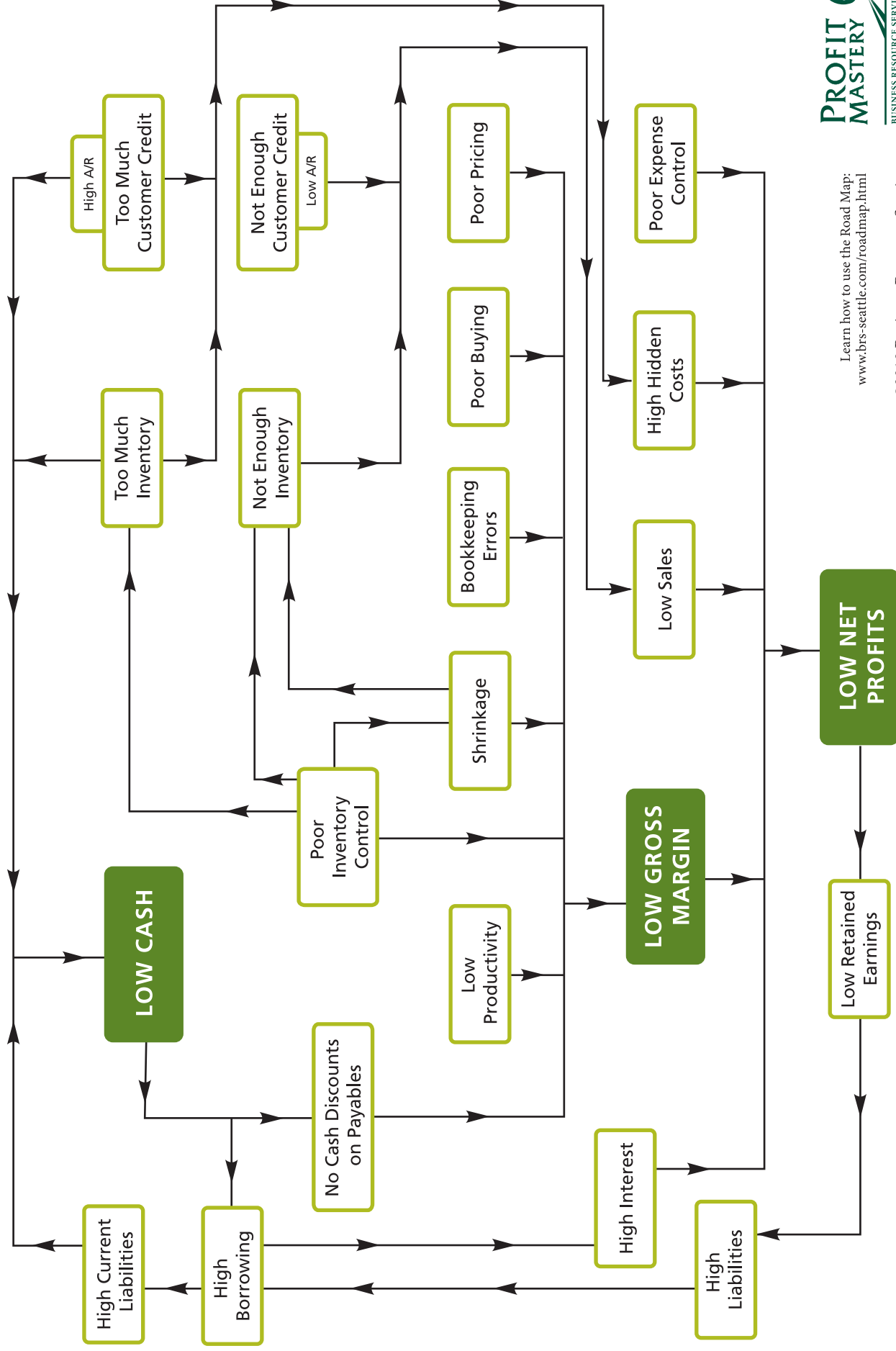


The Road Map

Cause-and-effect relationships leading to financial distress.



Step 4: Add up the dollars and put them on your Road Map

<u>ISSUE</u>	<u>CASH IMPACT</u>	<u>PROFIT IMPACT</u>
Inventory	\$	\$
Accts. Rec.	\$	\$
Gross Margin:	\$	\$
-No discounts		
-Productivity		
-Inventory Controls		
-Poor Buying		
-Poor Pricing		
-Poor Bookkeeping		
Overhead Controls	\$	\$
Hidden Costs	\$	\$
Misfinancing	\$	\$
Other:	\$	\$
	\$ _____	\$ _____
TOTALS	\$ _____	\$ _____

Step 5: Set Targets and Develop Action Plans

- Using your Goal Worksheet, set target numbers for Sales, Gross Margin, Productivity and Cash Flow
- Determine your top 3 Management Issues
- Develop plans of action. Use the SMART goal setting system:
 - **Specific**
 - **Measurable**
 - **Aggressive**
 - **Realistic**
 - **Timeline**

For example:

My goal is to improve my gross margin by three percent by the end of the 3rd quarter next year. I will measure my progress on a monthly basis—both storewide and by department. I will review pricing policies with my staff and pay commissions based on margins, not sales. I will review my inventory by department and determine which price points have sold in the past. I will also get advice on my pricing policies from industry experts.

Improve Cash Flow and Profits

Worksheet 1

Inventory Turns

Information Needed

1. FYE or Annualized COGS \$ _____
2. Actual Inventory from Balance Sheet \$ _____
3. Turns (COGS ÷ Inventory) a. Actual _____ b. Industry (Goal) _____

Calculations

- A. COGS / Industry Turn (#1 ÷ #3b) \$ _____ ÷ _____ = \$ _____
- B. Extra Cash tied up in Inventory
- | | |
|------------------------------------|----------|
| Inventory on Hand (#2 above) | \$ _____ |
| (less) Inventory Target (#A above) | - |

Excess Inventory \$'s \$ _____
(at industry average or goal level of performance)

Accounts Receivable Turns

Information Needed

1. FYE or Annualized Sales \$ _____
2. Actual A/R from Balance Sheet \$ _____
3. Turns (Credit Sales ÷ A/R) a. Actual _____ b. Industry (Goal) _____

Calculations

- A. Sales / Industry Turn (#1 ÷ #3b) \$ _____ ÷ _____ = \$ _____
- B. Extra Cash tied up in A/R
- | | |
|--|----------|
| Accounts Receivable on Hand (#2 above) | \$ _____ |
| (less) Accounts Receivable Target (#A above) | - |

Excess A/R \$'s \$ _____
(at industry average or goal level of performance)

Improve Cash Flow and Profits

Worksheet 2

Gross Profit

Information Needed

1. Annualized Sales or FYE Sales \$ _____
2. Industry (or Goal) average GPM _____ %
3. Company's GPM _____ %

Calculations (If industry GPM is greater than company's GPM)

A. Industry GPM — Company GPM _____ % — _____ % = _____ %

B. Line A. percentage x Annualized Sales (#1) _____ % x \$ _____ = \$ _____ *

**Represents increased \$'s of Gross Profit you would realize on an annualized basis if you were to achieve a margin equal to the average of the industry or at your goal.*

Net Profits

Inventory Hidden Costs

Information Needed

1. Excess Inventory \$'s from Worksheet 1: \$ _____
2. Hidden Cost Factor "HC" (20% — 36%) _____ %

Calculations

"HC" (#2) x Excess Inventory \$'s (#1) _____ % x \$ _____
= \$ _____ *

**Potential Hidden Costs incurred at current level of inventory management inefficiency*

Accounts Receivable Hidden Costs

Information Needed

1. Excess A/R \$'s from Worksheet 1: _____
2. HC Factor "HC" (20% — 36%) _____ %

Calculations

"HC" (#2) x Excess A/R \$'s (#1) _____ % x \$ _____
= \$ _____

**Potential Hidden Costs incurred at current level of A/R management inefficiency*