CCC

CCC= The time I pay for inventory and I get my money from customer
DIO= Time to sell inventory
DSO= time receive payment from customer
DPO= How much time I have to pay my suppliers.

NWC=CA-CL
CCC= DIO+DSP-DPO
DIO=(inventory/COGS)*365
DSO=(Av AR/Credit Sales)*365
    Av AR=(First year sales + Second year)/2= …./Credit Sales= … *365
DPO= (Av AP/ Credit purchase)* 365
    Av AP=(First year sales + Second year)/2= …./Credit Sales= … *365
    Credit purchase it's the same as cost of sales

EXAMPLE
Calculate the **Cash Conversion Cycle** and explain the meaning of it, if a company´s average number of days to sell the product is 91 days.
The company has negotiated payments to suppliers 51 days after receiving the raw material and receives money from the clients 33 days after selling the product.
DIO= 91
DSO= 33
DPO= 51
CCC= 91+33-51= 73 days
Number of days since I pay for the raw material, until I collect the money from my clients.

1. Use your imagination or a real example to develop an example of a company with a negative CCC.

Example of a Real Company with Negative Cash Conversion Cycle (CCC): Amazon
Company: Amazon.com, Inc.

Amazon offers a diverse range of products, including electronics, books, apparel, and more, operating primarily in the e-commerce and cloud computing industries. The company sources products from a vast network of manufacturers and suppliers worldwide, encompassing both small businesses and large multinational companies. Amazon's business model includes direct sales, a third-party seller platform, and subscription-based services like Amazon Prime. Additionally, they have an extensive logistics network to ensure quick delivery, enhancing customer satisfaction and operational efficiency.

Operation:
1. Customer Orders and Fulfillment:

Customers place orders through Amazon's online platform, often utilizing Prime membership for expedited shipping. This creates a steady demand and allows for efficient inventory turnover.
2. Inventory Management:
Amazon uses sophisticated inventory management systems to ensure products are stocked just in time. They leverage data analytics to predict demand and adjust inventory levels accordingly.
3. Supplier Payments:
Amazon negotiates favorable payment terms with suppliers, allowing them to delay payments while ensuring the continuous flow of goods into their fulfilment centers.

Cash Conversion Cycle (CCC) Calculation:
The CCC is calculated using three components: Days Inventory Outstanding (DIO), Days Sales Outstanding (DSO), and Days Payable Outstanding (DPO).

DIO (Days Inventory Outstanding):
DIO= (Average Inventory/COGS) *365= ... days

DSO (Days Sales Outstanding (DSO)
DSO= (Average Accounts Receivable/Annual Revenue) * 365= .... days

DPO (Days Payable Outstanding:
DPO: (Average Accounts Payable/COGS)*365=...days

CCC=DIO+DSO-DPO

Amazon has a CCC of -70 days. This negative CCC indicates that Amazon collects cash from its sales much faster than it pays its suppliers. In other words, Amazon receives payments from customers before it needs to pay for its inventory, which provides a significant advantage in terms of liquidity and working capital management.

Operational Strategies Leading to Negative CCC:
Amazon has a few key strategies that help it achieve a negative CCC.
First, it manages its inventory very well using advanced systems to keep just the right amount of stock, which means items don't sit in storage for long.
Second, Amazon gets paid quickly by its customers, especially for online purchases, so it doesn't have to wait long for its money.
Lastly, Amazon is good at negotiating with suppliers, so it can delay paying them for a longer time. This combination of quick payments from customers and delayed payments to suppliers helps Amazon maintain a negative CCC.

Benefits of a Negative CCC:
- Improved Cash Flow: With a negative CCC, Amazon can reinvest the cash generated from sales before needing to pay its suppliers, enhancing its liquidity position.
- Reduced Financing Costs: Amazon's strong cash flow reduces its reliance on external financing for working capital needs, thereby minimizing interest expenses.

- Competitive Advantage: The efficient cash cycle allows Amazon to maintain its aggressive growth strategy, invest in new technologies, and offer competitive prices.

In conclusion, Amazon's negative CCC shows how well it runs its operations and manages its finances, allowing the company to keep a strong cash flow and stay a market leader.