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Is it time for window dressing?

The holiday season is a festive and joyous time for most people, but in the corporate world it is a time to be increasingly careful. Year-end is approaching for many and it is the most important business snapshot of the year. How much profit was made? How much did revenues increase? And increasingly, what does working capital look like? The world has changed since the pandemic and many of those who felt comfortable have had the proverbial rug pulled from under them. For many, that means that managing the balance sheet is more precarious than ever. Usually, there are two families of solutions. The right one should be to fix the problem, improve processes and training to reach a new level of working capital performance. But for others, the answer is window dressing. All the tricks are very old. You can make agreements with key suppliers not to pay them at year end in return for something else they might want. You can also ask customers for cash early. Equally, they will ask for something in return. It is becoming very common now that large corporates cease all payments to suppliers in December, except for key suppliers. All of this will certainly make your balance sheet look better, but everyone knows it's only a temporary fix. And if the underlying issues that caused the problem are not resolved, there will need to be a greater effort next year to dress up the balance sheet again. These efforts are very time-consuming and stressful for the Finance community as well as the wider supply chain. But many Finance people see it as the only way they can influence the situation since the rest of the organization will not listen to their pleas. So they continue to sell to bad customers, have suboptimal collection processes, have short supplier terms, less than perfect payment processes and inventory running to the ceiling. And no problem is fixed. That is a situation that only carries on for so long before the size of the window dressing becomes too big. Then the external parties (investors and banks) will figure out what you were doing and will not be happy. Sometimes events do happen where there is not enough time to make the right changes before year end and window dressing becomes the only option. But it is imperative that real corrective action is taken within the business. That means engaging with sales, procurement and manufacturing colleagues to get them to realise the impact of their sometimes reckless and unthinking actions. And it also requires Finance to have a real voice at the table of power. Finance needs to be more than just "bean counters". The world we live in is full of uncertainties and is likely to stay like that for many years to come. When the worst happens to a business such as a sudden drop in revenue, strikes or other supply chain disruptions, the thing that keeps the wolf from the door is cash in the bank. Getting that right takes time and focus and there is no like the present to make a start.

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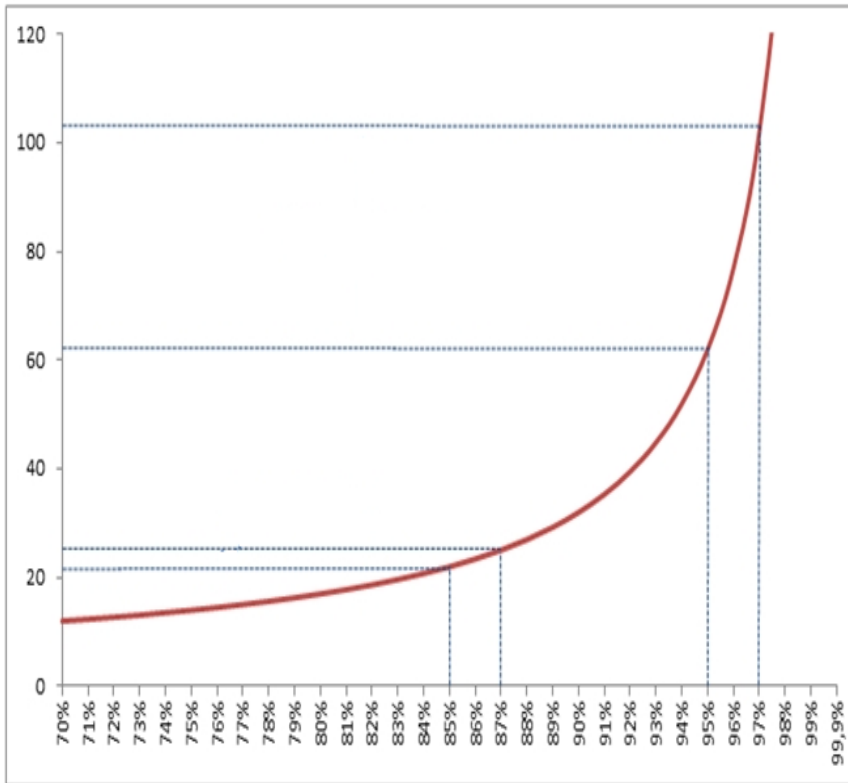
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The Service Level Effect

High CSLs drive inventory holding

It is common to hear commercial people state that the product must be available to the customer at all times. While this is a worthy ambition, if taken literally, it has severe consequences. It is possible to set a service level and have that as part of your inventory parameters. But if the service level was set at 100% to service the customer in all possible eventualities, the math tells us the level of stock would need to be infinite. Therefore, it is impossible. So most companies that do have a customer service level set it relatively high. A favourite percentage is 98%. When you ask why, you may be told that the customer demands this service level. Often, this shows some basic misunderstandings of what the customer actually requested. Firstly, the majority of customers never state a formal customer service level, so any setting is made up by the supplier. Supply chain planners tend to over-estimate the desired customer service level (CSL) and this results in high levels of inventory that no-one wants. The next one that is common is that the customer demanded a 98% CSL. It is common for large retailers to demand 98% On Time in Full (OTIF) delivery performance. That means delivering on time within the desired delivery slot 98% of the time or better. That is quite different from a CSL. But it is common that the 98% OTIF measure is translated into a 98% CSL. In stocking terms, increasing from a 95% CSL to a 98% CSL will increase your stock holding by 25%. Going to 99.95% will be more than double the effect of the 95% CSL. The answer to what is the right CSL is to ask the customer the specific question, track the demand of that customer to see if the CSL is appropriate and amend it with the customers knowledge. Unfortunately, those conversations are very rare.

PE Owned firms

Trying to do too much?

A handful of PE-backed companies become very successful. The majority fail, but that is part of the business model. It starts by taking the majority stake in a business and loading it with very expensive debt. The business then needs to change very fast while squeezing the life out of it balance sheet to satisfy its major shareholder. The PE firm will want to exit in a short number of years and make a hefty profit from the transaction. If not, they will make a hefty profit from the business servicing the debt. To survive, these businesses need to restructure and implement changes in all sorts of areas at a blistering pace. Often, the business managers are not up to the task and are replaced due to a lack of experience in change management or the sheer pressure that is constantly exerted by the PE firm. The PE firm will hire all its favourite consultants to “help” the business, often at the same time creating unusual levels of chaos and dysfunction. And greed wins every time.





Is AI addressing labour shortages?

We hear a lot about how AI is going to destroy our lives and much of the information in the media is pure scaremongering. There might be a time in the future where robots are able to do everything better than humans, but we are a long way from that point. After saying that, there are going to be jobs affected by AI, mostly those doing some kind of repetitive task. But people will still be required to deal with the difficult cases. But in most instances, this is not reducing headcount but is making processes more efficient. In most of the large economies of the rich nations of the world, there are still shortages of skilled labour in both blue and white collar roles that are difficult to fill. AI can help bridge some gaps in the short term, but having enough people with the right skill sets will take several years to address.



Marshall Islands: Fish and Dollars

The Republic of the Marshall Islands is a small collection of islands and atolls in the North Pacific. Although independent, it is in free association with the USA. In practical terms, this means that the Americans provide defence, subsidies, and even the mail service to the island nation and they use the US Dollar as currency. Like many small island nations, they have very few natural resources and are heavily reliant on imports. They do export coconuts, tomatoes, melons, taro, breadfruit, fruits, pigs and chickens. The main industries are fishing, fish processing and tourism. The most common place to see the Marshall Islands flag is on ships. The Marshallese ship registry was the second largest in the world. There is no requirement that a Marshallese flag vessel be owned by a Marshallese individual or corporation, making registration very easy. The largest cash contributor to the economy is the US Government, providing direct assistance to the government. The latest moves by the government has been to create a 48,000 sq km marine reservation to protect the pristine ocean wildlife, combining traditional knowledge with science to secure the future.

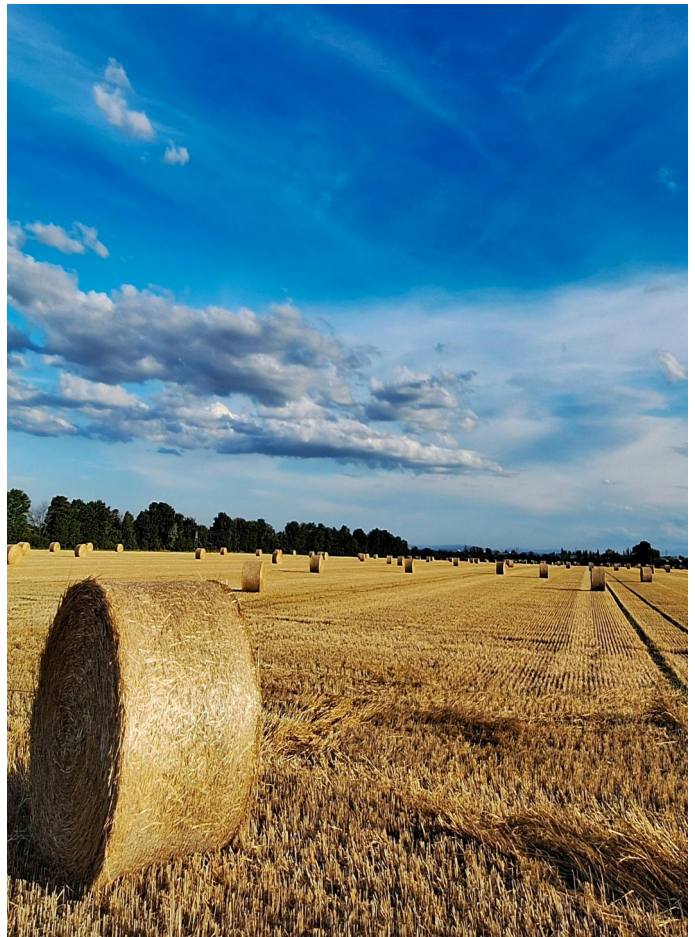
Tariffs as taxes

In 1920s America there was a drive to lower personal income taxes. It took the highest marginal rate from 70% in 1918 to 25% in 1928. It was also a time when tariffs were seen as a way of raising tax revenue in a way that did not hurt your voters. The logic was that foreigners don't vote, so even if they are unhappy about it, it doesn't matter. Unfortunately, tariffs proved to be a major factor in deepening the Great Depression of the 1930s across the world. A century later, we are here again and it seems the lessons of the past have been forgotten. But there is a political problem. Consumers are noticing how expensive everything has become in the United States and they are not happy. In September 2025, the price of coffee had jumped 20% from a year earlier. The American morning lives on the coffee that is imported from countries such as Brazil. They have noticed that costs have increased significantly and that it is due to tariffs. In response, the White House has reduced or eliminated tariffs on a range of agricultural products such as coffee, bananas and tomatoes that are imported from Latin American nations. Nobody likes being taxed and people will blame the perpetrators.

Agribusiness

Who should fund the supply chain?

Farming is a capital-intensive business. Something has to be grown or reared before it can be turned into cash on an expensive asset called land. Farmers can easily be asset rich and cash poor. Around the world, there have been many attempts to resolve this conundrum. In the US, farm loans to cover the outlay for seeds, fertiliser and livestock are common. They do come at a price and the risk for the farmer is that a bad season can result in losing your farm. In Europe, these types of farm loans to cover operational expenses are not as common. There are some farmers who are wealthy enough not to need extra liquidity, but this is not the usual case. What very often happens is that they rely on credit from suppliers and short payment terms from their customers. It is widespread that farmers are paid in less than 10 days for their produce. That cash then goes to pay suppliers. But those suppliers may have to wait a long time to get that cash. There are instances where suppliers wait more than a year to get paid. And all this has to be funded. Farmers will always plead poverty and do their best to squeeze as much cash out of the supply chain as possible. But this places a great strain on the supply chain in a climate of volatile agricultural prices. There is no simple solution apart from keeping cash close to your heart.



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