



Germany: expected increase in late payments worries businesses

Atradius Payment Practices Barometer





trading partners

Top 5

- United States
- France
- China
- Netherlands
- United Kingdom

Source: WTEEx

exports

Top 5

- Motor vehicles, trailers and semi-trailers
- Machinery and equipment
- Chemicals and chemical products
- Computer, electronic and optical products
- Electrical equipment

Source: WTEEx

imports

Top 5

- Computer, electronic and optical products
- Motor vehicles, trailers and semi-trailers
- Other goods
- Chemicals and chemical products
- Machinery and equipment

Source: WTEEx

Economic growth in Germany is expected to cool to 0.6% in 2019 down from 1.6% one year ago. While the slowdown in Germany's manufacturing sector (especially in automotive), has a negative impact on Western Europe as a whole, German firms and domestic demand are proving rather resilient for the time being. German business insolvencies are expected to increase by 1% this year followed by stagnation in 2020.



Thomas Langen, Senior Regional Director Germany, Central and Eastern Europe of Atradius, commented on the report

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Currently, the Eurozone is facing the impact of lower external demand, which is particularly hitting Germany, its largest economy. Although German firms are proving rather resilient for the time being, the rate of economic expansion in Germany is likely to remain modest in the second half of 2019.

Several risks threaten the outlook: the potential escalation of the trade dispute between the US and Europe, the still uncertain outcome of Brexit, and the current political and budgetary uncertainty in Italy. Moreover, the global trade slowdown continues to weigh on Germany’s export prospects, leading to a reversal in the decline of insolvencies. In 2019, German business insolvencies are expected to increase by 1% followed by stagnation in 2020.

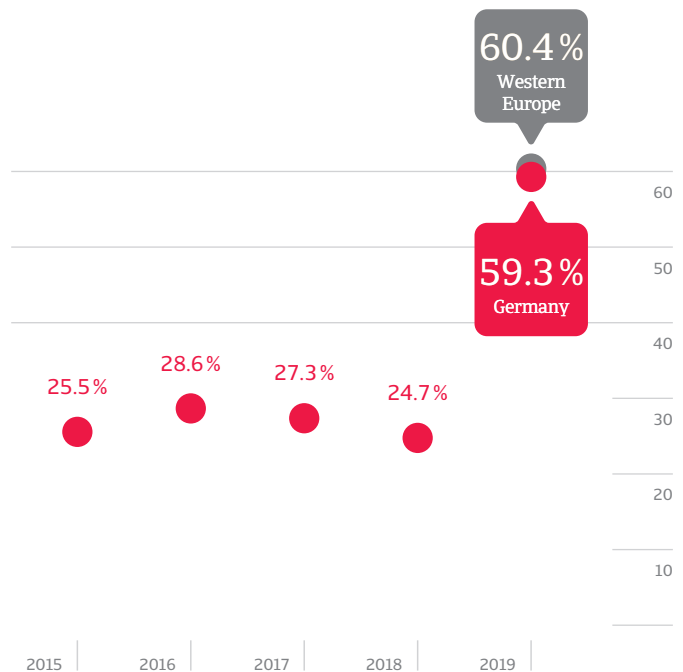


Use of trade credit in Germany increased sharply over the past year reflecting resilience of industrial sectors and strong domestic demand

Weak external demand and elevated uncertainty continue to take their toll on German industry. Prospects for the export-reliant industrial sectors remain bleak in the short term. The automotive sector in particular will likely continue to grapple with the deterioration in the external environment, as well as lingering uncertainty about trade policy and consumer preferences.

Over the past year, the proportion of sales made on credit to B2B customers by German survey respondents increased sharply to 59.3%. This compares to 60.4% in Western Europe and is an increase up from 24.7% last year. This increase ranks third among the countries surveyed in Western Europe, after Switzerland (65.6%, up from 28.1% last year) and Austria (65.3% up from 29.5% one year ago). The increased use of trade credit in the B2B transactions of German survey respondents might be a reflection of strong domestic demand and resilient businesses, which sustain the economy despite the current slowdown in the German manufacturing sector (especially in automotive) and bleak prospects for the export-reliant industrial sectors. Against this backdrop, the rate of economic expansion in Germany is likely to remain modest over the coming months.

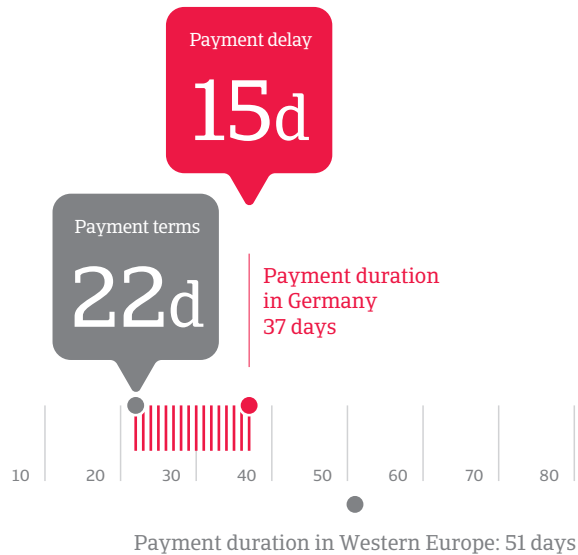
Proportion of total B2B sales made on credit in Germany



Sample: companies interviewed (active in domestic and foreign markets)
 Source: Atradius Payment Practices Barometer – October 2019



Payment duration in Germany



d = average days

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

Source: Atradius Payment Practices Barometer – October 2019

Credit terms remain largely consistent with the terms offered last year

In the current challenging business environment, (trade conflicts and Brexit), German survey respondents appear reluctant to give B2B customers longer to settle invoices than last year. Average payment terms recorded in Germany stand at 21 days from invoicing (22 days last year). These are the second shortest observed in Western Europe and compare to a 34 days average for the region (and 37 days in Eastern Europe).

German respondents assess the credit quality of their buyers more often than their peers in Western Europe

Consistent with the heightened perception of payment risks arising from trading on credit in an uncertain business environment, German credit management policies revolve around the assessment of customer creditworthiness. Based on survey results, this appears to be performed by far more respondents in Germany (45%) than in Western (36%) and Eastern Europe (39%). German survey respondents (36%) appear to be more likely offer discounts for early settlement of invoices than their peers in Western (21%) and Eastern Europe (18%). Once the payment of the invoice is overdue, far more survey respondents in Germany (38%) than in Western (28%) and Eastern Europe (36%) engage in dunning activities (outstanding invoice reminders).

Lower efficiency in collection of overdue accounts than last year is detrimental to business profitability

23.8% of the total value of B2B invoices issued by German respondents over the past year was past due. This is the third lowest figure recorded in Western Europe (28.9%), after Denmark (20.3%) and the Netherlands (23.6%). Consistent with improved payment behaviour from B2B customers, resulting in increased timely payments (72.7% of invoices paid on time compared to 61.5% one year ago), respondents in Germany turn overdue invoices into cash significantly earlier than last year (on average 36 days, down from 39 days last year). This is in line with observations for the region overall, where over the past year payment duration decreased on average to 51 days down from 57 days last year. However, to manage potential liquidity constraints arising from late payments, 31% of German survey respondents needed to take specific measures to correct cash shortfalls. 23% of respondents either paid their own suppliers late or pursued additional financing from external sources. However, 45% of respondents reported no significant impact on business arising from late payments. This finding points to a sharp focus on credit management from businesses surveyed in Germany. A standout survey finding in Germany is the notable increase in the proportion of write-offs of uncollectable accounts, currently averaging 2.1% of the total value of B2B receivables (up from less than 1% last year). This compares to a 2.2% average for Western Europe and to a 1.6% average for Eastern Europe. This finding highlights lower efficiency in collection of overdue accounts in Germany, ultimately eroding business profitability.

German respondents expect customers' payment practices to worsen over the coming months

59% of German survey respondents believe their B2B customers' payment practices will not change significantly over the coming months. 55% of respondents in Western and 60% in Eastern Europe share the same opinion. However, German respondents expecting B2B customers' payment practices to worsen over the coming months are far more (25%) than those expecting an improvement (16%). In particular, 40% of respondents expect late payments to increase over the coming months. 25% of respondents expressed concern over an increase in the proportion of write-offs over the same time frame. In order to improve protection of their receivables from the risk of customers' payment default, 38% of German survey respondents will perform either customers' credit quality checks more often, or will recourse to self-insurance. 36% plan on engaging a collections agency to improve efficiency in collection of overdue invoices. For 47% of German respondents, financial conditions will not be tighter over the coming months. However, should access to bank financing be more troublesome over the same time frame, 38% of German respondents will have either to reduce workforce due to lack of capital or to delay business investment.

More than 2%

expected increase in business insolvencies in the German automotive sector over the the coming 12 months.

Source: Atradius Market Monitor Automotive - Germany 2019

Overview of payment practices in Germany

By business sector

B2B customers in the German construction sector are given the longest payment terms

German respondents from the construction sector extended the longest payment terms to their B2B customers (averaging 35 days from invoicing). Average payment terms across the other sectors surveyed in Germany range from 26 days in the transport sector, to 19 days in both the metals and agri-food sectors.

Trade credit risk is worsening in the German chemicals sector

Over the past year trade credit risk in Germany has significantly deteriorated in the chemicals sector, where 33% of the total value of invoices remained unpaid at the due date. The consumer durables sector recorded the greatest improvement in customers' payment speed over the past year. The credit risk trend in the German metals sector deteriorated significantly over the same period.

Proportion of uncollectable receivables is highest in both the transport and machines sector

The transport and the machines sectors in Germany recorded the highest proportion of B2B receivables written off as uncollectable (2.7% and 2.4% respectively). At the lower end of

the scale, the consumer durables sector recorded an average of 1.1% of receivables written off as uncollectable.



Thomas Langen, Senior Regional Director Germany, Central and Eastern Europe of Atradius, commented on the report

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As the survey findings show, German businesses are concerned about future deterioration in customers' payment practices. Amid these concerns, protection of receivables becomes essential to ensure safe and profitable growth of the business.

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Overview of payment practices in Germany

By business size

German SMEs granted the longest average payment terms for B2B customers

Respondents from SMEs in Germany extended the longest payment terms to B2B customers, averaging 24 days from invoicing. Similar average credit terms were extended from large enterprises. In contrast, micro enterprises offered the shortest average payment terms to B2B customers (averaging 14 days from the invoice date).

German micro enterprises are the swiftest to cash in overdue invoices

Over the past year, the payment behaviour of B2B customers of German micro enterprises improved markedly. The proportion of paid on time invoices increased to 86% from 60% one year ago. Due to this improvement, German micro enterprises are now the swiftest to collect payment of past due invoices (on average with 19 days from invoicing down from 31 last year). Despite this, an average of 27% of the total value of B2B invoices issued by both SMEs and large enterprises in Germany is overdue. This caused an increase in the average invoice-to-cash turnaround for SMEs (averaging 43 days from 40 last year). In contrast, large enterprises cash in past due payments earlier than one year ago (on average after 37 days from invoicing down from 44 last year).

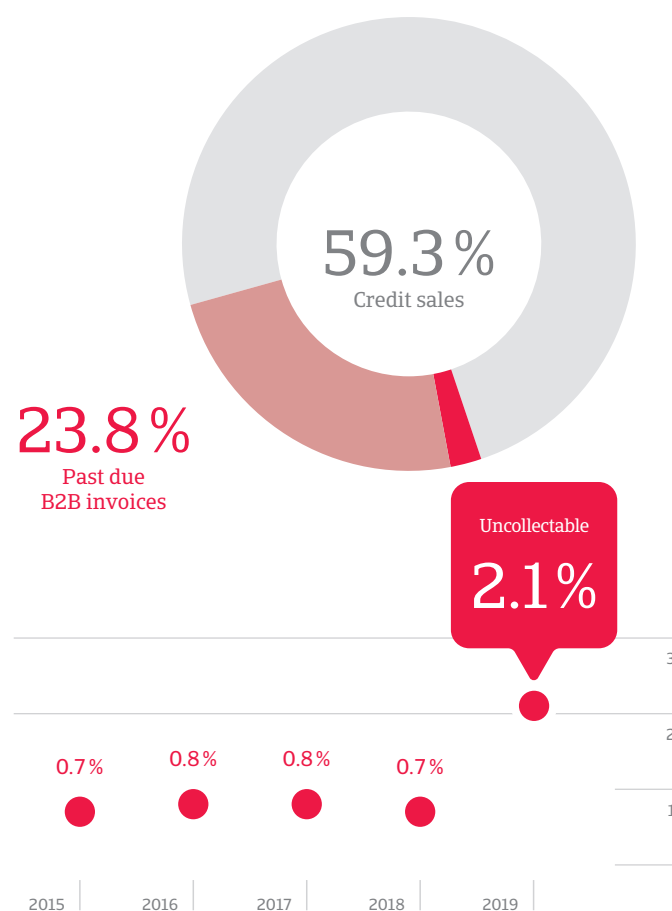
Atradius · Key Findings

38 %
of the suppliers surveyed in Germany plan on increasing their B2B customers' creditworthiness checks over the coming 12 months.

Atradius Payment Practices Barometer – October 2019

Uncollectable B2B receivables in Germany

(% of total value of B2B receivables)



Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – October 2019

German SMEs recorded the highest rate of uncollectable receivables

Due to the lengthening of the invoice-to-cash turnaround process, German SMEs have a markedly worse track record when it comes to collecting overdue payments, with 2.7% of B2B invoices written off as uncollectable (up from 1% last year). The average for large enterprises is 2% (up from less than 1% last year) and less than 1% from micro enterprises (steady compared to one year ago).

Survey design for Western Europe

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 Western Europe, which is part of the 2019 edition of the Atradius Payment Practices Barometer, companies from thirteen countries (Austria, Belgium, Denmark, France, Germany, Great Britain, Greece, Ireland, Italy, Spain, Sweden, Switzerland and The Netherlands) have been surveyed. Due to a change in research methodology for this survey, for some of the current results, no year-on-year comparison is feasible.

Using a questionnaire, Conclusr Research conducted a net of 2.770 interviews. All interviews were conducted exclusively for Atradius, without any combination of topics.

Survey scope

- Basic population: companies from thirteen countries (Austria, Belgium, Denmark, France, Germany, Great Britain, Greece, Ireland, Italy, Spain, Sweden, Switzerland and The Netherlands) were monitored. The appropriate contacts for accounts receivable management were interviewed.
- Selection process – Internet survey: 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=2.770 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: Web-assisted personal interviews (WAPI) of approximately 15 minutes duration. Interview period: Q3 of 2019.

Sample overview – Total interviews = 2.770

| Country | n | % |
|--|-------|-------|
| Austria | 221 | 8.0% |
| Belgium | 216 | 7.8% |
| Denmark | 200 | 7.2% |
| France | 209 | 7.6% |
| Germany | 210 | 7.6% |
| Great Britain | 223 | 8.0% |
| Greece | 200 | 7.2% |
| Ireland | 204 | 7.3% |
| Italy | 225 | 8.1% |
| Spain | 229 | 8.3% |
| Sweden | 214 | 7.7% |
| Switzerland | 209 | 7.7% |
| The Netherlands | 210 | 7.6% |
| Industry | n | % |
| Manufacturing | 945 | 34.1% |
| Wholesale trade/ Retail trade / Distribution | 1,526 | 55.1% |
| Services | 299 | 10.8% |
| Business size | n | % |
| Micro enterprises | 936 | 33.8% |
| SME (Small/Medium enterprises) | 946 | 34.8% |
| Large enterprises | 945 | 31.4% |

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 Western Europe. This is part of the October 2019 Payment Practices Barometer of Atradius, available at www.atradius.com/publications

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For more **insights into the B2B receivables collection practices in Germany** and worldwide, please see the International Debt Collections Handbook by Atradius Collections (free download after registration), available on www.atradiuscollections.com

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