



## Press Release

**Saturday, 12 March 2022**

### Payment Collection Period in Malta for 2021

The Average DSO – *Days Sales Outstanding* or as also referred to '*the payment collection ratio*' across all the Maltese business sectors as at **31<sup>st</sup> December 2021** was **84.60 days**.

This figure was derived from a survey conducted by The Malta Association of Credit Management (MACM) amongst its members. MACM represents suppliers selling on credit in Malta and other creditors hailing from all sectors of the Maltese economy.

The DSO figures for specific industries and sectors were also issued and communicated to the respective MACM Members who participated in this important exercise.

MACM notes with that there has been **an increase of 4.92 days** compared to last year's DSO figure which stood at 79.68 days. It has also been noted that a DSO of 84.60 days is still relatively high when compared to the average DSO of other European countries which reads 52 days for B2B, 31 days B2C and 62 days for the Public sector (Intrum Justitia Late Payment Report – 2022). From discussions with its members, MACM attributes this increase in the average DSO figure, for businesses across all sectors of the Maltese economy for the year 2021, to Covid-19 pandemic.

Accounts Receivable, or as they are commonly known '*Debtors*', represent on average about 40% of the total assets of the balance sheet of most firms, which assets are deemed liquid. Consequently, an increase in the DSO would not help the cash flow of a business and may also hinder further business growth. In fact, late payments remain one of the main concerns for businesses not only in Malta but also for European businesses!

The DSO Ratio is the tool widely used by businesses globally to measure the performance of the credit management function. It represents the average time taken by customers in settling their invoices due to their suppliers. This Ratio is composed of two variables, the Debtors Amount and the Sales Turnover which are expressed in collection days.

There exist a number of external factors that may influence the DSO Ratio figure. Therefore, it is advisable to benchmark the DSO figure with that of the same sector or industry. By benchmarking the DSO figure of a business with that of the same industry, one would be able to measure the 'Debtors' - *Accounts Receivables (A/R)* performance against one's own credit terms and those of the competitors within the same industry.

MACM notes that the aim of good credit management is to contribute directly to ***profitable sales growth***. Therefore, sales and revenue should not suffer at the expense of reducing DSO.

When using DSO as a tool to measure the effectiveness of the credit function, one needs to also evaluate other relevant financial ratios that take into consideration not only the 'Sales' figure but also the 'Profit' – the bottom line. The DSO alone does not account for customer retention, nor does it measure customer satisfaction, which is required to sustain long-term customer relationship, hence maintaining competitive advantage on the market.

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