2022 WORKING CAPITAL SURVEY

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

Contents

About the Survey

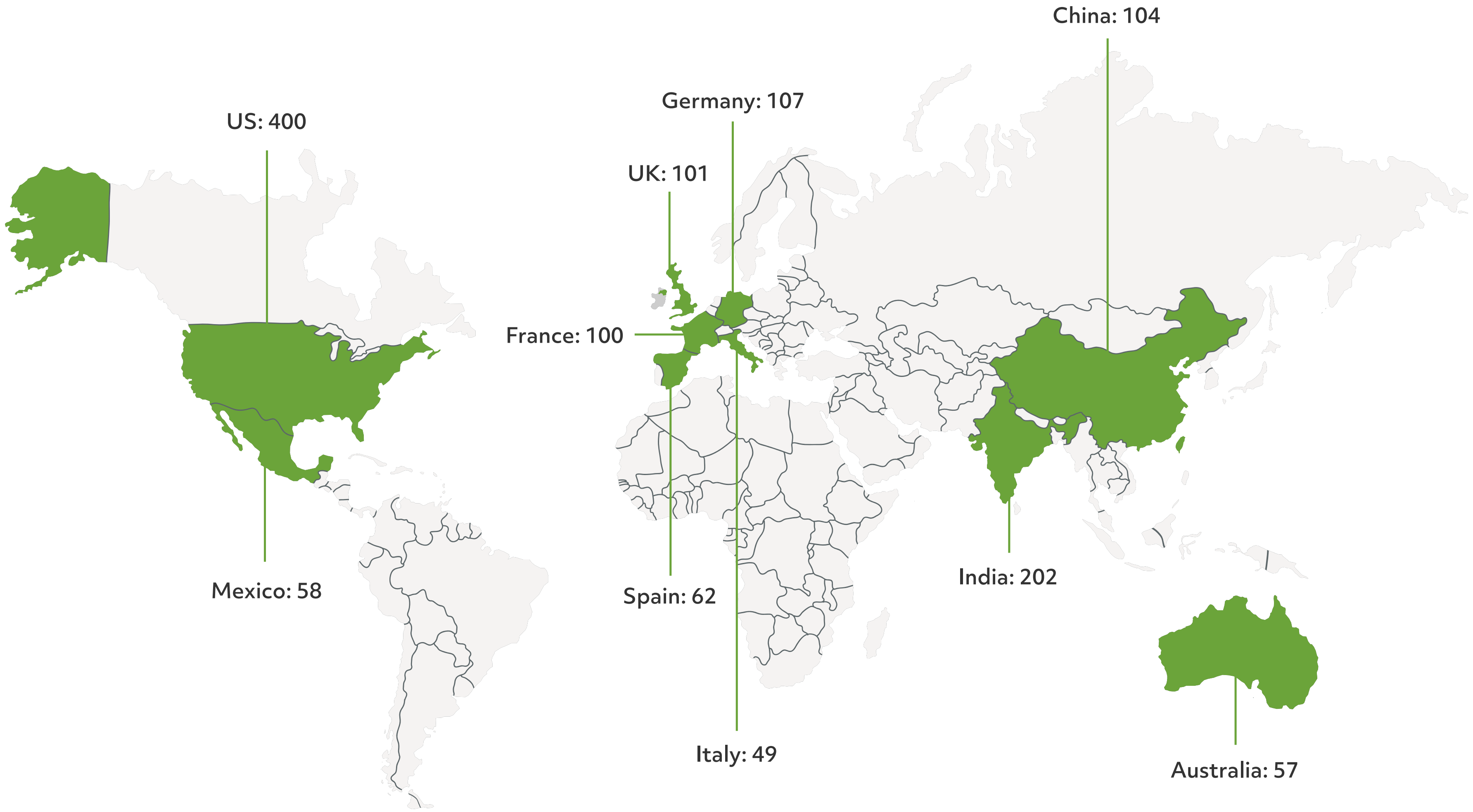
Conducted in April 2022.

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.

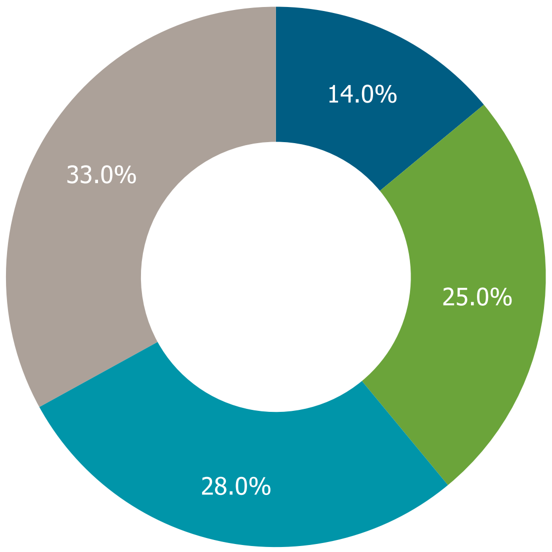
Every year, C2FO surveys companies around the world about their access to financing. Our goal is to create a clear picture of how — or even if — companies can secure the money they need to thrive.

Respondents by Country:

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



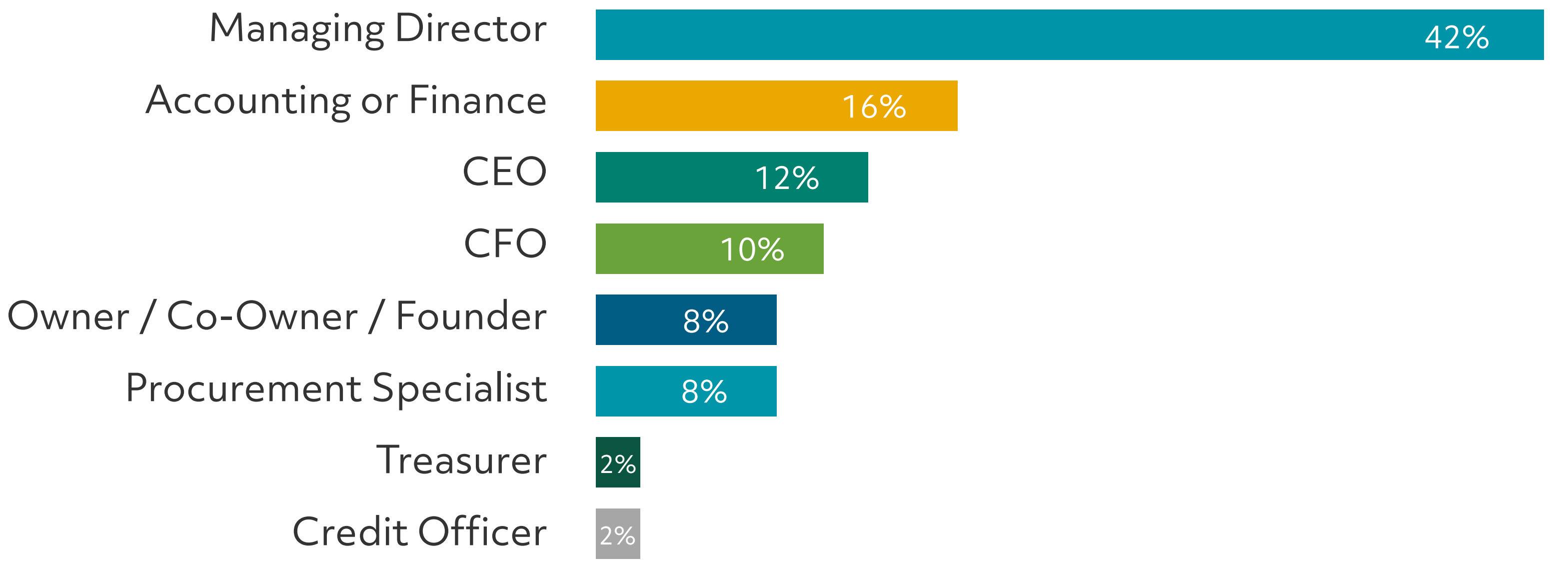
A Closer Look at the Survey Respondents



Company Size:
Full-Time Employees

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

Roles:



Industries Represented:

Manufacturing: **13%**

Professional, Scientific & Technical: **11%**

Finance & Banking: **11%**

Retail: **8%**

Tech: **8%**

Construction: **7%**

Healthcare: **7%**

Education: **5%**

Accommodations & Food Service: **5%**

Transport & Warehousing: **4%**

Other Industries: **21%**

Introduction

After more than two years of dealing with a pandemic, we're still a long way from normal. 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.
54% of UK respondents said it 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.
56% of respondents from Germany expect higher revenues, less optimistic than other European countries.

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.

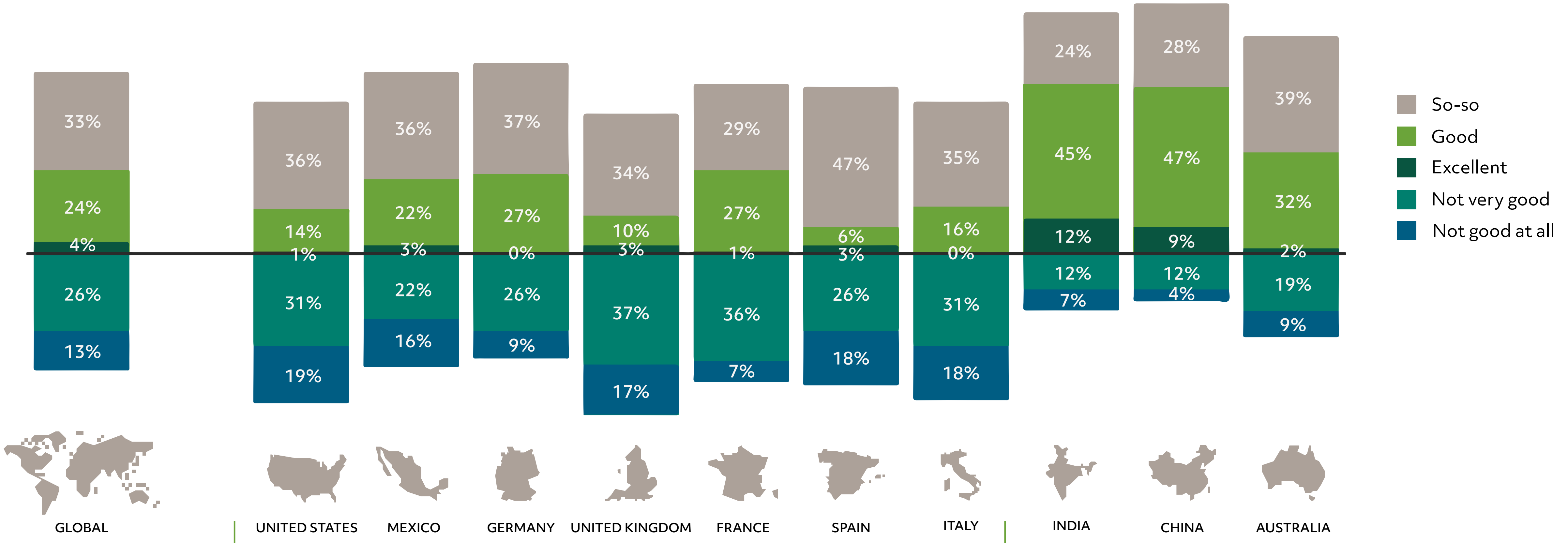
WARNING SIGNS

Higher inflation → Higher interest rates
That 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.

ECONOMIC SENTIMENT

How Do Businesses View the Economy in Their Country?



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

THE TWO-SPEED ECONOMY

Globally, 23% of respondents reported a decline in revenue vs **9%** who saw double-digit growth.

- Spain reported above-average results: **16%** of respondents had double-digit growth while **58%** had experienced growth.
- Meanwhile, **28%** of Italian respondents reported revenue declines, worse than any other in Europe.

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 to **28%** who called them good or excellent.

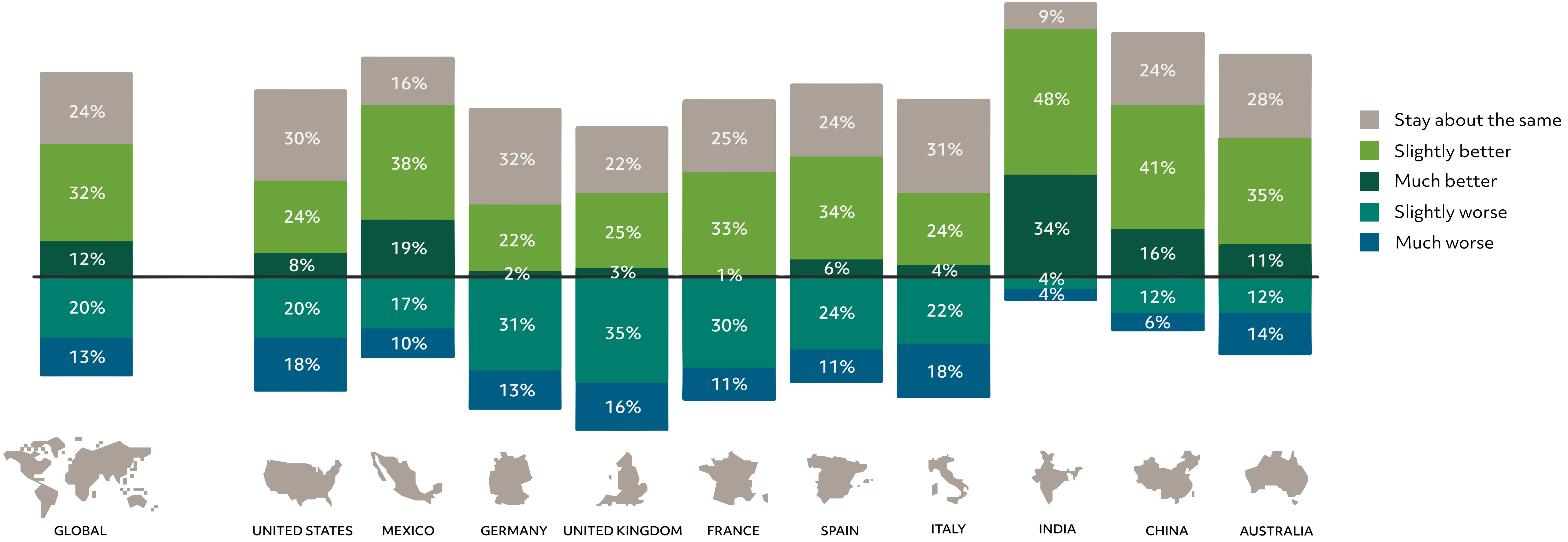
Rising inflation was one of the leading reasons why respondents gave for viewing the economy poorly.

Generally speaking, the European and North American regions tended to be less optimistic than the Asia Pacific countries that were surveyed. In the UK, for example, **54%** of respondents called the economy not good or not good at all. The least pessimistic was Germany, where only **35%** viewed the economy negatively.

… 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 Asia Pacific respondents were more optimistic than those from European and North American countries.

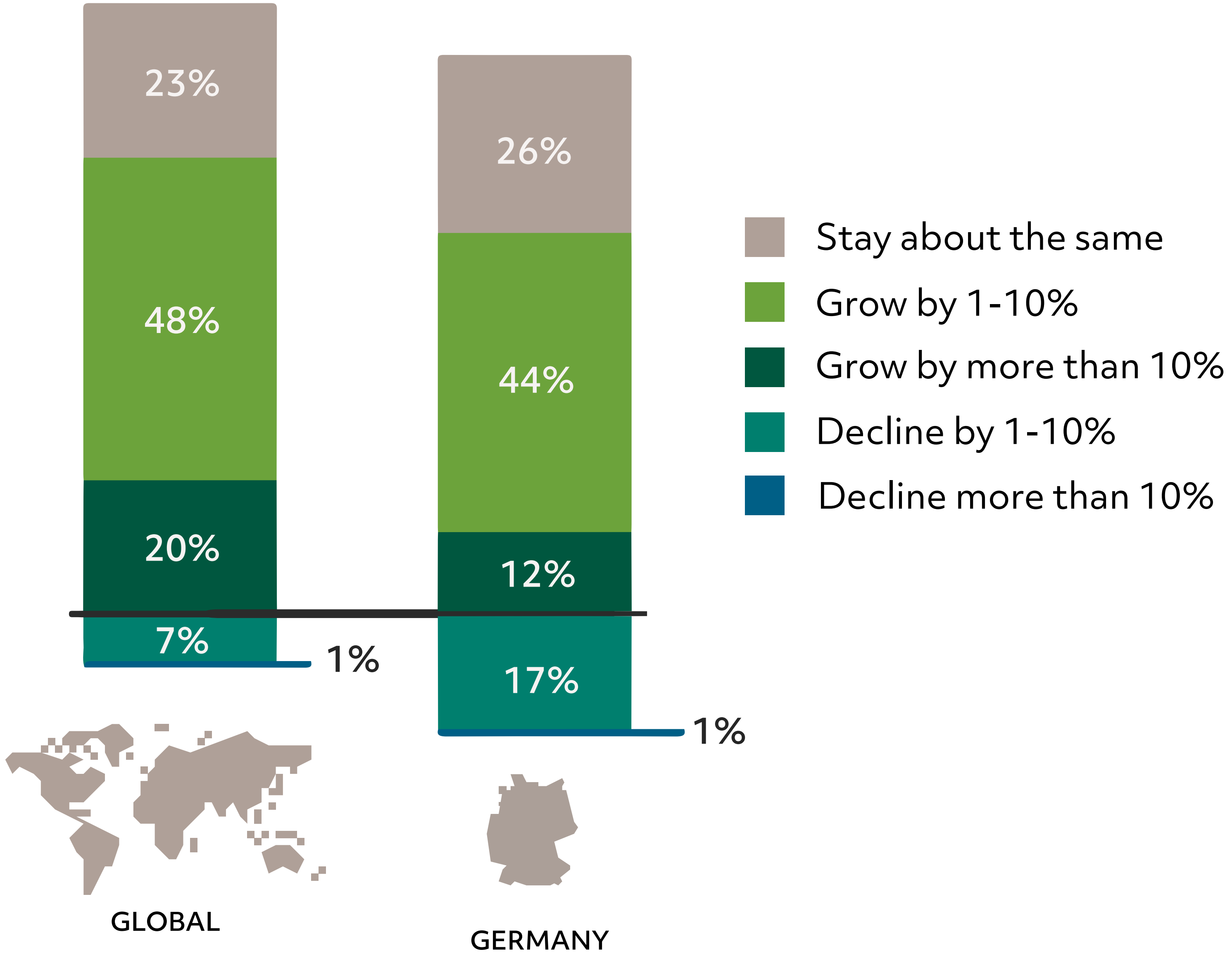


ECONOMIC SENTIMENT

Globally, the majority of respondents (**68%**) believe their company revenue will grow over the next 12 months vs. **8%** who predict a decline.

German respondents tended to be more pessimistic – only **56%** believe they will have higher revenue, while **18%** are bracing for a decline in the coming year.

Most of the other European countries in the survey, though, were in line with the global average.



Inflation Viewed as a Leading Threat

Globally, **63%** of respondents said inflation would have a negative impact on their business over the next 12 months – more than any other factor.

In Europe, when the survey was conducted, inflation was a secondary or tertiary concern. Since then, inflation has soared, so it may very well be viewed as a bigger problem now.

What issues did European respondents say were most likely to have a very negative impact on their companies?

- France: Cost of raw materials and inputs (**25%**)
- Germany: Supply chain shortages (**23%**)
- Italy: COVID-19 pandemic (**37%**)
- Spain: Global conflict or war (**31%**)
- UK: COVID-19 pandemic (**18%**)

Two biggest threats to businesses globally over the next 12 months

No. 1 **Inflation**

No. 2 **COVID-19**

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

76% of 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?

(Ranked by percentage of respondents who said it was a “very negative” effect.)

THREATS

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%

THREATS

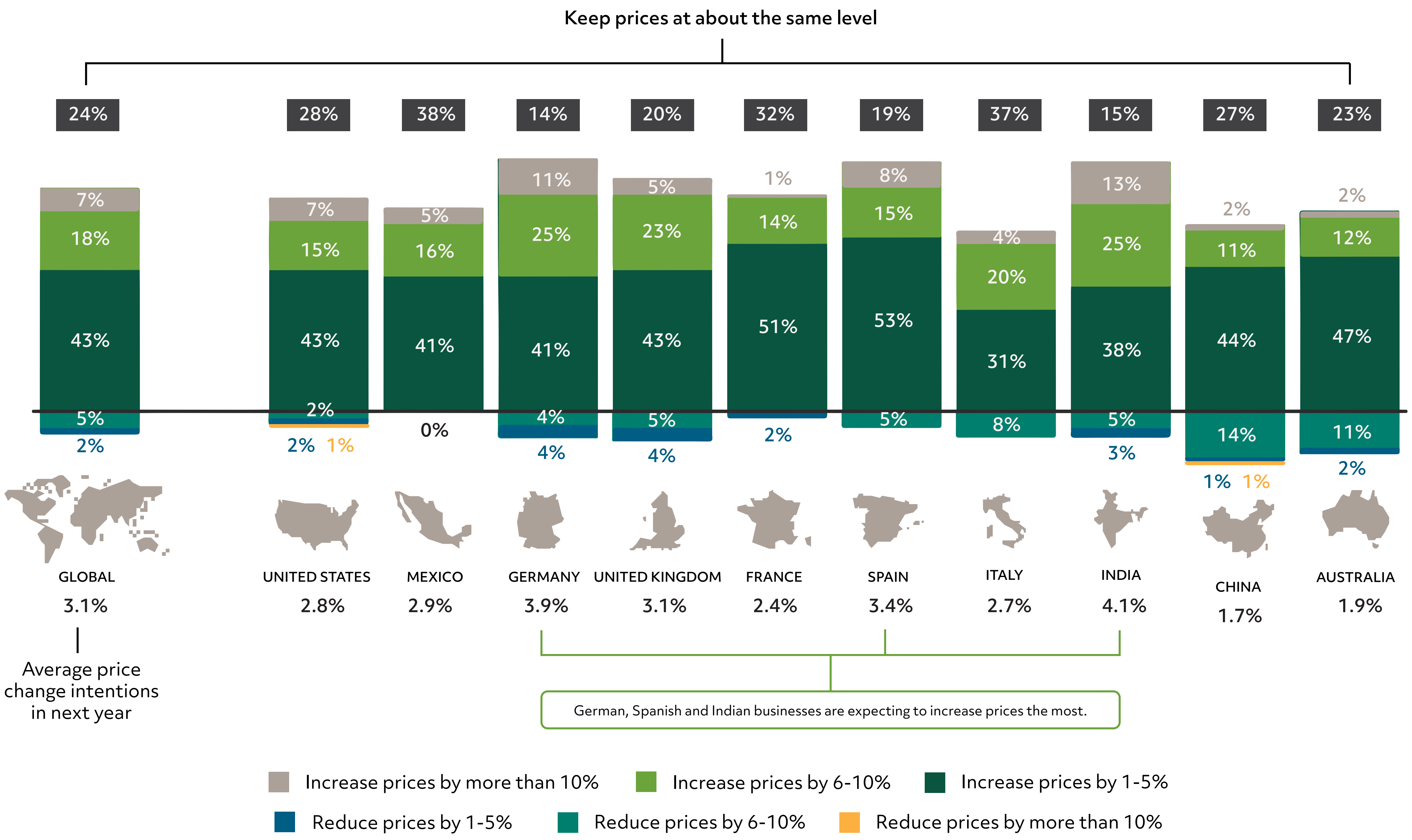
Higher Prices Lead to Even Higher Prices

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 Germany and Spain generally expected to raise prices more, by **3.9%** and **3.4%** respectively.

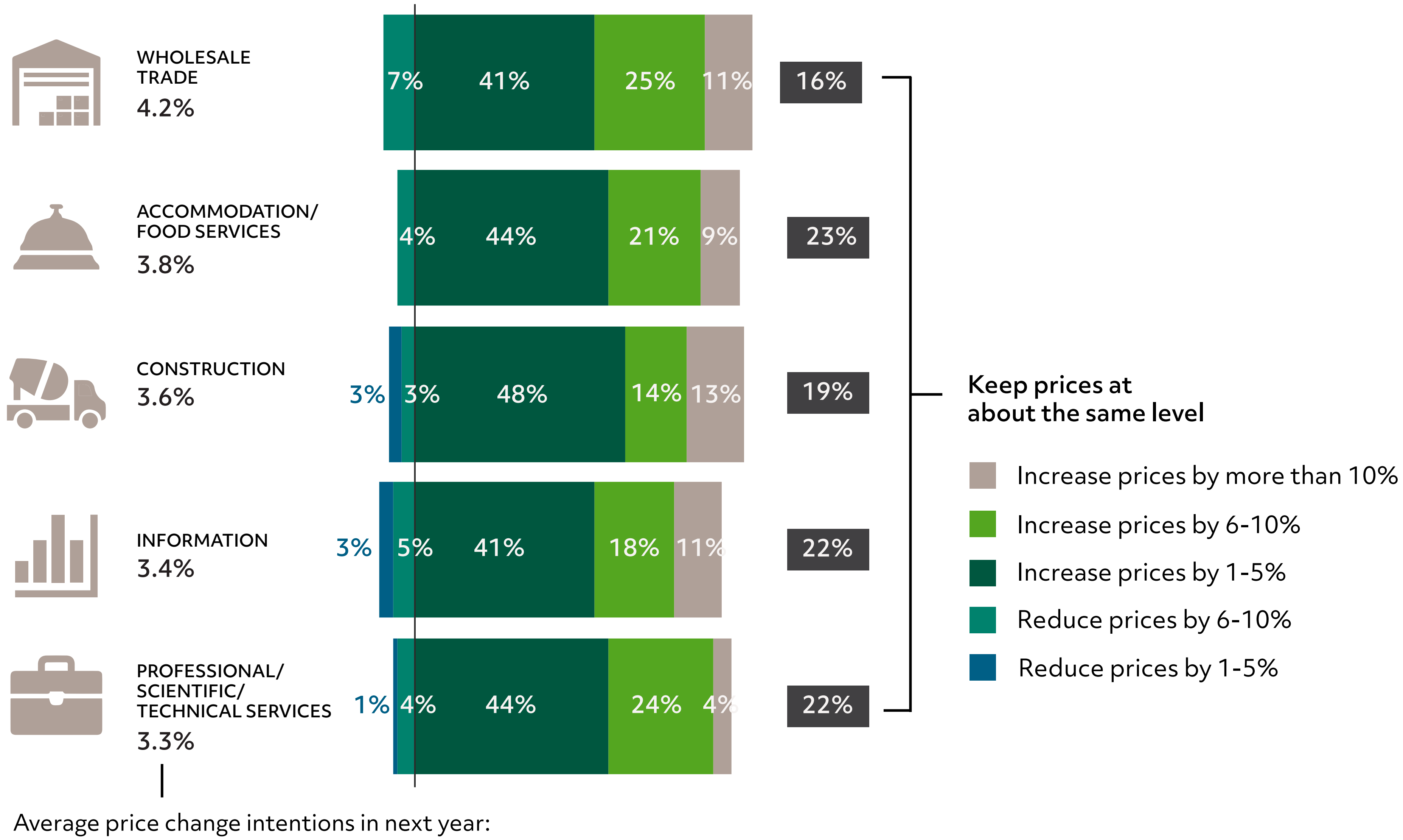
How Much Do You Expect to Raise (or Lower) Prices?



THREATS

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.



To Fight Inflation, Interest Rates Are Rising Sharply

Interest rates didn't rank that highly on respondents' list of worries, but that could change in coming months. In many regions, central bankers have started to use one of the few tools available for fighting inflation: They're raising their benchmark rates, which will heighten the cost of borrowing overall.

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

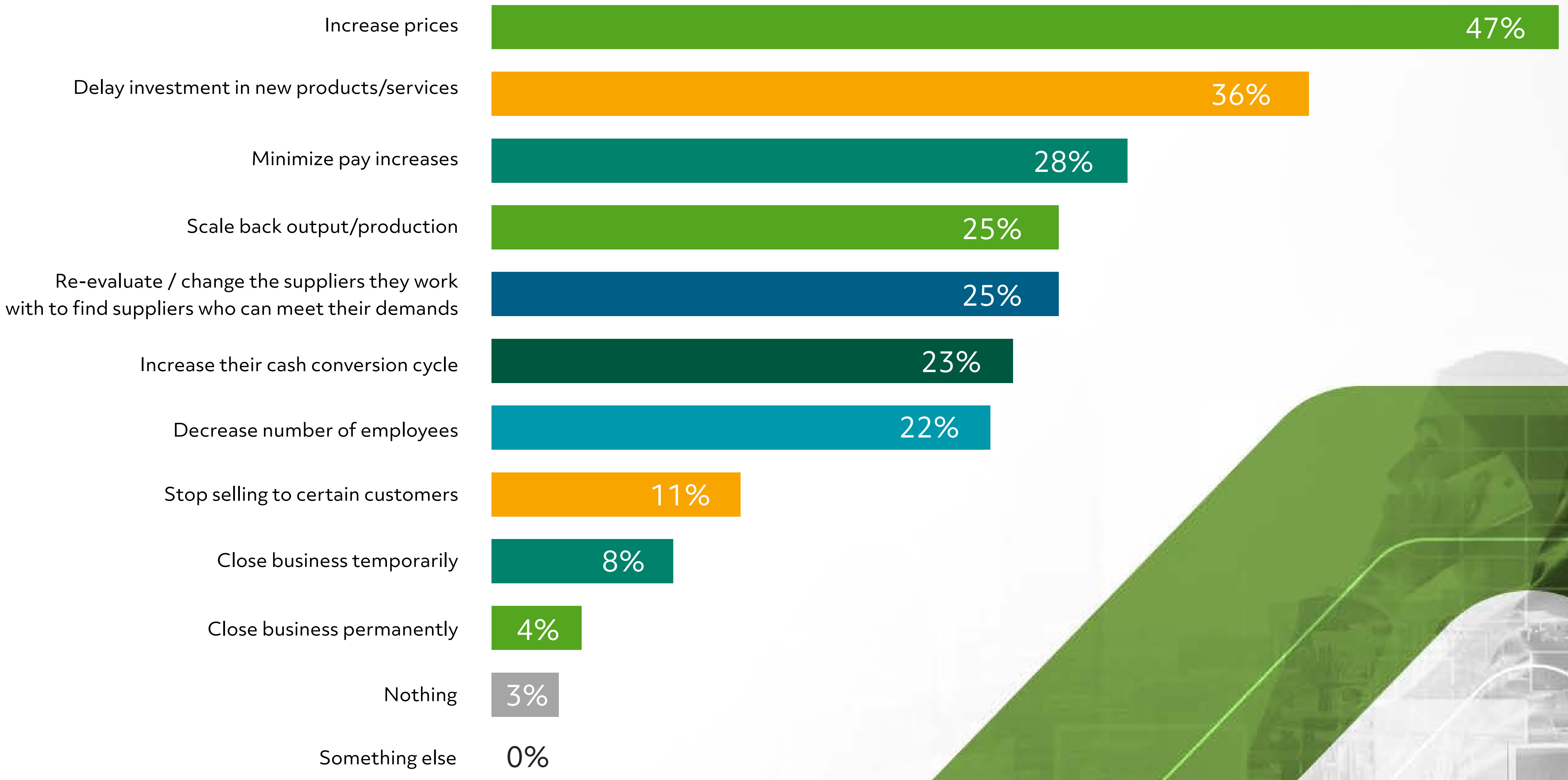
Most European countries in the survey saw increases above the **.03%** average:
France: **0.8%** | Germany: **0.4%** | Italy: **0.8%** | UK: **0.6%** | Only Spain's declined, by **0.3%**.

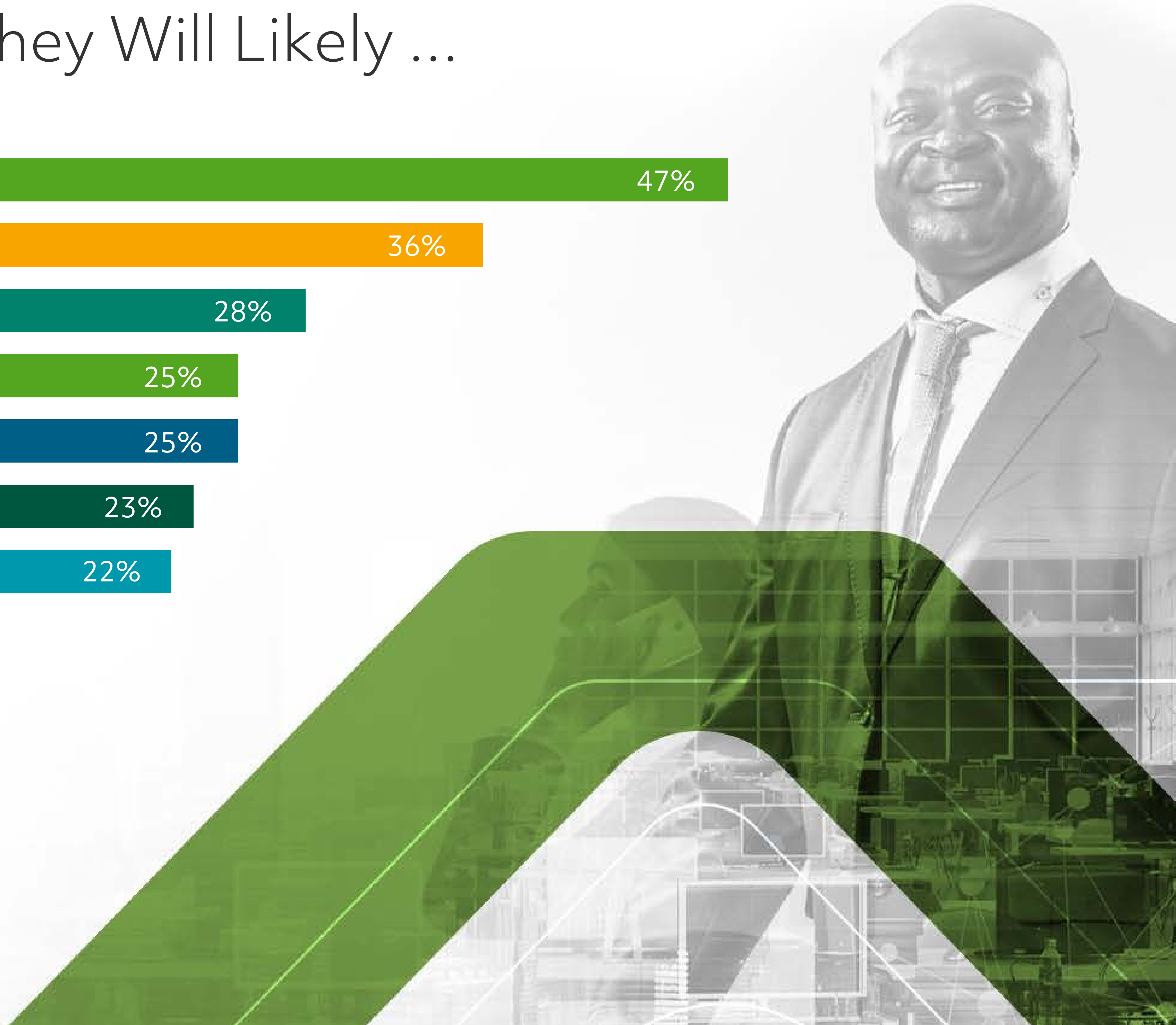
Higher interest rates help reduce inflation because — by raising the cost of borrowing — they also increase the cost of consumption and decrease demand. Unfortunately, higher rates also make it more expensive for businesses to access the capital they need to fund growth or even continue to operate.

Among 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 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.

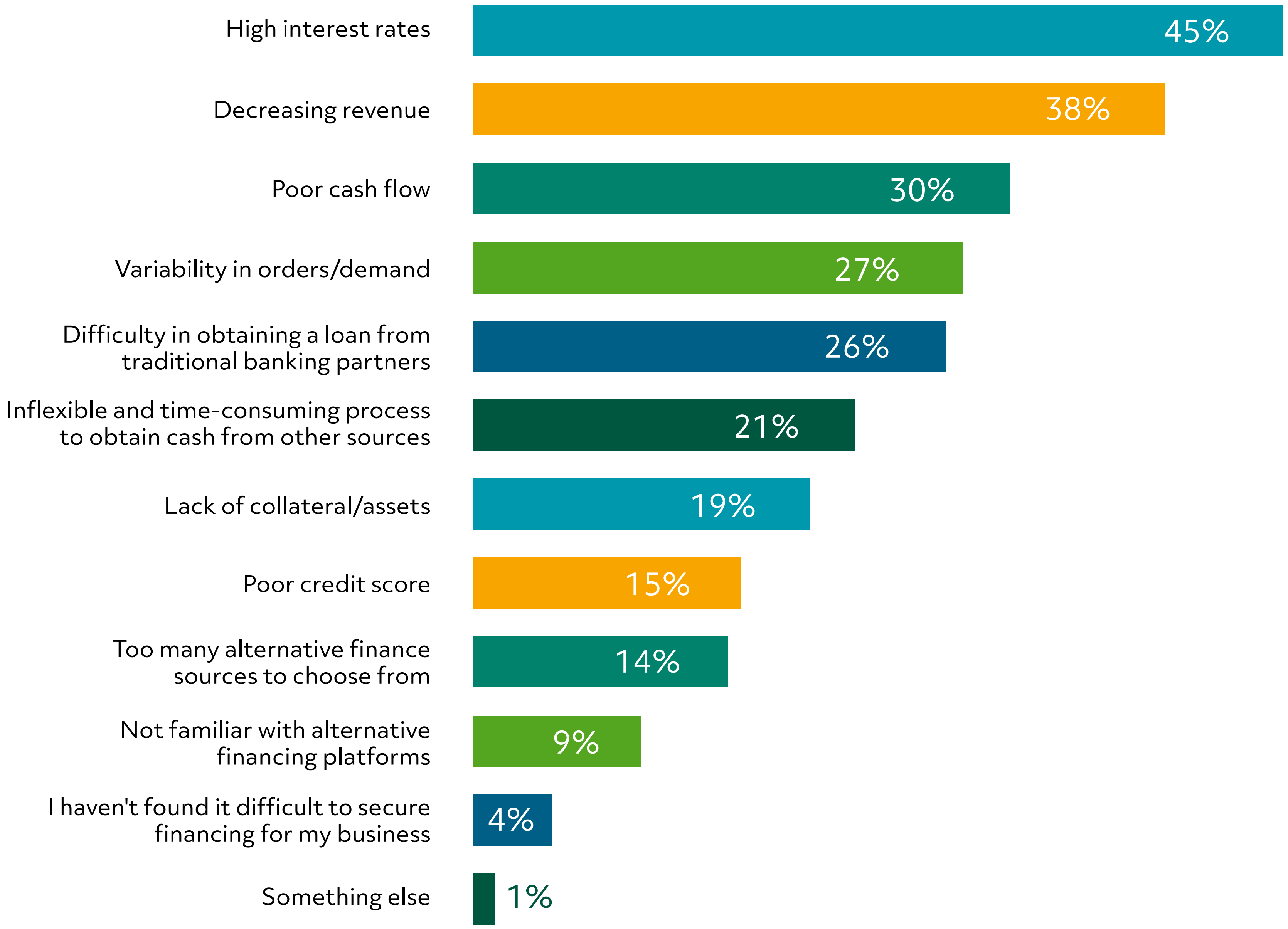
The smallest businesses were less likely to have enough access to liquidity for the next 12 months — **27%** of companies with fewer than 50 employees had liquidity concerns vs. **20%** of companies with 1,000+ headcount.

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

LIQUIDITY

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

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?



ALTERNATIVES

Too Many Businesses Are Missing the Best Solution for Liquidity Problems

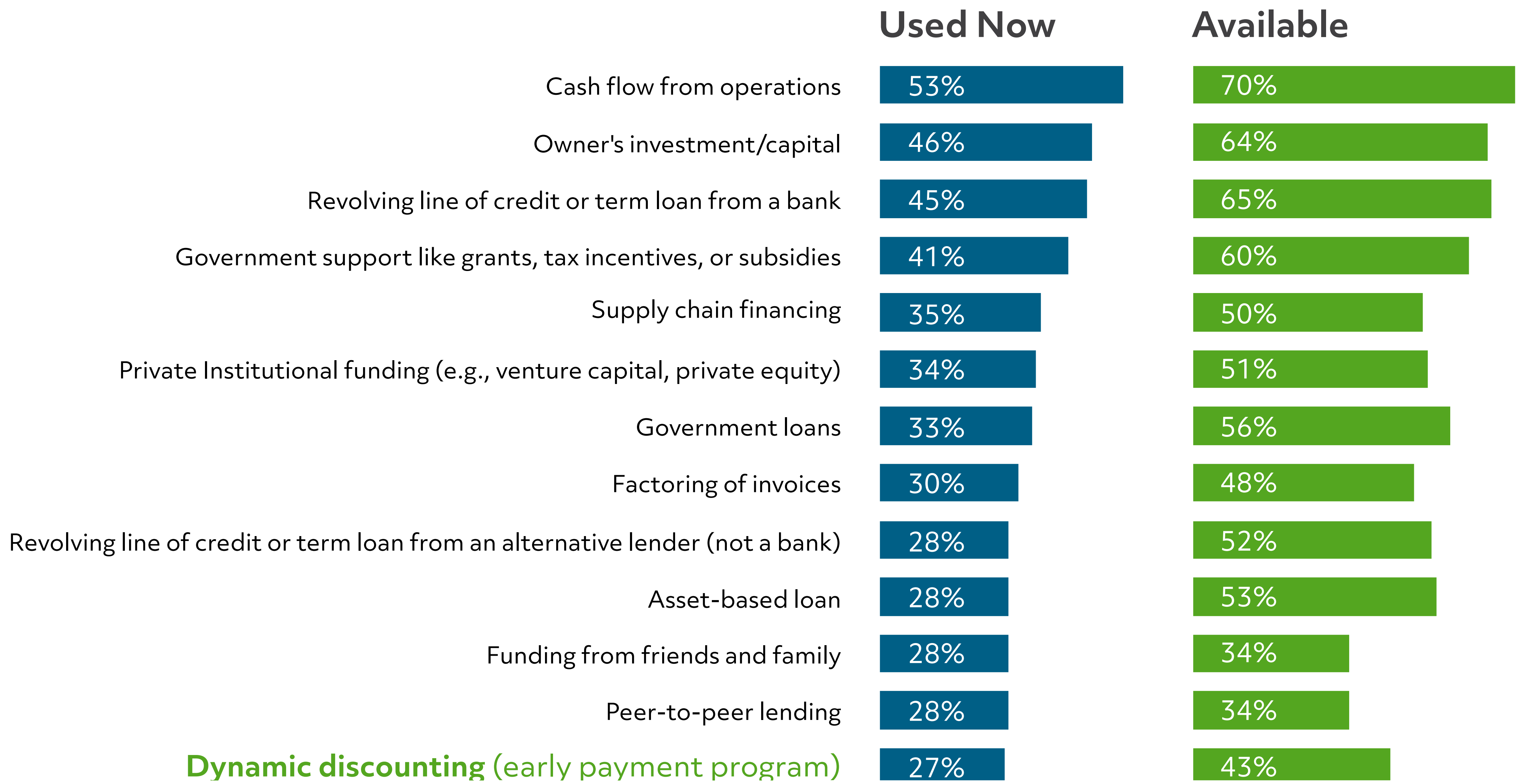
Among the survey's respondents, the top 3 sources of working capital were the **company's cash flow**, the **owner's investment** and **revolving lines of credit or term loans** from a bank. As interest rates increase, though, businesses should identify alternatives that are credit-flexible or credit-agnostic.

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 receivable 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



Definitions

Dynamic discounting: A type of invoice discounting where a greater discount may be offered in exchange for earlier payment, as compared to 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.

Globally,
31.9 days is the average payment term for customers paying by invoice — one day longer than a year earlier.

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 the 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 who adopt ESG-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.

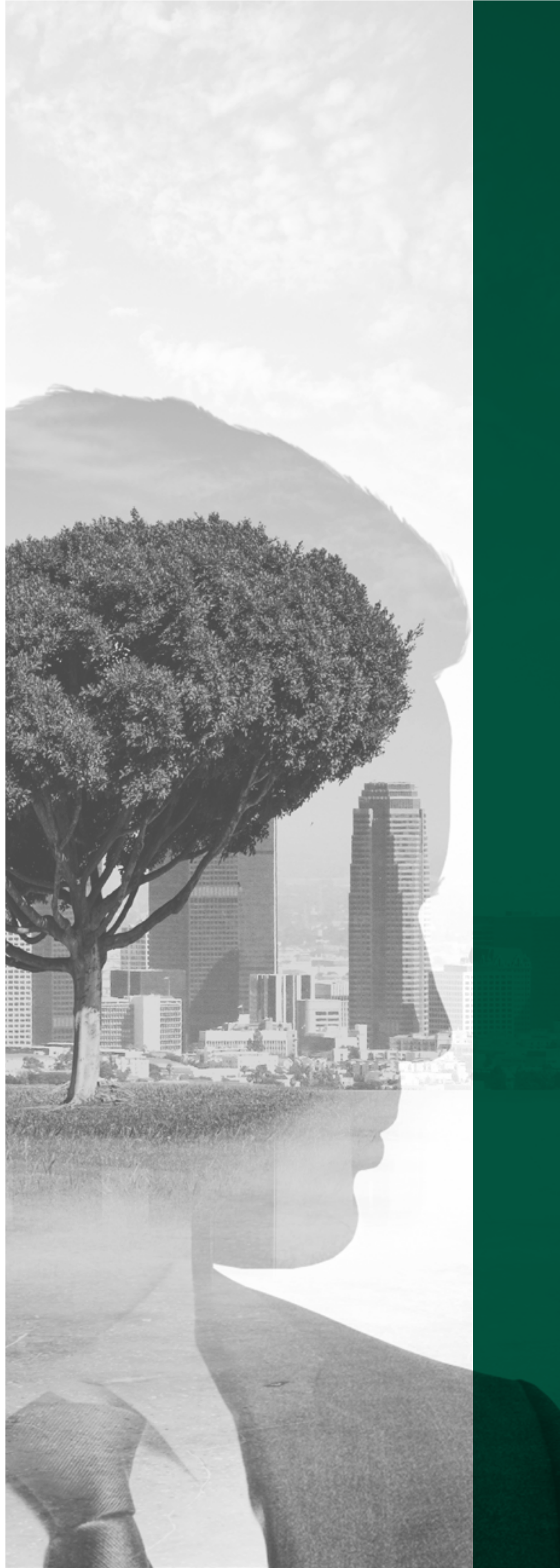
Unfortunately, this year's survey suggests that smaller businesses might be having a harder time accessing those offers.

ESG Plays a Larger Role in Business Financing

SUSTAINABILITY

- Globally, **43%** of respondents say they have been offered preferred terms for their sustainability practices.
- Among European countries, Spanish respondents were more likely to say they had been offered preferential terms (**61%**).
- Smaller companies were less likely to receive those offers: **19%** among companies with fewer than 50 employees vs. **58%** for companies with 1000+ employees.

64% of global 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 those 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**.