

Agreeing Payment Terms

Specify the Obligations & Responsibilities in Writing

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Determining the Terms & Conditions of Credit Sales

How much can you afford to grant credit to your customers?

How much are you prepared to risk on credit customers?

Are you granting credit to a prospective customer or extending credit to an existing customer?

How much do you trust your customer?

Do you know your profit margins?

How sound is your cash flow?

Is this a one-off sale?

What is the inventory turnover of your product/s?

Does your product have a short or long expiry date?

What is the value of your product at point of sale?

What are your market strategy objectives?

Is there a high or low demand for your product in the market?

What competitive advantage do you have in the market?

Are your credit terms competitive?

**There are no two organisations alike!
Every business is unique in terms
of its aims and objectives, industry
sector, its markets and customers,
products and services provided and
the level of risk appetite**

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Having all the required information on a customer applying for credit and knowing the means and capabilities of the trade creditor, one would be able to determine the credit terms in order to maximise profitable sales and manage the specific risk associated with credit whilst keeping the customer satisfied.

Credit terms depend largely on:

- The profit margins;
- The value of the product at point of sale;
- The product shelf life and turnover;
- Inventory capabilities;
- The market demand for the product and the level of competition.

Credit Terms and Conditions should always be clearly specified, written and signed by both parties.

Credit Terms should include the payment period, interest rates and charges which may apply in case of late payment, any discounts for early payments, and reference to retention of title.

Credit Terms and Conditions should be well communicated and discussed between the parties at the onset of the credit agreement.

It is always wise that both parties retain signed copies of the Credit Agreement Form. This would ensure that the seller and the customer know what has been mutually agreed at the onset of the business relationship. As the Italian saying goes *“Patti chiari, amicizia lunga”*



The Late Payment Directive...

2. Regulates all commercial transactions irrespective of whether they are carried out between private or public undertakings or between undertakings and public authorities. It does not, however, regulate transactions with consumers.