Trading Against All Odds – *"Protect Your Cash Flow!"*

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Doing business may not be the easiest task, especially when the economic outlook is bleak and the economic indicators are unpredictable and instable due to various factors!

The current international economic scenario is not at all rosy. As if the unprecedented Covid-19 saga was not enough, the war in Ukraine was surely another blow to the business world and commerce. Businesses are feeling the pinch of a prolonged period of economic disturbance which does not allow for proper business planning and growth.

These economic disruptions have seen a number of businesses struggling for their survival if not also closing their doors for good. From a business management point of view, it is interesting to note that one of the most important factor that helped other businesses to survive such a lengthy storm was having healthy cash flow.

Unfortunately, cash flow and profitability are often misunderstood and confused by many – these two terms have totally different meanings. Most people think or associate poor cash flow with an organisation experiencing declining sales. But poor cash flow can happen to a business with sales bursting through the roof.

To make it simple, cash flow refers to the ability to pay the bills on time and on a regular basis, whilst profitability is the net difference between the total amount of sales a business generates and all the costs involved to run the business.

One other common element is that in order to make a profit, most businesses have to produce and deliver goods or services to their customers before they collect payments due. Therefore, 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, one has to keep in mind that cashflow is not just the cash inflows and outflows, but is also dependent on the timing of these cash movements.

Hence, businesses that had no sound cash flow before the pandemic could not meet all the costs regularly and on time, they were unable to deliver its side of the bargain, receive payments, and make a profit.

Unfortunately, according to the MACM Annual Survey, here in Malta, the timing of these cash movements is considerably high, compared to that recorded in Europe, with '*the payment collection ratio*' across all the Maltese business sectors as at 31st December 2022 was 80.96 days as compared to 51 days in Europe.

It is also common that in Malta many suppliers act as bankers to their customers to an extent that they may be limiting themselves to develop further - due to lack of adequate cash flow, or may be even sacrificing their resources to collect dues from their customers rather than maximising their resource utilisation in other profitable business activities.

Nevertheless, there are other factors that are currently effecting trade and commerce negatively and the local business community should be not only aware of them but also vigilant to address and cope with.

Inflation in the European Union trebled in 2022 compared to the 2021 annual figures. This was the highest growth rate ever, linked to the rise in energy prices which was a direct consequence of the war in Ukraine. Inflation should never be underestimated as it causes costs to rise and periods of high inflation are accompanied by high interest rates which puts further pressure on costs.

Malta does not live in a vacuum as it has also registered its highest annual inflation rates in over 15 years, mainly due to high rise in prices in food and non-alcoholic beverages. The inflation rate recorded in Malta for the month of February 2023 reached 7%, slightly higher than that recorded in January 2023 and although this figure was less than that in other EU members, it is all thanks to the government subsidies on energy as otherwise it would have been much higher!

Another factor which local businesses should address in the very near future is higher tax compliance. Speaking during the launch of the new strategy for financial services, Hon Finance Minister Clyde Caruana, was reported to have said that a tax reform is required. The Finance Minister also pointed out that only 30% of Maltese businesses are declaring profit and paying taxes. The other 70% of local businesses are said to be declaring losses or breaking even.

Although, it is only just and prudent that taxes will be paid by everyone and on time, one should not ignore the fact that attempts by the government to maximise efficiency in collection of taxes would result in the government mopping up liquidity from the economy which may well hamper companies' liquidity and adversely affecting consumer expenditure.

Businesses selling on credit should act proactively prior to granting or extending credit to their customers. It is always commendable to use a well-documented credit application form that would serve as a basis of the sales agreement. KYC comes next! Proper and in-depth credit worthiness analysis is also suggested to ensure that the prospective customer is able and willing to pay according to the agreed credit terms. Once credit is granted to the customer, the seller should then follow good credit management practices in order to maintain good business relationship and also to monitor closely the payment performance of that customer. Failing to manage the Accounts Receivable, or as they are commonly referred to "Debtors" Account, is the recipe for business insolvency.

Remember: *"Cash is King and credit management is all about being proactive!"*