

PAYMENT SURVEY

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Germany Payment Survey 2019: Turn of the tide

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This is the third edition of Coface's survey on payment experience in Germany, done this summer, with 442 participating companies located in Germany. Our survey highlights that Germany is in a changing phase. The pressure on companies due to international competition is getting stronger. This is one of the reasons why German companies have increased their average credit period from 29.8 days to 35.9 days between 2017 and 2019. Another one is that credit risks are insured. However, the confidence of the companies in their customers decreased. Short-term credit periods still dominate the market. 87% of the surveyed companies request that payments be made within 60 days, which is very short in international comparison (in our Poland payment survey¹ 64% of the companies requested payments within 60 days in 2019; in our China payment survey² the share of companies was below 50% and in Morocco³ it was only 16%).

For payment delays, we notice a change towards more delays in our survey, but shorter ones. In 2019, 85% of all companies

reported payment delays, compared to 78% in 2017. However, the average payment delay in number of days has decreased by almost 6 days, from 41.4 days to 35.5 days during this time-period on average. To understand this figure, it has to be seen in combination with the payment terms. Due to the difficult environment for some companies, their customers asked for longer payment terms (on average 6 days). As in Germany paying in time is a virtue, these companies still are working hard to meet the payment terms. In the end, they still manage to pay in the same time as in 2017, but due the extension of the payment terms, the payment delay is 6 days shorter. Nevertheless, the question is how long the companies can keep up with this, as the expectations towards the size of the outstanding receivables over the next 12 months has changed. With one exception, almost all sectors and companies expect an increase in their outstanding receivables in the future, which represents a big change compared to 2017, when the majority still saw a decrease in the outstanding receivables. This is also mirrored by the economic expectations, which clouded significantly in the last years. 30% of all companies are saying that the economic

¹ Coface Poland Payment Survey 2019: Robust economic growth has not eliminated payment delays, February 2019: <https://www.coface.com/News-Publications/Publications/Poland-Payment-Survey-2019-Robust-economic-growth-has-not-eliminated-payment-delays>

² China Payment Survey 2019: Longer delays as growth falters, March 2019: <https://www.coface.com/News-Publications/News/China-Payment-Survey-2019-Longer-delays-as-growth-falters>

³ Morocco Payment Survey 2019: Payment terms to remain long, June 2019: <https://www.coface.com/News-Publications/Publications/Morocco-Payment-Survey-2019-Payment-terms-to-remain-long>



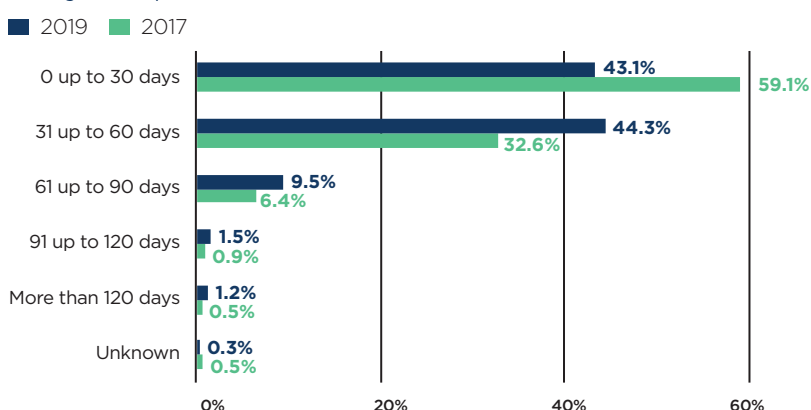
outlook for this year worsened compared to 2018, only 20% are positive about their business outlook in 2019. The most pessimistic are the automotive sector, the metal industry (which is a big supplier for the automotive sector) and the textile-clothing sector. An interesting aspect is that in 2017, the automotive sector was the most optimistic for the business outlook and on average for all sectors the sentiment was quite good with 21 balance points. The changes between 2017 and this summer are that the global (political) risks have increased. Almost 20% of the companies see the US-Sino trade conflict as the main risk for their export business, followed by the Brexit with a share of 15%. In 2017, only 3% of the companies were concerned by the exit of the United Kingdom out of the European Union.



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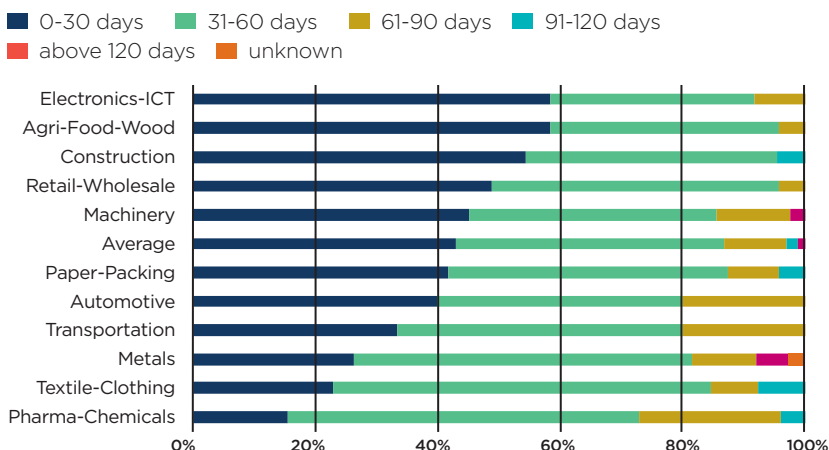
1 PAYMENT TERMS⁴: COMPANIES MEET THE NEEDS OF THEIR CUSTOMERS

Chart 1:
Average credit periods



Source: Coface Payment Survey

Chart 2:
Hypothetical credit periods in sectors



Source: Coface Payment Survey

- Short-term credit periods (between 0 to 30 and 30 to 60 days) dominate the German business landscape. 87% of companies request that payments be made within 60 days (Chart 1). Long-term credit periods above 120 days are quite rare in Germany and, according to the answers of our survey, only offered in the metal sector (5.3%) and machinery (1.2%).
- In 2019, the most generous sector in offering longer credit periods is the pharma-chemicals sector, with an average of almost 50 days. On the contrary, in the agri-food-wood⁵ and the electronics-ICT⁶ sector, payments have to be made on average at or before the 30th day after delivery (Chart 2).

- However, time distribution has changed significantly. While in 2017⁷ almost 60% of all companies imposed average credit periods up to 30 days, it has shifted towards the medium-short-term (up to 60 days) in 2019.

- Accordingly, the average credit period increased by six days, from 29.8 days in 2017 to 35.9 days in 2019. The most extreme changes in the different sectors were in the pharma-chemicals (+19 days), metals (+12 days) and transportation (+8 days) sectors, while the average credit period decreased in the agri-food-wood sector (-5 days) (Chart 3).



87%
OF COMPANIES
request that payments
be made within 60 days.

⁴ Payment term - the time-frame between when a customer purchases a product or service and when the payment is due.
⁵ As the number of answers in sporadic single sectors were too low, we combined some similar sectors for a more significant result.
⁶ ICT - Information and Communication Technologies
⁷ Coface Germany's corporate payment survey 2017: A better year, particularly for exporters, November 2017.

Chart 3:
Average credit periods (days)
■ 2019 ■ 2017

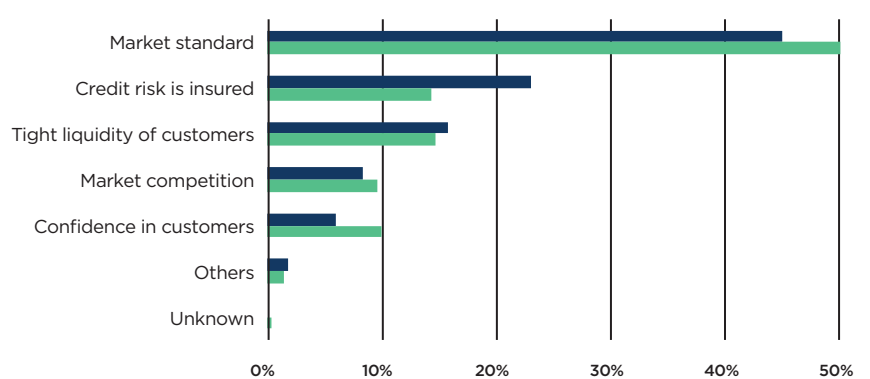


Source: Coface Payment Survey

- The reason for the increase of the average credit period between 2019 and 2017 is not due to the increase of confidence in the customer. On the contrary, in 2019, 23% of the companies in our survey answered that their credit risks are insured compared to 14% in 2017 (**Chart 4**). Additionally, the share of customers with tighter liquidity has increased from 14.6% to 15.8%. Moreover, it is still a standard on the market for a company to meet the needs of the customers. As the situation of the companies gets rougher, longer credit terms are allowed.

- Liquidity problems could be a factor explaining why only 81% of the companies are offering credit periods at all. In 2017, it was 83%. While in the retail-wholesale sector, 85% of all companies who participated in the survey are giving credit periods, it is only 40% in the automobile sector.

Chart 4:
Reasons for offering payment terms
■ 2019 ■ 2017



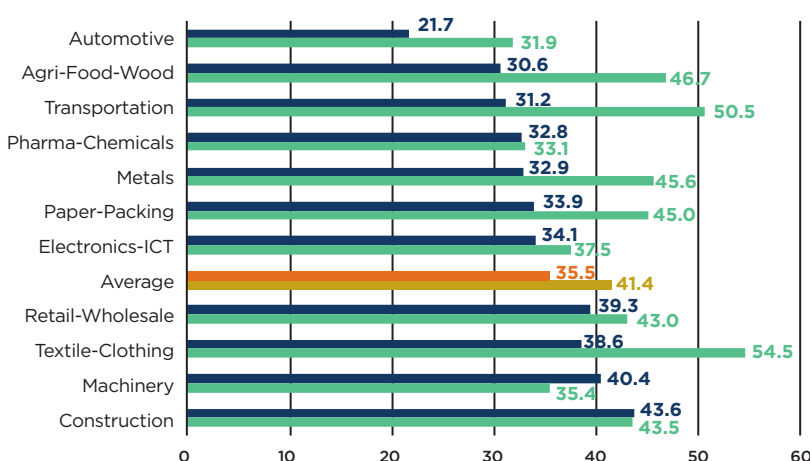
Source: Coface Payment Survey



Companies became on average more generous with the credit periods. The average credit period extended by 6 days between 2019 and 2017.

2 PAYMENT DELAYS⁸: MORE, BUT YET SHORTER

Chart 5:
Average payment delays (days)
■ 2019 ■ 2017



Source: Coface Payment Survey

- Since the publishing of our last payment survey in 2017, the number of payment delays increased. In 2019, 85% of our surveyed companies reported that they had payment delays. In 2017, only 77.6% of all companies reported payment delays.

- The biggest increase in the number of companies with payment delays were in the textile-clothing sector (from 58% to 78%), retail-wholesale (from 75% to 89%) and the automotive sector (from 73% to 81%). Decreases were reported in the transportation sector (from 86% to 81%).

- However, even if the number of companies with payment delays has increased, the average payment delay time has decreased by almost 6 days between 2017 and 2019, from 41.4 days to 35.5 days. In 2019, only 1% all companies are reporting payment delays above 120 days (**Chart 5**).

⁸ Payment delays – the period between the payment due date and the date the payment is made.



- In almost every sector, a decrease in the delay period can be observed. The only exemption is machinery (+ 5 days).
- The shortest average payment delay in 2019 has been in the automotive sector, while the longest average payment delay period was reported by the construction sector, with 43.6 days (Chart 6).
- One reason for the decrease in the length of the delay can be observed in the extension of the payment terms: companies demand for longer credit terms as the financial situation roughens. Nevertheless, as paying on time is a virtue in Germany, the companies try and manage to be in time anyhow. In the end, on average, the customers of our surveyed companies pay more or less at the same time as before. The number of days sales outstanding (DSO) has therefore only mildly changed between 2017 and 2019, on average. However, the change in DSO in specific sectors can be noticeable (Chart 7).

- The reasons for delays in general are mainly related to financial difficulties (46%). 15% of our clients reported management problems as the main reason for the delays. As the reasons for the financial pressure, companies stated high competitive pressure that weighs on profit margins as the main reason (45%). 1/4th of the companies saw the lack of financing as the main problem.

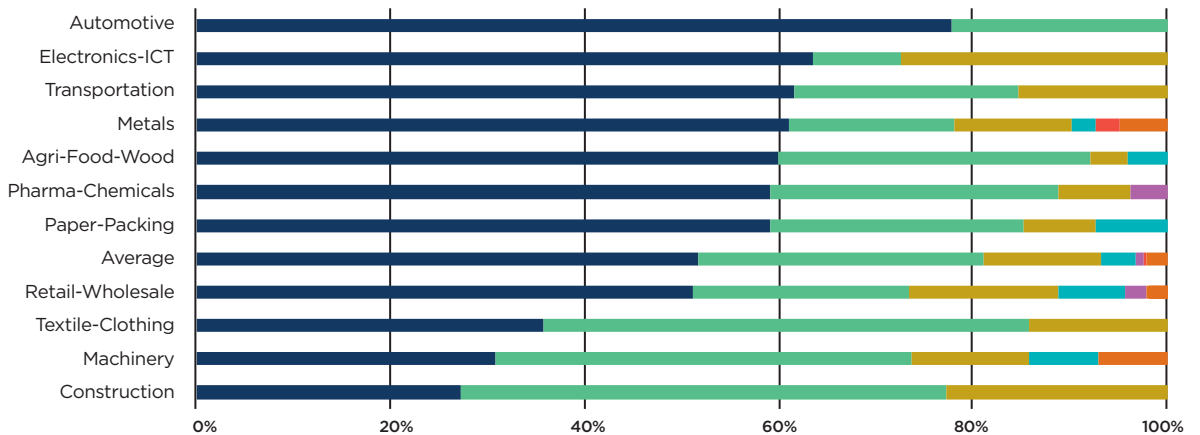


85%
OF OUR SURVEYED
COMPANIES
are reporting payment
delays in the last
12 months.

Chart 6:

Hypothetical payment delays in sectors

- 0-30 days ■ 31-60 days ■ 61-90 days ■ 91-120 days
- 121-150 days ■ more than 150 days ■ unknown

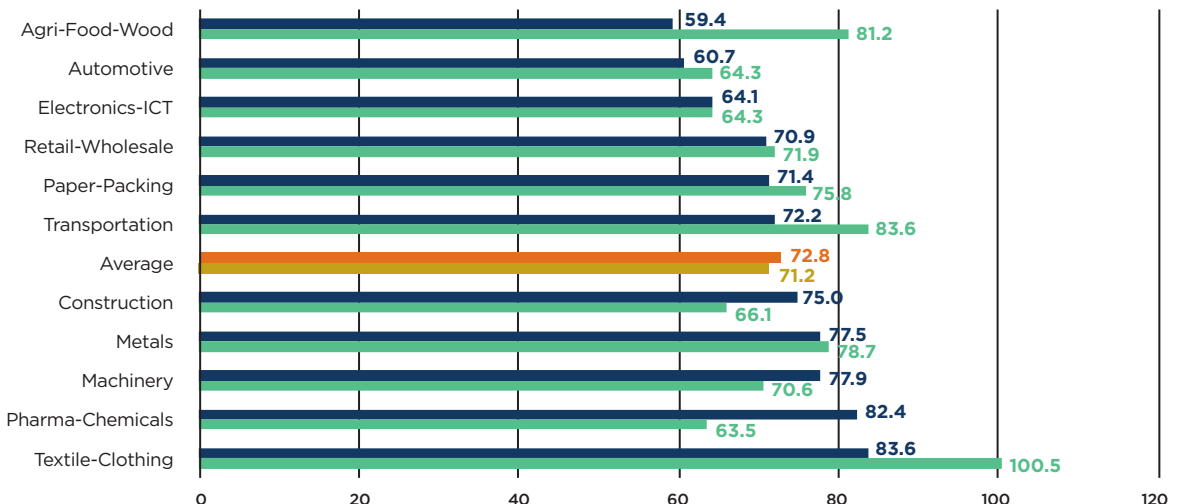


Source: Coface Payment Survey

Chart 7:

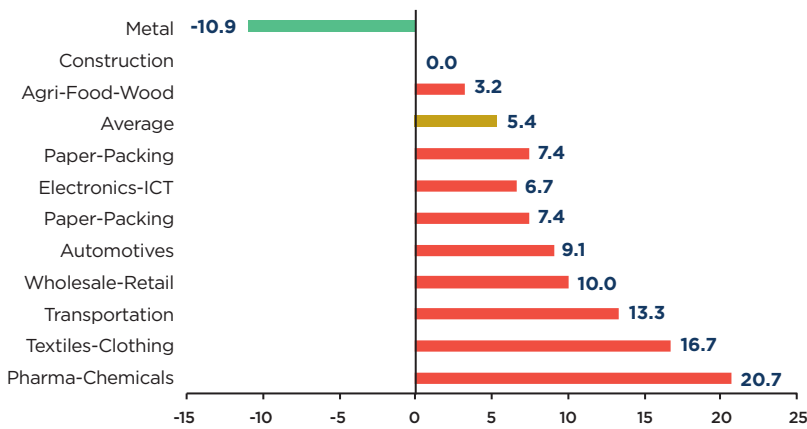
Average Days Sales Outstanding (credit terms + delays)

- 2019 ■ 2017



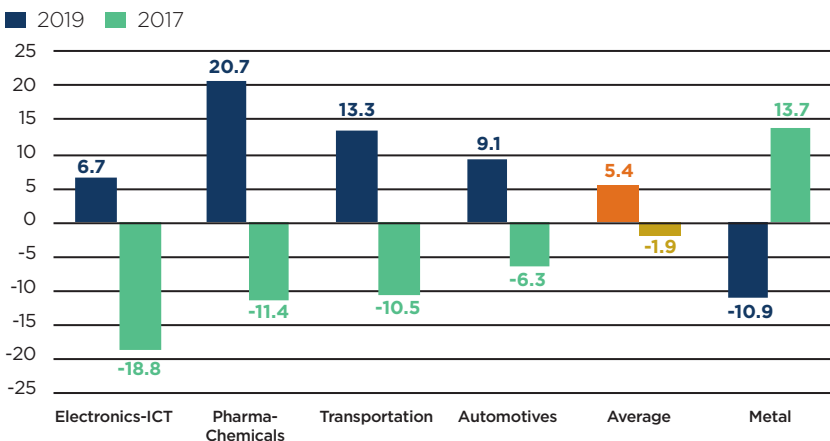
Source: Coface Payment Survey

Chart 8:
Expected changes in the size of outstanding receivable over the next 12 months (figures in balance points)



Source: Coface Payment Survey

Chart 9:
Expected changes in the size of outstanding receivable over the next 12 months, single sectors (figures in balance points)



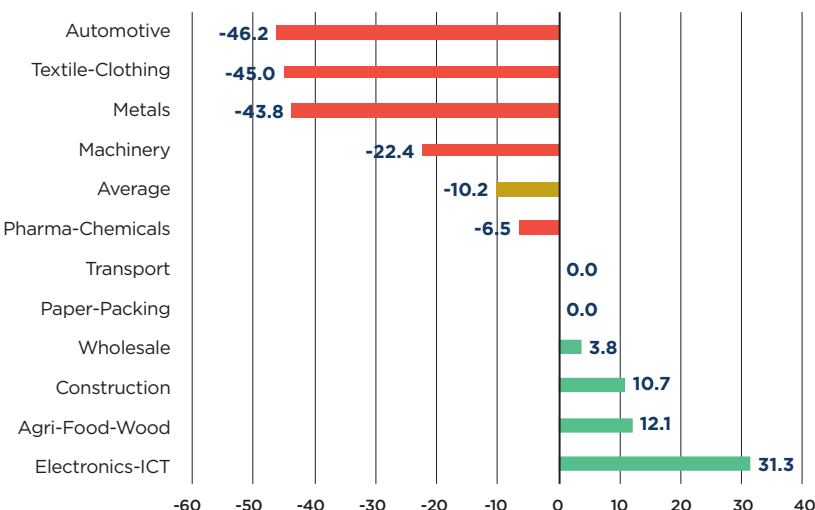
Source: Coface Payment Survey



The average payment delay time decreased from 2017 to 2019 by almost 6 days, the same time that the payment terms increased on average.

3 ECONOMIC EXPECTATIONS: DARK CLOUDS ON THE HORIZON

Chart 10:
What is the business outlook for your company in 2019 compared to 2018 (figures in balance points)



Source: Coface Payment Survey

- Pessimism has taken hold. In 2019, only 20% of all companies said that their business outlook for 2019 is better than in 2018. 30% stated that the business outlook is decreasing. On balance, the outlook is therefore pessimistic, with a minus of 10.2 percentage points. The most disillusioned sector is automotive (62% with worse economic outlook, the saldo was at 46.2 percentage points), followed by textile-clothing and metal (both 50% with a worse economic outlook). The only very optimistic sector left is electronics-ICT with 43% of responding companies stating that their business outlook is better in 2019 than in 2018 (Chart 10).

- This is a substantial change in the trend for business outlook. When the same question was asked in 2017, almost all companies were optimistic regarding the business outlook for the current year. On average of all sectors, the balance was very positive with plus 21 points, and only the sector of textile-clothing was pessimistic then. The most optimistic sector in 2017 was the automotive sector (Chart 11).



- One reason for the very optimistic outlook in 2017 compared to 2019 could be that in 2017, the Brexit was still far away and most people expected an orderly and well planned exit of the UK from the EU via a Brexit agreement. That is why in 2017, only 3% of all surveyed companies expected an increase in their outstanding receivables due to the Brexit. In 2019, 15% of the companies stated that the Brexit is the main risk for their export business in the future. However, in 2017, another insecurity factor appeared on the scene. 2017 was the first year of Donald Trump's term in office as President of the United States. That year, he started his protectionist trade policy with some small tariffs. The bigger tariffs, especially the ones against China, came into force in 2018 and 2019. Therefore, almost 20% of the recipients named the US-Chinese trade conflict as the main risk for their export business, with another 7% who fear possible US tariffs against EU cars the most (Chart 12).

- What consequences does this have for the markets with the largest expected opportunities? As in the other previous surveys, Germany remains the country with the biggest opportunities (maybe because a company does not export in general or that the risks in its own country are easier to monitor). However, the

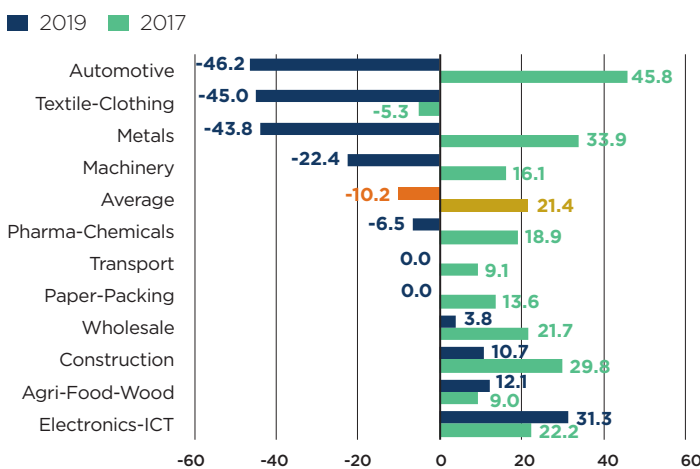
trust in Germany has faded. While in 2017, 86% of the recipients favored Germany, it is only 81% in 2019 (Chart 13). The main winners are other EU countries (although probably not the UK). 57% of surveyed companies see the strongest opportunities for their business over there. China and the US gained some trust. It seems that the sheer size of the economies and the still robust growth rates are attractive enough for German companies to somewhat neglect the increasing protectionist threat.



61% OF ALL AUTOMOBILE COMPANIES expect worse business conditions in 2019 compared to 2018.

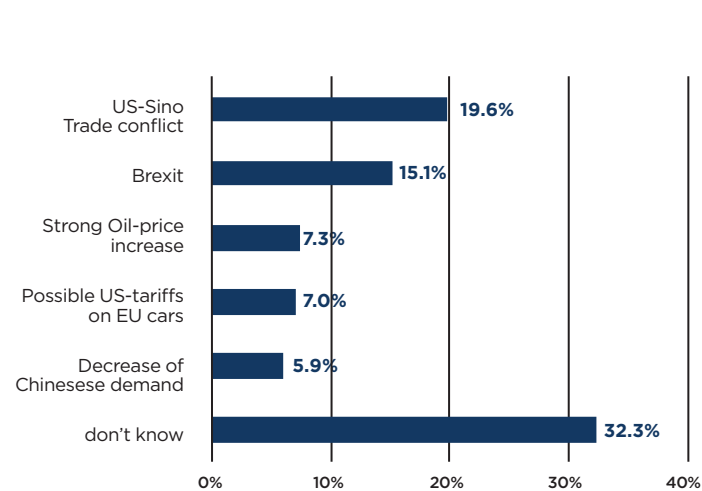
50% OF THE METAL AND TEXTILE-CLOTHING COMPANIES expect worse business conditions in 2019 compared to 2018.

Chart 11:
How has the business outlook for the current year changed compared to the last year (figures in balance points)



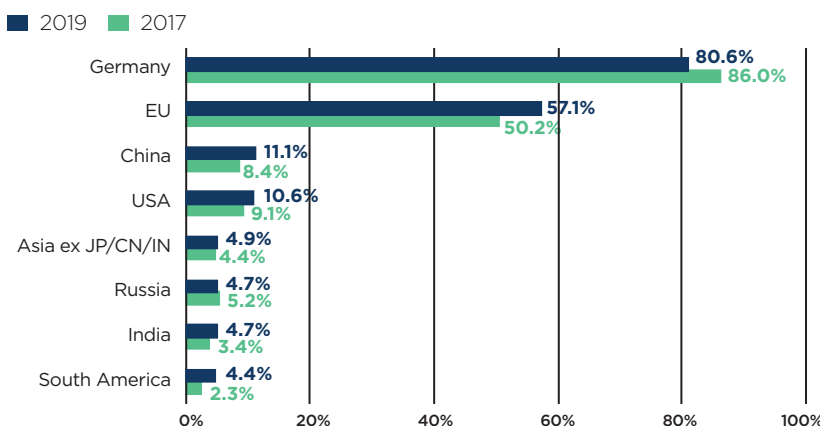
Source: Coface Payment Survey

Chart 12:
What is the main risk for your export business in the future



Source: Coface Payment Survey

Chart 13:
What are the markets with the biggest opportunities for you in the coming year? (max. three answers possible)



Source: Coface Payment Survey



15% of all companies see the Brexit as the main threat for their export business. In 2017, only 3% of the companies expected higher outstanding receivables due to the Brexit.

APPENDIX



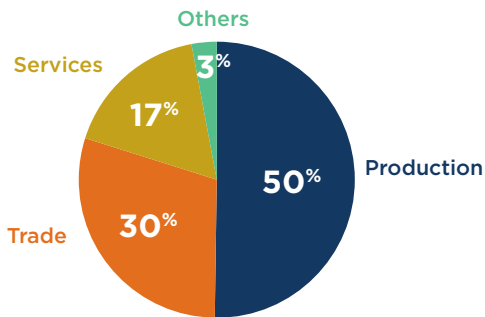
A TOTAL OF

442

COMPANIES PARTICIPATED
IN THE PAYMENT SURVEY⁹

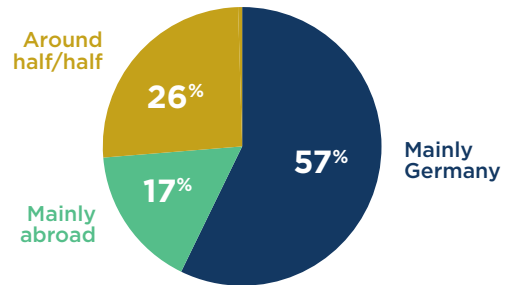
Who were the respondents?

MAIN BUSINESS ACTIVITY



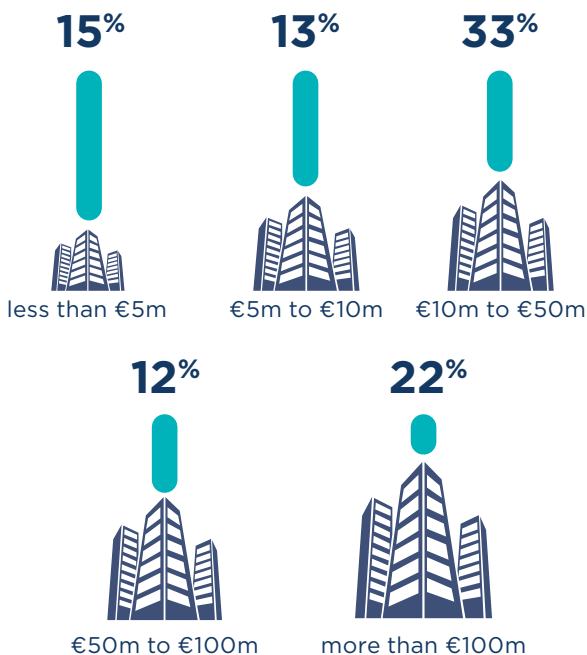
Source: Coface Payment Survey

RELEVANT MARKET

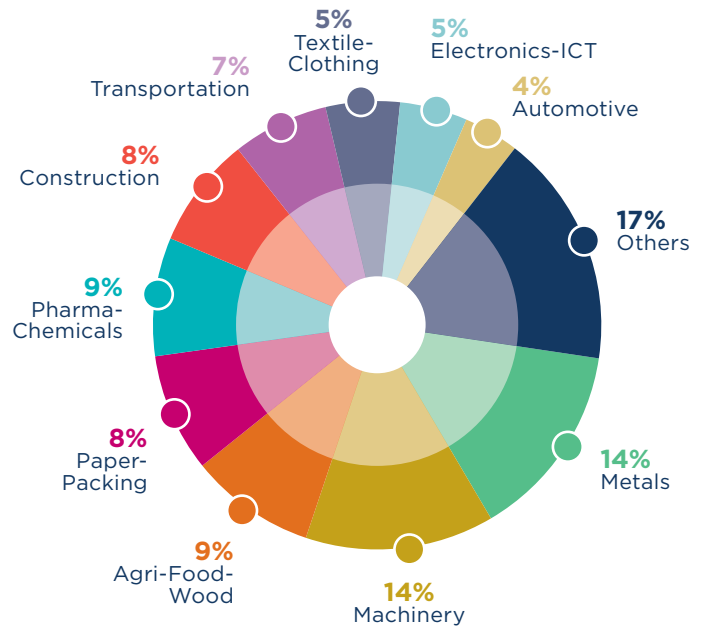


Source: Coface Payment Survey

SIZE BY TURNOVER (€m)



SECTOR OF SURVEYED COMPANIES



⁹ Due to regulatory reasons, the number and composition of the companies who answered to the payment survey has changed. The number has decreased in 2019 and the majority were medium size to large companies with over €100 million turnover. In 2017, the majority of answering companies were small and medium sized companies.

GLOSSARY



PAYMENT TERM

The time frame between when a customer purchases a product or service and when the payment is due.

PAYMENT DELAY

The period between the payment due date and the date the payment is made.

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