



MACM Survey – Covid-19

14 May 2020

This survey was conducted among MACM Members in the Automotive Sector 6th May 2020 – 12th May 2020.

1.0 Objectives

- 1.1 To establish the level of impact on the cash flow of the Automotive Industry in Malta due to Covid-19 crisis.
- 1.2 To understand the paying behaviour and attitude of customers in the Automotive Industry.
- 1.3 To learn what methods the business players in the Automotive Sector in Malta are deploying to collect money from their customers during Covid-19 crisis.
- 1.4 To determine the effectiveness of the government's financial incentives provided to the Maltese businesses in relation to the Automotive Sector.

2.0 Background

The Automotive Industry in Europe has been severely hit by Covid-19 for both motor vehicles production and sales of vehicles, with car manufacturers producing medical equipment instead to assist in the pandemic and also to keep their employees engaged.

The automotive industry represents one of the largest economic industries in Europe, with 13.8 million people employed directly and indirectly, accounting for 6.1% of all EU jobs. The sales of motor vehicles contribute €428 million in taxes within the EU states and generates a trade surplus of €84.4 billion. This important industry also represents over 7% of the EU GDP and it invests heavily in R&D making it Europe's largest private contributor to innovation.

The Director General of ECEA, Mr Eric-Mark Huitema, stated that *“It is in Europe’s interest that this key strategic sector not only recovers, but also is revitalised in order to make a strong contribution to the EU’s industrial strategy, the European Green Deal as well as the continent’s global innovation leadership”* – 16th April 2020.

Source: **European Automobile Manufacturers’ Association (ACEA)**

3.0 Survey Methods

The survey was conducted among the MACM Members – Importers and sellers of new and used vehicles.

Business owners, CFOs, Credit Managers and Credit Controllers responded to the questionnaire which was conducted by telephone.

The Questionnaire consisted of both closed and open-ended questions. This type of questionnaire was used both to generate statistics in quantitative terms and also to understand and identify clearly what MACM Members think and feel about the impact on their business, cash collection and their respective cash flow due to Covid-19 pandemic.

4.0 Findings

4.1 Payment behaviour within the Automotive Industry in Malta

Respondents were asked whether they have been effected by the Covid-19 crisis in terms of longer payment periods which may have impacted negatively on their cash flow. 80% of respondents confirmed that payments from their customers were taking longer than usual during the Covid-19 crisis and this was having a negative impact on their cash flow. Only 20% confirmed that Covid-19 crisis had no effect on their cash collection and without any effect on their cash flow.

4.2 MACM Members being effected by Covid-19

42.9% of the MACM Members who are being effected verified that the amount due which was not collected compared to the same period of time was between 0% - 20%.

28.6% of the effected MACM members stated that they failed to collect 20% – 40% of what they used to collect during the same period of time.

And the rest of 28.6% of the effected MACM Members collected 40% - 60% less than they used to collect pre-Covid-19 crisis.

4.3 Cash Collections and Methods deployed

Every MACM Members who participated in the survey revealed that they tried to collect money from their customer as usual since the outbreak of the pandemic.

MACM Members who tried to collect money from their customers disclosed that only 10% of customers reacted positively when they contacted them to collect amounts due by them, while 50% of customers reacted negatively. Figure 4.1 refers.

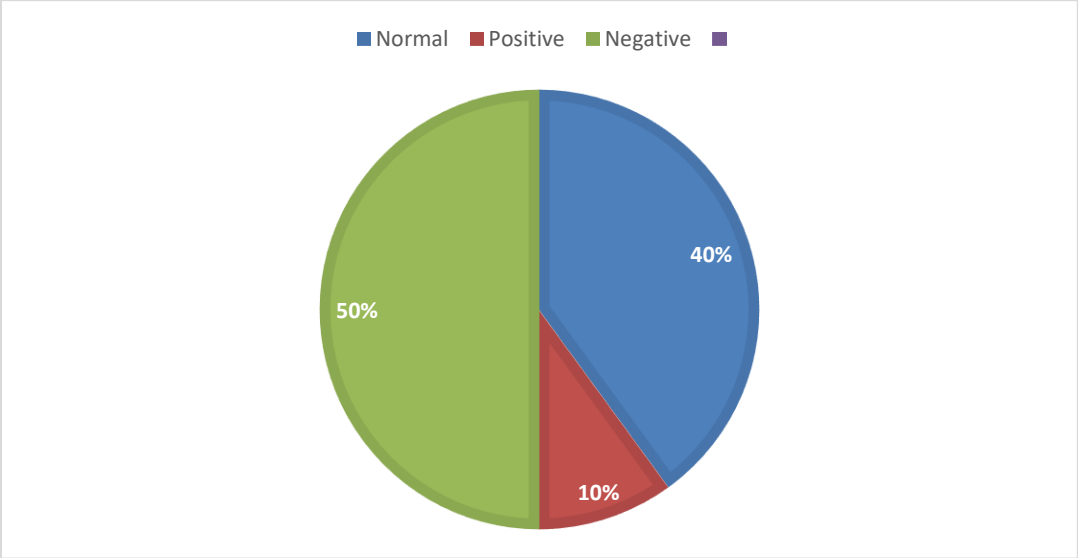


Figure 4.1 Reactions of Customers when contacted to pay since the outbreak of Covid-19

In view that the majority of people are currently working from home, a number of collection methods were deployed by the MACM Members when communicating with their customers, with 70% of MACM Members preferring telephone calls over other collection methods.

Figure 4.2 depicts clearly the methods deployed by suppliers in order to collect money from their customers since the outbreak of Covid-19.

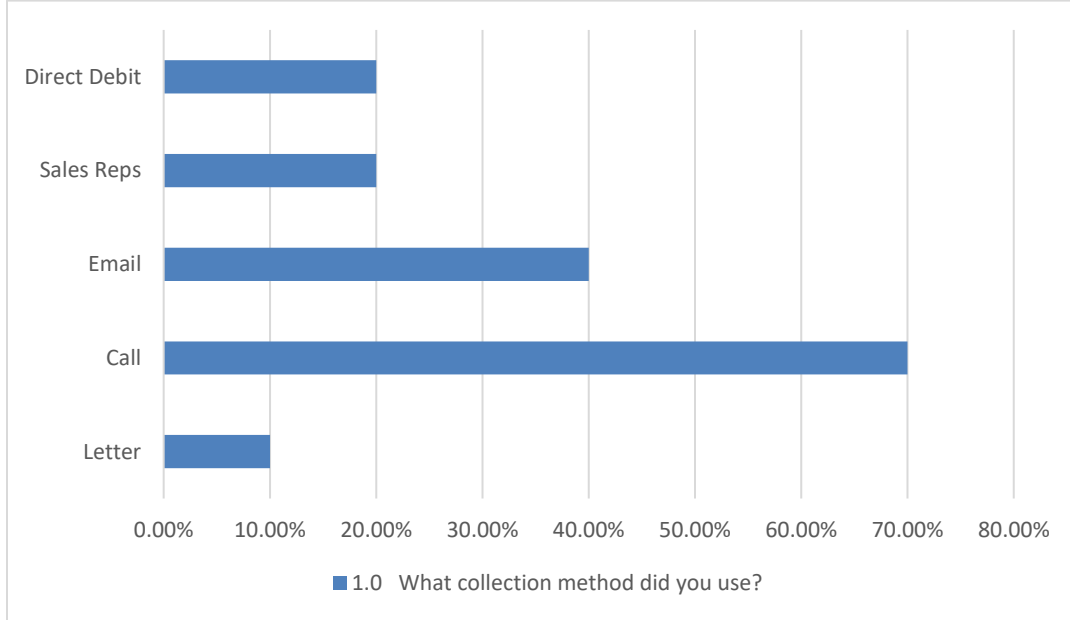


Fig 4.2 Methods deployed to collect money from customers during the Covid-19 crisis

When the respondents were asked whether they have offered any kind of payment incentives to encourage their customers to pay their dues, 40% used this collection tactic. The following incentives were offered:

- a. Moratorium from payment
- b. Discounts on payments due
- c. Extended credit terms

When offered, these payment incentives were generally appreciated by customers and MACM Members who offered such incentives said that they were successful in collecting their dues or else reached a satisfactory agreement with customers.

4.4 Government Financial Assistance

50% of MACM Members applied for Government Covid-19 financial assistance that would help them in their cash flow and working capital management.

20% of those who did not apply are still considering to tap these government financial assistance with the remaining 80% stating that they will not apply due to various reasons, including:

- a. Their business was not effected
- b. Financial assistance was not required
- c. They are coping well for the time being

None of the respondents encouraged or suggested their respective customers to apply for the financial incentives provided by the government in order to assist them financially.

4.5 Actions taken by Suppliers

To-date, 80% of the MACM members did not take any particular action/s against their customers who are paying them late or who are not paying them at all.

However, 20% of respondents intend to send legal letters to their customers who refuse to pay

5.0 Recommendations

Given the current economic crisis and from the survey conducted among the MACM Members in the Automotive Sector in Malta, the following are the recommendations and conclusions:

- 5.1 Suppliers should be conversant with the law of prescription and acknowledgement of debt should be signed by the customers whenever possible. In case of registered companies, Legal representatives must sign the acknowledgement of debt document.
- 5.2 In case of corporate customers, the Company Recovery Procedure (CRP) may be used when a company is in distress. A CRP can be filed by either:
 - a. the company following an extraordinary resolution;
 - b. the directors following a decision of the board of directors; or
 - c. the creditors of the company representing more than half in value of the Company's creditors.
- 5.3 Good credit management practices should be deployed to ensure sound cash flow in order to survive this unprecedented crisis.
- 5.4 Car Importers and sellers should be flexible and understand the challenges that their customers are currently facing. The use of technology to communicate effectively with customers is imperative.
- 5.5 Effective negotiation tactics are critically important for cash collection during this difficult period.

- 5.6 MACM members are encouraged to use the MACM services provided online in order to monitor their customers on a daily basis. Financial statements have become obsolete and irrelevant in general terms. MACM provides data which is current, relevant and most reliable at no additional cost, irrespective of the usage frequency.
- 5.7 Keeping abreast with any changes and developments in the markets. It is commendable to keep up-to-date data on Customers, including any changes in their respective jobs.
- 5.8 Invest in staff training and retain the morale of the employees by keeping them informed of the situation.
- 5.9 Communicate proactively with customers using the 80/20 Pareto principle (*surviving businesses will need surviving customers*).
- 5.10 Procure carefully, cut back on borrowing (*whenever possible*) and reduce fixed cost wisely (*without losing key people*).
- 5.11 Identify any overcapacity in the resources employed and in the execution of internal business processes.
- 5.12 And most importantly: MONITOR CLOSELY THE CASH FLOW OF THE BUSINESS. Cash is King and healthy cash flow is needed more than ever.

6.0 Organisation Profile

The Malta Association of Credit Management (MACM) is a not-for-profit organisation, providing a central national organisation for the promotion and protection of all credit interest pertaining to Maltese businesses.

MACM represents the credit profession across all economic sectors. It is a centre of expertise for all matters relating to credit management in Malta. MACM offers a range of services to the local creditors, including, credit management information systems, credit management education, training, conferences, seminars, and lobbying activities.

It is the CICM (UK) accredited Training Centre for Malta.

MACM is a member of the Federation of European Credit Management Associations – FECMA.

www.macm.org.mt