

Informita News

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Recession in 2020

Have you started preparing?

There are a number of economists who have been predicting that we are heading for a recession. We have seen a lot of stock market volatility in recent months, interest rates are on the rise around the world, trade disputes are at their highest level in decades, wages are rising at their fastest rate in a decade and inflation is finally rearing its ugly head. To be fair the same economists have been making this prediction for the last 18 months and as yet nothing dramatic has happened to economic performance. In fact, the United States is growing at a phenomenal rate. But can it last? Back in 2007, many believed that the boom of the time would go on forever. There were a handful of doomsayers who were completely ignored and when Lehman's collapsed it was a total shock to everyone. Some companies saw their order books disintegrate in a matter of weeks in Autumn 2008 and worse was to come with bailouts in Europe and the United States. So it feels like we are in a similar period of economic history. Of course, this assessment could be completely wrong but there are some lessons from 2008/2009 that are worth remembering. The companies who survived that period had the cash to burn. Those who did not either went to the wall or had to be rescued including banks and major automotive companies. Major corporates have been hoarding cash since this period, so it is pretty unlikely that we will see companies like Apple, Microsoft and the like get in serious trouble. But we are seeing that weaker companies who have underlying weaknesses are already in hot water. The great Sears giant has gone into Chapter 11, major service companies are showing the cash flow strain, a number of UK retailers have either disappeared or are in the middle of serious restructuring. The ultimate bulwark against recession is cash and that means that now is not a time to be complacent about working capital management. If a stitch in time saves nine, now it the time to start stitching.



In This Issue

• Supply Chain Finance

Reaching its peak?

• Fewer Purchase Orders Please!

• The slow demise of the cheque

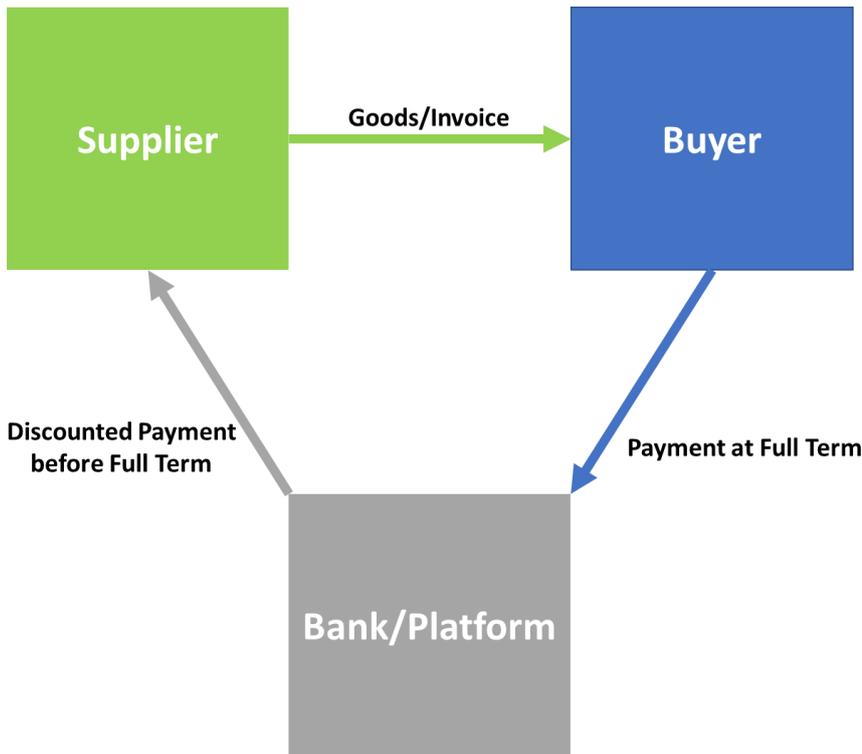
• How's yer Brexit?

• Country Profile

Belarus

• Service Supplier Selection

A delicate art-form



Fewer purchase orders please!

It was a long-held piece of wisdom of the procurement community that having a high level of purchase order usage showed that spending was somehow under control. The reality is that it often is not real control. It's just a lot more paperwork that there was before. A good example are those companies that mandate that all spend must be backed by a purchase order. In many cases, the budget holder has already committed to the spend and then completes the purchase order retrospectively in order to comply with the rules. In that example, there is no control over spend and just additional administration. And this is not a new problem. Since the purchase order was invented such things have been happening. In recent years technology has also had its impact. For example, if you use purchase cards properly you can increase the level of control you have over expenditure and completely eliminate the need for a purchase order. Other online spending platforms can operate in a similar fashion. That is why the very best procurement departments are vastly lowering the number of purchase orders issued and increasing control over the suppliers utilized, the prices obtained and the service quality being delivered. In this case, it can be argued that less really does mean more. But the companies who have got this far have also gone through a long period of evolution to get to this advanced state of affairs.

Supply Chain Finance

Reaching its peak?

There is no doubt that supply chain finance is now an established part of the financial landscape. In the United States, almost every major corporate has a supply chain finance scheme and amongst the FMCG's penetration levels have been very high. This has been due to the dogged persistence of these companies to implement these schemes. That doggedness has sometimes called into question where suppliers had really volunteered to sign up or were forced. Supply chain finance is now growing rapidly in Asia and in Europe, there are many with supply chain finance schemes but few who can say that it makes a significant impact on the performance of their balance sheets. The banks and platform providers have proven that they are generally poor at onboarding suppliers unless procurement and finance are strongly behind the process. Many in procurement still believe that such schemes limit the ability to negotiate on price. Many in finance still think that supply chain finance smells of accounting trickery and there are others who worry that accounting regulation is closing in on the rules that allow supply chain finance to be "off balance sheet". The bottom line in all cases is that small and medium-sized enterprises who could really do with the working capital injection are largely not part of these schemes. There have been attempts to reach into to the lower value parts of major corporates supply base but there has been little evidence of success. So has supply chain finance reached its limit. We think there is still room for growth if the lower value supplier can be properly engaged.

[Company Name]
 [Street Address]
 [City, ST ZIP]
 Phone: (000) 000-0000
 Fax: (000) 000-0000
 Website:

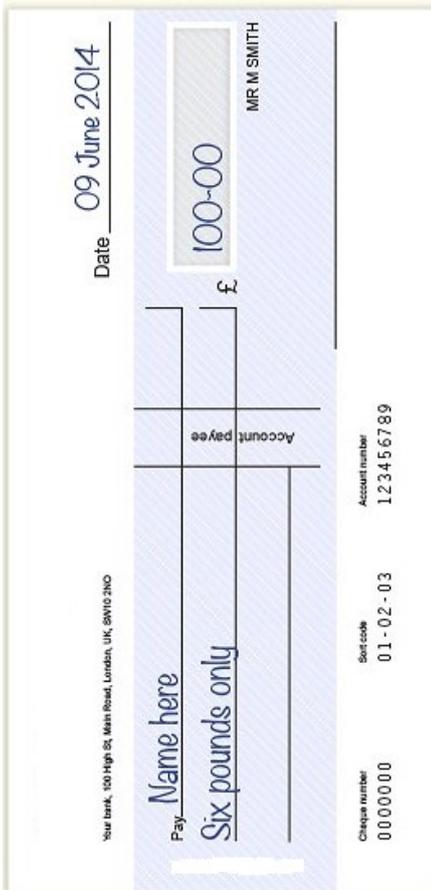
PURCHASE ORDER
 DATE: 9/17/2016
 PO#: 123456

VENDOR
 [Company Name]
 [Contact or Department]
 [Street Address]
 [City, ST ZIP]
 Phone: (000) 000-0000
 Fax: (000) 000-0000

SHIP TO
 [Name]
 [Company Name]
 [Street Address]
 [City, ST ZIP]
 [Phone]

REQUISITIONER	SHIP VIA	F.O.B.	SHIPPING TERMS	

ITEM #	DESCRIPTION	QTY	UNIT PRICE	TOTAL
23423423	Product XYZ	15	150.00	2,250.00
45645645	Product ABC	1	75.00	75.00
				-
				-



The slow demise of the cheque

One of the great advances of the 1960s was the application of magnetic ink character recognition to the humble cheque. These weird printed characters still appear at the base of a cheque to this day. This technology allowed millions of cheques to be processed on a daily basis without the need for armies of typists working for the banks. The emergence of electronic funds transfer has meant that the number of cheques being used both in business and domestically has declined sharply in recent years. In many countries, cheque books are no longer part of the landscape. But there are some dogged folks who continue to cling to the cheque. An example would be the “float time” fans in the US, UK and large German retailers. But even these stubborn people are falling in number. In the US the fastest growing method of payment is same day ACH. This has been very good news for companies receiving payments and the usual banking delays have been eliminated. In our view cheques are expensive and open to fraud, so their demise cannot come too soon.



Belarus: A Soviet Ghost?

In the old days of the Soviet Union, Belarus was one of the most prosperous republics with a strong industrial base, one of the highest standards of living in the Soviet world and a very good education system. Things have changed quite a bit since then. Belarus now has a reputation for an authoritarian regime, poor economic growth and high inflation. Many locals try to buy and sell in dollars and euro to protect themselves from the Byelorussian Rouble. Official unemployment rates are as low as 1%, but the International Labour Organisation suspects it is more like 6%. The unemployed are forced into public works programmes and therefore try to avoid registration. According to some estimates the real rate may be as high as 15% or 24%. The economy is very highly regulated by the government at all levels and this has proved to be a discouragement for foreign investors. It is estimated that only 1.5% of the workforce is employed by a foreign company. Nearly 50% of all trade is with the Russian Federation and Russia is also the largest source of tourists that come to the country. Belarus still has a strong industrial base and good education system but is stuck in a time warp manufactured by its political masters. All of its neighbours are now richer than Belarus to different degrees. The lesson should be that hanging on to past mistakes does nothing to improve the future.

How's yer Brexit?

Whatever your view on the continuing drama of Brexit, there is one major lesson. Never have so few messed up so much for so many. We rely on politicians and civil servants all over the world to construct and agree trade deals that will allow all of us to transact business either locally or internationally. The EU single market and NAFTA are great examples where unrestricted trade has increased the prosperity of all those countries involved. And many other countries aspire to be part of these agreements or to have free trade deals with the various free trade zones. Since the history of humanity began, there has always been trade. And the lesson of history is that when we place restrictions on trade we will all become less prosperous. So hopefully the Brexit situation does have a positive outcome since no-one is really ready for the fall out from a no-deal Brexit. If there is a no-deal Brexit, expect the consequences to be severe in the short term. Trade and travel between the UK and EU will be chaotic for a period of time and no-one really knows how long it might take to settle down. So we can only hope that those things don't happen. But hope is becoming a scarce commodity.

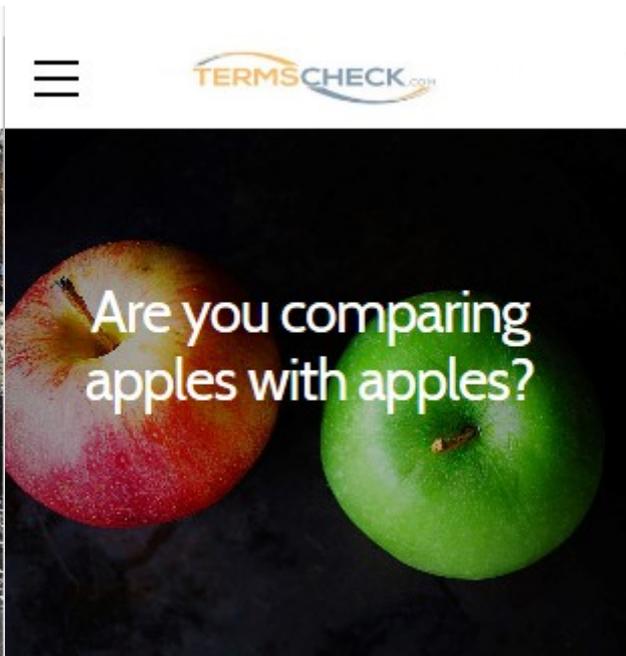
Service Supplier Selection

A delicate artform

Selecting a service provider is a delicate process that many companies and particularly government agencies do badly. It is imperative that procurement understand what the business is trying to achieve from the supplier before any selection process is initiated. If the price is the only factor, it is likely that service provision may be poor and it increases the risk that the service provider may be unable to complete the contract. Carillion in the UK is a classic example of this kind of lowest common denominator procurement process. Carillion won contracts by bidding significantly lower than competitors. While it won the business, many of these contracts were loss-making and significantly more complex than was understood at the point of the bid. Many private businesses pay massively over the top for some service providers, in particular providers of IT solutions. With a recent client, the initial results of an RFP process produced a range of prices from the bidders for an ERP roll-out. No surprise there, but then the highest price bidder came in more the 400% higher than the cheapest bidder and most of the client personnel wanted to accept this high price. The reason was that there were many long-term personal relationships involved, conference weekends to attractive locations and the long-term prospect that some of the client personnel might work for the bidding company in the future. This is where procurement can really add value by making sure that the scope is tightly defined and that service quality is protected. That will also help ensure that bidders can make a fair profit on their contracts that will contribute both to a sustainable contract and significant savings.



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