

Informita News

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Procurement Savings

Fact or fiction?

Procurement buyers are rightly proud when they believe they have done a good deal and should be happy to tell the entire universe about their success. Quite often the finance people will then ask for evidence that this great deal is actually producing the savings that were projected and this is where the difficulty starts. Those with modern procurement systems and good analysts will have the advantage in this scenario, but there are many that lack both of these advantages and continually struggle to prove that they have made the savings that they boasted about. Broadly speaking there are three types of saving to be tracked. The easiest one is where a unit price reduction was agreed with the supplier. Modern systems are pretty good at tracking this information. The second is where the volume of purchases was reduced. Again, many manufacturing systems do this well. Unfortunately, this is rarer in the non-core spend world. The third element is most applicable to non-core spend and that is where the spend was eliminated or the specification reduced. Systems tend to dislike this scenario since they are designed to compare a current activity with a past activity. In this case there may be no current activity to compare or a different product or service to compare. When the systems don't do the job of tracking the savings, then it all turns into spreadsheet land. And without quality analytical resource the job becomes quickly overwhelming. Good data is the basis of a successful procurement function. Without good data it becomes much less likely that the best deals are being done and almost impossible to track any savings that might result from those deals. The solution is to have the right systems to track the right data and the right resource to analyse the results.

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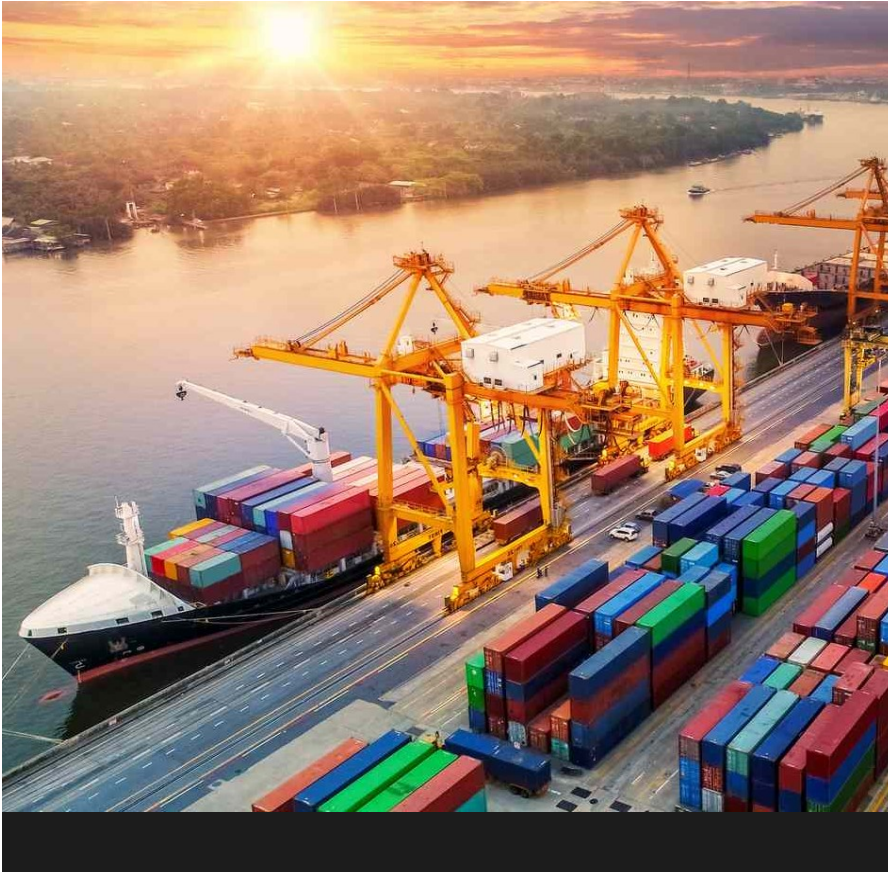
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Export Terms

Usually work well

Two very popular credit terms for the export of goods are Letter of Credit (LC) and Cash Against Documents (CAD), also called Document against Payment (D/P). In most cases, these are very secure payment terms for the seller, but there are things that can go wrong. Back in the 90s you were always told that an LC should be secured with a North American or European Bank. That was because many countries still had currency controls, arbitrary legislative processes and shaky economies that could mean that the LC would not be honoured and then the seller would find it very difficult to recover the debt. But the global banking market has changed dramatically along with WTO rules mean that the number of countries where these issues are still concerns has very much reduced. CAD has become more popular in recent decades as China imports more and more from the rest of the world. It suits the customer since they effectively do not have to pay for the goods until the shipment has arrived in their local port and it suits the seller since the customer cannot receive the shipment until payment is made in full. But it can get tricky. If the customer refuses to accept the goods, then the seller is responsible for the storage costs at the local port until the dispute is resolved. This can be very expensive if the goods are frozen and will depend on the storage capacity available at the port. In many cases, the seller will be under severe cost pressure to settle any dispute quickly. Sometimes it happens that the seller agrees to release the goods without payment being complete. In one case, a Chinese customer accepted €190 million of goods without payment and then delayed the payment for another six weeks to get over year end. That made the seller's balance sheet look very bad for 2022.

Accurate Inventory

There is only one situation that you can be certain that your inventory records are 100% accurate. That is when you have no inventory. In all other situations things will happen that will allow inaccuracy to creep in. There are external factors such as shoplifting and pilferage that largely affect retailers, but there are several other internal factors that can drive inaccuracy. Goods can be received incorrectly, goods can get damaged, goods can be issued incorrectly and goods can be transferred incorrectly. Many years ago we worked with an aerospace engine manufacturer where it was common that a part would arrive late from the supplier and be put straight into the engine before any goods receipt was completed. Apart from the safety issue that this would create, it also meant that invoices for those parts could not be approved until the part was "found". This involved a whole team of people trying to work out where that part might be or which engine it was on. So a stitch in time will definitely save nine.





Supply Chain Finance

The effects of inflation

The trade finance industry will tell you that demand for supply chain finance, in particular reverse factoring, continues to go up. They will also tell you that the cost to suppliers of that finance has gone up as interest rates have risen. This is no surprise since the price of these products is directly linked to lending rates such as Euribor. What has also happened is that the margins that banks charge on top of that lending rate have increased. A lot of corporates are now paying more for borrowing since the general market is viewed as being higher risk and some specific sectors have seen bigger increases than others. Suppliers have been seen to soak up these higher rates of interest, but there are also schemes in contraction. So beware if you are a supplier depending on such finance.



Pakistan: Choose your elite

The Islamic Republic of Pakistan has the third largest population of any country in the world. The country of 247 million people has existed since the partition of British India in 1947. The country boasts of having the sixth largest armed forces in the world and includes nuclear weapons in its arsenal. Pakistan is considered to be one of the "Next Eleven" group of countries that are said to have the potential to be one of the powerhouses of economic development in the 21st Century. There are 50 million Pakistanis that are considered to be middle class and benefit from a good education system. But inequality and corruption are rife in the country. The various political elites have spent decades fighting tooth and nail with each other to claim the spoils of power. In the last ten years, Pakistan has struggled with natural disasters, underinvested infrastructure, economic mismanagement and political instability. Many of its brightest talents leave the country to achieve success. Pakistan still has the potential for explosive economic growth once the elites end their squabbles.

International Trade

Tomato woes

Earlier this year many Britons were mystified at the extreme shortage of tomatoes on supermarket shelves. There were three factors that caused this thankfully temporary problem. The first was a bout of unusually cold weather in Iberia that slowed down the growth of many fruits and vegetables. Tomatoes were hit very hard and that meant that Spanish producers had to choose who was going to get their product. The second factor was British supermarkets. For many years they have made very aggressive pricing deals with producers based on the huge volumes of demand that they can deliver to the supplier. And the third reason was Brexit. Sending the same product elsewhere was easier. Trade always has a habit of finding the path of least resistance.

Maverick Spend

It's a control issue

In a time where we didn't have expensive ERP systems, it was difficult for large organisations to understand all the money that was being spent on numerous suppliers that the guys in head office had probably never even heard of. Procurement functions traditionally focus on the larger spend areas, so there is always the possibility that local personnel are spending money on suppliers that fall below the radar level of these functions. As a result the millions that have been spent on ERP and procurement systems have never fully reaped the potential of controlling this "maverick" spend. As a rule of thumb the larger the organisation and the less developed the procurement process is, the more likely it is that there are serious opportunities available by focusing on maverick spend. The usual categories of spend that present large opportunities are cleaning, catering, security, forklifts, engineering spares, electrical spares, photocopiers, waste management, travel, professional services, stationery and the list goes on. The techniques to be used in each of these categories are not new and have changed very little as the level of technology as increased the quality of data available. Even if you think your company have conquered all these categories, it is always worth looking again to see what may have been overlooked.



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