

Business & Finance

# Sound credit management: lessons learned?



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The Maltese business community and the local media followed with great interest the recent experience involving a supermarket chain which evidently is in serious financial difficulty, leaving a number of creditors and suppliers in the dark about whether they shall be collecting their dues or writing them off.

The recent unfolding of events brought about memories of a major bankruptcy that happened around a decade ago following which we would assume that lessons would have been learnt by all. But in reality, one questions whether the local business community, regulators and authorities actually learned these lessons or not!

The Malta Association of Credit Management (MACM) was a catalyst in this recent episode. Being a not-for-profit organisation, without commercial interests and with the sole objective of providing a central national organisation for the promotion and protection of all credit interests pertaining to Maltese businesses, MACM reacted proactively as soon as it believed that there were signals of potential business collapse that could have a negative impact on a segment of its members. In this respect, a significant number of meetings with the various respective stakeholders were held to ensure that the interests of all the creditors, members of MACM, were meticulously and appropriately represented.

MACM provided an organised and centralised process whereby its members – in this case suppliers and creditors of this specific supermarket chain – were being kept abreast with all the developments taking place on a daily basis throughout the entire process.

To achieve this objective, MACM was assisted by legal and audit professionals, who kept its members thoroughly informed about the various actions they may take, together with their



implications, and about their rights in the given circumstances. In fact, a number of creditors' meetings were also organised by MACM to this end.

Apart from providing up-to-date information, which is vital to take proactive and profitable credit decisions, MACM also promotes good credit management practices within the Maltese business community. Therefore, an important exercise for the suppliers and creditors should be to identify the lessons learnt from this particular supermarket chain episode and any previous experiences.

Know your customer: this does not merely mean compiling the details of the customer for simple administration purposes. It should entail more analytical research on the customer prior to granting credit, including the customer's organisation structure; the number of people employed by the customer; the management experience in the line of business and the real worth of the customer in terms of its assets less liabilities. Additionally, a sound business organisation should have an accountant/auditor to assist in the financial management of the business and it is in the interest of the supplier to know the administrative structure of the client.

Signed credit application form: this document should serve as the basis of credit sales agreement, which should include the terms and conditions of credit sales. Once the credit terms are agreed and the credit application form is signed by both parties, the agreed credit terms and limits should be adhered to and if a change is necessary, this should be preceded by a fresh creditworthiness analysis on the customer.

Appropriate credit terms and credit limits: credit terms should be set by the supplier in

agreement with the customer, keeping in mind various factors, which include:

- The position of the customer in the market;
- The volumes of sales;
- The profit margin of the supplier;
- Competition;
- The customer's financial situation;
- The cost of the product at point of sale; and
- The stock turnover time period – if the customer does not need more than 30 days to resell the goods, the credit terms should reflect that period.

Credit terms and limits are set to be observed and suppliers should avoid exceeding such terms to prevent losses from possible late payments and bankruptcies.

### “Credit terms should be set by the supplier in agreement with the customer”

Late payment: irrespective of the size of the customer, when a customer does not honour the payment terms as agreed, the supplier should act immediately. Communicating with the customer to learn the reason why the customer failed to pay on time is critically important. Such communication may lead to further proactive actions. Stop supplies if need be!

Retention of title: it is always recommended to include a 'Retention of Title' clause in the credit agreement. This clause may

be important to seize goods in case of payment default from the customer's side.

Personal liability/company share capital: suppliers should keep in mind that a company can be registered at the Registrar of Companies with a share capital that does not reflect the size and the turnover of the business and start trading with a relatively low capital. In such cases, suppliers should always request personal guarantees and, or other form of security when selling to these under-capitalised companies.

Market information: front-line employees should be trained and skilled to acquire information and data coming from the market. Pertinent information should be investigated and proactive measures taken if and when necessary. An empty shelf in a supermarket outlet may mean a lot to the supplier and hence should be further observed and studied.

Non-filing of accounts: suppliers should be more vigilant when granting credit to customers who are registered companies and who fail to file their annual accounts at the registrar. Customers who do not file their accounts as obliged by law may be hiding pertinent information which is vital for the creditworthiness analysis process.

Besides the lessons learned, the Maltese business community should make more use of commercial information available. For the success of a firm, commercial information and business intelligence are becoming more critical than ever before. The more information a firm can obtain, the better strategic decisions it can make, as long as the management team knows what to do with the information.

[www.macm.org.mt](http://www.macm.org.mt)

	Initial Charge	Share Price (€)	Change (percentage/€)	Income Yield*
<b>Value Line (€M) Ltd</b>				
Value Line (€M) Ltd - Accumulator	3.00%	€1.750	-€0.095	
Value Line (€M) Ltd - Quarterly Dividend	3.00%	€1.750	-€0.095	3.00%
Value Line (€M) Ltd - Accumulator	3.00%	€3.370	-€0.108	
Value Line (€M) Ltd - Monthly Dividend	3.00%	€2.657	-€0.095	3.00%
Value Line (€M) Ltd - Accumulator	4.00%	€1.600	-€0.074	
Value Line (€M) Ltd - Quarterly Dividend	4.00%	€1.600	-€0.074	4.00%
Value Line (€M) Ltd - Accumulator	3.00%	€1.832	-€0.067	
Value Line (€M) Ltd - Quarterly Dividend	3.00%	€1.832	-€0.067	3.00%
Value Line (€M) Ltd - Accumulator	4.00%	€1.155	-€0.021	
Value Line (€M) Ltd - Quarterly Dividend	4.00%	€1.155	-€0.021	4.00%
Value Line (€M) Ltd - Accumulator	3.00%	€1.155	-€0.021	
Value Line (€M) Ltd - Quarterly Dividend	3.00%	€1.155	-€0.021	3.00%
Value Line (€M) Ltd - Accumulator	1.25%	€361.84	-€2.11	
Value Line (€M) Ltd - Quarterly Dividend	1.25%	€361.84	-€2.11	1.25%
Value Line (€M) Ltd - Accumulator	1.25%	€193.03	-€1.26	
Value Line (€M) Ltd - Quarterly Dividend	1.25%	€193.03	-€1.26	1.25%
Value Line (€M) Ltd - Accumulator	1.25%	€333.08	-€2.17	
Value Line (€M) Ltd - Quarterly Dividend	1.25%	€333.08	-€2.17	1.25%
Value Line (€M) Ltd - Accumulator	3.00%	€2.112	-€0.06	
Value Line (€M) Ltd - Quarterly Dividend	3.00%	€2.112	-€0.06	3.00%
Value Line (€M) Ltd - Accumulator	3.00%	€3.370	-€0.108	
Value Line (€M) Ltd - Quarterly Dividend	3.00%	€3.370	-€0.108	3.00%
Value Line (€M) Ltd - Accumulator	3.00%	€1.437	-€0.064	
Value Line (€M) Ltd - Quarterly Dividend	3.00%	€1.437	-€0.064	3.00%
Value Line (€M) Ltd - Accumulator	3.00%	€1.107	-€0.022	
Value Line (€M) Ltd - Quarterly Dividend	3.00%	€1.107	-€0.022	3.00%
Value Line (€M) Ltd - Accumulator	3.00%	€3.370	-€0.108	
Value Line (€M) Ltd - Quarterly Dividend	3.00%	€3.370	-€0.108	3.00%

**Għaqda Nazzjonali Genjuri ta' Persuni b'Dizabilità**  
*National Parents' Society of Persons with Disability*

NPSPD is an organisation which caters for the needs of people with disability and their families, and organises a number of activities throughout the year.

It is also a leader in bringing forth disability issues to the public domain and engages in discussion with all parties who have at heart the interests of people with disability.

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