

# Sign of hard times for Singapore retailers: Many creditors now demanding prompt payment



Pedestrians walk along the Orchard Road shopping district. Retailers are experiencing a significant tightening of their cash flow positions as creditors take steps to protect themselves against possible defaults. PHOTO: AFP

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SINGAPORE - Singapore retailers are experiencing a significant tightening of their cash flow positions as creditors take steps to protect themselves against possible defaults.

Retail companies take the fewest days to settle a bill after it is due, according to an analysis of corporate payment behaviour by DP Information Group (DP Info), released on Monday (May 9).

While this may appear to indicate financial strength, in reality it shows creditors are demanding prompt payment from retail companies, said DP Info.

## 6 things retailers can do to survive

The quicker retail SMEs respond to the tightening of credit and cashflow in their industry, the more likely they are to survive, says DP Info. It recommends these strategies to avert a cashflow crisis:

## RETHINK YOUR BUSINESS APPROACH

This should top the agenda. Many companies will need to change to become more competitive, such as reducing their reliance on manpower and embracing online trading.

## REDUCE YOUR OVERHEADS

Every business practice and relationship a company has needs to be reviewed to see if it can be done more efficiently. While some costs are fixed, there are still ways to save such as finding cheaper warehousing or negotiating better rates from couriers.

## ASSESS YOUR CREDIT NEEDS CAREFULLY

If a company needs an overdraft or other forms of financing to see it through a tough period, the borrower must understand its capacity, cash flow, capital and economic conditions before getting more credit.

## REVIEW YOUR PURCHASING PLAN

For some businesses, it makes sense to reduce their cost per unit by buying in bulk once or twice a year. But it can make more sense to make smaller and more frequent purchases so that less of the company's money is tied up in payables and inventory.

## MANAGE YOUR CURRENCY RISKS

As most retailers sell goods manufactured overseas, they are inevitably exposed to the risk of currency fluctuations. Retailers should explore financial products such as hedging with the banks to see if currency risks can be better managed.

## JOIN A CREDIT BUREAU

An SME credit bureau is a way for SMEs to stay ahead of potential payment problems. As all members of the bureau share their payment data with a central authority (the bureau), when a party is late with a payment then all other companies are alerted. This means member companies can take steps to get their money before the situation becomes unrecoverable.

According to its Days Turned Cash (DTC) National Average - a measure of the days a company takes to pay a creditor once a debt is due - retail SMEs took just 12 extra days to settle their accounts in Q1 2016. This compares to the DTC National Average of 29 days, calculated across eight industries.

And a high 77 per cent of retail companies settled their debts on time, making them the most prompt payers of any industry.

Mr Lincoln Teo, DP Info chief operating officer, said the tight payment times are an indication of the concern other companies have when providing credit to retail companies.

"Some companies are telling us that it is now the norm to demand prompt payment from retail companies. It is also their policy to vigorously pursue money owed by retailers."

He added: "Several unfavourable factors are impacting the retail sector including higher wages, foreign labour restrictions, increased rents and increased competition. This has made companies more cautious when extending credit terms to a retail company."

"This has a negative effect on the cash flow of retail companies because they are unable to tap on suppliers' credit - a common short-term financing approach used to ease their cash flow."

The tough conditions in the retail sector are confirmed by other research published by DP Info.

According to the quarterly SBF-DP SME Index, the level of optimism of retail SME companies has been declining since the start of 2015 to the point where retail SMEs do not expect any significant growth in their businesses during the next six months, Mr Teo said.