2022 WORKING CAPITAL SURVEY

The Global Economic Outlook and Impact of Inflation - Perspectives from Asia Pacific Financial Decision Makers

Contents

About the Survey

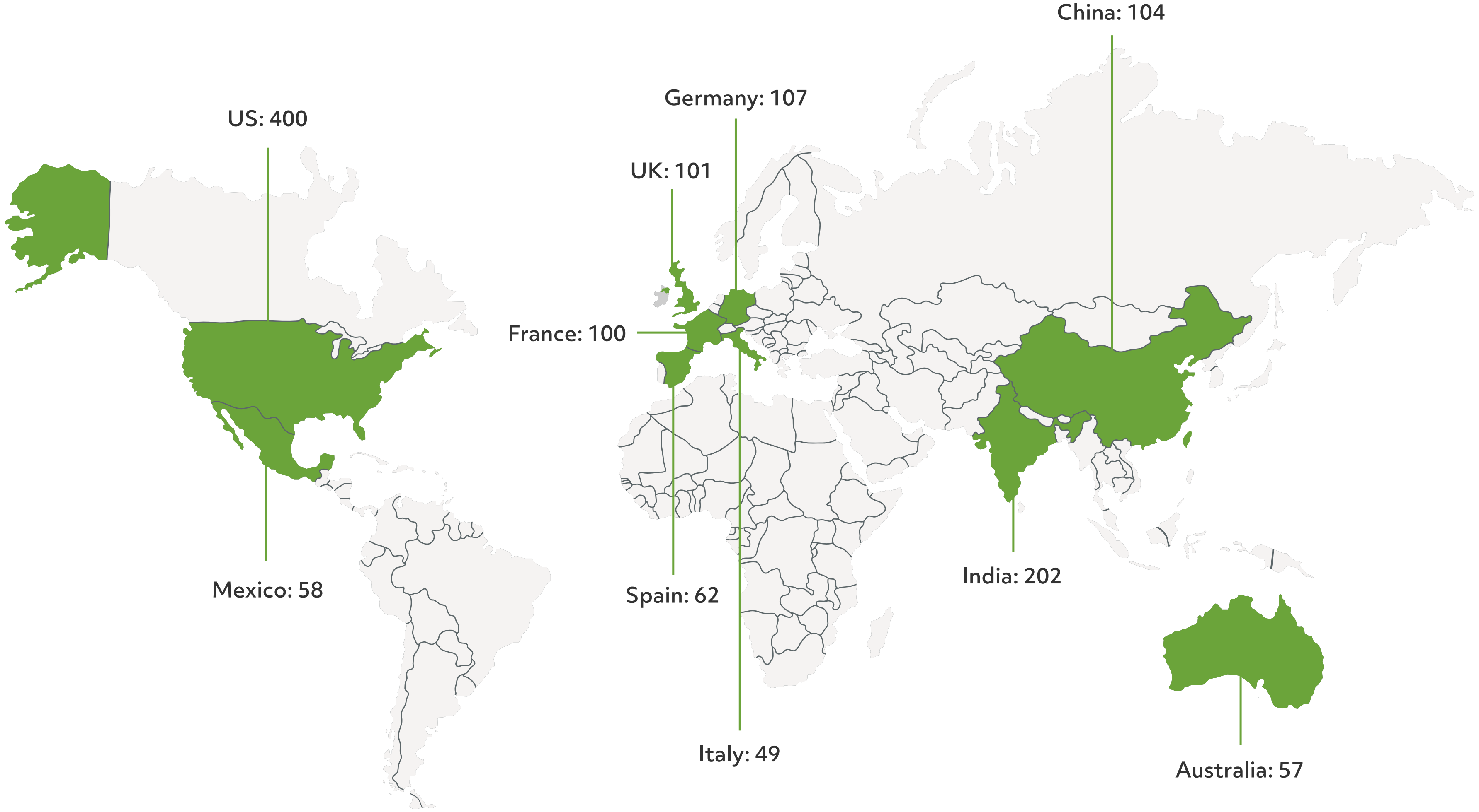
Conducted in April 2022.

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.

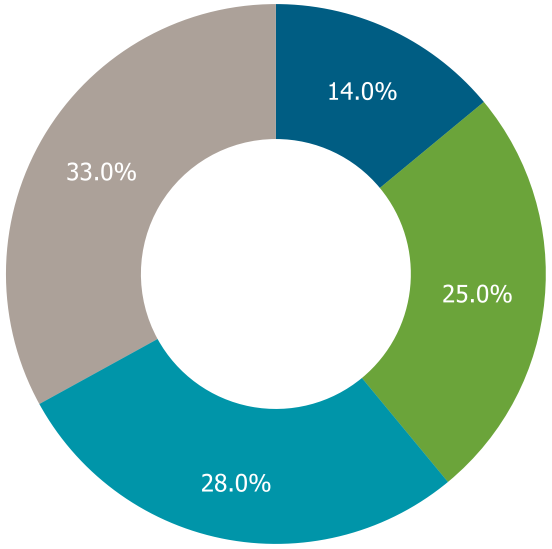
Every year, C2FO surveys companies around the world about their access to financing. Our goal is to create a clear picture of how — or even if — companies can secure the money they need to thrive.

Respondents by Country:

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



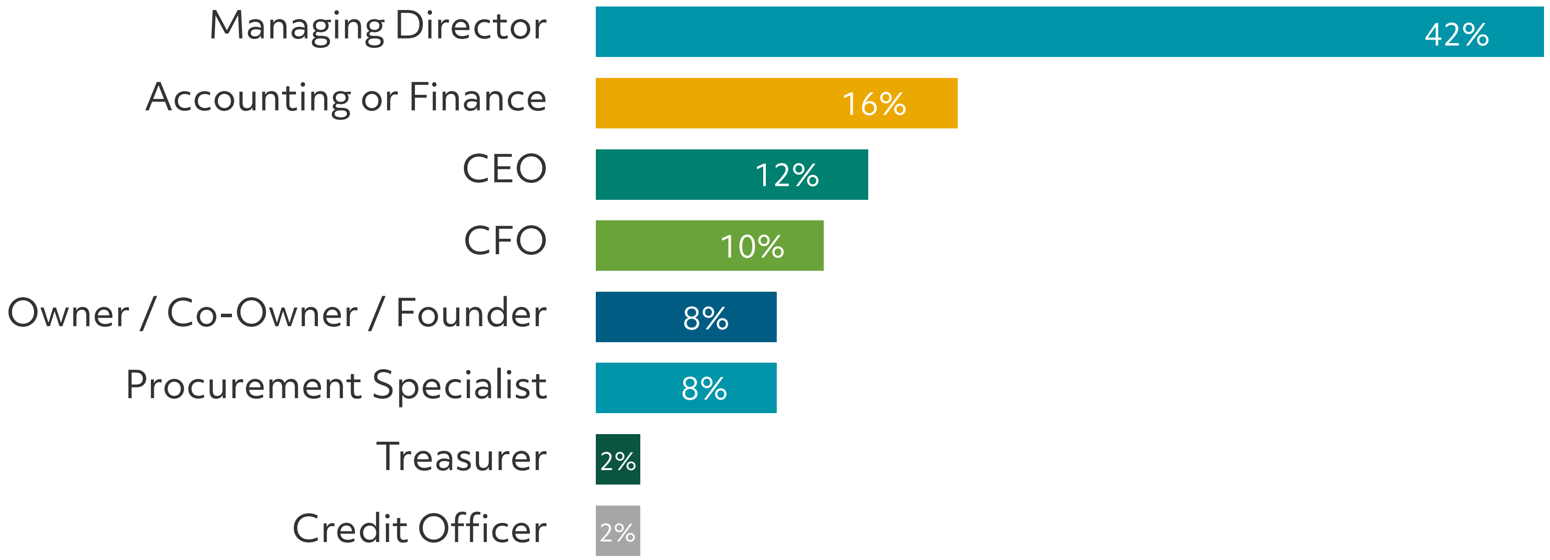
A Closer Look at the Survey Respondents



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 GLOBALLY, POSITIVE IN ASIA PACIFIC

39% of global respondents view their country's current economy negatively, vs. **28%** who see it as positive.
Respondents from India (**57%**) and China (**56%**) were more likely to say their economies were good or excellent.

FUTURE OUTLOOK: POSITIVE

68% of global respondents predict higher revenues at their company over the next 12 months.
82% of respondents from India are more optimistic for the future of the economy over the next 12 months.

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

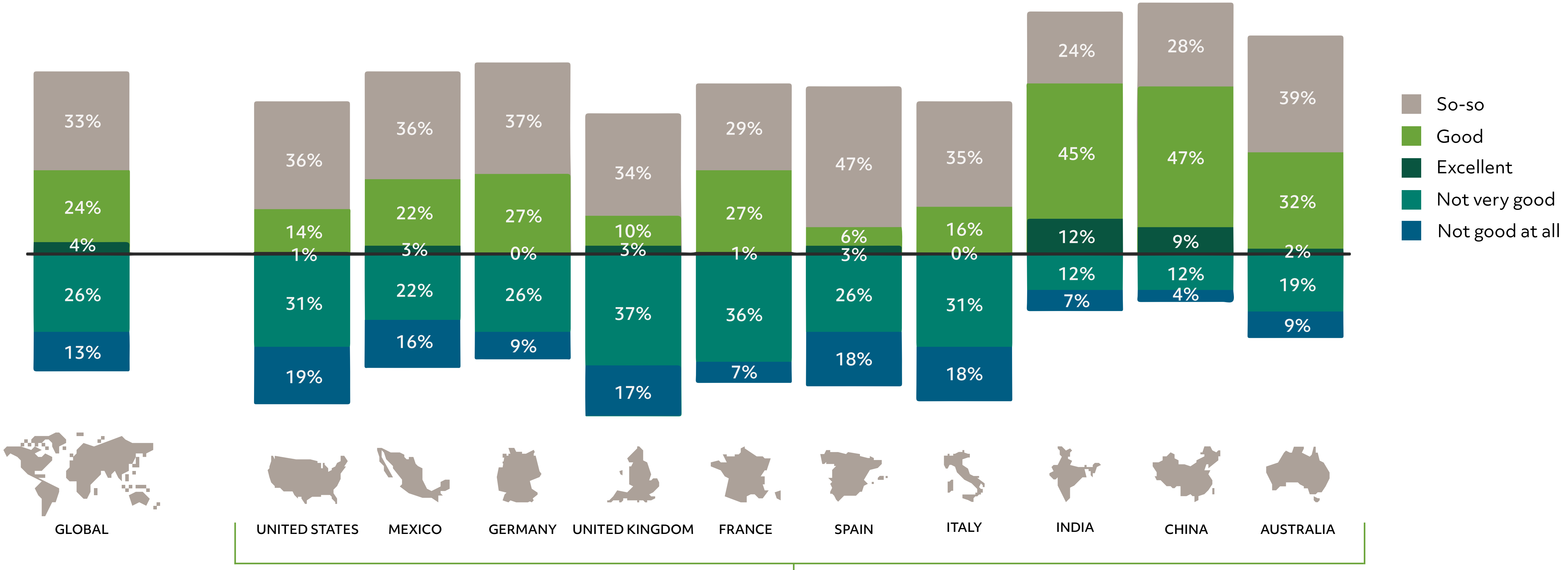
Higher inflation → Higher interest rates

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.

How Do Businesses View the Economy in Their Country?

ECONOMIC SENTIMENT



Asia Pacific respondents tended to be more positive than other regions.

Economic Sentiment Is Negative...

Current Economic Conditions

39%
Not very good or not good at all

28%
Good or excellent

Around the world, respondents were more likely to view the current economic conditions negatively — unless they were based in the Asia Pacific.

57% of Indian respondents described the economy as good or excellent. In fact, India is planning to increase headcount by **3.4%**, more than any other country in the survey.

56% of Chinese companies saw their economy as good or excellent vs. **16%** who saw it as not very good or not good at all.

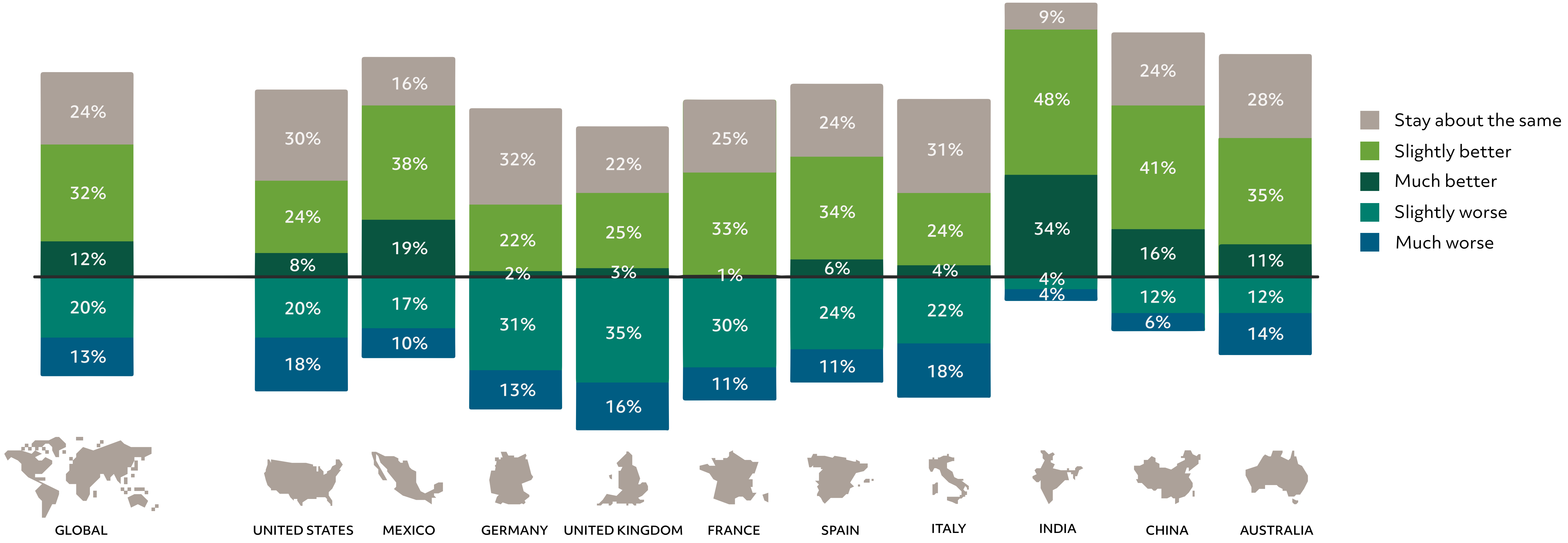
More Australian companies described the economy as so-so (**39%**) but optimists (**34%**) outnumbered pessimists (**28%**).

… 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.

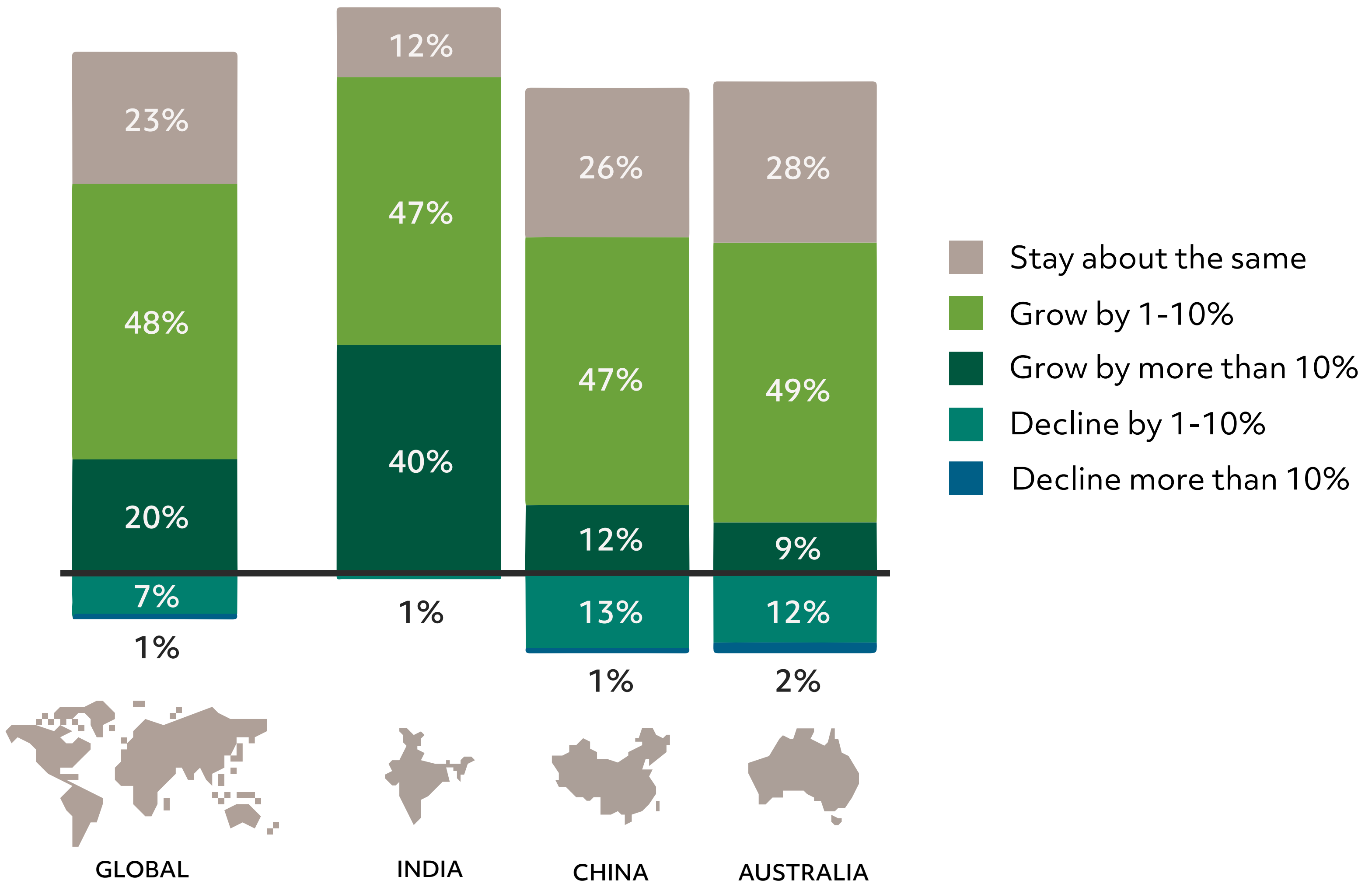
ECONOMIC SENTIMENT



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

The trend is even more pronounced in India, where **87%** of companies believe they'll grow and only **1%** expect a decline. After the survey was completed, India's central bank raised its benchmark rates by 90 basis points. It's possible that businesses might have a slightly more negative outlook now, though thanks to Government of India initiatives, most Indian businesses continue to remain positive on the economy.

China and Australia, meanwhile, were slightly more likely to expect a decline in revenues – **14%** in both countries forecast that outcome, compared to **8%** globally. They were also slightly less optimistic than the global average – **59%** in China and **58%** in Australia expect their revenues to grow.



Why do the optimists believe conditions will improve?
They were more likely to say the worst of the pandemic is over.

THREATS

COVID Remains Top Threat for Asia Pacific Countries

Globally, rising inflation has overtaken COVID as respondents' **No. 1** worry for the next 12 months — except in the Asia Pacific and Italy, where respondents were more likely to say the pandemic was most likely to have a very or somewhat negative impact on their businesses.

In the Asia Pacific, global conflict and supply chain shortages were viewed as more likely to have a "very negative" impact than inflation.

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%

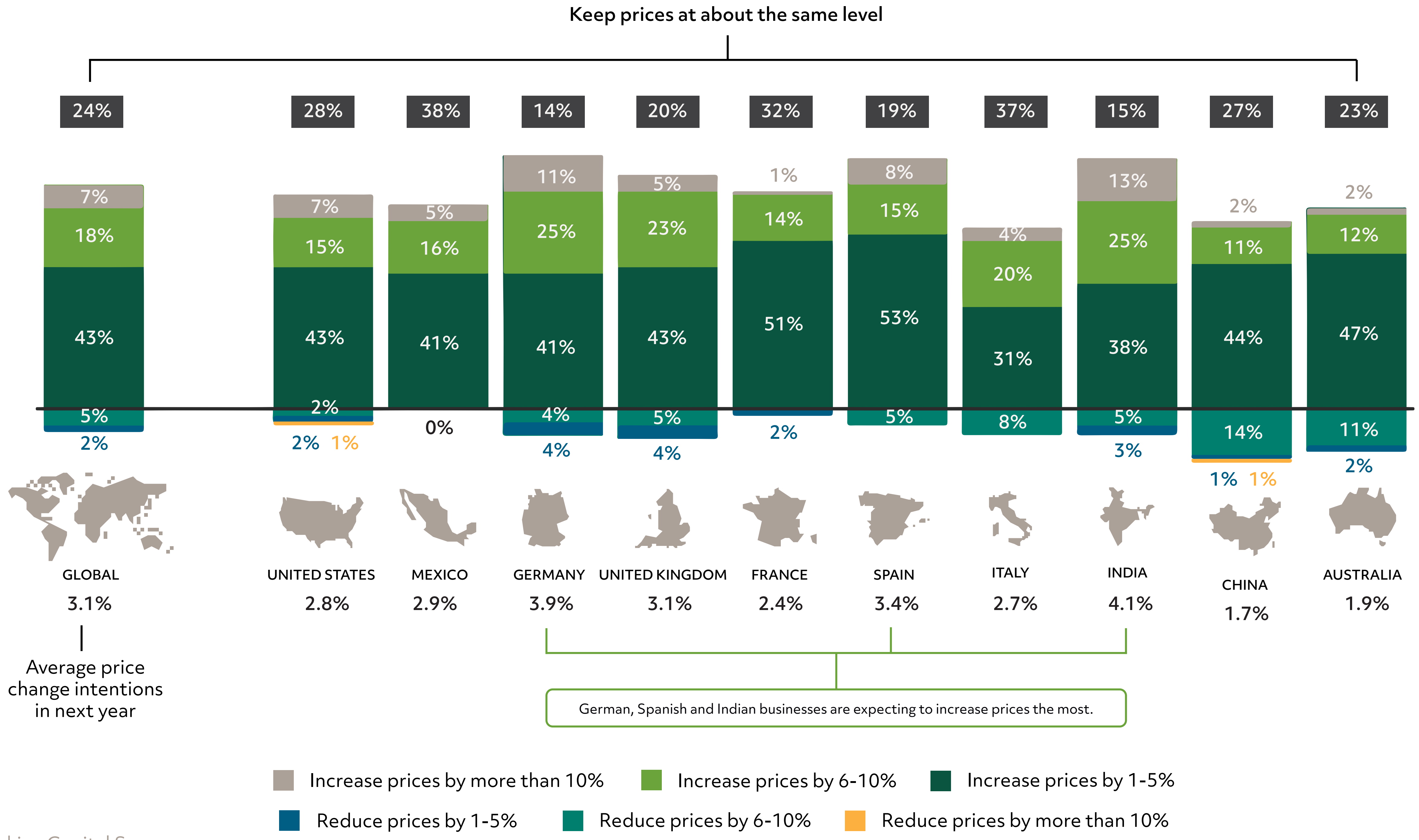
Higher Prices Create New Pressure

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.

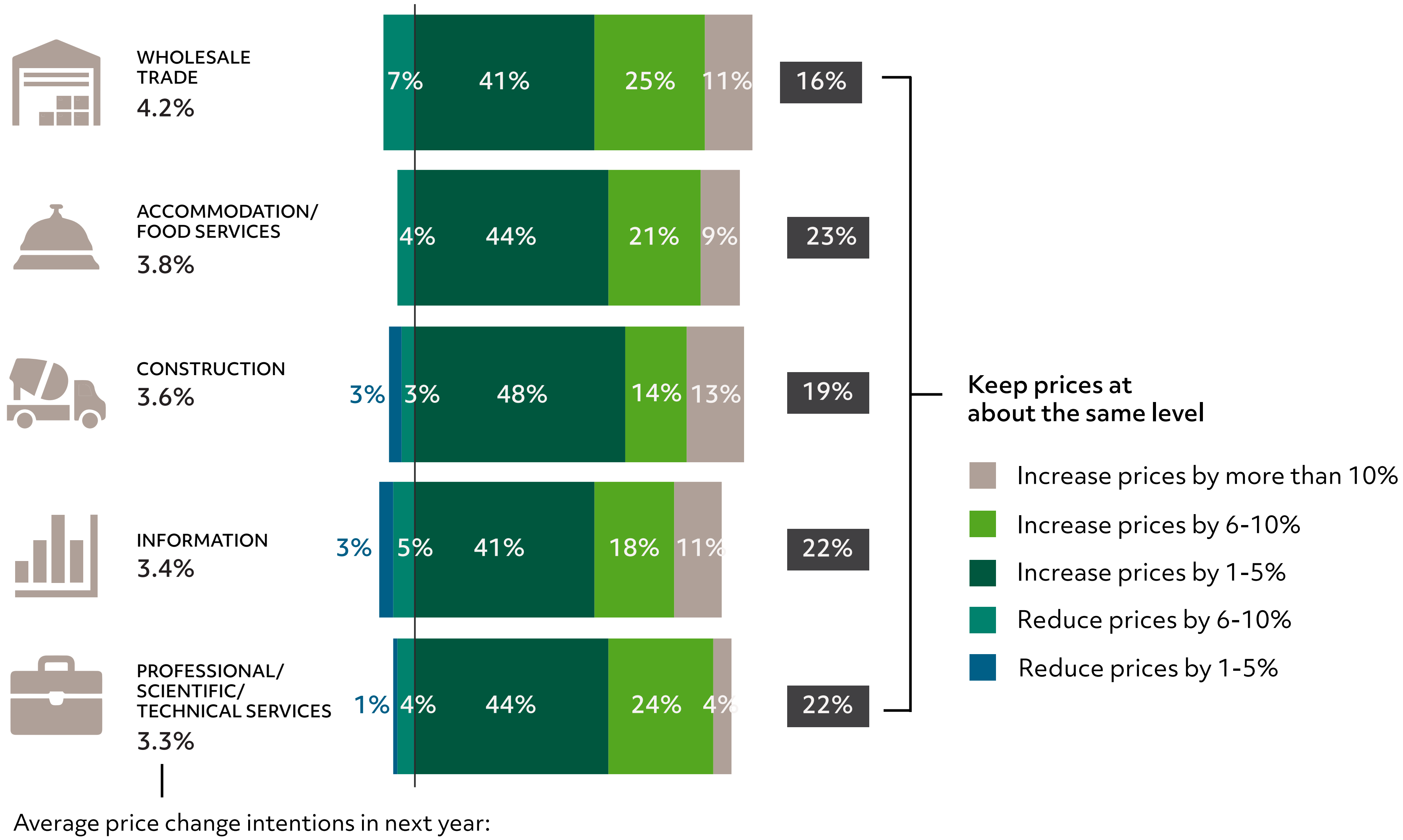
On average, across all countries, respondents said they intended to raise their prices by **3.1%**. In India, those surveyed expected to raise their prices by **4.1%**, more than any other country in our survey, while China and Australia were both significantly below the global average.

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.



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 annual percentage rate (APR) increased from **7.5%** to **7.8%** over the previous 12 months, or **0.3** percentage points.

The increase was even larger in India, where respondents said their APR was up almost a whole percentage point, from **10.3%** to **11.2%**.

The story was different in China. Respondents there said their APR declined slightly, from **9.3%** to **9.2%** over the previous 12 months.

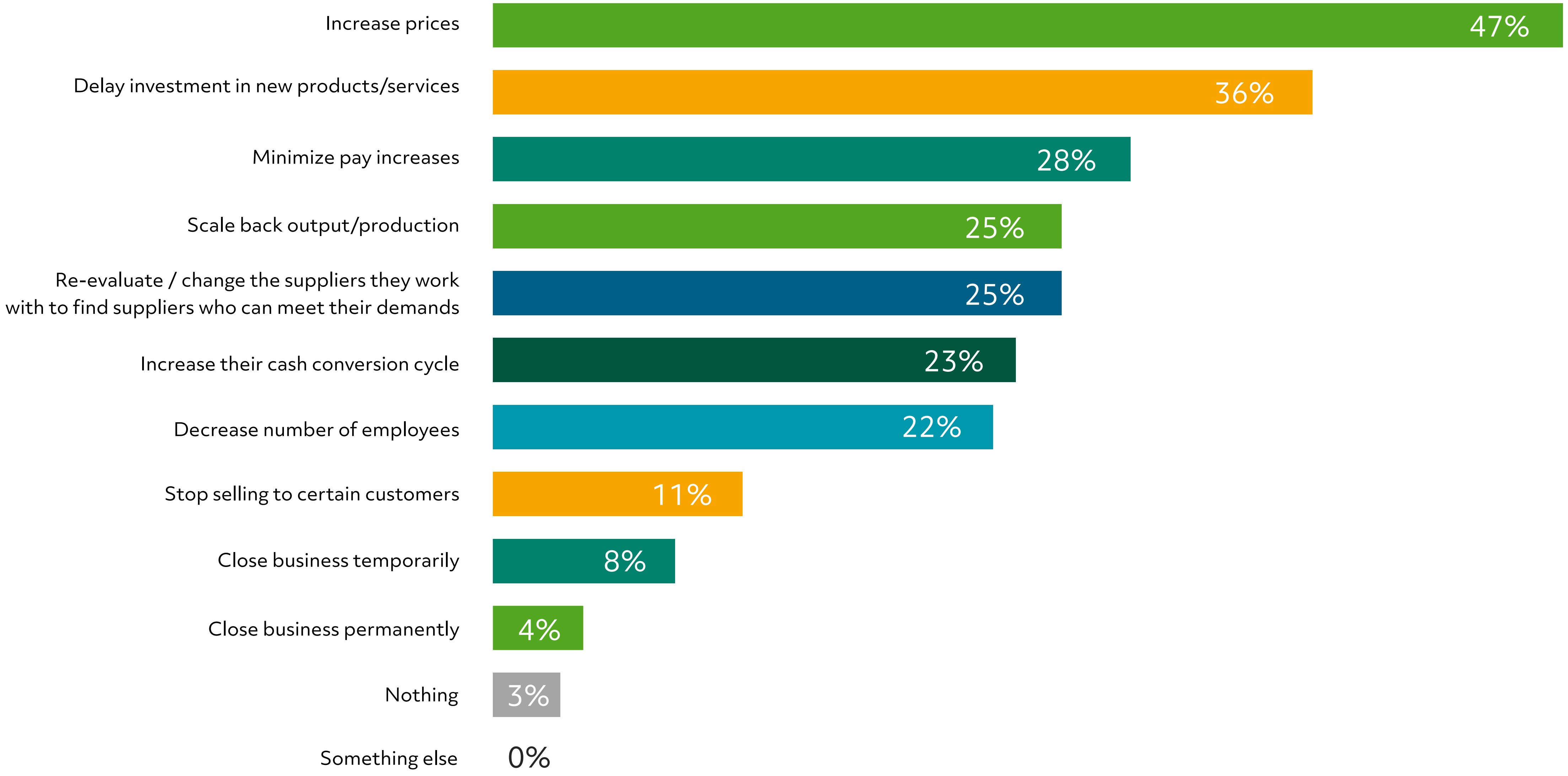
Higher interest rates help reduce inflation because — by raising the cost of borrowing — they also increase the cost of consumption and reduce demand.

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 worried about interest rates, **47%** said they would raise prices in rate hikes were as bad as feared. Chinese respondents were more likely to delay investments in new products or services (**50%**). Others said they would slow wage increase or throttle 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. About **25%** of Australian respondents said they couldn't access enough liquidity vs. **18%** of Indian and **12%** of Chinese respondents.

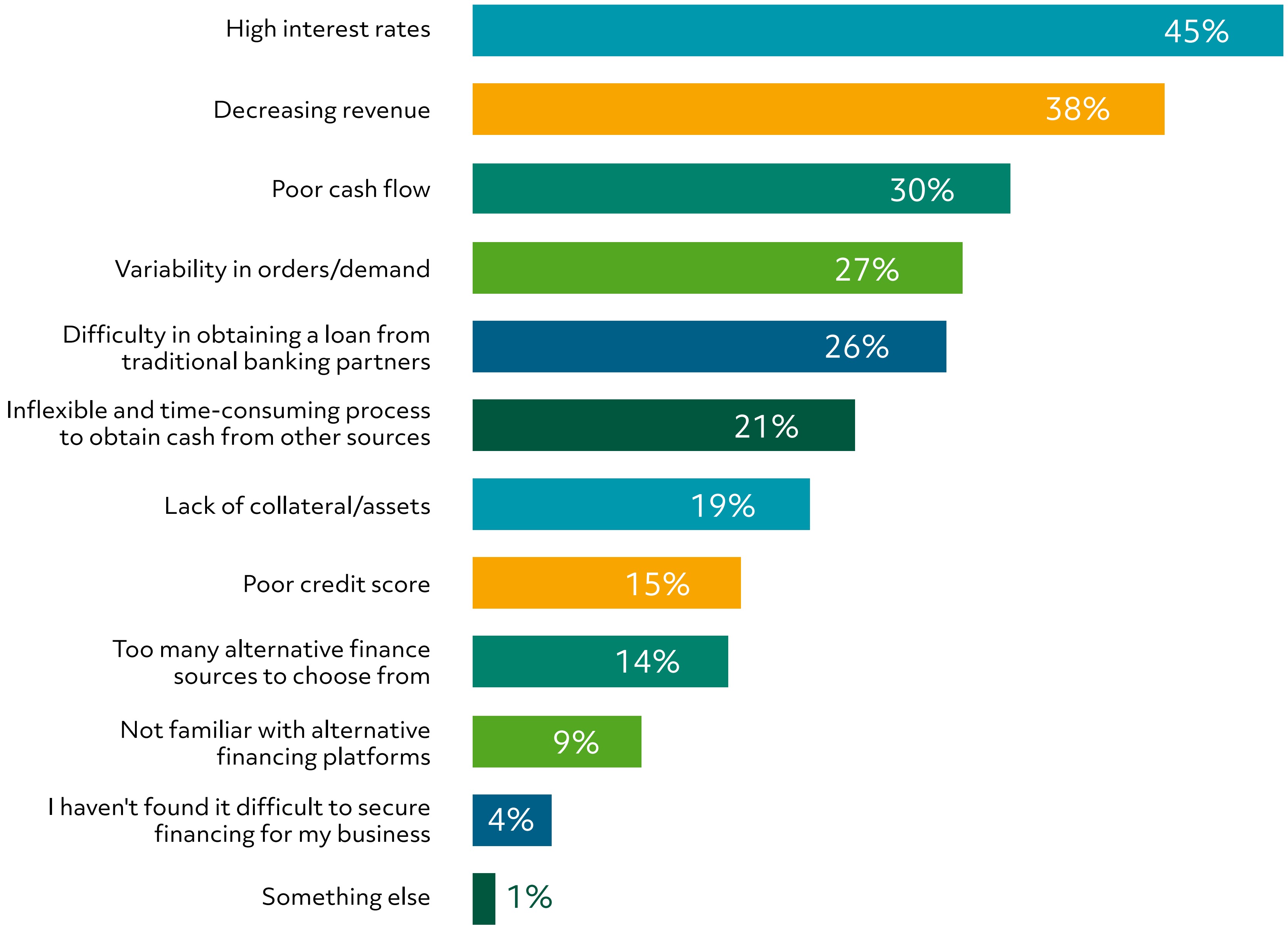
Smaller businesses were less likely to have enough liquidity for the next 12 months. About 27% of companies with under 50 employees had liquidity concerns vs. 20% of companies with 1,000+ headcount.

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

LIQUIDITY

Challenges in securing funding: High Interest Rates, Low 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

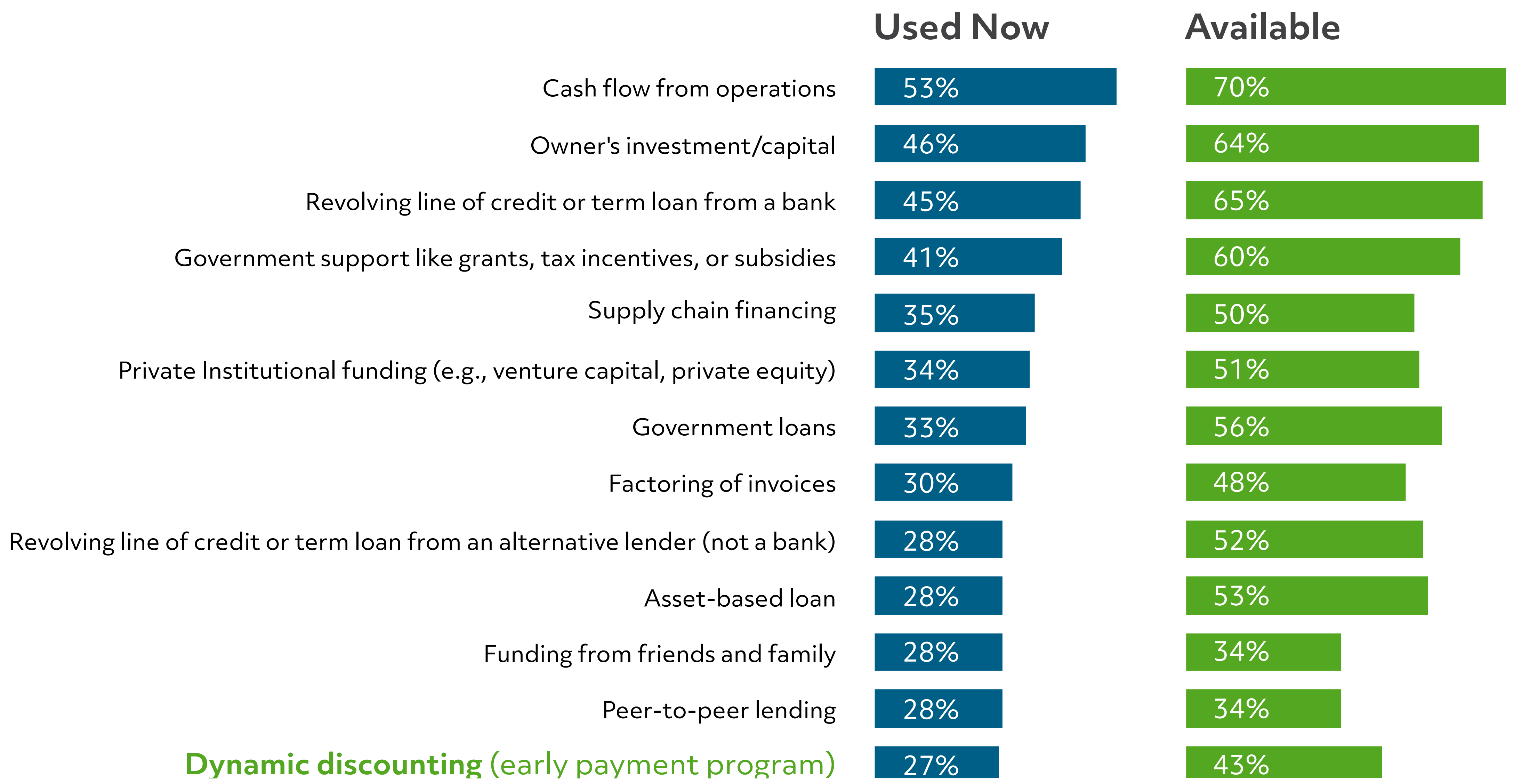
Among the survey's respondents, the top 3 sources of working capital were the **company's cash flow**, the **owner's investment** and **revolving lines of credit or term loans** from a bank. As interest rates increase, though, businesses should identify alternatives that are credit-flexible or credit-agnostic.

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.

38% India reported one of the highest usage rates of dynamic discounting.

Only **15%** of Australian respondents say dynamic discounting is available to them.

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.

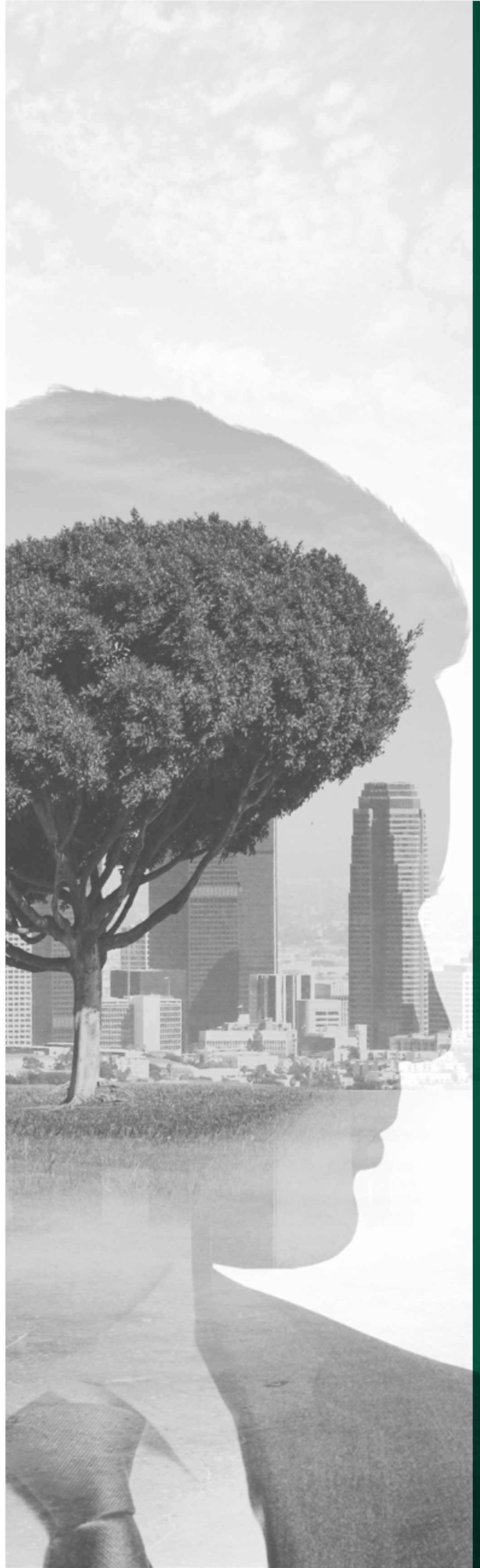
Unfortunately, this year's survey suggests that smaller businesses might be having a harder time accessing those offers.

ESG Plays a Larger Role in Business Financing

SUSTAINABILITY

- Globally, **43%** of respondents say they have been offered preferred terms for their sustainability practices.
- It appears to be more common in the Asia Pacific: **76%** of Chinese respondents and **75%** of Indian respondents said they were offered preferred terms for sustainability practices.
- Australia was slightly below the global average at **37%**.
- 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**.

Discover how C2FO can help your business.

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