

# Working Capital Management Roles for Multinational Retail Industry Profitability: A Qualitative Study, Worldwide Perspective

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**Abstract:** In this study, we explored efficient working capital management strategies for profitability in the retail industry. Analyzing indicators of effective working capital management using qualitative research involved online interviews with 37 financial managers from multinational retail companies. The study found that retailers often adopt aggressive working capital financing policies due to negative cash conversion cycles and low current ratios. Effective cash flow management involves expediting inventory turnover and delaying accounts payable. Positive supplier relationships and market awareness contribute to profitability. Indicators of effective working capital management include inventory turnover, receivable and payable turnovers, liquidity ratios, and the cash conversion cycle. Maintaining higher payable turnover days than receivable turnover days is recommended. Retailers should aim for a current ratio of at least one and improve the cash conversion cycle through efficient inventory management. This study provided specific strategies for efficient working capital management in retail, filling a research gap. The findings offered valuable insights for financial managers to optimize working capital and enhance profitability. The study recommends that retail companies should adopt aggressive working capital financing policies, focus on efficient inventory management, maintain positive supplier relationships, and stay informed about market conditions to achieve effective working capital management and maximize profitability.

**Keywords:** working capital management, retail industry, profitability, cash conversion cycle, current ratio, inventory management, supplier relationship management.

## 1 Introduction

Efficient management of working capital (WCM) is undeniably crucial as it involves balancing current assets, which can be readily turned into cash, with current liabilities, which require immediate liquidity [1]. The primary objective of WCM is to maintain a favourable balance of each component of working capital. To ensure profitability, businesses must manage payables, inventory, and receivables effectively. By reducing the amount of funds invested in current assets, companies can minimize financing costs and increase funds available for expansion. If current assets and liabilities deviate from optimal levels, management's responsibility is to restore the balance of [2]. In the retail industry, managing working capital is even more critical due to the industry's unique characteristics, such as high inventory turnover, seasonality, and dependence on consumer demand [3].

This research article aims to identify the effect of working capital management on profitability in the retail industry. To achieve this aim, the study involved conducting in-depth interviews with thirty-seven financial managers from multinational retail companies in different countries.

It has been found that retailers need to implement flexible and adaptable working capital policies that can change with the inventory levels and market conditions. Retailers should use technology solutions to optimize inventory levels, reduce waste from out-of-date or slow-moving stocks, and minimize markdowns. Additionally stressed is the significance of upholding healthy supplier relationships and staying current with market and industry trends.

Literature review is presented in Section 2, methodology is described in Section 3, findings are presented in Section 4, and the discussion, implications, and conclusion are presented in Sections 5 and 6.

## 2 Related Literature Review and Research Questions

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Each economic system in the world relies on the retail sector. It encompasses a lot more than the sale of goods; it includes additional activities like shipment, advertising, and support for customers[4]. The effect on labour makes it much more important. It generates jobs at all levels, from salespeople to supply chain experts, so helping to stabilise the economy and lower unemployment rates[5].

Furthermore, the retail sector frequently contributes significantly to a country's GDP. When consumers make purchases, they create significant income, which directly fuels economic growth[6]. Furthermore, by encouraging consumer spending, the retail industry becomes a driving force behind economic activity and growth. A strong level of consumer spending is frequently regarded as a favourable indicator of economic health.

The retail industry also plays an important role in assisting other industries, particularly supply chain and manufacturing. Retailers are key to broad supply chains that connect manufacturers, wholesalers, and logistics businesses, driving production and manufacturing activities. In consequence, several of other businesses gain other benefits from this[7]. Additionally, the retail sector is a beehive of creativity and competition, adapting to shifting consumer tastes and encouraging the development of new goods and services. For consumers, this competition typically results with lower pricing and improved quality.

Furthermore, because retail is worldwide, it is inextricably related to international trade, supporting economic interdependence and stability[8]. Retail transactions also produce significant tax money for governments in the form of sales taxes and other levies, which is critical for funding public services and infrastructure. In terms of urban development, flourishing retail centres frequently fuel expansion in cities and towns by drawing businesses and tourists, raising property values and revenue for local governments[9].

The health of the retail sector can also influence consumer confidence, as optimistic people are more likely to spend money, so improving the economy's outlook. Finally, the industry is a forerunner in the adoption of technology, generating innovations like as e-commerce, mobile payments, and inventory management systems. These technical improvements frequently have far-reaching economic consequences, stimulating innovation in adjacent sectors[10].

Regardless of a company's size or industry, efficient working capital management is essential to its long-term viability and profitability. A company can meet its short-term financial needs and ensure its long-term survival by maintaining adequate working capital [11]. When it comes to corporate finance, effective working capital management is essential for maximising shareholder wealth and choosing short-term investments [12]. Working capital has been studied in a variety of contexts, and profitability metrics determine how important it is [13].

Profitability is the term used to describe the revenue or return that a business generates as well as its capacity to use every resource effectively. One such tool that can free up funds within a business, lessening the need for outside financing, and lowering the risk of insolvency is effective working capital management [14]. A business can use its reserves and look for profitable investment opportunities by putting effective working capital management strategies into place rather than turning to pricey and risky securities. The company can improve its internal rate of return and avoid the negative signals brought on by external securities in this way [15].

A key facet of financial management, working capital management concentrates on the liquidity of a company's short-term current assets and liabilities [16]. The main goal of working capital management is to make sure that a business can cover its operational costs and make on-time payments on its short-term debts [17]. Maximizing profitability and maintaining liquidity levels, also entails managing both current assets and current liabilities [18]. Striking a balance between profitability and risk that adds to the value of the company is the ultimate goal of working capital management [2].

For businesses to operate profitably and effectively, they must not only to maintain a certain level of working capital, but also to manage it in an effective manner [19]. A company runs the risk of going bankrupt if its working capital is too low, while having too much working capital can hurt its profitability [20]. As a result, effective working capital management is crucial to the long-term success and profitability of the company. Working capital management has become increasingly important in the world of finance, particularly regarding decisions regarding short-term financing and investment [21].

The trade-off theory, which contends that businesses must weigh the advantages and disadvantages of holding working capital, forms the foundation of the theoretical framework for working capital management in the retail sector [22]. To ensure smooth operations and reduce the risk of insolvency, retail businesses must maintain an appropriate level of working capital. They must also avoid having too much working capital because it raises carrying costs and lowers its profitability [17].

Several studies have examined the working capital management practices in the retail sector. For example, for developing counties [23] studied the Indian retail industry and discovered that bigger businesses typically have better

working capital management practices than smaller businesses. Additionally, the study discovered that companies with higher profitability have better working capital management techniques. Also, they find that larger businesses can manage their working capital more effectively because they have better access to credit and more negotiating leverage with suppliers. Additionally, for a developed country [24] studied the retail industry in South Africa and discovered that businesses with higher inventory turnover ratios typically have better working capital management practices. The study also found that firms with higher current ratios have a lower risk of insolvency and suggests that firms with higher inventory turnover ratios can sell their inventory quickly, which helps them to manage their working capital efficiently.

For a developed country, [25] investigated the impact of working capital management on company size and profitability in the manufacturing industry and wholesale and retail trade sector in the Czech Republic using the comparison and GMM methods using a sample data from 2009 to 2019. The study found that variables such as cash conversion cycle, current assets ratio, current liabilities ratio, and working capital ratio have a significant effect on company's profitability and size.

[26] examined how working capital management affected the profitability of retail supermarkets, specifically Binathan Household Supermarket in Mombasa, Kenya. The study found that effective working capital management practices could positively impact profitability, while longer payable periods could have a negative effect on earnings. The study emphasized the need for companies to assess the costs and benefits of different working capital management strategies and integrate risk management frameworks into their decision-making processes.

While several studies have examined working capital management in the retail industry, there is still a need for research that specifically focuses on efficient working capital management strategies for retail industry profitability. Existing studies have explored the impact of working capital management on profitability and the indicators of effective working capital management. However, there is a research gap in terms of identifying the efficient strategies that can be implemented in the retail industry to enhance profitability through effective working capital management.

The aim of this research is to investigate efficient working capital management strategies for retail industry profitability. By identifying and analyzing the indicators of effective working capital management in the retail industry, this study aims to fill the research gap by providing insights into the specific strategies that can be implemented to optimize working capital management and enhance profitability in the retail sector. Therefore, the research questions will be:

1. What are the efficient working capital management strategies that can be implemented in the retail industry to enhance profitability?
2. What are the indicators of effective working capital management in the retail industry that can lead to improved profitability?

By addressing these research questions, this study aims to provide practical recommendations for retail industry professionals to optimize their working capital management practices and ultimately improve profitability.

### 3 Methodologies

This study's qualitative research design made it possible to thoroughly examine the experiences and viewpoints of the participants. When examining complex phenomena, qualitative research is highly helpful because it enables the researcher to collect rich and detailed data that can reveal insights into the participants' behaviours, attitudes, and motivations [27]. The data collection method of choice was semi-structured interviews because they allowed for freedom in topic exploration while ensuring consistency across interviews [28].

Thirty-seven financial managers from multinational retail companies in various nations such as the UK, Germany, Austria, Hungary, Turkey, UAE, and Qatar made up the sample for this study. The participants were chosen for online interviews between November 2022 and March 2023 based on their financial management experience and availability. The interviews were in the English language. The saturation principle, which dictates that data collection should continue until no new information emerges, was used to determine the sample size [29].

Semi-structured interviews that were conducted online with video conferencing software were used to gather the study data. The researcher was able to thoroughly review the data because each interview was recorded, and needed transcriptions were made. The interview questions' emphasis on the participants' professional experience in financial management allowed for a thorough examination of their experiences, attitudes, and practises. During the interviews, the participants' opinions were discussed with other participants.

Thematic and hermeneutic analysis, which involved finding patterns and themes in the data was used to analyse the data. A flexible and adaptable method called thematic analysis enables the researcher to spot recurrent themes and patterns in the data [30]. NVivo, a software programme for the analysis of qualitative data, was used to perform the

analysis both automatically and human analysts. To guarantee inter-code reliability, two human analysts independently examined the data.

The interviews were carried out in accordance with ethical standards, including obtaining participants' informed consent, preserving their privacy and confidentiality, and making sure the study had no negative effects on them. All participants gave their free and informed consent after being made aware of their right to withdraw from the study at any time. Throughout the study, the participant' privacy and confidentiality were upheld, and their identities remained a secret. The research was conducted in accordance with ethical guidelines for using human subjects in studies.

## 4 Results

Answering the first research question “**What are the efficient working capital management strategies for retail profitability?**”

The interviews' analysis contains various themes related to working capital management in the retail industry. These themes can be coded into several categories, including:

### **Working capital financing policy.**

The most quoted redundant sentence is “*There are three distinct working capital financing policies - conservative, aggressive, and moderate. These policies are determined based on the financing size of short-term and long-term assets.*” Participants agreed on “*it appears that the retail industry places a significant emphasis on adopting an aggressive approach to working capital financing. This is due to their negative cash conversion cycle and a current ratio below one.*”

Drawing from the Hermeneutics analysis, we can conclude that the retail industry's approach to working capital financing is heavily influenced by their financial situation, characterized by a negative cash conversion cycle and a current ratio below one. This situation pushes them towards adopting an aggressive working capital financing policy. It is important to keep in mind that alternative working capital financing strategies, such as conservative and moderate strategies, may be used depending on the size of the financing for both short-term and long-term assets. The organization's particular requirements and objectives ultimately determine the choice of policy. This result is supported by [31,32].

### **Working capital investing policy.**

A long transcript of the interviewees' responses was added for the general working capital investment policy and quoted as “*When it comes to working capital, organizations need to evaluate the risks involved and decide on an appropriate investment policy - whether conservative, aggressive or moderate. The conservative approach involves maintaining high levels of working capital to minimize the risk of operational failure, while the aggressive strategy aims to improve profitability by lowering inventories, extending credit time for customers, and delaying payments to suppliers. The moderate policy is a middle ground between the two. The investment policy needs to be adaptable to changing demand and inventory levels throughout the year.*”

The interviewees added more specific information related to the retail industry as “*retail firms need to be particularly mindful of inventory levels and ensure that they have enough stock on hand to meet demand.*”

Additionally, the most repeated sentence is “*In the retail industry, inventory management is a bigger concern than accounts receivable, as there is typically very little credit extended to customers. Most transactions are cash-based, so firms focus on managing their inventory levels to meet demand.*” The provided quotations emphasize the importance of a working capital investment policy for organizations, particularly in the retail industry. Retail businesses must assess the risks involved and choose an investment strategy that can be modified as demand and inventory levels change over the course of the year.

Businesses in the retail industry must ensure they have enough inventory on hand to meet demand, and inventory control is a major concern. Contrary to other industries, the majority of transactions in the retail sector are cash-based, and customers typically receive very little credit. Therefore, in the retail sector, managing inventory levels is more important than managing accounts receivable. Effective inventory control and a flexible working capital investment strategy that can be adjusted to changing market demands are crucial to the success of retail businesses. The evidence for this outcome is supported by [33] and [2]

### **Cash flow management.**

Participants said “*Effective management of cash flow is crucial for the success of any business, and there are various strategies that can be implemented.*”

They pointed out that *“the Baumol model and the Miller-Orr model are crucial in achieving optimal cash flow levels that ensure liquidity and profitability”*. Some participants further added, *“When comparing the Baumol model and the Miller-Orr model, we find that the latter is more useful for maintaining liquidity and profitability.”*

Regarding the retail industry, the interviewees agreed on *“expediting the inventory turnover process and delaying accounts payable are two approaches that can help improve cash flow and free up capital for other purposes.”*

The Hermeneutics analysis leads us to the conclusion that successful cash flow management is essential for any company, including those in the retail sector. Various strategies can be implemented to achieve optimal cash flow levels that ensure both liquidity and profitability. In particular, the Miller-Orr model is more useful than the Baumol model for maintaining liquidity and profitability in the retail industry. The Baumol model and the Miller-Orr Model are two financial management approaches for optimizing cash balances[34].

The Baumol model compares cash management to inventory control but has limitations, including difficulty in forecasting cash needs, neglecting the need for a cash buffer for unexpected expenses, and higher costs as cash amounts increase[35]. In contrast, the Miller-Orr Model considers cash flow fluctuations and transaction costs to set a target cash balance and control limits, aiming to minimize expenses while ensuring adequate cash. However, it relies on simplifying assumptions like constant interest rates and regular cash flow distributions[35].

Retailers can expedite the inventory turnover process and delay accounts payable to improve cash flow and free up capital for other purposes. The long-term success of retail businesses depends on a strategic and considered approach to managing cash flow. Retailers can increase their chances of achieving sustainable growth and profitability by putting these strategies into practise, which will also optimise their cash flow. The proof for this result is supported by [36] and [37].

### **Relationship management.**

Participants have a consensus about relationships with suppliers, this was clear from the interviews as follows: *“To enhance profitability and mitigate the risk of supply chain disruptions, retail businesses must cultivate positive relationships with their suppliers. By building and maintaining strong ties with suppliers, businesses can secure timely delivery of goods and services, negotiate better pricing, and gain access to the latest products and technologies.”*

Through hermeneutic analysis, the quotation stresses the importance of retail businesses building and maintaining positive relationships with their suppliers to enhance profitability and reduce the risk of supply chain disruptions. It emphasizes the benefits of establishing strong ties with suppliers, including timely delivery of goods and services, better pricing negotiations, and access to the latest products and technologies. The statement underscores the significance of investing in supplier relationships for retail businesses to gain a competitive edge and ensure overall success. This result is supported by [38].

### **Market demand.**

Also, Participants have a consensus about market conditions as follows, *“Adjusting our working capital investment strategy to adapt to changes in demand and inventory levels throughout the year is crucial in managing working capital in the retail industry.”* And added, *“To ensure sustained profitability and growth, it is important to stay abreast of the constantly changing industry trends and market conditions.”* It is concluded through a hermeneutic analysis of these two quotations that successful working capital management and adaptation to shifting demand and inventory levels are essential for the retail sector. To sustain profitability and long-term growth, it is also essential to keep abreast of market conditions and industry trends.

In light of the fact that fluctuating demand and inventory levels can have a significant impact on a retailer's working capital, the first quote emphasizes the significance of flexibility in such situations. This suggests that a successful retail business must be able to adjust its investment strategy to optimize working capital and ensure adequate liquidity. This was supported by [39].

In order to maintain profitability and growth, the second quote emphasizes how crucial it is to stay current on market conditions and industry trends. In other words, retailers must be aware of shifts in consumer behavior, emerging technologies, and other elements that could impact their industry. By staying informed, retailers can adapt their strategies to remain competitive and relevant in the marketplaces as mentioned [40].

Answering the second research question **“What are the indicators of effective working capital management in the retail industry?”**. After analyzing the conversation, it has identified the following themes:

### **Inventory turnover.**

Numerous sentences were added by the interviews *“Effective working capital management is essential for the success*

of any retail business. It ensures that there is sufficient liquidity to meet day-to-day operational requirements and invest in growth opportunities.”

*“Inventory is one of the biggest assets on a retailer's balance sheet, and it requires careful management to avoid tying up too much capital in slow-moving or obsolete stock.”*

*“One of the biggest challenges in inventory management is striking the right balance between overstocking and understocking. Overstocking ties up valuable working capital and can lead to markdowns and excess waste, while understocking can result in lost sales and dissatisfied customers.”*

*“Technology plays a vital role in inventory management today, with retailers using advanced software systems to track inventory levels, analyze sales data, and forecast demand. This allows them to optimize inventory levels, reduce waste, and improve profitability.”*

*“A key metric in inventory management is the days' inventory outstanding (DIO), which measures how long it takes for inventory to turn into sales. A high DIO can indicate slow-moving inventory, while a low DIO can suggest inadequate inventory levels.”*

Through hermeneutic analysis, it can be concluded that the importance of working capital and inventory management is an essential element in the success of a retail business. Proper inventory management can help avoid waste and markdowns caused by slow-moving or obsolete stock. Retailers can use technology to optimize inventory levels and improve profitability through software systems that track inventory, analyse sales data, and forecast demand. The days' inventory outstanding (DIO) metric is a useful tool to measure inventory management, with a high DIO indicating slow-moving inventory and a low DIO suggesting inadequate inventory levels[41].

### **Receivable and payable turnovers.**

The interviewees agreed on payment saying, *“The accounts payable turnover days metric indicates how quickly a company pays its suppliers, while the accounts receivable turnover days metric shows how quickly a company receives payment from its customers.”* And they added *“For optimal management of working capital in the retail industry, maintaining a payable turnover days figure that is higher than the receivable turnover days figure is recommended.”* Also, they mentioned, *“Since customers usually pay in cash at sale points, factoring of receivables is not typically required in the retail sector.”*

To ensure optimal management of working capital in the retail industry, it is recommended to maintain a payable turnover day's figure that is higher than the receivable turnover days figure. This means that a company should take longer to pay its suppliers than it takes to receive payments from its customers. This approach can help a company to meet its financial obligations while still maintaining enough working capital to operate [42].

In the retail sector, factoring of receivables is not typically required because customers usually pay in cash at sale points. This means that a company can receive payments from customers relatively quickly and may not need to use factoring to generate cash flow as supported by [43].

### **Liquidity ratios.**

The interviewees have a consensus about the liquidity ratios as follows, *“It suggests that the business is financially stable enough to manage its expenses without requiring additional cash inflows. In the retail industry, the average current ratio stands at approximately 1.5. If the current ratio is lower than this benchmark, it might be worthwhile to evaluate the financial standing to identify areas for improvement.”*

Most of the interviewees agreed on the same opinion *“Compared to other industries, the retail industry generally has a lower current ratio. However, it is still important for retailers to maintain a current ratio of at least one.”* An important note mentioned *“In the retail industry, the current ratio could be acceptable below one if the firm apply the aggressive investment policy and accelerate the inventory turnover. Moreover, the quick ratio can be considerably low due to the low accounts receivable, particularly when the inventory is excluded. This is because inventory is typically the largest component of current assets in retail businesses.”*

Based on hermeneutic analysis of quotations, the current ratio is a crucial financial metric indicating a company's ability to manage expenses without requiring additional cash inflows. In the retail industry, the average current ratio is around 1.5, and a current ratio of at least one is necessary for retailers. However, compared to other industries, the retail industry usually has a lower current ratio. However, if the company adopts an aggressive investment strategy and speeds up inventory turnover, the current ratio could be considered below one. The quick ratio in the retail industry can also be low due to low accounts receivable, particularly when excluding inventory, which is the largest component of current assets in retail businesses [17]. Therefore, retailers must evaluate their financial position carefully and identify areas for improvement if their current ratio is below the industry benchmark.

### **Cash conversion cycle.**

Many interviewees started the conversation by *"In the retail industry, we use the CCC metric to measure how long it takes for us to turn our inventory and resources into cash. It's also known as the net operating cash cycle or simply 'the cash cycle' among our accounts payable teams."*

Some Interviewees added, *"Based on our industry analysis, the average cash conversion cycle for a retail company is between 79 to 87 days."*

An important contribution confirmed by the interviewees *"By adopting an aggressive working capital investment strategy, retail industry firms can even achieve a negative cash conversion cycle."* Additionally, *"Managing inventory effectively is crucial for reducing the Cash conversion cycle, which is largely made up of current assets. When we do this right, we can eventually reach a negative cycle, which is a desirable outcome."*

Based on hermeneutic analysis of quotations, the retail industry uses the CCC metric to measure the time it takes to turn inventory and resources into cash. This metric is also referred to as the net operating cash cycle or 'the cash cycle' by accounts payable teams. Based on industry analysis, the average cash conversion cycle for retail companies is between 79 to 87 days. Effective inventory management plays a crucial role in reducing the Cash Conversion Cycle, which is mainly composed of current assets. By adopting an aggressive working capital investment strategy, retail companies can achieve a negative Cash Conversion Cycle, which is a desirable outcome. This emphasizes the importance of efficient inventory management in the retail industry and its impact on a company's cash flow as supported by [44].

### **Cash flow statement.**

Interviewees explained the importance of operating cash flows as follows, *"The cash flow from operating activities serves as a crucial indicator of a company's financial health. Another important aspect of good working capital management is ensuring that this cash flow is consistently positive, as this is a sign that the company is generating sufficient revenue to cover its operational expenses."*

It is obvious from hermeneutic analysis that this quotation emphasizes the importance of cash flow from operating activities as a key sign of a company's financial health. The cash generated or used by a company's core business operations, or cash flow from operating activities, is a critical component of working capital management.

The quotation also emphasizes how important it is to consistently maintain a positive cash flow from operating activities, which demonstrates that the company is profitable enough to pay its operating expenses. A consistently positive cash flow is necessary for a company to meet its short-term obligations, such as paying bills and salaries, investing in growth opportunities, and servicing debt. This was supported by [45,46].

## **5 Discussions**

The provided literature review offers a comprehensive examination of the significance of efficient working capital management, particularly within the retail sector, and its profound implications for long-term business sustainability and profitability. It underscores the critical nature of maintaining adequate working capital to meet short-term financial obligations, ensure liquidity, and maximize shareholder value. Furthermore, it emphasizes the delicate balance between profitability and risk, highlighting the importance of harmonizing current assets with liabilities.

Based on qualitative interviews with financial managers at multinational retail corporations, this study uncovers invaluable insights into effective working capital management strategies and indicators specific to the retail industry. The analysis of these interviews identifies several overarching themes encompassing working capital financing policies, investment strategies, cash flow management, relationship cultivation, and responsiveness to market demand. These themes offer practical guidance for retail enterprises aiming to enhance their working capital management practices.

In the realm of working capital financing policies, the interviews indicate a prevalent inclination toward an aggressive approach within the retail sector due to negative cash conversion cycles and current ratios below one. However, this study underscores the imperative of tailoring financing policies to the unique needs and objectives of each organization. Retailers should consider alternate strategies, including conservative and moderate policies, contingent upon the magnitude of financing required for both short-term and long-term assets.

Regarding working capital investment policies, the interviews emphasize the paramount importance of risk assessment and the selection of adaptable investment strategies capable of responding to fluctuations in demand and inventory levels. Inventory management surfaces as a predominant concern within the retail landscape, with efficient inventory control outweighing the management of accounts receivable. Retailers must strike a balance between satisfying customer demand and optimizing inventory turnover.

Cash flow management emerges as another pivotal facet of working capital management. The interviews underscore the significance of implementing cash flow optimization strategies, such as the application of models like the Miller-Orr model. Retail enterprises can expedite inventory turnover and defer accounts payable to bolster cash flow, liberating capital for various purposes. Effective cash flow management stands as an indispensable pillar of overall business success, necessitating a strategic approach.

Relationship management emerges as a critical factor underpinning working capital management in the retail sector. Cultivating positive relationships with suppliers can bolster profitability and mitigate the risk of supply chain disruptions. Strong supplier ties facilitate punctual deliveries, improved price negotiations, and access to innovative products and technologies. Investing in supplier relationships equips retail businesses with a competitive edge and secures long-term prosperity.

Market demand also assumes a prominent role in shaping working capital management within the retail industry. The study underscores the importance of aligning investment strategies with demand fluctuations and seasonal inventory variations. Retailers must remain vigilant about market dynamics and industry trends, making informed decisions to sustain competitiveness.

The practical implications of these findings for retail enterprises are twofold. Firstly, businesses should meticulously tailor their working capital financing and investment policies to align with their financial circumstances and objectives. This involves a thorough risk assessment, flexibility in investment strategies, and a concerted focus on optimizing inventory management to unlock the potential of working capital.

Secondly, retailers should prioritize effective cash flow management and nurture robust supplier relationships. The implementation of cash flow improvement strategies, including streamlined inventory turnover and judicious accounts payable management, enhances liquidity and profitability. Investing in supplier relationships ensures timely deliveries, favorable pricing terms, and access to innovative solutions, ultimately fortifying the supply chain and fostering business growth.

## 6 Conclusions

In this study, we explore strategies to optimize working capital in the retail industry for higher profitability. We aim to address a critical gap by highlighting specific approaches to enhance profitability through effective working capital management.

### Key Working Capital Strategies for Retail:

To optimize financial strategies in the retail industry, it's crucial to diversify financing options. Retailers commonly gravitate towards aggressive financing, but it's equally important to explore alternative approaches tailored to both short-term and long-term requirements. In addition to financing, retailers should prioritize a flexible investment policy that can adapt to shifting demands and fluctuating inventory levels while also minimizing carrying costs. Effective cash flow management is another key component, as it enhances liquidity. Retailers can achieve this by optimizing inventory turnover and efficiently managing accounts payable. Models like the Miller-Orr model for cash reserve planning can be valuable tools in this endeavor, helping retailers strike a balance between stability and adaptability in their financial operations.

### Supplier Relations and Market Awareness:

To ensure the efficient management of working capital, it is imperative to cultivate strong supplier relationships. These relationships not only facilitate timely deliveries but also provide opportunities for favorable pricing negotiations and access to new products and technologies. Additionally, staying well-informed about market conditions and industry trends is crucial. This awareness allows us to adapt and adjust our working capital strategies in response to the dynamic business environment, ensuring that we optimize our financial resources effectively.

## 7 Recommendations

1. **Financing Policy:** Choose an appropriate financing policy aligned with financial goals, from conservative to moderate to aggressive approaches.
2. **Flexible Investment:** Develop a flexible investment policy that adapts to shifting demand and inventory dynamics.
3. **Cash Flow Strategies:** Implement proven cash flow management strategies for enhanced liquidity.
4. **Supplier Relations:** Foster positive relationships with suppliers to ensure smooth operations.



5. Market Awareness: Stay informed about market conditions and industry trends.

## 8 Study Limitations and Future Research

While valuable, this study has limitations, including a small sample size and geographical focus. Future research can enrich our understanding of retail working capital management through comparative analyses, exploration of emerging technology impacts, risk management integration, and comprehensive performance metric development. Advancing knowledge in these areas can benefit retail businesses.

### **Conflicts of Interest Statement**

*The authors certify that they have NO affiliations with or involvement in any organization or entity with any financial interest (such as honoraria; educational grants; participation in speakers' bureaus; membership, employment, consultancies, stock ownership, or other equity interest; and expert testimony or patent-licensing arrangements), or non-financial interest (such as personal or professional relationships, affiliations, knowledge or beliefs) in the subject matter or materials discussed in this manuscript.*

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