Atradius
Managing risk, enabling trade

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Mexico: businesses offer credit to cement business relationships

Atradius Payment Practices Barometer

Karel van Laack
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commented on the report

"Although vaccine programs are being rolled out across the world, we do not yet know how quickly these may bring the virus under control, or how that will affect different markets and sectors.

However, the optimism expressed by the businesses we spoke to in Mexico is good reason for hope."

Compared to most other countries in the region, the Mexican government implemented fewer social distancing or lockdown measures. There has been limited fiscal support for businesses and much of this has been largely conducted at a regional level by some states.

Mexico suffered a steep recession in 2020 with the rapid decline in consumption and investment leading to GDP contracting by 8.7%. Looking ahead, economists estimate a protracted recovery, with GDP not returning to pre-pandemic levels until approximately 2024. That said, GDP is expected to rebound during 2021, increasing by 5.6%.

This downbeat economic picture contrasts with the positive outlook expressed by the majority of businesses interviewed for this year's Atradius Payment Practices Barometer survey. This apparent disparity may in part be explained by the cohort interviewed. Although the steel/metals industry is facing some challenges, agri-food and chemicals/pharma are two of the best performing sectors in Mexico.

A degree of optimism may also be generated by the widespread use of credit insurance. A greater proportion of businesses in Mexico use credit insurance than the country's regional neighbors in the US and Canada. Businesses may feel optimistic looking ahead, confident in the knowledge that their accounts receivable are protected from the risk of payment default. In addition, businesses using credit insurance will benefit from the opportunities it provides to support the exploration of new markets both in terms of minimizing risk and also in sharing valuable market insight and risk analysis of prospects.

Much uncertainty over the coming year remains, stemming from the fact that it is so difficult to predict the future of the pandemic. Although vaccine programs are being rolled out across the world, we do not yet know how quickly these may bring the virus under control or how that will affect different markets and sectors. However, the optimism expressed by the businesses we spoke to in Mexico is good reason for hope.

Key takeaways

Mexico leads USMCA in use of credit insurance

A greater percentage of businesses in Mexico use trade credit insurance than anywhere else in North America. Perhaps unsurprisingly, businesses in Mexico also reported a lower percentage of late payments than any other country in the region. This is likely because in addition to underwriting trading risks, good credit insurers also provide strong credit management support. This may include creditworthiness ratings of prospects, market intelligence, ongoing monitoring of customers financial health and collection support for overdue invoices.

Businesses offer trade credit more often following outbreak of pandemic

Twice as many businesses in Mexico reported an increase in the use of trade credit following the outbreak of the pandemic than those that reported no change (62% compared to 31%). Most businesses that offered credit favored domestic over foreign customers and the majority provided credit in order to strengthen established customer relationships. Offering credit to established customers is a good way of cementing strong relationships. It can help keep trade flowing during periods of poor liquidity, such as the trade interruptions seen during the pandemic, by providing access to short term finance.

4 out of 5 businesses express optimism

More than 80% of businesses told us that they expected to see growth during the second half of 2021. This is substantially more than the proportion of businesses reporting the same in either the US or Canada. Although this level of optimism is higher than economic growth forecasts might predict, it is interesting to note that the country with the highest usage of credit insurance also has the highest levels of optimism. This could be because a majority of businesses feel confident that their cash flow is secure. It may also be because the credit insurance enables trade through enhanced levels of market knowledge and potential customer assessments.

Businesses prioritize DSO

Businesses told us that keeping levels of days sales outstanding (DSO) to a minimum is a primary aim. DSO is a good indicator of how efficient and potentially profitable a company may be. DSO does reflect industry preferences, and an average of 100 days may be normal for one sector and an indication of a poorly operating company in another. However, evidence of rising DSO can be an early warning alarm of a business in distress. In Mexico, 38% of businesses expressed concern about their DSO levels. It will be interesting to see how businesses address this moving forward and whether they succeed in reducing their DSO average.

Survey results for Mexico

Use of trade credit increases following outbreak of the pandemic

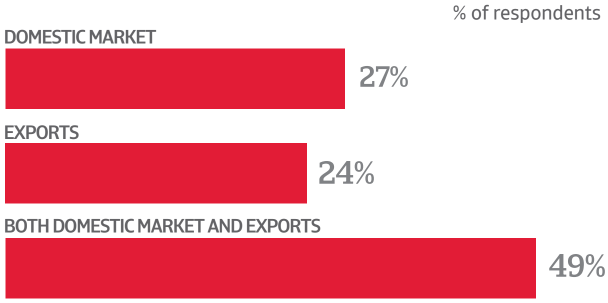
62% of agri-food, chemicals/pharma and steel/metals businesses in Mexico reported an increase in the use of trade credit following the outbreak of the pandemic. This compares to 51% of businesses polled the US and 20% in Canada. 31% of businesses in Mexico reported no change and 7% a decrease. The steel/metals industry offered credit most often, with an average of 57% of the total value of B2B sales. The chemicals/pharma industry ranks a close second at 51%. The agri-food industry follows with an average of 38%. Overall, businesses in Mexico were more likely to offer credit to domestic customers. 60% of credit sales were domestic (most commonly in the agri-food industry at 63%). 40% of credit sales were export sales (highest in the steel/metals industry at 43%).

Key reason for credit sales: to strengthen established trade relationships

53% of businesses reported they offered trade credit to encourage repeat business with established customers (US: 38%, Canada: 55%). 26% offered credit to win news customers (US: 40%, Canada: 23%). Additional reasons cited for offering trade credit included: staying competitive in their markets and allowing customers additional time to pay for the goods or services. However, these latter were reported less often by businesses in Mexico than by their peers in the region.

Mexico: how do you expect your business performance to change over the coming months?

Which key developments will drive your business improvement?



Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - July 2021

48%

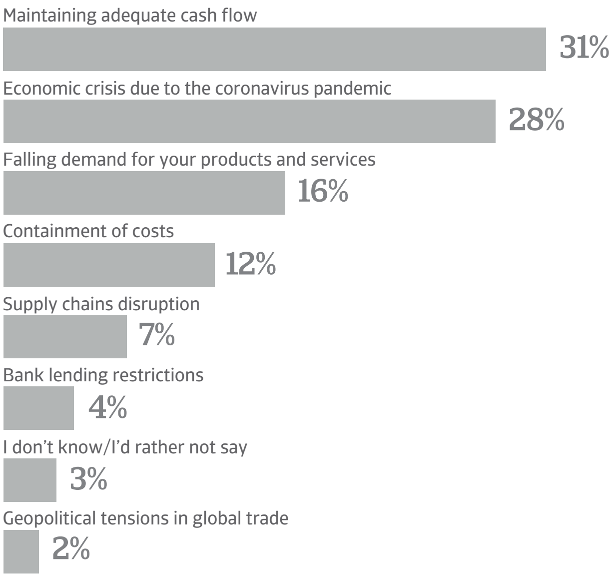
of businesses told us they expect credit sales to become an increasingly widespread business practice over the next 12 months (US: 36%, Canada: 18%). Many told us they expect this to be aimed at stimulating sales within industries where demand plunged due to the pandemic.

Trade credit capital costs increased during the pandemic

52% of the total value of B2B sales in Mexico are sold on credit. In the year following the outbreak of the pandemic, 40% of the businesses reported an increase in the cost of financing or interest paid during the time between the credit sale and payment. (Reported by 37% in the US and 41% in Canada).
This was most often seen with businesses that tried to offset the increase in capital costs through the offer of discounts for early payment. 37% of respondents reported an increase in administrative costs associated with managing accounts receivable (US: 55%, Canada: 48%).

Mexico: top 5 greatest challenges to business profitability in 2021

% of respondents



Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - July 2021

This was most often seen with businesses that rely on internal credit management. Businesses told us that they spent more on gathering credit information for creditworthiness assessments and risk monitoring. They also saw costs increase for the collection of overdue invoices. Of note, 20% reported increased costs for the collection of invoices more than 90 days overdue (US: 30%, Canada: 23%). This was most often seen with businesses that did not employ cost-effective collection solutions, either through internal management or through outsourcing to a collection agency.

Most businesses did not extend longer payment terms

54% of businesses told us that, over the past year, they did not give customers more time to settle invoices (US: 49%, Canada 65%). 40% offered longer payment terms (US: 41%, Canada: 24%) and the remainder reduced their payment terms. Average payment terms per industry are as follows: steel/metals 65 days (US: 46 days, Canada 47 days); chemicals/pharma 51 days (US: industry not surveyed, Canada: 41 days); agri-food 20 days (US: 38, industry not surveyed in Canada).

Most often, payment terms set by businesses in Mexico reflect company standards. This was reported by 61% of respondents (higher than the US: 48%, and Canada: 45%). Although cited less often, the availability and cost of capital needed to finance credit sales also dictate the length of payment terms set by 50% of businesses in Mexico (US: 41%, Canada: 35%). This is consistent with the attention paid by businesses to keeping capital costs under control.

Mexico leads USMCA in use of credit insurance

68% of respondents in Mexico actively employ credit insurance, compared to 53% in the US and 65% in Canada. Perhaps reflecting this, an average of 45% of all B2B invoices issued in Mexico are paid late. This is the lowest percentage in USMCA (US: 50%, Canada: 48%). 5% of long overdue invoices (more than 90 days overdue) were written off. This is in line with the average for Canada and lower than the 8% average for the US.

In addition to credit insurance, businesses also reported managing credit through requesting letters of credit and suspending deliveries until payment of invoices. Despite this, 44% of businesses reported deterioration in customer payment practices over the past year (US: 47%, Canada: 32%). However, the fact that businesses in Mexico appear to be more successful at minimizing the impact of customer credit risk than their peers in the region is likely to be due to different approaches to trade credit risk management.

Liquidity protection is top priority

Concerns about maintaining adequate cash flow over the coming months were expressed by 31% of businesses polled in Mexico, significantly more than the 16% in the US and 19% in Canada. 28% were concerned about the unpredictability of the pandemic (US: 18%, Canada 22%). The potential for a drop in demand for products and services was also cited as a reason for concern, as was possible bank lending restrictions although this was raised by far fewer businesses in Mexico than by their peers in the region. Interestingly, and in line with their peers, at the bottom of the list of concerns is a potential resurgence in geopolitical tensions. This may reflect a belief across the region that geopolitical stability is increasing.

Mexico is most optimistic in USMCA about business performance outlook

81% of respondents are optimistic that the performance of their business will improve over the next 12 months, significantly more than the US (60%) and Canada (36%). 49% believe the improvement in performance will be due to a combination of a rebound in the domestic economy and healthier export flows (US: 39%, Canada: 45%). 27% believe business improvement will be driven solely a rebound of the domestic economy (US: 41%, Canada: 31%), and 24% believe it will come exclusively from increased export flows (US: 18% , Canada: 24%).

Mexico: on average, within what time frame do your B2B customers pay their invoices?

% of respondents

Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - July 2021

Amid these positive expectations for improvement in economic and trade conditions over the coming months, 48% of businesses told us they expect credit sales to become an increasingly widespread business practice over the next 12 months (US: 36%, Canada: 18%). Many told us they expect this to be aimed at stimulating sales within industries where demand plunged due to the pandemic. 36% of businesses believe that trade credit would be used more often as a short-term trade finance tool (US: 32%, Canada: 51%).

Payment guarantees will be preferred future credit risk mitigation tool

Looking ahead to the coming months, many businesses are planning to expand their use of credit management tools and techniques. 38% plan to use payment guarantees more often and 36% plan to ask for cash payments. 31% are increasing their focus on credit insurance and self-insurance, specifically offering discounts for early payment of invoices.

Businesses told us their primary objectives were to lower their number of Days Sales Outstanding (DSO), and to free up the working capital tied up in long overdue receivables. 38% expressed concern about increasing DSO over the coming months (US: 43%, Canada: 34%).

68%

of respondents in Mexico actively employ credit insurance, compared to 53% in the US and 65% in Canada.

Overview of payment practices in Mexico
By industry

AGRI/FOOD

Overview

Following the outbreak of the pandemic domestic agri-food businesses tended to favor cash payments. When selling on credit, they called for prompt payment of invoices, offering discounts to speed up cash inflows. Looking ahead, this focus on liquidity protection and tightening of credit control procedures is set to continue, with many businesses telling us that they expect deterioration in business over the coming months. A significant proportion of the industry plans to use trade credit insurance more often.

Nearly half of all B2B sales in the industry is overdue

49% of the total value of credit sales is overdue, with the majority of customers settling overdue invoices on average two weeks past the due date. 7% of the total value of the industry's credit sales was written off. To minimise the impact of late payments and liquidity shortages, 46% of respondents told us they delayed paying suppliers. 30% reported suspending deliveries until invoices were settled, and dedicated additional time and resources to managing trade credit risk internally. 46% reported no change in DSO over the past year. However, 33% experienced an increase, leading to the current 123-day DSO average, and tallies with the widespread concern expressed by businesses about maintaining adequate cash flow levels over the coming months.

Trade credit insurance is preferred credit management tool

68% of the Mexican agri-food industry employ trade credit insurance. Although the preferred credit management tool, a similar percentage mitigates customer credit risk through factoring or offering discounts for early payment of invoices. Many businesses also reported internal management of trade debt collection activities. Looking ahead, agri-food businesses are most concerned about maintaining adequate cash flow and pandemic uncertainties. This may explain why far more businesses in the industry expect DSO to deteriorate (58%) than to improve (25%) over the coming months. Despite this, business confidence appears to be positive with 83% of industry respondents anticipating improvement in performance, mainly driven by healthier domestic economic conditions. Against this background, the majority (63%) anticipates credit sales to become more widespread over the coming months, mainly to boost demand.

CHEMICALS/PHARMA

Overview

More than 80% of chemicals businesses in Mexico are small or medium sized, and the main funding vehicles in the industry are supply chains. The sector has experienced a variable 12 months, with suppliers to the automotive, construction or textile sectors more severely affected by the economic downturn than those supplying food or healthcare markets. Pharma businesses, in particular, have benefited from higher demand during the pandemic, and the industry is expected to grow by about 3% this year. Half of the industry's output is sold on credit and the sector enjoys widespread use of credit insurance, not least as businesses try to address the impact of the pandemic through strategic credit management.

Payment practices deteriorated over the past year

49% of the businesses polled in the chemicals/pharma industry told us that customer payment practices deteriorated over the past year. Only 7% reported improvement and the remainder, no change. Late payments affect an average of 45% of the total value of B2B credit sales in the industry. Overdue invoices are settled two weeks late on average. 3% of the total value of the industry's credit sales was written off. To reduce the impact of late payments on the business, a significant number of respondents (35%) told us they spent more time, costs and resources on chasing unpaid invoices.

To avoid liquidity shortfalls, businesses delayed paying suppliers and suspended deliveries until payment receipt. Of note, 42% of the businesses polled in the industry reported marked annual DSO increases, up to a 115-day average (twice as long as the average payment term in the industry). This was chiefly due to increased credit sales coupled with significantly longer delays in collecting long-outstanding invoices of high value.

This may also be why a significant number of industry respondents reported increased capital costs over the past year (i.e. financing or interest costs incurred in the period before the invoice is paid). Respondents additionally cited increased costs in accessing credit information credit quality assessment and monitoring.

DSO expected to hold steady due to use of credit insurance

44% of chemicals/pharma anticipates no change in DSO over the coming months. This is likely due to the widespread use of trade credit insurance seen in the sector. However, industry respondents did express concern about the pandemic, and its potential impact on the domestic economy over the coming months.
This may explain why businesses in the industry told us that growth is likely to come from a combination of stronger exports and more benign conditions within the domestic economy. Many chemicals/pharma businesses plan to continue offering trade credit in order to stimulate demand and to provide customers with access to short-term trade financing.

STEEL/METALS

Overview

Decreased demand from key buyer sec¬tors, alongside supply chain disruptions due to the economic downturn, severely impacted the Mexican steel/metals industry last year. This led to increased late payments in the second half of 2020. This year, a slight industry rebound, chiefly triggered by rising demand for metals from China and global demand for batteries for electric cars, contributed to soften insolvency rates. Although major uncertainty and challenges remain, many industry respondents share a positive view of 2021. Here credit sales will offer many opportunities to stimulate demand and offer short-term finance relief to financially distressed companies. However, businesses will need to safeguard their liquidity position through strategic credit management, an area the industry appears adept at.

Trade credit insurance is leading credit management tool in the industry

66% of the steels/metal industry uses trade credit insurance to minimise credit risk and to help support trade growth. 55% told us that they could effectively cushion the impact of DSO shifts on their business over the past year. The 96–day average DSO suggests a fairly strong invoice-to-cash turnaround alongside the 65-day average payment terms. This also indicates high efficiency in the collection of high-value overdue invoices, and a positive impact on the liquidity position of the business.

44% of all B2B credit sales are overdue and are settled on average within 17 days past the due date. 5% of the total value of receivables was written off. 46% of industry respondents told us that their customers' payment practices deteriorated over the past year. Only 8% reported improvement and the remainder, no change. To minimize the impact of customer credit risk on the business, nearly 40% of industry respondents reported spending more resources and time chasing overdue invoices and 32% on tightening credit management processes.

Businesses worry about maintaining adequate cash flow over the coming months

Looking ahead, the majority of businesses in the steel/metals industry told us that their top concern is maintaining adequate cash flow levels. Despite concern about the downturn in both the domestic and global economy and potential drop in demand for their products and services, 82% of respondents expressed confidence that their business performance would improve over the coming months. The majority (51%) believe that growth is likely to stem from both a rebound of the domestic economy and increased exports. Just 27% anticipates improvement will come solely from stronger demand from foreign customers. Even fewer (22%) anticipates improvement driven by a rebound in the domestic economy. Against this backdrop, 49% of Mexican steel/metals businesses told us they believe credit sales will be used more often to stimulate demand. 39% maintain credit will be used to provide short-term trade finance for customers experiencing financial distress.

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 2021 edition of the Atradius Payment Practices Barometer, companies from Canada, Mexico and the US 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 Canada, Mexico and the US 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 (n=200 people per country). In each country a quota was maintained according to four classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: Q2 2021.

Sample overview – Total interviews = 600

Economy	Interviews	%
USA	200	33,3
Canada	200	33,3
Mexico	200	33,3
TOTAL USMCA	600	100,0

Business sector	Interviews	%
Manufacturing	275	45,8
Wholesale trade/Distribution/Retail	196	32,7
Services	129	21,5
TOTAL USMCA	600	100,0

Business size		
Micro enterprises	51	8,5
SME (Small enterprises)	253	42,2
SME (Medium enterprises)	244	40,7
Large enterprises	52	8,7
TOTAL USMCA	600	100,0

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 July 2021 Payment Practices Barometer of Atradius, available at
https://atradius.com.mx/informes/
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