



# All tied up

Working capital management  
report 2019



**EY**

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# Foreword

All tied up 2019 is the 12th publication in a series of working capital (WC) management reports based on Ernst & Young LLP (EY) research on the WC performance of the world's largest companies.

The survey focuses on the top 1,500 companies in the US and Europe, examining their WC performance at a company, regional, industry and country level. It also provides insights into the WC performance of approximately 1,500 companies in seven other regions and countries (Asia; Australia and New Zealand – Aus/NZ; Canada; Central and Eastern Europe – CEE; India; Japan; and Latin America – LatAm). In addition, this report summarizes findings of an analysis comparing the WC performance of small and medium-sized enterprises (SMEs) with that of large companies.

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# Executive summary

An analysis of WC performance among the largest companies in the US and Europe reveals improvement in both regions in 2018. For the US companies analyzed, cash-to-cash (C2C) decreased by 2% from 2017 levels, after a stable phase in the previous year. This year's C2C performance also decreased by 2% for the European companies analyzed.

Companies outside the US and Europe fared worse in 2018. Four out of seven regions and countries analyzed reported an improvement in WC performance, but only three showed better year-on-year results if oil and gas (O&G) and mining and metals (MM) industries (which have vastly different capital structures compared to other industries) are excluded. Interestingly, SMEs had performed better than the large companies in 2018.

Overall, our findings suggest that most companies continue to have significant opportunities to improve in many areas of WC. A high-level comparative analysis indicates that the leading 1,500 US and European companies may have as much as US\$2.5 trillion in excess WC, over and above the estimated levels required to operate their business model and meet operating cash requirements. This figure is equivalent to nearly 10% of their combined sales. In other words, for every US\$1 billion in sales, the opportunity for WC improvement is, on average, US\$100 million.

Yet, while some benefits may still be available through relatively simple steps, such as improving billing and cash collections or extending supplier payment terms, most companies seeking further gains will need to embrace more substantial and sustainable changes in the way they manage their WC.

Such changes may include:

- ▶ Ensuring that WC remains a strategic focus throughout the year, with the entire organization engaged and incentivized to drive improvement
- ▶ Ensuring that the organization is responsive to change, with lean and agile manufacturing and supply chain solutions deployed for different products or market segments. Enhancing responsiveness through cross-functional cooperation and effective collaboration between participants in the extended enterprise
- ▶ Ensuring that supply chains are resilient, through robust risk management policies, alternative sourcing, and enhanced visibility across the end-to-end supply chain
- ▶ Ensuring that strong discipline in terms and transactions, internal controls over cash and WC, and appropriate performance measures are in place
- ▶ Ensuring that the complex and evolving trade-offs between cash, costs, delivery levels and the risks that each company must take are clearly understood and properly managed

# US and Europe

## WC performance improvement in the US and Europe

A review of WC performance among the largest companies in the US and Europe reveals improvement in both regions in 2018.

For the US companies analyzed, C2C improved by 2% from its 2017 level, after a stable phase in the previous year. For Europe, this year's performance was better than the progress made the year before, where C2C decreased by 2%.

**Table 1: Change in WC metrics by region, 2017-18**

	C2C change 18/17	
	US	Europe
DSO	-2%	-4%
DIO	-3%	-1%
DPO	-3%	-3%
<b>C2C</b>	<b>-2%</b>	<b>-2%</b>

Source: EY analysis, based on publicly available annual financial statements.

Note: DSO (days sales outstanding), DIO (days inventory outstanding), DPO (days payable outstanding) and C2C (cash-to-cash), with metrics calculated on a sales-weighted basis

For the US companies, DSO and DIO were down 2% and 3%, respectively and contributed to the improvement in WC performance in 2018, while DPO decreased 3%. WC performance showed improvement due to DSO (down 4%) and DIO (down 1%), but were weakened by a decrease in DPO (down by 3%) for European companies.

For each region, a number of factors, some of them operating in conflict with one another, can explain these WC trends. They include:

**Contrasting economic conditions.** For both the US and Europe, WC results for 2018 have continued to be affected by the impact of contrasting economic conditions (GDP growth rate, borrowing rates) during the year, as well as by sharp variations in both exchange rates and commodity prices. Compared with 2017, sales growth for leading companies in the US was up 9%, while it was up by 4% for Europe.

**Impact of commodity prices.** The decline in commodity prices during 2018 significantly influenced overall WC performance. The O&G and M&M industries accounted for 5% of total sales in Europe and 8% in the US.

**Exchange rates movement.** Movements in US dollar exchange rates also played some part in driving the industry's WC performance in 2018. For companies reporting in euros and in Swiss francs, the weakness of those currencies against the US dollar compared with its average level during the year was a positive contributor. In contrast, for companies reporting in US dollars, the strength of the US dollar against all major currencies at the end of the year had a negative impact.

**Continued attention to WC management.** Many companies in the US and Europe continued taking steps to drive cash and cost out of WC in an effort to grow their returns on capital and increase cash returns to shareholders. In some cases, these activities have been prompted by increased pressure from shareholders, including some activists.

Initiatives have focused on streamlining manufacturing and supply chains, collaborating more closely with customers and suppliers, managing payment terms for customers more effectively, and improving billing and cash collections. In addition, extending supplier payment terms and driving greater efficiency in procurement and payables processes, along with simplifying functions and processes, have made a contribution to better management of WC.

**Changes in trade-offs between cash, costs, delivery levels and risks.** As carrying WC became much less costly during the year following the decrease in the cost of capital, a number of companies in the US and Europe may have also chosen in 2017 to trade off WC improvements against sales growth, margin expansion, or increased provision of financing solutions to their suppliers and customers.

**Competing WC strategies.** With many industries trading with each other, change in WC performance is also the net result of industries' competing and conflicting WC strategies. As one company is trying to collect its receivables, its customers are trying to stretch out their payment terms. As one tries to push back supply purchases, its suppliers are trying to sell and ship more products as fast as possible.

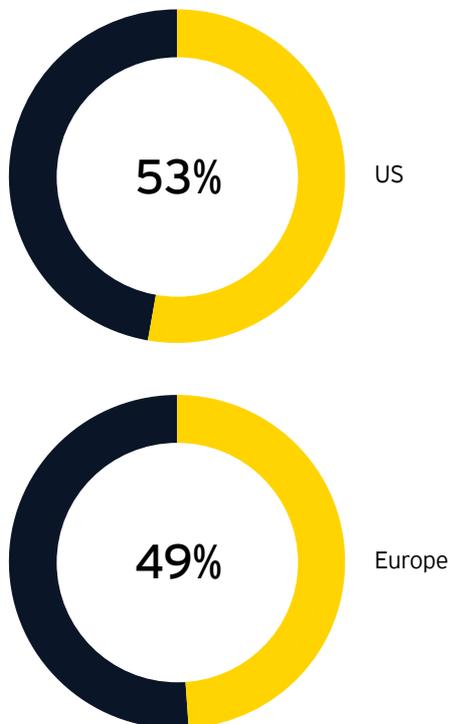
## Company performance review

*A majority of US and European companies researched reported a deterioration in WC performance in 2018.*

In the US, only 53% of the companies included in our research reported an improvement in WC performance in 2018 compared with 2017. Many companies reported weaker performance in both inventory and payables in 2018 (48% and 53%, respectively). A similar number of companies showed a year-on-year increase or decrease in DSO.

In Europe, 49% of companies reported an improvement in WC performance in 2018 compared with 2017. As much as 51% and 36% of companies posted better results in receivables and inventory, respectively, in 2018. These more than offset the number of those showing weaker payables performance (52%).

**Table 2: Proportion of companies showing improved C2C performance, 2018 vs. 2017**



Source: EY analysis, based on publicly available annual financial statements.

## Industry performance review

*In 2018, there were wide variations in the level and direction of changes in C2C between various industries across the US and Europe, partly reflecting the impact of contrasting economic growth patterns and movements in commodity prices and exchange rates during the year.*

The O&G and M&M industries reported significant changes in C2C, largely as a result of falling commodity prices during 2018. In both the US and Europe regions, the decrease in C2C was at 7% on sales in Europe and 16% in the US region.

For the pharmaceutical industry, the results in 2018 show a deteriorating WC performance compared with 2017 in Europe. Pharma companies' C2C was up 6%, after dropping by 3% the year before. This weaker WC performance overall in 2018 was driven by a further deterioration in inventory performance, with DIO up 6%. Performance in receivables also declined, with DSO up 2%. The improvement in payables performance seen in previous years came to a halt.

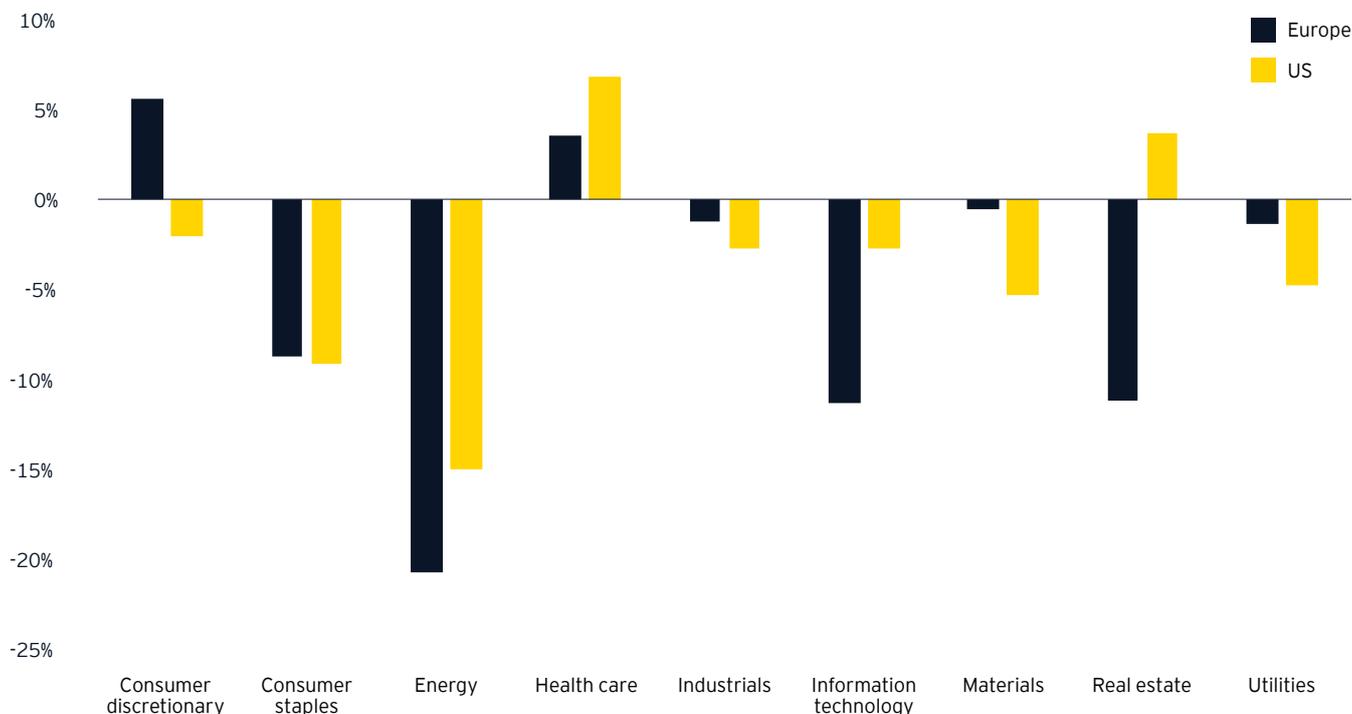
For automotive manufacturers and retailers, change in year-on-year C2C was mixed, with an increase of 11% for the companies based in Europe, but a decrease of 12% for those in the US. These variations in the degree of change in C2C between different regions reflect different responses to challenges, including diverging regional automotive production patterns, continuing pricing pressures from OEMs, an ongoing shift in global demand toward rapidly growing markets and volatility in commodity prices and exchange rates.

Food producers improved in WC performance in 2018, with C2C down 4% and 6% in the US and Europe, respectively, from its levels in 2017. Progress came from improvement of receivables in the European market. In addition, companies based in the US reported better results in inventory performance.

For chemicals, WC results diverged between both regions. Performance deteriorated for companies in Europe, but improved for those in the US. For industrials, WC performance improved for the companies in both the US and Europe.

For electric utilities, WC performance in 2018 was heavily influenced by the impact of falling energy prices during the year. C2C improved by 4% in the US and was stable in Europe.

Table 3: Most significant WC changes among major sectors, 2018 vs. 2017



Source: EY analysis, based on publicly available annual financial statements.

## Regional and country performance review

### US vs. Europe performance comparison

*The WC performance gap between the two regions narrowed significantly in 2018, partly due to the impact of commodity prices and exchange rate movements.*

Note: Since some of the business done by North American and European companies takes place outside their home regions, their WC results reflect global market conditions to some degree, as well as conditions in the regions where they are based.

The US exhibits slightly lower levels of WC compared with Europe-based companies. Overall, C2C for the US in 2018 was only 9 days below that of Europe (8 days, excluding the O&G and M&M industries). This was primarily due to a strong performance in inventory (with a DIO of 8.9 days, or 22% below). The differential between receivables and payables cycles (DSO - DPO) across both regions was around 1.8 days, with the effect of generally longer trade terms in Europe than in

the US being mitigated at the net level. The wide variations in trade terms between northern and southern Europe should be noted, however.

There are many possible causes for the differences in WC metrics between the US and Europe regions: companies in Europe tend to have more SKUs (stock-keeping units) to serve different markets and customers in different currencies, while the US benefits from the absence of national borders and a unique trading currency. Transportation also takes longer, and logistics costs are often higher in Europe than in the US.

Table 4: WC changes by European subregion and country, 2018 vs. 2017

	US	Europe
DSO	37.9	47.8
DIO	31.3	40.1
DPO	36.1	46.1
<b>C2C</b>	<b>33.1</b>	<b>41.9</b>

Source: EY analysis, based on publicly available annual financial statements.

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With greater access to big data, companies are now able to monitor a customer's payment performance and behavior through thousands of individual transactions on an invoice level. This may provide a better understanding of your customers' payment behavior, allowing for a reduced gap between trade terms and actual cash inflow.



## European country performance comparisons

*In Europe, each subregion and country, except the UK (and southern European countries, had the O&G been excluded from our calculation), reported an improvement in WC performance.*

Of the seven main subregions and countries in Europe, Germany was the only one reporting worse WC results in 2018 compared with 2017 (C2C increased by 8%). If the O&G and M&M industries had been excluded from our calculations, the deterioration in performance would have been the same (C2C up 8%). These weaker results came from a combination of higher DIO and DSO (up 7% and 4%, respectively), partly offset by better DPO performance (up 1%).

In contrast, Switzerland and the UK managed to report a reduction of 7% and 4%, respectively, in C2C. Both countries achieved progress in receivables and inventory, while performance deteriorated in payables. In France, electric utilities, industrial companies and telecommunications operators all reported an improvement in WC performance. In contrast, food producers scored poorly. In Germany, the industrials, IT and materials sectors all achieved strong progress. Conversely, consumer staples, energy, and health care saw weaker results.

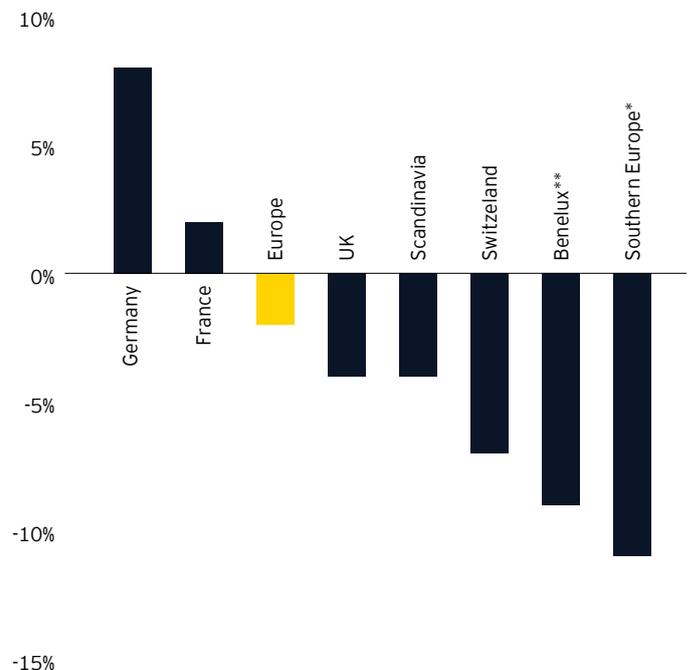
Benelux reported a strong WC performance in 2018 industry and the communication services sector.

For the Nordic countries, WC performance remains heavily skewed toward the performance of certain industries. For example, had the consumer staples, consumer discretionary and materials sectors been excluded from our calculations, the reduction in C2C for this subregion would have been 8% instead of 4%. Strong results were achieved by the communication services, energy, and utilities sectors.

Switzerland reported a fall of 7% in C2C, benefiting from the strong performance of the materials and health care sectors. The copper and life science service industries were the two major contributors of the improvement.

For the southern European countries, WC performance also continues to be heavily skewed toward the performance of certain industries. These countries registered flat performance, but a significant improvement, had the communications sector been excluded from our calculation. Among all the countries in this region, Greece showed a decline. Technology distributors, application software and data processing services industries were the major contribution toward improvement. Health care distributors fared poorly.

**Table 5: WC changes by European subregion and country, 2018 vs. 2017**



\* Greece, Italy, Portugal and Spain

\*\* Belgium, Luxemburg and Netherlands

Source: EY analysis, based on publicly available annual financial statements.

## Opportunities for improvement

*The wide variations in WC performance between different companies in each regional industry point to significant potential for improvement – up to US\$2.5 trillion of cash for the leading 1,500 US and European companies.*

This range of cash opportunity is defined as the sum of the WC cash opportunity derived for each company. This has been calculated by comparing the 2017 performance of each company's WC components with that of the average (low estimate) and the upper quartile (high estimate) achieved by its industry peer group.

On this basis, the roughly 1,500 US companies included in this research could have approximately US\$756 billion to US\$1.9 trillion of cash unnecessarily tied up in WC. That is equivalent to between 20% and 52% of WC scope (defined as the sum of trade receivables, inventories and accounts payable) and between 6% and 15% of aggregate sales.

The 1,500 European companies could have in total between €803 billion and €1.9 trillion of cash unnecessarily tied up in WC, equivalent to between 22% and 53% of their WC scope and between 8% and 19% of their aggregate sales.

In total, the leading 1,500 US and European companies could have up to US\$2.5 trillion of cash unnecessarily tied up in WC, equivalent to nearly 10% of their aggregate sales. This figure is similar to last year's.

Our "cash potential" analysis reveals that the opportunity is distributed across the various WC components, with 30% available from both receivables and payables and 40% from inventory.

The cash opportunity figures are based on an external view of each company's WC performance within its industry (based on public consolidated numbers). The top end of each range is likely ambitious since it ignores differences in commercial strategies (impacting cash discounts and payment terms), customer base, supply, product mix, country sales exposure and local practices for payment terms, which can vary widely, especially across Europe. The consolidated figure would also be lower if intracompany benefits were excluded. On the other hand, the opportunity is calculated for each company's WC component by comparing its performance, not against the best performer, but against the top quartile of its industry peer group.

Table 6: WC cash opportunity, 2018

Region	Cash opportunity					
	Value		% WC scope*		% Sales	
	Average	Upper quartile	Average	Upper quartile	Average	Upper quartile
Europe	€803b	€1.9t	22%	53%	8%	19%
US	US\$756b	US\$1.9t	20%	52%	6%	15%

\* WC scope = sum of trade receivables, inventories and accounts payable

Source: EY analysis, based on publicly available annual financial statements.

## Other regions and countries

### WC performance improvement in 2018

Companies based in the seven regions and countries (Asia; Australia and New Zealand – Aus/NZ; Canada; Central and Eastern Europe – CEE; India; Japan; and Latin America – LatAm) covered by our survey reported a decline in WC performance in 2018 compared to 2017, with C2C rising by 2%.

If we exclude the oil & gas and metals & mining industries (O&G and M&M, which accounted for 7% of total sales in 2018 (excluding US and Europe)) from our calculations, C2C would have increased by 3%.

Last year's weaker WC performance was due to weaker inventory (DIO up 2%) and payables (DPO down 1%) performance. Performance in receivables remained unchanged. Excluding

the O&G and M&M industries, there was a deterioration in performance for both payables and inventory (DSO up 3% and DPO down 1%). Performance in receivables remained unchanged.

In 2018, four out of seven regions and countries posted an improvement in WC performance compared with 2017. Japan, Asia and CEE scored worse. However, if we exclude the O&G and M&M industries, only three regions and countries showed better year-on-year results.

More specifically, within the Asian and CEE regions, there were wide variations between countries in the degree of year-on-year change in C2C.



Table 7: Change in C2C, 2017-18

Region and countries	2018	Change 18/17
Asia	75	3%
AUS/NZ	28	-6%
Canada	32	-3%
CEE	47	4%
India	47	-12%
Japan	62	2%
LatAm	46	0%
<b>Other regions</b>	<b>67</b>	<b>2%</b>

Table 9: Change in C2C per Asian country, 2017-18

Asia	2018	Change 18/17
China	110	3%
Indonesia	53	0%
Malaysia	40	-3%
Singapore	79	-6%
South Korea	56	0%
Taiwan	59	11%
Thailand	30	-8%
<b>C2C</b>	<b>90</b>	<b>3%</b>

Table 11: Change in C2C per LatAm country, 2017-18

LatAm	2018	Change 18/17
Argentina	34	-3%
Brazil	48	-2%
Chile	46	7%
Colombia	16	-13%
Mexico	27	3%
<b>C2C</b>	<b>40</b>	<b>-1%</b>

Table 8: Change in C2C, excluding the O&amp;G and M&amp;M industries, 2017-18

Region and countries	2018	Change 18/17
Asia	78	4%
AUS/NZ	30	-4%
Canada	36	0%
CEE	47	4%
India	58	-9%
Japan	63	3%
LatAm	47	0%
<b>Other regions</b>	<b>69</b>	<b>3%</b>

Table 10: Change in C2C per Asian country, excluding the O&amp;G and M&amp;M industries, 2017-18

Asia	2018	Change 18/17
China	111	3%
Indonesia	53	0%
Malaysia	44	-5%
Singapore	88	-4%
South Korea	57	1%
Taiwan	59	12%
Thailand	30	-5%
<b>C2C</b>	<b>92</b>	<b>4%</b>

Table 12: Change in C2C per LatAm country, excluding the O&amp;G and M&amp;M industries, 2017-18

LatAm	2018	Change 18/17
Argentina	34	-2%
Brazil	50	-2%
Chile	49	7%
Colombia	16	-13%
Mexico	26	5%
<b>C2C</b>	<b>40</b>	<b>-1%</b>

Source: EY analysis, based on publicly available annual financial statements.

## Large distribution of WC performance

A review of the WC performance of the largest companies across other regions and countries reveals variations overall and for each individual metric. These variations would have been even larger had the O&G and M&M industries been excluded from our calculations.

Regional and country comparisons are nuanced. Since some of the business carried out by top country-headquartered companies takes place outside their home regions, their WC results, to some degree, reflect global market conditions, as well as those in the regions where they are based.

Looking at 2018 WC performance, Asia, Japan, and CEE exhibit the highest C2C among these regions and countries, scoring unfavorably in payables and inventories. In contrast, Australia/New Zealand, and LatAm carry the lowest C2C, thanks to strong results in payables and inventories.

Japan also shows the highest differential between receivables and payables cycles (DSO vs. DPO), while Asia and Australia/New Zealand exhibit the lowest.

For Canada, DPO figures from a large number of companies are potentially inflated (and therefore C2C-deflated) by the inclusion of accrued expenses in the absence of detailed financial disclosure. Canada's DSO and DIO are among the lowest globally.

Table 13: WC metrics by main region and country

	Asia	AUS/NZ	Canada	CEE	India	Japan	LatAm
DSO	55	35	40	49	51	69	50
DIO	76	32	32	41	51	44	38
DPO	57	39	40	43	55	51	42
<b>C2C</b>	<b>75</b>	<b>28</b>	<b>32</b>	<b>47</b>	<b>47</b>	<b>62</b>	<b>46</b>
DSO – DPO	-1	-4	0	6	-4	19	8

Table 14: WC metrics by main region and country, excluding the O&G and M&M industries

	Asia	AUS/NZ	Canada	CEE	India	Japan	LatAm
DSO	57	37	40	55	62	70	51
DIO	79	32	36	40	52	43	39
DPO	58	39	40	47	57	51	43
<b>C2C</b>	<b>78</b>	<b>30</b>	<b>36</b>	<b>47</b>	<b>58</b>	<b>63</b>	<b>46</b>
DSO – DPO	-1	-2	0	7	6	19	8

Source: EY analysis, based on latest publicly available annual financial statements.

Table 15: WC metrics by Asian country

	China	Indonesia	Malaysia	Singapore	South Korea	Taiwan	Thailand
DSO	54	48	44	56	44	63	27
DIO	133	46	31	62	39	43	34
DPO	78	41	36	38	27	48	31
<b>C2C</b>	<b>110</b>	<b>53</b>	<b>40</b>	<b>79</b>	<b>56</b>	<b>59</b>	<b>30</b>
DSO – DPO	-24	6	8	18	17	15	-3

Table 16: WC metrics by Asian country, excluding the O&amp;G and M&amp;M industries

	China	Indonesia	Malaysia	Singapore	South Korea	Taiwan	Thailand
DSO	54	48	48	60	46	64	28
DIO	135	46	34	68	39	44	35
DPO	78	41	38	41	28	49	33
<b>C2C</b>	<b>111</b>	<b>53</b>	<b>44</b>	<b>88</b>	<b>57</b>	<b>59</b>	<b>30</b>
DSO – DPO	-24	6	10	20	18	15	-5

Table 17: WC metrics by LatAm country

	Argentina	Brazil	Chile	Colombia	Mexico
DSO	58	53	49	38	39
DIO	36	36	38	31	37
DPO	61	42	41	53	49
<b>C2C</b>	<b>34</b>	<b>48</b>	<b>46</b>	<b>16</b>	<b>27</b>
DSO – DPO	-3	12	9	-15	-10

Table 18: WC metrics by LatAm country, excluding the O&amp;G and M&amp;M industries

	Argentina	Brazil	Chile	Colombia	Mexico
DSO	59	55	53	38	39
DIO	37	38	39	31	36
DPO	62	43	44	53	49
<b>C2C</b>	<b>34</b>	<b>50</b>	<b>49</b>	<b>16</b>	<b>26</b>
DSO – DPO	-3	12	10	-15	-10

Source: EY analysis, based on latest publicly available annual financial statements.

## Factors behind the WC performance variations

**Industry bias.** For some regions and countries, WC results are influenced by the performance of certain industries. For example, the O&G and M&M industries represent as much as 21% and 19% of total sales of our sample of companies for CEE and Australia/New Zealand, respectively, but only 4% for Japan. Electric utilities and telecommunications services account for 18% of sales in CEE, but for only 4% in India. Steel accounts for 6% of sales in India and Latin America, but for only 0.25% in Canada and 2% in Japan.

**Payment practices.** Payment practices vary widely across and within regions and countries. Significant disparities in the length of payment delays and incidence of defaults can also be observed between regions and countries. While payment usage plays a role, these differences can also be explained by local behaviors, as well as by variations in the degree of effectiveness of credit management policies and legal enforcement procedures.

**Logistics and distribution infrastructures.** The efficiency of logistics and distribution varies greatly across regions and countries, leading to significant differences in local supply chain costs, service levels and risks, as well as in WC performance.

According to the World Bank's 2018 ranking of logistics performance, developing countries have, since 2007, been slowly catching up with the high performers, but the logistics performance gap between the two groups remains wide. The US, most European countries and Japan are among the top 10 countries (out of 160), while the other Asian economies rank among the top quartile (with China being the 26th which is a four-ranks improvement since 2007). Interestingly, India's position in the ranking has fallen in the past two years from being the 35th in 2016 to the 44th in 2018.

## Focus on cash and effectiveness of WC management

**processes.** Just like the organizational structure and reporting requirements of companies differ, there are differences in the intensity of management focus on cash and the effectiveness of WC management among these regions and countries. These variations partly reflect the commercial and industrial strategies deployed (with some businesses choosing to grow sales, increase investment or enhance service rather than improve WC performance for example), as well as differences in the degree of business and process maturity among companies.

## WC comparisons among industries across regions and countries

An analysis of WC performance by industry across other regions and countries, and in comparison with the US and Europe, reveals substantial divergences, exacerbated by the impact of factors specific to each local industry (as detailed below).

For example, the WC performance of the consumer staples sector in some regions is better (with the notable exception of India) than in the US and Europe. Many of these companies lack the benefits of size, deal with a dispersed customer base and operate comparatively inefficient supply chains.

The O&G industry also exhibits wide variations in WC performance between the different regions and countries, partly due to differences in business models, with companies operating at various points in the value chain. For example, O&G companies in Japan are mostly refiners, which carry much higher WC requirements than those involved in exploration and production.

Interestingly, machinery makers report high levels of WC across many regions and countries, reflecting the global practice of inventory hedging against commodity exposure in this industry.

Steel companies in Asia, Australia/New Zealand and Japan show deteriorating levels of C2C, while their counterparts in CEE, Canada and India display much improved levels.

In the case of telecommunications services, WC performance in individual regions and countries varies considerably, largely influenced by the distribution of revenues between fixed-line and mobile on one hand and between prepaid and postpaid on the other hand, as well as by local payment practices, payment methods and levels of capital expenditure.



Table 19: C2C metrics by industry across main regions and countries

C2C	Asia	AUS/NZ	Canada	CEE	India	Japan	LatAm	Europe	US
Automotive retail	38	75	97	26	23	60	21	19	49
Building products	72	75	71	80	84	75	80	60	55
Commodity chemicals	55	28	25	60	56	103	40	50	61
Diversified chemicals	87	-22	nm	-7	68	95	nm	88	58
Electric utilities	34	21	30	45	-12	32	33	33	31
Food distributors	21	6	25	nm	14	6	46	-10	23
Food retail	-5	-5	15	-17	21	-3	-11	-17	7
Integrated oil and gas	14	8	15	40	20	nm	35	22	20
Integrated telecommunication services	30	50	36	16	3	90	15	9	27
Oil and gas exploration and production	25	23	2	48	66	18	3	42	8
Oil and gas refining and marketing	28	15	3	45	11	40	27	30	16
Oil and gas storage and transportation	14	nm	6	31	7	36	25	16	15
Packaged foods and meats	47	41	47	62	40	56	33	41	25
Specialty chemicals	93	53	120	27	82	97	143	68	71
Steel	52	43	81	24	60	96	59	62	71
Wireless telecommunication services	7	15	3	nm	-77	68	22	10	13

Source: EY analysis, based on publicly available annual financial statements.

## SMEs and large companies

*The gap in WC performance between SMEs and large companies remained stable in 2018, having widened in the previous year.*

Compared with 2017, our 2018 study shows a decrease of 2% in C2C for SMEs and an increase of 1% for large companies. For large companies, weaker WC results came from a lower DPO (down 2%) and higher DIO (up 1%), while DSO (down 1%) improved from the previous year. For SMEs, the improvement in WC performance was due to a lower DIO (down 1%), higher DPO (up 1%) and lower DSO (down 1%).

Among both the SMEs and large companies included in our survey, 52% of the large companies and 50% of SMEs reported improvement in C2C. A majority of SMEs (54%) saw an improvement in payables performance, but only a minority (43% and 47%, respectively) did so across both inventory and receivables. Among large companies, there was a similar number of companies reporting improvements and deteriorations in payables performance, with a majority (52%) showing improved performance in receivables and minority (43%) in inventory.

**Table 20: Change in WC metrics for SMEs and large companies, 2017-18**

	C2C change 18/17	
	SMEs	Large companies
DSO	-1%	-1%
DIO	-1%	-1%
DPO	-1%	-2%
C2C	-2%	-1%

Source: EY analysis, based on publicly available annual financial statements.

### SMEs have been only slightly closing the WC gap with large companies since 2005

A comparison between 2018 and 2008 shows SMEs reporting slightly higher C2C (up 2%) over the intervening period, while large companies saw a bigger increase (up 3%). Since 2005, SMEs have been slightly closing the WC gap with large companies.

For SMEs, the deterioration in WC performance over the reviewed period has been the net result of a much lower DPO (down 12%) and a higher DSO (up 1%), more than offsetting a reduction in DIO (down 5%). For large companies, weaker results in C2C arose from a much higher DIO (up 12%), partially offset by a lower DSO (down 4%) and higher DPO (up 3%).

A variety of factors may help to explain these contrasting patterns of WC performance:

- ▶ Large companies have reported stronger receivables performance, benefiting from progress to improve billing and cash collections. For SMEs, a higher DSO probably reflects ongoing pressure from large customers to extract better payment terms.
- ▶ Large companies have managed to drive improvement in their payables performance, taking action to leverage spend and extend payment terms. In contrast, the payables results for SMEs have been much weaker since 2005. This may have been partly due to changing strategies and tactics, with a higher proportion of companies responding to more challenging credit conditions by paying more quickly, in return for enhanced cash discounts.
- ▶ With regard to inventory performance, large companies have seen a significant deterioration as their supply chains become more complex and extended, buying and selling goods and services from and to more countries. In contrast, SMEs registered a significant improvement in inventory performance.

## Much higher current C2C for SMEs than for large companies

### Performance by company

SMEs continue to exhibit higher C2C than large companies. In 2018, SMEs' C2C was 30% (equivalent to 22 days) higher than that of large companies on a sales-weighted basis.

Compared with SMEs, large companies show better performance in both receivables and payables, reaffirming the view that scale provides greater opportunities to negotiate favorable payment terms with customers and suppliers. SMEs scored slightly better than their larger counterparts in inventory management. Several factors may explain the difference in performance. For example,

SMEs may have simpler product offerings and supply chains. Large companies are also more likely than smaller companies to sell outside their home regions, potentially giving rise to longer lead times and excess safety stocks. On the other hand, lean practices and vendor-managed inventory arrangements are more widespread among large companies. Increased use of outsourcing may have also played a significant role in driving inventory performance.

While these results confirm that size matters in WC, it remains unclear how much of the WC performance gap between SMEs and large companies is due to SMEs' reluctance to engage more openly with other participants in the value chain.

Table 21: WC metrics differential between SMEs and large companies, 2018

		Large (C2C days)	SME (C2C days)	%	days
DSO	SMEs worse by	50	66	25%	16
DIO	SMEs worse by	49	52	4%	2
DPO	SMEs worse by	47	44	-7%	(3)
C2C	SMEs worse by	52	73	30%	22

Source: EY analysis, based on publicly available annual financial statements.



## Performance by industry

Comparing the relative WC performance of large companies and SMEs in the same industry highlights that SMEs in almost two-thirds of industries have higher C2C than large companies. In 2018, the median C2C differential figure at an industry level between SMEs and large companies was 10 days (median being used as a more appropriate measure in this case, given the uneven distribution of companies by industry).

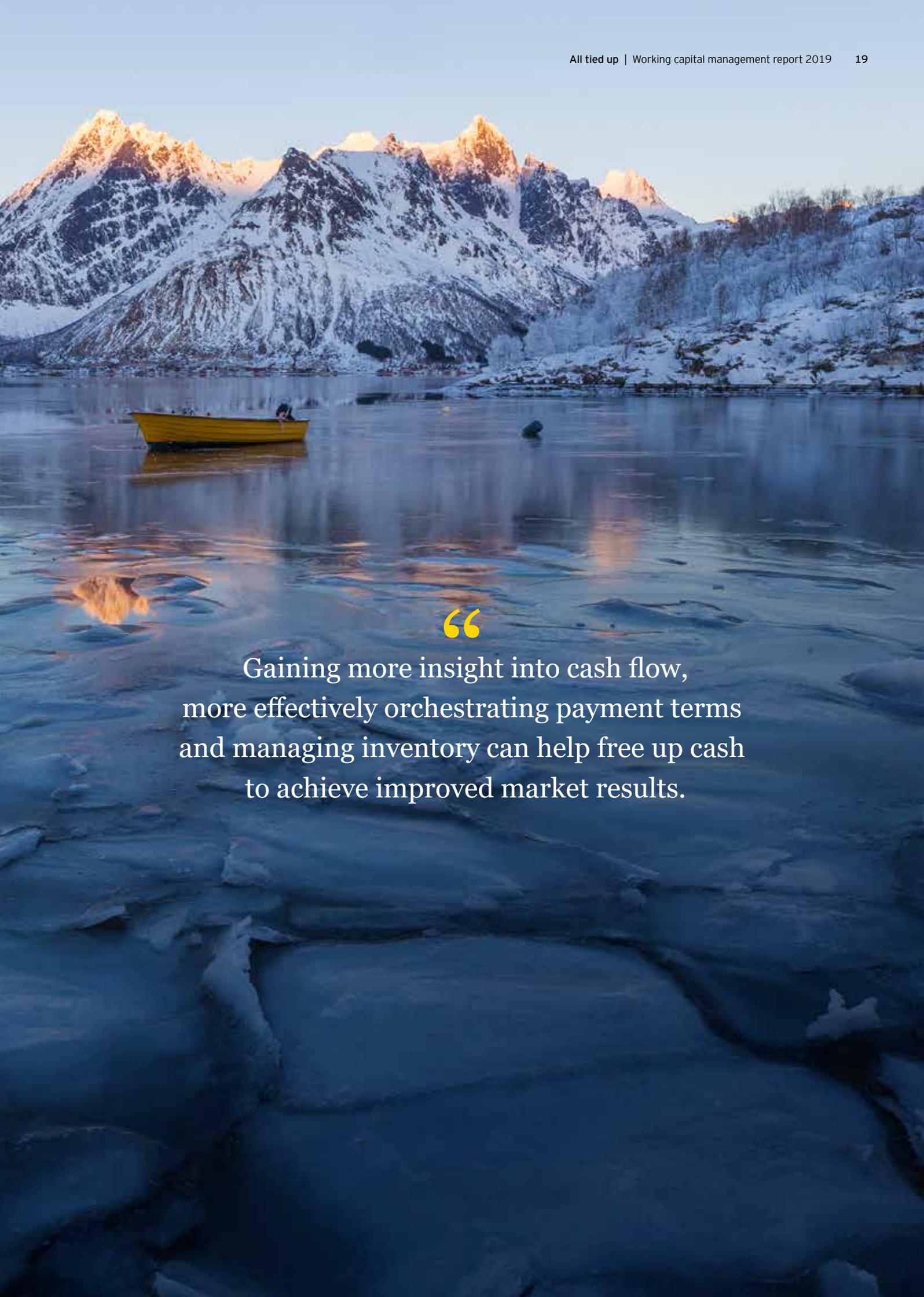
Some variations at a C2C level for major industries are reported in the table below. From this list, industries such as electrical components, defense and communications equipment had C2C at 34%, 25% and 19%, respectively, above that of large companies. For application software, the corresponding figure is 10%. In contrast, SMEs in the diversified chemicals and construction materials industries display lower C2C (down 29% and 22%, respectively) than their peers.

**Table 22: C2C differential by industry between SMEs and large companies, 2018**

	C2C Differential	
	%	Days
Electrical components and equipment	34%	26
Aerospace and defense	25%	34
Communications equipment	19%	16
Application software	10%	7
Semiconductor equipment	-16%	-20
Oil and gas equipment and services	-17%	-14
Construction materials	-22%	-15
Diversified chemicals	-29%	-25

Source: EY analysis, based on publicly available annual financial statements.





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Gaining more insight into cash flow,  
more effectively orchestrating payment terms  
and managing inventory can help free up cash  
to achieve improved market results.

## How EY can help

EY's global network of dedicated working capital professionals helps clients identify, evaluate and prioritize actionable improvements to liberate significant cash from WC through sustainable changes to commercial and operational policies, processes, metrics and procedure adherence.

We can assist organizations in their transition to a cash-focused culture and help implement the relevant metrics. We can also identify areas for improvement in cash flow forecasting practices. We then assist in implementing processes to improve forecasting and create the frameworks to sustain those improvements.

WC improvement initiatives often create value. In addition to increased levels of cash, significant cost benefits may also arise from productivity improvements, reduced transaction and operational costs, and lower levels of bad debts and inventory obsolescence. Improved processes can also improve quality of services, both internally and externally. Wherever you do business, our WC professionals can be there to help.



# Methodology

This report summarizes the findings of an analysis of the WC performance of the 8,675 largest companies (by sales) headquartered in the US (consisting of 1,490 companies); Europe (1,500); and seven other main regions and countries – Asia (1,500), Australia/New Zealand (376), Canada (397), Central and Eastern Europe (283), India (917), Japan (1,500) and Latin America (701).

This report also summarizes findings of an analysis comparing the WC performance of SMEs with that of large companies. Using sales as the indicator of each company's size, SMEs have been defined in this report as companies with sales under US\$1 billion, while large companies are those with sales exceeding US\$1 billion. A total of approximately 1,500 companies (all domiciled in the US for comparison purposes) were analyzed, evenly divided between two subgroups:

- ▶ The overall analysis is based on fiscal 2018 reports. Performance comparisons have been made with 2017 and with the previous 11 years in the case of the US and Europe, and 8 years for SMEs and large companies.
- ▶ Analysis is segmented by region, country, industry and company. It uses metrics to provide a view of overall WC management and to identify the resulting levels of cash opportunity.
- ▶ Each of the companies analyzed has been categorized into an industry and to a region or country. Reported global, regional and country numbers are sales-weighted.
- ▶ The overall review excludes financial institutions. The auto manufacturing industry (OEMs) is also excluded due to the difficulty of assessing its "true" WC performance, given the intertwined nature of its industrial and financial activities.
- ▶ The performance trends at the country and industry level are nuanced. The approach is based on consolidated numbers in the absence of further local details, with each company being allocated to the location of its headquarters.
- ▶ Because of differences in industry weightings and in the level of international activity within each economy, an analysis of the WC performance gap across countries in Europe would not have been useful or meaningful.
- ▶ The WC performance metrics are calculated from the latest publicly available company annual financial statements. In order to make the figures as comparable and consistent as possible, adjustments (see glossary) have been made to the data to reflect the impact of acquisitions and disposals and off-balance sheet arrangements.

# Glossary

**DSO (days sales outstanding):**

year-end trade receivables net of provisions, including VAT and adding back securitized and current financial receivables, divided by full-year pro forma sales and multiplied by 365 (expressed as a number of days of sales, unless stated otherwise)

**DIO (days inventory outstanding):**

year-end inventories net of provisions, divided by full-year pro forma sales and multiplied by 365 (expressed as a number of days of sales, unless stated otherwise)

**DPO (days payable outstanding):** year-end trade payables, including VAT and adding back trade-accrued expenses, divided by full-year pro forma sales and multiplied by 365 (expressed as a number of days of sales, unless stated otherwise)

**C2C (cash-to-cash):** equals DSO plus DIO minus DPO (expressed as a number of days of sales, unless stated otherwise)

**Pro forma sales:** reported sales net of VAT and adjusted for acquisitions and disposals when this information is available



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