



MACM
MALTA ASSOCIATION OF CREDIT MANAGEMENT

Press Release

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Payment Collection Period in Malta

The Average DSO – *Days Sales Outstanding* or as also referred to '*the payment collection ratio*' across all the Maltese business sectors as at 31 December 2016 was **89.04 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 a marginal improvement of 2.63 days compared to last year's DSO figure. However, a DSO of 89.04 days is still relatively high when compared to the average DSO of other European countries. In fact, the average DSO for Malta comes very close to that of Italy (80 days) according to the European Payment Index issued recently by Intrum Justitia.

Nevertheless, the improvement in the DSO figure indicates an overall improvement in the cash flow that may also have a positive effect on the investment potential of the Maltese business community.

Accounts Receivable, or as they are commonly known '*Debtors*', represent on average about 40% of the total assets within the balance sheet of most firms, which assets are deemed liquid. Consequently, an improvement in the DSO would not only improve the credit worthiness of firms but also releases financial resources that could be directed to further investment.

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 its 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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