Atradius Payment Practices Barometer
July 2022

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Managing risk, enabling trade

US: DSO worries prompt strategic credit management

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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.

It contains direct feedback from businesses in a given market or region about how they manage payment default risks related to selling on credit to B2B customers. Topics covered include: payment terms, the time it takes to collect invoices, managing payment delays, the impact of payment delays on business, and expected business trends.

We believe these survey results will offer compelling insights to the markets and regions where you do business.

This is the report for the United States.

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US: overview of key survey findings

6% write off

(compared to last survey's 8%)

Companies battle to solve payment default troubles

- Customer payment default remains a major headache for US companies polled in our survey. A vast increase was reported in businesses seeking external financing to ease liquidity issues caused by late payments. The response of many companies was also to devote more resources, manpower and costs to the issue, and one outcome of this policy was a slight fall in the level of bad debts written off as uncollectable.
- Our survey found that many US businesses set tighter payment terms for B2B customers amid rising appreciation of the risks of trading on credit. We found a focus on the policy of offering discounts for early payment of invoices, as well as far more regular credit checks on customers. Some companies polled set aside funds to cover bad debt losses, although this had a downside risk of potentially hurting growth. The value of having credit insurance cover was widely reported.

Strategic credit risk management crucial amid DSO worries

- A proactive approach to the issue of strategic credit risk management was a clear finding in our survey, prompted by many factors including a deterioration in Days-Sales-Outstanding (DSO) for one third of US companies polled across all industries. The increased desire to use credit insurance was motivated by benefits such as being able to access in-depth information about the payment history of customers and regular market intelligence. Businesses also reported that it helped them to improve DSO and free up working capital.
- Companies polled in the US expressed confidence for the future, telling is they expected an improvement of B2B payment practices and also a strong expansion of trading on credit. A generally positive outlook was found in the survey, but some concerns were reported for the period ahead. There was particular anxiety about a potential deterioration of DSO, as well as worry about keeping pace with rising demand, the ongoing effect of the pandemic on the economy, and about maintaining adequate cashflow.

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US: credit sales and payment terms (B2B)

Widespread B2B trading on credit, winning new customers the focus

- Our survey found an average of 54% of the total value of B2B sales was transacted on credit during the past months in the US market, compared to 52% in the previous survey. Rejection of trade credit requests from B2B customers was reported most often in the agri-food industry, mainly due to insufficient information on the customer's payment history. By contrast, there was a wider acceptance of trade credit requests in the electronics/ICT industry, where 33% of companies polled said the policy was used chiefly to grow B2B sales by attracting new customers.
- 30% of US companies polled said the key reason they traded on credit was to encourage repeat business and enhance B2B customer loyalty. This was particularly so in the agri-food industry. Another reason for trading on credit was to support customers suffering with temporary liquidity shortfalls. Offering and receiving trade credit provided a source of short-term funds for B2B customers, replacing or supplementing bank loans. Businesses in the US chemicals industry most often traded on credit with B2B customers for this reason.

Tighter payment terms reflect credit risk concern, insurance cover valuable

- There was a 25% increase from our last survey in US companies who said they set shorter payment terms for B2B customers when trading on credit. Agri-food businesses reported this prudent approach most often, reflecting a heightened perception of the risks involved. The remaining companies polled in the US market either did not change their customary payment terms or offered longer time to pay as a method of boosting sales. Overall, the average time for payment of invoices was 42 days compared to 44 days in the previous survey.
- 48% of US businesses polled, especially in the steel/metals industry, said length of B2B customer payment terms reflect their usual internal trade practices. Another 40% told us payment terms are aligned to the period during which the company's liquidity is tied up in B2B credit sales and unavailable for use in business operations. This was found particularly in the agri-food sector and may explain why a large part of this industry reported that having a credit insurance allowed them to offer more favorable payment terms and thus win business. 34% of companies polled also said they decided on payment terms consistent with their profit margins, because consequences of payment default can include erosion of profitability or even complete elimination.

34%

(2021: 24%)

of US companies polled set B2B payment terms customers in accordance with their profit margins.

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US: customer payment default (B2B)

Staggering rise in companies chasing external finance to ease liquidity troubles

- Customer payment default remains a huge issue in the US market with half the total value of B2B sales on credit unpaid at the due date. 42% of companies polled, up from 37% in our last survey, devoted more resources to chasing unpaid debt, many from the steel/metals industry. There was a staggering increase in the use of external financing to bridge temporary liquidity shortfalls, 50% more companies doing so than previously, mainly in the agri-food sector. Nearly 20% more companies polled, especially in the electronics/ICT industry, reported a stronger credit control process, chiefly using bank references to spot early warning signs of customer payment default.

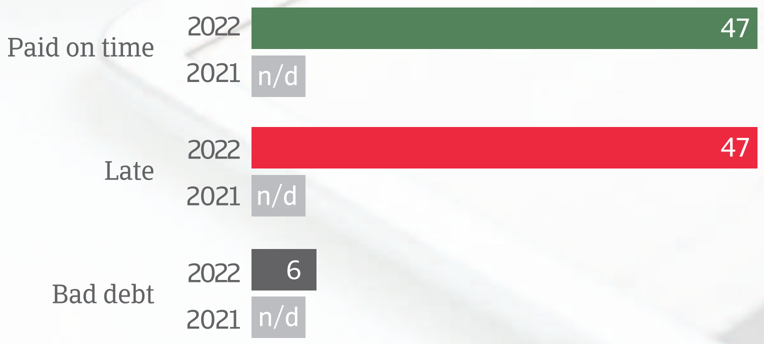
- The extra time, costs and resources spent by companies in chasing payments brought about a slight decrease in the amount of bad debts written off as uncollectable in the US market. Our survey found that 6% of the total value of B2B invoices were written off compared to 8% in the previous survey. This reflects a rising awareness among US businesses of the risks inherent in trading on credit and the need for strong measures to ensure payment collection. The percentage of write-offs was highest in the US agri-food industry, at a figure of 8%.

Customer payment default mainly due to admin headaches

- Late payments were most often due to administrative inefficiencies in the customer payment process, according to 48% of companies polled in the US, and this was a particular issue in the chemicals industry. Another frequently reported reason for payment default, especially in the steel/metals sector, was the financial weakness of customers. This helps to explain the increased alertness to customer payment default reported by 70% of businesses in the steel/metals industry.

- Several other reasons for customer payment default in the US market were also found in our survey. Nearly 30% of companies polled said it was largely due to customer dispute, a particular issue in the electronics/ICT sector. One quarter of US businesses told us that B2B customers usually defaulted on payments due to intentional late payment for various reasons. This happened across almost all the industries surveyed.

US: % of the total value of B2B invoices paid on time, overdue and bad debt as uncollectable (2022/2021)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - July 2022

US: impact of customer payment default (B2B)

Rigorous customer checks and increased discounts boost credit management process

- Protection against unexpected losses which can cause liquidity issues has become paramount in the US market, and many companies reported taking steps to enhance their credit management process. More than half of businesses polled said they had increased the regularity of customer credit checks, particularly in the chemicals industry. A favoured strategy in the agri-food and steel/metals sectors was to offer discounts to B2B customers to entice early payment of invoices and thus accelerate cash inflows and decrease exposure to risk of payment default.
- 41% of US companies polled said they actively used measures to avoid customer credit risk concentration — on either a single customer, or on groups of customers with the same features. This was true across all industries in our survey. Many told us they set aside funds to offset potential bad debts losses, although this has the negative impact of depriving companies of operational funds. A request for cash payments on delivery was also a frequently reported measure, especially in the chemicals sector.

DSO remains steady for most, but downside risks remain

- 57% of companies polled in the US reported no change in their Days-Sales-Outstanding (DSO), the length of time between invoicing and getting paid by customers. However, almost one third of businesses reported a weakening in their liquidity position due to a worsening of their DSO. More than half of these companies, particularly in the electronics/ICT industry, said this chiefly stemmed from a more liberal trade credit policy with B2B customers. The fact that this led to DSO worsening suggests it was undertaken without adequate measures to protect the business against the impact of payment default.
- Reduced efficiency in collection of long unpaid trade debt was the key reason for DSO worsening and cash flow deterioration, noted especially in the agri-food industry. Acknowledging that reducing the length of the DSO can help improve cash flow, and thus minimize the risk of payment default and of borrowing costs, US businesses undertook a range of actions to reduce the length of DSO. These included negotiating shorter terms with B2B customers, as well as offering discounts for faster invoice payment.

Average time it takes to convert overdue B2B invoices into cash (year-on-year change)

(% of respondents)

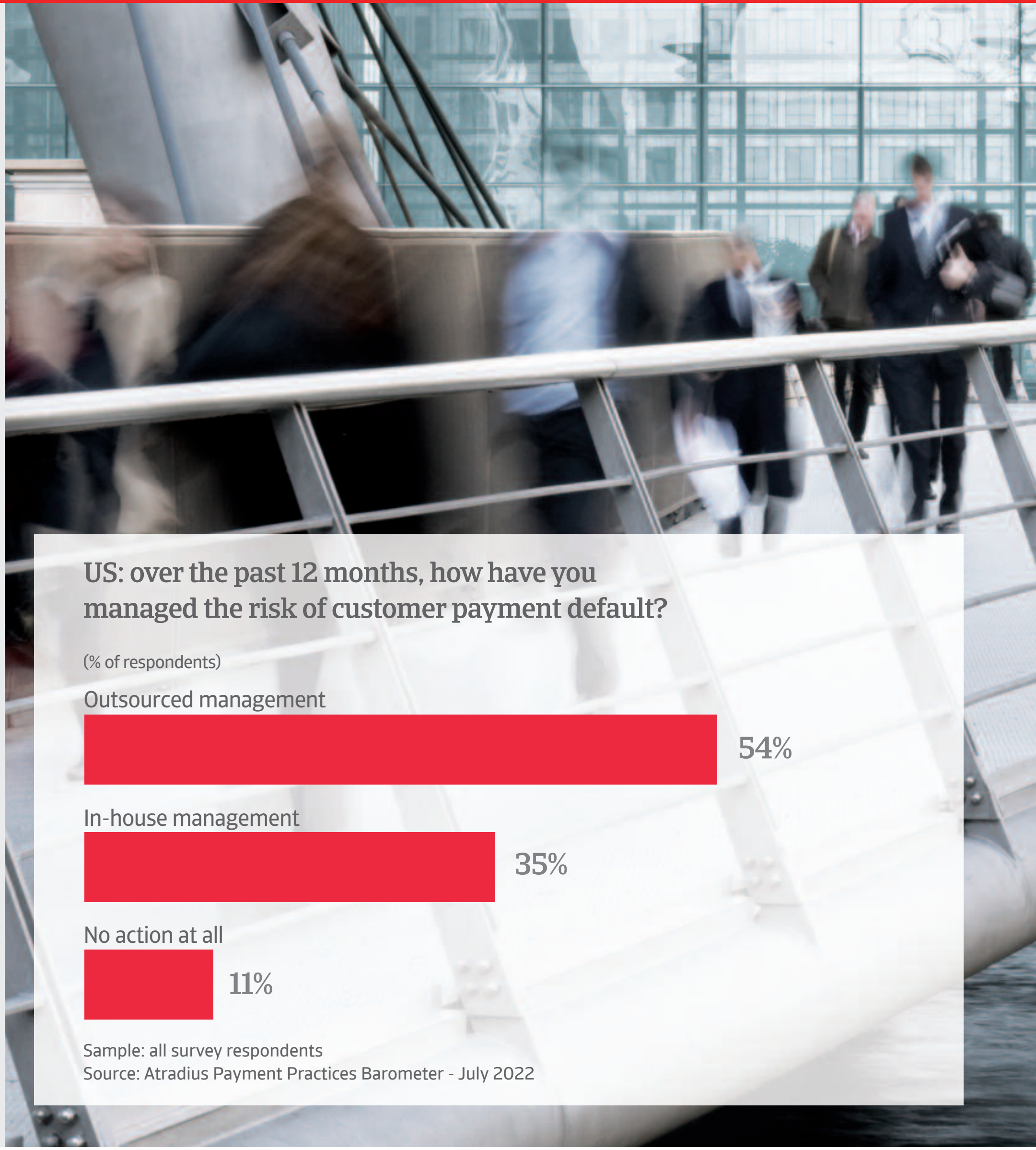
Sample: all survey respondents - Source: Atradius Payment Practices Barometer - July 2022

US: management of customer payment default (B2B)

Businesses show proactive approach to strategic credit risk management

- 35% of companies polled in the US told us they opted to manage customer credit risk in-house during the past months, while the remaining ones either outsourced the issue to a credit insurer or purchased specific trade finance solutions. Businesses opting to retain and manage customer credit risk in-house said this usually meant setting aside funds to cover potential losses. However, this choice, reported particularly by US chemicals businesses, puts a strain on resources and prevents a company from using those funds to grow the business.

- Our survey found that outsourcing credit risk management to a credit insurer was motivated by a desire to get access to in-depth information about the payment history of potential customers, as well as other services like debt collection and regular market intelligence. Moreover, many companies reported that having credit insurance cover helped them improve DSO and free up working capital otherwise tied up in overdue receivables. Electronics/ICT businesses noted this in particular. Businesses who preferred to purchase specific trade finance solutions most often opted seized opportunities to discount their trade receivables.



US: over the past 12 months, how have you managed the risk of customer payment default?

(% of respondents)

Sample: all survey respondents
Source: Atradius Payment Practices Barometer - July 2022

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US: the business outlook (B2B)

Business confidence strong, positive outlook for B2B trading on credit

- A positive signal for the future is that 78% of US companies polled in our survey reported robust confidence that the payment practices of their B2B customers will improve going forward. Another clear indicator of business confidence is that a similar numbers of companies in the market anticipate strong expansion of trading on credit terms with B2B customers. This is because they consider customer loyalty and repeat business from established B2B customers, as well as the desire to win new business domestically and abroad, to be the driving force behind business growth.

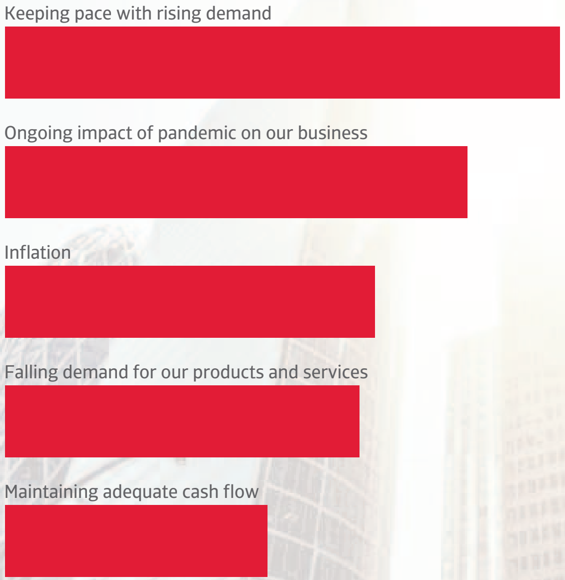
DSO worsening expected amid concerns about coping with extra demand

- Despite this expected improvement in B2B customers' payment practices, a vast majority of the companies polled expressed concern about a deterioration of their DSO. This was reported by 62% of companies, reflecting no change from the previous survey. The anxiety is triggered by the interplay between adoption of a more liberal credit policy and lower efficiency of their credit management process. Against this backdrop, 70% of US businesses that already have a credit insurance cover told us they would continue using it going forward. This was particularly evident in the electronics/ICT industry.

- Looking ahead, the main concern for 36% of US companies is to keep pace with rising demand for their products and services as the domestic economy rebounds. This is a particular issue in the chemicals industry. Coping with the ongoing effects of pandemic-led disruptions on the economy is a strong worry across all industries. Maintaining adequate cash flow was a concern expressed by nearly one quarter of businesses, mainly in the electronics/ICT industry. Slightly fewer companies, across almost all industries polled except for chemicals, were anxious about weakening of demand impacting their business.

US: top 5 greatest challenges to business profitability in 2022

% of respondents



Sample: all survey respondents (multiple choice survey question)
Source: Atradius Payment Practices Barometer - July 2022

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US: overview of key survey findings by industry

Agri/Food

Sales on credit
(% of all B2B sales)
49%
(2021: 46%)

Payment terms
(d=average days)
33d
(2021: 38d)

Payment duration*
(d=average days)
47d
(2021: 52d)

Late payment
(% of all B2B invoices)
47%
(2021: 43%)

Write offs
(% of all B2B invoices)
8%
(2021: 10%)

% of businesses anticipating longer payment duration
51%
(2021: 48%)

% of businesses managing credit risk in-house
31%
(2021: n/d)

Keeping pace with rising demand: greatest challenge ahead
39%
(businesses reporting it)

* payment term on the invoice plus any delay.

US: overview of key survey findings by industry

Chemicals

Data not available for 2021

Sales on credit (% of all B2B sales)	59%
Payment term (d=average days)	48d
Payment duration* (d=average days)	79d
Late payment (% of all B2B invoices)	44%
Write offs (% of all B2B invoices)	6%
% of businesses anticipating longer payment duration	59%
% of businesses managing credit risk in-house	40%
Keeping pace with rising demand: greatest challenge ahead	41% (businesses reporting it)

* payment term on the invoice plus any delay.

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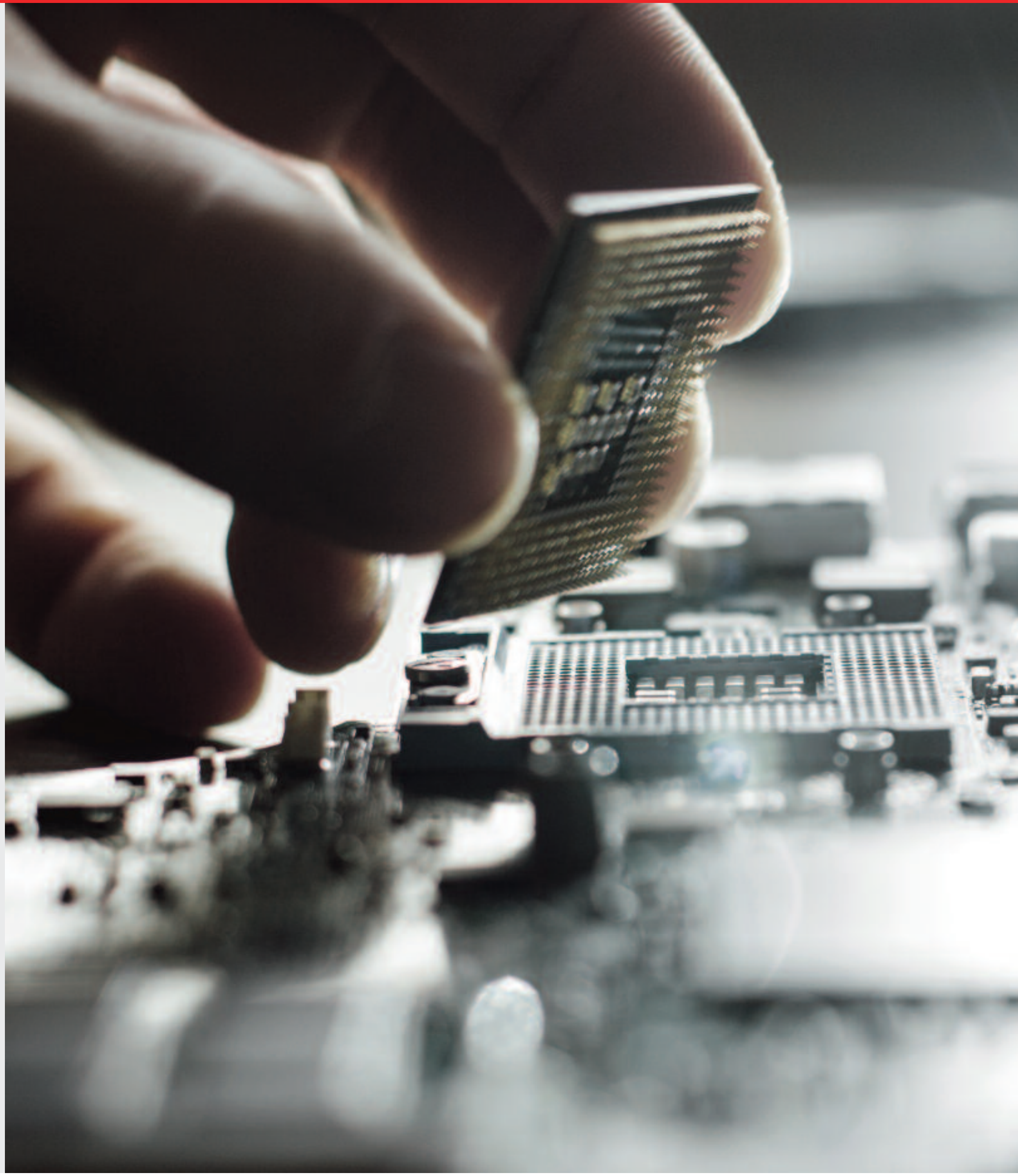
US: overview of key survey findings by industry

Electronics/ICT

Sales on credit (% of all B2B sales)	54%	(2021: 54%)
Payment term (d=average days)	50d	(2021: 47d)
Payment duration* (d=average days)	68d	(2021: 47d)
Late payment (% of all B2B invoices)	59%	(2021: 52%)
Write offs (% of all B2B invoices)	7%	(2021: 7%)
% of businesses anticipating longer payment duration	76%	(2021: 47%)
% of businesses managing credit risk in-house	32%	(2021: n/d)
Maintaining adequate cash flow: greatest challenge ahead	34%	(businesses reporting it)

* payment term on the invoice plus any delay.



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US: overview of key survey findings by industry

Steel/Metals

Sales on credit (% of all B2B sales)	52%	(2021: 53%)
Payment term (d=average days)	31d	(2021: 46d)
Payment duration* (d=average days)	45d	(2021: 81d)
Late payment (% of all B2B invoices)	34%	(2021: 53%)
Write offs (% of all B2B invoices)	4%	(2021: 6%)
% of businesses anticipating longer payment duration	56%	(2021: 27%)
% of businesses managing credit risk in-house	37%	(2021: n/d)
Keeping pace with rising demand: greatest challenge ahead	34%	(businesses reporting it)

* payment term on the invoice plus any delay.

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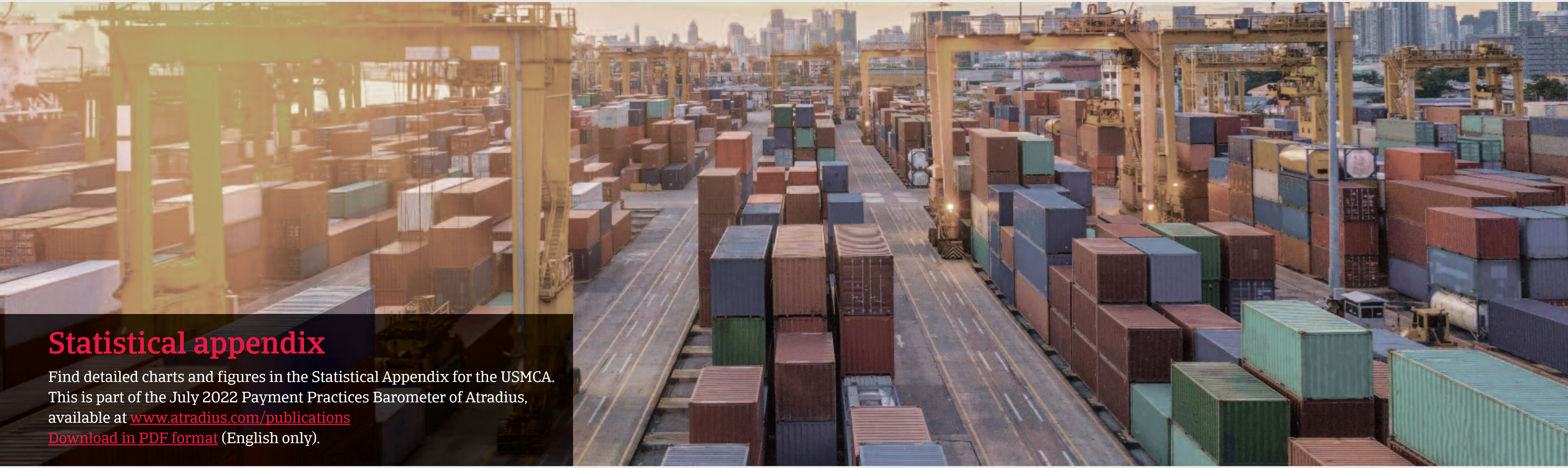
Glossary



Statistical appendix

Find detailed charts and figures in the Statistical Appendix for the USMCA. This is part of the July 2022 Payment Practices Barometer of Atradius, available at www.atradius.com/publications
Download in PDF format (English only).

Payment term (credit period, credit term)

The period after delivery or shipment of goods or after rendering of services at the expiry of which invoices are due to be paid.

Overdue invoice (past due invoice, defaulted invoice)

A customer's obligation that has not been paid by its due date.

Write-offs

Overdue invoices that cannot be collected and therefore are treated as bad debts and written off as uncollectable.

Days Sales Outstanding (DSO)

Average time (days) a company takes to convert its credit sales into cash or cash in the outstanding payments from its customers.

Survey design

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the Atradius Payment Practices Barometer. US companies are the focus of this report, which forms part of the 2022 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 200 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** Companies from the US 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=200 people were interviewed in total. A quota was maintained according to three classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: Q2 2022.

Sample overview – Total interviews = 200

Market	Interviews	%
USA	200	34
Canada	200	33
Mexico	200	33
TOTAL	600	100
Business sector	**Interviews**	**%**
Manufacturing	275	46
Wholesale	130	22
Retail trade / Distribution	66	11
Services	129	21
TOTAL	600	100
Business size	**Interviews**	**%**
Micro enterprises	51	8
SME - Small enterprises	253	42
SME - Medium enterprises	244	41
Large enterprises	52	9
TOTAL	600	100
Industry	**Interviews**	**%**
Agri/Food	40	20
Chemicals	65	32
Electronics/ICT	55	28
Steel/metals	40	20
TOTAL	200	100

If after reading this report you would like more information about protecting your receivables against payment default by your customers you can visit the Atradius website or if you have more specific questions, please leave a message and a product specialist will call you back. In the Publications section you'll find many more Atradius publications focusing on the global economy, including country reports, industry analyses, advice on credit management and essays on current business issues.
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