




Taiwan: a shifting trend towards the use of trade credit in B2B transactions

Atradius Payment Practices Barometer





The 'Atradius Payment Practices Barometer' survey explores a range of topics including payment terms, payment delays, credit sales, and DSO (Days Sales Outstanding). The survey results provide a good indication of outlook for Taiwan businesses.



Vincent Ku, Country Manager for Atradius in Hong Kong and Taiwan comments on the report

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Compared to other countries, Taiwan was extremely swift in putting in place measures to contain the spread of the COVID-19 virus. Therefore, Taiwan's domestic economy appears to have suffered less than in other Asian countries. However, the impact of pandemic on its main export destinations is putting pressure on the external trade flows of Taiwan's export-reliant economy.

In these challenging times, the risk of customer payment default will be ever greater as many respondents reported an increase in resources, costs and time to chase unpaid invoices, potentially adding pressure to cash flows. Protecting business from credit losses should always be on the top of a company's agenda, big and small companies alike.

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Introduction

The survey was completed by Taiwanese businesses during March 2020. At this time the country was successfully containing local transmission of the coronavirus through a series of measures including testing and quarantines that started in December 2019. However, despite such containment successes, Taiwan's dependence on Chinese tourism and the intertwined nature of exports and supply chains between the two countries means the coronavirus outbreak has posed downside risks to the country's growth this year.

Key takeaways from the report

This year's survey shows a marked change in cash versus credit payment, as Taiwanese companies were more willing to extend credit to B2B customers to increase competitiveness. The coronavirus outbreak on top of the ongoing US-China trade tensions and the slowdown of China's economy may explain why.

Whilst trade credit can increase the chances of winning sales and enhancing customer relationships, companies are more exposed to the risk of payment delays or non-payment that lead to an increased pressure on cash flow. Considering your cash flow is important, as the more you use trade credit the less money you have available to produce more products or pay running costs, and this may even influence the cost of, and access to, financing. Indeed, it took 9 days longer than last year for companies to cash in invoices. With self-insurance as a primary tool used by the majority of respondents in Taiwan, companies reported an increase in time and costs spent on chasing payment delays involving as much as 40% of the total value of B2B invoices.

The pressure and resources spent on credit risk monitoring and debt recovery will be even greater as the impact of COVID19 pandemic continues to unfold. To mitigate risks effectively, companies should perform regular assessment of their credit management approach to ensure the tools adopted remain effective.



Survey findings for Taiwan

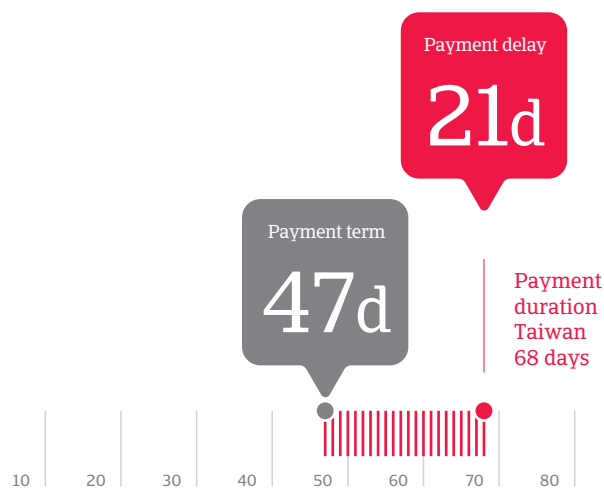
Trade credit plays a key role in Taiwanese export B2B transactions

Respondents to the Atradius Payment Practices Barometer survey in Taiwan made an average of 54% of the total value of their sales to B2B customers on credit (up from 43% last year), and 46% on a cash basis (down from 57% one year ago). These are consistent with the averages for Asia (56% sales on credit and 44% on a cash basis). The growth in credit-based B2B transactions recorded in Taiwan represents a significant change in the payments practices of an economy that had previously shown reluctance to employ trade credit.

Taiwan's increasing use of trade credit could highly likely be a result of a perceived need to offer more competitive trading terms amid China-US tariff uncertainty and may additionally result from increased payment flexibility as businesses seek to negotiate the challenges affecting supply chains and trade arising from the coronavirus pandemic.

The move towards a greater use of trade credit is reflected in both Taiwan's domestic and export markets. As revealed by survey findings, respondents in Taiwan transacted 47% of their B2B sales on credit on export markets (higher than the 40% average for Asia). This percentage is the highest across the countries surveyed in Asia. The remaining 53% of credit-based sales was made domestically (lower than the 61% average for Asia). Taiwan's above average use of trade credit in export markets is likely to be a reflection of the country's export-oriented economy, compared to other economies in the region.

Payment duration in Taiwan



d = average days

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

Source: Atradius Payment Practices Barometer – June 2020

Extended payment terms support Taiwan's move towards a more liberal trade credit policy

The survey findings show that Taiwan now offers the second longest average payment terms of all of the countries surveyed in Asia (47 days), preceded only by the UAE (57 days). 43% of Taiwanese respondents requested payment from B2B customers within 30 days of the invoice date, 39% in the range from 31 to 90 days and 19% of respondents reported having set payment terms of 90 days or more from invoicing. The country's 47-day average is two days longer than a year ago and four days longer than the regional average (43 days). Taiwanese medium-sized enterprises and large businesses in the wholesale trade sector report well above average payment terms (both 52 days). In contrast, retail/distribution and large sized companies in the manufacturing sector reported shorter than average terms, both at 41 days from invoicing.

When asked about the underlying criteria for setting payment terms, nearly half of respondents in Taiwan (49%), particularly medium sized enterprises and the wholesale trade sector, reported that they set payment terms in accordance with their company standards and internal business practices (regional average: 51%). 34% of businesses set payment terms that are consistent with industry standards (regional average: 36%).

Cash payments still more common in B2B trade than Asia average

Despite the increasing use of trade credit, cash payment is also still frequently used by many Taiwanese businesses in B2B trade (69% of respondents vs. 63% in Asia). In addition to selling on a cash basis, as many as 3 in 5 survey respondents reported using two main credit management techniques when selling on credit: avoidance of risk concentration through reduction of reliance on a single buyer and self-insurance. A similar proportion reported requesting a letter of credit or a guarantee of payment before selling on credit to B2B customers.

However, 46% of the mid-sized businesses in the manufacturing sector reported a lower than average use of credit management tools or techniques to safeguard cash flow and business profitability.



Atradius · Key Findings

39%

of Taiwan respondents reported insufficient availability of funds as the most frequent reason for B2B customers' late payment.

Atradius Payment Practices Barometer – June 2020

Significant increase in late payments from B2B customers

Compared to last year, Taiwanese respondents have overdue working capital tied up in receivables for a longer period, as B2B customers settle overdue payments on average within three weeks beyond the due date. This means respondents could cash in overdue invoices at 68 days from the invoice date (compared to 59 days last year). Of note, the ICT/electronics industry had the most difficulty in collecting outstanding debts.

For many Taiwanese respondents (45% vs. a 50% country average) late payment from B2B customers is chiefly due to inefficiencies of the customers' internal payment processes. This was most often reported by mid-sized enterprises and the wholesale sector. For 39% of Taiwanese respondents (vs. 49% in the region overall) insufficient availability of funds was the most frequent reason for customers' late payment. 34% attributed payment delays to either the use by B2B customers of outstanding invoices as a form of financing, or to disputes over the quality of goods and services provided.

To protect their business from credit losses arising from customers' payment default, Taiwanese respondents put in place measures aimed at strengthening their own credit control procedures. This included an increase in resources, costs and time to chase unpaid invoices, potentially adding pressure to

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Companies reported an increase in time and costs spent on chasing payment delays involving as much as 40% of the total value of B2B invoices.

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cash flows. Based on survey responses, these latter amount to 40% of the total value of B2B invoices issued by respondents, a whopping 16 percentage points higher than last year, and below the current average of 52% for the region overall. In addition to the resources used to collect on unpaid invoices many businesses invested in a wide range of measures from financial instruments (mainly guarantees of payment and letters of credit) to retention of credit risk through self-insurance.

With 15% of invoices extending past 90 days overdue, Taiwanese respondents experience a rate of very late payments consistent with the regional average. In contrast, write-offs of uncollectable receivables amount to 1% (regional average: 3%), suggesting a better success rate in collection of outstanding debts in Taiwan than on average in the region.

Businesses in Taiwan plan on strengthening internal debt collection processes

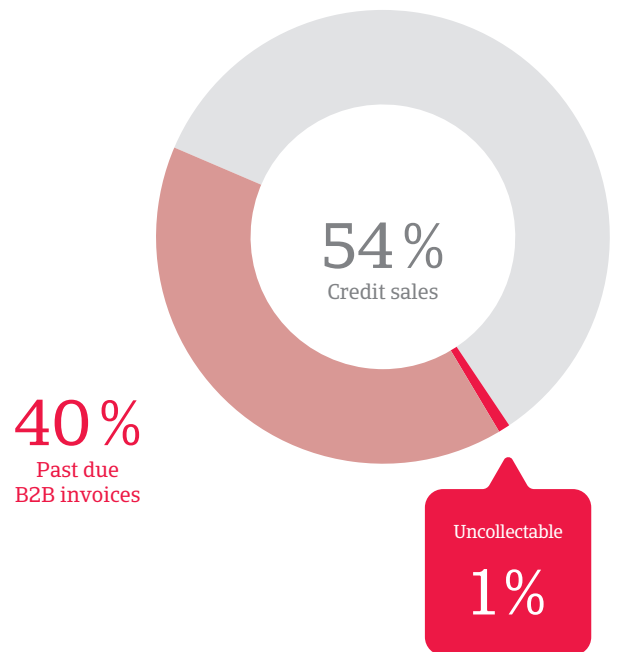
Respondents in Taiwan plan on strengthening their internal credit control procedures going forward by means of more thorough internal debt collection processes (51%), and stronger avoidance of trade credit risk concentration by reducing reliance on a single buyer (25%). In addition, almost the same percentage of respondents plan on starting to use debt securitisation in each case.

When asked to express their opinion about the outlook for their B2B customers' payment practices for the upcoming months, most respondents in Taiwan 66% anticipate no change. Only 8% of respondents expect an improvement, whereas 26% expect a deterioration, including an upswing in write-offs of uncollectable receivables. This is consistent with the survey finding that more respondents (37%) anticipate a downturn in the domestic economy in Taiwan than an improvement (32%) or for it to remain unchanged (30%) over the upcoming months.



Uncollectable B2B receivables in Taiwan

(% of total value of B2B receivables)



Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – June 2020

For 39% of respondents a worsening of the domestic economy would cause an increase in dependence on bank finance due their industry's increased indebtedness. However, on the positive side, respondents in Taiwan believe that despite the uncertainties brought about in the economy by these challenging times, banks will continue to lend financial support to businesses. Against this background, many Taiwanese respondents stated that the business performance of their industry, in terms of sales and profits, will remain unchanged or improve over the next 12 months (40% in each case, however lower than the 60% regional average).

Overview of payment practices in Taiwan

By industry



Chemicals

One quarter of B2B invoices are overdue

Taiwanese respondents from the chemicals industry reported an average of 71% of the total value of B2B invoices paid on time, 25% extending past due, and 4% written off as uncollectable. Respondents reported they had had the most difficulty in collecting outstanding B2B debt in both their industry and the agriculture industry. For half of the respondents, B2B customers delay payments due to inefficiencies of their internal payment process.

On average, it takes Taiwanese respondents from the chemicals sector two weeks beyond the due date to cash in overdue invoices (faster than 22-day country average). As a reflection of respondents' efficiency in collecting long-term outstanding invoices of high value, 61% of respondents reported DSO figures up to 30 days, 22% up to 90 days and 18% of 90 days or more.

Upswing in long-term overdue B2B invoices expected over the coming months

In the Taiwanese chemicals industry, significantly fewer respondents (10%) expect customer credit risk to improve than to worsen (32%) over the coming year. In particular, a deterioration of B2B customers' payment practices are expected to cause an upswing in overdue invoices extending 90 days or more past due.

To strengthen credit control over the coming months, and protect cash flow and the investment capacity of the business, Taiwanese respondents from the chemicals industry plan to strengthen their internal debt collection procedures. These include putting in place measures aimed at avoiding risk concentration (27% of respondents) and offering discounts for early payment (25%).

Nearly 40% of respondents believe that dependence on bank finance will increase over the coming months due to the increased indebtedness of the chemicals industry. Over half of the respondents, however, expect banks to provide additional financial support to alleviate temporary cash-flow issues. Against this background, 60% of Taiwanese respondents are of the opinion that the industry business performance (sales and profits) will improve over the next 12 months..



ICT / electronics

Average late payments in ICT/electronics above the country average

Late payments in the Taiwanese ICT/electronics sector average 44% of the total value of the B2B invoices issued (country average: 40%). Long-term outstanding receivables (those more than 90 days overdue) average 15% of overdue payments (in line with the country average). On average, overdue invoices are turned into cash within 20 days of the due date (in line with the country average).

The proportion of receivables written off as uncollectable averages 1% of the total value of B2B invoices, in line with the country average. 45% of Taiwanese respondents in the ICT / electronics industry reported DSO up to 30 days, 43% up to 60 days and 12% of 90 days or more. Based on survey findings, B2B customers in the Taiwanese ICT/electronics industry pay invoices late most often due to inefficiencies in their internal payment processes (46% of respondents) while for 39% of respondents late payments from B2B customers are attributable to liquidity shortages.

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65%
in ICT/electronics industry in Taiwan use self-insurance.

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Self-insurance is the most commonly-used credit management technique

Most of the respondents in the Taiwanese ICT/electronics industry (65%) reported that they retain and manage customer credit risk internally (self-insurance), and often ask for guarantees of payment when selling on credit to their B2B customers.

This emphasis on internal credit control processes can also be seen in the measures put in place to avoid concentrating payment default risks in a single buyer (as stated by 60% of respondents). Over half of the respondents plan on strengthening their internal debt collection processes in the coming months.

Payment habits of B2B customers in the industry expected to remain stable

66% of the respondents in the Taiwanese ICT/electronics industry believe B2B payment practices will not change over the next 12 months. 27% anticipate a deterioration in payment behaviour, causing a significant lengthening of DSO. Only 7% expect to see an improvement. More than one quarter of industry respondents (27%) plan to start using securitisation over the next 12 months.

As stated by 41% of the respondents, businesses in the industry will become more dependent on bank finance due to an increase of the indebtedness of the industry over the coming months. However, nearly half of the respondents (49%) believe that banks will continue to support businesses over the same period to alleviate pressure on cash flow. When asked about the outlook for the ICT/electronics industry, 42% of Taiwanese respondents said they expect business performance (sales and profits) to remain stable, while 35% expect it to improve over the next 12 months.



Machines

DSO in the industry is twice as long as the country average

Based on survey findings, 70% of the total value of the B2B invoices issued by respondents in the Taiwanese machines industry was settled within or at the due date, 29% was overdue and 3% was written off as uncollectable. On average, 14% of overdue payments were reported to be still outstanding more than 90 days overdue.

Of note, 43% of respondents in the industry reported DSO up to 30 days, and over half of respondents of more than 90 days,

resulting in an average of 100 days. According to respondents in the Taiwanese machines industry, late payment from B2B customers is most often attributable to disputes over the quality of goods and services provided (65%), or to liquidity shortages of the customer (45%).

Cash sales still very common despite increased use of trade credit

Although trade credit is increasingly used in Taiwan, cash is commonly used by B2B trade in the machines sector (85%). To minimise customer credit risks, respondents most often adjust credit payment terms (80%), avoid risk concentration through the reduction of the reliance on a single buyer (75%), or request letters of credit (75%).

To ensure adequate levels of cash flow, many respondents in the Taiwanese machines industry reported needing to increase resources, costs and time to chase unpaid invoices, delaying payments to suppliers, or pursuing additional financing from external sources (25% each).

Payment practices in the industry expected to remain stable

Most Taiwanese respondents anticipate that their B2B customers' payment practices will not change over the coming months. However, 20% of respondents anticipate a deterioration and with that an increase in long-term overdue invoices and write-offs. When asked about the outlook for the machines industry in Taiwan, most respondents (55%) said they expected business performance (sales and profits) to improve over the coming months.

To protect their businesses from the risk of non-payment most respondents plan to minimise risk concentration, and to increase requests for letters of credit (35% of respondents each). 7 in 10 respondents believe the levels of indebtedness of the Taiwanese machines industry will not change over the next 12 months, and likewise, dependence on bank finance is predicted to remain unchanged over the same period.

Survey design for Asia

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 Asia, which is part of the 2020 edition of the Atradius Payment Practices Barometer, companies from seven economies (China, Hong Kong, India, Indonesia, Singapore, Taiwan and United Arab Emirates) have been surveyed. Due to a change in research methodology for this survey, some year-on-year comparisons are not feasible for some of the results.

Using a questionnaire, CSA Research conducted 1,413 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** companies from seven economies (China, Hong Kong, India, Indonesia, Singapore, Taiwan and UAE) were surveyed. 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. It also allows 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=1,413 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:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: March 2020.

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Sample overview – Total interviews = 1,413

Economy	n	%
China	209	14.8
Hong Kong	200	14.2
India	204	14.4
Indonesia	200	14.2
Singapore	200	14.2
Taiwan	200	14.2
UAE	212	12.3
Sector (total Asia)		
Manufacturing	593	42.0
Wholesale trade/ Retail trade / Distribution	598	42.3
Services	222	15.7
Business size (total Asia)		
Small enterprises	140	9.9
Medium-sized enterprises	949	67.2
Large enterprises	324	22.9

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 Asia. This is part of the June 2020 Payment Practices Barometer of Atradius, available at

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