

# Working capital optimization

Operational Transformation for a Sustainable Cash Culture



The optimization of working capital has never been more important for private equity firms. Costly debt payments, pressure on operating margins, and the need to invest in AI and other capital projects are just three reasons PE firms cannot afford to burden their businesses with tens of millions of dollars of tied-up cash. Money that is paid out early or trapped in inventory or not yet collected from customers is money that could be used to create value, improve operating performance, and make a portfolio company more attractive to a buyer.

We described that opportunity in a [previous article](#). Here we discuss some of the organizational, data, and cultural obstacles that make effective working capital management difficult—and how to overcome them.

Companies that treat cash management as a strategic lever rather than a back-office metric and apply it across their entire operations can capture outsized benefits. Consider, for example, the case of a mid-size private equity owned industrial service provider. Facing an upcoming debt payment, the company went to work on its accounts receivable. It redesigned its entire billing process by introducing more active up-front billing of major installation projects and rolling out process improvements and IT solutions so as to bill completed jobs more quickly. Within just 12 weeks, the company had reduced its unbilled work orders by more than 50%, accelerated invoicing by 15 days, and generated an extra \$30 million in cash—enough to meet its payment obligation.

In another instance, a private equity-backed UK-based retailer, had to hit ambitious cash flow targets so as to meet commitments it had made to investors. The company launched a cross-functional program that addressed all three elements of working capital: It negotiated new payment terms with suppliers, instituted sharper demand planning and monitoring to manage inventory, and improved data visibility for payables. The program identified and delivered more than £400 million in incremental working capital, which not only kept the promise to investors but also enabled the company to finance critical AI capital expenditures without additional borrowing.

There is nothing theoretical about the value of optimizing working capital, but structural and cultural problems can make it difficult to do.



## STRUCTURAL BARRIERS TO WORKING CAPITAL PERFORMANCE

Structural barriers begin with the fact that responsibility for managing working capital is exceedingly diffused. The amount of cash required to operate a business is shaped by literally thousands of routine decisions typically made by mid-level managers and frontline employees.

Although payables and receivables might be managed by finance, the terms are negotiated by procurement and sales; and inventory and major project billing are under the purview of operations. Rarely does anybody have an end-to-end view of how cash is getting managed.

Without coordination, visibility, or shared accountability, the system naturally drifts toward inefficiency, as each group optimizes for its own convenience. In the absence of incentives that prioritize cash impact, a sales rep will give favorable payment terms to sweeten a deal; a procurement manager will agree to lower payment terms to get a price concession; or a warehouse manager will order unnecessarily large volumes of spare parts. The problem even gets compounded because managers' incentives rarely reflect the company's cash objectives.

Those issues often go unnoticed by the organization's top leadership because financial reporting systems are typically biased toward operating profit and offer little visibility into critical working capital dynamics like inventory velocity, unbilled goods and services, receivables aging, or adherence to payment terms.

## NEED FOR AN ENTERPRISE-WIDE INITIATIVE

Given such complexities, improvement of working capital cannot be accomplished by finance teams alone. It necessitates an enterprise-wide initiative that should involve operating partners, C-suite leadership, and middle management with aims to realign processes, reshape incentives, and embed a culture of cash discipline throughout the organization.

Culture matters, because success depends on scores of day-to-day decisions. Managers, sales reps, and frontline employees have to consider cash alongside cost and service levels in every operational trade-off, so that, for example, a warehouse manager can question an automated six-month reorder or a procurement manager and an account manager can see why they should hold the line on payment terms. To help employees make cash-conscious choices, companies have to implement policies, provide tools, establish frameworks, construct dashboards, and offer incentives—and leadership support.

The basics of disciplined supplier payments, accurate and timely invoicing, and tight inventory management can unlock substantial cash quickly. Once those basics get established, an enterprise-wide initiative can embed cash awareness deeply into the culture—especially at highly leveraged private equity businesses.

# FOUNDATION OF A SUCCESSFUL TRANSFORMATION

Sustained positive impact requires three reinforcing elements: (1) leadership alignment; (2) target setting, accountability, and incentives; and (3) rigorous execution.



## 1 Leadership alignment

Leadership alignment is the cornerstone of any transformation. Creating a cash-conscious culture begins with the CEO's and CFO's positioning working capital as a strategic priority. Too often, however, cash consciousness gets framed as penny-pinching, when the reality is that cash is what fuels growth, resilience, and, ultimately, exit readiness. When working capital gets framed that way, the message resonates across the organization. For private equity sponsors, reinforcing that perspective at the board level is essential. The investor's voice should signal that working capital performance matters as much as revenue growth and EBITDA margin.

Equally important, cash discipline must extend beyond finance. Accounts receivable should be a shared responsibility between sales and finance; procurement should negotiate with vendors, with explicit consideration of payment terms; and operations should be accountable for inventory efficiency and billing speed. PE firm operating partners and finance teams can institutionalize a cash-centric mindset by introducing dashboards so that everyone can see what's happening and track progress. Such cash focus ensures that discipline survives leadership transitions and persists through the full holding period.

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## 2 Target setting, accountability, and incentives

Without ambition grounded in rigorous target accountability, transformation stalls. Transparency is a must—and it must be granular.

Analysis of supplier-level payment terms, product-level inventory days, or customer-level billing lead times often uncovers material opportunities invisible at the aggregate level. And the resulting insights create the foundation for ambitious yet achievable targets.

But targets alone rarely sustain behavior. Targets must be reinforced by detailed progress tracking and aligned cross-functional incentives. For instance, sales teams should be rewarded for cash collected, not just for contracts signed. Procurement key performance indicators should reflect both negotiated price savings and the working capital impact of terms.

These things—incentives and tracking—reduce the risk that gains unwind once attention shifts.

# 3



## Rigorous execution

Execution is where strategy becomes liquidity. Sustainable working capital gains require embedding discipline into everyday decisions made by accounts payable, accounts receivable, and inventory management. It depend on setting up and adhering to efficient processes—with necessary IT support to spot and stop leakages in accounts payables, to automate collections in accounts receivables, and to maintain inventories at minimal levels while satisfying operations and sales needs.

Given the prevalence of ongoing disruptions and macroeconomic uncertainties, the best management teams overlay operational discipline with rigorous scenario planning. By modeling multiple downside cases such as abrupt shifts in tariffs, supply chain disruptions, financial problems at key customers, the best management teams gain clarity on how quickly liquidity could come under pressure, how sensitive covenants are to shifts in performance, and how to respond. Such an approach equips organizations with a predefined playbook that ensures that working capital actions get executed decisively when conditions change rather than debated under duress. Advanced technology can help; for example, the AlixPartners **Global Trade Optimizer** can help companies analyze purchasing agreements, identify supplier risk, and find alternative suppliers.

Operating partners can play critical roles in embedding those elements inside portfolio companies, and deal teams can help by stipulating clear expectations around cash discipline into the deal thesis and in the milestones they track.

## The bottom line

For private equity investors, working capital optimization is one of the fastest and lowest-risk ways to release trapped cash and enhance returns. In today's environment of economic uncertainty, high interest rates, and leveraged business structure, the optimization of working capital to maximize access to internal sources of cash has become increasingly valuable. Companies that develop cash-conscious cultures, offer the necessary transparency, realign incentives, and systematically correct operational inefficiencies will not only strengthen their balance sheets but also enhance their strategic agility. Such deep operational transformation is not optional; it is the fundamental enabler of sustainable working capital improvement, and it is appropriately rewarded at exit.



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These are the moments when everything is on the line—a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA—so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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