Informita News

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Welcome to TermsCheck.com

Compare, Learn, Change

Informita have just recently launched TermsCheck.com. The purpose of this unique service is to allow companies to compare their payment terms at a supplier and customer level with others in the market. This can then tell you whether the payment terms that your company have agreed are in line or out of line with market norms. It provides hard evidence that terms can be changed and ammunition for negotiators by knowing what your counterpart organisation is prepared to accept. This tool depends on having volumes of data that are secure and freely given. To encourage data sharing there is a 50% discount for those that are happy for TermsCheck.com to add their data to the database. In addition all data is keep virus and hacker secure in an offline database. This tool will be of great assistance to those wanting to minimise working capital by getting beyond the inevitable inaccuracies of working capital benchmarking. Now you can compare your real data with others' real data. Nothing could be more precise. Over 730,000 data points from 184 countries have been compiled so far. So if you want to find out more and gain real insight into the terms you have agreed with suppliers and customers go to http://www.termscheck.com/ and start your path to best in class payment terms. Compare your payment terms, learn how aligned or misaligned those terms are and change those terms to something more favourable.

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Late Payment in the EU

What is going on across the continent?

Now that Belgium and Germany have transposed the European Directive on Late Payment (2011/7/EU) into law all members of the European Union have passed the proposed legislation into law. Naive politicians everywhere must have been sighing with relief that the legislation has finally been agreed and made law. But the real test of this new body of legislation was going to be in its implementation and not what sits on the statute books. It was fully expected that the Southern European countries of Italy, Spain, Portugal and Greece would ignore the law. In each of these countries there seems to be an unsaid agreement between big business and government that both parties will carry on as before. With the exception of the implementation of bail-out conditions, there has been just about no change in payment behaviour in any of these countries. In Denmark, the local version of the directive does not state a 60 day maximum payment term. Instead it merely states that any term above 30 days should be mutually agreed in writing. Following this Denmark's largest supermarket group issued a letter asking suppliers to voluntarily agree to a 90 day term, but implied that if this wasn't agreed that the trading relationship would end. There is a strong legal argument in the UK that the "grossly unfair" clause does not apply since part of the test is for both parties to act in "good faith". In other countries good faith is implied in a contract, but not in the UK. The biggest issue across the continent about this Directive is sheer ignorance. The vast majority of businesses still do not know it exists. There are many others who know of the legislation but who fundamentally misunderstand its implications. In one case we found a company that had been told, quite incorrectly, by its auditors (a notable big 4 firm) that the law did not apply to them. So confusion reigns while we all wait for a test case to be brought up somewhere.

Spare Parts

Can software help to solve the puzzle?

Spare parts in a manufacturing environment can always be difficult to manage. While there are those who have invested millions in systems to record and track all spare parts movements, the majority of businesses have not done so. The consequences can be dire. Some businesses do not even know how many spare parts they have or where they are in the factory. But it appears that big ERP has found yet another expensive solution to the problem: Implement workflows to ensure that parts are classified, tracked and ordered correctly. But what does that do for the abundance of parts already out there? The bad news is next to nothing. There is still a big job for many companies to understand what they have and where it sits. There can be big problems with SKU duplication, obsolescence and maverick buying. But solving the problem has big rewards: reduced purchase expenditure, cash from the sale of excess inventories and a decreased likelihood of production break-downs.

Commodity prices and stock

What goes up must come down

The old adage is rarely untrue yet there are many companies who have significant stocks of commodity materials at any one time that have no processes to manage the potential for either the appreciation or depreciation of commodity values. For a lot of companies the answer is hedging. This creates a level of certainty through the year on commodity prices as long as production usage goes to plan. What about companies that do not hedge or are not big enough to take advantage of a hedging contract? Then there is the possibility of a massive roller-coaster going on in your balance sheet just at a time you least expect. At one company where 70% of all raw materials were copper and the price was at $7,500 per tonne at the time, the client was terrified that a fall in the copper price would hit them badly if they could not shift their finished goods inventories. In fact the price went up to above $9,000 per tonne. In recent years that price has slid back to less than $7,000 per tonne. But it does show that if you have commodity traded inventory you need to plan for contingencies.

Russia: Running out of cash?

Russia's success was based on a hugely natural resource driven economy that seemed to have escaped the "resource curse" of many resource rich countries that sink into poverty and corruption rather than shared wealth and the rule of law. But now it all seems to be going wrong. The mineral resource booms looks to be over as Chinese growth slows to something approaching normal and oil prices are dropping as US demand for oil imports continues to fall due to the shale oil boom. Russia had been predicted to go into a mild recession as a result of these factors. But all this has been accelerated by events in the Ukraine. Financial sanctions are biting. Several large Russian corporations are no longer allowed to fund their debts on world markets. The Russian oil industry is due to slow down as the foreign spare parts that are required cannot be purchased. And then the Russian ban on EU agricultural produce is hurting many European companies supplying everything from Danish cheese to Polish apples. So what we are left with is an economy that is being rapidly cash starved and is subject to the whim of an elite where politics trumps economics. Day to day problems have not been tackled - poor infrastructure, red tape and the uncertain behaviour of the law. So it does not seem like a good time to be trading in Russia.

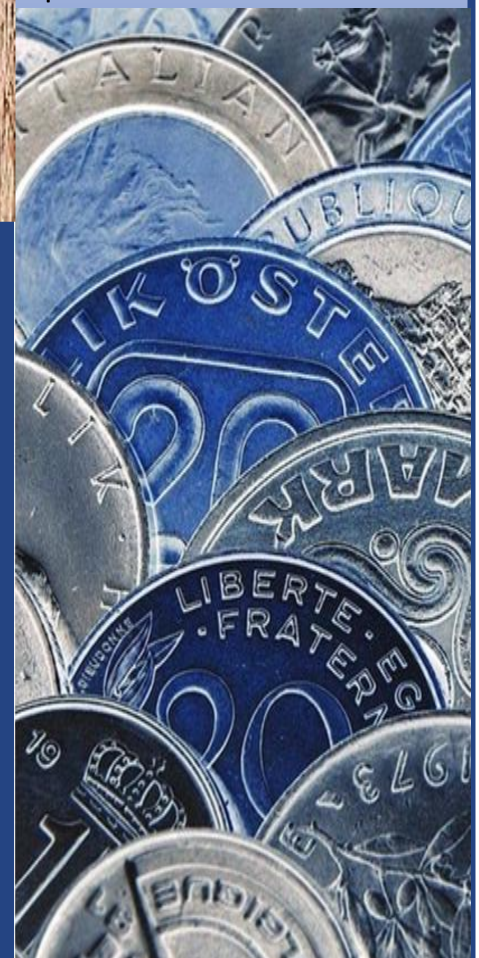
Procurement Outsourcing

The march continues

There have been many arguments for and against procurement outsourcing, but whatever your opinion was in the original debate procurement outsourcing is now a fact of life. Originally these outsourced deals covered the outsourcing of the procurement transaction as a means of taking advantage of the cheap labour rates of Low Cost Countries. We then saw other specialists pop up in the area of indirect sourcing usually of component items in electronics and engineering. These firms broadened their scope to include professional services, facilities management and so forth. Now they are biting into core expenditure categories. While direct sourcing is still a small proportion of the total procurement outsource market it is estimated to be growing up to 15% per year. At that rate the only thing left to be outsourced in a few years time will be the CPO role. But anything is possible.

At Informita.com

Don't forget to check out our weekly blog at informita.wordpress.com for more points on change management, working capital and procurement.



Can't pay, won't pay

The wrong letter can get you in trouble

A common problem when collecting cash on behalf of a water, gas or electric utility is distinguishing between those customers who choose not to pay you but are fully capable ("won't pays") and those who are incapable of paying ("can't pays"). For the approximate 85% of us who pay our utility bills without any prompting the cost of collection is remarkably small. But for that last 15% cost can escalate very quickly. Using legal processes or debt collection agencies against late paying utility customers is very expensive so companies will go out of their way to use more inexpensive methods such as sending reminder letters. The problem is that the "won't pays" understand the game and often choose to ignore these letters. Some utility companies came up with the intelligent idea of sending what looks like a debt collection agency letter to late paying customer, but in fact these letters are from the utility. This style of letter has existed in the UK market for at least 15 years and has been very successful in collecting cash against "won't pays". But now the UK regulators have announced that they consider this to be a misleading practice and should be stopped. They claim that this causes unnecessary distress to customers who have fallen on hard times. Whatever your opinion on that point, if utilities are unable to collect their bills then the price of gas, electricity and water has got to be increased and that is bad news for every customer who pays on time.

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