

TREND REPORT

State of Credit Risk: 2022

February 2023



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Introduction

By all accounts, 2022 was a rough year for American businesses of all sizes. Inflation uncertainty, supply chain disruptions, higher operating costs, labor shortages and dwindling cash flows were just a few of the challenges. And as **Bank of America's 2022 Small Business Owner Report** reveals, 88% of business owners said inflation was affecting their business and 76% said supply chain issues were impacting their business.

But we know that small businesses are the backbone of the American economy. In fact, the **U.S. Small Business Administration** reports that small businesses create over 66% of net new jobs. Plus, they account for 44% of total U.S. economic activity.

Given how severely the pandemic and current economic downturn have affected revenue growth and operational efficiencies, you'd think small businesses would have a pessimistic outlook and be less inclined to invest in their businesses. But that doesn't seem to be the case. They have proven they can be just as resilient and sometimes even more so than large companies.

According to Sharon Miller, President of Small Business and Head of Specialty Banking & Lending at Bank of America, small business owners aren't letting these challenges deter them from investing in and expanding their businesses. As she explained, "While facing a highly challenging environment, entrepreneurs are demonstrating resilience and adaptability as they focus on the operational and strategic decisions that directly impact their customers and employees."

Having hope is certainly the right attitude. But hope alone won't help businesses – big and small – **keep their cash flowing** and stay competitive amidst economic uncertainty. Cash flow is the lifeline of any business. That's why financial know-how, optimized processes and access to the right data are essential to keep your cash flowing.



About the Data Powering the Report

The State of Credit Risk report offers an in-depth review of credit risk and payment behavior trends in the United States for the entire year of 2022. More specifically, the report provides key insights into how well businesses are paying their bills based on company size and sector.

The report's findings are based on aggregate, anonymized data and include the following information:

- The average DBT (days beyond terms) of small, mid-market and large businesses
- The average DBT (days beyond terms) for businesses across 11 sectors
- The average credit score and credit limit of small, mid-market and large businesses
- The average credit limit for businesses across 11 sectors
- The total number and cost of legal filings for businesses across 11 sectors
- The credit risk level (very low, low, moderate, high, very high) for businesses across 11 sectors
- The total number of company registrations from 2019 to 2022, including year-over-year growth rates

The Creditsafe Trade Payment database holds more than \$10 trillion of information in value terms based on over 320 million payment experiences. Our data comes from over 9,000 trusted and official sources and is updated up to 5 million times a day to include credit scores and limits, financial information on up to three years of annual accounts, bankruptcies, judgments and lawsuits. We also have a reputable track record of predicting up to 70% of bankruptcies up to 12 months in advance.

Key Trends & Insights

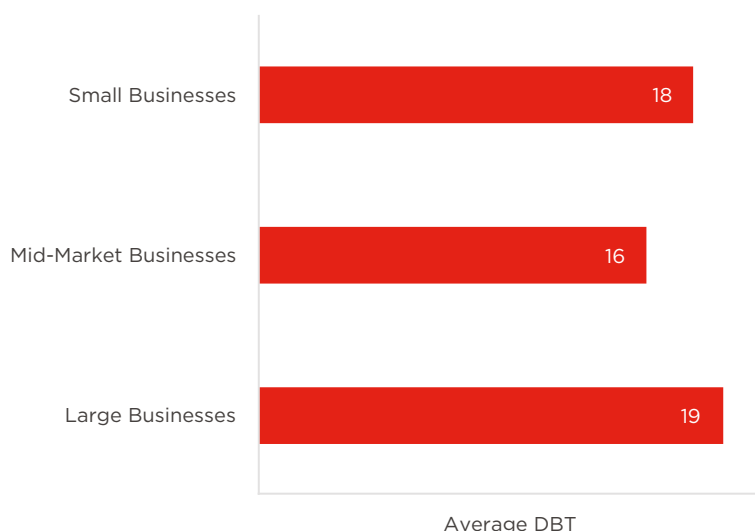
Bigger Isn't Always Better: Large Companies Are Most Likely to Pay Late

There's often this presumption that larger companies are inherently better off financially and can easily meet their financial obligations. But our data proves this isn't the case, as large companies were the most likely to pay their suppliers late.

In fact, large businesses had an average DBT (days beyond terms) of 19 in 2022. DBT refers to how many days past payment terms (Net 30, Net 60, Net 90) a company pays its invoices. So, when a business has a lower DBT score, that means they're doing a better job of paying their invoices within terms.

In contrast, mid-market and small businesses had a better track record of paying their suppliers on time in 2022. For example, mid-market companies had an average DBT of 16 and small companies had an average DBT of 18.

Average DBT by Company Size



Our data indicates that winning a big contract doesn't automatically translate into financial growth. For example, our recent **'Sales vs. Credit Control Battle' research study** found that 52% of sales managers were losing up to \$200,000 a month because the finance team rejected their deals for being 'too risky.' While pursuing every business prospect may seem like a smart sales strategy, it can actually backfire and lead to lost revenue for your business. The truth is that the size of a company has no real bearing on whether it's reliable and will pay its invoices in full and on time.

But as a business leader, you won't know this if you don't pay attention to the right data. What do we mean by 'right data'? Put simply, we mean **credit risk** data that shows the business credit score, average credit limit, average days beyond terms (DBT), percentage of past due invoices, total amount past due, late payments (1-30 days, 31-60 days, 61-90 days and 91+ days), the average DBT of companies in the same sector, total number of legal filings (i.e. court judgments, lawsuits, tax liens, UCCs) and the amount of money lost as a result of legal filings. That's just the start of the type of credit risk data you should be looking at on a regular basis.

So, before signing a contract with a new customer, dig deep into their **business credit report** to understand the full extent of financial, legal and compliance risks you could be exposing your business to. Trust us, it could save your business a lot of money and help you plot your business growth effectively.



Let's look at why large companies tend to pay their suppliers late. One of the biggest reasons is that it can improve cash flow. How, you might be asking?

Imagine you're a large business that's paying your suppliers, on average, \$100,000 a month and paying them on cash terms (i.e. paying immediately without taking any credit terms). So, in month one, you would have to pay out \$100,000 from your cash flow to settle the debt. And in the second month, another \$100,000 would have to come out of your cash flow and so on for each month after (within the contract). Now, let's say your monthly income covers that amount but you don't get paid until month two. That means you'll have to finance purchases in the first month with an overdraft of \$100,000.

But if you agree to Net 30 or even Net 60 payment terms, that gives you some extra runway where you don't have to deplete your cash deposits. Let's go through the numbers to show you what we mean. Let's use the assumption that you agreed to Net 60 payment terms with your supplier. That means you wouldn't have to pay out the first \$100,000 in month one – so you wouldn't have an overdraft and would retain that amount in your cash flow in that month. Then in month two, you wouldn't have to pay out a further \$100,000 – all the while, you're still bringing in revenue because your customers are paying you, creating a positive credit balance. So, you'd get a \$200,000 benefit to your company's cash flow.

Another reason could be that these businesses have larger workforces, more suppliers across the world and higher operating expenses. So, they have a lot of financial obligations they need to meet every month. But if they're required to pay many of their suppliers on cash terms, don't manage their finances properly or fail to do the necessary due diligence on their existing and potential customers, their cash flow can take a big hit and leave them more likely to pay suppliers late.

Jason Braidwood, Global Head of Credit & Collections for Creditsafe, shares his experience and insights into why large companies are paying their suppliers late.

“ It could be that large companies are prioritizing paying their preferred suppliers first, leaving other suppliers waiting longer to get paid. Operating from an office (or multiple offices, as is usually the case for large companies) can be expensive. Remember, offices need electricity, gas and water. So, large companies will more than likely pay these essential bills across all their offices first before paying suppliers.

What about when these large companies have machinery and equipment break down regularly? In certain sectors like agriculture, forestry & fishing and transportation & utilities, the equipment is usually large, complex and expensive. So, replacing broken equipment can be quite costly, especially if it happens often. In these cases, large companies are likely to hold back extra money in their accounts so they can pay for these replacements when they occur. If they can't pay for these replacements in a timely manner, that could seriously affect their ability to complete work and lead to lost revenue.

While it may not be the most compelling reason, we expect some large businesses are paying their suppliers late so they can accumulate more interest, especially if they have large sums of money (over \$10 million) in their business bank accounts. They'd much rather collect interest and grow their bank accounts, especially if suppliers are happy to wait for 60 to 90 days for their payments. Interest on \$10 million (or more) can add up to a hefty amount over the course of one or two months.”



But some large companies are being proactive about this and taking the necessary steps to keep their cash flow healthy and pay their suppliers in full and on time. Whole Foods Inc. is a prime example of this, as it recently **asked its suppliers to reduce their prices**. With 513 Whole Foods Market locations across the United States, the grocery chain certainly fits into the category of a large business.

But as our payment data reveals, Whole Foods Inc. hasn't made this request because it's in financial trouble. Rather, it's in good financial shape with a credit score of 80 (putting it into the 'very low risk' category) and a credit limit of \$10 million. Not only did the grocery chain have an impressively low DBT (days beyond terms) of 3 in 2022, but it also had an excellent track record of paying its suppliers on time with just 8% of suppliers' invoices paid late. On top of this, Whole Foods Inc. had a much lower DBT score (3), while other grocery chains had an average DBT of 7.

Matthew Debbage, CEO of the Americas and Asia for Creditsafe, offers his perspective on why Whole Foods Inc. would make such a request to its suppliers if it's in such good financial shape.

“ I'd say the reason Whole Foods Inc. is doing this is to be proactive in de-risking its supply chain and to make sure it doesn't fall into the same situation as other retailers who are filing for Chapter 11 bankruptcy and defaulting on loans. It's a smart and very strategic move. Of course, some suppliers might not like this request or might not agree to it. But if it means getting paid the full amount of invoices and on time, as opposed to getting paid late or not paid at all, I think many of Whole Food's suppliers would be open to reducing their prices. ”

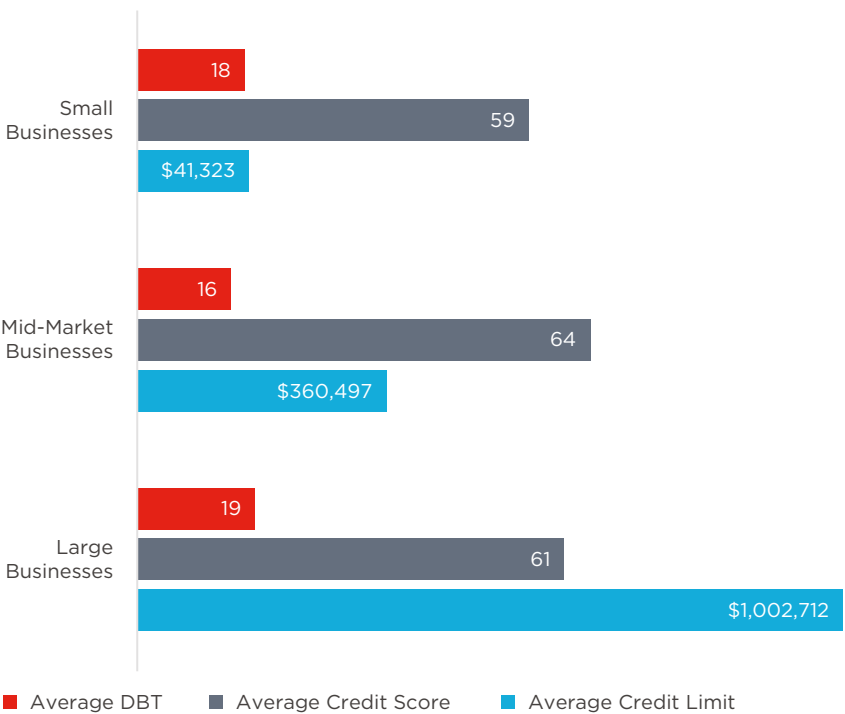




Mid-Market Companies Are Most Reliable Payers & ‘Credit Worthy’

According to our data, mid-market companies performed better overall than small and large companies in 2022. In particular, mid-market companies had the lowest average DBT (16), while large businesses had an average DBT of 19 and small businesses followed closely behind with an average DBT of 18. They also came out on top with a higher average credit score of 64 (low risk), compared to large companies (61) and small companies (59).

Mid-market companies are defined as the segment of American businesses with an annual revenue in the range of \$10 million to \$1 billion. And in the US, there are **more than 200,000 of these firms** that are generating a combined revenue of \$10 trillion and are employing about 50 million workers. To put this into context, mid-market companies are responsible for one-third of the US GDP and employment. These figures indicate that mid-market companies have tremendous power.



What does this credit risk data really mean for mid-market companies? Let's say mid-market companies are looking for a capital infusion to support a planned expansion into a new market or more product development opportunities. These companies will be seen as more attractive to investors and lenders because they're more flexible, able to adapt quickly, embrace innovation and take advantage of opportunities to grow and capture market share.

Improving your credit score won't happen overnight – it will take a willingness to address operational inefficiencies and be more data-driven in everything you do.





Key Steps to Improve Your Business Credit Score

- **Don't just look at your business credit score and think that's all you need to know:** Know what credit limit is available to you, any changes on your business credit report, legal filings that could cost your business a lot of money, the average days beyond terms (DBT) for how your company pays your suppliers and more.
- **Ditch the manual ledger for a digital ledger management tool:** What you don't know about your company's financial health can ultimately kill your cash flow and business growth. A digital ledger management tool will put you back in control, giving you a full picture of your company's financial health so you know with absolute certainty how much cash is coming in and how much cash is going out. This can help you prioritize your cash collections based on where you see the highest risks and which customers have paid late in the last year.
- **Integrate all your business data with credit risk data:** Don't fall into the habit of chasing after every and any lead. In many cases, prospects end up being too risky and the

deals get rejected by your finance team. The way to avoid this from happening – and close more deals – is to **integrate your tech stack with a credit risk platform** that shows you all the financial information your teams need to pursue and close sales deals that result in revenue growth, not missed payments and lost revenue.

- **Be proactive in resolving late payments:** With the current economic downturn and the residual effects of the pandemic, it's all but inevitable that, at some point or another, your business may pay some of your suppliers late. But the key is to not let this become a regular practice and, as a result, damage your business credit score and reputation. The key is to **whip your accounts payable process into shape** – make sure the right processes are automated so your suppliers get paid in full and on time.





Cautious Spending & Raising Prices Help Small Businesses Make On-Time Payments

Interestingly, the average DBT for small businesses was relatively steady in 2022, staying at 18 for most of the year – except for June 2022 when it improved slightly and dropped to 17.

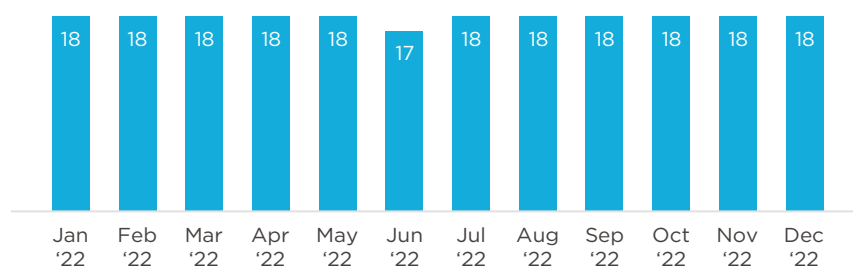
According to the [U.S. Chamber of Commerce's Small Business Index Q2 2022 report](#), two-thirds (66%) of small business owners reported that their business was in good health. This was a five-percentage increase from Q1 2022 (61%). At the same time, 69% of the small businesses surveyed by the U.S. Chamber of Commerce reported raising the prices of their products or services to combat rising inflation in the past year.

Now consider this: National Business Capital's [Q2 2022 Small Business Growth Index Report](#) revealed that only 51% of small businesses reported spending on capital outlays in the previous six months, representing a decrease of two percentage points from May 2022 figures. This indicates that small businesses spent less money in 2022 and plan to tighten their belts this year.

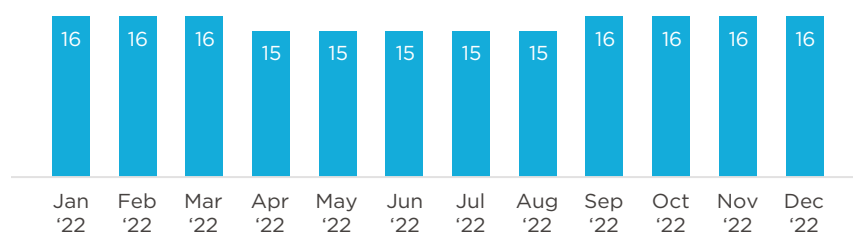
The National Business Capital report also found that many small business owners were able to secure financing at record-low interest rates throughout 2020 and 2021. More specifically, the report found that 27% of small businesses said that all their credit needs were met. Now, as we move into 2023, it'll be interesting to see if this continues to be the case.

It's also interesting to see that the average DBT for large and mid-market businesses improved slightly in the middle of the year. For large businesses, the DBT started off at 19 in January 2022 and then improved ever so slightly and dropped by one point (18) from April to August 2022. Mid-market businesses showed a similar trend, with the average DBT improving during those same five months (April to August 2022). But the average DBT worsened slightly at the end of the year (from September to December 2022) for both large and mid-market businesses. This slight change in the summer and winter months could reflect an increase in sales for these businesses.

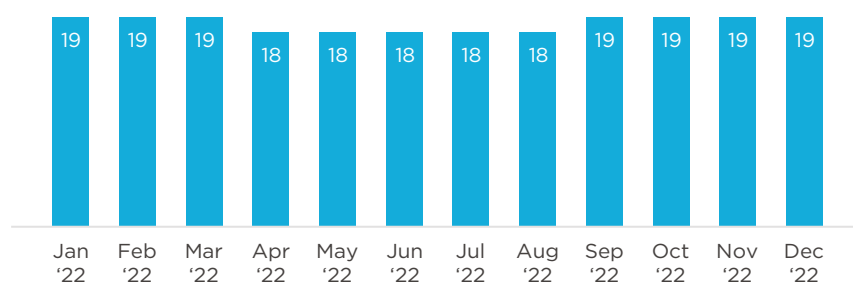
DBT: Small Businesses



DBT: Mid-Market Businesses



DBT: Large Businesses



Legal Filings Drain American Businesses of Over \$54 Billion

According to our data, there were over 2.7 million total legal filings against American businesses in 2022. While that figure is high and alarming on many fronts, it's even more worrying when you consider that those legal filings cost American businesses over \$54 billion in 2022.

Legal filings, as listed on business credit reports, include court judgments, lawsuits, tax liens and UCCs – these can negatively affect your business credit score. Court judgments refer to money your business owes that a court has ruled must be paid back. A tax lien is the government's legal claim against your business property when you neglect or fail to pay a tax debt. The lien protects the government's interest in all your property, including real estate and financial assets. Meanwhile, a UCC (Uniform Commercial Code) filing is a notice that commercial lenders can add to a business credit report, notifying other lenders that the business has used certain assets to secure a loan.

Surprisingly, the retail sector didn't have the most legal filings out of the sectors we analyzed. Instead, the professional services sector had the highest number of legal filings in 2022 (538,099) – beating out the retail sector (304,653) and the financial, insurance and real estate sector (122,032) for the top spot.

Although the retail sector didn't have the most legal filings, it was hit the hardest and lost the most amount of money as a result – over \$10.28 billion. Coming close behind was the professional, technical and scientific services sector with over \$9.78 billion in losses. Meanwhile, the construction sector came in third place for the highest number and cost of legal filings. More specifically, businesses in this sector had a total of 212,582 legal filings against them, which resulted in over \$3.36 billion in losses.

On the other hand, the mining sector fared much better with the least number of legal filings (7,580). Despite this, the cost of those legal filings was quite high, coming to just over \$404 million. That's almost as much as the cost of legal filings in the agriculture, forestry & fishing sector (over \$443 million), which had nearly 12 times more legal filings (89,759) than the mining sector.

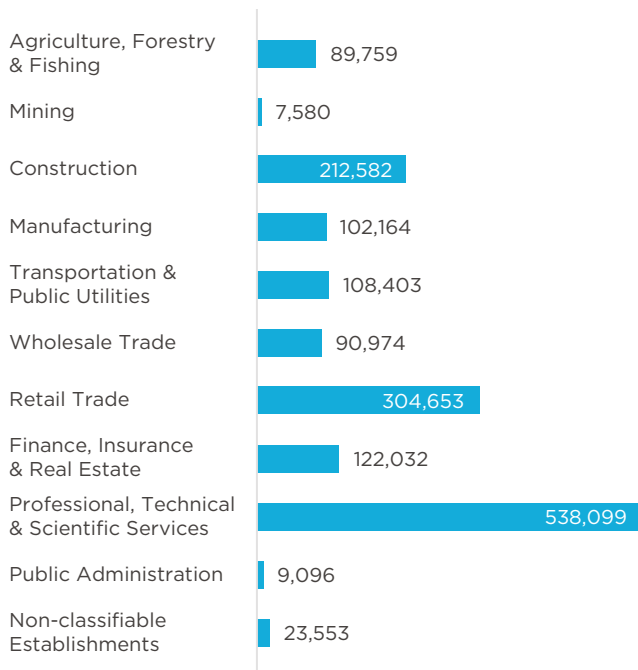
Meanwhile, the public administration sector had 9,096 legal filings in 2022 – much lower than the other sectors. The cost of these filings was also considerably lower than other sectors, at just over \$74 million. This may have to do with the fact that the federal government spent \$6.27 trillion in FY 2022. This means federal spending was equal to 25% of the total gross domestic product (GDP), or economic activity, of the United States that year. With such a large budget, it's less likely that the public administration can't afford to pay its suppliers.



This data speaks to a larger problem of financial complacency, mismanagement of cash flow and shoddy data quality.

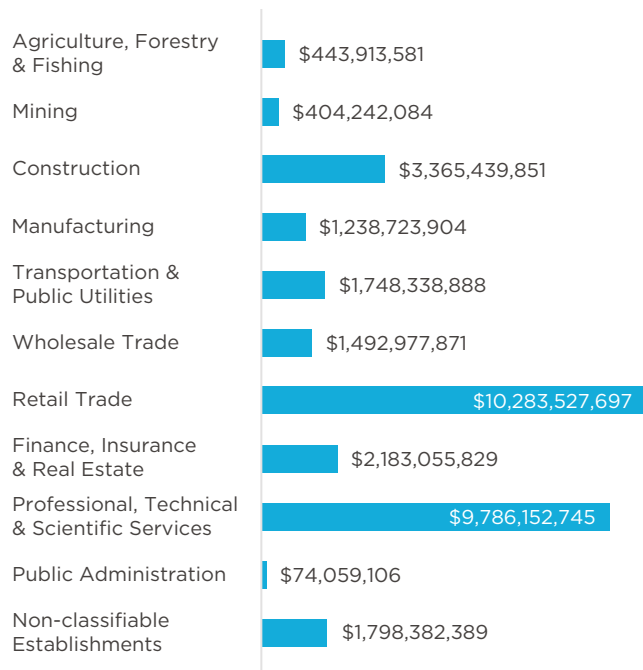
Total Legal Filings

All Sectors: 2,714,059



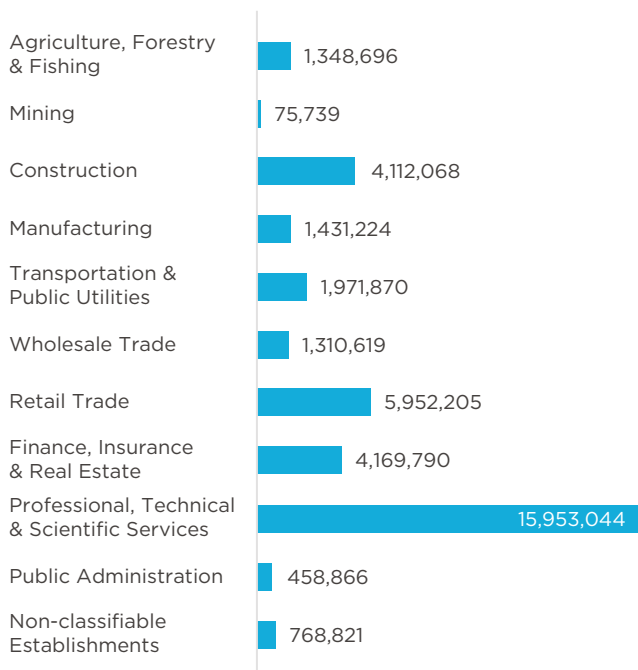
Cost of Legal Filings

All Sectors: \$54,195,180,987



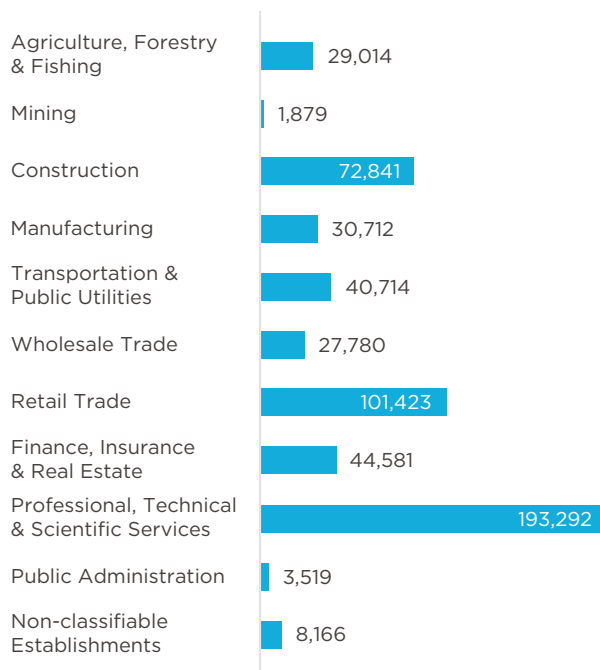
Number of Filings (0)

All Sectors: 83,930,262



Number of Filings (1)

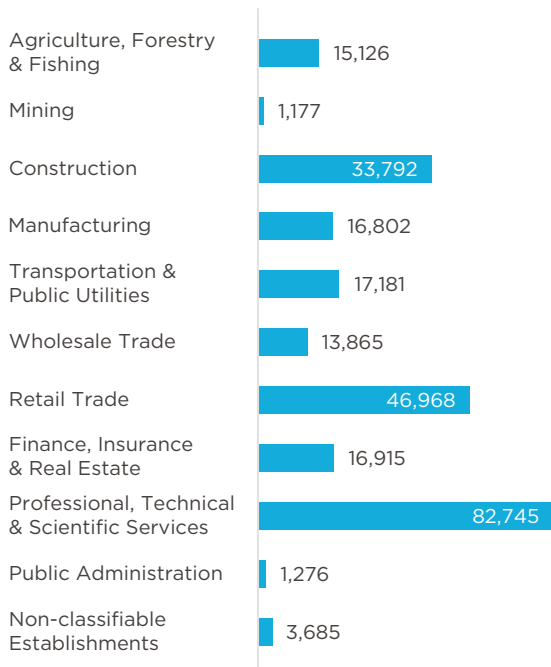
All Sectors: 993,248





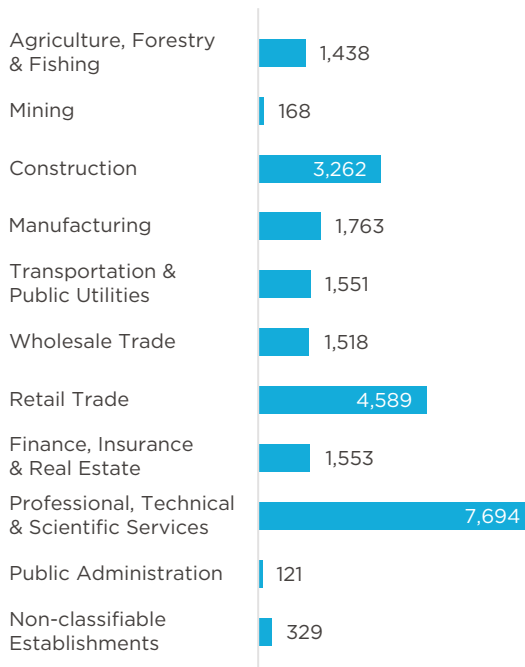
Number of Filings (2-5)

All Sectors: 412,534



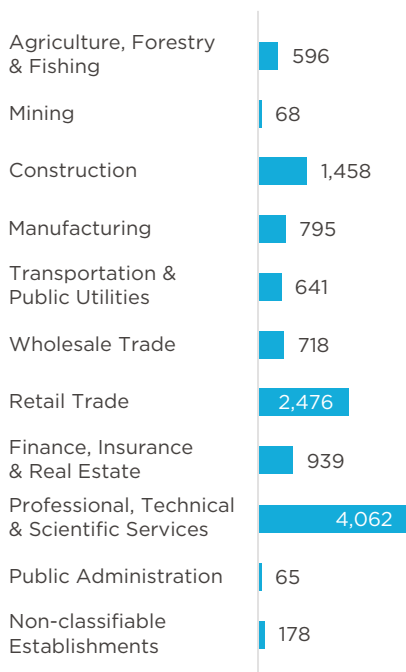
Number of Filings (6-10)

All Sectors: 37,974



Number of Filings (Over 10)

All Sectors: 20,047





Bankruptcy Filings Fall Consistently for Last Three Years

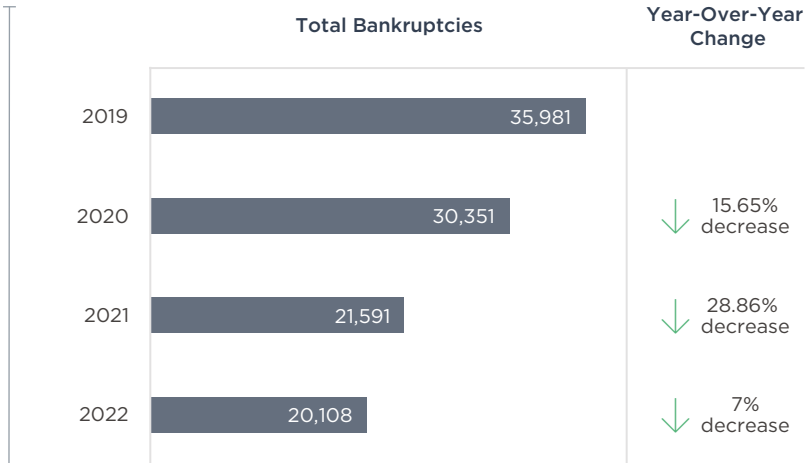
In the U.S., Chapter 11 bankruptcy is a form of bankruptcy that involves a reorganization of a debtor's business affairs, debts and assets. For that reason, the 'reorganization' is known as bankruptcy.

The last few years have been a whirlwind – with the COVID-19 pandemic disrupting businesses as we know it and, in some cases, closing down businesses that had been in operation for decades. While you'd think the percentage of bankruptcies would have inherently risen during the last three years, our data shows that wasn't the case. Rather, the total number of bankruptcies in the U.S. declined consistently. In 2020, when the COVID-19 outbreak took the world by storm, the total number of bankruptcies dropped 15.65% from the previous year. 2021 appeared to see a significant improvement with the total number of bankruptcies falling by 28.86%.

While the total bankruptcies dropped again in 2022, it declined by much less (7%) than the two previous years. This aligns with [data from S&P Global Market Intelligence](#), which found that the pace of U.S. corporate bankruptcies fell to a 13-year low in 2022. It's also important to note that most small businesses in America don't file for bankruptcy and simply shut down their businesses. And given that businesses had to shut down their physical operations for months at a time due to COVID-19 lockdowns and social distancing rules, U.S. courts were closed too. This meant that bankruptcy hearings couldn't take place. And [since small businesses account for 44% of total U.S. economic activity](#), this could explain why bankruptcies have fallen over the last three years.

Mike Bevilacqua, SVP of Research & Education at Credit Research Foundation, spends a great deal of time educating businesses on how to avoid falling into financial trouble and how to help grow their businesses long-term.

“ In January of this year, we saw an increase in bankruptcies among large companies with over \$50 million in revenue – a trend we haven't seen since January 2010. This acceleration of defaults is likely to continue into 2023. There's a perfect confluence of tight liquidity, much higher lending standards, covenant requirements and higher interest rates - all these have come together to create a tough lending environment for accounts on the fray.”



Let's look at some of the more notable retailers that have recently filed for Chapter 11 bankruptcy, including Revlon Inc. and Party City.



A closer look into Revlon Inc.'s bankruptcy filing in 2022

The cosmetics giant filed for Chapter 11 bankruptcy on June 16, 2022, saying its \$3.5 billion debt put too much of a strain on its cash flow and would make it tough to make on-time payments to critical vendors. It was a slow decline for the 90-year-old cosmetics brand following years of declining sales, supply chain issues and mounting debt.

Revlon then faced a legal battle as it looked to secure a \$1.4 billion loan to get through the bankruptcy. Despite objections from creditors, a U.S. bankruptcy judge allowed the company to proceed with the loan. But when we looked at their business credit report, we could understand why creditors objected to the loan. If the cosmetics brand couldn't pay back its original \$3.5 billion debt, how would it repay the new \$1.4 billion loan?

Our data indicates that Revlon's creditors had good reason to object to the loan. For starters, the company had an average DBT of 20 and paid roughly 41% of its invoices late in 2022. These two data points indicate that the cosmetics giant had a big cash flow problem, which was hurting its business credit and raising its credit risk level. And compared to other cosmetics brands, Revlon was a big late payment offender. In fact, other companies in the same sector had an average DBT of 13, while Revlon had a DBT of 20 – that's a significant difference.

The cosmetics giant has also been in deep legal trouble for the last few years. For example, it had a total of 15 Uniform Commercial Code (UCC) filings between 2018 and 2021. UCC filings allow lenders to seize listed property as a way of recouping loan funds in case a borrower defaults.

A closer look into Party City's bankruptcy filing in 2023

Party City Holdco Inc., the parent company of the decorations retailer Party City, filed for Chapter 11 bankruptcy protection on January 17, 2023. While retail bankruptcies amidst the current economic climate may not be all that surprising, the news that

Party City was in talks to file for bankruptcy comes as somewhat of a surprise to us. That's because the company announced its financial results for the quarter ending on March 31, 2022, saying that it was 'pleased to deliver another quarter of topline growth with a sales increase of 1.4% and brand comp sales growth of 2.1%.'

And while other retail businesses were struggling with declining sales during the pandemic (due to social distancing and repeated lockdowns), Party City was somewhat of a pandemic success story as it quickly pivoted and added new tech tools to accommodate curbside pickups and deliveries. It even offered personalized lawn signs for drive-by celebrations and kits for virtual parties with invitations and goodie bags that could be dropped off at guests' homes.

Matthew Debbage, CEO of the Americas and Asia for Creditsafe, shared his perspective on what could have gone wrong for Party City.

“ While other retailers like Walmart and Target sell party supplies, selling balloons is much more of a niche market. This may be where Party City differs from what's happened to **Bed Bath & Beyond**. So, I took a look at the retailer's payment data and was surprised to see that its average DBT was 18 – slightly lower than the average DBT (19) for Bed Bath & Beyond. But what was most surprising was that Party City was pretty much on the same level as other companies in the gift, novelty and souvenir sector – which had a DBT of 18 as well. But it doesn't help that Party City has \$1.9 million in past due payments.

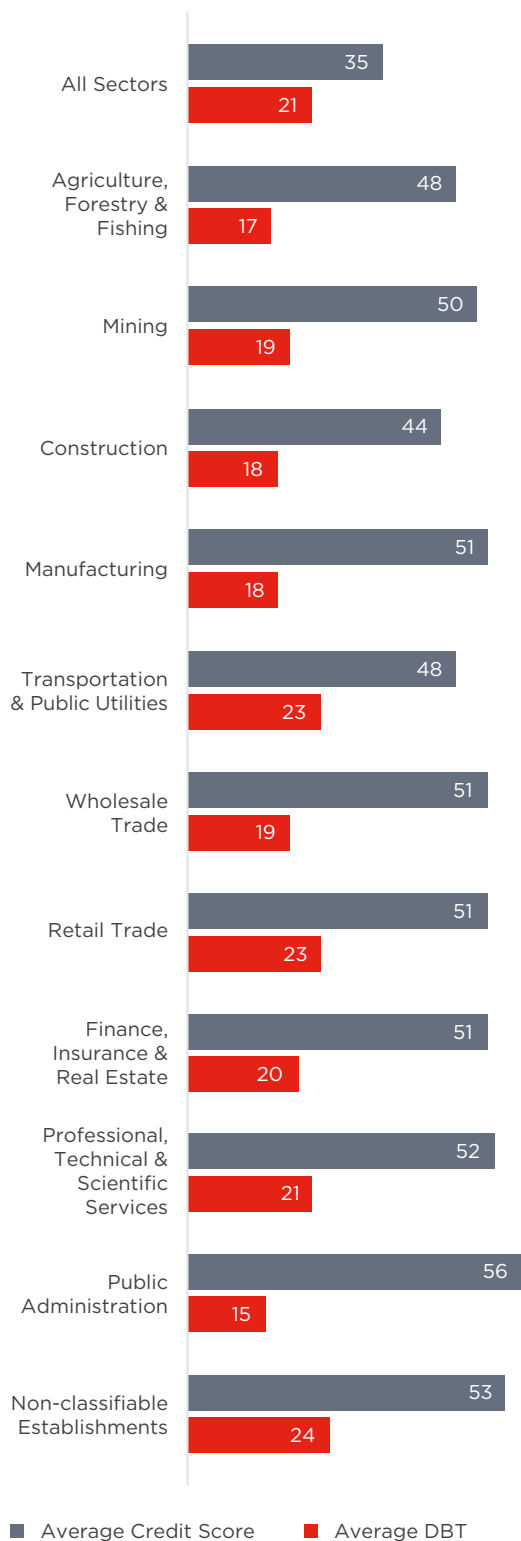
Although the financials for Party City aren't as bleak as they are for Bed Bath & Beyond, I think the troubled economic climate has a lot to do with their financial woes. In times like these, the first thing people and businesses do is clamp down on unnecessary spending – and parties tend to fall into that category. So, as people are less inclined to spend a lot of money on celebrations and parties, they're not going to spend their money on party supplies. It would be interesting to see if the company tries to pivot its business model and expand into something beyond just party supplies – as that could help it get on better financial footing. ”



Construction Firms May Have the Worst Credit Score, But They're Better at Paying Suppliers Than Retailers

According to our data, construction firms had the lowest and worst credit score (44) in 2022, which put them into the 'moderate risk' category. It's somewhat surprising that the construction sector was worse off than the retail sector, which had an average credit score of 51 – putting it in the 'low risk' category.

But having a low credit score doesn't automatically mean that a business will pay their invoices late. Our data supports this. Even though construction firms had the worst credit score, they were still better at making on-time payments than businesses in several other sectors. In fact, the construction sector had one of the lower DBT scores (18) compared to the retail (23), transportation & public utilities (23) and professional services (21) sectors.



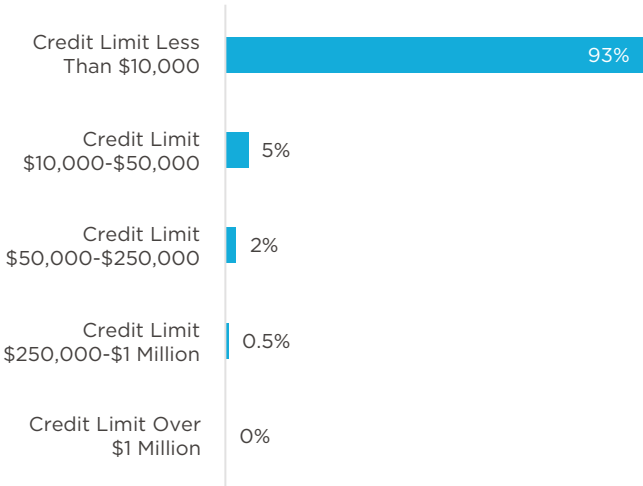


Late Payments & Risky Credit Are Pushing Business Credit Limits Down

The impending recession has most businesses scared about how it will impact them and wondering if they can weather the storm. Our data indicates you have good reason to worry. In 2022, the vast majority (93%) of American companies had a credit limit of less than \$10,000. It seems that higher credit limits were much harder to secure, with 5% having a credit limit between \$10,000 - \$50,000 and just 2% having a credit limit between \$50,000- \$250,000.

This trend of low credit limits could indicate a few things. For instance, it could mean that most American businesses have too much credit extended and are using high amounts of their available credit. It could also mean that they have had trouble in the past making on-time payments to suppliers, which could make lenders more inclined to reduce the credit limit offered.

All Company Sizes (Small, Mid-Market, Large)



Our data also shows that 68% of U.S. companies (across all sectors) were classified as 'very high risk' in 2022. On the other end of the spectrum, just 5% were classified as 'very low risk.' Given the looming recession and economic instability, repeated late payments and risky credit usage could make it a lot harder

for American businesses to get approved for loans or refinancing. That could mean the difference between surviving the recession and filing for bankruptcy.

The three sectors with the highest percentage of businesses categorized as 'very high risk' were agriculture, forestry & fishing (53%), transportation & public utilities (42%) and construction (41%). We were somewhat surprised to see that the retail sector fared much better than these three sectors, with 28% of American retailers falling into the 'very high risk' category. Let's unpack these statistics.

Like other businesses, the U.S. agriculture, forestry & fishing sector faced major challenges amidst the uncertainty of the economic downturn, rising inflation and increased costs. And according to a McKinsey survey, more than half of U.S. growers with small to medium-sized farms (less than 2,000 acres and 2,000-5,000 acres, respectively) and two-thirds of growers with large farms (more than 5,000 acres) believe they'll be paying 10% to 20% more for key inputs over the next 18 months. The McKinsey survey found that the top three inputs where the cost increased (and the related cost increase percentage) were: fertilizer (71%), crop protection (30%) and labor (17%).

Meanwhile, transportation & public utilities businesses need to have sufficient funds daily to pay for fuel, maintenance, fleet growth and freight brokers to pay carriers. But it's not always possible to have cash available. So, these businesses often seek out leasing options for equipment and loans or credit to purchase what's necessary to keep their businesses running and meet customer demands. But as you take out more credit to offset unavailable funds, you'll need to be especially careful about how much credit you take out and how much of that credit you use. For example, if you've taken out multiple new business credit cards and have spent 90% of the total credit limit on all of them, that could negatively affect your business credit score and make your business appear to be too risky to potential suppliers.

Meanwhile, the four sectors with the highest percentage of businesses categorized as 'very low risk' were wholesale trade (14%), retail trade (13%), manufacturing (13%) and professional, technical and scientific services (13%).

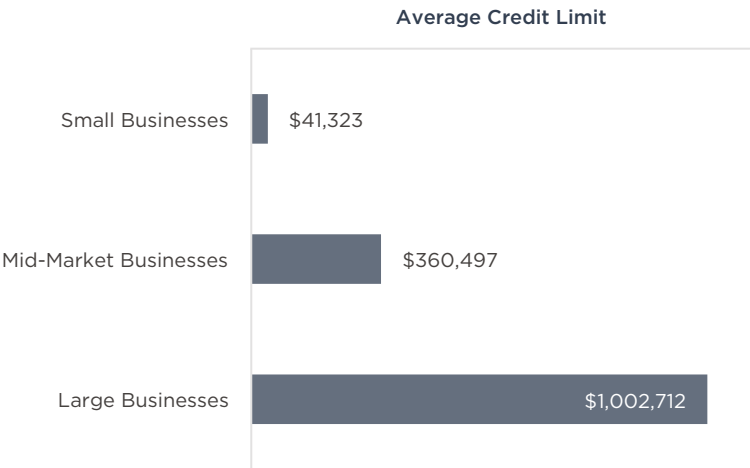




We also wanted to see how the average credit limit varied by company size. According to our data, large businesses had the highest credit limit (a little over \$1 million) in 2022. Given the sheer size, revenue and operating budgets of these companies, it's not surprising that large businesses had higher credit limits compared to mid-market and small businesses. But it's interesting to see how vastly the credit limits differed.

For example, the average credit limit for mid-market companies was \$360,497 in 2022. That's not bad at all considering how turbulent the economy was with rising inflation, the energy crisis, **supply chain disruptions** and more. To put this into context, the average credit limit of mid-market companies was 2.78 times less than that of large companies.

Additionally, the average credit limit for small businesses in 2022 was \$41,323. While that's not so surprising given the limited budgets of many small businesses, it's interesting to see that this was nearly 8 times less than the average credit limit of mid-market companies (\$360,497) and over 24 times less than the average credit limit of large companies (over \$1 million).





Company Registrations Plummet by Over 40% in 2022

Since the pandemic first broke out in 2020, running a successful business has become harder than ever. Although COVID-19 may be wreaking less havoc on businesses now, businesses still haven't been able to normalize their operations and revenue completely. The economy has taken a dramatic downturn with inflation rates rising throughout 2022, energy prices skyrocketing, ongoing supply chain issues and a cost-of-living crisis forcing Americans to cut spending wherever possible.

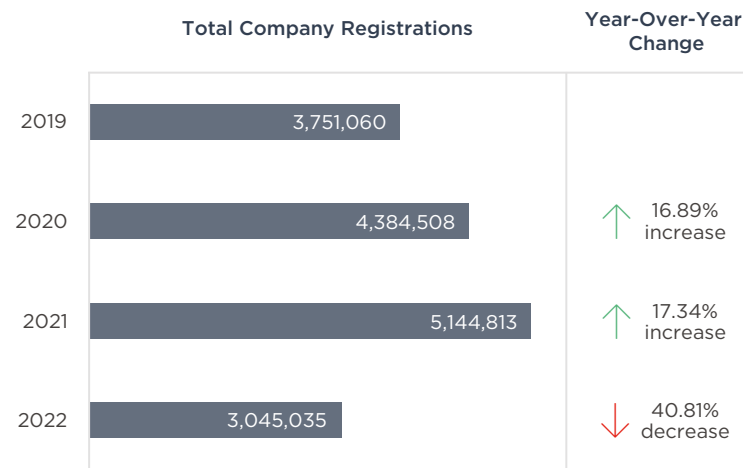
At the start of 2022, a [survey from Goldman Sachs](#) found that the rise in infections from the COVID-19 Omicron variant was hurting small businesses. Some of the report's findings include:

- 71% of small businesses reported that the rise in COVID-19 cases resulting from the Omicron variant had adversely impacted their revenue.
- 37% said their business had been forced to temporarily close or scale back operations due to the recent rise in COVID-19 cases.
- 68% of the respondents were concerned about ongoing supply chain issues, with 69% saying these issues negatively impacted their business revenue.
- A whopping 84% of small businesses said inflationary pressures had worsened since September 2021 and more than three-quarters (76%) felt their business financial health had been hurt by inflation.

According to our data, there was a massive increase in company registrations during the height of the pandemic from 2019 to 2021. In 2020, for example, over 4.3 million new businesses were registered in the U.S. – that's up 16.89% from the previous year. And in 2021, that number jumped even higher with the registration of over 5.1 million companies – an increase of 17.34% from the previous year.

Given this upward trend in company registrations, we expected to see a similar trend in 2022. But our data revealed otherwise. There was a 40.81% decline year-over-year in the number of company registrations in 2022, dropping from 5.1 million to just over 3 million in 2022. It appears the combination of these challenges over the last few years may finally be taking its toll and deterring entrepreneurs from launching new businesses.

This may be due in part to the fact that many venture capital investors are pumping the brakes on investing in new companies amidst recession fears. [Data from a Crunchbase report](#) supports this, showing that investments in North American businesses fell 63% in Q4 2022, compared to the same period a year earlier.



As an entrepreneur, if you want to take your innovative idea and launch it into a new business, the first step is to prove to potential investors that your business will be able to manage your company's finances, keep your cash flowing and show continued revenue growth. To do this, you'll need to take certain steps and build in key processes, automation, tools and workflows.



9 Steps to Keep Cash Flowing & Grow Your Business

1. Be cautious with capital spending. Don't splash too much money on unnecessary expenses and don't hire too many employees at once.
2. Do a proper analysis of cash outflow vs. cash inflow.
3. **Don't chase after every sales prospect** without first vetting them for financial stability and credit risk. Do your due diligence and **check the business credit score** of potential customers before signing new contracts. This will prevent you from getting stuck with habitual late payers that drain your cash flow.
4. Run credit checks on your existing customers throughout the entire customer lifecycle. Remember, circumstances change frequently and can cause financial trouble for your business. That can and will damage your company's financial health and put you on the path to bankruptcy.
5. **Automate** your accounts payable and receivable processes to minimize errors, duplications and delays.
6. Anticipate and prepare for economic downturns. Build in contingency plans into your annual budgets.
7. Create an **effective debt collection strategy** and don't be too lenient with payment terms/late payers.
8. Review your **credit policies and procedures** to make sure you can collect debts quickly and effectively. That will prove to be valuable in increasing your cash flow, even in the most unexpected times.
9. Don't take too much money out of the business (without reinvesting it).

Jason Braidwood, Global Head of Credit & Collections for Creditsafe, has a final reminder for businesses.

“Remember to share your trade payment data. I know all American companies don't need to file their accounts. But sharing your payment data will help you get a real-time view into how your customers (existing and potential) pay their debts. You can also use this data to benchmark your customers against others in their sectors so you can get a true sense of which customers have a better track record of making on-time payments and which customers repeatedly pay their invoices late. The more you know about your customers' payment behaviors and credit risk, the more equipped you'll be to make the right business decisions like cutting off ties with a late paying customer or renegotiating payment terms.”

While some businesses may not want to share their payment data, there are numerous benefits from doing so. For example, if your small business is looking to secure funding or get approved for a loan, you might find yourself getting rejected because you can't show a record of healthy cash flow. If you share your payment data, you'll be able to prove that to potential lenders and investors. Now if you're a large company and bidding for large contracts, your business credit score is often taken into consideration. So, if you can prove that your business has a strong cash flow and doesn't have millions of dollars in past due payments, then you'll be more likely to win bigger and more lucrative deals.



CONCLUSION

Through data collected from U.S. business credit reports on the Creditsafe platform, we have learned that large companies are the most likely to pay suppliers late. Additionally, our data revealed that legal filings took a huge financial toll on American businesses, costing over \$54 billion in 2022.

For businesses, it's important that you don't blindly sign new contracts with large customers. Do your due diligence and vet them to see how their company is performing financially. Look at the credit risk data to know for certain how likely they are to pay your invoices on time. If you see that they pay over 40% of their invoices late and still owe millions of dollars in past due payments, that should be a major red flag.

However, it wasn't all bad news for American businesses in 2022. Despite the residual effects of the COVID-19 pandemic, rising inflation, labor shortages and supply chain disruptions, small businesses managed to keep their late payments relatively steady throughout 2022. And despite the turbulent economy, the total number of U.S. corporate bankruptcies dropped consistently over the last three years.

Matt Skudera, President & COO of Credit Research Foundation, commented:

“It's data like this that supports the strategic decision process for today's credit processes. In a complex and quickly changing environment, it's critically important to identify macro trends in the markets in which you operate to effectively protect and grow your business long-term.”

For Large and Mid-Market Enterprises

The size of a company has no bearing on how reliable and 'credit worthy' a business is. Don't let your company's financial health fall through the cracks. Make sure you're recording all assets and liabilities properly and make sure supplier invoices are being paid in full and on time, whenever possible. If you continue to pay suppliers late, this will be reflected in your business credit report and could influence whether you will be eligible for a loan.

For Small Businesses

As a small business, every single dollar of revenue counts. So, while it may seem exciting to win a big contract, that could end up killing your revenue growth and make it tough for you to pay your employees, suppliers and even keep the lights on in the business. It only takes a few seconds to run a business credit check on potential customers. Your bottom line depends on it.





ABOUT CREDITSAFE

Creditsafe, the global expert in credit monitoring and risk management, is the world’s most used provider of business credit reports. Today, 110,000 customers globally depend on Creditsafe to make critical business decisions. Using real-time data from over 9,000 sources across 160+ countries, Creditsafe’s mission is to help businesses mitigate financial, legal and compliance risks, while also empowering them to make more informed decisions.



To learn more, visit www.creditsafe.com

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To learn how Creditsafe can help you improve your cash flow and recession-proof your business, [get in touch](#).



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