reinvest their cash in inventory and materials before those costs increase. Doing this month in and month out allows the company to protect its margins from ever-increasing inflation.

Among respondents concerned about inflation, only **16%** said they seek to optimize their cash conversion cycle. More treasury and financial teams should investigate this strategy. If liquidity becomes less available, an optimized cash conversion cycle could be the difference between growth and stagnation.

Why Don't Businesses Use Dynamic Discounting and Invoice Factoring?

The smaller the business, the less likely it was to use dynamic discounting — **15% for companies with less than 50 employees vs. 31% for companies with 1,000+ employees.** In many cases, this is because smaller businesses are less likely to sell to larger buyers that offer dynamic discounting.

When it came to invoice factoring, though, smaller businesses were slightly more likely to use it (33%) than larger businesses: **29% for companies with 50-249 employees; 29% for 250 to 999 employees; and 31% for companies with 1,000+ employees.** Smaller businesses might be more likely to use factoring because dynamic discounting isn't available to them.

ESG Plays a Larger Role in Business Financing

Sustainability and diversity are becoming a bigger part of business relationships as large enterprises are offering **preferred payment terms to suppliers that adopt environmental, social and governance-forward policies.**

In some cases, that's because those enterprises — especially ones based in Europe — are facing new regulations that hold them responsible for environmental impact throughout their supply chain. Others are trying to qualify for financing products that favor companies with good ESG track records.

The preferred terms can help suppliers, especially small and mid-size businesses, afford the cost of sustainability upgrades such as adopting clean energy or shifting to eco-friendly packaging.

Unfortunately, this year's survey suggests that smaller businesses might be having a harder time accessing those offers.

ESG

ESG Plays a Larger Role in Business Financing

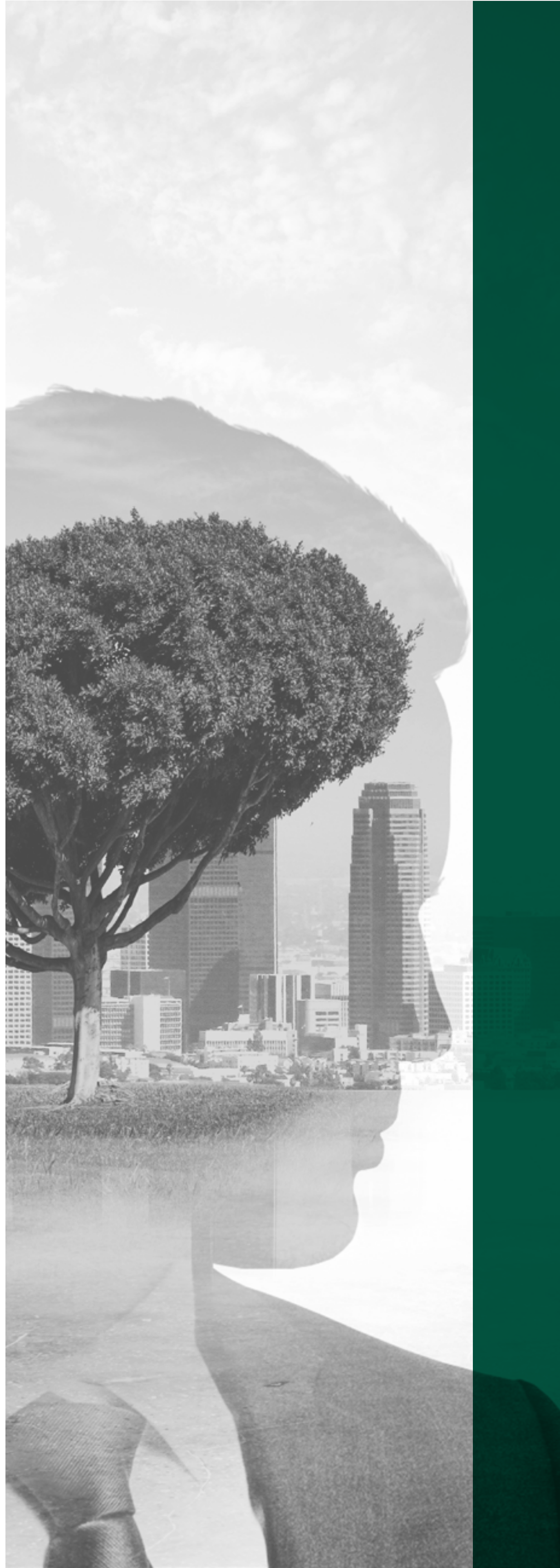
SUSTAINABILITY

- Globally, **43%** of respondents say they have been offered preferred terms for their sustainability practices.
- **22%** of US respondents have been offered preferred terms.
- Smaller companies were less likely to receive those offers: **19%** among companies with fewer than 50 employees vs. **58%** for companies with 1,000+ employees.

DIVERSITY, EQUITY & INCLUSION (DEI)

- **28%** of US respondents were offered preferred terms for their DEI practices and policies.
- Smaller companies were much less likely to receive those offers: **19%** for companies with fewer than 50 employees vs. **41%** among companies with 1,000+ employees.

64% of respondents say they want their business partners to take stands on important issues.



Conclusion

Around the world, businesses still feel confident about the future, even as they face challenge after challenge today, from supply chain shortages to global conflict to the continuing effects of a worldwide pandemic.

The 2022 Working Capital Survey is an important reminder that for businesses to achieve their vision of growth, they'll need reliable access to affordable working capital, the lifeblood of every business. But that could become more difficult as the twin forces of skyrocketing inflation and interest rate hikes push the cost of borrowing to higher levels.

That's why alternatives like dynamic discounting — which is less restrictive than traditional financing products and less sensitive to interest rate hikes — need to become a part of their financial toolbox.

As the world's leader in working capital, C2FO is working to make those solutions and others as convenient and flexible as possible for all businesses. Our platform helps accelerate payment from enterprise customers, using their own balance sheet or our network of funding sources, to their customers in exchange for a small discount, **putting money in their accounts faster**.

Discover how C2FO can help your business.

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