Informita News

Issue 50 December 2024

Why isn't Crypto more popular?

When blockchain started, it was expected that cryptocurrencies would become the main currencies used in international trade within a few years. The selling points were that transactions would be secure from end user to end user anywhere in the world and that the big banks would be bypassed saving a fortune in exchange fees. But in reality, cryptocurrencies remain a minority sport although usage continues to grow. But there are several reasons why it hasn't become a greater success. The first is technology. For those people who are savvy tech users, cryptocurrencies are pretty straightforward and they have proven to be a great investment for some. There are still a lot of folks out there who have never engaged with crypto only because they don't know how it works and do not use any of the apps that facilitate usage. The next is regulation. Banks in major economies are heavily regulated mainly to protect depositors in the event of default. No safety net exists for cryptocurrencies or the apps that help users trade crypto. So it tends to be investors with a high appetite for risk that buy crypto. In any market that will always be a minority of investors. There has been a lot of talk about regulating cryptocurrencies in the last couple of years due to the collapse of exchanges like FTX that lost investors billions of dollars. Crypto is almost impossible to regulate since, like the internet, the technology does not respect national borders or jurisdiction. This will be the case until there is a truly global regulator and there are no serious proposals even being discussed for such an eventuality. For many people, all they have ever heard about crypto are the various collapses that have happened and it scares mainstream investors, corporations and banks. Coming to the banks, while they have invested large sums in blockchain technologies and crypto they are very wary of the whole subject. Banks are naturally very conservative institutions that work hard to protect investors. They don't engage in high-risk without a very good reason. But they also risk losing billions in revenue, primarily for the exchange of foreign currencies in the pursuit of international trade. They have a direct interest in continuing the current system of multiple national currencies that need to be changed every time businesses and individuals have cross-border transactions. The last reason is crime. Criminals understood very quickly that crypto could be used to hide and move their money around the world in seconds. Police forces and judiciaries find it very hard to trace or appropriate crypto assets compared to regular currencies and millions of people have heard of crypto being the currency used on the Dark Web where all sorts of nefarious activities are conducted. Without proper regulation, it is unlikely that mainstream investors will get more involved with crypto and as long as scare stories about financial collapses, crime and such like continue it is very likely that crypto will remain the choice of a small minority of high-risk investors.

In This Issue

Credit Insurers can cause havoc

Downgrades can lead to a death spiral

Financial institutions have an uncanny knack for protecting themselves during economic downturns and credit insurers are no exception. For example, if you are in Agribusiness and use trade credit insurance to guard against bad debts, there has been a big retraction in credit limits in the past 4 years that have flexed as we have experienced a whole series of crises ranging from the pandemic to the Ukraine war. While it is right and proper that credit insurers manage risk, the effect of them being overly conservative has been to make trading in agribusiness supply chains much more difficult. The usual problem is that the credit limit with a customer has been reduced, so the same volume of trade cannot be done as before. Oftentimes, this means that companies that have already been struggling with cash flow issues have further problems imposed upon them by the necessity to provide expensive bank guarantees or diversify spend to more expensive suppliers. Neither of these steps helps the supplier to get out of their cash flow hole and may even draw them further into a negative cash flow spiral. But there are alternatives. One is to stop using credit insurance. Our experience is that many companies who use credit insurance have very low levels of bad debt. This is usually driven by the credit insurers imposing strict credit limits on their customers. So if the supplier was good enough at setting their own credit limits, they could achieve the same level of low bad debt and not have to pay for expensive credit insurance. This can work but it does require having experienced professionals who know how to manage customer risk and a company that has enough corporate discipline to stick to the rules. This process works very well in many countries and industries across the world.

Long Customer Terms

Good for business?

Many in sales would argue that offering longer sales terms to customers can be a competitive advantage in the same way as offering lower prices. It is certainly true that many customers will be attracted by the offer of longer payment terms meaning they can conserve their own cash flows. But this can prove to be dangerous for the selling business. Every business suffers a cash crunch at some point, no matter how healthy the business might seem. One CEO told us recently that he was very proud of his company’s strong balance sheet. But his balance sheet was weighed down with accounts receivable on long payment terms that could not be converted into cash quickly. The same company suffered a severe cash crunch in the post-pandemic period due to geo-political factors outside its control. This proves that long payment terms expose you to liquidity risk that you cannot necessarily control.

Seasonal Inventories

Most measures of inventory management are backward looking such as Days of Inventory Outstanding or Stock Turns. In most businesses, these measures operate reasonably well and are straightforward for supply chain managers to understand. But in seasonal businesses, these measures do not work very well. If you sell seasonal goods, it is possible that you only make large sales at a few points in the year. So you are stock building to the large sales point and then your inventories should fall to very low levels after the big selling events. But like other businesses, you are often left with stock that did not sell. Backward measures simply compare your current stock level with past demand and absolute values of stock can be very high or very low, depending on the time of year. The answer is to measure stock in forward days of demand to understand what stock holding is against future sales.

El Salvador: Crypto economy?

President Nayib Bukele set the stage to introduce Bitcoin as legal tender in the country in 2021. The purpose of this was to reinvigorate a long-time problem economy that has suffered from natural disasters, civil war, corruption and the destruction of the previous mono-export economy of post-colonial days. For a 3 Bitcoin investment in the country, you can gain permanent residency inviting well-to-do foreigners to bring their precious cash to the economically struggling nation. The scheme has had some success, but it has been very limited. According to the Chamber of Commerce, only 14% of the country's registered businesses have ever processed a single Bitcoin transaction by early 2022. And it hasn't improved very much since. Potential investors have been scared off by the political instability of the country driven by narco gangs that had their roots in the civil war era of the 1980s. So while this has been an innovative idea, it really hasn't achieved a huge amount of traction.

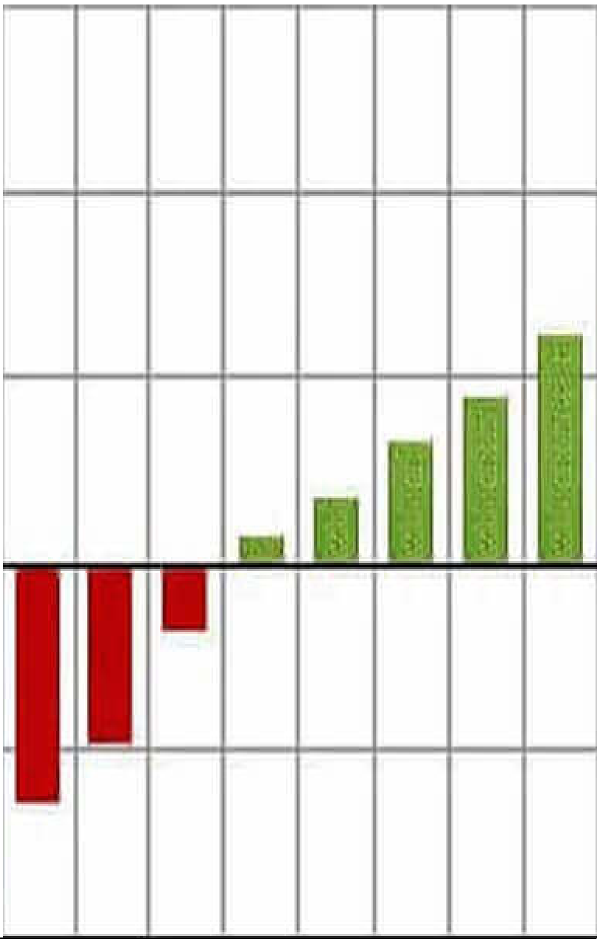
Do elections matter?

The recent election of Donald Trump shows yet again that the results of elections have real-world consequences. Whether you were delighted or depressed about this particular election result, it does mean that things will change and there will be many competing views as to whether these changes will be for the good or the bad. And this is not a phenomenon that is confined to the United States. Ultimately regime changes will usher in amendments to the current direction of economic and foreign policy that will have their effects right through the supply chain. Will we have an increased level of global trade wars? Will climate change impacts get increasingly worse? Will inflation be reignited in major economies? We don't know the answers but we will find out.

Cash Forecasting

Still a problem

Cash Forecasting remains something where many companies continue to struggle. In recent years, there has been an avalanche of software and so-called “AI” tools issued to try and solve the problem, resulting in more corporate expenditure on solutions that have usually proven to be little better than was there before but have helped to reduce overhead costs. So our cash forecasts are no better but are cheaper to produce. The major reason why this has happened is that the vast majority of people have failed to understand the underlying problems associated with cash forecasting. While there are some industries where the behaviour pattern of cash inflows and outflows is reasonably stable, there are many others where this is not the case. There is also the fact that the more short-term the forecast, the more likely it will be inaccurate. And the final piece is that predicting inflows from customers is a much greater challenge than forecasting payments to suppliers. Our own work on this subject has established that there is no magic formula for cash forecasting, particularly short-term forecasting. The first necessary step, which is often skipped, is to establish what the current pattern really is. Only then can a predictive algorithm be built. Unfortunately, this is not the case with most software that usually picks one algorithm and applies it to all situations. While this might prove to be better than simply guessing, it leaves a lot of room for improvement that is routinely left on the table.



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