

Breaking Down The Profit Barriers

Prepared For

CTDA

Prepared By

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Objectives Of The Session

- Review the Profit Structure of the Industry
- Identify the Key Pressure Points in Improving Profitability
- Develop an Action Plan to Improve Financial Performance

Exhibit 1

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Income Statement Results For Mountain View, Inc.

	<u>Dollars</u>	<u>Percent</u>
Net Sales	15,000,000	100.0
Cost of Goods Sold	<u>9,450,000</u>	<u>63.0</u>
Gross Margin	5,550,000	37.0
Payroll and Fringes	2,900,000	19.3
All Other Expenses	<u>2,125,000</u>	<u>14.2</u>
Total Expenses	<u>5,025,000</u>	<u>33.5</u>
Profit Before Taxes	525,000	

Exhibit 2

Profit Planning Group

The Recent Trend In Profit Margin:
Looking Good

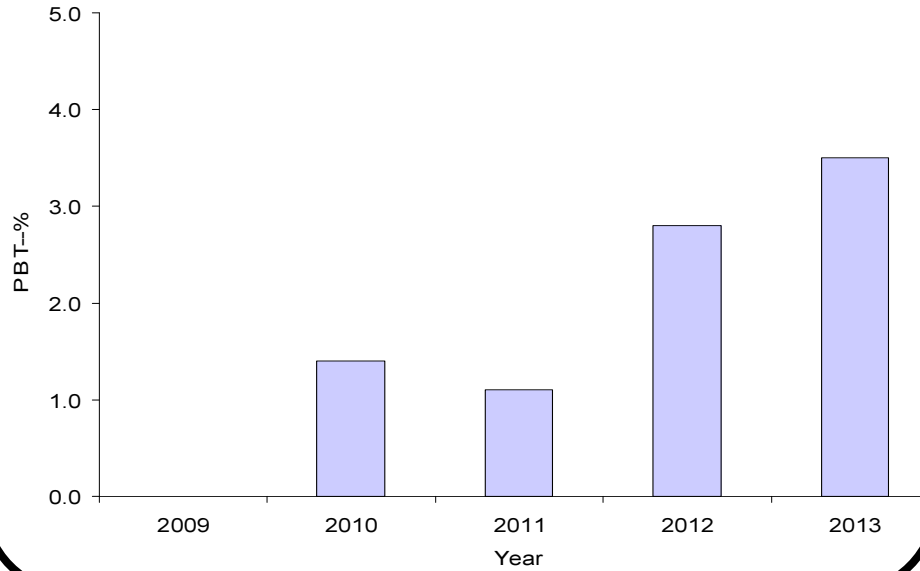


Exhibit 3

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A Comparison to Ten Years Ago:
Looking Less Wonderful

	<u>2003</u>	<u>2013</u>
Net Sales	10,000,000	15,000,000
Cost of Goods Sold	<u>6,320,000</u>	<u>9,450,000</u>
Gross Margin	3,680,000	5,550,000
Payroll and Fringes	1,940,000	2,900,000
All Other Expenses	<u>1,320,000</u>	<u>2,125,000</u>
Total Expenses	<u>3,260,000</u>	<u>5,025,000</u>
Profit Before Taxes	420,000	525,000

Net Sales	100.0	100.0
Cost of Goods Sold	<u>63.2</u>	<u>63.0</u>
Gross Margin	36.8	37.0
Payroll and Fringes	19.4	19.3
All Other Expenses	<u>13.2</u>	<u>14.2</u>
Total Expenses	<u>32.6</u>	<u>33.5</u>
Profit Before Taxes		3.5

Exhibit 4

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The Relationship Between An Investment Reduction And Profit Margin

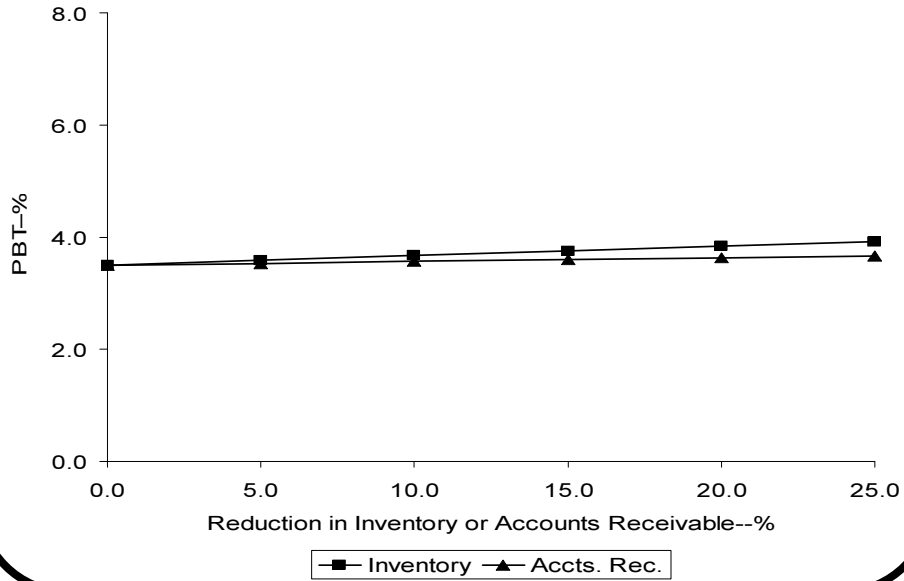


Exhibit 5

Profit Planning Group

The Relationship Between A Sales Increase And Profit Margin

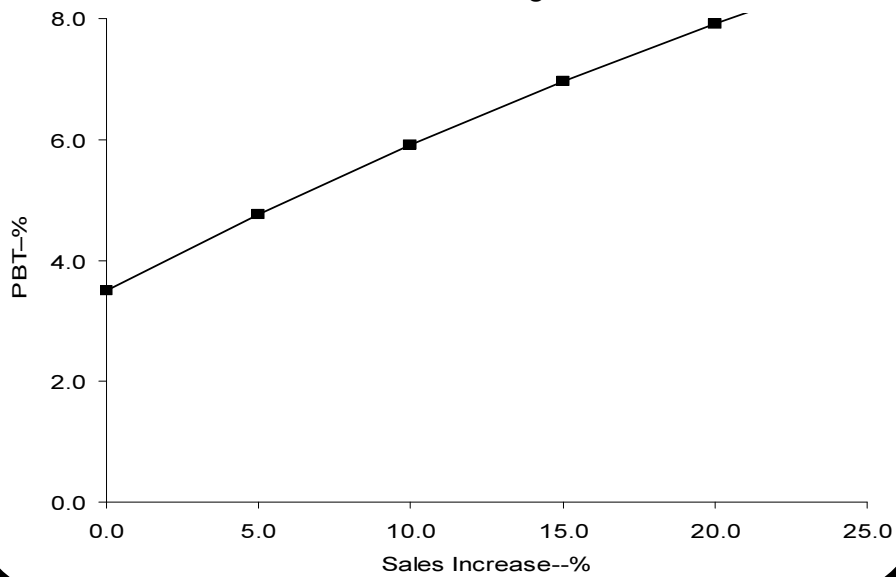
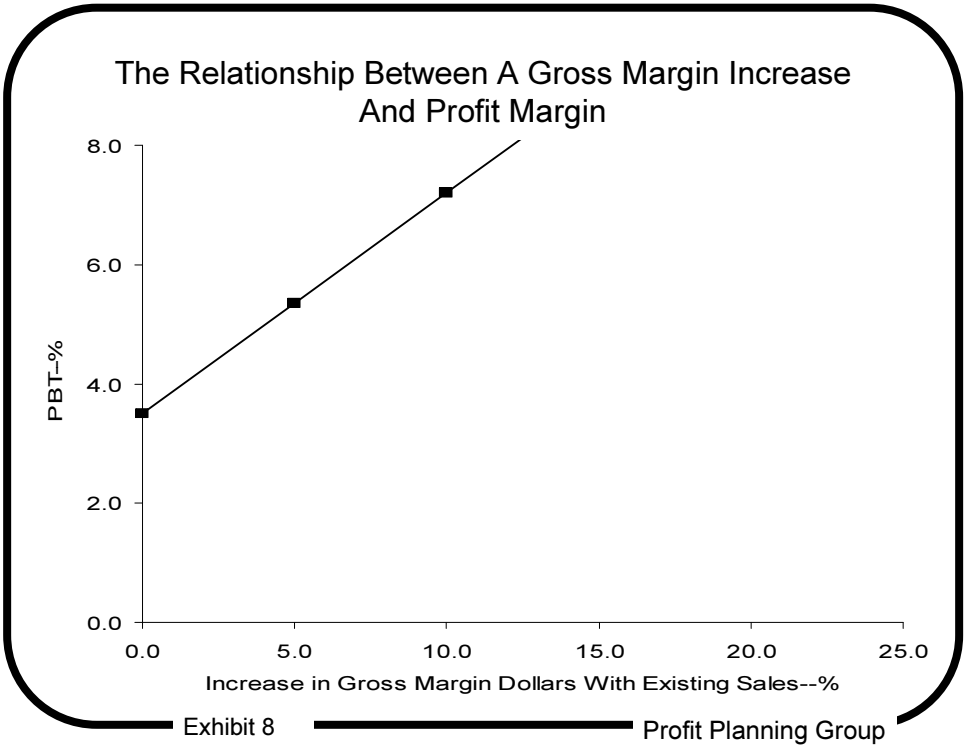
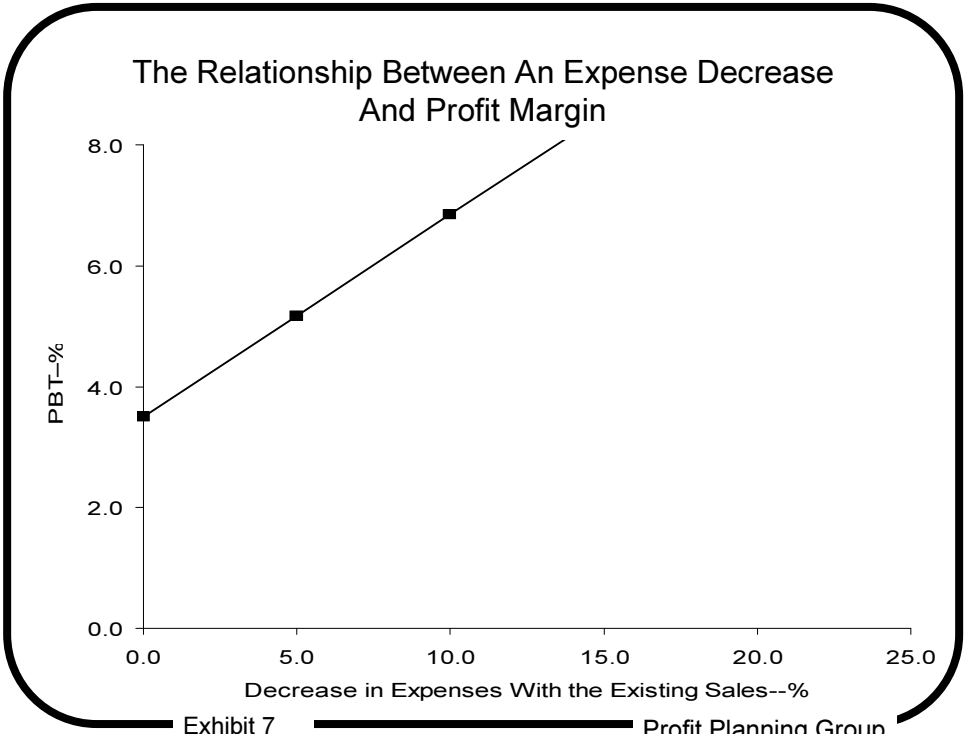


Exhibit 6

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A Look At Some Research Results

Gross Margin	Oper. Exp.	Jump In PBT (%)	New PBT (%)
Current			3.5
Top 40%	Top 50%	163.5	5.7
Top 50%	Top 40%	154.7	5.4
Top 40%	Top 40%	226.3	7.9

Exhibit 9

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The Improvement Model: A Rack-Suit Plan

- Increase sales by at least the inflation rate plus a safety factor of
- Force payroll to grow slower than sales to create a sales to payroll wedge of
- Increase the gross margin percentage by
- Decrease the other expense percentage by

Exhibit 10

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The Profit Impact of a Sales to Payroll Wedge

Income Statement (\$)	Current Results	2.0% Sales to Payroll Wedge	
		5.0% Sales Growth	15.0% Sales Growth
Net Sales	15,000,000	15,750,000	17,250,000
Cost of Goods Sold	<u>9,450,000</u>	<u>9,922,500</u>	<u>10,867,500</u>
Gross Margin	5,550,000	5,827,500	6,382,500
Expenses			
Payroll and Fringe Benefits	2,900,000	2,987,000	3,277,000
All Other Expenses	<u>2,125,000</u>	<u>2,231,250</u>	<u>2,443,750</u>
Total Expenses	<u>5,025,000</u>	<u>5,218,250</u>	<u>5,720,750</u>
Profit Before Taxes	525,000	609,250	
Income Statement (%)			
Net Sales	100.0	100.0	100.0
Cost of Goods Sold	<u>63.0</u>	<u>63.0</u>	<u>63.0</u>
Gross Margin	37.0	37.0	37.0
Expenses			
Payroll and Fringe Benefits	19.3	19.0	19.0
All Other Expenses	<u>14.2</u>	<u>14.2</u>	<u>14.2</u>
Total Expenses	<u>33.5</u>	<u>33.1</u>	<u>33.2</u>
Profit Before Taxes	3.5	3.9	3.8

Exhibit 11

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Impacting Gross Margin With Blind Item Pricing

Velocity Code	Current Performance			Potential Performance		
	Sales	Gross Margin %	Gross Margin Dollars	Sales	Gross Margin %	Gross Margin Dollars
A	9,000,000	32.5	2,925,000	9,000,000	32.5	2,925,000
B	3,000,000	40.0	1,200,000	3,000,000	40.0	1,200,000
C	2,250,000	45.0	1,012,500	2,250,000	45.0	1,012,500
D	<u>750,000</u>	<u>55.0</u>	<u>412,500</u>	<u>825,000</u>	<u>59.1</u>	<u>487,500</u>
Total	15,000,000	37.0	5,550,000	15,075,000		

Exhibit 12

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The Mandate For Change
During Each Of The Next Five Years

Net Sales	5.0
Gross Margin %	0.2
Sales to Payroll Gap	2.0
Other Expense %	-0.2
Inventory Turnover	0.0
Collection Period	0.0

Exhibit 13

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The Impact Of Making
The Mandated Changes

	<u>2014</u>	<u>2015</u>	<u>2019</u>
Net Sales	15,000,000	15,750,000	19,144,223
Cost of Goods Sold	<u>9,450,000</u>	<u>9,891,000</u>	<u>11,869,419</u>
Gross Margin	5,550,000	5,859,000	7,274,805
Payroll and Fringes	2,900,000	2,987,000	3,361,895
All Other Expenses	<u>2,125,000</u>	<u>2,199,750</u>	<u>2,520,656</u>
Total Expenses	<u>5,025,000</u>	<u>5,186,750</u>	<u>5,882,551</u>
Profit Before Taxes	525,000	672,250	1,392,254
Net Sales	100.0	100.0	100.0
Cost of Goods Sold	<u>63.0</u>	<u>62.8</u>	<u>62.0</u>
Gross Margin	37.0	37.2	38.0
Payroll and Fringes	19.3	19.0	17.6
All Other Expenses	<u>14.2</u>	<u>14.0</u>	<u>13.2</u>
Total Expenses	<u>33.5</u>	<u>32.9</u>	<u>30.7</u>
Profit Before Taxes	3.5	4.3	

Exhibit 14

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Summary And Conclusions



Exhibit 15

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He's Back!

Dr. Albert Bates is founder and Chief Sophist (whatever that means) of the Profit Planning Group, a research and education firm headquartered in Boulder, Colorado. The firm works mostly in the area of financial planning.

He makes approximately 100 presentations each year on topics such as Improving the Bottom Line, Doing More With Less and Pricing for Profit. He also heads the firm's investigation into profitability research for over fifty different trade associations.

Al received his doctorate from Indiana University. He is married and has three daughters. All four of the ladies in his life have black belts in Tae Kwon Do, so don't criticize his presentation too much.

He can be reached at Profit Planning Group, 303-444-6212, 1790 38th St., Suite 204, Boulder, CO 80301, bigal@profitplanninggroup.com.

Buy the book: Breaking Down the Profit Barriers in Distribution, available from Amazon and Barnes & Noble

Exhibit 16

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