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Make Working Capital Work

2017 Singapore Working Capital Study: At a Glance

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Overview

In collaboration with SPRING Singapore, this second issue of our annual working capital study looked at the working capital performance of 1,020 public and private companies across 15 sectors in the country.

This year's results show that 50% of sectors saw their working capital performance deteriorate year-on-year (YoY). The Net Working Capital (NWC) days also deteriorated by 3% YoY, mainly driven by an increase in the time taken to collect cash from sales (Days Sales Outstanding) and an inventory increase (Days Inventory Outstanding). In cash terms, this translates into an additional **S$ 8.7bn** of liquidity tied up.

What is working capital and why does it matter?

Working capital is the cash tied up in the daily operations of a business. It is the lifeblood of any business and a measure of short term financial health.The longer the cycle is, the longer a business is tying up capital in its working capital without earning a return on it.

In the face of declining revenues and today's volatile economic environment, companies need to manage their liquidity positions carefully to ensure they have enough cash flow to stay in business. Interest rates are also steadily increasing. This means that every extra dollar tied up is becoming even more costly and there is an increasing urgency for businesses, especially SMEs, to optimise their working capital.

Key observations

1. **Net working capital (NWC) performance deterioration**
   We observed an overall 3% deterioration of NWC days year on year, mainly driven by a 2.9% Days Sales Outstanding (DSO) and a 4.1% increase in Days Inventory Outstanding (DIO). The trend in Days Payable Outstanding (DPO) increase partially offset the poor performance of the other two KPIs but might not be sustainable in the medium to long term (Figure 1)

Figure 1: Working capital key performance indicators (KPIs) breakdown in days

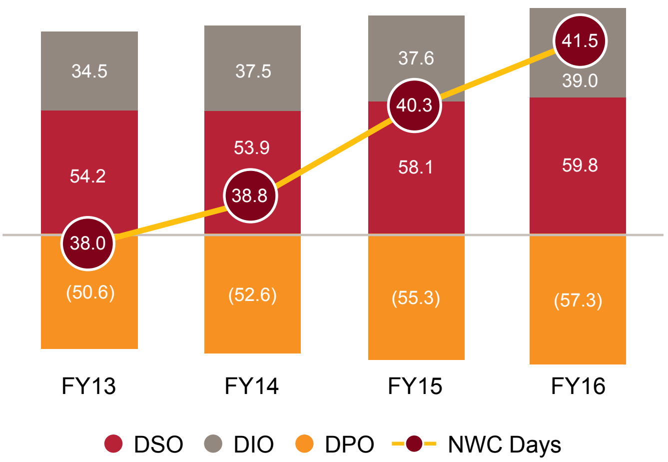
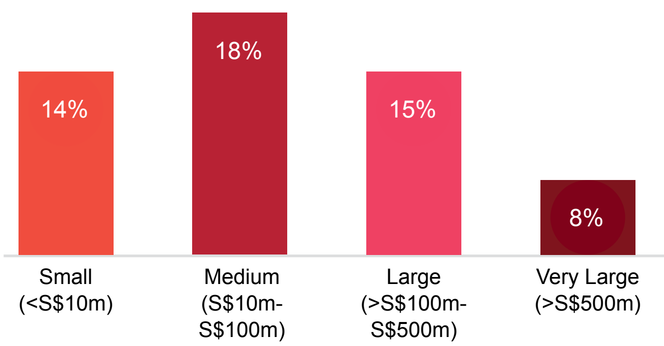


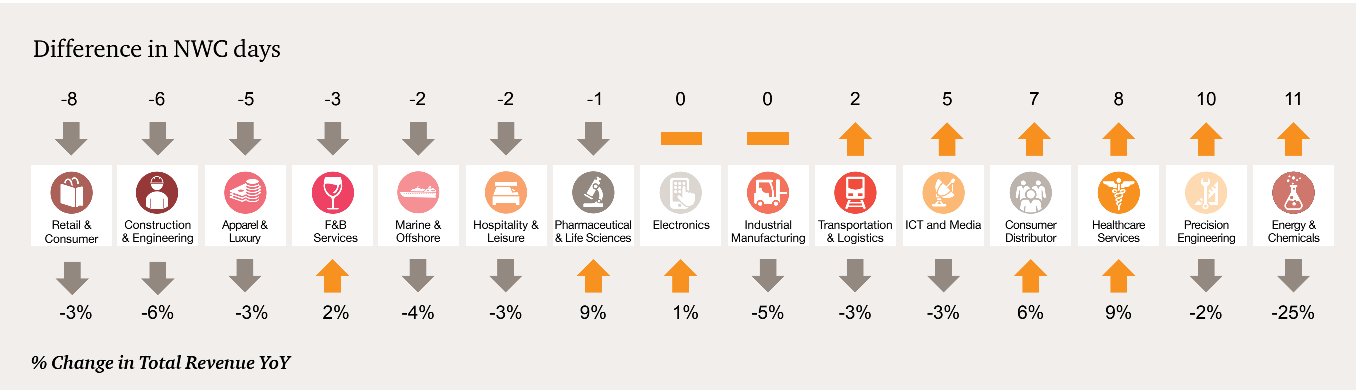
Figure 2: NWC as % of sales by company size



2. **Size matters**
   Small-sized companies showed stronger NWC performance compared to medium and large-sized companies (Figure 2). This is likely due to small-sized companies tend to be more active in managing their working capital as they have less cash to play with. Meanwhile, medium-sized companies struggle the most with their working capital performance as they strive to secure the necessary funding to scale up their business operations. Medium and large-sized companies should be cognizant with managing their working capital performance as they invest in growth.

3. **Different industry, different performance**
   Our study observed that overall, 50% of the industries saw their working capital deteriorated YoY (Figure 3) or struggled to maintain their performance and 10 out of 15 sectors registered a loss in revenue YoY. Companies that pro-actively manage their working capital are usually better equipped to manage business changes through more agile operations.

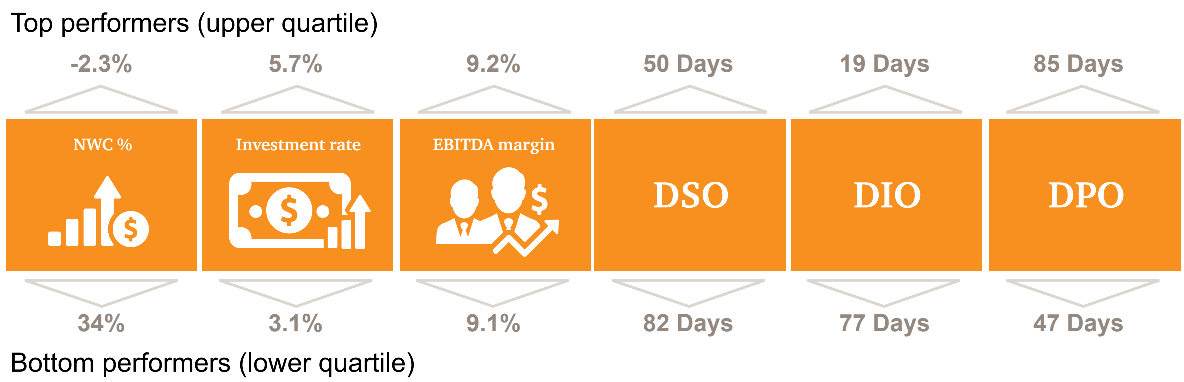
Figure 3: Breakdown of YoY increase/decrease in NWC and revenue by industry



4. **Companies focusing on working capital management enjoy better performances**
   The following results suggest companies that manage working capital well do reap benefits beyond cash (Figure 4):

   - Top NWC performers show a higher investment rate
   - Top performers get paid 40% faster than bottom performers
   - Top performers hold 4 times less inventory

Figure 4: Comparison between top and bottom working capital performers



Building blocks to improve working capital performance

Improving working capital performance is achieved by optimising the end-to-end cash cycle through operational improvement across accounts receivable, accounts payable and inventory management. A strong framework approach, as detailed below, is necessary for sustainable and long term improvements:

1. **Commercial terms** – Higher performing companies understand all transaction terms in place and match these with their cycles and needs
2. **Process optimisation** – Leading players 'stress train' their working capital process, striving to balance the trade-off between cash, cost and service
3. **Compliance and monitoring** – Successful companies are measuring compliance with terms, processes, policies and procedures with KPIs to monitor working capital
4. **Cash culture & management** – High performing businesses benefit from top management sponsorship and clear accountability for working capital management.

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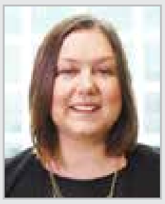

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Useful resources

SME Centres
Book an appointment with an SME Centre business advisor for free business diagnosis and basic advisory services at www.smeportal.sg/smecentres.

SME Portal
Access financial management toolkits, business guides and best practices at the SME Portal.
Visit www.smeportal.sg for more information.

Access our data explorer tool at www.pwc.com/sg/working-capital to gain an understanding of the average working capital performance in Singapore by industry and by company size.

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