

Report

# Working capital management 2009 - a survey of Nordic companies

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Prepared by Danske Bank and Ernst & Young

# Introduction

The financial crisis and the recession that took speed through the autumn of 2008 and continued into 2009 have brought focus to working capital management at companies all over the world. The liquidity of many companies is under increased pressure due to lower credit limits and rising interest rates. One explanation is the rapid decrease in demand and turnover from the B2C and the B2B markets, which has led to a steep build-up of stocks and the capital tied up in these stocks.

The management of a company's working capital significantly influences its profitability. In the short term, companies risk being short on liquidity if the working capital level deteriorates. In the long term, too much working capital lowers the return on investments and reduces the value of the company. In contrast, a reduction of the working capital can significantly improve cash flows and free up capital from a company's balance sheet. This capital can then be used to reduce debts, pay dividends to investors or reinvest in company growth.

In June 2008, Ernst & Young, in cooperation with Danske Bank, carried out a working capital management survey in Denmark. Based on the experiences from that survey, it was decided to make a similar survey in 2009 covering Denmark, Norway, Sweden and Finland.

The purpose of the 2009 survey was to investigate the status of Nordic companies' working capital management and to consider the challenges the companies encounter in this area. We wanted to gain insight into this field and to identify potential areas for optimisation of working capital management.

With this survey, we hope not only to enable Nordic companies to compare their own methods and processes concerning working capital with those of other Nordic companies, but also to make them aware of alternatives for optimisation of working capital management.

We highlight country-specific findings for the four countries in the text and summarise these findings in chapter 7.

Special thanks go to the 160 companies that took an active part in the survey, providing their answers, comments and insight.

Contact information regarding the report as well as country contacts can be found at the end of the report.



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Contact information Ernst & Young and Danske Bank

## Abbreviations

DSO	Days of sale outstanding
DPO	Days of payables outstanding
DIO	Days of stock outstanding
C2C	Cash-to-cash cycle (DSO+DIO-DPO)
WCM	Working Capital Management

### 3 Management summary and conclusions

The starting point of this survey was to investigate the status of Nordic companies' management of working capital and to identify the challenges the companies encounter in this area. We wanted to gain greater insight into this field and to identify potential areas for optimisation of working capital management in Denmark, Finland, Norway and Sweden. At the same time, we wanted to identify differences in attitude and behaviour among companies in the four countries and compare findings with a similar survey made in Denmark in 2008.

The focus on working capital management has increased significantly during autumn 2008 and into 2009 as the financial crisis has hit many companies hard. Sales have suddenly plunged in many industries, and as the adjustment of production capacity and volumes often takes time, stocks have increased dramatically. The short-term problems are the amount of capital tied up in stocks and getting the necessary liquidity in place. In the medium term, a lot of companies have switched their focus from growth to internal efficiency and cash flow management. This report shows the most important trends in how Nordic companies see this transition: the management challenges, decisions to be taken and areas for improvement.

What is good, what is best and how do we compare with peers? These are some of the questions often asked, and this report shows that many of the participating companies rate their own working capital management performance as about average – giving the impression that they are not benchmarking regularly. Still, a fair part of the companies rate themselves above average in focus and in creating results from their working capital efforts. More than 80% of the companies have planned initiatives to improve their working capital during the next 12 months.

There is a growing focus on optimising working capital, and three out of four companies responded that optimisation is included in their formulated targets and financial strategies. This is significantly more than in the Danish survey in 2008. The focus was also expressed when three out of four responded that they use a structured method for optimising working capital. Companies that use a structured method have generally seen a better development in working capital over the past two years than those that do not. The subject is high up on the agenda on company boards, and in finance and treasury departments, working capital is among the top three focus areas for 65% of all companies. Working capital results are part of the individual incentive structure for 63% of all companies.

Working capital is influenced by both internal and external factors. According to the respondents, the largest potential for improvement can be found within the optimisation of internal processes or improved compliance with already existing internal procedures. The logical explanation for this could be that this area has had low priority in times when expansion and growth strategies were dominant. Over the next three years, a large number of the companies expect to automate and streamline key processes within areas such as e-invoicing, both for their own invoices and for those received from suppliers, electronic approval of supplier invoices and electronic verification of supplier invoices based on order details and receipt of goods. We also see potential growth in

the share of automatic reconciliation in treasury systems, which enable more efficient reminder procedures. It is remarkable that up to 30% of all incoming payments are received after the due date. Prompt follow-up requires good data, a focused policy and continuous feed-back to late payers to improve the inflow of cash on the due date.

Payment terms, for suppliers and customers alike, have a considerable influence on working capital. A balance between the Days of Sale Outstanding and Days of Purchase Outstanding ratios will be a good target to reach for many companies, as they do not have this balance today and continuously need liquidity. The survey shows that companies place some focus on this area, but very often find it extremely difficult to implement changes. Many medium-sized companies have seen trading partners use their stronger negotiating position to dictate poorer terms.

Looking at the key processes within sales, purchasing and stocks, companies see great potential improvements during the coming three years. One example is reducing the percentage of invoices with errors, which tie up manpower, make invoicing less efficient and delay customer payments. On average, each company issues nearly 90 invoices per day that require manual handling due to errors. Three out of four believe this number can be reduced, and awareness is the first step in initiating the needed process improvements. Another example is that more than 90% see improvement possibilities in handling invoices from suppliers.

Looking at the differences between the countries, we conclude that the Norwegian companies focus slightly less on working capital and the measures to be taken. The Finnish companies have a more expedient approach, that is, faster delivery of goods, faster invoicing, shorter payment deadlines and faster follow-up on late payers. This is also reflected in the judgement of performance compared with peers, as a larger share of the Finnish companies see themselves as outperforming their peers. The most remarkable difference for the Danish companies is the fact that the responsibility for working capital management lies with the finance or treasury departments and not with management. This can pose challenges in achieving the proper focus and influences the probability of initiatives being successful. The Swedish companies seem to have more positive expectations of the potential improvements in working capital than the companies in the other countries. Despite these differences, the overall picture is that the Nordic countries are quite similar in their approach to and prioritisation of working capital.

The survey shows that working capital is a strong focus area for the participating companies – and this focus will lead to improvements in many processes in the years to come. However, the survey also shows that in practice, many companies find it difficult to turn good intentions into action. Good working capital management can free up significant liquidity, but it also requires constant attention to avoid falling back into old routines – which increases the amount of capital tied up. So it is important that new work processes are firmly implemented in the company.

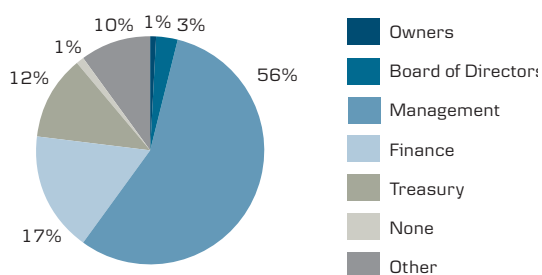
## 4 Working capital management in general

This chapter focuses on how the participating companies manage working capital at a general level. We look at the allocation of responsibility for working capital management, the attention paid to working capital management in the company, the extent to which working capital management is included in reporting and performance-based remuneration, and how the companies rate their own efforts to optimise working capital.

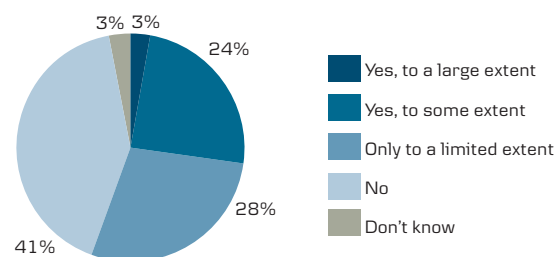
### 4.1 Allocating responsibility for working capital management

Around 56% of the companies answered that responsibility lies with the management and 29% that it lies with the finance or treasury department. In Denmark, the picture was the opposite, as 62% replied that the responsibility lies with treasury or finance departments and only 35% with the management. Challenges concerning support and focus seem to be less pronounced when the responsibility for working capital management lies with the management.

Entity primarily responsible for working capital management



Does allocation of responsibility give rise to support and focus challenges?



The analysis confirms the view that the responsibility for working capital management should lie with senior management in the company to enhance the possibility of influencing processes throughout the organisation, for example, at purchasing and sales.

### 4.2 Focus on working capital management

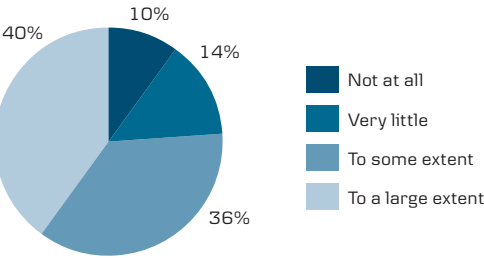
The optimisation of working capital is an important focus area for the companies.

Around 81% are planning initiatives to optimise working capital within the next 12 months, even companies at which working capital is not at the top of the agenda.

Concerning the extent of focus, 76% of the respondents answered that this area is included to some or a large extent in the company's formulated targets and financial strategies, while only 10% replied that this is not the case.

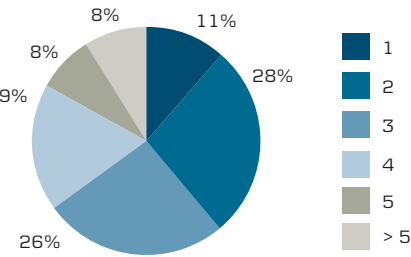
In Norway, 32% of respondents do not focus on working capital or do so to a limited extent only. There may be several reasons for this. One may be that Norwegian companies in general have not suffered as much from the economic downturn as the companies in the other countries and have therefore been slower to launch measures such as cost reductions, cutbacks and efficiency improvements.

**To which extent is working capital optimisation included in targets and financial strategies?**



The fact that 64% of the CFOs rate working capital management among the top three priorities indicates very strong focus within the finance and treasury departments.

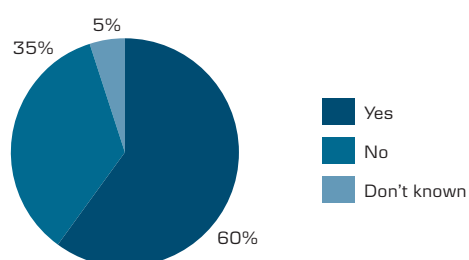
**How high on the agenda of the CFO is optimisation of working capital? (1 equals top priority)**



The greater focus on working capital management is also reflected in the responses, as 60% of the companies said that they use a structured method for optimising working capital, indicating that they are starting to turn their good intentions into operational plans and structured approaches. Norwegian and Finnish companies seem to be ahead in terms of the percentage using a structured approach to working capital management.

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**Do you work according to a structured method to optimise working capital?**

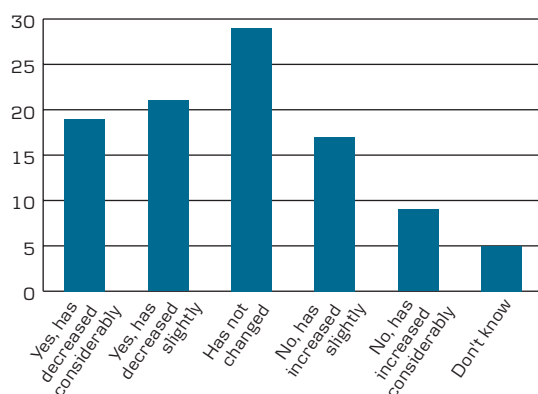


Not surprisingly, when comparing the answers in the two charts above, we see a tendency for companies that have optimisation of working capital as one of their targets to be more inclined to use a structured approach.

If we look at developments in working capital during the past two years, we see that 40% of the companies have experienced improvements (a decrease in working capital), while 29% are at the same level and 26% have seen their working capital position deteriorate. The main drivers behind improvements are redesign and optimisation of internal processes as well as compliance with existing procedures. Growth in stocks and pressure from customers (requests for changes to payment terms, late or lacking payment, etc.) are the main drivers behind deteriorating working capital performance. It is interesting to observe that, despite the financial situation in early 2009, we see a positive correlation between achieving improvements and using a structured method.

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**Has the company's working capital been reduced during the past two years?**



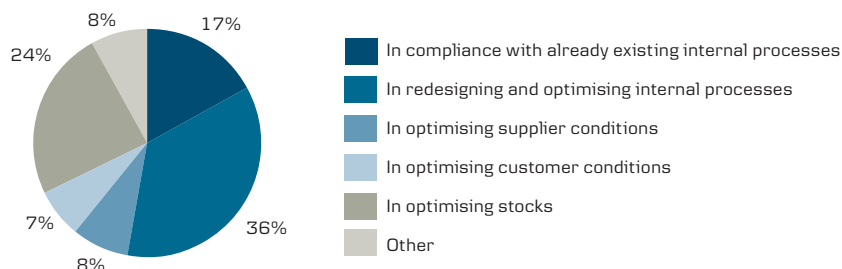


When asked where they think the greatest potential lies, 36% responded that it is in redesigning and optimising internal processes, and 17% see great potential in increasing compliance with existing procedures. These two internal focus areas add up to 53%. So there is considerable potential for optimisation if realisation is in the company's own hands and does not depend on negotiations with external parties. As we will see later, a large number of companies have plans for improving their internal procedures over the next three years.

The reason why companies focus so much on stocks is probably that many have seen their turnover decrease but have not yet adjusted the supply chain, production and planning. And as stocks are the only buffer, they are building up rapidly.

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**Where do you think the greatest potential improvements lie in relation to working capital management?**




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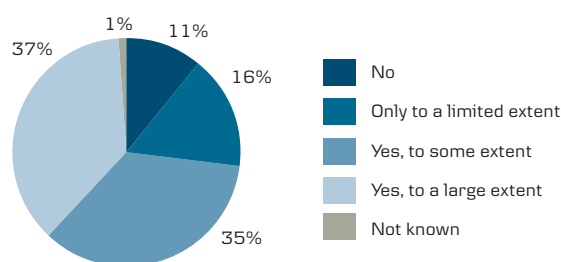
In many situations, it is easier for a company to optimise its internal processes than to improve external payment terms determined by both the company's negotiating power and local customs.

#### **4.3 Reporting and incentive structure based on working capital management**

Another way to measure the focus on working capital management is by looking at management reporting. Most of the companies (72%) responded that communicating key data and figures for working capital is included in a structured way in management reporting and follow-up to some or a great extent, while 11% said that there is no inclusion in the regular reporting. The limited focus on working capital management in Norway is also evident here, as 34% of the Norwegian companies do not, or only to a very limited extent, report on working capital performance.

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**Is communication of key data and figures for working capital management included in management reporting (management meetings, accounting meetings etc.)?**

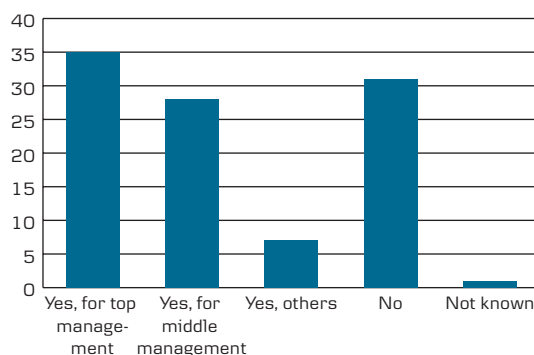



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If we look at whether working capital management is included in individual goals or performance-based remuneration of management and employees, we see a picture closely resembling the one above. Some 63% responded that this is the case, either for top management, middle management or others, while 31% replied that it never happens. Around 35% of top managements have individual goals and/or performance-based remuneration related to their working capital performance, which corresponds closely to the allocation of responsibility. Our experience shows that successful optimisation and sustained improvements require continuous attention from managers and employees alike. Measurement and performance-based remuneration can be effective tools to achieve this.

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**Is working capital management included as part of individual goals and/or remuneration for the company's management and employees?**



When comparing the two questions above to the question of whether optimisation of working capital is included in the company's formulated targets and financial strategies, we see a positive correlation. Companies that have working capital management as part of their targets use working capital key data and figures in management reporting and follow-up and as the basis for KPIs for and performance-based remuneration of employees to a larger extent than companies that do not have the same focus.

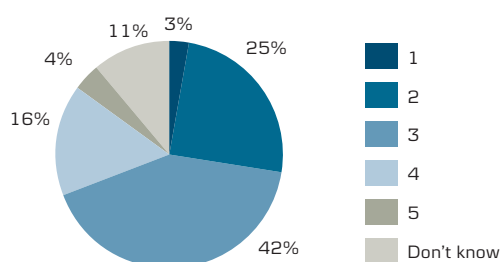
There is also a tendency for respondents whose top management's remuneration depends in part on working capital performance to manage working capital in a much more structured way.

#### 4.4 Working capital management performance

The charts below show that the majority of the companies consider their performance in relation to working capital management to be above or at the average in terms of utilisation of their optimisation potential.

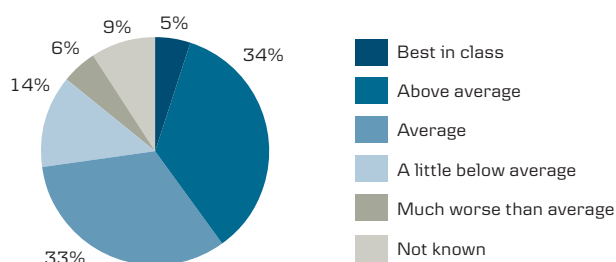
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**On a scale from 1-5, where 5 is the best, rate your company, in relation to the best utilisation of the company's potential for optimising working capital**




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**Rate your company's performance within working management compared with peers**



These charts illustrate the companies' perception of how they exploit their potential in general and in comparison with peers. As the two charts illustrate, the majority of the companies rate their performance as about average, regardless of which of the two reference points is used.

It is clear that the more working capital management is included in targets and financial strategies, the better the results. Around 86% of companies with strong focus on working capital rate themselves between 1 and 3 on working capital performance. The weaker the focus, the lower their own rating. Weaker focus also correlates with an increasing degree of "not known".

The large number of companies that rate themselves as average may indicate that the companies do not measure their effectiveness with respect to working capital management and do not regularly perform benchmarking in this area.

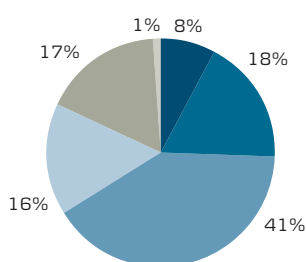
The Finnish companies rated themselves better than the respondents from the other countries. Some 64% of Finnish respondents put themselves either in the above average section or as best in class.

## 5 Working capital management key figures

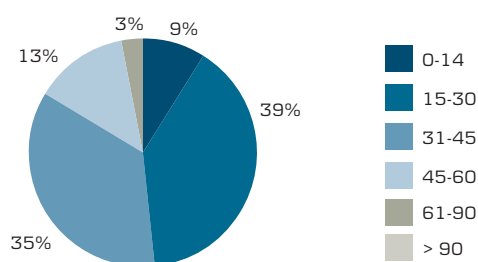
The purpose of this chapter is to investigate how the participating companies perform within a set of key figures for working capital: Days of Sales Outstanding (DSO), Days of Payables Outstanding (DPO), Days of Stock Outstanding (DIO) and Cash-to-Cash cycle (C2C).

The figures below show that around half (59%) of the companies have a DSO of 15–45 days, while the remainder are distributed above and below this range. This picture is consistent with the average payment deadlines in the Nordic region of around 30 days. A higher share of foreign trade – especially trade with countries in Southern Europe or outside Europe, raises the DSO and DPO, as there is a general tendency for longer payment deadlines in those regions.

How many days is your estimated DSO?



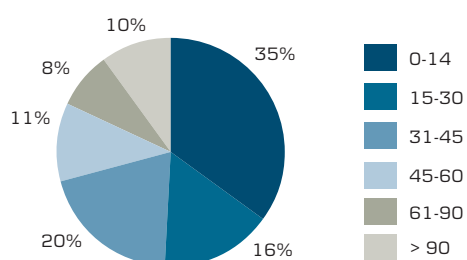
How many days is your estimated DPO?



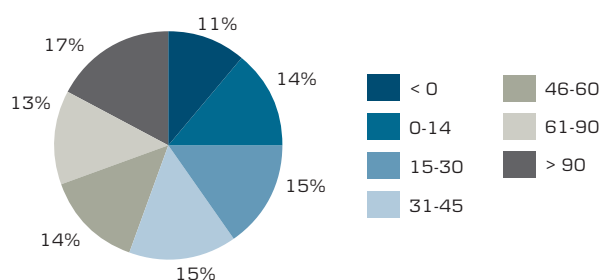
The equivalent for DPO shows that 74% have a DPO of 15–45 days. Here, however, close to half (48%) of the companies have a DPO of 30 days or less, while only 3% have a DPO of more than 61 days. We should also mention that DPO in this survey is calculated based on turnover and not on the cost of goods sold and investments. This may lead to certain inaccuracies when comparing data. For example, service companies typically get a relatively lower DPO this way, as the cost of goods sold in these companies is often lower than in other companies. Conversely, they would have a higher DPO if the key figure was calculated on the basis of the cost of goods sold. We also observed that a company's DSO and DPO typically depend on which market it operates in.

Stocks, on the other hand, see a relatively large spread with responses evenly distributed over the different intervals. This is because DIO, in contrast to DSO and DPO, does not depend on country-specific practices to the same extent. The companies' different industries and business models result in highly varied DIO figures. Compared with the Danish survey in 2008, we see a trend towards reduced DIO. The focus on working capital and the increased cost of capital may be part of the explanation. In this survey, it is clear that Finnish companies have cut the capital tied up in stocks the most.

How many days do you estimate your DIO is?



C2C, calculated on the basis of DSO, DPO and DIO



$DSO = (\text{outstanding payments from sales} / \text{sales in the period}) * \text{number of days in the period}$

$DPO = (\text{Supplier debt} / \text{sales in the period}) * \text{number of days in the period}$

$DIO = (\text{Stocks} / \text{sales in the period}) * \text{number of days in the period}$

$\text{Cash-to-Cash cycle} = DSO + DIO - DPO$

If we look at the net effect of the total working capital, that is, the cash-to-cash cycle (C2C), responses also vary considerably, but are evenly distributed in the various categories. Around 11% of the respondents have a negative C2C, enabling them to use working capital as a funding source. At the opposite end of the scale, 17% has more than 90 days of turnover tied up in working capital. The extreme points of the C2C show a spread from -17 to +175. The large differences are again the result of differences in industries and business models.

#### Example:

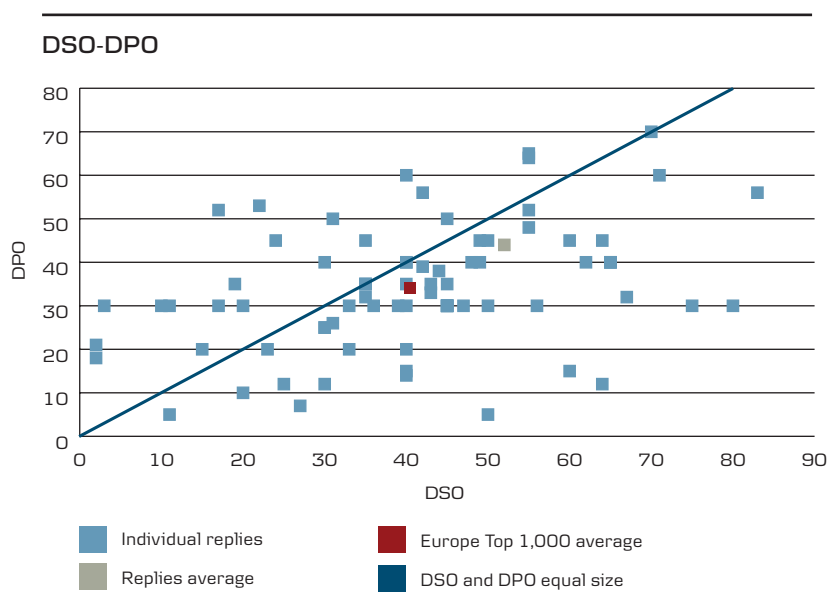
By how many days must I improve my company's C2C in order to free up the same amount of liquidity as the effect of one year's operations?

By reducing its C2C by 25 days, a company that has a profit margin of 7% can generate the same liquidity as is generated in a year through operations.

## 5.1 DSO-DPO ratio

The levels of supplier debt and outstanding payments from customers to a certain extent depend on culture-defined payment deadlines. However, while payment deadlines can explain the credit periods for amounts outstanding and amounts due, they cannot explain the difference between the two. As long as debtors and creditors are local, DSO and DPO figures should co-vary. The relationship between a company's DSO and DPO indicates the company's ability to collect money from its debtors faster than it pays its creditors.

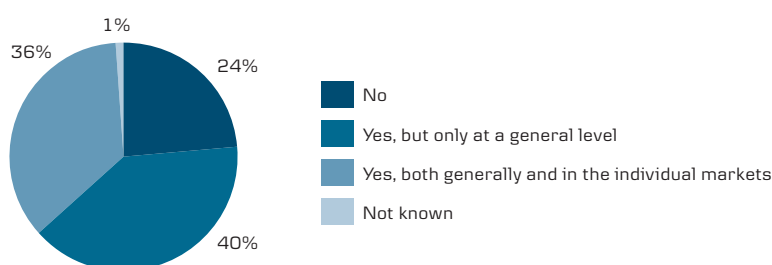
Of the participating companies, 26% have a DPO that is higher than the DSO. In contrast, 8% have a DSO of as much as 30-60 days more than the DPO. This ratio is illustrated in the figure below where the majority of the companies are below the line and thus have a DSO that exceeds the DPO. The average DSO-DPO ratio for the participating companies is also shown and, as can be seen, this is similar to the average for the 1,000 largest European companies.



To the question of whether the companies work actively with the ratio between DSO and DPO, 76% responded that they do, either generally or in individual markets.

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**Does your company work actively with the relationship between DSO and DPO?**



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If we compare this with the actual ratio between DSO and DPO, there is no indication that companies that work actively with this ratio also perform better. This could indicate that it is difficult for companies to get results from their balancing efforts.

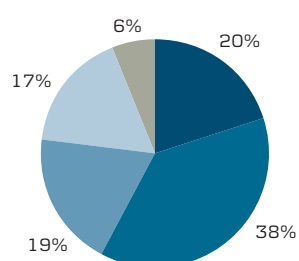
## **5.2 Optimising DSO, DPO and DIO**

The companies were asked whether and to what extent they had introduced policies and business procedures to optimise DSO, DPO and DIO, and whether these policies and business procedures are complied with. For all three parameters, there was a high level of correlation between the responses to the two questions. The greater the extent to which such policies and business procedures exist and are set out in writing, the greater the compliance.

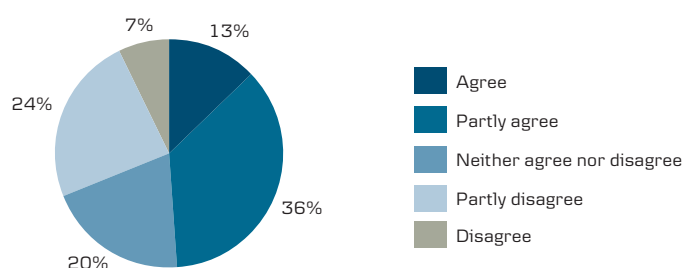
It can also generally be said that for all three areas, the degree of policies and business procedures is more or less the same. Still, around 30–35% of the companies reply that policies and business procedures are inadequate or are not complied with.



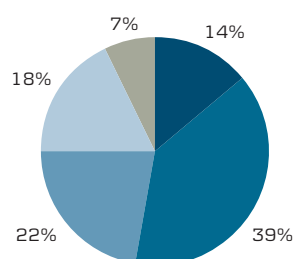
**My company has adequate policies and business procedures for DSO**



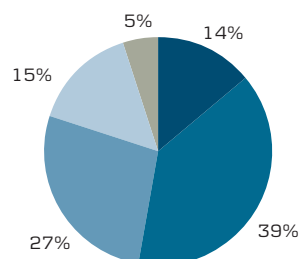
**Policies and business procedures concerning DSO are complied with**



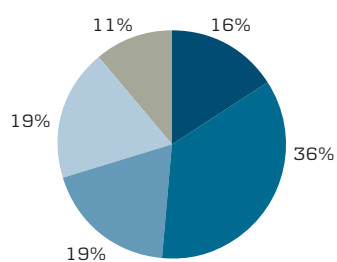
**My company has adequate policies and business procedures for DPO**



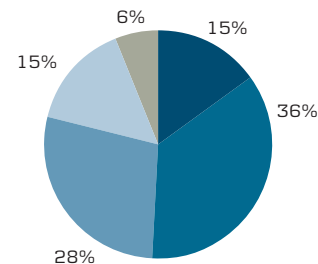
**Policies and business procedures concerning DPO are complied with**



**My company has adequate <sup>a</sup>policies and business procedures for DIO**



**Policies and business procedures concerning DIO are complied with**



## 6 Central processes

As mentioned in chapter 4.2, most of the participating companies believe that the best way to improve working capital is to optimise internal processes. In this chapter, we look more specifically at these processes and the companies' near-future focus areas.

The chapter is divided into three sections, which describe in more detail how the companies work with debtors, creditors and stocks. In each of these sections, we first clarify some general factors, then we turn our attention to the tools used today and to those the companies expect to use in three years' time.

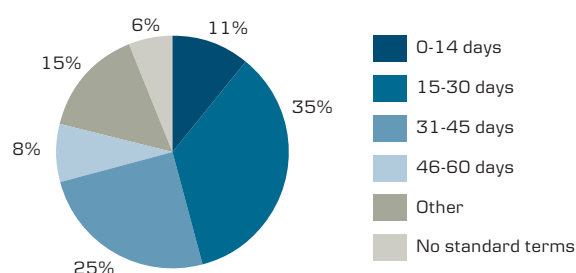
In the present situation, many companies initiate improvements with a fast success rate (quick wins) to free tied-up capital. Initiatives in three years' time will aim at more long-term improvements and increases in efficiency.

### 6.1 Debtors

About 60% of the respondents replied that their standard terms of payment are 15-45 days (invoice date to due date). This corresponds to the responses for estimated DSO (see chapter 5), where approximately half the respondents (58%) replied that they estimate their DSO at between 15-45 days, except that you would expect DSO to actually exceed the standard terms of payment because of overdue debts.

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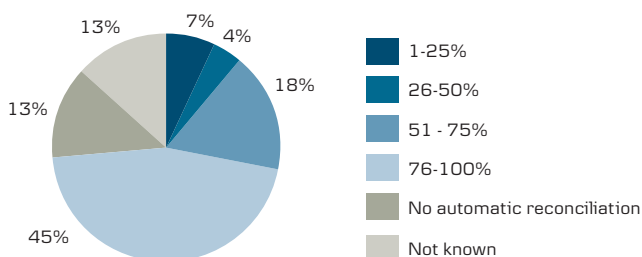
**What are your standard terms of payment for customers?**



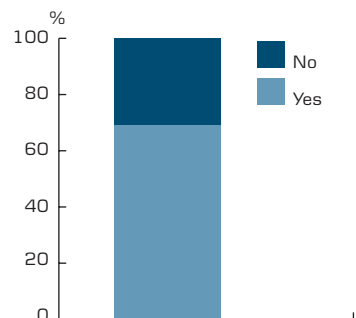
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Looking at automatic reconciliation of incoming payments, the responses show that around 45% have a high level of automatic reconciliation and 13% do not use reconciliation at all. A third of the Danish companies do not use automatic reconciliation. The reconciliation process is critical for fast initiation of reminder procedures. We conclude that there is a potential for improvement in this area. Two thirds of the participating companies have taken initiatives to lift the percentage of automatic reconciliation.

**How many percent of customer payments are received and reconciled automatically in your bookkeeping system?**



**Have you taken steps to improve automatic reconciliation?**

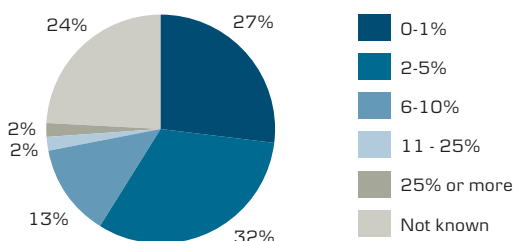


### 6.1.1 Invoicing

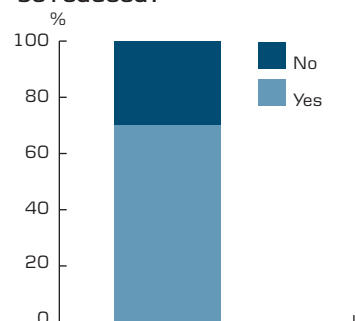
With regard to the time from delivery of goods or services to invoicing, 37% replied that invoicing takes place on the same day (in Finland, the percentage was above 50), 31% said within one week, and 11% replied that it takes more than seven days.

Some 45% of the companies state that 2-10% of the invoices require individual handling owing to errors in either the invoice or the basis for the invoice. This seems a high number, and coupled with the fact that 24% of the companies responded that they did not know this number, it indicates limited focus on this area. In addition, 70% of the respondents believe that the error percentage can be reduced.

**State the percentage of invoices that require individual handling owing to error**



**Can the error percentage be reduced?**



There is a clear correlation between the figures above. By far the majority of those that responded either above 6% or “not known” regarding the percentage requiring individual handling believe that the percentage can be lowered (86% and 96%, respectively), whereas only 29% of those who replied “0-1%” believe so.

However, there does not appear to be any correlation between the number of invoices that require individual handling and the annual number of invoices. This is noteworthy, as the companies with the largest number of invoices would benefit the most from a lower percentage of invoices needing individual handling.

**Example:**

How many invoices are handled individually per day, owing to errors?

The average error percentage among the participating companies is 4.1%. The average annual number of invoices is 550,000.

Consequently, the companies handle an average of around 90 invoices individually per working day owing to errors.

### 6.1.2 Reminder procedure

Some 70% of the respondents' customers pay on the due date or before, which leaves 30% to be late. Of these, 18% pay within the first week after the due date, while 12% pay later than that. Experience shows that customers paying within the first week can be persuaded to pay on the due date, whereas debtors who pay later may be unable to pay or disagree about the underlying delivery or service.

**Example:**

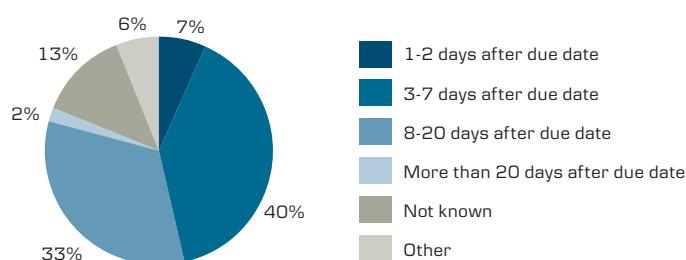
If your turnover is EUR 1,000m (including VAT) you can free EUR 350.000 in tied-up capital if you can persuade the behaviourally late payers (the 18% payments received within the first week) to pay on the due date.

With regard to the companies' reminder procedures, only 7% responded that they start the reminder procedures 1-2 days after the due date, 40% answered “3-7 days after due date”, while 33% responded “8-20 days after due date”. It is notable that 1 out of 8 respondents does not know when the reminder procedure is initiated.

When asked about the percentage of the total incoming payments that are not received until one or more reminders have been sent, 22% responded “0 or 1%”, 41% responded “2-5%”, while 37% answered “6% or above”.

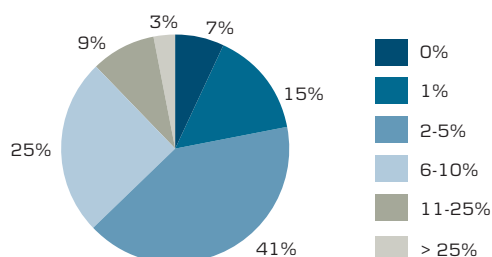
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#### When do you start reminder procedures?



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#### State the percentage of payments received only after one or more reminders have been sent



The responses to these two questions do not show that companies with a large proportion of customers who do not pay until they have received one or more reminders generally start their reminder procedure earlier. This is noteworthy, as these companies would benefit the most from fast and effective reminder procedures.

In order to bring down the number of late payments, it is important to analyse thoroughly the reason for sending out reminders. In many cases, late payments may be due to ineffective internal processes. Late payment may be due to an error in an invoice or an error in the delivery, for instance. If a company improves these processes, it will not only save time spent handling errors, but also achieve a positive liquidity effect in the form of more prompt payments.

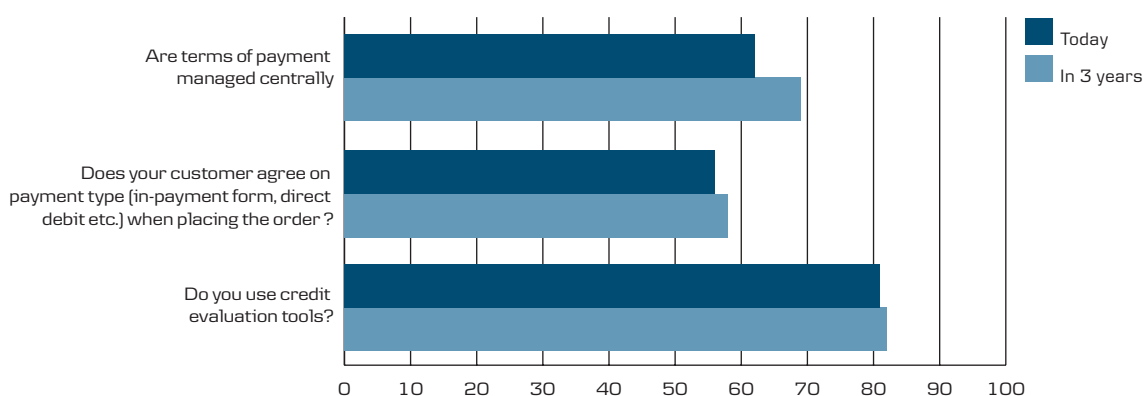
### 6.1.3 Debtor processes, now and in three years' time

Today, 55–65% of the companies manage payment terms, including payment type, centrally. More than 80% use credit evaluation tools, significantly more than in the Danish survey in 2008 (60%). We see this as a logic development in step with the increasing credit risk.

Order handling generally is not an area in which the companies expect significant changes during the next three years, however.

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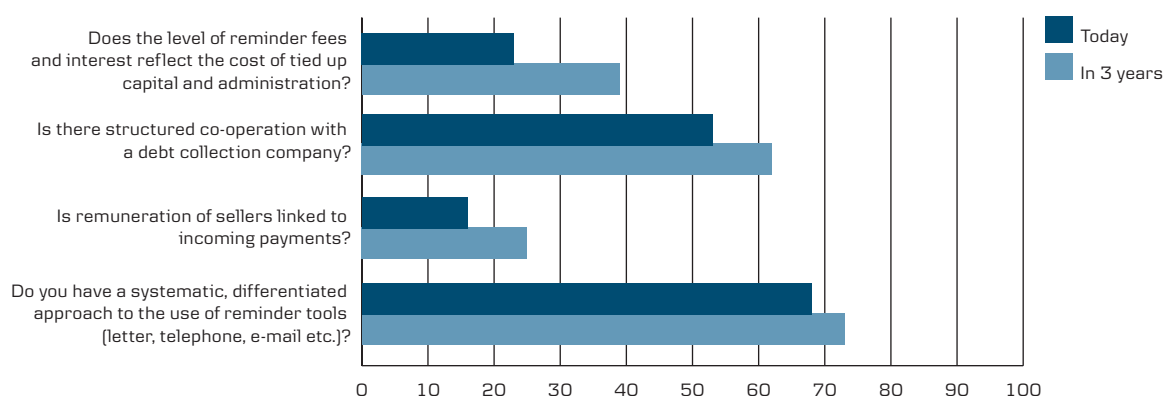
#### Handling orders



With regard to reminders and debt collection, the next three years will see stronger focus on the level of reminder fees to match the cost of tied-up capital and administration. A very limited number of companies remunerate sellers based on the level of incoming payments. The number will increase, but still only one fourth will consider implementing this tool.

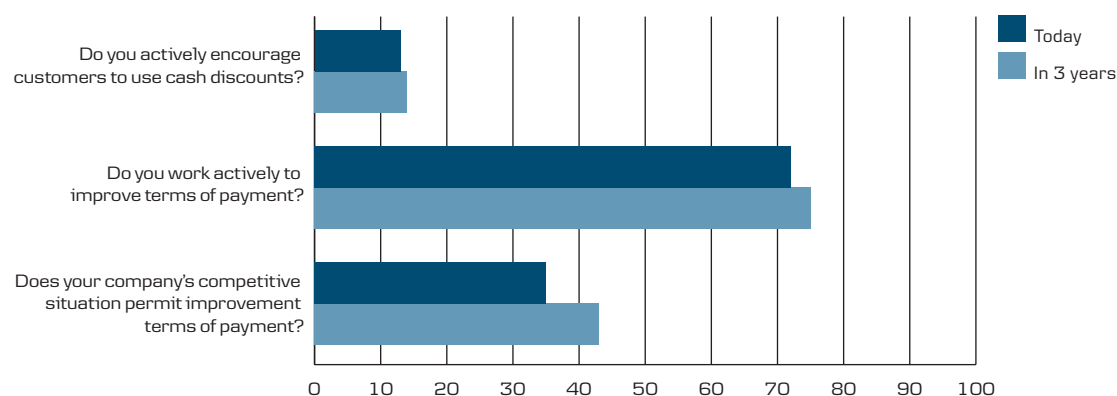
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#### Reminders and debt collection



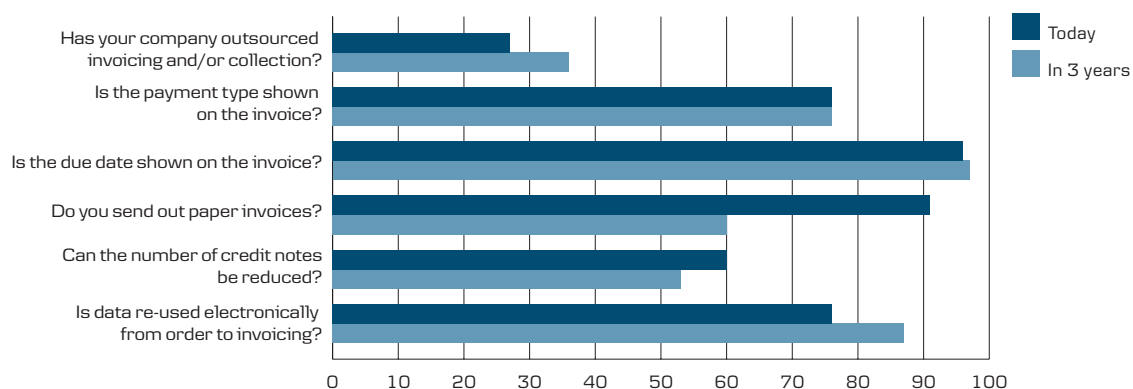
The strong focus on payment terms appears to be nearly constant over the next three years. In practice, strong focus may be required just to maintain current terms.

### Policies



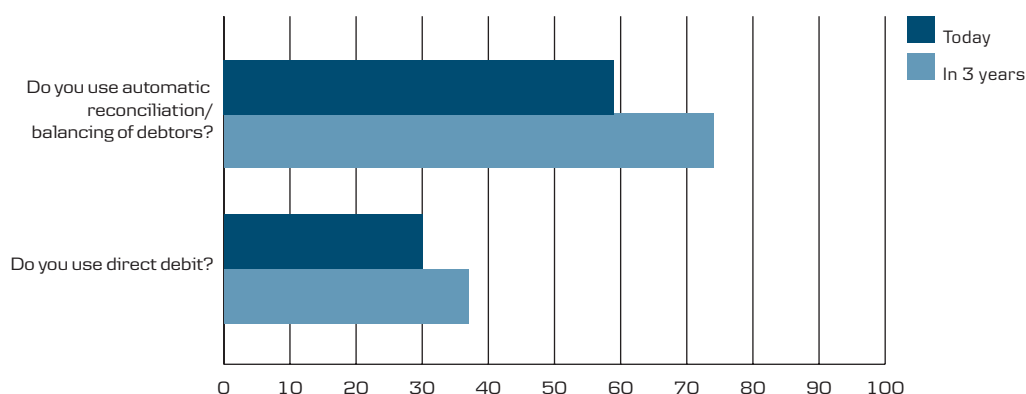
The companies expect the outsourcing of invoicing and collection to increase over the next three years – from a low level – and the use of paper invoices to fall dramatically. Electronic reuse of data is already extensive, but is expected to increase to 87%.

### Invoicing



The responses show that the companies expect a 15% increase in the use of automatic debtor reconciliation. The use of direct debit solutions varies among the countries with Danish and Swedish companies at a relatively high level. Finnish companies expect to double the use of direct debit solutions over the next three years.

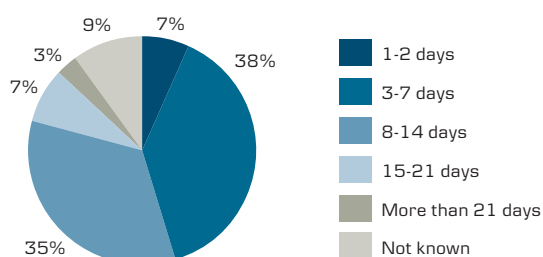
#### Incoming payments



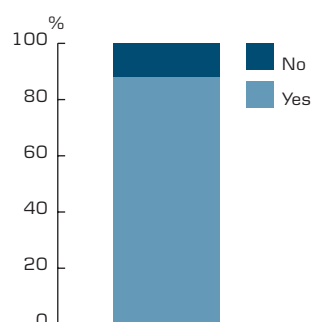
## 6.2 Creditors

Around 45% of the companies approve creditor invoices for payment within 7 days and 43% within 8-21 days. Some 88% think that this figure can be improved. There is a relatively large spread in the number of days. A comparison of the answers to these two questions shows a clear correlation between the companies that approve invoices within 3-7 days and the companies that believe that the process can be improved. The respondents are thus rather ambitious on this point.

#### How long does it take to approve an invoice for payment?



#### Do you think you can improve the process for handling supplier invoices?

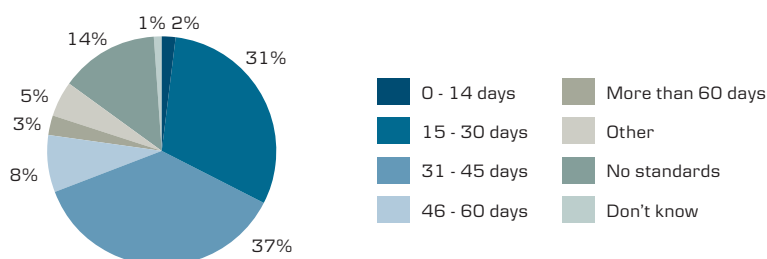




Around 68% of the respondents replied that their standard terms of payment for purchasing agreements are 15–45 days (invoice date to due date). This corresponds well with the replies for estimated DPO (see chapter 5), where approximately 74% replied that they estimate their DPO at between 15–45 days. There is thus generally good correlation between the DPO and the standard terms of payment of suppliers.

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#### What are your standard terms of payment for purchases?



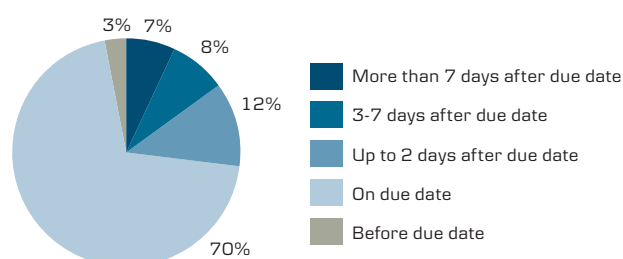
When asked which date is used as the payment date, 62% replied that they use the “Due date according to the invoice”, 16% replied “Standard creditor terms, according to the bookkeeping system regardless of contractual terms” and only 14% replied “Contractual terms of payment (regardless of the due date on the invoice)”. If the payment date is not based on contractual terms, the company risks making early payments.

Our experience shows that many companies do not fully exploit the credit time they have agreed with their suppliers. Early payment is due to anything from incorrect entering of the agreed payment conditions in the company's bookkeeping system to “convenience” in the finance department, because it fits with a periodical payment run. It is thus possible to free liquidity by fully exploiting the agreed credit time, with no need for renegotiation with creditors.

The figure below shows that approximately one fourth of the companies pay supplier invoices after the due date. This portion seems very low compared with general developments and the increased use of grace days.

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**When do you pay invoices from suppliers?**  
Average response

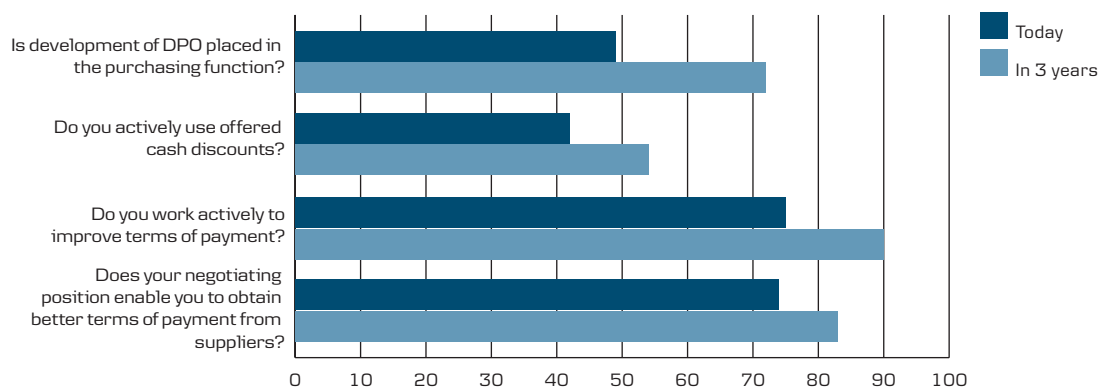


### 6.2.1 Creditor processes, now and in three years' time

A high percentage [74%] of the companies believe that they can improve the terms of payment, a percentage that grows to 83% in three years' time. The percentage of respondents that work actively with this will increase from 75% today to 90% in three years' time. Our experience shows that it is important for terms of payment to be included in the general negotiations with suppliers and not be treated separately, as the terms of payment must be considered together with prices and other conditions.

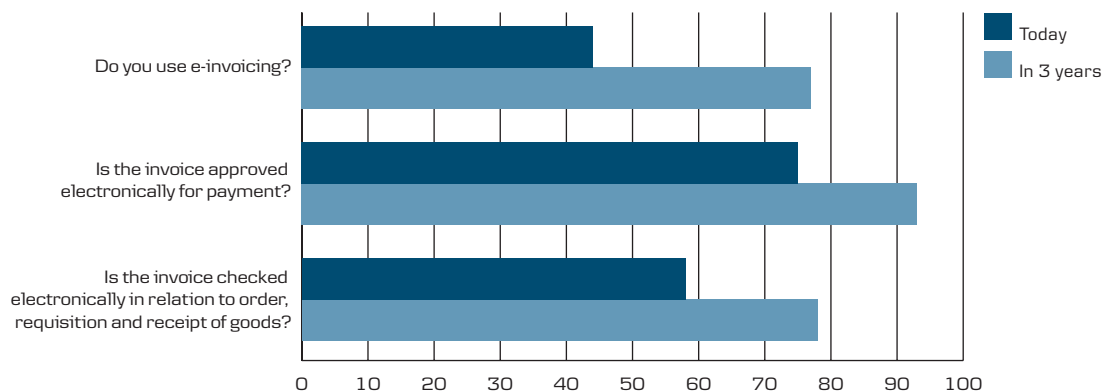
We also see a steep increase, from 49% today to 72% in three years' time, in the percentage of companies, at which the responsibility for DPO lies with the purchasing function. We also see that while some 42% responded that they work actively with cash discounts today, more than 54% expect to do so in three years' time. The use of cash discounts presumes effective handling of supplier invoices which, as mentioned, is an area in which the majority of the participating companies would like to improve. Where possible, it should be considered to convert cash discounts into other discount types that will benefit both cash flows and price. A cash discount of 5% in exchange for 30 days early payment usually does not indicate the cost of capital of the supplier, but rather a willingness to offer a discount.

## Policies



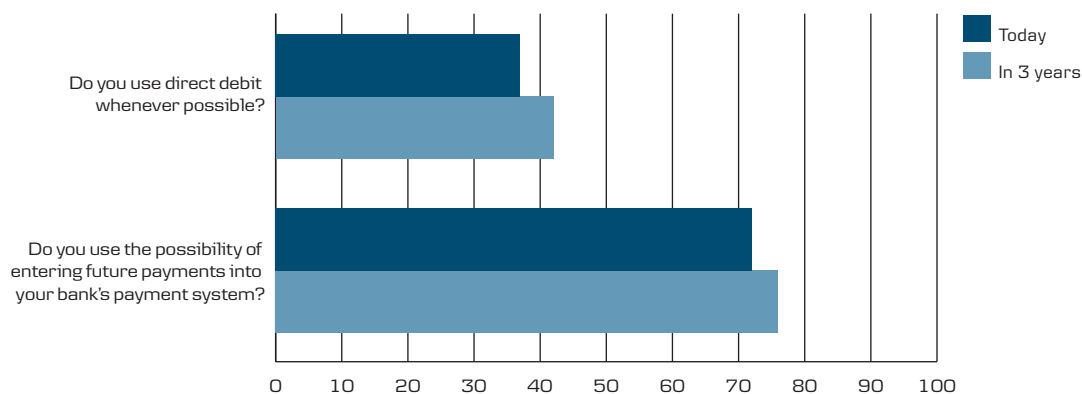
On the subject of processing of supplier invoices, 77% of the companies indicate that they will increase their use of e-invoicing and electronic verification of invoices based on order details and receipt of goods, and 93% say that they will increasingly use electronic approval of invoices to be paid, even though it could be argued that the natural delays caused by a manual process give better cash flows than a streamlined electronic process. Our experience shows that the same can be done in an electronic workflow, but in a controlled and structured manner.

## Processing supplier invoices



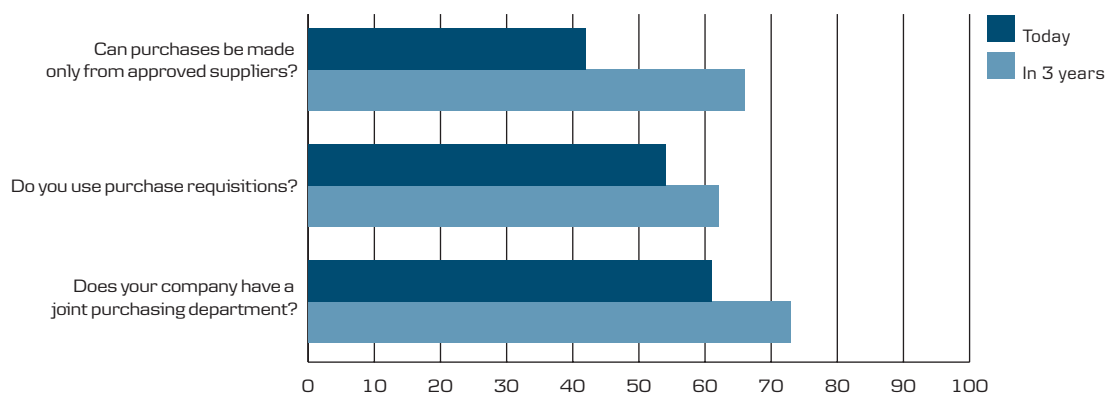
With regard to payment processing, the companies enter future payments into their banks' payment systems more than twice as often as they use direct debit services. The companies expect a little progress in both areas over the next three years. There are differences between the countries because of the infrastructure of payment habits. Danish and Norwegian companies use direct debit more than Finnish and Swedish companies.

### Payment processing



The responses in the figure below concerning the development of purchasing processes show that companies seem to focus on ensuring that future purchases are controlled and made from approved suppliers. The incentives may be improved cash flows and the many cost reduction initiatives that companies are expected to launch in the near future.

### Purchasing processes

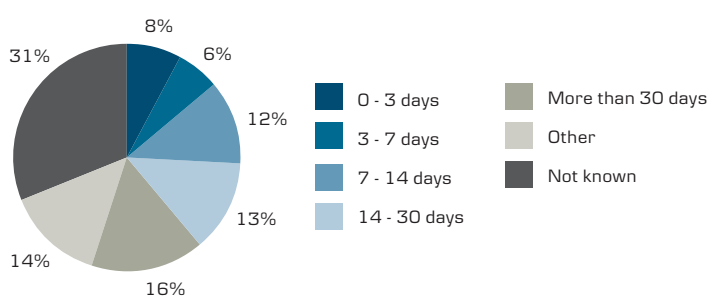


## 6.3 Stocks

The figures below show that the companies have very different stock processes. The time that passes from the ordering of goods until they are in stock and from the receipt of a sales order to delivery of the goods varies considerably. Despite these large differences, there is general agreement among the companies that there is room for improvement. Around 75% of the respondents reply that both processes can be improved.

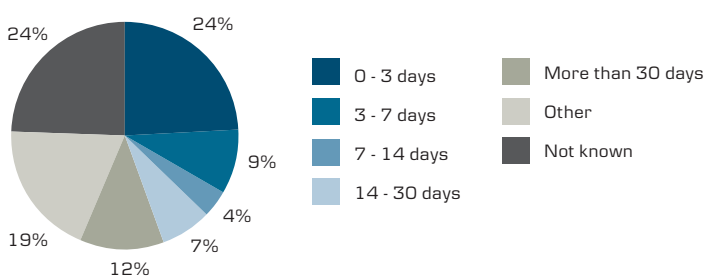
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### From ordering of goods until they are in stock



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### From receipt of a sales order until the goods are delivered to the customer



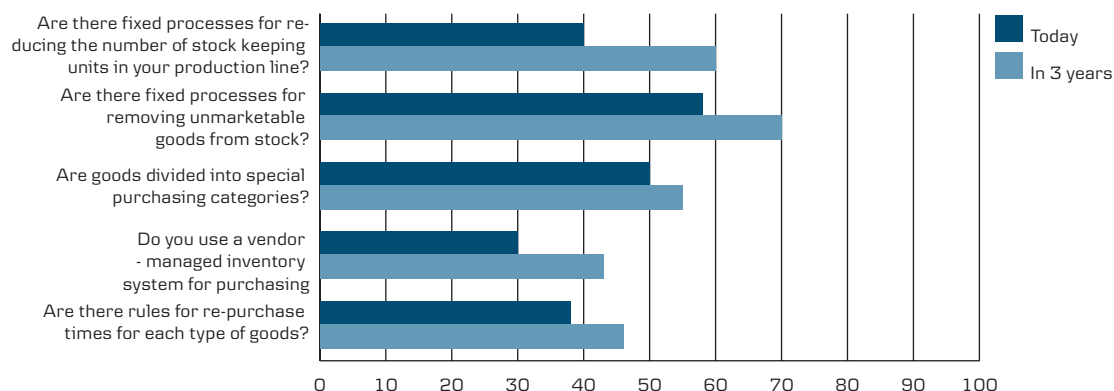
### 6.3.1 Stock processes, now and in three years

The figure below illustrates that the companies expect to focus more on all the named stock processes in the next three years. The fact that companies increasingly introduce fixed procedures for reducing stocks indicates that they focus on finding the right balance between the amount of capital tied up in stock and proper customer service.

Experience shows that not all companies work systematically with processes to remove unmarketable goods from their stocks. This is illustrated by the figure below, which shows that 58% today work systematically with unmarketable goods, with 70% indicating that they will do so in three years' time. Unmarketable goods often affect the physical stock situation and may lead to valuation, management and quality problems.

The tools that companies expect to employ to reduce stocks differ only slightly among the countries.

#### Stock processes



# 7 Country-specific findings

In this chapter, we briefly highlight some of the trends that differ from the overall conclusions. Even though the four Nordic countries have a lot in common, we also find differences in the approach to working capital and the measures to take.

## 7.1 Norway

Norwegian companies represent a large part of the entire survey (43%). Many of the conclusions are therefore influenced by the Norwegian responses.

Compared with companies in the three other countries, the Norwegian companies seem to prioritise working capital slightly less. The figures seem to be “one year behind” compared with the results of last year in Denmark. There may be several reasons for this. It may take longer for Norwegian companies in general to feel the effects of an economic downturn, and they will be slower to respond with measures such as cost reductions, cutbacks and efficiency improvements. Another reason may be that they consider Norway to be suffering less from the financial crisis than its neighbours. The Norwegian Prime minister said in a speech on May 13 2009 that Norwegians need to go abroad to understand the full impact of the crisis.

We can also see that on average, Norwegian companies in the survey are about 20% smaller measured on turnover than the companies in the other Nordic countries. This could affect management focus on working capital.

The Norwegian companies also focus less on the relationship between DSO and DPO and on management involvement. Moreover, performance-based remuneration is used to a lesser extent than in the other countries.

On the other hand, Norwegian companies do not take fewer initiatives and are not less ambitious than companies in the other countries.

## 7.2 Finland

Half of the participating Finnish companies in the survey are production companies, which is rather a high portion compared with the other participating countries.

Expediency is a general trend among the Finnish companies:

- Faster invoicing process and faster delivery of goods, but also more errors in the invoices
- Shorter payment deadlines for customers
- Faster approval of creditor invoices
- Below average DPO

- Significant improvements in internal process efficiency during the past two years, but Finnish companies still see the largest potential for future improvements

Finnish companies have good confidence as roughly two thirds consider themselves to be performing above average or best in class.

### **7.3 Denmark**

The participating companies are more export-oriented than those of the other countries. This may be the reason why we see a more blurred picture of DSO here than in the other countries. Customers are less inclined to comply with payment terms than customers in the other countries.

Working capital is higher up on the agenda, and Danish companies have larger expectations of future improvements. In Denmark, the responsibility for working capital management lies with the finance or treasury department, not with the executive board, and this gives rise to more internal challenges.

Danish companies are better than the average company in the survey at establishing policies concerning stocks, which may be a result of the stronger focus on working capital.

Probably due to convenience, more payments are made before the due date than is the case in the other countries. Concerning receivables, Danish companies reconcile less than the average company, which can be partly explained by the higher share of exports and less structured information on foreign payments.

### **7.4 Sweden**

The Swedish companies in the survey are generally very large in a Nordic perspective; we only see small differences compared with the general picture of the survey.

Swedish companies face larger challenges regarding responsibility allocation than we see in the other countries, even though performance-based remuneration is used for two thirds of top or middle management, which is more than we see in general.

More than 80% of Swedish companies expect improvements in their working capital position over the next three years, and this is significantly above the survey average.



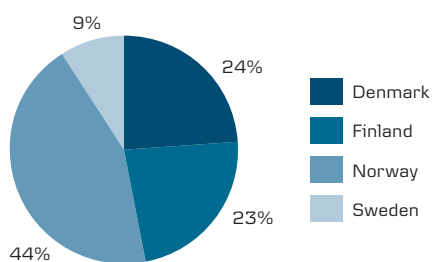
## 8 Participating companies

The breakdown on industries of the 160 companies participating in the survey shows a fair representation of the top Nordic companies (excluding banks and some financial institutions) in various industries.

The survey is not fully representative of the relative size of the countries in the Nordic region. Still, we believe that the survey provides a good indication of general trends concerning the main challenges within working capital and that it can be used for benchmarking and inspiration for companies aiming to improve their working capital management.

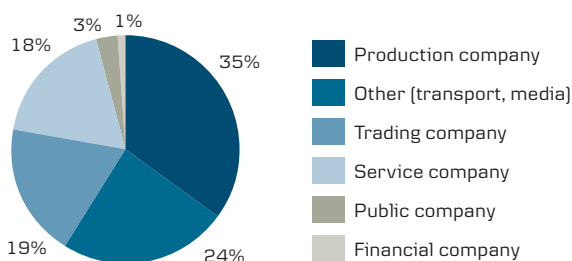
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Country



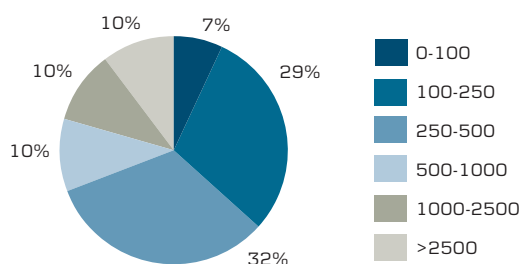
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Type of company



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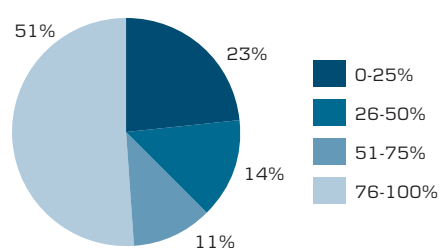
Turnover



The non-domestic share of the turnover varies among the companies. From 76-100% of the turnover is non-domestic for half of the respondents. There does not seem, however, to be any clear correlation between the composition of turnover and industry and the answers to individual questions in the survey.

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#### Foreign share of turnover



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