

Informita

News

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Dash for Cash – Are you ready for year end?

It's that time of year again when many CFOs have just remembered that the balance sheet needs to look good by 31 December. Many companies will go to great lengths to slash working capital in order to meet targets by withholding payments to suppliers, mass inventory reductions through special deals and shipping all remaining product on the final day of the year. These actions, known as "year-end heroics", are harmful to customer and supplier relationships and do nothing for the business except to satisfy the markets that all is well in the short term. The sure sign of this type of activity is that first quarter working capital levels will be abysmal. But many companies get trapped by this window dressing. If the window dressing were to stop the consequence would be a terrible year-end balance sheet, lots of questions from market analysts and possibly breaches of debt covenants. But there is another way to break the habit. If you are prepared to tackle process issues properly then it is more likely that the year-end "dash for cash" results will be more sustainable. In fact, many companies started their working capital programmes in this mode and then found that they were able to build on the initial results to create a platform for more sustained improvement through better processes, better training, more transparent and meaningful reporting and appropriately balanced incentives. So this year will your company choose to have another year-end push or start to deal with the real process issues that sit behind poor working capital performance?

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Public Procurement

An expensive exercise

Public procurement processes are not for the faint hearted. In many developing countries processes can be weak and fraught with corrupt practices, but even in the more developed world public procurement processes can be complex and expensive. As a result many smaller companies shy away from being involved in tendering processes and much prefer to sub-contract in order to avoid the expense and disappointment that often comes their way. The buying institutions will have a natural bias towards large well established and financially stable commercial organisations that will pass the risk assessment criteria with flying colours. The irony is that very few public procurement processes have a reputation for delivering to specification, on budget or on time. And because smaller players are effectively excluded from the process, the level of innovation injected into the average public procurement solution can be pretty low. A notable exception can be large engineering projects where architects lead the innovation process, the lead contractors are

there to effectively project manage the construction and the sub-contractors are there to provide premium expertise for each element of the build. But we have not seen this in major IT projects or in outsourcing. According to the House of Commons Public Accounts Committee, “failings in both the management and implementation of the system, including the inability of the Government to ensure it was getting the best contractual deals from suppliers” caused £2.4 billion to be wasted by the National Programme for IT in the NHS in the UK. Again in the UK, a report by the independent think-tank the Institute for Government (IfG) concluded that the Government still did not have the skills to manage private sector contracts effectively. It seems that many public procurement professionals do not have the skills and experience to tender complex contracts properly or manage those contracts effectively. Surely the solution is to upgrade these people’s skills or reform the process so smaller less oligopolistic operators can deliver more innovative solutions.

EU Late Payment Directive

There still seems to be much confusion about the EU’s latest Directive on Late Payment. As predicted by Informita in September last year, there has been very little effect so far in business practices as a result of this directive. Since no member state decided to make the legislation retrospective, there has been no obligation on contracting parties to obey the new rules. Many contracts are open ended, so may not be revised for many years and public sector coffers are probably in a worse state than in previous years. The only areas we have seen where payment performance has improved in the last year have been in Southern European public procurement. But this is not driven by parliamentarians in Brussels and Strasbourg, but more through agreements to refinance government or bank debt in the worst offending countries. If you need to know more go to:

<http://www.informita.com/resources/Informita+-+EU+Directive+on+Late+Payment+-+March+2013.pdf>





P-Cards – Out of Control?

There seems to be a headline almost every day about employees who have abused their privileges with their company's procurement cards. Millions are being lost every year by employees spend on gambling, entertaining and other unauthorised purchases. This happens either because the standard P-card technology doesn't allow purchases to be stopped effectively or because companies and institutions have failed to implement the right controls to prevent this abuse. But all this is completely preventable. The latest procurement card technology, C-Solve Enterprise, is capable of restricting

purchases to specifically pre-agreed goods and services from specifically pre-agreed vendors. And in Europe the process is fully tax compliant. Say goodbye to costly paper transactions and hello to fully enabled authorisation work flows. No other P-Card solution available today offers such a simple solution, with full control and can operate in any country across the globe. So far C-Solve has been a major success in its native South Africa and we expect the product to make quick inroads in Europe. To learn more go to:

<http://www.informita.com/resources/Informita+-+Purchase+Cards+-+July+2013.pdf>



Croatia: Recovery stumbles on

Croatia is the latest member of the European Union. Entry to the European club has proved to be an important achievement for a country that has been in economic turmoil for many of the last 30 years. In the 1980's there was severe austerity and in the 1990's war, mass displacement of population and a botched privatisation programme. In the early part of this century things seemed to be getting better. Growth was finally at respectable levels, although starting from a very low base by European Union standards. Then came the crash of 2008/09 which hit Croatia very hard. But it seems that some kind of recovery has begun. The one saving grace for Croatia over many other Southern European economies is that government spending has been tightly controlled for several years now. This means that government debt is a relatively modest 60% of GDP. But there are still many administrative issues that can make Croatia difficult to do business. It took a major Swedish retailer over 5 years to open a new store. So without major administrative reforms expect growth to be steady but slow.

Working Capital – What's Next?



WORKING CAPITAL
WHAT'S NEXT?
THE FUTURE OF WORKING
CAPITAL MANAGEMENT

BRIAN
SHANAHAN

For over 15 years there have been several working capital surveys that look into the past to try and determine the future. The only conclusion from these surveys is that the past is not a very good indicator of what will happen next. In our latest booklet we take a different angle. We look at the various tools, technologies and trends that are likely to affect working capital management in the coming years and highlight those factors that will reshape the skills and knowledge required to manage working capital effectively. The book is now available at:

http://www.amazon.com/Working-Capital-Whats-Next-ebook/dp/B00ET68BVQ/ref=sr_1_15?ie=UTF8&qid=1377690395&sr=8-15&keywords=brian+shanahan

At Informita.com

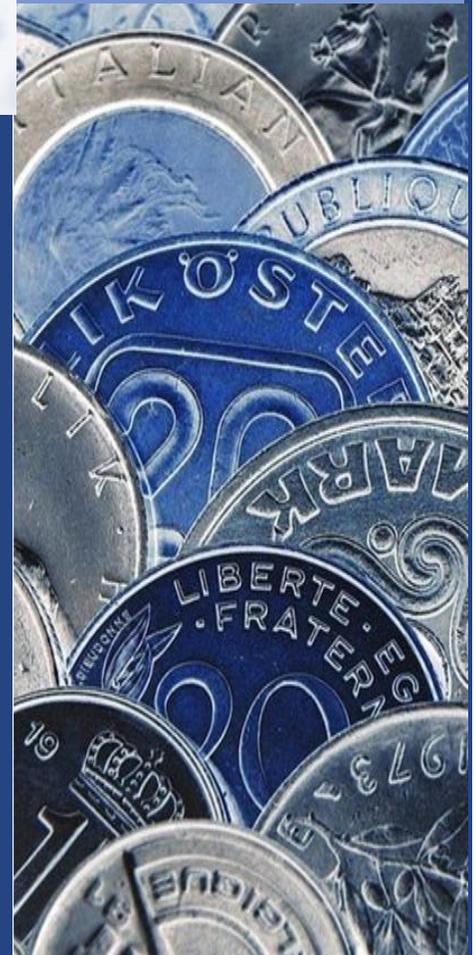
Download our latest paper on cash flow forecasting and our review of Purchase Cards. On our Downloads page you will find these and other insight papers to download.

Procurement Fraud

Spotting Mr.10%

There are numerous countries where bribe taking is an immediate and obvious problem. The usual ways of dealing with these problems are through rigorously enforced legislation and onerous judicial tariffs. But in the world of procurement there are many other more subtle methods of corruption requiring varying levels of effort to uncover the wrong-doing. And it is also fair to say that even the least corrupt countries in the world have gone through a long journey to get to where they are today. But one general principle that should be followed is that where ever there is the potential for people to make money through corrupt practices, somebody

somewhere will eventually be tempted. One of the biggest issues is that companies and institutions have very few controls in place to ensure that any theft is discovered but there are some straightforward things that can be done. Perform audits of prices achieved and saving realised. Speak with industry associations about peers' experiences with particular vendors and products. Make sure that anyone displaying an unusually wealthy lifestyle or indulging in expensive hobbies is properly investigated. And when impropriety is uncovered, do not be afraid to use the full force of the law to deter others from engaging in any similar bad practices.



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