

Global Economics

The Secret Force That Will Rebuild Japan

p12

Profile

Dick Parsons: The Schmoozer Abides

p84

Companies

Wal-Mart and Women Meet In Court

p31

Plus

Private Equity Flees Libya p23

The REINS Act and Regulation p10

Losers in the AT&T Deal p45

DeMaurice Smith's Hard Choice p102

Hermès at War with Itself p78

March 28 — April 3, 2011 | businessweek.com

Bloomberg Businessweek



Actually, yes. Inside the cleaner, greener, safer future of nuclear power p70

\$4.99

14>



0 73361 18248 7

Hermès vs.
"a wolf in
cashmere"
page 78 ▶



that had been in place for decades.

Small businesses face what could be a permanent legacy of the recession: Their vendors are demanding faster payment even as their customers take longer to pay. That means companies with the least clout get squeezed the hardest. "The slowdown of currency, of money, the exchange, put us in a very precarious position," says Davies. "We basically had panic from our vendors."

The average time private companies took to collect accounts receivable increased to some 27 days in 2010 from about 23 days in the previous four years, according to accounting software maker Sageworks, which analyzes private company financial statements. Payment times jumped to an average of about 24 days, up from roughly 20. The largest corporations are even slower: Companies in the Standard & Poor's 500-stock index paid vendors in 59 days, on average, in the most recent quarter and collected payments in 46 days, according to data compiled by Bloomberg.

Davies says many of his customers had slowed their payments from 30 days to 60 or 90. At the same time, the cabinet manufacturers he ordered from cut his

credit lines or required deposits, which Davies says tied up \$60,000 to \$120,000 per month. Although Davies says he was current on his loans, his lender, **Citizens Bank**, pulled his credit last March, saying his assets had dropped below the level required by the loan agreement. (The bank declined to comment.)

M&J Kitchens, which once employed 12 people and grossed as much as \$4 million a year, went into receivership at the end of August. "Without the cash flow we were used to ... we didn't have great negotiating power with the bank," Davies says. "We were getting squeezed from both sides."

Late payments can ripple through the supply chain. **Wood-Mode**, one of the cabinet lines Davies sold, says its customers have slowed their payments, and fewer are taking advantage of discounts for paying in 10 days. Nick Yoder, credit manager of the Kreamer (Pa.) company, says Wood-Mode tries to be flexible with its 1,200 dealers but has begun asking for larger deposits or payment on delivery from some buyers that appear risky. "We have to reassess each individual's credit," says Yoder, who confirms that in some cases Wood-Mode cut off credit to customers.

Longer payment terms are part of the "new normal," says Joe Reini, president of **Mason-Grey**, a 28-employee engineering services company in Atlanta. "It seems to me that 'net 30' [paying invoices within a month] is gone," he says. "Customers are now asking for 45, 60, even 90 or 120 days." About half his customers have sought longer payment terms, Reini says. Mike Mitternacht, president of a commercial air-conditioning contractor in Metairie, La., says nearly half his accounts take longer to collect. So Mitternacht's nine-employee company, **Factory Service Agency**, has started to avoid suppliers that demand quick payment. "We've had to be selective and only work with manufacturers who will allow a little extra float," he says. With receivables ballooning, he says, Factory Service Agency looks weaker to potential lenders and insurers who provide bonding needed for government contracts, making it "hard to expand and grow your business." —*John Tozzi*

The bottom line Growing numbers of companies are caught between vendors demanding faster payment and customers taking longer to pay.

Speed Dial Mei Xu

She turned a small Maryland candle maker into Pacific Trade International, an \$85 million company that sells in the U.S. and her native China

What kind of opportunities are there for American small businesses in China?

If you go to Shanghai, there are all these European small business people from places like Holland, England, and France. They're from small countries, so they are born with a trader's mentality. They know there is not much to lose and so much to gain in China. Americans often think only about market share in their own country.

How is China different from the U.S. for an entrepreneur like you?

It's very fragmented. There are no national chains like Target or Wal-Mart. But there are 10 cities with more than 10 million people, and in Shanghai there are more than 20 million. If you open 10 stores in Shanghai, you can have a brisk business. You just have to pick the right battles.

What mistakes do companies make in China?

A lot of people think, "There are 1.5 billion people in China. If I sell each of them a set of forks and knives, I'll be very rich." But even a major company such as McDonald's had trouble because they insisted on selling hamburgers. Chinese people didn't eat beef. You have to acknowledge life is different.

How does a home products maker such as you woo the Chinese?

We had to design a whole new product line for China. Americans like candles that smell like cookies. Women burn them in their homes so their husbands and children come home and think they have been cooking. The Chinese like floral scents. **B** —*Devin Leonard*

