www.pwc.com/workingcapitalsurvey

Bridging the Gap

2015 Annual Global Working Capital Survey of the Retail sector

Contents







Foreword

Madeleine Thomson
UK Leader of Retail & Consumer, PwC

Welcome to PwC's working capital survey of the retail sector.

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 tend to out perform their peers across other indicators.

Many retailers have embarked on working capital optimisation programmes, particularly as they wrestle with how to provide appropriate availability without increasing inventory substantially.

Overall the sector has improved its working capital; many have improved demand forecasting and the agility of their supply chain as e-commerce demands more accurate availability. However, there is a spread in working capital performance between the top and bottom performers within the sector. With around €84bn of working capital identified in the sector, there is still a significant opportunity available.

Working Capital initiatives release cash and increase liquidity that can be used for strategic investments in customer experience or the reduction of debt.

We work with many retail clients as to improve their working capital, helping them optimise and achieve sustainable cash flows.

I hope you find this survey of interest.

Executive summary

€84bn cash opportunity available to bridge the gap for future growth

Retail companies have been benefiting from significant growth last year. However, this growth needs cash to sustain it. As a result retail companies have focused on working capital and have improved their performance.

In this study we look at the performance trends of working capital within the industry sector and its related sub-sector.

Our findings show that working capital performance has improved in 2014, breaking the negative trend of the last four years. Retailers have woken up to the benefits of closely managing working capital. Improvements are visible in all retail sub-sectors and nearly across all regions, with the exception of Australasia.

The spread of performance between top and bottom companies in every working capital component shows that improvements are possible across all sub-sectors.

Having already helped to release more than €26bn cash benefits around the world, we believe we are in the best position to help your company optimise working capital.

Daniel Windaus
Working Capital Partner

14%
jump in revenue in 2014

Improved working capital performance,
breaking the negative trend of the last four years

All regions
with the exception of Australasia have improved working capital in 2014

Speciality retail has the highest NWC ratio
20%

100%
of sub-sectors have improved in 2014

Significant spread
of NWC performance across the sector

Retail

14%

jump in revenue in 2014

Improved working capital performance, breaking the negative trend of the last four years

Inventory is the largest area for improvement

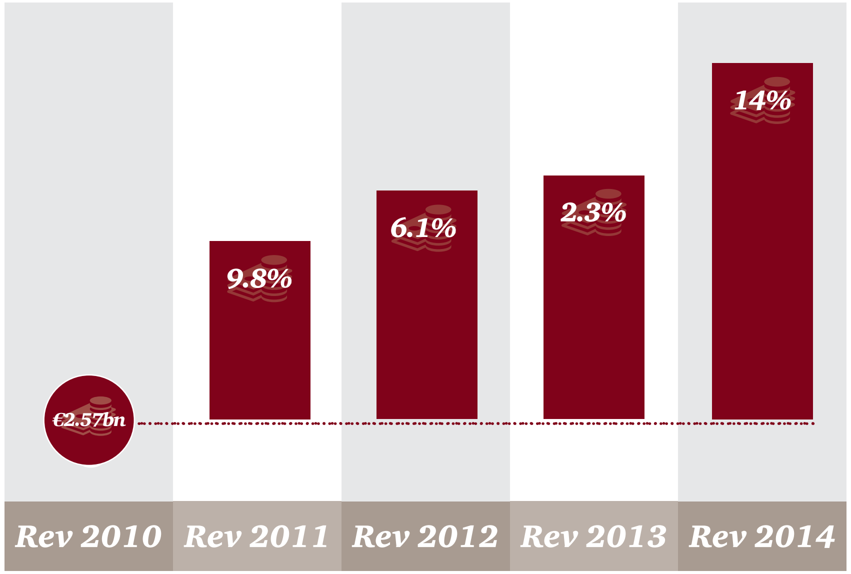
Our study looks at 872 companies in the retail sector with revenues above €100 million

Number of retail companies in the study by region

Revenue of retail companies in the study by region (€ billion)

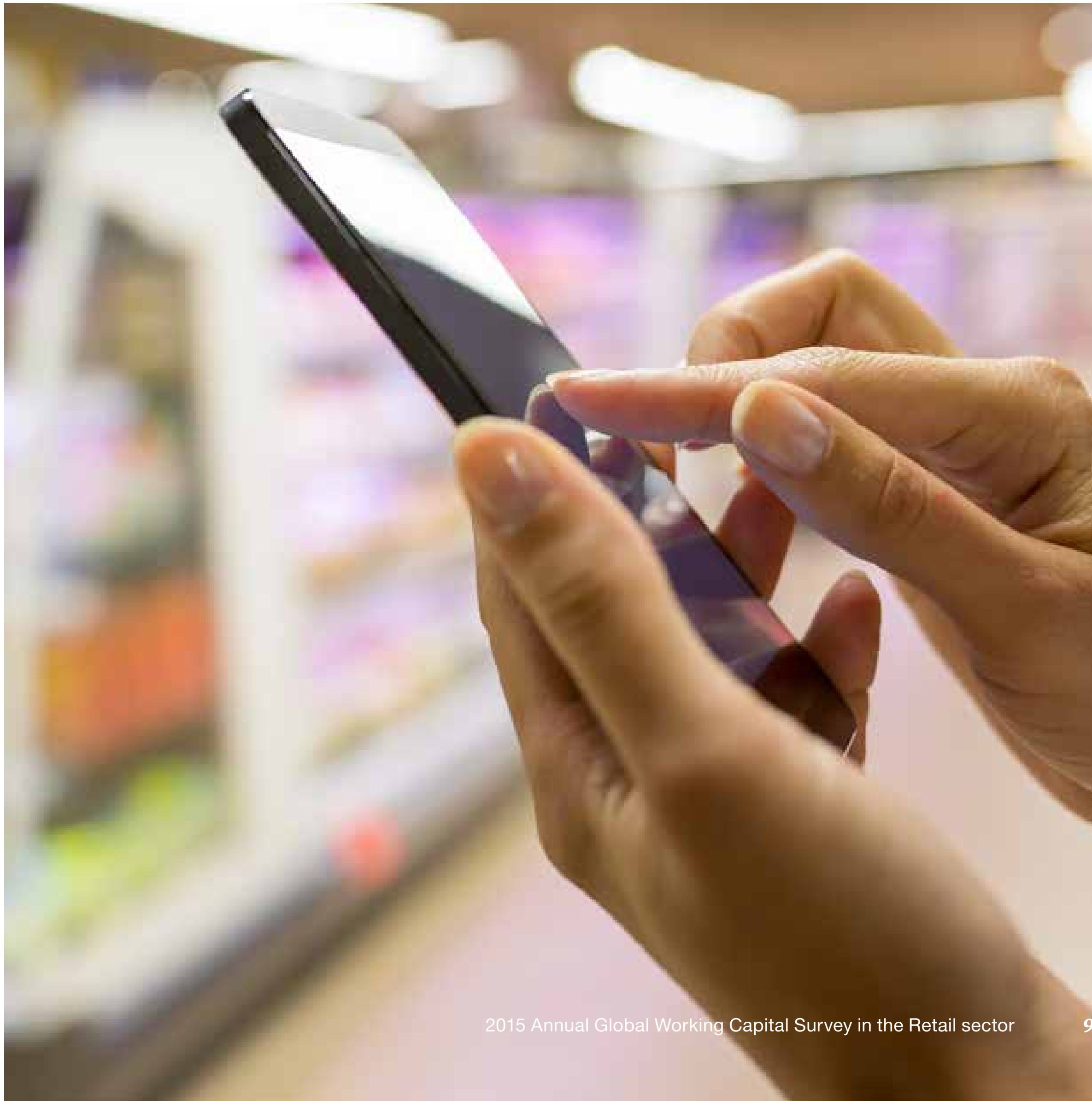
The sector experienced a healthy jump in revenues by 14% in the past year, increasing the need for cash

Retail revenue trends



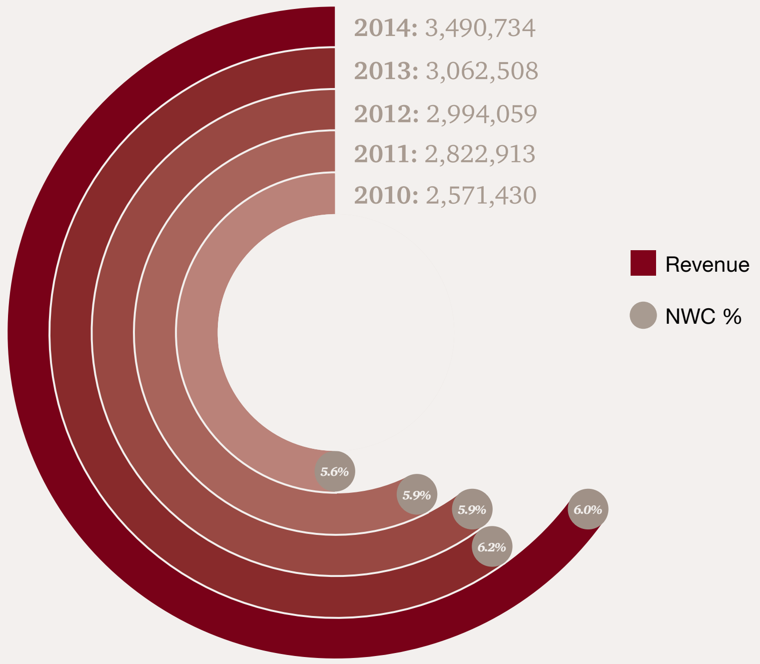
Revenue

% Percentage increase / decrease

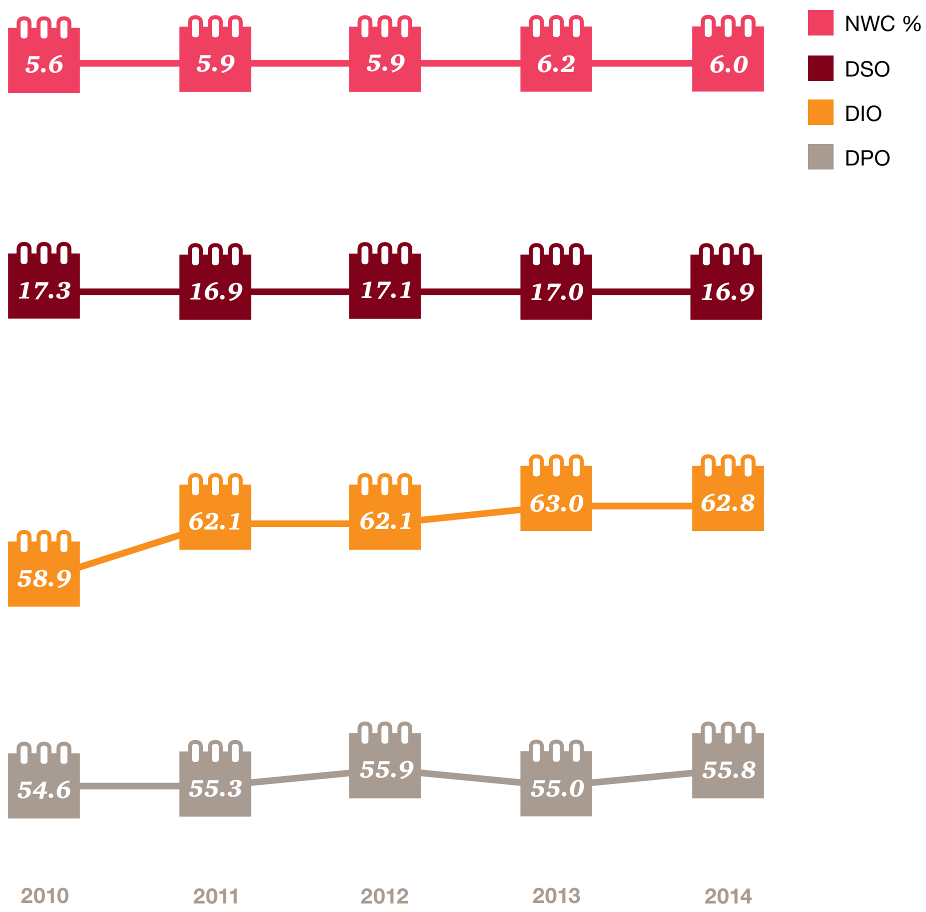


The need for cash has translated in an improvement of the working capital ratio by 3%

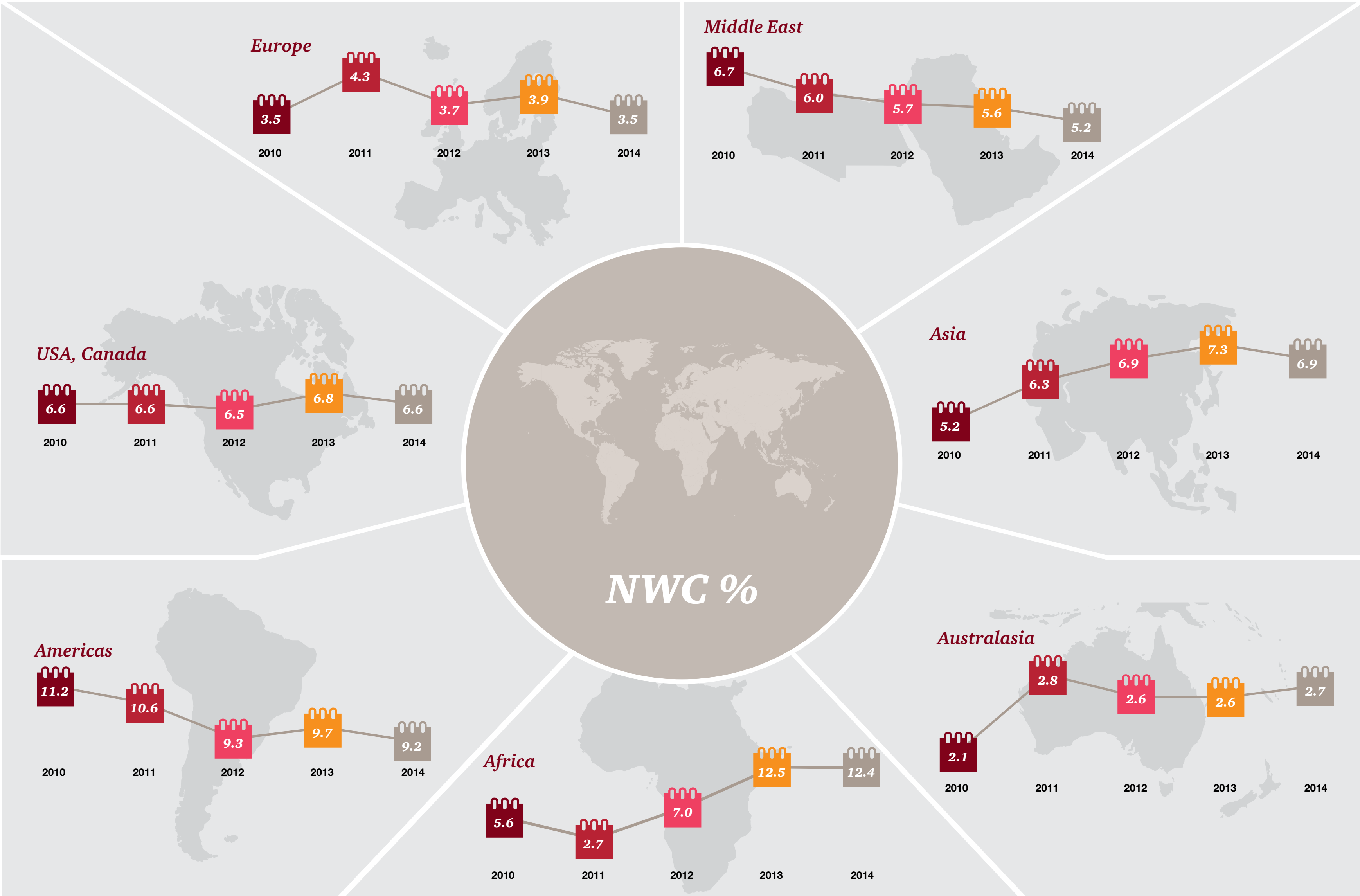
Retail sector NWC as a % of revenue (€ million)



Working capital performance has improved in 2014, breaking the negative trend of the last four years. This improvement was driven primarily by improvements in accounts payable, and continuously short receivables days.



All regions with the exception if Australasia have improved working capital



Retail Sub-sector

Apparel, accessories & luxury goods ***working capital improved by***

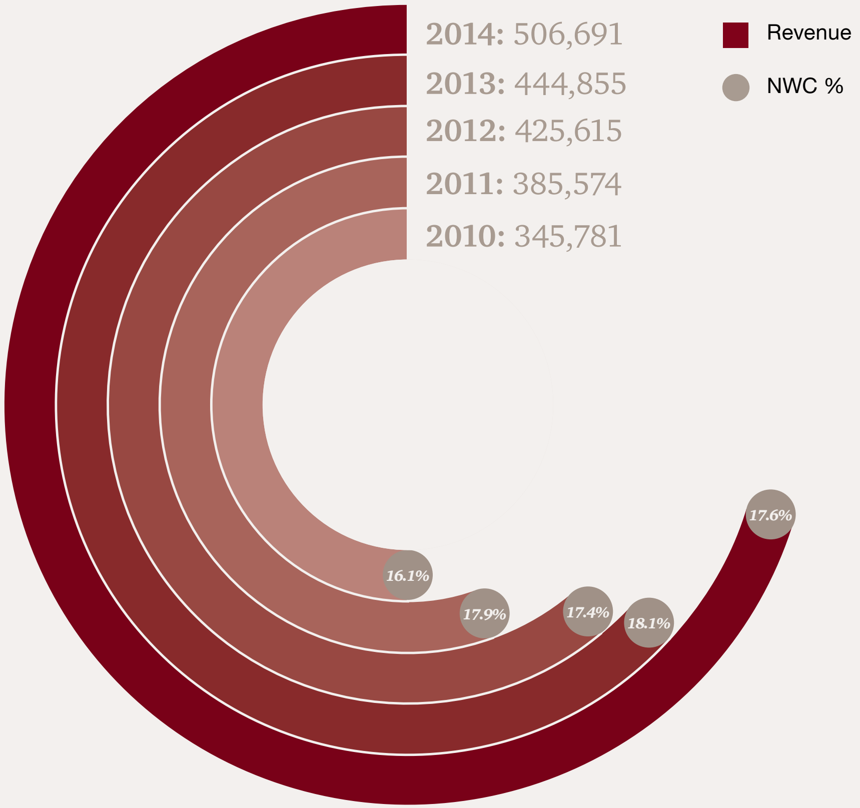
3%

General merchandising achieved a working capital ***five year best of 8% in 2014***

Online and catalog retail receivables and inventory days marginally improved in 2014

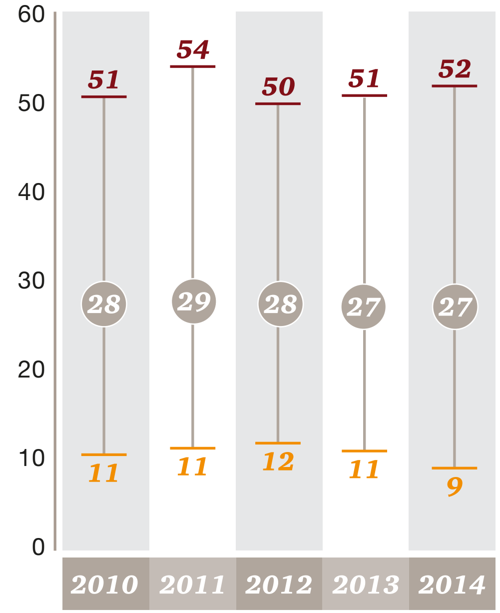
Apparel, Accessories & Luxury Goods

Apparel, accessories and luxury goods revenue and NWC % (€ million)

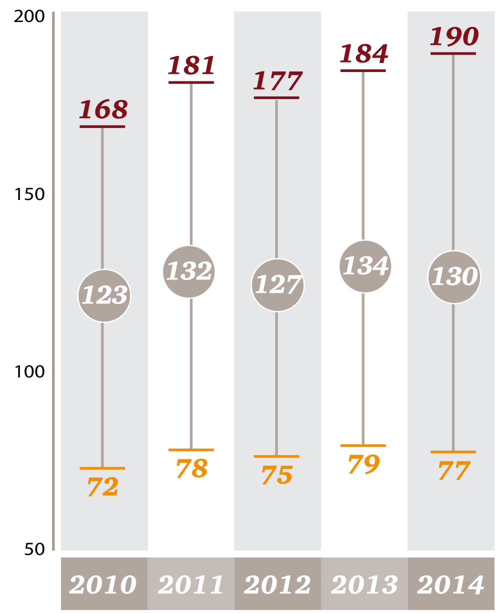


Performance within the apparel, accessories & luxury goods sub-sector has improved by 3%. This improvement has been due to small improvements on the asset side. However, DPO overall showed a negative trend over the five year period.

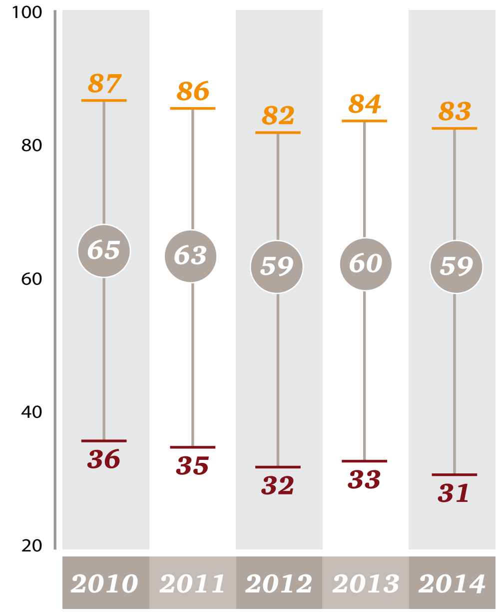
DSO



DIO



DPO

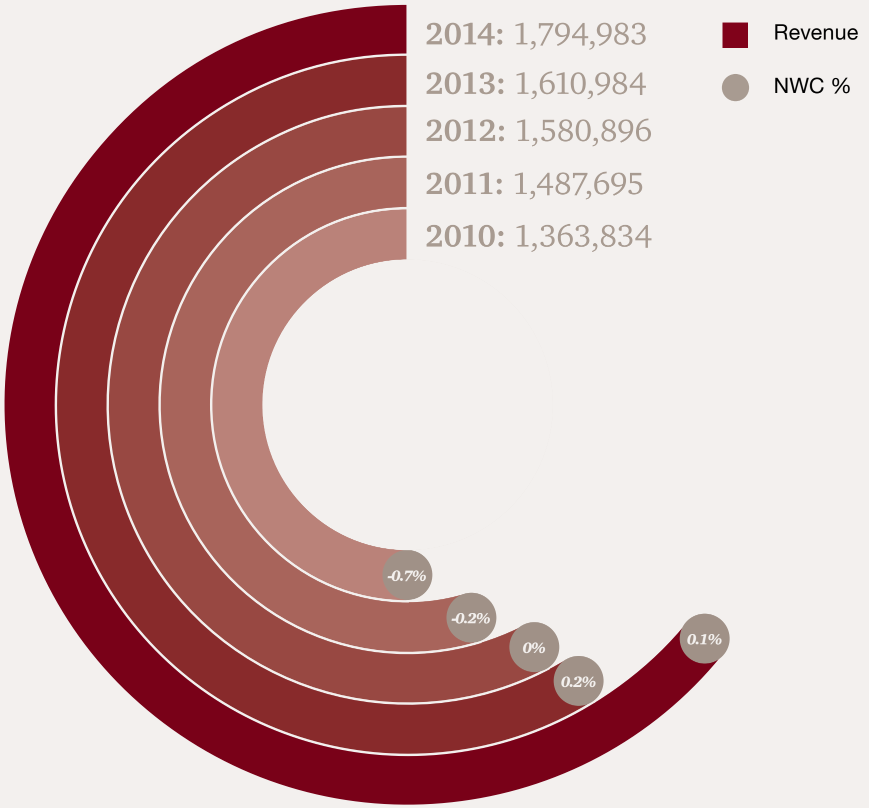


Key

- Top performers
- Weighted average performance
- Bottom performers

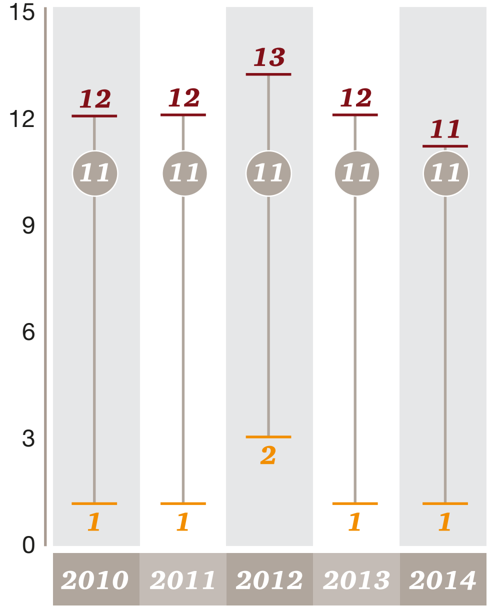
Food and Drinks

Food and drinks revenue and NWC % (€ million)

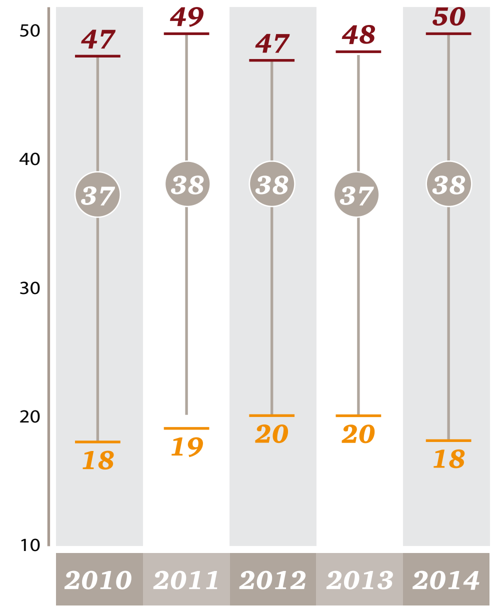


Food and drink companies show close to negative levels of working capital and benefit from short DSO on the customer side due to the 'cash and carry' nature of the sector. Inventories remain the largest area of opportunity.

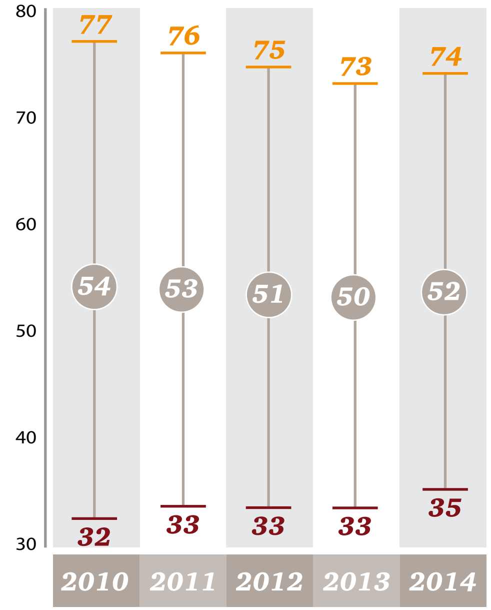
DSO



DIO



DPO

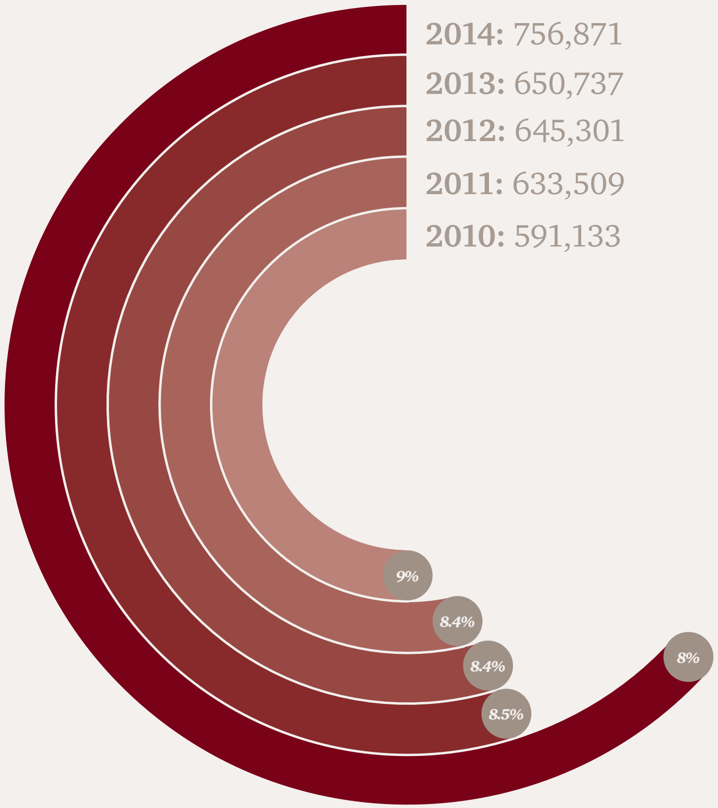


Key

- Top performers
- Weighted average performance
- Bottom performers

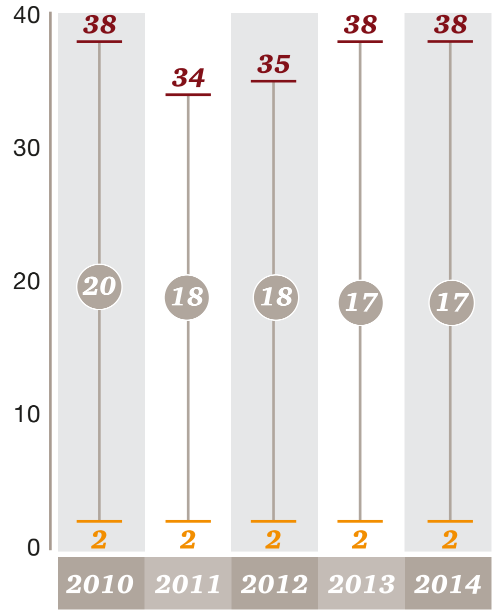
General Merchandising

General merchandising revenue and NWC % (€ million)

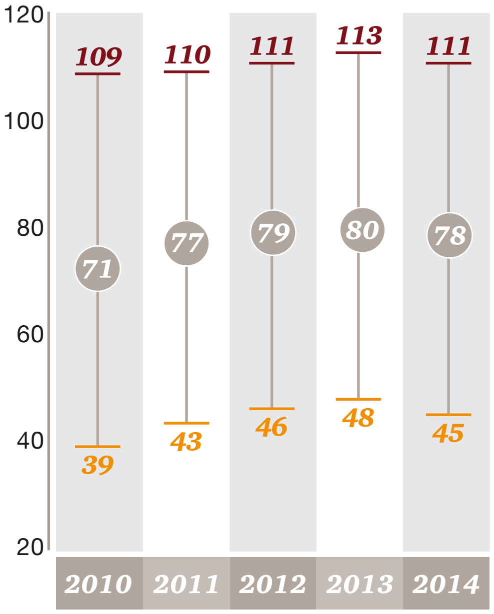


Overall working capital performance for the sub-sector achieved a five year best in 2014. This was achieved by a combination of halting the four year increase in inventory, while slightly increasing payables days. With the normal product range complexity of the sector, inventory remains the largest area of opportunity.

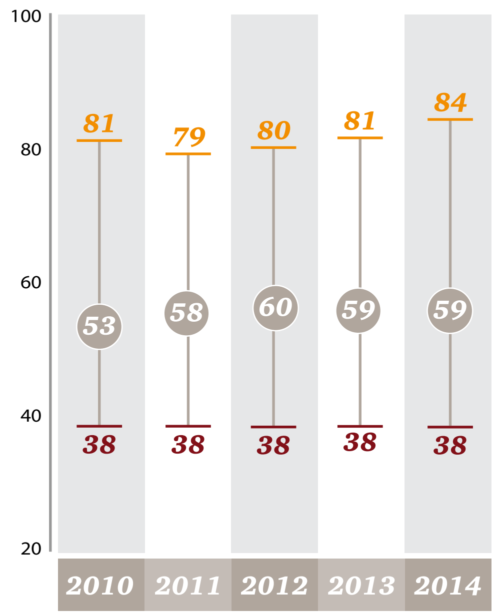
DSO



DIO



DPO

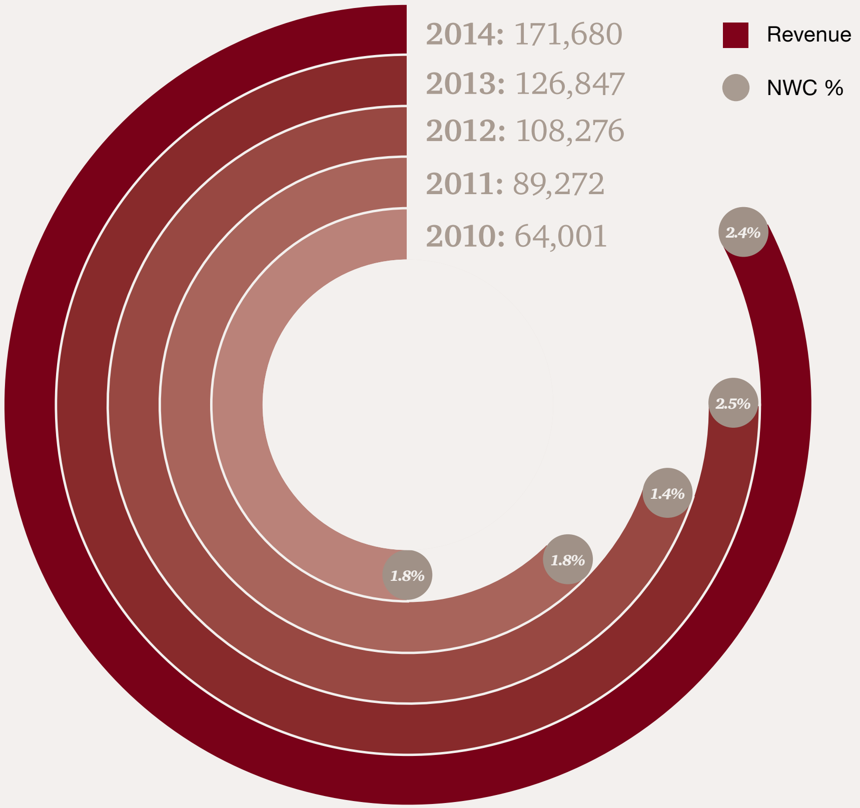


Key

- Top performers
- Weighted average performance
- Bottom performers

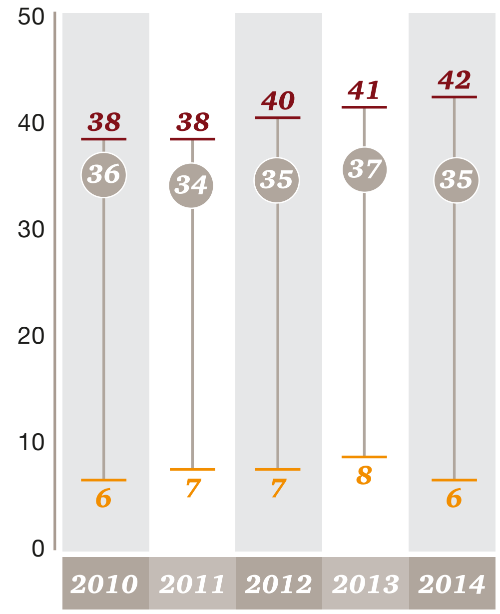
Online and Catalog Retail

Online and catalog retail revenue and NWC % (€ million)

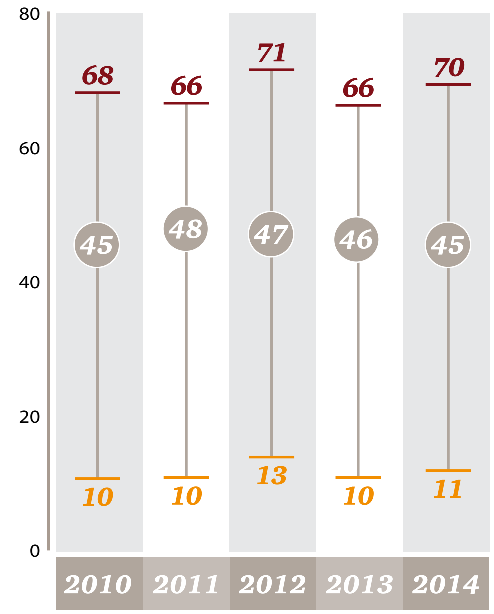


Online and catalog retail remains close to its five year high in terms of working capital ratio. Both receivables and inventory days showed marginal improvement in 2014, most of which is cancelled out by the deterioration in payables.

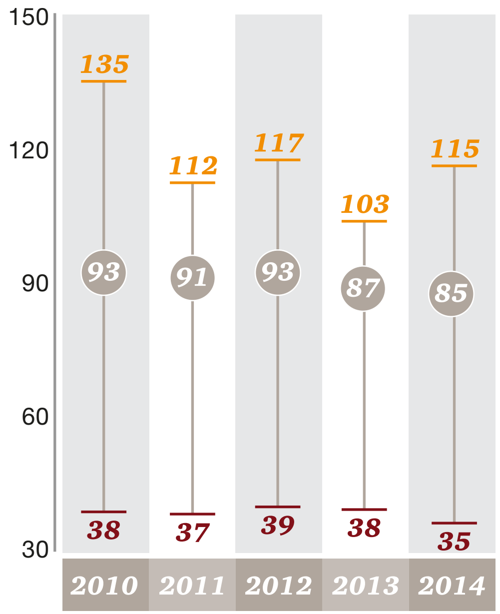
DSO



DIO



DPO

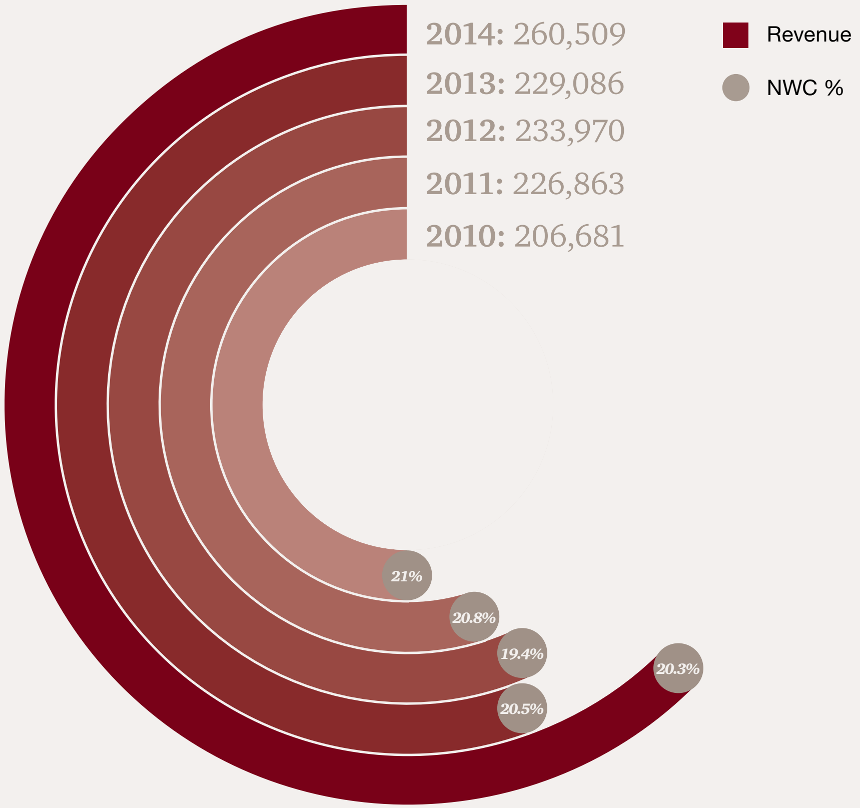


Key

- Top performers
- Weighted average performance
- Bottom performers

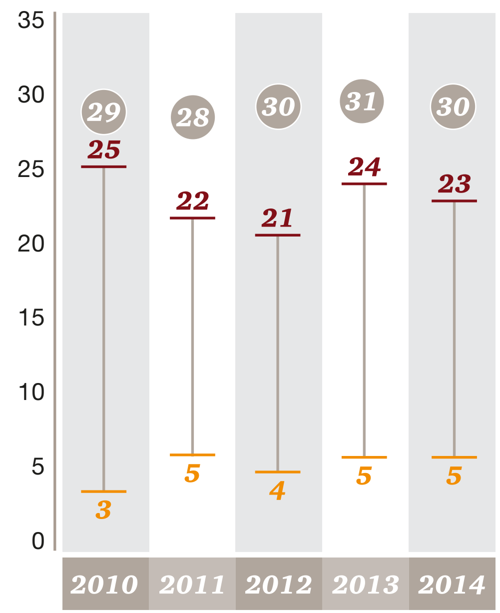
Specialty Retail

Specialty retail revenue and NWC % (€ million)

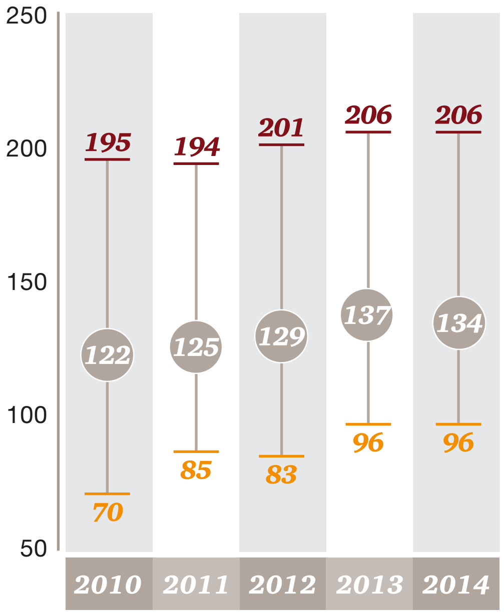


Specialty retail has by far the highest working capital ratio of all sub-sectors within retail. This is due to one of the shortest payables days combined with the highest inventory days. Managing assortment has to be one of the key focus areas for this sector.

DSO



DIO



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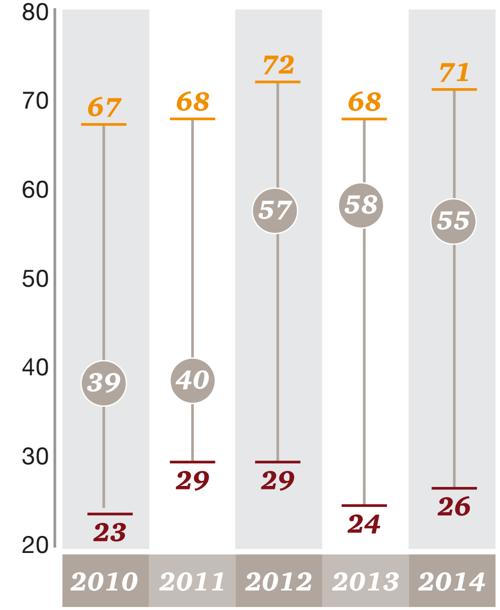


Key

Top performers

Weighted average performance

Bottom performers

The improvement programme looks at the supply chain operation, finance processes and the impact of the supplier commercial terms on working capital

Suppliers commercial terms improvement

Payments terms and conditions
- Payment terms (days)
- Payment processing (excluding daily)
- Back and front margin split

Operational service levels & range
- Agreement on range/assortment
- LTL, FTL, MOQ, case size
- Replenishment frequency
- Lead time, OTIF, quality
- Consignment/VMI, drop ship, incoterms

Trade investments/Rebates collections
- Trade investment/Rebates activities
- Rebates requirements/Trade activities
- Rebate/Back margin collection
- Clearance funding

Finance process improvement & compliance

Payables processing
- Payables process & compliance
- Early/Late payment eradication
- Payment frequency
- Accounting period improvement
- Vendor financing /Reverse factoring

Inventory costing
- Inventory accounting method
- Activity based costing/Cost to serve
- Inventory capitalisation adjustment
- Inventory write downs/write-offs
- Inventory control

Receivables processing
- Receivables process & compliance
- Dispute management & overdue debt management process
- Billing frequency/Timeliness/Collections
- Invoice discounting

Supply chain structural, process improvement & compliance

Network development & design
- Supplier performance
- In-sourcing/Outsourcing
- International vs near sourcing
- Suppliers: on-board/discontinue
- Network design/Multi-channel
- Opening/Closing of stores
- Supply chain consolidation

Distribution centres
- Distribution centres operations, capability, accuracy, speed & efficiency
- Distribution centres replenishment parameters and inventory policies
- Open to buy control
- Consignment stock

Stores
- Pay on scan/Payment processing
- Promotions planning & execution
- SKU rationalisation
- Planograms and visual merch.
- Stores operations & replenishment
- Demand planning and forecasting
- Product lifecycle management

Procure to pay | Forecast to fulfil | Order to cash

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
- Asset based lending / securitisation

Accounts payable

- Consolidated spending
- Increased control with centre-led procurement
- Purchasing channels to avoid leakage
- Aligned and optimised payment terms
- Supply chain finance
- Payment methods and frequency
- Eradicated early payments

Inventory

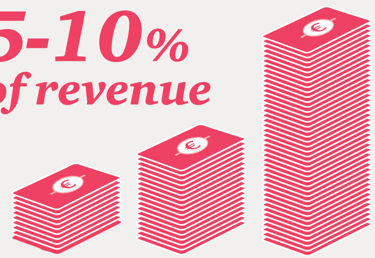
- Lean and agile supply chain strategies
- Global coordination
- Forecasting techniques
- Production planning
- Accurate tracking of inventory quantities
- Differentiated inventory levels for different goods
- Balanced cash, cost and service
- Asset based lending

Our team has helped deliver significant working capital benefits around the world

We have helped to deliver over

We deliver substantial benefits, typically between

5-10% of revenue



We deliver results fast, typically 5 -15% of improvements are quick wins

Typical project results	*Range of improvement*
Receivables reductions	20% – 40%
Payables improvements	20% – 80%
Inventory reductions	15% – 50%
Net working capital improvements	30% – 70%
Quick wins as % of total opportunity	5% – 15%
Working capital as % of sales	5% – 10%

Challenges in working capital optimisation:

Perception:
Working capital is an operational issue, but is often perceived to sit with finance

Cross functional:
Sustainable improvements are complex, requiring an operational and cross functional approach

Complexity:
Improvements require structural changes for many interrelated processes

Driven by people:
Needs hands-on approach 'on the shop floor' to change operational behaviour

Appendices

Basis of calculations and limitations

Basis of calculations

This study provides a view of global working capital performance in the retail sector and is based on the research of 872 companies in the world. For consistency reasons and to be able to add the individual ratios together we have calculated DSO based on sales, DPO and DIO based on Cost of Goods Sold (COGS).

Metric		Basis of calculation
NWC % (Net working capital %)	*NWC % measures working capital requirements relative to the size of the company.*	(Accounts receivable + inventories – accounts payable)/Sales
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 or services have been delivered.*	Accounts receivable/Sales x 365
DIO (Days inventories on-hand)	*DIO 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.*	Inventory/COGS x 365
DPO (Days payables outstanding)	*DPO is an indicator of how long a company takes to pay its trade creditors.*	Accounts payable/COGS x 365
CCE (Cash conversion efficiency)	*CCE is an indicator of how efficiently a company is able to convert profits into cash.*	Cash flow from operations/EBITDA

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.

Summary data

Number of companies

Primary industry	Africa	Americas	Asia	Australasia	Europe	Middle East	USA, Canada	Total
Apparel, accessories and luxury goods	2	9	142	7	48	4	65	277
Food and drinks	6	11	85	2	29	9	22	164
General merchandising	6	16	152	11	34	4	54	277
Online and catalog retail		1	27	1	16		22	67
Specialty retail	3	3	28	3	20	1	29	87
Grand total	17	40	434	24	147	18	192	872

NWC % 2014

Primary industry	Africa	Americas	Asia	Australasia	Europe	Middle East	USA, Canada	Total
Apparel, accessories and luxury goods	33.6%	41.2%	16.8%	13.5%	21.1%	21.8%	12.8%	17.6%
Food and drinks	-0.7%	-2.4%	1.2%	1.0%	-3.9%	-0.9%	2.6%	0.1%
General merchandising	8.3%	20.5%	1.4%	13.0%	7.1%	22.7%	9.4%	8.0%
Online and catalog retail		1.5%	10.8%	-2.1%	0.1%		-0.1%	2.4%
Specialty retail	37.6%	51.2%	31.2%	23.7%	14.1%	6.6%	17.9%	20.3%
Grand total	12.4%	9.2%	6.9%	2.7%	3.5%	5.2%	6.6%	6.0%

DSO 2014

Primary industry	Africa	Americas	Asia	Australasia	Europe	Middle East	USA, Canada	Total
Apparel, accessories and luxury goods	20	115	34	20	28	39	19	27
Food and drinks	16	7	21	4	12	25	7	11
General merchandising	29	78	13	33	24	38	11	17
Online and catalog retail		41	70	3	22		25	35
Specialty retail	7	81	35	6	41	13	18	30
Grand total	20	37	25	7	19	27	11	17

DIO 2014

Primary industry	Africa	Americas	Asia	Australasia	Europe	Middle East	USA, Canada	Total
Apparel, accessories and luxury goods	262	123	90	122	226	118	90	***130***
Food and drinks	47	57	36	42	36	35	38	***38***
General merchandising	78	85	62	86	84	118	83	***78***
Online and catalog retail		83	38	29	58		45	***45***
Specialty retail	258	232	191	258	112	62	121	***135***
Grand total	***107***	***75***	***61***	***49***	***66***	***55***	***60***	***63***

DPO 2014

Primary industry	Africa	Americas	Asia	Australasia	Europe	Middle East	USA, Canada	Total
Apparel, accessories and luxury goods	66	54	49	55	98	48	42	***59***
Food and drinks	70	78	59	43	68	70	35	***52***
General merchandising	77	90	73	64	81	61	48	***59***
Online and catalog retail		130	77	44	90		86	***85***
Specialty retail	54	39	44	35	93	49	39	***55***
Grand total	***70***	***80***	***62***	***45***	***74***	***65***	***42***	***56***

Total cash opportunity from working capital (€ million)

Primary industry	Africa	Americas	Asia	Australasia	Europe	Middle East	USA, Canada	Total
Apparel, accessories and luxury goods	769	676	5,328	71	11,300	34	3,504	***21,682***
Food and drinks	134	198	2,246	0	385	61	6,977	***10,001***
General merchandising	287	3,921	5,269	826	1,441	285	19,269	***31,299***
Online and catalog retail		108	4,632	1	403		710	***5,853***
Specialty retail	165	2,100	4,702	52	1,596	0	6,087	***14,703***
Grand total	***1,355***	***7,003***	***22,176***	***951***	***15,125***	***379***	***36,548***	***83,538***

Highest opportunity   Low opportunity

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Glen is a partner in our working capital practice, leading our work across the regions of the UK. He has worked with companies across the UK, Europe and internationally about cash flow improvement and cost reduction.

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Robert leads our working capital practice and brings over twenty years of working capital advisory experience. He has made an instrumental difference to the free cash flow and balance sheet structure of many companies.

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Stephen is a Director in our working capital practice and brings over 13 years of experience delivering sustainable improvements in both corporate and PE-backed organisations across the world. He has worked across a diverse range of industries including deep experience in retail.

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