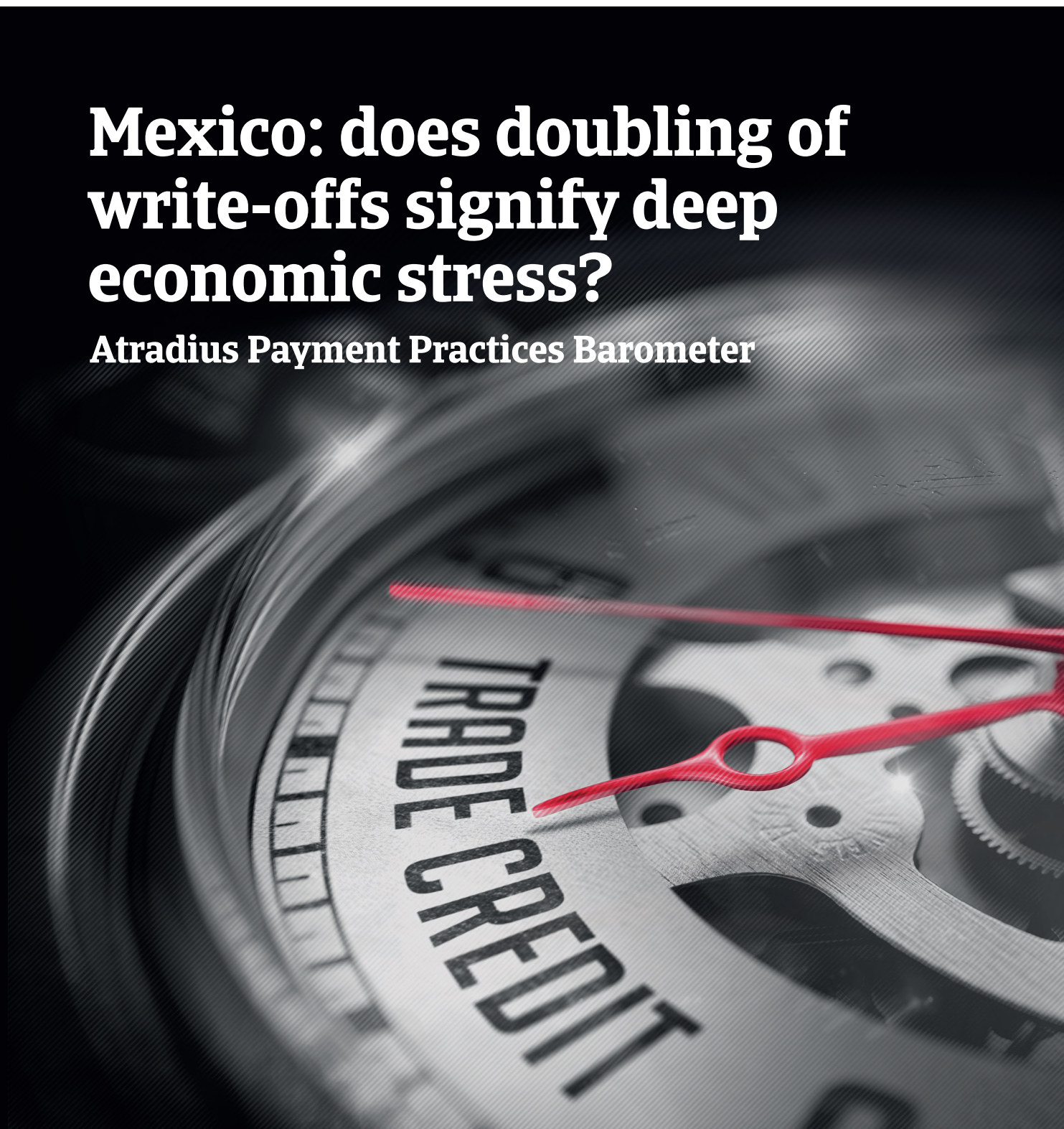




# **Mexico: does doubling of write-offs signify deep economic stress?**

**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 Mexico.



**Karel van Laack,  
Country Manager for Mexico  
commented on the report:**

“

*“The COVID-19 pandemic is the driving force behind deteriorating economic conditions in Mexico. According to Atradius’s Payment Practices Barometer survey of Mexican businesses, late payments for firms in all industries are widespread, and the amount of trade receivables firms have written off has doubled since last year. We expect an uptick in payment delays in defaults throughout the rest of 2020, with SMEs suffering more than larger firms.*

*Even though economic conditions and payment practices are worsening, survey respondents express hope and strong morale – several industries feel confident that they can achieve growth this year. That confidence is especially strong in the agri-food industry, where 90% of respondents believe sales and profits will improve over the next year.*

”

## Introduction

The economic outlook for Mexico is expected to deteriorate steeply this year, due to the severe economic contraction caused by the pandemic downturn. The level and intensity of the contraction is still to be seen as the pandemic continues, making it difficult to pin down predictions over the ultimate impact on the economic system. However, what we have seen is that the pandemic has exacerbated financial conditions in the second quarter, negatively impacting Mexican SMEs in particular. The current economic downturn will aggravate the situation for many businesses in a wide range of industries, weakening the financial strength of many and triggering an increase in payment delays and defaults in the coming months.

## Key takeaways from the report

### #1 - Late payments are a common feature of B2B trade

Across all the industries surveyed for the Atradius Payment Practices Barometer late payments were fairly widespread. The total value of outstanding payments for the country increased by 4% year-on-year and the average DSO stands at 62 days, well above the regional average of 45 days. The total value of overdue invoices averaged between 41% in the chemicals industry, to 55% in the paper industry.

### #2 - The amount of outstanding debt written off doubles year-on-year

When compared to last year, the total amount of uncollectable receivables written off by businesses in Mexico doubled from 2% to 4%. Most industries averaged a write-off rate of between 3% and 4% this year. This trend was bucked by the paper industry, which recorded a much bigger figure: writing off 8% of total receivables as uncollectable. Perhaps unsurprisingly the paper industry was also the sector that said they most favoured cash payments this year.



### #3 - Despite late payments and economic contraction business morale is strong

Several of the industries polled expressed confidence and predicted growth for the coming year. About 90% of respondents from Mexico's agri-food industry believed their sector's sales and profits would improve over the next 12 months, an opinion shared by almost all of the respondents surveyed in both the steel/metals and transport industries. Overall, almost four in five respondents in Mexico expected the business performance of their industry to improve.

### #4 - Mexican businesses increase their use of trade credit

The total value of B2B sales made on credit in Mexico increased by 7% last year, possibly representing greater business competition or a reflection of short-term financing offered by businesses to their customers.

### #5 - A significant proportion of businesses in Mexico employ credit insurance

Although not consistent across all sectors, several industries in Mexico reported favouring credit insurance. This is true of the chemicals industry in particular where about three-

quarters of the survey's respondents said they used credit insurance to help manage their accounts receivable. The steel/metals industry also cited trade credit insurance as a key aspect of their credit management strategy.

## Key survey results for Mexico

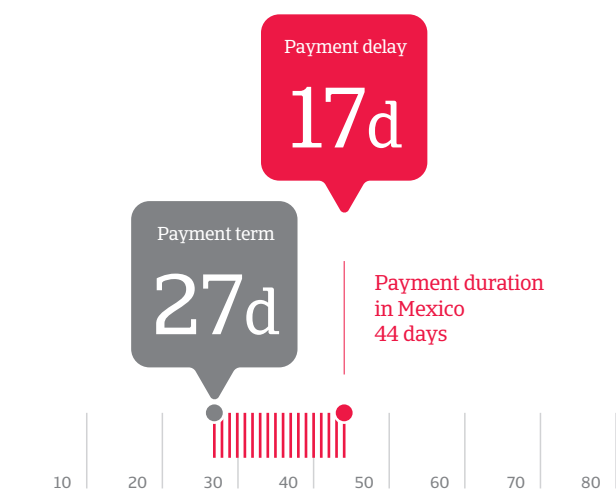
The Atradius Payment Practices Barometer survey conducted in Mexico found that the total value of B2B sales made on credit increased to 52%, up from 45% last year. The increased use of B2B trade credit could be a reflection of the higher pressure on businesses to sell and grow market share to offset the squeeze on profits in these challenging economic times. Furthermore, as the largest proportion of the credit-based B2B sales (62%) was transacted chiefly on the domestic rather than on foreign markets, it is reasonable to infer that many businesses in Mexico resorted to domestic supplier credit to fill a gap in short-term trade financing during these times of liquidity constraints.

Based on the survey findings, the average B2B payment terms in Mexico remained stable at 27 days from invoicing. Payment terms are most often set in line with company standards, as reported by 42% of the survey respondents, while for 40%, payment terms are set according to the credit capacity of the customer.

Late payments from the B2B customers of Mexican respondents increased by an average of 4% compared to last year, affecting nearly half (47%) of the total value of B2B sales made on credit. This compares to 39% in Canada and 43% in the US. For 45% of respondents, B2B customers most often delay payment as they use outstanding invoices as a form of financing. Almost the same percentage of respondents attributed late payments from B2B customers to liquidity issues. Long overdue invoices (still unpaid after over 90 days past their due dates) have more than doubled, and represent 15% of the total value of credit-based B2B sales, up from 6% one year ago. Also write-offs of uncollectable receivables doubled from 2% last year. According to respondents, debt collection was most difficult in the agri-food and chemicals industries.

Late payments triggered a ripple effect throughout the supply chain with respondents in Mexico delaying payments to their own suppliers to avoid cash flow issues. Nearly 30% of respondents needed to increase the amount of time, resources and costs they spent on chasing overdue invoices, in addition to strengthening their internal credit control procedures. One quarter of respondents reported suspending deliveries until they received payment of outstanding invoices. To protect their business from the risk of payment default, 72% of respondents reported requesting payment on cash from their B2B customers. Almost the same percentage requested payment guarantees. Despite strengthening internal credit control procedures, the country's working capital appears to be tied in overdue receivables for nearly four days longer than last year.

## Payment duration in Mexico



d = average days

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

Source: Atradius Payment Practices Barometer – June 2020



Atradius · Key Findings

**45%****year-over-year increase in  
payment defaults on B2B  
invoices in Mexico**

Atradius Payment Practices Barometer – June 2020

Based on the Mexican survey findings, opinions are divided about the outlook for B2B payment practices over the coming months. Approximately half of the respondents did not expect any change, whereas those anticipating either an improvement or a worsening were almost equally split. Should this latter occur, respondents reported on planning to increase their in-house dunning activities (outstanding invoices reminders), in addition to requesting guarantees of payment from their B2B customers more often. A sizeable percentage (20%), planned on starting to outsource debt collection to a specialist agency.

Looking ahead, nearly three in five respondents in Mexico anticipated needing finance support from banks in the future, caused by reduced liquidity. However, respondents are also confident that banks will facilitate access to credit over the coming months to alleviate pressure on cash flow. On a positive note, nearly four in five respondents believed that sales and profits would improve over the coming months.

“

*To mitigate trade credit risks, Mexican businesses across almost all industries are increasing even further their use of credit insurance for added protection.*”

**Karel van Laack,**  
Country Manager for Mexico



# Overview of payment practices in Mexico

## By industry



Agri-food

### Almost half of the total value of B2B invoices in the Mexican agri-food industry is overdue

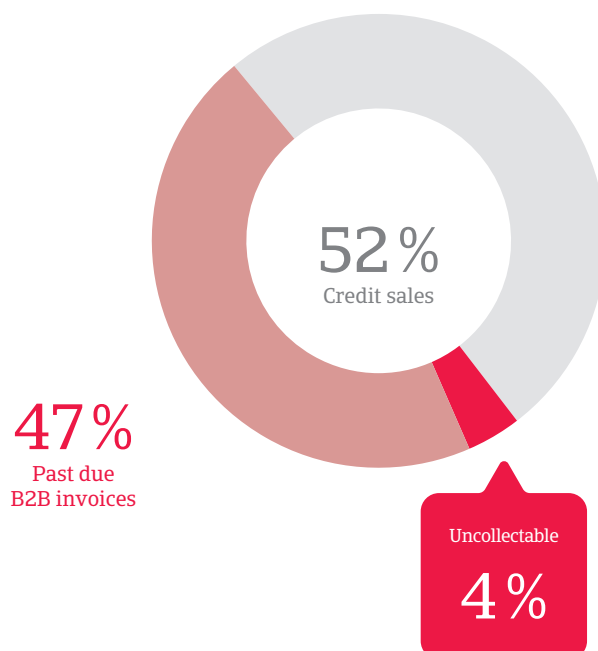
Survey respondents from the Mexican agri-food industry reported that, on average, 49% of the total value of their B2B invoices was overdue. 13% extended past 90 days overdue and 3% was written off as uncollectable. Nearly half of the respondents reported that their B2B customers paid invoices late, due to using outstanding invoices as a form of financing, or because they had a lack of liquidity. DSO (Days Sales Outstanding) in the Mexican agri-food industry averages 69 days (compared to a 62-day average for the country).

### Most agri-food businesses in Mexico request payment guarantees

A majority of respondents (83%) reported that they most often requested guarantees of payment from B2B credit customers. A similar percentage of respondents self-insured, monitoring markets and customers, and covering the cost of late and unpaid invoices in-house. To protect their cash flow and business profitability, just over half of the respondents from the industry (51%) reported that they needed to delay payments to their own suppliers to avoid cash flow constraints. A sizeable percentage of respondents reported they needed to invest additional time, resources and costs to chase overdue invoices

## Uncollectable B2B receivables in Mexico

(% of total value of B2B receivables)



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

and strengthen their internal credit control procedures (37% of respondents in each case).

### Vast majority of Mexican agri-food industry anticipates growth

Approximately nine in ten survey respondents from the Mexican agri-food industry believed that the sector's business performance would improve over the next 12 months. This overwhelmingly positive attitude was echoed by the majority of respondents who expected the risks associated with customer credit to remain stable over the coming months (48%), as opposed to those who anticipated an increase in risk (30%).

Most of the respondents predicted that any rise in credit risk would have an adverse impact on their DSO, resulting in a reduction in cash flow and the investment capacity of the business. To strengthen credit management over the coming months, the respondents said they planned to either request cash payment more frequently, or increase the frequency of their dunning payment reminders (35% of respondents for each). Nearly three in five respondents from Mexico's agri-food industry are of the opinion that dependence on bank



finance will increase over the coming months, caused in part by outstanding invoices. However, most respondents from the industry (64%) expect that banks will provide more credit to businesses over the same period.



#### Chemicals

### Nearly two in five chemicals businesses use payment delays as short-term finance

According to nearly 40% of survey respondents, B2B customers in Mexico's chemicals industry delayed payments as they used outstanding invoices as a form of financing. DSO in the Mexican chemicals industry averages 74 days (country average: 62 days). Respondents from the chemicals industry reported that, on average, 41% of the total value of B2B invoices was overdue. 12% extended past 90 days overdue, and 4% was written off as uncollectable.

### Most chemicals businesses in Mexico use credit insurance

A significant majority of respondents from the chemicals industry in Mexico (75%) managed their account receivables through trade credit insurance, and employed a strategic approach to credit management. An almost equal percentage (76%) said that they often requested guarantees of payment from their B2B credit customers.

To minimise the risk of payment default associated with trading on credit, a sizeable proportion of respondents from the Mexican chemicals industry (37%) reported that they needed to increase the amount of time, resources and costs spent to chase overdue invoices and strengthen their internal credit control functions.

### Dependence on bank finance expected to increase in the Mexican chemicals industry

Nearly half of the respondents (49%) believed that industry debt caused by late payments would increase along with dependence on bank finance over the coming months. However, most respondents from the industry (59%) expected banks would facilitate access to credit for businesses over the same period.

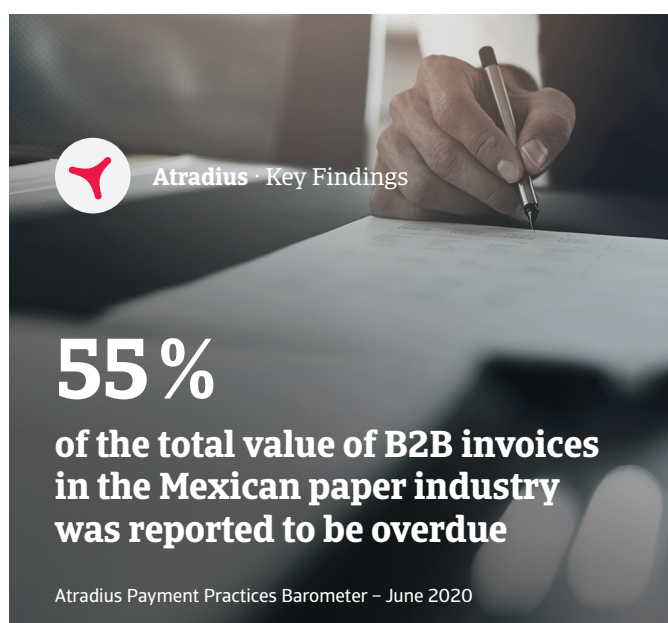
Slightly more respondents (33%) expected customer credit risk to worsen than to improve (29%) over the coming months. Most of the respondents expected this to trigger an upswing in long overdue invoices, which in turn is expected to result in a negative impact on their DSO. In an attempt to minimise the amount of overdue invoices, a sizeable percentage of respondents from the Mexican chemicals industry (33%) said they planned to offer discounts more frequently for early settlement of invoices. On a positive note, three in five respondents believed that sales and profits would improve over the next 12 months.



#### Paper

### One quarter of the total value of invoices in Mexico's paper industry is more than 90 days overdue

Respondents from Mexico's paper industry reported that, on average, 55% of the total value of B2B invoices was overdue. One quarter (25%) was more than 90 days overdue and 8% was written off as uncollectable. According to 45% of survey respondents, late payments from B2B customers are most often attributable to inefficiencies of the banking system. Despite such widespread evidence of overdue invoices, DSO in the paper industry in Mexico is far from the worst in the country averaging about 46 days (compared to a 62-day country average).





## Cash is most often requested form of payment in the Mexican B2B paper industry

To safeguard their liquidity position and ultimately business profitability, the majority of respondents in the Mexican paper industry (82%) reported that they most frequently request payment on cash from their B2B customers, while 67% requested guarantees of payment prior to selling on credit terms. Due to late payments from their B2B customers, 43% of respondents reported that they needed to delay payments to their own suppliers to avoid cash flow issues, while 30% of respondents needed to invest in additional resources to strengthen their internal credit control procedures.

## Customer credit risk expected to remain stable in the Mexican paper industry

Significantly more respondents (46%) expected customer credit risk to remain stable than those expecting a reduction of risk (29%) over the coming months. One quarter of respondents, though, expected this risk to deteriorate, leading to an upswing in long overdue payments and a consequent lengthening of DSO. In response to the anticipated negative trend of B2B customers' payment habits, respondents said they planned to increase the efficiency of their debt collection processes by either increasing their in-house dunning activities (payment reminders) or outsourcing to a specialist agency. Within the frame of their trade credit policy, respondents said they planned to strengthen credit control by reducing concentrations of customer credit risk in their sales ledger.

Most respondents (60%) expressed concern over a perceived need to increase dependence on bank finance caused by late payments leading to growing debt within the industry. However, a sizeable proportion of respondents (45%) said they

expected banks to continue providing credit to businesses. 55% of respondents anticipated an improvement in business performance over the next 12 months..



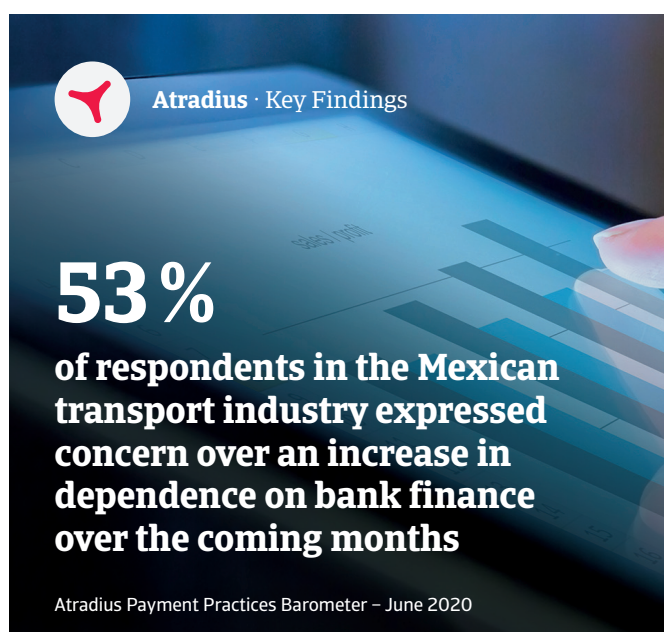
Steel / metals

## Late payment is often used as a form of short-term finance in the steel / metals industry

Survey responses in Mexico's steel/metals industry highlighted that an average of 52% of the total value of B2B invoices was overdue, 16% was more than 90 days overdue and 4% was written off as uncollectable. For nearly 70% of the respondents, B2B customers delayed payments as they used outstanding invoices as a form of short-term finance, while just over half of respondents (53%) reported that B2B late payments were most often due to lack of liquidity. Average DSO in the Mexican steel/metals industry is 45 days (lower than the 62-day country average).

## Majority of Mexican steel / metals industry request payment guarantees

A vast majority of respondents in Mexico's steel/metals industry (74%) requested guarantees of payment from B2B credit customers. Within the frame of their trade credit policy, dunning letters (outstanding invoice reminders) were the next most frequently applied credit management technique (72% of respondents). In order to protect cash flow and business profitability from the risk of payment default, a sizeable proportion of respondents (32%) reported that they needed to outsource debt collection to a specialist agency to alleviate strain on cash flow. Nearly 30% of respondents reported that they often needed to pursue additional financing from external sources (such as banks or factors).



## Customer credit risk expected to have a negative affect DSO over the coming months

Just over half of the respondents in the Mexican steel/metals industry (53%) said they felt the risk of payment default associated with trade credit would not deteriorate. However, 22% of respondents believed they would see an increase in late payments over the coming months and a third of these expected this to have a negative impact on their DSO, adversely affecting their liquidity position. To protect their business from payment defaults, over half of the respondents said they would continue using their usual mix of credit management tools and techniques, while a sizeable percentage of respondents (30%) said they would use credit insurance. The same percentage said they intended to focus on increasing the efficiency of debt collection either in-house or by outsourcing it to a specialist agency.

52% of respondents felt that late payment debts would result in an increase in dependence on bank finance. However, a large consensus (60% of respondents) believed the banks are open to providing more credit to businesses over the coming months. Almost all respondents from the steel/metals industry believed business performance would improve during the coming year.



Transport

## A lack of liquidity causes late payments in the Mexican transport industry

Based on survey findings in the transport industry, an average of 42% of the total value of B2B invoices was overdue. 11% was more than 90 days overdue, and 3% was written off as uncollectable. Three in five respondents reported that B2B customers delayed payments due to lack of liquidity, while for 45% of respondents, late payments were attributable to inefficiencies of the customers' internal payment processes. DSO in the transport industry in Mexico averages 70 days (well above the 62-day country average).

## Most businesses in Mexico's transport industry strengthened internal credit controls

Due to late payments from their B2B customers, just over two in five respondents (41%) from the transport industry in Mexico reported that they needed to strengthen their internal credit control procedures, in addition to investing in resources to chase unpaid invoices. Protection of business profitability from customer credit risk was carried out most frequently through dunning activities (payment reminders) aimed at improving the efficiency of debt collection (80% of respondents). Prior to a B2B sale, however, the vast majority of respondents said they preferred payment in cash, or a guarantee of payment in the form of a letter of credit. Adjustments to payment terms to more closely reflect the credit capacity of the customer, and the use of credit management techniques aimed at avoiding concentrations of credit risk in the sales ledger were also frequently used in the industry.

## Business growth expected by almost all of the Mexican transport sector

Almost all respondents anticipated an improvement in industry business performance over the next 12 months. This positive attitude was further reflected in the widespread opinion (61%) that banks would provide more credit to businesses over the same period.

Despite this, 53% of respondents anticipated an increased dependence on bank finance over the coming months, caused by growing levels of debt due to increasingly long overdue payments. However, fewer respondents expected a deterioration of customer credit risk (22%), than those anticipating an improvement (33%). Should payment defaults increase over the coming months, respondents said they would respond by increasing their dunning activities (payment reminders), and requesting cash payments from their B2B customers more often.



# 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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Email: [infousa@atradius.com](mailto:infousa@atradius.com)

Connect with Atradius on Social Media



**Atradius N.V.**  
David Ricardostraat 1 · 1066 JS Amsterdam  
Postbus 8982 · 1006 JD Amsterdam  
The Netherlands  
Phone: +31 20 553 9111

[info@atradius.com](mailto:info@atradius.com)  
[www.atradius.com](http://www.atradius.com)