November 2021

Atradius Payment Practices Barometer

Turkey

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

In this report...

Most of the businesses that practised self-insurance (effectively opting to remain uninsured) told us that they had experienced increasing credit management costs.

Taner Isik
Atradius Country Manager for Turkey

Cash sales and credit insurance protect business books

Turkey's economy is expected to grow by 9% by end of 2021, supported by the global economic recovery and strong domestic production growth and strong exports. This bright outlook and promising predictions for 2022 can also be seen in the payments experiences of businesses in Turkey, as revealed in the results of this year's Payment Practices Barometer Survey.

For the survey, we polled businesses in the chemicals, consumer durables and steel/metals industries. We found that although late payments and write-offs feature on the books of all three industries, businesses were largely able to keep late payments under control by either avoiding credit altogether (and asking for payment in cash) or by using credit insurance. In fact, among the industries we surveyed, the two with the lowest or declining rates of write-offs, chemicals and steel/metals, contained the greatest percentages of businesses using credit insurance.

Interestingly, most of the businesses that practised self-insurance (effectively opting to remain uninsured) told us that they had experienced increasing credit management costs. These were spent on employing credit management staff, buying credit reports and outsourcing professional debt collection services, both domestic and foreign. Some businesses also incurred costs associated with loans and with covering the debts they had to write-off. However, businesses using credit insurance did not have any of these costs associated with their insured receivables. What's more, in addition to knowing their invoice would be paid, some businesses also told us they found credit insurance to be more cost effective. In particular they appreciated the certainty of knowing that their credit management costs would not increase the longer a debt remained unpaid.

As the global economy rebounds further next year, business activity in Turkey and across the world is likely to pick up. As they compete in both a domestic and global marketplace, larger numbers of businesses are likely to offer credit in a bid to win sales and stimulate growth. However, downside risks remain, and the post-crisis insolvency risk is still high. In such an environment, businesses would be wise to monitor payment practices in their industry and take steps to protect their accounts receivable from the risk of bad debts.

Payment practices in Turkey

Just over half of Turkey's B2B sales are transacted on credit. According to the results of this year's Payment Practices Barometer Survey, businesses offered credit for 51% of their sales, up from last year's 46%. Businesses offering trade credit did so in order to stimulate sales growth and encourage repeat orders. Where credit requests were refused, this was often to existing customers that had a history of being slow to pay.

Late payments affect 54% of the total value of B2B invoices and write-offs represent 7%. These volumes have largely held steady over the past two years and have the potential to impact the liquidity levels of businesses. In order to minimise cash flow pressures, many of the businesses polled in the survey told us they delayed paying their suppliers, spent more time and resources on chasing overdue invoices and sought external financing. Despite these measures, 56% of businesses reported deterioration of DSO (Days Sales Outstanding).

65% of businesses (the majority) opted for retaining credit risk in-house. For some businesses this involves setting aside funds to offset bad debts, although others may offer credit without having a bad debt fund. Steps uninsured businesses in Turkey take to mitigate the risk include offering discounts for early payment and reducing credit risk concentrations. However, for a large number of businesses, reliance on their own credit management resources proved costly. Businesses reported incurring increased administrative, capital and collections costs.

Looking ahead, the vast majority of the businesses we spoke to across Turkey expressed optimism and anticipate growth in 2022 (76%). Most intend to offer trade credit more often next year, largely as a way to stimulate sales growth through encouraging repeat business from customers.

However, most businesses expect to see a degree of deterioration in customer payment practices, which many plan to mitigate with requests for payment guarantees and trade credit insurance. A significant number also pointed to the downside risks posed by a continuation of the pandemic that could result in an uptick of insolvencies. More positive outcomes of the pandemic include the 62% of businesses that told us they have permanently integrated some digital innovations, particularly in the areas of home working and e-commerce.

Chemicals

Late payments and cash flow

More than half of invoices are overdue

53% of businesses in the Turkish chemicals industry reported overdue invoices this year. A figure that has remained unchanged from last year. In terms of value, 55% the total value of B2B invoices are affected by late payments (not far off last year's 53%). Write-offs experienced a minor year-on-year improvement (7% versus 10%).

In a bid to avoid running out of cash due to late payments, half of the businesses we polled spent more time and resources chasing unpaid invoices than last year. Their successes can be seen in the small reduction made to the proportion of write offs. However, many businesses also told us they often delayed paying suppliers to preserve their cash reserves as long as possible. Others resorted to external financing or requested a bank overdraft extension.

SURVEY QUESTION

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

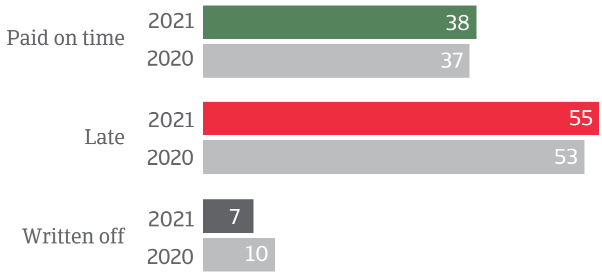
#1 Delay payments to my own suppliers

#2 Increase time, costs and resources spent on chasing overdue invoices

#3 Pursue external financing

Chemicals industry in Turkey

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

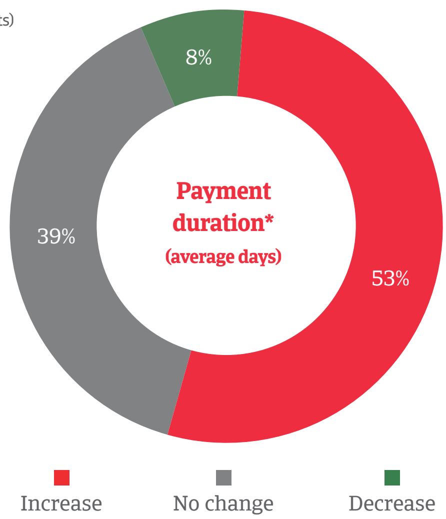


Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Chemicals industry in Turkey

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

Approach to credit management and DSO

Industry favours credit insurance over self-insurance

Survey data reveals that trade credit insurance plays a pivotal role in the approach to credit risk management shown by Turkish chemicals businesses. 74% benefitted from trade credit insurance this year. This is a small increase on the 69% reporting the same last year and the most commonly used credit management technique in the sector, followed by factoring (reported by 68%) and avoidance of credit risk concentrations (65%).

Only 65% of businesses in the Turkish chemicals industry opted to remain uninsured, a big drop from the 92% that chose to retain credit risk in-house last year. In addition, similar percentages adjusted their credit terms (65%) and outsource debt collection to professional agencies (64%).

Reflecting this varied approach, many businesses also revealed they often incurred increased administrative costs related to the management of their credit departments (57% of respondents). 53% reported increases in capital costs incurred through external financing and a similar percentage reported increases in the cost of trade debts collection. Retaining and managing credit risk in-house can be costly, which may explain the industry's apparent increased appetite for the more cost-effective credit insurance.

Payment guarantees to be requested

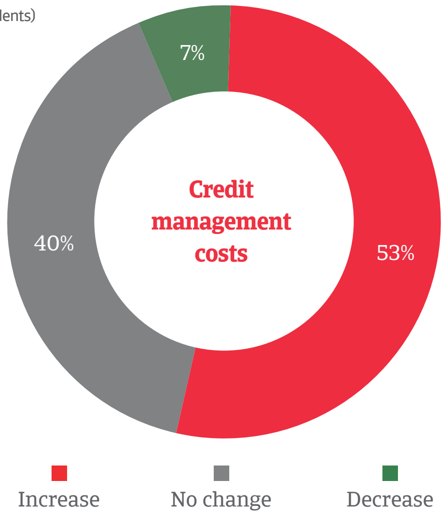
Looking ahead, 55% of the industry will ask their customers to provide payment guarantees. Businesses also told us they will increasingly request payment in cash in order to protect their liquidity, although many acknowledged this may impact their competitive edge.

Describing their credit management plans moving forward, the industry has an increased appetite for trade credit insurance and trade receivables securitisation, favouring these over retaining credit risk in-house. Businesses also intend to offer discounts for early payment, will avoid concentrations of credit risk and plan to remind their customers when invoices are due for payment.

47% of the industry does not expect to see changes in DSO and the same percentage expects it to deteriorate. The remaining respondents anticipate improvement.

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

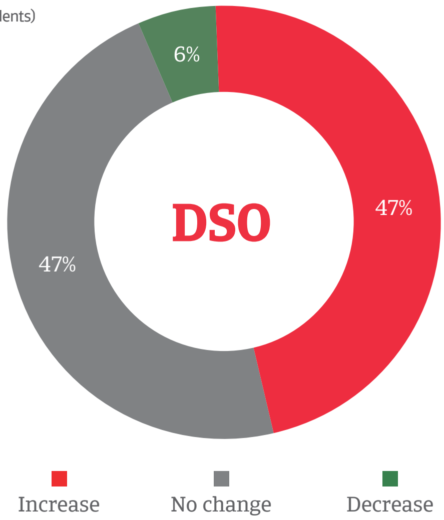
(% of respondents)



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

Chemicals industry in Turkey
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

Business optimism is buoyant

78% of the Turkish chemicals industry anticipates business growth next year, although this optimism is tempered by concerns that ongoing effects of the pandemic could adversely impact businesses. This concern was shared by 76% of the respondents interviewed.

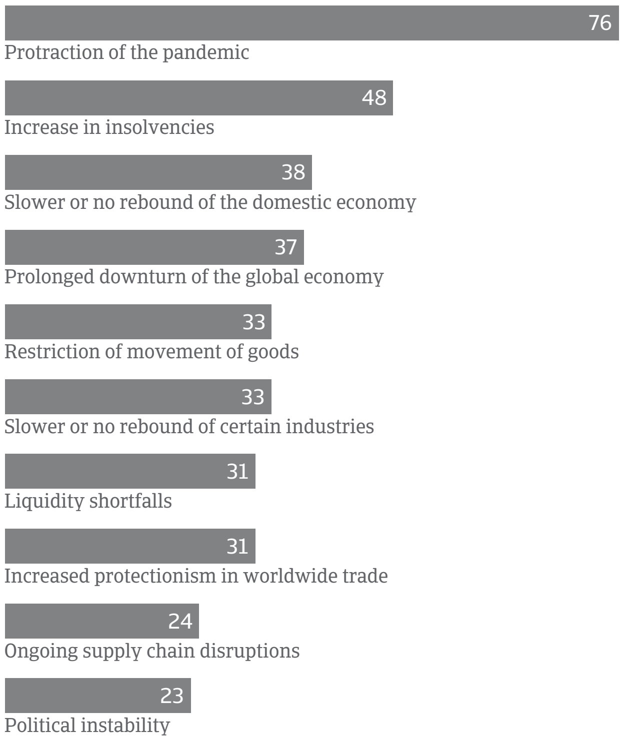
43% of the businesses polled told us they plan to use trade credit as a tool to stimulate customer demand next year. A smaller percentage intend to offer credit as a way to support customers struggling with cash flow issues.

Following changes made to their business during the pandemic, 58% told us they will retain newly adopted digital technology, particularly e-commerce. 50% will continue to enable staff to work from home.

Chemicals industry in Turkey

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

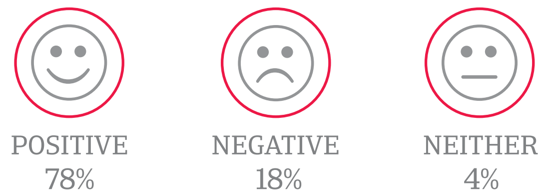
The pandemic has affected businesses significantly. Which of the following do you expect to become a permanent change in the way you do business?
(ranking by % of respondents)

#1 Increased digitalisation
#2 Increased e-commerce
#3 Home working

Chemicals industry in Turkey

how businesses feel about their possible growth in 2022

(% of respondents)



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

Consumer durables

Late payments and cash flow

The total value of three in five invoices are overdue

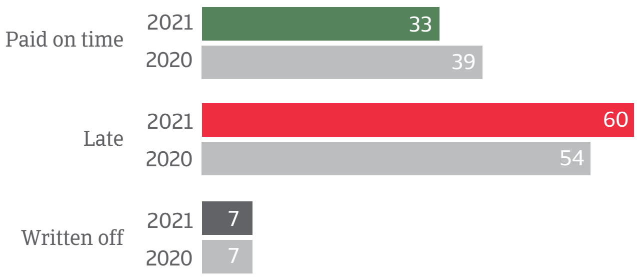
Businesses is Turkey's consumer durables industry reported a big jump in late payments year-on-year (53% compared to 33%). Just 35% reported no change over the period and 12% recorded an improvement in payment timings. The value of overdue invoices also saw a deterioration compared to last year. 60% of the total value of B2B invoices were reported late this year, compared to 54% last year. Write-offs remained stable at 7% of total value of invoices.

With such a big dent in their accounts receivable, 72% of the industry risked creating a domino effect in their supply chains and admitted delaying payments to suppliers. This is more than double the amount reporting the same last year (35%).

Businesses also spent more on trying to manage their depleted cash flow. 53% told us they spent more time and employed additional staff to collect unpaid invoices (compared to 28% of respondents last year). 50% sought external financing (30% last year).

Consumer durables industry in Turkey

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

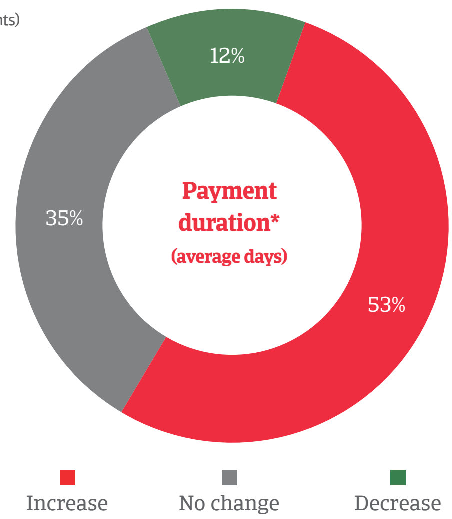


Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Consumer durables industry in Turkey

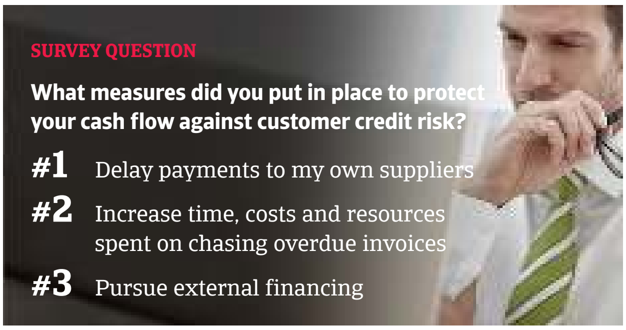
average time it takes to convert overdue invoices into cash (change over the past year)

(% of respondents)



* Payment term + payment delay

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



Consumer durables

Approach to credit management and DSO

Four in five businesses demand cash payments

In a bid to contain spiralling late payments from affecting business viability, the vast majority of the industry demands cash payments for their goods and services. This was reported by 80% of the industry both this year and last year and may be one of the reasons why write-offs were contained despite worsening levels of late payments.

Among the remaining 20% offering customer credit, the majority opted to retain credit risk in-house rather than protect their books with credit insurance (as reported by 65%). The credit management techniques they used to try and minimise the risk of late payments and payment default included discounts for early payment and adjustment of payment terms (largely relaxing them compared to last year).

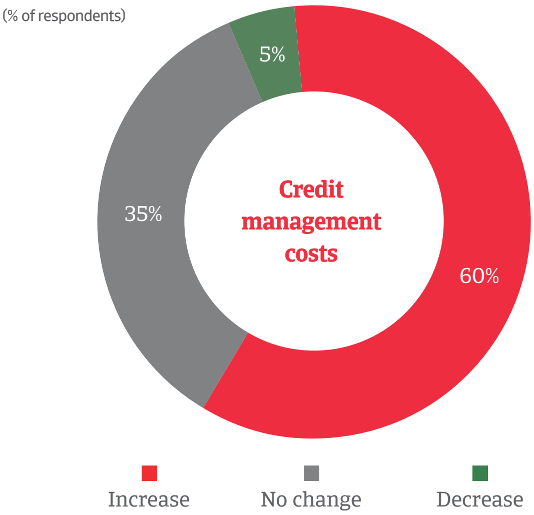
Unsurprisingly bearing in mind the increase in late payments, in-house retention of risk proved to be costly for many businesses this year. 68% of businesses that told us they experienced increased external financing costs, just to prop up their cash flows. But in addition to this, of the businesses that spent more on employing staff to manage payment defaults, 60% told us they spent more just on the administrative costs and 55% spent more on collection efforts.

Huge shift towards credit insurance

Possibly in response to the spiralling credit management costs reported by the industry this year, the majority of consumer durables businesses planning to offer customer credit next year intend to take out a credit insurance policy. 68% told us they will use credit insurance as a cost-effective way of securing their accounts receivable.

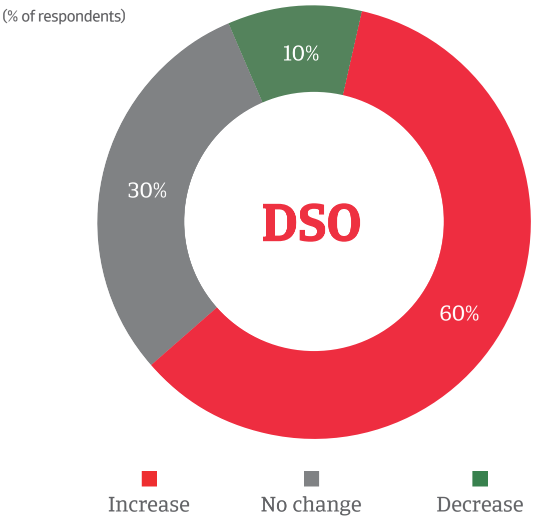
In addition, 65% told us they plan to retain last year's approach to credit management. For many this will involve retaining credit risk in-house, although respondents asserted they will adjust payment terms more often than last year. 60% told us they plan to ask for payment guarantees. More businesses also plan to ask for cash payments.
Perhaps reflecting the increased appetite for credit insurance, 60% expects DSO to increase only slightly over the coming months. This compares to 30% expecting no change and the rest expecting a more significant improvement.

Consumer durables industry in Turkey
change in credit management costs (2021/2020)



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

Consumer durables industry in Turkey
expected DSO changes over the next 12 months



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

Consumer durables

2022 industry outlook

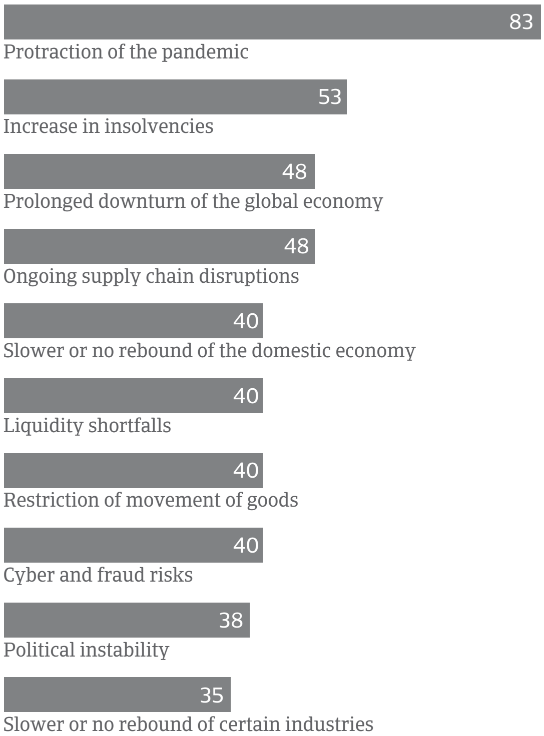
Business sentiment upbeat

Despite the difficulties experienced with late payments this year and the downside risks associated with a continuation of the pandemic into next year, business sentiment is upbeat. 75% of the industry anticipate growth, with just 15% expecting contraction and 10% holding steady. Perhaps reflecting this optimism, 55% believe trading on credit will increase next year, with 27% intending to use credit to support customer cash flows.

Looking at key changes introduced during the pandemic, 65% told us they had permanently adopted digital technology, 58% e-commerce and 55% plan to enable staff to continue working from home. Businesses also cited their agility and noted they would continue to adapt to changes in customer demand caused by the pandemic.

Consumer durables industry in Turkey
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 Home working
#3 Facing supply chains reshaping

Consumer durables industry in Turkey
how businesses feel about their possible growth in 2022

(% of respondents)

POSITIVE 75%
NEGATIVE 15%
NEITHER 10%

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

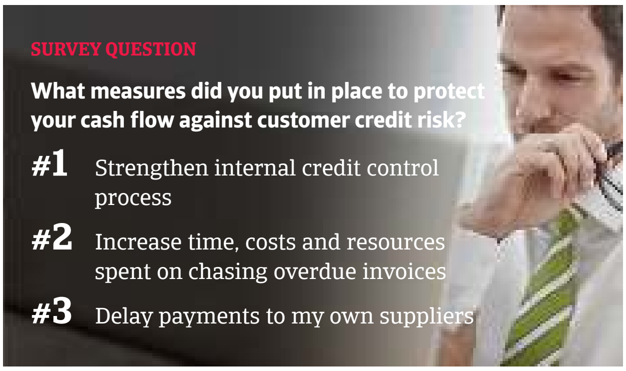
Steel / Metals

Late payments and cash flow

Industry focuses on credit controls

Deteriorating customer payment practices in the Turkish steel/metals industry led to an increase in payment delays of 40% year-on-year. 55% of the businesses polled reported no change and 5% reported improvement. 45% of the total value of B2B invoices in the industry remained outstanding at the due date. 5% was written off.

51% of the businesses we spoke to told us they had taken measure to strengthen credit control procedures. These included spending more time and employing more resources to collect unpaid invoices, pursuing additional financing from external sources and delaying payment to suppliers to keep liquidity in-house as long as possible. These methods were cited by 49% of respondents alike.



SURVEY QUESTION

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

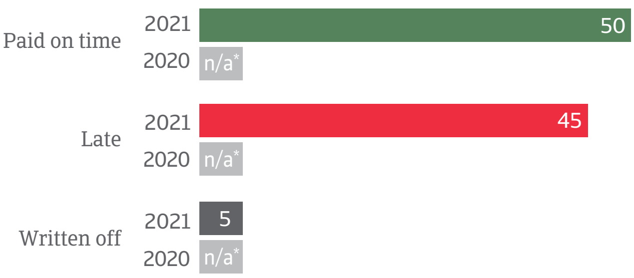
#1 Strengthen internal credit control process

#2 Increase time, costs and resources spent on chasing overdue invoices

#3 Delay payments to my own suppliers

Steel / Metals industry in Turkey

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

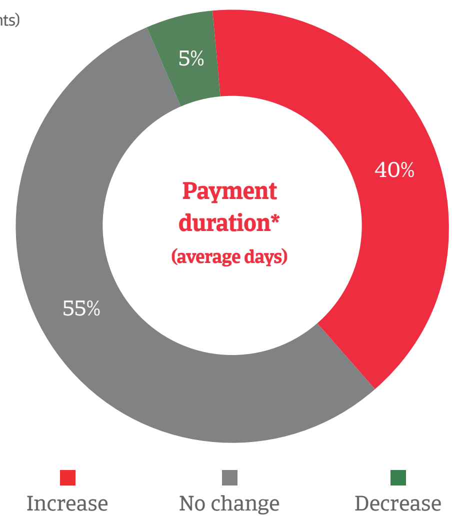


*n/a = not available
Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Steel / Metals industry in Turkey

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

Credit insurance favoured over alternatives

The steel/metals industry favoured credit insurance over opting to leave their accounts receivable uninsured. Businesses retaining credit risk in-house reported an increase in costs associated with external financing and debt collection (as reported by 65% and 35% of respondents respectively).

A sizeable number reported focusing on the avoidance of credit risk concentrations, with 60% offering discounts for early payment and requesting payment in cash. In addition, 60% of respondents told us they used factoring to help maintain liquidity levels.

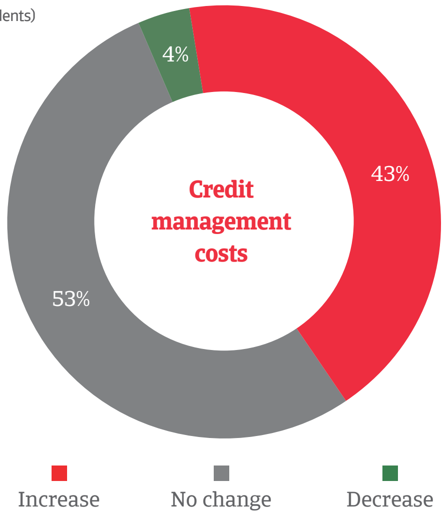
Industry to ask for payment guarantees more often

Half of the industry intends to take out a credit insurance policy next year (50%) and 53% plan to ask for payment guarantees more often. Businesses opting to retain credit risk in-house plan to reduce concentrations of risk and to increase their internal collections efforts.

48% of the industry anticipates an increase in payment delays next year and 45% expect to see little or no year-on-year change. Slightly more anticipate no change in DSO (50%) with 43% anticipating deteriorating and the remainder expecting an improvement.

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

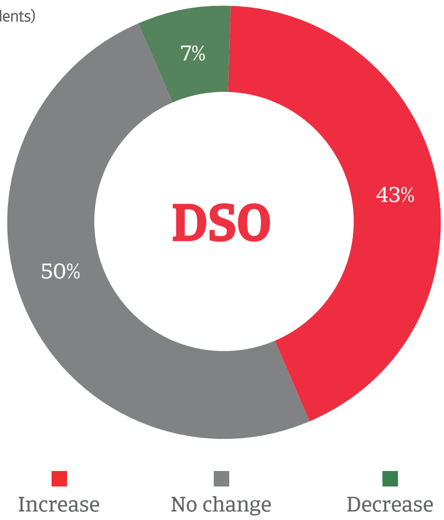
(% of respondents)



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

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

(% of respondents)



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

Steel / Metals

2022 industry outlook

Business confidence rides high

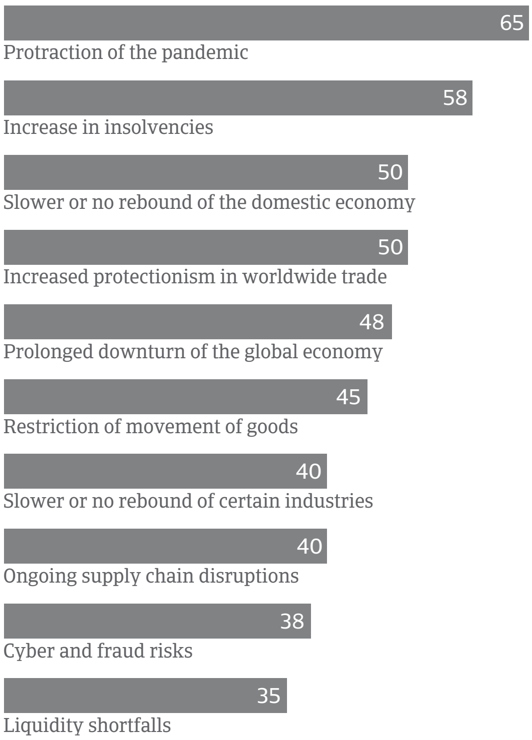
An overwhelming 85% of the Turkish steel/metals industry feels positive about their potential for growth in 2022. 65% acknowledged the downside risks that a continuation of the pandemic presents, with a heightened possibility for liquidity shortfalls and insolvencies.

38% of the industry plans to offer trade credit more often next year, with 27% planning to provide credit as a source of short-term finance to customers in financial distress.

Long term effects of the pandemic were recognised by 65% of the industry that plans to permanently adopt digital technology and 58% told us they were seizing new trade opportunities through e-commerce. 58% told us they have had to change the way they trade due to pandemic-related trade restrictions and protectionism.

Steel / Metals industry in Turkey
Looking into 2022: top ten concerns expressed by businesses in the industry

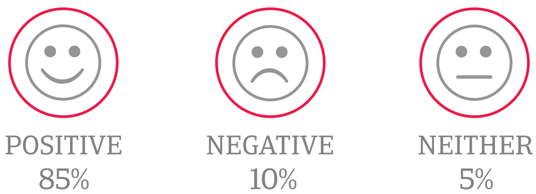
(% of respondents)



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

Steel / Metals industry in Turkey
how businesses feel about their possible growth in 2022

(% 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 Increased e-commerce
#3 Facing pandemic-related trade restrictions and protectionism

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 Turkey. 200 companies from the Turkish chemicals, consumer durables and steel/metals 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.

The survey was conducted exclusively for Atradius by CSA Research.

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.

Turkey - total interviews 200

Industries surveyed

Chemicals
Consumer durables
Steel/Metals

Sector Companies interviewed	Chemicals (%)	Consumer durables (%)	Steel/Metals (%)
Manufacturing	21	28	43
Wholesale trade	55	33	50
Retail trade/Distribution	12	28	3
Services	13	13	5

Company size Companies interviewed	Chemicals (%)	Consumer durables (%)	Steel/Metals (%)
Micro enterprises	49	13	58
SME – Small enterprises	9	30	8
SME – Medium enterprises	24	33	20
Large enterprises	18	25	15

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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