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Generative AI—The latest marketing buzzwords?

In 1950, a computer was a person who was good at math and especially performing computations with very large numbers. Now a computer is a machine that does the same thing, but we no longer use the term when referring to a person. Similarly, artificial intelligence (AI) was a term invented to describe a computer that would be self-learning and would think for itself, but we use the term now for other things. We hailed the computers that could win at chess against renowned Grand Masters and some of the publicity was that supposedly it proved that computers were intelligent. They were not. A chess board has a set number of squares, with a set number of pieces that can only move in pre-determined ways. A computer that is powerful enough can calculate every possible move that can be made and the probability of how the opposing player will respond. But this is not thinking. It is a very fast algorithm. A few years ago every software company on the planet started advertising their latest AI features. While some of these programs were definitely very fast and clever algorithms, they were not self-learning and not intelligent. But now the marketing trend is to describe your software as having generative AI capabilities. So what makes generative AI different? Generative AI is supposed to use generative models to learn the patterns and structure of their input training data and then generate new data that has similar characteristics. It is using its training data and its new experiences to teach itself about what is likely to be the output. These models use a lot of computing power with some very clever algorithms to generate their outputs in the form of text, images, videos or transactional data. The most common examples right now are the chatbots being introduced by all the major international software players. These are very powerful programs that can deal with large amounts of data very quickly. For example, if you want to convert a photograph of a document into something that you can manipulate in Word, this can be done in seconds. It reviews the document, applies OCR software to convert it into some kind of text and converts the result into a Word document. But it will suffer from the GIGO principle (Garbage In, Garbage Out). So if there was a smudge in the original image, this will be carried over into the output and look like garble. There are many examples where these chatbots are presenting internet results as established facts when, in fact, the internet result found was incorrect and may even be deliberate misinformation. The technology is moving very fast and as computing power continues to grow it means we can do so much more quickly than we ever dreamed. If you are looking for something clever, that has huge computing power and generates almost instant results, you are a winner. But they are still a long way off thinking and will be the victims of the mistakes of their human programmers. The software industry has found its latest buzzwords.

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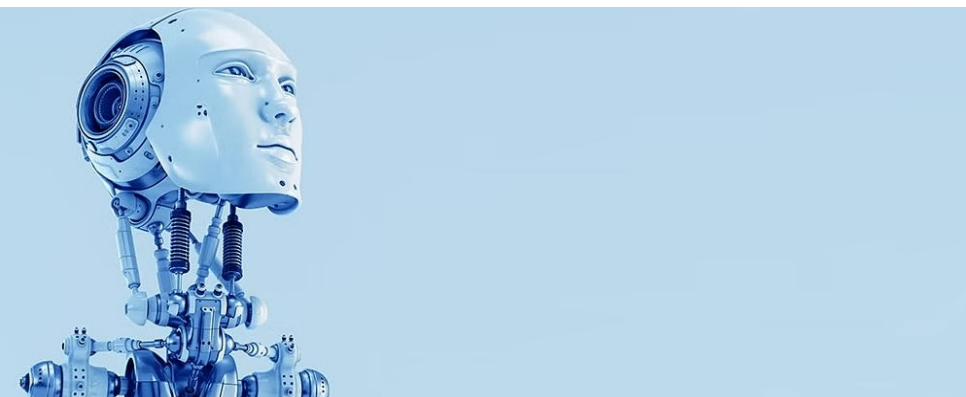
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E-Auctions

Good tool, but homework still required

There are many great tools in the procurement sphere and e-auctions are certainly one of them. In the old days, everyone was forced to create lengthy tender documents, circulate them to suppliers, have a back-and-forth over the various questions that suppliers would have and then do some lengthy evaluations before deciding on a winning bidder. To different extents, most e-auction software will make many of these steps much easier and speed up the communication turnaround times between the buyer and the suppliers. However good some of these platforms are, they do not negate the need to do some basic procurement homework. The first step is what are we buying now and how much we pay for it. The next is do we need to buy all the items we buy today? Another question will be whether what we are buying today is at the right level of specification. Over-specifying is a good way to waste money. The first step can be helped by procurement systems delivering the required transactional data. The latter steps can only be understood by talking to people in the business and understanding their requirements. This all leads to having the tightest specification possible for what will be tendered. That will reduce cost, make tender results easier to compare and drive innovation from suppliers as they compete for the business. An e-auction can then be a very efficient way of managing that tender process and even connecting with new suppliers. There is a tendency to accept the prices quoted in e-auction processes. This can be a missed opportunity for some post-tender negotiations that will deliver more value. If you understand what you are doing and put the right homework in, e-auctions can be very useful. In the wrong hands, a lot of opportunity is left on the table.

Zero Overdues

Is it Possible?

Some CFOs out there simply cannot understand why there are any overdue receivables. Shouldn't customers pay on time? Well, of course, they should, but we don't live in a perfect world. But that doesn't mean that having zero overdues is impossible. It is even possible to have negative overdues. But it is quite unlikely for several practical reasons. Even if all customers attempted to pay on time, overdues would still exist due to the time required to transmit the payment from the customer to the supplier. Thankfully, this is becoming less of a problem as payment processes such as same-day SEPA have been implemented but will still be a factor long into the future. The bigger reason is that our customers are a reflection of the slice of humanity that we deal with. Some will pay us early, even though that is not required. Some are disorganised. Some deliberately pay late using process mechanisms. Like people, every ledger is a mixed bag.



Customer Segmentation

To use a metaphor for the great Spaghetti Westerns directed by Sergio Leone, there are many cases where there are the Good, the Bad and the Ugly. When we perform our customer segmentation we are trying to identify good payers, the average payers and the downright terrible payers. This is much more than a measurement exercise. We find that different customer behaviours must be reciprocated to maximise collection efficiency. For example, sometimes a well-behaved customer will miss a payment and they only need a friendly reminder to get things back in order. Others are hopelessly disorganised and without continual prodding, they will not pay you on time. We even use this information to align the personalities of the individual collectors to a customer behaviour type. All in all, using customer segmentation correctly will result in a few dollars more.



Andorra: A hidden gem for many

Tucked up in the Pyrenees, the principality of Andorra has officially existed since 1278 and is thought to have been originally founded by Charlemagne. Many are still surprised to learn of Andorra's existence, even though 10.2 million tourists troop through the territory every year making up 80% of GDP. Most of the rest of the economy is dominated by banking and insurance. Andorra has had a long history as a tax haven that remains popular with many international financial institutions. The prosperity that has resulted from these industries means that Andorra has one of the lowest unemployment rates in the world. Andorra also benefits from tariff-free access to the EU for manufactured goods, it uses the Euro and is even allowed to issue its own Euro coins. While Catalan is the most common language spoken, Spanish, Portuguese and French are also prevalent. As a democratic enclave, Andorra has proven to be politically very stable over a very long period. But if you don't care too much for politics, banking or insurance, you can always go skiing.

Tariffs are coming back

Both the EU and the US have recently announced that new large tariffs will be placed on imported Chinese EV vehicles. This is all being done to protect the domestic auto industry and the thousands of jobs that it sustains. But will any of this do any good? Not really. It just so happens that China has been at the forefront of EV technology and innovation in recent years. The Chinese market for EVs is expanding at a gigantic rate and there is a lot of competition that is forcing innovative approaches to gain and keep market share. The EU and US major car companies have been slow to invest in manufacturing assets. Many of their EVs appear very clunky in comparison. By stifling free competition, EVs will remain expensive to most consumers in the EU and US.

Reverse Factoring

Not always the magic bullet

Since the pandemic, reverse factoring has had a sudden burst of popularity. For those companies that can avail of the service, it allows a corporate to increase working capital and pay suppliers earlier via an externally funded facility. In effect, you can extend your payment terms while the supplier can be paid almost immediately for a fee paid to the funder. And the loveliest part is that the supplier pays for the facility. But like most things, there is a certain niche of corporates who are interested and qualify for such facilities and many others do not. So corporates that do not have the right financial profile or are too small cannot avail of these facilities. The funders want to make money and have a secure investment. In effect, reverse factoring is another mechanism where large corporates with healthy balance sheets can easily avail of such programmes. But reverse factoring is not a magic bullet and it is not a requirement either. It is more than possible to extend payment terms with suppliers without using reverse factoring. In that sense, reverse factoring is a good tool to have in the armoury of the procurement negotiator. But it is not essential. People have been negotiating payment terms with suppliers for a very long time without the advantage of such financial tools. And even with such tools, success is not guaranteed.



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