June 2020

US industry remains positive despite deterioration in payments behaviour

Atradius Payment Practices Barometer

The Atradius Payment Practices Barometer is an annual survey that assesses business payment behaviour throughout the world. The survey explores a range of topics including payment terms, payment delays, credit sales, and DSO (Days Sales Outstanding), results of which provide a good indication of outlook for businesses in the US.

Gordon Cessford,
Regional Director for North America
commented on the report:

"The results of the Atradius Payment Practices Barometer survey of U.S. firms show a business environment strained by cash flow and liquidity issues. Many factors are at play, most notably the economic downturn caused by the COVID-19 pandemic, which has led to decreased consumer spending and industrial production and increased unemployment and corporate debt.

The pressure U.S. businesses are feeling is reflected by widespread deteriorating B2B customer credit risk. Invoice payment defaults are up significantly compared to last year, as is the number of businesses delaying payment to suppliers awaiting outstanding payments. This is true of all sectors, but particularly for the chemicals and agri-food industries. Still, U.S. businesses – most notably the ICT/electronic sector – remain optimistic, predicting growth in sales and profit over the coming year."

Introduction

The US economy is facing a grim outlook. The COVID-19 containment measures have had a significant negative impact on consumer spending and have further disrupted supply chains that were already under pressure due to the Sino-US trade wars. Industrial production has slowed, affecting investment growth. The country is facing widespread job losses, with estimates from the Bureau of Labor Statistics showing more than 20 million jobs lost in March and April, although some improvements were seen in May. Corporate debt has increased in recent years and now poses a downside risk with the deteriorating creditworthiness of businesses likely to lead to an increase in insolvencies during 2020. The economy is expected to contract by up to 7% in 2020.

Key takeaways from the report

#1 - US businesses remain optimistic despite challenging economic environment

The majority of businesses polled for the Atradius Payment Practices Barometer Survey were optimistic about the future and predicted that their industry would experience growth in terms of sales and profits during the coming year. Much of this confidence was rooted in the belief that banks would underpin industry through the provision of credit. Overall, 73% of respondents stated business performance would improve next year, although this was even higher for some sectors. For example, more than 90% of respondents in the US ICT/electronics industry predicted growth in terms of sales and profits over the next 12 months.

#2 - A sharp increase in unpaid invoices leads to some liquidity issues

One of the most noteworthy results of the Atradius Payment Practices Barometer Survey was the 72% year-on-year increase in payment defaults experienced by B2B businesses throughout the US. On average, 43% of the total value of B2B invoices was overdue. This figure was even higher in some sectors. Respondents in the transport sector reported an average of 52% of the total value of B2B invoices was overdue. For the ICT/electronics industry, 47% of the total value was overdue.

Late payments can cause a domino effect within supply chains where businesses are forced to delay paying their own suppliers as they wait for invoices to be settled. This pressure on cash flow was widely reported in the survey with a year-over-year increase of 32% of businesses delaying payment to their suppliers while they waited for customers to settle outstanding debts. This was reported across all sectors but was particularly prevalent in the chemicals (54%) and agri-food (45%) industries.

#3 - US businesses employ a wide range of credit management techniques

US businesses stood out from their counterparts in the region with their commitment to credit management. A large majority (76%) reported managing customer credit risk in-house (self-insurance), choosing to monitor customers and markets and, where unavoidable, taking the hit if a customer defaulted on payment. 71% of the survey respondents sought payment guarantees prior to agreeing a sale and many businesses reported using techniques such as offering discounts for early payment and minimising concentrations of risk.

Within specific industries, 76% of businesses in the chemical industry, 82% of the ICT/electronics industry and 88% of the transport industry self-insure. Of note is that many of the businesses that self-insure also outsource some credit management tasks. This can be seen in the ICT/electronics industry where 75% of respondents who self-insure also report using credit insurance and in the transport industry where almost two in four respondents stated they seek guarantees of payment from B2B customers or avoid risk concentrations. In addition, 68% of businesses in agri-food request B2B payment guarantees.

#4 - US businesses increase B2B payment terms, although DSO also up

B2B payment terms have increased by two weeks year-over-year in the US. They now average 38 days, up from 24 days last year. Despite this significant lengthening of average terms, DSO (Days Sales Outstanding) was also high for some industries. The US chemicals industry reported an average DSO of 50 days and the transport sector 47 days. Bucking the trend towards lengthy DSO is the steel/metals industry, which reported an 18-day DSO.

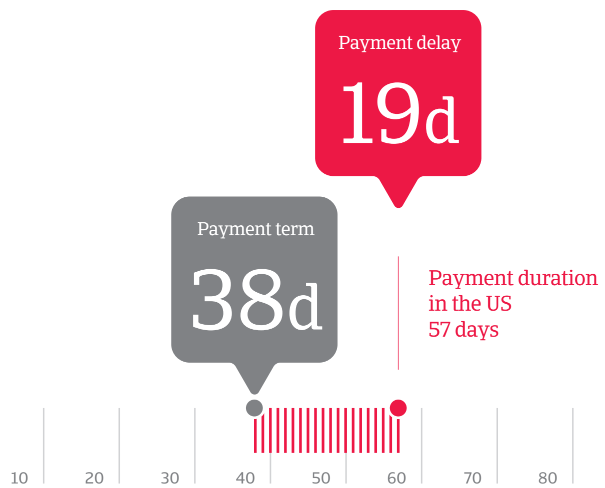
Key survey results for the US

The full impact of the trade war uncertainties and the economic downturn caused by the COVID-19 pandemic remains uncertain. However, as the responses to the Atradius Payment Practices Barometer Survey show, there has been a significant deterioration of B2B customer credit risk in the US, with a staggering 72% year-over-year increase in invoice payment defaults. The suppliers we polled in the US reported 43% of the total value of B2B credit sales is overdue. This rise is in large part attributable to an increase in the amount of long overdue invoices (still unpaid after than 90 days past their due date), the total value of which rose to 16%, up from 10% one year ago. What's more, the businesses we surveyed recorded a fourfold increase in the total value of write-offs of uncollectable receivables, rising to 4% from 1% last year.

The survey responses showed a business environment experiencing strained cash flow and liquidity issues. In particular, this was evidenced by the year-over-year 32% increase in businesses stating they needed to delay payment to their suppliers due to late payments from their customers and by the 41% increase in respondents who said their B2B customers use outstanding invoices as a form of short-term finance.

Not surprisingly, B2B payment terms set by the suppliers surveyed in the US are far longer than a year ago (averaging 38 days from invoicing, vs. 24 days) and longer than the 31-day average for the region. Payment terms are most often set in accordance with company standards (50% of survey respondents vs. 47% regional average) and industry standards (42% of respondents, vs. 34% for the region).

Payment duration in the US



d = average days
Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – June 2020

Atradius · Key Findings

72 %

year-over-year increase in payment defaults on B2B invoices in the US

Atradius Payment Practices Barometer – June 2020

To mitigate customer credit risk in such challenging economic times, US respondents to our survey said they dedicate careful attention to credit management, often more so than their peers in the region. This can be seen in the widespread use of internal retention and management of customer credit risk (76% of respondents, vs. 66% in the region actively absorb the costs of customer payment defaults) and in the requests for guarantees of payment from B2B customers prior to a credit sale (reported by 71% of respondents, vs. 64% in the region).

Survey respondents also demonstrated a widespread recourse to a mix of credit management techniques, such as offering discounts for the early payment of invoices, avoidance of credit risk concentrations and adjustment of credit terms. Despite this attention to credit management processes, working capital among our respondent' businesses has been tied up in overdue B2B invoices for an average of nine days longer than one year ago. Of note, businesses in the agriculture and food & beverages industries experienced the most difficulties in collecting outstanding debts.

Looking ahead, more respondents in the US (48%, up from 34% last year) anticipate a worsening of their B2B customers' payment practices (in particular a significant lengthening of DSO – days sales outstanding), than an improvement (15%). In response, 53% of respondents plan on strengthening their internal credit control and debt collection procedures. 54% of the respondents in the US believe their industry's indebtedness will increase, causing greater dependence on bank finance. However, respondents also believe that the willingness of banks to provide credit to the business community will increase, and the business performance of their industry, in terms of sales and profits, will improve over the coming months (73% of respondents).

> *"With an increase in U.S. businesses expecting worsening payment practices ahead, it is more important than ever for firms to mitigate credit risk by knowing their trading customers and staying informed of their financial health."*
>
> **Gordon Cessford,**
> **Regional Director for North America**

Overview of payment practices in the US

By industry

Agri-food

2 in 5 invoices in the US agri-food industry are overdue

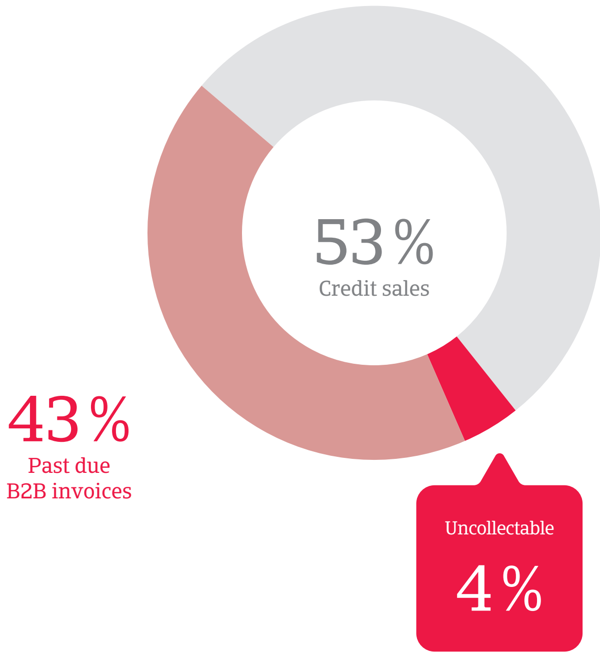
Survey respondents from the US agri-food industry reported that, on average, 40% of the total value of their B2B invoices was overdue. 17% extend past 90 days overdue and 5% were written off as uncollectable. For 51% of respondents, B2B customers delay payments due to disputes over invoices. The average DSO (days sales outstanding) in the US agri-food industry averages 37 days (compared to a 38-day average for the country).

Most US agri-food businesses opt to absorb the costs of customer payment defaults

A majority of respondents from the US agri-food industry (72%) reported that they most often retain and manage customer credit risk through self-insurance (covering the cost of late and unpaid invoices in house), 68% request B2B credit payment guarantees, while 62% outsource debt collection. To protect their cash flow and business profitability, a sizeable proportion of respondents from the US agri-food sector (45%) reported that they either needed to delay payments to their own suppliers to avoid cash flow issues or needed to invest additional time, resources and costs to chase overdue invoices (40% of respondents).

Uncollectable B2B receivables in the US

(% of total value of B2B receivables)



Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – June 2020

US agri-food industry braces for an increase in customer debt

In the US agri-food industry, significantly more respondents (40%) expect the risks associated with customer credit to increase, than expect a reduction of risk (11%) over the coming months. Most of the respondents from the industry predict a rise in credit risk will have a negative impact on their DSO, resulting in a reduction in cash flow and in the investment capacity of the business. To strengthen credit controls over the coming months, respondents from the US agri-food industry plan to either more frequently ask for guarantees of payment from their customers, offer discounts for early settlement of invoices, or apply credit management techniques aimed at avoiding concentrations of trade credit risk. (30% of respondents for each).

A sizeable percentage of respondents (51%) are of the opinion that dependence on bank finance will increase over the coming months due to the increased indebtedness of the agri-food industry. However, most respondents from the industry (47%) expect that banks will provide more credit to businesses over the same period. 64% of respondents are of the opinion that the industry business performance (sales and profits) will improve over the next 12 months.

Chemicals

More than half of chemicals businesses use payment delays as short-term finance

According to 54% of survey respondents, B2B customers in the US chemicals industry delay payments as they use outstanding invoices as a form of financing. DSO in the US chemicals industry averages 50 days (compared to a 38-day average for the US). Respondents from the chemicals industry reported that, on average, 37% of the total value of B2B invoices was overdue. 9% remain overdue more than 90 days, and 3% are written off as uncollectable.

Most US chemicals businesses manage customer credit risk in house

A sizeable majority of respondents from the US chemicals industry (76%) said that they self-insure customer credit risk. This includes absorbing the costs associated with late and written-off invoices. 56% request payment guarantees such as letters of credit from their B2B customers to whom they sell goods and services with deferred payment. To minimise the risk of payment default and protect business profitability, a sizeable proportion of respondents from the US chemicals sector (34%) reported that chasing overdue invoices costs them additional time, resources and money.

Debt levels in US chemicals industry appear to be rising

Nearly half of respondents in the US chemicals industry (49%) believe that industry debt will increase along with dependence on bank finance over the coming months. However, most respondents from the industry (48%) expect that banks will provide more credit to businesses over the same period. Significantly more respondents (42%) expect customer credit risk to deteriorate, than expect a reduction of risk (18%) over the coming months.

Most of the respondents from the industry expect this to have a negative impact on their DSO, resulting in a worsening of their liquidity position and of the investment capacity of the business. To strengthen credit management over the coming months, respondents from the US chemicals industry plan to either more frequently offer discounts for early settlement of invoices, or chase unpaid invoices by sending outstanding invoices reminders (28% of respondents for each). More than three in five respondents are of the opinion that business performance in the industry (sales and profits) will improve over the next 12 months.

ICT / electronics

One fifth of all invoices in the ICT/electronics industry are more than 90 days overdue

Respondents from the US ICT/electronics industry reported that, on average, 47% of the total value of B2B invoices extended past their due dates. 21% are more than 90 days overdue and 4% are written off as uncollectable. According to 46% of survey respondents, B2B customers delay payments as they use outstanding invoices as a form of financing. DSO in the US ICT/electronics industry averages 39 days (compared to a 38-day average for the US).

Credit insurance favoured by significant percentage of businesses

To safeguard cash flow and business profitability, the majority of respondents (82%) reported that they most frequently self-insure customer credit risk, while three in four respondents reported to have outsourced credit management to a credit insurer. Due to late payments from their B2B customers, 36%

of respondents from the US ICT/electronics industry reported that they either needed to delay payments to their own suppliers to avoid cash flow issues, or they needed to increase the amount of time and resources they spent to chase overdue invoices.

ICT/electronics industry buoyed by strong business confidence despite growth in customer credit risk

In the US ICT/electronics industry, significantly more respondents (38%) expect customer credit risk to deteriorate than expect a reduction of risk (13%) over the coming months. Most of the respondents from the industry expect this to cause an upswing in long overdue payments, with a negative impact on their DSO. To strengthen credit control over the coming months, respondents plan to either reduce concentrations of customer credit risk in their sales ledger, or request guarantees of payment from the B2B customers to whom they sell on credit terms.

Most respondents (77%) believe that dependence on bank finance of the ICT/electronics industry in the US will increase over the coming months due to a growing indebtedness of the industry. However, a sizeable proportion of respondents (68%) expect that banks will provide more credit to businesses over the same period. Just over nine in ten respondents are of the opinion that business performance of the industry (sales and profits) will improve over the next 12 months.

Steel / metals

A significant percentage of B2B invoices in US steel/metals sector are overdue

Survey responses in the US steel/metals industry show an average of 39% of the total value of B2B invoices were overdue, 10% are more than 90 days overdue and 2% are written off as uncollectable. For half of those polled, B2B customers delay payments due to inefficiencies in their internal payment processes, while 40% report that late payments from B2B customers are most often due to liquidity constraints. Average DSO in the industry is 18 days (compared to a 38-day average for the US).

Letters of credit are a popular payment guarantee

Prior to selling on credit, 63% of respondents requested a letter of credit from their B2B customers. In order to protect cash flow and the profitability of the business from customer credit risk, a sizeable proportion of respondents from the US steel/metals industry (38%) reported that chasing overdue invoices costs them more time, resources and money. Most of the respondents from the industry (68%) reported that they often needed to adjust credit terms to reflect the credit capacity of their B2B customers, and many offered discounts for early payment of invoices.

US steel/metals businesses foresee cash flow issues in the coming months

In the US steel/metals industry, more than twice as many respondents (35%) expect an increase in the default risk associated with customer credit, than expect a reduction of risk (16%) over the coming months. Most of the respondents from the industry expect this to have a negative impact on their DSO, resulting in cash flow issues. To strengthen credit control over the coming months, respondents plan to focus on credit management techniques including reducing concentrations of trade credit risk (30% of respondents), and using credit insurance (20%).

A sizeable percentage of respondents (57%) expressed concern over a predicted increase in the indebtedness of the industry over the coming months, and the consequent increase this would have on dependence on bank finance. However, 53% expect that banks will provide more credit to businesses over the same period. 70% of respondents are of the opinion that the industry's sales and profits will improve over the next 12 months.

Transport

More than half of the total value of invoices in the US transport industry are overdue

Respondents from the US transport industry reported that an average of 52% of the total value of B2B invoices is overdue. 18% are more than 90 days overdue, and 5% are written off as uncollectable. According to 47% of respondents, B2B customers delay payments due to disputed invoices, while 41% of the businesses polled claim that late payments are due to B2B customers using outstanding invoices as a form of financing. DSO in the US transport industry averages 43 days (compared to a 38-day average for the US).

Most businesses manage and absorb their own credit risks

Due to late payments from their B2B customers, 25% of respondents from the US transport industry reported that they either needed to delay payments to their own suppliers to avoid cash flow issues, or had to increase the amount of time and resources spent on chasing unpaid invoices. To protect cash flow and business profitability from customer credit risk, most respondents from the industry (88%) reported that they most frequently retain and manage customer credit risk through self-insurance (absorbing the cost of late and unpaid invoices themselves). Nearly two in four respondents stated they either request guarantees of payment from B2B customers, or they apply credit management techniques aimed at avoiding concentrations of credit risk in their sales ledger.

More than half of US transport sector respondents expect industry debt to increase

Most respondents in the US transport industry (55%) believe that their industry's dependence on bank finance will increase over the coming months, caused by growing levels of business debt. 59% expect that banks will provide more credit to businesses over the same period. However, 72% are of the opinion that the business performance of the industry (sales and profits) will improve over the next 12 months.

Significantly more respondents (40%) expect customer credit risk to worsen than expect an improvement (13%) over the coming months. Most of the respondents from the industry expect this to cause an upswing in long overdue invoices, with a negative impact on their DSO. To strengthen credit control over the coming months, respondents plan to either reduce the concentration of customer credit risk in their sales ledger, or to offer discounts for early payment of invoices from B2B customers to whom they sell on credit terms.

Survey design for USMCA

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the 'Atradius Payment Practices Barometer'. In this report focusing on the USMCA, which is part of the 2020 edition of the Atradius Payment Practices Barometer, companies from three economies (Canada, US and Mexico) have been surveyed. Due to a change in research methodology for this survey, some year-on-year comparisons are not feasible for some of the results.

Using a questionnaire, CSA Research conducted 600 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** companies from seven economies (Canada, US and Mexico) were surveyed. The appropriate contacts for accounts receivable management were interviewed.
- **Sample design:** the Strategic Sampling Plan enables to perform an analysis of country data crossed by sector and company size. It also allows to compare data referring to a specific sector crossed by each of the economies surveyed.
- **Selection process:** companies were selected and contacted by use of an international internet panel. A screening for the appropriate contact and for quota control was conducted at the beginning of the interview.
- **Sample:** N=600 people were interviewed in total (approximately n=200 people per country). In each country a quota was maintained according to three classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: Q1 2020.

Sample overview – Total interviews = 1,413

Economy	n	%
Canada	200	33.3
US	200	33.3
Mexico	200	33.3
Sector (total Americas)	**n**	**%**
Manufacturing	215	35.8
Wholesale trade/ Retail trade / Distribution	260	43.3
Services	129	21.5
Business size (total Americas)	**n**	**%**
Small enterprises	20	3.3
Medium-sized enterprises (SMEs)	418	69.6
Large enterprises	146	24.3

It may occur that the results are a percent more or less than 100%. This is the consequence of rounding off the results. Rather than adjusting the outcome so that it totalled 100%, we have chosen to leave the individual results as they were to allow for the most accurate representation possible.

Statistical appendix

Find detailed charts and figures in the Statistical Appendix for the USMCA. This is part of the June 2020 Payment Practices Barometer of Atradius, available at www.atradius.com.au/publications

Download in PDF format (English only).

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