November 2021

Atradius Payment Practices Barometer

Germany

Focus on B2B payment practices in the chemicals, steel/metals and transport industries

In this report...

Disclaimer

"The sector with the greatest adoption of credit insurance (chemicals) also contains the largest percentage of businesses anticipating growth and a positive outlook next year."

Dr. Thomas Langen
Senior Regional Director Germany, Central and Eastern Europe

Late payments cast cloud over economic recovery

After a difficult start to the year, and a contraction of 5.1% last year, German GDP is forecast to achieve a modest rebound by the end of 2021, and enjoy a more robust acceleration by year-end 2022. This fairly bright outlook may be behind the large percentages of businesses in the German chemicals, steel/metals and transport industries anticipating growth next year.

However, digging deeper and looking more closely at payments behaviour across the industries we see a slightly more worrying picture. Businesses in both the chemicals and steel/metals sectors revealed in the Payment Practices Barometer survey that they withheld payments to suppliers when experiencing slow paying customers. While this might help to ease cash flow issues in the short term, it also risks creating an ever-tightening circle of poor payments behaviour and a knock-on effect that could cascade down the supply chain.

In an attempt to protect liquidity levels from payment default, several businesses polled in the transport sector, for example, reported setting aside bad debt reserves. While it is certainly good business sense to build up a healthy balance sheet, maintaining a large bad debt fund might not support business growth. This is because money set aside to cover a debt is not working for a business where capital could be invested in development and growth.

Businesses without credit insurance across the industries also told us that over the past year they had frequently experienced an increase in the administrative costs involved in the management of their credit departments. In addition, respondents from the chemicals and steel/metals sectors reported a recent increase in write-offs and more than 50% of the total value of invoices in the transport companies are overdue.

Each of these challenges could be erased using credit insurance. Indeed, remaining uninsured could be a false economy where businesses face increasing debt management and collections costs. It is interesting to see in this snapshot of payments behaviour across three major industries that the sector with the greatest adoption of credit insurance (chemicals), also contains the largest percentage of businesses anticipating growth and a positive outlook next year.

Payment practices in Germany

In this year's Payment Practices Barometer survey, businesses in Germany revealed a contraction in the total percentage of credit sales. 45% of all B2B sales were made on credit this year, compared to a total of 55% last year. When businesses turned down a request for credit, this was most often because they did not have access to a prospect's past payment performance.

This cautious approach could partly explain the success German businesses experienced in reducing the value of overdue sales. 37% of the total value of business invoices is currently overdue, a reduction on last year's 40%. That said, there was an increase in the total value of sales that were still outstanding after 90 days. This rose to 10%, up from 8% last year and almost all of these were written off.

A considerable number of companies in Germany choose to remain uninsured when it comes to credit management. The steps they took to mitigate credit risk include offering discounts for early payment and overdue invoice payment reminders. 60% of businesses told us they did not change their payment terms and only 50% were able to contain DSO (Days Sales Outstanding) year-on-year.

Looking ahead, 78% of the businesses we spoke to in Germany expressed optimism and predicted growth in 2022. Most believed customer payment practices will improve and 54% told us they intend to offer trade credit more often next year (largely as a way to provide short-term finance for their customers).

The growth outlook was expressed despite concerns over the health of the domestic economy and ongoing uncertainty about the pandemic. Many businesses told us that they plan to take further steps to protect their accounts receivable next year, either through a more proactive approach to credit management in-house or through credit insurance.

Reflecting on the impact of the pandemic, 58% of businesses told us that they have permanently adopted digitalisation, including for some, e-commerce . A significant number also revealed changes in customer demand and supply chains that they suspect may be long term.

Chemicals

Late payments and cash flow

Industry improves invoice-to-cash turnaround

Early signs of economic recovery can be seen in the year-on-year improvements experienced by the German chemicals industry. 24% of the businesses polled told us they experienced an increase in the average time it takes to convert overdue invoices into cash. Although admittedly this still represents nearly a quarter of the sector, it is markedly better than last year's survey results where 37% of the industry reported payment delays. 72% of the businesses polled reported no change to invoice-to-cash turnaround timings (56% last year) and 3% reported a decrease (7% last year).

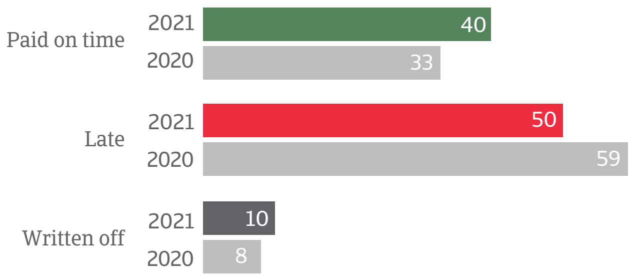
Improvement is also evident in the total value of B2B invoices that remain outstanding at the due date. This year 50% of the total value of invoices issued in the chemicals industry remained outstanding, much lower than last year's 59%.

Kicking the trend, albeit by a relatively small amount, is the volume of write-offs. Last year 8% of the total value of the industry's invoices was written off. This year that figure rose to 10%. A dark cloud in an otherwise improving outlook, 10% of lost revenue will undoubtedly weigh heavily on the liquidity position of much of the industry. Smaller businesses, in particular, could find it challenging to operate with such losses.

Perhaps in an attempt to minimise the write-off rate, 49% of the industry reported spending more time and employing more resources on collecting overdue invoices. Interestingly however, fewer businesses reported tapping external sources of finance in order to safeguard liquidity levels (just 38% of businesses polled compared to 48% last year). This may reflect the improved invoice-to cash turnaround rates we have seen across the country's chemicals industry. However, that said, 35% of businesses admitted they withheld payment to suppliers to protect their own cash flow levels. This is an increase on the 25% of businesses that reported the same delaying tactics last year.

Chemicals industry in Germany

% of the total value of B2B invoices paid on time, overdue and written off as uncollectable (2021/2020)

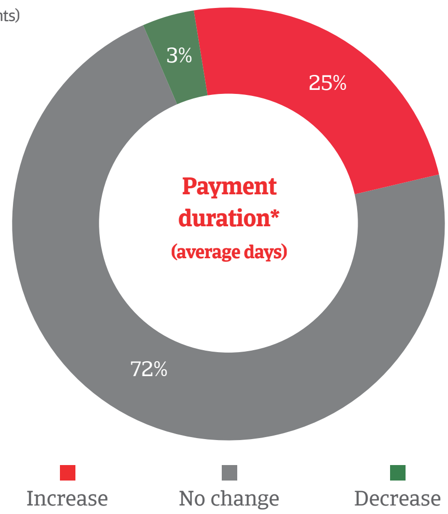


Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Chemicals industry in Germany

average time it takes to convert overdue invoices into cash (change over the past year)

(% of respondents)



* Payment term + payment delay

Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Chemicals

Approach to credit management and DSO

Spike in uptake of credit insurance reported

62% of the chemicals industry currently uses trade credit insurance to safeguard their accounts receivable. This is nearly twice as many as the 36% who reported using credit insurance last year. Interestingly this increase in the use of credit insurance is just one of several credit management techniques that the industry turned to more often this year, with many businesses reporting the use of a range of credit management tools and solutions. In addition to credit insurance and reliance on internal resources, businesses reported offering discounts for early payment of invoices. Several businesses also confirmed that they sent invoice payment reminders.
59% reported using of trade debts securitisation (an increase on last year's 41%).

A significant minority of the businesses that opted to remain uninsured experienced a sharp increase in credit management costs. 37% revealed an increase in the administrative costs of their credit departments. 53% told us they experienced no change. Much of the additional cost was spent on collecting overdue invoices, although the industry also reported increases in capital costs associated with external financing. In an attempt to preserve liquidity in the face of poor customer payment practices, several businesses also reported delaying payment to suppliers.

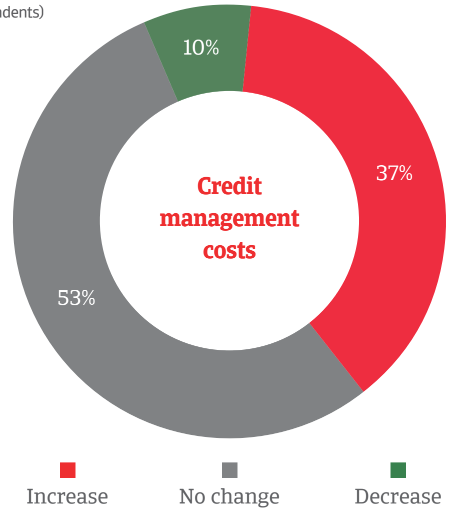
Industry plans to focus on stabilising DSO

Looking ahead at the coming months, most chemicals businesses plan to retain and manage customer credit risk internally. 30% said they plan to offer discounts for early payment of invoices. A substantial number said they intend to outsource debt collection to specialist agencies, or rely on the collections expertise provided by their credit insurance cover.
62% of the survey respondents explained that this strategic approach is intended to minimise swings in DSO over the next 12 months. This contrasts with the 23% of respondents who are braced for an expected lengthening of DSO, with long overdue invoices and a potential increase in write-offs.

The industry-focus on managing DSO suggests that businesses in the sector are working to safeguard their liquidity positions. Protecting cash flow will help minimise the risk of their profits being eroded, a situation which could threaten business survival especially for smaller operations.

Chemicals industry in Germany
change in credit management costs (2021/2020)

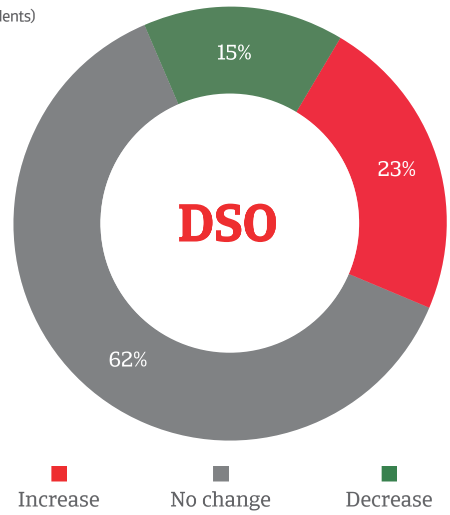
(% of respondents)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Chemicals industry in Germany
expected DSO changes over the next 12 months

(% of respondents)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Chemicals

2022 industry outlook

Industry positive about growth potential

83% of the businesses polled in the German chemicals industry feels positive about their growth next year. However, a large segment of the business community also expressed concern about the strength of their industry trading partners. 42% told us they are worried that their customers (or customer industries) will see a slow or even no rebound from the economic crisis next year. This weakened trading environment could lead to a heightened risk of late payments, payment defaults and liquidity shortfalls.

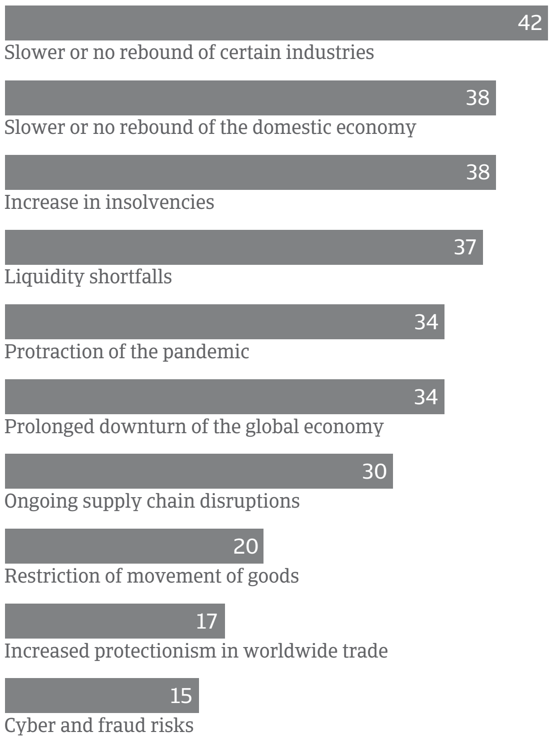
Perhaps bracing for the potential of tough times ahead, 39% of the survey respondents told us that they do not expect to see an increase in trading on credit. In contrast, however, 27% said that trading on credit will increase, specifically as way of providing short-term finance to customers.

When asked to indicate which changes adopted during the pandemic will become a permanent feature of the way they do business, more than half of the respondents cited their adoption of digital technology (54%). A similar percentage told us that they were facing potentially permanent changes to their supply chains (51%). Touching on both of these areas, 44% said they were experiencing increased or new opportunities for e-commerce as a result of the pandemic.

Chemicals industry in Germany

Looking into 2022: top ten concerns expressed by businesses in the industry

(% of respondents)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

SURVEY QUESTION

The pandemic has affected businesses significantly. Which of the following do you expect to become a permanent change in the way you do business?

(ranking by % of respondents)

#1 Increased digitalisation
#2 Supply chains reshaping
#3 E-commerce

Chemicals industry in Germany

how businesses feel about their possible growth in 2022

(% of respondents)

Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Steel / Metals

Late payments and cash flow

Late payments increase year-on-year

38% of the businesses polled in the German steel/metals industry told us they needed to wait longer than last year to convert overdue invoices into cash. This compares to 21% reporting the same last year. 62% of the businesses polled reported no change (79% last year) and nobody this year or last reported a decrease in payment delays. This year-on-year increase in late payments is reflected in the high total value of B2B invoices that remained outstanding at the due date (59%). This is higher than last year's 55% and suggests a higher proportion of cash may be tied up in unpaid invoices with the potential to cause cash flow issues in the industry.

There was also a steep increase in the number of write-offs reported, 11% compared to 7% last year. This is a huge amount of lost sales, representing a serious risk to the revenue and profitability of the industry. The large percentage of write-offs may explain why much of the German steel/metals industry reported adopting measures to improve the efficiency of their receivables management. This included spending more time and resources on collecting unpaid invoices to protect cash flow (reported by 49% of respondents). 38% of businesses told us they requested extensions to their bank overdraft facilities (compared to 32% last year).

A third of the businesses we polled resorted to external sources of finance to prop up business operations and meet short-term payment obligations (33%). This is a big drop on the 50% that accessed finance last year. Possibly in response to lower levels of finance, a number of businesses reported withholding payment from suppliers to protect their own liquidity levels.

SURVEY QUESTION

What measures did you put in place to protect your cash flow against customer credit risk?

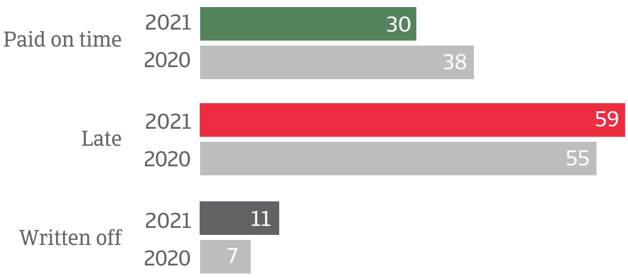
#1 Increase time, costs and resources spent on resolving unpaid invoices

#2 Strengthen internal credit control process

#3 Request a bank overdraft extension

Steel/Metals industry in Germany

% of the total value of B2B invoices paid on time, overdue and written off as uncollectable (2021/2020)

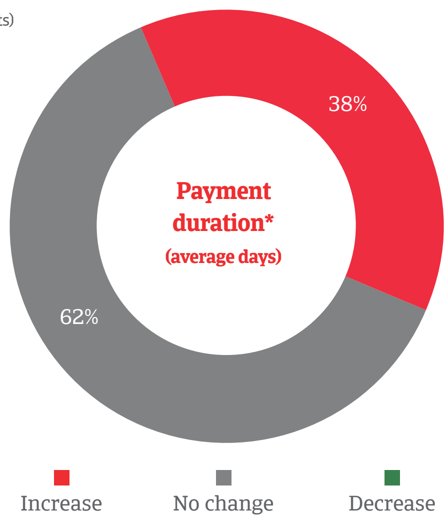


Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Steel/Metals industry in Germany

average time it takes to convert overdue invoices into cash (change over the past year)

(% of respondents)



* Payment term + payment delay

Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Steel /Metals

Approach to credit management and DSO

Three in five opt for credit insurance

62% of the steel/metals industry secures their accounts receivable with trade credit insurance. A similar percentage reported adjusting payment terms, in an effort to keep cash in-house for as long as possible (67%).

Interestingly, 75% of steel/metals businesses told us they relied on their own internal credit management resources. While for some businesses, this will mean opting to take the hit of any bad debts, many others will combine in-house self-insurance processes along with trade credit insurance. This may explain the fairly large percentages of businesses reporting the use of both self-insurance and credit insurance, as well as (less commonly) other tools such as factoring and securitisation. Other credit management techniques favoured by the industry include offering discounts for early payment of invoices (reported by 71% of businesses, more than last year's 59%).

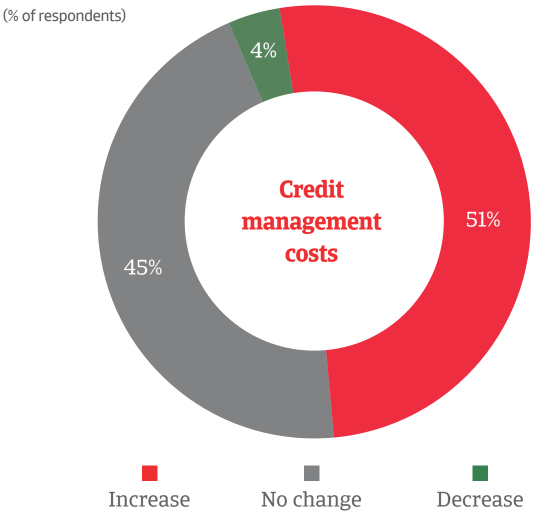
The businesses that did not insure their credit sales told us that they experienced a significant increase in credit management administrative costs (51% of respondents, compared to 45% who reported no change). 40% reported increases in costs associated with external financing and trade debt collection.

Majority brace for DSO increases

60% of the survey respondents told us that they expect to see an increase in their DSO. This is almost twice as much as the 33% who said they expect no change to DSO in the coming months and the remaining 7% who anticipate a decrease. This is a concerning picture and may indicate an expected increase in late payments and write-offs, which in turn could negatively impact on the financial health of many businesses in the sector. However, this negative projection may also reflect the difficult year the industry has experienced and an indication that they are braced for further headwinds.

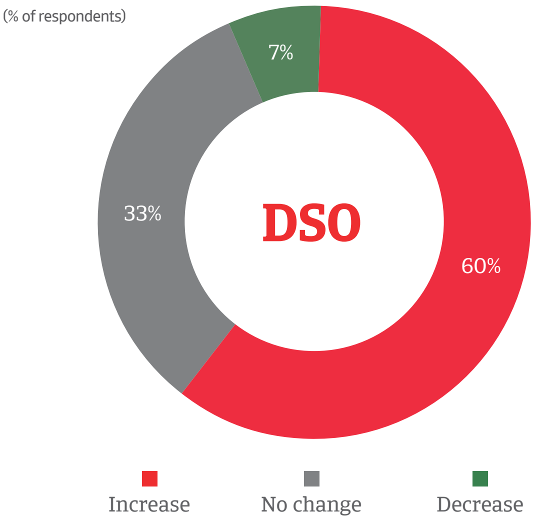
When asked how they plan to protect their accounts receivable over the coming months, the majority said they intend to manage at least some credit risk in house, with other techniques such as credit insurance, invoice payment reminders and requests for payment guarantees attracting a fairly even spread of interest.

Steel/Metals industry in Germany
change in credit management costs (2021/2020)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Steel/Metals industry in Germany
expected DSO changes over the next 12 months



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Steel / Metals

2022 industry outlook

Ongoing supply chain disruptions worry the industry

Looking ahead into 2022, half of the businesses polled in the steel/metals industry told us that they are worried about continued disruptions to their supply chains. In particular, they pointed to the potential this could have to cause negative repercussions to the health of the domestic economy, which in turn could trigger an increase in the risk of non-payment from B2B customers and cause liquidity shortfalls. In addition, nearly 30% of the respondents consider potential disruptions to trade arising from restrictions to the movement of goods, as risks that the industry might have to face over the coming months. Against this background, 53% of the respondents said they intend to offer B2B credit as a way to provide a source of short-term finance to customers in financial distress.

Despite these concerns however, 80% of the businesses polled in the steel/metals industry feels positive about their potential for growth next year. Just 12% expressed a more negative position.

Interestingly, when asked which of the pandemic-induced changes to their business will become permanent, 56% pointed to their agility. They told us that their ability to respond to changes in demand from customers is a positive business feature that they plan to sustain in the long-term. 55% of businesses plan to continue using the digital technology they adopted during the pandemic. 53% believe the pandemic-induced transformation of supply chains will become a permanent feature of their industry.

SURVEY QUESTION

The pandemic has affected businesses significantly. Which of the following do you expect to become a permanent change in the way you do business?

(ranking by % of respondents)

#1 Facing customer demand changes

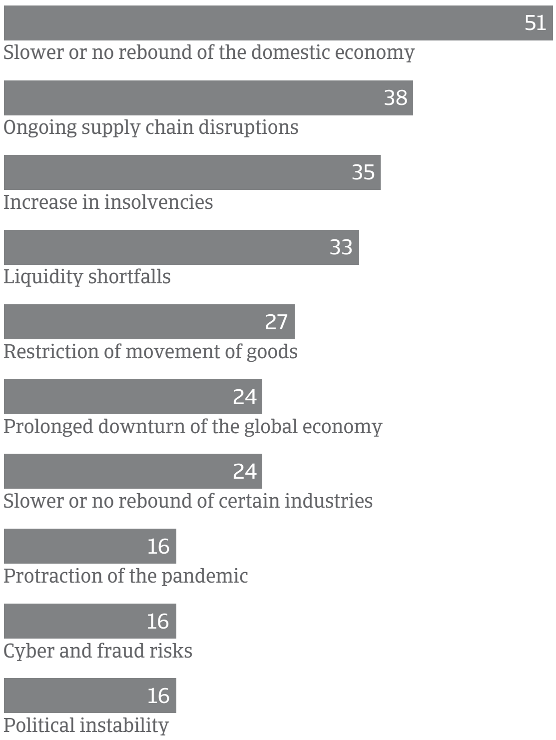
#2 Increased digitalisation

#3 Facing supply chains reshaping

Steel/Metals industry in Germany

Looking into 2022: top ten concerns expressed by businesses in the industry

(% of respondents)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Steel/Metals industry in Germany

how businesses feel about their possible growth in 2022

(% of respondents)

Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Transport

Late payments and cash flow

Over half of B2B invoices are overdue

54% of the total value of B2B invoices in the German transport sector were still outstanding by their due date. This is a similar percentage to the total amount overdue last year. However, 49% of businesses revealed they had to wait longer than last year to convert overdue invoices to cash (this is an increase on the 42% that reported the same last year). 46% of businesses reported no year-on-year change in their invoice-to-cash turnaround. The volume of write-offs also saw no discernible change from last year, with a reported rate of 7%.

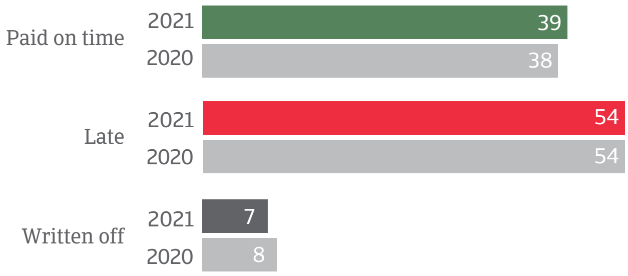
Holding such large volumes of debt on their books, in addition to the lost sales, is a concern for the transport industry and could lead to problems generating cash flow. On the bright side, the percentage of outstanding invoices and write-offs held steady compared to last year. However, smaller businesses in particular may find it challenging to operate or even survive with these reduced levels of liquidity. At the very least, the 7% write-off rate is likely to have a negative impact on profitability.

Perhaps in a bid to maintain liquidity, the percentage of businesses requesting extensions to bank overdrafts almost doubled (41% compared to 20% last year). In addition, 36% took out loans or other sources of external financing to safeguard their liquidity levels and meet payment obligations. This percentage is similar to last year and appears to represent a consolidated industry practice. Alongside propping up cash flow, however, such measures also increase costs.

In an effort to improve their cash flow, 56% of the survey respondents told us they were spending more time and employing more resources to collect unpaid invoices. This indicates the industry is attempting to recoup lost sales and minimise the negative impact of late payments.

Transport industry in Germany

% of the total value of B2B invoices paid on time, overdue and written off as uncollectable (2021/2020)

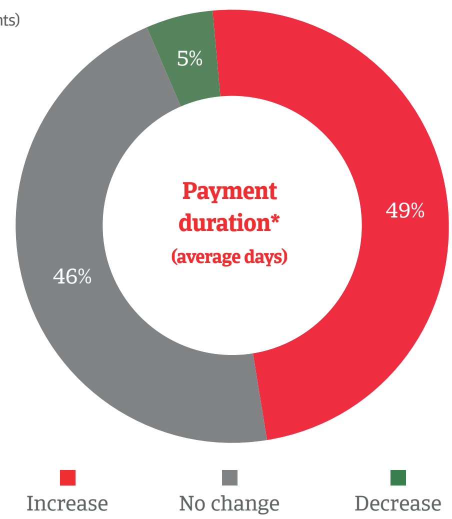


Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Transport industry in Germany

average time it takes to convert overdue invoices into cash (change over the past year)

(% of respondents)



* Payment term + payment delay

Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Transport

Approach to credit management and DSO

Uninsured companies experience increasing administration costs

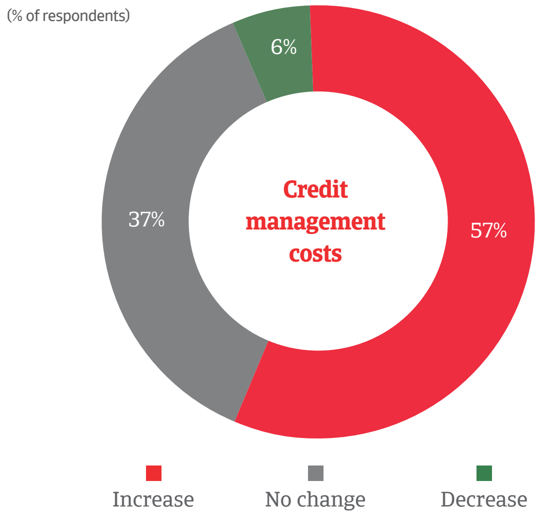
24% of the transport market trades with the stability and assurance of trade credit insurance. Alongside this, 65% reported creating at least some bad debt reserves and 58% of the industry told us that they offer customer discounts for the early payment of invoices (this small increase on the 54% reported the same last year). 53% of respondents used factoring to maintain cash flow (compared to 42% last year). In addition, 57% reported adjusting payment terms as part of their efforts to protect cash flow. This involves shortening payment terms on credit sales while attempting to increase the terms offered by suppliers. This practice was only reported by 31% of businesses last year. Taken together these practices all point towards an industry grappling with a greater squeeze on cash flow levels.

Unsurprisingly, the businesses without trade credit insurance told us they had experienced a significant increase in administrative costs associated with credit management. This was reported by 57% of respondents, compared to 37% who reported no change. In addition, two-fifths of businesses reported increases in capital costs (costs associated with external financing) and increased debt collection costs (around 40% each).

Industry expects debt management costs to grow

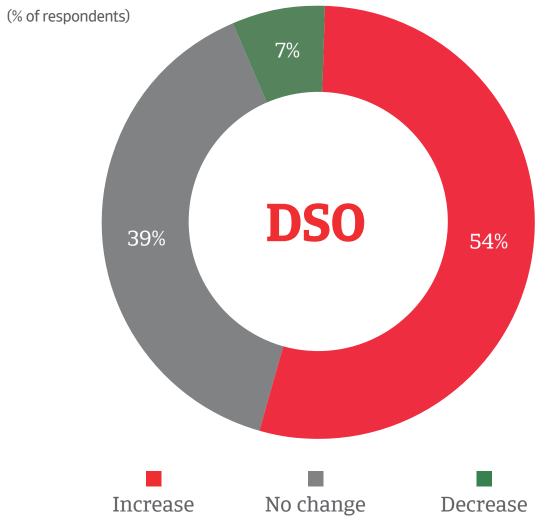
A significant number of transport industry businesses anticipate paying more to manage their credit sales over the coming months. 45% told us they plan to increase the use of internal resources to manage customer late payments, using techniques such as payment reminders. 39% also plan to increase the use of discounting for early settlement of invoices.
Perhaps acknowledging the limitations of such approaches, 54% the industry predicts DSO to increase over the next few months. This compares to 39% who anticipate no change and the remainder, a decrease. Despite this there appears to be a drop in appetite for credit insurance across the industry. 31% of this year's survey respondents said they intend to insure their accounts receivable, down from 46% last year.

Transport industry in Germany
change in credit management costs (2021/2020)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Transport industry in Germany
expected DSO changes over the next 12 months



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Transport

2022 industry outlook

Supply chain disruption worries transport industry

28% of the survey respondents told us they believe ongoing disruptions to supply chains could be a risk the industry continues to face over the coming months and into 2022. In addition, many businesses expressed concern over a likely increase in insolvencies leading to liquidity shortages and even a negative impact on the health of the domestic economy.

In light of these perceived headwinds, 34% of businesses told us they would offer trade credit more often as a source of short-term finance for customers. That said a similar percentage anticipates no significant change to the frequency of trading on credit over the coming months.

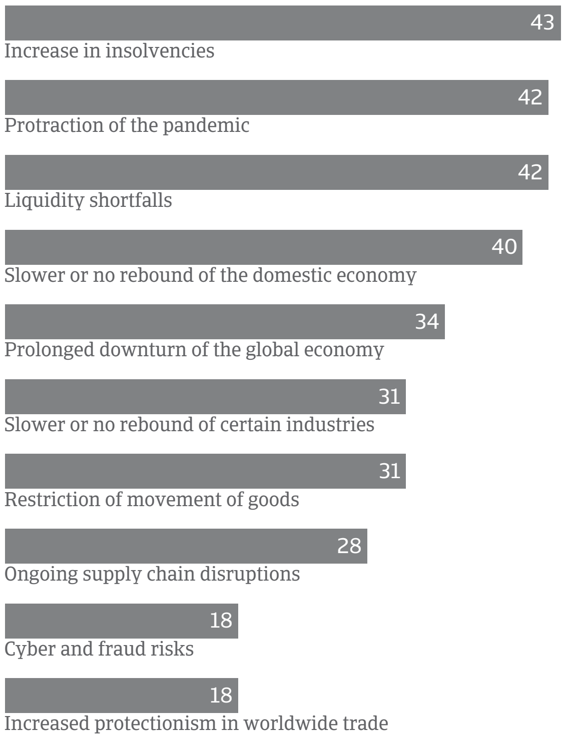
72% of the businesses polled in the transport industry feels positive about their growth potential next year. However, 20% have a pessimistic view on the outlook for their business growth. Twice as many respondents have this negative outlook than the other industries surveyed in Germany (chemicals and steel/metals).

When asked which of the pandemic-induced changes in the way they do business they are likely to adopt on a permanent basis, 65% told us that they would continue to use the digital technology they started using during the pandemic.

Transport industry in Germany

Looking into 2022: top ten concerns expressed by businesses in the industry

(% of respondents)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

SURVEY QUESTION

The pandemic has affected businesses significantly. Which of the following do you expect to become a permanent change in the way you do business?

(ranking by % of respondents)

#1 Increased digitalisation

#2 E-commerce

#3 Facing customer demand changes

Transport industry in Germany

how businesses feel about their possible growth in 2022

(% of respondents)

Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Survey design

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the 'Atradius Payment Practices Barometer'. This report, which is part of the 2021 edition of the Atradius Payment Practices Barometer for Europe, focuses on Germany. 200 companies from the German chemicals, steel/metals and transport industries have been surveyed. Due to a change in research methodology for this survey, year-on-year comparisons are not feasible for some of the results, although last year's values are used as a benchmark where possible throughout the survey.

CSA Research conducted the survey exclusively for Atradius.

Survey scope

- **Basic population:** 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.
- **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.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: Q3 2021.

Germany - total interviews 200

Industries surveyed

Chemicals
Steel/Metals
Transport

Sector

Companies interviewed	Chemicals (%)	Steel/Metals (%)	Transport (%)
Manufacturing	59	56	24
Wholesale trade	21	7	7
Retail trade/Distribution	6	36	45
Services	14	0	24

Company size

Companies interviewed	Chemicals (%)	Steel/Metals (%)	Transport (%)
Micro enterprises	41	16	55
SME – Small enterprises	14	13	22
SME – Medium enterprises	15	47	9
Large enterprises	30	24	14

Statistical appendix

Find detailed charts and figures in the Statistical Appendix. This is part of the November 2021 Payment Practices Barometer of Atradius, available at
www.atradius.com/publications
Download in PDF format (English only).

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