

# Informita

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# News

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## Cashed in or Cashed Out

### What does the situation in Greece say about Supply Chain Risk?

The recent events in Greece produced a good number of sleepless nights in Brussels, Berlin, Paris and Athens. From a news perspective it was all very high drama worthy of the best Greek tragedies, but in business terms what did we all learn? The shocking news is that most international businesses learned absolutely nothing. We made a point of asking a number of major international businesses about the contingency arrangements they had made in the event that the Greek banks collapsed and Greece had left the Euro. We got a range of answers. Many said that their exposure to Greece was not significant to warrant strategic action. At the other end of the scale, pharmaceutical companies had a moral dilemma on their hands. If they decided to cease supply of key drugs then could they be responsible for fatalities. So they all decided to maintain supply as a lesser evil than default. But for the majority of companies, no action at all has been taken. Our opinion is that this is the case since no-one really believed that Greece would crash out and that the international institutions would somehow come to the rescue. In the end that is more or less what has happened, but what if an event like this was on a much larger scale. That is exactly what is happening in China right now. There is a massive property bubble, the government has encouraged people to invest in the stock market and that bubble has been burst. Central Bank resources are being ploughed into supporting banks with questionable liquidity. This has happened before in other countries and it always ends in tears. So is your company safe from such a scenario and what steps are you taking to mitigate the risk?



## Customer Disputes

### How they contribute to overdues

Many companies do not fully realise the importance of resolving disputes as fast as possible. The obvious point is that disputes will hold up the collection of cash and that is absolutely true, but there are a number of other practices that will bloat your overdue percentage and probably yield no cash at all. When dealing with major retailers it is a common practice to have high levels of deductions. Most of these will be small value items relating to short shipments and price queries, but some will be very large value items relating to rebates and over-riders. Best practice says that these deductions should be recognised immediately and a credit issued as soon as possible. But many companies have a budget for the issuance of credit notes, i.e. once a particular value of credit notes has been issued in a particular month then no more will be issued until the following month. Companies that follow this practice often have a credit committee whose job is to decide who will be issued a credit note and who will not. The main driver of this behaviour is the protection of profits. If the credit

note is not issued then it will not impact sales. This is a very bad habit and has the effect that overdues are being over reported where a credit note should have been issued. It also makes life very difficult for a cash collector since the customer account will be showing items due for payment that in reality will never be paid. This practice of delaying the issuance of credit notes is one of those bad habits that once started is very hard to break. At one client the average time to resolve a dispute was a staggering 36 days and the value of disputes would make up between 50% and 70% of total overdues. If you have this problem the solution is rigorous process discipline. There should only ever be a delay in issuing a credit where there is a genuine dispute with the customer. Once the resolution of a dispute is known, a credit note should be issued immediately. It also helps if the sales organisation is bonused on overdue or DSO targets. This will discourage sales managers from delaying authorisations in order to make sales numbers look temporarily better.

## CashForce Update

More companies are recognising that CashForce is probably the best cash flow forecasting tool on the market today. And this is in addition to its capabilities around working capital reporting and accounts receivable workflows. Several European manufacturing companies have been using Cashforce successfully for up to 2 years and there has been a lot of interest from major consulting firms. They see CashForce as a tool that will dramatically speed up data analysis for their clients and allow them ask more than the basic questions of their data sets. In addition, CashForce has opened an office in New York and has been selected for the “Barclays Accelerator” Techstars programme. This programme has been extremely successful in introducing technology start ups to investors. So expect big things in the coming months as more companies adopt CashForce as their best practice solution for cash flow forecasting, working capital reporting and accounts receivable management. Find out more at [www.cashforce.com](http://www.cashforce.com)



## Supply Chain Bullying

Bad for the victim, bad for the supply chain

Many thanks to those who answered our survey on supply chain bullying. More than 66% of respondents said that they had been a victim of supply chain bullying. The real surprise from the survey is that 60% of respondents were not from North America or Europe. In these parts of the world the newspapers are full of stories about big companies taking advantage of smaller companies. We had responses from countries as far flung as Peru, Vietnam, Nigeria, India and Singapore and there appears to be a clear pattern that supply chain bullying is on the rampage in the developing economies of the world. The big



issues highlighted to us were profit contributions, signing on fees, extended payment terms, late payment, taking discounts after due date, unagreed rebates, demands for cash and being forced into supply chain finance schemes. All this suggests that there is a lot going on in our global supply chain that is a potential threat to sustainability of supply and another reason to create more transparency in our supply chains.



## Romania: Progressing in the right direction

Since becoming a member of the EU in 2007, Romania has improved transparency and accountability in the public sector. However, businesses still consider the government's reform weak and slow due to poor implementation of laws on transparency of information and decision-making processes. The judicial system is said to be ineffective in fighting against corruption. In 2014 alone, 1,138 leading public figures, including top politicians, businessmen, judges and prosecutors, were convicted by the National Anticorruption Directorate. There is now a very strong consensus that this corruption must be tackled or else economic growth will be stifled. The world economic downturn has hurt Romania badly, but GDP growth is expected to be 3.5% in 2015 and is expected to reach 7.4% in 2018. We would expect that that will mean a long term decline in the use of distribution trading models as the level of corruption decreases and the quality of infrastructure increases. This should also mean better prices for imported goods as the distributors' margin is eliminated. If all this comes to pass then it will be good for Romanians and those who aspire to trade in the country.

## 4 Steps You Must Take To Get Paid



It is very common that small business complains that big business pays late and on long terms. But very often small businesses do not help themselves. At a recent finance and funding seminar at Clonmel Chamber of Commerce in Ireland Informita were asked to state four key things that small business can do to get paid more quickly and the answers were:

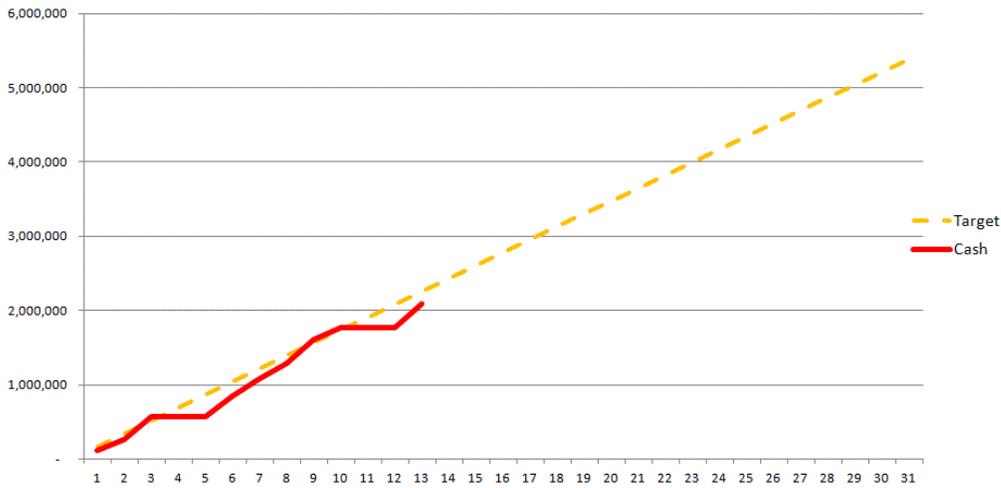
1. Ask better questions
2. Send better invoices
3. Don't be afraid to ask for payment
4. You don't have to accept long terms

To find out more on these points go to:

<http://www.countytipperarychamber.com/4-steps-you-must-take-to-get-paid.htm>

The Chamber's website also contains many articles that will be of use to small businesses on subjects ranging from finance, technology and human resources.





## Cash Targeting

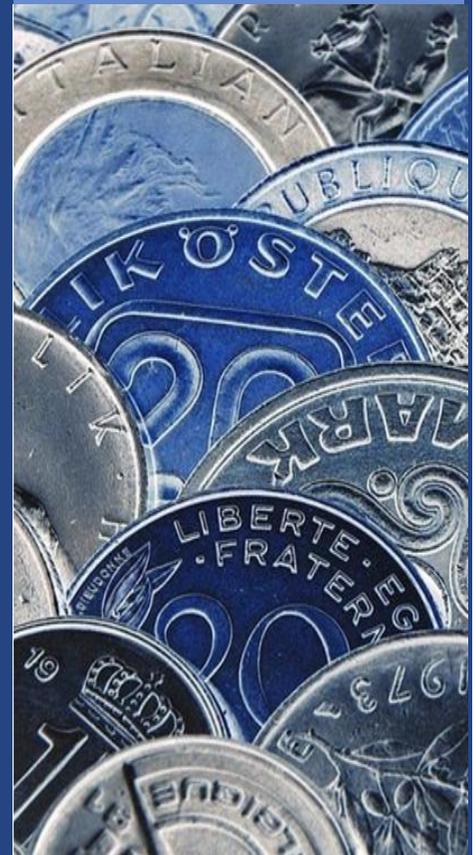
### A simple and effective measure for cash collectors

A simple best practice for setting targets for cash collection and providing a means of continuous daily measurement for collectors is to use a cash target model. You will need to construct a simple model that is able to predict the amount of cash that will need to be collected if a certain DSO target is to be reached. This “cash target” then becomes the focal measurement for collectors during the month. As cash arrives every day, that cash will be plotted against the target. In the graph above if the cumulative cash received line is below the expected cumulative target for that day of the month then you can easily tell that more needs to be done to achieve target. It can also tell you if you are ahead of target. This helps collection managers to intervene at an earlier point in the month to try to sort out operational problems rather than wait for month end and receive the bad

news that the DSO target has been missed. This allows collection managers to be proactive in driving collector performance, escalating major issues to the business and setting expectations for senior management. The measure also allows individual collectors to understand where they are every day so that they will either work harder or seek assistance if there is some point that is causing a struggle. The cash target for the department can be broken down to a specific ledger or collector. This means that collectors have their own dynamic performance measure that is very easily updated every day. Allowing collectors this visibility turns out to be a big motivational tool in a department. But it is still surprising how many companies have never heard of this very simple model. Please contact us to find out about how cash targeting could benefit your company.

## Cash Flow Central

Informita have designed a free app to grant you a fast and efficient link to our latest twitter and facebook feeds, our weekly blog and our quarterly newsletter so that you can be up to date on the latest developments about working capital, cash flow and procurement. Download the app for [Windows](#), [Android](#) and [iPhone/iPad](#).



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