



Three Unassuming Letters Every CEO Needs To Look Forward To Reviewing...

Why Does It Matter?

Liquidity! The shorter the cash conversion cycle (CCC), the more working capital being generated by the business to reinvest in additional growth, capabilities, pay down debt, and reward investors.

By keeping a close eye on CCC trending, CEOs can ensure their organization is set up to generate the cash flow needed to fund their longer term strategic vision.

Points For Your Consideration:

- ⇒ Multiple mechanisms impacting CCC are absolutely controllable
- ⇒ CCC metric is easy to calculate with data you already have on hand
- ⇒ Trend identification can help isolate aspects of the Organization needing intervention (operational improvements, process & contracts redesign, network optimization, additional training, etc.)
- ⇒ CCC has direct connections with capital structure, credit, facility & make/buy decisions, supply chain management, and even your employee life cycle
- ⇒ CCC metric lends itself well to enterprise goal setting, data visualization, executive dashboards, and benchmarking
- ⇒ "Good" depends on your products and your industry. However, the coveted unicorn of negative CCC does exist!

Next Steps:

If one of your key metrics is not CCC:

- 1) Break out your financial statements and create it!
- 2) Start graphing your data points to visualize the trend.
- 3) Compare your trajectory with other industry leading firms
- 4) Ask your team: do we understand the cash flow implications of our decisions?
- 5) Ask yourself: where is the next opportunity to further optimize outstanding days?
- 6) Ask your leaders: What are we doing today to remove cash constraints?



Definition:

Number of elapsed days to convert the outlay of cash for raw materials to the receipt of cash after goods have been sold.

Formula:

Cash Conversion Cycle =

Days Inventory Outstanding (DIO) +
Days Sales Outstanding (DSO) -
Days Payable Outstanding (DPO)



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