

Cash for Growth

Working Capital in the Retail Sector

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Foreword



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Welcome to PwC's Working Capital Survey of the retail sector. Working capital is the lifeblood of every company and a barometer for how freely cash flows. In efficiently run businesses, cash runs freely; in others, cash becomes tied up in working capital, restricting the company's ability to grow. This is particularly true for retailers, which are typically under significant margin pressures as aggressive discounters rapidly gain market share.

In this survey, we look at the key working capital trends across the globe in various sub-sectors within retail. Among other findings, we show that working capital efficiency has decreased across all geographic areas on average, while varying significantly across each retail sub-sector. Notably, we find that the leading companies continue to improve their performance, whilst the laggards are worsening.

Globally, PwC is working with many companies to help optimise working capital and achieve sustainable performance improvement. As retailers seek to strengthen their balance sheets in the months and years ahead, many can likely benefit by taking a long, hard look at their working capital efficiency. Thank you for reading and we hope you enjoy this report.





Executive summary

Working capital can deliver cash today, for growth tomorrow



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The largest companies in the global retail market have experienced a challenging trading environment and revenue growth has been in decline since 2009. With the market shifting towards digital sales across much of the sector, retailers have been challenged to reposition themselves in the market and consider alternative avenues for growth. Additionally, for many retailers, the need to refurbish their establishment requires a large cash commitment.

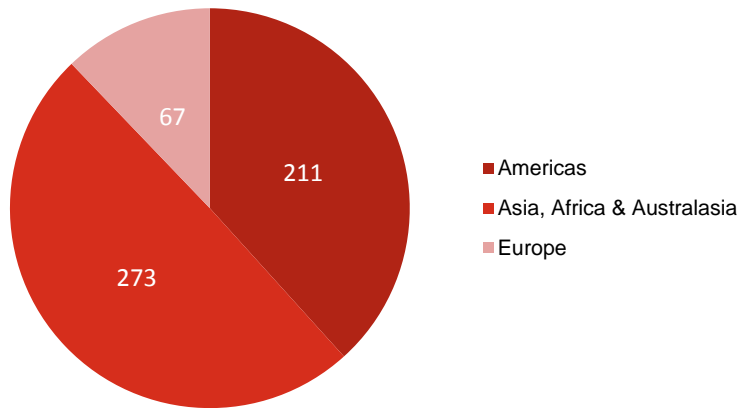
These challenges have been compounded by steadily declining working capital performance which has been underpinned by worsening receivables, payables and inventory performance.

For many companies, declining working capital performance has led to increased scrutiny over cash management practices and cash is now much higher on the corporate agenda. However, performance varies widely across the industry, with the gap widening between the good and the bad performers.

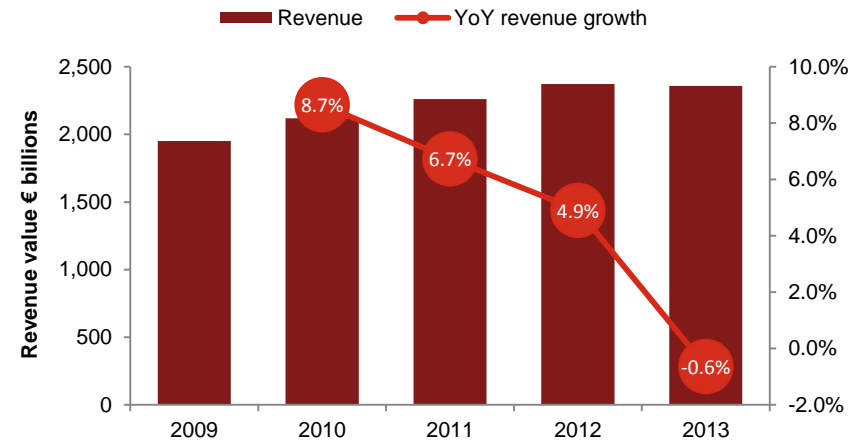
To return to the levels of revenue growth achieved in 2009, companies need to invest in their future, which will require significant cash over the next few years. Our analysis shows that if companies were to move to the next performance quartile, they would generate a total of €58bn of cash, while moving to upper quartile performance would release €94bn. Cash is at your finger-tips.

Revenues have contracted in the past year...

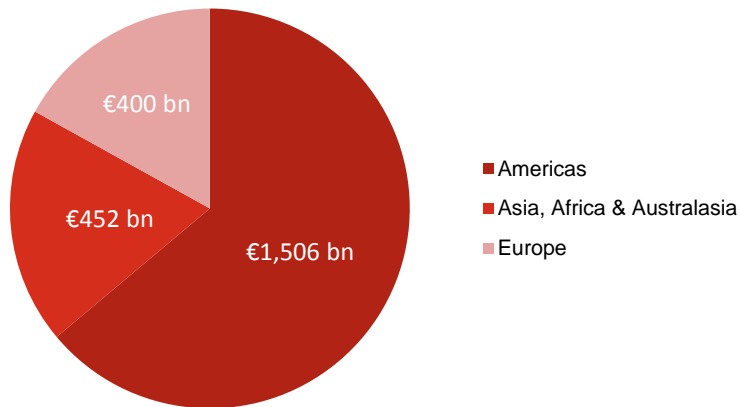
Number of companies in the study



Revenue trend in the retail sector



Revenue distribution of companies in the study



Sales for the largest 551 companies in the retail sector grew by 21% over the past four years equivalent to a Compound Annual Growth Rate (CAGR) of 5%. The rate of growth has been declining since 2010 with overall revenues declining by 0.6% in 2013.

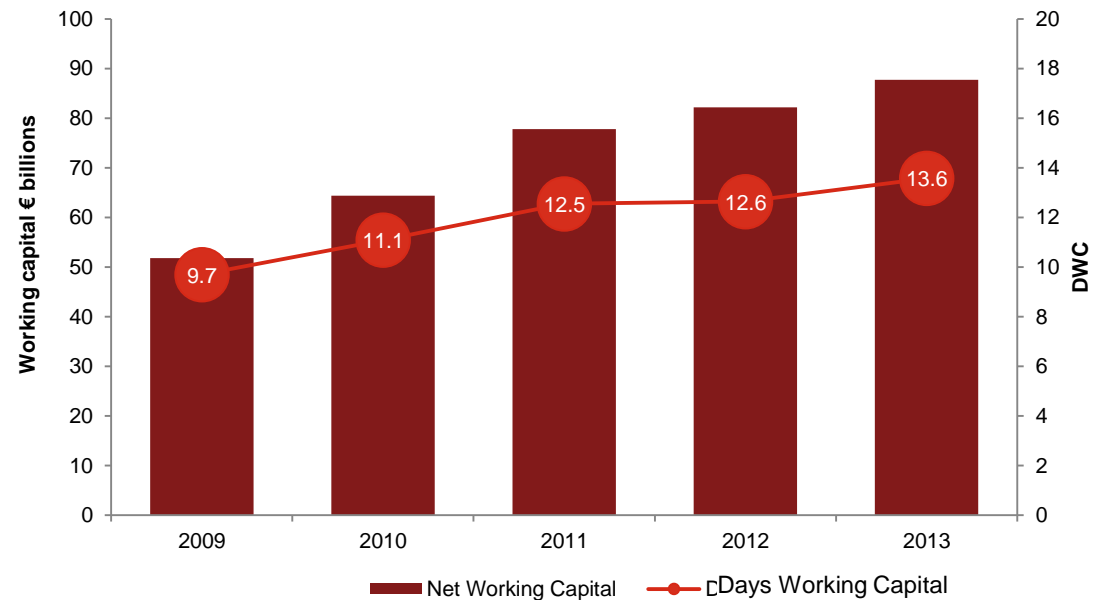


... and working capital performance has steadily deteriorated

Working capital performance has gradually deteriorated since 2009. Over the five year period, performance has deteriorated by 3.9 days, with an additional €36bn being trapped in working capital.

Increased levels of working capital require cash to fund the daily operations of the business and inhibit companies from investing in growth for the future. The trend across the sector suggests significant levels of improvement opportunity.

Retail sector working capital trend



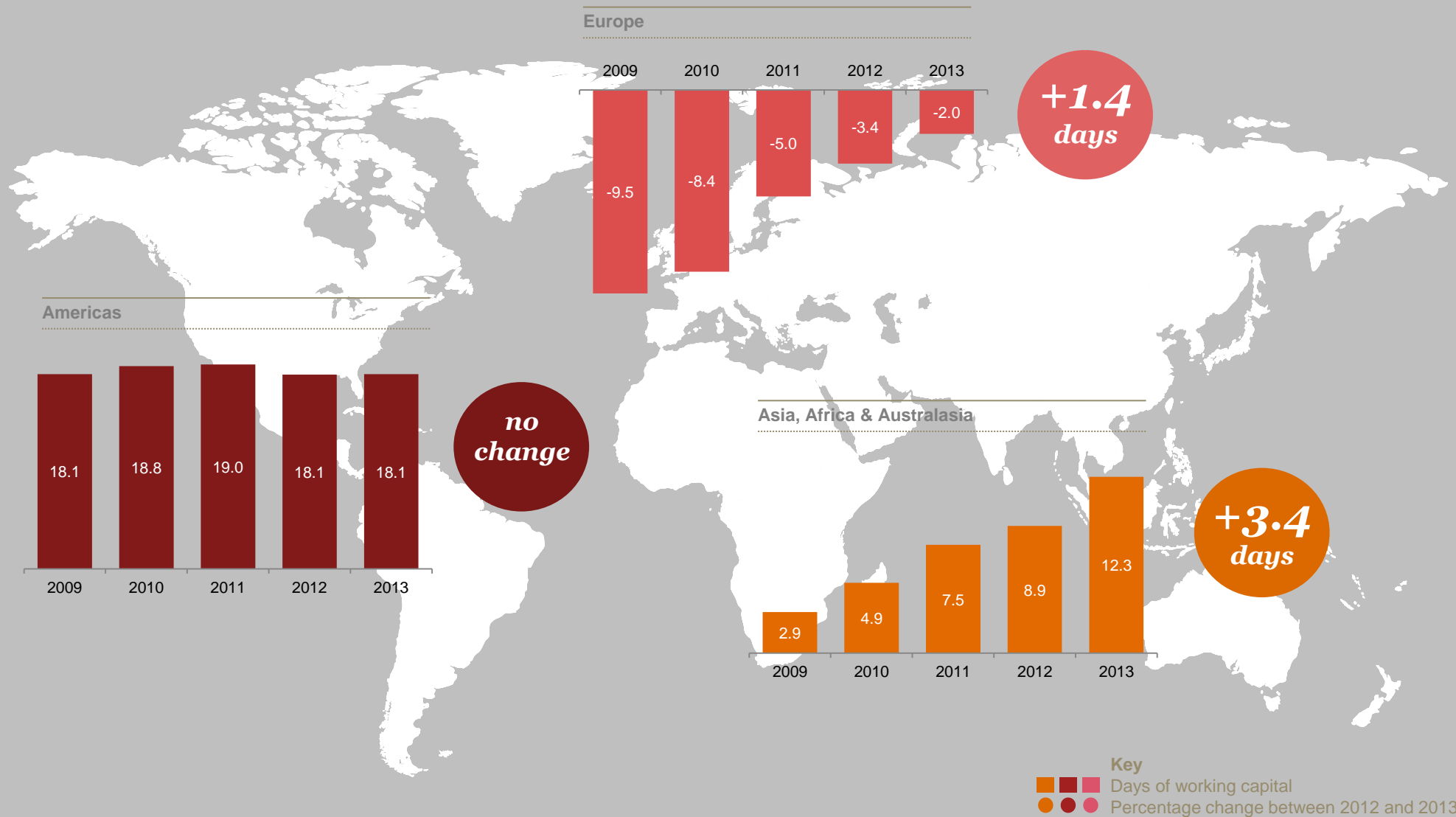
€6bn

increase in
working capital
since 2012

7.4%

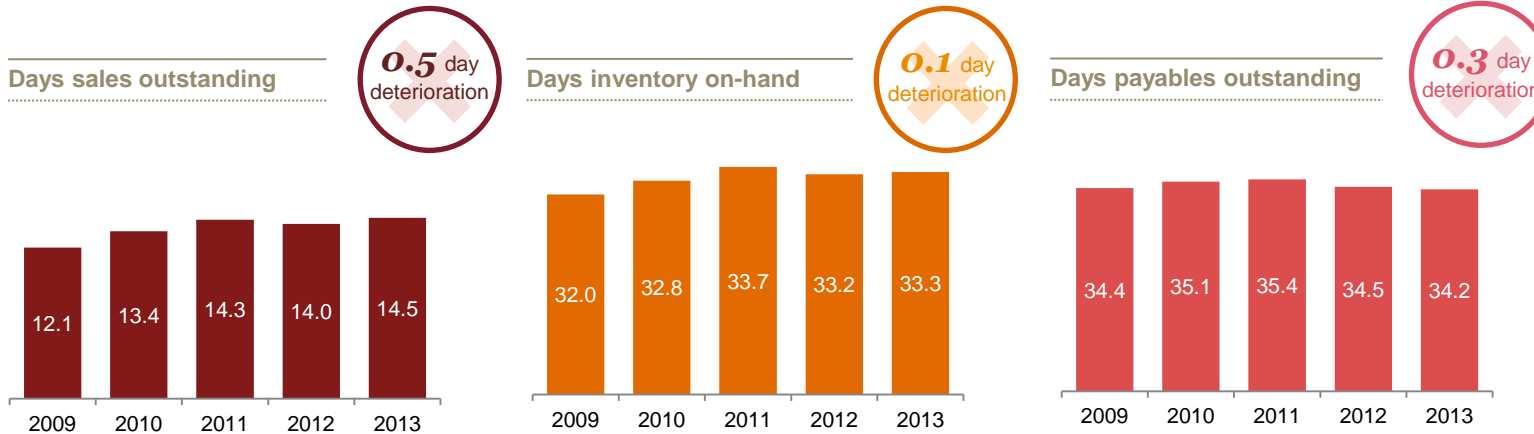
increase in days
working capital
since 2012

Working capital performance varies across regions, with Europe deteriorating but maintaining the best performance

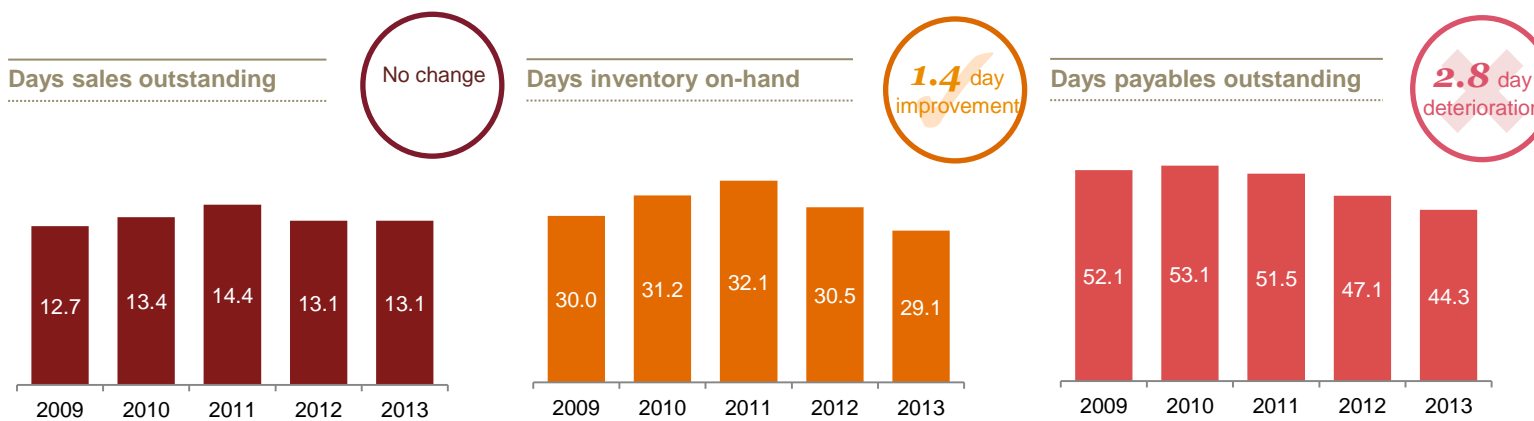


All working capital cycles have deteriorated globally over the past year

Global working capital performance



European working capital performance

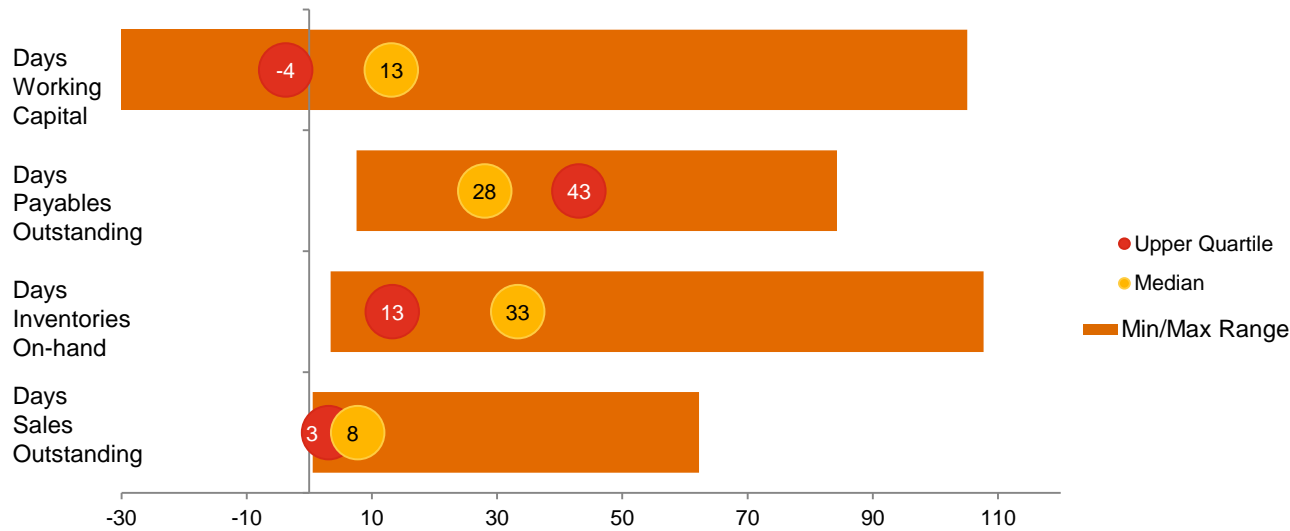


Globally, performance has deteriorated slightly across all working capital cycles over the past year.

In Europe a deteriorating trend is also visible. However, the decline in performance is only driven by payables. Inventory management has improved across the year whilst receivables performance has remained consistent with the previous year.

Performance varies widely within the industry...

Working capital performance range



Working capital performance ranges widely across the retail sector, with a median of -4 days. The sector is characterised by low receivables days which is a key driver of the overall working capital position.

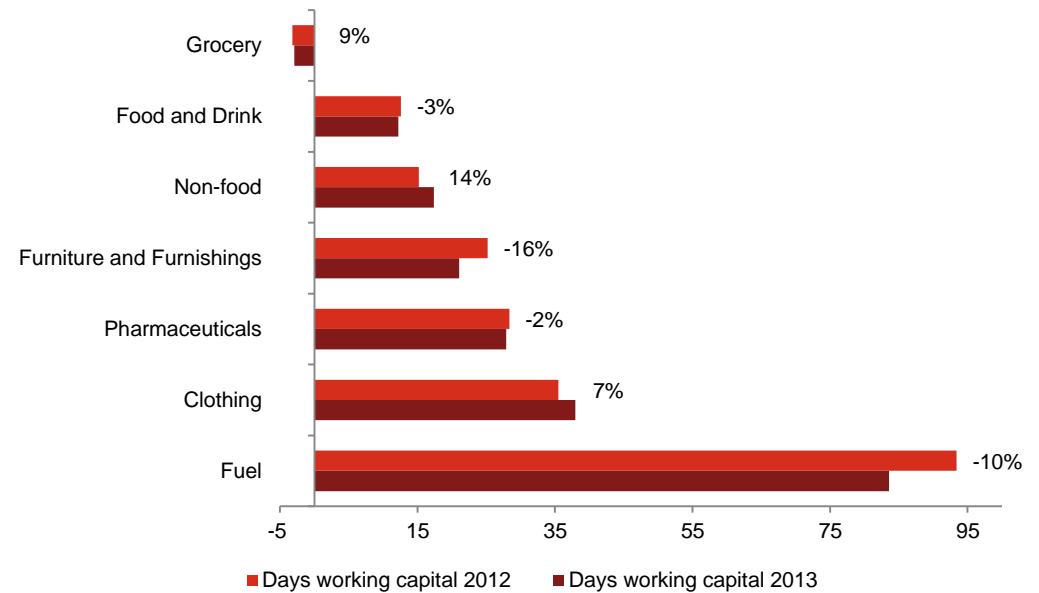
Although partially driven by the mix of sub-sectors, inventory performance varies most widely across the sector which suggests this can be a key performance differentiator for companies.



... which is partly caused by the mix of sub-sectors



Change in days working capital between 2012 and 2013



Varying working capital performance across sub-sectors is one of the drivers of the wide performance gap in working capital cycles.

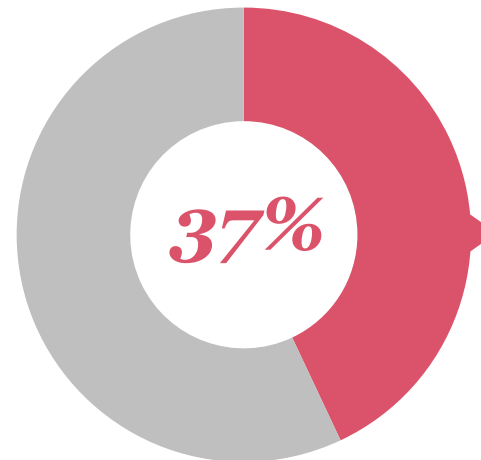
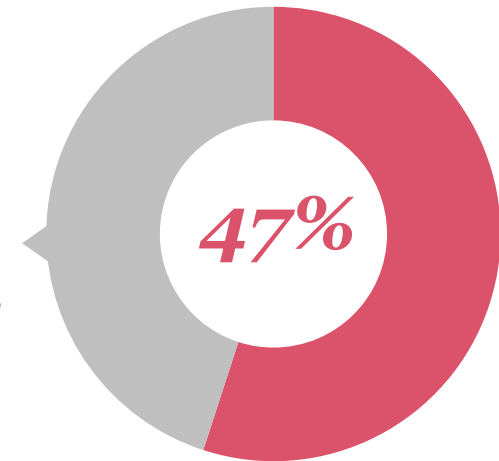
The Grocery sector remains the most working capital efficient sub-sector and has further improved performance over the past year.

Performance deteriorated for the majority of companies



The Leaders

47% of companies with days working capital above the industry median have improved their performance over the past year.



The Laggards

Only 37% of those performing below the median improved.

In addition, 23% of companies operating below the industry median worsened performance by more than 10 days.

On average, each company in the sector could release between €106m to €171m of cash from working capital



How can we support you?

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

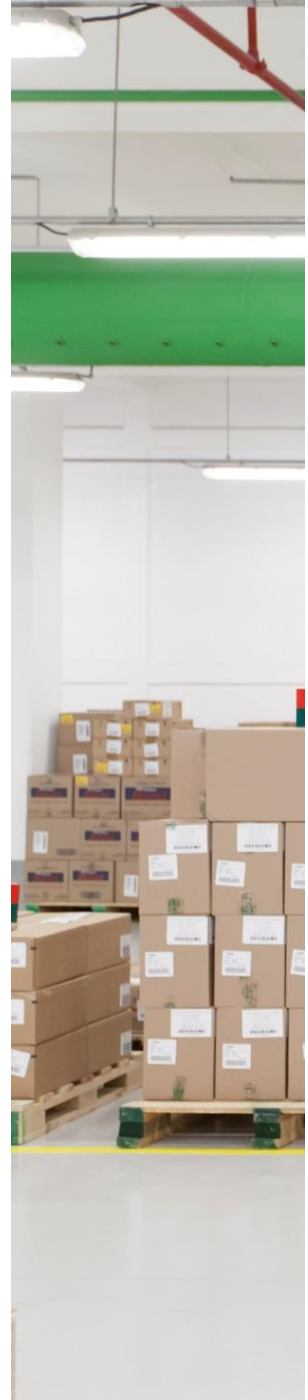
2. Perform a diagnostic review to identify 'quick wins' and longer-term working capital improvement opportunities.

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

Cash culture & visibility - The aim is to create a culture whereby cash is important & performance is clearly visible

Key cash driver focus areas:

- Cash related management incentives
- Top management sponsorship
- Clear roles & accountability's
- Corporate Working capital framework
- Defined targets per division / country
- Working capital reporting dashboards by division / country

Cross-cycle levers

- Holistic supplier working capital performance review and action planning
- Collaborative supplier negotiation combining profit & balance sheet measures for both parties
- Working capital performance benchmarking

Accounts receivable

- Credit risk policies
- Commercial revenue billing timeliness and quality
- Dispute resolution and root cause elimination
- Good contract and customer terms management
- Timely order entry & order processing
- Formalised collections strategy with tailored and proactive collections approach

Accounts payable

- “Centre Led” procurement
- Consolidated spending
- Purchasing channels
- Payment method and frequency
- Payment terms standardisation
- Improved visibility of cash/cost trade offs across the supplier base to enable conscious optimal decision making
- Establishment and optimisation of supply chain finance programmes (through an association with an independent finance provider)

Inventory

- Visual display/shelf space optimisation
- Range planning by sales density
- Shelf space profitability metrics
- SKU rationalisation
- Consignment stock
- Near sourcing
- Safety stock and minimum order quantity optimisation
- Lead time compression
- Balanced cash, cost and services
- Lean and agile supply chain strategies
- Sales and operations planning (S&OP)
- Demand management and forecasting techniques
- Accurate tracking of inventory quantities
- Differentiated inventory segmentation per product group
- Collaborative replenishment strategies



PwC's Working Capital Management Group brings together experienced practitioners from across the world. Our people have many years of experience at delivering world class working capital performance both as consultants and from time spent in industry.

To find out more, please go to www.pwc.com/working capital

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