




China: trade credit set to play a greater role in domestic B2B transactions

Atradius Payment Practices Barometer





The Atradius Payment Practices Barometer is an annual survey that assesses business payment behaviour throughout the world. The survey explores a range of topics including payment terms, payment delays, credit sales, and DSO (Days Sales Outstanding), results of which provide a good indication of outlook for businesses in China.



**Hong Lin,
Country Manager for China commented
on the report**



China's domestic economy has already shown concrete signs of recovery from the downward impact of the pandemic. However, as a large number of China's major trading partners are still coping with the unprecedented impact of pandemic-induced disruptions on their domestic economies, some uncertainty surrounding the economic growth outlook in China remains.

In this landscape, and as shown in our survey, trade credit is set to play a greater role in domestic B2B transactions in China. However, in the current challenging economic times, it is essential that businesses focus on strengthening their customer credit risk management and debt collection processes. In this respect, a strategic approach to credit management becomes essential to safeguard cash flow and ultimately business profitability.



Introduction

The survey questionnaire was completed by Chinese businesses during March 2020. By mid-March, for the first time, China reported no locally-transmitted cases of COVID-19, leaving behind a January-February nationwide shutdown aimed at containing the spread of the pandemic. The impact that the virus had on China's domestic economy and on its growth forecasts for this year are still to be fully assessed. However, most Chinese respondents believe that the economy will improve significantly over the next year.

Key takeaways from the report

Our survey shows an increase in the total value of B2B sales on credit offered by businesses in China and indicates that trade credit is set to play a greater role in domestic B2B transactions. This clear trend towards the use of trade credit contrasts sharply with previously observed payment practices in the country, which tended to favour cash payments. Interestingly a significant majority of respondents to our survey, well above average for Asia, reported that they request guarantees of payment when selling on credit. What's more, nearly every-one interviewed reported using one or more credit management tools to protect their accounts receivable.

This demonstrates a high level of financial sophistication among Chinese businesses of different sizes and across sectors that are actively seeking a competitive edge while promoting short-term financing options and protecting cash flow.





Survey findings for China

Growth in the use of B2B trade credit in Chinese domestic transactions

The Atradius Payment Practices Barometer survey results show Chinese respondents transacted an average of 53% of the total value of their B2B sales on credit (up from 44% last year), and 47% on a cash basis (down from 56% one year ago). Consistent with the averages for Asia (56% sales on credit and 44% on a cash basis), the growth in credit-based B2B transactions recorded in China confirms an ongoing trend of increasing use of trade credit in the country. This represents a notable change in payments behaviour. Historically, the China survey respondents have consistently demonstrated a preference for payments in cash or cash equivalents and on terms other than trade credit.

The move towards the use of trade credit in such large numbers represents a U-turn in previously observed payment practices. Moreover, survey findings highlight that Chinese respondents from both large enterprises and enterprises in the wholesale trade sector are the most likely to sell on credit in B2B trade. Here, 61% of the sales B2B credit have been transacted domestically, with just 39% on foreign markets. This suggests that trade credit plays a key role in the Chinese business community as a source of supply chain financing. This was observed in China and in the Asia region overall (domestic 60% and foreign 40%).

B2B customers are given longer payment terms

58% of Chinese respondents set B2B payment terms within 30 days of the invoice date, 36% in the range from 31 to 90 days and 5% of respondents reported having granted payment terms of over 90 days from invoicing. This translates into a 39-day average (significantly above the 26-day average recorded one year ago). This is in line with figures observed in Singapore, and is below the 43-day regional average. Above average payment terms are reported by Chinese respondents from large enterprises (47 days) and enterprises in the wholesale trade sector (62 days). In contrast, respondents in the Chinese services sector reported the swiftest payment terms averaging 29 days from invoicing.

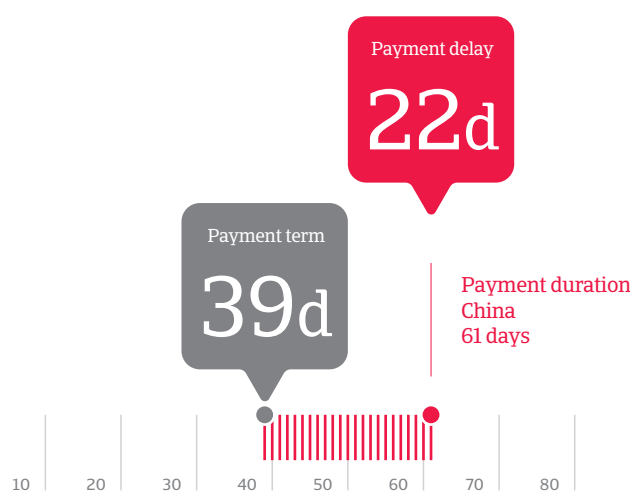
When asked about the underlying criteria for setting payment terms, nearly half of Chinese respondents (47%) reported that they set payment terms in accordance with their company standards and internal business practices (average for the region: 51%). This suggests respondents focus on strengthening in-house credit management policies, particularly mid-sized businesses and the distribution sector. In line with industry standards are payment terms set by 42% of respondents (average for the region: 36%), while payment terms set in accordance with the credit capacity of the customer are reported by 40% of Chinese respondents (average for the region: 25%).

China well above regional average in requests for payment guarantees

To mitigate customer credit risk, most Chinese respondents (81%, well above the 67% average for Asia) said that they request guarantees of payment from the B2B customers to whom they sell on credit. This is most common among respondents from large enterprises and from the services sector. 75% of respondents either retain customer credit risk management internally through self-insurance (average for Asia: 62%), or they reduce reliance on a single buyer (average for Asia: 56%). A sizeable percentage of respondents (70%) reported to apply a balanced mix of credit management techniques, among which the most frequently used are offering a discount for early settlement of invoices, requesting a letter of credit and the adjustment of payment terms granted to customers.

Overall, almost all Chinese respondents (with the exception of many respondents from micro enterprises) reported to apply one or more credit management tools or techniques to safeguard cash flow and business profitability. This points to a stronger focus by Chinese respondents towards customer credit risk mitigation than on average in Asia, where the percentage of respondents reporting no use of credit management tools or techniques is 4%.

Payment duration in China



d = average days

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

Source: Atradius Payment Practices Barometer – June 2020



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75%

of Chinese respondents retain customer risk management internally (average for Asia 62%).

Atradius Payment Practices Barometer – June 2020

Late payments most frequently caused by liquidity shortages

When asked about the reasons for payment delays from their B2B customers, most Chinese respondents (61%, compared to 49% for the region) reported that late payment is chiefly due to liquidity shortages or inefficiencies of the customers' internal payment processes. This was most often reported by respondents from large enterprises and the manufacturing sector. 58% of respondents (46% in Asia overall) stated that B2B customers often use outstanding invoices as a form of financing. To protect cash flow and business profitability from late payments, many Chinese respondents (40%) said they needed to increase time, resources and costs to chase overdue invoices, delay payment of invoices to their own suppliers and strengthen their internal credit control procedures. According to the survey findings in China, 47% of the total value of B2B invoices issued by respondents remained unpaid at the due date. This compares to an average of 52% for the region overall. With 13% of the overdue invoices extending past 90 days overdue and 3% of receivables written off as uncollectable, Chinese respondents experience a rate of very late payments and write-offs that is consistent with regional averages (15% more than 90 days overdue and 3% write offs). In addition, survey findings show that on average, Chinese respondents have overdue invoices tied up for a longer period than last year. The average overdue-payments-to-cash turnaround is

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In today's challenging economic times, it is vital to safeguard the creditworthiness of the business and release financial resources to improve the investment capacity of the business. We were able to achieve both these targets by having a strategic approach to credit management.

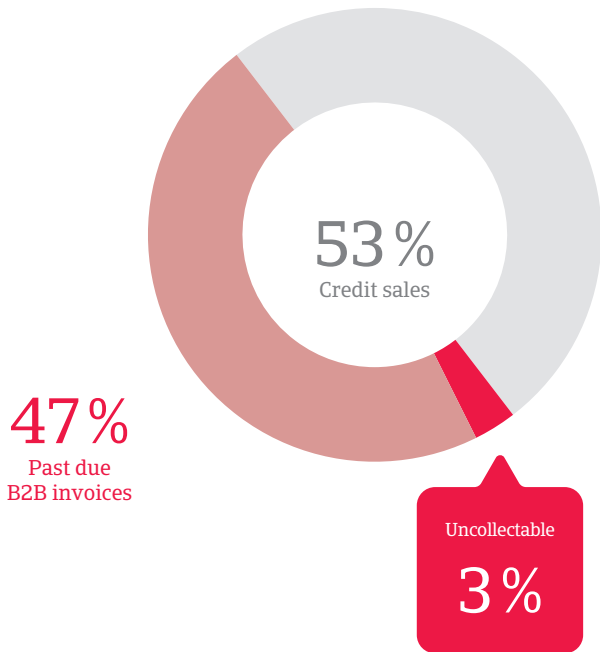
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**Owner
Large company / Manufacturing sector**



Uncollectable B2B receivables in China

(% of total value of B2B receivables)



Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – June 2020

now 22 days past the due date, longer than the 18-day average a year ago. This is likely to be a result of diverse factors, including the adjustment of payment terms (as mentioned earlier) as well as the timing and processes used in the outstanding invoices collection. Of note, ICT/electronics is the industry in which Chinese respondents had the most difficulty in collecting outstanding debts.

Majority of respondents in China plan to strengthen internal credit control and debt collection processes

Chinese respondents reported that to strengthen their internal credit control procedures going forward they will either ask for guarantees of payment, or adjust payment terms more often. This is in addition to avoiding trade credit risk concentration by reducing reliance on a single buyer. Furthermore, 83% of respondents plan to strengthen their internal debt collection procedures. There is no clear-cut opinion among China's respondents regarding the outlook for their B2B customers' payment practices for the next 12 months. An average of 44% of respondents each anticipate either a deterioration of customers' payment practices (resulting in a significant lengthening of DSO) or no change. A significantly lower percentage of respondents (12%) expect an improvement.

When asked to express their opinion about the access to finance and financing conditions for their industry in the near term, 82% of Chinese respondents reported that dependence on bank finance would increase due the increased indebtedness of their industry. On the positive side, however, 65% of Chinese respondents stated that the willingness of banks to provide credit to the business community will increase during the same period. 79% of Chinese respondents (higher than the 60% regional average) believe that the business performance of their industry, in terms of sales and profits, will improve over the next 12 months.

Atradius · Key Findings

22 days
is the average time it takes Chinese respondents to turn overdue B2B invoices into cash

Atradius Payment Practices Barometer – June 2020

Overview of payment practices in China

By industry



Chemicals

Late payment affects nearly half of the B2B invoices issued in the industry

Chinese respondents from the chemicals industry reported that, on average, 47% of the total value of B2B invoices extended past due. 12% extend past 90 days overdue, and 3% are written off as uncollectable (in line with the average for the country). For 65% of respondents, B2B customers delay payments as a form of financing, while 63% of respondents most often attribute late payments to inefficiencies of the customer's internal payment process.

On average, respondents are able to turn overdue invoices into cash within 16 days beyond the due date (faster than the 22-day country average). DSO in the Chinese chemicals industry averages 28 days (well below the 39-day average for the country) reflecting higher efficiency in collecting long-term outstanding invoices of high value.

Discounts for early payment of invoices is the most commonly-used credit management technique

A majority of respondents from the Chinese chemicals industry (78%) reported that they most often offer B2B customers discounts for early payment of invoices to generate cash flow earlier than the invoice due date. 76% of respondents request guarantees of payment from the B2B customers to whom they sell on credit, while 73% requested cash payments. To protect their cash flow and business profitability, a sizeable proportion of Chinese respondents from the chemicals sector (47%) reported that they either had to increase time, resources and costs to chase overdue invoices, or strengthen their internal credit control procedures.

Customer credit risk expected to worsen over the coming months

In the Chinese chemicals industry, significantly more respondents (64%) expect the risks associated with customer credit to increase than those expecting a reduction of risk (8%) over the coming year. Most of the respondents from the industry expect this to have a negative impact on their DSO, resulting in a reduction in cash flow and the investment capacity of the business. To strengthen credit control over the coming months, Chinese respondents from the chemicals industry

plan to either more frequently ask for guarantees of payment from their customers, or offer discounts for early settlement of invoices (36% of respondents for each).

A notable percentage of respondents (86%) are of the opinion that dependence on bank finance will increase over the coming months due to the increased indebtedness of the chemicals industry. However, most respondents from the industry (77%) expect that banks will provide more credit to businesses over the same period. Almost the same percentage of Chinese respondents are of the opinion that the industry business performance (sales and profits) will improve over the next 12 months.



Consumer durables

B2B invoices in the industry are paid late most often due to customers' liquidity shortages

On average, 44% of the total value of the B2B invoices issued by Chinese respondents from the consumer durables industry is overdue (compared to the 47% country average). Long-term outstanding receivables (those more than 90 days overdue) average 8% of past due payments (below the 13% country average). On average, overdue invoices are cashed in within 22 days of the due date (in line with the country average).

The proportion of receivables written off as uncollectable averages 2% of the total value of B2B invoices. This is almost in line with the 3% average for the country. DSO in the industry averages 49 days, reflecting the 45% of respondents reporting DSO up to 30 days, the 37% reporting DSO up to 60 days and 18% of 90 days or more. As survey findings highlight, B2B customers in the Chinese consumer durables industry pay invoices late most often due to liquidity shortages (as reported by 78% of respondents) and to inefficiencies in their internal payment processes (59% of respondents).



Payment guarantees are the most commonly used credit management tools

Most of the respondents in the Chinese consumer durables industry (83%) reported that they often ask their B2B customers for guarantees of payment when selling on credit. 76% of respondents either adjust the payment terms offered to their customers, or practise customer credit risk management (self-insurance). Taken together, these findings point to a strong focus on internal credit control processes from respondents in the Chinese consumer durables industry. To mitigate the impact of payment default and avoid liquidity constraints, a sizeable percentage of respondents (47%) from the industry reported to increase resources, time and costs to chase overdue payments, while 34% needed to delay payments to their own suppliers.

Dependence on bank finance expected to grow in the near term

According to 73% of the respondents, indebtedness of the consumer durables industry in China will increase over the coming 12 months, causing businesses to become more dependent on bank finance. However, most respondents (63%) believe that banks will provide more credit to businesses over the same period to alleviate pressure on cash flow.

47% of the Chinese respondents in the consumer durables industry believe B2B customers' payment practices will not change over the next 12 months while 39% anticipate a deterioration, causing a significant lengthening of DSO. Only 13% expect to see an improvement. In response, over half of the respondents from the industry (56%) plan to revise their credit policy and adjust their payment terms more frequently over the next 12 months. When asked about the outlook for the consumer durables industry, 81% of Chinese respondents said they expect business performance (sales and profits) to improve over the next 12 months.



ICT / Electronics

B2B customers use outstanding invoices as a form of financing

According to respondents in the Chinese ICT/electronics industry late payment from B2B customers is most often attributable to inefficiencies of the customer's internal payment processes or to the fact that customers use outstanding invoices as a form of financing (60% of respondents each). Very often, B2B customers paid invoices late because of disputes over the quality of goods and services provided.

Survey findings show that an average of 48% of the total value of the invoices issued by respondents to their B2B customers is overdue, almost in line with the 47% country average. Long-term outstanding receivables (more than 90 days overdue) average 16% of overdue payments (versus a 13% average for the country). The proportion of receivables written off as uncollectable averages 4% (compared to the 3% average for the country). On average, past due invoices are cashed in within 30 days of the due date (longer than the 22 day-average for the country). DSO in the industry averages 45 days (longer than the 39-day average for the country).

Guarantee requests and self-insurance are the most often used credit management techniques

Most respondents from the Chinese ICT/electronics industry (85%) reported that they manage customer credit risk by requesting letters of credit or guarantees of payment from their B2B customers. An almost equal percentage reported that they retain and manage the risk internally through self-insurance, most often applying credit management techniques by adjusting payment terms or avoiding risk concentration through the reduction of the reliance on a single buyer.

To ensure adequate levels of liquidity to manage their business operations, many Chinese respondents in the ICT/electronics industry needed to delay payments to their own suppliers, or pursue additional financing from external sources (45% each). 35% needed to strengthen their internal credit control procedures.

ICT/electronics industry anticipates an improvement in business performance

When asked about the outlook for the ICT/electronics industry in China, 85% of respondents said that business performance (sales and profits) will improve over the next 12 months. Chinese respondents anticipate that their B2B customers' payment practices will neither change nor deteriorate over the next 12 months (45% of respondents each). However, nearly 15% of respondents anticipate an improvement and with that a decline of past due invoices written off as uncollectable. To protect their businesses from the adverse impact of customer credit risk, most respondents (60%) plan to increase the activities aimed at avoiding risk concentration, while a sizeable percentage of respondents (54%) will either increase their requests for guarantees of payment from their B2B customers, or the use of trade credit insurance. For 82% of respondents, dependence on bank finance will increase over the next 12 months due to an expected increase in industry indebtedness over the same period.

Survey design for Asia

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 Asia, which is part of the 2020 edition of the Atradius Payment Practices Barometer, companies from seven economies (China, Hong Kong, India, Indonesia, Singapore, Taiwan and United Arab Emirates) have been surveyed. Due to a change in research methodology for this survey, some year-on-year comparisons are not feasible for some of the results.

Using a questionnaire, CSA Research conducted 1,413 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** companies from seven economies (China, Hong Kong, India, Indonesia, Singapore, Taiwan and UAE) were surveyed. 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. It also allows to compare data referring to a specific sector crossed by each of the economies surveyed.
- **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=1,413 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:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: March 2020.

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Sample overview – Total interviews = 1,413

Economy	n	%
China	209	14.8
Hong Kong	200	14.2
India	204	14.4
Indonesia	200	14.2
Singapore	200	14.2
Taiwan	200	14.2
UAE	212	12.3
Sector (total Asia)		
Manufacturing	593	42.0
Wholesale trade/ Retail trade / Distribution	598	42.3
Services	222	15.7
Business size (total Asia)		
Small enterprises	140	9.9
Medium-sized enterprises	949	67.2
Large enterprises	324	22.9

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.



Statistical appendix

Find detailed charts and figures in the Statistical Appendix for Asia. This is part of the June 2020 Payment Practices Barometer of Atradius, available at

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