



WORKING CAPITAL REVOLUTION

Inflation, disruption & financial strain

Chapter one



Foreword

Commentators today speak of a ‘polycrisis’¹ facing the global economy. This idea refers to the complex set of interlocking challenges that we face that can serve to reinforce and magnify one another in unpredictable ways.

CFOs, finance directors, and supply chain professionals worldwide are at the coalface of many of these issues as they manage logistics networks that were often designed and implemented under radically different circumstances than those we are faced with today.

To take the pulse of how our stakeholders are meeting and overcoming these challenges, Taulia embarked on a program of extensive international research. We are grateful to the many partners and colleagues who offered their time to assist us in this endeavor.

We asked CFOs, financial decision-makers, and leaders in treasury and procurement departments in major international markets four key questions:

- » What prospects do they see for the global economy?
- » What actions are they taking to navigate the storm many are forecasting?
- » How are they evolving their supply chains in tandem with the fast-changing economic landscape?
- » And at a time of enormous cost pressures, what role do ESG (Environmental Social Governance) issues play in their prioritization decisions?

Over the next four chapters, I hope the results of our survey and the insights they offer serve as actionable intelligence and the foundation for your strategy for managing the challenges ahead.

Thank you for reading,

Rene Ho
Chief Financial Officer | Taulia

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¹ <https://www.ft.com/content/498398e7-11b1-494b-9cd3-6d669dc3de33>

Introduction

The global economy is undergoing changes of unprecedented scale at unprecedented speed. Welcome to 'Working Capital Revolution', Taulia's guide to making sense of the new landscape. In this report, you'll learn how global businesses are adjusting their strategies to not only survive amid disruption - but flourish.

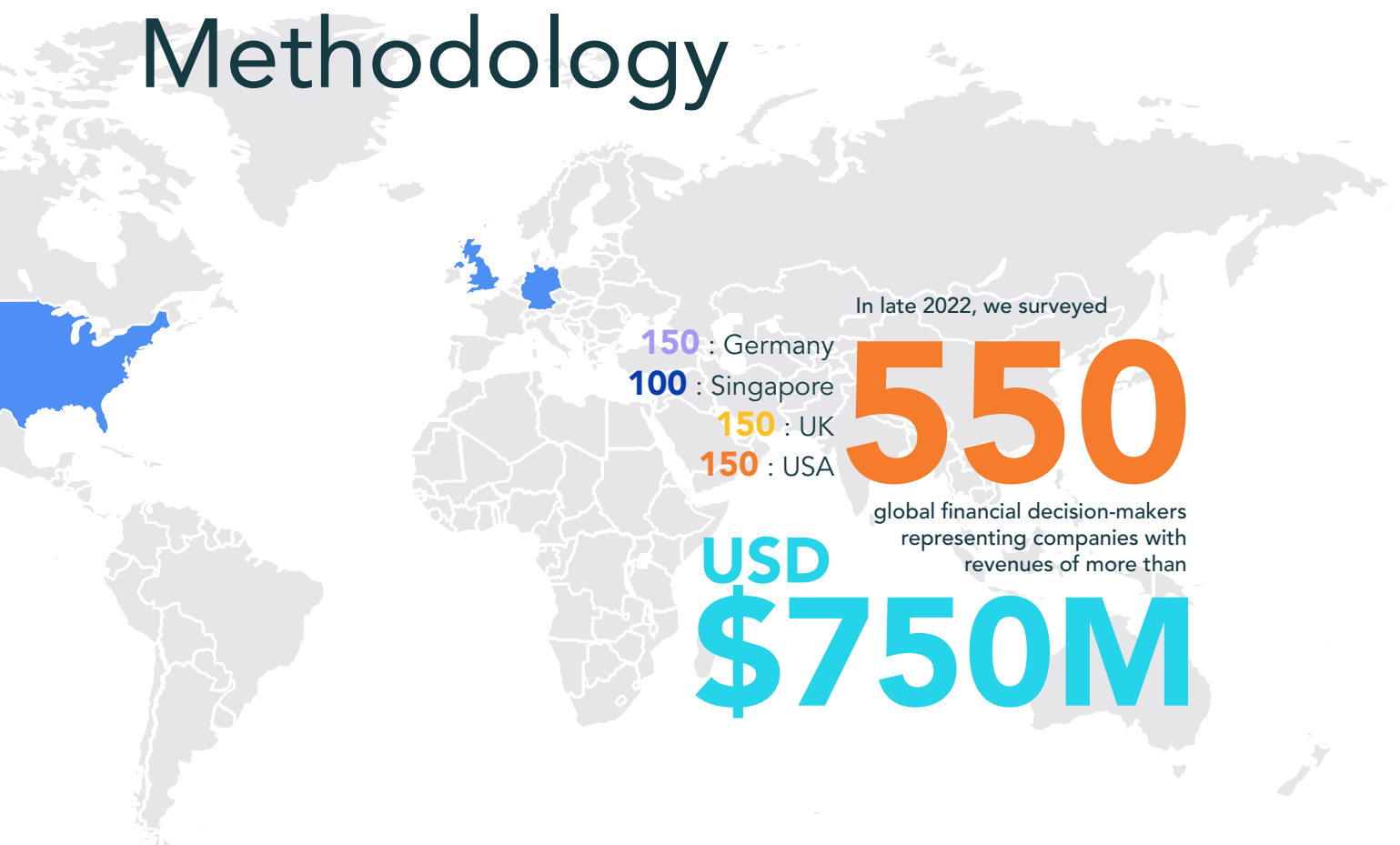
We surveyed 550 CFOs and financial decision-makers at large companies in the US, UK, Germany, and Singapore to capture the detail of the broad range of global responses to the challenges we face and what they mean for supply chain professionals.

We've divided the insights the survey offered into four chapters:

- » Chapter 1: Inflation, disruption and financial strain
- » Chapter 2: Rising costs, investing in tech and recession
- » Chapter 3: Reimagining supply chains amid disruption
- » Chapter 4: The practical application of ESG

Learn how senior leaders across the globe are responding to today's challenging environment, and how they see 2023 unfolding.

Methodology



Inflation, disruption, and financial strain

The global economy is reeling from several radically disruptive years.

Inflation appears here to stay for the foreseeable future – and for much of the developed world, recession may lie ahead in 2023. How do senior stakeholders in the global business community see the global economy's prospects

Today, after three years of extreme turbulence for the global economy, it appears the only constant we can take for granted is a mix of uncertainty, volatility, and instability. And over the course of 2022, it became decisively clear that companies, from SMEs to global enterprises, would have to add managing soaring inflation rates to their fiscal priorities.

While still managing the lingering effects of pandemic-prompted difficulties, such as labor shortages, supply chain disruption, and late payments, further pressures, including energy crises due largely to Russia's invasion of Ukraine, were mounting pressure on companies and governments across the globe.

In response, many global central banks have embarked on rapid bouts of rate increases in efforts to bring inflation under control. The policies will likely tip the US and European economies into recession in 2023, with early data toward the end of 2022 suggesting several key economies had already fallen into recession. Even if a recession doesn't take hold, global growth is still predicted to fall to 2.7% in 2023: the third-weakest forecast for over 20 years².

But, while there is uncertainty globally as a result of high inflation, this is not equally affecting businesses around the world. Our research has shown different outlooks for 2023 and beyond, with marked differences across different regions between the solutions adopted to alleviate some of the pressures that 2023 looks set to bring.



² <https://www.weforum.org/reports/global-risks-report-2023/in-full/1-global-risks-2023-today-s-crisis/>

Inflation the greatest challenge businesses face

Unsurprisingly, across the global business community, financial decision-makers consistently identified inflation as the biggest challenge to economic activity: 38% said it had been the biggest problem they faced in the last year, and 42% said it would be for at least the next 12 months.



Greatest business challenges of the last 12 months?

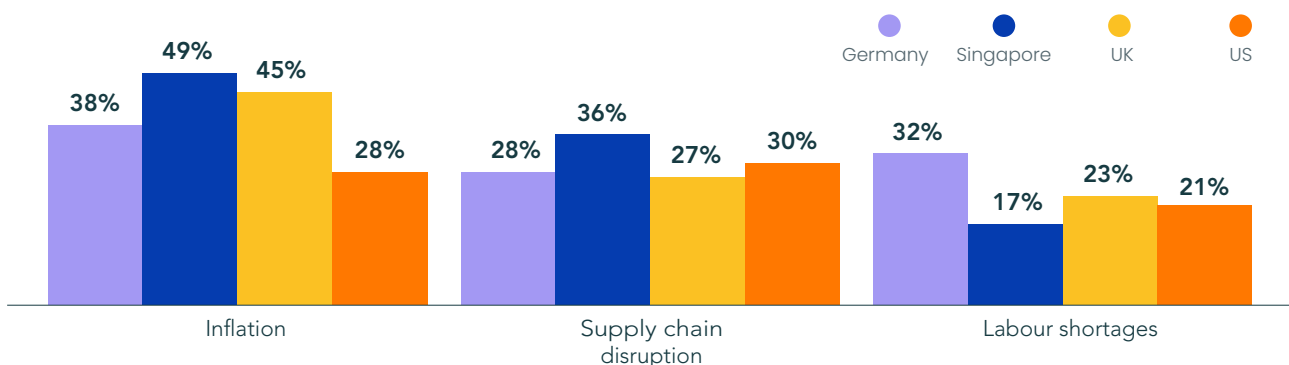
Inflation	38%
Covid	37%
Implementing sustainability /ESG programmes	28%
Supply chain disruption	27%
Managing payments cycles/late payments	27%

Last year, after inflation, Covid was narrowly in second place as a concern, but the virus barely featured among anxieties reported for 2023. This demonstrates the rapidly evolving landscape as the acute phase of the pandemic recedes further in time, but its economic effects continue to linger in complex and unpredictable ways.



Greatest business challenges of the next 12 months?

Inflation	42%
Supply chain disruption	30%
Maintaining a positive cash position	26%
New regulations	26%
Delivery delays	25%



Interestingly, at 21%, Germany is an outlier in businesses reporting they were not concerned about inflation, compared with Singapore at 9%, the UK at 5%, and the US at 2%. This is despite German inflation sitting at more than 10% of the fourth quarter of 2022³; relative optimism is perhaps explained by the precedent set by the exceptional levels of wage restraint that have characterized the German economy in recent decades⁴.

Other challenges reported by more than a quarter of decision-makers included successfully developing and implementing ESG/sustainability programs, managing payments cycles and late payments, and supply chain disruption. The latter is a key concern that appears likely to bleed into this year.

Cash flow, late payments, disruption, and labor shortages

Financial worries are starting to bite, with serious implications for supply chains and working capital management. Around a quarter of companies reported they faced challenges the next year maintaining a positive cash position, preparing to comply with new regulations, coping with late payments, or managing delivery delays.

Labor shortages, meanwhile, are a worry for 24% of global businesses, including almost a third (32%) in Germany and more than a fifth in the UK and the US.

Disparities between results reveal how different territories are experiencing economic challenges in different ways.

Singapore, for example, reported much greater concern over supply chain disruption (36%) than Germany or the UK (28% and 27%). As a key port and logistics hub for the transportation of raw materials and electronic components, Singapore has been heavily, if indirectly, exposed to the consequences of China's zero-Covid policy for manufacturing - and its abrupt lifting at the end of 2022.

Supply chain disruption was reported as the greatest concern

36%

Singapore

28%

Germany

27%

United Kingdom

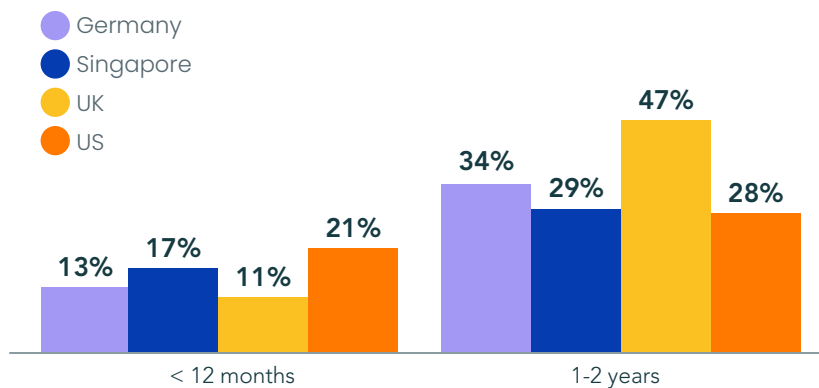
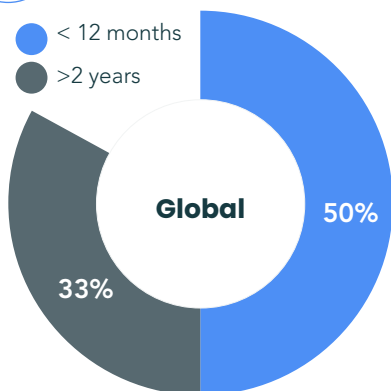
³ https://www.destatis.de/EN/Themes/Economy/Prices/Consumer-Price-Index/_node.html

⁴ <https://blogs.lse.ac.uk/euoppblog/2022/07/25/germany-is-likely-to-shift-toward-wage-restraint-as-inflation-concerns-mount/>

Inflation



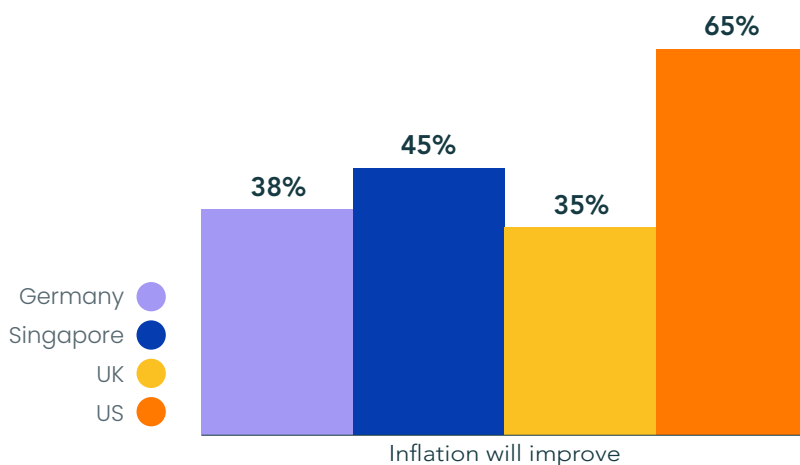
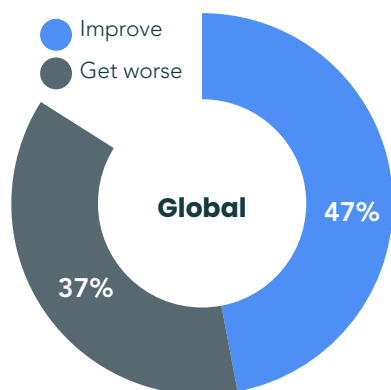
How long will inflation last?



This is perhaps the most crucial question of all, with exactly half of the businesses surveyed expecting inflation to last for longer than 12 months and 33% predicting that the current inflationary environment will persist for a period longer than two years.



Will inflation get worse?



And we may not even be through the worst. Less than half, 47% of businesses said they expected inflation to improve over the next 12 months, and a solid 37% predicted that inflation would worsen over the same period.

The US was the most optimistic country by some measure, with 65% saying they expected the situation to improve and 21% saying they thought inflation would last less than 12 months, compared to 35% and 11% in the UK.

These contrasting viewpoints reflect Europe's greater exposure to the disruption to energy prices driven by the war in Ukraine.

The UK is also undergoing the effects of Brexit, which are both controversial and difficult to untangle from the broader economic and geopolitical situation. It's clear, that business leaders expect the country to be a laggard in its recovery from the current bout of inflation.

Opportunities amid disruption

However, the outlook is not uniformly pessimistic. Challenges breed creativity and innovation, and businesses worldwide recognize the opportunities inherent in embracing data and the growing number of solutions on the market for accessing the insights their data can yield.



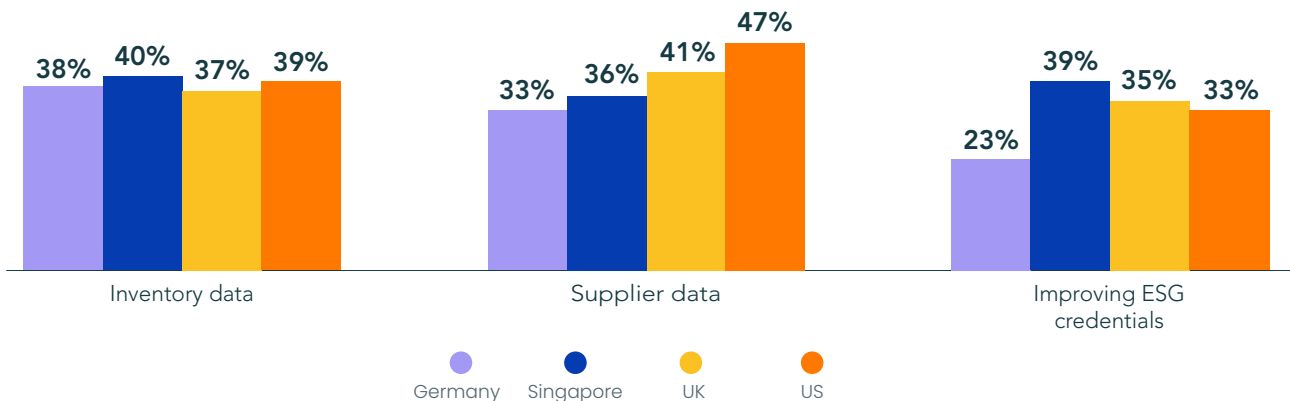
Greatest business opportunities of the next 12 months?

Implementing higher quality data on suppliers	39%
Inventory	38%
Research and development	34%
Improving ESG credentials	32%
Using supply/demand fluctuations	32%

Globally, 39% of our survey respondents said that implementing better-quality data on their suppliers would be a key element of their growth strategies going forward, with almost the same number, 38% prioritizing the leveraging of inventory data.

Other key pillars our participants reported included R&D 34%, improving ESG credentials 32%, and taking advantage of arbitrage opportunities offered by fluctuations in supply and demand 32%.

Opportunities by geography



We'll go into more detail about how companies are seizing opportunities in the next chapter.

The events of 2022 served as a dramatic response to hopes that the post-pandemic bout of inflation would prove 'transient'. Policymakers and business leaders across the developed world are having to adjust their plans accordingly, but with the creative application of new technology and data-driven solutions, businesses are finding opportunity even in this challenging environment.

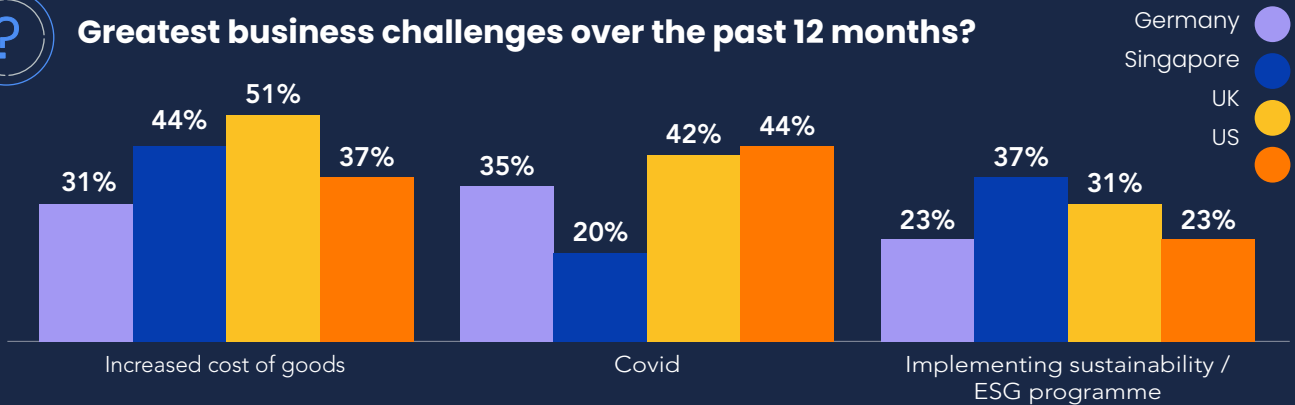
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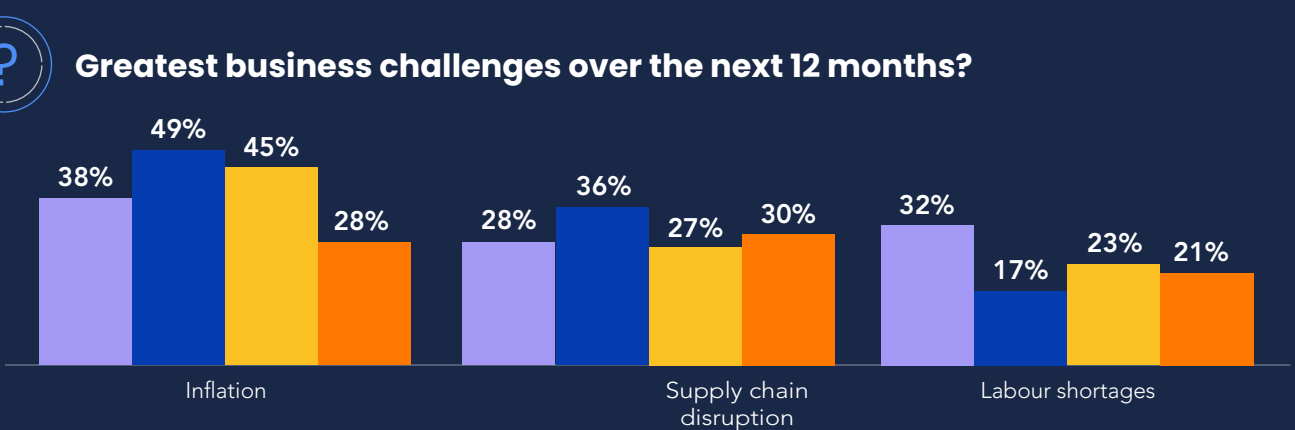
Financial stress in Singapore



Greatest business challenges over the past 12 months?



Greatest business challenges over the next 12 months?

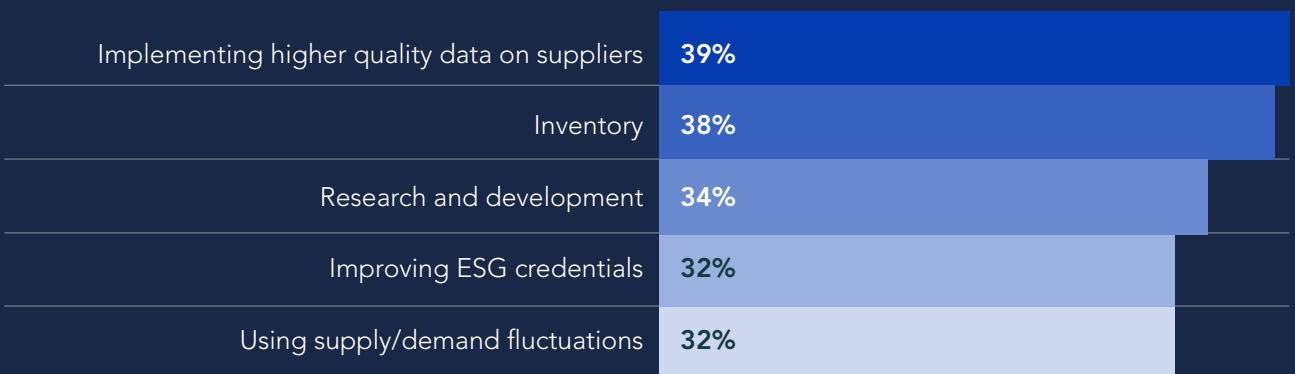


The cash flow problems discussed above were most keenly felt in Singapore, with 33% of businesses reporting financial stress in the last twelve months and 49% outlining worries over inflation.

Meanwhile, companies in Singapore are also reporting issues with late payments 31% and supply chain disruption 35%; we can compare this with 25 and 23% for Germany, and even businesses in the troubled UK appear in better shape, with 22 and 27% reporting the same issues – and only 24% reporting cash flow issues. It’s no surprise to learn, then, that finance decision-makers in Singapore report higher-quality inventory data as their top investment opportunity for 2023.



Greatest business opportunities over the next 12 months?



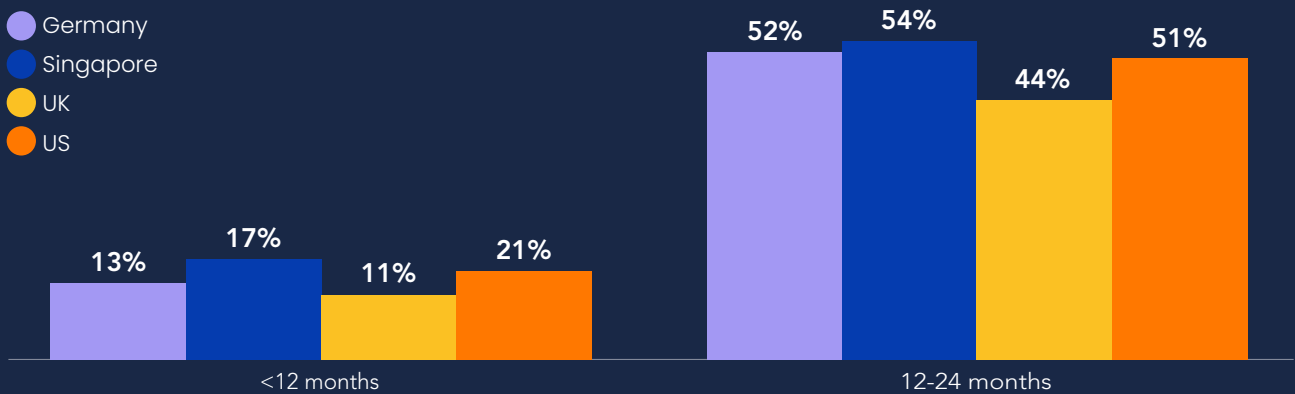
Inflation the main priority for the UK

Few countries have managed to avoid the economic adversity sweeping the globe; however, when it comes to inflation, the UK is in a league of its own.

An overwhelming 87% of British firms reported concerns about the impact that price disruption will have on their business, and 48% anticipate these issues to worsen over the next year.



How long will inflation last?



While 47% of global businesses expect inflation to alleviate in the next 12 months, only 35% of companies in the UK expect to experience the same relief.



Will inflation get better?



Meanwhile, 47% of British companies anticipate the current bout of inflation to last more than two years, compared with 34% in Germany and 28% in the US. Businesses in the UK were in the lead in reporting worries about energy prices.

These costs are, in turn, all but certain to have a substantial effect on the consumer, with 40% of businesses reporting plans to raise prices – the highest proportion of any region we examined.

Conclusion

In examining the responses to our survey, we can see that the effects of the global uncertainty caused by the COVID-19 pandemic in 2020 have devolved into localized issues set to rule 2023. Though a mixture of geopolitical situations and responses have caused this, it's important to remember that these have knock-on effects on a global supply chain.

During recessions and periods of high inflation, improving bottom lines through cost cuttings, such as layoffs, is often seen as an inevitable response. However, the long-term effects of those decisions often outlast the wider financial climate and can hinder the ability to recover at or above the market rate.

This is exemplified in the trend among our surveyed decision makers for investing in their supply chain and inventory data. Indeed, better oversight of a company's operating data is often the difference between averting a problem and blindly stumbling into one.

In our next chapter, 'Rising costs, investing in tech and the potential recession' we will be taking a closer look at how financial decision-makers will execute their plans for 2023.

Coming soon





