Informita News

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Cash Flow Forecasts

How good is yours?

It is a remarkable fact that most large corporations have serious problems with forecasting cash flows. These same companies have spent millions, if not billions, on ERP systems and BI reporting tools that promised to deliver more accurate cash flow forecasts and they have actually done the opposite. As companies have grown and the avalanche of transactions has grown even bigger the capability of these programmes to deliver more accurate forecasts has diminished. According to a recent survey only 32% of companies are able to create accurate cash forecasts. And this takes up more than 70% of the time available for treasurers to complete all the tasks that are required of them. If this is your problem, we strongly recommend that you talk to our friends at CashForce. They have developed a middleware product that connects to multiple ERPs simultaneously while making sense of all the transactions that come through AP and AR, payroll, loan schedules and any other source of data that may be applicable to the cash flow forecast. All this can be implemented in a matter of days due to the "ready to go" templates that they have developed. This means that your systems only need to be mapped for exceptions. Otherwise the process took take months. But their crowning achievement is that they use payment history for both customers and suppliers to increase the accuracy of the forecast. Usually cash flow forecasting software assumes that suppliers will be paid on the due date and that customers will pay on the due date. In more than 90% of cases this is not true and CashForce's algorithms adjust for this fact. Find out more at CashForce.com.

What is the right level of Inventory?

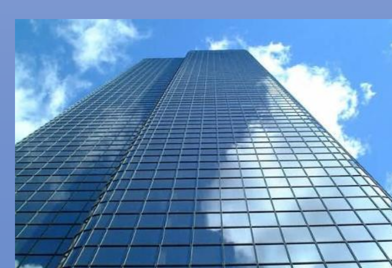
Setting the right parameters

It is always difficult to understand whether your business carries the right amount of inventory or not. Unlike receivables and payables there is no easy formula that will tell us the answer. Resorting to benchmarks doesn't help much either. Different industries can vary wildly on the average amount of inventory held and the same numbers vary again when looking across the same industry. And the more your company grows the bigger the problem gets, especially if certain people are determined to keep all the key information in their heads. That is why we always recommend that companies use proper statistical methods to understand the trade off that always exist around stockholding. This does not mean that we need to enter the realm of rocket science, but it does mean that we need to build data models that will firstly tell us the relationship of each item relative to sales and demand volatility. This is our starting point. Once this is done we can start playing with safety stock levels, re-order quantities and frequencies, lead times, replenishment methodologies, sales order quantities and most importantly the customer service level promised to the customer. Very often this customer service level is set at too high a level and drives large stock holdings of product. For example promising the customer that product will be delivered on time 98% of the time will require 60% more stock on hand versus if the same promise had been 95%. The same statistics tell us that to deliver a 100% service level would require an infinite amount of stock and is therefore statistically impossible. Then why do we hear that many customers require a 100% service level? That suggests that the people involved in the process do not understand the implications of such promises. But this is only one point of a myriad of parameters that must be optimised before the right level of inventory is achieved. And for those who have been through this process they will tell you that it is not all about reducing inventory but optimising it. A lost sale due to a product stock out is far worse than excess inventory.

Off-shored Shared Service

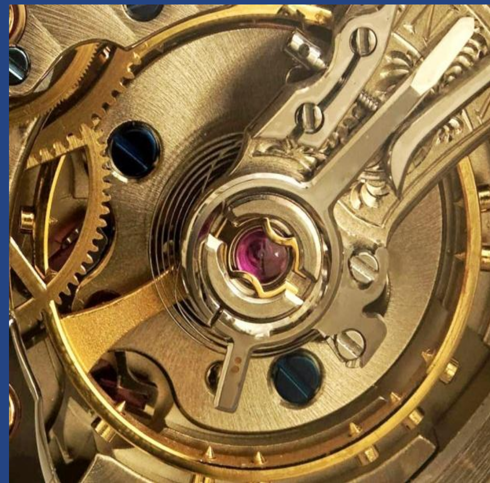
Who are the managers?

Many organisations have scored great successes by adopting shared service models all over the world. But it can be a challenge to hire people in these offshore locations who not only have the right technical and language skills, but also have the right level of management experience for the important roles they are meant to perform. There are many cases of shared service team leaders and managers who might be very bright and enthusiastic but lack the management experience that would allow most shared service centres to operate at a truly fantastic level. But this is a symptom of the model rather than the fault of individuals. Many shared service middle managers feel very remote from the parent organisation and have very little contact with senior management who usually are the role models required to pull people up the hierarchy. One best practice solution has been to thoroughly integrate the structures of the service centre with the parent. It still takes time, but it does work.



AR Automation

Good or a bad idea?

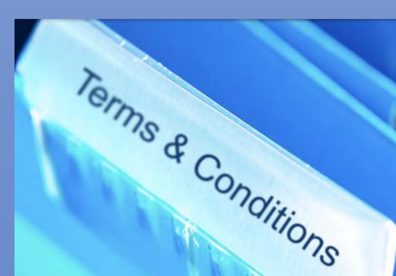


For those of you that have ever replied to anyone to do with the AR software industry, you will be used to being bombarded with mails telling you that the next technology step for AR is to automate the process. The impression given by these mails is that the whole process can be automated and that will do away with the need to have staff that manage credit risk, make collection calls, allocate cash and produce reporting for AR performance. As ever there is a grain of truth in these claims but there will almost never be a case where the human element can be completely discarded. Many credit risk decisions require judgement even though the data that the judgement is based on is derived form data made available on automated feeds. Many collection calls could be avoided if there were proper dunning procedures in place. Most of cash allocations can be automated with the proper use of technology. Improvements in BI technology can automate much of AR reporting. But it still requires people to interpret data and manage customer relationships.

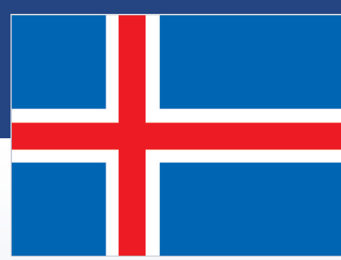
Terms & Conditions

Only part of procurement's job

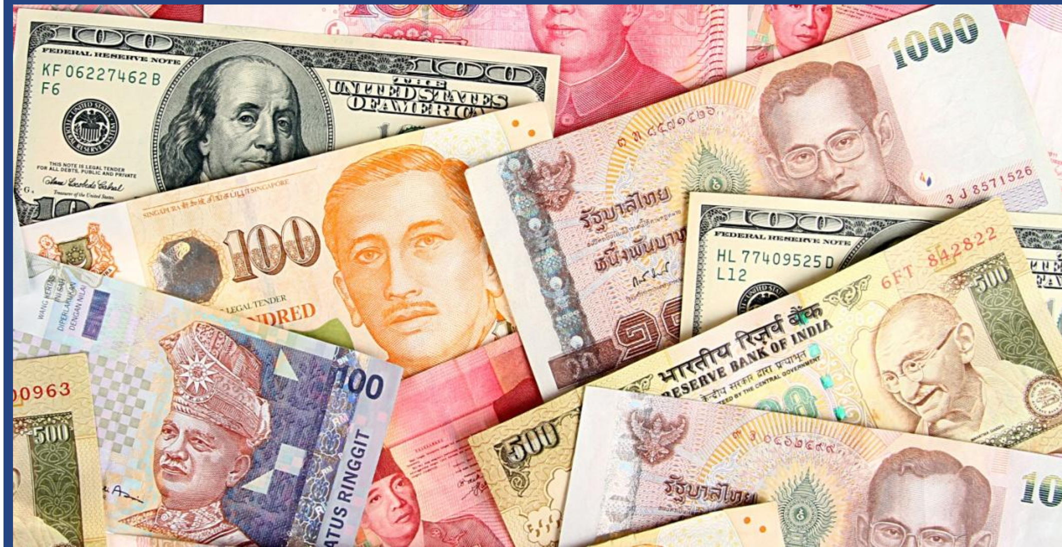
All too often procurement's role is to draft the contract and argue with the suppliers lawyers about the contents of the Terms and Conditions that will be part of the agreement. When this happens procurement can be seen to bureaucratic, meddlesome and even a waste of time by the rest of the business. When this happens the fault is on both sides of the fence. Procurement must be allowed and encouraged to be part of the real negotiation and sourcing of business deals. When this happens properly procurement can add huge value to the business. Equally procurement professional need to get out of the administrative box, behave more commercially and work with the rest of the business to demonstrate value. The alternative is lost profits, frustrated business colleagues and frustrated procurement professionals. The terms and conditions are still important to get right, but its only a fraction of the job that procurement needs to complete.



Iceland: From the jaws of defeat

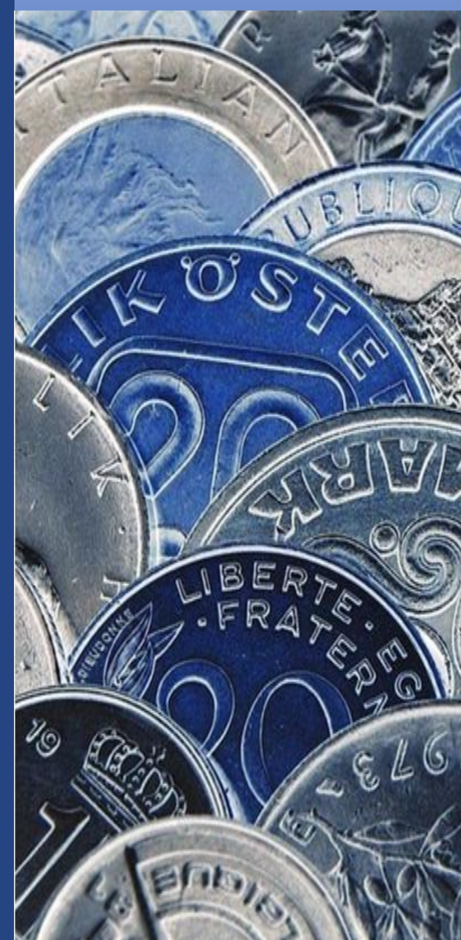


In recent years we have heard much about bailouts and some of those countries involved have fared better than others. Iceland has been very different. Iceland let it's three largest banks go to the wall in 2008 instead of attempting to save them. The financial bubble virtually disappeared and the currency fell by 60%. Unemployment jumped from 2% to over 8%, inflation was more than 12% and many people's life savings were wiped out in an instant. This caused a lot of hardship that many Icelanders had not been used to in a very long time. Since then Iceland has strongly recovered. Unemployment is down to 4%, inflation is below 3% and GDP has recovered to 2007 levels. The dream of Iceland as an international banking centre is over and instead the economy has gotten back to brass tacks: fishing, fishing products, aluminium, ferrosilicon and tourism. As a result Iceland has quickly returned to be a safe and profitable place to do international business.



Reading Material

If you have not read The Working Capital Handbook, Working Capital: What's Next?, Working Capital: In pursuit of Zero, The Procurement Leader's Handbook or Achieving Change these booklets are available at Amazon.com and its affiliates on both hard copy and e-book format.



Depreciating Currency

The effect of currency fluctuation on working capital

It has been a common practice in the shipping insurance industry for many years that premiums are collected in the home currency of the insurance company, in this case that is usually US Dollars, and that claims are paid in the currency of the claimant, often not in US Dollars. The advantage of this practice was that the insurance company could take advantage of the fact that many of these currencies were being eaten away by inflation and currency devaluation and thus the margins of the insurance company were protected and possibly enhanced every year. But it appeared that until recently the global business community has forgotten these lessons. The Euro has lost nearly 35% of its value against the US Dollar since 2011. The Brazilian Real is now worth only 40% of it 2011 US Dollar value. The Russian Rouble is worth only 41% of its 2011 value in US Dollars. The strange hero of the currency basket is the Chinese Renminbi. The Chinese currency is only worth 5% less than its 2014 highs against the US Dollar. So if we look at the areas of growth for global sales, China's fixed rate exchange policy has been very good to companies exporting to China. Whereas many millions of US Dollars of value has disappeared from the value of Russian and Brazilian export receivables and local stocks held by foreign companies over the last 5 years. Of course the main disadvantage with China is that it is amazingly difficult to move cash out due to strict exchange controls. So if there is something Chinese to spend the money on, then all is well.

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