

# Informita

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# News

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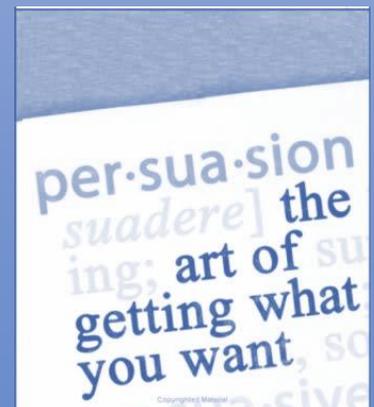
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## Purchase Cards – A New Solution

We're delighted to announce Informita's partnership with South African software company, Integrated Commerce Solutions (ICS). ICS has been in business for 14 years designing procurement and payment solutions for various types of commercial credit cards. ICS is now bringing their P-Card solution, C-Solve Enterprise, to Europe. At Informita we love this product for a number of practical reasons. It makes it very easy to obtain "level 3" invoice line item data, even in countries where this data is not normally recorded. The software is very easy to use and has all the required financial controls and workflows necessary to allow a procurement system to function in an efficient and controlled manner. Apart from potentially being a big cash flow boost to both you and your supply base, the software is technically very simple and efficient to maintain. The software can be implemented in as little as 3 weeks. This solution is available in any European or African country where MasterCard have an issuing bank and takes advantage of the massive fall in merchant service charges in recent years. In our opinion it finally means that both buyers and suppliers will have an increased incentive to use P-Cards safely. If you want to know more please email us at [c-solve@informita.com](mailto:c-solve@informita.com).

There is almost always some form of change happening these days. Be it new structures, finance systems, supply chain methodologies, logistics tools, managers increasingly face a plethora of new things happening all the time that they must adapt to and master. This inevitably creates some level antagonism in the organisation that will often be targeted at one element of these on-coming changes. If not managed properly this could damage or halt an entire change programme. People will naturally oppose those ideas they don't fully understand or that don't seem to make sense. Therefore it is vital that the people tasked with communicating change are capable of persuading their peers. This will require experience and deep expertise in your subject. If your peers are not convinced of the core argument for change and that change is possible it is very unlikely that the change will become embedded.



## Receivables Discounters

### Easy money or expensive credit?

It used to be that the mainstream banks offered receivables discounting services to their small and medium sized business customers. This would offer very quick payment to the business while the bank would generate healthy profits for themselves. Everyone called it factoring. This was not hailed as the solution to every company's receivables problems, but it had its place with companies who were either cash flow starved or did not have the capacity to effectively collect their own receivables. In the last 10 years there has been a revolution in invoice discounting due to the establishment of web based companies that are capable of interacting with far more customers than old fashioned factoring and have the willingness to reach out to much smaller customers that the traditional factoring regimes may have overlooked. The result is that in Europe and North America it is easier than ever to avail of these services. But have any of the fundamental rules of factoring changed. Largely the answer is no. Three major points need to be properly understood before you engage with such a provider. The first is the time value of money. Different providers will charge varying amounts depending mainly on the credit quality of your

customer. So if all your customers are blue chip stocks then you will pay far less of a discount than if your trading relationships are with other cash starved small and medium sized enterprises. The second point is how much would it cost for your company to have its own collection process. The last point is the margins that your business normally earns. If your margin rates are less than 10%, it is very likely that receivables discounting is not an economic option for your company. There may be the odd situation where you are really desperate for the cash, but that suggests you have deeper issues with your business model. So if you are not cash rich and receivables discounting is too expensive for you, there are other alternatives. Your customer may run a P-Card programme or a supply chain finance programme. In both cases it may be that you can obtain cheaper financing rates through these routes. The final issue to think about is your company's image. If your customers are aware that you discount your invoices with a third party they may view your company as a higher financial risk than a competitor. This may have no effect in the short term but may influence your customers' future buying decisions unfavourably.



## The Globalisation of Procurement

The last 25 years has been a total revolution in global manufacturing. Back then almost every country in the world manufactured electrical goods and textiles. With the emergence of fast growing economies of in Asia these industries have largely disappeared from North America and Europe. This has allowed the cost of these goods to consumers to fall in real terms and produced an unprecedented economic boom around the world. "Good news for procurement", one would think and that is largely true. The continuing globalisation of trade and dismantling of trade barriers have allowed procurement functions in almost all industries to take advantage of these new circumstances and deliver significant cost savings to their companies and ultimately

their customers. But what has been lost is flexibility. It is now far more necessary to forecast customer demand far ahead of what was required in the past. Shipments take longer to get to their end market, need to be ordered much further in advance and create a massive risk of over or under supply. So whatever industry you're in there is a greater risk of lost profits through surplus and obsolete inventories or lost sales potential. In the meantime the more local flexible suppliers have been priced out of business, so oftentimes there is very little alternative for the buyer if things go wrong.



### UK: Recovery or stagnation?

Those looking at British newspapers and television in the last few months are starting to get a very confused picture of events in the economy. There is no doubt that there has been a big drop in economic performance since 2008. But is everything still in negative territory? GDP growth is still relative flat, but both inflation and unemployment are falling. The South of England is experiencing modest growth while Scotland, Wales and the North of England still appear to be in the doldrums. Bank lending continues to fall, while the stock market is higher than it's ever been. All this might lead you to believe that the UK economy has effectively stagnated. Only history will tell is that is the case. But there are some reasons for optimism. The service sector and manufacturing exports continue to grow at a steady pace. The number of business start-ups has increased by 13% since 2008 and studies show that more than 60% of all new jobs are created by firms employing less than 50 people. So expect things to be rocky, but hopefully we see more positive signs of progress.

### Collection Software

In recent years many companies not satisfied with accounts receivable performance have decided to implement specialist collection software. There is no doubt that most of these solutions offer enhanced functionality over the tradition ERP solution. But we wanted to understand the impact that these systems had on actual performance. We were surprised to find that while 47% of companies improved DSO performance over a 5 year period, for an equal number performance got worse. The study also shows that after an initial improvement in years one and two, there seems to be a big dip in year three. All this suggests that the focus drifts on to other issues. This is no fault of the software companies, just a reflection of human behaviour.

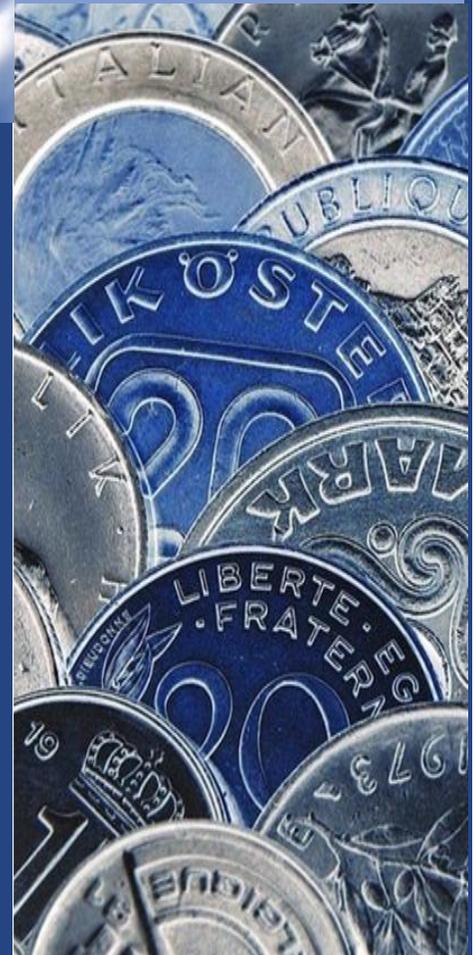
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## Supply Chain Risk

### It's on your doorstep

Supply chain risk has become a popular topic of conversation in recent months. The first risks were seen with weather events such as the Japanese tsunami, flooding in Thailand and Superstorm Sandy. Then there have been the quality issues with meat supplies in Europe exposing the lack of traceability in the supply chain. And the latest was the factory collapse in Bangladesh and the shocking loss of life associated with that terrible tragedy. The only thankful point is that the tensions in Korea appear to have subsided for now. But all this does beg the question of whether companies actually know how their supply chain is constructed and therefore do they

really understand their real risk exposure? With the exception of a few industries the answer is largely no. So every time you watch the news and see some far off tragedy occurring, don't automatically think that this is an uninteresting far away event. It could be that you are about to be introduced to a major supply chain disruption that you have not planned for since you could not see it coming. The automobile industry started gaining supply chain visibility many decades ago. It is now time that more companies take a leaf out their copybook and do the same. That will also lead to a greater understanding of the financial risk in the supply chain.

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