

Informita News

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Supply Chain Finance

Let the truth be told!

Brazilian retailer Americanas SA is the latest company to get into financial trouble and cast a very negative shadow on the use of supply chain financing, specifically reverse factoring. Just like Carillion and others, there are companies out there that are using reverse factoring as a tool to stretch their balance sheets to the limit. Unfortunately, up to now if a company was doing this, it was very difficult to unearth the fact unless you were a company insider. Investors and suppliers have been stung badly in some of these situations and the press are delighted to feast on this misfortune. Thankfully new rules are coming in 2023 that will help outsiders to understand if companies are using reverse factoring as a form of balance sheet window dressing. US companies will need to disclose the value impact on their balance sheets of reverse factoring. Other jurisdictions will implement their version of the same disclosure rules later in 2023. The vast majority of companies using these schemes are not guilty of balance abuse and will have no problem disclosing these exposures. But there will be a minority that will be found out and we expect this to be most acute in the United States. There are certain very well known FMCGs who have coerced suppliers into reverse factoring schemes over the years who will now be exposed. We believe that this is a good thing and will support those companies who have implemented schemes in order to support their supplier bases made up of smaller companies who may not have access to market finance. But we predict that there will be some shareholders out there that will be shocked at the size of some of the exposures of some of the most prominent companies on US stock markets.

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Creating Leverage

Good deals from disadvantage

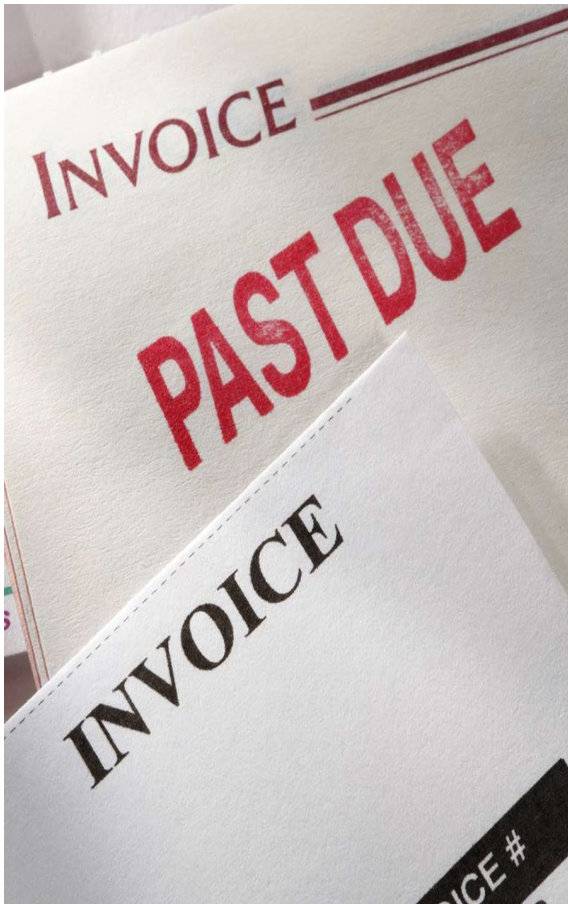
There are many instances where procurement category managers struggle to negotiate with their suppliers either because the supplier is seen to have more leverage or the supplier has already been pulverised in previous negotiations. But there is almost always an alternative, even though sometimes it is necessary to stretch the imagination. In cases where the supplier is a non/regulated monopoly or oligopoly, it can seem difficult to do anything. The answer to find a new competitor. This could be a start-up fintech or a supplier to a different market. It is likely that this will not produce immediate results, but it will make your supplier think about how they will maintain their market share. Another option is to create a price point. An example would be introducing low cost country competitors to undercut the price of First World established players. Consolidation of spend can be a good opportunity to create an economy scale that did not seem to exist before. This is often successful with the less sexy areas of spend that can be easily overlooked. In one case we consolidated spend with almost 200 Iberian suppliers of fasteners with one Belgian supplier who was anxious to enter the Iberian market. The new supplier gained a major foothold in the region and 20% was saved in product cost. If all else fails it will be necessary to innovate. At one client who used large paper bags for packaging, the answer was to redesign the bag, working with their own product engineers and the suppliers product development people. The result was a bag that could contain the same volume of product but required less paper to manufacture. The cost savings were shared between the supplier and the customer. Even though things can sometimes feel impossible, there is almost always a way to create leverage.

Optimal Inventory

Not a pipe dream

The age old problem with inventory is having too much of what the customer does not want and too little of what the customer actually does want. Many businesses struggle with this problem because the lack the skills and experience to manage the issue. Some opt for a simplistic stock coverage model where a certain number of days or weeks of stock are kept for everything. This will help to prevent stock outs, but will also drive total stock holdings through the roof. Some will get a supply chain book with some formulas in it and end up being baffled by all the math or implementing half baked formulas that may drive stock levels even higher. One thing that most people forget is that customer demand is variable. So if you do not account for that customer demand pattern, you will inevitably end up with the wrong answer. And over time the pattern will change. So the formula that was right for today may be completely wrong next year. It is all solvable without too much complexity.





Pay When Paid

Collections in the Middle East

A common practice in the Middle East, is to “pay when paid”. This is especially prevalent in oil rich countries where government money is the main driver of the economy. For those business sectors exposed to direct government funding, they usually have to wait until large tranches of government money is dispersed via various ministries and agencies. There is then a pecking order of who gets paid first and that will be down to the quality of the relationship between customers and suppliers. Recently, this has been less of a problem as oil prices have remained high and there is a continuing drive, especially in Saudi Arabia, to allow processes to operate in a more automated and predictable fashion. While the practice hasn’t gone away, it’s not as bad as it used to be.



Senegal: Hope for the future

The Republic of Senegal is a West African country of 17 million people. For many Senegal’s most famous achievement was winning the African Cup of Nations in 2021. Since independence from France in 1960, Senegal has had an unbroken chain of elected governments. While politics can be controversial at times, there has never been a coup in the country and political opposition is tolerated far more than many post-colonial African nations. The country has abundant deposits of iron, zircon, gas, gold, phosphates and also has some oil, but is still classed as poor country. The economy is driven by mining, construction, tourism, fishing and agriculture with agriculture having an outsized influence. The capital Dakar is also a hub for shipping in the region. The government is betting that education is the route to prosperity and spends around 50% of its budget on education alone. There is great potential but it is starting from a very low position in the global wealth index. Excluding the pandemic years, the country achieved 6% plus growth since 2014. There is hope but much progress to make.

EU Energy Market

The last year has been turbulent for European energy markets. A lot of the trouble has been driven by an over-reliance on Russian energy, but that has not been the only reason. The other factors have been a lack of connectivity across EU markets and several failures of country based market regulation. While there are many electricity connectors and gas pipelines across Europe, there were notable gaps in that connectivity. For example, the Baltic countries were not connected to anyone but Russia. Spain had no connections with France. Ireland had no connections apart from the United Kingdom. The good news is that all this is changing fast. There is a mad rush to build LNG terminals, electricity connectors and gas pipelines to make almost all of these issues go away. It is also apparent that country level regulation has largely failed. One example is the Uniper rescue in Germany. Another is the fact that Irish sustainable energy producers have been allowed to charge the same price for their energy versus a natural gas distributor because of local regulatory guidelines. All of this presents a big opportunity for the EU. Firstly that wind energy from the Atlantic, solar energy from the Mediterranean and nuclear energy from France should all be connected to the same grid. If that was the case why shouldn’t a consumer in Estonia be supplied by an energy distribution company based in Portugal? This would create enormous economies of scale and supply security.

Weekly Invoicing

A hidden opportunity

There are many companies that deliver their invoices to their customer on a weekly basis. In the days of paper invoices, this was often an opportunity to save on postage costs. Depending on the customer, it could also present an opportunity to gain 3.5 days credit for nothing. The surprising thing is that these practices persist even though very few large companies issue paper invoices anymore. So why does the practice persist? Those customers who benefit have become aware over time of the cash flow benefits of the supplier delaying invoice dispatch. 3.5 days may not seem much, but to some companies it is providing millions in free liquidity. Equally that is lost liquidity to the supplier. Logically suppliers should bring the point up with their customers. Very often this never happens and for a number of reasons. Sales people are often terrified about these discussing points with their customers, especially large retailers. Finance departments are often convinced that there is some lingering efficiency gain from weekly invoicing, but the truth is there is almost no gain in a digital world. And the last big reason is inertia. "We've always done it this way". In organisations where there is little pressure to change, these practices can continue for decades. So if you do produce weekly invoices for certain customers, be sure to ask why its happening.

SUN	MON	TUE	WED	THU	FRI	SAT
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

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