Atradius
Managing risk, enabling trade

Atradius Payment Practices Barometer 2023

Key trends for B2B payments and cash flow

Canada

Credit sales plummeted amid higher credit risk in B2B trade

About the Atradius Payment Practices Barometer

The Atradius Payment Practices Barometer is an annual survey of business-to-business (B2B) payment practices in markets across the world.

Our survey provides us with the opportunity to hear directly from companies polled about how they are coping with the impact of the current challenging economic and trading environment on payment behaviour of their B2B customers. This can give valuable insights into how businesses are paid by their B2B customers, and how they tackle the pain points caused by poor payment practices.

The findings about what measures are undertaken to fund a sudden need for cash, and what credit management tools they use to mitigate the risk of long-term cash flow problems, may also be valuable information in helping understand how companies respond to the crucial issue of late or non-payment in the current uncertain times.

However, the survey also has a strong focus on the challenges and risks that companies polled believe they will encounter during the coming months, and their expectations for future business growth.

The results of our survey can supply useful insights into the current dynamics of corporate payment behaviour in B2B trade, and identify emerging trends that may shape its future. This can be extremely useful to companies doing business, or planning to do so, in the markets polled.

In this report, you will find the survey results for Canada. Sector focus: chemicals, construction and consumer durables.

The survey was conducted between the end of Q2 and the beginning of Q3 2023, and findings should therefore be viewed with this in mind.

In this report

Disclaimer

B2B payment trends and cash flow

Credit sales plummeted amid higher credit risk in B2B trade

B2B sales on credit showed a sharp downturn in the past 12 months among companies polled in Canada. These now average just 32% of all B2B sales, with by far the largest proportion of sales to B2B customers transacted on a cash basis, mitigating the risk of payment default. This downward trend in B2B trade on credit was particularly evident in the Canadian chemicals sector. In contrast, payment terms extended to B2B customers by Canadian businesses remained almost stable, standing at an average 38 days from invoicing. The length of payment terms was influenced mostly by the availability and cost of capital to finance credit sales, along with payment terms received from suppliers.

The marked decline in credit-based sales reflected our survey finding of a significant deterioration in customer credit risk for companies in Canada during the past 12 months. Late payments surged by an average 30% compared to the previous year, with many businesses in the construction sector experiencing delays of more than one month in collecting payment on overdue invoices. There was also a notable increase recorded in the level of bad debts, now standing at an average 7% of all B2B invoiced sales, up from 5% last year. Invoice disputes emerged as a common reason for late payments, especially in the chemicals sector. However, a more significant issue arose from liquidity issues triggered by inflationary surges, which put a strain on the cash flow of numerous companies, resulting in an overall rise in customer credit risk.

This clear deterioration of customer credit risk in Canada exerted considerable pressure on companies, prompting a range of measures to protect their financial stability. A key element was strengthening their credit control process and increasing credit risk monitoring, a strategy complemented by dedicating more time and resources to resolving unpaid invoices. Another interesting move by companies polled in Canada, as they tried to alleviate liquidity concerns, was to prioritise trade credit requests rather than bank loans to obtain short-term finance. This amid tightening credit conditions weighing on borrowing costs.

Our survey found that retaining and managing customer credit risk in-house continues to be the preferred option for the majority of Canadian companies, particularly in the chemicals sector. This approach involves setting aside funds to cover potential losses, but can leave businesses vulnerable to the impact of a big hit payment default which could threaten financial stability. 72% of businesses polled in Canada acknowledged the possible downsides of this in-house approach, which may explain why many companies chose to complement the policy with credit insurance and factoring as part of a varied and comprehensive credit risk management strategy.

Key figures and charts on the following pages

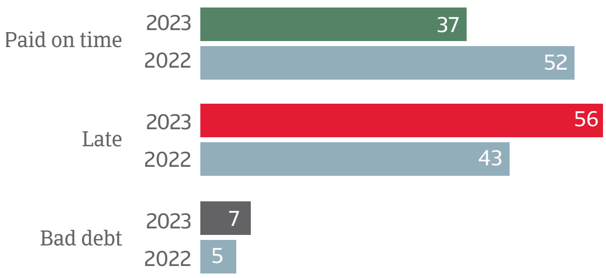
Key survey findings

- Sales transacted on credit showed a sharp downturn among companies polled in Canada during the past 12 months, particularly in the chemicals sector. These now average just 32% of all B2B sales, with the majority of sales made on a cash basis, mitigating the risk of delay or non-payment from customers.
- Canadian businesses maintained relatively stable payment terms during the past year. They stand at an average 38 days from invoicing, two days longer than a year ago. The construction sector bucked the trend with far more lenient payment terms.
- Length of payment terms was guided by two main factors for companies polled in Canada. The availability and cost of capital to finance credit sales was a key consideration, along with payment terms received from suppliers.
- There was a significant deterioration of customer credit risk, with late payments increasing by an average 30% during the past year. A sharp rise in bad debts was also reported by Canadian businesses, now at an average 7% of all B2B sales, up from 5%.
- This placed a severe strain on business finance, and companies polled in Canada took several steps to mitigate credit risk. Stronger credit control processes were complemented by a strategy of trade credit requests to obtain short-term finance.
- In-house retention and management of customer credit risk was preferred by the majority of companies polled in Canada, particularly in the chemicals sector. But many businesses said they also resorted to credit insurance and factoring.

Canada

Canada

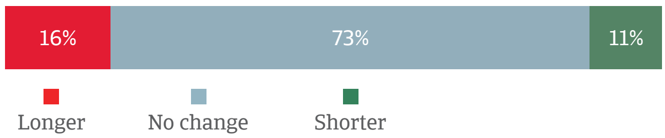
% of the total value of B2B invoices paid on time, overdue and bad debt (2023/2022)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer Canada – 2023

Canada

% of respondents reporting changes in payment duration* over the past 12 months



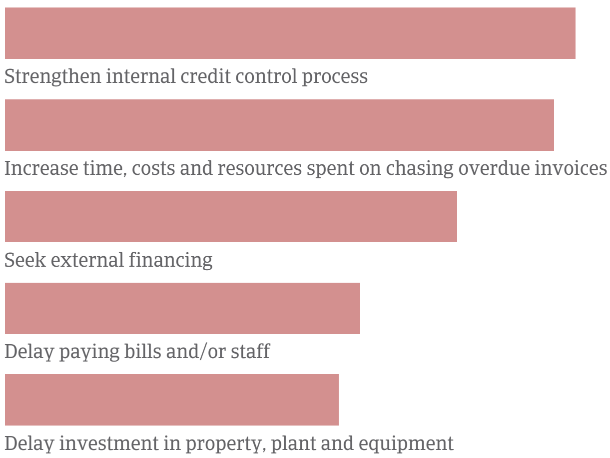
*average amount of time to get paid from B2B customers

Sample: all survey respondents
Source: Atradius Payment Practices Barometer Canada – 2023

Canada

Measures put in place to minimise cash flow problems due to payment default of B2B customers

(% of respondents - multiple response question)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer Canada – 2023

Survey question

What are the main sources of financing that your company used during the past 12 months?

- 64% Trade credit
- 54% Equity capital
- 42% Debt securities issued
- 34% Internal funds

*multiple response question

Sample: all survey respondents (% of respondents)
Source: Atradius Payment Practices Barometer Canada – 2023

Looking ahead

Businesses diverge on outlook as many challenges lie ahead

The key concern for the year ahead among companies polled across all sectors in Canada is that volatility of commodity prices could seriously affect their businesses operation and financial health. Anxiety was widely expressed about potential fluctuations in these crucial prices which are subject to factors such as geopolitical tensions and global economic trends. A further worry was also reported about the persistent impact of the inflationary pressure, and of its repercussions on labour and production costs, which can be difficult to pass on to consumers in the form of higher prices. Uncertainty about interest rate fluctuations also weighs heavily, with concern about increased borrowing costs that could squeeze profit margins.

Amid these expected challenges, there is still a sense of optimism among businesses polled in Canada. 72% of companies told us they anticipate an upswing in demand and therefore sales during the coming months. However, there were variations across different sectors, with consumer durables companies having a more neutral outlook. Businesses in the chemicals sector appear more pessimistic about the prospects for profitability in the year ahead, anticipating no change or a worsening of profit margins amid the prevailing economic uncertainties.

Our survey found a diverse mood on the outlook for Days Sales Outstanding (DSO) during the coming 12 months. 60% of companies polled in Canada said they anticipate no change, while 30% of businesses, particularly in the consumer durables sector, expect faster overdue payment collections and thus improved financial health in the year ahead. The rest believe there will be a worsening trend of DSO. Similarly mixed feelings were expressed about the prospects for B2B payment behaviour, with 55% of companies polled anticipating no change. 36% of businesses told us they expect improvement, while a minority foresee a deterioration in payment behaviour.

The approach to credit risk management in the year ahead among companies polled in Canada appears to be one of tailoring procedures and practices to suit their specific needs. For example, 55% of businesses polled said they would continue to pursue a policy of complementing in-house retention and management of customer credit risk with outsourcing to a credit insurer. Companies in the consumer durables sector, where liquidity concerns for companies may arise due to shorter payment cycles and credit risk can be more uncertain, told us they would increasingly consider taking out credit insurance in the months ahead.

Key figures and charts on the following pages

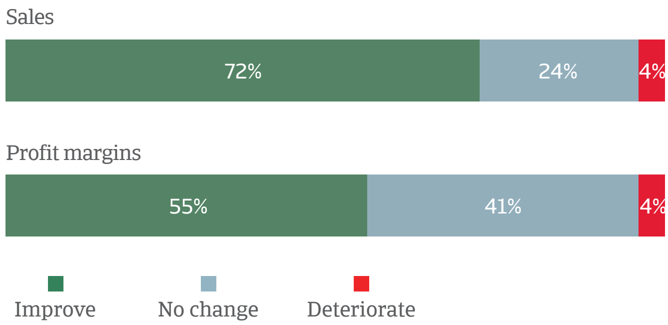
Key survey findings

- Companies across all industries and sectors polled in Canada said the volatility of commodity prices is their primary concern for the year ahead. Strong anxiety was expressed that wildly fluctuating prices could have a significant negative effect.
- Uncertainty about interest rates hikes was another worry reported by Canadian companies. There is concern about the persistent impact on borrowing costs in the months ahead, which could place severe financial strain on businesses.
- Despite these worries, there was some degree of optimism for the months ahead. 72% of companies polled expect an increase in demand and sales, although the consumer durables sector had a neutral outlook. The outlook for profit margins appears to be more pessimistic.
- 60% of companies polled in Canada said they expect no change in Days Sales Outstanding (DSO) during the year ahead. Another 30% anticipate an improvement, and therefore quicker invoice to cash turnaround, while the rest believe DSO will worsen.
- Our survey found a similarly measured prospect about future B2B payment behaviour. 55% of businesses polled anticipate no change during the next 12 months. 36% expect an improvement, and a small minority forecast a deterioration.
- To protect their financial health and ensure stability in the face of potential credit-related challenges, a variety of approaches to managing customer credit risk was reported. 55% of Canadian companies polled said they will continue to pursue an approach of complementing in-house management with outsourcing the issue to a credit insurer.

Canada

Canada
Looking ahead to the next 12 months, how do you expect your sales and profit margins to change?

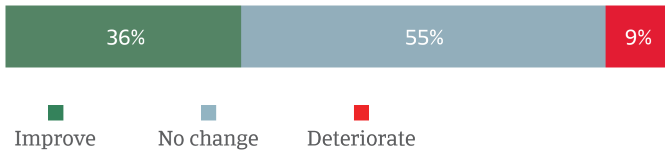
(% of respondents)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer Canada - 2023

Canada
Looking ahead to the next 12 months: how do you expect the payment practices of your B2B customers to change?

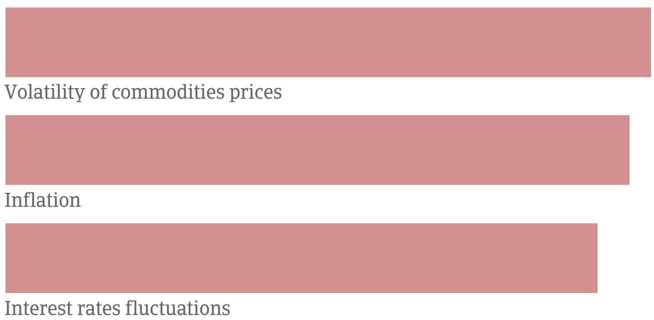
(% of respondents)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer Canada - 2023

Canada
Looking ahead to the next 12 months: top 3 concerns expressed by businesses polled

(% of respondents - multiple response question)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer Canada - 2023

Survey question

How do you expect your average DSO to change over the next 12 months?

(% of respondents)

30% Improve
60% No change
10% Deteriorate

Sample: all survey respondents
Source: Atradius Payment Practices Barometer Canada - 2023

Survey design

Atradius conducts annual reviews of international corporate payment practices through a survey called the Atradius Payment Practices Barometer. Companies polled in Canada are the focus of this report, which forms part of the 2023 edition of the Atradius Payment Practices Barometer. A change in research methodology means year-on-year comparisons are not feasible for some of these survey results. Using a questionnaire, CSA Research conducted 211 interviews in total.
All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** Companies from Canada were surveyed, and the appropriate contacts for accounts receivable management were interviewed
- **Sample design:** The Strategic Sampling Plan enables us to perform an analysis of country data crossed by sector and company size. It also allows us 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=211 people were interviewed in total.
  A quota was maintained according to four classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration.
  Interview period: The survey was conducted between the end of Q2 and the beginning of Q3 2023.

Sample overview – Total interviews = 211

Business sector	Interviews	%
Manufacturing	39	18
Wholesale trade	54	26
Retail trade/Distribution	68	32
Services	50	24
TOTAL	**211**	**100**

Business size	Interviews	%
SME: Small enterprises	34	16
SME: Medium enterprises	78	37
Medium Large enterprises	72	34
Large enterprises	27	13
TOTAL	**211**	**100**

Industry	Interviews	%
Chemicals	73	35
Construction	53	25
Consumer durables	85	40
TOTAL	**211**	**100**

Statistical appendix

Find detailed charts and figures in the Statistical Appendix. This is part of the 2023 Payment Practices Barometer of Atradius, available at www.atradius.com/publications
Download in PDF format (English only).

Interested in finding out more?

Please visit the Atradius website where you can find a wide range of up-to-date publications. Click here to access our analysis of individual industry performance, detailed focus on country-specific and global economic concerns, insights into credit management issues, and information about protecting your receivables against payment default by your customers.

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To find out more about B2B receivables collection practices in **Canada and worldwide**, please visit atradiuscollections.com.

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