Cash to shop … again

GSA / DACH Retail sector working capital report 2021

Preface

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Welcome to PwC's 2021 working capital study of the 50 leading retail companies within Germany, Switzerland and Austria (GSA / DACH).

In this year's report we have specifically looked at shifts in performance to highlight the impact that Covid-19 has had on working capital in 2020. At the beginning of the crisis, many industry trends accelerated as people rapidly changed their behaviour to help control the virus.

Many consumers had already embraced e-commerce, but the pandemic drove them online in even greater numbers. Consumers bought more groceries and other goods online and selected from an array of non-store fulfilment options, such as kerbside pickup and home deliveries.

We expect the retail and consumer goods sector in Europe to return to growth in 2021, after a year in which the industry was shaken to its foundations by the impact of Covid-19. The long-term effects will probably be most severe and long-lasting for consumer-facing companies, which are on the front line in dealing with this upheaval.

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

Current challenges in the retail sector

Retail sector report scope

Post-Covid

- Stores of the future will be omnichannel and experience-rich, fusing the physical and digital worlds.
- There will be a significant impact on the export-oriented German retail sector.
- Globalisation and resilience of supply chains are becoming more important, especially in times of crisis.

Online shift/ digitalisation

- A high-quality, cross-channel shopping experience based on customer data is now a must for retailers.
- Fast deliveries – enabled by automation and digitalisation – are becoming a differentiating factor.
- Direct-to-consumer is growing rapidly, giving manufacturers control over customer experience and brand positioning.

Sustainability and ESG

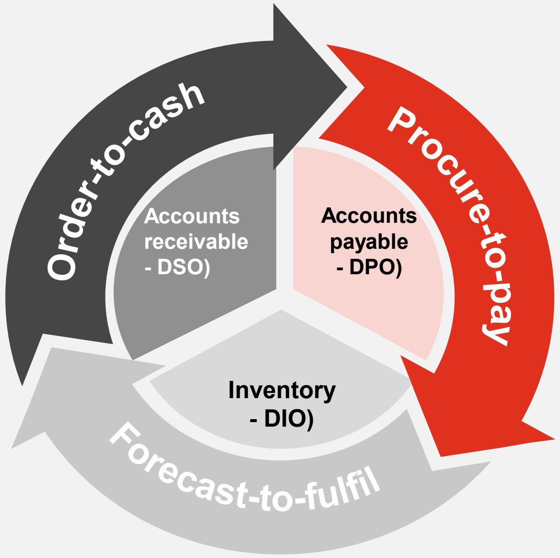
- Sustainability is the central argument for higher prices.
- Sustainability is more than just a marketing gimmick.
- Consumers, investors and regulators expect sustainability to be anchored in company strategy, particularly in the supply chain.

Supply chain resilience

- Increased resilience is one of the goals of fully digitalised supply chains.
- Balancing trade-off decisions between cost, speed and resilience will be key in order to achieve this goal.

PwC study 2021: Covid-19 has had a major impact on working capital performance in the GSA / DACH countries

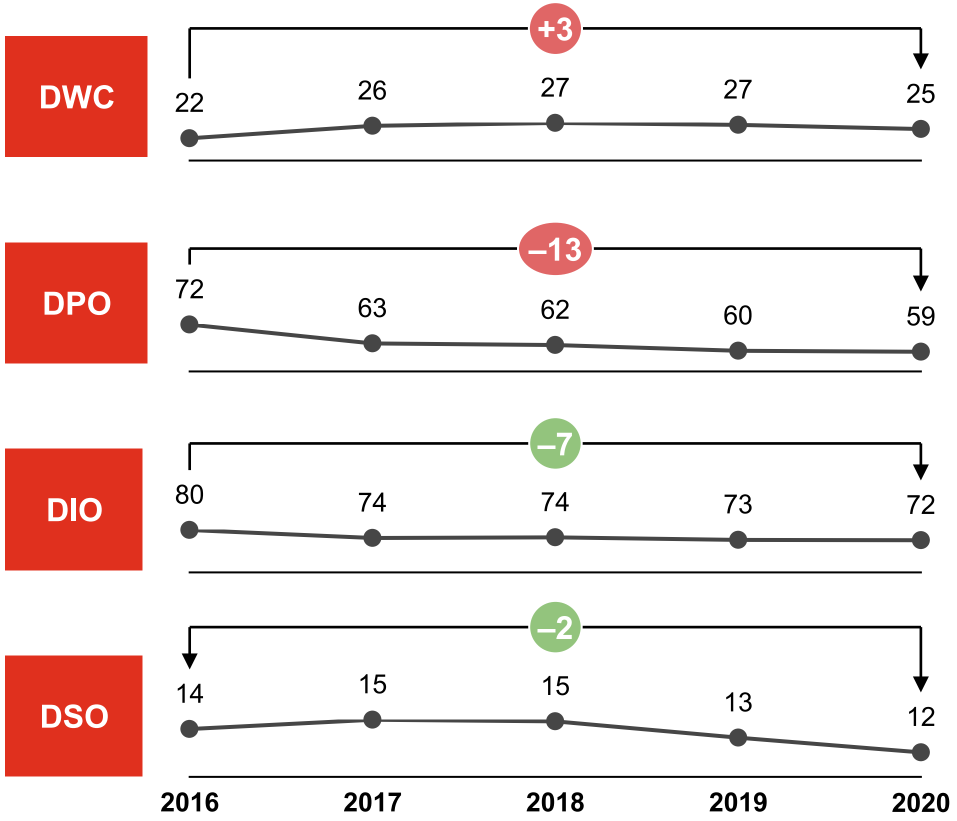
Operational working capital management



Main drivers in working capital management:

- Contract terms
- Process excellence
- Transparency and monitoring
- Cash culture and awareness

Working capital trends



Long-term impact - FY 2016 to FY 2020

- Large variations between subsectors
- Sharp decrease in turnover affected all key figures for 2020

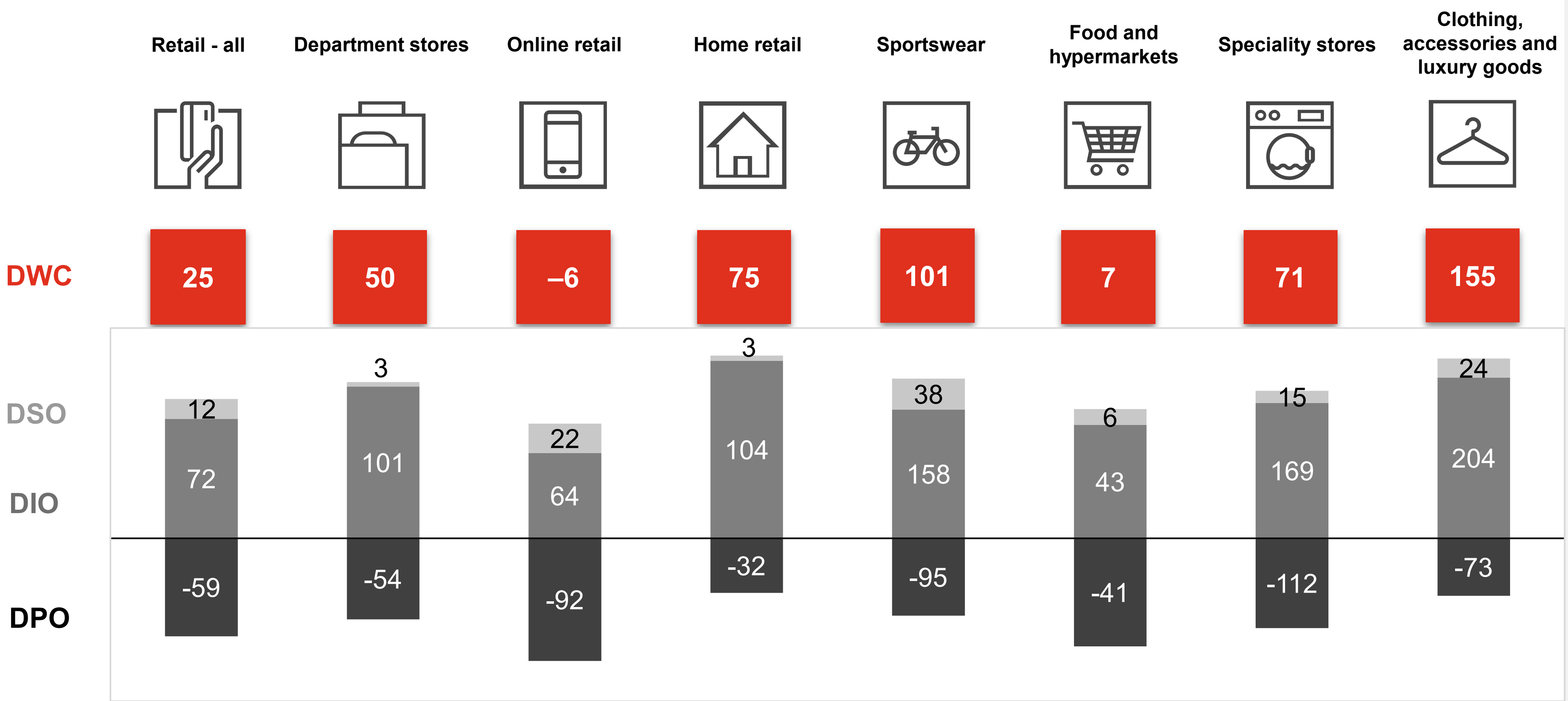
- Slight deterioration in accounts payable performance in the retail sector

- Inventory range was severely affected
- Changes in demand left companies with excess stock

- DSO has improved slightly over the last few years

Covid-19 had a severe impact on working capital performance. However, all areas had absorbed this impact by the end of the year

Working capital performance in FY2020 - days



Covid-19 and signs of resilience in 2020

The pandemic has created a variety of operational challenges for retail companies, including shops being shut down throughout the world in the spring of 2020 and difficulties in shipping orders in a timely manner.

Nevertheless, a comparison of 2019 and 2020 shows that the retail industry has demonstrated resilience during the pandemic.

Working capital performance

DWC decreased by 2 days between FY2019 and FY2020, mainly driven by a year-on-year - YOY) decrease in DSO and DIO.

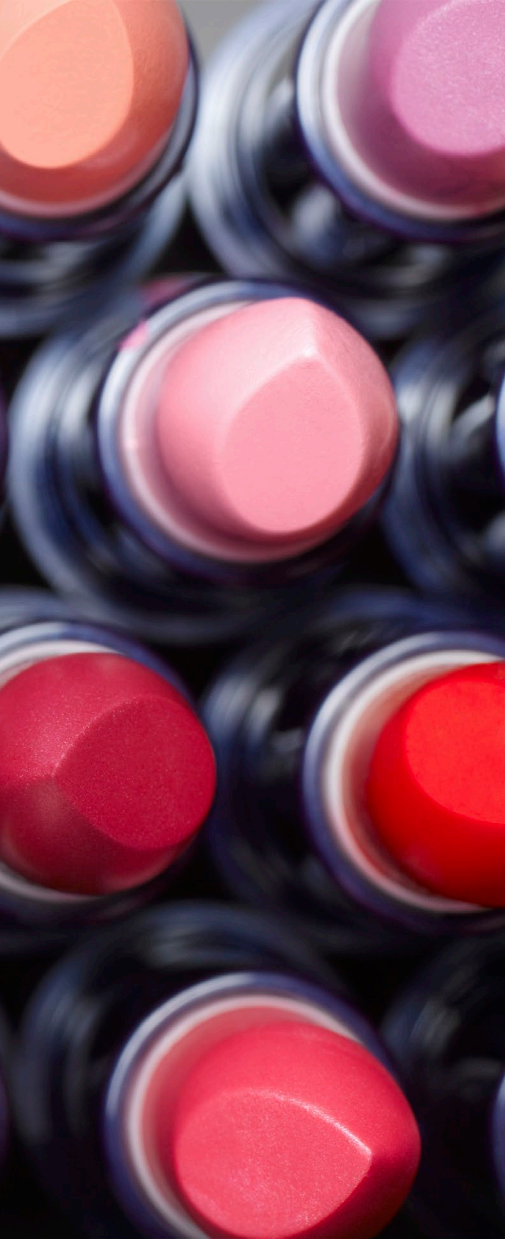
DPO also deteriorated by 1 day.

Covid-19 has had a major impact on working capital performance, so dynamics and requirements will change

Impact on working capital during Covid-19: YOY change (%)	Retail - all	Department stores	Online retail	Home retail	Sportswear	Food and hypermarkets	Speciality stores	Clothing, accessories and luxury goods
Sales	-2%	-3%	14%	8%	-14%	3%	-10%	-54%
DWC	- 5%	- 4%	- 143%	- 2%	21%	55%	- 14%	80%
DIO	- 1%	1%	- 7%)	- 1%	18%	- 3%	2%	48%
DPO	- 1%	4%	14%	1%	4%	- 11%	16%	8%
DSO	- 11%	- 27%	- 11%	- 3%	- 8%	- 14%	2%	52%
Potential change in future working capital requirements*	*–4%*	*+3%*	*–6%*	*–5%*	*+3%*	*–5%*	*+2%*	*+20%*

** Change in nominal working capital from post-Covid position, based on projected sectoral economic growth for 2020–21*

Areas of improvement and how we can help



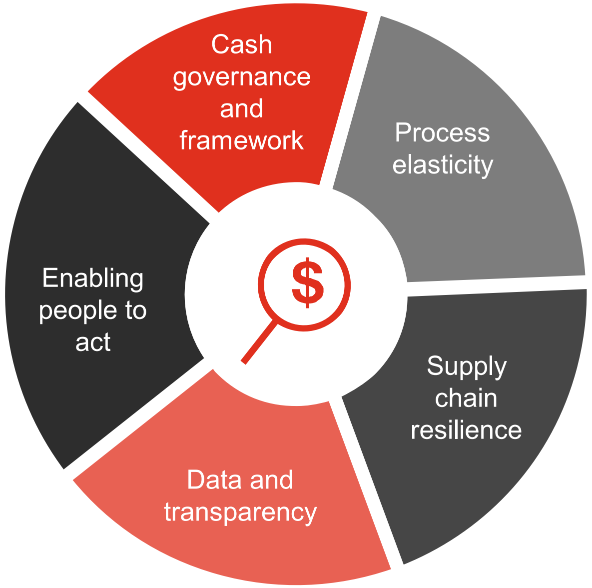
Enhanced cash/working capital performance to increase resilience and enable reconfiguration of business models

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

Do policies, targets and 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 and skills to take the right action?
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.

How we can help

Building resilience: restore, rethink, reconfigure and report:

- 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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Methodology

This study provides a view of the top 50 leading retail companies in the GSA / DACH region from January 2020 to December 2020, following PwC analysis and sectorisation. All calculations are based on publicly available data. The division of sub-sectors is based on the CapitalIQ Primary Industry Classification system - data available for 100% of sample.

Metrics		**Definition**	**Calculation**
DWC:	Days working capital	DWC offers an indication of the total days to complete the full cash conversion cycle.	- Accounts receivable + inventories – accounts payable) ÷ sales x 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.	Accounts receivable ÷ sales x 365
DIO:	Days inventory outstanding	DIO gives an idea of how long it takes for a company to convert its inventory into sales.	Inventories ÷ cost of goods sold x 365
DPO:	Days payables outstanding	DPO is an indicator of how long a company takes to pay its trade creditors.	Accounts payable ÷ cost of goods sold x 365