

# Informita News

Issue 29

September 2019

## Trade Wars Continue

### Is this the new economic diplomacy?

It seems that we are far beyond the days when trade disputes are decided by the WTO. Although that process has proven to be very slow, it did have the effect of keeping trade flowing around the globe. Now we find ourselves back to the 1930s when international trade halved due to tariffs and various retaliatory measures taken by the various powers of those days. Recovering from that type of trade isolationism took decades. The US now looks set to continue its tariff policy with yet new tariffs coming this month and the Chinese look set to sit out the Trump presidency and hope something better comes along. In the meantime, other countries are taking the lead from Trump. We now have Japan and Korea fully engaged in a trade spat which is raising old enmities on both sides that will not do anyone any good. And we see that hard Brexit is on the way (most likely) where politicians think that their selfish political ambitions are far more important than people's livelihoods. Since the foundation of the ancient city of Ur in Mesopotamia, humans have learned that trade is the way that the whole society prospers. Anything that gets in the way of that trade leads to poverty and sometimes war. Between the WTO, the EU Single Market, NAFTA, Mercosur and many other trade alliances, we thought we had left those bad old days behind. But it looks like they are back and may not go away for quite a while. So buckle up for added supply chain uncertainty and increased prices.



## In This Issue

### • Payment Performance

Are you measuring correctly?

### • Just in Time

Is it a mirage?

### • Supply Chain Risk

Driven by climate change?

### • Brexit: The Final Countdown?

### • Country Profile

Guyana

### • Improve your collections

AR training delivers DSO improvement



## Just in Time

### Is it a mirage?

JIT inventories give the impression of little trucks running around the super-efficient auto plants of Japan and the companies involved having ridiculously low levels of inventory. But is that true? In the case of the auto company, it probably will be true but when we look at the total supply chain we will find the same inventories sitting with a supplier somewhere around the world. So even if the supplier, in turn, managed to have JIT inventories, they have simply pushed the inventory back up the supply chain. And the lower down the food chain your company is, the more likely is that you will be carrying the can. The odd thing about the auto industry is that they still end up with thousands of brand new vehicles parked up waiting for a buyer. The other danger with JIT inventories, especially with finished goods, is that sales will be lost due to stock-outs if the demand pattern moves in a positive direction. That will not happen if the production planners can react fast enough to a changing demand signal. But that is the core problem in any forecast, i.e. if the demand pattern changes suddenly an otherwise accurate forecast becomes worse than useless. This is now happening in certain countries with diesel powered vehicles. After the various scandals about diesel emissions and the introduction of electric cars, forecasts have become very erratic and will probably stay like that until the transition is complete. So careful with those JIT inventories.

## Payment Performance

### Are you measuring correctly?

What is the best way of measuring payment performance to suppliers? It sounds like a simple question that, even amongst the professionals, will give many different answers. Now we find that governments and academics are getting in on the game and adding to the confusion. In the UK, legislation has been introduced forcing all large companies to report on how long it takes to pay suppliers and how often suppliers are paid late. Unfortunately, the legislation has been so badly framed that it is almost impossible for anyone to comply. And when these large companies have asked their auditors for advice on how to interpret the legislation they have drawn a complete blank. In the Netherlands, it has been the academics who have jumped into the fire. In their case, the questions they ask make a little bit more sense. But it is not clear what anyone is going to do with the information and even if a particular company does pay a lot of invoices late, it does help anyone to understand the root cause of the problem. Politicians find big companies paying late an easily populist target for public consumption, but it is a political class who do not understand the issue and feel the need to be seen to be doing something. And invariably they do the wrong thing. Measures need to be in place that are doable and identify two distinct groups: Those companies who deliberately delay payment and those where payment is delayed due to poor supplier invoicing. Only then will targeted actions be possible that actually might have a hope of solving the real problem.





# Supply Chain Risk

Driven by climate change?

Supply chain risk is a subject that traditionally was dominated by factors such as the rule of law in a particular country, wars and political relations between particular countries. While those factors remain important, climate is becoming increasingly important in recent years. In many cases, the problem is that the level of preparedness is sadly out of date. So Japan's tsunami defences proved to be inadequate, New Jersey has been flooded, train lines in England have fallen into the sea, droughts in Australia have been far more severe than previously experienced and so on. And all this directly affects how our global supply chains operate. That means that we have to have a greater expectation of major disruptions to our supply chains in the future.



## Guyana: Boom or Bust?

Guyana is the only English speaking country in South America and is considered to be part of the wider Caribbean community rather than being part of Latin America. Originally set up as a plantation economy in colonial times, the country's chief export is still sugar. Other big industries have been mining, timber and fishing. The country suffers badly from shortages of skilled labour, poor infrastructure and a sizeable external debt. It hasn't helped that politics in the country is largely driven by ethnic rivalries that have resulted in corruption and economic mismanagement. Ironically, because of the lack of development, the country is now very popular for eco-tourists. The next big this is oil. Oil was discovered off the coast and the first oil production is expected in 2020. GDP is expected to increase by almost 400% by 2025 in a country where 40% live in poverty. But will all this extra cash be a blessing or a curse? Guyana needs to improve the quality of government to ensure that all the extra money doesn't end up in the hands of politicians. So let's watch this space and hope oil will be for the good of Guyana.

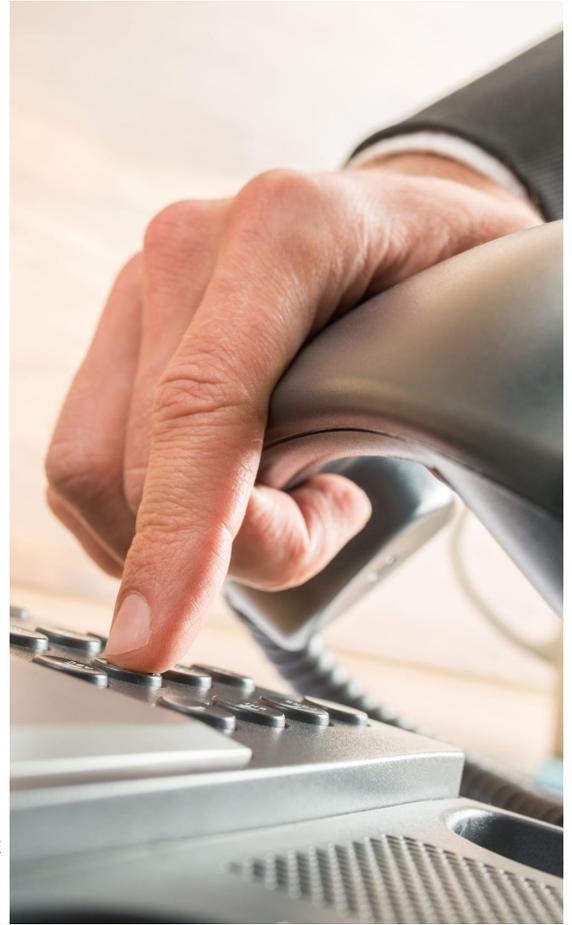
## Brexit: The Final Countdown?

"We're leaving together, but still it's farewell." That was the rock band Europe singing in 1986. It was also in 1986 that Maggie Thatcher's Conservative government agreed on the bones of the Single European Market with other European governments that were keener on political co-operation rather than economic partnership. And yet the Single European Market has been a huge success for all who have been members. It looks now that Britain will be crashing out on the 31 October 2019 and there are still very few that believe that it will be an economically successful venture. For businesses the only thing left to do is to try and isolate themselves from the impending economic shock. Sterling is expected to fall further destroying the margins of many businesses that import goods into the UK. Many companies have still not gotten the paperwork ready for the UK being a third country in trading terms with the EU. So we will not just have tailbacks at Dover and Calais, there will be many loads simply stuck because they do not have the right paperwork. For a while, it's going to feel like 1986.

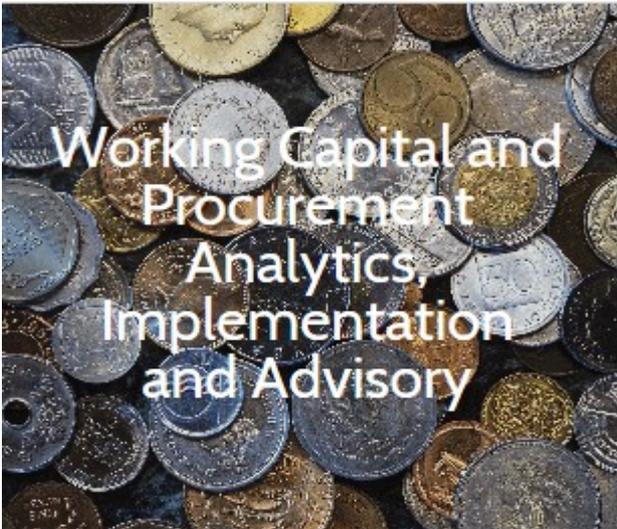
# Improve your collections

## AR training delivers DSO improvement

In recent years, many companies have invested in sophisticated systems that try to help segment the customer base and direct collectors to speak to the right customers. Unfortunately, most of these systems have been written by IT people who only have scant knowledge of how collections really work. For example, several of these systems direct collectors to high risk customers when there is no evidence that there is any correlation being a high risk customer and a slower paying customer. That's why collectors need appropriate tools to decide who to call. Then they need to know how to manage that call. How is the objective of the call decided? What are they going to say to the customer? How will they react based on the response of the customer? These are all things that are not decided by software and must be decided by the collector. But it is very easy for the collector to make the wrong decision on all of these points. That will result in increased DSO levels and unnecessarily high overdue levels. That is why we routinely train Accounts Receivable Collectors in best practice techniques will many different types of customer. We use role plays and group exercises to help collectors decide who to call, what to say and not say and how to react to the customer in an appropriate fashion. Even collectors with many years of experience can pick up bad habits that lead to sub-optimal performance. So don't forget to train your people to do the right thing.



## Visit our websites

 	 
--	--

**Informita**

Website: [www.informita.com](http://www.informita.com)

Twitter/Facebook: @informita

Email: [brian.shanahan@informita.com](mailto:brian.shanahan@informita.com)

Phone: +351-911556662