Informita News

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TermsCheck analysis

Our latest survey establishes without a doubt that many of us do not trust our own companies payment processes. We set up suppliers on immediate terms thinking we can "fool the system". In actual fact we are putting enormous pressure on those systems to perform in a way they were not designed. Let's assume that the payment term is 30 days. That should be plenty of give to receive the invoice, make sure that the goods or services have been received and then authorise the invoice for payment. If the invoice is on an immediate term then payment is already late from the point that the invoice is received. We are now rushing to check the goods or service receipt has been completed and trying to fast track the authorisation and payment of the invoice. This places additional stress on those that are charged with processing the transaction and increases the odds that the process will be seen to fail. There will be additional calls both from suppliers and internal stakeholders who somehow think they are pushing things along when in reality the whole system can be driven into chaos. So have a thought for the folks in accounts payable who rarely get much thanks from suppliers or stakeholders for the stressful work they do and very often are taking the brunt of everyone's complaints. So we would urge people to select a proper and reasonable payment term and to trust the process to do its job. Things will go wrong on occasion and that should be an opportunity to highlight the error and improve the process, not an excuse to try and bypass the process. The second point strongly highlighted in this survey is that if everyone paid to the agreed payment terms the vast majority of suppliers would be delighted. Although we hear many cases of extended payment terms in different countries these anecdotes are not backed up by the evidence. For example, in Italy the average agreed terms are 51 days but there is plenty of evidence to suggest that very few are paid on this average term. Terms are not the problem. Late payment is the problem and so far no piece of legislation has properly addressed this point. In Europe we are seeing more and more regulation about terms, charging interest for late payment and reporting payment performance. But very little of this legislation has been clearly thought out or properly enforced. It all points to the likelihood that governments are not going to solve this issue. For more detail go to http://www.informita.com/resources/Informita+-+TermsCheck+Analysis+-+2017.pdf.

In This Issue

New UK Reporting Regulations

In a recent survey that we conducted we found that 77% of responders were not aware of the existence of the regulations at all. Only 15% understood the content of the new regulation. Only 8% were aware that not complying with the new regulations would be a criminal offence. But only 8% thought that they might need help to comply. All companies with an annual turnover of more than £36 million, a balance sheet total of more than £18 million or have more than 250 employees will have to comply with the new regulations. This includes UK subsidiaries of foreign parent companies. The following information will need to be published every six months for all supplier payments under a UK contract, excluding financial services:

- The company's standard payment term and any changes to the standard payment term in the previous six months. If no standard payment term exists then the most prevalent term must be reported
- The maximum payment term agreed with a supplier
- The average time taken to pay supplier invoices
- The proportion of invoices paid beyond agreed terms
- The proportion of invoices paid in 30 days or less, paid between 31 to 60 days and paid beyond 60 days
- The amount of late payment interest owed and paid to suppliers
- The dispute resolution processes must be explained
- It must be disclosed if there is the availability of e-invoicing, supply chain finance or preferred supplier lists
- Whether financial incentives were required to join or remain on supplier lists
- Whether the company is a member of a Payment Code

The main problem with the new regulations is that payment terms are counted from the date of invoice receipt. This date is usually not recorded by ERP systems so many companies may have problem in complying with the new rules. Read more at: http://www.informita.com/resources/Informita+-+UK+Payables+Reporting+Requirements+-+2017.pdf.

New Dutch Payment Term Law

From the 1st July 2018 all Dutch companies must pay SME suppliers in a maximum of 60 days. Past agreements with payment terms longer than 60 days will no longer be valid and will be converted into 30 days, after which the supplier can claim interest. This interest claim is enforceable for five years. SMEs are defined as companies with at least two of the following three features: fewer than 250 employees; maximum net turnover of €40 million; or maximum asset value on the balance sheet of €20 million. The main problem with this law is how a company will determine that a supplier is an SME or not. Does this mean that the onus is on the SME to make clear that they are an SME, or is the onus on the paying company to ensure that they know who is an SME or not? The law is not clear on this point and we are confident that it will be tested in the future. In the meantime we strongly recommend that Dutch companies review all of their suppliers so that all SMEs are properly identified. Where there is an agreement that has a payment term in excess of 60 days, ensure that a new agreement is in place by 1st July 2018 that is compliant with the new legislation. This is another example of a piece of legislation that has not been fully thought out. But it does show that the politicians have this issue in their sights and want to be seen to have done something about it. It would just be far better if they consulted someone who knew what they were talking about first.

Brexit and Procurement

Will there be a mad rush?

There are many stories in the media tell of potential doom and gloom as Brexit approaches. But the truth is that no one really knows what is going to happen, and that includes the official negotiators. From a procurement perspective the smart money is always on having a contingency plan in the event that worst happens. And there is evidence that many companies are already at an advanced stage with such plans. AIG is moving to Luxembourg, Lloyds of London are open a branch in Brussels and London based merchant banks are setting up subsidiaries in Dublin, Paris, Amsterdam and Frankfurt. Rosslare ferry port in Ireland is reportedly doubling capacity as they expect lorry traffic that currently goes through the UK to reroute directly to Ireland from France. The one industry that seems to be slow out of the blocks is agriculture and food. Be it French wine, Danish bacon or Italian prosecco, who all have the UK as their biggest markets there is little being done to diversify their markets over the next two years. Of course, if all this proves to be a storm in a tea cup then the food industry will have been very smart, but it seems very risky to be living in hope.

Mexico: More bridges than walls

The United States is a huge trading partner for Mexico accounting for 74% of Mexican exports and 50% of imports and the stories in the press would have you believe that Mexico is an economic colony of the United States. But Mexico is a country with a population of 120 million people. Mexico is the 15th largest economy in the world. Mexico has the sixth largest electronics industry in the world. Mexico produces the most automobiles of any North American nation. Mexico has a huge tourist industry. But Mexico's biggest export is actually oil. Mexico does have a massive issue around income disparity and levels of poverty. But the remittances from Mexican citizens working in the United States account for only 0.2% of Mexico's GDP. So it is a very mixed picture economically where both countries profit from the relationship.

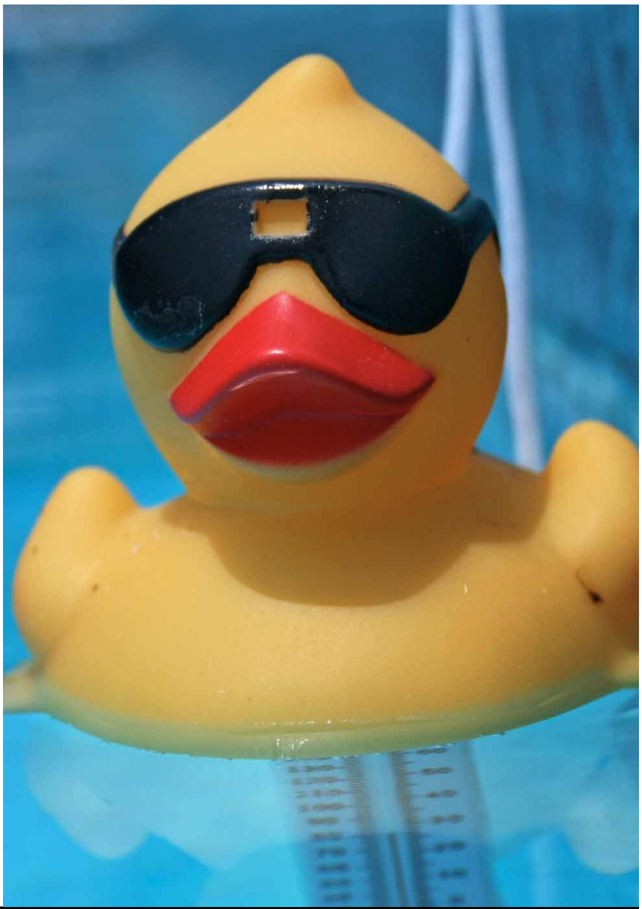
Low Cost Country Labour

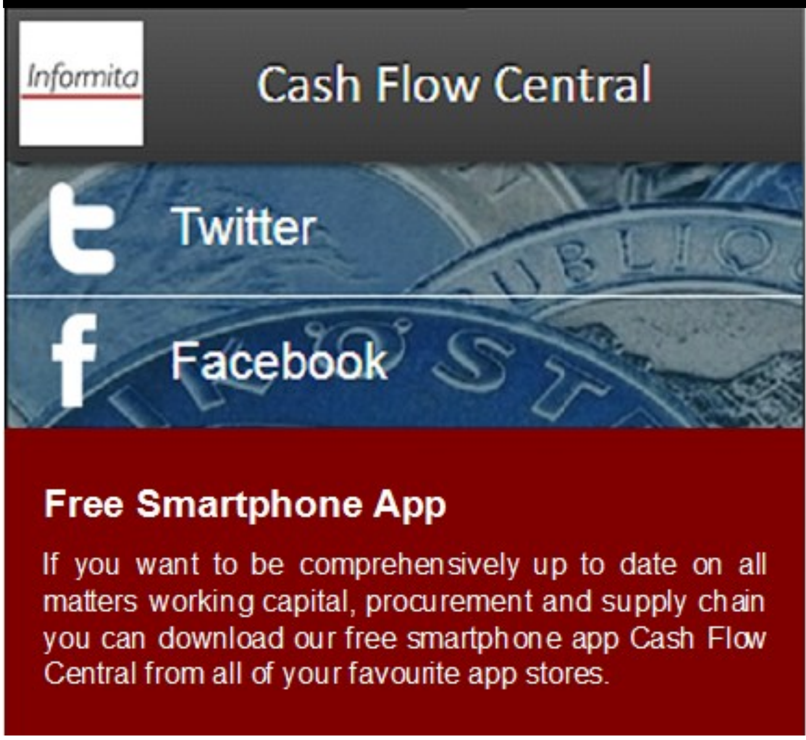
Average hourly wages in China's manufacturing sector trebled between 2005 and 2016 to $3.60, according to Euromonitor. While in Portugal manufacturing wages have plunged from $6.30 an hour to $4.50 last year, bringing wage levels below those in parts of eastern Europe. This all adds to the evidence that the low cost country manufacturing model is fading in significance. But no-one believes that any jobs are coming back to rich countries. These low cost country jobs are being replaced by high tech robots that require fewer well trained workers to maintain them.

Float Time

Why it is a working capital myth?

There are still many out there that think that paying by cheque over a period end is a smart way of reducing your company's working capital exposure. Unfortunately this assumption that "float time" gives your company some advantage is a myth for two clear reasons. Firstly, if the payment has been issued then from an accounting perspective the payment has been made. This is what an external analyst will see in your published accounts. So there is no gain. Secondly, many assume that additional profit will be made on the interest benefit of holding onto this extra cash for a few days. Any treasurer will tell you that most corporate bank accounts used to make payments earn little or more often no interest. So there is very often no benefit here also. In fact cheques are a big problem for treasurers. They would much prefer electronic payment that is more secure and more predictable. Corporate cheques are regularly altered by criminals all arounds the world. Also treasurers need to keep cash buffers because they cannot be sure when a cheque will be presented. This means that unpresented cheques need to be monitored regularly. All in all, float time is a costly and risky myth that should not be encouraged.





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