

The Untapped Value of Working Capital Efficiency

Why Supply Chain Finance Deserves a Bigger Role in Corporate Capital Strategy

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A corporate capital productivity framework

Four pathways to measurable economic value: capital efficiency, capital redeployment, financial resilience and margin enhancement.

Executive perspective

Consider two companies in the same industry, each generating \$2 billion in annual revenue and \$240 million in operating profit, a 12% margin. One requires \$1 billion in invested capital to operate. The other requires just \$600 million. With comparable risk, growth and accounting policies, which would you rather own?

Financial measure	Company A	Company B
Annual revenue	\$2.0 billion	\$2.0 billion
Operating profit	\$240 million	\$240 million
Operating margin	12%	12%
Invested capital	\$1.0 billion	\$600 million
Pre tax operating return on capital	24%	40%

Company B produces the same operating earnings while committing 40% less capital.

The point is not that financing techniques alone explain the difference. It is that capital productivity deserves the same strategic attention as revenue growth and operating margins. Corporations regularly buy inputs, hold inventory, sell products and collect receivables. Their working capital strategy should encompass all those roles, rather than evaluate each transaction in isolation.

This paper proposes that supply chain finance, encompassing payables finance, receivables finance, inventory finance and early payment discounting, can improve the productivity, flexibility and resilience of corporate capital. Its effectiveness should be judged by net economic value to participating trading partners, not by financing volume or pricing alone.

1. The opportunity: Think like an enterprise, not a transaction

Corporate buyer and corporate supplier are transactional roles, not separate classes of companies. A manufacturer may offer payment terms to customers, hold inventory, negotiate with its suppliers and participate in another corporation's supplier finance program. Each decision affects the same enterprise cash cycle.

Cash conversion cycle is commonly described as days inventory outstanding plus days sales outstanding less days payables outstanding. Operational changes can improve this cycle by reducing inventory or accelerating actual customer collections. Financial supply chain solutions can also change how operating assets are funded and when cash is available. Their accounting and economic effects depend on the instrument and its terms.

A narrow financing comparison can miss the value of capital released, the alternative use of that capital, the resilience gained and the commercial gains achievable through early payment. Yet cost of capital remains an essential hurdle, not a barrier to be ignored. The correct test is the incremental value created after financing expenses, execution costs, retained risks and effects on counterparties.

2. What financial supply chain solutions actually change

Solution	Corporate perspective	Primary economic mechanism
Payables finance	Acting as buyer	Potentially preserves or extends payment timing while providing eligible suppliers optional early payment through a funder
Receivables purchase	Acting as supplier	Monetizes receivables and, when sale criteria are satisfied, can remove the sold receivable from the balance sheet
Inventory finance	Holding stock	Provides liquidity against or through inventory assets, subject to structure and risk
Dynamic discounting	Deploying liquidity as buyer	Uses accelerated payment to negotiate purchase savings that can exceed the cost of funding

True sale matters

A qualifying true sale is not merely a loan secured by receivables. If a transfer satisfies applicable derecognition requirements, the corporate supplier removes the transferred receivable from its balance sheet and recognizes proceeds, adjusted for discounts and any retained interests or obligations. Under United States GAAP, ASC 860 considers legal isolation, the transferee's right to pledge or exchange the asset and effective control. IFRS 9 applies its own transfer, risks and rewards, and control tests. Recourse provisions require analysis, but not every limited recourse obligation automatically defeats sale accounting.

This is a meaningful capital efficiency mechanism. It should not be conflated with a secured borrowing, which normally leaves the receivable on the balance sheet and adds a liability. Nor should derecognition alone be equated with enterprise value creation. If sale proceeds simply remain as excess cash, a company has changed asset composition; reduction in net capital employed depends on subsequent use of proceeds, recurring costs and retained exposures.

3. The four pillars of value

EXHIBIT 1 | SCF STRATEGIES CAPITAL PRODUCTIVITY FRAMEWORK

Capital efficiency	Capital redeployment
Reduce the internally funded capital required to support the commercial cycle.	Redirect liquidity toward debt reduction, productive investment or shareholder distributions.

Financial resilience	Margin enhancement
Preserve flexibility during market disruption and protect critical trading relationships.	Use accelerated payments strategically when supplier discounts exceed the full cost of funding.

NET ECONOMIC CAPITAL PRODUCTIVITY: Sustainable financial value after financing costs, risks, counterparty effects and program durability.

Exhibit 1. SCF Strategies Capital Productivity Framework.

Pillar one: Capital efficiency

A corporation that can support the same commercial activity with less capital devoted to receivables, inventory and payment obligations has more productive use of its financial resources. For example, on \$100 million of annual sales, accelerating eligible receivables by 45 days represents approximately \$12.3 million of receivables converted to cash earlier, assuming a uniform sales pattern and full eligibility. A true sale can derecognize the transferred receivables if accounting requirements are satisfied.

The benefit must be analyzed net of discounts, retained exposures and continuing program dependency. Operational DSO improvements, qualifying receivables sales and secured financing do not produce identical balance sheet outcomes. A corporation should distinguish them, then evaluate their combined effect on economic capital requirements.

Pillar two: Capital redeployment

Released liquidity creates options. It can reduce debt, fund automation, finance new production capacity, support growth, acquire businesses or be distributed to shareholders. The comparison is not automatically between the SCF price and a borrowing rate. It is between the all in cost and risk of the financing strategy and the economic benefit of the actual alternative use. Simply generating cash without a productive application does not guarantee value creation.

Pillar three: Financial resilience

Liquidity becomes exceptionally valuable when commodity prices rise, global logistics seize up or demand abruptly contracts. A corporate buyer may appear financially sound while critical suppliers lack the cash to maintain capacity, make payroll or rebuild inventory. Conversely, a supplier may need dependable access to early payment to support increasing orders from its customers. These risks are interconnected.

The automotive crisis of 2008 and 2009 illustrates the stakes. United States government reporting documented the financial strain on the automotive supplier network and the risk that supplier failures could disrupt otherwise viable production. In March 2009, the United States Treasury announced an Auto Supplier Support Program of up to \$5 billion intended to restore credit flows and permit participating suppliers to monetize qualifying receivables. The program illustrates the use of receivables liquidity as an instrument of supply chain stabilization; it does not establish that every supported supplier avoided distress.

True resilience also requires diversity of funding sources, sound buyer credit, robust contracts, committed availability where possible and stress testing. SCF capacity is not immune to disruption. It can strengthen resilience only to the extent that liquidity remains accessible when needed.

Pillar four: Margin enhancement

Early payment is also a commercial bargaining tool. A corporate buyer may use available or financed cash to offer accelerated settlement in return for negotiated supplier discounts. If a supplier willingly accepts terms that are economically better than its alternatives, both companies can benefit.

Illustrative purchase economics	Annual amount
Eligible purchases	\$100 million
Supplier early payment discount	1.50%
Gross purchasing savings	\$1.50 million
Approximate funding cost, 30 days at 6%	\$493,000
Net illustrative benefit	\$1.01 million

The calculation assumes a 30 day funding acceleration across annual eligible purchases and excludes additional fees, execution costs, taxes and credit losses. The supplier must also assess whether the discount is attractive relative to its funding costs and liquidity needs. An economically sustainable program cannot be built on coerced discounts or unilateral payment term extension.

4. Evidence from corporate performance: Techtronic Industries

Techtronic Industries, the global power tools group, offers a recent illustration of revenue growth accompanied by improved working capital intensity. The company reported that working capital declined from 21.2% of sales in 2022 to 17.7% in 2023 and 14.4% in 2024. Revenue increased from approximately \$13.25 billion in 2022 to \$14.62 billion in 2024. Free cash flow rose from approximately \$329 million to \$1.59 billion over that period, although other earnings, spending and operational factors also contributed.

Financial measure	2022	2023	2024	2025
Revenue, US\$ billions	13.25	13.73	14.62	15.26
Working capital as % of sales	21.2%	17.7%	14.4%	15.5%

The 2025 result is instructive rather than inconvenient. Revenue continued to increase, but working capital intensity rose to 15.5%, in part as inventory days rose during tariff related supply chain adjustments. The longer trend still represents a substantially less capital intensive profile than in 2022. This demonstrates the relevance of capital productivity and the pressures created by disruption, not that SCF alone caused the outcome.

The strategic insight: Growth need not require proportionate growth in working capital.

A second, contemporary example comes from Masco Corporation. In July 2026, Masco reported working capital equal to 19.8% of trailing annual sales and said it expected the ratio to return to approximately 16.5% by year end. Applied illustratively to its 2025 sales of \$7.562 billion, this 3.3 percentage point difference

represents approximately \$250 million in working capital. The target largely reflected an expected normalization of tariff related pressures, not a demonstrated result from SCF programs. It illustrates why even modest changes in capital intensity matter at enterprise scale.

5. Mutual value is a condition of sustainable adoption

Traditional payment term extension can improve a corporate buyer's DPO while simultaneously increasing its suppliers' DSO and funding needs. That may transfer pressure rather than create efficiency. Financial supply chain structures can instead use differences in credit quality, funding access and liquidity preferences to make the transaction more attractive to both sides.

Not every participant needs the same benefit. A buyer may gain flexibility, a supplier may gain lower cost or more dependable liquidity, and a funding institution may earn a risk adjusted return. But real mutual benefit must be demonstrated through informed, voluntary participation and commercially sustainable terms. Supplier liquidity cannot be an afterthought to buyer optimization.

6. From separate products to an enterprise capital strategy

Many corporations still evaluate payables, receivables, inventory and discounting programs within separate functions. Treasury focuses on funding and liquidity; procurement on price and continuity of supply; finance on return metrics; commercial teams on customer terms. The organization needs an integrated view of the capital consumed or released across the entire operating cycle.

A practical assessment should quantify five things: the capital released or financed; the full program expense and retained exposures; the alternative use of proceeds; the resulting margin and return effects; and the resilience and consequences for trading partners. It should compare baseline and stress scenarios, accounting consequences and program sustainability before selecting any financing solution or technology platform.

This approach may also broaden SCF utilization. Our contention is not that financing costs alone are restricting industry growth, nor that underutilization has already been quantified across all corporates. It is that a fragmented, product first value proposition can cause companies to overlook financially attractive opportunities available across the broader supply chain.

Conclusion: Ask a better capital question

Instead of asking only how much it costs to finance receivables, payables or inventory, corporate leaders should ask how much capital the enterprise truly needs to support the same revenue, operating performance and trading relationships. They should ask what could be accomplished with less capital committed to the cycle, and whether all participants are better off after costs and risks.

Supply chain finance should be judged not merely by the money it advances, but by the sustainable economic value it helps corporations and their trading partners create.

About SCF Strategies

SCF Strategies is an independent advisory firm focused on working capital solutions, financial supply chains and B2B commercial payments. Drawing on senior operating and commercialization experience across financial institutions, fintechs and corporations, the firm helps organizations identify value opportunities, develop practical strategies and translate them into measurable outcomes.

Explore the capital efficiency opportunity in your business or trading network.

To discuss an enterprise working capital assessment, financing strategy or collaboration on these ideas, visit scfstrategies.com and connect with SCF Strategies.

Sources and methodological notes

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Financial Accounting Standards Board, ASC 860, Transfers and Servicing; International Accounting Standards Board, IFRS 9, Financial Instruments. Accounting conclusions depend on facts, contracts and applicable reporting standards.

Illustrative corporate and discount economics are hypothetical and are not forecasts or representations of actual client results.