

## **A New Year's resolution for businesses**

**by Josef Busuttil**

The year 2010 is coming to an end and this brings us to the time of the year when many people evaluate what went wrong or should have gone better during the year and aim to set goals and objectives for a more prosperous new year.

The year 2010 was not easy for businesses and commerce. We have witnessed a hostile international commercial environment. Big companies went bust, some economies were rescued by bail outs, governments announced hefty austerity measures followed by violent protests in the streets, and other countries are in the red and may ask for financial assistance soon. This economic and financial turmoil increased the unemployment rate in these countries with all its negative affects and consequences on businesses.

"No man is an island" can be translated to "No country is an island", as economies depend heavily on each other. Although the Maltese economy has not suffered as much as other economies, the local business community should keep in mind that these turbulent economies are EU Members States, they form part of the Eurozone and we depend on the economic and financial stability of our counterparts.

When planning for the year 2011, the local business strategists should hence, focus on protecting their cash flow and long-term profit more than ever before. Irrespective of how innovative and advantageous the business plans for 2011 will be, they all depend on the availability of adequate cash flow – the lifeblood of a business. If an organisation lacks healthy cash flow, the plans get no further than ideas on a piece of paper at best or overtrading at worst.

Cash flow and profitability are often misunderstood and confused. These two terms have totally different meanings. People may associate poor cash flow with a business organisation experiencing declining sales. But poor cash flow can happen to a business with sales bursting through the roof.

Cash flow simply refers to the ability to pay the bills on time and on a regular basis, while profitability is the net difference between the total amount a business earns and all the costs involved to run the business.

To earn a profit, most businesses have to produce and/or deliver goods or services to their customers before they collect payment. We call these credit sales. Provided that these businesses have enough cash reserves to pay their suppliers, salaries, rent, taxes, bills and other costs, and the payments received are greater than the total cost of sales, then the business is said to be profitable. Additionally, sound cash flow is not just the cash inflows and outflows, but is also dependent on the timing of these cash movements.

Irrespective of the profit potential, unless the business has adequate cash flow to operate with, it will not trade effectively. Therefore, unless the business has the cash reserves that meet all the costs regularly and on time, it will be unable to deliver its side of the bargain, receive payments, and make a profit.

Selling on credit is the oil that keeps the wheel turning, as it supports sales that would otherwise be lost. But businesses should understand that credit helps businesses to sustain long-term customer relationship and stay customer focused at all times, which in return help to maintain sound cash flow.

Credit practitioners have an important role to play here. They are in direct contact with customers and therefore, they should strive to enhance their internal credit processes and procedures in order to provide good customer service by which they can protect cash flow and profit for their business.

The old fashioned focus on risk mitigation is something of the past. The credit function is a people's function that can be valuable to improve the perception of the firm in the customers' minds. Thus, gaining and sustaining competitive advantage, which is the name

of the game in today's turbulent markets. Credit practitioners should never forget that a business is competing both when it sells its products or services and also when it "completes the sales" – collecting money from customers. Therefore, managing credit is both a science and an art!

This does not mean that credit does not have its risk factor. Of course it does, but credit risk analysis and control is only part of the whole credit process. In today's commerce, the credit people should be skilled to identify the profitable customers before granting them credit while also be able to keep their existing credit customers buying and current. However, this requires skilled employees and intuitive credit information.

Being the pioneers in the local credit scene, MACM knows the market well and has developed its services specifically to help the Maltese creditors in managing their accounts receivables. MACM offers the necessary training to the credit practitioners and provides them with useful tools and up-to-date information on how to grant and manage their credit effectively and profitably.

MACM encourages businesses to change today's credit culture. It promotes responsible credit to the benefit of the creditors, the customers and the economy at large. But culture cannot be changed overnight. It takes time, and the best way to change this culture is by investing in staff development and in a credit management information system that would help businesses to take profitable credit decisions in a proactive manner.

The cost of staff training and credit information should also be taken into consideration. Being a not-for-profit organisation, with no commercial objectives, MACM services meet the credit needs of the local businesses in an efficient and cost effective manner.

While wishing a peaceful Christmas and a prosperous New Year to the business community, MACM will continue to commit itself to provide you with its services. On a final note, MACM emphasises that sound cash flow is the key that opens the door for business success.

Therefore, find ways to defend your cash flow – poor cash flow can be the death of an otherwise healthy business!

Mr Busuttill is the director general of the Malta Association of Credit Management, a not-for-profit organisation providing a central national organisation for the promotion and protection of all credit interest pertaining to Maltese businesses. It is the ICM (UK) accredited training centre for Malta. MACM is a member of the Federation of European Credit Management Associations – FECMA. MACM is the distributor of Graydon International Credit Reports in Malta.