Late payment proposal's impact on retail and wholesale in Europe

Cost of shifting payment terms to 30 days

Category	2023 Turnover in € million	Payments as % of Turnover	Current Average Payment Term	Nex Max Term	Term Reduction	Percentage financed via Loans	Percentage financed via New Equity	Average Interest Rate for Loan	Average Interest Rate for New Equity	Refinancing Need in million €	Yearly Interest in million €	interest 5%
Grocery (Fresh) All Channels	514.134,7	70%	30	30	0			5%	10%	0	0	-
Grocery (Non-Fresh) All Channels	771.202,1	70%	60	30	30			5%	10%	44.371	4.437	2.219
Apparel and Footwear Specialists	207.075,5	50%	75	30	45			5%	10%	12.765	1.276	638
Home Improvement and Gardening Stor	171.148,5	70%	75	30	45			5%	10%	14.770	1.477	739
Appliances and Electronics Specialists	146.515,9	70%	90	30	60			5%	10%	16.859	1.686	843
Optical Goods	27.538,6	50%	60	30	30			5%	10%	1.132	113	57
Beauty, Health and Personal Care	84.168,7	50%	60	30	30			5%	10%	3.459	346	173
Toys and Games	30.532,3	50%	75	30	45			5%	10%	1.882	188	94
Pet Care	14.617,3	50%	60	30	30			5%	10%	601	60	30
Pharmacies	203.909,1	50%	90	30	60			5%	10%	16.760	1.676	838
Homewares and Home Furnishing Store	113.712,6	50%	60	30	30			5%	10%	4.673	467	234
General Merchandise Stores	59.352,4	50%	60	30	30			5%	10%	2.439	244	122
Sports Goods Stores	44.431,9	50%	60	30	30			5%	10%	1.826	183	91
Jewellery and Watch Specialists	22.276,0	50%	90	30	60			5%	10%	1.831	183	92
Bags and Luggage Specialists	10.015,4	50%	60	30	30			5%	10%	412	41	21
Other Brick & Mortar	86.568,5	50%	60	30	30			5%	10%	3.558	356	178
Vending	11.134,4	50%	60	30	30			5%	10%	458	46	23
Other Direct Selling	12.744,1	50%	60	30	30			5%	10%	524	52	26
Other E-Commerce	105.217,9	50%	60	30	30			5%	10%	4.324	432	216
TOTAL	2.638.295,9									132.642	13.264	6.632

The calculator estimates the impact of changes in payment terms by looking at average payment terms across sub-sectors and by how much they will need to be reduced to get to 30 days (based on confidential data supplied by our members).

This is used to create a conservative estimate of the extra working capital if payment terms need to be reduced from that current average to 30 days. Essentially for every day less a retailer has to pay back its suppliers, what extra working capital does it need? Bearing in mind that this is a very rough estimate as it assumes a retailer uses identical payment terms with all of its suppliers amongst other complexities (explained below).

The estimate is based on the assumption that retailers are paying a certain percentage of their turnover to suppliers. Therefore, taking Euromonitor data for the retail turnover per subsector and the average time taken to pay suppliers, it calculates the shortfall between money-in, and money-out if everything needs to be paid at 30 days.
Then, using the likely interest rate that will need to be paid on the additional working capital that retailers were to borrow or would need to seek as new credit, it arrives at the estimate of 150 billion EUR.

The reality is likely to be much higher if you add in the complexity of arrangements that exist between retailers and their suppliers. This may include other elements that have been negotiated, such as discounts, or which may relate to the nature of the product (slow-moving, expensive, etc.), or vary depending on the size of the supplier, the volumes bought, and the relative negotiating strengths of the parties, or which result from the transposition of Directive (EU) 2019/633[5] that means the cost of reducing payment terms to 30 days in food are excluded.

It also does not consider additional variables that will be considered by a bank in granting a loan and the likely interest rate that will be based not just on the market, but also on the bank's assessment of the risk. Asking for money to just finance working capital will offer a negative return on investment as it increases costs but without a promise of growth in sales (i.e. a return). This, for example, may be more promising if the credit was being requested to invest in the development of a new digital sales channel. Similarly, the structural problems in retail such as the low margins gives bank no reassurance, that they can provide capital safely as there is no buffer, and for businesses particularly SMEs, who are not making much profit they will either be considered too small or too risky.

Contact:
Anton Delbarre – delbarre@eurocommerce.eu

eurocommerce.eu

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