

# Informita

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# News

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## IN THIS ISSUE

How to measure DSO

Gross versus net sales

On-shoring Continues

Share Buy Backs

Too much cash with nothing to do

Upcoming Events

See us in June

Country Profile

Angola: Slower Growth

Promissory Notes

Continuing to reinvent themselves

## Working Capital: In pursuit of zero

### How to eliminate working capital

This book describes the steps you can take to achieve zero working capital. Assuming that your company has the determination, once these steps are complete your company could have zero or even negative working capital. The book also reveals how the gap between the best working capital performers and the average continues to increase as more and more novel working capital solutions becoming available. To find out more go to [amazon.com](http://amazon.com) where you can purchase either a paperback or e-book version or go Amazon's local sites around the world.



## How to measure DSO

### Gross versus net sales?

Measurement of collection performance is always important but can also be quite confusing. Best Practice for collection managers is to exhaust the accounts receivables balance into the most recent gross sales to get a Day Sales Outstanding (DSO) number. But many collectors continue to use a different method. Then there is the argument that it doesn't matter what measurement you use as long as it is consistent and you can follow a meaningful trend of performance. That's true to an extent. Of even greater concern are the measures used by external analysts to compare the accounts receivable performance of different companies. These external analyses will always be constrained by the lack of information given in published accounts and that will probably not change in a hurry, but it is worth considering how wrong these external calculations may be. The usual external calculation is to take trade receivables over net sales times 365 days. One basic problem with this calculation is that the comparators do

not match. Net sales does not include sales taxes and is net of deductions and rebates while trade receivables will include sales taxes and is measured before deductions are agreed and rebates are issued. The usual argument is that it probably doesn't matter because all the companies' calculations should be wrong by a similar amount. That might be true if I was dealing with two companies with very low levels of deductions and rebates in a country with no sales taxes. But there will be big distortions caused by the different geographical footprints and deduction/rebate behaviour. Examples where this will matter will be US companies versus European companies where VAT will be a major part of the receivables balance. Global pharmaceutical companies will be affected due to the large gaps between US net and gross sales. The appliance industry will be heavily affected since most goods are sold on sale or return. Therefore many of the published surveys on DSO performance are definitely inaccurate and potentially misleading.

## On-shoring Continues

One of the key factors that drove off-shoring of manufacturing in the last 20 years was the difference in labour rates of The United States and Europe and mainly China. Back in 2012 it was predicted that industrial costs in China would match those in the US by 2015. In many industries costs are now higher in China than in the US. Although increased wages and property prices in China are partly to blame the other big factor has been energy prices. With the dramatic drop in oil prices seen in 2014, the US has now become a much more competitive place to manufacture. In the past year there have been announcements to shift manufacturing from Asia to the US by Adidas and Apple, amongst others. The worrying thing is that many of these decisions are based on short term cost rather than the full impact on the supply chain and the potential to improve customer service. Equally these decisions do not seem to take great account of supply chain risk. In working capital terms it is possible that most of these companies have learned absolutely nothing.



## Share Buy Backs

### Too much cash with nothing to do

It is estimated that \$1 trillion worth of shares will be bought back in 2015, up from \$550 billion in 2014. Major companies are awash with either cash or cheap liquidity. Just recently, Shell announced their proposed acquisition of BG Group and part of the grand plan is to give \$25 billion back to shareholders - not some visionary investment plan. Apple, GM, Intel, IBM and many more have all announced or executed plans to give back large amounts of cash to shareholders. They are all hoping to shore up high share prices in a bull market where investor returns are in danger of falling as quantitative easing comes to an end in the US economy. In a recent speech by Larry Fink, who heads up Blackrock, Mr Fink accused America's business leaders of "eating their own seed corn." Talk to anyone with a small business and they will tell



you that they continue to find it difficult to get cash from banks and many of the alternative funding solutions are very expensive. Yet these are the same small companies who have produced most of the job growth of the large economies. So we have a situation that big successful companies lack a strategic investment vision to do something with their cash hoard and smaller more innovative companies are cash starved. From an economic view this doesn't make sense and cannot continue.

### Upcoming Events



Informita has been invited to present to the Clonmel Chamber of Commerce Business Finance and Funding Seminar on June 12 in Clonmel, Ireland. Our focus will be on tips and tricks that businesses can deploy to improve working capital. This event is not just for small business and is a must if you want to improve working capital quickly. To find out more go to:

<http://www.clonmelchamber.com/group-crm/crm-base-page?page=CiviCRM&q=civicrm/event/info&reset=1&id=40>



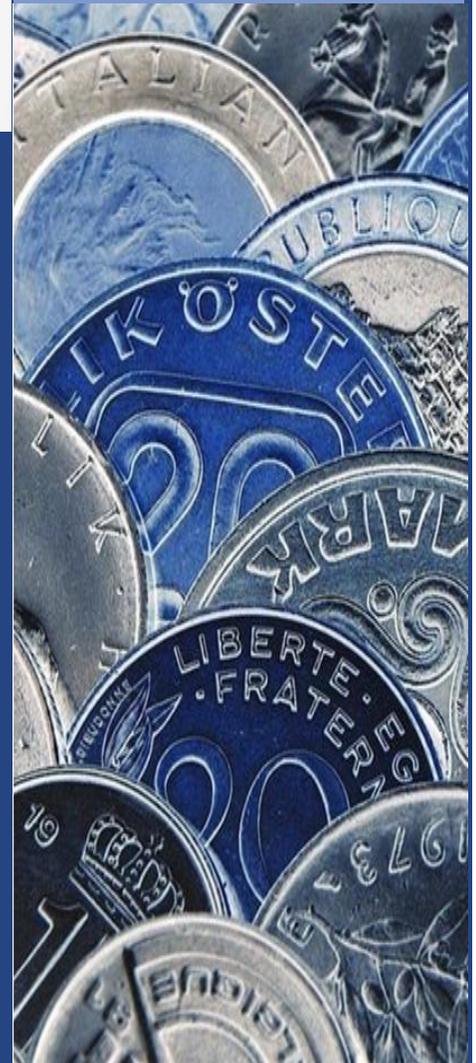
## Angola: Slower growth but still in the right direction

Angola is a very beautiful and resource rich country that is still dealing with the aftermath of a long and brutal war. Although the war ended in 2002, large parts of the country are still littered with landmines. Since then revenues from huge oil deposits have been used to reconstruct the country. This has led to an infrastructure led boom. One of the results of this boom is that Luanda is now one of the most expensive cities to reside in the world. This contrasts with a largely subsistence agriculture economy that is followed by more than 80% of the labour force. This has led to endemic levels of corruption in certain areas of the economy, such as construction. It is estimated that the breakeven price of oil extraction in Angola is approximately \$80 per barrel. So with oil prices down at \$60 per barrel, the government is cutting expenditure drastically. So while there is good business to be done in Angola, it will take a few years yet before there is a more diversified economy with a strong consumer base.



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## Promissory Notes

### Continuing to reinvent themselves

Promissory notes have been around for centuries and continue to reinvent themselves in many interesting ways. Some promissory notes are actually called promissory notes as in Korea where the use of promissory notes is very common amongst Chaebol's. In France we have Bills of Exchange. In Spain there is confirming. Supply Chain Finance employs a very similar process. The common threads are that a customer wants to extend the credit from the transaction beyond the agreed credit terms and uses a financial instrument where the supplier can obtain payment ahead of the extended maturity date by paying a fee. In many economies using these kinds of instruments has been a very

successful way of stretching liquidity through the economy. From a credit risk perspective the alarm bells should ring if there is a sudden change in behaviour resulting in the use of promissory notes. In recent years a Chinese version of the promissory note has grown in usage called a Bankers Acceptance Note (BAN). These behave very much like other promissory notes except that in the Chinese case they have a strong association with the country's property bubble. Many foreign companies with a Chinese base have already banned the acceptance of BAN's for payment. If the Chinese property bubble ever bursts BANs will end up being more toxic than a Greek Government Bond.

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