

# Planning For Profit

Prepared For

**NTCA**

Prepared By

The Profit Planning Group  
1790 38th St., Suite 204  
Boulder, CO 80301  
303-444-6212  
[bigal@profitplanninggroup.com](mailto:bigal@profitplanninggroup.com)

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## Objectives Of The Session

- Review the Profit Structure of the Industry
- Identify the Two Key Pressure Points in Improving Profitability
- Examine the Special Role of Pricing

Exhibit 1

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## An Illustrative Company: A Blast From the Past

	<u>Dollars</u>	<u>Percent</u>
Net Sales	5,000,000	100.0
Cost of Goods Sold	<u>3,400,000</u>	<u>68.0</u>
Gross Margin	1,600,000	32.0
Payroll and Fringes	850,000	17.0
All Other Expenses	<u>500,000</u>	<u>10.0</u>
Total Expenses	<u>1,350,000</u>	<u>27.0</u>
Profit Before Taxes	250,000	
Fixed Expenses	1,100,000	
Commissions	80,000	5.0
		of G.M.
Other Variable Exp	170,000	3.4
		of Sales

Exhibit 2

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### A Tale Of Two Firms

	You Are Here	You Should Be Here
Net Sales	5,000,000	5,000,000
Cost of Goods Sold	<u>3,400,000</u>	<u>3,100,000</u>
Gross Margin	1,600,000	1,900,000
Payroll and Fringes	850,000	700,000
All Other Expenses	<u>500,000</u>	<u>450,000</u>
Total Expenses	<u>1,350,000</u>	<u>1,150,000</u>
Profit Before Taxes	250,000	750,000
Net Sales	100.0	100.0
Cost of Goods Sold	<u>68.0</u>	<u>62.0</u>
Gross Margin	32.0	38.0
Payroll and Fringes	17.0	14.0
All Other Expenses	<u>10.0</u>	<u>9.0</u>
Total Expenses	<u>27.0</u>	<u>23.0</u>
Profit Before Taxes	5.0	

Exhibit 3

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### The Relationship Between A Sales Increase And Profit Margin

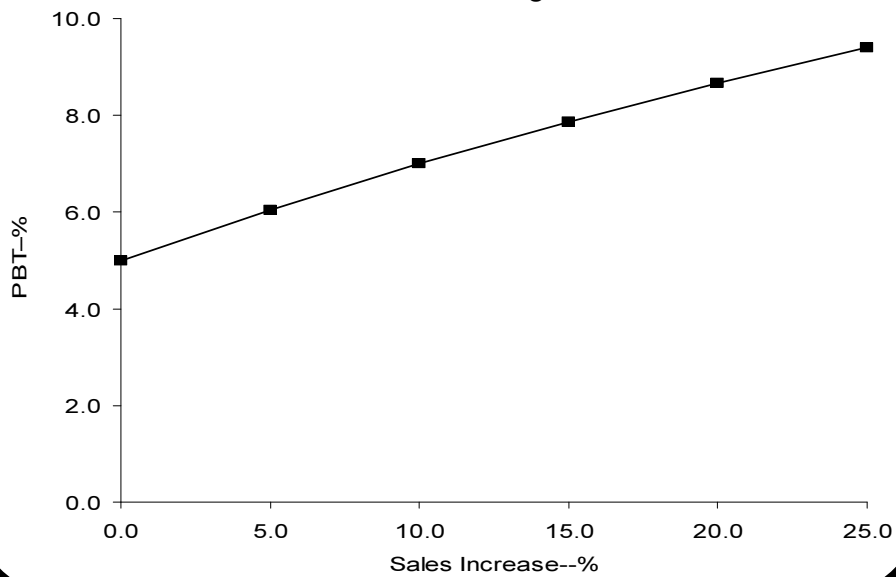
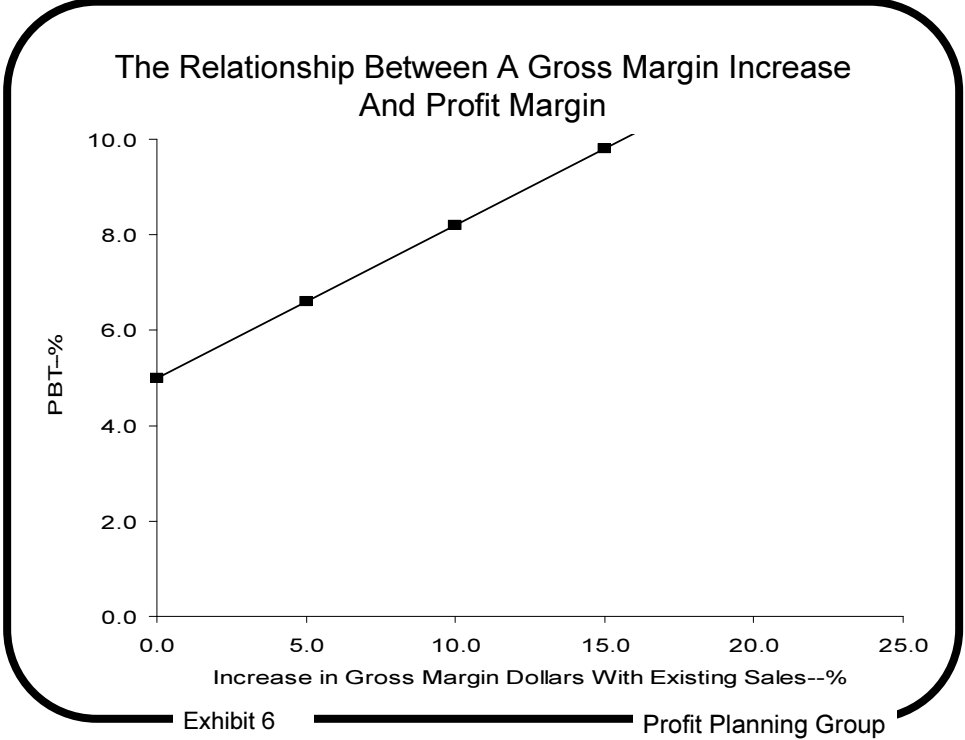
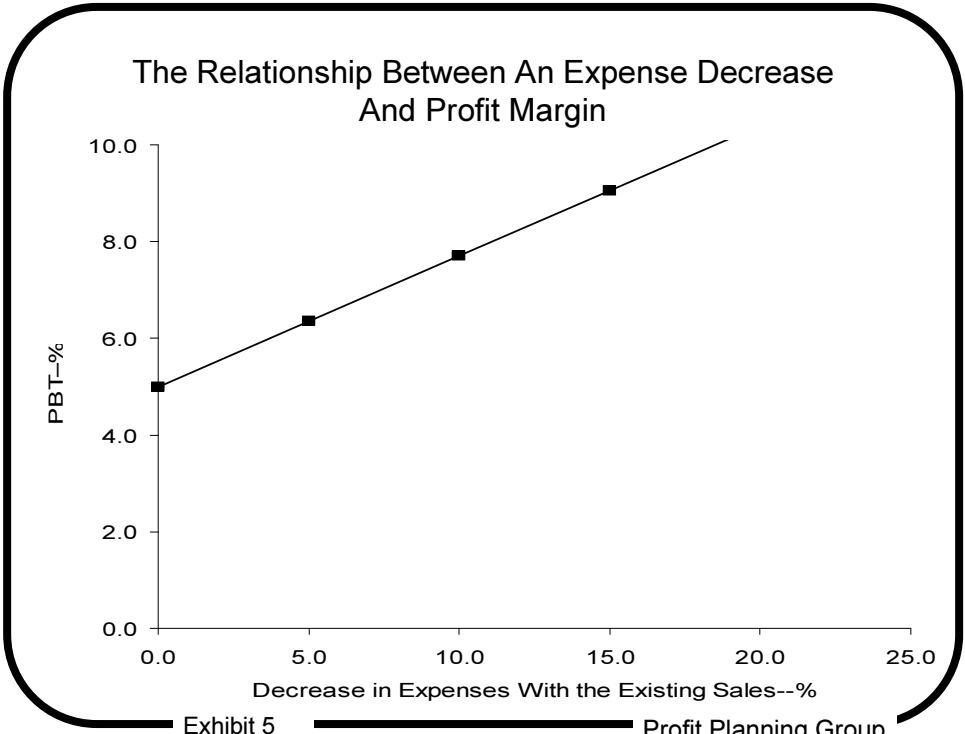


Exhibit 4

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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 7

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### The Attack Points in Driving in Driving Higher Profit

- Controlling (Maybe Eliminating) the Problem Portion of the Sales Force
- Developing a Unique Market Position
- Putting Price into its Proper Context

Exhibit 8

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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	5,000,000	5,250,000	5,750,000
Cost of Goods Sold	<u>3,400,000</u>	<u>3,570,000</u>	<u>3,910,000</u>
Gross Margin	1,600,000	1,680,000	1,840,000
Expenses			
Payroll and Fringe Benefits	850,000	875,500	960,500
All Other Expenses	<u>500,000</u>	<u>525,000</u>	<u>575,000</u>
Total Expenses	<u>1,350,000</u>	<u>1,400,500</u>	<u>1,535,500</u>
Profit Before Taxes	250,000	279,500	
<b>Income Statement (%)</b>			
Net Sales	100.0	100.0	100.0
Cost of Goods Sold	<u>68.0</u>	<u>68.0</u>	<u>68.0</u>
Gross Margin	32.0	32.0	32.0
Expenses			
Payroll and Fringe Benefits	17.0	16.7	16.7
All Other Expenses	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>
Total Expenses	<u>27.0</u>	<u>26.7</u>	<u>26.7</u>
Profit Before Taxes	5.0	5.3	5.3

Exhibit 9

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### The Profit Impact Of Low Sales Performance

Summary	Per Sales	80% Volume	
<u>Income Statement</u>	<u>Total Firm</u>	<u>Person</u>	
		<u>Producer</u>	
Net Sales	5,000,000	1,666,667	1,333,333
Cost of Goods Sold	<u>3,400,000</u>	<u>1,133,333</u>	<u>906,667</u>
Gross Margin	1,600,000	533,333	426,667
Commissions	80,000	26,667	21,333
Other Variable Expenses	170,000	56,667	45,333
Fixed Expenses	<u>1,100,000</u>	<u>366,667</u>	<u>366,667</u>
Total Expenses	<u>1,350,000</u>	<u>450,000</u>	<u>433,333</u>
Net Profit	250,000	83,333	

Exhibit 10

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## Marketing Polarity

### Gorillas

Lower Prices  
and  
Fewer Services

### Victims

Undifferentiated  
Firms

### Guerrillas

Higher Prices  
and  
More Services

Exhibit 11

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## Marketing Positioning: A Reality Check

<b>Marketing Tools</b>	<b>Price Firm</b>	<b>Me Too</b>	<b>Service Firm</b>
Price			
Quality of Installation			X
Installer Trust		X	
Life Disruption		X	
Project Speed			X
Sales Force Knowledge			X
Guarantee Legitimacy			X
Credit Programs			X

Exhibit 12

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### The Impact of Commoditization On Return On Assets

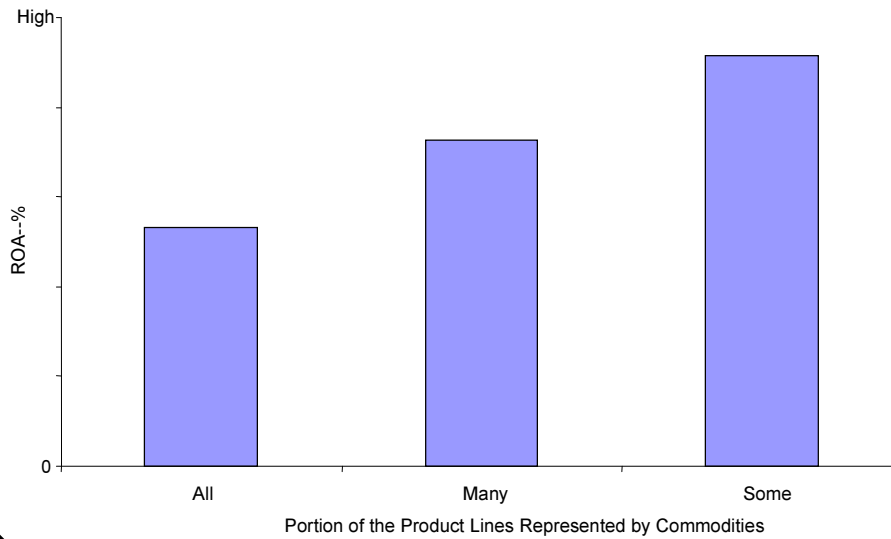


Exhibit 13

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### The Only Thing You Ever Need To Know For Successful Price Management

- 
- Examples
  - Branded Items are Easy:
  - Qualitative Differences are the Key:

Exhibit 14

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### A Traditional Approach To Controlling Sales Force Pricing Decisions

<u>Summary</u>		Unnecessary 5.0%
<u>Income Statement</u>	<u>Current</u>	<u>Price Cut</u>
Net Sales	1,666,667	1,583,333
Cost of Goods Sold	<u>1,133,333</u>	<u>1,133,333</u>
Gross Margin	533,333	450,000
Commissions	26,667	
5.0 % of G.M.		
Other Variable Expenses	56,667	
3.4 % of Sales		
Fixed Expenses	<u>366,667</u>	<u>366,667</u>
Total Expenses	<u>450,000</u>	
Net Profit	83,333	

Exhibit 15

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### Overcoming the Pricing Challenge: A Draconian Commission Plan

<u>Summary</u>		Unnecessary 5.0%
<u>Income Statement</u>	<u>Current</u>	<u>Price Cut</u>
Net Sales	1,666,667	1,583,333
Cost of Goods Sold	<u>1,133,333</u>	<u>1,133,333</u>
Gross Margin	533,333	450,000
Commissions	26,667	
Other Variable Expenses	56,667	
3.4 % of Sales		
Fixed Expenses	<u>366,667</u>	<u>366,667</u>
Total Expenses	<u>450,000</u>	
Net Profit	83,333	

Exhibit 16

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**The Mandate For Change  
During Each Of The Next Five Years**

Net Sales	5.0
Gross Margin %	0.4
Sales to Payroll Gap	2.0
Other Expense %	-0.3

Exhibit 17

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**The Impact Of Making  
The Mandated Changes**

	<u>2014</u>	<u>2015</u>	<u>2019</u>
Net Sales	5,000,000	5,250,000	6,381,408
Cost of Goods Sold	<u>3,400,000</u>	<u>3,549,000</u>	<u>4,211,729</u>
Gross Margin	1,600,000	1,701,000	2,169,679
Payroll and Fringes	850,000	875,500	985,383
All Other Expenses	<u>500,000</u>	<u>509,250</u>	<u>542,420</u>
Total Expenses	<u>1,350,000</u>	<u>1,384,750</u>	<u>1,527,803</u>
Profit Before Taxes	250,000	316,250	641,876
Net Sales	100.0	100.0	100.0
Cost of Goods Sold	<u>68.0</u>	<u>67.6</u>	<u>66.0</u>
Gross Margin	32.0	32.4	34.0
Payroll and Fringes	17.0	16.7	15.4
All Other Expenses	<u>10.0</u>	<u>9.7</u>	<u>8.5</u>
Total Expenses	<u>27.0</u>	<u>26.4</u>	<u>23.9</u>
Profit Before Taxes	5.0	6.0	

Exhibit 18

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## Summary And Conclusions



Exhibit 19

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## Who Is This Guy?

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. When he is not traveling conducting seminars he enjoys skiing and tennis. He is not particularly good at either one.

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

Buy the book: [www.tripleyourprofitbook.com](http://www.tripleyourprofitbook.com)

Exhibit 20

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