Monitor these KPIs to optimise working capital

Keep cash flowing and your business agile.

Monitoring KPIs like the Cash Conversion Cycle, Current Ratio and Quick Ratio helps you spot inefficiencies and optimise liquidity when it matters most.

The Cash Conversion Cycle (CCC)

Think of the Cash Conversion Cycle as the time it takes to convert your investments in inventory and other resources into cash flow from sales.

How to Calculate the Cash Conversion Cycle (CCC)

The CCC is calculated using three key components:

$$\text{CCC} = \text{DIO} + \text{DSO} - \text{DPO}$$

DIO (Days Inventory Outstanding):

DSO (Days Sales Outstanding):

DPO (Days Payables Outstanding):

A shorter CCC means your capital isn't tied up for long, which means your business is liquid. A longer one means you probably have several bottlenecks in your day-to-day systems.

$$\text{Current ratio} = \text{Current liabilities} \div \text{Current assets}$$

This looks at your ability to cover your short-term obligations with your short-term assets.

A current ratio above 1 suggests you have enough liquid assets to meet your immediate financial obligations.

$$\text{Quick ratio} = \text{Current liabilities} \div \left(\text{current assets} - \text{inventory}\right)$$

Similar to the current ratio, the quick ratio excludes inventory from your short-term assets, so you get a more conservative view of your immediate liquidity.

A healthy quick ratio indicates you can meet your current liabilities even if you can't quickly convert inventory into cash.