

Working capital finance trends

A practical toolkit for improving the cash conversion cycle

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Executive summary

Working capital has moved from a routine treasury topic to a board-level priority. Benchmarking and market commentary show that overall cash conversion cycle performance is improving, but unevenly. Many corporates have regained control over payables, while receivables and inventory remain structurally challenging.

At the same time, the working capital playbook is changing. Traditional measures such as extending supplier terms, tightening customer terms or reducing stock levels can deliver short-term benefits, but often at the expense of relationships, resilience and long-term value creation. Leading organisations are therefore combining structured working capital finance solutions with digital and data-driven execution. The objective is to improve the cash conversion cycle in a sustainable way, without transferring pressure across the value chain.

Why the cash conversion cycle is back in the spotlight

The cash conversion cycle, typically expressed as days inventory outstanding (DIO) + days sales outstanding (DSO) -/- days payables outstanding (DPO), remains one of the clearest indicators of how efficiently a company converts operations into cash.

What has changed over the past few years is the context. Higher funding costs, supply chain reconfiguration and persistent volatility in demand and pricing have elevated working capital from an operational concern to a strategic lever. For many CFOs, improving the cash conversion cycle is now a primary means of funding resilience and growth without relying solely on additional balance sheet debt.

Recent benchmarks illustrate this clearly. In several markets, aggregate cash conversion cycle performance has improved, but progress has been driven largely by payables. Receivables and inventory have proven far more difficult to unwind. At the same time, global benchmarks continue to point to substantial levels of trapped liquidity, reinforcing why working capital remains high on the strategic agenda.

Trend one: payables optimisation is moving from term extension to structured programmes

In a higher cost-of-capital environment, pushing suppliers for longer payment terms is often less effective and increasingly risky. Suppliers are facing similar funding pressures, and aggressive term extensions can undermine supply stability, pricing and long-term partnerships.

As a result, payables optimisation is increasingly pursued through structured programmes rather than ad hoc renegotiation.

The modern payables toolkit

- **Supply chain finance programmes** enable buyers to extend DPO while offering suppliers the option of early payment, typically priced on the buyer's credit profile. This improves the buyer's cash conversion cycle without transferring financial stress to suppliers.
- **Dynamic discounting** is increasingly deployed alongside supply chain finance, particularly where buyers have surplus liquidity. It allows buyers to deploy excess cash efficiently while providing suppliers with funding flexibility.

Benchmark data suggests that while DPO improvement remains achievable, the performance gap between top-quartile and median companies continues to widen. Sustainable outcomes are increasingly driven by programme design, governance and execution discipline, rather than one-off initiatives.

Trend two: receivables remain stubborn, driving demand for precision tools

Receivables continue to be a structural challenge across many sectors. Long contractual payment terms, customer bargaining power and complex rebate or settlement structures keep DSO elevated.

The modern receivables toolkit

- **Order-to-cash digitisation** is a critical foundation. Faster, more accurate invoicing, improved dispute resolution and streamlined cash application reduce friction that delays payment, often without changing commercial terms.
- **Risk-led credit and collections models** are gaining traction. By combining customer segmentation, payment behaviour analysis and targeted actions, finance teams can focus effort where the cash impact is greatest.
- **Structured receivables financing** is increasingly used as a complementary tool. By converting eligible receivables into cash earlier, companies accelerate liquidity without altering customer payment terms. When applied selectively to high-quality receivables portfolios, this provides predictable funding while preserving commercial flexibility.

In practice, this represents a shift from managing overdue balances to actively shaping the liquidity profile of receivables.

Trend three: inventory is becoming an analytics challenge as much as a supply chain one

Inventory remains a major driver of the cash conversion cycle. Resilience initiatives, longer lead times and volatile demand signals continue to increase DIO and absorb liquidity.

Rather than relying on blunt stock reductions, leading organisations are adopting data-driven approaches. AI-enabled forecasting, inventory segmentation and early identification of slow-moving or obsolete stock allow capital to be released while maintaining service levels. This marks a shift from episodic cost cutting towards systematic, cash-focused inventory governance.

Trend four: digital and AI are moving from reporting to execution

One of the defining trends for 2025–2026 is the transition from static reporting to execution-oriented digital capabilities. End-to-end visibility across the cash conversion cycle, combined with automation and performance management, allows companies to unlock working capital faster and with less organisational friction than traditional renegotiation-led approaches.

Concrete AI use cases are now emerging across all components of the cycle. Predictive analytics identify customers at risk of late payment, automated reconciliation reduces incorrect or premature payments, and advanced forecasting improves inventory decisions. Together, these tools enable finance teams to move from reactive intervention to proactive control.

Key working capital challenges for 2026

Price volatility and ongoing supply chain disruption increase the cash value of inventory and reduce forecast accuracy. Supplier structures are often rigid, limiting scope to renegotiate payment terms for critical inputs.

On the sales side, long retailer payment terms, rebates and discount mechanisms continue to extend DSO, while competitive pressure constrains pricing flexibility. Regulatory requirements related to traceability, sustainability and safety increase short-term capital commitments. In parallel, storage constraints and, in certain sectors, perishability structurally elevate inventory levels.

Working capital as a risk driver or a source of advantage

A structurally high cash conversion cycle reduces financial flexibility and increases sensitivity to interest rates and credit conditions. When actively managed, however, working capital can become a source of resilience and strategic optionality, enabling continued investment through periods of volatility.

A practical cash conversion cycle toolkit

In this environment, payment terms and liquidity access become strategic design variables rather than operational details. Flexible and structured solutions can align cash flows more closely with value creation, improving liquidity without disrupting operations.

Practical focus points include:

- **DSO:** combine order-to-cash digitisation and predictive collections with structured receivables financing to accelerate cash conversion without impacting customer payment terms.
- **DIO:** invest in forecasting accuracy, inventory segmentation and cash-focused governance.
- **DPO:** deploy structured payables programmes, such as the Nexent Bank payable solution, supported where appropriate by dynamic discounting.

Conclusion

There is no single dominant working capital solution. Benchmark data shows progress in some areas, particularly payables, but overall performance remains uneven.

Leading organisations are adopting integrated operating models that combine structured finance solutions with digital, data-driven execution. By rethinking payment structures and liquidity access, companies can improve the cash conversion cycle while protecting supplier relationships, customer experience and operational resilience. Working capital optimisation is increasingly a strategic necessity rather than a tactical choice.

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