The Latest in North American Payment Trends

The payment terms trade creditors give to their U.S. customers have been lengthening since January, while fewer credit managers are seeing payment delays, according the latest FCIB Credit & Collections Survey from November. Meanwhile, term lengths to customers in Canada and Mexico have moved in the opposite direction and are shortening, survey respondents reported.

In the U.S., 66% of 66 respondents said they were extending credit terms to customers from zero to 30 days, compared to 72% who were doing so in January. A higher percentage of respondents extended 31 to 60-day terms in November (30%) than in January (27%). In November 2014, 18% of survey respondents extended 31-60 day terms. The percentage of respondents who extended 61-90 day terms jumped in November to 5% from 1% in January.

Those who reported payment delay increases from U.S. customers, meanwhile, have dropped to 18% in November from 24% in December, while the majority (66%) of respondents in November said payment delays have remained unchanged. Fewer credit managers saw no payment delays in November (6%) than in January (10%). The average days beyond terms in November were 13.7.

“The largest companies delay payments because they think they can and no one will question them,” one survey respondent said. “Most other companies will pay reasonably timely, with some account management unless they have cash flow problems.”

Billing disputes leading to payment delays increased to 33% of the credit managers in November from 26% in January, while cash flow issues also appear to be on the rise, if marginally—32% in November compared to 31% in January. “Just make certain that the invoice you generate is in order,” another respondent said. “Make sure the invoice cannot be disputed by having all the items that the customer expects and needs to have on the invoice in place. Also give the customer options on how they may want to pay you.”

When it comes to the resources used by credit managers to check the creditworthiness of their customers, more of those surveyed in November said they were looking at financial statements (82%) than in January (77%). More trade creditors were conducting customer visits (73% vs. 70%) over the same timeframe, and a greater percentage were pulling international credit reports (50% vs. 42%) and country risk reports (12% vs. 5%).

Also in November, several survey respondents complained about the ongoing use of checks versus other, more modern payment methods. “Checks take a long time to be received. It is a very common payment method despite [the fact that] we are in the 21st century,” a respondent said. “The only reason I consider [their use] is to improve their cash flow by delaying payment.”

Tighter Terms in Canada, Mexico

Of the 70 respondents to the November FCIB Credit & Collections Survey for Canada, 64% offered payment terms from zero to 30 days compared to 53% of respondents who did so in January, with the vast majority (98%) offering their customers payment terms of some sort. The average days beyond terms for Canadian customers was 15.1 in November.

More trade creditors were taking letters of credit from Canadian customers in November (11%) compared to January (3%), while 10% fewer respondents said they accepted checks in November compared to January.

Meanwhile, fewer respondents said they were seeing payment delays increase in November (13%) than those who were in January (21%), while most (63%) said they saw no payment delay changes in November.

Again, receiving late payment via check in the mail from Canadian customers led to complaints from trade creditors. “They tend to try to pay a couple weeks beyond terms,” a survey respondent said. “You can influence this, but it takes a lot of ongoing effort. The mail system there also tends to be slow, and this further causes delays if companies pay by check.”

In Mexico, where 94% of the 67 survey respondents said they offer terms to customers, payment terms were shortening as more trade creditors in November (39%) offered zero to 30 days compared to 29% in January. Fewer offered 31 to 60 day terms over the same timeframe (36% vs. 38%). Nearly a quarter of respondents offered terms from 61 to 90 days, and that figure barely budged since January.

Also in Mexico, fewer commercial creditors accepted checks in November (13%) compared to January (19%), while other methods of payment mostly stayed the same.

Payment delays south of the border jumped in November compared to May—19% vs. 6%. The measure is highly volatile, though, as in January 32% of survey respondents reported payment delay increases.

Several trade creditors suggested collecting as much money up front as possible from Mexican customers, while others suggested paying close attention to exchange rate fluctuations, which can impact payments from customers on a nearly daily basis. “It is extremely helpful if you can visit your customers,” one respondent advised. “It shows that you care about them. They will remember that when it comes to paying their bills.”

– Nicholas Stern, managing editor