COFACE ECONOMIC PUBLICATIONS

PAYMENT SURVEY

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Germany Corporate Payment Survey 2023:
On the way back to the bad old times

The seventh edition of Coface's survey on corporate payment experience in Germany was conducted in July and August 2023[1], with 1,075 companies participating. In contrast to last year, this year's payment behaviour was not affected by special events like the COVID-19 pandemic or the onset of the war in Ukraine and the resulting price pressures on commodities. This led to a normalization effect and the 2023 payment figures moved closer to pre-pandemic levels. Once again, more companies offered payment terms in 2023 (79% of all participants), which is comparable to 2019 (81%). The general preference for short credit terms in Germany remained unchanged: more than half of the surveyed companies requested payments to be made within 30 days in 2023, while ultra-long credit terms (120+ days) remained rare.

The payment delay figures show how much government support measures have helped companies in recent years. Indeed, now that almost all COVID-19 related support measures have ended and the impact of energy subsidies has levelled off, the number of companies reporting payment delays normalized and increased to a share of 76% in 2023, markedly above that of the 2020-2022 period, but not as high as 2019 (85%). Yet, it is worth noting that they are above pre-pandemic levels in automotive, transport and ICT. The average duration of payment delays increased to 30.1 days in 2023 (+1.4 days relative to 2022), which is still noticeably below the pre-pandemic average of 39.7 days. Most sectors (excluding wood, construction, and textile-clothing) reported an increase in the duration of payment delays. With an average of 22 days, companies in the paper-packaging sector experienced the shortest waiting time this year, while companies in the finance sector had to be the most patient, with an average delay of 39.2 days.

Although payment behaviour remains in a relatively good shape even after this deterioration, companies are very pessimistic about their business outlook. The view on their current business situation is particularly negative this year as only 13% of participants think that their situation is better than in 2022, while the 41% perceive it as worse. The outlook for 2024 is also cloudy. Only 20% of participants expect a recovery for their business, while 28% are preparing for an even worse outlook. Although the impact of single big risks, like disruptions in global supply chains, has decreased, the number of risks that simultaneously affect companies is increasing. In this environment, Germany lost support as a good business location compared with 2022, while the United States and Eastern Europe gained popularity. China became slightly more attractive too, but its support remained at a very low level in historical comparison[2]. This is also the result of the de-risking strategies of German companies that are trying to reduce their business dependence on single countries, suppliers, or customers. This year, already 12% of participating companies are opting for de-risking, with textile-clothing being the most impacted by it. For the next three years, 25% of all German companies in our survey expect to use a de-risking strategy for their business.

1 The survey was conducted between 26 June and 13 August 2023.
2 Coface has been publishing the Coface Corporate Payment Survey Germany since 2016.

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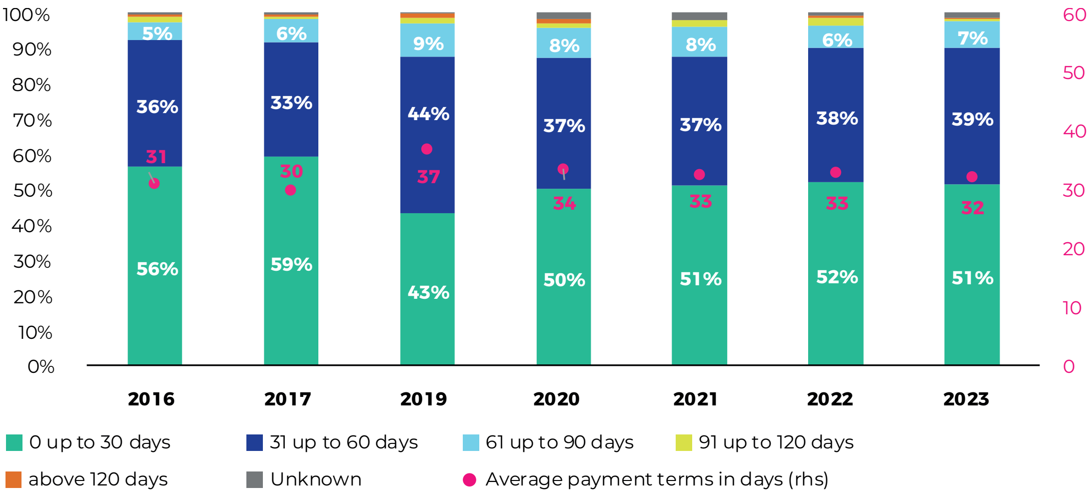
PAYMENT TERMS[3]: MORE, BUT SHORTER PAYMENT TERMS

- According to the data of our payment survey, German companies are slowly returning to their pre-pandemic behaviour in 2023. A share of 79% confirmed that they offered payment terms in 2023. This is the highest level since 2019 (81%) and a noticeable increase from 71% in 2022. Companies who are mainly active in Germany, for which the share offering payment terms increased markedly from 68% in 2022 to 78% in 2023, were the main driver of this development. As for companies that mainly export, 79% are offering payment terms in 2023 compared with 81% in 2022.

- Short-term payment terms (between 0 to 60 days) still dominate the German business landscape. 90% of companies that provided payment terms requested payments to be made within 60 days in 2023, which is unchanged from 2022, but slightly higher than the share of the years before **(Chart 1)**. The distribution of the other time-ranges for payment terms showed slightly more dynamism, with more companies offering terms within 90 days. This results in a shorter hypothetical average payment term of 32.1 days in 2023 compared with 32.8 days in 2022. It is also the shortest average payment term since 2017. Generally, payment terms tend to shorten in times of financial-stress when companies want to cash in as soon as possible to improve their cash-flow.

Chart 1:
Hypothetical payment terms in Germany over time[4]

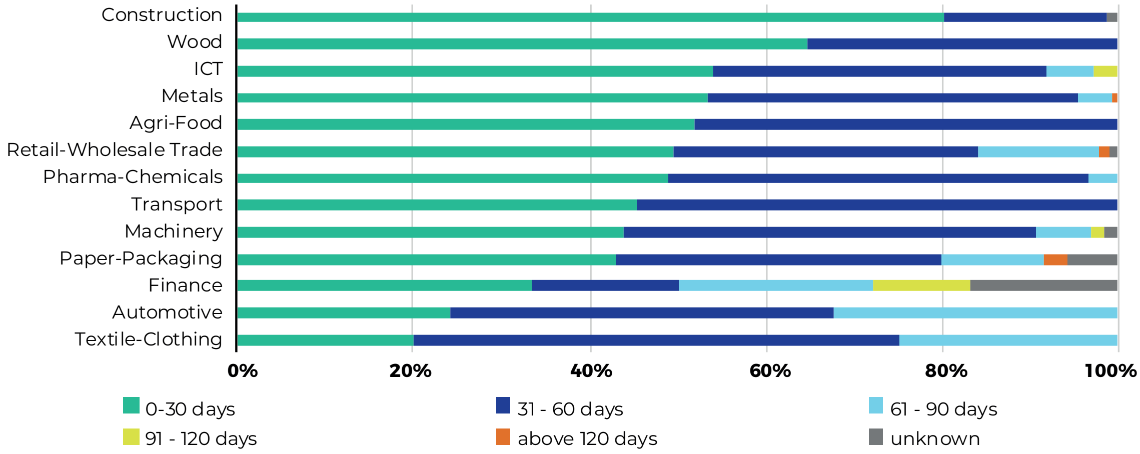


Source: Coface Corporate Payment Survey Germany 2023

In 2023,
79%
of surveyed participants offered payment terms. This is almost as high as the pre-pandemic-level.

3 Payment term – the timeframe between when a customer purchases a product or service and when payment is due.
4 Due to technical reasons, Coface did not publish a Corporate Payment Survey for Germany in 2018.

Chart 2:
Hypothetical payment terms in 2023 by sectors[5]



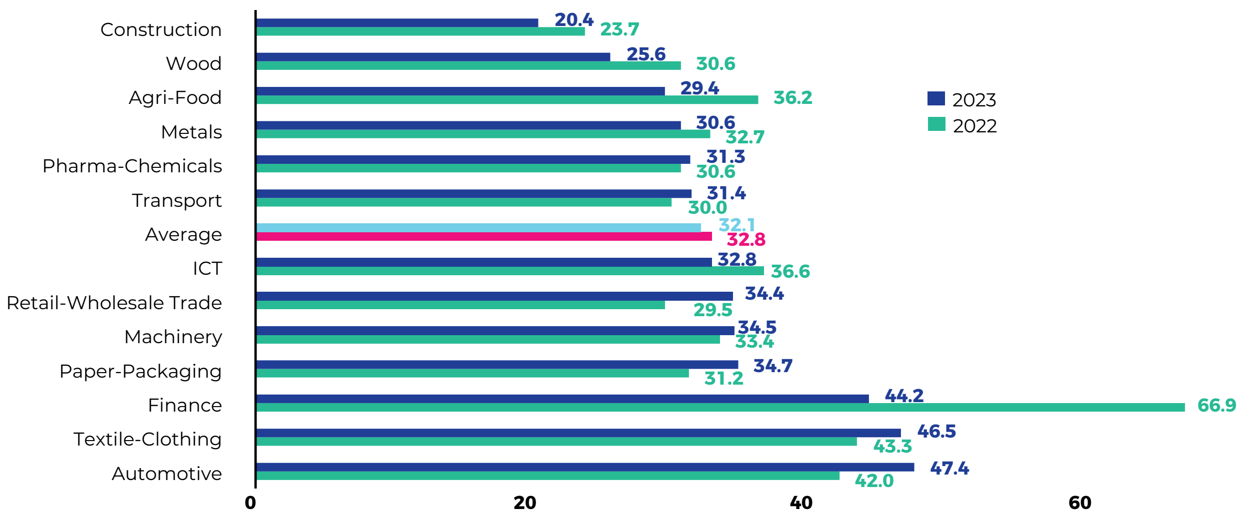
Source: Coface Corporate Payment Survey Germany 2023

- Looking at sectors, construction remains in pole-position when it comes to the shortest payment terms: 80% of construction companies expect their invoices to be paid within the first 30 days **(Chart 2)**. In 2023, only 6 out of 13 sectors offered payment terms longer than 90 days (in 2022 it was still 9 out of 13). Ultra-long payment terms (above 120 days) remain relatively rare. Only 0.5% of participants offered them in 2023 and were from the machinery, ICT, and finance sectors.

- While the average payment terms of all participating companies have changed only mildly, changes in individual sectors were noticeable in 2023 **(Chart 3)**. The finance sector - which was included as a separate sector for the first time in 2022 - recorded the largest reduction in the average payment term (by 22.8 days). It seems that the 2022 figure was an outlier and that the finance sector now has a more "normal" development similar to the other sectors. Other significant reductions were observed in the agri-food sector (by 6.7 days) and the wood sector (by 5 days). Ultimately, construction still has the shortest payment terms with an average of 20.4 days, while the automotive sector is the most generous one with 47.4 days.

- When looking for explanations for offering payment terms, our survey shows that most companies have no other choice. 59% of companies stated that it is standard in the market in 2023. This is only slightly lower than the 62% that confirmed this in 2022 and the second highest level in the history of this payment survey. Besides, the fact that their credit risk is insured (14% in 2023) supported the payment terms as well as the confidence in the customers (8%). The tight liquidity of customers was the main reason for payment terms for only 10% of the participants. This is the lowest level of this reason since the beginning of the survey in 2016.

Chart 3:
Average payment terms (in days)[6]

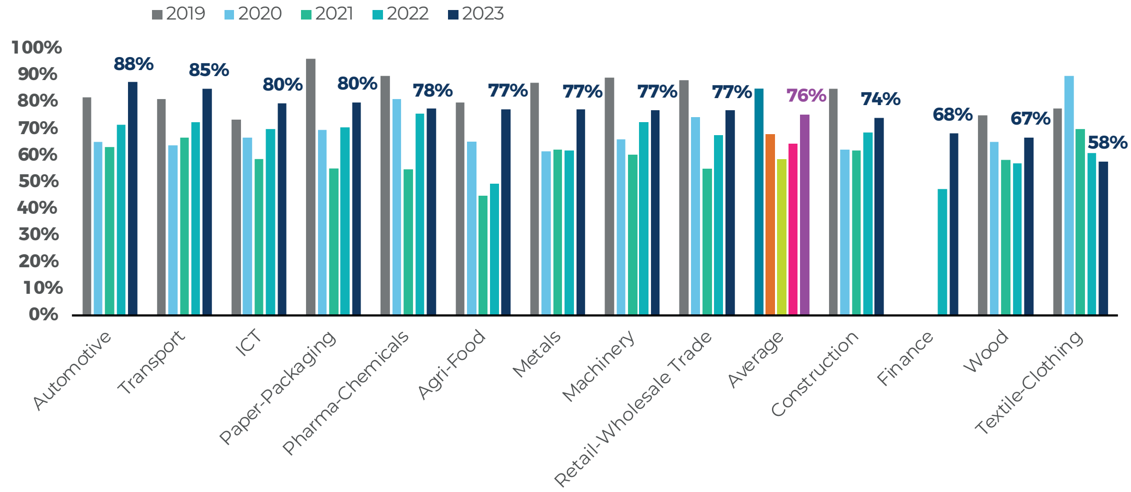


Source: Coface Corporate Payment Survey Germany 2023

5 ICT = Information and Communication Technologies
6 We ask our participants to give answers in time-ranges. As our lowest category is 0 to 30 days, the minimum average payment term is 15 days in our survey. We keep the category 0 to 30 days, although in Germany the "normal" payment term begins at 14 days, to make the data comparable to the results of our other international corporate payment surveys.

2 PAYMENT DELAYS[7] IN THE PROCESS OF NORMALIZATION

Chart 4:
Share of companies reporting payment delays by sector and year



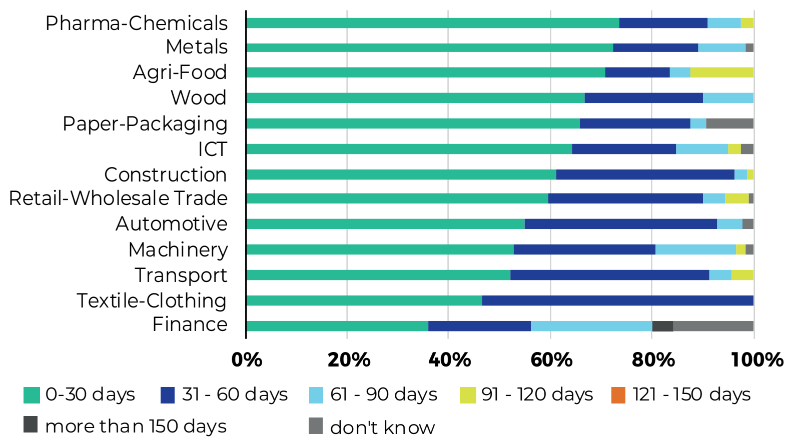
Source: Coface Corporate Payment Survey Germany 2023

- Since the publishing of our payment survey in 2021, the number of companies who reported payment delays increased noticeably from the low of 59% in 2021, to 65% in 2022 and to 76% in 2023. While not yet reaching the pre-pandemic average of 82%, the share is now much closer. The main exceptions are the automotive, transport, and ICT sectors, where more payment delays were protocolled in 2023 than in 2019. In contrast, the textile-clothing sector had the highest share of companies that experienced payment delays in 2020, while in 2023, it had the lowest share with 58% **(Chart 4)**.

- Textile-clothing is the only sector where companies waited for a maximum of 60 days after the due date of payment this year. In contrast, some companies in the finance sector waited over 150 days for their money (4%) **(Chart 5)**. Last year, these ultra-long payment delays were reported in machinery, pharma-chemicals, and construction.

- The average duration of payment delays increased by 1.4 days in 2023, from 28.7 to 30.1 days **(Chart 6, page 5)**, but remains one of the shortest average delays in our time-series. Most sectors - excluding wood, construction, and textile-clothing - reported an increase in the duration of payment delays. The largest increases were reported in agri-food (+10.4 days) and transport (+10.3 days). However, all these companies were at a relatively low initial level. Companies operating in the paper-packaging sector still have the shortest waiting time with an average of 22.0 days, while companies in the finance sector must be even more patient than in 2022 with an average waiting time of 39.2 days. Although waiting times have increased overall, they remain short in historical perspective as surveyed companies had to wait 40 days on average after the due date of payment in the pre-pandemic-times.

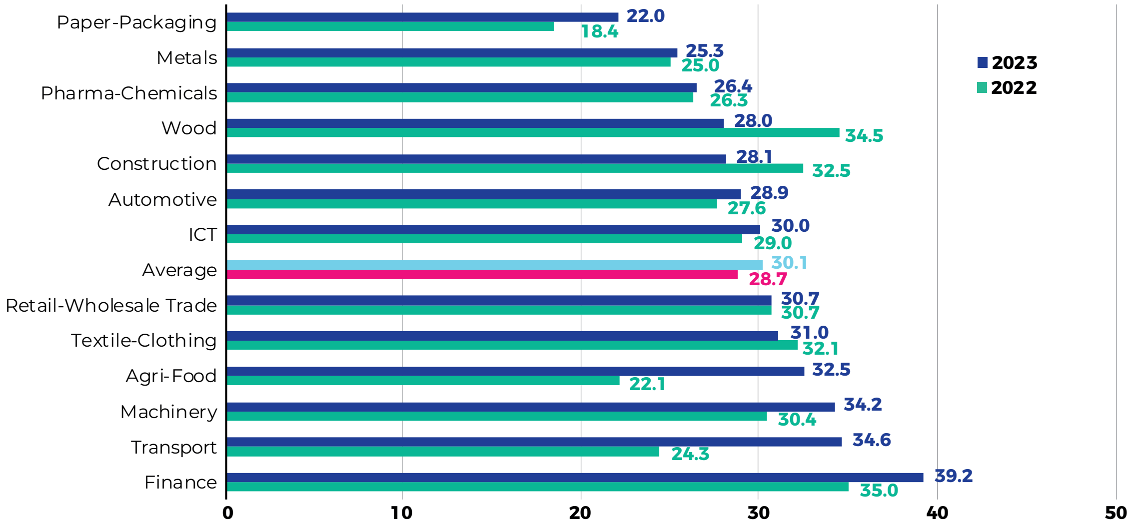
Chart 5:
Hypothetical payment delays in 2023 by sectors



Source: Coface Corporate Payment Survey Germany 2023

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

Chart 6:
Average payment delays by sectors (in days)



Source: Coface Corporate Payment Survey Germany 2023

- Adding payment terms (if any) to payment delays indicates the total waiting time between the purchase of a product and the payment of the invoice. This indicator – known as days sales outstanding (DSO) – increased from 51.4 days in 2022 to 54.9 days in 2023. However, this level remains moderate compared to the DSO in recent years. The average DSO of all sectors stood at 56.5 days in 2020 and at 65.8 days in 2019. Yet, it is worth mentioning that this low DSO level is partly attributable to companies offering shorter payment terms to their customers in 2023, therefore it does not necessarily indicate a sounder business environment. The fastest paying sector this year is construction, with a hypothetical DSO of 44 days. Textile-clothing remained the sector with the longest DSO with 67.2 days, a small increase from the 66.1 days in 2022.

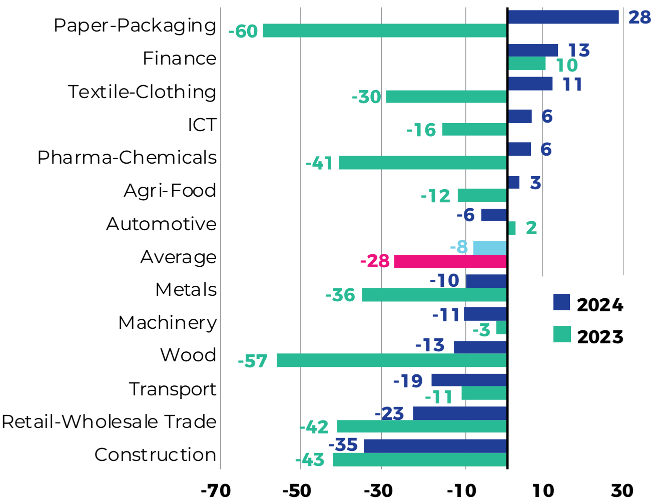
- According to our survey results, the reasons behind payment delays remain mainly related to financial difficulties. However, this share has noticeably decreased over time. Before the pandemic, almost 49% of our participants named this factor as the main reason for delays, but the share decreased significantly in 2022 (to 37.5%) and in 2023 (to 31.7%). Nevertheless, another reason very close to this subject is that customers deliberately delay payments to support their cash flow up to the point of fraud. With a share of 14.9% it belongs to the TOP 4 reasons. While this reason is not perceived directly as financial difficulties by our participants, it is a sign of stress. The other two main reasons named in 2023 were: problems within the company, including inefficient invoicing systems and processes (21.3%), and that payment delays are a usual behaviour of the customer (20.7%). Coming back to the reasons for financial difficulties, 23% of our participants answered that the customers of their customers are paying too late, which results in a domino-effect. Rising production, commodity or input costs in general remained another important issue (20.7% down from 38% in 2022). The lack of financing opportunities as a factor for financial difficulties comes in only in third place with 14.5%. This is an increase compared to the record low of 10% in 2022 but given the strong rise of interest rates – which rose from 1.5% in early 2022 to 5.1% in June 2023 on average for new loans to companies in Germany - and the reduction in credit supply, this share remains remarkably low.

- The financial risks associated with late payments for German companies have further increased in 2023. In total, 8.7% of our participants reported that the share of overdue payments between 6 months and 2 years represents 2% or more of their annual turnover, an increase of 1.5 percentage points compared with 2022, but still somewhat below the pre-pandemic average of 10.5%. In the sectoral comparison, the results diverge. While no company in the agri-food and paper-packaging sectors reported a higher share of longer payment delays relative to their annual turnover, 15% of companies in the automotive sector and 14% in the machinery sector confirmed this situation for 2023. In textile-clothing, automotive, transport, machinery, retail-wholesale, and metals, some companies reported that the share of overdue payments between 6 months and 2 years represented even more than 10% of their annual turnover. Last year the share of the overdue payments was this high only in three sectors.

The duration of the average payment delay increased by almost 1.5 days to 30.1 days in 2023. Nevertheless, this is still far from the pre-pandemic average of 39.7 days.

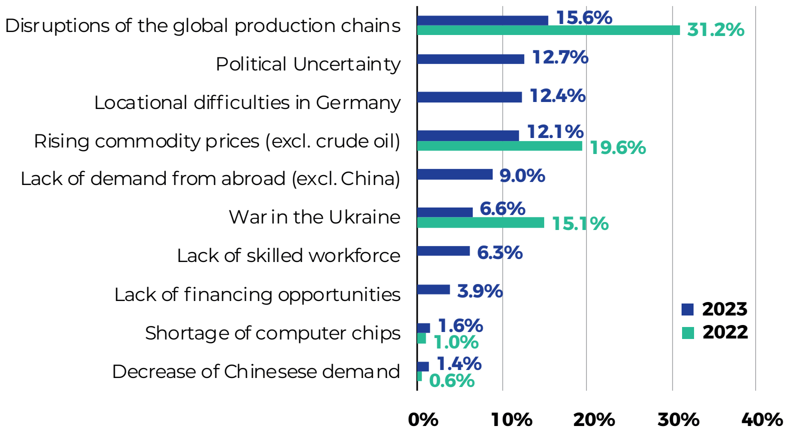
3 ECONOMIC EXPECTATIONS
BAD AS ALWAYS

Chart 7:
What is the current business situation for the year 2023 and what is the business outlook for your company for 2024 compared to the year before? (figures in balance points[8])



Source: Coface Corporate Payment Survey Germany 2023

Chart 8:
What is the main risk for your export business in the future?



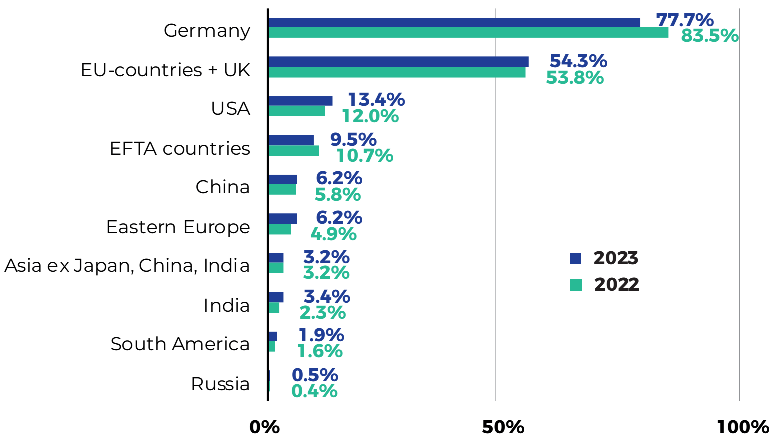
Source: Coface Corporate Payment Survey Germany 2023

- Companies' assessment of the economic situation in 2023 compared with 2022 is negative. More precisely, 43.6% of our participants said that their current business situation remained unchanged between 2022 and 2023. However, given the downturn between 2021 and 2022, this does not mean that the economic situation is neutral, but only that it has not further deteriorated for many companies. Nevertheless, 41.1% said that the situation worsened in 2023 compared to the year before, and only 13.4% reported an improvement. In total, the balance of answers is very negative at -28 points **(Chart 7)**. Unfortunately, the German economy is unlikely to experience a recovery next year. 40% of participants still expect a stable situation for their business. Although 20% are optimistic, they are more than balanced out by the pessimists (28%). The sector-to-sector results are different from the overall view of all participants. 6 out of the 13 sectors are looking at a slightly brighter future in 2024. Paper-packaging stands out with +28 points, which is a strong improvement from the -60 points in 2023. It could be explained by the stabilization of European energy prices at a lower level than in 2022, which should lower their production costs markedly in 2024. Conversely, the outlook for construction and retail-wholesale trade is further deteriorating.

- It seems that the (export-)world has been spinning faster in recent years than in the past, at least when it comes to the main risks for export operations. What was a main risk a year ago now seems less urgent and vice-versa. While in 2023, supply-chain issues remain at the top-position with 15.6% of exporting companies naming it, its share has unsurprisingly halved from 2022 as disruptions have gradually eased **(Chart 8)**. Instead of a limited number of single risks, a bulk of risks have now entered the stage. However, the comparison between one year and another is always difficult, as we adapt the answer possibilities in our survey year to year depending on the current economic discussions. This means that while political uncertainty is recorded as one of the biggest threats to export activity in 2023, it could have been a large obstacle last year as well, but we had not explicitly named it in our survey. What is interesting is that the decrease in demand from China was only rarely named in our survey as a big threat to export business despite the disappointing performance of the Chinese economy since the beginning of the year.

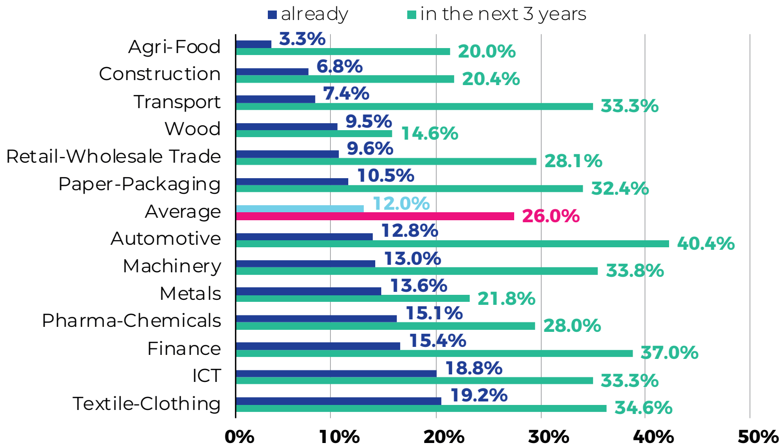
8 Balance points = share of people expecting a better economic situation than the year before – share of people expecting a worse economic situation than the year before

Chart 9:
What are the markets with the biggest opportunities for you in the coming year? (max. three answers possible[9])



Source: Coface Corporate Payment Survey Germany 2023

Chart 10:
Are you already or do you expect to experience "de-risking" in your company in the next three years? (share of positive answers per sector in percent)



Source: Coface Corporate Payment Survey Germany 2023

- In 2023, Germany remains the country with the most opportunities for surveyed companies (unsurprisingly, as 69% of respondents are mainly active on the German market). The importance of Germany has however decreased even further, from 91% in 2020 to 85% in 2021, 83% in 2022 and down to 78% in 2023 (before the pandemic it was 81% in 2019)[10] **(Chart 9)**. In 2022, the explanation for this reduction was relatively clear with a normalization process after the safe-haven effect[11] from the COVID-19 pandemic. However, the further decrease in 2023 hints that Germany as a business location is less attractive given the very high production costs (especially labour and energy costs), the over-boarding bureaucracy and the decrease in economic activity in 2023. The United States are benefiting from this situation and reached (with 13.4% of the participants naming it) the highest level since the beginning of the time-series in 2016. The other big winner is Eastern Europe where 6.2% (4.9% before) of the participants see the most export opportunities. In the case of China, more companies (6.2% in 2023 vs. 5.8% in 2022) are seeing opportunities there, which is not surprising given the fact that China reopened after its very strict zero-COVID-policy at the end of 2022. However, the share for China is still at its second lowest level in the history of the payment survey.
- The loss of interest in China is also the result of companies' geopolitical strategy to become less dependent on a single country, so they are less vulnerable to sudden political or economic changes. Indeed 12% of our participants said that they have already experienced "de-risking" in their trade-businesses, either voluntarily through changing their business relationships or involuntarily via decisions of governments and other organizations **(Chart 10)**. While around 19% of the participating textile-clothing and ICT companies have already applied a de-risking strategy, the share is much smaller in agri-food. In both cases this is part of the sector structure as ICT and textile-clothing are far more globalized (with China being the global hub) than the more regional agri-food business. However, for the next three years already 25% of our participants expect to de-risk, with the automotive sector expected to be the most active. The main strategies of de-risking in 2023 were to in general increase the numbers of suppliers, customers, or banks to diversify the business relationships (29% of the answers). 13% of the answers explicitly named the de-location of their production from other continents to Europe or Germany and 10% are trying to exclude explicitly China as much as they can in their production and supply-chain. Finally, companies said they would at least not exclude any company on the customer side if the payment is secured by a payment in advance or an export credit insurance (9%).

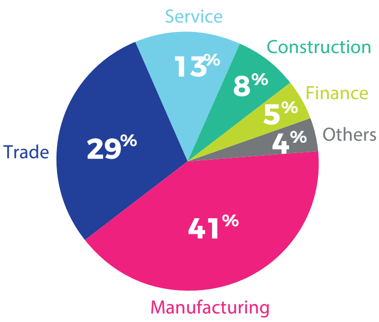
9 As there are several answers possible, the numbers add not up to 100% in this chart.
10 In this question, participants were able to choose several answers. This is why the share of the answers do not add up to 100%.
11 During a major crisis, companies tend to do more business on their home market than abroad, because they have a better overview of the situation.

APPENDIX

A TOTAL OF
1,075
COMPANIES PARTICIPATED IN THE PAYMENT SURVEY

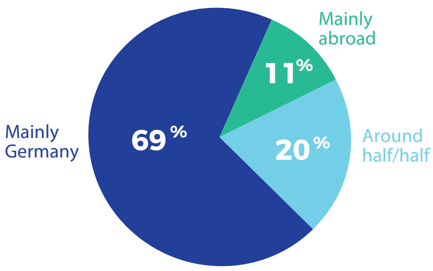
Who were the respondents?

MAIN BUSINESS ACTIVITY



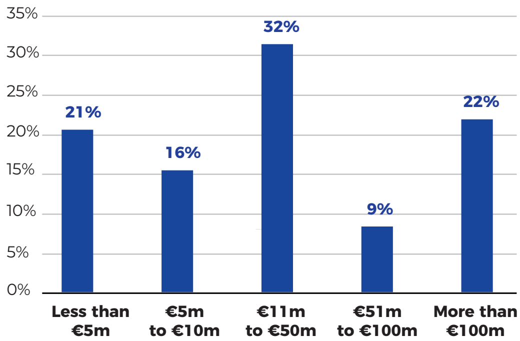
Source: Coface Corporate Payment Survey Germany 2023

RELEVANT MARKET



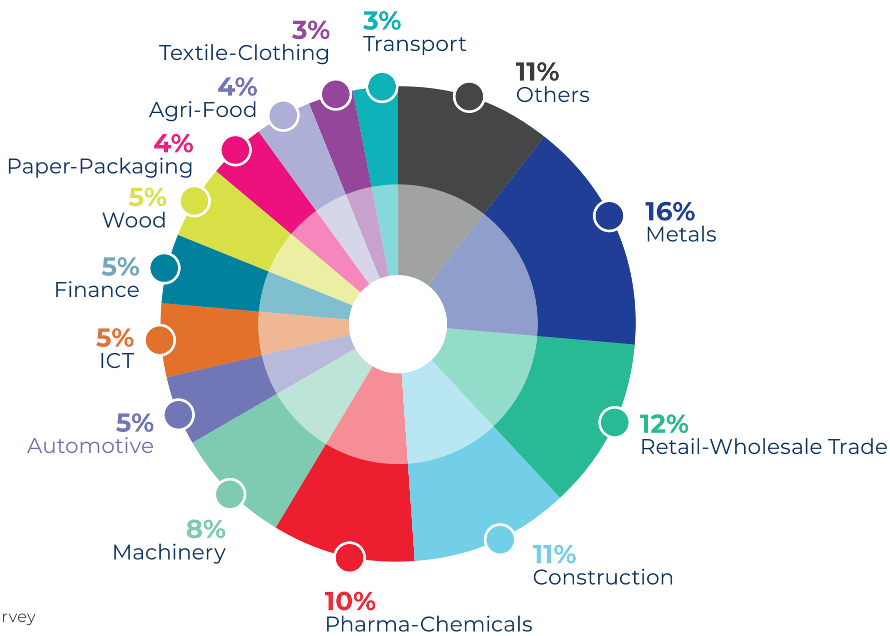
Source: Coface Corporate Payment Survey Germany 2023

SIZE BY TURNOVER



Source: Coface Corporate Payment Survey Germany 2023

SECTORS OF SURVEYED COMPANIES



Source: Coface Corporate Payment Survey Germany 2023

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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SEPTEMBER 2023 — Layout: increa by Printvallée — Photo: iStock

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