

# Working Capital Report 2021/22

From recovery to growth  
in the face of supply  
chain instability



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# Introduction

Working capital KPIs are showing a performance deterioration for DSO and DIO, and an improvement for DPO

#### Payment morale has deteriorated



**2 %** deterioration in days receivables outstanding (DSO) annually

**15 %** improvement in days payables outstanding (DPO) annually

#### Inventory on the rise



**6 %** deterioration in days inventory outstanding (DIO) annually (FY20 vs FY19)

**16 %** inventory reduction from Q2 2020 to Q2 2021 (restored to pre-pandemic levels)

# Introduction

## Supply chain instability is negatively impacting working capital

Welcome to PwCs 2021/22 **working capital report** of the **leading companies** within Germany, Switzerland, Austria (GSA) and Belgium, the Netherlands and Luxemburg (BeNeLux).

In this year's report we have specifically looked at shifts in performance to **highlight the impact and challenges that Covid-19 has had on working capital**.

Covid-19 has created **significant disruptions for physical and financial supply chains**. The flow of raw materials and finished goods has slowed or even temporarily stopped, and is disrupting manufacturing. As a result, corporations are reconsidering their contingency arrangements and the nature of resilience in the new normal.

The corporate focus is shifting away from “stabilise and survive” to “recovery and growth”. But unstable supply chains are disrupting operations and increasing the pressure on working capital – the cash needed to run the day-to-day operations of any business. As companies seek to adapt to these “cash” challenges while maintaining recovery and growth, many have increased their focus on resilience in the supply chain and are searching for opportunities to improve operational processes impacting working capital performance. Additionally, several companies have been looking to their financial institutions for ways to help identify and deploy appropriate trade finance solutions in order to bolster their working capital positions and maximize financial benefits.

In the wake of the Covid-19 pandemic and with the current supply chain volatility, it appears that increasing inflation and associated rising interest rate will be putting extra pressure on many companies' working capital management.

We hope that you find this report insightful and useful for your daily operations. We would be happy to provide you with any additional information and discuss the topic with you further.



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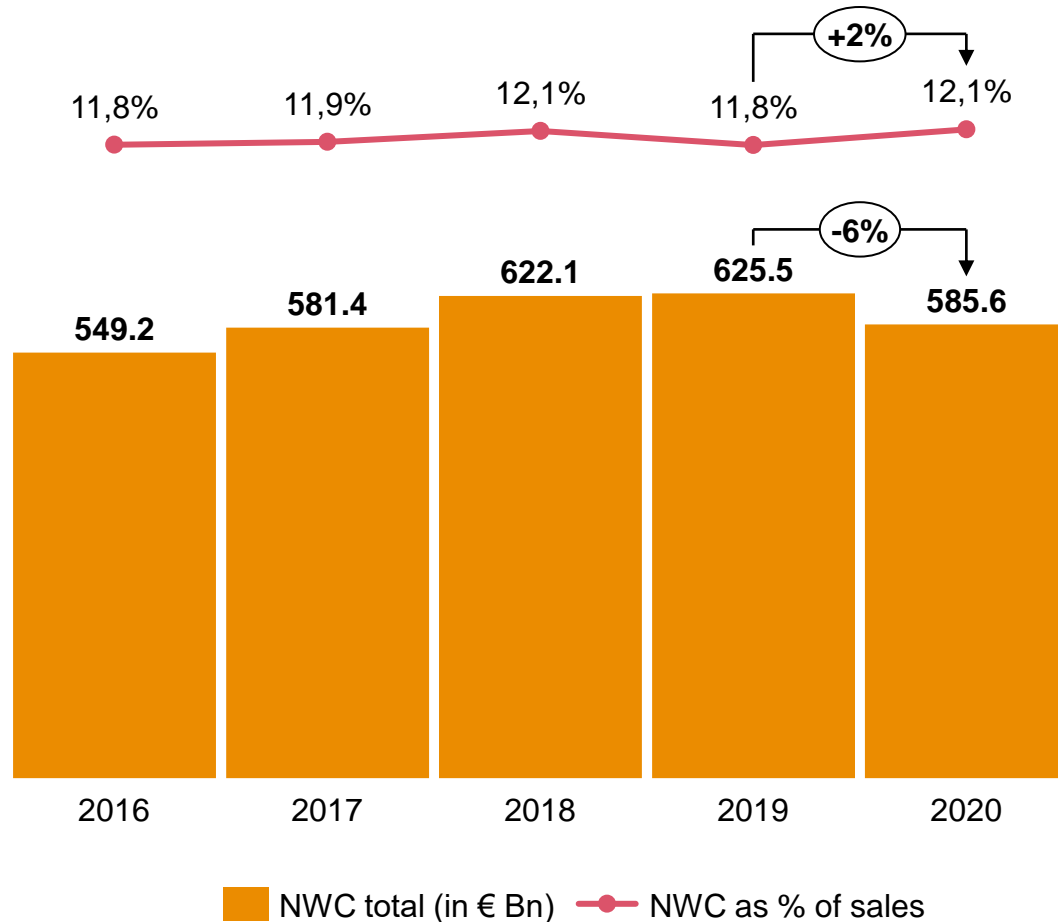


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# Net working capital

The impact of the pandemic  
on Net Working Capital

# Net working capital as percent of sales is growing, as it was heavily impacted by lockdowns



As economies in the GSA and BeNeLux regions have been subjected to multiple periods of lockdown, the route to recovery is unlikely to be smooth, and businesses need to be in the best possible shape for this journey. Economic conditions will most likely remain challenging for the foreseeable future.

Our study shows that despite lower NWC values, the ratio of NWC as percent of sales (12.1%) is at its highest level since 2016. This means that for many companies a laser-like focus liquidity – including optimisation of working capital – will be vital for navigating the tough times ahead.

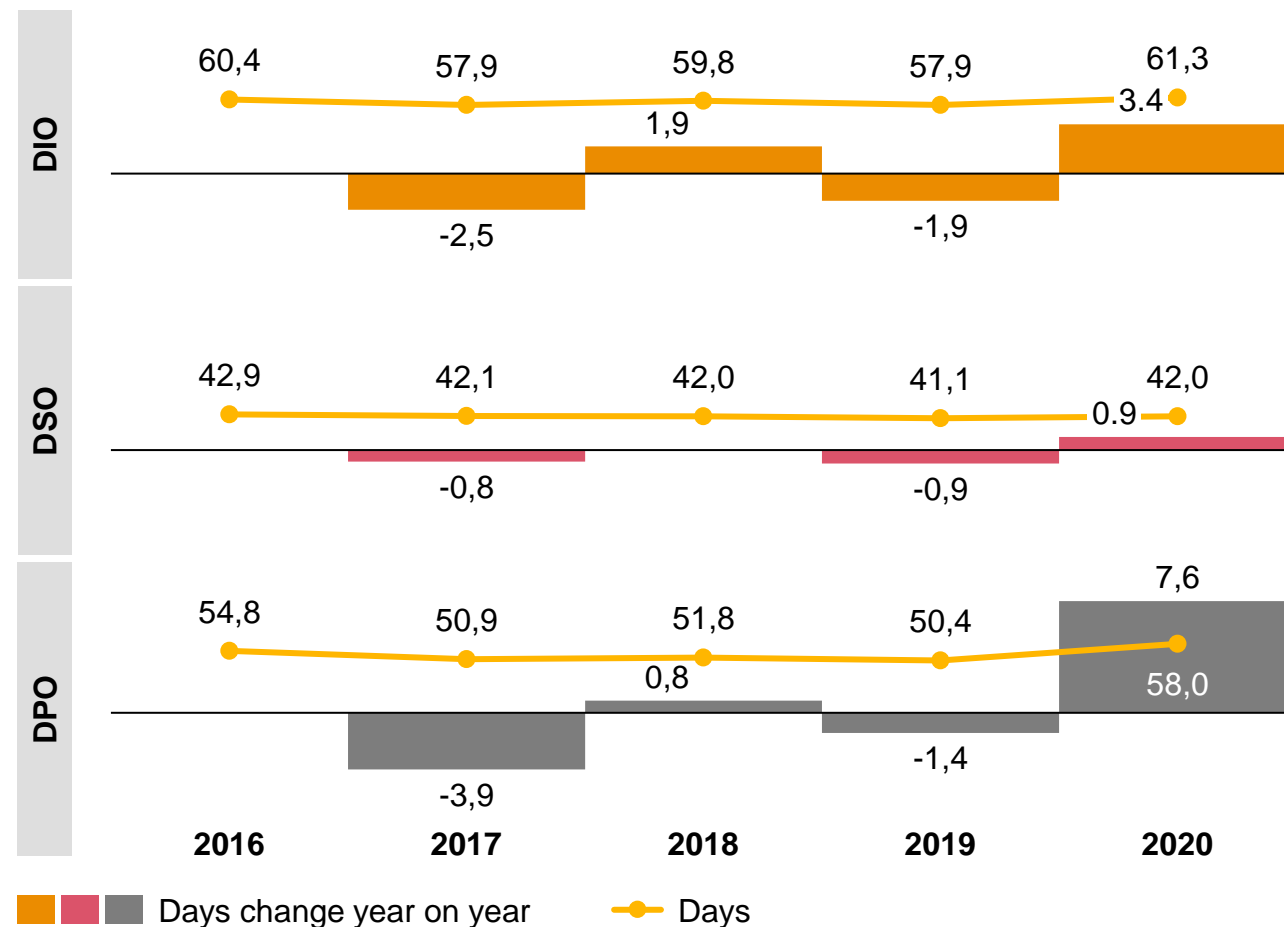
Even though net working capital decreased with +6% in 2020, sales dropped with -9%. The movement in working capital reflects what happens when companies look to pull short-term levers. However, the impact was not felt evenly across all industries and regions, and the inability to react to changes fast will continue to be a significant driver of working capital.

# DSO, DIO and DPO at highest levels in five years

Inventory saw a significant increase of 3 days (+6%) in FY20, reaching a five-year high. This increase can mainly be attributed to the impact of the pandemic on the supply chain. The flow of raw materials and finished goods has slowed or even temporarily stopped, and this is disrupting manufacturing. As a result, inventories have increased relative to sales.

Accounts receivable and accounts payable followed a similar trend from FY19 to FY20.

While DSO increased by only 2% in 2020, DPO saw a sharp increase of 8 days (+15%). This could have been caused by an increased focus on (later) payments by buyers.





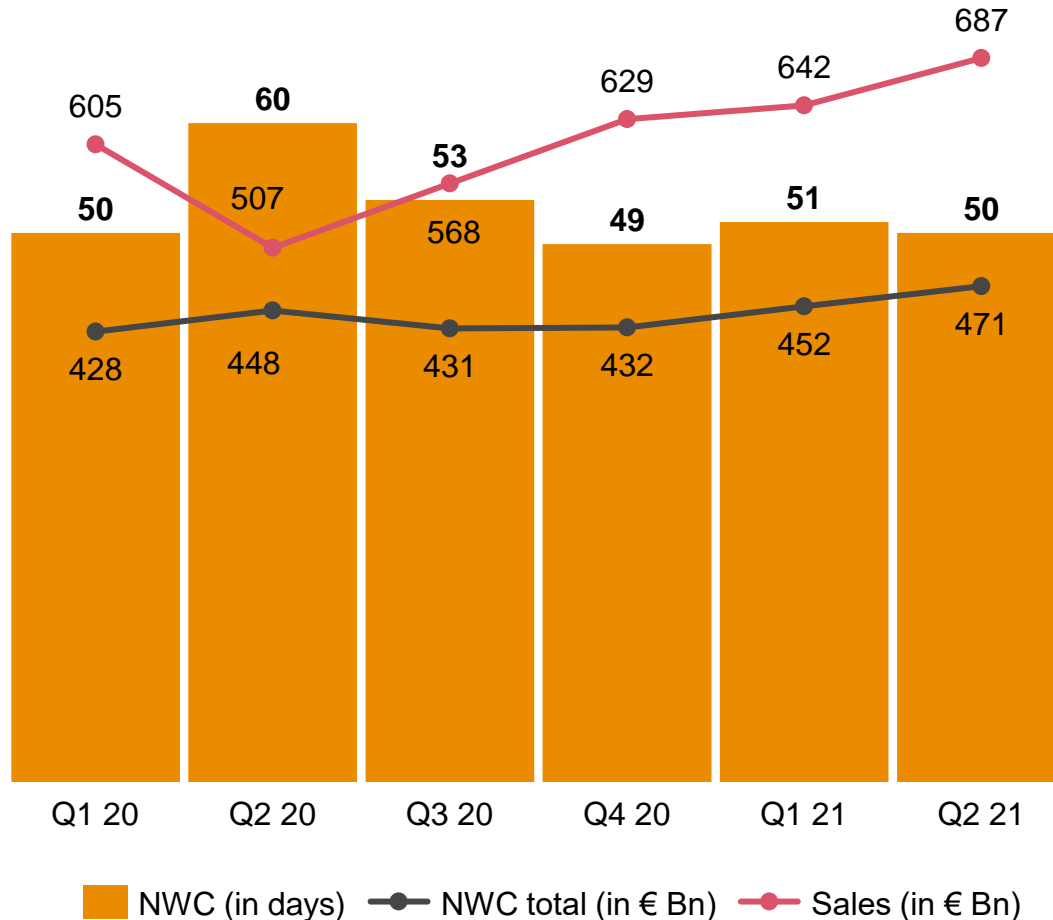
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## Quarterly view

Signs of recovery, but agility remains a concern



# Significant spike in working capital days (only) during Q2 2020



The deterioration in working capital days performance reflected the exceptional volatility experienced by many companies. The pandemic has also exposed the slow reaction of supply chains to external shocks, leading to the significant spike in working capital days during Q2 2020.

Since Q3 2020, there have been good signs of recovery, with revenues growing above pre-pandemic levels in Q2 2021. However, the nominal value of working capital changed very little during one of the most significant supply and demand shocks for many years.

Note:  
Quarterly analysis comprises a base of 585 companies that had public available data on a quarterly basis.

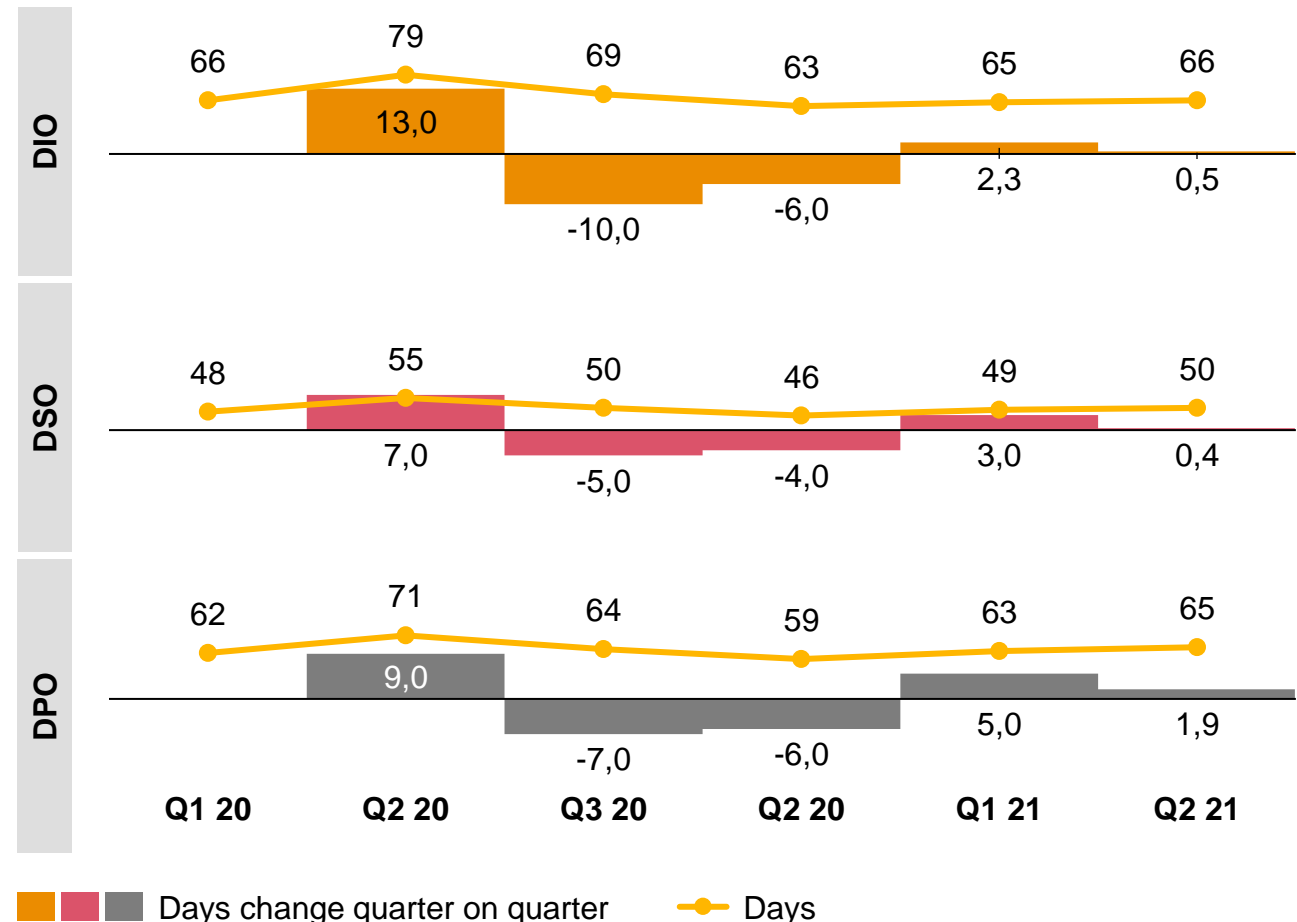
# By Q2 2021, working capital levels appeared to be back to pre-Covid-19 levels

Inventory, which is a leading measure due to the need to build up stock up ahead of the return of revenue, saw a sharp increase of 13 days (+19%) in Q2 2020 before declining again in the next quarters. Even before the pandemic, there were growing concerns over global supply chains and availability of goods. The sharp decline in Q3 and Q4 2020 may also be explained by scarcity rather than normalising inventory requirements. By Q1 2021, inventories were back to pre-pandemic levels.

Accounts receivable and accounts payable followed a similar trend from Q2 2020. Both increased by more than +10% in Q2 2020 and saw a decline over the following quarters. By Q1 2021 DSO and DPO levels were similar to pre-pandemic levels, with DSO levels slightly worse and DPO slightly better than before.

Note:

Quarterly analysis comprises a base of 585 companies that had public available data on a quarterly basis.





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Cash generation  
has suffered  
across sectors





















# Supply chain disruption has seen rapid working capital shifts across sectors for NWC days, DPO, DIO and DSO

Across sectors, there has been a rapid shift in working capital requirements, driven by significant disruption to both supply and demand. Normal lead times and replenishment frequencies have been stretched, even for regional supply chains, meaning that safety stock and inventory policies need to be adapted.

Payment discipline, as well as creditworthiness and insurability, are continuing to impact companies' ability to get paid or trade.

The Covid-19 pandemic's impact on business varies significantly by industry and location. Working capital performance and supply chain resilience differ greatly by industry.

In light of Covid-19 infection rates increasing again across most of Europe, more and more economists and corporate leaders expect to see a somewhat slower recovery for 2022, or even longer-lasting recessions in some European countries.

Sector	Change in NWC days <sup>1</sup>	Change in DIO	Change in DSO	Change in DPO
 Aerospace, defence & security	↑ 196 (+70)	↑ 215 (+46)	↑ 53 (+10)	↓ 72 (-14)
 Airlines & Airports	↑ 6 (+5)	↑ 14 (+3)	↑ 41 (+5)	↑ 49 (+3)
 Automotive	↑ 61 (+1)	↑ 76 (+3)	↑ 31 (+1)	↑ 46 (+3)
 Chemicals	↓ 85 (-10)	↓ 97 (-4)	↓ 57 (-2)	↑ 68 (+4)
 Communications	↑ 2 (+12)	↑ 15 (+3)	↓ 58 (-2)	↓ 71 (-12)
<b>Consumer</b>	↑ 48 (+0)	↑ 58 (+6)	↓ 26 (-1)	↑ 35 (+5)
 Consumer (Food)	↓ 26 (-1)	↑ 87 (+7)	↓ 37 (-2)	↑ 98 (+6)
 Consumer (Non-Food)	↓ 42 (-7)	↑ 106 (+1)	↓ 64 (-2)	↑ 127 (+6)
 Energy & Utilities	↑ 25 (+3)	↑ 18 (+1)	↑ 49 (+9)	↑ 42 (+8)
 Engineering & Construction	↓ 12 (-9)	↑ 52 (+7)	↓ 56 (-1)	↑ 95 (+15)
 Entertainment & Media	↑ -6 (+1)	↓ 20 (-1)	↓ 53 (-3)	↓ 79 (-5)
 Forest, Paper & Packaging	↓ 41 (-2)	↑ 63 (+0)	↑ 46 (+3)	↑ 68 (+5)
 Healthcare	↓ 110 (-7)	↑ 74 (+4)	↓ 80 (-11)	↑ 43 (+0)
 Hospitality & Leisure	↓ -29 (-19)	↑ 37 (+7)	↑ 28 (+7)	↑ 93 (+33)
 Industrial manufacturing	↓ 43 (-10)	↑ 52 (+2)	↑ 45 (+2)	↑ 53 (+14)
 Metals & Mining	↑ 63 (+8)	↑ 78 (+16)	↑ 31 (+4)	↑ 46 (+12)
 Pharmaceuticals & Life sciences	↓ 79 (-5)	↓ 118 (-3)	↓ 59 (-3)	↓ 99 (-1)
<b>Retail</b>	↓ 7 (-4)	↓ 40 (-3)	↑ 13 (+1)	↑ 45 (+1)
 Retail (Food)	↑ -5 (+0)	↓ 33 (-2)	↓ 8 (-1)	↓ 46 (-2)
 Retail (Non-Food)	↑ 36 (+3)	↑ 103 (+10)	↓ 22 (-1)	↑ 89 (+6)
 Technology	↓ 36 (-9)	↓ 54 (-1)	↓ 49 (-6)	↑ 67 (+2)
 Transportation & Logistics	↑ 6 (+1)	↑ 12 (+1)	↑ 45 (+1)	↑ 51 (+1)
Other	↓ 31 (-16)	↑ 49 (+3)	↓ 41 (-2)	↑ 60 (+17)
<b>Total</b>	↓ 45 (-3)	↑ 61 (+3)	↑ 42 (+1)	↑ 58 (+8)

# NWC days varied across different industries in FY20

Large disparities can be observed between industries, with 6 out of 23 sectors reporting a NWC totaling over 60 days.

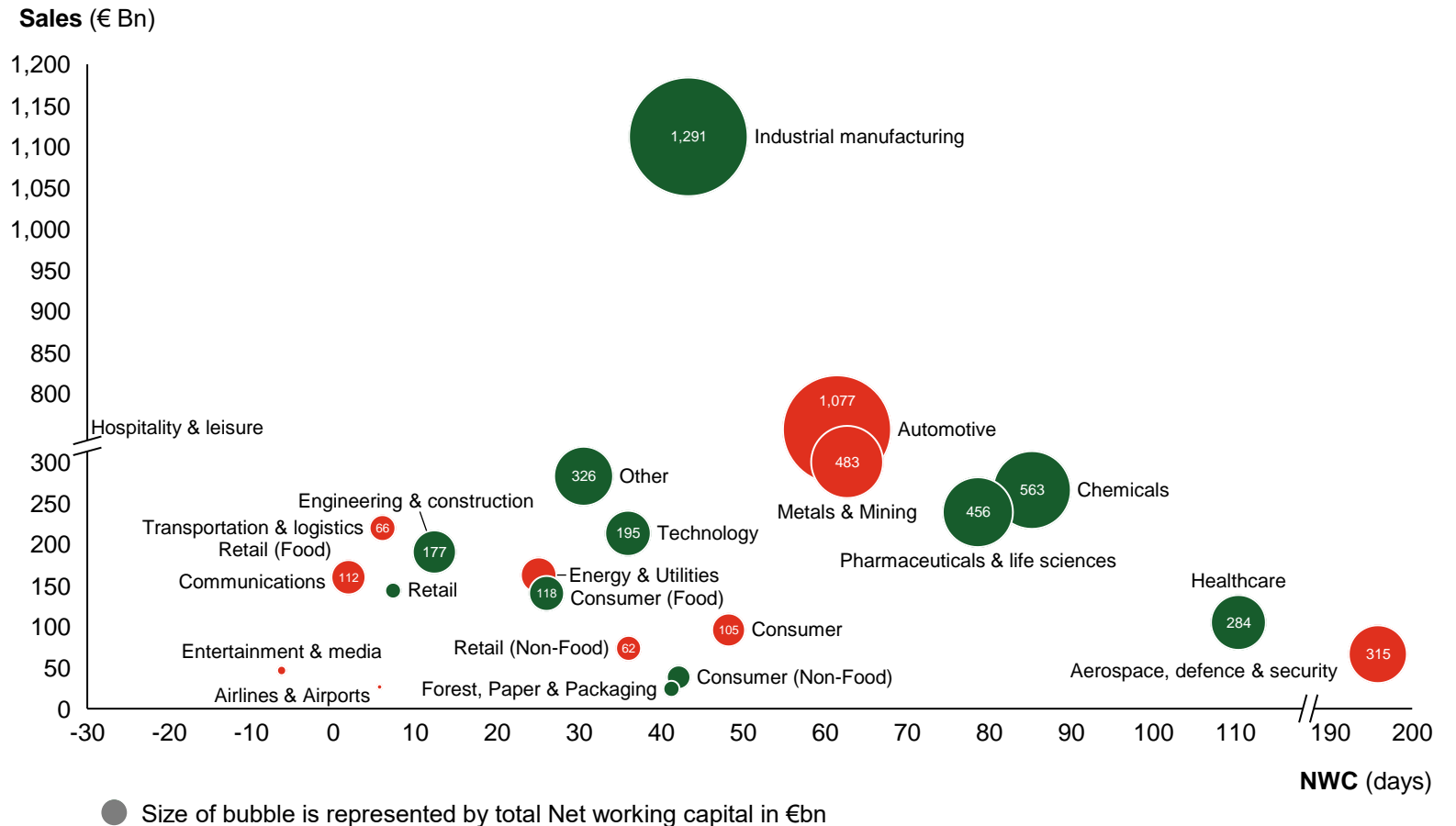
Aerospace, defence and security saw a NWC of 196 days in FY20, the largest of any sector. This was mainly driven by deterioration on the asset side of the balance sheet, with significant increases in both DSO (+10 days) and DIO (+46 days).

Metals and Mining have also been hit hard by the pandemic, with an increase in NWC days of +8 .

The automotive sector was also heavily impacted by the pandemic, experiencing a NWC of 61 days in FY20.

By contrast, the engineering and construction and the retail sector saw a NWC performance of 12 days and 7 days respectively.

Furthermore, while sector-level trends give us an indication of the challenges facing certain industries, performance also varies widely at the company level within sectors.



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Current trends in  
the GSA and  
BeNeLux regions

# Current topics in the GSA and BeNeLux regions affecting working capital



## A mixed Covid year



- Adjusted supplier base with multi-source strategies
- M&A were both distressed and strategic in financial year 2020
- Regionalisation and nearshoring of supply chain activities
- Convergence of business models and increased collaboration across the value chain
- Different customer channel priorities and new go-to-market approaches

## Supply chain resilience



- Globalisation and resilience of supply chains are becoming more important, especially in times of crisis
- Organisations are working to ensure that both they and their supply chains have enough cash on hand to both survive the present and enable the future
- Balancing trade-off decisions between cost, cash, speed and resilience will be key to achieve this goal

## Digitalisation



- Digital technologies are key for ensuring end-to-end visibility and transparency
- Although sectors were affected differently by the pandemic, companies were able to use data analytics to quickly determine how their supply chain was impacted, and they were able to act and align with their most important suppliers
- Digital enablers such as advanced data analytics and process mining help to overcome the complexity and fragmentation of end-to-end operational processes

## Regulations & Compliance



- The last year has been marked by significant geopolitical and economic upheaval, which has complicated customs procedures as well as international trade between companies and key trade partners of the GSA and Benelux countries
- EU-wide and local directives have an impact on working capital management, such as the EU Supplier Payment Term Directive, the German Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz, or LkSG) and the EU Unfair Trading Practice Directive
- Enhanced compliance ensures companies achieve their environmental, social and governance (ESG) objectives

“

Companies using digital technologies and advanced analytics have fared better during the Covid-19 pandemic and are better equipped to deal with change and uncertainty in the times ahead

# Digital technologies are key for ensuring end-to-end visibility and transparency

In the wake of the pandemic and the high impact it often had on demand patterns for most CFOs, liquidity management and availability have become even more important. This has increased the focus on working capital management. However, many companies have already scored the easy “cash” wins within their order-to-cash, procure-to-pay and forecast-to-fulfil processes.

In most cases, a top-down approach based on hypothesis testing and short-term actions has been deployed to score these “easy” cash wins. This approach typically involves identifying and realising up to 40% of cash potential. The remaining cash potential is not fully identified and/or realised as this requires much more focus and effort and, in particular, a far higher data-analytics capability. It requires a bottom-up approach that utilises ERP transactional data combined with AI, i.e. advanced data analytics and process mining, to find and realise the additional cash potential. Every order process, every invoice, every delivery is then analysed using AI. Does a supplier deliver too early or too late? What consequences does that have for the inventory? Could artificial intelligence recognise and evaluate these correlations?

However, in order to be able to do this in a sustainable way, the current processes companies have in place must be (re)designed in such a way that employees can efficiently process large volumes of data (big data) and map different process variants in a transparent manner – always with an eye to timeliness, stakeholder satisfaction, employee leadership and compliance.

Process mining plays an important role in designing and improving processes. It performs end-to-end analyses with all existing process variants, individual KPIs, conformance checks, evaluation of automation potentials and other features. It enables holistic, end-to-end process optimisation while constantly providing insights into performance at the transaction level, thus enabling continuous improvement and excellence.

**Digital enablers such as advanced data analytics and process mining help to overcome the complexity and fragmentation of end-to-end operational processes and make it possible not only to unlock cash potential but also to achieve sustainable process excellence.**



**Transactional Excellence enables integrated and efficient End-to-End processes further improving working capital and cash performance**



## Procure to Pay

- Source and tender
- Manage risk
- Negotiate and commit
- Receipt and approve
- Invoice processing
- Pay



## Forecast to Fulfil

- Demand planning
- Supply chain planning
- Replenishment
- Production
- Inventory management
- Ship/delivery



## Order to Cash

- Contract
- Manage risk
- Billing
- Collect
- Resolve disputes
- Apply cash



# ESG as an integral part of working capital management

## ESG and working capital

We operate in an increasingly interconnected and transparent world. Companies are increasingly being held accountable not just for sustainability performance within their own operations, but also for sustainability practices along their supply chain.

In order to achieve environmental, social and governance (ESG) objectives – and meet the expectations of customers, suppliers, regulators, investors and other stakeholders – companies need to engage with their supply chain.

**As a result, we expect working capital management practices to increasingly incorporate sustainability angles, such as:**



### Know and monitor your suppliers

Renewed perspective of supplier resilience is required which includes an understanding of the ESG risk profile; e.g. exposure to physical climate risk and positioning in context of sustainability trends and regulations.



### Encourage improved sustainability performance

To achieve progress on sustainability along the value chain we increasingly see companies incorporate sustainability performance in their financial supply chain and other supplier finance program (e.g. see Walmart's SSCF example). The data and solutions required to monitor suppliers' sustainability performance are rapidly evolving and help to make a trade off between different supply chain options (e.g. air versus train transportation).



### Assess payment terms

Renewed scrutiny of payment terms to suppliers and customers from a business ethics perspective. Many regulators across the globe have implemented measures or laws to reduce or prohibit extensive payment terms and late payments (e.g. EU Late Payment Directive).



### Drive value

To achieve sustainability improvement, often innovation is required along the entire value chain. Increasing the need for partnerships, e.g. redesign product to contribute to circular economy may demand other specs from suppliers, whilst also requiring customers and (local) governments/ institutions to contribute to recycling.

## Walmart's sustainable supply chain finance example

- Back in 2019, HSBC and Walmart developed a sustainable supply chain finance (SSCF) programme.
- The SSCF is part of Walmart's project Gigaton, where Walmart aims to avoid a gigaton of greenhouse gas emissions from their global value chain by 2030.
- In this programme, suppliers can secure financing more cheaply based on their sustainability ratings.
- Suppliers are eligible for the SSCF if they have a validated science-based target or if they meet a certain threshold on their CDP climate reports.
- In the SSCF, there is a base rate for suppliers not involved in any of the sustainability programmes. From that base rate, there are multiple tiers with different pricing rates for suppliers that are eligible.
- HSBC bases the discounts of the suppliers invoices on both Walmart's credit standing and its suppliers rating. The supplier rating is applied after Walmart monitored the supplier's adherence to various ESG standards.
- Walmart assesses their suppliers on an ongoing basis. The supplier assessment is communicated to HSBC on a periodic basis, meaning that suppliers can only improve their rate periodically.

The background features a series of overlapping geometric shapes. A large pink shape is in the top left. Below it, an orange shape is partially visible. To the right of the orange shape is a large yellow shape. The right side of the image is a solid dark grey.

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How we can help

# Enhanced cash/working capital performance to increase resilience and enable reconfiguration of business models

## Key considerations to ensure that working capital is fit for purpose in these uncertain times:

### Do policies, targets & incentives drive the right decisions?

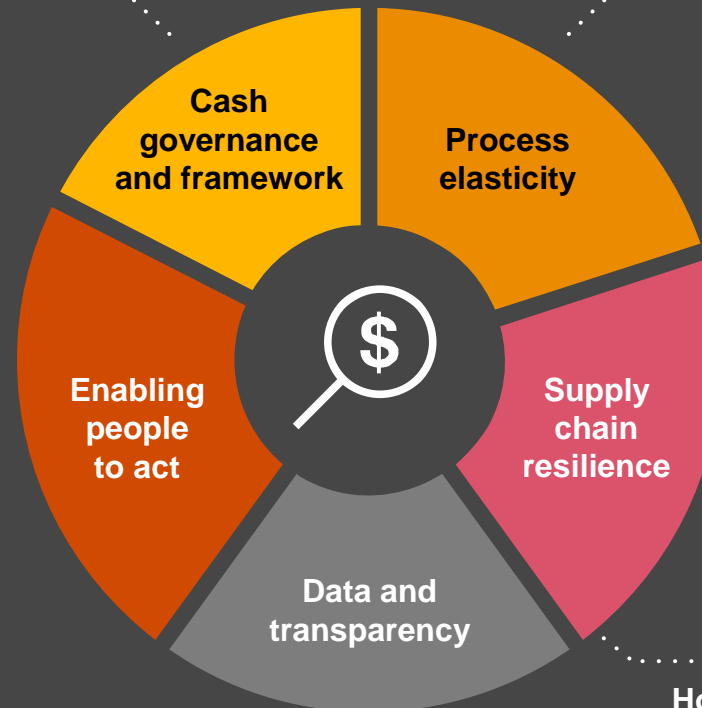
Governance frameworks will need to be aligned to ensure that the right trade-offs are made and that the organisation has the right guidance to operate.

### Do people have the guidance & skills to take the right actions?

Operational functions will require guidance to enable staff to take the right actions and prevent “business-as-usual” behaviour.

### Is the right operational data available to enable fast decision-making?

Historical models that most processes rely on are not very useful. Real-time, bottom-up transparency is necessary to make informed decisions.



### Are processes still fit for purpose?

Operational working capital processes need to be adjusted to the “new normal”.



#### Receivables

- Realign and focus collections
- Credit limits, insurance, ability to trade
- Renegotiate/alter terms
- Availability of factoring capacity
- Focused resolution of disputes and claims



#### Inventory

- Reconfigure demand forecasting model
- Update replenishment triggers and lead times
- Reconfigure safety stock calculation
- Align production campaigns and plans
- Product portfolio cash and margin contribution alignment



#### Payables

- Increased payment controls
- Manage change requests for credit terms
- Understand supplier stability and health
- Supply chain financing options

### How resilient is my supply chain?

The supply situation and financial health of critical suppliers needs to be clear before ramping up, and contingency plans need to be implemented.

# Building resilience: restore, rethink, reconfigure and report



## Building resilience:

Identify and realise cash and cost benefits across end-to-end value chains

- Optimise operational processes that underpin the working capital cycle
- Use data analytics and digital working capital solutions to enhance transparency and performance
- Ensure rapid cash conservation in crisis situations
- Develop resilient supply chains to guard against unexpected risk events and disruption
- Create a “cash culture” and upskill your organisation through our working capital academy
- Roll-out trade and supply chain financing solutions

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Contacts

# Your GSA and BeNeLux working capital contacts



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## Methodology

This study provides an overview of the top 2,386 German, Austrian, Swiss, Dutch, Belgian and Luxembourgish companies following PwC analysis and sectorisation. All calculations are based on publicly available data. The division of sub-sectors is based on CapitalIQ primary industry classification (data available for 100% of sample). Royal Dutch Shell and Anheuser-Busch InBev are excluded from the data base due to company size.

Metrics	Definition	Calculation
NWC: (net working capital days)	NWC days offers an indication of the total days to complete the full cash conversion cycle.	$(\text{Accounts receivable} + \text{inventories} - \text{accounts payable}) \div \text{sales} \times 365$
DSO: (days sales outstanding)	DSO is a measure of the average number of days that a company takes to collect cash after the sale of goods.	$\text{Accounts receivable} \div \text{sales} \times 365$
DIO: (days inventory outstanding)	DIO gives an idea of how long it takes for a company to convert its inventory into sales.	$\text{Inventories} \div \text{cost of goods sold} \times 365$
DPO: (days payables outstanding)	DPO is an indicator of how long a company takes to pay its trade creditors.	$\text{Accounts payable} \div \text{cost of goods sold} \times 365$



# Thank you

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