



Brazil: how do businesses react to challenging economic times?

Atradius Payment Practices Barometer





trading partners

Top 5

China
United States
Argentina
Netherlands
Chile

Source: www.census.gov

exports

Top 5

Oil seeds
Mineral fuels including oil
Ores, slag, ash
Machinery including computers
Meat

Source: www.census.gov

imports

Top 5

Mineral fuels including oil
Electrical machinery, equipment
Machinery including computers
Vehicles
Organic chemicals

Source: www.census.gov

Brazil's economic environment remains challenging. The economy is recovering, but at 1.2% in 2019 and 2.0% in 2020, at a much slower pace than previously expected. Growth is supported by low inflation and interest rates, but will be negatively impacted by the ongoing contraction in neighbouring Argentina, its third largest export market.



Daniel Nobre, Country Manager for Atradius in Brazil commented on the report

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The Brazilian economy is going through a significantly challenging phase, which is severely affecting business and consumer sentiment. Among the very many structural reasons for this, there is the high unemployment rate, which lowers consumption despite official interest rates that are at a record-low.

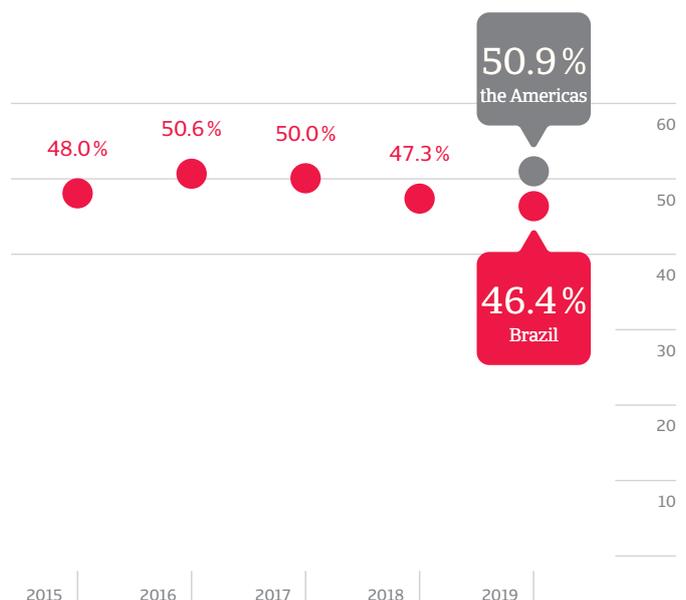
There is, however, broad consensus in the country over the need for far-reaching reforms aimed at restarting economic growth. The key measure being the pension reform, around which there is still deep uncertainty and a significant delay. The Brazilian currency will also be volatile until there is greater clarity on pension reform. In this scenario, as our survey shows, businesses protect themselves from payment default risks, striving to grow despite the number of challenges they face. We are aware and help our customers to more effectively use their assets, freeing risk capital that can be used to continue growing their business.

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Respondents prefer selling to B2B customers on cash than on credit

Respondents in Brazil seem to prefer the safety of sales to their B2B customers on cash than on credit. Reflecting a heightened perception of the payment default risks connected with trading on credit, particularly abroad, the proportion of the total value of respondents' credit-based sales decreased to 46.4% from 47.3% over the past year. The more cautious approach of Brazilian respondents to offering trade credit to B2B customers is consistent with their concerns about the credit quality of their commercial partners, which is expected to deteriorate over the coming months as anticipated by over 20% of respondents in the country. As the prospects for growth in Brazil appear to be less optimistic now than they were a few months ago, (also due to the increased uncertainties affecting the global trade environment) 2 in 5 respondents in the country anticipate potential liquidity shortfalls negatively affecting business growth. Again, this may explain respondents' greater preference for the safety of cash sales.

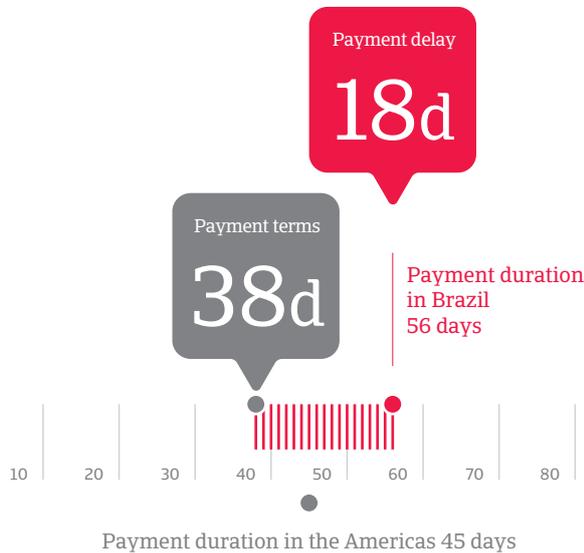
Proportion of total B2B sales made on credit in Brazil



Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – June 2019



Payment duration in Brazil



d = average days

Sample: companies interviewed (active in domestic and foreign markets)

Source: Atradius Payment Practices Barometer – June 2019

B2B payment terms are more relaxed than last year

Despite Brazilian respondents' apparent preference for sales to B2B customers on cash, those respondents who offered credit terms gave customers far more time to pay than last year. Based on survey findings, average payment terms recorded in Brazil increased to 38 days from 32 days last year. This is consistent with the 37 days average recorded in Canada (up from 25 days last year).

Checking buyer's creditworthiness and requesting secured forms of payment are the most used credit management practices in Brazil

Consistent with other countries surveyed in the Americas, the credit management policy of respondents in Brazil revolves around the prospective buyer's creditworthiness, and its assessment prior to any trade credit decision. Survey findings reveal that Brazilian respondents (43%) perform checks of their customers' creditworthiness more often than their peers in Mexico (38%), the US (35%) and Canada (30%). Moreover, in line with their relative preference for sales on cash, 37% of Brazilian respondents normally request secured forms of payment from B2B customers. Reserving against bad debts, which is aimed at ensuring financial stability of the company

should the assessment of creditworthiness prove inaccurate, is done by 33% of Brazilian respondents. This credit management practice is used as often as in Canada, and less often in the US (28% of respondents citing this) and Mexico (18%). To protect cash flow from the negative impacts of currency volatility, 33% of respondents in Brazil reported they hedge against systematic exchange rate risk exposure.

2 in 5 respondents needed to take measures to correct cash flow

32.5% of the total value of invoices issued by respondents in Brazil was reported to still be outstanding after the due date. This is the highest rate of late payments recorded of the countries surveyed in the Americas (24% in the US, 25.1% in Canada, and 26.6% in Mexico). On average, to turn these overdue invoices into cash it takes Brazilian respondents 56 days, less than the 59 days recorded last year. To alleviate the financial pressure on the business, most Brazilian respondents (43%) needed to take measures to correct cash flow, and 39% were forced to delay payment of invoices to their own suppliers. On average, 2.5% of the value of B2B receivables was written-off as uncollectable (no variation from last year).

Half of respondents expect B2B payment practices to improve over the coming months

Brazilian respondents appear to have an optimistic opinion about the future trend of B2B payment practices. 48% of respondents expect an improvement over the coming months. However, a sizeable 22% forecast an increase in slow-paying customers, with a subsequent increase in DSO. To ensure their company's financial flexibility, and protect their business against the risk of payment default by their B2B customers, 35% of Brazilian respondents will check their B2B customers' creditworthiness more often and 35% will retain a collections agency. 33% of Brazilian respondents reported they will perform dunning activities (outstanding invoices remainders) more often.



33%

33% of respondents in Brazil reported they hedge against systematic exchange rate risk exposure to protect cash flow from the negative impacts of their currency volatility.

Atradius Payment Practices Barometer – June 2019

Overview of payment practices in Brazil

By business sector

Average payment terms longest in the consumer durables sector - shortest in the agri-food sector

Brazilian respondents from the consumer durables sector extended the longest average payment terms (averaging 50 days from the invoice date). Respondents in the agri-food sector set the shortest average payment terms (30 days).

Trade credit risk is highest in the Brazilian construction sector, and lowest in the metals sector

The value of overdue invoices is highest in the construction sector at 37% of the total value of B2B invoices. The ICT/electronics sector at 33% follows. The metals sector at 27% was lowest.

Proportion of uncollectable receivables highest in agri-food sector and lowest in the metals sector

The agri-food sector in Brazil reported that 2.8% of their B2B receivables were written off as uncollectable, the highest proportion in the country. The consumer durables sector followed at 2.6%. At the lower end of the scale, the metals sector reported an average of 1.1% of B2B receivables written off as uncollectable.

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A useful benefit of being insured against default includes the potential ability to negotiate better terms with the bank.

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**Credit manager – SME
– Consumer durables sector**



Overview of payment practices in Brazil

By business size

SMEs in Brazil set the longest, and large enterprises the shortest, average payment terms

Respondents from SMEs in Brazil extended the longest and those from large enterprises the shortest average payment terms to B2B customers (averaging 44 days and 30 days from the invoice date respectively).

SMEs in Brazil took the longest to collect overdue invoices

Despite a significant improvement in the payment behaviour of their customers over the past year, Brazilian SMEs appear to be the hardest hit by late payments with overdue invoices accounting for an average of 35.9% of the total value of B2B invoices. The average time it takes them to convert past due invoices into cash is 63 days, up from 61 days last year.

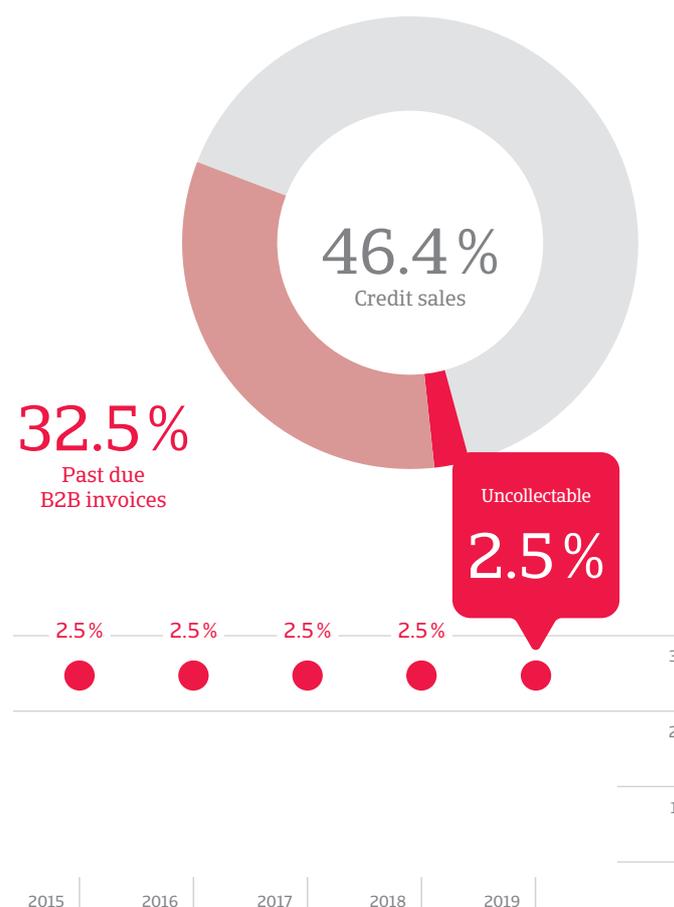
SMEs recorded the highest rate of uncollectable receivables

In line with the lengthening of their cash conversion cycle, Brazilian SMEs recorded the highest proportion of B2B receivables written off as uncollectable (2.6%). This compares to 2.5% in micro enterprises (up from, 1.8% last year) and to 2% in large enterprises (down from 2.5% one year ago).



Uncollectable B2B receivables in Brazil

(% of total value of B2B receivables)



Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – June 2019

Survey design for the Americas

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the 'Atradius Payment Practices Barometer'. In this report focusing on the Americas, which is part of the 2019 edition of the Atradius Payment Practices Barometer, companies from four countries (Brazil, Canada, Mexico and the U.S.) have been surveyed. Due to a change in research methodology for this survey, for some of the current results, no year-on-year comparison is feasible.

Using a questionnaire, Conclusr Research conducted a net of 837 interviews. All interviews were conducted exclusively for Atradius, without any combination of topics.

Survey scope

- Basic population: companies from four countries (Brazil, Canada, Mexico and the U.S.) were monitored. The appropriate contacts for accounts receivable management were interviewed.
- Selection process – Internet survey: 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=837 people were interviewed in total (approximately n=200 people per country). In each country a quota was maintained according to three classes of company size.
- Interview: Web-assisted personal interviews (WAPI) of approximately 15 minutes duration. Interview period: Q2 of 2019.

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Sample overview – Total interviews = 837

Country	n	%
USA	205	24.4
Canada	210	25.2
Mexico	211	25.2
Brazil	211	25.2
Industry	n	%
Manufacturing	278	33.2
Wholesale trade/ Retail trade / Distribution	446	53.3
Services	113	13.5
Business size	n	%
Micro enterprises	281	33.5
SME (Small/Medium enterprises)	307	36.7
Large enterprises	249	29.8

It may occur that the results are a percent more or less than 100%. This is the consequence of rounding off the results. Rather than adjusting the outcome so that it totalled 100%, we have chosen to leave the individual results as they were to allow for the most accurate representation possible.



Statistical appendix

Find detailed charts and figures in the Statistical Appendix for the Americas. This is part of the June 2019 Payment Practices Barometer of Atradius, available at www.atradius.com/publications

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For more **insights into the B2B receivables collection practices in Brazil** and worldwide, please see the Global Collections Review by Atradius Collections (free download after registration), available on www.atradiuscollections.com

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