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Contact	Vu Thi Thu Nguyet Tel: (024) 3946 2246, Ext: 4690; Mobile: 0947 093 998 E-mail: vu.thi.thu.nguyet@pwc.com
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PwC: Consumer and retail firms feel pressure on working capital

Ho Chi Minh City, 22 November 2018 - *Local consumer and retail firms should leverage working capital elements for sales, profitability, and operating cash flow growth, experts from professional services firm PwC Vietnam said at a roundtable seminar in Ho Chi Minh City today. Around 50 guests attended the PwC-organised event, including C-level executives, board members and directors of consumer and retail companies in Vietnam.*

PwC Vietnam came up with an exhaustive study of working capital trends and insights for Vietnam in a report titled "**Cash for growth or growth for cash?**" released in late October this year. The report reveals some interesting trends, specifically in Order to Cash Management (Trade and Channel Management) and Forecast to Fulfil (Inventory management) for the consumer and retail sectors.

One of the biggest takeaways from the report was: Companies are not able to convert profits into cash but select industries are using working capital elements as levers to grow sales.

At the seminar, PwC Vietnam's Working Capital Management experts and other industry stalwarts discussed key insights from the report and provided a sector perspective with focus on trade, channel, distributor and sales management. The speakers also shared their views of how the landscape would evolve over the next 18-24 months.

A fast-growing sector of opportunity

As of 2017, Vietnam's consumer market value stood at US$120 billion, recording an annual growth rate of almost 10% over the period of 2012-2017, according to the "Vietnam Consumer and Retail report, Q1-2019" by BMI. The report also suggested that Vietnam would be one of the fastest-growing consumer markets in the emerging Asia Pacific region, along with Indonesia, India, the Philippines and China, with double-digit growth over the next five years until 2022.

This is on account of increasing private consumption on the back of the country's economic growth. Low level of unemployment and growth in minimum wages will further drive consumer spending.

Experts at PwC's event noted that apart from changing dynamics and macros, changing consumer preferences are reshaping how business is done in the consumer and retail industry every day. For instance, the high mobile and internet penetration rates are boosting e-commerce activities, as competition among e-commerce giants builds momentum. Regional sourcing and manufacturing of consumer goods are also becoming more common.

Why should consumer and retail companies focus on working capital management?

To respond to a volatile world and adapt to consumers who are becoming more digitally connected and disloyal, companies need to invest in growth, innovation and a solid foundation for the future.

Freeing up cash and better managing working capital have emerged not just as a recommended priority, but a necessity for companies. Yet the understanding of many companies is restricted to working capital being just a balance sheet item and source of cash blockage.

Recent brick-and-mortar retail chain collapses, such as those of Toys “R” Us, Sears, Rockport and many more have underlined the need for more rigorous management of customer risks, as well as payment flows. Better management of inventory days will also boost companies’ ability to adapt quickly to changing consumer demands.

“We have seen numerous examples, in the engagements we have done, of companies aspiring to expand at exponential pace and eventually running out of cash and struggling for survival. Topline growth coming at the expense of positive cash flows is a perfect recipe for non-sustenance of businesses,” said Johnathan Ooi, Deals Partner at PwC Vietnam.

Current performance of local companies

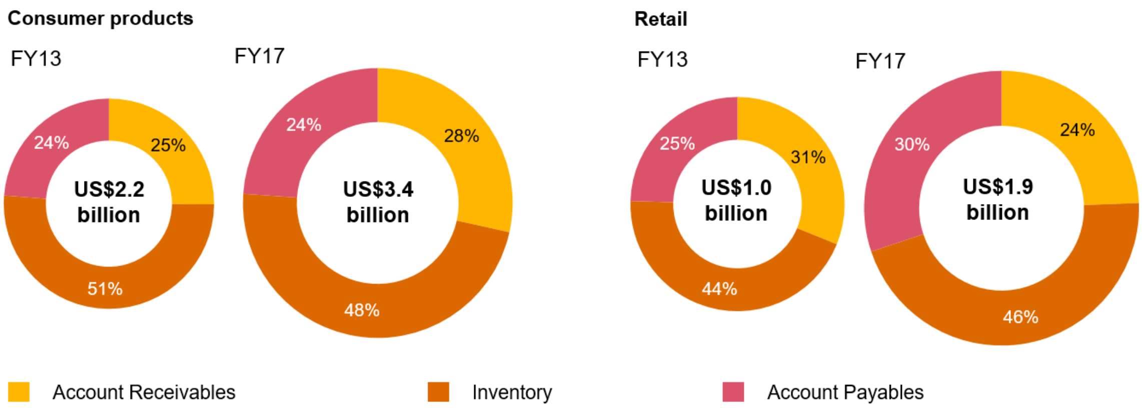
PwC’s experts highlighted three major trends observed in the working capital performance of local consumer and retail companies.

1. *US$5 billion trapped in working capital, contributed primarily by inventory*

As at the fiscal year 2017 (FY17), US$3.4 billion and US$1.9 billion were the total cash trapped in working capital for the largest companies within the consumer industry and retail sector, respectively. This amount has increased at 15% per annum on average. Of which, over 40% of the total working capital was contributed by inventory.

Working capital breakdown by elements, FY17

	Consumer products	Retail
CAGR FY13-17(%)	11.3%	17.0%



Source: PwC

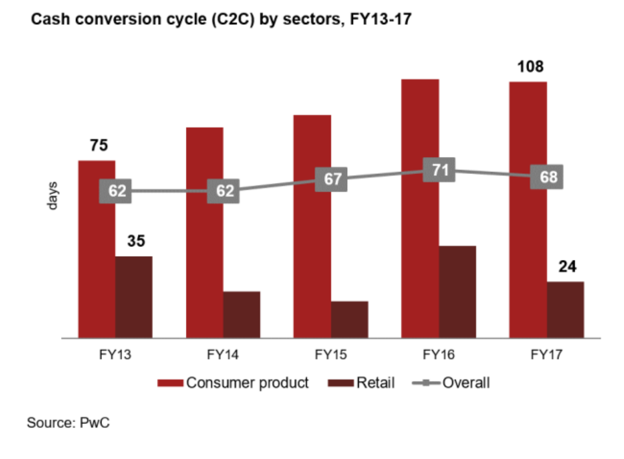
2. *Consumer products’ working capital continuously increasing, but retail managed to improve cash conversion*

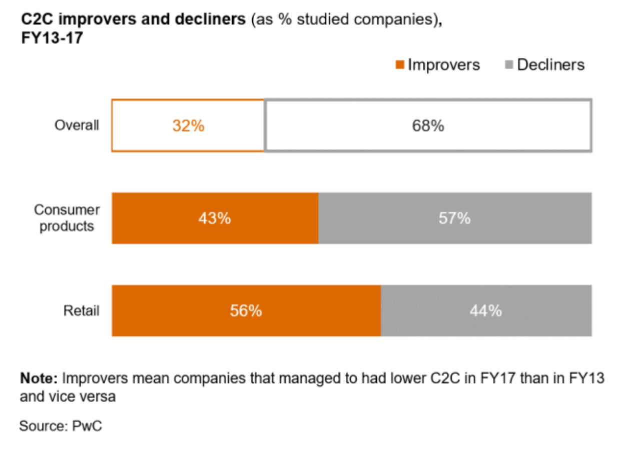
The working capital performance of a company is usually measured in cash conversion cycle (C2C) or the average number of days a company takes to convert resource inputs into cash flows.

In the consumer products industry, average C2C has lengthened by over 30 days in the last four years. This is mainly due to a lack of control over inventory and receivables cycles.

On the other hand, in the retail sector, C2C has shortened by 11 days from FY13 to FY17 thanks to major improvements in inventory management, while delaying payments with suppliers.

Furthermore, less than 50% of studied companies from consumer products were able to shorten their C2C, whereas the number of C2C improvers from retail came up to almost 60% of studied businesses for FY13-17.





3. Consumer products' C2C performance lagged behind most global regions, retail among the best in terms of working capital performance

C2C is usually calculated by adding Days Sales Outstanding (DSO), Days Inventory Outstanding (DIO) and netting Days Payable Outstanding (DPO).

As at FY17, the consumer products sector had the highest C2C in comparison to both regional and global peers. Consumer products companies lagged behind in managing their receivables and inventory as well as paid their suppliers earlier than their counterparts in other studied geographies.

In contrast, the retail sector actually had one of the shortest C2C among studied regions, only behind Australasia and USA & Canada for the same fiscal year.

C2C benchmarking, FY17

	Vietnam FY17	Asia	Europe	USA, Canada	Middle East	Latin America	Austral-asia	Africa
Overall	68	53	42	35	74	35	29	40
Consumer Products	108	53	34	29	56	25	47	57
Retail	24	30	18	26	35	24	10	26

Orange/Grey shading shows the lowest/highest C2C by sectors across studied regions

DSO/DIO/DPO benchmarking, FY17

Best among regions; 2nd best among regions; Median among regions; 2nd worst among regions; Worst among regions

	DSO		DIO		DPO	
	Vietnam FY17	Performance	Vietnam FY17	Performance	Vietnam FY17	Performance
Overall	44	Median among regions	68	Worst among regions	44	Worst among regions
Consumer Products	41	Worst among regions	98	Worst among regions	31	Worst among regions
Retail	15	Median among regions	34	Best among regions	25	Worst among regions

Source: PwC

The way forward

Management's focus on cash and its ownership and the effective management of working capital, can vary significantly. This partly reflects variations in commercial and industrial strategies deployed, with some businesses choosing to grow sales, increase investment and enhance service rather than improve their working capital performance; and it is also due to differences in the maturity of businesses and organisational processes.

However, to move forward, working capital management needs to be a strategic priority for companies, experts at PwC's event agreed.

"It is vital that companies in the consumer and retail sector make better use of working capital to become more agile in this changing world," said Mohammad Mudasser, Practice Lead, Working Capital Management of PwC Vietnam.

"In the face of rapid economic growth and low lending rates over the past few years, the credit crunch was not felt and capital was not difficult to come by. But will this continue? How long can organisations afford to grow at the expense of balance sheet deterioration? Companies need to manage their liquidity positions carefully to ensure they have enough cash flow to stay in business. For matured companies, working capital elements can be used as means to grow sales," Mudasser concluded./.

ENDS

Notes to editors:

Explore PwC Vietnam's report "Cash for growth or growth for cash?" at https://www.pwc.com/vn/cash-for-growth

About PwC's Working Capital Management services

PwC has a dedicated working capital team that can help our clients to identify the main drivers affecting working capital. We develop and implement tailored strategies with our clients to release cash tied up in working capital and generate sustainable benefits. Learn more about us at https://www.pwc.com/vn/en/services/deals/working-capital-management.html

About PwC

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About PwC Vietnam

PwC Vietnam established offices in Hanoi and HCMC in 1994. Our team of approximately 1,000 local and expatriate staff has a thorough understanding of the business environment in Vietnam and a wide knowledge of policies and procedures covering investment, tax, legal, accounting, and consulting matters. Moreover, we have established PwC Legal Vietnam, PwC Consulting Vietnam, and PwC Vietnam Cybersecurity to diversify the services that PwC offers.

We go the extra mile to help our clients achieve their objectives. With strong industry knowledge that our clients require at a local level, we offer integrated services, bringing a breadth of skills and depth of resources to our clients wherever they do business, throughout Asia and across the world. Visit our website for further information: www.pwc.com/vn.