

The New Year's Resolution for Businesses

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We are in that time of the year when instinctively we tend to look back to identify our successes and to analyse what went wrong and what were the relative causes. We try to establish what should have been done. Business owners and executives meet to set the business objectives for the coming year with the aspiration that next year will be a better one.

But can we forecast the economic forces for 2009 in order to set our strategic objectives accordingly? There are so many uncertainties that it may make it difficult to set targets and to develop business strategies. The only certainties for next year seem to be more changes and higher operational cost.

To add insult to injury, the feel good factor is absent in the globalised economy, which is surely a critical psychological factor that effects the demand. A barrage of bad economic and financial news is reaching the consumers daily from all over the globe. The credit crunch has had a knock-out effect on large banks, international companies and institutions, as well as on the countries' economies from all the four corners of the world.

We are not living in a vacuum. Some Maltese companies have already been effected and others may feel the pinch soon. Some exporting companies have been faced with less sales orders and had to lower their costs by going on a four-day-week working schedule, with all the consequences that this strategy may present.

It will be a challenging year indeed for all those in business and commerce!

Year 2008, with all its economic turmoil, business failures, and record-high oil prices, should have taught us a big lesson. Business plans and objectives should focus more on liquidity and sound cash flow management. Recent case studies explain clearly that liquidity is the lifeblood of any business, irrespective of its size and industry sector. In fact, large banks and international companies that had cash flow problems either went bankrupt or received financial assistance for their survival.

In view of these uncertainties and challenges, one cannot sit back and hope for the best to come, but should take this opportunity to restructure with the aim to improve cash flow and long-term profitability. Restructure should mean maximising the utilisation of resources, improving the modus operandi to minimise the operational cost, building long-term stakeholder relationship, introducing internal marketing concepts within the organisation to improve customer service, and developing and abiding by an effective credit policy to ensure sound cash flow.

It should become a priority for all businesses to make sure that invoices are paid on time. This applies more to the SMEs, which are more vulnerable since they cannot

employ dedicated resources to collect their outstanding debts. However, suppliers should be careful not to over-sell without giving due attention to the financial position of the person / company they are lending their money to. Credit and lending should be responsibly granted at all times.

Businesses should learn how to take a proactive approach in credit management. Cash flow management can be improved by keeping eyes wide open to any information pertaining to credit management. Creditors should promptly identify the various early 'warning signs' which may trigger future payment problems and address them appropriately and proactively.

During this revolutionary year, the Malta Association of Credit Management (MACM) has been active to meet the changing credit management needs of its members. The information management systems have been enhanced further to continue fostering and facilitating the exchange of credit information between its members, while promoting honest and fair dealings in credit transactions.

Based on the credit management needs of the members, MACM provides notice of problematic accounts and defaults in the clients' payments to its members, which they can then follow the payment patterns of the common defaulting customers on a daily basis. MACM members have the facility to monitor their debtors and to know what is happening in our ever changing market environment on a daily basis. Timely information regarding 'warning signs', provided by MACM, enables credit decisions to be taken more wisely, saving the creditors time and money, while maximising their resources.

During the year 2009, MACM will continue monitoring the local and international business scenario whilst analyse the economic factors that may effect credit management in order to keep its members abreast with any changes and to give its recommendations. It will also continue to enhance its tools and its credit management information systems to the benefit of the local creditors. Moreover, it will continue to promote good credit management practices and lobby the government and the local authorities to provide a healthier business environment.

However, there is the need to change our culture when it comes to 'Debtors' management. Credit is not a right of the customer. It is the creditor who should decide whether to grant credit or not, based on the credit worthiness of the customer and the financial ability of the creditor.

Therefore, allow me to put my suggestion through to all the local business community:

'Time flies and we will soon be celebrating New Year 2010 - it is better to look ahead and plan for better cash flow management now than to look back and regret in a year's time!'