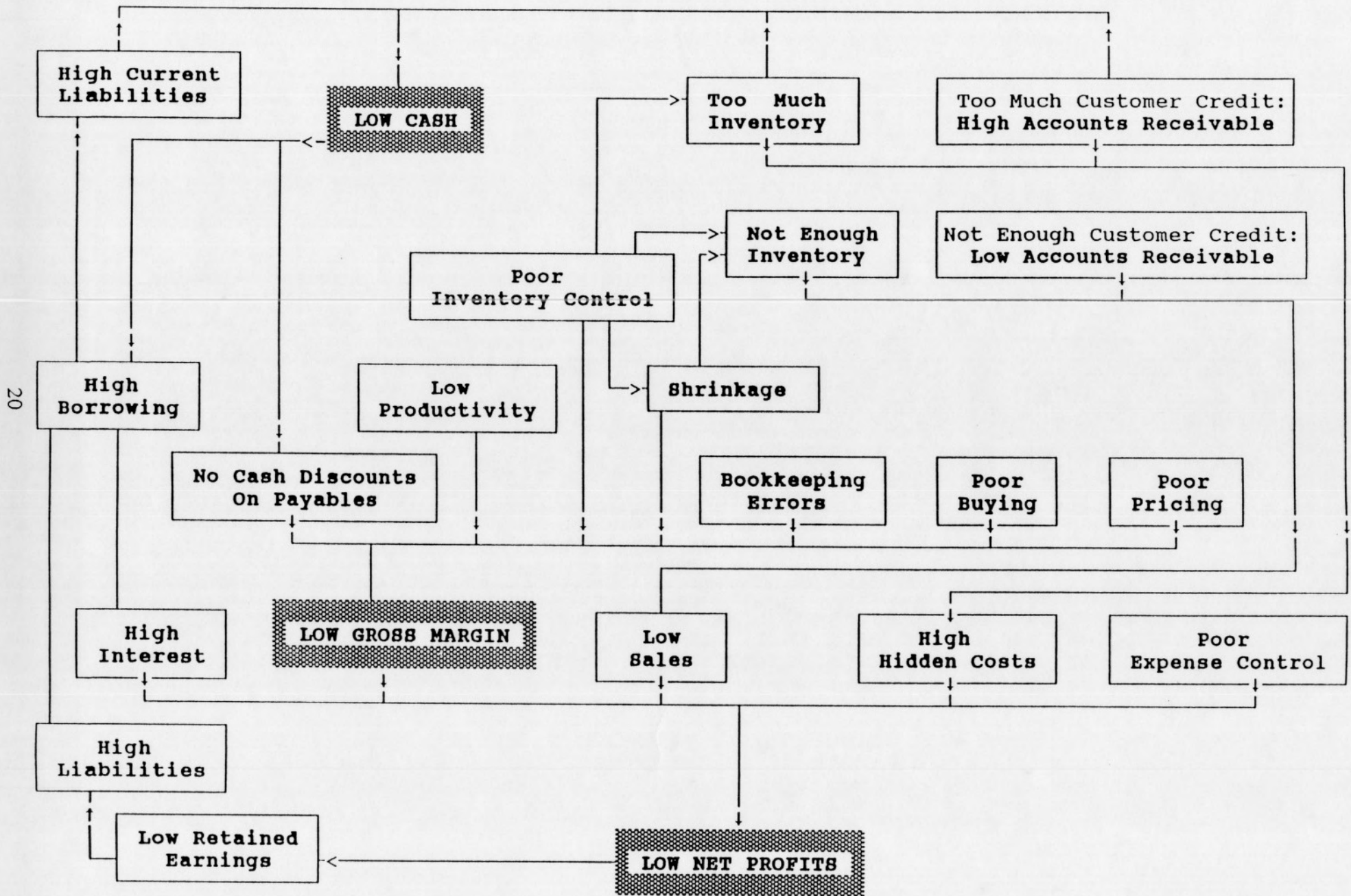


# THE "ROAD MAP"

## Cause-And-Effect Relationships Leading To Financial Distress\*



## THE "FISCAL PHYSICAL" ACTION PLAN FOR EFFECTIVE FINANCIAL MANAGEMENT

The following outline is one approach to a successful integration of the key financial management factors.

**Step 1:** Use existing information to assess where you are now -- and identify significant trends.

**Step 2:** Compare your current status to your own past performance; the overall industry ratios; the ratios for your region and the ratios that you would like to achieve.

**Step 3:** Develop a plan which has goals and targets, and use the standards to monitor performance. On the following page you will find a Financial Cause and Effect "Road Map" - the instructions for using it are summarized below. If the ratios for your own company are not where you want them to be, the "Road Map" can help identify possible problem areas and the relationships which will lead you to corrective action.

**Step 4:** Use the plan. Review it at least twice per year. Evaluate performance, focus on areas that need improvement and revise the plan on a periodic basis. Then . . .

**Step 5:** Repeat the entire process -- making corrections and adjustments for the differences between the actual results and those which you were targeting!

### FINANCIAL CAUSES AND EFFECTS "ROAD MAP"

Business owners generally identify three major financial problems: low cash, low gross margin and/or low net profit.

These three situations, however, are not the causes of financial problems, they are the effects -- or symptoms -- of other hidden financial problems. To find causes we must trace back from the effects to examine a variety of possible causes for the symptoms.

To read the map, start at any box and work backward against the arrows, inserting the phrase "is caused by" between the categories in the boxes. For example: Low Gross Margin "is caused by" No Cash Discounts on Payables, Low Productivity, Bookkeeping Errors, etc. Or, High Hidden Cost "is caused by" High Accts Receivable, Too Much Inventory, etc.

The next step is to review your own business to determine if any of the possible causes are having an effect . . . and, if so, what actions you can take to improve the situation.

#### Two Important Reminders

Remember that profitability is also a function of efficiency -- so manage *and* monitor both your balance sheet ratios and your productivity ratios.

In addition, *constantly* monitor cash flow. Use cash projection worksheets to predict cash shortages and develop a plan to provide for needed funds. Recognize the time difference between net profits and cash flow. It's a crucial one!