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Singapore Working Capital Study 2017

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Singapore companies face pressing need to unlock cash to fund day-to-day operations and growth

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Singapore, 14 December 2017 – Against a backdrop of increasing interest rates and volatile economic environment, businesses in Singapore need to focus on improving their cash management to mitigate risks, fund their day-to-day operations and finance their growth plans.

Launched today, the 'Singapore Working Capital Study 2017' by PwC Singapore and SPRING Singapore finds that over the last three years, businesses in the city state saw an average 2.6% decrease in revenue year-on-year. There has also been a year-on-year increase of 3.5 net working capital (NWC) days(*3) over the past three years, reaching 41.5 NWC days in FY 2016.

Said Wee Tze Wee, Deals Strategy and Operations Partner, PwC Singapore:

"Working capital is akin to the lifeblood of a company. Optimising working capital is crucial as failure to manage it properly can have serious implications on the success of a business – from funding day-to-day operations to its ability to fund growth."

This year's results show that 50% of sectors saw their working capital performance deteriorate year-on-year (YoY). This performance was driven by an increase in the time taken to collect cash from sales (Days Sales Outstanding) and an inventory increase (Days Inventory Outstanding), partially off-set by an increase in the time to pay creditors (Days Payables Outstanding) that might not be sustainable in the long term.

Company size matters when managing working capital

Very large companies perform best with the highest ratio of working capital to sales at only 8%, followed by small companies at 14% and large companies at 15%(*2).

Medium-sized companies are the ones struggling the most in managing their working capital with the lowest ratio at 18%. Their cost for growth is higher, increasing their difficulty in accessing funding at favourable rates. They find themselves battling for cash while having little negotiating power. Inadequate proficiency in managing a growing business coupled with lagging tools and systems can also add to poor performance.

By the nature of their size, very large companies can leverage economies of scale and have easier access to capital at more attractive rates. Whereas, small companies tend to have less complicated operations, making working capital management more straightforward.

What makes a top performer?

In addition to the cash benefits of funding day-to-day operations, effective working capital management can help businesses improve business performance and revenue growth. Companies that have been able to achieve top quartile working capital performance have outperformed their peers across various key metrics.

Some top performers are clearly ahead with higher investment rates, getting paid 40% faster than bottom performers and holding four times less inventory. Top performers are better positioned for growth as they can self-finance part of their investments or secure funds more easily by displaying healthier financial reports.

Leading players 'stress test' their working capital process, striving to balance the trade-off between cash, cost and service. They measure compliance with terms, processes and policies with key performance indicators (KPIs) to monitor working capital; and they benefit from top management sponsorship and clear accountability for working capital management.

Based on the findings, one thing is clear – businesses in Singapore need to focus on cash management, specifically working capital. This is essential to better position themselves for funding and investments, and to allow them to create greater business value.

Ms Chew Mok Lee, Assistant Chief Executive, Capabilities and Partnership Group, SPRING Singapore:

"Cash flow management has consistently surfaced as a challenge in local SMEs and SMEs do need help in this area. With this joint benchmarking study with PwC Singapore, SMEs can now see how their working capital performance is against their industry peers, tackle shortcomings in their cash collection cycles and find ways to improve their financial health for sustainable growth."

Notes to editor*

1.The ‘Singapore Working Capital Study 2017’ is a joint report by PwC Singapore and SPRING Singapore. The study looked at over 1,000 public and private companies across 15 industries in Singapore, including Marine & Offshore businesses that were reviewed separately in the sector analysis in the third chapter of the report.

2.Company sizes refer to companies by revenue. The breakdown is as follows:

- small-sized companies: less than $10 million
- medium-sized companies: $10 million to $100 million
- large-sized companies: more than $100 million but less than $500 million
- very large-sized companies: more than $500 million

3. **Net Working Capital (NWC)** days measure the liquidity of a business and how long it takes to convert its working capital into revenue. The longer the cycle is, the longer a business is tying up capital in its working capital without earning a return on it. Therefore, companies strive to reduce their working capital cycle by collecting receivables quicker, improving their inventory management or sometimes stretching their accounts payable. This key performance indicator (KPI) should be considered in the context of the industry that the company operates in.

NWC days is calculated by taking sales (Days Sales Outstanding – DSO) and inventory (Days Inventory Outstanding – DIO), off-set by the time to pay creditors (Days Payables Outstanding –DPO).

Calculation of NWC days: NWC days = DSO + DIO - DPO

About SPRING Singapore

SPRING Singapore is an agency under the Ministry of Trade and Industry responsible for helping Singapore enterprises grow and building trust in Singapore products and services. As the enterprise development agency, SPRING works with partners to help enterprises in financing, capability and management development, technology and innovation, and access to markets. As the national standards and accreditation body, SPRING develops and promotes an internationally-recognised standards and quality assurance infrastructure. SPRING also oversees the safety of general consumer goods in Singapore.

SPRING will merge with IE Singapore to form Enterprise Singapore in Q2 2018. Enterprise Singapore will enable the growth of Singapore companies through an integrated support network to build business capabilities and access overseas markets. Please visit www.spring.gov.sg and www.facebook.com/sgspring for more information and news about SPRING Singapore.

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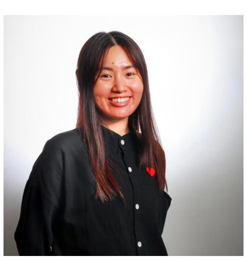

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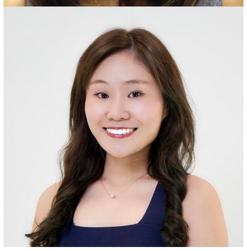

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