Atradius
Managing risk, enabling trade

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Indonesia: Businesses face more late payment issues than others in Asia

Atradius Payment Practices Barometer

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commented on the report

> *"As results of this year's Payment Practices Barometer survey show, Indonesia's more liberal trade credit policies have led to an increase in late payments, with a higher percentage of the total value of invoices overdue than the regional average.*
>
> *Local businesses can address this through a strengthening of their internal credit management processes."*

Although Indonesia experienced some of the highest rates of coronavirus cases in Southeast Asia last year, the pandemic's impact on its economy has been relatively mild. In 2020 the country's GDP shrank just 2.1%, possibly as a result of the light touch approach to coronavirus restrictions and the fact that the domestic economy is the main driver of GDP, with exports only accounting for about 20% in total.

This relatively mild impact on Indonesia's economy may be the reason why significantly more businesses increased the use of trade credit last year than in the rest of Asia and offered longer payment terms than in the past. However, as the results of this year's Payment Practices Barometer survey show, Indonesia's more liberal trade credit policies have led to an increase in late payments, with a higher percentage of the total value of invoices overdue than the regional average. Local businesses can address this through a strengthening of their internal credit management processes. For example, the chemicals/pharma industry demonstrates a greater use of credit insurance than amongst its Asian peers.

This points to a business environment that is highly receptive to strategic credit management as an essential tool to protect cash flow and minimise the likelihood of bad debts.
That said, the future is looking comparatively bright for Indonesian trade and commerce. The economy is forecast to rebound by nearly 5%, dependent on the eventual easing of coronavirus restrictions and the efficacy of the vaccine rollout. Respondents to our poll were likewise optimistic about the coming months with many more businesses anticipating growth than their peers across Asia as a whole, as well as a more frequent use of trade credit with B2B customers to stimulate demand.

Although 2021 is likely to remain a challenging year for many businesses throughout the world, for Indonesia, at least, there are good reasons for optimism and this can clearly be seen in the country's most recent trade recovery and forecast of economic expansion for next year.

Key takeaways

Selling on credit requires effective credit management

In contrast to most businesses throughout Asia, a majority of businesses in Indonesia increased credit sales following the outbreak of the pandemic. In the context of Indonesia's relatively strong economy, this is certainly an expression of business confidence. However, every time a business sells products or services on credit, there is an increased risk of payment default. This risk increases the longer the invoice remains unpaid. Ideally, business sales strategies should be developed alongside credit management policies.

Chemicals/pharma uses credit insurance wider than peer industry in Asia

Significantly more chemicals/pharma businesses in Indonesia than in Asia told us they used credit insurance, and the majority of these favoured credit insurance over retaining and managing the risk in-house. This has most likely contributed to a significantly lower proportion of receivables written off as uncollectable in the chemicals/pharma industry in Indonesia (nearly 4% of long-term overdue invoices) than in the peer industry in Asia (7%). This because credit insurance enables access to in-depth knowledge about sectors, markets and individual businesses, ensuring a thorough assessment of the credit quality of prospective B2B customers. This may come as no surprise in an industry where just over half of the sector output is sold on credit terms, chiefly to encourage repeat business and build strong trade relationships with customers.

Keep DSO under control helps protect business cash flow

Reportedly, most of the agri-food businesses in Indonesia spent more time, costs and resources on chasing unpaid invoices and tightening their credit control processes last year. The industry recorded greater success than that of regional industry peers at collecting long-term overdue invoices (over 90 days overdue) of high value. This enabled them to keep Days Sales Outstanding (DSO) under control, thus lowering the negative impact of long overdue invoices on the liquidity position of the business. Monitoring DSO is paramount for a business, as it helps detect adverse payment trends and evaluate the necessary action to be taken to protect the viability of the business.

Indonesian businesses are more willing to extend longer payment terms to customers

Discussing payment terms with B2B customers and permitting longer payment terms may be an attractive proposition in a competitive market and can definitely improving trade and customer relationships. As survey findings in Indonesia highlight, businesses polled in this market did that more often than their peers in Asia. This approach usually enables a deeper understanding of the supply chain and potential market issues, providing insight into potential issues and giving a business the opportunity to take avoidance action if a problem in the supply chain arises. This is an essential part of good credit management, which can be vital to safeguard future business health.

Survey results for Indonesia

B2B credit sales significantly increased during the pandemic

Significantly more businesses polled in Indonesia (60%) than in Asia (44%) reported increased trading on credit terms with B2B customers in the months following the outbreak of the pandemic. 51% of the total value of sales across the industries surveyed (agri-food, chemicals and consumer durables) is now transacted on credit. This is higher than last year's 49% average, although below the current 54% for Asia. Indonesia's consumer durables industry is the most active, with an average of 55% of sales made on credit (regional average: 58%). The chemicals industry ranks second (54%, on par with Asia) and the agri-food industry follows with an average of 47% of credit-based B2B sales (lower than the 52% average for the industry in Asia). The proportion of credit-based sales is almost equally split between the domestic (52%) and export markets (48%).

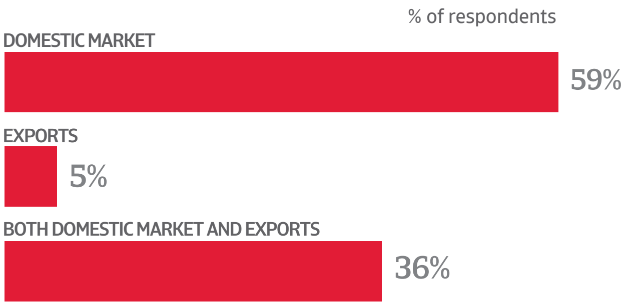
Businesses use credit to strengthen trade relationships during pandemic

The majority of businesses polled in Indonesia (71%, higher than the 54% average for Asia) told us they accepted trade credit requests to encourage repeat business with established customers.

Indonesia: how do you expect your business performance to change over the coming months?

IMPROVE	NO CHANGE	DETERIORATE
69%	26%	5%

Which key developments will drive your business improvement?



Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - June 2021

52%

of survey respondents in Indonesia told us that their B2B customers slowed down invoice payment over the past year.
On average, it took them up to one month compared to nearly three weeks last year to settle overdue invoices (regional average of respondents: 40%).

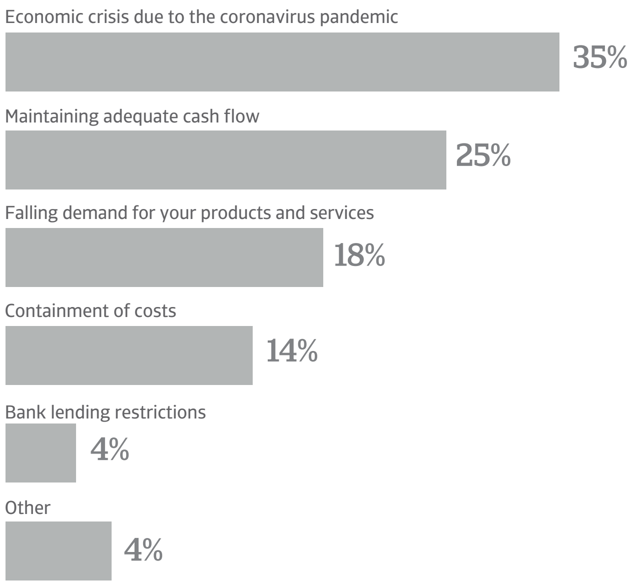
A significant number of businesses also said they offered credit terms to win new customers. Less commonly cited reasons for offering trade credit include: staying competitive in their markets, and allowing customers time to pay (for example, if they are awaiting payment from their buyers, need to sell goods on, or to obtain bank finance). These latter reasons for offering credit were reported less frequently by businesses in Indonesia than their Asian peers.

Costs of credit management and trade debt collection increase

Survey data indicates that, in the year that followed the pandemic outbreak, more businesses in Indonesia (56%) than in Asia (49%) reported increased administrative costs associated with the management of accounts receivable.

Indonesia: top 5 greatest challenges to business profitability in 2021

% of respondents



Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - June 2021

This was most often seen with businesses that opted for retaining and managing customer credit risk internally through self-insurance. Costs involved mainly acquiring credit information (most often through the customer's financial statements and bank references) as well as assessing and monitoring customer credit risk. Increased costs for the collection of trade debts were reported by far more businesses in Indonesia (52%) than in Asia (42%) and most often by businesses that chose to manage the collection of long-term overdue invoices internally rather than by outsourcing. Additional costs associated with the in-house management of trade debt collection also included increased financing or interest paid during the time-lag between the credit sale and the settlement of the invoices, as well as increased bad debts. With just over half of Indonesian sales traded on credit, it is not surprising that costs associated with the provision of trade credit need to be thoroughly managed. If this is not done, costs may easily outweigh sales revenue, thus jeopardising the profitability of the business especially if profit margins are tight.

Payment terms most often reflect company standards

Far more businesses in Indonesia (46%) than in Asia (35%) offered customers longer time to settle invoices over the past year, most often up to one month longer to pay. The payment terms for each industry surveyed in Indonesia are outlined in the overview by industry section below. Payment terms reflect company standards for significantly more respondents in Indonesia (79%) than in Asia (53%). In addition, 65% of respondents in Indonesia (regional average: 43%) told us their payment terms were influenced by the availability and cost of capital needed to finance credit sales. Profit margins dictate payment terms granted to the customers of 57% of respondents in Indonesia compared to 36% in Asia. The credit capacity of their customers and the payment terms received from suppliers seem to be more relevant for businesses in Indonesia than for their peers in Asia.

Payment practices worse than regional average

Significantly more respondents in Indonesia (52%) than in Asia (40%) told us that their customers slowed down invoice payment over the past year. On average, it took them up to one month longer than last year to settle overdue invoices. This affects a 49% average of all B2B invoices, which is consistent with the average for Asia overall (50%). 5% of long-term overdue invoices (more than 90 days overdue) were written off as uncollectable by businesses in Indonesia. This is consistent with the average for Asia. The fact that businesses in Indonesia were almost equally impacted by customer credit risk as their peers in Asia may be a reflection of a similar approach to the management of overdue invoices, taken by businesses across the region. Further detail can be found below in the overview by industry section.

Businesses point to the ongoing pandemic as the primary threat to business profitability

Twice as many Indonesian businesses (35%) as their peers in Asia (17%) expressed concern about a continuation of the pandemic negatively impacting their profitability over the next months. This expressed pessimism is highly likely to stem from a recent spike of coronavirus cases, which led to the reinstatement of several restrictions, which in turn had a negative impact on the recovery in early 2021. A quarter of the survey's respondents (in Indonesia and Asia) also told us they are very much concerned over maintaining adequate cash flow over the next months. Many businesses are also worried about a likely fall in demand for their products and service over the next months. This concern was expressed by 18% of respondents in Indonesia compared to 15% in Asia. Interestingly, this largely negative business sentiment is at odds with economic expectations that predict a significant rebound of some of the main growth drivers of Indonesia's economy, namely private consumption and exports.

Indonesian businesses anticipate growth stemming from domestic economic rebound

Looking ahead, Indonesia's businesses appear to be far more optimistic (69%) than their peers in Asia (52%) in anticipating improvement in their business performance over the next 12 months. 59% of businesses (regional average: 48%) believe the improvement in performance will be mainly due to a rebound of the domestic economy. 36% (both Indonesia and Asia alike) predict improvement will stem from a combination of healthier export flows and a rebound in the domestic economy. It is worth noting that fewer respondents in Indonesia (5%) than Asia (15%) believe business improvement will come exclusively from exports. This is may be a reflection of the fact that the Indonesian economy is rather closed. Exports account for just about 20% of GDP, which makes Indonesia less susceptible to global trade downturns than some other Southeast Asian countries. Most of the businesses we polled (46%, regional average: 32%) told us that selling on credit to B2B customers would become an increasingly widespread business practice over the next 12 months. In particular, this would be aimed at stimulating demand in industries where demand plunged due to the pandemic economic downturn.

Indonesia: on average, within what time frame do your B2B customers pay their invoices?

% of respondents

Sample: all interviewed companies
Source: Atradius Payment Practices Barometer - June 2021

Self–insurance on the rise over the coming months

In light of intention expressed by many businesses to use credit sales to stimulate demand, it come as no surprise that Indonesia's businesses place a great emphasis on credit risk mitigating tools. Nearly half of the businesses we polled (49%, regional average: 43%) told us they plan to retain and manage customer credit risk internally (self-insurance) more often over the coming months. A similar percentage said they would increase requests for payment guarantees. 44% reported they anticipate to outsource credit management to a credit insurer over the coming months (regional average: 37%). Cash sales, factoring and invoice payment reminders will also be used by businesses in Indonesia more often than on average across Asia. The same goes for the offering of discounts for early payment, and the adjustment of payment terms to match the credit risk profile. This varied approach to credit management is aimed at keeping Days Sales Outstanding (DSO) under control over the coming months. This was expressed by 50% of businesses in Indonesia and contrasts with the 38% of respondents in Asia that believe DSO will deteriorate over the coming months.

73 days
is the average time it takes Indonesian suppliers to collect overdue B2B invoices.

Overview of payment practices in Indonesia By industry

AGRI-FOOD

Overview

Indonesia's agri-food sector has proven to be one of the most resilient industries amidst the coronavirus pandemic, with rising output last year. Interestingly, a larger part of Indonesia's agri-food output has been sold on credit on export markets over the past year, than we have seen among Asian countries overall.

This may explain why the Indonesian agri-food industry appears to be more impacted by late payments from foreign customers than the industry in Asia. Although trading on a cash basis with B2B customers is still favoured by Indonesian agri-food businesses, credit terms are more frequently offered to stimulate demand and support the gradual recovery of the domestic economy.

Strong trade debt collection results in lower DSO than regional average

54% of the total value of B2B credit sales is overdue (higher than the 49% average for Asia). This may be a reflection of some differences in trade debt management between businesses in the Indonesian agri-food industry and their peers in the region. 6% of the total value of B2B receivables was written off as uncollectable.

This is consistent with the average for the region. Nearly 70% of agri-food businesses in Indonesia (regional averages: 50%) spent more time, costs and resources on chasing unpaid invoices and tightening their credit control processes last year. However, survey findings suggest that businesses in the Indonesian agri-food industry are more successful than their regional peers at collecting long-term overdue invoices (over 90 days overdue) of high value due.

This correspondingly has a positive effect on DSO, resulting in an 85-day average DSO, far lower than the 119-day average for the industry in Asia.

Cash is king when trading with foreign customers

The Indonesian agri-food industry appears particularly risk averse when trading with foreign customers. 62% of Indonesia's agri-food industry prefers to sell on cash terms in foreign markets, contrasting with the Asian average of 51%. However, when they do offer trade credit, the sector's businesses told us they apply a wide range of credit management techniques and tools to minimise risk.

These range from the reduction in reliance on a single buyer, to the adjustment of credit terms, the use of outstanding invoices reminders and the employment of external debt collection agencies. These appear to be applied more often by businesses in the agri-food industry in Indonesia than by their industry peers in Asia.

CHEMICALS/PHARMA

Overview

Similar to the agri-food industry, Indonesia's chemicals/pharma industry has also proved to be rather robust amidst the coronavirus pandemic. Consistent with the chemicals/pharma industry in Asia, just over half of the sector output is sold on credit terms, with China being the main export market. Although cash is preferred more often than the Asian average, credit is increasingly used to encourage repeat business. To minimise credit risk, businesses in the chemicals/pharma industry favour the use of credit insurance over retaining and managing the risk in-house.

Late payments and write-offs lower than in Asia

50% of the total value of B2B credit sales is overdue (regional average: 54%). 4% was written off as uncollectable. This is lower than the 7% average for Asia. Despite this positive result, chemicals/pharma businesses were less efficient at collecting long-term overdue invoices of high value (over 90 days overdue). 50% of respondents reported less effective trade debt collection and increased DSO over the past year (regional average 39%).

This is reflected in the DSO results, which reveal a 105-day average for the industry in Indonesia, compared to a 95-day average for Asia. However, this could also be due to a more liberal trade credit policy during the pandemic and to fluctuations in sales patterns.

Trade credit insurance used more widely than Asian average

Significantly more chemicals/pharma businesses in Indonesia (67%) than in Asia (57%) told us they used credit insurance. 66% of businesses also told us they opted to manage credit risk themselves through self-insurance, (regional average: 70%). The credit risk management techniques they employed included the adjustment of payment terms to account for credit risk profiles, discounts for early payment and in-house debt collection. 68% of businesses in Indonesia requested payment in cash (regional average: 58%).

CONSUMER DURABLES

Overview

Businesses in the consumer durables industry in Indonesia appear to be far more worried than their industry peers in Asia over the outlook for the pandemic-induced economic crisis. This is likely to be due to the pandemic's negative impact on private consumption, one of the key growth drivers for the consumer durables industry.

However where there are expectations of an improvement in sales and profits, chiefly due to a rebound of the domestic economy, consumer durables businesses that use trade credit to stimulate demand display a stronger focus on safeguarding their liquidity levels than their industry peers in Asia.

Industry less impacted by late payments than peers in Asia

An average of 35% of the total value of B2B credit sales in Indonesia's consumer durables industry are overdue (lower than the 43% average for Asia). On average, it takes their customers up to one month longer than the due date to settle overdue invoices. In order to avoid liquidity constraints caused by late payments, more businesses in the Indonesian consumer durables industry (72%) than their industry peers in Asia (50%) needed to take corrective measures to minimise cash outflows. These most often included the slowdown of invoice payment to their own suppliers. Bad debt write offs in the industry represent 5% of B2B receivables. This is slightly higher than the 4% average for the industry in Asia.

Protection of liquidity levels paramount for the industry in Indonesia

The most common credit management technique practised by consumer durables businesses in Indonesia is the offering of a discount for the early payment of invoices, (cited by 82% of respondents, compared to 63% in Asia), followed by trade debt securitisation and factoring.

A stronger focus on collection of overdue invoices, whether in house or by outsourcing, is shown by more businesses in this industry in Indonesia, than by their peers in Asia. This has contributed to keeping the industry's average DSO relatively stable over the past year.

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 2021 edition of the Atradius Payment Practices Barometer, companies from six economies (China, Hong Kong, 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 1,200 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** companies from six economies (China, Hong Kong, 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 the market 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=1,200 people were interviewed in total (approximately n=200 people per market). In each market, a quota was maintained according to three classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: Q2 2021.

Sample overview – Total interviews = 1,200

Economy	Interviews	%
China	200	16.7
Hong Kong	200	16.7
Indonesia	200	16.7
Singapore	200	16.7
Taiwan	200	16.7
UAE	200	16.7

Business sector (total Asia)	Interviews	%
Manufacturing	521	43.4
Wholesale trade/Retail trade/Distribution	464	38.7
Services	215	17.9

Business size (total Asia)		
Small enterprises	99	8.2
Medium-sized enterprises	896	74.7
Large enterprises	205	17.1

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 2021 Payment Practices Barometer of Atradius, available at
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