

Informita News

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A new outsourcing option

Business Process Outsourcing (BPO) is now a fairly mature business model and hasn't changed that much over many decades. After the rapid growth of shared service centres in the 1980s and 1990s many large companies discovered that setting up such an entity was expensive and could be bureaucratically difficult. Outsourcing companies jumped into the market offering to significantly reduce employee costs by moving these shared service centres to offshore locations with lower labour costs. Many large companies seized the opportunity and this created an industry that was estimated to generate revenues of \$350 billion in 2023 and is that is expected to grow to \$450 billion by 2027. The major BPO companies have focused all their efforts on very large clients to deliver large planks of revenue and generous profits. To protect their profits, they tie their clients into long contracts and make it difficult to change the business processes without significant additional cost. But this has never done a lot for smaller companies or smaller departments in large companies that do not have the scale that might interest the major players. Parallel to this, there are significant labour shortages in many countries. These shortages are caused by a lack of people with the right skills but is also being impacted by the cost of living crisis in many big cities. For example, we recently had a client in London, England, that was looking to recruit a bookkeeper to replace a lady that was due to retire. They were not looking to save money on the hire and were willing to pay the new recruit a starting salary of £25,000 per year. That might seem like a reasonable salary for an inexperienced young person but for a single person renting that is not a feasible salary to live in a city like London, unless they live with their parents. We are now addressing both sets of issues by having a BPO offering that serves small and medium sized enterprises and those who do not have the scale to be interesting to the major players. With Ekstra there are no long term contracts and you have the freedom to end the relationship on three months notice. We deal with a wide range of back office processes including accounts receivable, billing, customer service, accounts payable, procurement operations, travel and expense, master data management, payroll, treasury operations and robotic process automation. This allows businesses to out farm out small numbers of roles that would not interest the major players without any of the legal headaches of setting up in another legal jurisdiction. Our resources are currently based in Poland. This allows us to tap into a large pool of qualified, multilingual labour with an excellent work ethic. To find out more, go to www.ekstra.biz.

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Stockholding Cost

Often misunderstood

As a general principle, most would agree that the cost of any operation should be covered by the sale price that the customer will pay. If we talk about inventory, most would understand that this should include the cost of any warehousing space and equipment plus the cost of the personnel required to run the warehouse. But what about the cost of the stock itself? A basic thing to do would be to apply the cost of capital to the value of the stock holding. But what is the cost of capital and who will apply the cost to the inventory? Even if they have figured out that it is a cost that should be applied, how would they know the correct cost of capital? Many people in organisations, even the accountants, do not know the real cost of capital of the organisation. If we assume that the correct cost of capital percentage is known, then to what value of inventory should be applied? Accountants will tend to look at balance sheets to get this valuation. But a balance sheet is only a snapshot in time and will not tell you the maximum point of inventory that actually occurred. That is important since, that is the amount of liquidity that must be reserved at any one point in time by your treasury department. Almost no one in the vast majority of organisations has any idea what this value might be. Lastly there is the risk of obsolescence. How much of the stock currently held will not be saleable? Many are reluctant to write off old inventory until absolutely necessary. This makes it very likely that the cost of this obsolescence is not factored into the customer price. All in all, since most organisations do not have a close handle on these factors there is a great deal of “hit and hope” going on in most companies. This might be tolerable in the good times when profits are being made, but will hurt deeply when things turn sour.

GIGO

What ERPs cannot solve

William D. Mellin explained in 1957 that computers cannot think for themselves, and that “sloppily programmed” inputs inevitably lead to incorrect outputs, i.e. garbage in, garbage out. This axiom is still true today after the billions that have been spent on computer systems all around the world. Equally, with the best accounting policies in the world we are still at the mercy of the person entering the transaction. Given that we are shoehorned into using transactional data from ERP systems to guide decision making on numerous fronts, the danger that poor decisions will be made on inaccurate or incomplete data has actually increased. In order to save money, external auditors rarely check for transactional quality anymore and the resources of many internal audit departments have been slashed due to budgetary pressures. Assuming that systems always give the right answer can be very dangerous.





Managing Disputes

It is an unfortunate fact that things go wrong at some stage in every business. While we may not be able to avoid mistakes happening, it is quite important how every business reacts well in that eventuality. For collection departments these issues present themselves as customer disputes, i.e. any reason that the customer gives for non-payment of an invoice even if the customer is incorrect. This is one reason why it is so important for collectors to be in regular contact with the customer. This allows them to surface disputes as quickly as possible, in the event the customer has not already informed them. Then it is necessary to have an efficient process to resolve that dispute. Resolution will allow the invoice to be collected and get cash in the bank. Ignoring problems does not make them go away and the same is true of customer disputes.



Bosnia and Herzegovina: Peace but not normal

The Dayton accords were finalised in late 1995 ending the Bosnian War. The warring parties agreed to peace and to a single sovereign state known as Bosnia and Herzegovina composed of two parts, the largely Serb populated Republika Srpska and mainly Croat-Bosniak populated Federation of Bosnia and Herzegovina. The accords were criticised at the time for creating unwieldy political structures and entrenching the ethnic cleansing of the war. It did stop the killing, but the political disfunction has continued to this day. While there has been economic progress since those dark days, much of the country's economy and infrastructure that was destroyed during the war has not yet fully recovered. Official unemployment remains stubbornly high, and the grey economy continues to thrive. All this makes it difficult to capitalise on a well educated workforce, by global standards. Many have left since the war and the population is still declining as people seek to use their skills elsewhere. The private sector struggles for investment making for an economy that while growing, has started from a very low base. The big lesson of the peace is that the political structure it has created has deterred a lot of foreign investment that is required to turn Bosnia and Herzegovina in a thriving European economy.

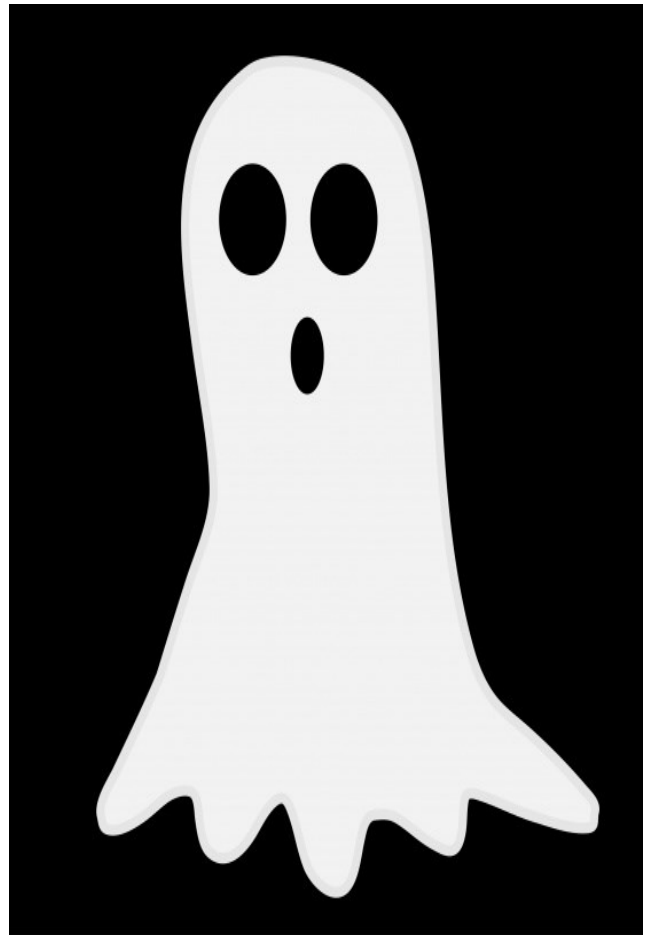
Red Sea Disruption

The escapades of the Houthi's in the Red Sea recently have shown the fragility of our global trading system. But its not always for the reasons you might think. The real financial danger to the international trading system is about insurance and specifically war risks insurance. If you are in a declared war zone, the global insurers will only insure your ship, its cargo and the crew if you have a specific and expensive war risks insurance. If that happens then the cost of shipping goods to Europe from Asia will become very expensive and cause a further serious bout of import inflation as well as the supply chain disruption of going around Africa. And that will mean that interest rates will remain higher for longer. This might be happening far away, but could ending up costing us all a lot more than expected.

Ghost Spend

Paying for obsolete services

There is a very popular phone app in the United States that allows users to track all their subscriptions and automatically cancel those that they are paying for but no longer use. Wouldn't it be great if such a thing existed for businesses? But it doesn't. As a result millions are wasted every year on various expenditures such as subscriptions that are no longer used, software licenses that are no longer required, organisation memberships that are redundant, telecom connections that no one can find and services that have been over-specified. Going after these things is not always easy. The supplying organisation has no incentive to highlight these issues and procurement organisations often ignore spend amounts that are in the bottom end of the Pareto and can be time consuming to track down. But the savings can be great. When these wasteful items of expenditure are found the savings rates are 100% and not the shavings that are usually available from larger spend and more mature categories. The answer is that procurement organisations need to prioritise their activities focused on largest expected savings and not on the largest spend categories. These initiatives require time, dedication and attention to detail. In fact, many procurement personnel have never tackled such issues and require experienced help. The good news is that we are there to assist.



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