

## 2021 WORKING CAPITAL SURVEY:

Uncertainty but  
Optimism for Small and  
Mid-Sized Enterprises



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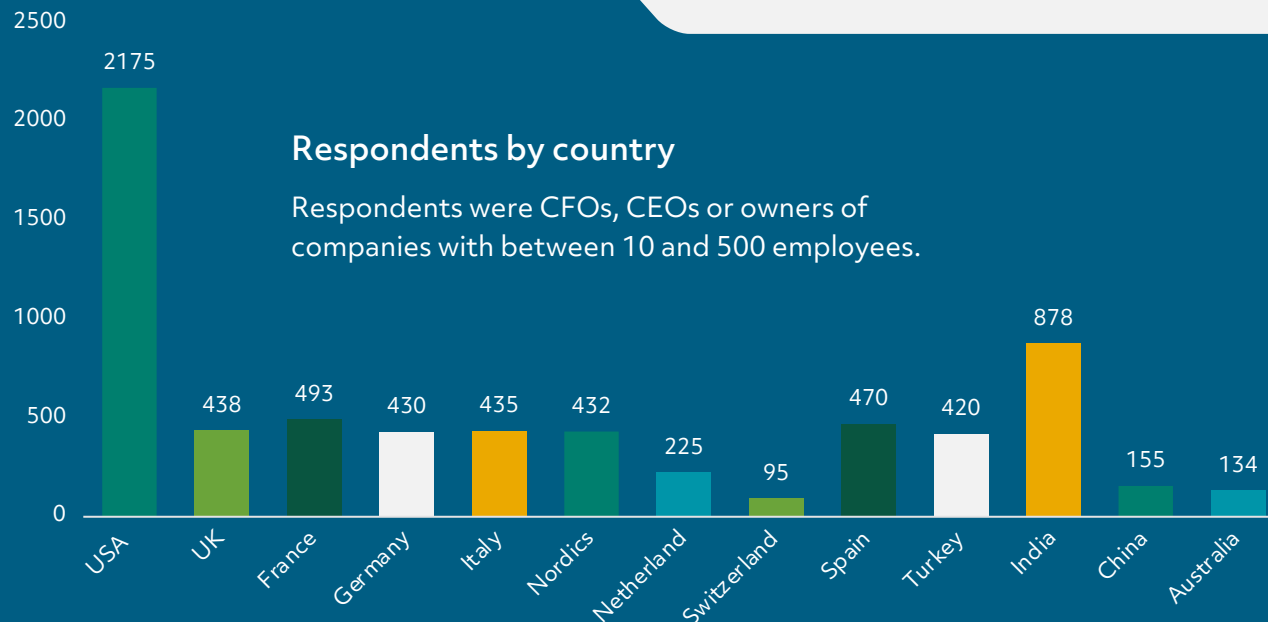
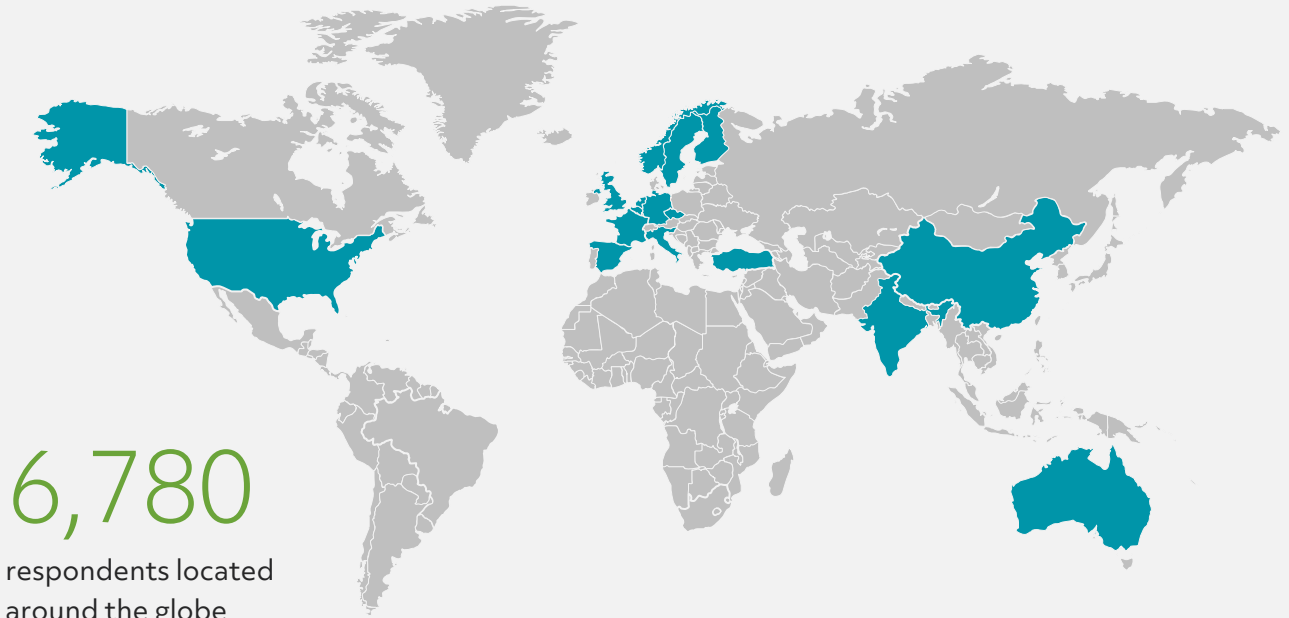
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## About the 2021 survey

Purpose: to measure financial health and outlooks for small and mid-sized enterprises in countries around the world.



Conducted in December 2020 and January 2021.



- 16 Different countries
- 26+ Survey questions
- 8 Different languages

## Key findings

A C2FO worldwide survey of more than 6,700 leaders of small and mid-sized enterprises found surprising alignment in terms of access to liquidity, the cost of borrowing, and their outlooks for the future.



Our 2021 Working Capital Survey was conducted in December 2020 and January 2021, focusing entirely on businesses with between 10 and 500 employees. Key findings from the survey include the following:

- Most respondents cited economic instability and uncertainty about customer orders as their biggest challenges — concerns likely fueled by the economic crisis that followed the COVID-19 pandemic.
- An average of 87% of respondents across 16 countries said they have enough liquidity for the next six months.
- The cost of liquidity continues to rise, as 65% of respondents said they pay an APR of more than 8% — a much higher percentage of businesses than in C2FO's previous Working Capital Surveys.
- Government support played a big role in helping businesses endure the pandemic, as 42% of worldwide survey respondents confirmed they received or had applied for funding from government programmes.
- Late or extended payment from customers was a growing global concern. An average of 37% of respondents said late payments from customers had increased in 2020. Twenty-eight percent said that at least a quarter of their customers extended payment terms over the past year.
- Despite the challenges of 2020, overall optimism among respondents about their future business prospects was fairly strong — averaging 6.5 on a scale of one to 10.

# 87%

of respondents said they have enough liquidity for the next six months.



## Shared concerns about uncertainty

In our 2016 and 2017 Working Capital Surveys, businesses had a wide range of concerns, including everything from Brexit to inflation to the strength of the US dollar.

In contrast, most respondents worldwide who took the 2021 survey were aligned on two key challenges: economic instability and worries about future customer orders.

Whether the pandemic caused unexpected revenue loss or led to sudden growth, businesses across all industries faced pressure on their cash flow, placing a large, looming question mark over supply and demand.

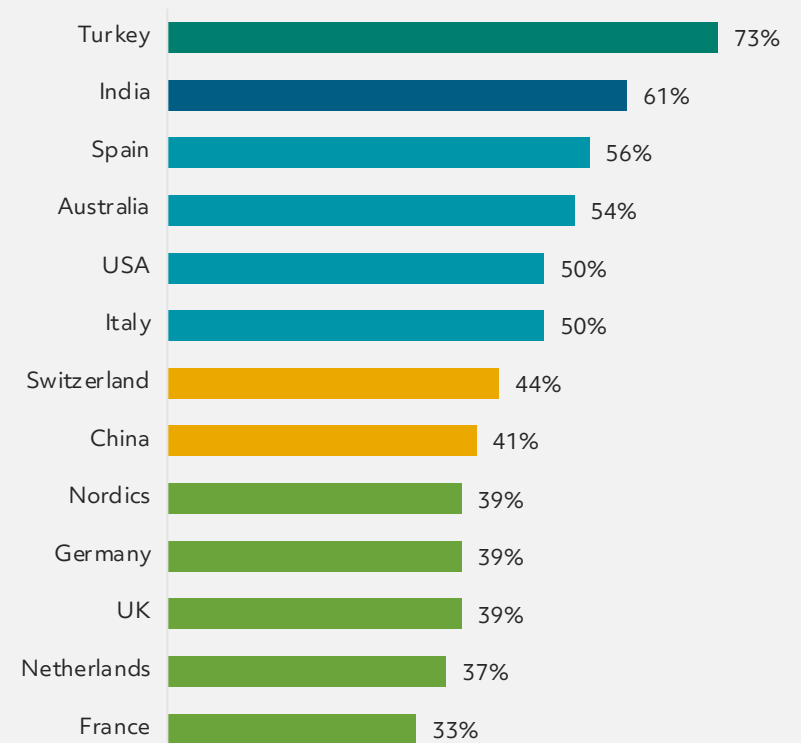
Those challenges reflect the worldwide disruption of the pandemic and the impact it had on the world's economy throughout 2020 and into 2021.

Global uncertainty, measured by the [World Uncertainty Index](#), a quarterly measure of global economic and policy uncertainty covering 143 countries, shows that, although uncertainty has dropped about 60% from its peak at the onset of the COVID-19 pandemic, it remains about 50% above its historical average during the 1996–2010 period.



### TOP CONCERN

Economic instability due to the current pandemic



The global economy is projected to grow 5.5% in 2021 and 4.2% in 2022.

Source: International Monetary Fund

## OTHER WORLDWIDE CONCERNS

40%

say they are uncertain  
about customer  
**contracts and orders**

31%

say they are troubled about  
**difficult relationships** with  
customers and suppliers

23%

say they are worried  
about **late payments**  
from customers

15%

say they are concerned  
about **the inability to**  
**secure funding**



## WHAT THIS MEANS:

Small business leaders have good reason to be concerned about the global economy. Although recent vaccine approvals have fueled hopes of stronger economic growth, new variants and waves of the coronavirus as well as roadblocks to the widespread distribution of vaccines mean the future path of economic recovery remains uncertain.

Also, there's mounting concern about a [global semiconductor chip shortage](#) — a key component for cars and electronics — that could add another snag in ongoing disruptions to supply chains and hinder efforts to revive the manufacturing industry.

Still, the global economy is on pace to bounce back. After a global growth contraction of -3.5% in 2020, the global economy is projected to grow 5.5% in 2021 and 4.2% in 2022, according to the [International Monetary Fund](#). However, the strength of the recovery is projected to vary significantly across different countries, depending on policy action and health care access.



## The rising cost of liquidity

Across 16 countries worldwide, the vast majority of survey respondents said they do not lack options in securing liquidity. They cited a wide range of funding sources, including revolving lines of credit, asset-backed loans, factoring, government support and supply chain finance.

However, the average percentage of borrowing from small and mid-sized enterprises (SMEs) in the 2021 survey was down significantly from previous years. In the Working Capital Survey from 2017, the average uptake of funding sources was 46%. For the 2021 survey, it was only 23%. Part of that trend may be due to SMEs not pursuing as many funding sources available to them beyond traditional sources. Over the past year, government programmes worldwide have injected a significant amount of liquidity into the economic system, much of it directed toward SMEs. While the need for cash has increased in light of the pandemic, that demand has been concentrated among fewer funding sources, including the new government lending facilities.

That reported decline in the rate of SME borrowing may also be due to the pandemic, as well as a precipitous rise in the cost of borrowing over the past few years. Worldwide, only 35% of businesses we surveyed reported a cost of borrowing below 8% APR. In the US, the percentage of respondents who pay less than 8% for liquidity has steadily declined, from 47% in our 2016 survey to 34% in the 2021 survey.

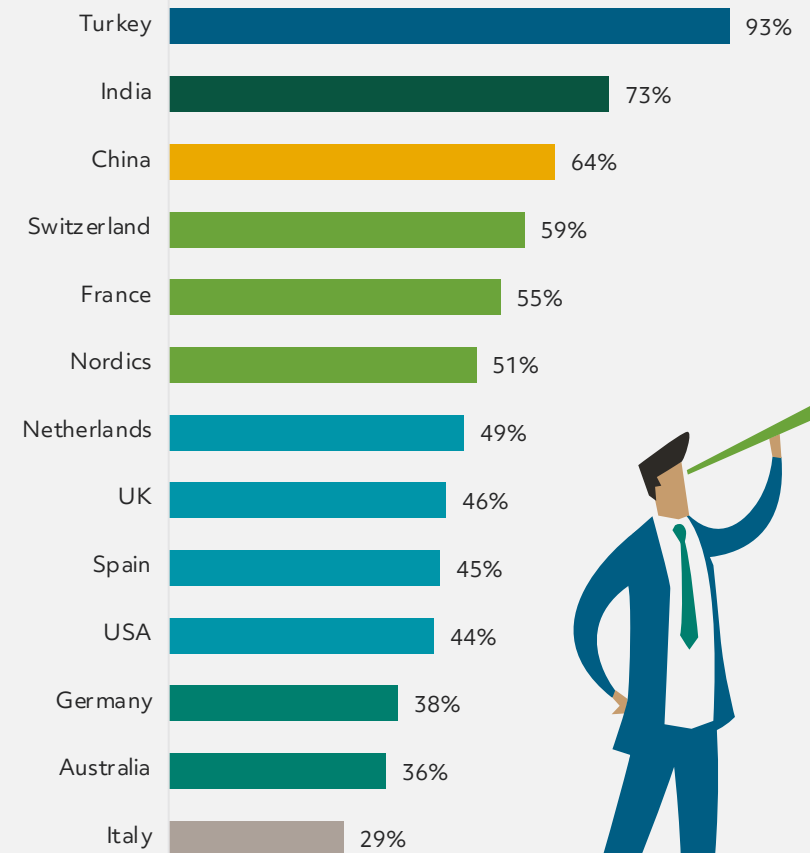
Why is the cost of short-term liquidity rising? The answer goes back several years, long before the pandemic.

One reason may be that banks lend less to small businesses than they did before the 2008-09 financial crisis. A [recent report by The Wall Street Journal](#) found that, in 2007, banks in the United States held \$721 billion in small loans to businesses with revenue of \$1 million or less. By 2019,



### RISING RATES

Percentage of SMEs that have a cost of borrowing rate of **8% or higher**.



The percentage of respondents who pay less than 8% for liquidity has steadily declined, from 47% in our 2016 survey to 34% in the 2021 survey.

## The rising cost of liquidity (continued)

that number had declined to \$680 billion. There are reasons for that trend: in the past 10 years, thousands of community banks have closed, while larger banks claim that processing loan applications are more cost-effective for big loans than smaller ones.

Rising borrowing costs illustrate a chasm between the haves and the have-nots in the global marketplace, said Ashish Jain, SVP and head of capital markets for C2FO.

“For a certain segment of SMEs, their borrowing costs have gone up. They don’t have access to capital markets like larger corporations do. They definitely can’t issue debt like an Apple could,” he said. “And from a bank’s perspective, a \$5 million loan costs the same amount as a \$100,000 loan.”

— Ashish Jain, SVP and head of capital markets for C2FO



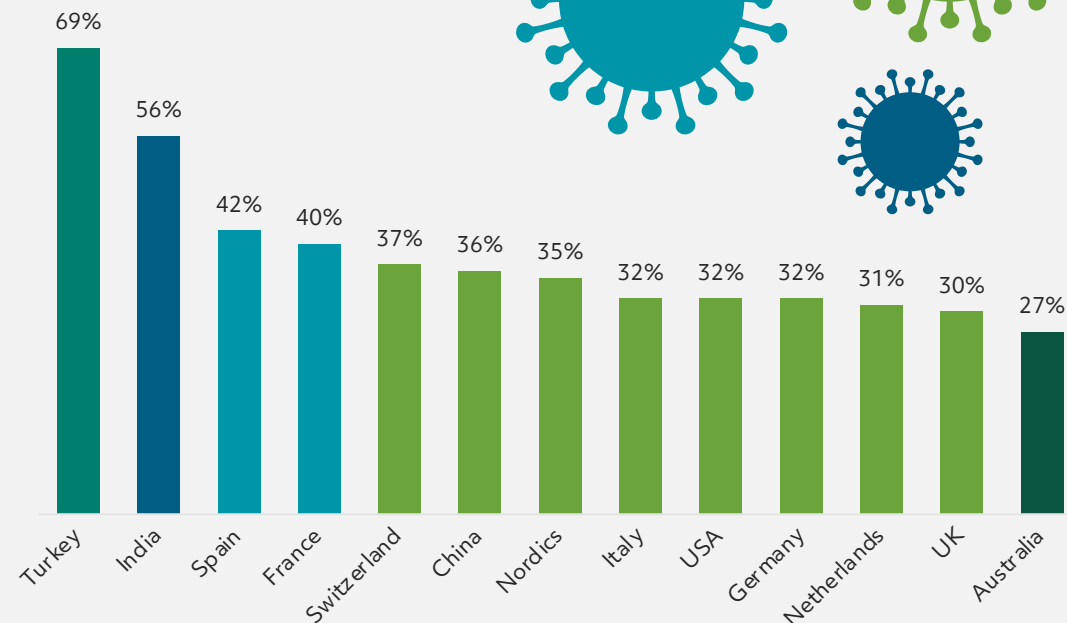
### WHAT THIS MEANS:

In 2020, governments and central banks worldwide made efforts to provide funding for SMEs with hundreds of billions of dollars of liquidity. However, the impact of COVID-19 on the world economy has forced many lenders to re-examine credit risk and what a post-pandemic form of creditworthiness looks like, [according to this report from McKinsey and Company](#).

That likely means that the trend of rising borrowing rates for smaller businesses will continue.

## INCREASED COST OF BORROWING, BY COUNTRY

The percentage of SMEs that said the cost of borrowing increased in the last year due to the COVID-19 pandemic:

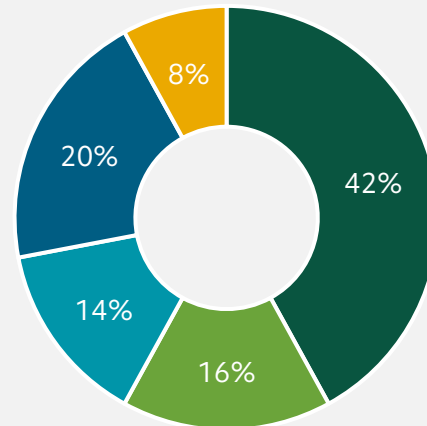






## DID YOUR COMPANY APPLY FOR GOVERNMENT SUPPORT?

As COVID-19 gripped the world's economy in early 2020, governments launched stimulus programmes to aid individuals and businesses affected by the pandemic.



- Yes, we received support or waiting for reply
- No, the process was too complex
- No, the package was not financially attractive
- No, it was not applicable to my business
- Not yet, but planning to

## Reliance on government programmes

As COVID-19 gripped the world's economy in early 2020, governments launched stimulus programmes to aid individuals and businesses affected by the pandemic.

On average, 42% of SMEs that responded to our survey said they had received or had applied for government funding support, including loans, tax breaks and money to pay workers. That percentage was even greater in countries like China, India and Turkey.

Those percentages speak to the profound impact of the pandemic and on governments' roles in propping up their economies.

Countries with a greater percentage of businesses that applied for or received government funding support typically created robust stimulus packages with targeted aid to SMEs — worth at least 10% of the country's GDP, according to a report by the International Monetary Fund.

As of Dec. 1, Italy topped the major euro-area nations in fiscal support as a share of the economy in the COVID-19 crisis, according to Bloomberg.



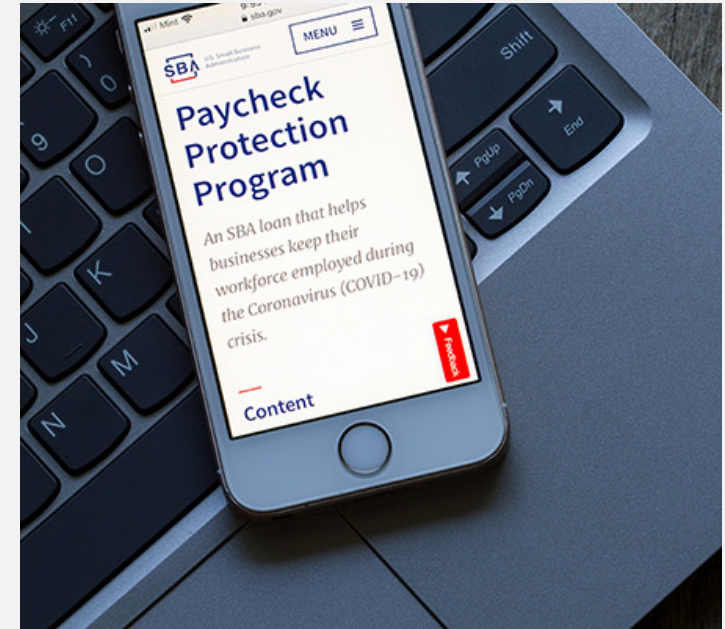
The United States is readying \$1.9 trillion in fiscal stimulus that includes tens of billions in aid for small businesses and nonprofits.

## Reliance on government programmes (continued)

And more countries are poised to deploy additional aid in the coming weeks. The United States is readying a \$1.9 trillion stimulus package that includes tens of billions in aid for small businesses and nonprofits. The UK is set to spend billions of pounds in extra support for the economy over the next four months to spur economic recovery. The Australian government has spent \$257 billion in direct economic aid since the pandemic began, with plans to spend hundreds of billions more this year.

As borrowing surged during the pandemic, central banks played their part by keeping borrowing costs down. As a result, COVID-era debt is considerably less expensive to service than existing debt, [according to estimates by Bloomberg Economics](#).

However, taking on any amount of debt comes with risks, and even low-interest loans could hurt SMEs with already thin margins. Liquid businesses reliant on government-backed loans could lead to a number of already distressed businesses stuck in a debt prepayment cycle.



### HELP FOR SMALL BUSINESSES

For American businesses, loans under the **Paycheck Protection Program** loan might be forgivable later, depending on how companies use the funds.



#### WHAT THIS MEANS:

Will taking on more debt through government loans slow the growth of SMEs in the coming years? It depends.

Government-backed loans have been and will continue to be critical to the immediate survival of SMEs. However, alternative sources of funding and working capital solutions such as early payment on approved invoices will be the key to businesses' long-term success.

## Extended terms and late payments

Last year, in the face of a widening pandemic, government shutdowns and economic instability, the response of many companies was to hold on to as much cash as they possibly could.

That strategy was reflected in the number of respondents to our 2021 survey who said more of their customers were paying late, and more of them had extended payment terms. On average, 37% of respondents said their customers often pay their invoices late. That percentage has ticked up from our 2016 and 2017 surveys in countries like the US, UK, China, India, France and Germany. In the US alone, the percentage of respondents who said their customers often paid late more than doubled, from 14% in 2016 to 33% in 2021.

Another troubling statistic is that an average of 28% of respondents worldwide said that at least a quarter of their clients had extended payment terms in the last year, likely due to the pandemic. SMEs across a wide range of industries appeared to be affected. A joint report in October by PYMNTs.com and American Express found that [15% of business-to-business invoices were overdue](#).



Art Bazerkanian

Baz Brothers Unlimited, a wholesale vintage clothing company in California, was fortunate to see strong demand last year during the pandemic. But co-founder Art Bazerkanian told C2FO last year that he also noticed that customers who usually paid on time or early were now **extending payment terms to 60 or even 90 days**.



The percentage of US respondents who said their customers often paid late more than doubled, from 14% in 2016 to 33% in 2021.

## Extended terms and late payments (continued)

Gerard Agency, a marketing business in Chicago, saw a similar trend with its customers.

“We work with companies of all sizes, and typically the larger companies have us on 45- or 60-day terms,” company owner Carolyn Gerard told C2FO in April 2020. “It’s very difficult for us to have working capital with these longer-term payments because we need to pay our employees every two weeks and pay for our overhead (rent, utilities, etc.) every month.”



### WHAT THIS MEANS:

In uncertain times, when customers start paying later or lengthen their payment terms, they rarely revert back to their old payment habits once the economic storm lifts.

These trends reflect the need for greater access to low-cost liquidity for companies of all sizes. Last year, [in an open letter to governments and central banks](#), C2FO estimated that SMEs worldwide were owed \$16 trillion by their customers, many of which had extended payment terms. Even after the pandemic ends, the challenge of liquidity tied up for months in receivables will likely continue.

Despite worldwide trends of late payments or extended payment terms, some companies have taken the opposite approach to support their supply chains. In the US, companies are addressing this challenge by setting up special rate markets to ensure their suppliers have quick, low-cost access to liquidity. In Europe, for example, a global healthcare provider last summer used C2FO to set up an early payment marketplace so medical equipment suppliers could be paid earlier, at preferential rates, to meet increased demands for medical equipment.

48%



46%



41%



38%



37%



35%



33%



## LATE PAYMENTS ON THE RISE

Late payment practices have increased in 2021, all around the world (avg. 37%). The trend continues despite numerous legislations and protocols in place.





## Reasons for optimism

Despite the immense challenges SMEs faced throughout 2020, respondents across the world were mostly optimistic about their prospects for the next quarter. When asked to rate their optimism for their businesses in the next quarter, on a scale of 1 to 10, the average response of respondents was 6.5.

The vast majority (87%) said they had enough capital to sustain their businesses for the next six months. This universally positive outlook isn't surprising — successful companies use tenacity and grit to adapt to ever-shifting operating models, evolving consumer demands and supply chain disruptions.

In the US, nearly two-thirds (65%) of midsize businesses and one-third (31%) of small businesses have increased cash reserves as a cushion for potential future disruptions, with 33% of small businesses expecting to save more in 2021, [according to the annual JPMorgan Chase Business Leaders Outlook survey](#).

**31%** of US small businesses have increased cash reserves as a cushion for potential future disruptions.



## GUARDED OPTIMISM FOR THE FUTURE

On a scale of 1 to 10, survey respondents were asked to rate how optimistic they feel about their business prospects for next quarter, with 10 being most optimistic, and 1 being least optimistic.



1

10

▲  
6.5%

## Reasons for optimism (continued)

The pandemic has taught businesses to embrace uncertainty as an opportunity for transformation and growth. Most respondents to C2FO's Working Capital Survey said they would use extra cash on new equipment, more inventory or other forms of expansion. However, spending on research and development has declined from previous surveys.

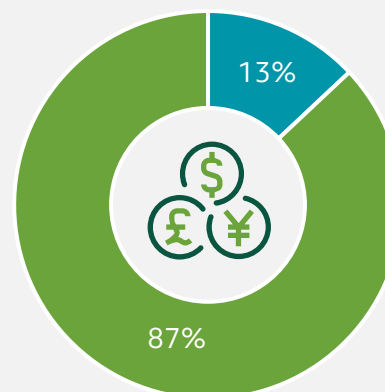


### WHAT THIS MEANS:

This mostly positive outlook is consistent with other reports, like the Organisation for Economic Co-operation and Development (OECD) Report from January 2021 [that showed business confidence was stronger than average in early 2021](#) after bottoming out in spring of 2020.

The growth in confidence over the last eleven months could be due to the significant policy efforts by governments around the world to address the liquidity gap for SMEs as lockdowns and restrictions are lifted in a number of countries.

As SMEs shift their focus from survival to recovery, optimism for the future typically grows. Just like in previous economic cycles, that optimism should continue, provided the growing demand for liquidity can be met with access to affordable working capital.



### ACCESS TO LIQUIDITY

Do you have access to all the liquidity you need to run your business in the next 6 months?

- Yes
- No

## In conclusion

The shared experience of the pandemic and the 2020 economic crisis means that SMEs worldwide have many of the same challenges: concern about economic instability, the rising costs of borrowing and the financial health of their customers.

How quickly and effectively vaccine rollouts and other efforts are at ending the pandemic will be crucial to addressing these concerns. But the pandemic alone is not responsible for years-long trends of later customer payments and the increased costs of liquidity.

Access to quick, flexible, low-cost capital, and collaborating more closely with their customers, are effective ways for SMEs to address the uncertainties moving forward. In the 2021 Working Capital Survey, 66% of respondents said that early payment would be an appealing funding option if they could set the discount rates on their receivables. Early payment on the C2FO platform offers that flexibility and control over cash flow.



of all respondents said that early payment would be an **appealing funding option** if they could set the discount rates on their receivables.

Discover how C2FO can help your business.

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