creditsafe

RESEARCH STUDY

Perils of Rising Debt & DSO

MAY 2024

Contents

Introduction

According to a **report by Janus Henderson Investors**, companies worldwide took on a record $456 billion of net new debt in 2022-2023. This pushed outstanding net debt up by 6.2% on a constant-currency basis to $7.80 trillion. And a **report by S&P Global** found that corporate debt defaults increased by 80% in 2023 and could be a problem again in 2024. What's more, company debt has increased by 18.3% since 2020, driven largely by companies taking advantage of lower interest rates in the early days of the COVID-19 pandemic.

As we're now in the second quarter of 2024, we've already seen the toll rising debt is taking on companies. In March, home fitness company **BowFlex filed for bankruptcy** with an agreement to sell the company for $37.5 million to Johnson Health Tech. Debt was clearly a major factor in the company's demise, as it had $126 million in liabilities when it entered bankruptcy and owed over $60 million to component suppliers and manufacturing partners in Asia.

Then in April, popular mall retailer **Express filed for Chapter 11 bankruptcy**. As our data revealed, **late payments have been a consistent problem at Express**, which is an indicator of ongoing liquidity problems. The retail brand, which was founded in 1980, has struggled with declining sales over the last few years and hasn't been able to keep its debt under control. According to a court filing, Express had $1.2 billion in total debts as of March 2, 2024. For Express, having such crippling debt meant that it was missing payments it owed to suppliers. Even if revenue improved, the fact that Express couldn't get its debt under control is what ultimately led to its demise.

These examples are why we wanted to explore the impact of rising debt on companies. We wanted to understand if and how much debt has risen for companies in the last year. We also wanted to get a better understanding of the root causes of missed payments and how trade credit, when not managed properly, can increase your financial risks.

SURVEY METHODOLOGY & OBJECTIVES

We surveyed 200 finance, accounting and auditing professionals in the United States to understand how they manage debt, the most common causes of cash flow problems and the impact of rising debt and poor financial management practices on the bottom line. The survey was fielded in April 2024 and included companies across all industries with over 250 employees.

All data cited in this report is current as of May 7, 2024.

Key Trends & Insights

U.S. Business Debt Is Growing, But It's Becoming Harder to Pay It Off

Adding new customers and growing your revenue are important parts of running your business. Without new customers and the recurring revenue they bring, you'll struggle to reach profitability. But that doesn't mean you should ignore other factors like long-term debt that could impact your business growth just as much as revenue does. To put it simply, you should be monitoring any money coming into the business and money going out of the business. Both are equally important.

Long-term debt is classified as a non-current liability where the repayment period is longer than a year. Many high-growth businesses take out long-term debt as it's often needed to finance new product innovations, expand into new territories and secure future growth.

Long-term debt can have both short-term and long-term effects on your business. For instance, it could make it harder to secure new funding or investment from venture capital firms if you've missed debt payments. And if you're overextended on your lending and fall behind on your loan payments, lenders will look at how much long-term debt you have and use that to decide whether they want to lend your business more money.

It could also become a sticking point when negotiating with suppliers. Any suppliers you're trying to sign will assess your company's financial health and creditworthiness. If your **business credit report** shows that you have a poor track record of paying your suppliers on time and typically pay over 45 days past payment terms, potential suppliers might require that you make a partial payment or full payment up front. Or they could impose stricter repayment terms or fines if you repeatedly pay late. And if they doubt your company's ability to survive in the long term, they could just walk away and go with one of your competitors. All these factors will affect your cash flow.

In all likelihood, your company has long-term debt on your balance sheet too. That's not a bad thing. But when long-term debt is taken on without properly monitoring, managing and reducing it, that's where things can go down the wrong path and lead to serious financial trouble. And if you're overextended with your debt and don't speak to your debtors to arrange repayments, this can lead to your company being 'overleveraged.' We've seen this happen too often, with overleveraged companies defaulting on their debt, being unable to pay their expenses and struggling to maintain enough cash flow to keep operations running.

One example of this is the rental car company **Avis Budget Group**. The company's long-term debt, for the quarter ending December 31, 2023, was $26.45 billion, which is an increase of 26.45% from the previous year. And in 2022, its long-term debt was $18.453 billion – an increase of 19.98% from 2021. While one quarter of increasing debt wouldn't be enough to raise the alarm bells, Avis' long-term debt has consistently increased for over two years. And rising debt can often lead to missed payments. For instance, the number of late payments (1-30 days) made by Avis Budget Group jumped from 12.03% in September 2023 to 43.11% in October 2023, while the number of late payments (31-60 days) rose from 3.39% in October 2023 to 13.37% in November 2023. Our data also shows that Avis Budget Group hasn't gotten off to the best start in 2024. Since January 2024, the number of on-time payments has fallen – dropping from 71.15% in January 2024 to 64.71% in February 2024 and then dropping again to 53.35% in March 2024. At the same time, the number of late payments (1-30 days) increased from 8.06% in December 2023 to 16.73% in January 2024 and then again to 25.08% in February 2024.

Express, the popular mall retailer, is another example of how rising debt can take its toll on the bottom line. In September 2023, the retailer entered into a definitive loan agreement with ReStore Capital for a $65 million first-in-last-out asset-based term loan. While the company's CEO Tim Baxter discussed in previous earnings calls the growth Express' denim business has seen, he recognized that it wouldn't be enough to sustain the business. As a result, the company has been working to slash expenses. But it doesn't look like that helped much, as **Express filed for Chapter 11 bankruptcy** on April 22, 2024.

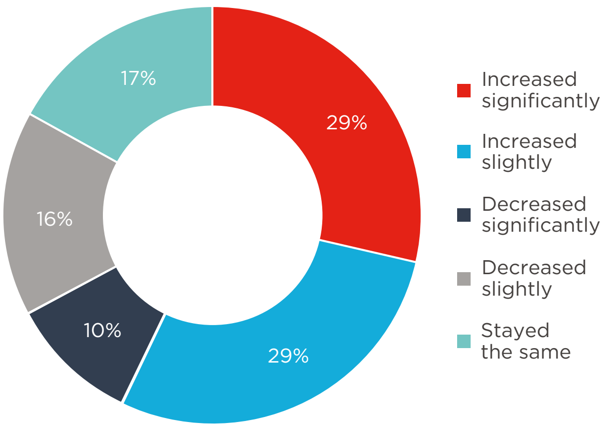
Given the challenged economic market, rising inflation and decline in consumer spending, we weren't all that surprised that over half (58%) of businesses said their long-term debt has increased in the last 12 months. To make matters worse, 74% of businesses have also seen their operating expenses increase in the last 12 months. Since a large portion of businesses have seen both their operating expenses and debt increase, we would have expected to see reducing debt and preserving cash flow given higher levels of importance. But that doesn't appear to be the case. In fact, just 5% of businesses said reducing debt is the most important part of growing their business. In contrast, over half (52%) said adding new customers and increasing revenue were most important.

The problem with debt is that you need to either cut costs (which usually isn't possible if you have increasing costs and debt) or spend more to generate more revenue so you can get your business out of debt. It can feel like an impossible situation.

But our study's findings indicate that companies may have a plan to get themselves out of spiraling debt, as 68% of businesses have increased their bad debt reserves by up to 30% in the last 12 months. Bad debt reserves, also referred to as an allowance for doubtful accounts, is money that you set aside to cover receivables that may not get paid by your customers over a given period of time. Essentially, it's the total amount of receivables your company never expects to collect. We like to think of it as cash flow 'padding.'

Given the fact that over half of businesses are willing to put money aside for bad debt reserves, you'd assume that they would be as proactive and diligent as possible to protect their cash flow. But our study indicates this isn't the case. Nearly half (49%) of businesses admitted they don't use credit risk software to run business credit checks on new customers. It will almost be like you're throwing cash away instead of preserving it. The takeaway here is that, while adding new customers and generating revenue consistently are critical for business growth, you shouldn't ignore the effect long-term debt can have on your cash flow and business growth in the long run.

How has your company's long-term debt changed in the last 12 months?



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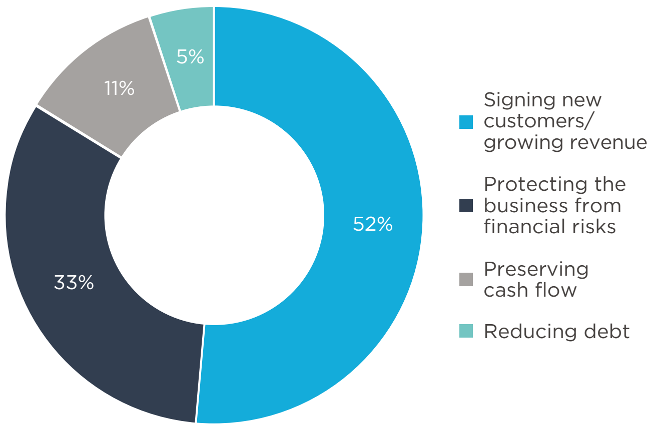
What's most important when it comes to growing your business?



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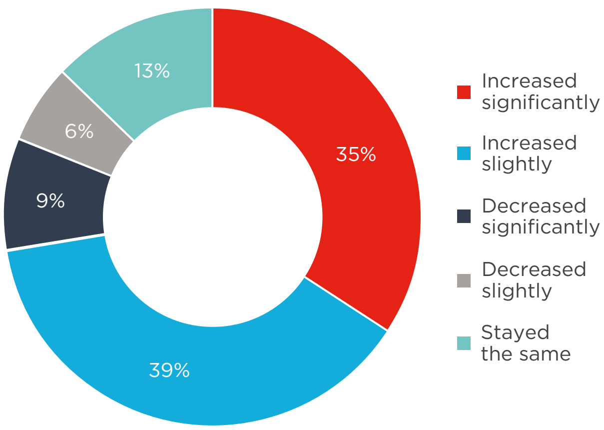
How have your company's operating expenses changed in the last 12 months?



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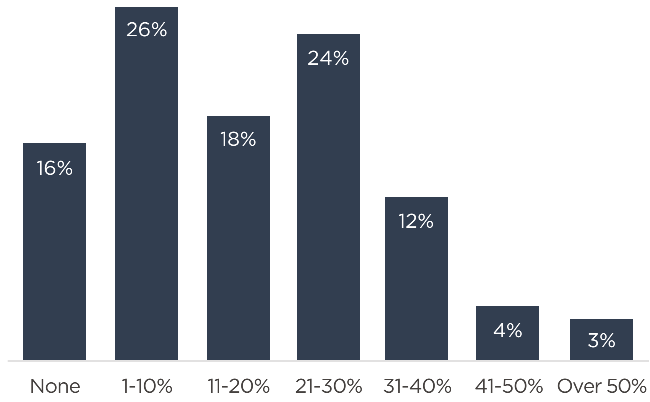
How much has the company's bad debt reserve increased in the last 12 months?



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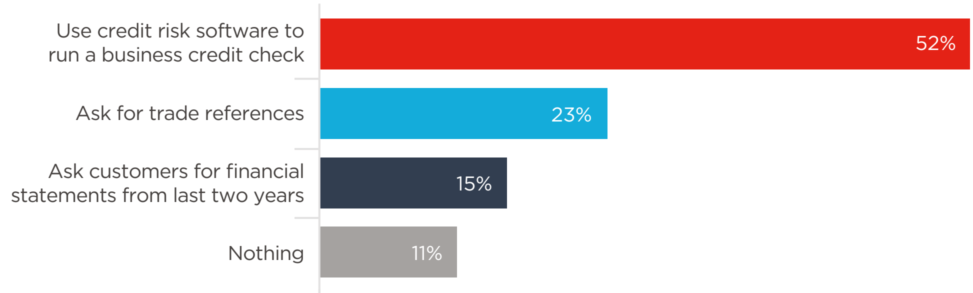
How does your team assess a customer's ability to pay their invoices on time?



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Invoicing Mistakes, Cash Flow and Product Dissatisfaction Are Leading to More Missed Customer Payments

We've already talked about the impact of long-term debt and increased operating expenses on cash flow. Now, let's talk about another factor that can wreak just as much havoc – missed customer payments.

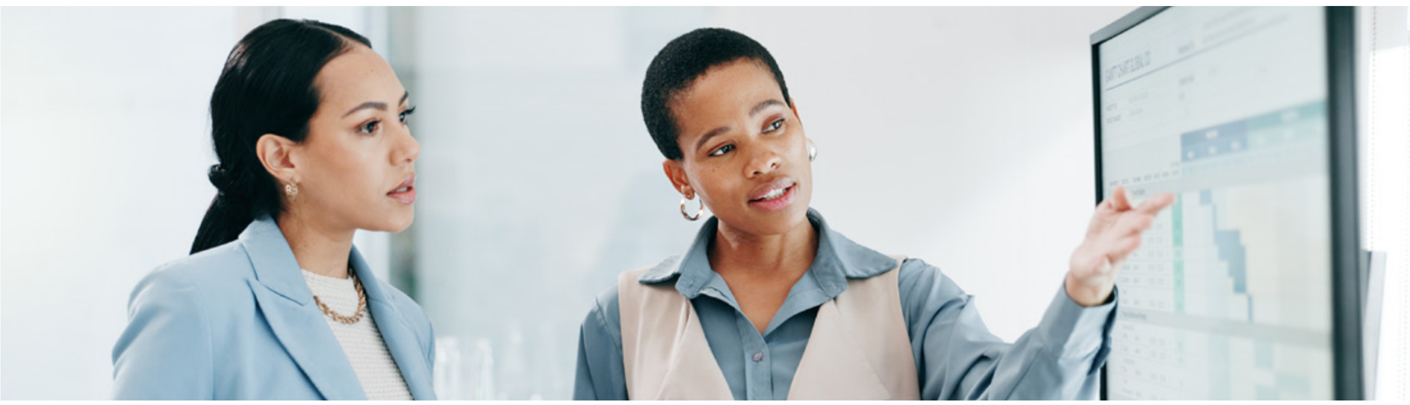
Accounts Receivables is all about making sure you can collect payment from your customers for goods and/or services delivered. To take a cue from Tom Cruise's character in the popular film 'Jerry McGuire,' you want your customers to show you the money. And a big part of this involves submitting invoices and following up with customers to make sure they pay on time.

This can become even more complicated if your team has thousands (or even hundreds of thousands) of customers and is waiting for payment from hundreds of customers every week. As our study reveals, this is quite common. For instance, 62% of businesses send more than 100 invoices to customers every week. That's a lot of invoices. And if the payment value of each of those invoices is quite high and those invoices aren't being paid on time, that could lead to liquidity and cash flow issues.

Unfortunately, our study found that missed customer payments are becoming a bigger problem for businesses. In fact, only 14% of businesses said most (76-100%) of their invoices are paid on time. Meanwhile, 39% of businesses said their customers paid their invoices 1-30 days past payment terms in the last 12 months. Plus, 46% of businesses said their customers paid their invoices 31-60 days past payment terms and 15% said their customers paid their invoices 61-90 days past payment terms in the last year.

Late payments don't always reflect your customers' ability to pay on time. It can often come down to if they want to pay on time. Many businesses purposely pay invoices late as part of their Accounts Payable strategy. Why? For one, paying late can free up their own cash flow. Plus, they could be paying late so they can set money aside and increase their bad debt reserves.

How could late payments affect your business? Let's say your business has agreed to Net 90 payment terms with a customer and that customer has a DBT ranging between 61-90 days. That means it could be upwards of six months before you receive your first payment from that customer. Is your cash flow strong enough to handle such a long delay in collecting payments? Now imagine how much worse things could be if several customers have a DBT ranging from 61-90. It's not going to be good for your own cash flow.



This is something business consulting firm **Diversico Inc**. faced. According to CEO Jason Rubin, the company was struggling with getting their customers to pay on time. And this was causing their DSO to increase consistently over time. The CEO wanted to reduce their DSO and improve their cash flow as a result. And they wanted to incentivize their customers to pay on time. That's not the easiest thing to do, as most business leaders will tell you.

How Creditsafe Helped Diversico Get Paid Faster and Improve Cash Flow:

- Diversico's finance team **shared their Accounts Receivables records** with us so that we could feed all the information into our robust credit risk platform. By doing this, Diversico could also get a better picture of their customers' payment behaviors and use that data to identify payment patterns and trends. For example, their finance team could analyze the data and prioritize collections based on the customers who have paid late most frequently, by the customers who owe the largest amount or other factors.

- Diversico could use this to incentivize their customers to pay on time. How? By explaining to their customers that their payment data is being shared with Creditsafe and if they pay on time, it will lower their overall credit risk and improve their credit score. And that could help them secure financing or loans more effectively.

Yesinne Alvarez, Partnerships, Alliances & Data at Creditsafe, thinks Diversico and other companies should take advantage of trade payment data. "By incentivizing and educating your suppliers to share their trade payment data with credit monitoring bureaus, you'll also see improvements to your company's creditworthiness in the form of better credit scores, higher credit limits, lower DBTs – all of which will help you secure better terms on financing and working capital loans."

There are all sorts of reasons your customers could be paying your invoices late. They may have experienced a significant decline in sales over the last 12 months, which has led to cash flow problems. It turns out this is happening more often than you might think, as 35% of businesses said their customers didn't pay on time because they had cash flow issues. As surprising and disheartening as this finding might be, it's also a reminder of how important it is for you to do the proper due diligence on your customers before they become customers. How? Run a **business credit check** and look closely at how their DBT has fluctuated over the last 12 months.

This data is so important and often overlooked by companies who often think credit scores and credit limits are the only things to focus on. But we know just how wrong that assumption is. To some extent, those data points are important. But unlike consumer credit reports, business credit reports have a wealth of insights into companies' payment behaviors. You can see the total number of outstanding bills for the last 12 months and see what portion of these bills are current as well as what portion are late – by 1-30 days, 31-60 days, 61-90 days and 91+ days.

The reason we suggest looking at this data over a 12-month period is that it can point to trends and patterns that can alert you to larger financial problems. For instance, if you see that a potential customer has had a poor track record of paying their bills on time (i.e. only 30-40% of its outstanding bills have been paid on time for the last 12 months), that could affect your decision to sign that customer. And if you see that their **Days Beyond Terms (DBT)** has been high, volatile and spiked repeatedly over the last 12 months, that's another red flag that their financial health isn't in a good place and their cash flow management leaves something to be desired. Wouldn't your team want to see these patterns before you make a credit decision and approve signing the customer? We certainly think so.

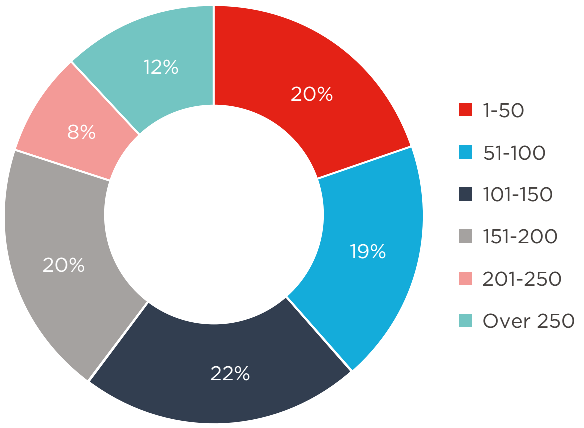
Steve Carpenter, Country Director of North America at Creditsafe, explains why fluctuations in DBT can be so indicative of liquidity problems.
"A significant fluctuation in DBT is often the first sign that a company is having financial difficulty. A DBT of 10 means that, on average, a company pays its bills 10 days late. A DBT of 45 means that, on average, a company pays its bills 45 days late. Paying 10 days late is better than paying 45 days late. But in some industries like construction, companies are notoriously late payers. So, a consistent DBT of 45 days month-over-month may just be the norm for that industry. But if the DBT jumps from 10 to 45, this means a company is now paying their bills slower than usual, which could be an indication of financial stress. This is why it's so important to monitor fluctuations in DBT."

Of course, cash flow problems aren't the only reason your customers could be falling behind on paying your invoices. Maybe some of them aren't happy with the quality of goods or services. As our study found, 19% of businesses cited this as the reason customers paid their invoices late in the last 12 months. One of the factors that will affect your ability to resolve this type of issue is your relationship with your customers. Do you have a good rapport with each other? Have there been issues in the past? How important is it for you to keep the customer? Having a good relationship with a customer could help you find a solution to the problem, such as agreeing to produce samples ahead of time and getting your customer's sign off before your team sets out to complete the larger work order.

What's interesting is that 37% of businesses said missing PO numbers and incorrect billing information on invoices caused them to pay late. These seem like simple things, but it's not that uncommon to see these types of invoicing issues arise. This is something that comes back to your own Accounts Receivable processes. Are these types of clerical errors happening a lot? Have a high percentage of your customers' missed payments been caused by these issues? Now, here's the important part. Don't immediately go into a blame game with your finance team. There could be several reasons invoices have been submitted without PO numbers and with incorrect billing information. First, dig into what's causing these specific invoicing issues. And then look into the root cause. For example, are these clerical errors happening because your team is having to manually create and submit hundreds of invoices to customers each week? Are there any QA systems in place to prevent this from happening? If not, then that's a good place to start.

The reality is that none of these invoice issues will be resolved in a day or even two days. It could take weeks to resolve them – depending on the issue, your relationship with your customers, your Accounts Receivable processes and other factors. You know what that means, don't you? It'll take longer to **collect your payments**. So, that money won't be coming into the business when you originally forecasted it would and your cash flow will have to suffice to pay for your operating expenses.

On average, how many invoices does your team send to customers each week?



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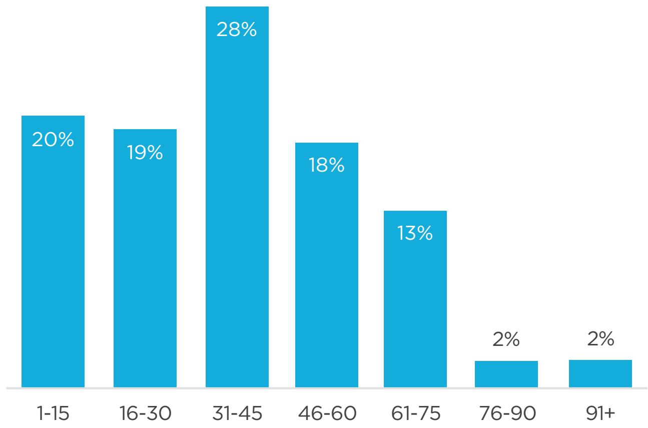
On average, how many days beyond terms do you typically receive payments from customers?



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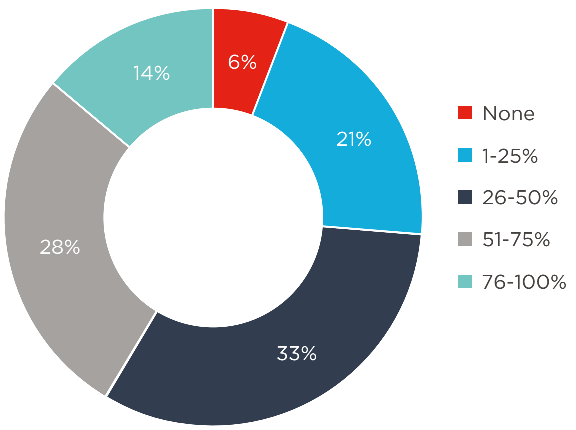
On average, how many of your customers paid their invoices within payment terms in the last 12 months?



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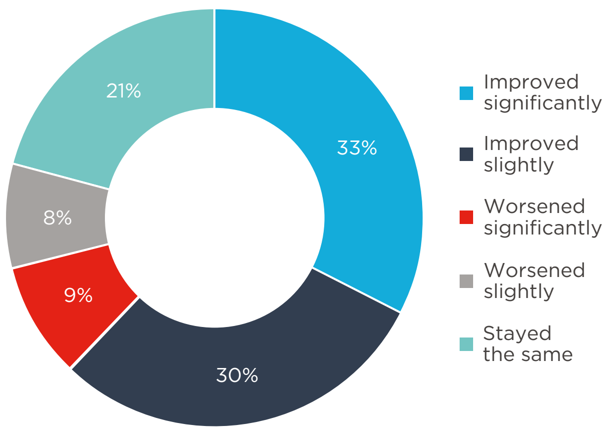
How has your company's ability to repay debt changed in the last 12 months?



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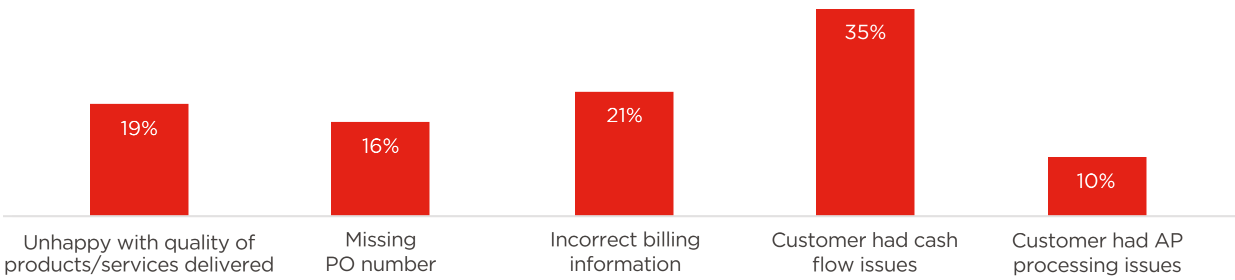
In the last 12 months, what was the most common reason customers didn't pay their invoices within payment terms?



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Trade Credit: A Delicate Balancing Act Between Risk & Reward

Another area that can be especially problematic is **trade credit**. We're sure you understand how trade credit works. Essentially, a company (seller) lets a customer (buyer) pay for goods or services after they have been delivered (i.e. Net 30, Net 60, Net 90).

As you know, selling on trade credit means you can bring in more customers and potentially generate more revenue in the long term. But on the flip side, the risk of trade credit is that you're giving up part of your cash flow until your customers make payment. This is clearly an issue for many businesses, as 26% of the respondents said their cash flow issues were caused primarily by having a higher ratio of customers using trade credit to pay for goods and services. This makes a lot of sense given that 64% of businesses extend trade credit to up to 30% of their entire portfolio. Plus, another 25% extend trade credit to between 31% and 50% of their customers.

And if your customers don't have strong financial health (i.e. sales, revenue, profitability, debt, operating income, operating expenses, etc.), they could end up paying your invoices late. If this happens, it could cause liquidity issues for your own company and could create larger problems that make it tough to keep your operations running smoothly.

The reality is that trade credit can be fraught with challenges and risks, especially if a company doesn't properly evaluate the creditworthiness and financial health of potential customers. And as our study indicates, many companies are making this mistake. For instance, nearly half (49%) of the surveyed respondents don't use **credit risk software** to run a business credit checkon their customers. Instead, they just do one of the following things: ask their customers for financial statements for the last 2 years, ask for trade references or simply do nothing at all.

The trade credit application itself tends to be outdated, long and reliant on manual processes and paperwork. That's not ideal if your company is reviewing hundreds of trade credit applications a week. And as our **recent research** has found, 97% of finance managers process up to 100 credit application a day. That's about 500 credit applications to get through in a single week. On top of that, over half (63%) of companies involve up to 5 people in the credit decision process for new customers. And 75% of businesses reported that it takes up to a full working day (8 hours) to reach a credit decision on a single customer.

Why are we telling you these stats? We want you to understand why trade credit can open the door to risks. But the good news is that you can do something about it. Instead of using manual processes, sending PDFs back and forth via email and trying to cross-check data from multiple sources, you can simplify the whole process by using an **online trade credit application tool**.

It's important to understand that using an online credit application tool isn't meant to replace your finance team's job. An online credit application tool can manage the credit applications that are more simple and result in Approved or Rejected decisions. That way, your team can focus on the more complicated credit applications that come back with the result of Defer – so you can do the necessary analysis to come to the right decisions and minimize the risks your company is exposed to.

Benefits of Using an Online Trade Credit Application Tool

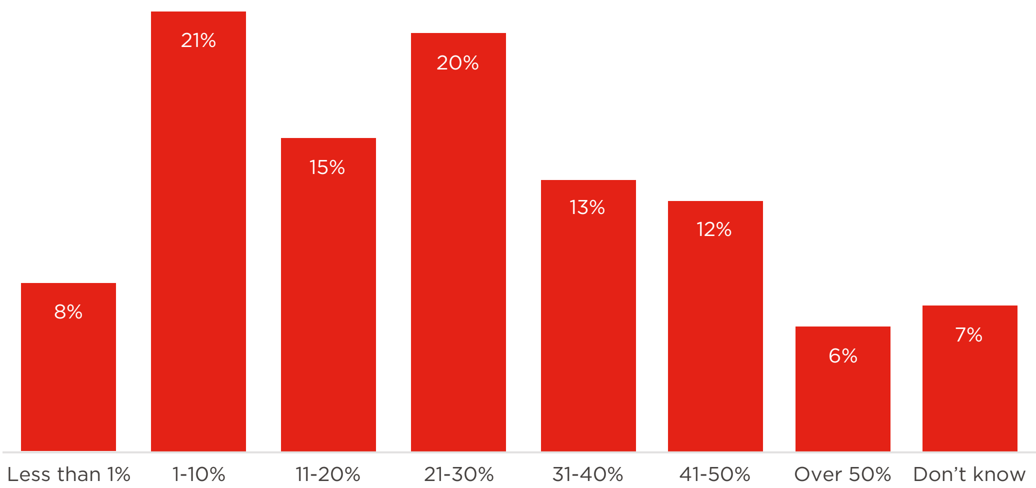
- **Better customer onboarding:**
  There's nothing worse than when a new customer signs a contract with a vendor and then the onboarding process is either non-existent or poorly constructed. The smoother and faster the process is, the stronger your relationship will be with your customers.

- **360-degree view of your credit applications:**
  Stop trying to find your information and records in a pile of papers or in multiple folders on your computer. Have everything available in a single dashboard and easily reference the data for what your team needs in real-time.

- **Faster and more reliable decisions:**
  Embed your credit policy into the backend so you can reach the right credit decision for your business and rely on that decision.

- **Digital audit trail:**
  It's important to maintain a full audit trail of every credit application that has been submitted and reviewed by your team. Not only can your team keep these records and identify patterns in your credit decisions for future planning, but you can also share these records with the necessary authorities should the need arise

Out of your total customers, how many do you typically extend credit terms to in a year?



Note: Figures may not add to 100 due to rounding.

With Missed Customer Payments Becoming the Norm, More Finance Teams Are Prioritizing Days Sales Outstanding as KPI

When your customers pay late, this affects the Days Sales Outstanding (DSO) metric of your own company. DSO refers to the average number of days it takes to collect payment for a sale. It can tell you so much about your customers' financial health and their ability to pay bills on time.

How does DSO work in reality? Let's say your gross revenue is $1 million and your Accounts Receivables at the end of a period is $100,000. When you multiply that by 365 days, your DSO is 36.5 days. In other words, it took you 36.5 days, on average, to get paid by your customers.

Our study found that over half (57%) of businesses reported that their DSO has increased in the last 12 months. That means more customers are paying their invoices late. There are a few reasons DSO may be increasing for so many companies. For one, the fact that 64% of businesses extend trade credit to up to 30% of their customers could have something to do with it. And given that 75% of businesses said their annual revenue has increased in the last 12 months, these two factors combined could be a key reason **why DSO increased** for over half of the surveyed businesses.

If your DSO rises over time, it could put a strain on your cash flow, especially if your customers are repeatedly paying late. And if your team hasn't done the necessary analysis of bad debt from the previous year and is also seeing operating expenses rise and revenue decline, your cash flow could be depleted even further. That could make it hard to keep the business running for much longer – pushing you to pursue debt refinancing, debt consolidation and even debt restructuring.

So, it's a good sign that 72% of businesses proactively monitor DSO as a metric of their financial health. This is what global logistics provider **JAS Worldwide** is doing. For Josh Simon, Global Risk & Receivables Director at JAS Worldwide, Days Sales Outstanding is high on the list of priority KPIs.

Josh Simon explains, "Managing credit risk globally is no easy feat. We have built a robust strategy that involves analyzing and measuring our risk and AR performance across over 60 key metrics. These include reducing our Days Sales Outstanding (DSO), the total number and dollar value of late invoices, open Accounts Receivables disputes, billing timeliness and adherence to credit limits, just to start." By using credit risk data to thoroughly vet potential customers and suppliers for financial risks, Josh and his team were able to slash the company's DSO by 33% in the last two years.

6 Surefire Steps to Slash Your DSO and Improve Cash Flow

1. Review the **business credit reports** of potential customers before signing contracts with customers.

2. Monitor business credit reports of existing customers throughout the customer lifecycle to spot changes in their financial circumstances and cash flow.

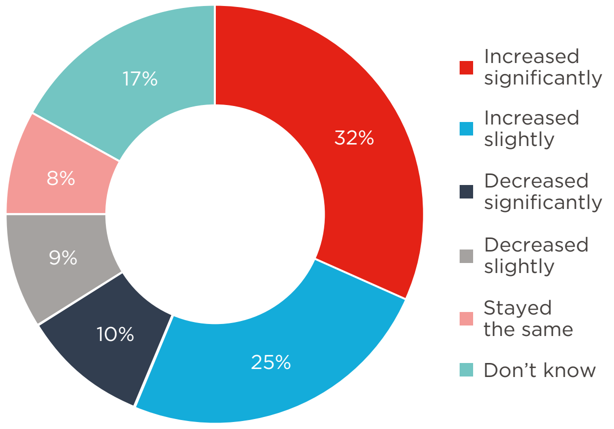
3. Look at the **DBT** of customers to determine how late they typically take to pay their bills. The lower the DSO number, the more reliable they are and the faster you'll be paid.

4. Look at how your customers' payment behaviors have fluctuated over the last 12 months. If their DBT has been unstable and spiked multiple times throughout that time, these are red flags. And if the number of late payments has spiked over several months or suddenly, these are signs their cash flow may not be healthy.

5. Use **credit decisioning software** to speed up and improve the reliability of your credit decisions. And you can rely on the decisions because the software will create workflows based on your credit policy.

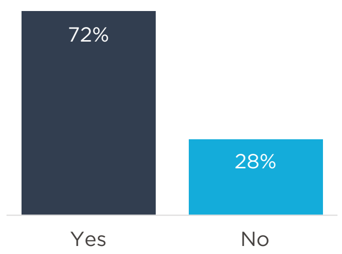
6. **Integrate credit risk data with your sales ledger** so you can get full visibility into your portfolio's financial health and prioritize collections accordingly.

How has the company's Days Sales Outstanding (DSO) changed in the last 12 months?



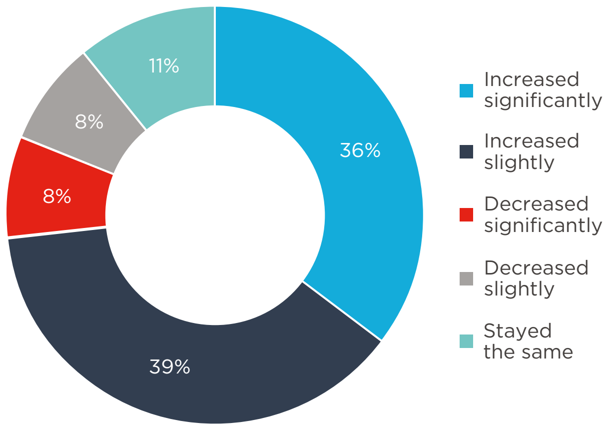
Note: Figures may not add to 100 due to rounding.

Does your team proactively monitor Days Sales Outstanding (DSO) as a metric of your company's financial health?



Note: Figures may not add to 100 due to rounding.

How has your company's annual revenue changed in the last 12 months?



Note: Figures may not add to 100 due to rounding.

With Revenue and Market Conditions Being So Unpredictable, More Businesses Are Padding Cash Flow

As our study reveals, 33% of businesses said their cash flow issues have been caused by challenging market conditions. This isn't hard to believe. Inflation has continued to rise over the last few years. As of March 2024, the annual inflation rate in the U.S. rose for a second consecutive month to 3.5% - increasing from 3.2% in February.

How can rising inflation become such a pain in your company's backside? For one, it can affect your business on the supply side – meaning that the costs of materials and products increase. Then there's also the risk that comes with not knowing when and by how much prices will increase over time. That can make it hard to do proper **cash flow forecasting** and budgeting. Rising inflation can also create panic among your customers. So, they might put planned orders/contracts on hold for the foreseeable future or cut spending with your business altogether.

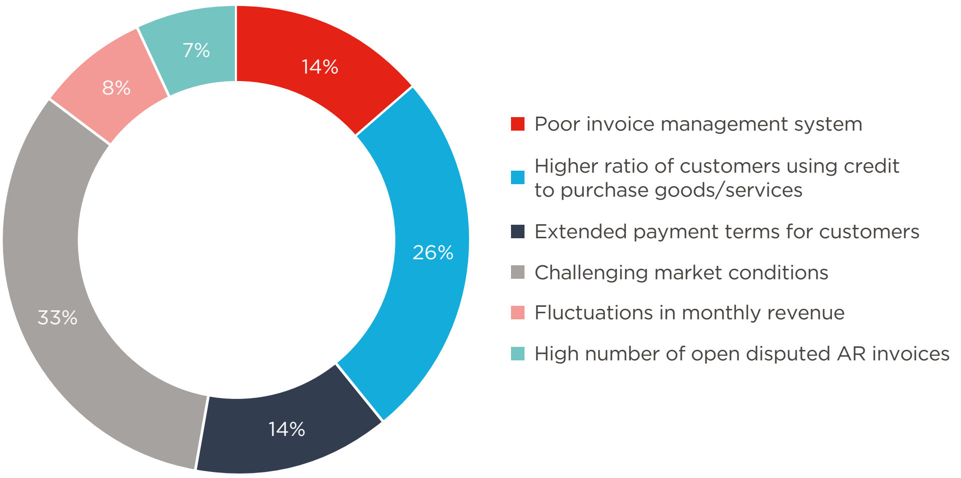
What the Impact of Rising Inflation Could Look Like in Your Business

- Higher equipment costs
- Increased transportation costs
- Rent or leasing increases
- Higher utility costs
- Reduced spending on marketing
- Discontinuing products or services that don't perform well
- Opting for less expensive materials
- Laying off staff to bring costs down
- Asking for extensions on debt maturity dates

Given how market conditions can be a trigger for cash flow problems, it's good to see that 81% of businesses maintain an estimated allowance for doubtful accounts as part of their cash flow management process. This is a smart strategy and could be tremendously valuable in growing and scaling your business.

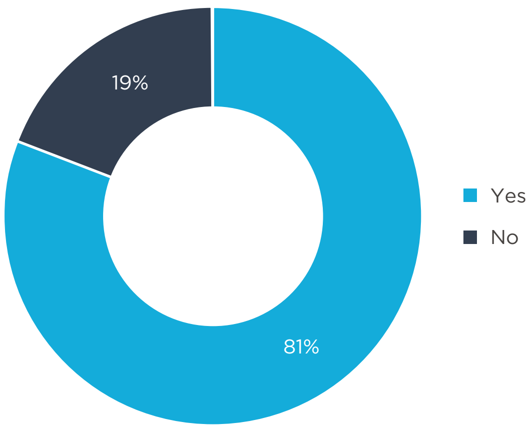
Our study's findings also indicate that companies may be doing more analysis and forecasting to make sure their cash flow doesn't take a hit. For example, 35% of the respondents said they're most likely to use the size of potential uncollectible receivables as the basis for calculating the estimated allowance for doubtful accounts, while 25% said they would use last year's bad debt percentage for their calculation. This strategy and analysis seems to be paying off for businesses, as 26% of the respondents have increased their bad debt reserves by up to 10%, while 42% of the respondents increased their bad debt allowance by 11% to 30% in the last 12 months.

What is the number one reason your company typically experiences cash flow issues?



Note: Figures may not add to 100 due to rounding.

Do you maintain an estimated allowance for doubtful accounts as part of your cash flow management process?



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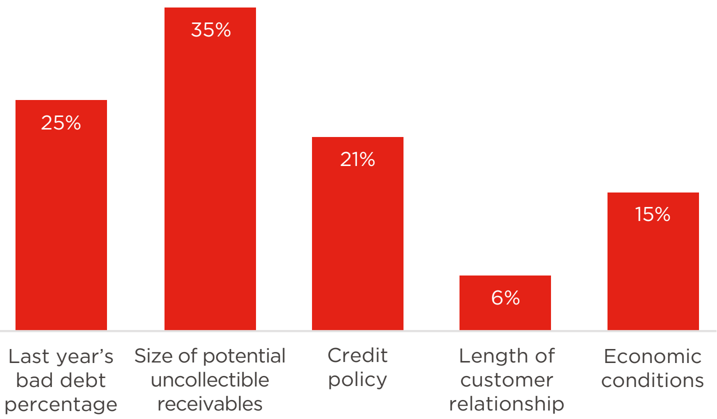
What are you most likely to use as the basis for calculating the estimated allowance for doubtful accounts?



Note: Figures may not add to 100 due to rounding.

Cash-Strapped Companies with Declining Revenue Are Most Likely to Pursue Debt Consolidation and Debt Restructuring

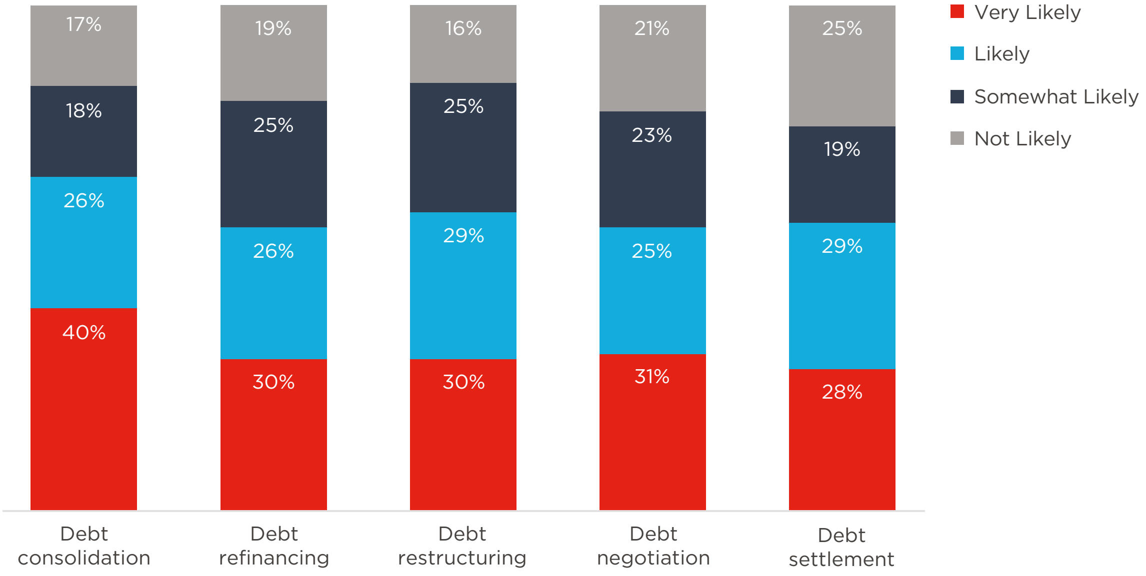
While it's common for cash flow to fluctuate throughout the year, declining revenue and profitability can make things far worse. But there's never a single right answer for how to combat declining revenue and liquidity problems.

For some companies, the right strategy could be to negotiate with creditors to find a resolution that works for both sides. Perhaps this could mean extending payment terms or asking for an extension on the maturity of a business loan. Meanwhile, other cash-strapped companies might not be as optimistic if revenue has been on the decline for 12 months, while operating expenses and debt have both increased over the same period. In such cases, you might want to get restructuring guidance from lawyers and consulting firms because bankruptcy is the only viable option left.

Our study's findings show that certain debt management strategies are seen as better options than others. For example, 84% of the respondents said they'd likely pursue debt consolidation to get themselves out of financial trouble. Meanwhile, 84% of businesses would go down the route of restructuring. So, what might be the driving factor that pushes a struggling company towards restructuring? As our study indicates, declining revenue and declining profitability would drive over half (54%) of businesses to pursue restructuring, while liquidity problems would be the deciding factor for 31% of businesses. As we've seen with the news of Express' demise, restructuring was the only option left. As of April 22, 2024, the company hired Kirkland & Ellis to restructure its $1.3 billion in debt.

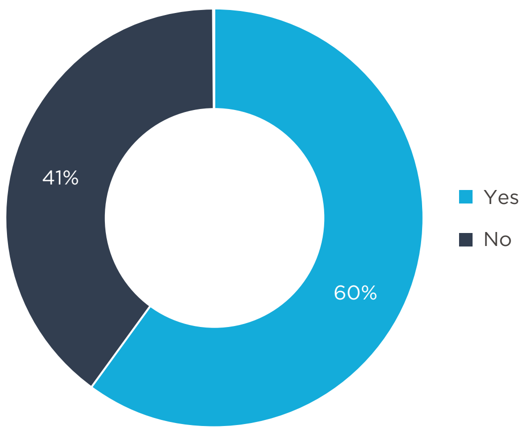
Of course, what you think you would do in the face of certain scenarios is usually different from what you actually do when those circumstances become reality. That could explain why over half (60%) of businesses have used debt refinancing in the last 12 months. What this tells us is that companies have been feeling the effects of rising inflation, higher operating costs, drops in consumer spending and declines in sales and revenue. It could also be that these businesses wanted to free up their cash flow and refinancing their debt was one of the best ways to do so.

How likely are you to implement the following debt strategies to combat declining profitability and liquidity problems at the company?



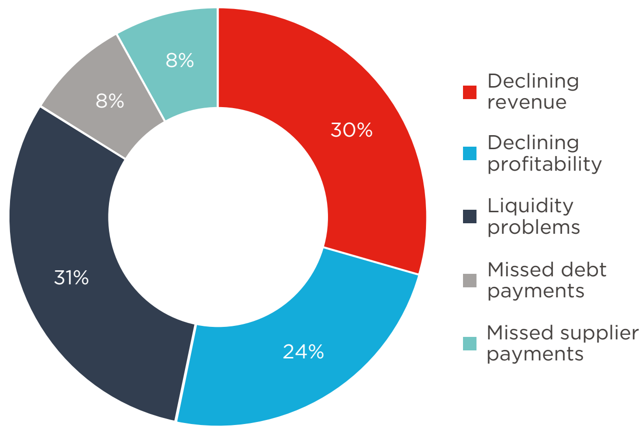
Note: Figures may not add to 100 due to rounding.

In the last 12 months, have you used debt refinancing to replace existing debt with a new loan at more favorable terms?



Note: Figures may not add to 100 due to rounding.

What factor would have the greatest influence over your decision to pursue debt restructuring?



Note: Figures may not add to 100 due to rounding.

CONCLUSION

Managing your company's financial health is no easy feat. There's so much you have to look after – from planning annual budgets and cash flow forecasting to vetting potential customers for financial risks and managing Accounts Receivables. And that's just the tip of the iceberg.

While many things can and will be under your control, there are so many factors that you won't be able to control that can affect your cash flow. For instance, economic uncertainty and rising inflation can strain your finances – from higher materials costs and transportation costs to reduced budget allocations and an inability to pay your outstanding debt.

At the end of the day, debt and your customers' payment behaviors can push your company into financial distress, especially if revenue is already on the decline, expenses have increased over time and your customer retention rate has dropped. One of the biggest takeaways from our study is that businesses can't let revenue and profitability be the only thing they think about to grow their business. Trade credit, debt, increased operating costs, decreasing net income are just as important to monitor and manage as revenue.

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