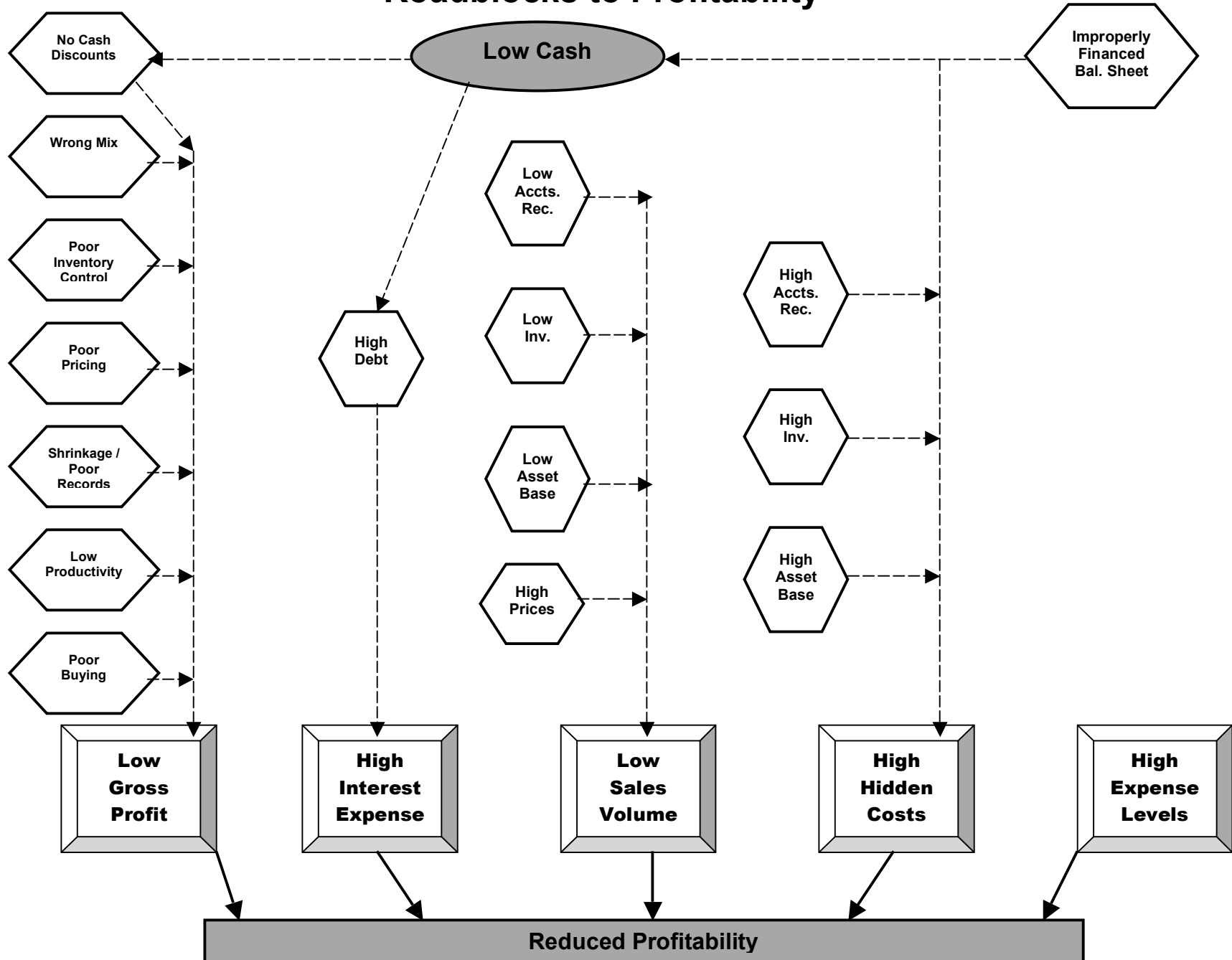


Roadblocks to Profitability



Roadblocks to Profitability

In most businesses there are five predominant roadblocks to profitability. They are 1) high expense levels / poor expense control, 2) high hidden costs associated with high levels of fixed assets or accounts receivable and inventory, 3) low sales volume, 4) high interest expense, and 5) a low gross profit margin.

HOW TO USE DIAGRAM:

1. Start at each of the individual roadblocks, i.e. for example **[high hidden costs]**. Every arrow head represents an effect. The question is what caused it?
2. Proceed up the shaft of the arrow until you come to another roadblock, which is a potential cause. Continue this process until you identify the root cause of the problem. For example [high hidden costs] may be caused by high levels of fixed assets (in this case your fixed assets are in order), or high levels of accounts receivable. Your AR collection period is running longer than the industry standard therefore you're incurring extra hidden costs unnecessarily. That's a problem area. You may also have high levels of inventory that could also be contributing to the problem.
3. Repeat this process for all five boxes and identify all root causes. Once all causes have been identified, list possible solutions for each cause and implement a plan that addresses the most practical solutions first.

Questions:

If you have questions on how to implement your Roadblocks to Profitability chart, contact a Hipereon professional. You may also consider attending one of our financial management programs that demonstrates how to use this tool and much more:

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