

Informita News

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Enjoying the rollercoaster?

It feels like 2025 is the year when everything is being turned inside out. One minute we have huge tariffs from the United States, the next minute we have a reprieve and then it's back on again. There has been a vast reduction in Chinese exports to the United States and US Government contracts and grants are being slashed. The rest of the world is trying to contain the effects of these changes in the middle of all this uncertainty and there are already some lasting effects that are becoming evident. Even before any tariffs have taken effect, businesses and governments are already in the process of redirecting their supply chains. The EU and China are mending fences over trade issues that have been outstanding for many years. China is being friendly with Vietnam. The EU trade deals with Canada and Mersusor look like they might finally be ratified after several years of political wrangles on the European end. Many businesses in the US have simply stopped sourcing goods in China. They would rather have empty shelves than try to pass on price increases to customers. Many smaller businesses in the US that relied on Chinese imports such as toys are simply closing their doors and their fundamental business mode is being undermined. It is estimated that construction costs in the US will increase by 16% this year due to the effect of tariffs on steel and aluminium prices. One US business leader has said that the current economic uncertainty is as bad as the pandemic. There are many US graduates fresh out of college that cannot find jobs as major corporates cut back on short-term hiring and investment. It is proving much more difficult for many other industries to redirect supply chains. It takes many years to build plants to build cars and microchips, so do not expect these industries to "eat the tariffs" at the expense of their shareholders. And where will it all end? Nobody knows and anyone who says they do is deluded. The only certainty in these volatile times is cash. Cash in the bank is the one thing that will save any business during tough times. The biggest issue for many businesses is that there is so much global uncertainty that they think the safest thing to do is nothing. Capital investments are being cut back and merger and acquisition activity has plummeted as businesses try to conserve as much cash as possible. We are already starting to see businesses report reduced earnings and this is expected to continue through 2025. Even Elon Musk is predicting a US recession in the second half of 2025. One silver lining is that the companies finding practical applications for AI are booming as corporates look for ways to slash costs. This follows a pattern of previous recessions where we have seen big technological advances during severe economic downturns. Almost all of our major tech companies were born in times of adversity and the next generation of tech is finding its place. The best strategy is to plan for the worst and hope for the best.



In This Issue

• Billing Delays

Driven by people or process?

• Overdue Debt Meetings

• Excess Inventory

How quickly can it be reduced?

• The TACO Effect

• Country Profile

Bhutan

• Procurement Data

Should we ask the supplier?



Billing Delays

Driven by people or process?

In a manufacturing company invoicing can be quite simple. An order is fulfilled and an invoice is produced at the point of shipment. So the gap between revenue recognised and revenue billed to the customer is usually zero. Not so for project-based businesses. These include professional service firms and construction firms. In these cases, the content of the bill needs to be agreed by the client before a bill can be issued. Most of these companies have an effect called “billing skew” in play. In theory, bills should be agreed and issued at various points over the course of a calendar month based on when work is completed. In reality, bills are often not issued until the last week of the month when the person at the front end is under pressure from the accountants to get a bill issued so that “work in process” can be reduced before month end. The cash flow effect is that these unissued bills cannot be collected, i.e. we are creating a cash hole. So why does this happen? One reason is that the people in the front end of the business often do not realise the impact of their lack of action and therefore do not prioritise agreeing the bill with the customer. Another can be that these same people are overloaded with work and then only do their part in the billing process when the pressure is at maximum. A final reason is disorganised people. If there are delays in people submitting timesheets and expense claims then the data required is not available to produce any bill. Lastly, many front-line people have revenue targets but not cash targets. So they get the bill out before the end of the month to get a bonus but are not incentivised on when the bill is paid. These are all solvable problems that require a good and simple process but also organisational discipline.

Overdue Debt Meetings

What do they achieve?

It is common practice that managers have meetings to discuss specific problems in their business. The theory is that it creates focus and visibility to the problem. Often-times these meetings are useful, but not always. It is especially common when we are talking about overdue debt from customers. The basic idea is to create hassle for the commercial side of the business and motivate them to make the problem go away. This will work when the commercial people involved actually know what they are doing and have time to solve the problem. Ironically, if they had those two qualities there would probably be no need for the meeting at all. But they really don't work when commercial people who don't know how to interact with their customers properly or where beating them up is meant to be a substitute for a professional collection process. The meetings can also be time-consuming and give the false impression that action is being taken. Ultimately, there is no substitute for a good process.

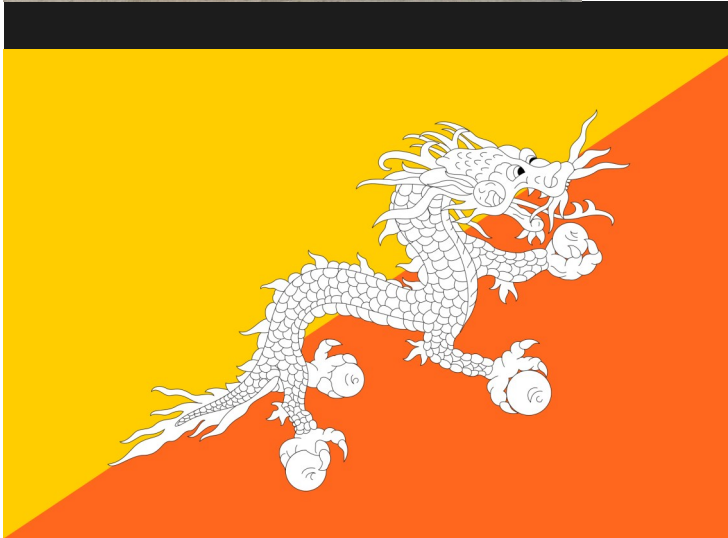




Excess Inventory

How quickly can it be reduced?

Everyone's problem with inventory is that they have too much of what they don't want and too little of what they do want. However many ask how long it takes after the right steps are taken to reduce inventory levels. The very first point is that the right thing is to optimise inventory levels, not just reduce them. There will be some items that you need to increase inventory and without doing that sales and margin are being lost. After that, it tends to be the faster-moving items that will reduce the quickest, as long as the demand profile is stable. The hardest items to reduce are the ones with erratic demand patterns. For these, you may need to be more creative than simply changing some stock parameters. There may be multiple solutions required and some patience.



Bhutan: Be happy

As a small country sandwiched between China and India the Kingdom of Bhutan is unique in using Gross National Happiness (GNH) as the key indicator of economic success. GNH includes both traditional areas of socio-economic concern such as living standards, health and education and less traditional aspects of culture, community vitality and psychological well-being. But Bhutan still has an economy, just like other countries. Bhutan's economy is based on agriculture, forestry, tourism and the sale of hydroelectric power to India. Electricity is the largest export. The Thunder Dragon Kingdom is also one of a handful of countries to hold over US\$1 billion worth of Bitcoin. According to official statistics, less than 7% of the population describe themselves as unhappy. Maybe that means the rest of us need to learn something from the experience of this tiny nation.

The TACO effect

Robert Armstrong of the Financial Times coined the phrase TACO, meaning "Trump always chickens out". You can probably guess that he is not a big fan of the US President, but more importantly, he was describing the effect on the financial markets of Trump's actions in recent months. The on-again off-again tariff saga has certainly tested the patience of many in business but financial traders have now decided that they will not react as easily to the President's statements on matters economic. That doesn't mean that Trump has no effect on the world economy, but that market traders have baked in what they think the net effect will be and are not reacting that much to the continuous stream of daily and often contradictory announcements. But this is not sheltering those trading in actual goods across the world from the effect of Trump. While you can argue that all this is a high-stakes negotiation strategy by the White House, many have decided to assume the worst and are busily redirecting their supply chains. In a world where the US is seen as an unreliable economic partner, businesses are seeking new alliances to create the long-term stability that they have lost.

Procurement Data

Should we ask the supplier?

As a general rule, you should never ask a supplier for transactional data that will be an input to a tender. It is always best to have your own data from your systems. But what can you do when the data is of very poor quality. Recently, at a client that has spent millions on a top of the line ERP system, the problem was that only the invoice summary was recorded for road transport spend. The line items were not being recorded, since no purchase order was being used. We then tried to get the data from scans of invoices that they recorded. We then found that most of the supplier invoices did not record sufficient detail. We then got more data from their logistics system. But this data was also incomplete. Specifically, it did not separate out fuel surcharges on a consistent basis. At this point, we have several sets of incomplete data. So we decided to ask the suppliers involved. One was unable to supply the required data at all, highlighting their inability to produce any kind of meaningful performance reports and the others had different sets of incomplete data within their own systems. All this highlighted the fact that these suppliers had never been instructed to produce invoices in a particular format, submit purchase orders or regular reports on the performance of their contracts. Luckily, we ended up with enough jigsaw pieces to put a good tender together. But it highlights the importance of quality data to procurement.



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