Atradius
Managing risk, enabling trade

July 2021

USMCA: nearly half of all invoices overdue

Atradius Payment Practices Barometer

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commented on the report

“Businesses looking to grow can benefit from the expertise and knowledge of their credit insurer as they develop relationships with new customers and new markets, safe in the knowledge that their invoices will be paid.”

The past year of Covid-19 recession has been a time of uncertainty for economies throughout the world and this can clearly be seen in the uneven results of the Payment Practices Barometer Survey for the USMCA region. Perhaps the most arresting of the results concerns business confidence. The vast majority of survey respondents in Mexico expect to see an improvement in business performance over the coming months. In Canada, this picture is reversed with only a small minority expressing optimism.

There will be a wealth of reasons behind this dichotomy. While the cohort of interviewees may well play a part, it is likely that businesses in each country worked through differing experiences of the pandemic. In Mexico, a light touch governmental approach to lockdowns meant that a lot of businesses continued to trade without interruption. In Canada, the reverse is true, although the Canadian government also introduced far more fiscal business support packages. It is the latter point that may be influencing the apparent pessimism in Canada. As business support is withdrawn during H2 of 2021, we are likely to see an increase in business insolvencies. Businesses in Canada may well be bracing for this. In Mexico, it is likely to be business as usual. For the US, the results fall approximately halfway between Mexico and Canada.

Looking ahead, the future trading environment is an area where all businesses could benefit from trade credit insurance. In the economies facing heightened levels of trading risk, businesses need to protect their accounts receivable from the risk of payment default. Businesses should especially be aware of not only their customers’ financial stability, but all of the businesses involved in a supply chain. They should do this to minimize the risk of insolvency caused by a domino effect, where a significant business failure further up the chain causes a knock-on effect along the chain. What’s more, businesses looking to grow can benefit from the expertise and knowledge of their credit insurer as they develop relationships with new customers and new markets, safe in the knowledge that their invoices will be paid.

Key takeaways

More than half of all sales transacted on credit

53% of the total value of all B2B sales in the region was made using trade credit last year. This represents growth, as 44% of businesses told us that they increased the use of trade credit in the months following the pandemic. For most businesses, credit is used as a loyalty tool to encourage repeat business with existing customers. However, following the outbreak of the pandemic, trading challenges led more businesses to experience distress. Many struggling businesses will have been supported by the temporary fiscal packages, particularly in the US and Canada. As these are withdrawn during the second half of 2021, we are likely to see a rise in insolvencies. In this environment of heightened risk, it is important that businesses continuously monitor the financial health of their customers and note any early warning signs of insolvency. Businesses that employ trade credit insurance will benefit from the ongoing market intelligence of their credit insurer, in addition to the peace of mind that their accounts receivable are safe if a major customer does go bust.

Credit management costs rise sharply

Businesses throughout the USMCA region reported a rise in the cost of managing their accounts receivable in the months following the outbreak of the pandemic. The sharpest rises were reported by businesses that managed credit and collections in-house. This may in part be explained by an increase in the percentage of sales made on credit, simply a greater number of credit sales requires more resources to manage them. However, this may also be an indicator of a deteriorating risk environment, as the longer an invoice remains unpaid, the more resources are required to collect on it. For businesses that do not use trade credit insurance, or an invoice collection service such as factoring, rising payment delays equate to rising costs. Businesses that do outsource credit management to such services enjoy the certainty that their invoice will be paid and that management costs will not escalate

Businesses favor domestic markets for credit sales

The region saw many more domestic credit sales than foreign credit sales in the year following the outbreak of the pandemic, with a 60/40 split in favor of domestic customers. This could have been caused by the supply chain challenges that followed the Covid-19 global pandemic, leading to more caution about offering credit to foreign customers. It could also be that it is simply easier to find information for credit assessments on local businesses. An international credit insurer could be helpful here. With underwriting knowledge of businesses and markets throughout the world, they can help businesses manage risk with cross-border trade through expert credit assessments and claims payments should the customer fail to pay.

Growth predictions show a north-south divide

On average, the majority of business across the region are positive in their outlook and expect to see business improvement over the coming months. However, a country-by-country comparison reveals a vastly different picture. 81% of businesses in Mexico anticipate growth, contrasting markedly with the 36% of businesses in Canada with the same view. Businesses in the US fall about halfway between these two poles. This may be a reflection of the different approaches to the pandemic taken by the individual governments, with Canada experiencing more lockdowns and curbs on movement than Mexico. Businesses may be bracing themselves for the removal of government fiscal support, which will have a greater impact in Canada than Mexico in line with the differing levels of supported offered in each country. It may also be due to the cohort interviewed, possibly leaning towards more buoyant industries in Mexico. Post-recession growth is predicted for all of the countries in the USMCA region. It will be interesting to see which businesses thrive and grow during this period and whether the optimism and pessimism expressed by the survey respondents comes to pass over the next year.

Survey results for USMCA

Trading on credit increased in the months following the outbreak of the pandemic

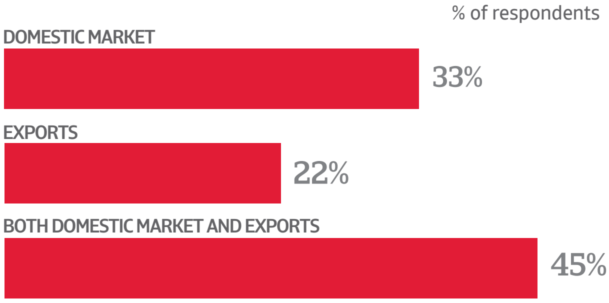
44% of businesses polled in the USMCA region reported an increase in the use of trade credit in the months following the outbreak of the pandemic. 43% reported no change and the remainder recorded a decrease. The increase in the use of credit was seen most often in Mexico (62%), followed by the US (51%) and Canada (20%). 53% of the total value of all B2B sales in the region was transacted on credit over the past year, compared to 47% cash sales. Credit sales amounted to 52% of all sales in the US, 52% in Mexico and 54% in Canada.

60% of all credit sales was transacted on domestic markets (US 62%, Mexico 60% and Canada 58%). The export market saw 40% of credit sales (US 38%, Mexico 40% and Canada 43%). Of all the industries surveyed in the region, the services sector was the most likely to offer customer credit (58% of all sales). Conversely, the agri-food the least likely (43% of all sales). Further insight can be found in the overview by industry section in the respective country reports forming the July 2021 edition of the Atradius Payment Practices Barometer for the USMCA region.

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

IMPROVE	NO CHANGE	DETERIORATE
59%	34%	7%

Which key developments will drive your business improvement?



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

40%

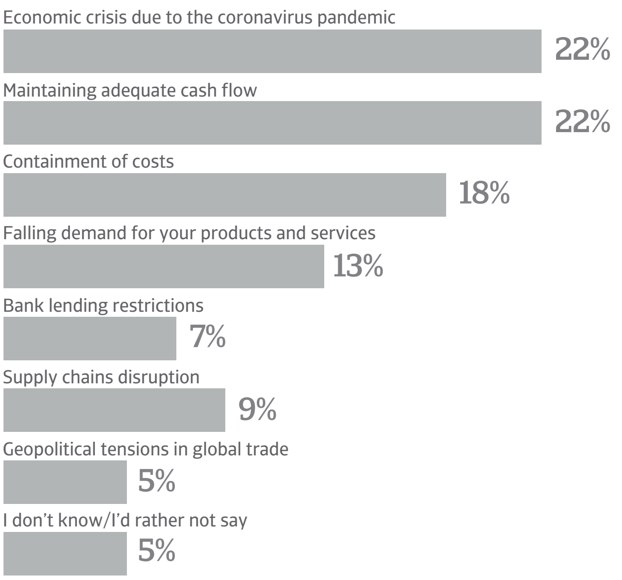
of USMCA businesses told us they expect trade credit to be increasingly used to provide short-term finance to customers in financial distress. This was most often cited in Canada (51%), followed by Mexico (36%) and the US (32%).

Trade credit chiefly used to consolidate existing trade relations during the pandemic

48% of the businesses polled told us they extended trade credit to encourage repeat business with established customers. This was seen most often in Canada (55%), followed by Mexico (53%) and the US (38%). Offering credit to win new customers was reported by 31% at regional level (US: 40%, Mexico: 25% and Canada: 23%). Additional reasons for offering trade credit cited by respondents included: staying competitive in their markets (most often seen in Mexico and least often in Canada), and allowing customers time to pay. This was most often seen in Canada and least often in Mexico.

USMCA: top 5 greatest challenges to business profitability in 2021

% of respondents



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

Credit management costs increased significantly during the pandemic

48% of survey respondents reported a significant increase in the cost of credit management in the year following the outbreak of the pandemic. This was most often seen in the US (55% of respondents), followed by Canada (48%) and Mexico (37%) and primarily among businesses that self-insure credit risk. Businesses also reported increased costs of acquiring information for credit assessments. An average of 40% reported increased financing or interest costs during the time between the credit sale and payment. This was seen almost equally often across the countries surveyed in the region.

An increase in the cost of collecting overdue invoices was reported by 37% of respondents. 30% of businesses in the US reported an increase in the cost of collecting on invoices more than 90 days overdue. This was greater than the percentage in Mexico (20%) and Canada (23%). There was a 24% rise in bad debt across the region. This was most often cited by respondents in the US (30%), followed by Canada (23%) and Mexico (20%).

More than a third of USMCA's businesses gave customers longer to pay last year

35% of the survey respondents told us they offered customers more time to settle invoices over the past year. This was most often the case in the US (41%), followed by Mexico (40%) and Canada (24%). The ICT/electronics industry offered significantly more relaxed payment terms then in the past. In contrast both the agri-food and the chemicals/pharma industries significantly shortened payment terms compared to one year ago.

51% of the region set payment terms that reflect company standards. This was reported by 48% of respondents in the US, 61% in Mexico and 45% in Canada. 42% of the region's respondents set payment terms according to the availability and cost of capital needed to finance the credit sales. This was most often the case in Mexico (50% of respondents), followed by the US (41%) and Canada (35%).

Additional factors influencing the length of payment terms include: the payment terms given by a company's own suppliers (regional average: 35%, highest in the US at 38%), and the credit capacity of the customer (regional average: 32%, highest in Mexico at 39%). Trade credit insurance was also mentioned by many businesses as an important factor influencing credit terms (regional average: 25%). 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 grappleing with more late payments and write-offs than USMCA peers

An average of 41% of businesses across the region reported deterioration in customer payment practices over the past year (US: 47%, Mexico: 44%, Canada: 32%). Late payments affected 47% of the total value of all B2B credit sales (US: 50%, Mexico: 45%, Canada 48%). 6% of invoices were written off by USMCA businesses overall (US: 8%, Mexico: 5%, Canada 5%). Interestingly, more businesses in the US than in the rest of the region chose to manage credit risk in house, rather than to employ credit insurance or a professional collections agency. This may explain why a greater percentage of businesses in the US struggled with late payments and bad debts than the rest of the region.

39% of businesses in the USMCA region told us they spent time and resources on chasing unpaid invoices, retaining risk and managing collection activities internally (US: 39%, Mexico: 35%, Canada: 43%). 30% of businesses in the region reported withholding payment to suppliers to minimize liquidity constraints (US: 36%, Mexico: 30%, Canada: 26%).

USMCA: 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

Pandemic uncertainty worries USMCA businesses

The unpredictability of the pandemic, alongside safeguarding liquidity levels, are the top two concerns cited by businesses across the USMCA region. Pandemic worries were cited by 18% of businesses in the US, 28% in Mexico and 22% in Canada. Potential liquidity issues were listed by 16% of businesses in the US, 31% in Mexico and 19% in Canada. Other concerns cited by businesses included: a potential fall in demand for products and services, ongoing supply chain disruptions affecting international trade and the potential for bank lending restrictions to limit access to financing. Interestingly, a potential resurgence in geopolitical tensions affecting international trade is at the bottom of the list of USMCA business concerns. Although survey respondents in Canada appear to be slightly more concerned about this than their peers in the region, the majority view leans towards increasing geopolitical stability in the region.

USMCA businesses confident about future growth

59% of the USMCA survey respondents are optimistic that their business performance will improve (US: 60%, Mexico: 81%, Canada: 36%). 45% of the region anticipates the improvement will come from a combination of a rebound in the domestic economy and healthier export flows (US: 39%, Mexico: 48%, Canada: 45%). 33% of the region believes improvement will be due to a rebound in the domestic economy only (US: 41%, Mexico: 27%, Canada: 31%). 22% of the region believes improvement will come exclusively from increased export flows (US: 18%, Mexico: 24%, Canada: 24%).

Amid these expectations of more benign economic and trade conditions, 40% of USMCA businesses told us they expect trade credit to be increasingly used to provide short-term finance to customers in financial distress.

This was most often cited in Canada (51%), followed by Mexico (36%) and the US (32%). 34% of businesses in the region told us they believe trade credit will help stimulate sales particularly in industries and markets where demand plunged due to the pandemic. This was most often cited in Mexico (48% of respondents), followed by the US (36%) and Canada (18%).

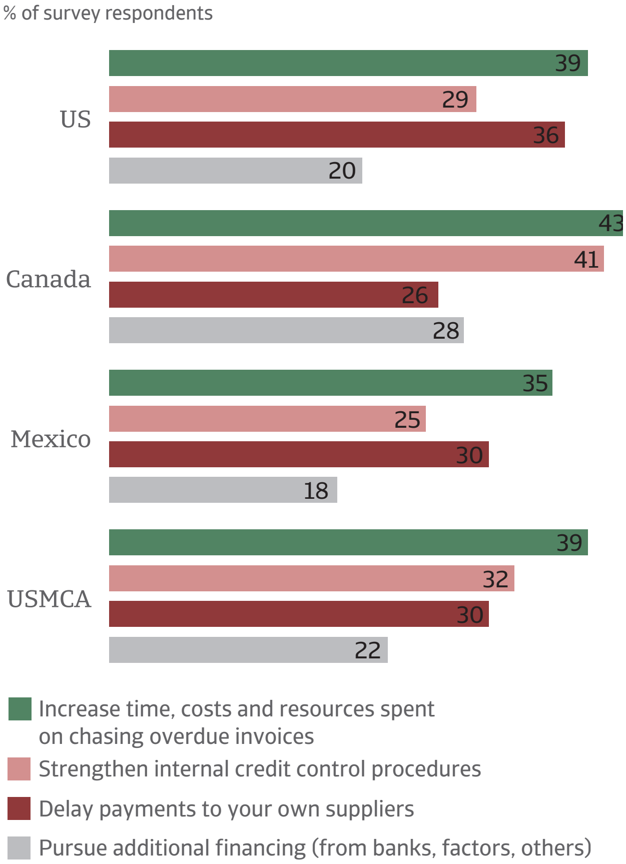
Nearly one third of businesses plan to use trade credit insurance

31% of USMCA survey respondents plan to use trade credit insurance over the coming months (US: 26%, Mexico: 31%, Canada: 36%). 36% of businesses across the region told us they intend to request cash up front, or payment guarantees. Many businesses also plan to offer of discounts for early payment of invoices.

Internal retention and management of customer credit risk is the technique that most of the survey respondents plan to resort to over the coming months. This was most often reported by businesses in the US (51%), followed by Canada (41%) and Mexico (31%). Despite these differing approaches to credit management, USMCA businesses share a common target of keeping Days Sales Outstanding (DSO) under control.

This may be a reflection of the concerns expressed by 38% of USMCA survey respondents of an upward trend in DSO (US: 43%, Mexico: 38%, Canada: 34%).

USMCA: top 4 measures businesses needed to take due to B2B customers late payments (% of survey respondents)



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

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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