

Atradius Payment Practices Barometer July 2022



**Canada: Business alert to dangers
of B2B customer payment default**

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About the Atradius Payment Practices Barometer

The Atradius Payment Practices Barometer is an annual survey of business-to-business (B2B) payment practices in markets across the world.

It contains direct feedback from businesses in a given market or region about how they manage payment default risks related to selling on credit to B2B customers. Topics covered include: payment terms, the time it takes to collect invoices, managing payment delays, the impact of payment delays on business, and expected business trends.

We believe these survey results will offer compelling insights to the markets and regions where you do business.

This is the report for Canada.



Canada: overview of key survey findings

5% write off

(no change compared to 2021 survey)

Business alert to dangers of B2B customer payment default

- Companies in Canada reported adopting more stringent trade credit policies to protect themselves against the danger of B2B customer payment defaults. This resulted in the level of bad debts written off as uncollectable remaining stable in the period of the survey as businesses dedicated additional time and resources to chasing unpaid trade debt. It also accounted for there being an average of 36 days wait between invoicing and customers settling payment.
- Where late payments occurred in the Canada market, it was most often attributed to B2B customers delaying payments to their own suppliers to preserve liquidity. Businesses reported that this had the potential for knock-on effect troubles down the supply chain and prompted them to use a range of measures to insulate against unexpected credit losses. These included making more regular customer credit checks, offering discounts for early payment of invoices, and avoiding credit risk concentration. DSO was stable for most companies.

Companies seek credit insurance benefits amid positive outlook

- The need for strong strategic credit risk management is a high priority in the Canadian market. A clear majority of companies reported that they either outsourced the issue to a credit insurer or purchased specific trade finance solutions. The benefits of choosing to use credit insurance included gaining access to extra services like debt collection and regular market intelligence. It was also reported to help improve DSO and free up working capital.
- There was a positive outlook looking to the future among businesses in Canada, who expect to see an improvement in payment practices in the year ahead and a strong expansion in trading on credit to drive business growth. The main concern going ahead is about fears of DSO deterioration that could squeeze liquidity. Other worries for business polled in the market include coping with disruption to the economy caused by the pandemic, maintaining adequate cash flow and also keeping pace with a rising demand for products and services.

Canada: credit sales and payment terms (B2B)

B2B trading on credit remains widespread, chiefly to grow sales

- Our survey of the Canada market reveals that 54% of the total value of business-to-business (B2B) sales was made on credit, a figure unchanged from our last survey period. This illustrates the significant role that trade credit continues to play for Canadian companies in their B2B trade relationships. Businesses polled who rejected trade credit requests from B2B customers told us the most frequent reason was that retaining management of customer credit risk in-house had proved unsustainable in terms of costs.
- Companies who reported a wider acceptance of trade credit requests from B2B customers said this was chiefly to grow sales either by encouraging repeat business to promote customer loyalty or to attract new customers. This was most often reported in the chemicals industry. Another key reason for businesses polled in Canada to trade on credit was to provide a source of short-term funds for B2B customers with temporary liquidity shortfalls. This appears to be the dominant factor in the services sector.

Flexible approach to payment terms amid concern customer credit risk is worsening

- There was a 25% increase in Canadian companies compared to our last survey who told us they were now adopting a flexible approach to setting payment terms in their B2B trade relationships. This accounts for a 36-day average from invoicing for customers to settle payments, one week shorter than last year. Allowing customers shorter time to pay invoices was mainly due to a more stringent trade credit policy pursued by the businesses polled, reflecting fears that customer credit risk is worsening. By contrast, longer payment terms were given by companies who were open to granting trade credit.
- 48% of companies polled in Canada, across all industries, said the length of payment terms offered to B2B customers chiefly reflected their customary internal trade practices. One third of businesses told us payment terms are set by taking profit margins into consideration, especially in the steel/metals industry. Slightly fewer companies polled said they set payment terms in alignment with the length of time during which the company's liquidity is tied up in trade receivables. Many steel/metals companies in Canada also said having a credit insurance cover helped them offer more favorable payment terms to customers.



33%

(2021: 28%)

of the companies polled in Canada said they set payment terms for B2B customers taking their profit margins into consideration.

Canada: customer payment default (B2B)

Increased alertness to customer credit risk, bad debt write-offs hold steady

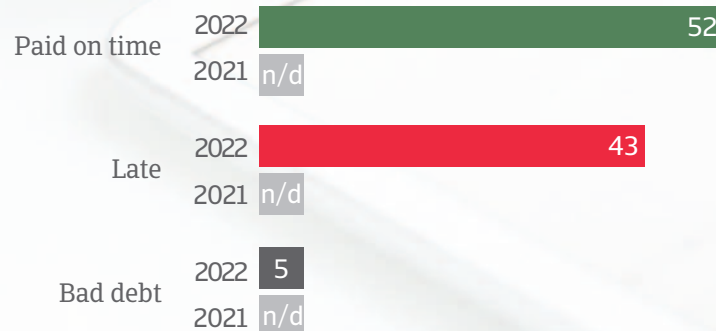
- Customer payment default affects an average of 43% of the total value of Canada companies B2B sales on credit, down from 48% in our last survey. To mitigate the impact of overdue payments more than one third of businesses polled, especially in the chemicals sector, said they dedicated extra time and work to chasing unpaid B2B trade debt. A range of measures was used to avoid being liquidity squeezed due to payment default. 30% of companies sought external financing or requested a bank overdraft extension, while many in the services sector delayed payment to their own suppliers.
- The level of bad debts written off as uncollectable amounted to 5% of the overall sales value of companies in Canada, a figure unchanged from the survey last year. Companies dedicating extra resources to a stronger credit control policy is the main reason for the stabilization, but the level of long overdue B2B invoices (more than 90 days) is still a considerable threat to business. The percentage of write-offs is highest in the Canadian services sector, reflecting the heightened credit risk landscape in that area.

B2B customers delay payments intentionally to protect their own liquidity

- 45% of companies polled in Canada, especially in the services sector, told us that late payments are most often attributable to customers delaying payment to their own suppliers in order to preserve liquidity. The financial weakness of customers, which affects their ability to meet payment obligations promptly, was another quite frequently reported reason for payment default. 38% of businesses reported this across all industries polled.
- Almost 30% of Canadian businesses told us that late payment was largely due to customer disputes, a particular issue in the chemicals industry. Another factor was cited by nearly one quarter of companies in the Canada market, who said that B2B customers usually defaulted on payments due to administrative delays in the customer payment process. This was especially reported in the steel/metals industry.



Canada: % of the total value of B2B invoices paid on time, overdue and bad debt as uncollectable (2022/2021)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - July 2022

Canada: impact of customer payment default (B2B)

Companies focus on enhancing their credit management process

- Several measures have been taken by businesses polled in Canada to protect against unexpected credit losses jeopardizing their liquidity position. 47% of companies told us that more regular credit checks are pivotal to the enhancement of their credit management process, particularly in the services sector. Offering B2B customers discounts to entice early payment of invoices, so as to accelerate cash inflows and decrease exposure to the risk of payment default, was reported especially in the chemicals industry. This technique can be very attractive for potential customers in a competitive market.
- 42% of Canadian companies, particularly in the steel/metals industry, told us they actively used measures to avoid customer credit risk concentration – on either a single customer, or on groups of customers with the same features. Nearly 40% of businesses polled said they sent more regular invoice reminders to chase up payments as a means of mitigating the risk of bad debts.

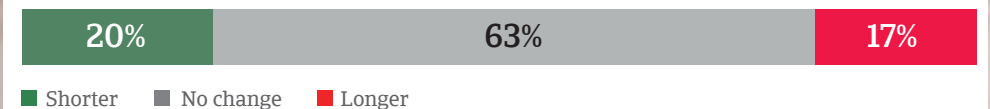
DSO steadiness mainly due to no significant change in sales patterns

- Most of the businesses polled in Canada (63%) reported no change in their Days-Sales-Outstanding (DSO), namely the length of time between invoicing and being paid by customers. The industry in which our survey found most companies reporting a worsening of their DSO was the services sector – and this was despite businesses here also telling us of a significant enhancement in their credit management process. Reduced efficiency in the collection of long unpaid trade debt was the key reason cited in the services sector for DSO worsening and cash flow deterioration.
- Another interesting finding in our survey of the Canada market is that many businesses in the chemicals industry also reported DSO worsening, mainly attributable to an increase in trade receivables generated by increased sales on credit. Their response was to focus on offering discounts to B2B customer to entice early payment of invoices and accelerate cash inflows, thus hoping to minimize the risk of payment default and reduce the length of DSO.



Average time it takes to convert overdue B2B invoices into cash (year-on-year change)

(% of respondents)



Sample: all survey respondents - Source: Atradius Payment Practices Barometer - July 2022

Canada: management of customer payment default (B2B)

Strategic approach to credit management the way forward for most

- Nearly 30% of companies polled in Canada told us they opted to manage customer credit risk in-house during the past months, while the remainder either outsourced the issue to a credit insurer or purchased specific trade finance solutions. Businesses who took the in-house option said it usually involved setting aside funds to cover potential losses. This choice was particularly popular with the Canadian services sector, but it puts a strain on the company by preventing it from using those funds to run operations and grow.
- Our survey found that companies who outsourced credit risk management to a credit insurer did so most often to get access to additional services including debt collection and regular market intelligence. Having a credit insurance cover also helped them improve DSO and free up working capital otherwise tied up in overdue receivables, a benefit especially reported by the steel/metals sector. Businesses who preferred to purchase specific trade finance solutions most often opted seized opportunities to discount their trade receivables and immediately receive cash. An extensive use of letters of credit was also reported, mainly in the chemicals industry.

Canada: over the past 12 months, how have you managed the risk of customer payment default?

(% of respondents)

Outsourced management and/or purchased trade finance solutions



In-house management



No action at all



Sample: all survey respondents

Source: Atradius Payment Practices Barometer - July 2022

Canada: the business outlook (B2B)

Business confidence trends upward, positive outlook for B2B trading on credit

- 67% of businesses polled in Canada reported strong confidence that the payment practices of B2B customers will improve going forward, particularly in the chemicals industry. Another clear indicator of business confidence is that almost all companies polled in the market anticipate strong expansion of trading on credit terms with B2B customers. This was again especially evident in the chemicals industry, where they consider customer loyalty and repeat business from established B2B customers, as well as the desire to win new business, to be the driving force behind company growth.

DSO worsening expected amid concern about coping with extra demand

- Despite this expected improvement in B2B customers' payment practices, 55% of companies polled (no change from the 2021 survey) expressed concern about a deterioration of their DSO triggered particularly by lower efficiency of their credit management process and trade debt collection patterns. This worry is felt most acutely in the chemicals industry. Against this backdrop, 40% of Canadian businesses who already have a credit insurance cover told us they would continue using it going forward. This was particularly evident in the services sector.
- Looking ahead, the main concern for 30% of Canadian companies is coping with economic disruption caused by the pandemic, an especially strong worry in the services sector. Keeping pace with rising demand as the global trading environment rebounds is also a particular issue for the services sector. Anxiety about maintaining adequate cash flow was expressed by nearly one quarter of businesses, mainly in the chemicals industry. Companies across all industries polled, except for the services sector, expressed concern about the negative effects of supply chain disruptions on the business.

Canada: top 5 greatest challenges to business profitability in 2022

% of respondents

Ongoing impact of pandemic on our business



Keeping pace with rising demand



Maintaining adequate cash flow



Supply chain issues



Shrinking profit margins

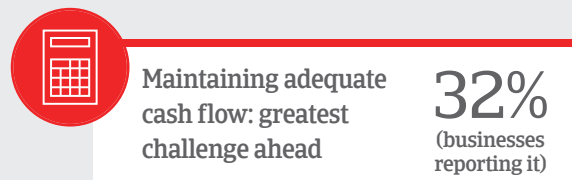
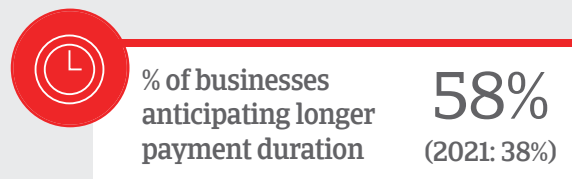
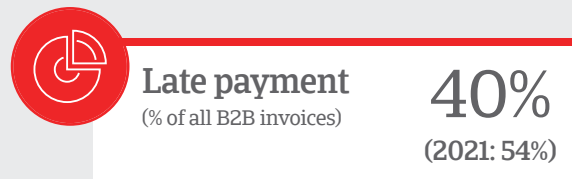
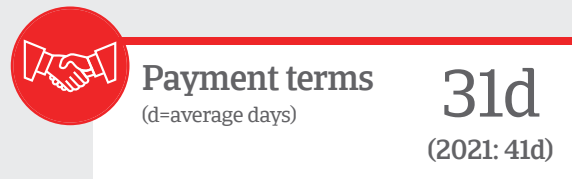
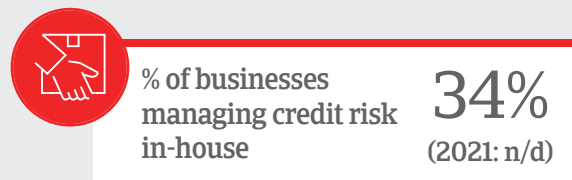
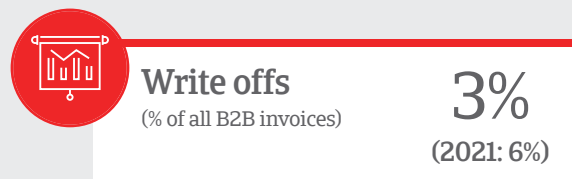
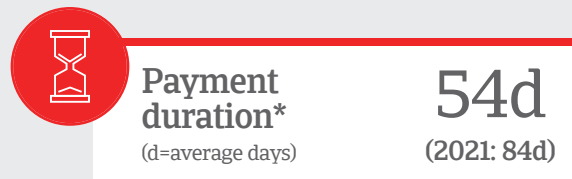
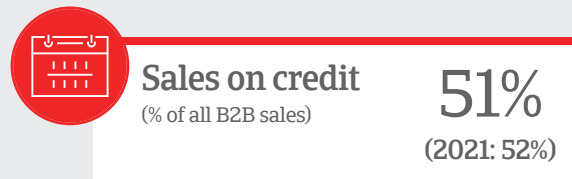


Sample: all survey respondents (multiple choice survey question)

Source: Atradius Payment Practices Barometer - July 2022

Canada: overview of key survey findings by industry

Chemicals

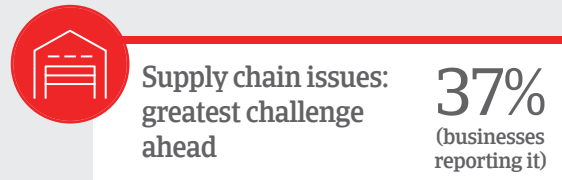
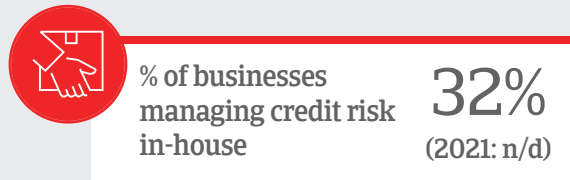
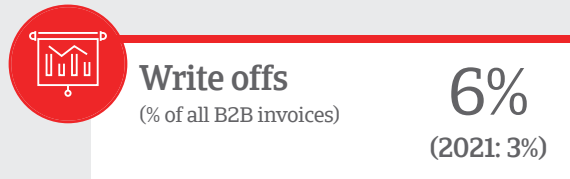
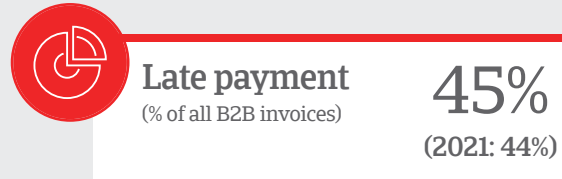
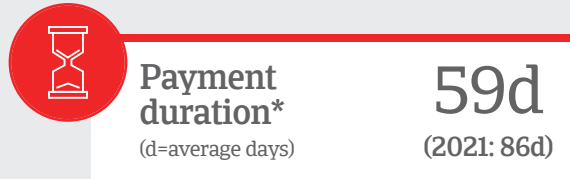
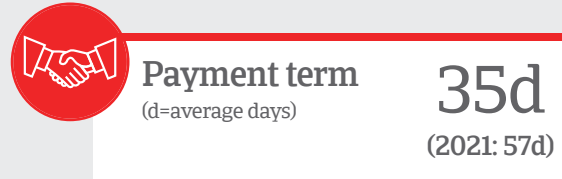
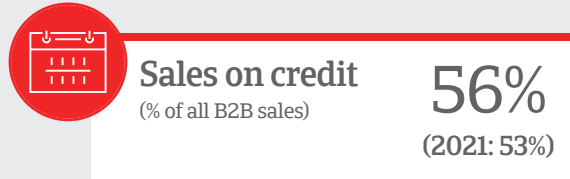


* payment term on the invoice plus any delay.



Canada: overview of key survey findings by industry

Steel/Metals

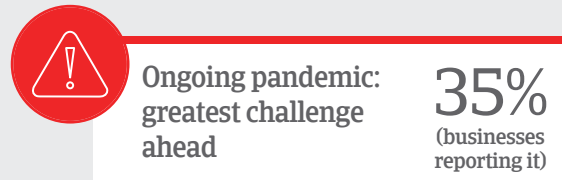
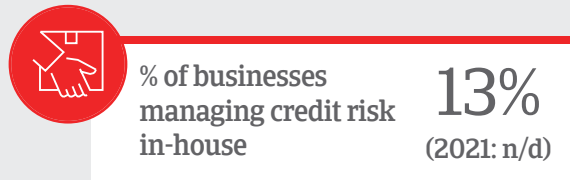
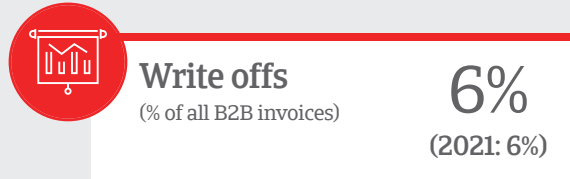
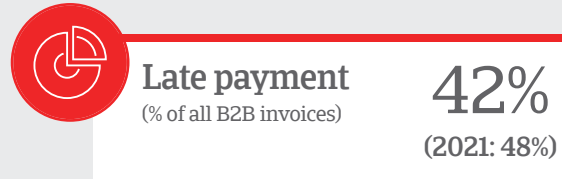
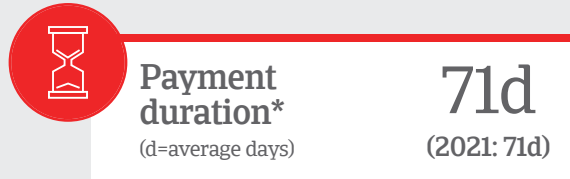
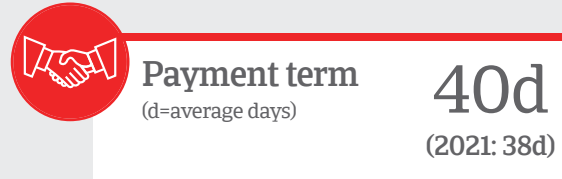
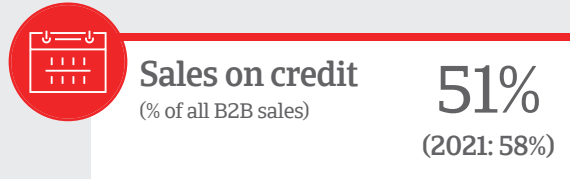


* payment term on the invoice plus any delay.



Canada: overview of key survey findings by industry

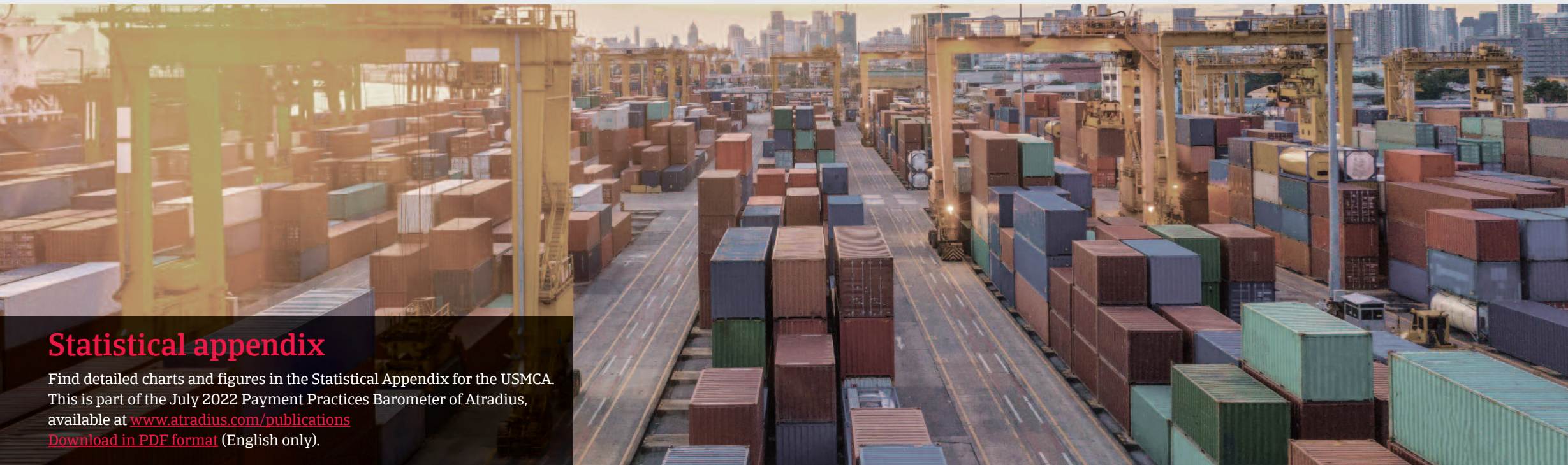
Services



* payment term on the invoice plus any delay.



Glossary



Statistical appendix

Find detailed charts and figures in the Statistical Appendix for the USMCA. This is part of the July 2022 Payment Practices Barometer of Atradius, available at www.atradius.com/publications.
[Download in PDF format](#) (English only).

Payment term (credit period, credit term)

The period after delivery or shipment of goods or after rendering of services at the expiry of which invoices are due to be paid.

Overdue invoice (past due invoice, defaulted invoice)

A customer's obligation that has not been paid by its due date.

Write-offs

Overdue invoices that cannot be collected and therefore are treated as bad debts and written off as uncollectable.

Days Sales Outstanding (DSO)

Average time (days) a company takes to convert its credit sales into cash or cash in the outstanding payments from its customers.

Survey design

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the Atradius Payment Practices Barometer. Canada companies are the focus of this report, which forms part of the 2022 edition of the Atradius Payment Practices Barometer. A change in research methodology means year-on-year comparisons are not feasible for some of these survey results. Using a questionnaire, CSA Research conducted 200 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** Companies from Canada were surveyed, and the appropriate contacts for accounts receivable management were interviewed.
- **Sample design:** The Strategic Sampling Plan enables us to perform an analysis of country data crossed by sector and company size. It also allows us 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=200 people were interviewed in total. A quota was maintained according to three classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration.
Interview period: Q2 2022.

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If after reading this report you would like more information about protecting your receivables against payment default by your customers you can visit the Atradius website or if you have more specific questions, please leave a message and a product specialist will call you back. In the Publications section you'll find many more Atradius publications focusing on the global economy, including country reports, industry analyses, advice on credit management and essays on current business issues.

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For more insights into the B2B receivables collection practices in Canada and worldwide, please go to www.atradiuscollections.com

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Sample overview – Total interviews = 200

Market	Interviews	%
USA	200	34
Canada	200	33
Mexico	200	33
TOTAL	600	100

Business sector	Interviews	%
Manufacturing	275	46
Wholesale	130	22
Retail trade / Distribution	66	11
Services	129	21
TOTAL	600	100

Business size	Interviews	%
Micro enterprises	51	8
SME - Small enterprises	253	42
SME - Medium enterprises	244	41
Large enterprises	52	9
TOTAL	600	100

Industry	Interviews	%
Agri/Food	40	20
Chemicals	102	51
Electronics/ICT	58	29
TOTAL	200	100

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