Outlook

On-Demand Capital for Every Business | **2024**

2024 WORKING CAPITAL SURVEY

The State of Working Capital

Discover how businesses are adapting to the higher cost of money and finding the funds they need to thrive.

Read the Report >

Mixed News on Inflation

Conditions have improved, but businesses are still worried. Here's why inflation is still the No. 1 threat.

Read more >

The Waiting Game

Interest rates are coming down ... eventually. Why cuts are taking so long.

Read more >

Solving the Liquidity Problem

Nearly 60% of those surveyed would feel the impact if payments were delayed a month.

Read more >

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About the Survey

C2FO surveyed business leaders in four key markets in January 2024. Our goal was to assess the current state of working capital and its impact on businesses of all sizes. We tried to determine whether survey participants were confident or cautious, how they viewed the coming months and how they intended to put their resources to work.

Their answers provide a road map for the rest of 2024 and beyond.

Total Number of Respondents

1,079 respondents from four regions:

- United States 429
- Mexico 220
- United Kingdom 216
- India 214

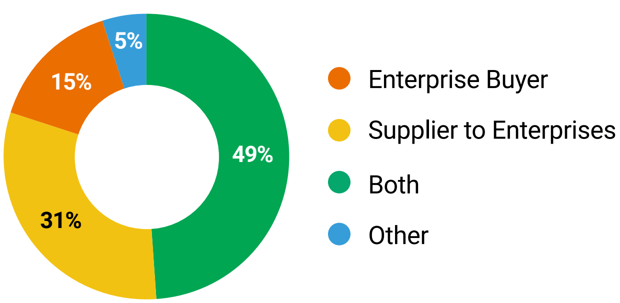
Roles

80% of survey respondents are executives

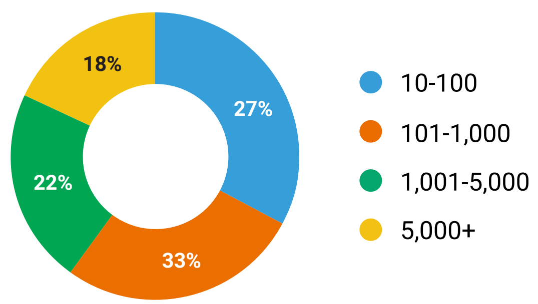
Years in Operation

65% of survey respondents have been in business for over 10 years

Company Type



Company Size



Business Leaders Expect Growth in 2024, but Working Capital Could Be a Problem

One thing was crystal clear from this year's survey: Most respondents think their companies and economies will grow over the coming months, even as they keep one eye on inflation, higher interest rates and other concerns.

But higher growth comes with an inherent challenge, too. To fund payroll, inventory, materials and other costs, companies will need access to more working capital — even as persistently high interest rates make that capital more expensive, and businesses feel more pressure related to liquidity.

Most Respondents Predict Growth and Higher Revenues This Year

78%

of respondents **expect their businesses' revenue to grow** in 2024

32%

believe their **businesses will grow** by more than 10%

57%

think their country's **economy will improve** in 2024

88%

of Indian respondents **expect their businesses to grow**, the highest among surveyed countries

Working Capital and Liquidity Concerns Remain

59%

said they would feel an impact if their payment terms were extended by 30 days

24%

of suppliers **don't have access to enough liquidity** to operate for a year

48%

of suppliers have days sales outstanding (DSO) **longer than 30 days**

42%

of respondents expect interest rates to **negatively impact their growth** in 2024

Businesses Should Consider Other Options for Capital

To find the capital they need, companies must look outside the traditional paradigm of borrowing and use sources that aren't as reliant on interest rates. That includes options like dynamic discounting, supply chain finance and invoice factoring — or new models that combine the best features of these solutions with increased flexibility and ease of use.

20%

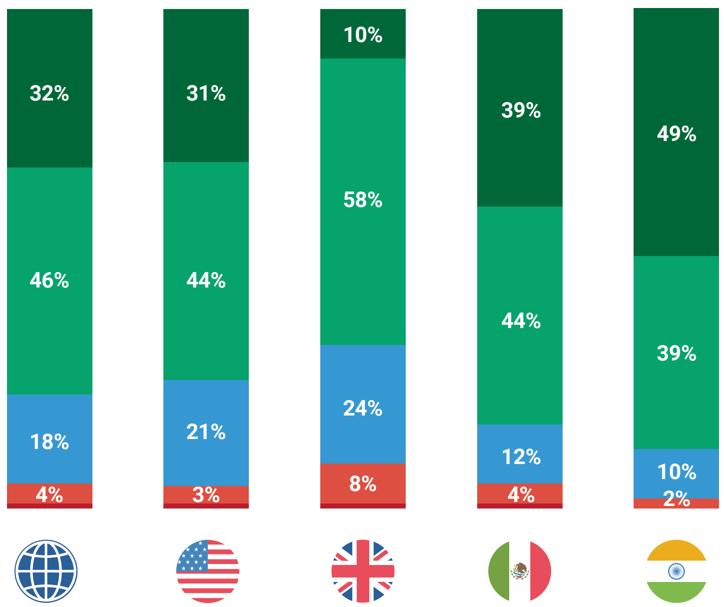
of suppliers use dynamic discounting to access funding, suggesting there is room for growth

Across Regions, Businesses Consistently Forecast Growth in 2024

There was little variation among regions — India was more optimistic than the United Kingdom, for example — but majorities expect their businesses to increase their revenues over the coming months.

And now thinking ahead to the next year (2024), do you expect your business's revenue to grow, or decline, or stay about the same?

- Grow by more than 10%
- Grow by 1-10%
- Stay about the same
- Decline by 1-10%
- Decline by more than 10%



What people are saying

The survey asked business leaders to describe, in their own words, how they felt about the economy.

"The economy is a roller coaster. Inflation, employee shortages and cost of living are out of control."

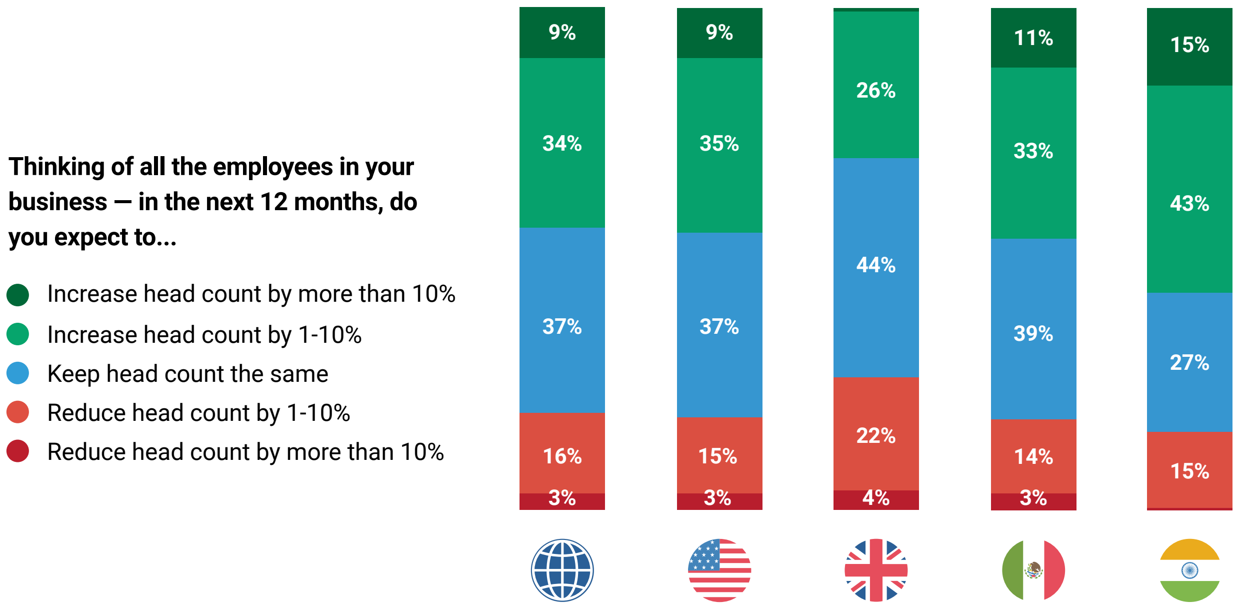
"The economy is recovering, and we suspect inflation to be lower going forward."

"The cost-of-living crisis has made people reluctant to spend and, as such, has made businesses more cautious about investing in their infrastructure."

"Inflation is getting better, and prices are coming down. Unemployment is at an all-time low."

Hiring Is Expected to Grow Slightly or Hold Steady

Growth in hiring looks like it will continue in 2024, though a significant percentage of respondents plan to keep head count close to where it is now.



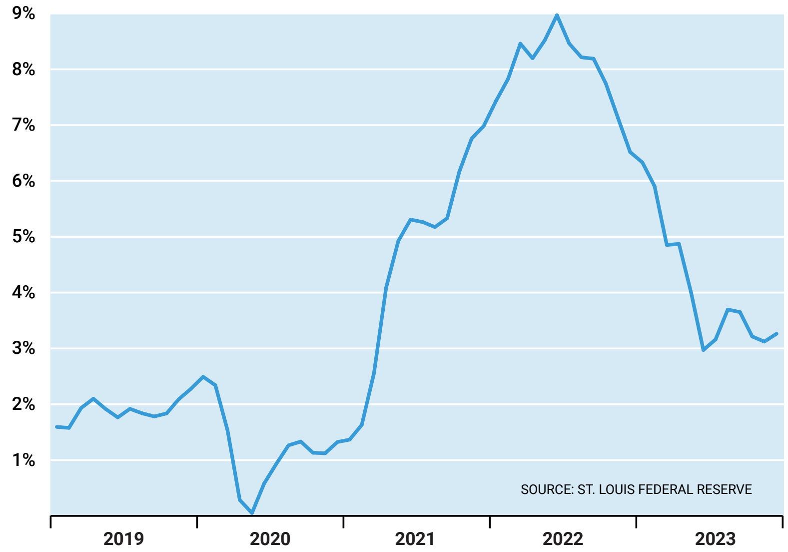
Bright Spot: 54% Expect a Positive Impact From AI

Many businesses believe they will benefit from efficiency gains associated with artificial intelligence. In fact, many have already started to use it in their operations. While AI might help to lower labor costs, most respondents aren't planning to replace staff with artificial intelligence. Globally, only 18% of respondents said they planned to use AI to replace part of their workforce.

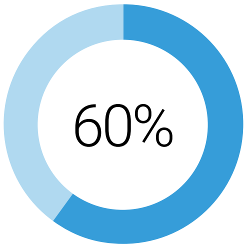
Inflation Remains the No. 1 Threat for Businesses

Even though the rate of inflation has eased over the last several months, 60% of respondents identified it as a threat for 2024, more than any other concern. Annual inflation rates are still above the 2% target that many countries use. Some central banks are planning to cut interest rates this year, but those plans could be derailed if inflation heats up again.

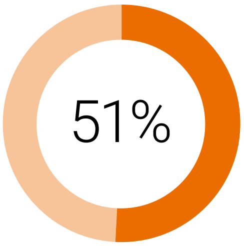
Inflation continues to decline from the highs of 2022, but it's still higher than pre-pandemic times.



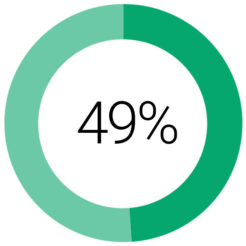
Leading threats include:



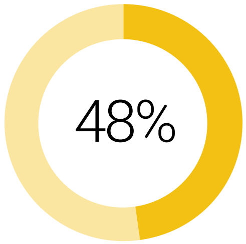
of respondents listed **inflation as a potential threat in 2024,** more than any other



fear **recession or slowing economic growth**



worry about **worker shortages**



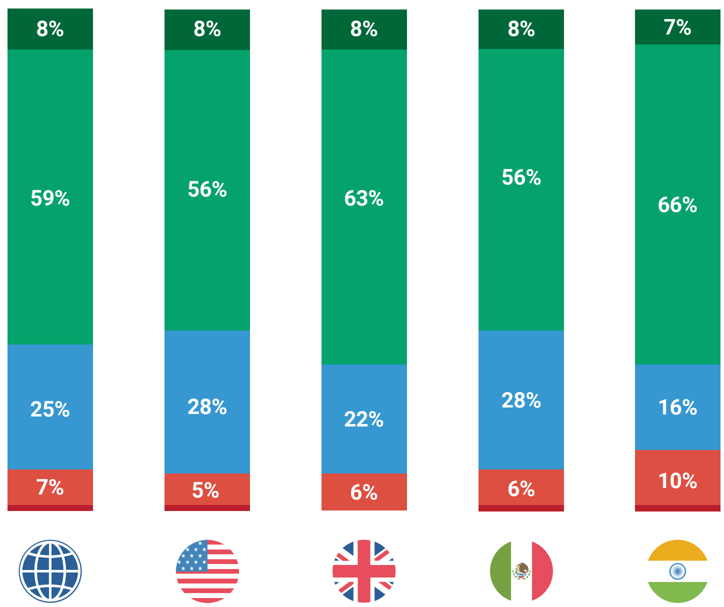
are concerned about **supply chain shortages** (availability of materials)

67% Expect to Raise Prices, but Increases Should Be Relatively Mild

42% of respondents said their increases would be 5% or less, versus 17% who planned hikes of 6% to 10%. Only 8% planned increases above 10%.

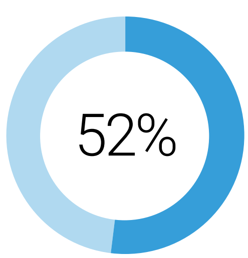
Thinking of the prices your business charges to customers — In the next 12 months, do you expect to...

- Increase prices by 10%+
- Increase prices by 1-10%
- Keep prices the same
- Reduce prices by 1-10%
- Reduce prices by 10%+

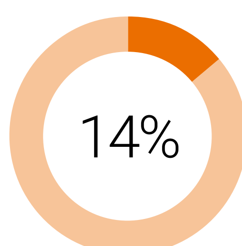


Price Increases Predicted in All Industries

Majorities in all industries in this year's survey expect to increase prices this year.



of respondents in the transportation-warehousing and wholesale trade verticals plan **increases of 1% to 5%**



of respondents in accommodations and food service **expect increases of more than 10%**

Interest Rates Are Another Big Question Mark for 2024

Interest rates weren't the most cited threat in this year's survey. It was tied for sixth on the list of potential concerns.

But it's arguably worth more attention due to its impact on inflation and overall economic growth.

In many countries, interest rates are the highest they have been in decades, as central banks tried to reduce inflation rates. Those rate hikes started in late 2021 and early 2022 in many countries. They continued regularly through summer 2023 — around the time when it became apparent that inflation was beginning to ease in many countries.

Though interest rates stopped climbing in 2023, there haven't been cuts in most nations yet. (Brazil, Mexico and Switzerland are exceptions.) Market watchers were hopeful that policymakers would quickly move to cut interest rates in 2024. But the US Federal Reserve, the European Central Bank and other decision-makers are signaling it might take months for that to happen. They want to ensure that annual inflation rates return to 2% and stay low. None of them wants to reduce interest rates and then be forced to raise them again.

Unfortunately, for every month that rates remain elevated, consumers and companies feel the pinch.

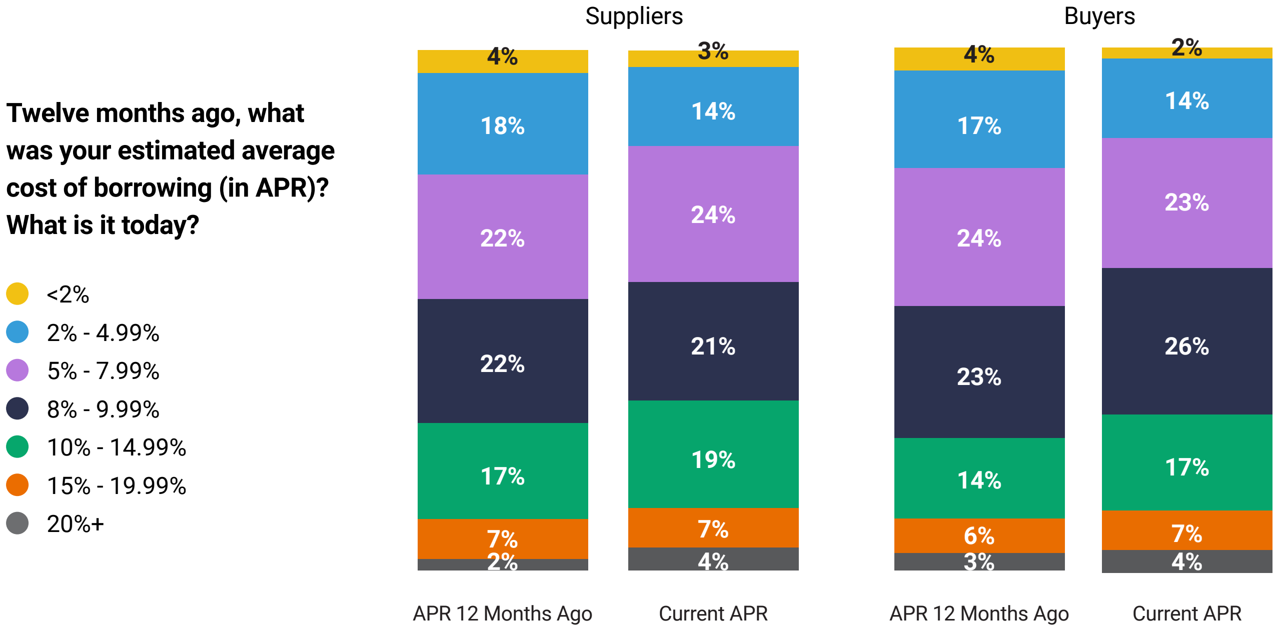
Houses, cars and other purchases cost more. Businesses have a harder time lining up the capital for expansion efforts.

And that's why high interest rates should be a big concern: They limit growth. In many cases, GDP growth forecasts for many advanced economies are well under 2% for 2024, increasing the risk of recession.

If economic conditions worsen, higher interest rates could force companies to look for alternative financing in critical situations.

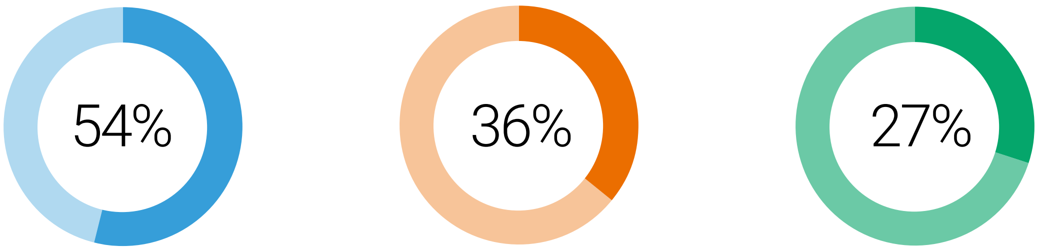
Higher Interest Rates Make It Harder for Businesses to Access Working Capital

Twelve months ago, what was your estimated average cost of borrowing (in APR)? What is it today?



It's easy to see the growth in interest rates in this chart, which shows the average APR for suppliers versus buyers.

Among respondents who were negatively impacted because they couldn't access funding



blamed **high interest rates**, the most cited obstacle

said **poor cash flow** was a barrier

said **declining revenue** prevented them from getting funding

Slower Payments, Lack of Liquidity Pose Serious Threats to Businesses

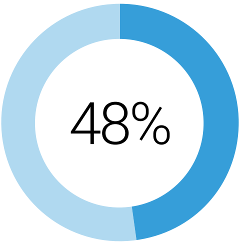
Companies are facing other financial pressures beyond inflation and interest rates — namely, slow payment times and a lack of liquidity.

According to this year's survey:

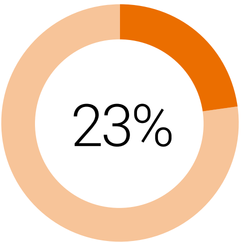
- If their payment terms were extended by 30 days — that is, if it took them another month to get paid — about 59% of all suppliers said they would feel the impact. About 17% said the impact would be significant.
- The survey also asked suppliers if they have access to enough cash flow to run their businesses for 12 months. About 1 in 4 said no — a minority, but a significant one if it means those companies face potential cuts or closures.

In some cases, these are younger or smaller businesses that might be drawing on the owners' own savings. But many may be relying on some form of credit, like a line of credit, asset-based loan or even credit cards.

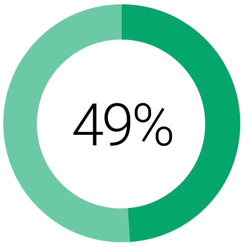
In a time of high interest rates, being forced to lean more heavily on debt can put even more pressure on vulnerable businesses.



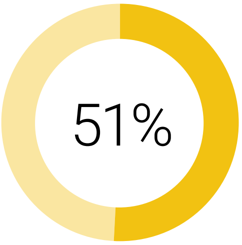
of respondents have days sales outstanding (DSO) **of 30+ days**



of suppliers had **increased DSO** in 2023



of respondents have average days payables outstanding (DPO) **of 30+ days**



have average days inventory outstanding (DIO) of **30+ days**

To Adapt, Many Companies Are Turning to Solutions Outside Traditional Lending

Traditional lending may not be a viable option for many businesses because of higher interest rates, lenders losing their appetite for risk, and other factors that disfavor new or smaller businesses. As a result, more businesses are looking at options that cost less and provide funding faster. Those could include:

Supply chain financing

With these programs, an enterprise buyer typically partners with a bank. The bank pays the buyer's invoices ahead of schedule in exchange for a discount. The buyer then pays the bank the full value of the invoice on the original due date — or later, if that's negotiated.

Invoice factoring

Suppliers sell their outstanding receivables to a factor, a third-party business that pays them the value of the invoice, minus a discount and assorted fees. The factor then collects the original value of the invoice from the buyer.

Dynamic discounting

Suppliers receive early payment on their invoices in exchange for granting their buyers a discount. The value of that discount changes as time passes — the sooner the invoice is paid, the greater the discount.

Next-generation solutions

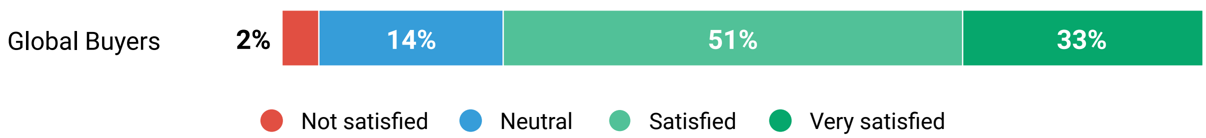
These platforms offer greater flexibility — for example, allowing users to employ different sources of funding (their own funds or multiple lenders) to achieve different outcomes such as greater working capital, improved EBITDA or ESG goals.

Why Supply Chain Finance Might Be a Missed Opportunity

Supply chain finance (SCF) has been around in some form for decades, but it's utilized by a minority of suppliers — even though it enjoys extremely high levels of satisfaction among buyers and suppliers.

How satisfied are you with the supply chain finance (SCF) program used by your business?

How satisfied are you with the SCF program that your business offers?

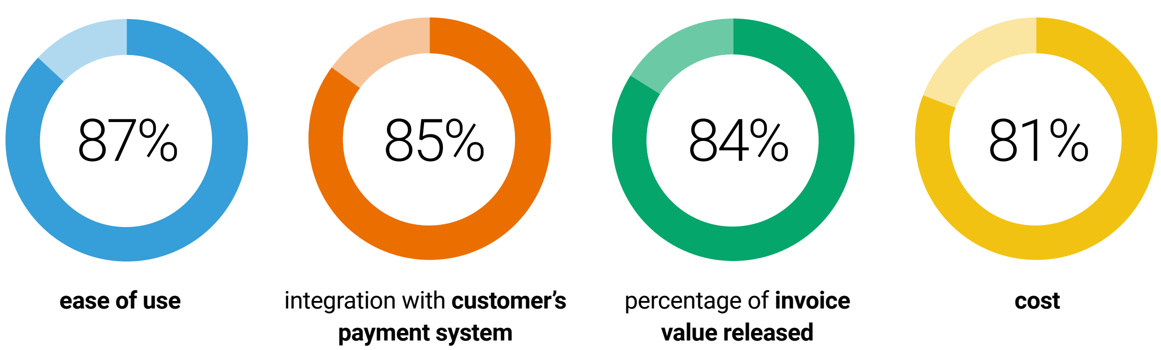


The lack of adoption could be tied to a lack of innovation. Many companies, once they've instituted an SCF program, rarely update it. Many companies offer it only to a handful of their largest suppliers.

What Suppliers Like About Invoice Factoring

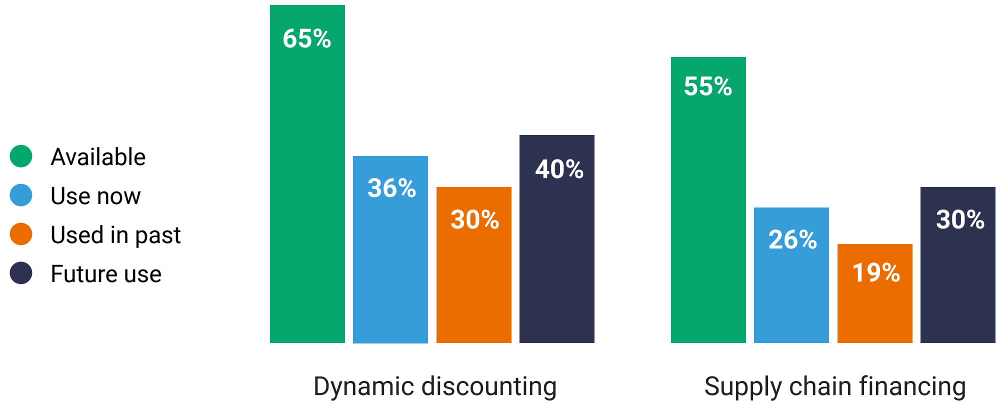
Slightly more suppliers report having access to invoice factoring (54%) than SCF (50%), with fewer actually using it right now (15% for factoring vs. 19% for SCF). Factoring generally enjoys high satisfaction scores among the suppliers that use it. But this type of funding often comes with fees or rules that make it less desirable.

Among suppliers that use invoice factoring, what percentage are very or somewhat satisfied with their provider's performance in the following areas?

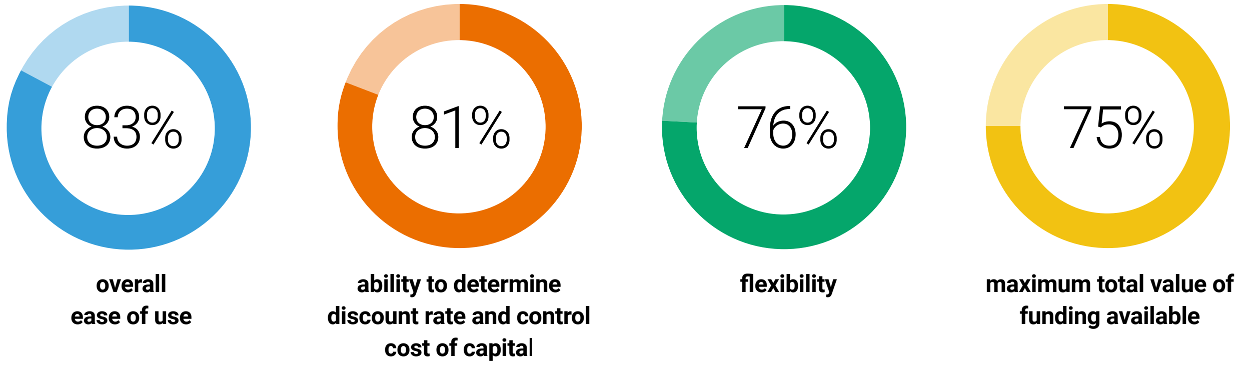


Most Buyers Can Offer Dynamic Discounting. Among Those, Over Half Currently Use It.

Among buyers, which of these financing sources are available options for your business should you wish to use them? Which does your business currently use? Which have you used in the past? Which are you most likely to use in the future?



Among suppliers that use dynamic discounting, what percentage are very or somewhat satisfied with your provider's performance in the following areas?



Dynamic discounting may be more accessible because it doesn't require a long approval process like many bank loans do. Many companies appreciate its flexibility and simplicity so they can better manage working capital needs, end-of-quarter invoices and credit risk.

Why aren't more suppliers using dynamic discounting? About 33% pointed to the cost of discounts and setup charges.

The next most cited reason was a lack of flexibility in being able to access liquidity on demand, but that's not true for all dynamic discounting solutions. C2FO, for example, gives suppliers the ability to request early payment on demand. Even better, it lets suppliers and buyers set their rate — a preference for 70% of respondents.

How Smart Companies Can Thrive Over the Next 12 Months

Embrace opportunities for growth

According to this year's Working Capital Survey, most respondents are cautiously optimistic about the coming year. After surviving supply shocks, painful inflation and high interest rates, business leaders believe their businesses and the larger economy will grow.

Many central banks have signaled their intent to cut rates at some point this year. Higher interest rates might be cutting into profitability right now, but they haven't led to recession in the US and other countries.

Have a plan for managing interest rates and other challenges

There are still challenges ahead. Until policymakers reduce interest rates, smaller businesses will probably struggle to borrow working capital, especially through traditional lenders. Many businesses will also face longer cash conversion cycles, which will only heighten their need for working capital.

Explore new, innovative solutions

While options like supply chain finance or invoice factoring might suffice, businesses may find their most cost-effective, most flexible choice is with a next-generation platform like C2FO.

Although our supplier respondents were generally happy with SCF, only a small fraction of suppliers have access to it. C2FO allows all suppliers to access low-cost capital quickly and affordably while helping enterprise buyers generate healthier returns on their cash, strengthen their supply chain and improve their margins and EBITDA. Enterprises can use their own balance sheet or banking partners to fund supplier early payment. C2FO's modern platform also helps them increase operational efficiency with hassle-free reporting and easy consolidation of multiple bank programs into a single platform.

c2fo™

To learn more about C2FO's solutions, visit www.c2fo.com.