Atradius
Managing risk, enabling trade

July 2021

US: trade credit used in a bid to attract customers amid economic distress

Atradius Payment Practices Barometer

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commented on the report

> *An uptick in insolvencies is predicted as governments around the world roll-back Covid-19 business support and protection.*
>
> *Businesses should take steps to protect their accounts receivables from rising payment default risks.*

With the global pandemic, the first recession since 2009, a presidential election and a 3.5% economic contraction, last year presented significant challenges and uncertainty for businesses throughout the United States. However, with a new president now in office and fiscal stimulus Covid-19 relief packages rolled out, the first half of 2021 has represented a period of greater calm for businesses. In 2021, GDP is forecast to grow by 4.2% with exports rising as much as 5.1%. Although, much of this optimism hinges on the assumption that another major wave of Covid-19 infections can be avoided and lockdowns lifted.

In many ways, this story can be seen in the results of the Payment Practice Barometer. Possibly in response to the economic stressors of the pandemic, businesses adopted a more proactive approach to new business development. US businesses are offering substantially more trade credit to potential customers than their peers in the USMCA region. They have also faced more late payments and write-offs than businesses in Mexico and Canada. This may be a result of a more liberal use of trade credit and the economic turbulence of the Covid-19 recession.

However, the majority of the businesses we polled also expressed optimism about business performance and growth over the coming months. Two-fifths expect this to be driven by a rebound in the domestic economy. That said, just 26% of the businesses we spoke with told us they plan to use trade credit insurance this year, a lower percentage than both Mexico and Canada. With an uptick in insolvencies predicted as governments roll-back Covid-19 business support and protections, businesses should take steps to protect their accounts receivable from the heightened risk of payment default.

Businesses that do plan to employ trade credit insurance (with Atradius) will benefit from outsourcing the risk of non-payment and will enjoy access to professional debt collection services. Their credit insurance policies offer high quality underwriting, knowledge on businesses and markets throughout the world and professional credit checks on customers to help enhance their own due diligence and customer relationships.

Key takeaways

Relying on internal B2B trade debt management resources can be costly

Retaining customer credit risk, also known as self-insurance, essentially means a business is prepared to take the hit if a customer fails to pay. The level of risk a business faces with this approach will vary with the proportion of accounts receivables tied to a single customer (the higher the concentration of invoices with one buyer the higher the risk of failure of your business if that customer enters insolvency) and how deep their own bad debt reserves are. Businesses with high liquidity levels may be able to absorb large amounts of bad debt. Perhaps the most important question is where the tipping point lies between a business being able to cope with a write-off or finding that their liquidity levels have been compromised to the point where they are no longer able to pay their own creditors.

Strategic credit management optimizes B2B trade debt costs

The longer an invoice remains unpaid, the more it costs to collect it as increased time and resources are devoted to chasing the debt. This could be seen in the survey results where 55% of businesses in the US reported increased administrative costs associated with managing trade credit accounts. Increased debt management costs were seen more frequently among business that chose to manage credit risks in-house, compared to businesses that outsourced to specialists. This can be partly explained by the fact that some credit insurers, including Atradius, provide professional debt collection services as part of the credit insurance policy (thus incurring no additional cost for businesses).

Use of credit insurance to strategically manage credit on the rise this year

A quarter of the businesses polled in the US intend to use trade credit insurance during the coming months. In addition to offering peace of mind that their accounts receivables are safe in the event of a bad debt, these businesses will also benefit from the market intelligence and business insight of their insurer's underwriters.

This can enhance the businesses understanding of their markets and their customers and may give them the information and security they need to explore new markets or develop relationships with new customers.

Trading on credit important for business growth for many B2B companies

40% of the businesses we spoke to in the US told us they offered trade credit to win new customers. This is significantly more than their neighbors to the north and south of their borders. Trade credit can certainly help motivate trade for many businesses.

Particularly during times of economic stress, which many businesses have experienced during the pandemic, trade credit can act as an informal source of short-term finance. Businesses that offer trade credit also often develop stronger relationships with customers as they usually engage in more communication. For example, this may include additional negotiations concerning the amount of credit and length of credit terms, as well as credit checks.

Survey results for the US

Credit sales increased in the months following the outbreak of the pandemic

51% of the businesses polled in the US reported an increase (37% no change and 12% a decrease) in the use of trade credit in the months following the outbreak of the pandemic. In the USMCA region, this compared to 62% of respondents in Mexico and 20% in Canada.

The focus industries in the US were agri-food, ICT/electronics and steel/metals. Based on survey findings, ICT/electronics businesses offered credit most often. On average, 54% of the total value of their B2B sales were on credit. The US steel/metals industry ranks a close second at 53% (same as in Canada, 57% in Mexico). The agri-food industry follows with an average of 47% of the total value of B2B sales on credit in the US (38% average for Mexico agri-foods industry, agri-foods industry was not surveyed in Canada). Overall, US businesses were more inclined to offer credit to domestic customers. 60% of domestic sales were on credit while only 40% were on exports (highest in the agri-food industry at 67%).

In the US ICT/industry 58% of domestic B2B sales of products and services were sold on credit, whereas 42% were on export.

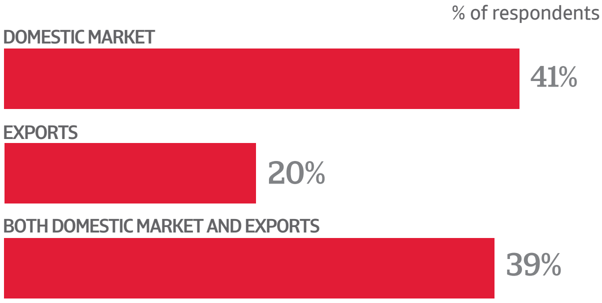
US: how do you expect your business performance to change over the coming months?

IMPROVE
60%

NO CHANGE
31%

DETERIORATE
9%

Which key developments will drive your business improvement?



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

47%

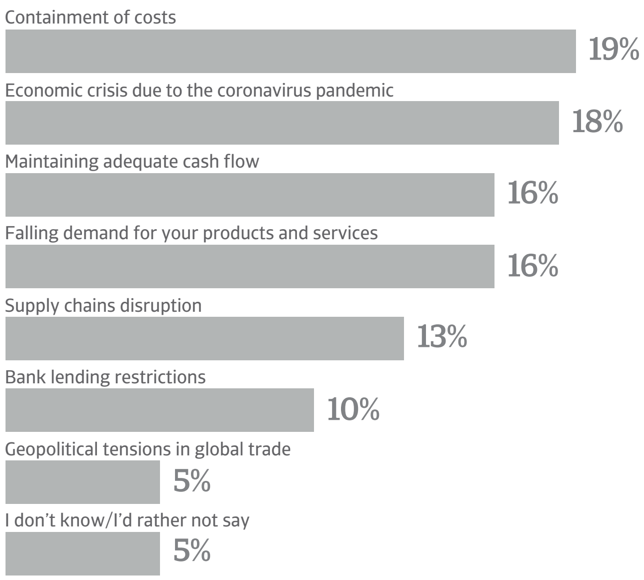
of the survey respondents in the US reported deterioration in payment practices of B2B customers over the past year.

Trade credit chiefly used to win new customers during the pandemic

40% of businesses polled in the US reported they extended trade credit to win new customers (Mexico 26%, Canada 23%). Additional reasons for offering trade credit cited by US respondents include: encouraging repeat business with established customers, staying competitive in their markets, and allowing customers time to pay for the goods and services purchased on credit (for example, if they are awaiting payment from their buyers, need to sell goods on, or to obtain bank finance). However, these reasons for offering credit were reported far less frequently by businesses in the US than by their peers in the region. Further insight into respective response rates for Canada and Mexico can be found in the respective country Payment Practices Barometer survey reports.

US: top 5 greatest challenges to business profitability in 2021

% of respondents



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

The cost of managing debt increased during the pandemic

Survey data highlights that, in the year following the outbreak of the pandemic, more businesses in the US (55%) than in Canada (48%) and Mexico (37%) reported an increase in administrative costs associated with managing accounts receivable. This was most often seen with businesses that self-insure credit risk. Businesses also cited an increase in the cost of acquiring credit information (most often through the customers' financial statements and bank references), and evaluating customer credit risk based on internal information provided by the customer. Fewer US respondents (37%) reported increased financing or interest costs during the time between the credit sale and payment for the purchase than respondents in Canada and Mexico (average response rate 40%). Increased costs to collect overdue invoices were reported by survey respondents in the US almost as often as by their peers in the region (average response rate: 37%). Interestingly, increased costs for the collection of trade debts more than 90 days overdue were reported by far more businesses in the US (30%) than in Canada (23%) and Mexico (20%). In the US, this was most often the case for businesses that do not outsource the collection of long overdue invoices to a collections company. With 52% of the total value of B2B sales of the industries surveyed in the US transacted on credit, costs associated with the provision of trade credit need to be carefully managed. If this is not done, costs could easily jeopardise the profitability of the business, especially if profit margins are tight.

US businesses relaxed average payment terms over the past year

41% of businesses polled in the US offered customers more time to settle invoices over the past year (compared to 40% in Mexico and 24% in Canada). Payment terms in the US ICT/electronics industry average 47 days, and in the agri-food industry 38 days from invoicing. This compares to 20 days for agri-food in Mexico, (data not available for Canada). In contrast, the average 46-day payments term in the US steel/metals industry compares to a 47-day average and 65-day average in the same industry in Canada and Mexico respectively. Most often, payment terms set by US businesses reflect company standards. This was reported by 48% of survey respondents in the US compared to 45% in Canada and 61% in Mexico. Although reported less often, both the credit capacity of the customer and the payment terms received by their own suppliers dictate payment terms set by many US businesses. Trade credit insurance was also mentioned by many businesses as an important factor influencing credit terms. 30% of businesses in the US told us that credit insurance cover enabled them to offer more competitive payment terms to customers, as the insurance offers protection against losses if the customer does not pay. In Mexico this was cited by 27% of businesses and in Canada, 19%.

US grappling with more late payments and write-offs than regional peers

More respondents in the US (47%) than in Mexico (44%) and Canada (32%) reported deterioration in customer payment practices over the past year. An average of 50% of all B2B invoices issued in the US are paid late (compared to 48% in Canada and 45% in Mexico). 8% of long overdue invoices (more than 90 days overdue) were written off by US businesses. This is higher than the 5% average for both Canada and Mexico.

The fact that businesses in the US faced greater customer credit risk and were harder hit by late and non-payment of invoices than their peers in the region may reflect different approaches to trade credit risk management taken by US businesses compared to their peers across the region. These include more frequently withholding payment to suppliers to minimise liquidity issues, delaying investment in resources for business growth in order to contain costs, and requesting bank overdraft extensions more often. Further detail can be found in the overview by industry section below.

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

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

Spiraling cost of managing trade debt is main threat to profitability

Although containing credit management costs represents the top concern of businesses polled in the US (19% of respondents), it was the top concern to even more respondents in Canada (24%) (Mexico 12%). In addition, 18% of respondents in the US, compared to 22% in Canada and 28% in Mexico cited concerns about the unpredictability of the pandemic over the coming months.

These top the list of factors which US businesses believe could adversely impact their profitability. Other factors mentioned that could negatively impact business profitability include: a potential fall in demand for products and services and maintaining adequate cash flow (this was the greatest concern for businesses in Mexico). Of note, ongoing supply chain disruptions affecting international trade were reported as a concern for US businesses, more than for their peers in the region.

The potential for bank lending restrictions to limit access to liquidity financing was also only cited by a small proportion of the businesses we surveyed, although compared to the region, this was listed more often by businesses in the US. Interestingly, a potential resurgence in geopolitical tensions affecting international trade is at the bottom of the list of US business concerns. The same is true for respondents in Canada and Mexico and may reflect a belief across the region that geopolitical stability is increasing.

US businesses confident about outlook for their business performance over the coming months

60% of US businesses are optimistic that the performance of their business will improve over the next 12 months (regional averages: 81% Mexico, 36% Canada). 41% of US businesses believe the improvement in performance will be mainly due to a rebound of the domestic economy (Mexico 27%, Canada 31%).

In contrast, 39% anticipate the improvement will come from a combination of a rebound in the domestic economy and healthier export flows (Mexico 48%, Canada 45%). 20% of US respondents anticipate improvement in their business performance will come exclusively from increased export flows (24% in both Mexico and Canada).

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

A quarter of US businesses plan to use trade credit insurance over the coming months

US businesses told us they are concerned that a potential fall in demand for products and services could impact their profitability over the coming months, and that they intend to counteract this with a more liberal trade credit policy.

Therefore, it comes as no surprise that the businesses polled placed emphasis on more frequent use of trade credit risk mitigating tools over the coming months. More than a quarter of US respondents (26%) told us they plan to use trade credit insurance (although this is lower than Mexico 31% and Canada 36%). However more than half of the businesses polled in the US (51%) told us they plan to retain and manage trade credit risk internally through self-insurance more often over the coming months (Mexico 31%, Canada 41%). 35% said they will reduce reliance on single large buyers to avoid trade credit risk concentrations in their sales ledgers (Mexico 21%, Canada 31%). 35% also told us that they plan on outsourcing trade debt collection to a collections company over the coming months (Mexico 27%, Canada 24%).

Despite these differing approaches to credit management, US businesses share a common target with their regional peers of keeping Days Sales Outstanding (DSO) under control over the coming months. In particular, more businesses polled in the US (43%) than in Mexico (38%) and Canada (34%) expressed concern about the potential for DSO to trend upward over the coming months.

30%

of businesses in the US told us that credit insurance cover enabled them to offer more competitive payment terms to domestic and foreign B2B customers.

Overview of payment practices in US
By industry

AGRI/FOOD

Overview

Over the past year, the US agri-food industry sold nearly half of its output on credit terms, mainly on the domestic market, offsetting declining demand for core commodities (e.g. corn, wheat and livestock) coming from foreign markets.

The majority of businesses reported that the increased use of trade credit in B2B transactions was chiefly to encourage repeat business with established customers. However, the adoption of a more liberal trade credit policy to stimulate demand also led to increased costs related to managing trade debts. This was particularly true in relation to the collection of long overdue invoices, which in turn adversely impacted DSO in the industry. To safeguard their liquidity levels, many businesses reported delaying payments to suppliers.

This carries the risk of a knock-on effect throughout the industry's supply chain. With a much wider use of trade credit, tightening credit control procedures should be a focus area for the industry over the coming months.

Industry DSO longer than last year due to less effective trade debt collection

43% 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. 10% of the total value of the industry's credit sales was written off.

To minimize the impact of late payments on the business, most survey respondents (63%) told us they declined trade credit requests from new customers as their poor credit quality could have increased financial risk, while half of the respondents told us that they pursued additional financing from external sources and tightened their internal credit control procedures. 40% of respondents in the US agri-food industry reported an increase in DSO over the past year.

The average is now 54-days. In addition to reflecting less success collecting overdue invoices, the year-on-year rise in DSO reflects the significant reduction in cash flow reported by the industry.

More than half of US agri-food businesses use trade credit insurance

53% of businesses in the US agri-food industry use trade credit insurance to help mitigate credit risks and manage customer credit risk assessments. In addition, nearly 80% also reported managing trade credit risks internally through self-insurance, choosing to take the hit if a customer fails to pay. Interestingly, this is the most commonly used credit management technique in the US agri-food industry. In addition to this, the most commonly used credit management techniques in the industry are adjusting payment terms to reflect credit risk profiles and offering discounts for early payment of invoices.
Looking ahead, businesses in the industry are most concerned about a potential fall in demand for their products and services, containing trade receivables management costs and uncertainties about the continuation of the pandemic over the coming months.
This may explain why far more businesses in the industry expect DSO to deteriorate (48%) than to improve (27%) over the coming months. Despite this, business confidence in the industry appears to be positive with a 60% majority of sector respondents anticipating improvement in business performance over the coming months, driven mainly by healthier domestic economic conditions.

SURVEY RESULTS
SURVEY DESIGN
STATISTICAL APPENDIX

ICT/ELECTRONICS

Overview

The ICT/electronics industry is complex and highly diversified, with deeply intertwined supply chains at the worldwide level. Measures to contain the pandemic and its effects, which have significantly affected all aspects of society and accelerated digital transformations, have profoundly impacted the performance of businesses operating in the industry across the world. In the US, ICT/electronics businesses told us they increased their use of trade credit in B2B transactions with 58% of domestic sales made on credit. The survey findings also reveal evidence of more liberal trade credit policies with more relaxed payment terms offered to B2B customers.

Most businesses said that the length of their payment terms depended on the availability and cost of capital needed to finance credit sales, as well as on the availability of credit insurance cover. The strong focus on strategic credit management and protection of business liquidity levels emerges as a focus area for US ICT/electronics businesses, which have attempted to address pandemic-related uncertainty through cost cutting measures and by drawing down on lines of credit.

Credit control processes have tightened over the past year

An average 52% of the total value of B2B credit sales in the US ICT/electronics industry was reported overdue and 7% was written off. Due to the deterioration of customers' payment practices over the past year, a significant number of respondents (40%) told us they spent more time, costs and resources on chasing unpaid invoices and tightening credit control processes. This was chiefly undertaken within the frame of internal retention and management of trade credit risk.

To avoid liquidity shortages, survey respondents told us they delayed paying suppliers and requested overdraft extensions. Interestingly, nearly half of the survey respondents reported marked annual DSO increases, up to a 140-day average (twice as long as the average payment terms).

This was caused by significantly longer delays in collecting long outstanding invoices of high value, compared to last year. This may explain why a large number of survey respondents reported increased capital costs over the past year (i.e. financing or interest costs paid from the time sale date till the invoice is payed), along with increased costs in acquiring credit information to assess credit quality and monitor trade credit risks.

Concern about DSO rising is greatest concern for the industry in the US

In light of the significant increases in DSO, it is no surprise that nearly half of the sector respondents listed potential increases in DSO as one of their main concerns over the coming months. Survey respondents told us that they plan to offset this risk by requesting payment guarantees from their customers. Ongoing supply chain disruptions impacting international trade were also cited as major reasons for concern by a significant number of respondents. This may explain why businesses in the industry do not anticipate improvements in business performance (sales and profits) to come from exports over the coming months. Most believe that trade opportunities will arise chiefly from the domestic market, where many ICT/electronics 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

Last year, both payment delays and insolvencies increased in the US steel/metals industry. This put additional stress on a sector already experiencing weak performance due to declining revenues, and increasing pressure on profits caused by delays and cancellations of large capital expenditure projects. Although metal prices have started to increase again since Q2 of last year, and production has improved with demand in the automotive sector, major uncertainty remains, making this year a challenge for the industry.

Low efficiency when collecting high-value overdue invoices

53% of all B2B credit sales in the US steel/metals industry are overdue and are settled on average 35 days late. 6% of the total value of receivables was written off as uncollectable. 30% of industry respondents told us that their customers' payment practices deteriorated over the past year.

To protect their businesses from liquidity shortfalls, the majority of respondents reported delaying payments to suppliers, spending more resources and time chasing overdue invoices (40% of respondents each) and postponing investment in expanding the operation and capacity of the business (38%). Not surprisingly, managing trade debts internally, by self-insurance, resulted in a significant increase in administrative costs (as reported by 47% of respondents). These were skewed further upwards by the cost of managing the collection of overdue invoices internally using dedicated staff (51%) or by outsourcing to a collections agencies (57%).

This emphasis on collection efforts shown by respondents in the US steel/metals industry helped a significant number of respondents keep DSO under control over the past year. However, the nearly 140–day average DSO recorded in the industry points to a significantly longer invoice-to-cash turnaround than the 45-day average payment terms given to customers to pay invoices. This indicates low efficiency in collection of high-value overdue invoices, negatively impacting the liquidity position of the business.

Businesses worry about unsuccessful cost containment over the coming months

Looking ahead, the majority of businesses in the US steel/metals industry told us that their top concern is keeping trade debt management costs under control over the coming months. This is likely in response to the increase in administrative costs for trade debt management reported. Amid uncertainties about the pandemic outlook worldwide, and concern about the impact of ongoing supply chain disruptions on international trade, US steel/metals businesses are also worried about a drop in demand for their products and services. Additionally, respondents cited concerns about potential restrictions to bank lending that could negatively impact access to external financing and liquidity during these challenging economic times.

Despite this deep-seated pessimism, half the businesses surveyed expressed confidence that the performance (sales and profits) of their business would improve over the coming months. Most of the respondents (nearly 50%) believe that growth is likely to stem from both a rebound of the domestic economy and increased exports.

Fewer respondents (20%) anticipated improvement to come solely from stronger demand from foreign markets, and 31% expected that this would come mainly from a rebound in the domestic economy. Against this backdrop, nearly 40% of US steel/metals businesses expressed the opinion that trading on credit will become more widespread over the coming months primarily as a short-term trade finance tool 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
www.atradius.us/publications
Download in PDF format (English only).

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