

PAYMENT SURVEY

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The Netherlands Corporate Payment Survey 2020: More payment delays alongside COVID-19

This study is the very first Coface survey on corporate payment experience in the Netherlands. Originally, this survey had been conducted between February and early-March 2020 (the first quarter of 2020, Q1 2020), with 301 participating companies located in the country. However, at the end of the survey period, COVID-19 struck the world and changed the economic outlook drastically. Accordingly, in order to factor in this change of companies' payment experience, we conducted a new survey between early-May and late-June (the second quarter of 2020, Q2 2020), in which 114 companies participated. The results differ remarkably within these few months. Admittedly, some might be due to the different set of participants, but others mirror the new economic status-quo.

Payment terms are an interesting case in the Netherlands. Only 42% of participants in the Q1 2020 survey answered that they offer payment terms, and this figure increased only slightly to 48% in Q2 2020. Short-term credit periods dominate the Dutch business landscape, with 85% of companies that offer payment terms requesting a payment within 60 days. Between the first and the second quarter of 2020, the distribution changed, with a decrease in the short- to middle-term period (between 31 and 60 days) and an increase within the very short-term segment (1 to 30 days). While this change could be related to the much smaller set of participants, it also gives the impression that participants may be nervous about payment morale and prefer to cash in as early as possible. These concerns are not unfounded. The number of participants who reported payment delays increased from 71% in Q1 to 75% in Q2 of 2020, which means that in our sample, three out of four companies are struggling with payment delays. The companies reported that the average duration of payment delays is high: 66 days in the first quarter, 58 days in the

second quarter. The retail sales-textile-clothing sector stood out with the longest payment delay period. The share of turnover related delayed payments, which are overdue by more than six months, is a concerning issue in the Netherlands. Overall, they remain low, but the distribution changed somewhat on the higher end. While in Q1 2020, only 3.6% of participants answered that overdue payments accounted for 5% or more of their turnover, the number increased to 9.6% in Q2.

The economic outlook has changed completely in a few months. In Q1 2020, every sector was overall positive on the business outlook for 2020, with pharma-chemicals being the most optimistic and construction the least. However, in June 2020, 52% of surveyed companies expected a negative business development in 2020. This economic contraction is threatening the survival of some of the participating companies. One third of them have applied or plan to apply for State aid, while another 7% are unsure and could resort to it if the economic situation worsens. Accordingly, priorities regarding the biggest threats to the business outlook have changed. While in early 2020, Brexit seemed to be the main problem, it changed to the effects of COVID-19 on the world economy and to disruptions of global production chains. This could be one reason explaining Dutch companies' loss of trust towards China, and their stronger preference in Emerging Asia as the destination with the biggest opportunities.

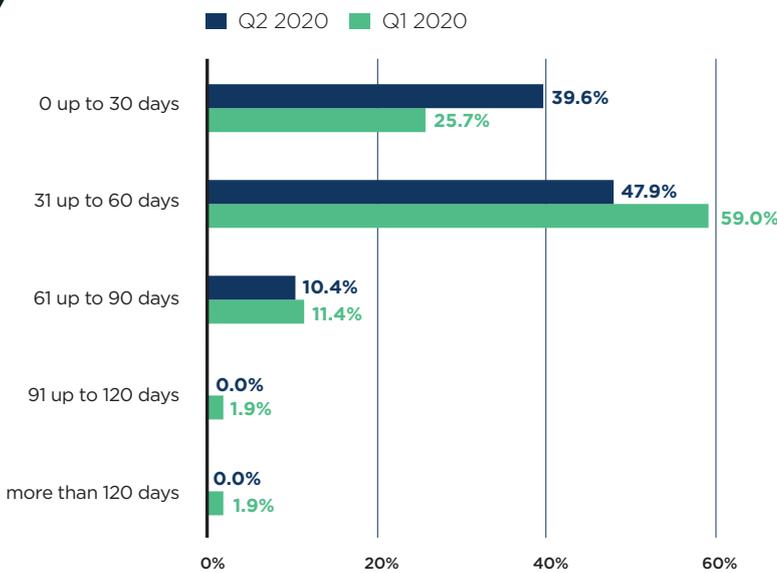


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1 PAYMENT TERMS¹: CAUTIOUS DUTCH COMPANIES BECAME EVEN MORE CAUTIOUS

Chart 1: Average payment terms



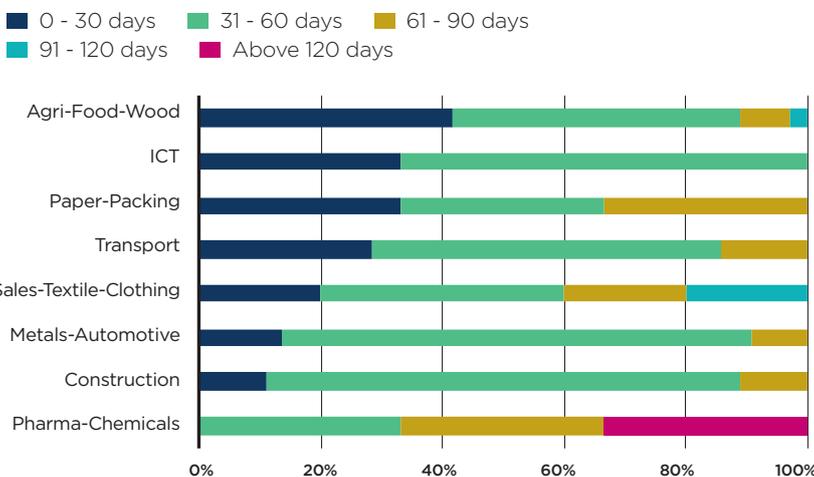
Source: Coface Payment Survey

- According to the data of our payment survey, Dutch companies are very cautious in providing payment terms. In Q1 2020, only 42% of participants said that they offered payment terms. This is a very low share when compared to international standards. Interestingly, only 30% of the companies who are exclusively active on the Dutch market offered payment terms, while 63% of exporting companies offered payment terms. In the Netherlands, retail sales-textile-clothing² (56%), transport (54%) and agri-food-wood (49%) were the sectors with a higher share of offered payment terms. However, when we asked this question again in late Q2 2020, after the outbreak of the COVID-19 epidemic in the Netherlands, the share of firms that provided payment terms had increased to 48%.

- Short-term payment terms (between 0 to 30 and 30 to 60 days) dominate the Dutch business landscape. 85% of companies request payments to be made within 60 days (Chart 1). After the outbreak of the COVID-19 epidemic, this number had increased to 88%. Long-term payment terms above 120 days are quite rare in the Netherlands and, according to the answers of our survey, only proposed in the pharma-chemicals sector (33%).

- In early 2020, the most generous sector regarding longer payment terms was the pharma-chemicals sector, with an average of 85 days. Conversely, in the agri-food-wood and ICT³ sectors, payments had to be made on average between 37 and 35 days after the delivery, respectively (Chart 2).

Chart 2: Hypothetical payment terms in sectors (Q1 2020)



Source: Coface Payment Survey



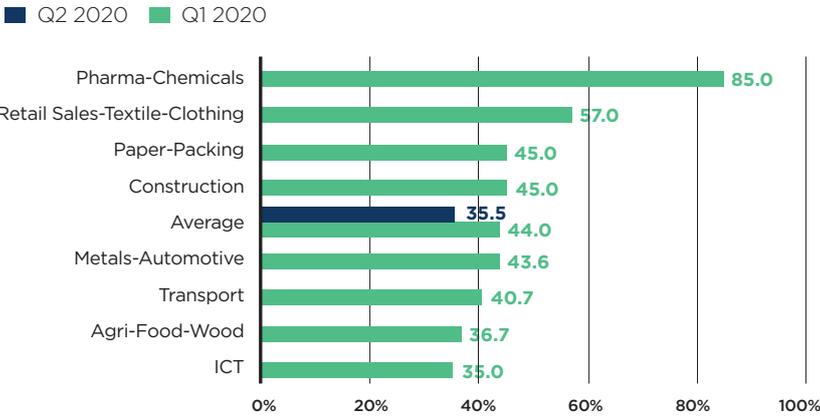
The average credit period decreased by almost 9 days, from 44.0 days in Q1 2020 to 35.5 days in Q2 2020.

¹ Payment term – the time-frame between when a customer purchases a product or service and when the payment is due.

² As the number of answers in sporadic single sectors were too low, we combined some similar sectors for a more significant result.

³ ICT – Information and Communication Technologies

Chart 3:
Average payment terms (days)



Source: Coface Payment Survey

- However, between Q1 and Q2 of 2020, the time distribution changed noticeably. While in the first quarter almost 60% of all companies imposed average payment terms between 31 and 60 days, it shifted to the short-term period of 0-30 days in the second quarter.

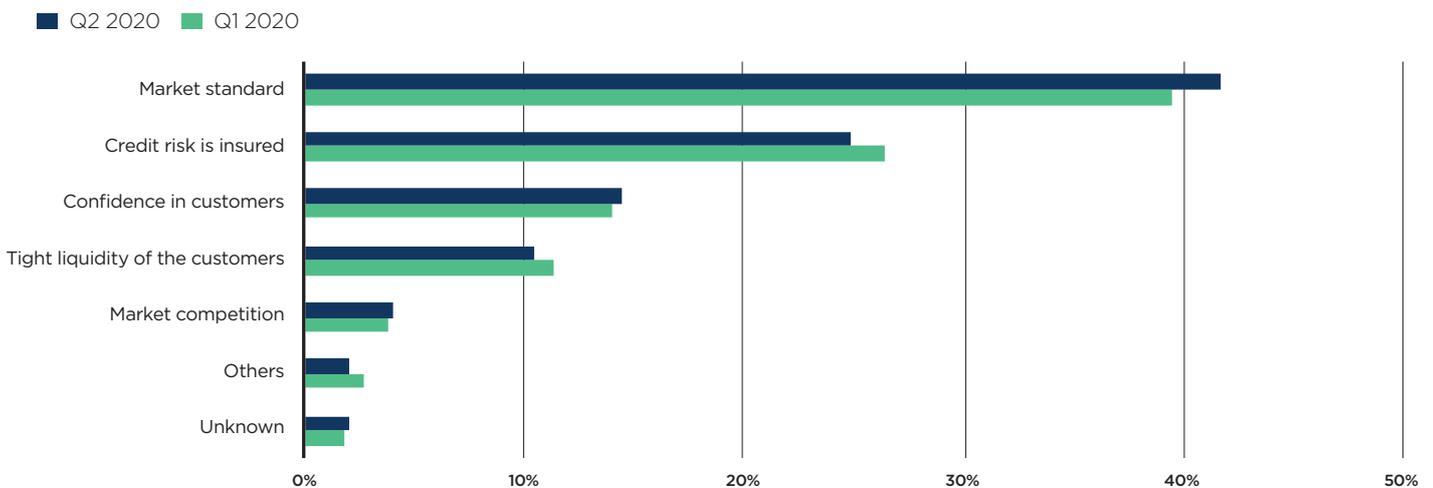
- Accordingly, the average payment term decreased by almost 9 days, from 44.0 days in Q1 to 35.5 days in Q2 2020. The answers per sector in the second survey were too few to get significant results (**Chart 3**). However, comparing payment terms for companies with different destination markets, the payment term for companies on the Dutch market fell from 42 days in Q1 to 34 days in Q2, while the terms for exporting companies fell from 50 days on average in Q1 to 36 days in Q2.

- The reason for the decrease of the average payment term within a few months could be the COVID-19 crisis and the uncertainty around it. On the one hand, this could mean that companies want to cash in as early as possible. However, this still remains uncertain, as on the other hand, the share of companies offering payment terms has increased, maybe in order to support their customers.

- When asking about the reasons behind the availability of payment terms, answers were practically unchanged between early and mid-2020 (**Chart 4**). Between 40% and 42% of our participants answered that it was market standard, followed by the fact that their credit risk is insured. Confidence in customers did not falter between the periods and even increased slightly from 14% to 15%.

ONLY
42%
OF OUR PARTICIPANTS
answered that they offered
payment terms in early
2020. In Germany, 81%
of surveyed companies
offer payment terms.

Chart 4:
Reasons for offering payment terms



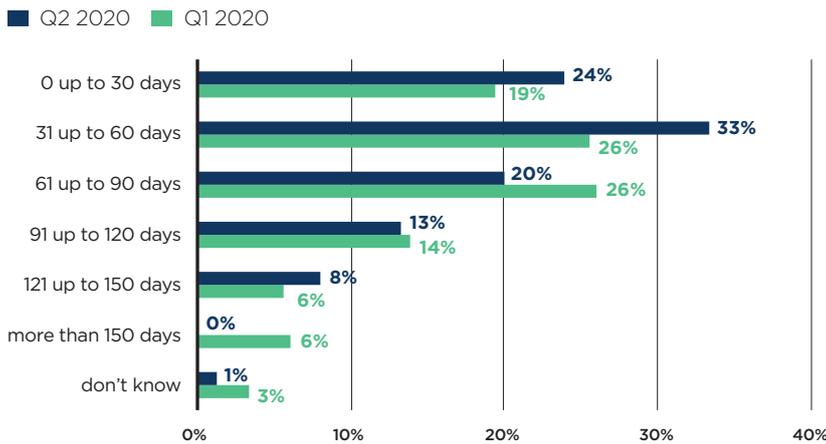
Source: Coface Payment Survey



2 PAYMENT DELAYS⁴: MORE IN NUMBER, SHORTER IN SIZE

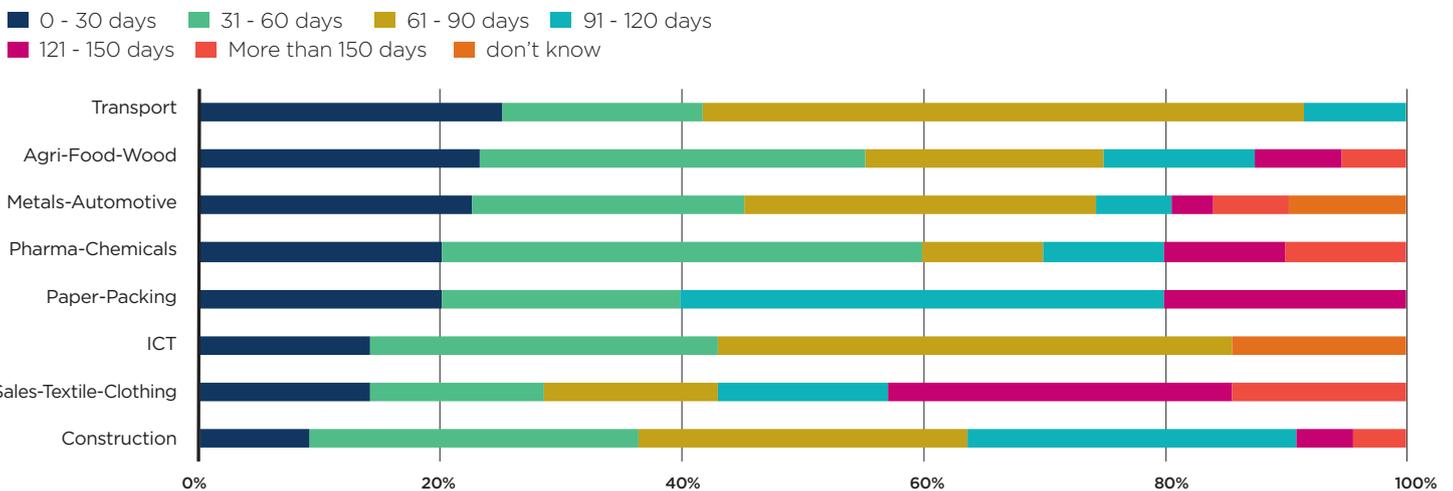
- Between the first survey and the second survey in late spring, the number of payment delays had increased. In Q2 2020, 75% of surveyed companies reported payment delays compared to 71% in Q1. Nevertheless, this is still a robust number in international comparison. In 2019, 85% of companies in our survey reported payment delays in Germany⁵.
- However, while the number of companies experiencing payment delays has increased, the average payment delay time has decreased by around 7 days between Q1 and Q2 of 2020, from 65.7 days to 58.4 days, according to our survey's results. While on average companies on the Dutch market had unchanged payment delays at around 60 days in the first half of the year, the payment delay of exporting companies decreased by 12 days between Q1 and Q2 to 60 days. Overall, the distribution of payment delays has changed noticeably in a few months. In early 2020, the share of companies with payment delays of up to 60 days was at 45% and another 25% had payment delays between 60 and 90 days. In Q2, 57% of companies reported payment delays of up to 60 days. While in Q1, 6% of companies had payment delays over 150 days, there were none in the second sample (Chart 5). Once again, this could be due to the difference in the sample of participating companies.
- In Q1 2020, the sector with the highest share of payment delays was ICT, where all companies in our survey reported payment delays. In the transport sector, 92% of participants reported payment delays, followed by retail sales-textile-clothing (78%) and agri-food-wood (76%). The sector with the lowest share of payment delays was paper-packing with 56%.

Chart 5:
Average payment delays



Source: Coface Payment Survey

Chart 6:
Hypothetical payment delays in sectors (Q1 2020)



Source: Coface Payment Survey

4 Payment delays - the period between the due date of payment and the date the payment is made.

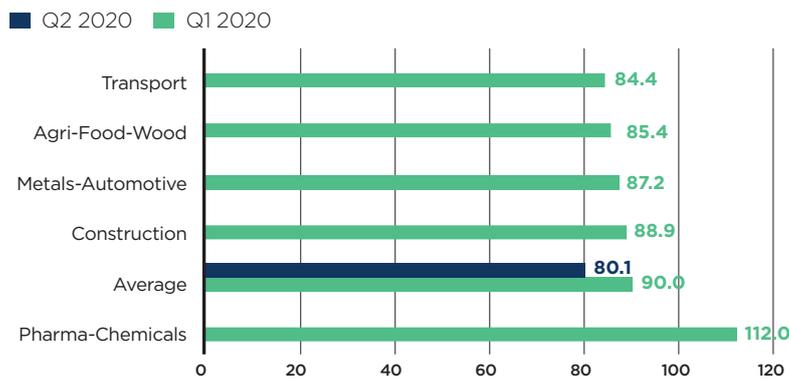
5 Coface Germany Corporate Payment Survey 2019: Turn of the tide, October 2019.

IN Q1 2020,
71%
OF SURVEYED COMPANIES
reported payment delays
in the last 12 months.
This number increased
to 75% in Q2 2020.



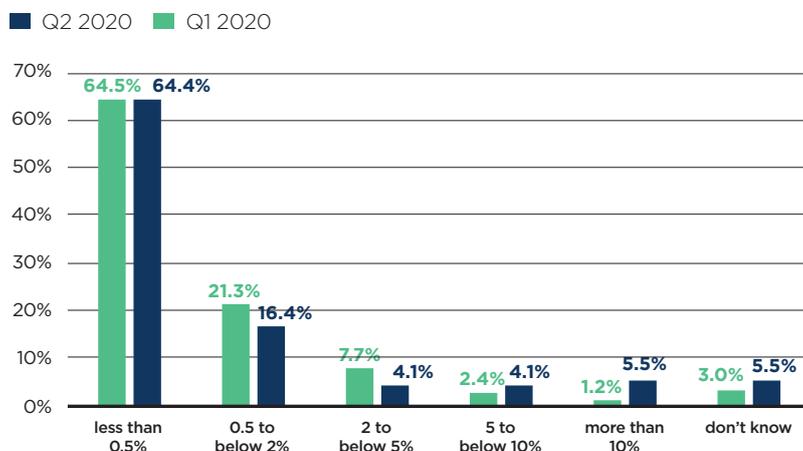
The average payment delay time decreased by 7 days between Q1 and Q2 2020.

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



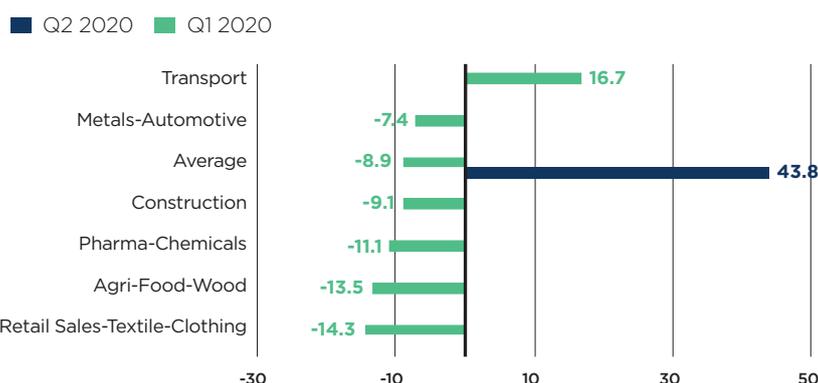
Source: Coface Payment Survey

Chart 8:
Share of overdue in percent of annual turnover, which are overdue for more than six months



Source: Coface Payment Survey

Chart 9:
Expected changes in the size of outstanding receivables over the next 12 months (figures in balance points)



Source: Coface Payment Survey

- When comparing sectors in the first survey, the sector with the longest average payment delay was retail sales-textile-clothing, with 97 days delay on average. The sector with the lowest average delay was ICT with 47 days. Interestingly, several sectors in our sample reported payment delays longer than 150 days: retail sales-textile-clothing (14.3%), pharma-chemicals (10%), metals-automotive (6.5%), agri-food-wood (5.4%) and construction (4.5%) (**Chart 6**).

- The addition of payment delays to payment terms results in the days sales outstanding (DSO) and shows that the companies in our survey had to wait for 90 days on average after the delivery to receive their payment, in early 2020. Due to a decrease in payment terms and payment delays in the Q2-sample, the DSO in Q2 was 80 days on average (**Chart 7**). Companies on the Dutch market had to wait on average for 67 days to receive their payment in Q1 and 72 days in Q2, while exporting companies had to wait for 104 days on average in Q1 and 82 days in Q2. The sector with the longest waiting time was pharma-chemicals with 112 days in Q1 2020, while the sector with the shortest waiting time was transport with 84 days.

- The reasons behind payment delays overall are mainly related to financial difficulties (42.6% in Q1, 41.3% in Q2). Moreover, in mid-2020, the effects of the coronavirus were explicitly named by 5.3% of participants as the main reason for delays.

- Regarding the reasons explaining financial pressure, companies stated the lack of financing as the main problem (30.7%) in early 2020. In the second quarter 2020, the most named single reason was COVID-19, with 23.3% of answers.

- The perspective on the level of outstanding receivables changed between the first and the second quarter of 2020. In early 2020, half of the respondents said that outstanding receivables remained unchanged in 2020 compared to the previous year. Only 2 ½ months later, this number had decreased to 43%, while a third of respondents said that receivables increased on average. This can also be observed with the share of overdue that have exceeded over six months as a percentage of annual turnover. A positive result is that the share, where the overdues are extremely small, remained at 64.5% between before and after the COVID-19 outbreak. However, in Q1, only 3.6% of the overdue had a share higher than 5% of turnover. The figure increased to 9.6% in Q2 (**Chart 8**).

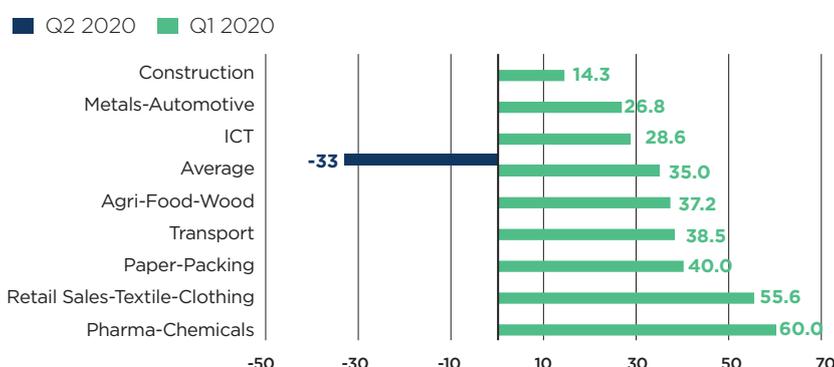
- The outlook for the next twelve months has made a U-turn. In early 2020, when asked about the expected changes in the size of outstanding receivables over the next 12 months, a majority of 62% expected stability. From the remaining 38%, more expected a decrease than an increase, so that on balance, a decrease was expected with 8.9 balance points (share of increases minus share of decreases in the answers) (**Chart 9**). 2 ½ months later, almost half of respondents expected increasing overdue of payments, with a new balance of 43.8 points.

3 ECONOMIC EXPECTATIONS UP ONE MINUTE - DOWN THE NEXT

- According to our survey, the economic outlook of businesses has reversed in recent months. In Q1 2020, 43% of participating companies expected a stronger activity in 2020 compared to 2019, while only 8% expected activity to decrease. Overall, the outlook was very positive at 35 balance points (**Chart 10**). Even on a sectoral basis, all sectors had a positive outlook in general. However, this changed remarkably in mid-2020. In May/June,

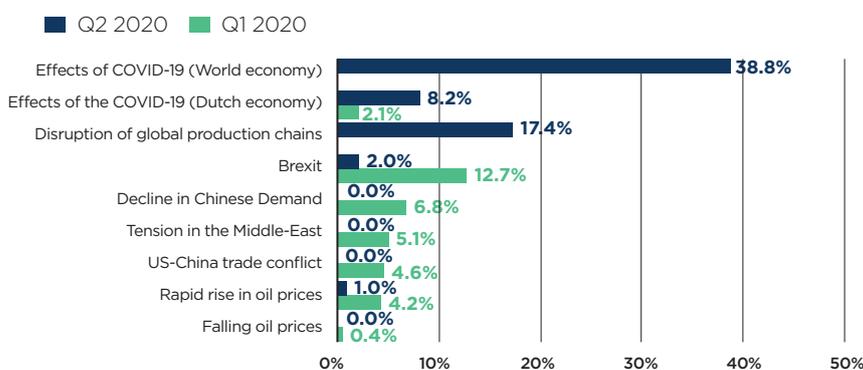
52% of respondents expected a worse business development for 2020 compared to 2019, 22% expected a stable development, and 19% were even positive. This is quite high, keeping in mind that GDP forecasts of the government showed a bold recession for 2020 quite early on.

Chart 10:
What is the business outlook of your company for the year 2020?
(figures in balance points)



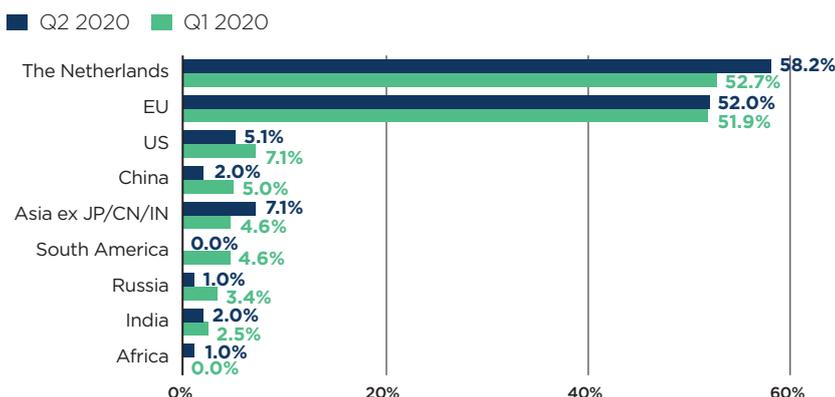
Source: Coface Payment Survey

Chart 11:
What is the main risk for your export business in the future?



Source: Coface Payment Survey

Chart 12:
What are the markets with the biggest opportunities for you in the coming year?
(max. three answers possible)



Source: Coface Payment Survey

- The main reason for change in the economic outlook is obviously the COVID-19 pandemic. Even in the first survey, which was conducted until 6 March 2020, 2% of respondents named the virus as the main threat for exports in 2020. However, besides these early prophets, a majority of 13% saw Brexit as the main threat (**Chart 11**). The rest of respondents were split between decreasing demand of China, tensions in the Middle-East and the U.S.-China trade war. While all named issues did not vanish, especially Brexit that is looming without a trade agreement between the EU and UK (time is ticking), all of them faded behind COVID-19 and its effects in Q2 2020. Interestingly, the main threat to Dutch companies is not so much the effects on the domestic market (8% named it as the main threat), but rather the effects on the global economy, and the disruptions of supply and production chains (39% and 17% respectively). This again underlines the importance of trade in the Dutch economy.

• What consequences does this entail for markets with the largest expected opportunities? In Q1 and Q2, the Netherlands remains the country with the biggest opportunities in this survey (unsurprisingly, as 51% of respondents in the first quarter are mainly on the Dutch market). However, the importance of the Netherlands has even increased in the second survey (**Chart 12**). One reason could be that within this global economic crisis, it is easier to monitor the developments on the domestic market compared to foreign markets. However, other regions lost the confidence of Dutch companies between Q1 and Q2 of 2020. The large markets of the U.S. and especially China are among them. Interestingly the confidence loss in China is similar to the confidence gain in Asia excluding Japan, China and India. The disruption of production chains, which are seen as a main threat for companies in the Netherlands, seems to have consequences. Most probably, some Dutch companies are looking for alternatives to China in their production and supply chains, so that the dependence on one country is diversified to several countries in emerging Asia (e.g. Vietnam or Malaysia).

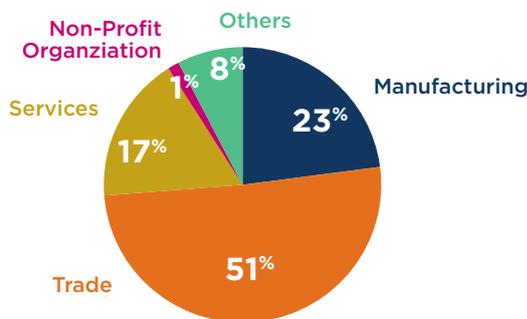
- These difficult times call for special measures. In a new question, we asked our customers if they applied or planned to apply for state aid this year. A third of the participants responded positively, with another 7% who have not applied yet, but are not excluding this measure if the business situation worsens. 41% stated that they do not want to apply for state aid.

APPENDIX



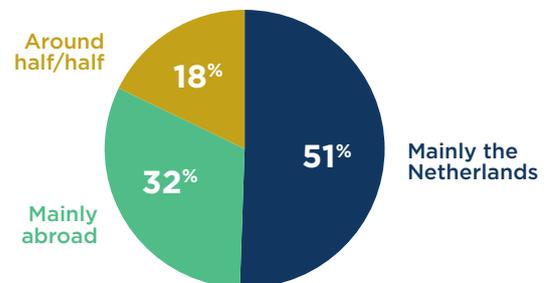
Who were the respondents?⁶

MAIN BUSINESS ACTIVITY



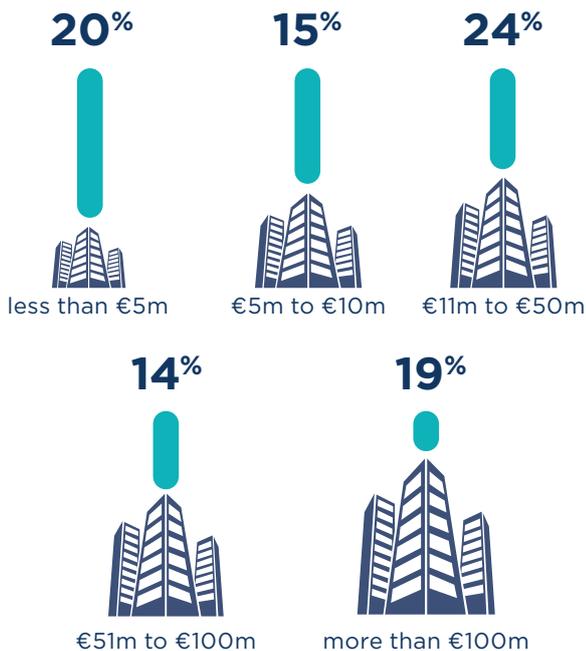
Source: Coface Payment Survey

RELEVANT MARKET



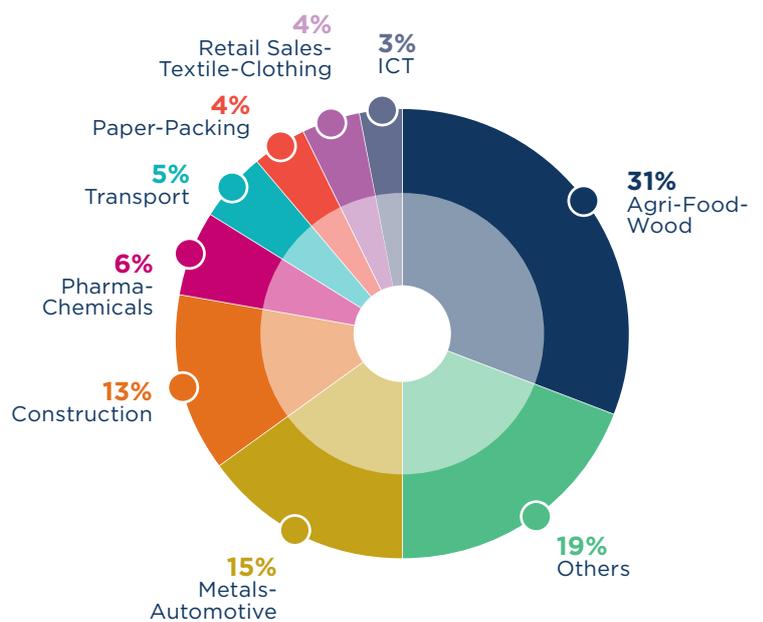
Source: Coface Payment Survey

SIZE BY TURNOVER (€m)



Source: Coface Payment Survey

SECTOR OF SURVEYED COMPANIES



Source: Coface Payment Survey

⁶ The following charts are referring to the participants of the first survey, conducted between February and March 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.

DISCLAIMER

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