Informita News

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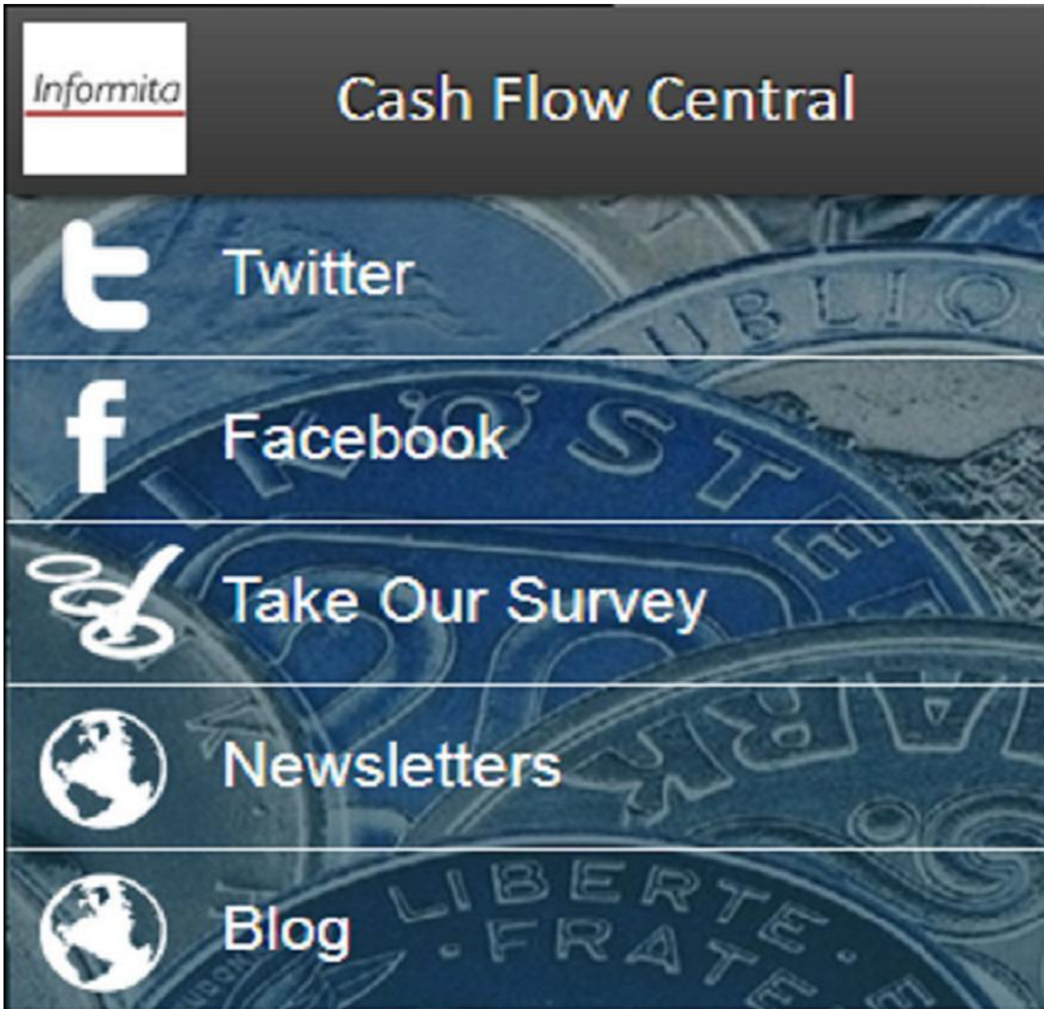


IN THIS ISSUE

Welcome to Cash Flow Central

Mobile App available on Windows, Apple, Android, Blackberry and Kindle

Informita have designed this app to grant you a fast and efficient link to the latest news and developments on working capital, cash flow and procurement. You will have instant access to our latest twitter and facebook feeds, our weekly blog and our quarterly newsletter so that you can be up to date on the latest developments about working capital, cash flow and procurement. This brings the latest news on working capital and procurement directly to your fingertips. We hope you enjoy this free application.

Supply Chain Bullying

Is the game finally up?

There have been many failed attempts by politicians to get the most aggressive late payers to pay their suppliers in a way that most businesses would describe as being fair. Instead we have seen some large companies use their muscle to extend terms to 90 and 120 days, demand unearned cash rebates and sign-on fees to further squeeze their supply chains. In the last year a number of corporations have fallen foul of public opinion while following the letter of the law. Dansk Supermarked "asked" for 90 day payment terms from their suppliers, but threatened that if suppliers did not comply then the supply relationship would end. Premier Foods then had a "Pay to Stay" scheme that was exposed by the press. In this scheme suppliers had to pay to stay on as a supplier on top of any current agreements. AB Inbev then demanded 120 day payment terms from their suppliers. Tesco is now being investigated for late payment and other practices that have been termed as supply chain bullying. According to the Federation of Small Business in the UK, "We've seen lots of evidence that small firms are being unfairly squeezed by late payments in the food processing industry and other sectors." All this news coverage would suggest that the media has finally understood this business issue and the public are now being properly informed when major brands behave badly toward their supply chain. Hopefully there is an increasing trend that such bad behaviour will be reported by the media and remind these large firms that there needs to be a balance not only between their own profitability and the sustainability of the supply chain, but they also need to be seen to be fair to protect their brand image in the public perception. We are sure there will be many more stories like this in the coming months, but will this be a flash in the pan like other initiatives to encourage on-time payment? Watch this space.

Cheap Oil

Good or Bad?

The global media have been all over the massive drop in oil prices in recent months. A key question is whether this is good or bad for business. There is no doubt that those firms who consume large quantities of fuel will see it as an opportunity to drop prices and stimulate demand in an already difficult global economy. Retailers will be licking their lips that cheap fuel will lead to lower costs from their vendors that can be passed on to consumers. But there are also many losers. The obvious ones are the oil majors and oil exploration companies who have spent years developing difficult exploration opportunities in places like the North Sea, Greenland, the South Atlantic and the Arctic Circle only to find that those fields are now uneconomic. The frackers have been bludgeoned too. One company has shut down 40% of its US based fracking operations as prices have dropped through the floor. Many chemical companies are now manufacturing products made with $100 a barrel oil from earlier in 2014 and will be afraid that buyers will run down their stocks in anticipation of dramatically lower prices. There is also a prediction out there that when the oil price bounces back that it will quickly jump to over $120 a barrel. So if you are a winner it may be short-lived, but for everyone it does mean that more volatility needs to managed.

Japan: Not that different

Japan has long been a place of beauty and curiosity for most non-Japanese. There are many cultural norms in business that are very different from Europe or North America. It can be very difficult to do business in Japan without understanding these norms. This is often true as well when dealing with subsidiaries of Japanese companies all over the world. But Japan has spent more than 20 years in something approximating to economic stasis where government debt sitting largely on the balance sheets of the country's biggest banks has grown to astronomical proportions. So what does all this mean from a working capital angle? Japan has always had long payment terms usually around the 90 day mark for big companies and 60 days for small companies. Unlike many countries in the world the Japanese have a strong culture of paying on time. So it is not unusual for a large company to have standard terms of 90 days and a DSO of 91 or 92 days. On the inventory side Japan has given us many methods to optimise inventory such as "Just in Time" and methodologies for process improvement such as "Kaizen" that have been adopted around the world, but inventory levels in Japan are very similar to other industrial nations. So Japan is great if you are a customer taking advantage of long payment terms otherwise there is no real working capital advantage.

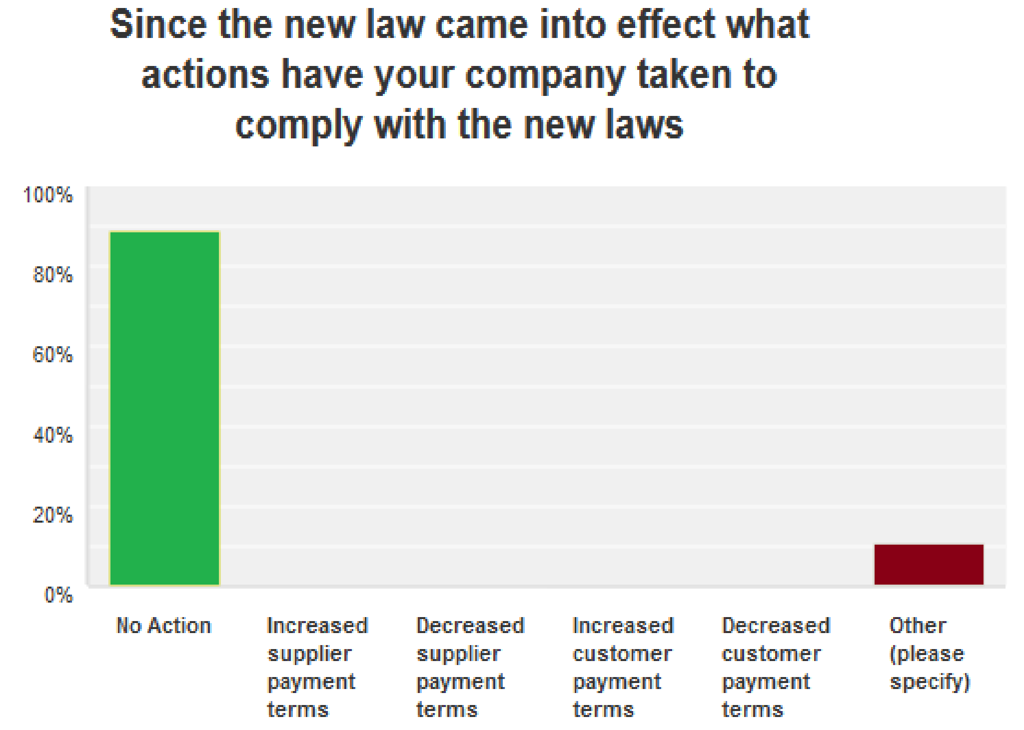
TermsCheck.com

Update

Firstly, a big thank you to all our clients who have approached us about using the TermCheck.com service. We can report that that database has grown by 7% since the formal launch in November 2014. This is net of the records more than 4 years old that we cull each January. So now the oldest data is from 2011. The website has had over 3,000 visits since the launch. Over 48% of those visits have been from the United States, 23% from China and the remaining members of the top 10 are made up by the United Kingdom, Germany, France, India, Japan, Russia, Czech Republic and Australia. When we ask clients what they found most beneficial about the service they tell us that it is the best way they have seen to cut through all the downsides of regular benchmarking and get real information about their suppliers and customers that will guide their strategy on working capital. So seeing really is believing.

To find out more go to

http://www.termscheck.com.



At Informita.com

Don't forget to check out our previous newsletters at www.informita.com. We hope that you find these free resources useful in your decision making.

EU Payment Term Legislation

Survey reveals that it has almost no impact

This has been a subject that many have been very interested in over the last 2 years. We were certainly sceptical that the latest EU Directive (2011/7/EU) would have any material effect upon payment behaviour and our latest survey results back that up. We asked respondents if they had taken any action as a result of the new Directive being in place. In 90% of cases respondents said that they have taken no action at all and that there were no plans to take any action. No respondent said they were changing supplier or customer terms. The final 10% said they were taking action to recoup interest for late payment. In general 80% of respondents agreed that the Directive is a move in the right direction but has not had the impact that many would have liked to see. Our biggest gripe with the Directive back in 2011 was that it would not be retrospective and therefore could only have a limited impact. What we have seen is far worse. In certain countries the legislation has been ignored. In others the local version of the Directive has no legal effect. In the UK and Denmark we have seen some companies to extend term out to 90 and 120 days with impunity. Hopefully next time our politicians can make a law that will have a proper and positive effect and close the door on unfair payment terms in the European Union.

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