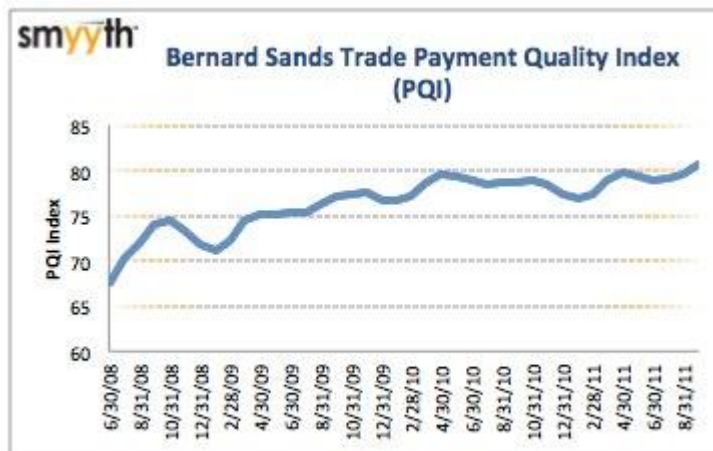


## Trade Payments Index Reaches Historic High for Q3 2011 Small business hates debt - the destocking continues.

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**New York, NY** October 28, 2011 - [Smyyth Credit Services](#), a leader in business credit risk and accounts receivable services, has released its Bernard Sands 2011 Q3 Aggregate Payment Quality Index (PQI).

The Aggregate PQI shows that B2B accounts receivable trade payments have recovered from a crisis-era low of PQI 68 in May 2008, to a high of PQI 81 in September 2011, which is a recent record.



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The Bernard Sands PQI measures the probability that a trade creditor will collect its money within its terms of sale on a scale of 0-100 (100=perfect). A PQI of 81 is a recent record high and as close to optimum as we can imagine in the real economy. Further emphasizing the point, anecdotal information from commercial collection agencies indicates that accounts placed for collection in 2011 are down over 20% from 2010, and down even more from 2008-9.

## **Small Business Has Decided it Hates Debt**

Businesses (like consumers) continue de-leveraging, and taking a cautious approach to business and avoiding debt, an attitude that will have negative impact on the prospects for a near term recovery in the US. This becomes even more significant if we consider that well over 65% of the U.S. economy is powered by domestic consumption. For at least the last three decades, consumer credit debt has been among the key drivers of economic growth, a trend that has ended.

### **The Bad News**

What can be inferred from these payment metrics? We may conclude that (i) the recession put many marginal mom and pop companies out of business, (ii) business creditors are watching their receivables more closely, and (iii) business buyers have scaled back their usual optimistic expectations, and are stocking inventory only within their means to pay on time. If this caution is the new normal for business, the US economy could be flat-lined at this level for some time.

During times of economic softness, consolidations and shakeouts occur across industries. This tends to be more pronounced in the retail sector. The effect on mom and pop companies has been particularly direct, as weakened consumer spending, tighter access to business credit, economic uncertainty relative to taxes and healthcare costs among other things, has pushed businesses to be a lot more focused in managing their debt, with better working capital management, especially inventories.

Comparing these results with the Federation of Credit [Credit Management Confidence Survey](#) shows with little optimism for 2012.

### **The "Sort of" Good News**

While above average promptness in trade payments may, perversely, be an indicator of a moribund economy, this condition also offers buyers a reserve of goodwill with creditors and the ability to unilaterally increase working capital to jump start growth. What we

mean is that a buyer can slow down payment of accounts payable and gain immediate supplier-provided, interest free financing for expansion, should the sentiment-signal turn from yellow to green. US wholesale sales are roughly \$420 Bn a month, resulting in trade payables in the \$500 Bn range. Slowing accounts payable from, say, 30 days to 33 days (10%) would produce working capital of \$50 Bn to fund buyer growth.

Unfortunately, this strategy is zero-sum, as it causes the opposite working capital effect for the creditor. However, suppliers can more easily fund or borrow to cover slower receivables when new orders are increasing. Also, suppliers (manufacturers) are often better capitalized and have more borrowing capability than their thousands of smaller buyers, leaving it up to the suppliers in this manner to finance the supply chain if they want to grow their businesses.

### **About Smyyth**

Founded in 1906, Smyyth provides state of-the-art Order-to-Cash Services, Technology and Credit Risk Mitigation. This includes credit management systems, information, scoring, and credit insurance; accounts receivable management and collection services. Six Sigma principles and SAS 70 Certified. Bernard Sands LLC, a Smyyth affiliate, is a leading credit ratings agency with a specialty in consumer goods and retail.

The Bernard Sands Payment Quality Index (PQI) is a weighted and seasonally adjusted index derived from Smyyth Networks' credit-cloud trade payments database of over 100 Million payment experiences.

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