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AFP PAYMENTS GUIDE

Optimizing DPO: A Strategic Approach to Working Capital



Effective working capital management has become increasingly important as companies navigate higher financing costs, economic uncertainty and evolving supply chain dynamics. The *AFP Payments Guide: Optimizing DPO: A Strategic Approach to Working Capital* highlights how days payable outstanding (DPO) has evolved from a traditional accounts payable metric into a strategic measure of liquidity, cash flow performance and overall financial health.

The guide challenges organizations to think beyond simply paying invoices and consider how payment decisions can support broader business objectives. A well-designed payment strategy can help companies preserve cash, strengthen financial flexibility and build stronger supplier relationships without sacrificing operational efficiency. It also explores how technologies such as automation and artificial intelligence are giving finance teams greater visibility into cash flow and helping them make more informed, timely decisions.

Ultimately, effective DPO management is about balancing liquidity needs with strong supplier partnerships and long-term business goals. As companies navigate an evolving financial landscape, Wells Fargo remains committed to helping clients achieve their business objectives and long-term success.

- Wells Fargo, *Global Payments & Liquidity*



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Treasury Takeaways

PODCAST

The world of finance continues to evolve at a staggering pace, impacting nearly every aspect of the way treasurers do business. Today's treasurer must remain agile, not only optimizing working capital management for the organization, but also serving as a valued advisor to the management team.

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GUIDE TO OPTIMIZING DPO: A STRATEGIC APPROACH TO WORKING CAPITAL

As working capital and liquidity rise in importance, days payable outstanding (DPO) has evolved from a routine accounts payable (AP) metric into a strategic financial measure monitored by executives, investors and lenders.

The average number of days a business takes to pay supplier invoices is a key indicator of an organization's financial health. Along with days sales outstanding (DSO) and days inventory outstanding (DIO), DPO measures how efficiently a company converts inventory and receivables into cash — a process known as the cash conversion cycle (CCC).

While higher interest rates have increased the value of holding cash longer, supply chain disruptions have made the supplier relationships that thrive on timely payment critical. This tension means that the goal of DPO management is not to maximize DPO but to optimize it. An optimal DPO balances strong liquidity and operational efficiency with healthy supplier relationships. This objective has become more attainable than ever as advances in AP automation, analytics and artificial intelligence (AI) give finance teams far greater control over payment timing.



UNDERSTANDING DPO

DPO measures the average number of days a company takes to pay suppliers during a given period. It is calculated by dividing average accounts payable by cost of goods sold (COGS) and multiplying the result by the number of days in the period:

$$\text{Average Accounts Payable} \div \text{Cost of Goods Sold} \times \text{Number of Days}$$

Average accounts payable is calculated by adding the AP balances at the beginning and end of the period and dividing by two. COGS represents the direct cost of producing the goods or services sold during the same period. Service organizations without traditional inventory often substitute the cost of revenue or comparable operating costs that are tied to third-party spending. The measurement period is typically 30, 90 or 365 days.

DPO is one component of the cash conversion cycle:

$$\text{DSO} + \text{DIO} - \text{DPO} = \text{Cash Conversion Cycle}$$

DSO measures how long it takes to collect payment from customers, while DIO measures how long inventory remains before being sold. (See the [AFP Payments Guide: Reducing DSO for Better Cash Flow](#) for more on DSO's role in the CCC.) Because DPO is subtracted from the equation, extending payment terms generally shortens the cash conversion cycle, allowing businesses to retain cash longer and potentially reduce financing needs. But this does not mean that every company should pursue the highest possible DPO; rather, payment decisions should support both liquidity and long-term supplier relationships.



HIGH VERSUS LOW DPO

A high DPO is often viewed as a sign of strong working capital management. Companies that negotiate longer payment terms retain cash longer, improve liquidity, reduce reliance on external financing and often strengthen the cash conversion cycle.

“Improvement in a company’s working capital and available liquidity allows it more flexibility to respond to opportunities and challenges that arise,” notes Suraj Kalati, Head of Working Capital Solutions at Wells Fargo.

But a high DPO is not automatically desirable; it can signal cash flow problems or inefficient payment processes. Slow payments may damage supplier relationships, result in late fees, reduce negotiating leverage or lead suppliers to favor other customers during periods of constrained supply. Delaying payment can cause businesses to miss valuable early-payment discounts as well. Discounts of 1% or 2% for prompt payment can generate annualized returns that exceed many alternative uses of cash.

“Maximizing DPO can lead to higher costs in the long term,” Kalati warns. “You might improve your balance sheet temporarily, but you won’t improve the economics of the overall supply chain.”

A low DPO has both advantages and disadvantages, too. Paying suppliers promptly strengthens trust and may lead to preferential pricing, better service or prioritized access to inventory. It can also accelerate relationships with new suppliers and allow companies to capitalize on early-payment discounts. The downside is that paying too quickly diminishes liquidity and may indicate that a company has failed to negotiate favorable payment terms.

The optimal DPO lies somewhere between these two poles. The objective is not to maximize or minimize the metric, but to align payment timing with the company’s cash position, supplier relationships and broader strategy for working capital.

“People want to maximize everything,” notes Johann Moulinier, Treasury Manager at US Fertility, the largest physician-led fertility network in the United States, “but with DPO, you want to optimize — to improve cash flow and liquidity without risk to your operating supply or relationships.”

WHAT IS A “GOOD” DPO?

There is no universal benchmark for DPO. The appropriate level depends on industry, company size, bargaining power, supplier relationships and economic conditions.

[According to the American Productivity & Quality Center](#) (APQC), the median DPO across industries is approximately 40 days. Top-quartile organizations average about 50 days, while bottom-quartile companies average roughly 30 days.

Industry differences are significant. Manufacturers often operate with DPOs of 60 to 90 days because they purchase large quantities of raw materials under long-term contracts. Retailers typically fall between 30 and 45 days to maintain dependable inventory flow. Service organizations generally have shorter DPOs because they purchase relatively few physical goods, while technology companies often land between those extremes, depending on whether they sell hardware or software.



MEASURING AND BENCHMARKING DPO

Accurate measurement is the foundation of effective DPO management. Although the calculation itself is straightforward, businesses should account for seasonal purchasing patterns, regional differences and one-time fluctuations that can distort results. Rolling averages often provide a more representative picture than a single point-in-time measurement. “DPO has little meaning in isolation; it needs context,” Kalati points out.

Benchmarking should extend beyond industry averages. To identify opportunities for improvement, companies should compare their DPO against:

- Peer organizations of similar size, vertical and profile
- Historical performance
- Other business units
- Geographic regions

DPO should generally be monitored monthly, reviewed quarterly to identify trends and evaluated annually against competitors and broader industry benchmarks. Organizations with highly seasonal or unpredictable purchasing patterns may benefit from more frequent analysis.

Benchmarking against peers is crucial, but some organizations’ DPO may be affected by variables that make it difficult to find peers to benchmark against. That is the case for Ardent Mills, North America’s leading flour supplier, where prices fluctuate with the seasons. “What we pay for grain can change year over year based on the harvest and the economy,” says Jill Barnes, Senior Manager of Debt Capital Markets and Treasury Operations. Ardent Mills’ DPO is also affected by factors like commodity regulations, which require fast payment unless there is a bilateral supplier agreement for extended terms. The company looks to its bank partners, public financial reports and a market intelligence platform for the data it needs to identify peers.

DPO benchmarking should also consider other related performance indicators, such as invoice approval cycle times, discount capture rates, payment exceptions, supplier satisfaction and cash forecasting accuracy. Together, these measures provide a more complete picture of working capital performance than DPO alone.



STRATEGIES FOR OPTIMIZING DPO

Improving DPO involves much more than delaying payments. Successful organizations preserve liquidity while maintaining solid supplier relationships, capturing worthwhile discounts and minimizing operational risk. Below are a few of the many strategies that can be used to optimize DPO.

1. Negotiate payment terms strategically.

Negotiating longer payment terms remains one of the most effective ways to improve DPO. Moving from Net 30 to Net 45 or Net 60, for example, allows companies to retain cash longer without delaying payments beyond agreed terms.

The most successful negotiations benefit both parties. Buyers may secure extended terms by offering longer contracts, larger purchase commitments, improved demand forecasting or preferred supplier status. “It needs to be a win-win for both sides,” Moulinier points out.

Strategic negotiation of terms often requires cooperation among multiple departments in a company, including treasury. To keep DPO optimization in view, Barnes works closely with procurement and other areas on negotiating terms. She also makes sure that treasury has enough top-level support to wield influence; she and her team meet regularly with senior management to share “high-level information and calculations” that show how different terms can affect DPO, Barnes says.

2. Standardize payment policies.

Many organizations have inconsistent payment terms across suppliers and business units. Standardizing payment policies reduces unnecessary early payments, improves compliance and strengthens negotiating leverage.

Supplier segmentation also plays an important role. Strategic or financially vulnerable suppliers often warrant faster payment, while larger, well-capitalized suppliers may be better candidates for extended terms. Commodity suppliers can frequently be managed under standardized payment policies, while accelerated payment programs or supply chain finance may better serve small or diverse suppliers.

Suppliers can be segmented by criticality as well. For example, a company might pay vendors it deems critical within terms or within 10-15 days, while paying non-critical vendors at 75 days.

STRATEGIES FOR OPTIMIZING DPO CONTINUED

3. Improve invoice processing through automation.

Manual invoice processing often undermines DPO for the wrong reasons. Lost invoices, slow approvals, duplicate payments and coding errors can delay payments beyond agreed terms or, conversely, lead to unnecessary early payments.

AP automation streamlines invoice capture, matching, approval routing, payments, exception handling and reconciliation. Faster processing gives companies greater control over payment timing, allowing invoices to be paid on their contractual due dates rather than prematurely or after they become overdue. (For more on this topic, see AFP's guide, [Automating Accounts Payable Processing](#).)

Automation also increases visibility into outstanding liabilities and creates the reliable data needed to evaluate payment performance and identify working capital opportunities.

4. Use early-payment discounts selectively.

Paying early can often be a good business decision. When excess cash is available, early-payment discounts can produce returns that exceed the benefit of holding cash longer.

Many organizations now use dynamic discounting, which adjusts discounts based on the payment date and current liquidity position. Rather than applying a uniform payment policy, companies can evaluate each invoice individually to balance available cash, borrowing costs, supplier importance and the financial return offered by the discount.

Supply chain finance is another option. These programs allow suppliers to receive early payment from a financing partner while the buyer preserves — or even extends — its payment terms. Suppliers gain faster access to cash, while buyers improve working capital without placing unnecessary financial pressure on key vendors.

5. Align treasury and accounts payable.

Optimizing DPO requires close coordination between treasury and accounts payable. AP has visibility into invoices, payment terms and due dates, while treasury understands liquidity, cash forecasts, financing costs and investment opportunities.

When these functions work together, payment decisions become part of a broader working capital strategy rather than isolated AP activities. Treasury may recommend accelerating selected payments to capture attractive discounts during periods of surplus cash or paying invoices precisely on their due dates when preserving liquidity is the higher priority.

Managing DPO collaboratively enables organizations to make payment decisions that support both operational needs and broader financial objectives. For example, Laura Lute, Treasury Manager of ProPharma — which provides regulatory, clinical, compliance and consulting services for pharmaceutical, biotechnology and medical device companies — maintains an eight-week rolling disbursements forecast that is shared with ProPharma's accounts payable manager. The company's treasury and AP managers meet weekly before disbursements are released to review the current week's settlements, forecast variance and liquidity considerations, and to resolve any potential payment-related concerns.

"The process is highly collaborative," Lute notes. "I bring current-cash-position data to the discussion, and together we assess upcoming obligations, determine whether any payment timing adjustments are appropriate and review supplier inquiries about payment status. Our AP manager also prepares an aging report that provides visibility into upcoming due dates across all payables in the ERP system. I incorporate that information into our cash forecasting process to ensure that sufficient liquidity is available to meet payment commitments."

Lute and the AP manager communicate regularly with key stakeholders to align payment expectations, support cash flow planning and proactively manage emerging issues.



HOW TECHNOLOGY IS RESHAPING DPO

Technology is transforming DPO management from a largely administrative process into a strategic working capital discipline. Automation, analytics, AI and modern payment platforms give finance organizations far greater visibility into payables and much greater control over payment timing.

AP Automation

Modern AP platforms automate invoice receipt, data capture, coding, approval workflows, payment processing and reconciliation. Beyond reducing manual effort and processing costs, automation enables consistent payment execution and minimizes delays caused by lost invoices or approval bottlenecks.

Organizations can schedule payments according to negotiated terms instead of processing them simply because an invoice has been approved. The result is greater consistency, improved compliance and tighter control over working capital.

Analytics

Automation produces a wealth of payment data that can be analyzed to improve financial performance. Finance teams can monitor DPO trends, supplier payment behavior, invoice approval cycle times, payment exceptions and discount capture rates to identify opportunities for improvement. Analytics also supports more accurate cash forecasting by revealing historical payment patterns and highlighting emerging bottlenecks before they affect liquidity.

Rather than relying on DPO alone, leading organizations evaluate multiple operational and financial metrics to understand why payment performance is changing.

AI

AI extends these capabilities by evaluating thousands of payment decisions simultaneously, at scale. “AI supercharges analytics,” Kalati observes.

AI can analyze invoices alongside supplier contracts, payment terms, available discounts, projected cash flows, borrowing

costs and liquidity targets to recommend payment strategies that best support working capital objectives. It can also identify duplicate invoices, unusual payment requests and other anomalies that may indicate errors or fraud.

Instead of reviewing invoices one by one, finance teams can optimize their entire payables portfolio — preserving cash where appropriate, capturing discounts when financially attractive and strengthening critical supplier relationships.

Human oversight remains essential in AI use. AI provides recommendations, but finance professionals establish the policies, priorities and exceptions that guide those decisions.

Modern Payment Methods

Payment method and settlement timing also influence DPO. Electronic payment platforms, virtual cards and real-time payment networks allow for greater precision in determining when funds leave the business and when suppliers receive them. Companies can select a particular payment channel to optimize how and when they pay. That flexibility allows companies to schedule payments closer to contractual due dates without increasing settlement risk.

Some payment methods offer additional benefits, such as rebate revenue from virtual cards or faster settlement through real-time payment networks. As payment technologies continue to evolve, organizations will gain more options for aligning payment execution with working capital objectives while improving the supplier experience.

Technology alone, however, does not optimize DPO. The greatest value comes when automation, analytics, AI, treasury, procurement and accounts payable work together within a unified working capital strategy.



BALANCING LIQUIDITY WITH SUPPLIER RELATIONSHIPS

Supplier relationships can deteriorate if DPO optimization efforts lead to overly aggressive payment practices. Suppliers that experience consistently slow payment may respond by raising prices, tightening payment terms, limiting credit and other tactics.

Leading organizations recognize that not every supplier should be managed the same way. Strategic suppliers, sole-source vendors and financially vulnerable businesses often warrant on-time or even accelerated payment to protect supply continuity and strengthen long-term partnerships. Larger or less critical suppliers may be better candidates for extended payment terms.

Clear communication is equally important. Organizations should establish transparent payment expectations, resolve invoice disputes promptly and discuss payment policy changes openly. Monitoring supplier feedback, payment disputes and delivery performance can help identify relationship issues before they affect operations.

Ultimately, the goal is not simply to preserve cash but to strengthen the entire supply chain. Technology can optimize payment timing, but it cannot replace trust.



THE FUTURE OF DPO MANAGEMENT

Technology will continue to make DPO management more dynamic, automated and data-driven. Several trends are likely to shape the next generation of working capital management.

AI-Driven Finance Operations

AI is evolving from a reporting tool into a decision engine for working capital management. Rather than simply analyzing historical data, AI will continuously evaluate invoices, supplier contracts, liquidity, borrowing costs and market conditions to recommend — or even execute — the payment strategy that best supports business objectives.

Autonomous Accounts Payable

AP is moving toward an increasingly autonomous operating model. Future AP platforms will validate invoices, resolve routine exceptions, schedule payments and reconcile transactions with minimal human intervention. Finance professionals will shift their focus from transaction processing to policy-setting, exception management and oversight.

Predictive Cash Forecasting

Cash forecasting is becoming both more accurate and more practical. Instead of simply projecting cash balances, future platforms will recommend specific actions — such as delaying payments, accelerating discounts or adjusting funding sources — to maintain target liquidity levels.

Intelligent Payment Orchestration

Payment execution will become increasingly intelligent. Finance platforms will automatically determine the optimal payment method, settlement rail and timing for each transaction based on liquidity, supplier priorities and financing costs.

Embedded Finance

Treasury financing, dynamic discounting, virtual cards, foreign exchange and payment execution are increasingly embedded directly into ERP, procurement and AP systems. This integration will allow organizations to make faster, more informed working capital decisions without switching among multiple platforms.

Connected Supplier Networks

Digital supplier networks will allow buyers, suppliers, financial institutions and logistics providers to exchange information more seamlessly. Greater visibility into shipments, inventory, contracts and payment preferences will enable more collaborative payment strategies and reduce supply chain disruptions.

Stablecoins and Tokenized Deposits

Digital assets may also reshape commercial payments. Stablecoins offer near-instant settlement, around-the-clock availability and programmable payments that could improve cross-border transactions and liquidity management. (See the [AFP Executive Guide: Stablecoins and Treasury: What Financial Leaders Need to Know](#) for more detail on this topic.)

Tokenized deposits are similar and may emerge as the more likely long-term solution for commercial payments. They preserve the regulatory protections of the banking system while delivering many of blockchain's operational benefits, including real-time settlement, programmable payments and automated reconciliation.

Treasury and AP Integration

Perhaps the biggest change will be organizational rather than technological. As finance platforms become more integrated, treasury, AP, procurement and FP&A will increasingly manage working capital together rather than operating independently. DPO will become one component of a broader liquidity strategy instead of a standalone AP metric.

“FP&A, AP and treasury — we’re all working toward the same result,” Moulinier notes. “Treasury creates the liquidity vision, and we work together to realize it and to bring our CEO the forecast needed to make decisions for our company’s future.”



LOOKING BEYOND THE METRIC

Many business variables — interest rates, customer demand and market conditions, for example — remain outside a company's control. Payment strategy is different; within negotiated supplier agreements, organizations have considerable influence over when and how they deploy cash.

That makes DPO far more than a financial performance indicator. Organizations that treat it as a strategic working capital metric can strengthen liquidity, improve operational resilience and build stronger supplier relationships at the same time.

Technology will continue to make payment decisions faster and more intelligent, but successful DPO management will always depend on sound judgment, thoughtful supplier partnerships and a balanced approach to working capital. The companies that perform best will not necessarily have the highest DPO; they will have the right DPO for their business objectives.

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