Informita News

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SCF: An opportunity for procurement?

There is general view, although not universal, amongst the procurement community that supply chain finance is something that doesn't fit with a function that is primarily there to ensure that the right supplies are procured at the right time and the right price. But what about cash? Shouldn't procurement be operating in the best interests of the company from a working capital perspective? And shouldn't procurement be interested in a longer term stable supply chain that is capable continuing to deliver cost savings and quality improvements. This is where supply chain finance can play an important role. The further we go down the supply chain the more likely that we will be dealing with family owned or smaller companies who do not have unfettered access to capital and who find themselves at the mercy of aggressive buyers who demand price reductions every year. Without being able to invest in internal efficiencies, these price reductions will deplete margins over time and increase the chances that the business in the long term will not survive. Offering supply chain finance to such suppliers offers access to capital that usually is not available to these organisations from banks or other financial institutions and where it is available it comes at a very hefty price. Supply chain finance can offer the capital that these businesses need to invest in capital equipment and technology that will allow them to produce better quality goods and services at a better cost. That not only means that these businesses can then grow and become more profitable but they will also have the ability to pass on some of those cost savings to their customers without cutting their own throats. That is in the interest of the entire supply chain. There are several studies that have shown that constructive supply chain relationships where there is real transparency between the parties delivers far more savings to the entire supply chain than the bullying tactics of the past.

In This Issue

Spare Parts

Too much stock, too much cost

Many organisations continue to be frustrated by spare parts management. The majority of manufacturing organisations carry too many spare parts for a number of very good reasons. It could be the fear of stock-outs of critical spares that could cause plant stoppages. It could be that spare parts are not effectively tracked since they are expensed at the point of purchase. It could be that there are thousands of parts and the usage is so infrequent that the plant does not have an effective model to understand usage requirements. It could be that suppliers don't help that much since this is a valuable stream of revenue. The other common problem is that when consultants look at the problem they are either trying to reduce inventories of spare parts or to improve the prices paid for those spare parts—rarely both. In a recent exercise we received all a clients inventory data for a ten year period. This was a total of 22.7 million movements for 44,000 parts. There were another 69,000 parts that had no usage in the previous ten years. After understanding which parts were truly critical and establishing real lead times for each part we devised a programme that is focused on three things: reducing inventories by not buying overstocked parts, getting better prices from suppliers for those parts that are used more often, and getting rid of obsolete spares. But this is not a quick programme. While there are certain quick wins that can be achieved we expect that it will take 2 to 3 years to see the full benefit. In the meantime, if you want to know more about the methodology we have developed email us at info@informita.com.

Inventory Financing

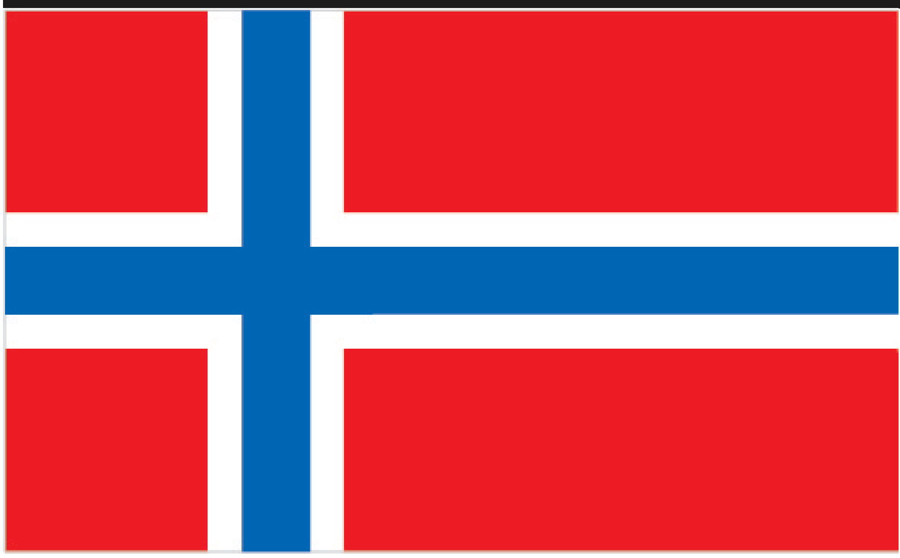
Most would agree that having a financing mechanism to take inventories of the balance sheet would be the holy grail of inventory management. But the banks have been very slow out of the blocks in providing finance products that would deal with operational inventories, especially inventories that might be perishable. So there is a large space to be filled by Fintech innovators. There are some out there who have taken a B2B approach and are having some limited success but none have hit the market in a big way. A new UK based start-up has decided on a radically different approach. Joseph Cherrez, CEO and co-founder at PrimeStox, has decided on a consumer-led approach. In this model the consumer buys the inventory directly from the manufacturer and can still collect the product from the usual retail store. From the manufacturers perspective this will finance inventory and drive sales to consumers. A positive double whammy! Find out more at www.PrimeStox.com.

PRIMESTOX

Procurement Savings

Fact or fiction?

It is a common practice that many procurement professionals claim to make savings and many accountants will argue as to whether the savings were really made or not. And here's the core problem. Procurement negotiate a deal that should mean a 3% cost reduction on the previous year. With most deals there is a blend of products and services that are utilised and the blend changes over time either because departmental budgets change or the needs of the business change. So it is almost impossible to predict exactly what goods and services will be used. So an accountant might see that a department is under-budget on a particular spend category. That could be because of the great deal that procurement clinched and it could also be because demand has dropped or it could be that departmental managers are managing their budgets more closely. The usual reality is that it will be some mixture of all three elements. There are some companies out there that have very good tracking processes to understand how procurement savings feed into the real business over time. For these companies the transparency exist to answer the accountants questions and therefore procurement savings are perceived to be real. In other environments it remains the source of lively debate.



Norway: On time payers

There was a time when many felt sorry for the poor Norwegians. It's a very mountainous country that is knee deep in snow half the year round. Then came oil and the whole picture changed. Norway is now one of the richest countries in the world. It has one of the largest sovereign wealth funds in existence, a social welfare system second to none, near full employment and very even income distribution by global standards. Norwegians are very socially minded, even in business, and one of the few places that everyone pays on time on usual terms of 30 days without much prompting. Great news for those managing receivables. Not so good for payables balances.

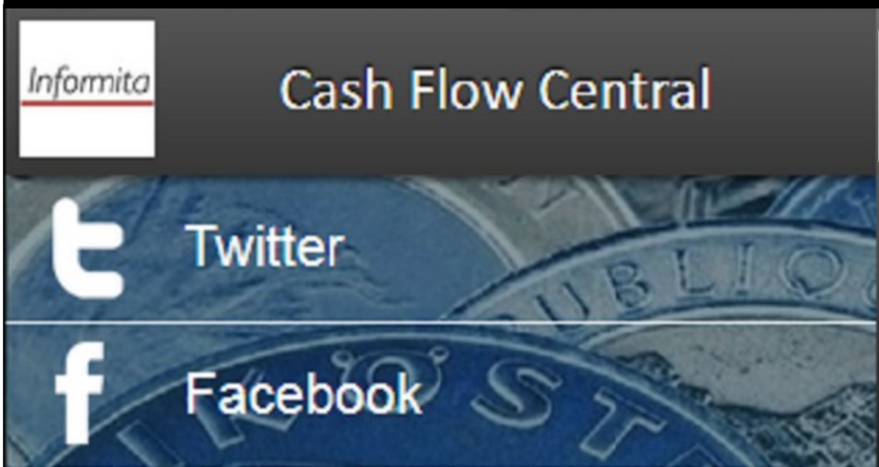
The Hanjin Effect

The shipping industry has been on its heels for some time now. The basic problem is that in most parts of the industry there was a big investment in capacity in anticipation of increases in global demand that simply haven't happened. Hanjin recently went into various forms of insolvency around the world due to the fact that it borrowed to fuel expansion when rates were dropping. This has caused anxiety for many companies whose goods have been impounded while the lawyers and accountants sort out the mess. More proof that while progress is generally a good thing, there are always risks.

Soft Corruption

Are you affected?

There is an old joke about a rich country transport minister boasting to his poor country counterpart about having a bridge made 100 meters shorter so that he could be paid his bribe. The poor country minister then brings him to a ravine where a bridge had been commissioned. The poor country minister boasted that there would never be a bridge since he took all the money. In more and more countries the days when such blatant corruption was commonplace is long gone. What is not gone is soft corruption. No money changes hands but favours are done. These could be access to a holiday villa, intern positions being awarded to people who are related to the favour-bound or contracts being awarded without proper competition. These things are very difficult to prove as fraud, but often they are just that. So you should always be suspicious of contracts that are in place for a long time without proper competitive processes, prices rising in what might otherwise be a falling market, over-stocking of suppliers goods when the demand is clearly not there, the excuse that we're trying to support the local guy or that the supplier is almost "part of the family". It usually does not prove to be a fruitful exercise to try and prove that such soft corruption is happening. It is far more constructive to put proper procurement processes in place that will flush out the bad behaviour and allow for more transactional transparency. Good process is always the enemy of the fraudster.



Free Smartphone App

If you want to be comprehensively up to date on all matters working capital, procurement and supply chain you can download our free smartphone app Cash Flow Central from all of your favourite app stores.

SCF Forum Europe
Amsterdam, 8th December 2016

We will be at the SCF Forum in Amsterdam on December 8 2016. We will be sharing a stage with our friends from Darling Ingredients to speak about our experiences of sustaining the benefits from a supply chain finance programme. To register please click on the link below:

http://www.scf-forum.com/

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