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Supply Chain Finance

What's been the real impact?

There is no doubt that there have been big advances in the field of supply chain finance in the last 10 years. We now have numerous fintechs involved who have brought several innovative approaches to the market in areas such as funding, ERP integration and supplier onboarding. There are a few companies that have been wildly successful with supply chain financing and sadly they are a very small number in Europe. That is because there are still two major stumbling blocks that have not allowed supply chain finance to really flourish. The first is supplier onboarding. We have seen many instances where supply chain financing has been flawlessly implemented but then the number of suppliers who sign up for the programme has been pitiful. This is not the fault of the funding or the software but they are not a motivator for the buying company staff. There is a lot of work involved for treasury staff to ensure that the necessary KYC documentation is completed by all the affiliates that will be part of the programme for already understaffed treasury departments. Procurement professionals generally view supply chain finance schemes with suspicion. Most don't fully understand how they work and are worried that if a supplier has to pay a fee for early payment that they will try to bury that fee in future price increases. There is no evidence that suppliers ever try to do that. And even the suppliers who agree to be part of a scheme can be furiously slow to sign all the correct documentation that is required. To be successful in all these areas it is necessary to have someone responsible who will educate procurement and suppliers about the scheme and to have a clear organisational motivation that this is not some new toy from the finance folks, but it is a core part of how the company does business with its suppliers. The other issue is dealing with smaller suppliers. The KYC costs are usually too high for most to make these smaller suppliers economic for the scheme or funders are not interested in extending the scheme to these suppliers since the returns will be so small. Without having a mechanism that will allow for an economically viable onboarding process for small suppliers, supply chain finance will never penetrate the core supply chains that we all use. So let's see what the coming years have in store.

In This Issue

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Inflation

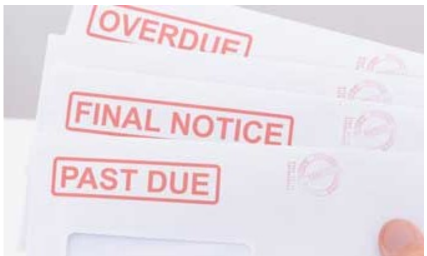
Is procurement ready?

When is a price increase a cost saving? Back in the days of inflation that last happened in the 1990s, many in procurement would pat themselves on the back for mitigating price increases when suppliers wanted even more. These “savings” would then be compared with the general inflation rate and many would receive bonuses on the back of this supposed stellar performance. The problem was that many of these “savings” were complete fiction. It has always been a good procurement practice to have a proper breakdown of the supplier’s costs. Then the purchaser can take a zero-based view of the supplier’s costs and profit margins. In the current environment, this is especially important since many suppliers are looking for price increases based on their assertion that inflation is impacting their supply chain. Those costs could be fuel, shipment, commodity or bottleneck related. But they may also be temporary. This is why the concept of open-book pricing became so popular two decades ago. Unfortunately, many procurement personnel have never done a proper cost breakdown of their supplier’s prices and have been lucky over recent decades when the migration of manufacturing to low-cost country locations made savings much easier to achieve. That era is pretty much over and that will mean that procurement functions everywhere will need to make sure that they have done their homework properly. Expect plenty of battles between procurement departments hailing the savings they have made and the accountants who will question whether they are seeing savings come through on the profit and loss account. The good news is that data should be the saviour. But there will need to be a serious upgrade for many procurement functions capability to mine supplier and invoice data.

Dunning Letters

Do they work?

For the uninitiated, dunning letters are those letters or emails that remind small value customers to pay a bill, tell them that they missed a payment or tell them that if they don’t make a payment soon that more severe action is looming. But many credit managers and collectors will tell you that they are a complete waste of time. Their reasoning is that they are a lot of work for them to produce and many don’t see the direct evidence that they actually encourage the customer to pay. The one truth is that if a dunning letter promises action such as debt collection, stopping the service or holding future orders then that promise better be carried through. All too often this is not the case. It is essential that before these letters or emails or sent that all internal stakeholders in both sales and finance are clear and agreed that the stated consequences will follow. Otherwise, the customer will quickly learn that your company were not serious and will ignore what they will view as threats from a paper tiger.



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Negotiation

Understanding the other party

It is a general rule of thumb that if you were expecting a negotiation and the other party accepted your first offer, then you probably could have gotten more from the process. It is important to spend time to understand what is and what is not important for both parties. Otherwise, the parties can become frustrated that the other party never seems to give anything after a concession is made. The trick is to come to a compromise where both parties feel they have a good deal. That will mean concessions but hopefully, you concede on things that are not important to you but are important to the other party. That also allows for a longer-term relationship to build between two mutually understanding partners rather than one party feels hard done by the other.

São Tomé e Príncipe

As the second smallest country in Africa, it makes up for the lack of size in so many other ways. The country was set up by the Portuguese as a colonial plantation economy and this persists today, with cocoa being the principal agricultural export. After independence in 1975, the government of the day tried to run a planned economy but by the 1990s the economy had stagnated, the price of cocoa had plummeted and the centrally planned economy was largely scrapped. State-owned firms were privatised and foreign investment was encouraged in the agricultural, commercial, banking and tourism sectors. The country fares much better than many of its African neighbours in terms of low inflation, economic growth, access to education, electricity and piped water. While agriculture is still significant, other exports include electrical machines, aerospace parts, cars, iron, plastics, agricultural products such as pepper, oils, nuts and beef. Oil has been discovered in its waters which should lead to increased government revenues in years to come. São Tomé e Príncipe is safe for travellers and there are many beautiful sights to take in this part of the Tropics. Unemployment is low by regional standards and a big problem is the small 200,000 population causing unfilled vacancies. The country continues to be one of those countries that escapes the limelight of many of its neighbours, but many of its neighbours have been in that limelight for some regrettable reasons.

Frozen Turkey, Please

Britain is fast becoming the economists' case study for an economy that deliberately disconnects itself from a deeply integrated regional supply chain. And that supply chain is not only about goods, but also about people. Ironically it is estimated that there are over 1 million unfilled jobs in Britain. The theory was that with all the foreigners gone, British people would fill these roles. But that hasn't happened. Just like all other rich economies, most people do not want to be a truck driver, work in a coffee shop or work in an abattoir. And even if they did, a number of the unfilled roles require training and experience. For example, it takes an average of three years to train workers in abattoirs. In the meantime daffodils, apples and all sorts of vegetables have rotted in the fields and farmers have culled over 350,000 pigs since there is no capacity to send them to a slaughterhouse. For the same reason, getting a fresh turkey during Christmas week might be a challenge. To ensure that there are enough turkeys for Britain's Christmas lunch, plans are afoot to import frozen turkeys from continental Europe. Just remember to defrost it before putting it in the oven.

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Product Shortages

What's the plan?

There are ongoing product shortages across many industries all over the world. They have not all been caused by Covid either. For example, the elevator industry in Europe has been thrown into chaos due to a shortage of vital parts that were made in parts of Germany that were flooded in August 2021. A Portuguese contractor recently was unable to source aluminium structural parts since commodity prices have risen and distributors are rationing supply. Logistics suppliers are in a frenzy not just because a shortage of drivers, but also because of all the haggling with customers on fuel surcharges. All of this is making it more difficult for supply chain planners to ensure that there are enough goods on the shelf for consumers and enough raw materials available for manufacturing operations. While governments are trying to help, the scale of the problem means that their good intentions are unlikely to make a serious dent in the issue. Supplies are still getting through to those with the most market muscle and those prepared to pay higher prices for short term supply. For the rest, it looks like the next few months will be tough and the only thing to do is sweat it out until the situation relieves itself. All of this shows the global supply chains that we have relied on for decades were far riskier than anyone expected. Most companies do not keep strategic stocks of anything as supply chains have moved to a just-in-time format. So what will happen next? Will companies learn the lessons and manage supply chain risks more constructively. Past evidence would suggest that this crisis will be quickly forgotten until the next crisis emerges.

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