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Living in Interesting Times

It was written by Feng Meng Long in 1627 that it is "Better to be a dog in times of tranquillity than a human in times of chaos". It is thought to be the source of a so-called Chinese curse "May you live in interesting times". Right now the Chinese domestic economy looks like it is in trouble. While the export part of the economy is still booming there is mounting evidence that domestic demand is plummeting. In recent months, there have been sharp falls in consumer demand for oil products, restaurant takings and international airline tickets. This all suggests that the property crash that started back in 2020 is feeding strongly into the real economy. Some have described the effect as the Japanese economic stagnation of the early 1990s on a much bigger scale. Others are worried that a closer analogy might be the economic meltdowns that happened in Ireland and Portugal after the financial crisis of 2008/9. All this might seem a world away for many businesses across the world, but there is a real risk of contagion. Firstly, there are those foreign businesses that have grown in China based on local consumer demand. Examples would be Volkswagen, Toyota, Siemens, General Motors, Nestlé and P&G. China has become a large part of their revenue numbers and they are all suffering to differing degrees. Secondly, we are seeing major payment issues between companies in China, particularly those that are outside state or municipal ownership. Many Chinese-owned businesses are running out of cash and will not survive without the favouritism that is often shown by state and municipal players. The property problem is far from over and many Chinese consumers are up to their necks in debt, having purchased properties that nobody now wants. China has a massive grey banking sector and we are not even sure of its size. If property defaults continue and grow this will threaten the whole Chinese financial system. Remember that China is the largest buyer of US Treasury bonds. If China were to stop buying those bonds, then the US government would have a big problem funding its annual 7% budget deficit. This could trigger another global financial crisis of a scale much larger than the crisis of 2008/9. While all this might seem like wild speculation, it is more than possible and, given the opaqueness of Chinese official economic reporting, we have only a hazy idea about how close to disaster we might be. While it would clearly be much better if none of this were to come to pass, it is always wise to plan for the worst and then hope for the best. And remember that in the worst of times, it will be your access to cash that will keep the wolf from the door. We are all for living in an interesting world. Let´s hope that it is not too interesting.

In This Issue

- **Customer Credit Approval**

  Can be sensible and efficient

- **Downsizing**

  Does it help working capital

- **The New BPO**
- **Why Section 232 matters**
- **Country Profile**

  Argentina

- **Procurement Compliance**

  Do you create your own leakage?

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Customer Credit Approval

Can be sensible and efficient

Many salespeople view customer credit specialists as the “sales prevention department” and sometimes there is good cause for the negative label. Many customer credit specialists become overly bureaucratic resulting in slow and expensive customer credit processes that will ultimately inhibit the sales process and potentially cost a fortune to the selling company. At one client, the customer credit manager decided that all customers should be vetted using external credit agencies that charged by the number of customer checks being done every month. Every customer was then vetted again on an annual basis. The bill for these checks exceeded €3 million. We were able to reduce this bill significantly by refocusing the process on those customers with a poor payment history. The payment history information was internal and therefore cost nothing to collect. This saved more than €2.6 million in cost and sped up the process. It also allowed the number of people doing credit checks to be reduced and they were reallocated to customer collections bringing overdue rates down from 14% to less than 9%. The bottom line is that we want to have credit approval processes that support the business in creating good customer paying revenues and these processes should not be so lax that they make fools of us with the customer. At one recent client, salespeople had been allowed to authorise credit with customers without any input from credit managers. The result was levels of overdue debt above 20% on a regular basis and a huge level of doubtful debt provisions for customers who will probably never pay. The key is getting the balance right and recognising that a good customer is one who gives us their business and pays us on time and in full.

Downsizing

Does it help working capital?

It is always interesting when companies use working capital reduction as a case for downsizing. That is not to say that this is not a potential outcome, but very often the expectation is based on intuitive guesswork rather than on hard cold fact. This can be because M&A specialists and many accountants will rely on the information that they have access to, such as profit and loss information, and can miss completely what the resizing of the company can do to working capital balances. For example, at a company recently they experience a 5 day rise in Days Payable Outstanding as sales had dropped on the previous quarter. This did not happen because the payment terms with suppliers were shorter or because they were being paid more quickly, but because the sales drop affected suppliers with long payment terms more than those with shorter terms. It was then left to Treasury to somehow plug the unplanned liquidity gap.

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The new BPO

The traditional way to think about business process outsourcing was to take advantage of the labour cost differential between people in different countries. While this still happens, there are more and more cases where the offshoring of jobs is happening due to the lack of qualified resources available in many countries in North America and Europe. In the past, this might have required large numbers of people to migrate to these countries to fill these positions. This was a very costly and disruptive process and therefore tended to happen with more senior positions in companies. Now, thanks to the new technologies that allow people to telecommute, it is possible to have people performing non-customer facing roles from anywhere in the world where there is a decent internet connection. Find out much more at [Ekstra.biz.](Ekstra.biz)

Argentina: Shock Therapy

Since the election of President Milei, Argentina has been going through economic shock therapy which when being described nicely has been brutal toward those more economically vulnerable groups in the population of the country. There are many who argue that this is the right approach and those who will argue that it is the wrong approach, but the only thing that is clear is that while a majority of Argentines voted for this approach there is not a broad political consensus for the longer term that the country needs to live within its means. It is very likely that voters will get tired of the brutal approach and decide that they have had enough at some point. Unless the next government has a plan to sustain the Milei policies, it is likely that Argentina will go back to the days of spending money that cannot be funded from taxation. Then, the country will be back in the same position all over again within a few short years. For the well-to-do who have continued to hold dollars, all will be well. But for those who rely on the Argentine Peso for their salaries and savings, life might not be so predictable.

Why Section 232 matters

This section of the US Trade Expansion Act allows the US Department of Commerce to investigate trading issues of products and services where foreign businesses may have an unfair advantage over American suppliers. There are currently trade disputes with many US allies over the Section 232 duties on steel, aluminium and digital services. There are also parallel issues that have been created by the subsidies and incentives under the Inflation Reduction Act and the CHIPS and Science Act that have further inflamed these trade tensions. The likelihood is that if these issues are not resolved the level of tariffs and duties will increase or other retaliatory measures may be enacted. And these issues take many years to resolve, even amongst friends.

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Procurement Compliance

Do you create your own leakage?

There is a tendency of senior procurement executives to dismiss low-value spend as unimportant. This can be a major missed opportunity. While it is quite right that procurement organisations will focus on the big ticket spend items such as raw materials, the challenge with low-value spend is to extract procurement value from the various categories without having to deploy the same amount of resources as would happen with a larger spend category. Unfortunately, there are many cases where low-value spend is effectively ignored. Two common approaches are to drive low-value spend through personal expenses or to direct end users to spend platforms such as Amazon. While these approaches will use less procurement resources and reduce the cost of the purchase transaction, often they will give up control and visibility over the spend. At a recent client, their smaller sites used Amazon for low-value spend, but it got out of control to the point where people were buying coffee machines all the way up to mobile phones and not complying with company policy. In another instance employees were told that all spend for less than €250 should be recouped through personal expenses, and all visibility of the buy was lost. In both cases, the total value of low-value spend increased. There are many low-value procurement solutions that would have easily prevented these problems, so the issue should not be ignored.

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