

The Lifeblood of Business



A sound credit management system has become essential for the survival of any commercial enterprise in these cash-strapped times. Josef Busuttill, Director General MACM, speaks to Dana Bonello about this specific importance.

EDITOR'S NOTE *Josef is the Director General of MACM - Malta Association of Credit Management and Vice President of FECMA - Federation of European Credit Management Associations.*

He obtained his MBA from Henley Management College, a Chartered Marketer and Member of the Chartered Institute of Marketing (UK), and Fellow of the Institute of Credit Management (UK).

He has delivered workshops and presentations worldwide and is a regular contributor of business articles to the press.

TEU: Could you give us a brief overview of your organisation and the services it provides?

JB: The Malta Association of Credit Management (MACM) was officially established in June 2001 with the main

purpose being that to provide a central national organisation for the promotion and protection of all credit interest pertaining to Maltese businesses; a purpose it still sustains.

Having no commercial objectives, the MACM strives to attain its corporate purpose through three critical routes:

- Lobbying for a better credit environment in Malta;
- Promoting good credit management practices with the local business community;
- Providing the appropriate tools and pertinent credit information to its members in order to analyse and monitor the credit worthiness of customers in an efficient and cost effective manner.

With the collaboration of various

stakeholders, the Maltese credit scenario is today much healthier than it was a decade ago, when MACM was established. Whoever is in business acknowledges that stark improvement has been made in a number of pertinent credit areas. This includes the number of dishonoured cheques that has gone down remarkably, the credit-related legal framework which is now in place, the judicial system which is more efficient, and the fact that business organisations are today adopting the credit management practices, tools and systems provided by MACM in order to protect their cash flow and secure their long-term profit. All this is to the benefit of our business community and the Maltese economy at large.

Nevertheless, MACM is aware that late payment is still a major concern for the local businesses. It believes that authorities should do more to enforce legislation that would help creditors in their cash flow management and profit. MACM suggests that the enforcement of court judgements should not only be efficient but also effective. Besides, MACM still notes that some local firms may not be deploying the proper credit management practices when granting and managing credit amongst other challenges.

TEU: Considering the current financial climate, how can one secure a sound cash flow and improve profits?

JB: *I will answer this question with two clichés: 'Credit is the oil that keeps the wheel turning'; and 'Cash flow is the lifeblood of a business'.*

These two clichés suggest that credit sales help firms to increase their revenues, but they also advocate that firms should strive to balance the cash inflows with their cash outflows, otherwise they will run out of business sooner or later.

The current economic and financial turmoil is not at all rosy and some firms are doing business against all odds. This hostile commercial environment entails

firms to be more proactive when granting and managing credit to their customers. They should critically analyse the credit worthiness of their prospective customers whilst monitoring closely their existing credit customers.

In today's business, a credit practitioner should do more than crunching numbers s/he should focus on how to gain and sustain competitive advantage in the market, whilst protecting cash flow and securing long-term profit. This requires skilled staff supported by their top management team and assisted by the appropriate tools and systems in their day-to-day duties.

TEU: It has been reported that cash flow problems are responsible for 70% of failure in business. How should this situation be addressed?

JB: There is no one reason why businesses suffer cash flow problems. But from my experience in the field, the two major causes are - firms may not be adequately financed; and they may misunderstand and confuse the difference between cash flow and profitability.

Very often, a business has to invest not only in its infrastructure but also in the proper financing of the 'Cost of Sales'. This may require adequate financing from bankers, appropriate and

responsible trade credit from suppliers, factoring or invoice financing, and most importantly commitment from the owners or shareholders of the firm itself. Nevertheless, money costs money, and therefore, firms should make sure that they can afford and sustain their means of financing.

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The other critical issue is that some people in business may associate poor cash flow with a firm experiencing declining sales, although poor cash flow can happen to a business with sales bursting through its roof.

Cash flow refers to the ability to pay the bills on time, whilst profitability is the net difference between the total amount a business earns in terms of revenues and all the costs involved to run the business. This implies that the owners of a firm can only dispose of the profit realised but should never help themselves in the cash flow of their firm for their own personal use.

Therefore, a properly managed firm which is adequately financed should turn out to be successful, provided that it also meets the needs and expectations of its customers. And one of the customers' expectations in today's business is surely granting them credit.

In such a scenario, successful businessmen should nevertheless be proficient in granting and managing credit. They should know with whom they are doing business and whether their customers are credit worthy before granting them credit. Besides, they should also monitor their existing credit customers on an ongoing process in order to take the necessary action in a proactive manner.

One should keep in mind that "Debtors" are one of the largest assets in the majority of the businesses' balance sheets. Therefore, like any other asset, the firm should protect this valuable asset.

TEU: What 'warning signs' should one look out for in order to avoid dealing with credit defaulters and fraudsters?

JB: Good credit management practice suggests creditors to be proactive. One of the roles of the credit practitioners should be keeping their eyes open to any information pertaining to credit sales. In fact, there are various early 'warning signs' which may trigger future payment problems and which the creditor should promptly identify and address. The list below, by no means complete, indicates the most significant 'warning signs':

- Customer hesitation to complete and sign a credit application form at the onset of the business transaction;
- Customer issuing post dated cheques;
- Cheques returned unpaid;
- Customer changing his banker/auditor;
- Changes in payment pattern;
- Signatories away from the office for long periods of time;
- Customer cannot be reached by telephone;
- Customer failing to return calls;
- Low stock levels;
- Lack of filing of accounts as required by the Registrar of Companies (*in case of companies*);
- Rumours in the industry...

In response to any 'warning sign', which MACM strives to provide to its members, the creditor should take prompt action. When possible and feasible, visiting the customer may allow the creditor to understand better what is happening and allow the opportunity to discuss the customer's changing payment behaviour and needs. Besides enhancing customer relationship, such timely action may also prove to be financially rewarding to both the customer and the creditor. It is always commendable to build and maintain strong business relationship with customers. ■

Mr. Busuttill shall be contributing to The Economic Update on a monthly basis, tackling various aspects of Credit Management throughout the year.



Josef Busuttill