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Late Payment in Europe – Has anything changed?

Since the latest Directive on Late Payment (2011/7/EU) became active across the European Union there has been much confusion on what it says and how it will affect those doing business in Europe. The directive is now law in all European Union countries. In addition it is also law in the European Economic Area (Norway, Iceland and Liechtenstein), and in Switzerland, as part of the trade treaties those countries have with the European Union. But the advice being given to many European companies by several major audit firms has been misleading or non-existent. In one case a Danish company was told not to bother with the legislation since it did not come into force until 2014. In fact the law became active in March 2013. The basic provision of the Directive is to make it very difficult to trade on terms of more than 60 days for any contracts signed after March 2013. This still means that many European companies still have the opportunity to extend payment terms but curtails some of the more extreme activities of supply chain finance and the more aggressive retailers. The biggest issue about this Directive is that very few companies really know what the new law is and how to maximise their opportunities. The fault can be squarely placed at national governments who have failed in their legal duty to publicise the legislation. Given that the legislation is not retrospective, we expect that the impact of the Directive will take several years to feed through to balance sheets across the continent. For more details download our updated insight paper at http://www.informita.com/resources/Informita+-+EU+Directive+on+Late+Payment+-+February+2014.pdf

Media Sector Procurement

Can procurement work successfully with the creative side of the firm?

For a business sector that has been suffering in recent years from falling advertising revenue, falling newspaper sales and the failure to turn their digital businesses into revenue generators there has been remarkably little progress for procurement. Procurement tend to be considered the enemies of the creative side of the business since they have a reputation for trying to force editorial and marketing to use cheap low quality service suppliers. But this is largely untrue. Most procurement personnel in these companies have no influence over editorial or marketing spend. As a result there is usually huge proliferations of suppliers in many areas of spend from freelancers to photographers and stationery to office equipment. At one media company they discovered that they were using more than 500 different companies to supply stock photographs. Even the top 80% of spend in this category was spread between 50 suppliers. Having access to this information proved to be an inspiration to tackle the entire procurement portfolio. But in a media business procurement managers need to be realistic. They will not change attitudes in a few weeks and fighting the folks in editorial or marketing will likely be a battle lost before the first shot is fired. The path must be to use smaller uncontroversial spend categories to demonstrate value to the company and an understanding of the need for quality to the creative side of the business. Procurement must become an active advisor to their creative colleagues. And as the creative side learns what procurement can deliver they will leave more of the commercial side of purchasing to the experts. Media companies who have understood this approach have started to make significant savings. Eventually even the biggest agencies will understand that they need to deliver greater value. And these companies have not only reduced cost but also significantly improved payment terms. Procurement is becoming the weapon of choice for media companies and this is becoming a significant competitive advantage for those who succeed.

Update on The Working Capital Manager

Since our last newsletter The Working Capital Manager has continued its development. On the technical side there are now plug-ins for SAP, Microsoft Dynamics, Unit 4 and Baan. More plug-ins are in the pipeline. The Working Capital Manager is now reporting on €268 million worth of receivables, payables and inventory. Geographic coverage is expanding rapidly covering assets in Europe, North America and Asia. In addition the first Portuguese installation is nearing completion. The feedback from clients continues to be extremely positive. The general point we keep hearing is that it all sounds too good to be true. But after an average of 6 working days to implement the tool, clients are delighted with the outputs. “When The Working Capital Manager was first plugged into SAP, it instantly led us to valuable insights and a list of potential actions.” says Filip Debruyne, Group Controller Pinguïn NV in Belgium. Pinguïn produces frozen vegetable products and vegetable based convenience products and has production sites in Belgium, France, UK and Poland.

Working Capital Manager

The end of cheap money?

Banks seem to falling over themselves to lend money to big corporates in more ingenious ways. Many large companies have several experiences of banks approaching them to lend them money via schemes like supply chain finance, procurement cards and receivables factoring. In Europe, supply chain finance seems to be fading into the background since it is now very difficult to push payment terms longer than 60 days. Banks still fail to understand the practical problems around their procurement card offerings in Europe. The one offering that seems much more common is banks offering to factor receivables for as little as 50 basis points, depending on the territory. In the short term this provides large corporations with a real funding bargain. But many worry that this liquidity may become uneconomic if interest rates rise or that banking conditions may change due to the banks' liquidity issues. So if you do buy into these schemes make sure that you are not wedded to sustaining this source of liquidity. Then there is a profitable opportunity at hand.

Nigeria: MINTed?

Jim O'Neill of Goldman Sachs famously coined the term BRIC for the emergent economies of Brazil, Russia, India and China. Not satisfied with that accolade he has now coined a new term, MINT, for what he considers the emergent economies of Mexico, Indonesia, Nigeria and Turkey. Regarding Nigeria, while the third largest economy in Africa and the dominant economy in West Africa, the country suffers from a number of disadvantages that the others in the MINT club do not. Nigerian politicians continue to be dysfunctional, corruption is rife throughout the whole country, there is an active and growing insurgency in the North of the country and the education system is failing to deliver the high quality graduates that an economy of this size requires in the 21st Century. The shame is that Nigeria has a strong and emerging class of entrepreneurs that recognise all these issues and are able to work in this very restrictive atmosphere. But until these problems are resolved in Nigeria it is likely that Mr O'Neill should have dropped the letter N from his neologism and stuck with MIT.

Payment Recovery Services: Expensive at best

Payment recovery services have been popular with retailers, particularly in the United States, for many decades and have been effective at detecting and recovering lost discounts, overpricing, duplicate payments and, in the US case, variances in interstate pricing. But these services come at a heavy price. Often the service provider will charge a finder's fee of up to 30%, is under no obligation to improve processes to prevent future errors. They often have multi-year agreements meaning that next year they can charge you for recoveries arising from the same issues. While these payment recovery service providers do possess specialist skills to seek out some very specific problems, we would strongly encourage companies to use the findings of these assignments to conduct continuous improvement programmes that will eradicate the errors, reduce the future costs of payment recovery and improve the end to end purchase to pay process.

At Informita.com

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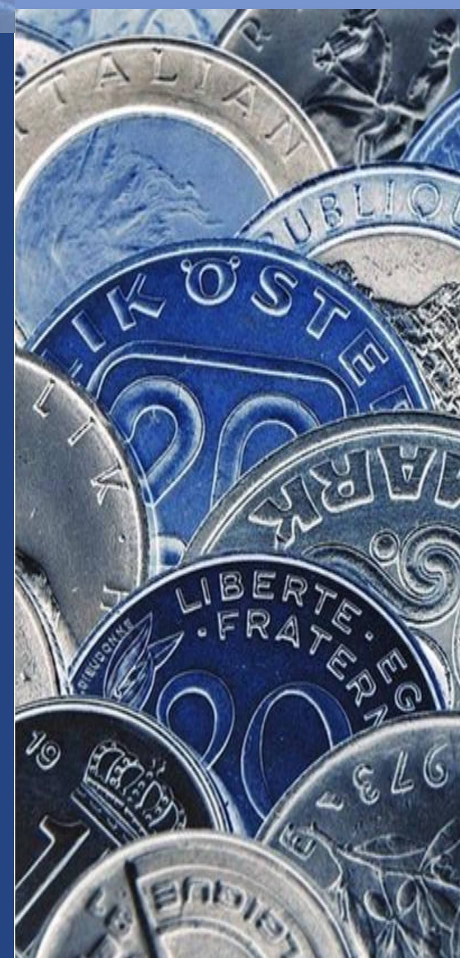

Ready for more inventory?

How the economic upturn is already affecting stock levels

It is certainly refreshing to hear that more companies are looking forward to increased revenues in 2014. But this is about to cause a different issue – increased levels of inventory. It is normal that during recessions inventories will fall, but often the inventory that depletes the quickest are those items that are best sellers. The problem will come when demand recovers for these best sellers and inventory will increase rapidly. At one soft drinks manufacturer this has become a particular problem where trucks are queued outside its premises waiting to take product to customers. The factory is at full capacity and these queues continue to get longer. And demand is expected to increase significantly during the summer period from current levels. An easy answer might be to build more capacity, but that will take time and will not help the immediate problem. The other method is to vary the production batch sizes of each product, the customer lead times per product and the stocking policy per product. Done correctly that will mean that customer service levels can increase within a constrained capacity. This will alleviate the current demand problem and allow more time to plan for any expansions of capacity. Most people would agree that this is a great problem to have after our recent economic history.

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