Working Capital & Cash Conversion Cycle (CCC) Cheat Sheet

DIO, DSO, DPO Operating Metrics, Cash Conversion Cycle & Working Capital Optimization

1. THE CASH CONVERSION CYCLE (CCC) FORMULA

Cash Conversion Cycle (CCC) = DIO + DSO − DPO

Measures the time (in days) required to convert raw cash invested into inventory back into collected customer cash.

2. THE 3 COMPONENT METRICS

Metric	Calculation Formula	Operational Interpretation & Goal
Days Inventory Outstanding (DIO)	**(Average Inventory / COGS) × 365**	Days inventory sits on shelf before being sold. *Goal: Lower is faster.*
Days Sales Outstanding (DSO)	**(Average Accounts Receivable / Total Credit Sales) × 365**	Average time required to collect cash from customers. *Goal: Lower is faster.*
Days Payable Outstanding (DPO)	**(Average Accounts Payable / COGS or Purchases) × 365**	Average days company takes to pay trade suppliers. *Goal: Longer delays cash outflow.*

3. NEGATIVE CCC & BENCHMARKS

Companies like Amazon and Dell operate with a **Negative Cash Conversion Cycle** (DPO > DIO + DSO). They collect cash from customers weeks before paying their suppliers, effectively generating free interest-free working capital financing!

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