# InformitaNews

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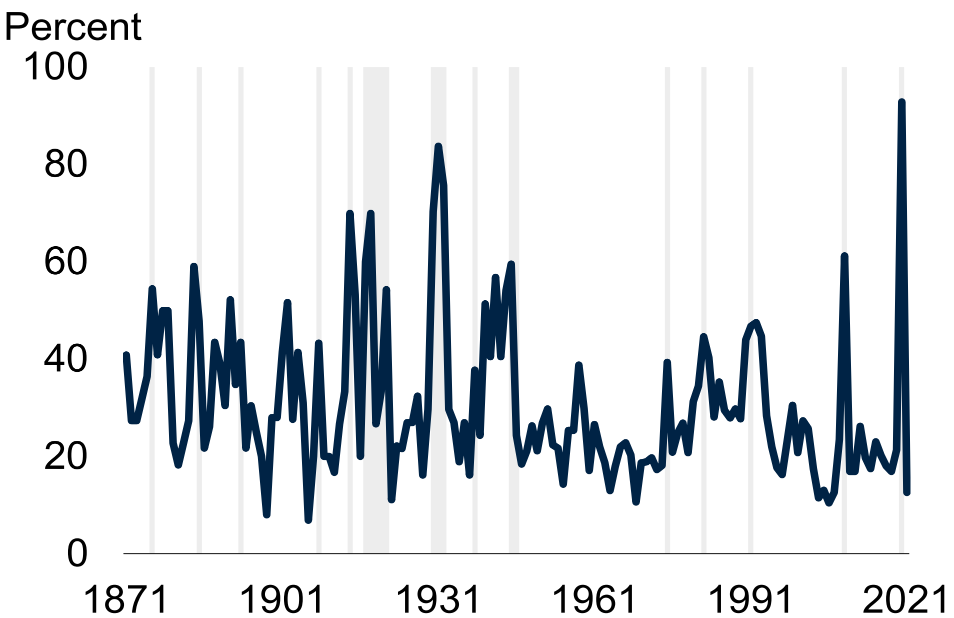
## Round 2

**What happened to the recovery?**

The chart below shows the percentage of countries that have been in recession at any period of time since 1871, according to the World Bank. This year we have broken a bad record on this point - 92.9% of the world's economies are in recession. The previous record was 1931 when the equivalent number was 83.8%. That is probably not much of a surprise. What might be more interesting are the countries that there is still economic growth in 2020. The biggest is China, but some others are Indonesia, Egypt and Bangladesh. That's a fairly eclectic bunch by any standards. The good news is that the world economy is expected to return to the previous pattern of steady growth in 2021. But that all depends on the progress of COVID-19. The virus has had a massive impact in 2020 and we do not know when the effects of the virus will dissipate. The same is true of the economic impact of the virus. The second quarter was largely a write off for most parts of the world and the recovery since then has been patchy. Some sectors such as technology and communications are booming. Others such as hotels and airlines are in deep trouble and many may not survive. Most sectors have been impacted to a degree that may hurt, but will not be fatal. The common thread between all these sectors and countries has been the availability of cash. Central banks have been pumping liquidity like crazy, while retail banks have been contracting their portfolios to contain risk. Large companies have drawn down all available cash reserves in order to weather the storm. Small companies have had to wait for various forms of government assistance, depending on the affluence of the country you live in. Most of the scenarios calculated by companies back in March have turned out better than expected. But without being able to generate cash the choices for 2021 may be limited.




## In This Issue


## Customer Credit Risk

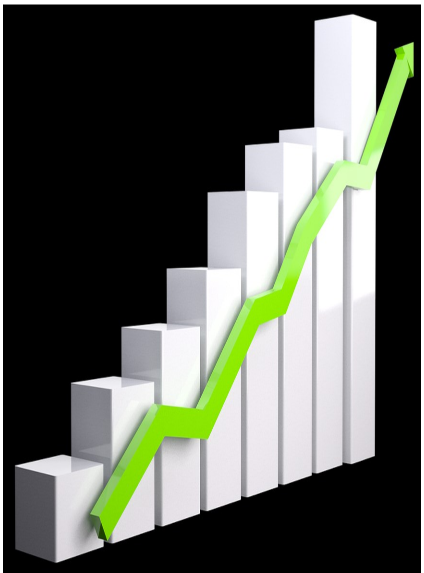
### Best ways to spot a problem

Many companies worry about credit risk in the midst of a recession. Which customer will go bankrupt? How will I spot the signs? Many go down the route of buying credit data from various organisations. While this data can be useful, it is almost always many weeks out of date. So if something happens quickly that changes the customer's circumstances for the worse, it will almost certainly not be picked up in time with such data. The best resource you have in such an instance are your professional receivables personnel. If they are following good procedures with the customer base, they will be in regular contact with the largest customers and will have the data mining tools that will highlight any changes in payment patterns. These changes in payment patterns are often the first sign that something might be going wrong. At that point, a good collector will be in contact with the customer to understand if there is an issue. Very often the customer will own up to an issue. Then risk can be mitigated by developing a payment plan or to reduce the credit limit gradually as outstanding invoices are paid to reduce the exposure. That can help your customer since they have some assurance that supply will continue. Equally a good collector with have a good idea if they are being led up the garden path. That either means that the customer is closer to their end than you would like or that that they are managing their situation very poorly. Actions at this point will include stopping supply, demanding cash on delivery terms or that the account balance is cleared before any goods or services can be delivered. In any event, it is that seasoned collector who is your best market intelligence. Used well, a lot of problems can be better managed or avoided altogether.

## Cash Forecasting

### Credit Limits

One of the hardest things to predict is exactly when a customer will pay you. Normally we expect it to be the late payers to be causing the problem. And they certainly do. But very often the early payers can cause a problem too. Particularly if the payment pattern is erratic. One thing that can cause this is having credit limits that are too low for an account to trade freely. This will cause the account to reach its credit limit and orders will be placed on stop. The only way the customer can get the order released is to pay some invoices early so that there is enough of a gap between the account balance and the credit limit to get the order fulfilled. This is a very good result when you are trying to reduce the value of outstanding receivables. But it is a very bad result when you are trying to forecast cash flows. The effect of this kind of early payment is to upset the normal pattern of payment. The good news is that there is an answer that is good for both receivables and the cash flow forecasting. We have developed algorithms that can cope with the variability caused by this issue, vastly improving the accuracy of the short term cash forecast. Find out more at Bonavido.com for help solving this and a range of other cash flow forecast problems.



# Supplier Sourcing

Bridging the supply chain gaps

In aerospace, it is common that a part on an aircraft or engine needs to be certified by the relevant safety authority. Given that an aircraft can be in the sky with its engines for more than 20 years, it means that the industry is reliant on a supply chain that is stable into the future. But that can never be 100% true. What happens if the company that made the part goes out of business or decides that it is no longer profitable to make that part. Then the part will have to be resourced and recertified. A time consuming and expensive exercise. As our supply chains are being disrupted by both Covid and various trade spats around the world, this is becoming an increasing problem where single sourcing and offshored manufacturing have become the norm. Time for a rethink.

# Cabo Verde: Growing

The country lies 650 kilometres west of Dakar and many are surprised to know that it exists at all. This small country is a collection of 10 volcanic islands with a population of less than 600,000 people. Cabo Verde has few natural resources except for the Atlantic Ocean that surrounds it. More than 50% of exports of goods are fish and the rest of the economy is heavily service orientated. More than 20% of GDP is accounted for by remittances by the country's diaspora from various foreign lands. This would suggest that it is a poor country, but by West African standards it is pretty well to do and has many immigrants who originated from other West African nations. The government welcomes foreign investment and much of that has been focused on the tourist sector. Cabo Verde has beautiful beaches and landscapes that attract more than 550,000 tourists every year. The currency is pegged to the Euro and that has kept inflation very low by regional standards. Growth has been strong but tourism has been affected by the pandemic. All over a good place to have a vacation and potentially to invest.

# Brexit: How bad can it get?

It's the start of December and with 30 days to go to Brexit, we still don't know exactly what is going to happen. What we do know is that there is going to be lots of extra documentation required, there will be queues of trucks across the south-east of England and that the free movement of labour for the UK will have ended. The rest is up in the air. Will there be an agreement on food standards? If not, there could be severe restrictions on the movement of fresh food in and out of the UK. Will there be tariffs? The automotive industry has estimated that it will cost their industry £55 billion if there are tariffs imposed. The meat and dairy industries of Ireland, Denmark and the Netherlands will be badly disrupted. And still, we are not sure exactly what will happen. Even if a last-minute deal is done, will there be time to allow for scrutiny by the EU parliament and for the member states to ratify the deal? If you haven't formulated a contingency plan, do it now as time is running out. Get your people trained for customs processes and review all your logistics routes. And hope it turns out better than we expect.

# Inventory

## Recessionary behaviour

Most economists would tell you that in a recession that inventories reduce as customer demand decreases. At a macro level, that statement is usually correct. But at a micro-level there can be multiple behaviours in play. It all depends on the actions taken as a result of the reduction in demand. For example, in the last recession many companies shut down specific production lines or plants in an effort to respond to the downturn. This had the effect of reducing inventories of the fastest selling items as stocks were run down. The problem was that the trickiest slower moving stocks hardly moved at all. But the proportion of inventory that posed a problem went up dramatically. When demand returned and production restarted, stocks of the faster moving items returned to their previous levels and the size of inventory went back to its old profile. In many industries, this is now happening again and many companies are left with large amounts of stock that they cannot sell. Then the business will do their best not to dispose or write off these problem stocks since that would incur major losses. The root of the problem is that these folks neglected to fix the roof when the sun was shining. That is the time to understand your slower moving stocks, change stocking behaviours, customer lead times or minimum batch sizes. Then you can be a leaner and more efficient outfit that is ready for any downturn. A stitch in time will certainly save nine.

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