Atradius
Managing risk, enabling trade

November 2021

Atradius Payment Practices Barometer

Western Europe

Annual review of international corporate payment behaviour of companies in the region

In this report...

Disclaimer

> *We expect global insolvencies to rise 33% in 2022. With such a large increase, the ways that businesses manage their credit risk will play a significant role in the quality of their accounts receivables, and in some cases could even impact their viability.*
>
> **Andreas Tesch**
> Chief Market Officer, Atradius

Businesses should brace for heightened insolvency risks

This year's Atradius Payment Practices Barometer survey results show businesses, in all major regions worldwide, are poised for the next stage of the pandemic. After more than one year of pandemic driven starts and stops, businesses are looking forward to self-financed recovery. Most countries can expect government stimulus programs to end and insolvency courts to reopen in 2022. In particular, delayed insolvencies from 2020 and 2021, along with new ones, are expected to drive a heightened insolvency risk environment with rising payment defaults in most observed markets. We therefore, expect global insolvencies to climb 33% in 2022. All major regions should be affected, with the highest rise in Asia-Pacific, and somewhat lower increases in Europe and North America.

It is therefore paramount that businesses take appropriate precautions to protect their accounts receivables. In some cases, their viability could depend on the quality and reach of their credit risk management. Interestingly, our survey results reveal how the trading experiences of businesses during this year may have influenced their credit risk plans for 2022. For instance, a large percentage of the businesses polled in Western Europe, chose to retain and manage trade receivables in-house instead of insuring them. However, by doing so they very frequently incurred higher credit risk management costs. Many businesses also sought financing to strengthen their cash flow and manage the pressures of late payments from B2B customers. This, too, can be costly since financing costs rise the longer the invoice remains unpaid.

This explains why a significant percentage of survey respondents decided to use trade credit insurance as a cost-effective alternative to retaining credit risk in-house. Insuring trade receivables can alleviate pressure on liquidity due to customer insolvency. With Atradius credit insurance solutions you can also include debt collection services through which the debt may be recouped in part or in full at no additional cost.

Looking ahead to 2022, the Payment Practices Barometer points to a growing appetite for credit insurance across Europe. This demonstrates a widespread desire for sustainable business growth in response to the anticipated pressures and costs of late payments expected next year. Businesses using credit insurance, and the market intelligence it provides, are encouraged to exploit trade opportunities, with the comfort that their accounts receivables are protected.

Overview of payment practices in Western Europe

The use of credit in B2B sales in Western Europe has dropped. In this year's Payment Practices Barometer survey, 50% of businesses told us they used trade credit, down from 55% last year. 53% of the total value of all B2B invoices in Western Europe were reported overdue this year, an increase on last year's 47%. Write-offs also increased, from 7% to 10% of the total value of invoices in the region.

Perhaps in response to the challenges of the pandemic downturn and increases in late payments, significant numbers of the businesses we spoke to told us that they had taken steps to protect their accounts receivable. 90% of businesses across the region told us they had taken protective measures to avoid pressure on their liquidity caused by late payments. 53% protected their cash flow from late payments with trade credit insurance and a similar percentage opted for trade receivables securitization (54%). 32% propped up their liquidity with external financing from banks and other financial institutions. 70% reported resorting to self-insurance, setting aside bad debt reserves to mitigate the adverse impact of potential losses. The latter represents a big year-on-year increase, up from 56% last year. Of course, as the percentages suggest, many businesses adopted a range of measures, and did not confine themselves to a single approach.

50% of the businesses polled told us they had experienced no year-on-year change to DSO (Days Sales Outstanding). 47% experienced deterioration. 44% of businesses reported increasing the amount of time and resources spent on invoice collection and 39% told us they strengthened their internal credit control processes. Among the most reported cash flow management techniques were discounts for early payment, adjustment of payment terms and overdue payment reminders (dunning letters) for defaulting customers. Unsurprisingly, a significant percentage reported increased administrative, collection and financing costs related to credit risk management over the past year.

Looking ahead, 79% of the businesses we spoke to across Western Europe expressed optimism and predicted growth in 2022. Over half of these told us they expect their customers' payment practices to improve over the coming months. More than a third of the businesses polled in the region told us they intend to offer trade credit more often next year, largely to allow customers more time to pay invoices.

Business confidence was tempered a little, however, by the acknowledgement that downside risks remain. The primary risk concerns the pandemic. Although the vaccination programmes have succeeded in containing Covid-19 in many areas, the potential for further waves and future lockdowns persists and, in turn, could result in a downturn in both domestic and the global economies. In addition, many governments in Europe extended fiscal support and temporary insolvency legislation until the end of the year. As such support measures are removed during 2022, insolvency risk throughout the region is likely to increase, which in turn may trigger liquidity shortfalls and a deterioration in payment practices. Perhaps in recognition of this risk, 56% of businesses indicated an appetite for outsourcing credit risks through the increased use of trade credit insurance next year.

When asked whether the pandemic had caused their business to change its working practices, 52% reported permanently adopting elements of digitalisation and 43% told us they had taken up e-commerce. In addition, sizeable percenta ges indicated they were responding to changes in customer demand, had enabled home working for staff and had experienced a reshaped supply chain. Further insights into the country level results of this year's Atradius Payment Practices Barometer survey can be found, free to download, in the Atradius website's Publications section.

> *Digitalisation has surged over the past two years and is rapidly becoming a vital tool for business communication, trade and credit management.*

Dirk Hagener
Director Group Marketing and Communications, Atradius

Surging use of digital technologies is a trend to watch

In this year's survey across Western Europe, we asked businesses of all sizes, sectors and industries what changes, if any, they had permanently adopted following the outset of the pandemic. 52% of all the businesses surveyed in the region, said they increased their use of digitalisation. Indeed, adoption of digitalisation has surged over the past two years and is rapidly becoming a vital tool for business communication, trade and credit management. For many businesses, digital transformations that would normally have taken years were completed in months.

For some businesses, digital solutions have brought them closer to their customers. This is certainly the case with e-commerce. Enhanced connectivity via API (Application Programming Interface) and ERP (Enterprise Resource Planning) integration, alongside changes to working practices, including working from home have expanded exponentially, and have been enabled by digital technology. However, the last couple of years have also seen a rapid expansion of everything as a service. Use of cloud-based rental models are delivering B2B solutions for services ranging from software, to hardware, communication and security.

Developments in big data, distributed ledger and block-chain, which is a specific type of distributed ledger technology, are having a direct impact on the way that businesses trade and manage credit risk. Data is certainly being increasingly viewed, and traded, as a commodity. Block-chain and cryptocurrencies provide businesses alternative ways to pay for traded goods and services and, along with distributed ledgers, provide additional levels of security and transparency. Big data opens the door for businesses to conduct deep dive creditworthiness assessments with the ability to collect, collate, process and analyse greater volumes of data than ever before. Of course, bigger does not necessarily mean better and the expertise of people, such as underwriters and analysts, will remain a key asset in global trade and should not be overlooked.

The poll results in this most recent Payment Practices Barometer survey unequivocally demonstrate that businesses are adopting digital technology. It will be interesting to monitor this trend and, as the surge in digital adoption gains momentum, to see where it takes us and the impacts it will have on both domestic and international trade.

Survey results

Late payments and cash flow

More than half of the region's B2B invoices are overdue

53% of the total value of the B2B invoices issued by businesses in Western Europe was reported overdue this year. This is an increase on last year's 47%. The highest percentage of overdue payments was reported in Denmark with 62% of the total value of B2B invoices. Across the region as a whole 55% of SME invoices were overdue, with the same percentage reported by the region's manufacturing sector. 67% of invoices in the textile/clothing industry were reported to be overdue.

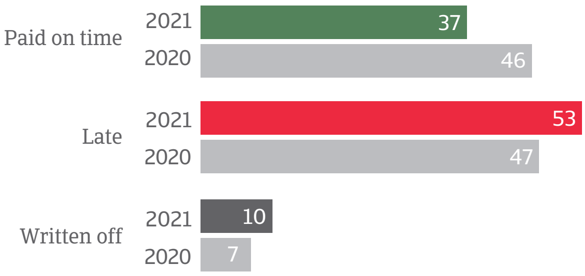
10% of the region's invoices were written off, an increase on 7% of the total value of invoices written off last year. As with overdue invoices, Denmark fared the worst, with 14% reported to have been written off representing a huge 8% year-on-year increase. SMEs also struggled to collect overdue invoices, writing off 11%. The manufacturing sector also reported an 11% write-off rate. The steel/metals industry indicated a difficult year, where write-offs amounted to 15% of the total value of B2B invoices.

An average of 47% of the businesses polled in Western Europe reported longer delays with invoice-to-cash turnaround than last year. This was seen most often in Denmark where 65% of businesses told us it took them longer to cash in invoices. When looking at the breakdown of businesses, payment delays increased most often for large businesses (55%) and businesses in the manufacturing (55%) and construction materials (57%) sectors.

47% of businesses in Europe reported no change in the length of time it took them to cash in invoices, with the highest proportion reporting this in Austria (69%). In contrast, just 6% of businesses in the region reported cashing in invoices more quickly than last year, with businesses in Greece reporting this most often (15%). 56% of SMEs in the region, 58% of respondents in the services sector and 67% in the textiles/clothing industry reported no year-on-year changes. Improvements in invoice-to-cash turnaround were reported most by SMEs (10%), the wholesale sector (11%) and the consumer durables industry (9%).

Western Europe

% 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

Survey results

Vast majority addresses credit management

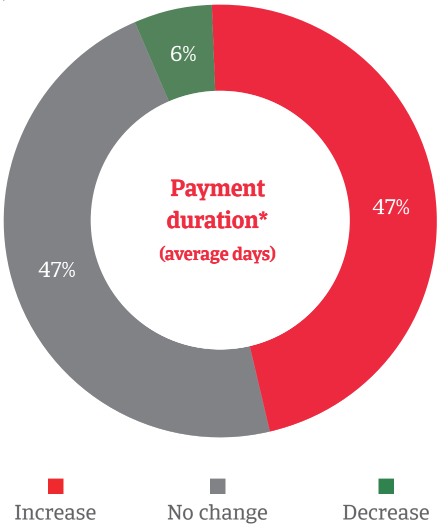
Perhaps in response to these high rates of late payments and write-offs a significant 90% of businesses polled in the region told us they had taken steps to protect their accounts receivable from the risks and impacts of payment defaults. 44% of businesses in the region reported increasing the amount of time and resources spent collecting unpaid invoices. This included 54% of SMEs, 48% of the manufacturing sector, 52% of the transport industry and 56% of all of the businesses surveyed in Austria.

39% of the region's respondents told us they had strengthened their internal credit control processes to enhance assessments of customer credit quality as well as customer making improvements to credit risk monitoring. This was reported by 40% of SMES, 41% of manufacturing businesses, 45% of machines and 54% of the businesses polled in Austria.

Accessing external financing from banks or other financial institutions was also frequently cited by businesses as a way to protect their cash flow. 32% of respondent across Europe told us they sought financing, including 39% of large enterprises, 39% of the manufacturing sector and 38% of both the machines and steel/metals industries. 42% of businesses surveyed in Sweden told us they sought external financing.

Western Europe
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

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 chasing overdue invoices

#2 Strengthen internal credit control process

#3 Pursue external financing

Survey results

Approach to credit management and DSO

Widespread adoption of credit insurance

More than half of the businesses polled in Western Europe adopted trade credit insurance this year. A regional average of 53% reported taking out a policy, largely among large enterprises (55%), the manufacturing sector (55%) and the machines industry (62%). Respondents from the Netherlands were the most likely to use credit insurance (69%).
70% of businesses across Western Europe opted to retain credit risk in-house this year, choosing to absorb any bad debts internally, ideally through setting aside bad debt reserves. This is a big increase on the 56% reporting the same last year. Belgium reported the most widespread use of self-insurance (86%), along with 78% of large enterprises, 76% of the manufacturing sector and 82% of the machines industry. Interestingly there is a close correlation in the business size, sector and industry reporting the greatest use of credit insurance and the greatest preference for self-insurance. This suggests that large enterprises and businesses in the manufacturing sector and machines industry may be proactive about credit management and may seek multiple approaches to mitigate credit risk.

The most popular technique for maximising cash flow is offering discounts for early payment of invoices. This was reported by 57% of the businesses we polled in Western Europe and by 70% of businesses in Italy. 67% of the large enterprises we polled and 64% of the wholesale sector reported offering discounts. The textiles/clothing industry, however, reported the greatest use of discounting with 80% telling us they offered discounts for early payment.

56% of the region told us they adjusted credit terms in a bid to maximise liquidity. They described shortening the terms offered to customers while negotiating lengthy terms with suppliers in order to retain the greatest levels of cash flow in house. Across Western Europe, this technique appears to be most common in the Netherlands (70%) and among large enterprises (60%), the wholesale sector (60%) and in the steel/metals industry (66%).

Outstanding invoice reminders, also known as dunning letters, are used by 56% of the businesses polled across Western Europe to encourage debtors to settle their outstanding accounts. This is most common in Austria (reported by 68% of businesses) and among large enterprises (69%), the manufacturing sector (58%) and the textiles/clothing industry (73%).

Businesses spend more on internal credit management costs

Offering discounts for early remittance, negotiating credit terms and chasing overdue invoices with increasingly determined letters and reminders can be labour intensive. This is reflected in the percentage of businesses that told us their costs for managing customer defaults had risen over the past year (60%). These increases in costs were reported most often by businesses in Belgium (77%). This is, perhaps, unsurprising as Belgium also reported the greatest percentage of businesses choosing to self-insure. In addition, 59% of SMEs across Western Europe told us they had experienced an increase in in-house credit management costs, as did 62% from the manufacturing sector and 65% from the transport industry.

Administrative costs for credit management can be divided into overdue invoice collection and the costs associated with sourcing finance (to support cash flow while awaiting invoice payments). Among the businesses polled in Western Europe, 40% of the businesses that opted for self-insurance reported increased costs associated with invoice payment collection. This was highest in Belgium (56%), among large enterprises (48%), within the manufacturing sector (44%) and in the transport and consumer durables sectors (49%).
37% of the businesses we spoke to in Western Europe reported increased costs associated with external financing. This was highest in Denmark (52%), among large enterprises (45%), within the manufacturing sector (45%) and among machines, construction and electronics /ICT businesses (48% each).

Survey results

Majority plan to use trade credit insurance next year

We asked businesses polled across Western Europe what credit management tools or techniques they envisage using over the coming months. Most businesses told us they do not plan to change their multifaceted approach to credit risk management significantly, however the majority plans to employ trade credit insurance. The 56% planning to take out credit insurance next year represents a slight increase on the 53% employing credit insurance this year.

Perhaps, more significantly however, only 48% of businesses in Western Europe plan to retain credit risk in-house. In addition to being a big drop down from the 70% of businesses in the region reporting self-insurance this year, it is also lower than the percentage of businesses opting for trade credit insurance. This could be an example of businesses seeking to offset credit risk amid an increased threat of insolvency next year as many governments remove insolvency protections and fiscal support. It could also reflect the 60% of the businesses surveyed in the region having experienced increased costs associated with in-house credit management this year. These are looking to cap their costs next year.
Italy has the greatest appetite for trade credit insurance, with 71% reporting the intention to take out a policy. 57% of SMEs as across the region, 65% of business in the services sector and 65% of businesses in the steel/metals industry all told us they plan to secure a credit insurance policy next year.

69% of businesses in Belgium and 69% of businesses in Switzerland told us they intend to retain credit risk in-house next year. Across the region, 56% of SMEs, 56% of businesses in the manufacturing sector and 60% of the transport industry said they will use self-insurance (and possibly for some, no insurance).

Securitisation of trade receivables next year is favoured by 54% of businesses in the region, including by 69% of businesses in Italy, 60% of SMEs, 62% of the services sector and 64% of the chemicals industry. An average of 54% of businesses in the region plan to outsource collection of invoices to professional B2B debt collectors. This includes 63% of businesses in Austria, 54% of SMEs, 61% of the wholesale sector and 62% of the chemicals industry.

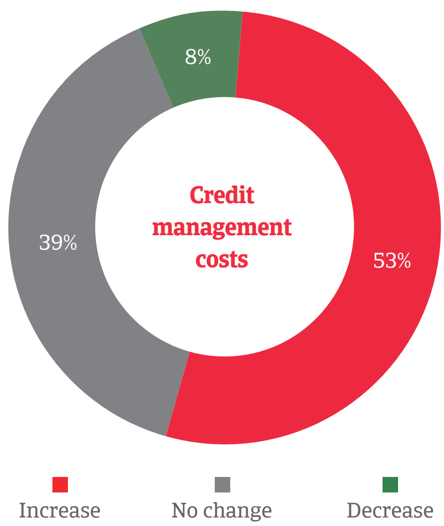
Businesses divided over DSO predictions

Almost half the businesses we polled in Western Europe expect their DSO to deteriorate next year and almost half expect it to stay the same. 46% believe their DSO will worsen over the coming months, with 65% reporting the same in Belgium, 55% of large enterprises, 55% in the manufacturing sector and 58% in the transport industry. However, 45% of businesses in the region anticipate no real year-on-year change in their business's DSO levels. Italy has the highest percentage of businesses reporting this (64%), along with 54% of the region's SMEs, 57% of the services sector and 63% of the chemicals industry.

9% of businesses in the region expect to see an improvement in their DSO results. This is anticipated most often by businesses in Greece (20%), 10% of SMEs, 10% of the services sector and 8% of the consumer durables industry.

Western Europe
change in credit management costs (2021/2020)

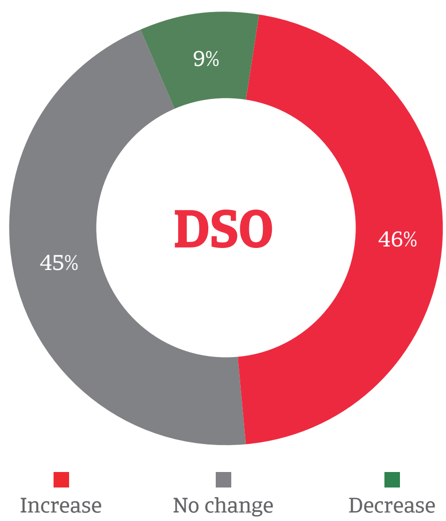
(% of respondents)



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

Western Europe
expected DSO changes over the next 12 months

(% of respondents)



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

Survey results

2022 outlook

Majority expects growth next year

Business confidence across the region is strong. 79% of respondents to our survey anticipate growth next year. This was reported most often by businesses in the Netherlands where 93% predict growth, and by 83% of SMEs, 85% of the manufacturing sector and 83% of both the consumer durables and transport industries.

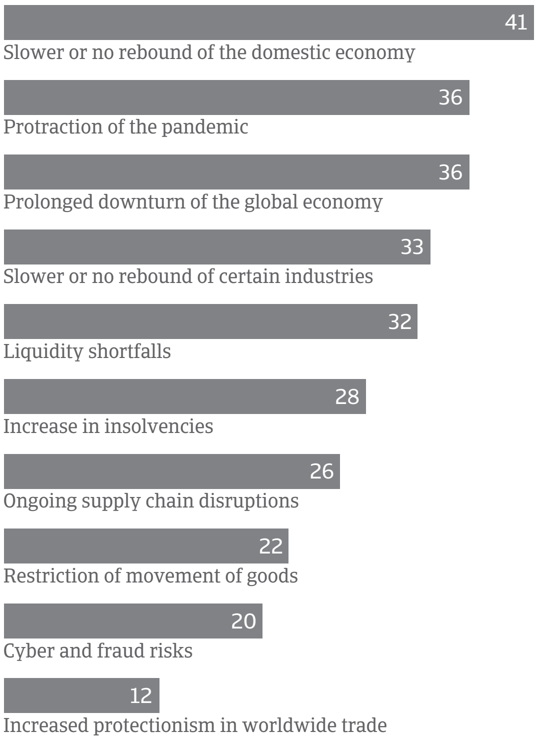
However, the majority of the businesses we spoke to also acknowledged the downside risks that the pandemic continues to pose and how this may impact businesses and economies. 36% of businesses in the region are concerned about the continuation of the pandemic into next year, including 63% of businesses in Greece, 46% of SMEs in Western Europe, 47% of the manufacturing sector and 45% of the agri-food industry. Looking specifically at the economy 41% of the region expressed concern over the potential health of their domestic economies and 36% about the global economy next year. Concerns about the domestic economy were noted by 52% of businesses in the Netherlands and Denmark, as well as 44% of large enterprises, 47% of the manufacturing sector and 62% of the machines industry. 51% of the businesses we spoke to in Belgium expressed concern over the health of the global economy next year, along with 38% of the region's SMEs, 38% of businesses in the wholesale sector and 48% of businesses in the machines industry.

33% of businesses in the region expressed concerns over potential post-recession rebound delays for some industries. This concern was also reported by 45% of businesses in Denmark, 39% of large enterprises, 38% in the manufacturing sector and 55% in the machines industry. Looking at their own businesses, 32% told us they anticipated some liquidity shortfalls next year. This was reported most often by 42% of businesses in Denmark, 39% of large enterprises, 35% in manufacturing businesses and 40% in the machines industry.

Western Europe

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

(% of respondents)



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

Survey results

Credit use to increase next year

When asked how much they intend to use trade credit next year, 35% of businesses in the region told us they plan to offer credit more often in order to give their customers additional time to pay and 30% intend to use credit to stimulate demand. 25% told us they have no plans to change credit levels and the remainder intend to reduce their levels of credit trade. The country with the greatest percentage of businesses planning to give customers longer to pay is Denmark (reported by 48% of respondents). 40% of large enterprises across Western Europe share the same plans, along with 40% of the region's manufacturing businesses and 43% of the construction materials industry. 42% of businesses in both Belgium and Greece told us they plan to increase their use of trade credit in a bid to stimulate demand. This view was echoed by 32% of large enterprises in the region, 33% of manufacturing businesses and 36% of the machines industry.

Looking at the long-term impacts of the pandemic on their businesses, 52% of the region told us they had permanently adopted digitalisation in working practices. This was reported by 61% of the businesses polled in Belgium and by 56% of large enterprises across Western Europe. 55% of the manufacturing sector reported the same, along with 59% of the consumer durables industry.

In addition, 43% of the region reported they had altered their sales practices and now offer e-commerce options for customers. E-commerce was most widely adapted by businesses in Denmark and reported by 55% of respondents. Across Western Europe, the largest percentage of businesses adopting e-commerce were large enterprises, businesses in the manufacturing sector (45% alike), businesses in the electronics/ICT industry (51%) and businesses in the machines industry (59%).

41% of the businesses polled in Western Europe told us they had experienced changes in customer demand following the onset of the pandemic. This was most frequently reported in both Denmark and Sweden (55% alike) and in the machines industry in Western Europe (59%). 45% of the region's manufacturing also cited changes in customer demand, along with 51% of the electronics/ICT industry.

Enabling staff to work from home is a change to working practices that 40% of businesses across Western Europe adopted during the pandemic. This was reported most often in Greece (56% of respondents) and in the machines industry (59%). Facilitating home working was also cited by 45% of the region's large enterprises, 52% of the services sector and by 48% of businesses in both the chemicals and agri-food.

An average of 41% of businesses in the region told us that the pandemic had reshaped many of their supply chains. 54% of businesses in Denmark reported changes to supply chains, along with 65% of Western Europe's machine's industry. Reshaped supply chains were also listed by 40% of the region's SMEs and 43% of the distribution sector.

Western Europe

how businesses feel about their possible growth in 2022

(% of respondents)

POSITIVE	NEGATIVE	NEITHER
79%	9%	12%

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

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 Northern and Western Europe. 2,610 companies from thirteen countries (Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, Spain, Sweden, Switzerland, and the United Kingdom) have been surveyed. The businesses polled operate in the region's agri-food, chemicals, construction, construction materials, consumer durables, electronics/ICT, machines, steel/metals, textiles/clothing and transport industries, and in the services sector. 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 that enables us to analyze country data across sectors and company sizes.
- **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=2,610 people were interviewed in total.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: Q3 2021.

Europe (Northern and Western) - total interviews 2,610

Austria	Greece	Sweden
Belgium	Ireland	Switzerland
Denmark	Italy	the United Kingdom
France	the Netherlands	
Germany	Spain	

Sector

Companies interviewed	n.	%
Manufacturing	1,074	41
Wholesale	567	22
Retail/distribution	486	19
Services	483	19

Company size

Companies interviewed	n.	%
Micro enterprises	496	19
SME – Small enterprises	522	20
SME – Medium enterprises	830	32
Large enterprises	762	29

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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