Sound inventory management pivotal to companies' working capital needs

- While Days Sales Outstanding (DSO) increased by 2 days globally in 2017[1] on the back of accelerating GDP growth, companies' Working Capital Requirement (WCR) leveled off at 69 days, due to sound inventory management.
- WCR strongly declined in China (-10 days), Brazil (-11) and Russia (-15), as well as in most of countries throughout Eastern Europe and Africa and the Middle-East. In the meantime, WCR rose in two out of three countries in 2017: the US (+5 days), Germany (+7), Japan (+8), France (+3) and emerging markets of Asia (China and Singapore excl.).
- The rise in WCR (+5 days on average) comes either from a loosening of payment behavior or from a hike in inventories reflecting favorable expectations in customer orders in a context of higher economic growth.

PARIS – 23rd MAY In the wake of its annual review of companies' financials in 40 countries and 20 sectors worldwide, Euler Hermes published a first report on payment delays. Today, this sequel analyzes companies' working capital requirements (WCR): a financial metric whose components are accounts receivable[2], inventory[3] and account payable[4]. It gives the amount of financial resources needed by a company to ensure its production cycle and its repayments of both debts and operational expenses. It is calculated according to the following formula: WCR=DSO+DIO-DPO. A rise (drop) in WCR means less (more) financial resources for other objectives such as new product development, geographical expansion, acquisitions, modernization or debt reduction.
Indeed, WCR have levelled off globally at 69 days on average for the fifth consecutive year in 2017 in spite of rising Days Sales Outstanding (DSO) - 2 days in 2017: in a late recovery period, companies' ability to turn inventory into sales is pivotal to managing their working capital financing needs.

WCR increased throughout advanced economies and Asian markets

WCR increased in 2 out of 3 countries worldwide in 2017, across North America, Western Europe and in most of Asia's emerging markets. Almost all advanced economies faced a rise, notably the US (+5 days), Germany (+7), Japan (+8) and France (+3). The picture is the same in Asia: a rising WCR in 7 out of 9 countries. It comes partly from a relaxing in payment behavior, but more significantly from a surge in inventories (+5 days in average), notably in Scandinavian countries, Japan and South Korea
The four exceptions are countries where the drop in WCR resulted conversely in a sharp reduction in stock levels: Italy (-14 days in DIO), Belgium (-13), China (-11) and Singapore (-5) over last year.

WCR decreased across Eastern Europe and the Middle-East

Unlike most of the advanced economies, almost all countries across Eastern Europe, Africa/Middle East and Latin America registered a fall in their WCR in 2017. The critical factor has been a tumble in inventories (by -10 days on average over 2017): in emerging countries and throughout East European countries. It often comes from an ongoing optimization of the stock rotation i.e. greater supply chain efficiencies: companies have been catching up with their western competitors in the management of the manufacturing cycle. It is also due to adjustments in inventory value, notably in commodities-sensitive countries: companies across Africa and Middle East registered a sharp drop in WCR (-6 days in 2017) to 70 days.

[1] See our report on worldwide DSO released in May 2018 (Payment delays up 2 days globally: Don't lower your guard too early!)

[2] or DSO for Days Sales Outstanding
[3] or DIO for Days Inventory Outstanding
[4] or DPO for Days Payable Outstanding

All in all, more than 1 out of 2 sectors experienced an increase in working capital requirements

Overall, a little more than 1 out of 2 sectors experienced a rise in WCR in 2017, notably sectors whose operating cycle is more sensitive to inflation like in Technology, Metals, Construction and Electronics, all from an already high level, but also in Transport and Telecom from a lower level.
The few sectors recording a drop in WCR are those which already struggled with a very high level of WCR. However, they succeeded in lowering their WCR last year thanks to a better inventory management. This was the case for Aeronautics (-8 days to 129 days), Machinery (109) and Pharmaceuticals (96). On the other end of the spectrum, Services, Utilities, Retail and Transportation sectors still post a WCR lower than global average.

Euler Hermes Group
Jean-Baptiste Mounier +33 (0)1 84 11 51 14
jean-baptiste.mounier@eulerhermes.com

Footprint Consultants
Cécile Jacquet +33 (0)1 80 48 14 80
cjacquet@footprintconsultants.fr
Quentin Giudicelli +33 (0)1 80 48 14 80
qgiudicelli@footprintconsultants.fr

Euler Hermes is the global leader in trade credit insurance and a recognized specialist in the areas of bonding, guarantees and collections. With more than 100 years of experience, the company offers business-to-business (B2B) clients financial services to support cash and trade receivables management. Its proprietary intelligence network tracks and analyzes daily changes in corporate solvency among small, medium and multinational companies active in markets representing 92% of global GDP. Headquartered in Paris, the company is present in 52 countries with 6,050 employees. Euler Hermes is a subsidiary of Allianz, rated AA by Standard & Poor's. The company posted a consolidated turnover of €2.6 billion in 2017 and insured global business transactions for €894 billion in exposure at the end of 2017.
Further information: www.eulerhermes.com, LinkedIn or Twitter @eulerhermes.