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Welcome to PwC’s Annual Working Capital Survey. Working capital is the life blood of every company and is a barometer for how freely cash flows. In efficiently run businesses, cash runs freely; in others, cash gets trapped in working capital, restricting the company’s ability to grow.

In this year’s Global Working Capital Survey, we look at how companies have performed and what the key trends are around the globe and across sectors. We are working with many companies to help them optimise their working capital and achieve sustainable performance improvements.

This study shows that working capital continues to present a significant opportunity for releasing cash and should therefore receive special attention as companies seek to take full advantage of the global economic upturn.

Etienne Boris
European Clients and Markets Leader, PwC
Working capital improvements remain the most obvious way to access this cash.

If companies can get this right, some €0.9tn to €1.4tn could be released globally.

To continue growing even modestly, companies will need more than €309bn cash.

Good working capital does not come at the price of other measures – in fact it is a good measure of management efficiency.
Executive summary
Working capital can deliver cash today, for growth tomorrow

In the three years following the start of the global financial crisis, the largest global companies experienced a strong rebound in sales growth. Since 2011, this growth has slowed down considerably, indicating that a return to consistent growth will be harder to achieve going forward. Although there are many local and global factors that affect a company’s ability to grow, we know that both cash and investment are essential to sustaining this growth.

Relative to sales, working capital performance has stagnated over the last five years. Companies did focus on improving working capital immediately after the credit crunch, but little gains have been made since then. In fact, the absolute levels of working capital have continued to grow, and, as a result, our sample of the largest companies in the world have had to find an additional €500bn of cash to fund the increase in working capital over the last four years. So, instead of being able to invest in growth, companies have had to invest in working capital.

European companies tend to hold the highest levels of working capital, but it is also the region that has shown the most improvement during the last four years. In Europe, this improvement has been derived from all areas of working capital. Globally, working capital performance has been fairly flat over the last four years with a slight year on year improvement in 2013. The single component that has driven this improvement across the globe is payables. However, some of the most capital intensive sectors have shown the largest year on year deteriorations. All in all, 9 out of 21 sectors have shown deterioration in working capital. This indicates that achieving improvements in complex supply chains remains a challenge.

Working capital tells us a lot about how well a company is managed. It is an indicator of good management, as top working capital performers have outperformed across all indicators. An often quoted mantra is that good working capital levels come at the cost of EBITDA. However, our analysis shows that companies that have sustained working capital improvements have also outperformed in terms of EBITDA.

Improving working capital requires complex structural alignments at the very core of a business, in order to make it sustainable. Only 9% of companies around the globe manage to improve working capital consistently over multiple years. The companies that do achieve sustained working capital performance improvements tend to be those that are performing better than average already. Companies that have historically underperformed seem to find it hard to catch up with industry leaders.

To continue to grow and enable investment, companies will require significant extra cash over the next few years. No matter what financing is available in the market, companies could find there are extensive cash reserves tied up in their own balance sheets. Our survey shows that if companies would move to the next performance quartile, they would generate a total of €900bn of cash, while moving to upper quartile performance would release €1.4tn of cash. Cash for growth is at your finger tips.
Revenue growth has been tailing off in recent years

Sales for the largest 7,368 global companies grew by 36% over the past four years equivalent to a Compound Annual Growth Rate (CAGR) of 8%. Much of this growth rate was achieved in the two years following the start of the financial crisis (in 2008) but has been tailing off ever since. The CAGR for the past three years was just 1% and in 2013, the growth rate was just 0.4% year on year.
Since the initial focus on cash after the financial crisis, working capital performance has stagnated.

While the absolute value of working capital has increased globally, working capital performance has shown a slight improvement, reducing by 3.1 days over five years (7.5% overall). This is the equivalent to around 2% per annum. This improved performance is primarily due to enhanced performance of European companies.

Much of this reduction in DWC was achieved immediately after the financial crisis as companies focused on optimising cash and working capital. Since then, working capital performance improvement has shown only a slight improvement.

In absolute terms, however, working capital has grown, trapping an additional €500bn of cash in working capital.
Europe has made the greatest improvements in working capital, especially in southern Europe...

Companies in Europe are having to invest more to finance working capital than their overseas competitors.
..but is lagging behind the rest of the world in performance terms

Average working capital days by cluster: Year on year movement

In Europe, seven out of ten clusters have improved year on year with Italy showing the most significant deterioration.

In the Americas, we have seen an overall improvement in working capital days across the region.

In the rest of the world, India has shown the greatest deterioration. The manufacturing hotspots of China, Hong Kong and Taiwan have seen the greatest improvements.
Globally, year on year improvements in working capital performance are driven in part by improved inventory performance...

Companies in the Americas are holding significantly less inventory than their global competitors.

Europe has seen an improving trend over the last four years. This is partly due to the globalisation of the supply chain with more companies outsourcing manufacturing of products to the Far East.
... but the biggest improvement has come from improved payables performance

DPO is the only working capital measure that has shown a consistent year on year improvement across the globe.

The increasing trend is particularly visible for Asia, Africa and Australasia.

Comparison of Days Payable Outstanding (DPO) by region

Europe

- 2009: 45
- 2010: 45
- 2011: 43
- 2012: 42
- 2013: 43

1 day improvement

Americas

- 2009: 31
- 2010: 32
- 2011: 32
- 2012: 32
- 2013: 33

1 day improvement

Asia, Africa & Australasia

- 2009: 40
- 2010: 39
- 2011: 40
- 2012: 40
- 2013: 42

2 day improvement
Customers in Europe are paying their accounts quicker each year but are generally allowed a longer period of credit than customers of companies based in other parts of the world.

Europe has generally seen an improving trend in DSO over the last five years although this improvement has plateaued in 2013.

For the rest of the world, the achieved gains have been eroding slowly over the following years.
Higher DSO is a key driver of working capital when it is out of balance with DPO

The Middle East has the highest overall average working capital cycle of 76 days, followed by India with 62 days.

Territories renowned for better payment practices, such as Germany, Switzerland, Austria and the Nordic countries are holding the highest levels of working capital in Europe.

Higher levels of working capital are due to an imbalance between debtors and creditors, and higher levels of inventory. This means that if countries with traditionally long payment terms (such as Italy, Spain and Portugal) are able to control their inventories, they can deliver lower levels of overall working capital.
The majority of sectors with deteriorating working capital performance...

The majority of sectors have shown an improvement. These improvements are generally greater than the levels of deterioration shown in the other sectors.

9/21 are worse
...also tend to have higher Days’ Working Capital

Five of the most working capital intensive sectors have shown year on year deterioration, although they have already comparatively high levels of working capital.
Although working capital performance has stagnated, there is an increased need for improving cash generation

While working capital levels increased over the last four years by €500bn, companies’ ability to generate cash from EBITDA (expressed as Cash Conversion Efficiency or CCE) has deteriorated by 4% year on year.

The ability to generate cash has declined, particularly in the high growth region of Asia, Africa and Australia, with performance approaching a five-year low.

At the same time, the rate of investment into CAPEX as a percentage of EBITDA (Investment Rate) has significantly reduced year on year, which could affect firms’ ability to invigorate growth. Asia, Africa and Australia show a continuing negative trend, with Europe and Americas both falling back from prior year levels.
Decreasing levels of investment are visible across regions.
Companies that trail their industry in terms of performance are trying to catch up

51% of all companies improved working capital performance between 2011 and 2013, and of these...

58% are still below average performers in 2013
The majority of firms that improved over the last three years have been below their industry sector average working capital ratios.

These firms are trying to close the gap between them and industry leaders. However, these companies have been lagging since 2011.

42% are top performers in 2013
These companies have been able to achieve a 15% higher Cash Conversion Efficiency, and Investment Rates that are a third higher than lagging working capital performers.
Working capital is a key indicator of good management, as top working capital performers have outperformed across indicators.

Top working capital performers in 2013:
- continue to make larger working capital improvements to stay ahead
- improve working capital while also generating higher EBITDA
- invest more in their business and need less leverage to do so
- are better at generating cash from operations

Average working capital performers in 2013:
Achieving sustainable working capital performance continues to be a challenge

Companies that have improved for three consecutive years

Only 9% of companies have managed to sustain three consecutive years of performance improvement. This shows that sustaining performance across the globe is a challenge.

In Europe, more companies have shown a consistent year on year improvement over the last three years than in any other region.

Globally

Europe: 12%
Americas: 9%
Asia, Africa & Australasia: 7%
The most consistent performers have improved all aspects of working capital

Companies that continuously improved: working capital profile
The best performers have reduced working capital and improved EBITDA

Companies that have consistently focused on optimising working capital have also shown the greatest improvements in EBITDA. These companies are benefiting not only from the cost savings from more efficient processes and reduced working capital write offs, but also the enhanced flexibility that comes from having good cash reserves.
Companies in working capital intensive sectors have been less successful in releasing cash from working capital sustainably

The sectors with the smallest number of improvers have some of the highest levels of working capital. Not all of these capital intensive sectors are traditionally high margin sectors, which may present cash flow challenges going forward if these businesses are unable to take control of their working capital.

Capital intensive sectors face significantly higher complexities in sustainably managing working capital, partly driven by long global supply chains. While cash opportunities could be significant, this complexity has not yet been mastered.
Global outlook for GDP in 2014 is improving

Key:

\[\text{XX} = \text{GDP growth in 2014}\]

- Canada: 2.2
- US: 2.6
- Mexico: 2.6
- UK: 3.0
- Ireland: 1.7
- France: 0.9
- Spain: 1.0
- Italy: 0.1
- Greece: 0.3
- Germany: 2.0
- India: 5.3
- China: 7.4
- Russia: 0.5
- Japan: 1.5
- Brazil: 1.8
- South Africa: 2.0
- Australia: 2.6
Some western economies – notably the UK, US, Germany and other parts of northern Europe – are now seeing better growth, while France and southern Europe continue to struggle.

The western economies which have rebounded share a number of characteristics. They pressed ahead quickly with restructuring banks and dealing with the problems in the financial sector. They have made progress in getting government finances in order. And they have flexible and export-oriented economies, which have benefited from reforms undertaken in the 1980s, 1990s and early 2000s. The strugglers – particularly in southern Europe – are less well placed on all these issues. And hence they face a long road ahead in achieving a return to growth.

The variation in growth within emerging markets also reflects differences in economic fundamentals. The main engine of emerging market growth is in the Asia-Pacific region. Though growth has slowed a bit in some of the major economies – China and India – prospects in this region remain good. Economies more dependent on the production of commodities and energy – such as Russia, South Africa and Brazil – have struggled as the markets for their exports have weakened and economic reform has faltered.

In this environment, businesses continue to work to reduce their levels of working capital, freeing up resources for more productive investment. Working capital ratios have improved in all the major regions of the world economy, though Europe still lags behind other regions.

This pattern is good news for a sustainable recovery, as it means that businesses have more resources to exploit new growth opportunities as they emerge. These opportunities will not necessarily be in the same sectors which performed strongly before the financial crisis. Businesses need to find new sources of growth created by technology, demographics, energy and environmental challenges and shifts in consumer behaviour.

Rediscovering growth after the crisis

The pattern of the post-crisis economic recovery is changing. Until 2013, the picture was of strong emerging markets and disappointing growth in the major western economies which had borne the brunt of the financial crisis. The current outlook is more mixed.
To continue growth, companies will require at least €309bn in additional working capital funding during the next three years, equivalent to 1.7 days of revenue.

At 1% growth rate

Companies would need an extra *€103bn of cash* each year to sustain current working capital levels without impacting capital investment, or CAPEX.

If companies continue to grow at a modest rate of 1% p.a. they would need to find an additional €309bn to finance working capital and incremental CAPEX over the next three years.

*Annual incremental cash requirement expressed as days of revenue*
At 3% growth rate

Companies would need an extra €200bn of cash each year to sustain current working capital levels without impacting capital investment.

Cash requirement for working capital & CAPEX 2013

€3,995bn

€604bn

€4,600

€604bn over 3 years (€201bn p.a.)

3.3* days of sales

If companies grow at a rate of 3% p.a. they would need to find an additional €604bn to finance working capital and incremental CAPEX over the next three years.
Globally, €0.9tn to €1.4tn of cash could be released from working capital.
Opportunities for improvement exist across all regions

The global cash generation potential is €896bn to €1,415bn equivalent to between 15 and 23 days of sales.

2,075 Americas companies could release €183m each by achieving the next level of performance

€401bn
To next level

€610bn
To Q1

972 European companies could release €278m each by achieving the next level of performance

€270bn
To next level

€441bn
To Q1

972 European companies could release €455m each by achieving Q1 performance

2,075 Americas companies could release €294m each by achieving Q1 performance

2,457 Asian, African and Australasian companies could release €148m each by achieving the next level of performance

2,457

€225bn
To next level

€364bn
To Q1

2,457 Asian, African and Australasian companies could release €92m each by achieving Q1 performance

Key:
- Number of companies that could improve performance
- Cash generation potential by improving working capital

The global cash generation potential is €896bn to €1,415bn equivalent to between 15 and 23 days of sales.
Our approach to sustainable working capital

We supplement our working capital and cash management methodologies with core consulting approaches to make sure that improvements are tangible and sustainable.

**Case study: Operational working capital improvement programme for a wind turbine group**

**The key issue**
The company was struggling to cope with lower demand and increased competition in their industry. They were facing mounting debts and a profit warning saw the company’s share price drop sharply. As a consequence, the company were facing severe liquidity problems.

**How we helped**
After a restructure, we identified that cash targets were missing. Our team worked with the company to assess their working capital improvement potential and to investigate how the introduction of a cash-focused culture could be elevated on the agenda.

We performed a total working capital diagnostic review, including procure to pay (creditors), forecast to fulfil (inventories) and order to cash (debtors). This identified c €1bn of benefit potential.

Our fast pace approach was essential to raise organisational awareness to poor cash performance and raise receptiveness to change behaviours.

This comprehensive six month programme was sponsored by the executive board, with a focus on the core markets across Europe and North America, with the objective to realise €1bn of working capital improvement and deliver the cash benefits over a period of three to six months.

**The result**
We identified and delivered net working capital cash benefits close to €1bn.

Over a 6 months period the benefits were realised by improving procure-to-pay (creditors), improving order-to-cash (debtors) and reducing inventories.

Financial results for Q2 2013, as a consequence of the project, delivered negative working capital, and the announcement coincided with the company’s share price rising sharply over six months.
How can we support you?

1. Complete a working capital benchmarking exercise to compare performance against peers and identify potential improvement opportunities.

2. Perform a diagnostic review to identify ‘quick wins’ and longer-term working capital improvement opportunities.

3. Develop detailed action plans for implementation to generate cash and make sustainable improvements.

4. Assist the realisation of sustainable working capital reduction by implementing robust, efficient and collaborative processes.

Addressing the key levers:
- Identification, harmonisation and improvement of commercial terms.
- Process optimisation throughout the end-to-end working capital cycles.
- Process compliance and monitoring.
- Creating and embedding a ‘cash culture’ within the organisation, optimising the trade-offs between cash, cost and service.
Examples of areas where PwC could help you to release cash from working capital:

**Accounts receivable**
- Credit risk policies
- Aligned and optimised customer terms
- Billing timeliness and quality
- Contract and milestone management
- Prioritised and proactive collection procedures
- Systems-based dispute resolution
- Dispute root cause elimination

**Accounts payable**
- “Centre Led” procurement
- Consolidated spending
- Aligned and optimised supplier terms
- Supply Chain Finance
- Purchasing channels (to avoid contract leakage)
- Payment method and frequency
- Early payment prevention

**Inventory**
- Lean and agile supply chain strategies
- Global coordination
- Forecasting techniques
- Production planning
- Accurate tracking of inventory quantities
- Differentiated inventory levels for different goods
- Balanced cash, cost and service
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Appendices
Basis of calculations and limitations

Basis of calculations
This study provides a view of global working capital performance and is based on the research of the largest 7,368 companies in the world. The Financial Services, Real Estate and Insurance sectors are excluded. For consistency reasons and to be able to add the individual ratios together we have calculated DSO, DPO and DIO based on sales.

DSO (Days Sales Outstanding) is a measure of the average number of days that a company takes to collect cash after the sale of goods or services have been delivered.

\[ \text{DSO} = \left( \frac{\text{trade receivables}}{\text{sales}} \right) \times 365 \]

DPO (Days Payables Outstanding) is an indicator of how long a company takes to pay its trade creditors.

\[ \text{DPO} = \left( \frac{\text{trade payables}}{\text{sales}} \right) \times 365 \]

DIO (Days Inventories On-hand) gives an idea of how long it takes for a company to convert its inventory into sales. Generally, the lower (shorter) the DIO, the better.

\[ \text{DIO} = \left( \frac{\text{total inventories}}{\text{sales}} \right) \times 365 \]

DWC (Days Working Capital)

\[ \text{DWC} = \text{DSO} + \text{DIO} - \text{DPO} \]

NWC as % of Sales

\[ \text{NWC as % of Sales} = \left( \frac{\text{receivables} + \text{inventories} - \text{payables}}{\text{sales}} \right) \]

Calculation of improvement potential
The potential improvement opportunity is calculated using the performance of the upper quartile performers (i.e. the top 25%) as a benchmark, and moving, on a sector basis, all companies outside upper quartile performers to the performance of the upper quartile.

ROCE (Return on Capital Employed)
Establishes the relationship between the profit and the capital employed. It indicates the percentage of return on capital employed in the business and it can be used to show the overall profitability and efficiency of the business.

\[ \text{ROCE} = \left( \frac{\text{operating profit} - \text{tax}}{\text{total assets} - \text{current liabilities}} \right) \]

Limitations of this study
Companies have been assigned to countries based on the location of their headquarters. Although a significant part of sales and purchases might be realised in that country, it does not necessarily reflect typical payment terms or behaviour in that country.

As the research is based on publicly available information, all figures are financial year-end figures. Due to disproportionate management efforts to improve working capital performance towards year-end (also referred to as ‘window dressing’) the real underlying working capital requirement within reporting periods might be higher. Also off-balance-sheet financing or the effects of asset securitisation (e.g. receivables) have not been taken into account.
## Sampled companies vs sector and region

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<td><strong>77</strong></td>
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## DSO Averages by Sector and Region

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<th>Americas</th>
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<tr>
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<td>Food, drink &amp; tobacco</td>
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<td></td>
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</tr>
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</tr>
<tr>
<td>Oil &amp; gas</td>
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</tr>
<tr>
<td>Construction</td>
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<tr>
<td>Textiles, Apparel &amp; luxury goods</td>
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<td></td>
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<tr>
<td>Consumer goods</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Industrial products</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Technology, Media &amp; Telecoms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
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<td></td>
<td></td>
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<tr>
<td>Automotive</td>
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<tr>
<td>Travel &amp; leisure</td>
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<tr>
<td>Services</td>
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<tr>
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<td>Retail &amp; wholesale</td>
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<tr>
<td><strong>All sectors</strong></td>
<td>22</td>
<td>42</td>
<td>56</td>
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</table>

### Data Source

The data presented in the table above indicates the distribution of DSO averages by sector and region for the years 2014. The table categorizes various sectors such as Farming fisheries and forestry, Food, drink & tobacco, Metals & mining, Oil & gas, Building products, Construction, Textiles, Apparel & luxury goods, Consumer goods, Industrial products, Technology, Media & Telecoms, Chemicals, Pharmaceuticals, Automotive, Aerospace & defence, Healthcare equipment & supplies, Transport and logistics, Travel & leisure, Services, Energy & utilities, Retail & wholesale, Healthcare services, and All sectors. Each sector's data is further categorized by regions such as Europe, Asia & Australasia, Americas, and All clusters.
### DIO averages by sector and region

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<tr>
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<th>Asia and Australasia</th>
<th>Americas</th>
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<td>Italy</td>
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<td>Services</td>
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## DPO averages by sector and region

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<th>Americas</th>
<th>All Clusters</th>
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<td>54</td>
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</table>

### Note
- The table above represents DPO averages by sector and region across different regions. The data includes various sectors such as farming, food, construction, technology, chemicals, pharmaceuticals, and many others. Each sector has a row indicating the average DPO across different clusters.
- The columns represent regions: Europe, Asia and Australasia, and Americas, with an additional column for all clusters.
- Numbers in each cell indicate the average DPO for that sector in the respective region.
### DWC averages by sector and region

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<tr>
<th>Sector</th>
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<th>Americas</th>
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</tbody>
</table>

**Note:** The table above represents the average DWC values by sector and region.
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