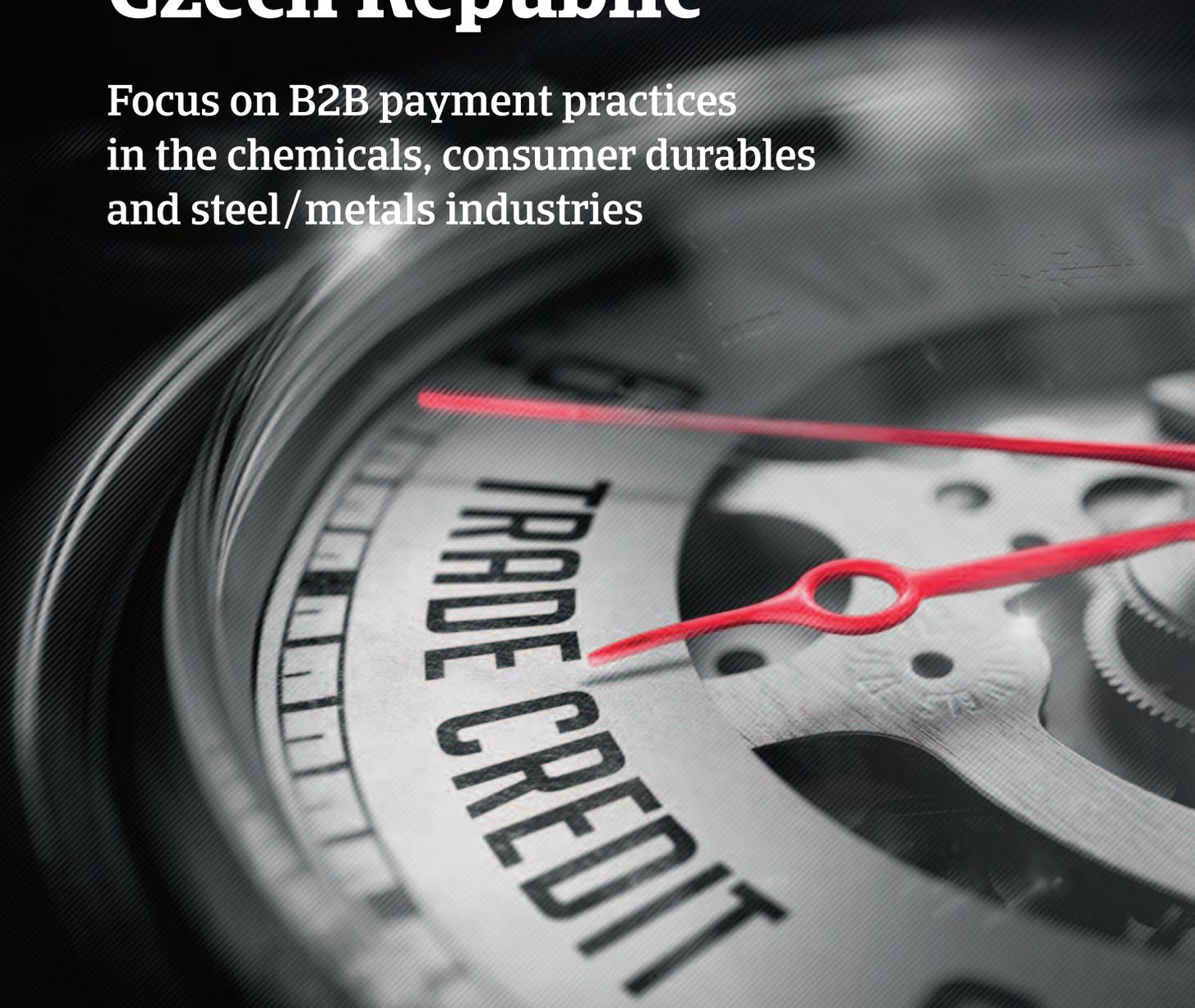




Atradius Payment Practices Barometer

Czech Republic

Focus on B2B payment practices
in the chemicals, consumer durables
and steel/metals industries



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“*Credit management costs can spiral, particularly when managing invoice collection amid a period of higher risk. Credit insurance, however, represents a set cost which is usually a small percentage of invoice.*”

Marketa Strzinkova
Atradius Country Manager for the Czech Republic

Upbeat industries eye DSO containment

On the whole, at least three-quarters of the businesses we spoke to in the chemicals, consumer durables and steel/metals industries in the Czech Republic feel positive about their potential for growth next year. This reflects the view of Atradius economists who believe the credit risk situation in each of these sectors is fair and have rated business performance as stable. The cloud casting a shadow over this otherwise bright outlook is the pandemic. Most commentators agree that economic growth is contingent on containing the pandemic and successfully completing the vaccination roll out.

However, despite the variables and unknowns we can be sure of some things. Reducing DSO (Days Sales Outstanding), minimising late payments and write-offs helps to maintain cash flow and will inevitably have a positive effect on the financial health of businesses. These are areas that credit insurance can help with. At least one of the sectors we polled, consumer durables, intends to use credit insurance as an integral element of a healthy credit management process.

Credit management costs can spiral, particularly when managing invoice collection amid a period of higher risk. As governments roll back on the

fiscal support provided to businesses during the pandemic, not just in the Czech Republic but in all the economies it exports to, there is an increased risk of insolvency. Credit insurance, however, represents a set cost which is usually a small percentage of invoice. Professional debt collection is offered, by Atradius at least, as an integral part of the policy and will therefore not represent an increasing cost if payments behaviour deteriorates.

The guarantee that they will be paid, along with the upfront knowledge of total credit insurance costs, means businesses are in a good position to accurately plan strategies and investments to support growth. The Czech Republic's GDP is forecast to rebound by 3.6% this year and accelerate to about 4.5% in 2022. Estimates predict economic activity will reach pre-pandemic levels by early next year. If locally-based businesses can minimise the risks and impacts of late payment, they are well-placed to benefit from the predicted rebound.



Payment practices in the Czech Republic

The Payment Practices Barometer survey results reveal that the appetite for trade credit among businesses in the Czech Republic largely stayed the same year-on-year. Businesses transacted about half of the total value of their B2B sales on credit and showed a preference for the domestic market. Businesses told us they chiefly offered credit to grow sales with existing customers.

Among the businesses surveyed in the chemical, consumer durables and steel/metals industries, 48% of the total value of B2B invoices is currently overdue, an increase on last year's 39%. The total value of sales still outstanding after 90 days rose to 9% from last year's 4%. Only 1% of these long overdue invoices were cashed in. 8% of all sales were written-off. Businesses told us they increased the amount of time and resources employed, as well as costs incurred, in a bid to collect overdue invoices, especially those long outstanding. This chiefly involved sending invoice payment reminders to defaulting customers.

71% of the businesses surveyed opted to retain and manage customer credit risk internally. However, and despite their efforts, half were not successful at containing year-on-year increases in DSO (Days Sales Outstanding). Where this had a negative impact on liquidity levels, many businesses chose to pursue additional financing from external sources and had to absorb the additional costs this incurred.

Looking into 2022, 84% of businesses expressed optimism and predicted growth next year. Despite a positive outlook for customer payment practices, many businesses intend to offer trade credit to provide financial relief for customers by allowing them extra time to pay. This may reflect business concern over the health of the Czech domestic economy over the coming months.

Although many businesses told us that they plan to continue with the same approach to credit management over the coming months, more than 40% intend to ask for payment in cash and to offer discounts for early credit payments. Businesses polled across the Czech Republic also showed an increasing appetite for credit insurance, particularly in the consumer durables and steel/metals industries.

When asked to indicate which of the pandemic-induced changes to their way of doing business they expect to become long-term, 65% referred to a more frequent use of digital technologies including, for some, e-commerce. A significant number also cited meeting changes in customer demand (44%).



Chemicals

Late payments and cash flow

Payments report not bad, but could do better

Although more than half of the businesses we polled in the Czech Republic noted an increase in delayed payments from customers, the overall picture for the industry has largely held steady year-on-year. There were some signs of cloud on the horizon. For example, 51% reported a deterioration in payments behaviour, compared to 37% last year. 41% reported no change, fewer than last year's 50% and just 8% told us they had experienced an improvement (down on 13% last year).

However, the remaining key cash flow indicators revealed negligible year-on-year change for the industry. Businesses told us that 48% of the total value of their B2B invoices are overdue this year. Last year that figure was 43%. In addition, the total value of B2B invoice written off this year amounts to 6%, a marginal increase on last year's 5%.

In many ways, these Payment Practice Barometer results place the Czech Republic's chemicals industry 'mid-table' compared to their regional peers. Where the Czech Republic stands out, however, is with the write-off rate. The fact that this has hardly changed year-on-year points to strong credit management and a focus on the collection of receivables. This approach was acknowledged by half of the businesses we spoke to (a big jump on the 31% who cited spending more on collections last year). Businesses in this year's poll described increasing the amount of time and resources they spent on collecting unpaid invoices.

SURVEY QUESTION

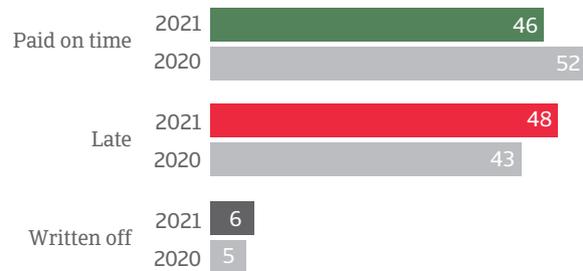
What measures did you put in place to protect your cash flow against customer credit risk?

- #1** Increase time, costs and resources spent on resolving unpaid invoices
- #2** Strengthen internal credit control process
- #3** Pursue external financing



Chemicals industry in the Czech Republic

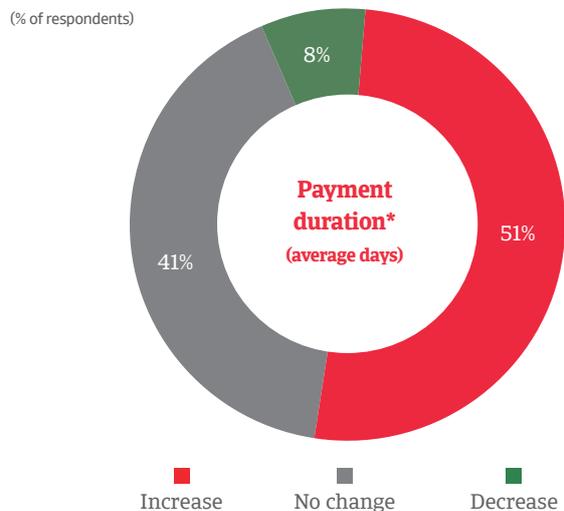
% of the total value of B2B invoices paid on time, overdue and written off as uncollectable (2021/2020)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Chemicals industry in the Czech Republic

average time it takes to convert overdue invoices into cash (change over the past year)



* Payment term + payment delay

Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021



Chemicals

Approach to credit management and DSO

Industry increases use of B2B debt collectors

Last year, just over half of the chemicals industry reported protecting their accounts receivable with trade credit insurance, with a similar percentage retaining the risk of customer credit default in-house (55% and 53% respectively). This year these results diverged. 54% have chosen to carry the risk of payment default, whereas only 39% told us they have taken out credit insurance. During a period of heightened credit risk, such as today's environment where governments throughout the world are ending business fiscal support packages, this reduction may prove to be significant. Businesses without the cash reserves to cope with a large default could struggle.

However, perhaps in response to the need for a more robust approach to debt collection, the industry saw an increase in the percentage of businesses engaging with professional B2B debt collectors. 38% versus 26% one year ago. This may be why there was only a small increase in the amount of debt written off (6%, up from 5% last year). The amount of businesses relying on overdue payment reminders dipped year-on-year, with 52% sending reminder letters this year compared to 77% using this credit management method last year.

It is worth noting that much of the industry also reported using a range of alternative strategies to mitigate credit risk, including factoring and trade receivables securitisation. These are not necessarily exclusive of credit insurance, as some businesses tell us they can get better factoring deals with credit insurance, but their use may also be behind the industry's apparent containment of payment defaults. 62% of the businesses that experienced a significant increase in the costs associated with managing a credit department are also uninsured.

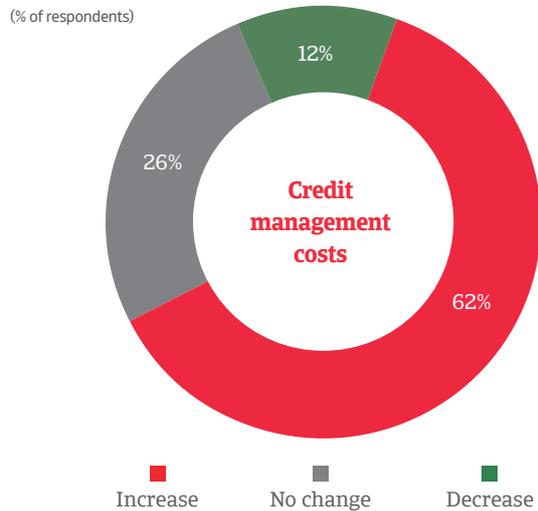
Half of industry intends to retain credit risk in-house

Looking ahead the majority of the Czech chemicals industry intend to retain credit risk in-house (48%), with just 31% currently planning to protect their trade with credit insurance.

With an eye on safeguarding liquidity through DSO reduction, almost half of the industry (46%) plans to avoid credit altogether and will request payment in cash. This is a big increase on the 26% who recorded it as part of their plans last year. Among those planning to offer customer credit, 43% said they planned to use credit as a way of providing short-term finance to support trade continuity.

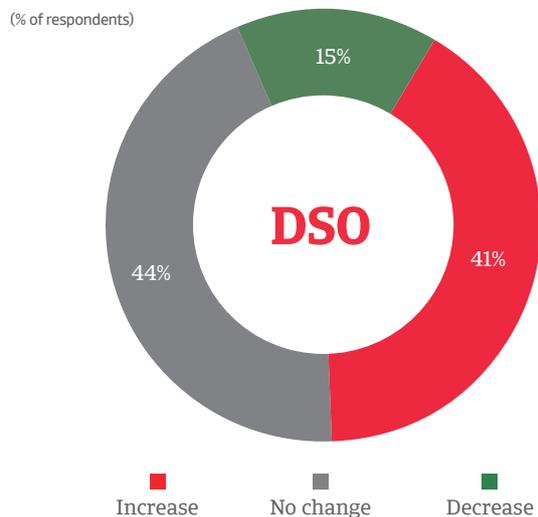
Two fifths of businesses without credit insurance plan to offer discounts for early payments (reported by 43% of respondents, up from 29% last year). Increases in DSO are expected from 41% of the respondents, compared to 44% expecting no change and the remainder expecting a decrease.

Chemicals industry in the Czech Republic change in credit management costs (2021/2020)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Chemicals industry in the Czech Republic expected DSO changes over the next 12 months



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021



Chemicals

2022 industry outlook

Industry upbeat despite concerns over domestic economy

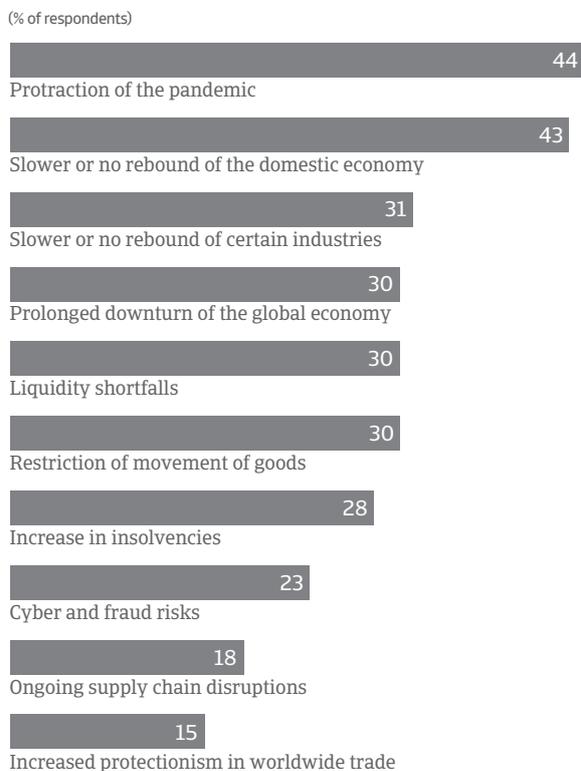
Looking ahead into 2022, three quarters of the industry expressed confidence in the potential for business growth (as reported by 77% of the businesses polled).

Despite this fairly upbeat picture, 43% of the industry told us they were concerned the domestic economy would not experience a rebound next year, or at very least, domestic growth would be slow. They suggested the greatest downside potentially holding growth back would be a continuation of the pandemic causing ongoing trade disruptions.

Looking at the more positive impacts of the pandemic, 61% told us they planned to permanently use the digital technology they adopted following the outbreak of Covid-19.

Chemicals industry in the Czech Republic

Looking into 2022: top ten concerns expressed by businesses in the industry



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

SURVEY QUESTION

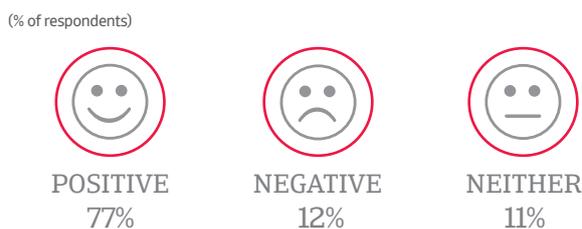
The pandemic has affected businesses significantly. Which of the following do you expect to become a permanent change in the way you do business?
(ranking by % of respondents)

- #1** Increased digitalisation
- #2** Facing supply chains reshaping
- #3** Facing customer demand changes



Chemicals industry in the Czech Republic

how businesses feel about their possible growth in 2022



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021



Consumer durables

Late payments and cash flow

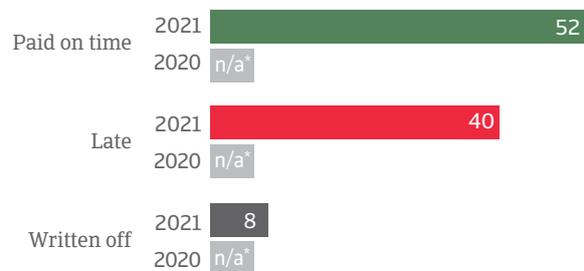
40% of B2B invoices are overdue

In terms of value, late payments affect 40% the total value of B2B invoices issued in the industry, with write-offs affecting 8%. In an attempt to address this, 58% of the industry told us they employed more resources and spent more time on trying to collect outstanding invoices. This large proportion of late payments and write-offs may explain why many of the businesses told us they sought external financing to support their cash flow and why many businesses also admitted delaying payment to suppliers.

Although we did not poll the consumer durables industry in the Czech Republic last year, 43% of the industry we spoke to this year told us they experienced deterioration of B2B customers' payment practices over the past 12 months. In particular, they told us they needed to wait longer than last year to convert overdue invoices into cash. This compares to 55% of the businesses polled that reported no year-on-year change and 2% that told us they had seen improvements in overall payments practices.

Consumer durables industry in the Czech Republic

% of the total value of B2B invoices paid on time, overdue and written off as uncollectable (2021/2020)



*n/a = not available

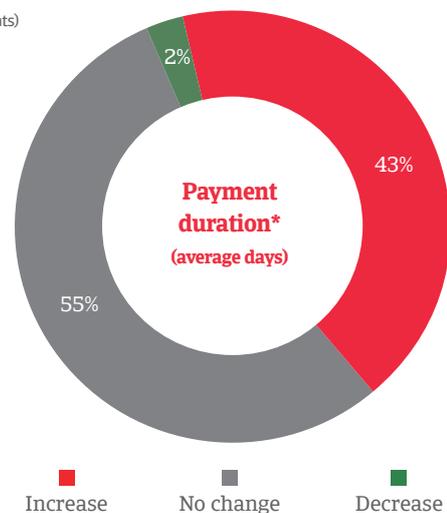
Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

Consumer durables industry in the Czech Republic

average time it takes to convert overdue invoices into cash (change over the past year)

(% of respondents)



* Payment term + payment delay

Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

SURVEY QUESTION

What measures did you put in place to protect your cash flow against customer credit risk?

- #1** Strengthen internal credit control process
- #2** Pursue external financing
- #3** Delay payments to our own suppliers



Consumer durables

Approach to credit management and DSO

More than half of industry employs credit insurance

55% of Czech consumer durables businesses protect their accounts receivable through trade credit insurance. In addition, 73% of the businesses we interviewed retain some (and in some cases all) credit risk in-house. For those that chose to remain uninsured, overdue invoice reminders were the most commonly used credit management technique. This is much more widespread than outsourcing it to specialist agencies.

The industry also reported a wide use of letters of credit, this most often related to international trade. Although favoured over alternative guarantees of payment, letters of credit can be costly for both parties.

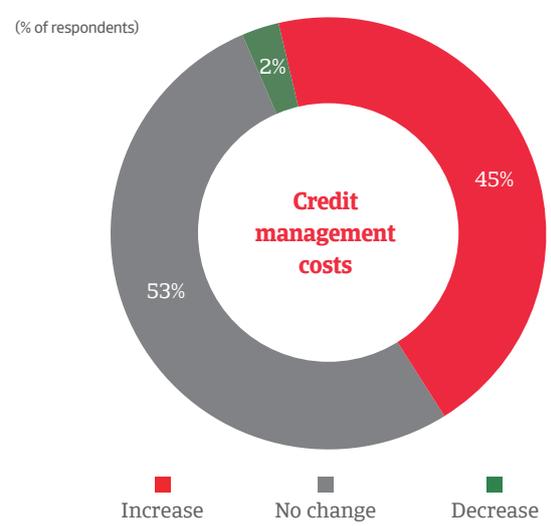
Perhaps unsurprisingly, 45% of the businesses reporting in-house management of trade debt collection told us they had experienced an increase in credit management costs. These were most often associated with sending payment reminders, employing professional debt collectors and paying for legal charges.

Increasing appetite for credit insurance

48% of the businesses we polled told us that they planned to use credit insurance next year. The same percentage told us that they planned to use trade receivables securitisation. In both cases businesses are seeking tools to guarantee cash flow and enable liquidity within the business, allowing for smooth ongoing operations and the possibility to invest in growth.

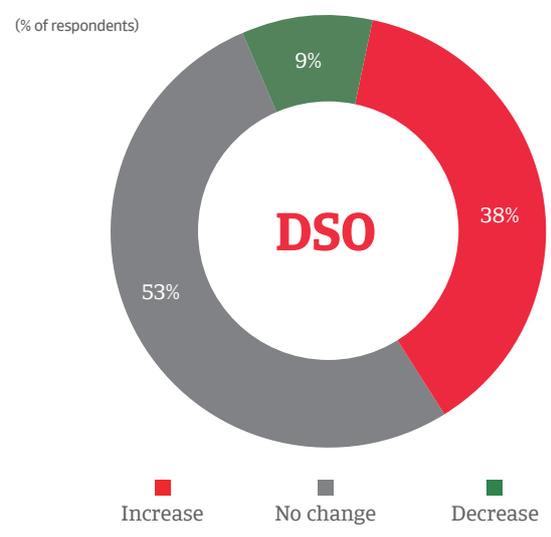
53% of the industry plans to rely on their own credit management resources to mitigate customer credit risk. Businesses choosing to remain uninsured intend to adjust the payment terms offered to customers while attempting to negotiate longer terms with suppliers in order to maximise cash where possible. Additionally, 45% of businesses told us they will try to avoid concentrations of customer credit risk and 45% plan on sending invoice payment reminders. Perhaps because of these plans for tighter credit management, 53% of the industry does not anticipate significant changes in DSO over the coming months. This compares to 38% expecting an increase and 9% expecting a decrease.

Consumer durables industry in the Czech Republic change in credit management costs (2021/2020)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Consumer durables industry in the Czech Republic expected DSO changes over the next 12 months



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021



Consumer durables

2022 industry outlook

Industry anticipates 2022 growth

75% of the businesses polled in the Czech consumer durables industry feel positive about their growth next year. 18% reported a negative outlook, with the remainder feeling neither positive nor negative.

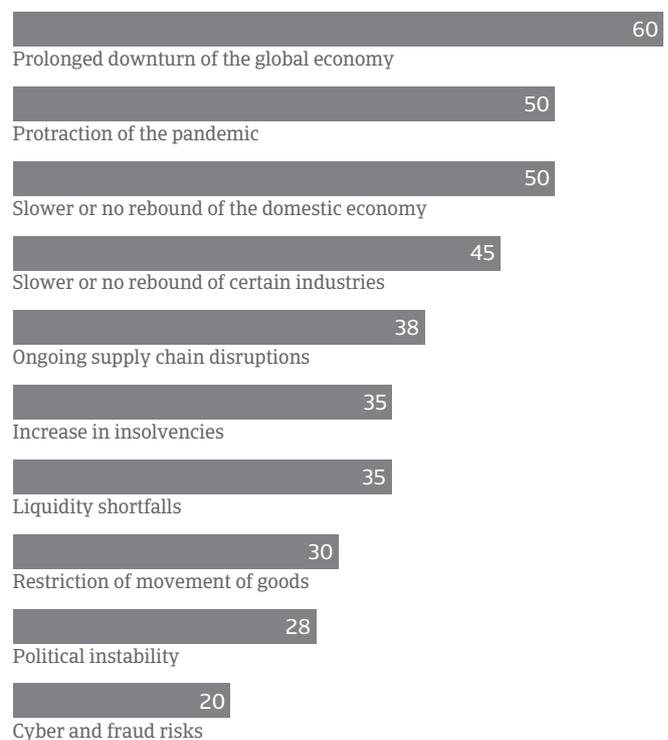
This optimistic view appears to be largely based on the opinion that trading on credit will continue at an increased pace to stimulate demand from B2B customers. This was expressed by 43% of respondents. 33% expect to see little or no change over the next 12 months.

When asked about their view of the pandemic, 60% told us that they expect to see continued economic pressures caused by the pandemic next year. However, many businesses noted that the pandemic had prompted them to make changes to their business that they plan to adopt permanently. This includes 55% that increased the use of digitalisation and 50% that adopted E-commerce. 48% told us they expect to see permanent changes in customer demand.

Consumer durables industry in the Czech Republic

Looking into 2022: top ten concerns expressed by businesses in the industry

(% of respondents)



Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

SURVEY QUESTION

The pandemic has affected businesses significantly. Which of the following do you expect to become a permanent change in the way you do business?
(ranking by % of respondents)

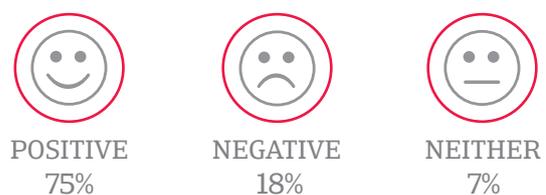
- #1 Increased digitalisation
- #2 Facing customer demand changes
- #3 E-commerce



Consumer durables industry in the Czech Republic

how businesses feel about their possible growth in 2022

(% of respondents)



Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

Steel / Metals

Late payments and cash flow

Late payments and write-offs surge

The Czech steel/metals industry experienced a sharp downturn in B2B customer payment behaviour this year. 58% reported an increase in late payments compared to 31% last year. In addition, 51% of the total value of B2B invoices are overdue this year. A big increase on last year's 36%. The write-off rate echoes this gloomy picture. 9% of the total value of B2B invoices were written off, this compares unfavourably to last year where just 2% was written off.

Only 10% of the businesses we spoke to reported an improvement in invoice-to-cash turnaround times, fewer than the 15% that reported the same last year. 31% reported no year-on-year change, this compares to 54% who told us payment practices held steady.

This deterioration in payment practices suggests that a significantly higher proportion of cash is likely to be tied up in unpaid invoices and losses than last year, potentially increasing likelihood of cash flow issues in the industry.

In an attempt to strengthen their credit control procedures, 46% of the industry spent more time and employed more resources to collect unpaid invoices. This is greater than the 31% of businesses reporting the same last year. In addition, more businesses than last year told us they sought additional financing from external sources (41% versus 23%). The same story could be seen the percentage of businesses request an extension to their bank overdraft extension, 21% of respondents this year compared to 7% last year.

SURVEY QUESTION

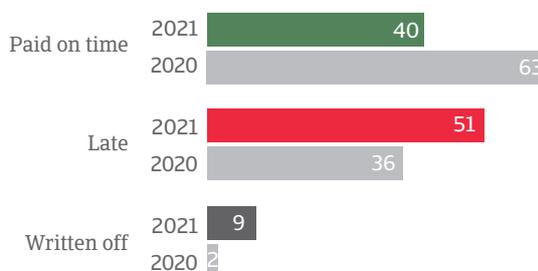
What measures did you put in place to protect your cash flow against customer credit risk?

- #1** Increase time, costs and resources spent on chasing overdue invoices
- #2** Pursue external financing
- #3** Strengthen internal credit control process



Steel / Metals industry in the Czech Republic

% of the total value of B2B invoices paid on time, overdue and written off as uncollectable (2021/2020)



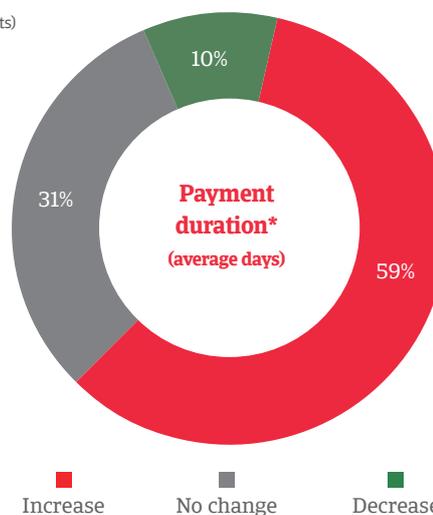
Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

Steel / Metals industry in the Czech Republic

average time it takes to convert overdue invoices into cash (change over the past year)

(% of respondents)



* Payment term + payment delay

Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

Steel/Metals

Approach to credit management and DSO

Vast majority retains credit risk in-house

Despite such a massive spike in poor payments behaviour, the steel/metals industry did not diversify their credit management approach to safeguard their financial health. 81% of the businesses polled told us they opted to rely on their own internal credit management techniques and resources. This is an increase on last year where 62% of businesses reported retaining credit risk in-house. Most common among the credit management techniques reported by the industry are the use of overdue payment reminders and the offer of discounts for early payment. This was reported by 61% of respondents alike. 73% of uninsured businesses told us they experienced a significant increase in administrative costs involved in the management of their credit departments this year. Just 25% reported no change in their credit management costs. Areas where the most significant cost increases were reported include external financing and trade debt collection. This was reported by around 40% of respondents for each.

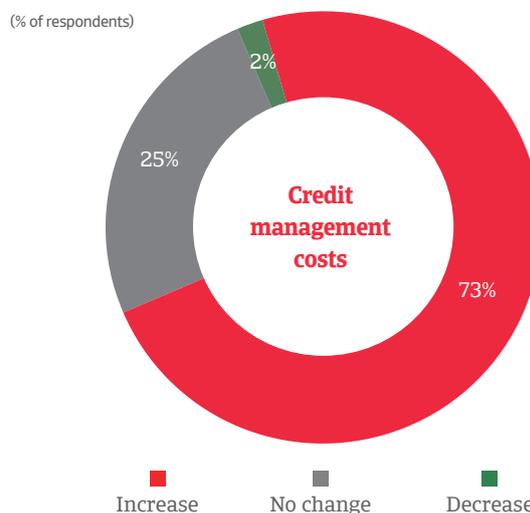
Industry concerned about worsening DSO

Looking ahead, 69% of the industry told us they plan to retain and manage customer credit risk internally. While this is lower than the 81% that retained credit risk in-house this year, it is an increase on the 46% who last year told us this was their intention. Discounts for early payment will continue to be favoured by 52% of the industry. This is the same percentage that told us they planned to do so last year and a little lower than the 61% that revealed they had offered discounts this year.

Outside of retaining the credit risk in-house, the preferred risk management techniques for next year are trade credit insurance and payment guarantees.

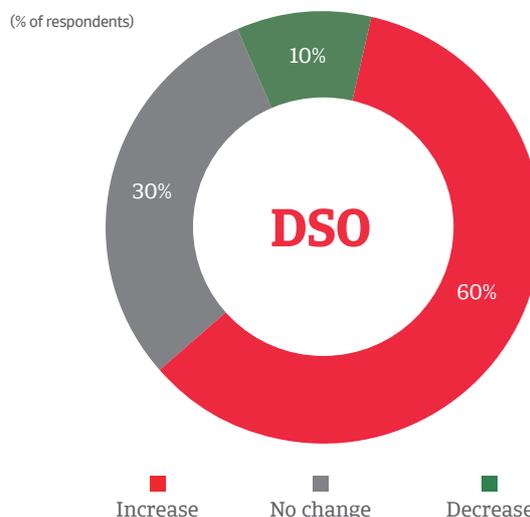
Despite this, 60% of the industry is braced for a deterioration in DSO over the next 12 months, with 30% expecting no change and 10% anticipating improvement.

Steel/Metals industry in the Czech Republic change in credit management costs (2021/2020)



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Steel/Metals industry in the Czech Republic expected DSO changes over the next 12 months



Sample: all survey respondents
Source: Atradius Payment Practices Barometer - November 2021

Steel / Metals

2022 industry outlook

Positive industry outlook despite lingering pandemic clouds

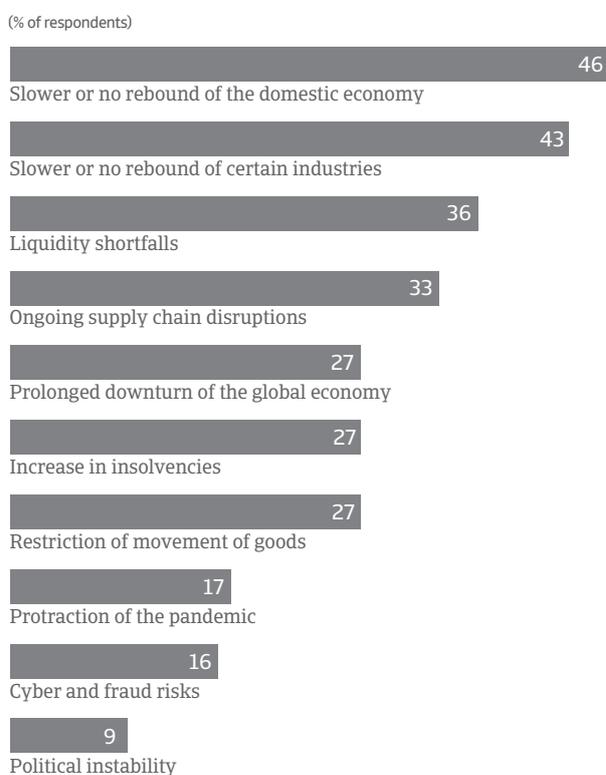
An overwhelming 91% of the Czech steel/metals businesses feels positive about their potential growth in 2022. This positive outlook is despite the fact that half of the businesses we spoke to are worried that ongoing effects of the pandemic will negatively impact the health of both the domestic economy and the economies that they export to.

Indeed, international value chains are important to the while of the Czech economy. The country's 70% export-to-GDP ratio is one of the highest in the EU. Their concerns include the risk of non-payment leading to liquidity shortfalls. Whether the industry's own growth predictions are realised will be revealed in time. However, in the meantime 44% of businesses told us they plan to offer customer credit as a source of short-term finance to customers and 37% intend to offer credit as a means to boost sales.

Looking ahead, 71% of the industry has permanently adopted the digital tools they first used following the onset of the pandemic and 50% will continue to use E-commerce.

Steel / Metals industry in the Czech Republic

Looking into 2022: top ten concerns expressed by businesses in the industry



Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

SURVEY QUESTION

The pandemic has affected businesses significantly. Which of the following do you expect to become a permanent change in the way you do business?

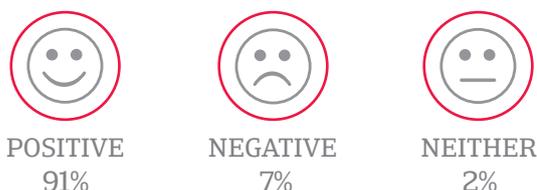
(ranking by % of respondents)

- #1 Increased digitalisation
- #2 E-commerce
- #3 Facing customer demand changes

Steel / Metals industry in the Czech Republic

how businesses feel about their possible growth in 2022

(% of respondents)



Sample: all survey respondents

Source: Atradius Payment Practices Barometer - November 2021

Survey design

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the 'Atradius Payment Practices Barometer'. This report, which is part of the 2021 edition of the Atradius Payment Practices Barometer for Europe, focuses on Czech Republic. 200 companies from the Czech chemicals, consumer durables and steel/metals industries have been surveyed. Due to a change in research methodology for this survey, year-on-year comparisons are not feasible for some of the results, although last year's values are used as a benchmark where possible throughout the survey.

The survey was conducted exclusively for Atradius by CSA Research.

Survey scope

- **Basic population:** 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.
- **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.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration.
Interview period: Q3 2021.

Czech Republic - total interviews 200

| Industries surveyed | | | |
|---------------------------|---------------|-----------------------|------------------|
| Chemicals | | | |
| Consumer durables | | | |
| Steel/Metals | | | |
| Sector | | | |
| Companies interviewed | Chemicals (%) | Consumer durables (%) | Steel/Metals (%) |
| Manufacturing | 42 | 81 | 37 |
| Wholesale trade | 22 | 11 | 57 |
| Retail trade/Distribution | 12 | 3 | 1 |
| Services | 24 | 5 | 4 |

| Company size | | | |
|--------------------------|---------------|-----------------------|------------------|
| Companies interviewed | Chemicals (%) | Consumer durables (%) | Steel/Metals (%) |
| Micro enterprises | 12 | 0 | 5 |
| SME - Small enterprises | 38 | 19 | 3 |
| SME - Medium enterprises | 36 | 69 | 9 |
| Large enterprises | 14 | 12 | 83 |

Statistical appendix

Find detailed charts and figures in the Statistical Appendix. This is part of the November 2021 Payment Practices Barometer of Atradius, available at www.atradius.com/publications
[Download in PDF format](#) (English only).

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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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