



MACM Survey – Covid-19

15 May 2020

This survey was conducted among MACM Members in the Building and Construction Industry, including suppliers of Construction and building material, between 8th May 2020 – 12th May 2020.

1.0 Objectives

- 1.1 To establish the level of impact on the cash flow in the Building & Construction Industry in Malta due to Covid-19 crisis.
- 1.2 To understand the paying behaviour and attitude of customers hailing from the building and construction sector in Malta.
- 1.3 To learn what collections' methods are being deployed by the building and construction industry in Malta 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 building and construction industry.

2.0 Background

Being at the forefront, providing both services and products, Covid-19 had an impact on the global building and construction business. This pandemic had a negative effect on both material and labour which are the major cost components of construction projects. Hence, projects are being delayed and companies are experiencing liquidity problems. Some of the building and construction companies are also changing their business model.

The building and construction industry was also impacted by quarantine and self-isolation orders imposed by the health authorities across countries. These measures have resulted in a full stall

of different sized construction sites or partially non-operational business to effectively adhere to social distance obligations.

Producers of cement and steel in various countries have closed their plants or sharply decreased their usual production which once again slowed down construction projects globally.

Businesses that rely on Chinese-made products and materials are likely to be faced with higher costs which would imply higher prices and more cancellations of projects.

The delivery of products and material is also being effected due to limited means of transportation and travel bans.

Source: EIC – European International Contractors

3.0 Survey Methods

The survey was conducted among the MACM Members – businesses directly or indirectly involved in the Building and Construction Industry, which include suppliers of goods, materials and services to the building and construction industry.

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 the perception of the MACM Members regarding 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 Building & Construction 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. Only 45% of respondents confirmed that payments from their customers were taking longer than usual during the Covid-19 crisis with a negative impact on their cash flow.

55% of respondents confirmed that Covid-19 crisis had no effect on their cash collection and did not have an impact on their cash flow to-date.

4.2 MACM Members being effected by Covid-19

When asked to compare the amount of non-collected cash to the same period of time, the feedback differed considerably within the industry, with 60% of respondents verifying that the amount due which was not collected compared to the same period of time was between 0% - 20%.

20% of the effected MACM members within the industry stated that they failed to collect 40% – 60% of what they used to collect during the same period of time and the other 20% of the MACM Members were negatively effected substantiating that they collected 80% - 100% less compared to the same period of time.

4.3 Cash Collections and Methods deployed

Since the outbreak of the Covid-19, all the MACM Members who participated in this survey tried to collect dues from their customers.

MACM participants revealed that only 36% of customers reacted negatively when they were asked for money due and 64% of their customers had a *'business as usual'* paying attitude.

Figure 4.1 refers.

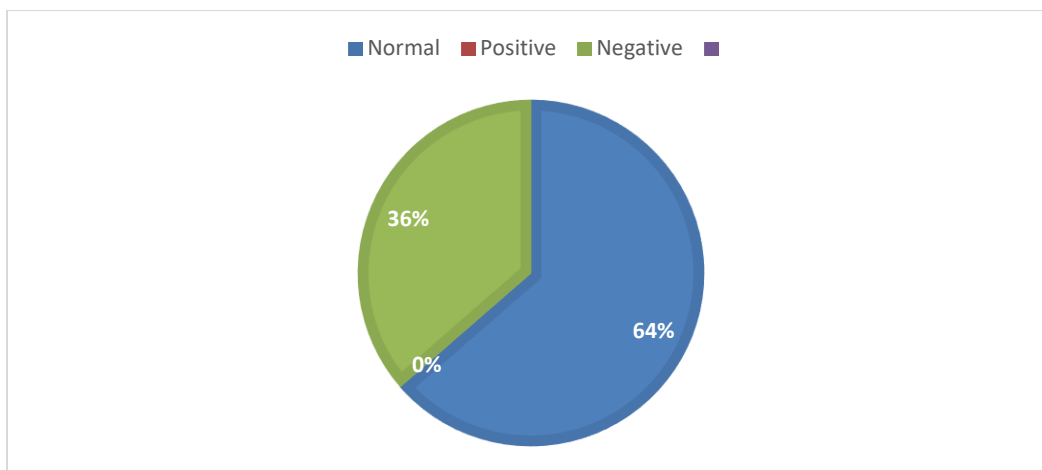


Figure 4.1 Reactions of Customers when contacted to pay since the outbreak of Covid-19

In view that the majority of people are currently working from home, a number of collection methods were deployed by the MACM Members, hailing from the building and construction

industry, when communicating with their customers. Telephone calls followed by e-mails being the preferred means of 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.

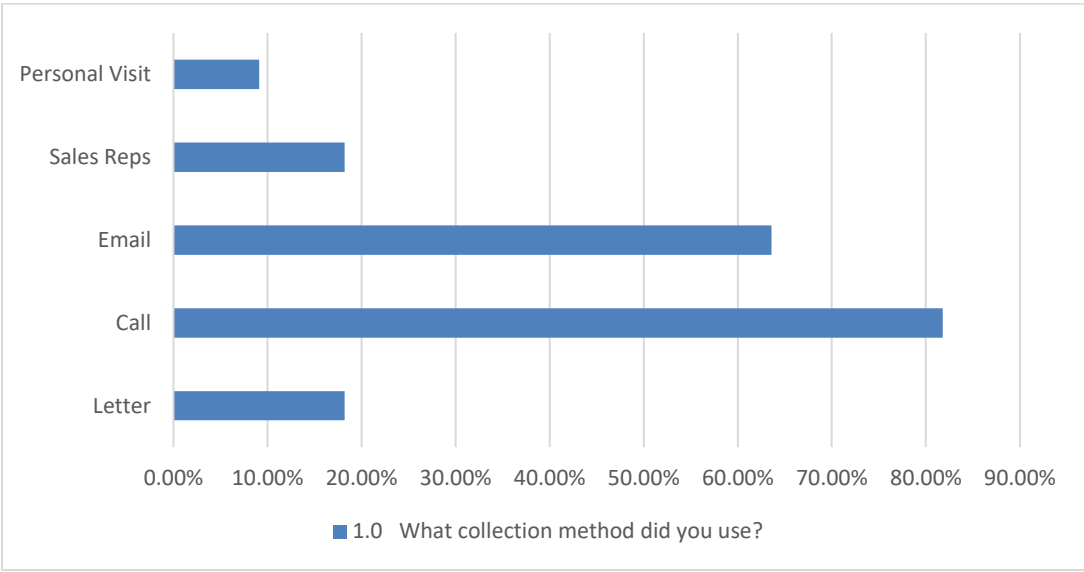


Fig 4.2 Methods deployed to collect money from customers during the Covid-19 crisis

When the respondents were asked whether they have offered any kind of payment incentives to encourage their customers to pay their dues, none of the respondents used any collection tactics.

4.4 Government Financial Assistance

Only 36% of MACM respondents applied for Government Covid-19 financial assistance that would help them in their cash flow and working capital management. The rest of the respondents did not apply for financial assistance and do not intend to apply in the future for the following reasons:

- a. They are not facing cash flow challenges.
- b. They do not qualify – their business NACE Code does not fall under any of the schemes.
- c. They have decided to use their own capital.

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 in their working capital.

4.5 Actions taken by Suppliers

To-date, none of the respondents took any particular action/s against their customers who are paying them late or who are not paying them at all.

However, 18% of respondents intend to take legal actions or deploy harsher collection methods in the future should their customers refuse to pay their dues.

5.0 Recommendations

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

- 5.1 Suppliers should be conversant with the law of prescription and acknowledgement of debt may be required. Legal representatives must sign the acknowledgement of debt document when companies are concerned.
- 5.2 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 Trade Suppliers 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 and in the customers' markets is commendable.
- 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