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In This Issue

- **Too many suppliers**

  Managing the tail

- **AR Forecasting**

  Not critical enough

- **Payment Terms**

  What do your terms and conditions say?

- **Sausages!**
- **Country Profile**

  Mauritius

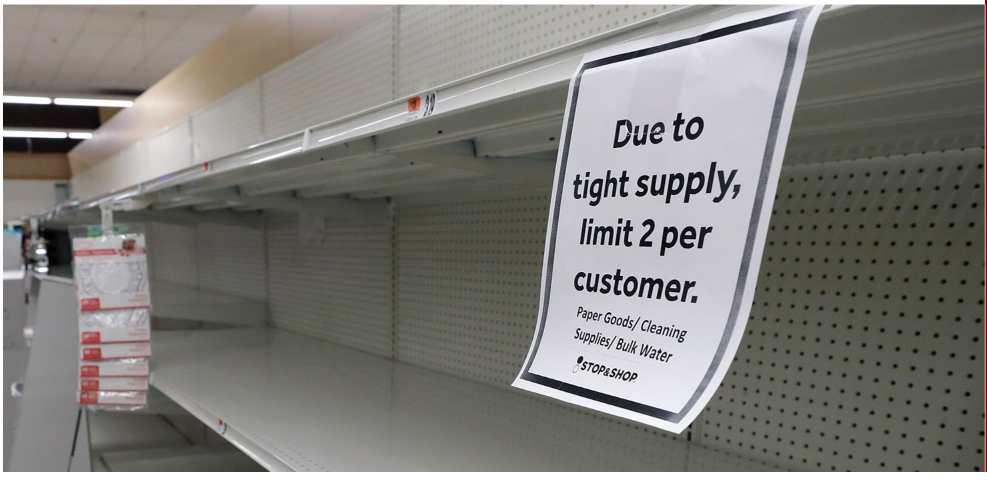
- **P-Cards**

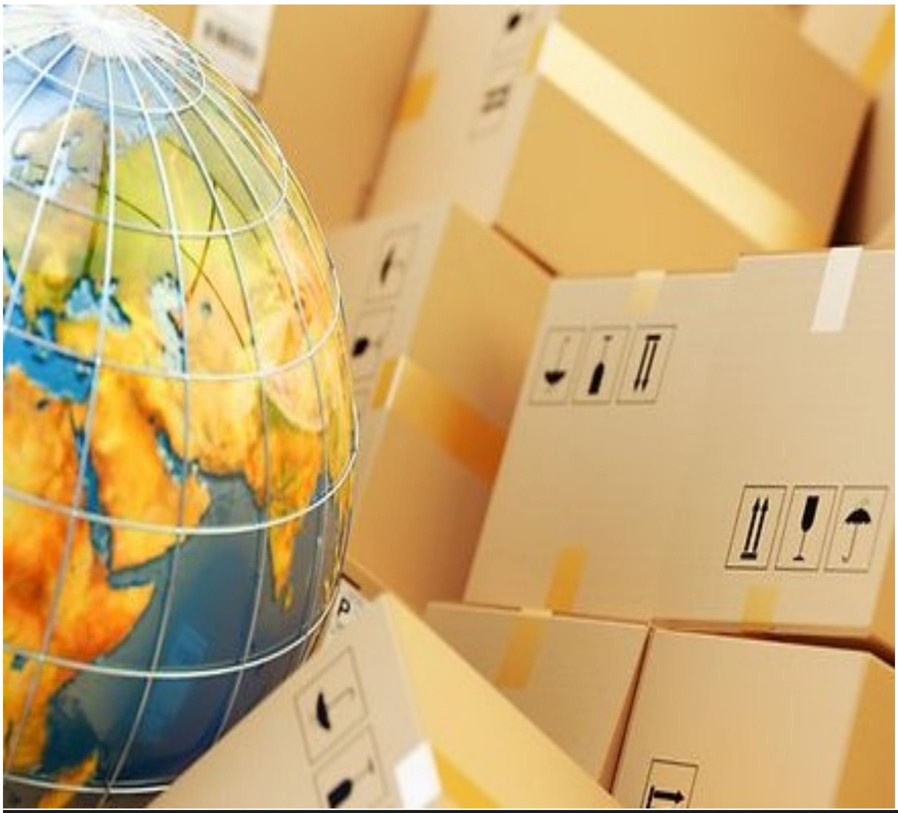
  No breakthrough in Europe

Supply Shortages

A temporary problem?

Since the start of 2020, we have experienced a series of supply chain shortages across the world. It would be easy to say that the pandemic has been the cause of all these disruptions, but that would not be the case. The reality is that there has been a confluence of many different events at a national, regional and global level that have contributed to the changes we have experienced. And it is not immediately clear when all these things might go back to what we used to call normal. There are global events that have been driven by the pandemic. Probably the first major event was Chinese export production almost coming to a halt in the first three months of 2020. Apart from causing short term supply chain gaps, this has also meant that there are still thousands of empty shipping containers sitting in Europe that in normal times would have already been back in China waiting to be filled up with consumer and industrial goods. Even though the production of shipping containers has increased, there is still a shortage of containers in China that will likely last well into 2022. Global consumer demand has driven ocean shipping rates through the roof, which is a great relief to the major shipping groups that bet the farm on giant container ships and super hubs that 3 years ago looked like they could become enormous white elephants. There is a shortage of computer chips as people buy more laptops to support home working leaving fewer chips to be installed in automobiles. Brexit has also played its part. There are big labour shortages in the UK as many foreign workers have left low paid jobs and no one is really sure if they will ever come back. In Ireland, there is a shortage of building timber driven by the backlog in licences required to fell trees and this has been compounded by the new difficulties of importing timber from the UK. As the tourist industry recovers globally, there are many reports of labour shortages as hospitality workers have retrained and left the industry for jobs they view as being more financially secure. So will we return to the happy times that were 2019? It doesn't look like it, but there are still many balls in the air before we can detrmine the new norm.





Too many suppliers

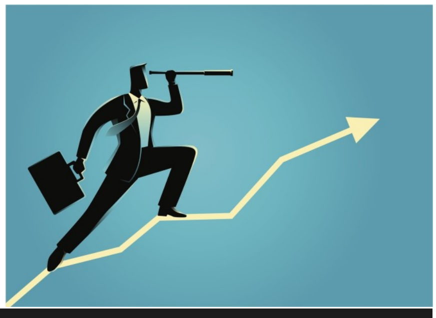
Managing the tail

There are far too many companies across the world that have a very limited level of control over their supply base. Many procurement departments retreat from the problem with the excuse that they manage the suppliers they are responsible for quite well. The truth is that in most companies maverick spend is rampant. And it has become one of the subjects in the "too difficult" category. The shame is that the tools and methodologies to fix the problem have existed for a very long time. First came purchase consolidation and afterwards purchase catalogues and P-cards. Purchase consolidation remains a very profitable activity for those who specialise in this area. Assuming there is no fraud, it is usually estimated that maverick spend causes overspends of between 3% and 5% and often much higher. So when there is such a valuable cost reduction opportunity, why does this problem persist in so many companies? The first issue is discipline. In most organisations, there is no consequence for the maverick spender. Just pick up the phone and give your friends some business. It is so easily done and difficult to undo. But without penalties for bad behaviour, the bad behaviour will continue. The second problem is leadership. Leaders often have to juggle different priorities within the organisation. Those leaders are rewarded for extra revenues and profitability and it can seem much easier to get those targets from new sales rather than tackling maverick spend. The third issue is organisational stamina. There are those organisations that have implemented successful programmes to contain maverick spend only to have the whole programme complicated by the next acquisition. Then the whole programme will need to be done again with the acquired organisation. So the opportunity to improve persists.

AR Forecasting

Not critical enough

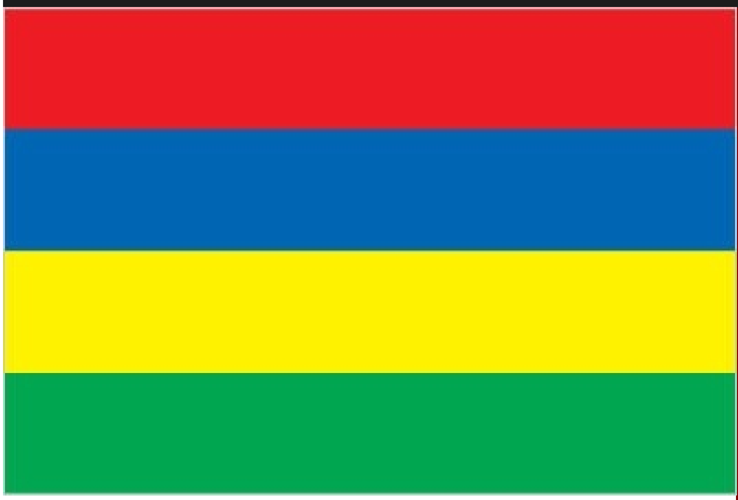
Private conversations with corporate treasurers usually reveal that cash forecasting is something that most would prefer not to do. It can be a complex process, making it hard to manage all the stakeholders and it can look bad to get it wrong. Unfortunately, all forecasts are wrong to some degree and many stakeholders fail to understand why this happens. In addition, many companies have comfortable buffers between cash receipts forecasted and their banking facilities. For these treasurers, there is no great financial pain from getting the forecast wrong, so it becomes another reason to either avoid the process or make it as simple as possible. But all that still leaves a significant minority of companies where short term cash flow forecasting is critical and the tools and processes available to solve the problem come up short. So if you are one of the minority where it is critical and you do need help, don't be afraid to ask. There are solutions to the problem where we can help.



Payment Terms

What do your terms and conditions say?

They say that it is very difficult to get two lawyers to agree on anything. Whether that is true or not, lawyers have a great effect on what your supplier terms and conditions say. On some subjects, they can be wonderfully verbose and on others have no presence at all. Such is the case with payment terms. At least half of all supplier terms and conditions do not mention a standard payment term or the mechanism for payment. Another quarter does, but in such a complex way that it is unclear what the clause actually means. The final lot are explicit about a standard payment term and how a supplier should expect to be paid. But even that doesn't mean that has been properly implemented in the buyer's accounting system. So even a good effort can count for nought.



Mauritius: Blooming

Since the first humans arrived on the island in 1507 Mauritius has had periods being ruled by the Portuguese, Dutch, French and the British before independence in 1968. Because of its history and location, the population is highly diverse in terms of ethnicity, culture, language and faith. The country has one of the most stable democracies in Africa and ranks highly on the Human Development Index and ranks as the most peaceful country in Africa. Citizens enjoy free universal health care, free education up through the tertiary level and there is free public transportation for students, senior citizens, and the disabled. And all this in a place of beauty that attracts visitors from all over the world. The old economy was very much a colonial plantation set-up but this has been transformed by financial services, tourism and information technology. The economy is very open to the outside world and is known as an easy place to do business for foreign entities. While 2020 was economically tough due to Covid, the forecast is for a very strong rebound.

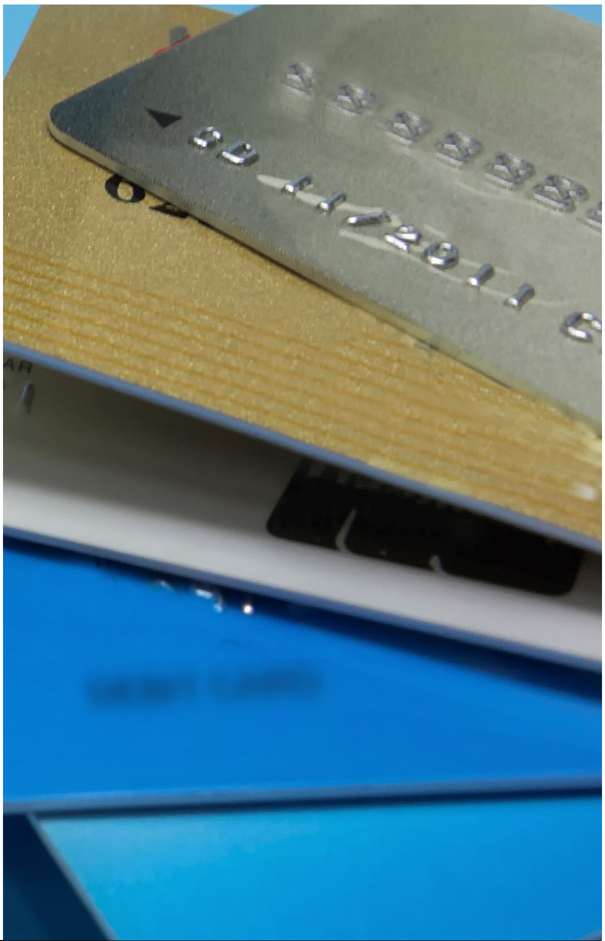
Sausages!

Populist politics and trade agreements usually turn out to mix as well as oil and water. Such is the case in Northern Ireland where there is much wrangling between the European Union and the United Kingdom over a protocol signed that in effect keeps Northern Ireland (part of the United Kingdom) in the European Single Market for goods, even after the rest of the UK left in 2020. One of the specific points brought up by the British is around the sales of sausages from mainland Britain to Northern Ireland. Under the protocol, these would be banned, since the Single Market does not allow the importation of chilled meats from any non-EEA country. Is this a major economic problem? Apparently not. Major retailers in Northern Ireland have already stated that they have an ample supply of chilled meats, including sausages, from sources in Northern Ireland and the Republic of Ireland. So nobody in Belfast or Derry will be lacking in protein any time soon. Businesses have already adapted to the new rules and are getting on with life. But the politicians continue to go to battle on a problem that businesses have already solved. But the grandstanding is carrying on regardless.

P-Cards

No breakthrough in Europe?

P-cards or purchasing cards have been around in Europe since the late 1990s and have yet to make a dramatic impact across the continent. In the early days, there were many issues about VAT reporting that needed to be resolved and even though all those issues have been solved, the penetration of P-cards in Europe is only a fraction of the United States. There are several reasons why this is the case. The first is that credit cards are far more widely accepted by US companies compared to European companies. In fact, banks are less ready to support companies in allowing non-retailers to accept credit cards. It doesn't help that many small retailers in parts of Europe do not accept credit cards at all. An example would be Germany where the acceptance of credit cards is exceptionally low. Secondly, the merchant fees charged by the credit card companies in Europe are significantly higher than in the US, making the interest charges expensive for smaller suppliers. Thirdly, there are a number of P-card companies in the US who offer significant rebates on the spend for their client making it much more attractive to the buying entity. In some cases that has allowed procurement functions to claim savings from rebates, which in reality are just slightly overpriced purchases. But no such incentives exist in Europe. So there is a long way to go for Europe to catch up and some would argue that this is an area ripe for a disruptor to fill the vacuum.



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