

Informita

News

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Welcome to Informita

Welcome to the first edition of Informita News. This short quarterly is designed to inform the reader of key changes in the business marketplace with regarding to working capital and procurement.

About Us

Informita was formed to provide a complete consulting service for working capital and procurement.

Informita was formed to act as an advisor to companies in the areas of working capital and procurement, focusing on Analytics, Implementation and Advisory. Informita is there to support your working capital and procurement programmes from cradle to grave in a cost efficient and effective manner.

Our people have a mixture of deep industry and consulting experience across many sectors and geographies. This gives us the ability to bring insights across many industries and cultures.

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We look at the situation for Portuguese businesses.

Forecasting the Impossible

The problems with forecasting requirements in climate driven situations and what can be done to improve the situation



The weather of the last two years has been playing havoc with inventory forecasts for many industries. Cool summers have caused reductions in the sale of beer and fizzy drinks. Warm winters have caused oversupply of raw materials such as wood and pulp. And those of you that do not have a robust forecasting process have suffered most. While we can never fully project customer demand, the weather changes of recent years have exposed those without a more dynamic forecasting process. This has meant that some companies are slower to react to changes in market conditions causing inventories of both raw materials and finished goods to increase. To make a forecasting process effective it must be transparent, inclusive of all the necessary stakeholders and capable of correction in the face of changing information. This sounds simple, but the more people that are introduced to the discussion, the more complex the outputs. So it needs also to be carefully managed.

In a recent case in the paper industry, we found that the client knew they were receiving too much wood from suppliers over the period of the usually quiet winter months. There were no processes in place to drive the supply of wood other than price. There was a huge inertial fear of running out of raw material as the cost of a plant

shutdown was enormous. When we applied our statistical methods to the situation we found that the client had correctly predicted the seasonal pattern of supply needs, but massively over-compensated for the perceived risk. The answer was to put forecast estimates in place for these risks. The effect of the new policy will be to reduce raw material inventories by up to 20 days, without running the risk of stock outs.

If you sell beer, you have a different type of problem. With one client in the UK, they had estimated that during a summer weekend beer consumption would increase by over 7 million litres for every 1^o Centigrade increase in temperature. As a result, their forecast models incorporated long term temperature forecasts from the Met Office and were continually adjusted as new information was available.

Forecasting is a tricky business at the best of times, but without using some kind of statistical method you run the danger of having too much stock or potentially losing sales through stock-outs. So if you think you can outsmart the data, be ready for some very expensive mistakes. It remains surprising that so many companies still rely on guesswork to get the answer right, when they really need some simple and effective tools to improve their situation.

What about the Euro?

While speculation about the Euro's collapse may have dissipated, it has concentrated minds on the potential impact of currency devaluation. This has been a serious problem for many multi-nationals with large receivables books in Southern Europe, particularly if they have spent the last few years trying to implement some clever securitisation plans and in some cases accepting government bonds in exchange for payment. All these strategies have shown that the basic weakness of collection procedures have caused the initial problem and must be resolved to have any chance of healthy balance sheets. So the old solution remains the way out of an old problem.



European Payment Terms



We have been hearing from politicians in various countries for the last 15 years about how they were going to bring in legislation to regulate payment terms in different parts of Europe. To date the only effect has been to ensure that suppliers had the right to charge interest for overdue payment. In commercial terms such legislation has had no effect at all on late payment culture. Next we had the French LME legislation. The French Government put huge pressure on large French companies to comply, but many in France still complain that the law is not fully enforced. In Spain too, a very explicit law exists that means that the maximum payment term will be 60 Days by 2013. This law has been largely ignored and the biggest offender has been the Spanish Government. And now we have a new EU Directive implying that the longest acceptable payment term in the EU will be 60 Days. Given the number of European

governments that are busily cutting spending and figuring out ways to hold on to cash, particularly in Southern Europe, the implementation of such law will require hundreds of billions of Euros that nobody currently has in their pocket.

So we avidly watch this space to see what fudge the politicians will come up with to postpone the implementation of the Directive.

Our expectation is that Northern EU members will largely comply with the Directive and that the Southern countries will do their best to ignore it. And the Commission's record on enforcing directives is patchy at best.

So if you are a business suffering from excessively long payment terms from your customers, don't expect very much help in the short term.



Indirect Procurement

It is astonishing that after spending huge sums of money on systems, infrastructure and organisational effectiveness that so many companies cannot see the honey pot right under their nose – indirect or non-core procurement. The traditional excuse was that it was such a small amount of money that it wasn't worthy of intense focus. The sad fact is that there are still many companies out there that have not yet grasped the nettle. The opportunities are often in unexciting areas such as facilities management, security, temporary labour, spare parts and communications. But there are yet more companies who have made inroads in these areas but who have not dealt with the more sensitive areas of professional services and marketing expenditure. Marketing is an area of huge waste where the traditional mantra has been that procurement professionals would get in the way of creativity and force marketeers to take the cheap solution every time. But the flip side of this argument is that marketeers need people with commercial acumen that can help them to achieve the maximum cost potential within their fixed marketing budgets. With the right balance struck, the marketeer can become more creative while the experts take care of the costs and service provision elements of the supply relationship.

Portugal: Patchy Progress

While the general public in Portugal has been having a hard time since the bail-out, the situation for Portuguese business has also been difficult. Many small businesses are suffering under the weight of bank debt and declining trade. Larger businesses that are primarily focused on the domestic market have also been hit hard, but have greater access to funding. But those large businesses that are export focused have continued to do well, especially those exporting to either Germany or the United States, where consumer demand has held up well. But there are many opportunities that have not yet been tapped properly in the country. Procurement departments in many companies have not yet taken advantage of the efficiencies that access to the single market has allowed. For example, many companies still buy components through local distributors when it is possible to deal directly, and more cheaply, with EU suppliers and distributors. Things are changing slowly, and Portuguese companies will be rewarded by higher levels of efficiency as economic activity recovers.

At Informita.com

Go to our website and download “The Working Capital Handbook”. It will help get you started on the working capital journey and it is absolutely free.

Spare Parts

Too many and too costly



On a project many years ago we were sent to discover “squirrel stores”. We went all over the plant, into people’s offices, canteen cupboards and filing cabinets and found everything from expensive machined parts, electronic components and in one case a steel part that had been there so long it was a deep rusty red. The people in the plant did not trust the systems and processes in place to replenish spare parts, so they would keep a few back. Then when the rainy day happened that the part was required, it was ready for them to use. In most cases these parts never got used and as people moved on in the company or careers these items were forgotten about.

In today’s world of expensive ERP systems, the confusion continues to reign. At one client, who was an early adopter of SAP, they could only estimate the number of

spare parts that were being held in each one of their plants. There was a very bureaucratic process for ordering spares and over 100,000 parts were loaded on SAP. So they had a lot of parts, a lot of work to understand where they all were and a failed process that meant that costs being paid were up to 45% above list prices for the same parts that could be obtained over the phone with suppliers.

This is in stark contrast to other companies that have outsourced the entire process to specialists delivering lower costs, better lead times and eliminating costly inventories.

There are enormous cost and inventory reduction opportunities for many companies in this area. The pickings are rich for those who dare to change.



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