Informita

Knowledge Transfer With Tangible Results

December 2012

Working Capital Survey 2012

Lots of working capital focus and many successes too!

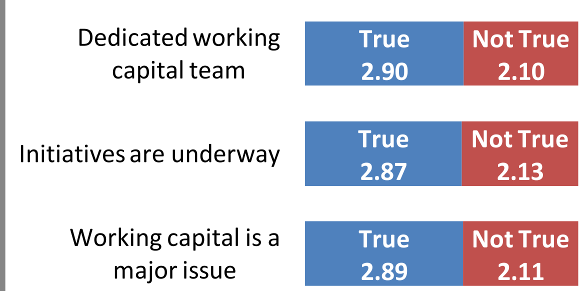
There are several numerically based working capital surveys out there and if you want to be terrified by the billions being wasted around the world, this is not the survey for you. This survey focuses on the actions and perceptions of businesses across the world who responded to our questions. Each answer is weighted from 0 (untrue or not relevant to that company) up to 5 (true or relevant to that company). As you read on you will see that on occasions perception is not fully backed up by actions.

Asked if working capital was a major issue got a true score of 2.89 and this is reflected in the fact that these respondents usually have initiatives under way with a dedicated working capital team. This also reflects that more and more companies are not seeking outside help to solve their working capital problems and evidences that cost pressures continue while the demand for world class working capital performance is increasing.

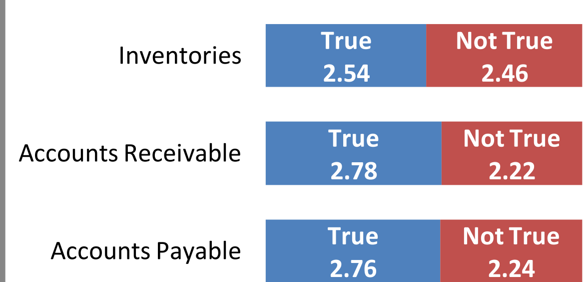
Respondents seem to agree that accounts receivable is the number one issue concerning working capital performance, with accounts payable only slightly behind as a priority. The surprise is that inventories is classed as a much lesser issue when for many companies inventory can make up the largest and most stubborn component of working capital.

The better news is that most respondents have made at least some progress in reducing working capital. The biggest area of success was accounts receivable followed closely by accounts payable and finally inventories. This is a good reflection of how most companies dealt with working capital issues. Accounts receivable is usually seen as the easiest to tackle in the short term and inventories the most difficult. Accounts payable tends to be the poor relation of working capital and tends only to receive focus once the easier actions have been completed and the comprehension is confirmed that inventory reduction will be difficult and slower than the other options on the table.

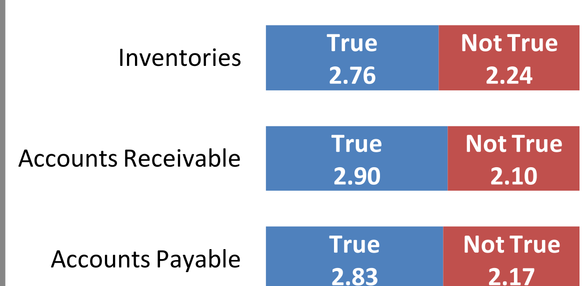
General Questions



Biggest Problem Area



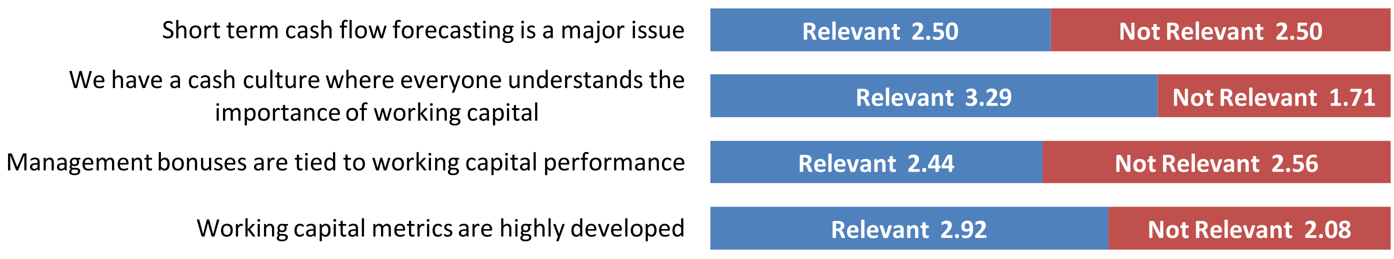
Areas of Success



Working Capital Issues

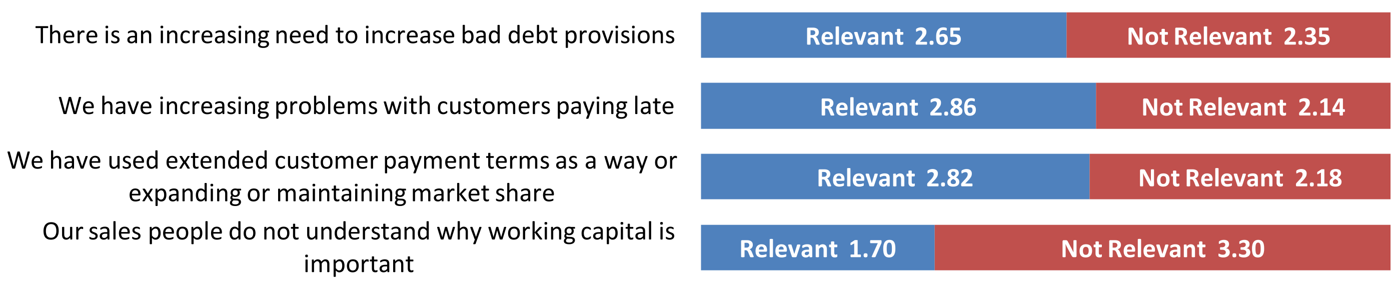
While it is good to see that many believe they have a cash culture and have highly developed working capital metrics, there are still only a minority of respondents who report that management bonuses are linked to working capital performance. The other surprise is

General Issues



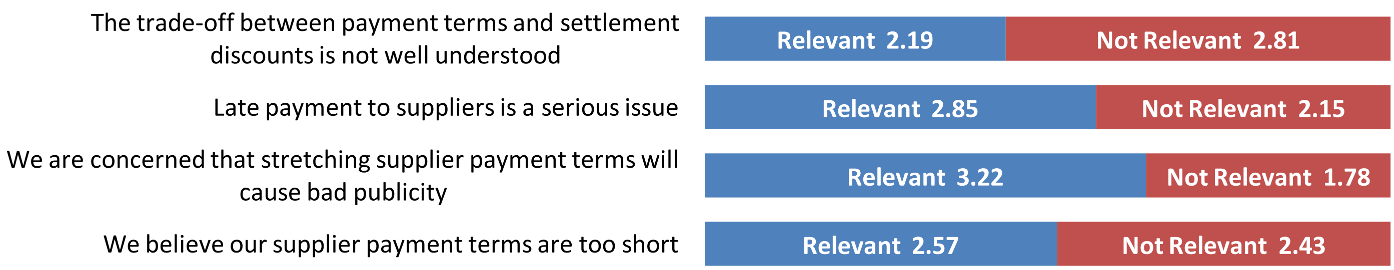
cash flow forecasting is low on the radar of working capital issues. While more and more sales people understand the significance of working capital, many companies are having increasing problems with late payment. There still seems to be many companies who are

Receivables Issues

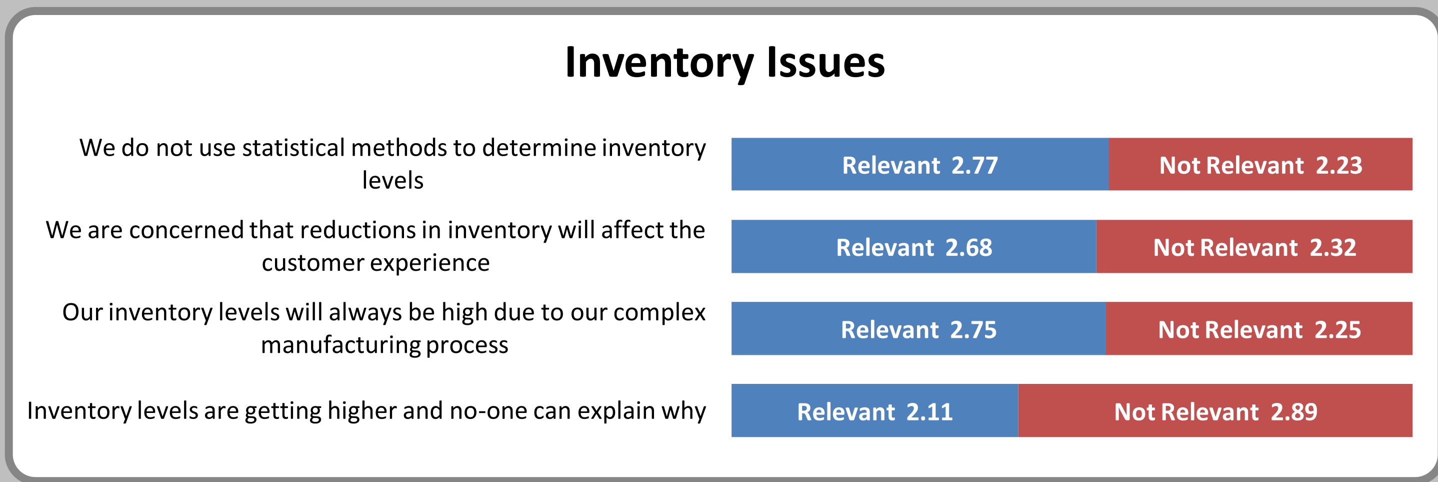


willing to use extended customer terms as a means of capturing business. This is a worry when at the same time respondents report that bad debt provisions are increasing. The two biggest payables issues are late payment to suppliers and the fear of bad publicity caused by stretching supplier payment terms. While many companies payment processes do have the effect of causing late payment, suppliers poor billing processes are equally to blame. There have been a number of companies in 2012 that have been seen to be too aggressive in their approach on supplier payment terms and this will damage any good brand. There was a mixed response on

Payables Issues



whether supplier payment terms were too short and managing trade-offs does not rank as a worrying issue for the majority of respondents. On the inventory side there are some concerning answers. Most respondents believe that the manufacturing process is a limiting factor on their ability to manage inventory levels and would be concerned that lower inventories could affect the service level delivered to the customer. At the same time the majority of respondents report that statistical methods are not used to manage stock levels. If you don't measure it effectively seems hard to believe that inventories are being optimised. At least most respondents seem to understand why their inventories may have increased.



Conclusion

Active working capital management is increasingly becoming a normal part of the usual corporate activity. While larger numbers of companies are reducing working capital, in many cases the quick wins have been realised and it has become harder to unlock the next stage of improvement. Some of the answers, especially in the inventory area, seem to indicate that companies may not always be aware of the potentials that exist in their own balance sheets.

About Informita

Informita was formed to act as an advisor to companies in the areas of working capital and procurement, focusing on Analytics, Implementation and Advisory. Informita is there to support your working capital and procurement programmes from cradle to grave in a cost efficient and effective manner. Our people have a mixture of deep industry and consulting experience across many sectors and geographies. This gives us the ability to bring insights across many industries and cultures.

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