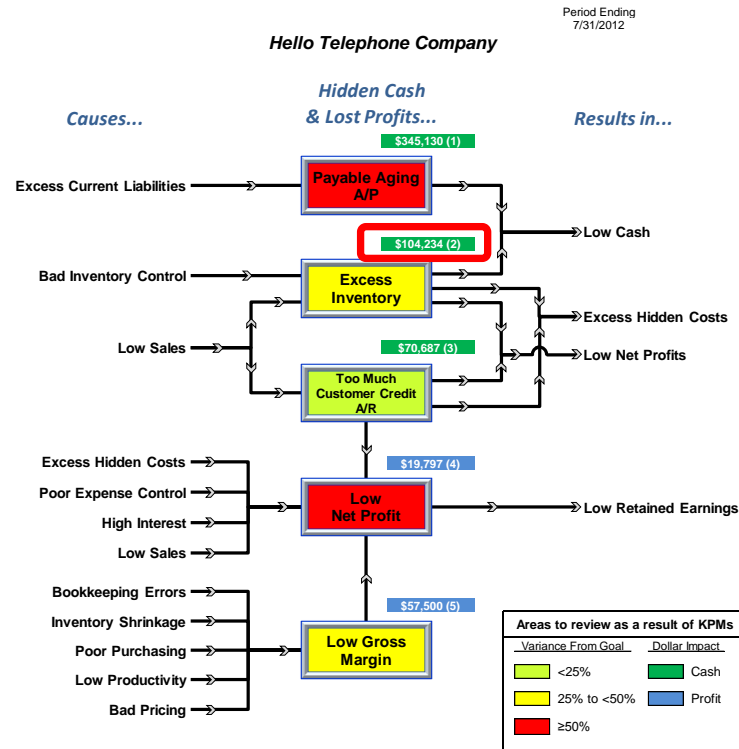


## Financial Flow - Cause and Effect



### Footnotes

- (1) Payments are 41 days faster than the goal of 60 days with a \$345,130 Cash Impact.  
 (2) Inventory is 13 days over the goal of 30 days with a \$104,234 Cash Impact.  
 (3) Customer Credit / Accounts Receivable is 6 days over the goal of 50 days with a \$70,687 Cash Impact.  
 (4) Net Profit is 5.7% over the goal of 10.0% with a \$19,797 Profit Impact over the time period.  
 (5) Gross Margin is 16.4% over the goal of 45.0% with a \$57,500 Profit Impact over the time period.

**Tutorial**

## Financial Flow

This diagram shows the cause and effect on your company's Cash and Profits and their relationship to the cause and what effect it will have on a business. The diagram is a visual diagnostic tool designed to help identify key causal factors and potential results of financial under-performance. This diagram can be read from left to right or right to left. For example, if your company has results of Low (or declining) Cash, that result could be caused by the elements to its left of Payable Aging and or Excess Inventory. These could then be caused by any or all of the following: Excess Current Liabilities or Bad Inventory Control or Low Sales which are again to the left.

This drawing identifies both Cash and Profit Impact in your business when any of the following boxes in the diagram are colored with light green, yellow, or red:

- Payables Aging (Accounts Payable A/P)
- Excess Inventory
- Too Much Customer Credit (Accounts Receivable A/R)
- Low Net Profits
- Low Gross Margin

These boxes will automatically change from white to **Light Green** to **Yellow** to **Red** based on how your company is currently performing related to goals on the Key Performance Metric (KPM) chart. **Light Green** signifies that the company is between 1% and 24.9% away from its goal. **Yellow** signifies **Caution**: you are between 25% and 49.9% away from goal. **Red** signifies **Problem**: The company is 50% or greater away from goal.

For your first report: Goals are set at the top 10% of your industry based on the NAICS code you provided. The report is designed to help your company to be "Best-in-Class" in your industry. When you see your first report, it will show you realistic potential goals for your business.

Above the colored boxes you will find a number...If the box is Green, the number represents the Cash Impact of the variance from goal. If the box is Blue, the number represents the profit variance from goal. The goals can be found on the KPM table on the page before the Financial Flow Chart. For example, the box labeled "Excess Inventory" filled in yellow above that is based on the KPM metric for Inventory days. In this case the Hello Telephone Company is at 43 days of inventory. The goal 30 days so they have 43 days (actual) – 30 days (goal) = 13 days of extra or excess inventory. That 13 days correlates to \$104,234 of cash the company could have if inventory were reduced to 30 days.

All report requests after the first report will allow you to change the KPM Metric goals when you are logged into your report account and request a report. The numbers near these same boxes identify the actual dollar value impact of your variance from your goal.

To use this Financial Flow drawing to identify the source of a Caution or Problem designated by one of the colored boxes, move left of the colored box, against the direction of the arrow and toward a potential problem. For instance, moving left from "Low Net Profit" to "Excess Hidden Cost", "Poor Expense Control", "High Interest", and "Low Sales" highlights the areas in a business that could cause a Low Net Profit problem. You then need to analyze each of these factors to see if they may be the cause and then determine what can be done to reduce or eliminate that causal factor.

Perform a similar brainstorming exercise for each potential cause for the particular symptom(s) in your business. Develop specific goals and action plans to treat every causal factor you identify.

Treating the identified potential causes of the symptom will lead to improved financial performance.