

Atradius Payment Practices Barometer July 2022



Mexico: rising bad debt levels

Table of contents

About the Atradius Payment Practices Barometer	3
Overview of key survey findings	4
Credit sales and payment terms (B2B)	5
Customer payment default (B2B)	6
Impact of customer payment default (B2B)	7
Management of customer payment default (B2B)	8
The business outlook (B2B)	9
Overview of key survey findings by industry	
Agri/Food	10
Chemicals	11
Steel/metals	12
Glossary	13
Survey design	14

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 Mexico.



Mexico: overview of key survey findings

7% write off

(compared to last survey's 5%)

Protective measures required to protect against rising bad debt levels

- There was a more than 10% increase in the Mexico market in the levels of both B2B customer payment defaults and bad debts written off as uncollectible. The latter was particularly acute in the Mexico chemicals sector. The impact of this was a staggering rise in the strengthening of credit control processes across all industries, with a range of measures introduced to avoid businesses being hit by liquidity shortfalls and the serious problems which flow from that.
- Protection against unexpected losses was reported by companies polled in Mexico to be a paramount issue, with a need to guard against businesses being liquidity squeezed. The financial weakness of customers was found to be a significant issue in the survey and the spark for higher payment default levels. Among the strategies used by Mexican companies were more regular customer credit checks, seeking external finance and avoiding customer credit risk concentration.

Strong strategic credit risk management amid positive future outlook

- A heightened perception of the importance of good strategic credit risk management was reported by companies polled in the Mexico market. They told us the benefits of having a credit insurance cover included having access to in-depth information on customers as well as access to debt collection services and crucial market intelligence. It also helped to improve DSO and thus free up working capital. DSO remained steady for the majority of companies.
- Companies in Mexico reported a generally positive outlook for the period ahead, signalling a rise in business confidence. The vast majority told us they expect both an improvement in payment practices and a significant expansion in trading on credit with B2B customers. One clear concern expressed about the future is that DSO will deteriorate. Other worries include the ability to keep pace with rising demand as the economy rebounds, about maintaining good cash flow and the impact of high inflation.

Mexico: credit sales and payment terms (B2B)

B2B trade on credit boosts sales with new customers

- An average of 52% of the total value of business-to-business (B2B) sales was transacted on credit by companies polled in Mexico, a figure unchanged from our last survey. A wider acceptance of trade credit requests from B2B customers was reported across all industries, motivated by a desire to grow B2B sales by attracting new customers. 55% of business polled in Mexico reported this. Rejection of trade credit requests, most often reported in the chemicals sector, was due to factors like insufficient information on the customer's payment history.
- Trading on credit by companies in Mexico also appears to be strongly driven by financial reasons – when offering and receiving trade credit becomes a source of short-term funds for B2B customers with temporary liquidity issues. In order to minimize borrowing costs to finance their purchases on credit, B2B customers resort to requesting trade credit to replace or supplement bank loans. In particular, businesses in the Mexico agri-food industry most often traded on credit with B2B customers for this reason.

Flexible approach to payment terms, focus to avoid liquidity strain

- Our survey showed a flexible approach to setting payment terms for B2B customers. 59% of Mexican companies polled said they offered longer terms in a drive to win new business. Around 40% of companies told us they did not change their customary payment terms. The rest reported offering shorter payment terms, a reflection of the risk involved in B2B trading on credit, a policy prevalent in the agri-food sector. Overall, the average time for payment of invoices in Mexico was 52 days, compared to 54 days in the previous survey.
- 52% of companies polled in Mexico, especially in the chemicals sector, said payment terms were aligned to the period in which the company's liquidity is tied up in B2B credit sales and unavailable for use in business operations. 49% of businesses told us payment terms reflected their customary internal trade practices, particularly so in the steel/metals industry. There was a different focus in the agri-food sector, where decisions on payment terms were consistent with their profit margins – because a severe risk of payment default is that it can lead to erosion of profitability or even complete elimination. It may explain why many agri-food companies reported that having a credit insurance allowed them to offer more favorable payment terms and thus win business.



52%

(2021: 39%)

of companies polled in Mexico said they set B2B payment terms in alignment to the period in which the company's liquidity is tied up in credit sales and unavailable for use in business operations.

Mexico: customer payment default (B2B)

Customer credit risk worsens, bad debt write-offs on the rise too

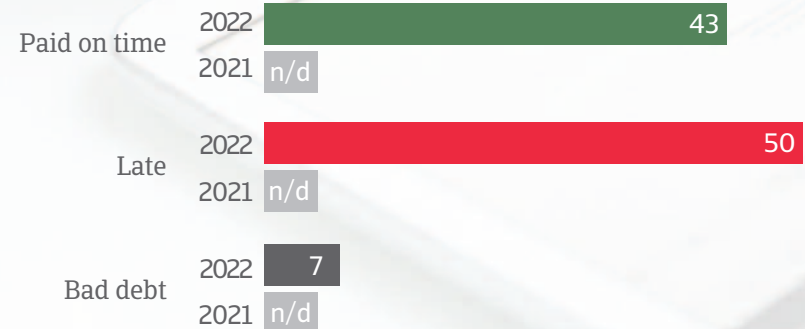
- There was a significant rise in the level of B2B invoices affected by customer payment default in Mexico, which were more than 10% higher than in our last survey. The impact of this was staggering, with 84% more companies than in the previous period reporting they had strengthened their credit control process. The hardest hit sector was the Mexico steel/metals industry, which took a range of measures to avoid being liquidity squeezed. These included resorting to external financing, engaging debt collection agencies, and suspending deliveries to B2B customers until payment of invoices.
- The level of bad debts written off as uncollectable also increased in the Mexico market, our survey finding this happened with 7% of the total value of B2B invoices after several attempts at getting payment. This figure was about 10% higher than in the last survey period. The percentage of write-offs was highest in the Mexico chemicals industry, at 9%, almost certainly a reflection of the heightened credit risk landscape in which businesses in the sector trade with B2B customers.

Liquidity shortfalls and admin troubles trigger customer payment default

- 62% of companies polled in Mexico said late payments are most often due to the financial weakness of B2B customers which hurts their ability to meet payment obligations. This was a frequently reported reason for customer payment default across all industries polled. 57% of Mexico companies said customer payment default was due to administrative inefficiencies in the customer payment process, which again was a recurring issue across all industries polled.
- Nearly 20% of businesses polled in Mexico said payment default was largely to customer disputes. All the above reasons would explain why our survey found an increased to the issue of customer payment default and that this was being addressed with a stronger credit control process and a more regular undertaking of customer credit checks.



Mexico: % 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

Mexico: impact of customer payment default (B2B)

Protection against unexpected losses has become paramount issue

- The significantly worsening impact of customer payment default on Mexican companies has brought a focus on measures to guard against unexpected losses and protect the profitability of the business. Almost half of the companies polled in our survey, especially from the chemicals sector, said they sent invoice payment reminders to defaulting customers more often than previously. The reason was to accelerate cash inflows and decrease exposure to the risk of payment default from customers.
- 47% of companies polled, across all industries, said they actively used measures to avoid customer credit risk concentration – on either a single customer, or on groups of customers with the same features. 43% of businesses, especially in the steel/metals industry told us they set funds aside to offset potential bad debts losses, although this has the downside feature of depriving the business from funds to be used in their operations.

DSO remains steady for most, but downside risks remain

- Most of the businesses polled in Mexico (54%) reported no change in their Days-Sales-Outstanding (DSO), the length of time between invoicing and getting paid by customers. By contrast, 34% of companies, particularly in the chemicals industry, reported a weakening in their liquidity position during the past months. This was mainly down to a worsening of their DSO due to an increase in their trade B2B receivables. Reduced efficiency in collection of long unpaid trade debt was the key reason for DSO worsening and cash flow deterioration. This was particularly noted in the steel/metals industry.
- Companies in Mexico took a range of actions to reduce the length of DSO and thus improve cash flow, minimize the risk of payment default and their borrowing costs. These included a very frequent request for cash payments on delivery, especially in the Mexico agri-food industry.



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

Mexico: management of customer payment default (B2B)

Strategic credit risk management delivers key benefits

- Managing customer credit risk in-house was the option preferred by 36% of companies polled in Mexico and most often involved setting aside funds to cover potential losses. It also meant extra time, work, and costs for the business to develop and execute internal credit management processes. The remaining companies polled either outsourced the issue to a credit insurer, especially noted in the agri-food sector, or purchased specific trade finance solutions, a particular choice in the chemicals industry.
- Mexican companies cited a number of reasons for outsourcing credit risk management to a credit insurer. Among them was obtaining access to in-depth credit risk information about the payment history of potential customers. Another was gaining 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. In contrast, businesses who preferred to purchase specific trade finance solutions most often opted to use a letter of credit.

Mexico: 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

Mexico: the business outlook (B2B)

Business confidence on the rise, positive outlook for B2B trading on credit

- 86% of businesses polled in Mexico told us they have strong confidence the payment practices of their B2B customers will improve going forward. Another clear indicator of business confidence in the market is illustrated by 70% of companies saying they anticipate strong expansion of trading on credit terms with B2B customers during the coming twelve months. They believe repeat business from established B2B customers, as well as the desire to win new business domestically and abroad, will be the driving force for growth.

DSO worsening expected amid concern about coping with extra demand

- Despite this expected improvement in B2B customers' payment practices, the vast majority of companies polled (88%, no change from our last survey) expressed concern about a deterioration of their DSO. They fear this could be triggered by the interplay between an expansion of trading on credit terms with B2B customers, made in a desire to grow sales, and lower efficiency in the collection of long unpaid B2B trade debt. Against this backdrop, 67% of Mexican companies who already have a credit insurance cover said they would continue using it. This was evident across all industries polled.
- Looking ahead, 37% of Mexican businesses said their main concern is to keep pace with rising demand for their products and services as the economy rebounds, a particular issue in the chemicals industry. 30% of companies, mainly in the agri-food sector, are worried about maintaining adequate cash flow. Coping with the ongoing effects of pandemic-led disruptions on the economy concerns more than one quarter of businesses across all industries. The impact of high inflation, especially in both the chemicals and steel/metals industries, was a worry reported by 20% of companies.

Mexico: top 5 greatest challenges to business profitability in 2022

% of respondents

Keeping pace with rising demand



Supply chain issues



Maintaining adequate cash flow



Ongoing impact of pandemic on our business



Inflation

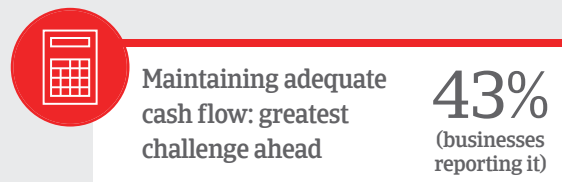
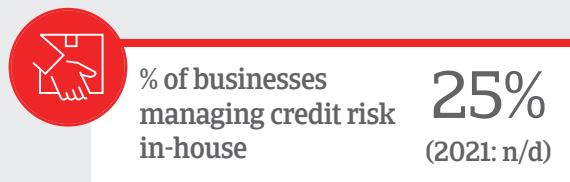
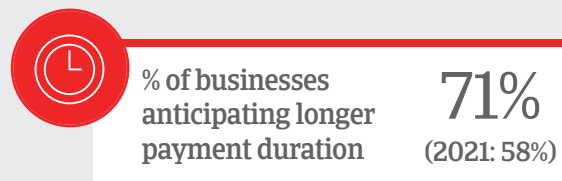
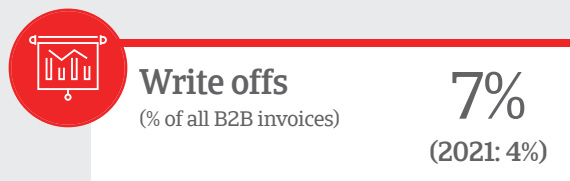
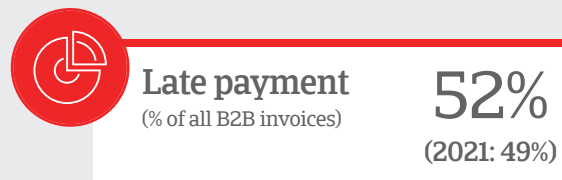
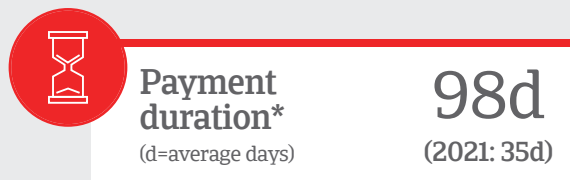
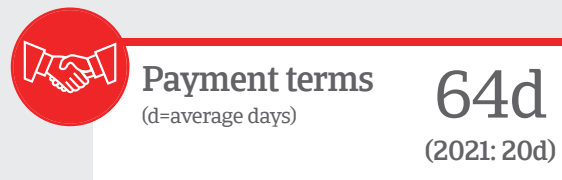
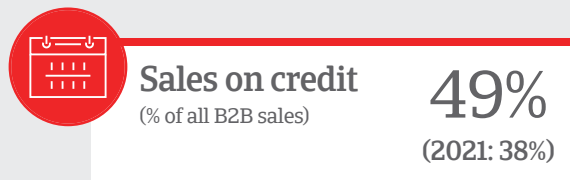


Sample: all survey respondents (multiple choice survey question)

Source: Atradius Payment Practices Barometer - July 2022

Mexico: overview of key survey findings by industry

Agri/Food

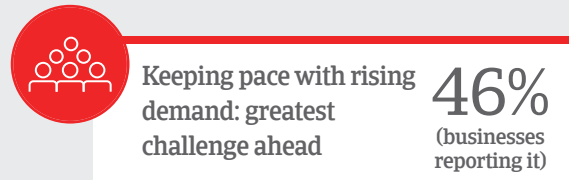
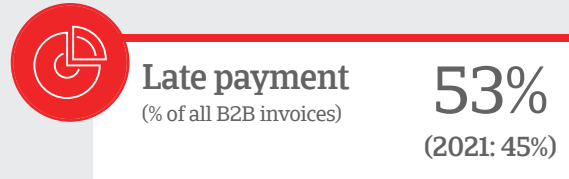
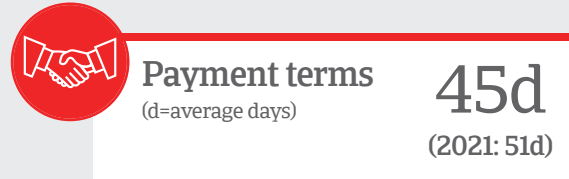
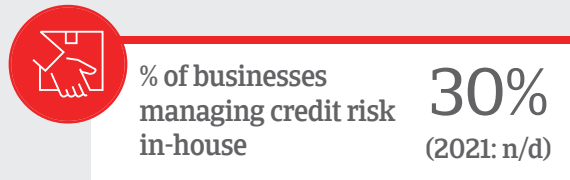
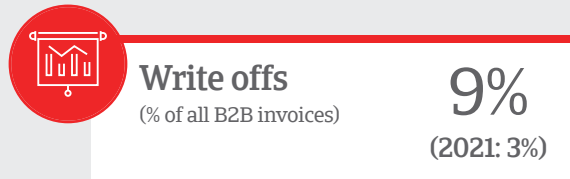
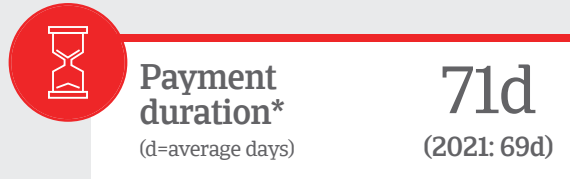
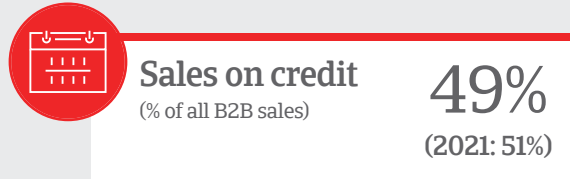


* payment term on the invoice plus any delay.



Mexico: overview of key survey findings by industry

Chemicals

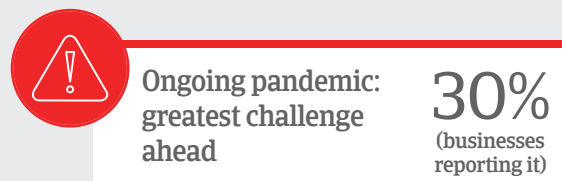
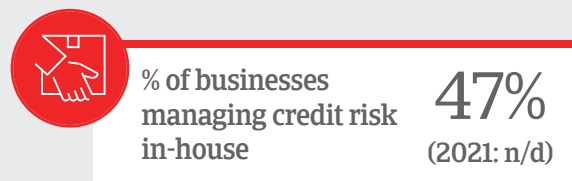
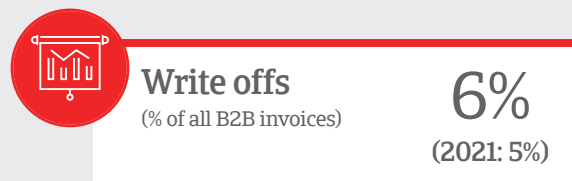
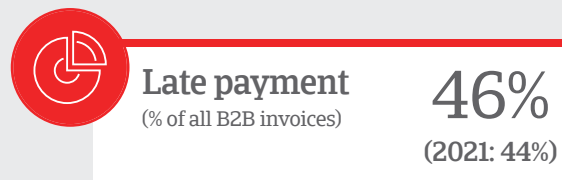
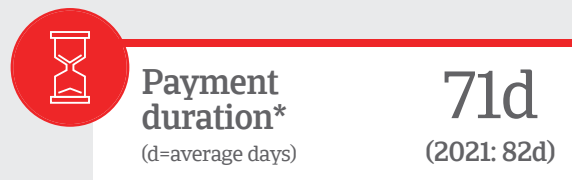
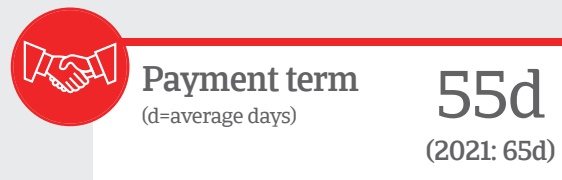
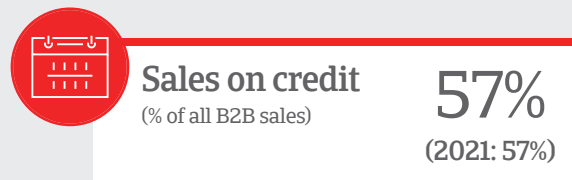


* payment term on the invoice plus any delay.



Mexico: overview of key survey findings by industry

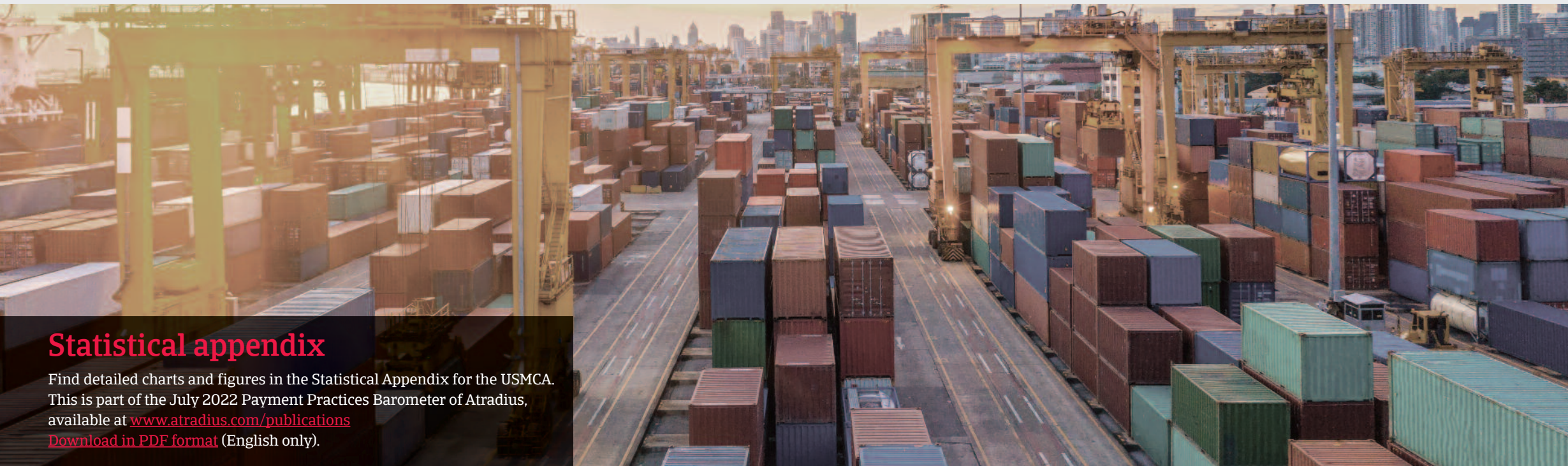
Steel/Metals



* 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. Mexico 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 Mexico 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 Mexico 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	30	15
Chemicals	90	45
Steel/Metals	80	40
TOTAL	200	100

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