Informita News

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Higher for longer?

It was common back in 2019 that when a banker was asked how long zero interest rates could go on for they would reply with the phrase “Lower for longer.” They could see nothing on the horizon that suggested that the low interest rate environment would end or even alter slightly. They really had no idea what might happen and were running blind. So we need to be very thankful to the central bankers that imposed stress testing and increased liquidity ratios on commercial banks after the banking crisis of 2008-9. Otherwise, Covid and its aftermath would have caused a financial meltdown on a scale factors above what happened in the last financial crisis. When you now ask the same bankers the question of how long the current high interest rate environment could last, the stock answer is now “Higher for longer”. They still have no real idea on how things will pan out. For commercial companies this creates a big problem. If you are trying to plan your longer term finances, should you be rolling debt over now at high interest rates that are going to last for years or should you punt that rates will fall and that that debt roll over will be far less costly in a year or two? The answer to that question right now is a gamble. Get it right and you have saved your company a lot of money for a long time. Get it wrong and you have saved your company with a lot of expensive long term debt. This is why working capital management has become so important to so many companies that were very comfortable with the previous low rate environment. An issue can be that many of these companies no longer have the skills to manage working capital effectively. The people who knew about these things are long retired from the roles they once had and the newer generation have little experience of these matters. The frustration for a younger generation of managers is that while tech solutions can help, they do not solve the core problem. It makes it a time to learn old skills.

In This Issue

Seasonal Inventories

How much is too much?

In most inventory management situations, it is pretty straightforward to understand if you have too much or too little stock. But it is not so simple when you deal with seasonal inventories. The reason is that most inventory formulas are backward looking measures. Safety stock and maximum stock calculation look to the past to determine whether the level of stock was too high or too low. When these formulae are applied to seasonal inventories they are likely only to tell you that your inventory level is either way too high or way too low, depending on the time of year. What makes the problem worse is that many inventories have a set lifetime. So if it is Easter eggs, the chocolate will last between 6 and 12 months before it is unsaleable. But even many non-perishable products have a limited shelf life. For example, stores do not want to buy last year`s Christmas cards. This means that getting seasonal inventory levels right is not just about reducing excess inventory levels, but also about minimising the level of inventory write offs. But there is a solution and it is forward looking. You can use sales forecast information to express the level of inventory in future days of customer demand. This will help with two things. Firstly making sure that you do not run out of stock in the high seasonal sales period. But it will also help prevent excess stock building while customer sales are low. The downside of this measure is that it is highly dependent on the quality of the sales forecast. The tendency of most sales forecasts is to be overly optimistic. To be fair to our colleagues in sales, there are many factors that can influence the forecast. But in seasonal situations there must be rolling forecasts in operation all year and they must be scrutinised and adjusted by supply chain planners. A way out that works is possible.

Invoice scanning

What can go wrong?

Invoice scanning is not a panacea. While it can speed up the processing of supplier invoices and create internal efficiencies, there are certain problems it cannot fix. The first is about image quality. If your supplier has very old scanning software or if they deliberately dumb down the quality of the invoice image to save on storage space, then the image will always be difficult to process. The next problem can be supplier registration. Many more modern scanning systems do not require formal supplier registration and use AI to understand the format of the invoice. This will mean that an additional and often frustrating process for suppliers is foregone. The biggest issue left is usually a lack of process discipline in your own organisation. The best software or process will not fix issues such as poor purchase order processing or price lists that are out of date. So old fashioned change management may still be required.

Trading over Credit Limit

When does it make sense?

In a perfect world, all customers would have account balances that are safely within their credit limits. But there are occasions where it is right to exceed these limits. It is very difficult to create algorithmic rules that could be automatically be applied in such cases and that is why the experience and expertise of credit managers is required to assist in these situations. Credit managers will assess the situation to understand the level of risk to the business and advise senior decision makers based on that analysis. The logic of that process is that the business is then making a conscious risk decision. The business will be aware that a situation could go bad and balance that fact with the opportunity for the business. In summary, its called controlled risk taking.

Vietnam: Peace = Prosperity?

Many people still are reminded of the long conflict that existed in Vietnam before its unification in 1975. The reality is that the country has gone through a deep economic transformation since then. Many of the experiments with central planning and communist economics have been abandoned in favour of free market principles. This has allowed the development of a thriving agricultural sector that is the second largest global exporter of rice and coffee and the largest exporter of cashew nuts and black pepper. Other primary exports include tea, rubber and fishery products. Tourism now accounts for 7.5% of GDP and the non-agricultural part of the economy continues to grow year after year. The government invests heavily in science and technology and the manufacturing sector has seen consistent growth. All this growth has resulted in an unemployment rate of just over 2%. Economists consider that to be full employment. For all the trials and tribulations of Vietnam’s past, its people have shown a huge propensity for hard work and the development of their country.

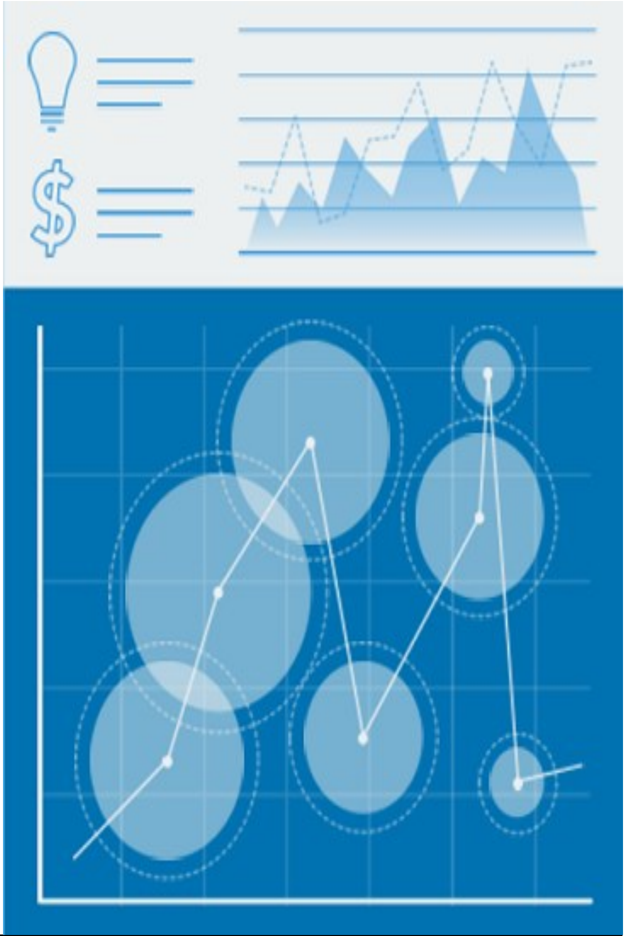
Is dirty energy cheaper?

Some argue that energy would be cheaper if we used more fossil fuels such as oil, natural gas and coal. There is no doubt that if you look at short term cost, buying Russian oil is the way to go. But when you look at the total cost, it really is not cheaper at all. First is the cost of pollution. Many Chinese and Indian cities are enveloped in a hydrocarbon smog that is literally killing people. The healthcare cost of this is and will be huge. This is why we stopped using leaded petrol and stopped burning coal in domestic fireplaces all across Europe. But also the cost of building and maintaining fossil fuel electricity generation is much higher than the wind or solar powered alternative. So being green isn’t just about being a goody-two-shoes, it also saves a lot of money and misery.

Procurement Software

More than pretty graphs?

It is extraordinary that after all the billions spent on ERP systems over the years that there is still a necessity for procurement departments to have a requirement to have specialist software that can help them report on progress. Anyone in procurement will always tell you that without visibility of data that it is very difficult to their job well. The happy news is that there is a plethora of solutions out here waiting to help. They tend to be very good at taking ERP data and organising it into meaningful information about spend per supplier, category and entity. This is a big help to those in the procurement community who know what to do with such data. The sad fact is that there also are many on the procurement world who do not know what to do with such information. For these people such powerful reporting systems present absolutely no value add. It just means that the real procurement professionals get better results and the gulf in class between them and their amateur colleagues gets wider and wider. The other issue with such systems is that they do not solve the savings measurement problem. There are only two financial savings that procurement can make: unit cost reduction by negotiation or changing specifications. Some of these systems make half hearted attempt to measure unit cost reductions, but largely fail on any other measures of savings. Spreadsheets will reign for a while longer.



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