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Keep Your Working Capital Working

Lessons from Consumer Goods Companies

THE BOSTON CONSULTING GROUP

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Lessons from Consumer Goods Companies

Whether they intend to grow organically or through mergers and acquisitions, companies must maintain a strong cash position. However, as the recession winds down and companies begin to return their attention to growing and gaining market share, many are losing their focus on best-in-class cash-management practices. By doing so, they run the risk of weakening a strategic advantage.

The Boston Consulting Group recently analyzed the net-working-capital performance—that is, how well companies optimized their current assets and liabilities—of 122 fast-moving-consumer-goods (FMCG) companies across five global sectors, from 2006 through 2009. (See the Appendix for our methodology and for company rankings.) Our analysis identified three troubling trends.

- Despite recent efforts to better manage their cash, the companies in our study were able to improve their cash-conversion cycles (CCCs) just a mere 1.7 days per year, on average, since 2006. The CCC measures how many days a company's net input is tied up in its production and sales processes before it is converted into cash through sales to customers.
- The average working-capital performance for our entire data set masked a significant disparity between the best-performing companies and all the others. While the leaders in cash management improved their CCCs by an average of 31 days over two years, many of the remaining companies saw their cash positions deteriorate—and their CCCs lengthen—significantly. We estimate that if the underperforming companies in our sample could improve their CCCs to match the peer average, they would enhance their total average net-working-capital performance by $64 billion. And if underperformers could match the top-quartile companies, average net-working-capital performance for the 122 companies in the sample would improve by $121 billion. Such gains would translate into the companies in our study realizing a range of savings between $100 million and more than $1 billion each—money that they could use to fund growth.
- Many companies that had been actively managing their cash positions in response to the downturn now lack the discipline to sustain these initiatives. As a result, many improvements that had been achieved in working capital are beginning to erode and even vanish.

Savings Through Integrated Cash Management

Applying practical levers to manage cash is only the first step in sustaining a world-class cash-management position. The next and even more critical step is making the initiative stick. To do that, the entire organization must foster a "think cash" mentality in all aspects of its daily activities. BCG's integrated cash-management framework not only produces quick cash savings, it also ensures ongoing improvements for the long term by enabling companies to continuously optimize net working capital on their own.

In our work with consumer companies over many years, we have found that an integrated approach to cash management can reduce net working capital by 20 to 40 percent and sustain that reduction over time. For instance, one international consumer-goods client increased its cash flow from operations by 38 percent in just one year, driven primarily by improvements in net working capital. The increase translated into more than $250 million in additional cash—or more than $20 million a month—a portion of which the company reinvested in growth. After this initial success, the company set up a program to continue to improve its cash position.

Looking across the sectors we explored in our analysis, we found that the food and beverage sector scored the best improvement in average CCC, reducing it by 4.5 days a year. Companies that carry categories in addition to food and beverages (such as tissues, household cleaning, and personal care products) saw their sector's average CCC decrease only one day per year. The spirits sector showed a particularly long cash-conversion cycle of 251 days because the business model inherently requires large inventories (often to age specific products). This sector's performance worsened over the past years, however, with the average CCC lengthening an average of 9.2 days per year since 2006. (See Exhibit 1.)

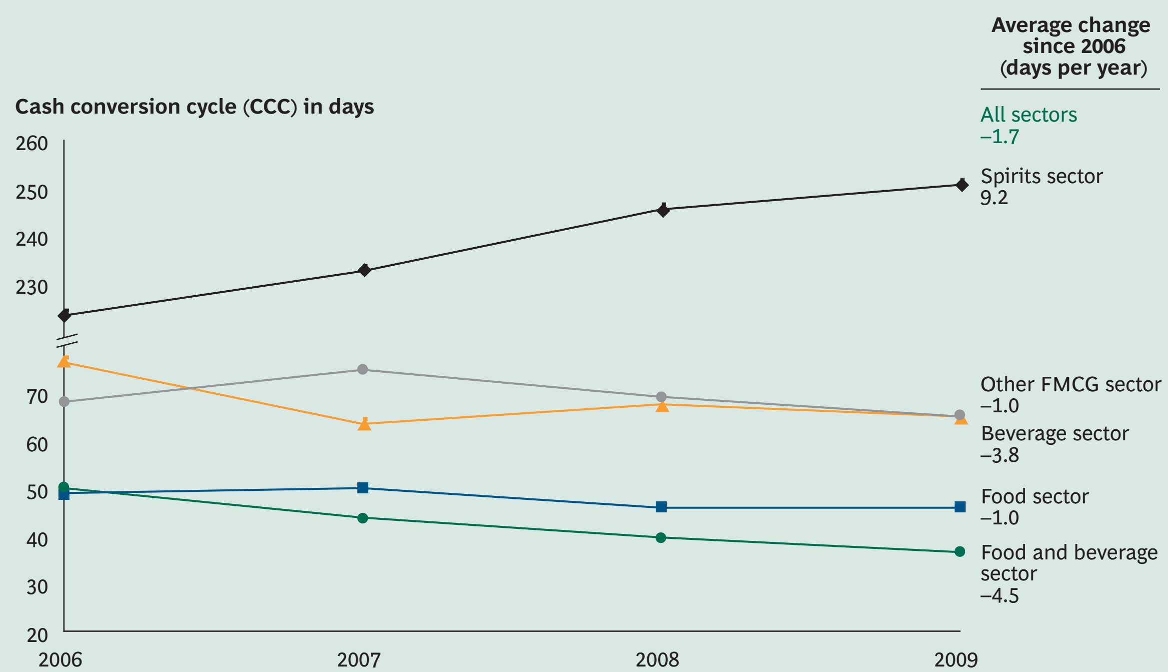
> Looking across sectors, we found that the food and beverage sector had the best improvement in average CCC.

When we focused on each of the five product sectors, we found substantial potential for improvement in all sectors. (See Exhibit 2.)

Food and Beverage. Large food and beverage players had the best average CCC at 37 days. We attribute this largely to the influence these companies hold in the market. They are able to negotiate advantageous payment terms with suppliers and distributors and can devote significant resources to inventory reduction.

Moving the underperformers in this sector up to the peer average would further reduce the sector's average CCC by 20 days. The top performer among the food and beverage companies achieved a CCC of –25 days—62 days shorter than the sector's average.

Exhibit 1. Cash Conversion Cycles Vary Across Consumer Goods Sectors



Sources: Bloomberg; BCG analysis.
Note: Exhibit reflects data for 116 companies; six companies were excluded from the analysis due to missing data or incomparable values.

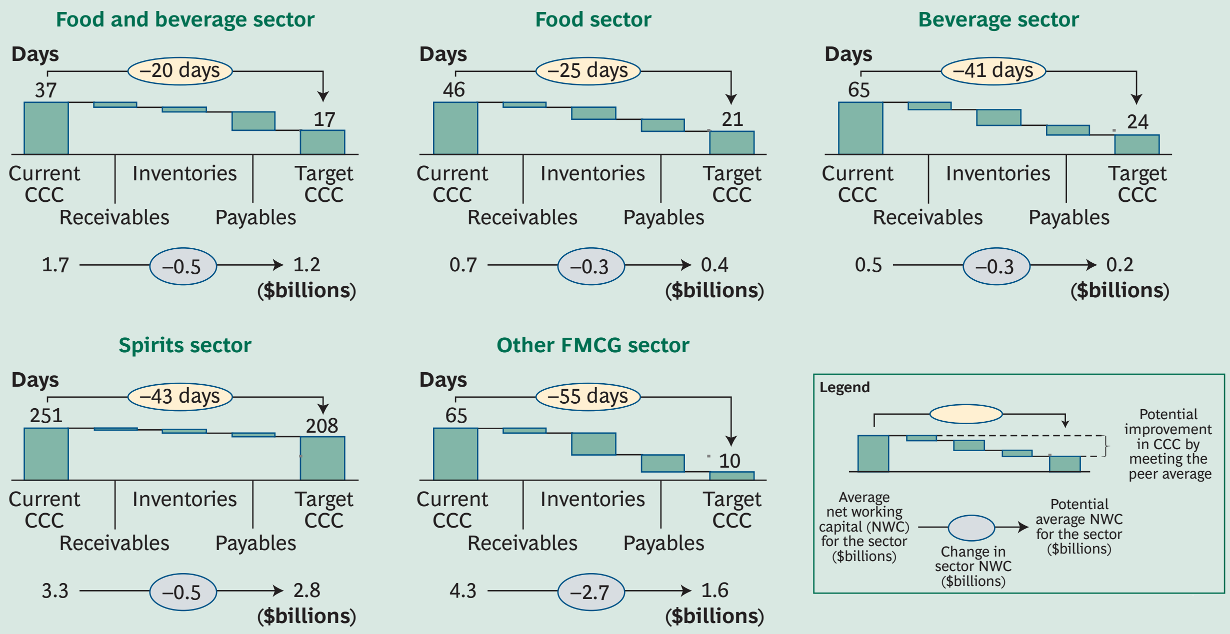
Food. We estimate that the food sector has the potential to improve its CCC by 25 days on average, with improvements to supplier payment terms saving about 10 days. Differences among the CCCs of food companies reflect differences in focus on either cash flow or growth. The top performer among the food companies achieved a CCC of 17 days, which is 29 days shorter than the sector average.

Beverage. The average CCC for the beverage sector is 65 days. This cycle appears lengthy in comparison to that of the food sector, but beverages tend to be stored for longer periods of time. Differences among beverage companies' CCCs usually result from their different business models. For example, some beverage companies partly outsource bottling and therefore have a shorter CCC than companies that bottle in-house. The top performer of the beverage companies achieved a CCC of –46 days, which is 111 shorter than the sector's average.

Spirits. The average CCC for the spirits sector is 251 days, largely because some spirits must be stored for long periods. Indeed in this sector, long cycles aren't necessarily bad because the products that require aging typically have higher price points and command higher margins than those that don't. But several other factors contribute to lengthy CCCs, such as remote plant locations, weaker bargaining power, and less focus on cash management as a result of already high margins. The total potential improvement for the sector on average is 43 days, with most gains achievable through improvements to payables. Still, reducing inventories also offers some relief for companies whose products turn over quickly. The top performer in the spirit sector achieved a CCC of 163 days, which is 88 days shorter than the sector average.

Other FMCGs. Companies operating in categories that aren't included in any of the above sectors, such as household cleaners or tobacco, are strongly influenced by the individual businesses in which they operate. Our analysis shows that this sector could improve its CCC by 55 days, mostly by reducing inventory to trim

Exhibit 2. Shortening the CCC Unlocks Significant Potential for Improving Net Working Capital



Sources: Bloomberg; BCG analysis.
Note: Exhibit reflects 2009 data for 122 companies. The calculation was based on BCG benchmark studies of competitors; we calculated potential improvements for receivables on the basis of net sales; we calculated potential improvements for inventories and payables on the basis of cost of goods sold (COGS). These data reflect potential gains if all underperformers matched the peer average for the sector. Further potential gains could be achieved in CCCs and net working capital if all companies matched their sector's top quartile of performers.

28 days from the average CCC. The top performer in this sector achieved a CCC of –29 days, which is 94 days shorter than the sector average.

Defending Gains Against the Fallback Factor

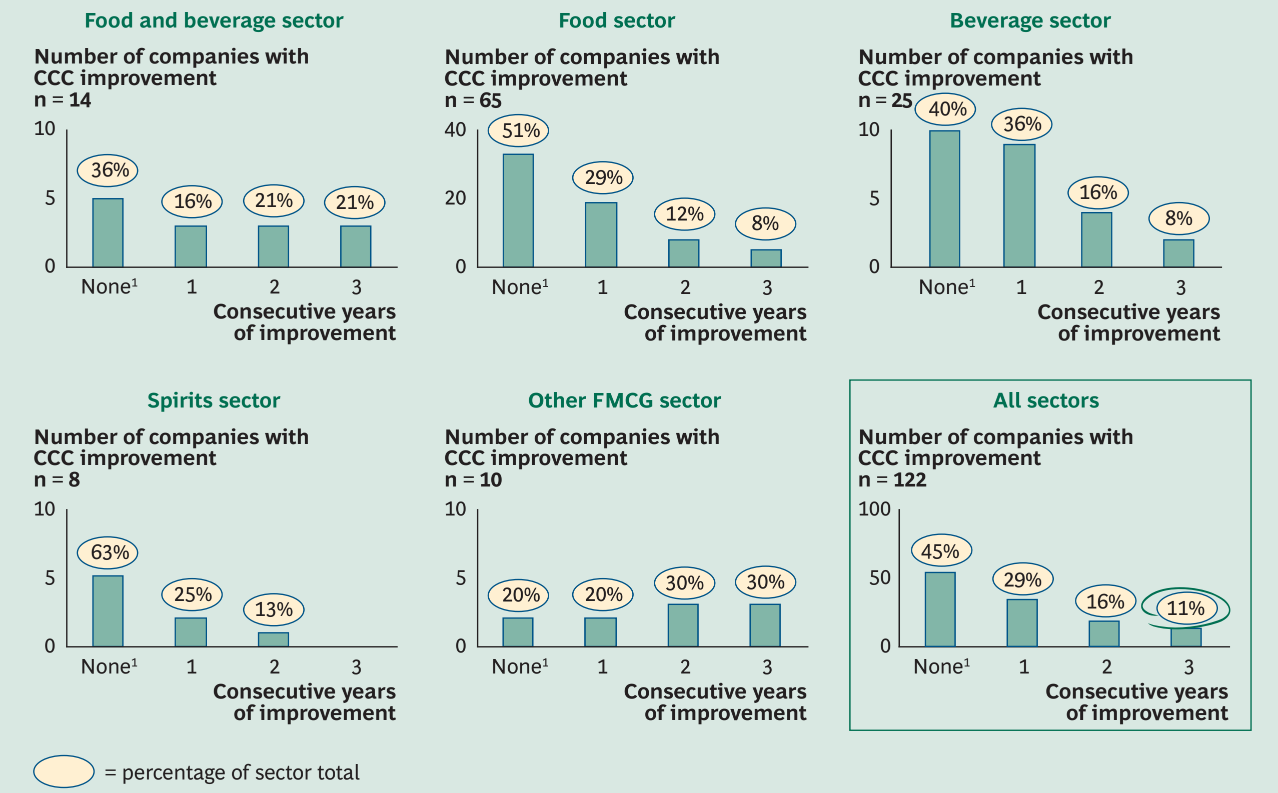
Since it isn't easy for most companies to continually deliver outstanding net-working-capital performance over the long term, one of the objectives of our 2010 study was to identify the companies that have done so. Our analysis showed that 19 of the 122 companies we analyzed—or 16 percent—continuously improved the CCC over two years. (See Exhibit 3.) Just 13 companies (or 11 percent) achieved three consecutive years of CCC improvements.

We also identified the growing gap between the best-performing companies and the rest of the pack. (See Exhibit 4.)

- The top 16 percent of the FMCG companies in our study (boxes shaded green in Exhibit 4) were able to reduce their CCCs by an average of 31 days over two years.
- Whereas the middle tier of companies (boxes shaded blue), comprising 38 percent of the data set, achieved an average improvement of only 5.6 days over the same period.
- Almost half (46 percent) of the FMCG companies we analyzed experienced a significant deterioration in their CCCs (boxes shaded red), adding an average of 12 days over two years. Furthermore, the bottom 15 percent of performers experienced declines that added an average of 24 days to their CCCs over the same period.

Companies not yet in the top tier may be able to close the gap by tak-

Exhibit 3. Few Sectors Achieved Continuous Improvement in CCCs



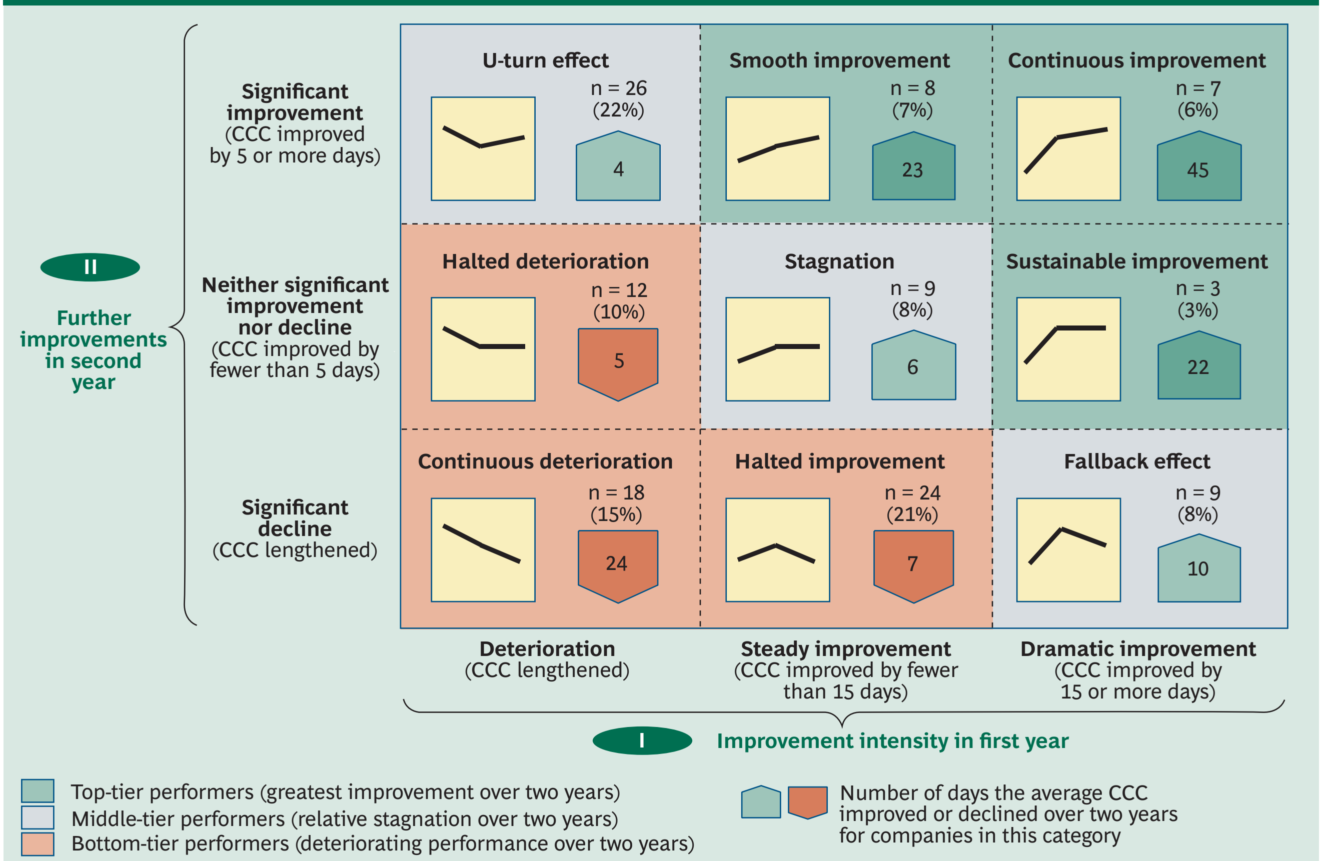
Sources: Bloomberg; BCG analysis.
Note: Exhibit reflects data for 122 companies. Some sectors' percentages do not total 100 due to rounding.
[1]This figure reflects the percentage of companies achieving no improvement in CCC for the period from 2008 through 2009.

ing into account three distinct patterns identified by our analysis—and drawing on the lessons they offer.

- *Dramatic improvement the first year can add momentum to continuous or sustainable improvement.* Sixteen percent of the companies in our sample showed improved CCCs (boxes shaded green in Exhibit 4). Nine percent experienced continuous or sustained improvement the second year after first achieving dramatic improvement in the first year.
- *However, companies must beware of fallback or stagnation (boxes shaded blue).* Eight percent of the companies in our study suffered severe decline after dramatic improvement (bottom-right box), 8 percent stagnated (center box) and another 22 percent were hardly able to compensate for the first year's losses in the second year (top-left box).
- *A lack of focus on cash management inevitably leads to a decline in the CCC.* A whopping 46 percent of the companies in our study showed a pattern of deterioration over two years (boxes shaded red). Fifteen percent saw the CCC slide both years, adding an average of 24 days over the period. Ten percent had a CCC that declined the first year and then neither improved nor declined the second year. Finally, 21 percent achieved solid improvement in the first year but suffered significant declines in the second year, which resulted in overall deterioration.

Some of the deterioration we discovered resulted from the fact that the improvements in net working capital were often standalone initiatives. Other contributing factors included a shift away from cash management toward growth initiatives, a lack of

Exhibit 4. Vast Gap Separates Top-Tier Performers from Their Bottom-Tier Counterparts



Source: BCG analysis.
Note: Exhibit reflects data for 116 companies; six companies were excluded from the analysis due to missing data or incomparable values.

management incentives tied to cash management, and the inability of some companies to change to a cash-oriented culture.

And in many cases, CCC deteriorated at companies that neither tracked CCC-improvement efforts nor followed up on key insights on best practices in cash management used in other divisions or parts of the organization. Therefore, companies must be careful to maintain a sharp focus on cash management or else they risk a significant decline in their cash position.

What about the continuous progress of the companies that achieved dramatic gains? All of them realized a significant improvement in CCC over a short period by establishing integrated cash-management programs, we found. These companies identified quick wins but also implemented sustainable improvements. They focused continuously on cash and established a "think cash" mentality throughout the organization, garnering strong support from top management for the cash improvement programs and an increase in cash-related incentives. These companies also tracked their initiatives and ensured that employees were properly qualified and enabled.

In reporting on his company's 2009 quarterly results, one CFO summed it up succinctly: "Cash flow from operating activities was €2.5 billion in the first half of the year. This was €1.6 billion higher than last year, and it was driven largely by improvements in working capital…Our cash-conversion cycle has improved by 15 days over the same period last year, and 13 of those days came from reduced inventory."

Realizing the Strategic Benefits of Cash Management

Even top-performing companies can remain overly wedded to past methodologies for managing net working capital and thus miss significant opportunities for achieving and sustaining improvements. In today's volatile environment, organizations must respond rapidly to economic changes across all regions and operations. But they also need to monitor competitors' best practices and leverage them if possible.

Undisciplined spending of cash in times of growth can weaken a company's foundation over time.

Focusing on cash control only during a downturn won't suffice; undisciplined spending of cash in times of growth can weaken a company's foundation over time. By contrast, a strong cash position enables a company to undertake strategic maneuvers against competitors.

Companies that manage net working capital effectively reap numerous benefits:

- *A Stronger Competitive Position.* Companies always need to be prepared to invest in offensive or defensive moves, such as acquiring a competitor or defending against takeover attempts. A company that maintains strong performance in net working capital as it emerges from a downturn can, for example, leverage its superior financial position to attack competitors weakened by the crisis.
- *The Ability to Enter—or Defend—New Markets.* Companies that maintain a healthy cash position can use improvements in net working capital to finance and secure a first-mover advantage in high-growth markets such as Brazil, Russia, India, and China (the BRIC countries). They can also spend more on promotions that enable them to gain market share or displace competitors in emerging economies.
- *Better Positioning for Products and Brands.* A strong cash position enables a company to subsidize strategic but underperforming products or brands for a considerable time. This can be a crucial step for excelling in an existing market or entering a new one.
- *The Ability to Support Strategic Customers and Suppliers.* During a crisis, companies often need to strengthen their supplier base by paying higher-than-normal prices for suppliers' offerings. At the same time, they need to support distributors or retailers to ensure that these critical partners do not go bankrupt. A strong cash position can enable companies to develop good relationships with their suppliers and customers so that they all emerge from the crisis strengthened.

Consider the example of a major consumer-goods company that was able to improve its cash-conversion cycle over four consecutive years by using a variety of different levers. The company rewarded its business-unit leaders with incentives for meeting three simple metrics: targeted revenue growth, profit growth, and cash flow. It also introduced a program to improve cash flow and net working capital. The program included optimizing payment terms and launching a financing program with suppliers and customers, improving the accuracy of demand forecasting in order to reduce inventories, and establishing KPIs within the incentive system.

As the program succeeded, the company used some of the resulting benefits to increase its advertising support as a percentage of sales. The next challenge for the company is to maintain the solid cash position and to establish itself as a growth company that boasts strong talent, brands, capabilities, and resources.

The benefits of cash management are clear. The only remaining question is how companies can transform CCC improvement into a long-term competitive advantage.

Making Improvements Stick

Most companies find that generating and protecting cash over time is no easy challenge. Drawing on our experience working with clients in many different industries, BCG has identified three ways in which companies can ensure a sustainable cash advantage: cash governance and organization, cash visibility, and active cash management.[1] (See Exhibit 5.)

Cash Governance and Organization. The finance department typically plays a major role in cash governance. It sets cash targets, provides capital plans, and controls cash spending.

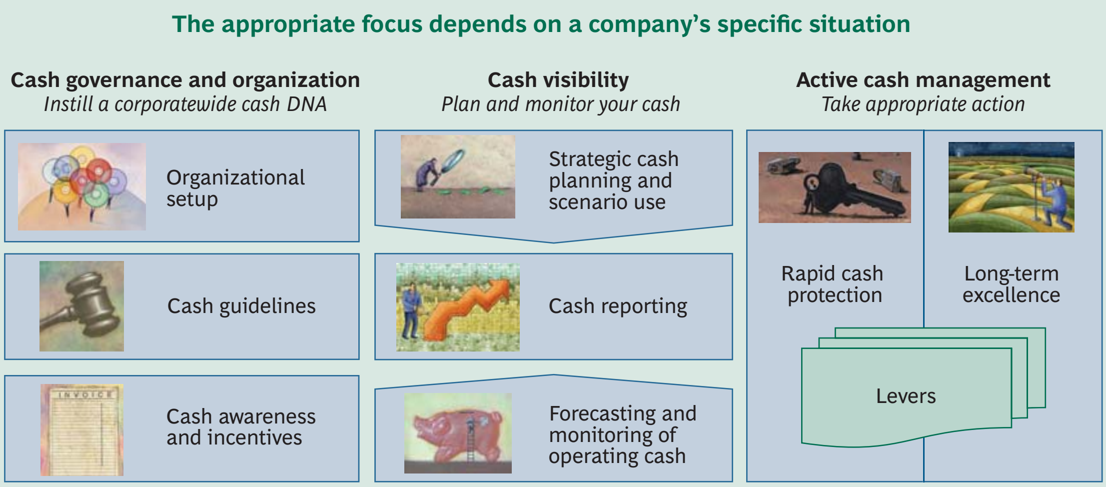
Organization Design. Cash management should be centralized, accountabilities should be assigned, practical guidelines should be set, and a comprehensive incentive system should be put in place. The cash management function can be integrated into the finance department; stand alone as a separate function alongside accounting, control, and finance; or serve as a staff function to senior management.

After assigning cash control a central role, the next step is to make all employees in the firm aware of the importance of cash management. We've learned from our clients that a cash orientation can get lost or overlooked at lower levels in the reporting hierarchy. A cash management program must ensure that all employees have clear cash guidelines and responsibilities for their daily business.

For instance, a leading international FMCG company established a cash program to significantly reduce net working capital. It added three roles

1. For more about these approaches, see the BCG publications *Cash Advantage: From Fast to Sustainable Impact,* published in March 2010, and *Winning in a Downturn: Managing Working Capital,* published in August 2009.

Exhibit 5. An Integrated Cash-Management Framework Is Key to Sustaining Improvements



Source: BCG analysis

for cash experts and employed a "train-the-trainer" approach both to build cash awareness among employees and to educate employees at all levels throughout the organization. With strong support from the center, the company was able to reduce net working capital by more than 30 percent and establish an organization that continuously drives cash improvement initiatives.

Cash Guidelines, Cash Awareness, and Cash Incentives. Among FMCG companies, it is a common practice to make cash management a focus in top-management reviews by using standard KPIs. It is even more important, however, that all the employees have clear and consistent cash-oriented guidelines for prioritizing their daily activities.

Such guidelines, if accepted, can serve as a foundation for achieving sustainable cash generation. Also effective for best-in-class cash management is a balanced incentive system. Cash targets should be transparent and comprehensive so that it is clear how they were derived and how they can be achieved.

Commenting on the importance of guidelines and incentives for his company, one of our clients noted, "We've made exceptional progress in terms of cash flow. In no small measure, this reflects the fact that cash flow is now a key compensation metric for our managers. We generated significant gains in 2009 from an intense focus on net-working-capital efficiency and improved earnings while also supporting our growth with sufficient capital expenses."

Cash Visibility. Many of the cash planning tools that companies use aren't sufficiently flexible to cope with rapidly changing forecasts of revenue and demand. This often results in misguided planning that fails to support the daily decisions a business needs to make.

Often, cash planning tools aren't sufficiently flexible to cope with changing forecasts of revenue and demand.

Strategic Cash Planning and Scenario Use. Companies need a reliable way to plan for and monitor their cash needs in order to understand the strategic feasibility of different business scenarios. It is critical to understand how a company's cash position changes according to its performance and to determine how its cash needs are driven by different strategic decisions. Cash planning should be an ongoing, iterative process that involves both internal and external stakeholders. Especially in times of rapid economic change, it is best to use a simple, fast, and pragmatic planning approach that can be adjusted easily to accommodate new factors and insights.

Forecasting and Monitoring of Operating Cash. Cash flow statements are part of a company's standard report. However, they often overlook relevant drivers of cash, such as payment terms or demand forecasts that directly influence net working capital. Over time, this shortcoming has led some companies to capture additional reports for cash-related factors that they felt were being neglected. But in many cases, these cash reports are inconsistent or incomplete. Forecasting and cash monitoring is possible only if reports and metrics related to cash flow are focused, are consistent, and reflect the main drivers that influence a company's cash position. To ensure consistency and completeness, it is critical to establish clearly defined reporting structures and common formats and templates for use by all stakeholders.

Active Cash Management. Throughout all phases of the business cycle, optimizing net working capital is one of the key levers of active cash management. However, BCG's integrated framework goes beyond a common approach to cash management. Under our framework, improvements in net working capital need to be rigorously tracked to ensure that gains do not deteriorate if the company shifts toward new growth initiatives. The effect will be a sustainable approach to cash management that supports value creation, achieves increases in revenue growth, and improves margin.

Rapid Cash Protection. Active cash management requires a solid foundation in operations. Therefore, companies find it most effective to start with familiar levers, build on their experience, and roll out initiatives step by step. Accounts receivable and accounts payable can yield quick wins, delivering savings that are achievable in the first six to twelve months. Consider the following examples from our clients:

- *Inventories.* To accelerate the cash impact of its initiatives, the European division of a consumer-goods company significantly reduced its inventory in just one year by increasing its order frequency and by ordering smaller batch sizes shipped in evenly distributed deliveries.

- *Receivables.* One of our international packaged-goods client generated €253 million in cash by reminding customers of payment deadlines before the payments were due. The company also introduced a strict dunning process to reduce overdue receivables.

- *Payables.* Through a rigorous analysis of its payments process, a major FMCG company found that its payments to suppliers were often made before the initial due date on the invoice. The solution was to make a minor adjustment to the resource planning system to ensure that payments could not be issued before they were due.

Long-Term Excellence. Quick wins are important, but other levers might be even more effective in the longer term. By renegotiating payment terms with customers and suppliers, for instance, companies can free up large amounts of cash, even if restrictions imposed by existing contracts delay any benefits for up to a year. For small suppliers, a letter explaining expanded payment terms often suffices. For key suppliers, comprehensive negotiations are usually required. Of course, in some cases, it might be impossible to change payment terms until an existing contract terminates. This reality makes it critical that companies focus on payment terms in annual negotiation rounds.

The same principles apply to volume bundling and supplier consolidation. Companies that consolidate their supplier base can simplify purchasing processes and bundle their volumes to negotiate discounts and longer payment terms. This approach also requires a certain amount of time and therefore supports long-term excellence rather than quick wins.

Inventory reduction is another key lever for successful and sustained cash management in the consumer sector. Often, incentives reward supply-chain managers for meeting demand, motivating them to keep full stocks available. In this climate, it can take several years for rigorous stock reduction, introduction of lean manufacturing techniques, and better demand-forecasting processes to be realized. Success requires a fundamental shift away from guaranteed availability of supply toward continuous re-assessment and reduction of stocks.

The secret to sustaining long-term improvements in cash management is found in a company's commitment to the goal.

Putting It All Together

The full potential of all these levers can be realized only after a number of years. Companies that excel at reducing the cash conversion cycle successfully over several years combine quick-win levers with long-term-improvement ones.

The secret to sustaining long-term improvements in cash management can be found in a company's commitment to the goal. Companies need to empower employees and promote awareness of cash management throughout the organization. At the same time, companies can ensure that senior managers focus their attention by including cash management in regular leadership reviews. In addition, they should implement structured processes for cash management and change incentive systems, targets, and KPIs. It is also crucial to train and enable employees in all parts of the organization to ensure that cash management initiatives get incorporated in day-to-day processes.

Consider the example of a leading FMCG company in the food sector that has maintained a negative cash-conversion cycle over the past 10 years. The decentralized company began its efforts with an initial focus on reducing net working capital within one of its divisions. Over the years, leaders in headquarters actively rolled out the best practices to all the company's product divisions and regions. According to the company's CFO, "Every time we generate a year's worth of profit improvement, we also generate more cash." One of the company's key success factors for sustaining its cash-generating machine has been its commitment to encouraging all employees to develop a "think cash" mentality. It has established an ongoing "cash committee" that regularly improves logistics, adjusts KPIs, optimizes planning processes, and revises terms and conditions.

A global nonfood company took a different tack, grounding its improvement primarily in more rigorous inventory practices and receivables management. It launched an initiative to restructure its operations in 2007 and is still continuing to increase efficiency and creativity while also lowering costs. The company began its program by adjusting inventory levels and closely monitoring overdue receivables, implementing recommendations made by internal benchmark teams. It then transferred the best practices worldwide, implementing a new organizational model globally.

The rollout of its best practices, combined with a new operational structure and cash-driven management standards, resulted in significant cash-flow improvements. So far, the company has reduced its CCC from 5 days to –29 days, achieving a dramatic reduction of $500 million in net working capital.

Just about every company could benefit from instituting an integrated and sustainable cash-management program—and certain companies stand to benefit enormously. To companies that are ready to take on the challenge, we offer the following questions to get started:

- How close does our company come to achieving the best-in-class standards in CCC improvement? (See the Appendix for company rankings.) The top food and beverage company achieved a CCC of –25 days; the top food company, 17 days; the top beverage company, –46 days; the top spirits company, 163 days; and the top-ranking company in the other FMCG sector achieved –29 days.
- How close does our company come to the average improvement in CCC of 31 days over two years achieved by the best-in-class companies?
- Have we set our sights on achieving a dramatic improvement by first setting a high goal and then putting in place the mechanisms to ensure that the improvement is sustainable?
- Have we designated a separate department in our company with clear cash-management responsibilities?
- Do we have in place clear, specific, and adequate guidelines for cash control?
- Does top management actively and regularly communicate the importance of cash to all levels and all employees throughout the organization?
- Do our management incentives include cash-flow targets?
- Does our company incorporate a system for strategic cash planning?
- Is cash reporting an integral part of our company's overall financial reporting?
- Have we incorporated the cash dimension into our company's regular monitoring and forecasting processes?

Protecting cash is critical during all phases of the economic cycle. The challenge for most companies today is to maintain their focus on cash management so that they can support growth opportunities as they arise. To achieve this goal, they must avoid allowing any cash improvements to deteriorate. The secret to sustaining improvements in cash conversion cycles is a comprehensive, integrated approach to cash management. Companies that master this challenge create an effective, long-term advantage that stands, alongside revenue growth and margin improvement, as a powerful tool for value creation and strategic positioning.

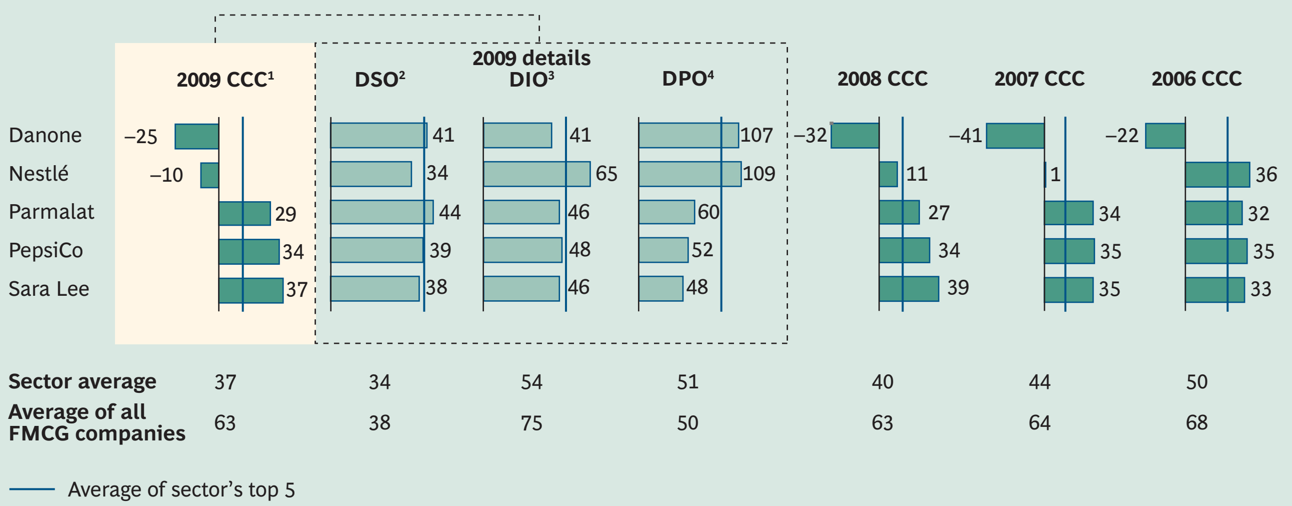
Appendix

Methodology and Company Rankings

For this report, we analyzed 122 publicly listed companies operating in one of five sectors in the fast-moving-consumer-goods (FMCG) industry: food and beverage, food, spirits, beverage, and other FMCG. Using financial data from Bloomberg and annual reports, we calculated for each company the KPIs related to net working capital for the period from 2006 through 2009.

- We calculated the cash conversion cycle (CCC) as days sales outstanding (DSO) plus days inventories outstanding (DIO) minus days payables outstanding (DPO). DSO is a measure of the average number of days that a company takes to collect revenue after a sale has been made; DIO is a measure of how long it takes a company to turn its inventory into sales; and DPO is a measure of how long it takes a company to pay its trade creditors. In total, CCC is a measure of how many days a company's net input is tied up in its production and sales process before that input is converted into cash through sales to customers.
- We calculated DSO as trade receivables divided by net sales.

Exhibit 1. The Top Five Performers in the Food and Beverage Sector in 2009



Sources: Bloomberg; BCG analysis.
Note: Calculations were made in local currencies; calculations for receivables were based on net sales, and calculations for inventories and payables were based on cost of goods sold.
[1]Cash conversion cycle.
[2]Days sales outstanding.
[3]Days inventories outstanding.
[4]Days payables outstanding.

- We calculated DIO as inventories divided by cost of goods sold (COGS).

- We calculated DPO as trade payables divided by COGS.

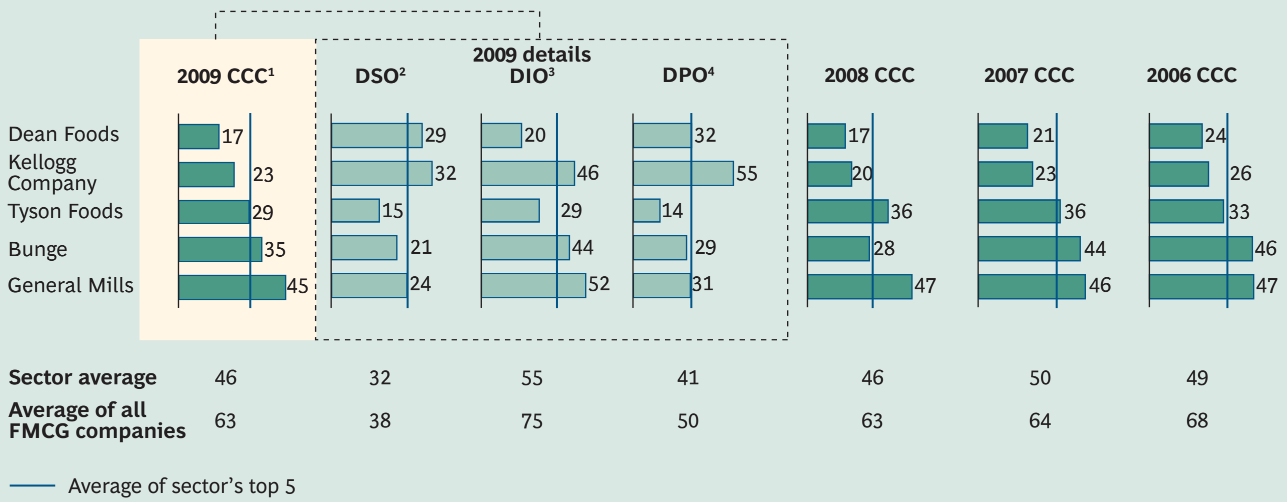
To avoid variations resulting from exchange rates, we calculated these KPIs using financial data reported in each company's local currency. For the calculations, only trade receivables and payables were taken into account; other receivables and payables, such as rebates or accruals, were excluded.

For the evaluation of DIO, all inventories—finished goods, semifinished goods, as well as raw material—were included. All the data we used in our calculations were reported in the companies' annual reports or by Bloomberg.

To ensure that our calculations were comparable, we excluded outliers, such as marketing-only companies, from the data set. Finally, in each of the five sectors, we ranked the companies by CCC. (See the exhibits in this Appendix for rankings of the top five performers in 2009 by FMCG sector.) For the food sector, we ranked companies with more than $10 billion in revenues; for the food and beverage and other FMCG sectors, we ranked companies with more than $5 billion in revenues; and for the beverage sector, we ranked companies with more than $3 billion in revenues.

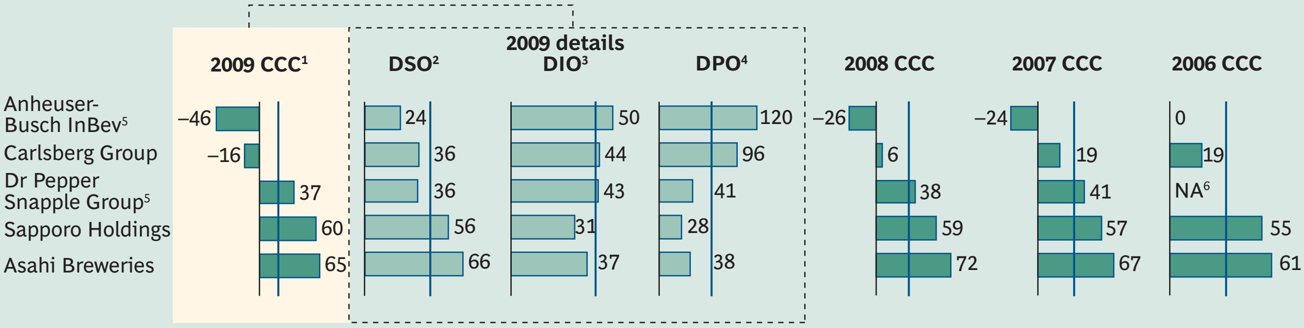
It is important to note that CCC is not the sole determinant of a company's net-working-capital performance. A company's business model will also influence its cash position, as will specific terms and conditions with suppliers as well as its supplier structure. Furthermore, a company's CCC could also be influenced by recent or ongoing acquisitions or sales, as well as joint ventures or minority stakes. All of the factors listed above must be taken into account when defining a target level of net-working-capital performance—and CCC—for a company.

Exhibit 2. The Top Five Performers in the Food Sector in 2009



Sources: Bloomberg; BCG analysis.
Note: Calculations were made in local currencies; calculations for receivables were based on net sales, and calculations for inventories and payables were based on cost of goods sold.
[1]Cash conversion cycle.
[2]Days sales outstanding.
[3]Days inventories outstanding.
[4]Days payables outstanding.

Exhibit 3. The Top Five Performers in the Beverage Sector in 2009

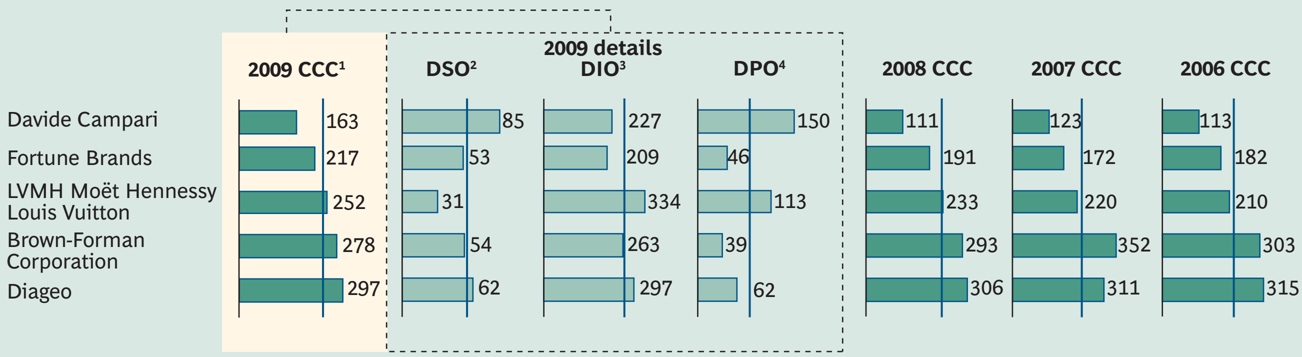


	2009 CCC[1]	DSO[2]	DIO[3]	DPO[4]	2008 CCC	2007 CCC	2006 CCC
Sector average	65	47	77	59	68	63	76
Average of all FMCG companies	63	38	75	50	63	64	68

—— Average of sector's top 5

Sources: Bloomberg; BCG analysis.
Note: Calculations were made in local currencies; calculations for receivables were based on net sales, and calculations for inventories and payables were based on cost of goods sold.
[1]Cash conversion cycle.
[2]Days sales outstanding.
[3]Days inventories outstanding.
[4]Days payables outstanding.
[5]Accounts payable for these companies were corrected to reflect data in the annual reports.
[6]Not available.

Exhibit 4. The Top Five Performers in the Spirits Sector in 2009

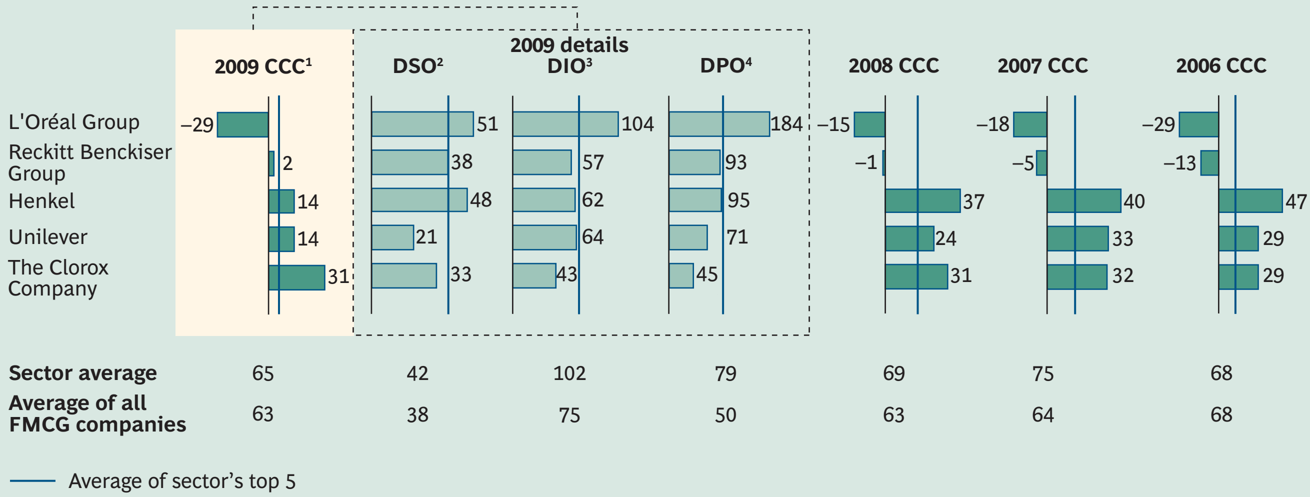


	2009 CCC[1]	DSO[2]	DIO[3]	DPO[4]	2008 CCC	2007 CCC	2006 CCC
Sector average	251	56	271	76	245	232	223
Average of all FMCG companies	63	38	75	50	63	64	68

—— Average of sector's top 5

Sources: Bloomberg; BCG analysis.
Note: Calculations were made in local currencies; calculations for receivables were based on net sales, and calculations for inventories and payables were based on cost of goods sold.
[1]Cash conversion cycle.
[2]Days sales outstanding.
[3]Days inventories outstanding.
[4]Days payables outstanding.

Exhibit 5. The Top Five Performers in the Other FMCG Sector in 2009



Sources: Bloomberg; BCG analysis.
Note: Calculations were made in local currencies; calculations for receivables were based on net sales, and calculations for inventories and payables were based on cost of goods sold.
[1]Cash conversion cycle.
[2]Days sales outstanding.
[3]Days inventories outstanding.
[4]Days payables outstanding.

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For Further Reading

The Boston Consulting Group publishes many reports and articles on cash management that may be of interest to senior executives. Recent examples include:

Cash Advantage: Moving from Fast to Sustainable Impact
BCG White Paper, March 2010

Winning in a Downturn: Managing Working Capital
A Focus by The Boston Consulting Group, August 2009

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