

Western Europe: financial stability at risk for businesses across Western Europe?

Atradius Payment Practices Barometer





As economic growth decelerates, and the manufacturing sector struggles amid lower global trade, Western Europe expects to close the year with a 2.7% increase in insolvencies. This marks the first annual increase for the region in years and is the bleakest regional outlook. In 2020, the financial stability of businesses in the region is expected to worsen with insolvencies climbing an additional 0.7%. Slowing economic growth, the escalation of the US-China trade war, and looming uncertainty surrounding the future relations between the UK and the EU are the key drivers of the upswing in business failures across Western Europe.



Andreas Tesch, Member of the Management Board and Chief Market Officer of Atradius, commented on the report



No end to challenging times is in sight this year, and the forecast for next year is not positive either. The global business environment has inevitably deteriorated and is expected to remain troublesome over the coming months. Insolvencies are expected to increase again in 2020, putting the financial stability of businesses under severe strain.

In particular, the 2.6% slowdown of the global economy expected this year will mark a reversal in the downward trend of annual insolvencies since the financial crisis of a decade ago. The upward revision arises mainly from a significant worsening of the insolvency environment in North America and Asia Pacific, where slowing domestic GDP and trade growth ticks up corporate insolvencies.

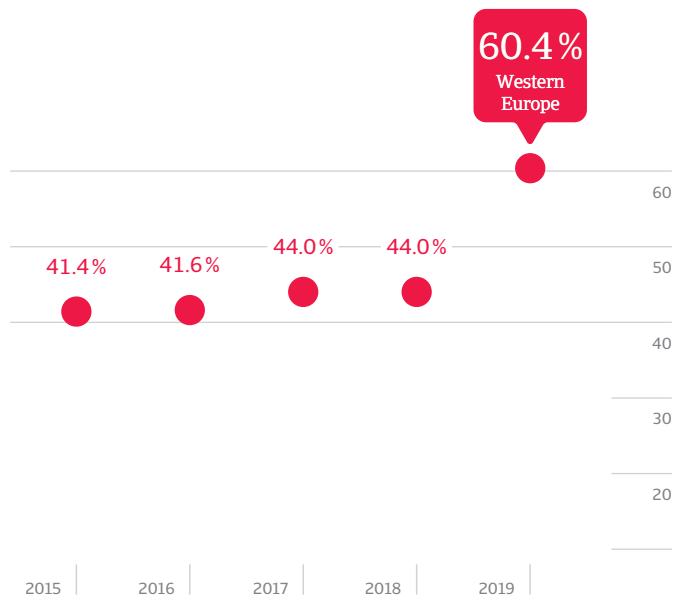
Western Europe, of course, is not immune to this. Here, the number of businesses going bankrupt is forecast to increase this year and next, posing an increased risk to financial stability and corporate solvency.



Respondents in Western Europe offer customers credit far more often than last year to support domestic demand and stay competitive on foreign markets

On average, 60.4% of the total value of the sales of suppliers surveyed in Western Europe made to B2B customers are on credit (up from 41.4% last year). This compares to 67.2% in Eastern Europe, 50.9% in the Americas and 55.5% in Asia-Pacific (up from 38.8%, 45.8% and 48.1% last year respectively). The marked increase in the average proportion of sales made on credit by respondents in Western Europe is highly likely to be a reflection of the efforts of businesses to sustain domestic demand, and to enhance their competitiveness on export markets. Against this backdrop, however, the use of B2B trade credit varies markedly across the countries surveyed in Western Europe. Respondents in Denmark seem to be the most likely to offer credit to their customers (75.5% of the total value of their B2B sales was reported to be transacted on credit, up from 61.5% last year). Across the other countries surveyed in the region, the proportion of B2B sales made on credit ranges from a high of 68.1% (up from 64.1% last year) in Greece to a low of 44.6% by suppliers surveyed in France (up from 31.6%).

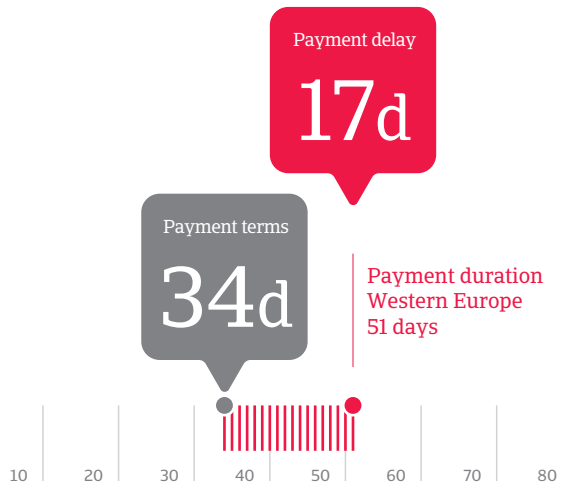
Proportion of total B2B sales made on credit in Western Europe



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



Payment duration in Western Europe



d = average days

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

Source: Atradius Payment Practices Barometer – October 2019

Average payment terms in Western Europe reflect businesses' concerns about the increasing risks of payment default and corporate insolvency

Despite offering customers credit far more frequently than one year ago, a large proportion of the respondents in Western Europe do not appear to be equally inclined to give B2B customers a longer period to pay invoices. This is evidenced by the wide range of payment terms. The average payment terms of suppliers surveyed in Spain, are 48 days from invoicing (47 days last year), in France (34 days versus 33 days last year), the Netherlands (28 days versus 27 days one year ago) and Germany (22 days compared to 21 days last year). Not unexpectedly due to the ongoing uncertainty surrounding Brexit and the related bleak insolvency outlook for the UK and Ireland, suppliers surveyed in both countries requested payments much earlier than last year. In the UK, average payment terms stand at 20 days (down from 24 days last year) and in Ireland at 28 days (down from 31 one year ago). These are the only two countries surveyed in which average payment terms are shorter than in last year's survey. In the remaining countries surveyed in Western Europe, on the contrary, suppliers surveyed appear to be inclined to extend more lenient terms than last year to settle invoices. This ranges from a high of 66 days in Greece (up from 62 last year) to a low of 27 days in Denmark (up from 23 days one year ago). The regional average for Western Europe of 34 days (up from 32 days last year) compares to an average of 32 days in both the Americas and Asia Pacific, and 37 days in Eastern Europe.

The most common credit management techniques used in Western Europe are the assessment of the prospective customers' creditworthiness and dunning letters (outstanding invoice reminders)

As survey findings reveal, the most commonly used credit management policies of suppliers surveyed in Western Europe focus on the assessment of a prospective buyer's creditworthiness prior to any decision to sell on credit. In particular, the survey data shows that respondents from Greece (53%), Germany (45%), Italy (42%) and Austria (41%) perform creditworthiness checks significantly more often than their Western European peers do (35%). The second most popular credit management technique in Western Europe is the use of dunning letters (outstanding invoice reminders). 28% of respondents in the region dun. On a country level, dunning is most frequently performed by respondents from Greece, Austria, Germany and Switzerland (39% of respondents on average). The 28% regional average is well below the 36% average of Eastern Europe but well above the 18% average of both the Americas and Asia-Pacific regions where reserving against bad debts is the second most popular method for managing trade credit risk.

The UK is the most impacted by late payments from B2B customers with Denmark the least impacted

Suppliers surveyed in Western Europe cash in overdue invoices earlier than one year ago, on average within 51 days of invoicing, down from 57 last year. This reflects improved payment timings from B2B customers, resulting in an average of 67.5% of invoices paid on time up from 60.1% last year. Despite this, an average of 29.9% of the total value of the B2B

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25%
of the businesses surveyed in Western Europe are concerned that access to external borrowing could become more difficult over the coming months.

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58%

of the respondents in Western Europe reported that late payments from B2B customers had a significant impact on their business.

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invoices issued over the past year remained unpaid at the due date. By country, this percentage climbs to a high of 35.1% in the UK, followed by Greece at 34.8%, and dropping to 20.3% in Denmark. Across all the other countries surveyed in Western Europe, the proportion of past due B2B invoices ranges from a high of 32.3% in France to a low of 23.6% in the Netherlands. As to the average invoice to cash turnaround, suppliers surveyed in Germany appear to be the quickest to cash in overdue payments (on average 36 days from invoicing, down from 40 days last year), whereas those in Greece are the slowest (on average 83 days from invoicing, down from 96 last year). For 58% of the respondents in Western Europe, late payments from B2B customers had a significant impact on their business. To manage liquidity issues arising from untimely payment of invoices, most suppliers surveyed either delayed payment to their own suppliers or took specific measures to correct cash flow and ensure the continuity of the business (27% of respondents in each case). This was most often the case for respondents in the UK (45%).

A quarter of respondents in Western Europe expect B2B payment practices to deteriorate over the coming months

55% of the suppliers surveyed in Western Europe believe their customers' payment practices will not change notably over the coming months. Respondents in Denmark (70%) appear to be the most confident in this respect. In contrast, a quarter of the suppliers surveyed in the region, expect customers' payment practices to deteriorate markedly over the coming months, ultimately triggering a significant increase in overdue invoices with a consequent negative impact on days sales outstanding (DSO). Respondents from the UK and Ireland (32% alike) are the most pessimistic in this respect. To better protect their receivables from the risk of customer payment default, Western European respondents reported they plan on checking buyers' creditworthiness and sending dunning letters more often (45% of respondents alike). At the same time, respondents said they will increase buyers' credit risk monitoring and request secured forms of payment more frequently (both 43%) and sell more often on cash terms (42%). Due to the already felt impact of lower economic growth and political and trade uncertainty on businesses financial stabil-

ity, a sizeable percentage of respondents in Western Europe (25%) are concerned that access to external borrowing could become more difficult over the coming months. Should this be the case in the short to medium term, 31% of respondents said they would offset the expected increase in capital costs mainly by reducing investment in business growth and workforce, this latter through layoffs or hiring freezes.



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As our survey shows, businesses are aware of that and seek protection from the risk of customers' payment default. In this respect, credit insurance represents the most comprehensive solution that can help suppliers seize trade opportunities, regardless of challenging times, and turn them into ways to achieve profitable business growth. By managing cash flow successfully, businesses can reduce the risk of a devastating financial loss caused by an insolvent buyer.

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Overview of payment practices in Western Europe

By business sector

Chemicals and manufacturing industry customers are given the most time to pay invoices

Based on survey findings, payment terms granted to B2B customers in Western Europe average 37 days in the manufacturing sector, 36 days in the wholesale/retail/distribution sector and 29 days in the services sector. By industry, the longest payment terms (averaging 42 days, up from 33 last year) are granted by suppliers surveyed in the chemicals sector. Across all of the industries surveyed in the region, average payment terms range from a high of 37 days in the food sector to a low of 21 days in the consumer durables sector. Suppliers surveyed in the construction materials sector grant the shortest terms, averaging 21 days. For a detailed overview of the payment terms by country, please refer to the dedicated country reports forming the 2019 edition of the Atradius Payment Practices Barometer for Western Europe.

Trade credit risk is highest in the manufacturing sector and machines industry

Over the past year, the payment habits of B2B customers across all of the business sectors surveyed in Western Europe (manufacturing, wholesale/retail/distribution and services) improved. This resulted in increased on-time payments, particularly in the wholesale/retail/distribution sector where the proportion of invoices paid by the due date increased to 64% from 55% last year. This compares to 65% of paid on time invoices (up from 61% one year ago) in the manufacturing sector and to 73% (up from 65% last year) in the services sector. Consequently, suppliers surveyed in the region could cash in past due payments on average 6 days earlier than last year, namely within 55 days from invoicing for both the manufacturing and the wholesale/retail/distribution sectors, and within 41 days in the services sector. However, an average of 31% of B2B invoices in both the manufacturing and the wholesale/retail/distribution sectors, and an average of 24% in the services sector, remained outstanding at the due date. Across the region, above average proportions of past due invoices are recorded in the machines (33%) and construction materials (32%) sectors. The services sector recorded the lowest proportion of past due invoices (20%). The consumer durables, food, paper, textile and agriculture sectors also recorded overdue payment averages that were lower than the 25% regional average. For a detailed overview of trade credit risk by country, please refer to the dedicated country reports forming the 2019 edition of the Atradius Payment Practices Barometer for Western Europe.

Uncollectable receivables notably higher in 2019: highest in the manufacturing sector and in the agricultural industry

Uncollectable receivables in the region have risen to 2.2% from 1.3% last year. As survey findings highlight, the manufacturing sector in Western Europe recorded the highest proportion of B2B receivables written off as uncollectable (2.5% up from 1.4% last year). In the wholesale/retail/distribution sector the percentage of write offs stands at 2.3% (up from 1.7% last year), and in the services sector at 1.8% (from less than 1% last year). By industry, Western Europe's agricultural sector records the highest proportion of B2B receivables written off as uncollectable (2.7% up from 1.7% one year ago). The machines sector follows at 2.4% (up from 1.2% last year). Below the 2.2% regional average are the consumer durables (2.0% up from 1.1% last year), electronics (1.9% up from less than 1% last year) and food (1.8% up from 1.3% one year ago) sectors. At the lower end of the scale is the textile sector, at (1.4% up from 1.1% one year ago). For a detailed overview of the proportion of uncollectable receivables by country, please refer to the dedicated country reports forming the 2019 edition of the Atradius Payment Practices Barometer for Western Europe.

Atradius · Key Findings

27%
of the suppliers surveyed in Western Europe either delayed payment to their own suppliers or took specific measures to correct cash flow and ensure the continuity of the business.

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Overview of payment practices in Western Europe

By business size

Large enterprises in Western Europe request payment from B2B customers earlier than one year ago

With an average of 36 days from invoicing (up from 33 days last year), respondents from Western European SMEs gave their B2B customers the longest to settle invoices. This compares to the average 34 days (down from 38 days one year ago) extended by large enterprises, and to the average 31 days (up from 27 days last year) set by respondents from micro enterprises. For a detailed overview by country, please refer to the dedicated country reports forming the 2019 edition of the Atradius Payment Practices Barometer for Western Europe.

Micro enterprises in Western Europe are the quickest to cash in overdue invoices

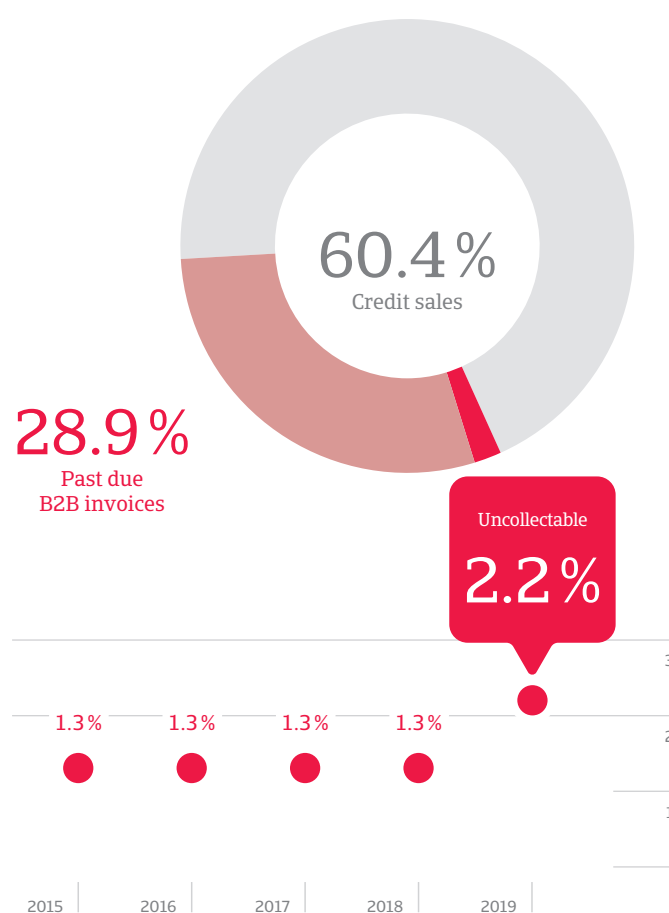
Over the past year, B2B customers of micro enterprises in Western Europe improved their payment habits. This resulted in an increase in the percentage of invoices paid on time, to 74% of the total value of B2B invoices issued by respondents from micro enterprises (up from 66% one year ago). This compares to a 65% average for large enterprises and 64% from SMEs (both up from 58% last year). Improved payment habits resulted in invoice to cash turnaround improving to 43 days (from 49 days last year) for micro enterprises, 55 days (from 59 days) for large enterprises and 52 days (from 63 days) for large enterprises. For a detailed overview by country, please refer to the dedicated country reports forming the 2019 edition of the Atradius Payment Practices Barometer for Western Europe.

Collection of long overdue receivables is less efficient than one year ago

Despite being the quickest in collecting past due payments, micro enterprises in Western Europe recorded an increase in the proportion of B2B receivables written off as uncollectable to 1.4%, up from less than 1% last year. SMEs and large enterprises wrote off, on average, 2.6% and 2.4% respectively (up from 1.6% and 1.4% last year respectively). This increase suggests that when invoice payment drags on they are increasingly more unlikely to be paid this year than they were last year. Should this trend continue, we could be looking at a period of declining or negative margins and the already forecast rising insolvencies. For a detailed overview of the proportion of uncollectable receivables by country, please refer to the dedicated country reports forming the 2019 edition of the Atradius Payment Practices Barometer for Western Europe.

Uncollectable B2B receivables in Western Europe

(% of total value of B2B receivables)



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



Survey design for Western Europe

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the 'Atradius Payment Practices Barometer'. In this report focusing on Western Europe, which is part of the 2019 edition of the Atradius Payment Practices Barometer, companies from thirteen countries (Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Spain, Sweden, Switzerland, The Netherlands and United Kingdom) have been surveyed. Due to a change in research methodology for this survey, for some of the current results, no year-on-year comparison is feasible.

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

Survey scope

- Basic population: companies from thirteen countries (Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Spain, Sweden, Switzerland, The Netherlands and United Kingdom) were monitored. The appropriate contacts for accounts receivable management were interviewed.
- Selection process – Internet survey: companies were selected and contacted by use of an international Internet panel. A screening for the appropriate contact and for quota control was conducted at the beginning of the interview.
- Sample: N=2.770 people were interviewed in total (approximately n=200 people per country). In each country, a quota was maintained according to three classes of company size.
- Interview: Web-assisted personal interviews (WAPI) of approximately 15 minutes duration. Interview period: Q3 of 2019.

Sample overview – Total interviews = 2.770

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

It may occur that the results are a percent more or less than 100%. This is the consequence of rounding off the results. Rather than adjusting the outcome so that it totalled 100%, we have chosen to leave the individual results as they were to allow for the most accurate representation possible.

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Statistical appendix

Find detailed charts and figures in the Statistical Appendix for Western Europe. This is part of the October 2019 Payment Practices Barometer of Atradius, available at www.atradius.com/publications

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SURVEY RESULTS

STATISTICAL APPENDIX

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

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