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PAYMENT SURVEY

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Germany Corporate Payment Survey 2020: German companies have switched to "crisis-mode" and offer less payment terms

This is the fourth edition of Coface's survey on corporate payment experience in Germany, conducted in July and early-August 2020, with 753 participating companies located in Germany. Unsurprisingly, COVID-19 and its effects on the global and German economy is the predominant topic of this survey. One major finding is that German companies are getting worried. This year, only 62% of participants offered payment terms, which is significantly less than the 81% in 2019 (2017: 83%, 2016: 84%). It is difficult to clearly assess if the lack of payment terms is exclusively the result of COVID-19, or if this is part of a general "new normality". This can only be clarified by the data of the following years. Nevertheless, this year, more customers pointed to the tight liquidity of the market or explicitly named COVID-19 and its effects[1] as the main reasons for offering payment terms. The preference for shorter payment terms increased. Half of the surveyed companies requested payments to be made between 0 and 30 days.

However, even with these concerns, the current theme of "we stick together" - which is hanging from almost every child's window in Germany - seems to be a mantra in the corporate world as well. The discipline to pay on time increased in 2020, possibly because financial difficulties surged due to COVID-19, and that in the current context, too long and/or too many payment delays could send a company into insolvency. In 2019, 85% of companies reported payment delays compared to 68% in 2020. While the payment delay time was only reduced by one day on average for all respondents between 2019 and 2020, the outlook is very different from one sector to another.

The payment delay time of the pharma-chemicals[2] sector, which was reduced by almost one week between 2019 and 2020 to reach 27 days, came out as a positive surprise. Conversely, the automotive sector experienced longer delays, as the period increased by 20 days. Surprisingly, the ICT[3] sector also had a significant increase of payment delays by around two weeks, even though this sector should have benefited from the 6-week lockdown.

Looking at Days Sales Outstanding (DSO, addition of payment terms and payment delays), the DSO period decreased sizeably by around 9 days between 2019 and 2020. The outlook for business development is more straightforward and very negative for 2020, with automotive being the most pessimistic sector. The prospects would probably be even darker, if not for the State's aid measures that 48% of respondents benefited from. For 2021, on balance, all but one sector expected a recovery when asked this summer. Indeed, construction bucked the trend with optimism in 2020 and pessimism in 2021, as order books are still full. The main risks for the export-business have changed a lot. Last year's number-one risk, the U.S.-China trade conflict, is only marginal within the risk spectrum of 2020. Instead, 3 out of 4 companies named COVID-19 and its effects on the global or the German economy as the main risk, alongside the disruption of production chains because of the pandemic. Nevertheless, risks like the Brexit - which has been present since our 2017 survey - have not vanished and could become even more urgent with a "No-Deal-Brexit" looming for 2021. Thus, even with a slightly brighter outlook for 2021, Germany is far from exiting the "crisis-mode"

1 This was not a multiple-choice answer. Instead, surveyed companies used the "other" category and wrote the answer down.
2 As some single sectors had only a very limited number of answers, we combined similar sectors for a more robust insight on the sector. In addition, we used the same sector combinations as in our 2019-survey, so that the results could be compared.
3 ICT – Information and Communication Technologies

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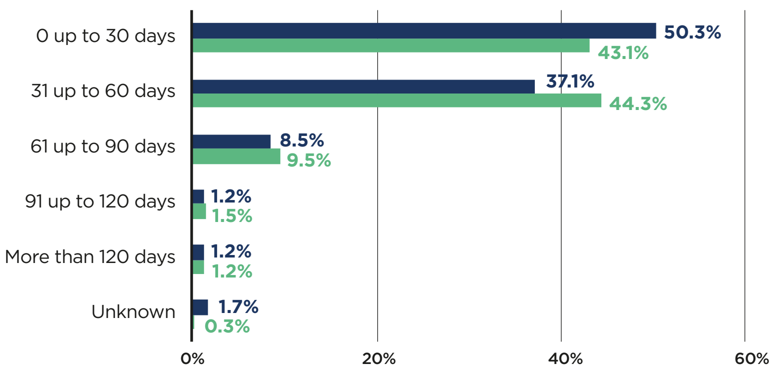
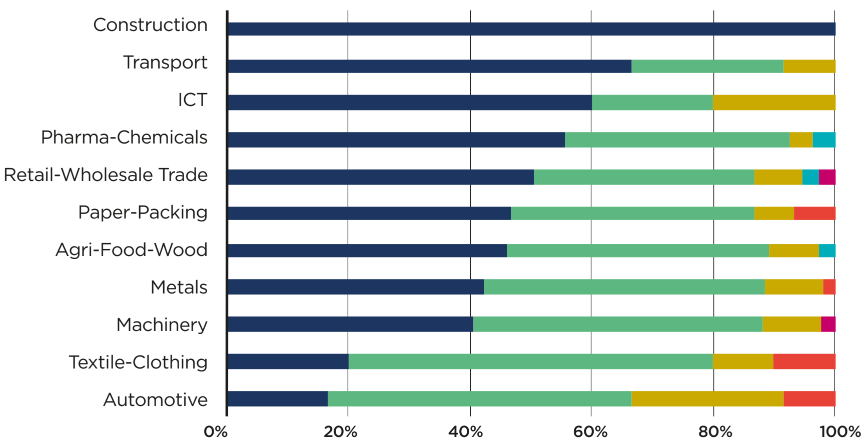
1 PAYMENT TERMS[4]: CASH IS KING – GERMAN COMPANIES ARE GETTING WORRIED

Chart 1:
Average payment terms



Source: Coface Payment Survey

Chart 2:
Hypothetical payment terms in sectors



Source: Coface Payment Survey

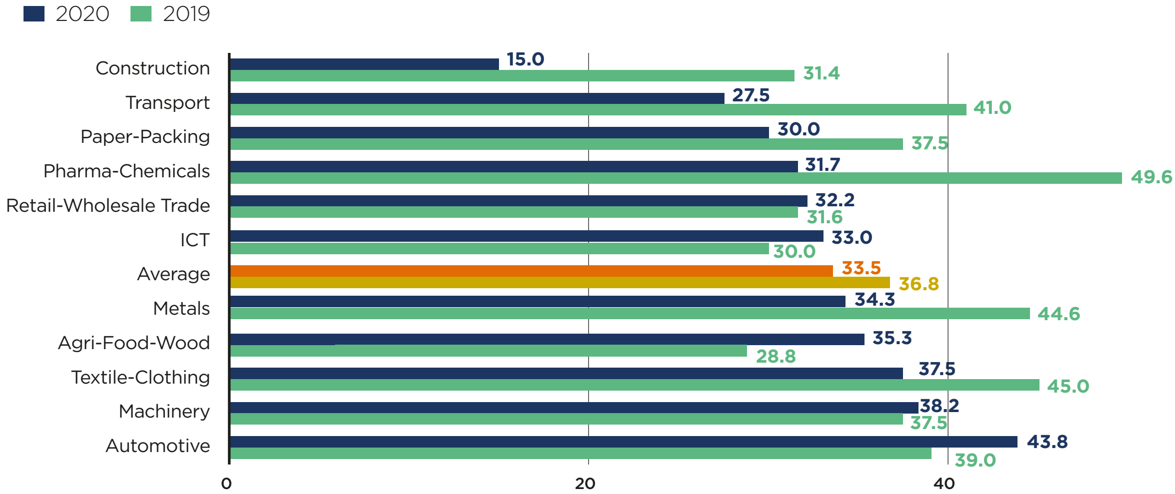
- According to the data of our payment survey, German companies have become cautious in providing payment terms to their clients. In previous years, offering payment terms was common behaviour, as illustrated in our surveys between 2016 and 2019, in which over 80% of respondents did so. This changed in 2020, as only 62% of all participants offered payment terms. The shift came from German companies operating in Germany: in 2019, there was no difference in the offer between domestic-oriented and exporting companies (both at around 80%), whereas in 2020, the proportion fell to 58% for domestic-oriented companies, with the share on the export market remaining unchanged.

- Short-term credit periods (0 to 30 and 30 to 60 days) dominate the German business landscape. 87% of surveyed companies request payments to be made within 60 days in 2020, like in 2019 **(Chart 1)**. However, the distribution changed a lot in 2020. While in 2019, payment terms were equally divided between very short- (0 to 30 days) and short-term (31 to 60 days) credit periods, a majority now prefer the very short-term period. Long-term payment terms above 120 days remain very rare and were only observed in the machinery and retail-wholesale trade sectors.

The average payment term decreased by 3 days, from 37 days in 2019 to 34 days in 2020.

4 Payment term – the time-frame between when a customer purchases a product or service and when the payment is due.

Chart 3:
Average payment terms (days)



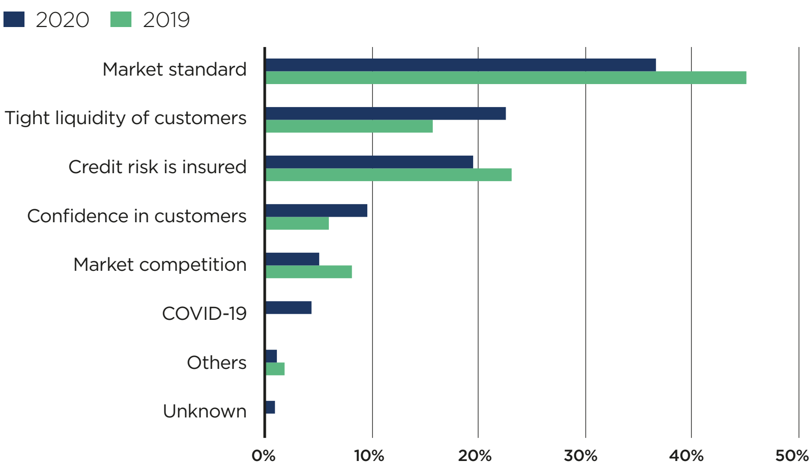
Source: Coface Payment Survey

- On a sectoral basis, the fact that 100% of participants in the construction sector answered that they offered payment terms between 0 and 30 days stands out, bringing the average payment term in this sector to a minimum of 15 days[5]. Conversely, in automotive and ICT, a relatively high share of 25% and 20% (respectively) of participants answered that they offered medium-term payment terms between 61 and 90 days **(Chart 2)**. This explains why automotive is the most generous sector in 2020, with an average payment term of 43.8 days.

- Overall, the average payment term decreased by 3 days to 33.5 days between 2019 and 2020 **(Chart 3)**. This is due to some major changes in payment terms for some sectors. The biggest change occurred in the pharma-chemicals sector, where payment terms were reduced by almost 18 days to 31.7 days. The construction sector more than halved its payment terms to 15 days, while transport also saw a reduction in payment terms of almost 2 weeks, and now requests payments to be made up to 28 days after the delivery of a product or a service. On the other end, the automotive and agri-food-wood sectors increased payment terms for their customers, on average.

- The answers in our survey hint at high uncertainty around the COVID-19 crisis. Less companies offer payment terms in Germany and these have shortened, even drastically in some sectors. This could mean that companies are nervous and want to cash in as early as possible. When asking about the reasons behind the availability of payment terms, our participants mainly named that it was still market standard, but this share did decrease. Instead, customers' tight liquidity was named by a large group of 23% of participants, with 4% explicitly writing the effects of the coronavirus as their reason for offering payment terms **(Chart 4)**.

Chart 4:
Reasons for offering payment terms



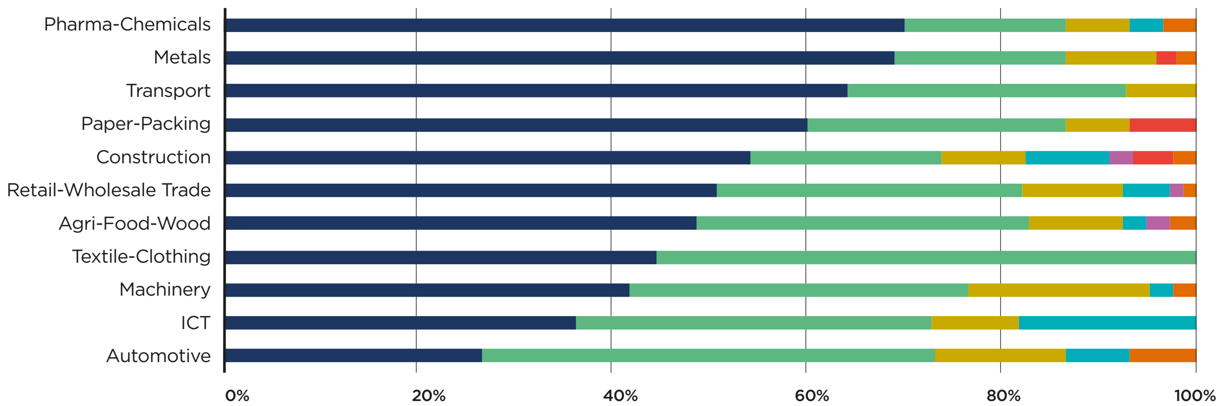
Source: Coface Payment Survey

ONLY
62%
OF OUR PARTICIPANTS answered that they offered payment terms in 2020. In the three previous surveys, over 80% of surveyed companies offered payment terms.

5 As our lowest category is 0 to 30 days, the minimum average payment term is 15 days in our survey.

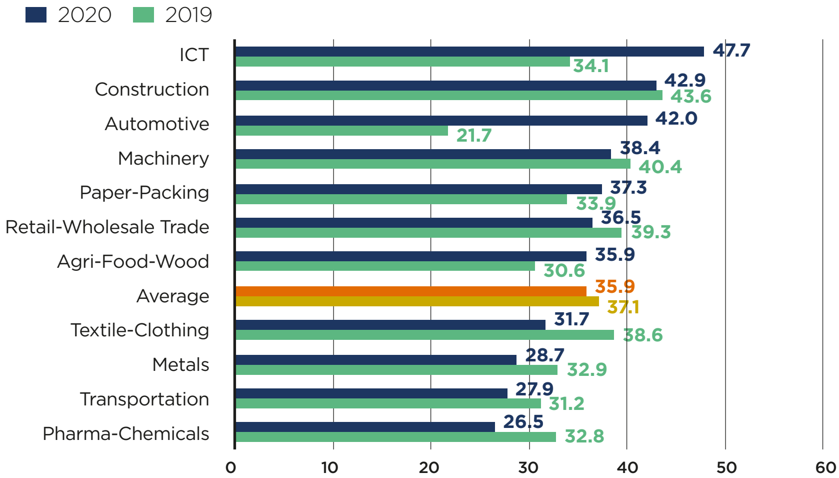
2 PAYMENT DELAYS[6]: COMPANIES GET THEIR MONEY FASTER

Chart 5:
Hypothetical payment delays in sectors



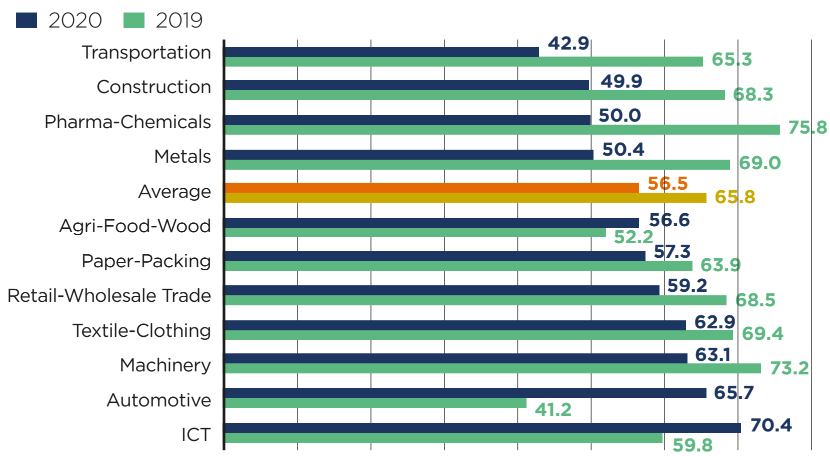
Source: Coface Payment Survey

Chart 6:
Average payment delays (days)



Source: Coface Payment Survey

Chart 7:
Average Days Sales Outstanding (payment terms + delays)



Source: Coface Payment Survey

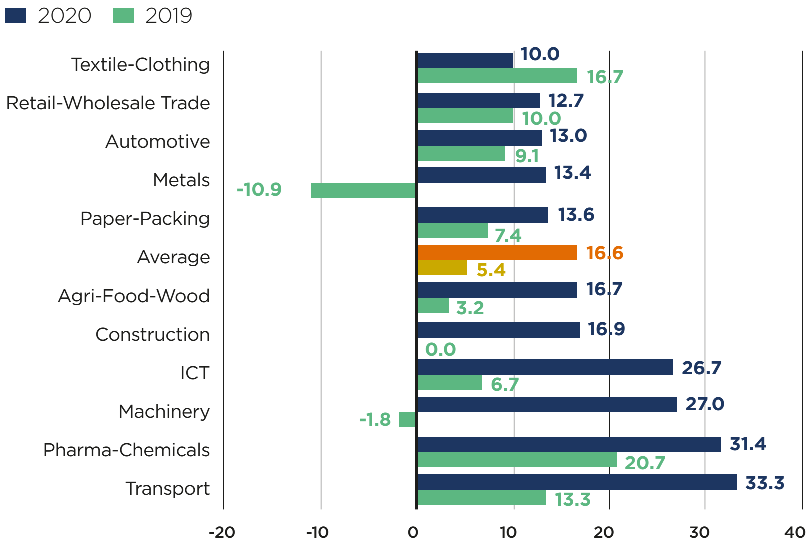
- The number of payment delays has decreased noticeably since the release of our previous payment survey in 2019. In 2020, only 68% of surveyed companies reported payment delays, compared to 85% of all companies in 2019. The number of delays decreased in the export market by 6 percentage points to 80%. On the domestic market, the numbers fell even more, from 83% in 2019 to 65% in 2020. While in textile-clothing, 9 out of 10 companies reported payment delays, only 62% did so in the metals and construction sectors.

- However, even with a higher share of payment delays in the textile-clothing sector, the delay time for the whole sector in our survey does not exceed 60 days. In contrast to this, 7% of companies in the paper-packing sector reported delays over 150 days, as well as 4% in the construction sector and 2% in the metals sector **(Chart 5)**.

- The average overall payment delay time decreased by around one day, from 37.1 days in 2019 to 35.9 days in 2020 **(Chart 6)**. This can be explained by very divergent developments in the sectors. The pharma-chemicals sector saw its payment delay time decrease by 6 days to a minimum of 26.5 days (the sector with the shortest delay time in our survey), while the delay period in the automotive sector increased by 20 days to 42 days. However, ICT became the sector with the longest delay time of 48 days, even after the increase in automotive **(Chart 6)**.

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

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



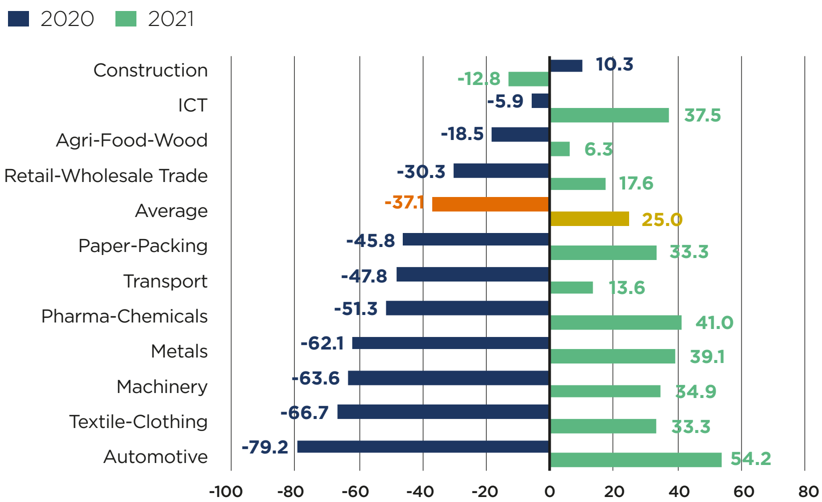
Source: Coface Payment Survey

68%
OF SURVEYED PARTICIPANTS reported payment delays in 2020, compared to 85% in 2019.

- If we add payment terms (when companies offer them) and payment delays, we obtain the total waiting time between the purchase of a product and payment of the invoice. These days sales outstanding (DSO) decreased from 65.8 days in 2019 to 56.5 days in 2020. In 2020, transport is the fastest paid sector. Instead of 65 days in 2019, companies in the transport sector waited for only 43 days to cash in. ICT became the sector with the longest waiting time, which increased by 11 days to 70.4 days **(Chart 7)**.
- The reasons behind payment delays overall are mainly related to financial difficulties (48% in 2020). At this stage, almost 9% of participants named COVID-19 explicitly as the main reason for payment delays. When asked about the reason behind these financial difficulties, the majority reported high competition pressure that reduced the profit-margin. Other main reasons were the lack of financial opportunities, the weak demand in Germany and COVID-19 and its economic effects (again, named explicitly by 9% of participants).
- The level of outstanding receivables should remain stable: 55% of surveyed companies do not expect changes in the next 12 months. However, from the remaining 45%, more companies expect an increase in the size of outstanding receivables rather than a decrease. The balance of the expected changes in outstanding receivables is therefore positive with 16.6 points, an increase of 11 points compared to 2019 **(Chart 8)**. In most sectors, on balance, companies already expected an increase in 2019, and this share widened in 2020.

3 ECONOMIC EXPECTATIONS
2020 – A YEAR OF PESSIMISM AND UNCERTAINTY

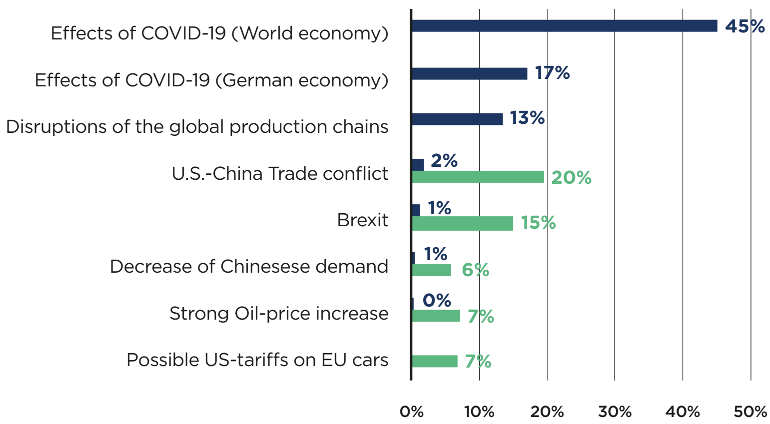
Chart 9:
What is the business outlook of your company for the year 2020 and for the year 2021? (figures in balance points)



Source: Coface Payment Survey

- The main theme for the 2020 economic outlook is pessimism. Unsurprisingly, a majority of 47% had a negative economic outlook for this year. Surprisingly, 10% are still optimistic for 2020. In total, the average is very negative with -37 points, down from an already pessimistic year 2019 (balance at -10 points). This pessimistic outlook can be observed in almost every sector. The only one that is still relatively happy with the current outlook is the construction sector, with 10.3 points, which is around the same than in 2019. The economic recession surrounding COVID-19 does not seem like a game-changer here. For 2021, most sectors expect a recovery, but with 25 points on average, this recovery looks less certain than the recession in 2020 **(Chart 9)**. This can obviously change very fast, in case of a stronger second wave of COVID-19 and a re-tightening of restrictive measures.

Chart 10:
What is the main risk for your export business in the future?



Source: Coface Payment Survey

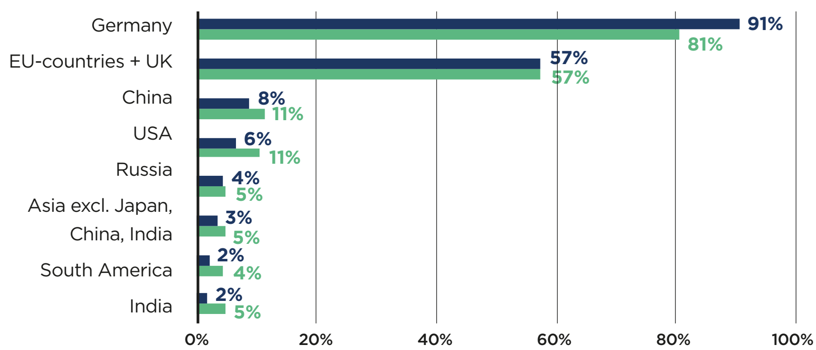
While old risks have not vanished and still threaten the activity of German companies, COVID-19 and its effects is the overwhelming topic in 2020.

- The main risk for the export business in 2020 is by far the effects of COVID-19 on the world economy. Alongside other problems related to COVID-19 (lower demand in Germany, disruption of production chains), this accounts for 75% of answers and is the overwhelming topic of 2020. The issue is that other threats that were named in the past years, like Brexit or the U.S.-China trade conflict, have not vanished or decreased in importance as economic risks. They just lost the attention because of the impact of COVID-19, which might even make them riskier than before **(Chart 10)**.

- What consequences does this entail for the markets with the largest expected opportunities? In 2020, Germany remains the country with the biggest opportunities in this survey (unsurprisingly, as 65% of respondents are mainly on the German market). The importance of Germany even increased from 81% to 91%. One reason could be that the share of companies that work mainly on the domestic market increased in our survey as well (57% in 2019 vs. 65% in 2020). Another reason could be due to the fact that in uncertain times, companies tend to operate in the countries that they know best and naturally orient themselves more towards their home region. This might explain why the share of companies that favour the EU incl. UK has not changed, while the support towards other main export destinations like China or the U.S. decreased significantly **(Chart 11)**.

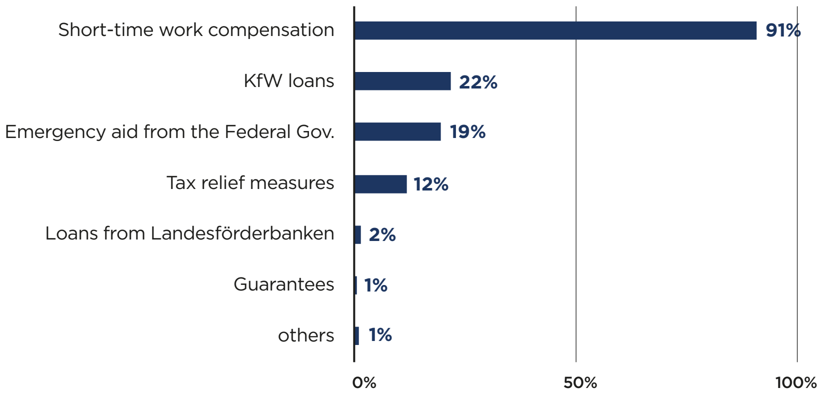
- These difficult times call for special measures. In a new question, we asked our customers if they took advantage of State aid in the course of the COVID-19 crisis. 48% of respondents answered positively. When we asked about the most popular State aid measure, the clear winner was short-time work compensation that was used by 91% of respondents **(Chart 12)**. Short-time work compensation is an old economic support measure that was introduced in 1957 and can be used independently from a national recession. Therefore, the application process is easy and well known for most companies. Loans from the Kreditanstalt für Wiederaufbau (KfW), the main federal development bank, came in second place. 22% of our respondents used this instrument, which once again was not invented for this crisis and was used several times during the past. However, the emergency aid from the federal government and tax relief measures were introduced in late-March/April to support the economy. Consequently, 19% and 12% of the respondents that needed state aid used this new instrument, respectively.

Chart 11:
What are the markets with the biggest opportunities for you in the coming year? (max. three answers possible)



Source: Coface Payment Survey

Chart 12:
What kind of State aid measures did you take advantage of? (several answers are possible)



Source: Coface Payment Survey

APPENDIX

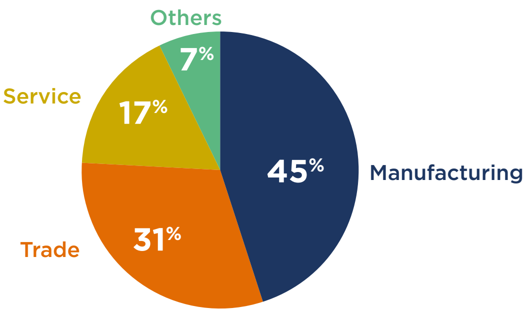
A TOTAL OF

753

COMPANIES PARTICIPATED IN THE PAYMENT SURVEY[7]

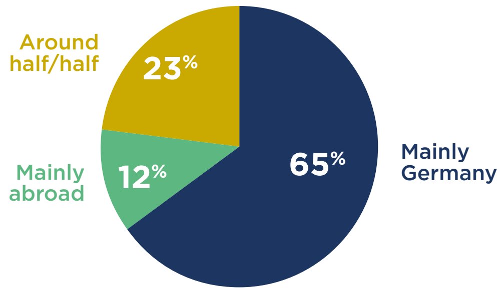
Who were the respondents?

MAIN BUSINESS ACTIVITY



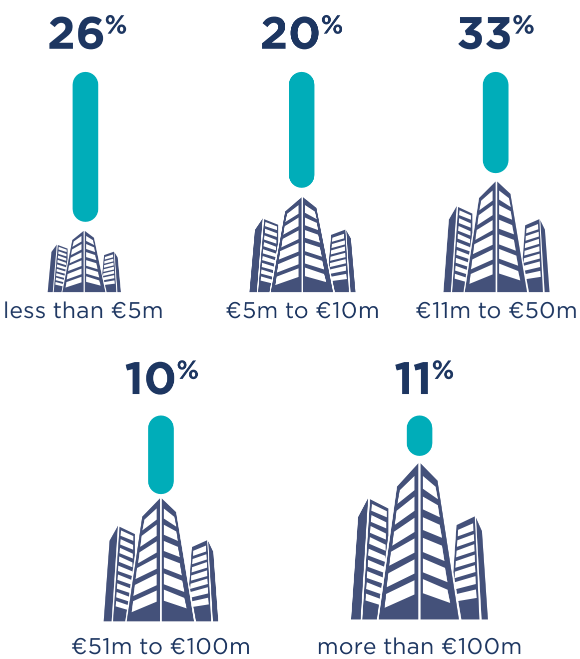
Source: Coface Payment Survey

RELEVANT MARKET



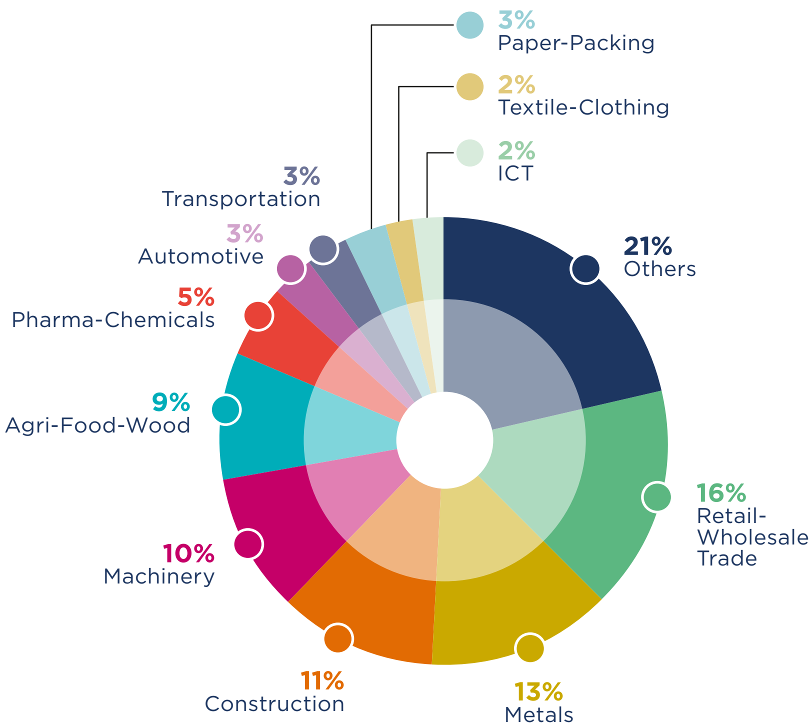
Source: Coface Payment Survey

SIZE BY TURNOVER (€m)



Source: Coface Payment Survey

SECTOR OF SURVEYED COMPANIES



Source: Coface Payment Survey

7 The survey was conducted between 25 June and 9 August of 2020.

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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