



Canada: growth in late payments knocks business confidence

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 Canada.



**Chris Short,
Country Manager for Canada
commented on the report:**

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“COVID-19’s full impact on Canadian businesses remains a mystery. Atradius’s Payment Practices Barometer survey of Canadian businesses shows firms are attempting to minimize their risks by increasing the use of B2B sales made on credit while also shifting toward more stringent payment terms.

Overall, Canadian businesses expect payment practices to deteriorate in the near future. Survey respondents reported a staggering 86% increase in late payments compared to last year. Liquidity issues are common, accounting for many overdue invoices. That said, all signs currently point toward a recovery in the next months, and half of the survey respondents feel optimistic about short-term growth and profits.

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Introduction

Additional time is needed to fully assess the economic impact of the COVID-19 pandemic on the Canadian economy. GDP contracted in both the first and second quarters of this year, despite the measures taken to help mitigate the downside risks and provide economic stimulus through financial support to businesses. That said, it is thought that these interventions will help in the longer term, and economic growth in Canada is expected to bounce back over the coming months. Against this backdrop of uncertainty, it is essential that businesses navigate these challenging economic times with a strategic approach to credit management. This needs to include measures aimed at ensuring adequate cash flow levels and a sound liquidity position to guarantee or support the continuity of the business.

Key takeaways from the report

#1 - Value of B2B credit sales on the rise in Canada

The total value of B2B sales made on credit increased by 6% compared to the year prior, with a greater emphasis on offering credit to domestic rather than foreign customers. Interestingly, the increase in amount of credit sales corresponded with a reduction in payment terms, possibly reflecting cautiousness and an attempt to minimise the risk of payment defaults where possible. This trend was absent from the Canadian steel/metals industry, where more than 70% of respondents expressed a preference for cash.

#2 - Inefficiencies in Canadian banking system blamed for many late payments

A sizable proportion of survey respondents cited inefficiencies in Canada’s banking system as a reason for late payments. This was particularly evident in the agri-food and chemicals industries, both of which reported that an average of 40% of the total value of B2B invoices were overdue, and both laying partial blame on banking inefficiencies. Canada’s banking landscape is currently undergoing reform with a modernisation programme. It will be interesting to see how this affects future B2B payments moving forward.



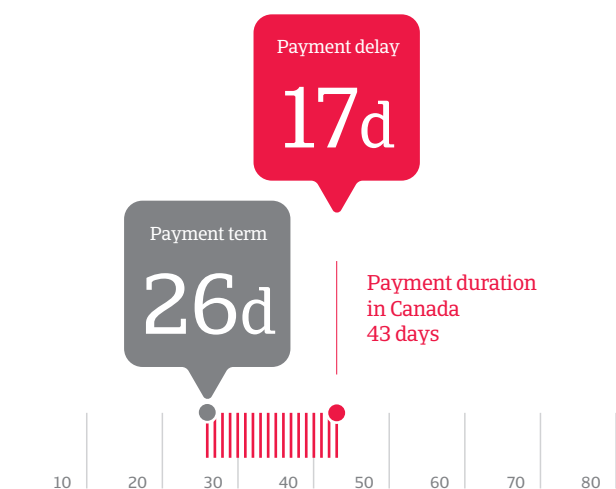
#3 - Most industries in Canada expect payment practices to deteriorate in coming months

Most of the survey respondents expressed a negative view of the future of their B2B customers' payment practices. Overall, 27% expected this to deteriorate, in contrast to just 10% who anticipated improvement. This pattern was echoed across the business sector, with the exception of the construction materials industry, where 55% of survey respondents expect the total amount of unpaid invoices to decline over the coming months.

#4 - The majority of businesses predict growth in sales and profits

More than 50% of respondents in every industry we surveyed, with the exception of the services industry, expressed optimism about the future and believed their sector would experience growth in sales and profits during the coming year. This opinion was held by 45% of respondents in the services industry. In the steel/metals industry, for example, 57% of those surveyed expected to see growth next year.

Payment duration in Canada



d = average days

Sample: companies interviewed (active in domestic and foreign markets)

Source: Atradius Payment Practices Barometer – June 2020

Key survey results for Canada

Based on the results of the Atradius Payment Practices Barometer survey in Canada, there was an increase in the total value of B2B sales made on credit compared to one year ago (63%, up from 57% last year). In these challenging economic times, the increased use of B2B trade credit in Canada probably reflects higher pressure on businesses to sell and grow market share to offset the squeeze on profits, as well as the challenge to protect sales against competition. Moreover, as the credit-based B2B sales were reportedly made chiefly on the domestic rather than export markets, it is reasonable to assume that many businesses in Canada resorted to domestic supplier credit to fill a gap in short-term trade financing during these times of strained cash flow.

The survey respondents reported a shift towards more stringent payment terms for B2B customers. This now averages 26 days from invoicing, compared to 37 days one year ago. The shorter payment terms appear to be most often set in accordance with company standards, internal business practices and, in many cases, competition. This is likely the logical reaction to the marked worsening of the insolvency environment in Canada, as evidenced by the survey results highlighting a staggering 86% year-over-year increase in late payments in the country. Overdue invoices now represent 39% of the total value of respondents B2B sales, up from 21% last year.

Late payments most often resulted from disputed invoices. However, in many cases, they were attributable to the liquidity constraints of B2B customers. Long overdue invoices (still unpaid after 90 days past their due date) make up a sizeable proportion of total overdue invoices. Their value rose to 9%, up from 5% one year ago. In addition, there was a threefold increase in write-offs of uncollectable receivables (3%, up from 1% last year). In particular, the success rate in collecting outstanding debts was very low in both the construction and the food & beverage industries.

Many respondents in Canada also reported a knock-on effect of late payments. They had to delay paying their own suppliers and spent more time, resources and money chasing overdue invoices. In addition, many needed to strengthen their internal credit control procedures.

To mitigate customer credit risk, survey respondents in Canada reported using a mix of credit management tools and techniques, most often self-insurance and requesting payment guarantees. Self-insurance is the term used to describe internal processes utilised by businesses to monitor potential market and customer risks to payment of invoices, and the resolve to absorb payment defaults in house. Despite strengthening internal credit control procedures, working capital appeared to be locked in overdue receivables for nearly one week longer than last year.

Overall, survey respondents in Canada had a pessimistic outlook for B2B customers' payment practices, with more



Atradius · Key Findings

86%**year-over-year increase in
payment defaults on B2B
invoices in Canada**

Atradius Payment Practices Barometer – June 2020

respondents (27%) expecting deterioration than improvement (10%). To help counteract the impact of poor payment practices, many survey respondents said they planned to apply a range of credit management techniques. 47% planned to adjust payment terms to more closely reflect the credit capacity of their customers. 43% said they would try to avoid concentrations of credit risk and the same percentage said they intended to increase the use of payment reminders, such as dunning letters. Against this backdrop of financial strain, nearly half the survey respondents felt that late payments could force businesses to seek bank finance to support cash flow. However, 53% of respondents also believed that the willingness of banks to provide credit to the business community would increase, and the business performance of their industry would improve over the coming months.

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As everywhere else in the world, uncertainty is high in Canada. With insolvencies on the rise and payment practices deteriorating, Canadian firms should take a strategic approach to managing credit risk.

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Chris Short,
Country Manager for Canada



Overview of payment practices in Canada

By industry



Agri-food

Disputes over invoices cause many payment delays in the agri-food industry

Respondents from the Canadian agri-food industry reported that, on average, 40% of the total value of B2B invoices was overdue. 9% extended beyond 90 days overdue or more, and 4% was written off as uncollectable. B2B customers delayed payments due to a number of reasons, and most often attributed this to disputed invoices or to inefficiencies of the banking system. Average DSO (days sales outstanding) in the industry is 34 days (in line with the country average).

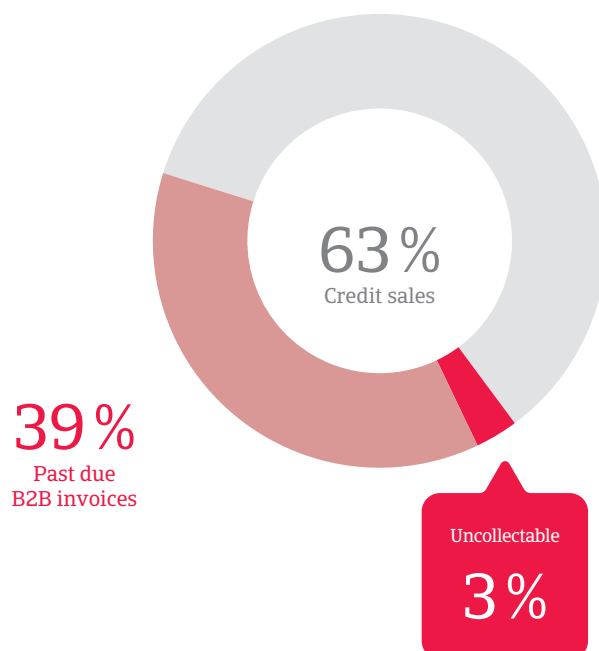
More than a quarter of agri-food businesses withheld payment due to cash flow issues

To protect their cash flow and business profitability, a sizeable portion of respondents from the industry (27%) reported that they needed to delay payments to their own suppliers to avoid cash flow issues. The same percentage reported needing to increase the amount of time, resources and money spent to chase overdue invoices.

62% of agri-food industry respondents reported that they self-insure customer credit and 62% that they request guarantees of payment from B2B customers to whom they sell on credit.

Uncollectable B2B receivables in Canada

(% of total value of B2B receivables)



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

Although payment practices expected to worsen, most businesses predict growth

In the Canadian agri-food industry, three in five respondents believe that customer credit risk is more likely to deteriorate than to improve over the coming months, negatively impacting DSO, cash flow and the investment capacity of the business. To accelerate collection of payments, one quarter of industry respondents plan to offer discounts for early settlement of invoices.

53% of the survey respondents from the agri-food industry expressed the opinion that dependence on bank finance will increase over the coming months, due to increased late payments affecting cash flow in the industry. However, 45% of respondents said they expected banks to provide more credit to businesses during this period. 60% of respondents believed that industry sales and profits would improve over the next 12 months.





Chemicals

Inefficiencies in banking system blamed for payment delays

Based on survey responses in the Canadian chemicals industry, an average of 35% of the total value of B2B invoices is overdue. 8% is more than 90 days overdue, and 3% is written off as uncollectable. According to 40% of respondents, B2B customers delayed payments due to inefficiencies of the banking system. Industry DSO averages 43 days (well above the 34-day country average).

Late payments have caused job losses in the chemical sector

To reduce the risk of payment default and protect business profitability, a sizeable 30% of respondents from the sector reported that they had to increase the amount of time, resources and money dedicated to chasing overdue invoices. Nearly the same percentage delayed payments to their own suppliers, while 20% reported having to reduce workforce.

Most chemicals industry respondents (57%) said that they self-insure customer credit risk. 44% requested payment guarantees, including letters of credit, from their B2B customers. Within the frame of their trade credit policy, respondents said they often had to adjust payment terms to reflect the credit capacity of the customer.

Large proportion of chemicals industry foresee increase in poor payments behaviour

Five times as many respondents (35%) in the Canadian chemicals industry expect customer credit risk to deteriorate over the coming months than expect a reduction of credit risk (7%). Most respondents expected this to have a negative impact on their DSO, resulting in a worsening of their liquidity position and of the investment capacity of their business.

Most respondents from the industry said they did not plan to change the mix of credit management tools and techniques they were using to strengthen credit management over the coming months. The only exception was the more frequent adjustment of payments terms to reflect the credit capacity of the customer. Over half of the survey's respondents (56%) believed that late payments in the chemicals industry would increase over the coming months, leading to greater dependence on bank finance as businesses sought loans to support their cash flow. However, 49% of industry respondents expected banks to provide more credit to businesses during this period. Over half (54%) expressed the opinion that industry sales and profits will improve over the next 12 months.



Steel / metals

Steel / metals industry among most efficient in Canada at collecting invoices

Average DSO in the Canadian steel/metals industry is 23 days. This is well below the 34-day country average, and singles out the industry as one of the best in Canada in terms of collection efficiency. According to survey responses in the steel/metals industry, an average of 45% of the total value of B2B invoices was overdue, 7% was more than 90 days overdue and 2% was written off as uncollectable. Respondents reported a wide range of reasons for payment delays from their B2B customers. These ranged from inefficiencies of the customers' internal payment processes to liquidity constraints. Disputed invoices were cited as the most common reason for late payments in the industry.





Cash is King in Canada's steel / metals industry

A remarkable 71% of respondents from the Canadian steel/metals industry reported a preference for selling on a cash basis rather than on credit terms. Where sales were made on credit, 33% of respondents reported the need to strengthen their internal credit control procedures in order to protect cash flow and the profitability of the business from customer credit risk. Within the frame of their trade credit policy, 68% reported that they most often needed to adjust B2B credit terms to reflect the credit capacity of their customers. The same percentage of respondents (68%) offered discounts for early payment of invoices. Two other techniques frequently practised by businesses in our survey include the active avoidance of credit risk concentrations and the use of dunning letters (payment reminders) to speed up debt collection. Both approaches were reported by 65% of survey respondents.

Confidence that payments will be made remains high

72% of respondents in the steel/metals industry in Canada said that they did not expect the default risk associated with customer credit to deteriorate over the coming months. However, those respondents that did expect to see a worsening of B2B customers' payment practices predicted this would have an adverse impact on their DSO, leading to cash flow issues and potential deterioration of the investment capacity of the business.

To strengthen their credit management processes over the coming year, many respondents said they planned to request letters of credit and to outsource debt collection to specialist agencies more frequently. Half of the sector's respondents expressed concern over a possible increase in late payments

in the industry over the coming months, potentially leading to an increased dependence on bank finance. However, 64% of industry respondents said that they expected banks to provide more credit to businesses over the same period. 57% expressed the opinion that the industry sales and profits will improve over the next 12 months.



Services

Many businesses in the services sector delay payment as a form of financing

Survey responses from the services industry in Canada show an average of 38% of the total value of B2B invoices is overdue. 6% extends past 90 days overdue, and 2% is written off as uncollectable. According to 40% of respondents, B2B customers delay payments due to disputed invoices, while 38% claim that late payments are due to B2B customers using outstanding invoices as a form of financing to alleviate pressure on cash flow. Industry DSO averages 40 days (well above the 34-day country average).

Service industry businesses frequently use letters of credit to protect cash flow

Due to late payments from their B2B customers, 24% of Canadian respondents from the services industry reported that they needed to spend more time, resources and money to chase unpaid invoices. To protect cash flow and business profitability from the risk of payment default, the majority of respondents from the industry (63%) reported that they requested letters of credit from B2B customers. 54% self-insured customer credit risk. A similar percentage frequently reviewed and revised company credit policies, adjusting payment terms to reflect the credit quality of the customer, while also applying credit management techniques aimed at avoiding credit risk concentrations in their sales ledgers.

Most service industry businesses expect payment behaviour to remain unchanged

The majority of survey respondents from Canada's services industry (65%) said they expected the risk of B2B customer payment default to remain at current levels over the next few months. 22% of respondents said they expected to see an increase over the same period and 13% expected to see a risk reduction. To address deterioration of B2B payment practices, many respondents from the Canadian services industry said they planned to request letters of credit more often or increase dunning activities (payment reminders) to stimulate faster



collection of invoices.

Looking ahead, two in five respondents said they felt late payments would lead to an increased dependence on bank finance over the coming months, as businesses sought to manage the gaps in their cash flow. 39% of respondents believed that banks would be more open to provide finance to businesses in the industry. 45% of respondents believed industry sales and profits would improve over the next 12 months.



Construction materials

Construction materials industry keeps DSO low by minimising long overdue invoices

According to responses to the Atradius Payment Practices Barometer survey an average of 43% of the total value of B2B invoices in the Canadian construction materials industry was overdue. 15% extended past 90 days overdue, and 4% was written off as uncollectable. Nearly half of the respondents reported that B2B customers most often delayed payments due to disputed invoices, while 36% claimed that late payments most often resulted from the customer using outstanding invoices as a form of financing. Despite this, DSO in the Canadian construction materials industry averages only 23 days. This is well below the 34-day country average, signalling better success in collecting invoices (particularly high value invoices) than their peers in other industries surveyed.

Nearly half of the construction materials companies surveyed self-insure

49% of the respondents from the Canadian construction materials industry said that they self-insured, while 40% requested guarantees of payment from their B2B credit customers. As part of their trade credit policies, many respondents reported performing dunning activities (payment reminders) aimed at accelerating the collection of outstanding invoices. To minimise customer credit risk and protect business profitability, one quarter of respondents from the industry reported that they had to devote more time, resources and money to chase overdue invoices and strengthen their credit control procedures.

Construction materials industry predicts reduction in total value of unpaid bills

In contrast to what we observed in other industries surveyed, most Canadian construction materials industry respondents (55%) expected the total amount of unpaid invoices to shrink over the coming months. Similarly, they expected to see an improvement in cash flow leading to a reduction in dependence on bank finance. That said, 35% of respondents said they expected to see an increase in the total amount of unpaid invoices. 44% believed banks would provide more credit to businesses over the coming year.

However, despite expecting an overall decrease in debt, twice as many respondents (31%) in the Canadian construction materials industry believed customer credit risk would get worse, than those that expected it to improve (14%) over the coming months. Most of the respondents from the industry expected the proportion of long overdue invoices in their sales ledgers to grow, negatively affecting DSO.

Except for adjusting payment terms more frequently to reflect the credit capacity of the customer, most respondents from the industry (56%) did not plan to change the mix of credit management tools and techniques they are currently using to mitigate customer credit risk. A similar 56% of industry respondents expected improvement in industry sales and profits over the next 12 months.



Survey design for the 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 three 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 = 600

Economy	n	%
Canada	200	33.3
US	200	33.3
Mexico	200	33.3
Sector (total USMCA)	n	%
Manufacturing	215	35.8
Wholesale trade/ Retail trade / Distribution	260	43.3
Services	129	21.5
Business size (total USMCA)	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.

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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 <https://atradius.us/publications/>

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SURVEY RESULTS

STATISTICAL APPENDIX

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