

Focusing On "The Five"

Prepared For

CTDA

Prepared By

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Objectives Of The Session

- Review the Profit Structure of the Industry
- Outline the five key essentials for long-term profitability
- Ensure the usage of benchmarking and some key free services

Exhibit 1

Distribution Performance Project

Income Statement Results For Mountain View, Inc.

	<u>Dollars</u>	<u>Percent</u>
Net Sales	20,000,000	100.0
Cost of Goods Sold	<u>13,000,000</u>	<u>65.0</u>
Gross Margin	7,000,000	35.0
Payroll and Fringes	3,400,000	17.0
All Other Expenses	<u>3,300,000</u>	<u>16.5</u>
Total Expenses	<u>6,700,000</u>	<u>33.5</u>
Profit Before Taxes	300,000	
Fixed Expenses	5,700,000	
Variable Expenses	1,000,000	5.0

Exhibit 2

Distribution Performance Project

The Five

- Set a Realistic Profit Target
- Focus on the Three Things That Really Impact Profit
- Maintain Adequate Sales Growth
- Get Right With Expense Control
- Just Say No to Commoditization

Exhibit 3

Distribution Performance Project

The Recent Trend In Profit Margin

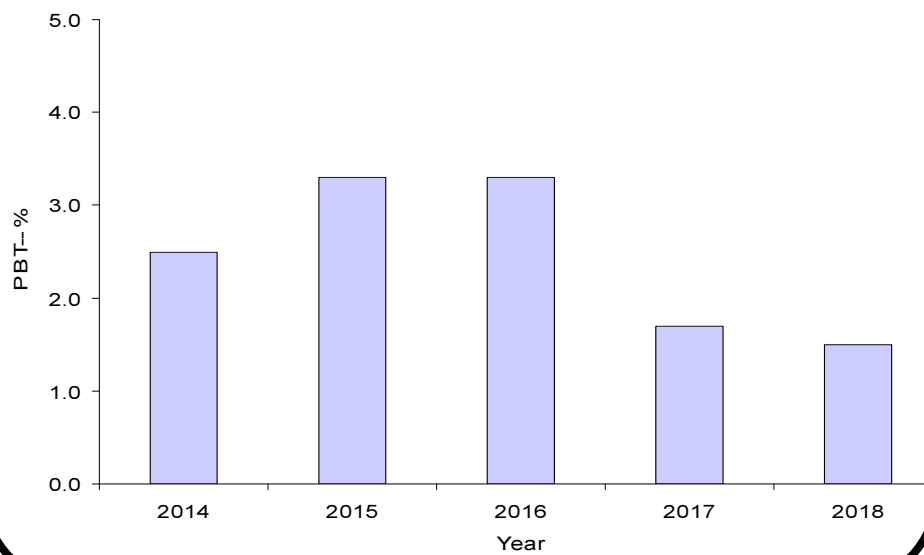


Exhibit 4

Distribution Performance Project

An Improvement Path For Profit Margin: .5 to 1.0% per Year

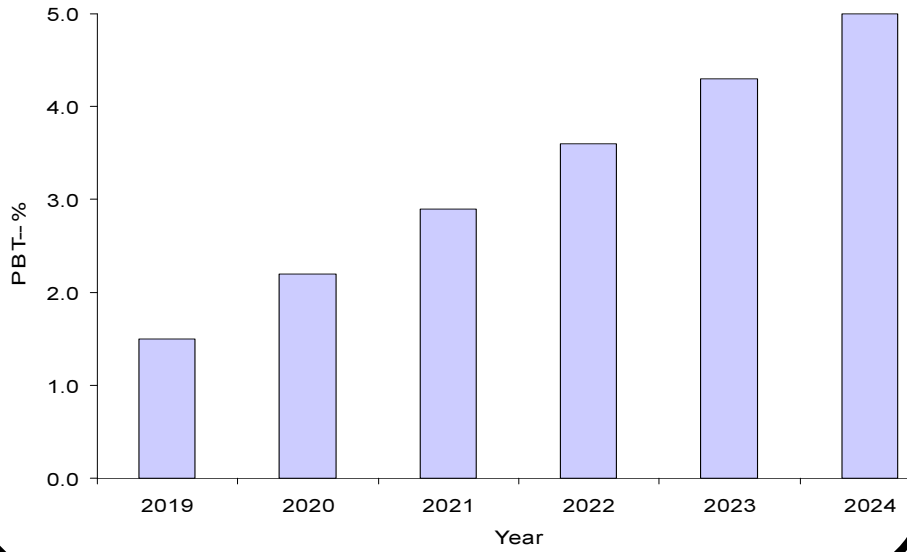


Exhibit 5 Distribution Performance Project

The Relationship Between A Sales Increase And Profit Margin

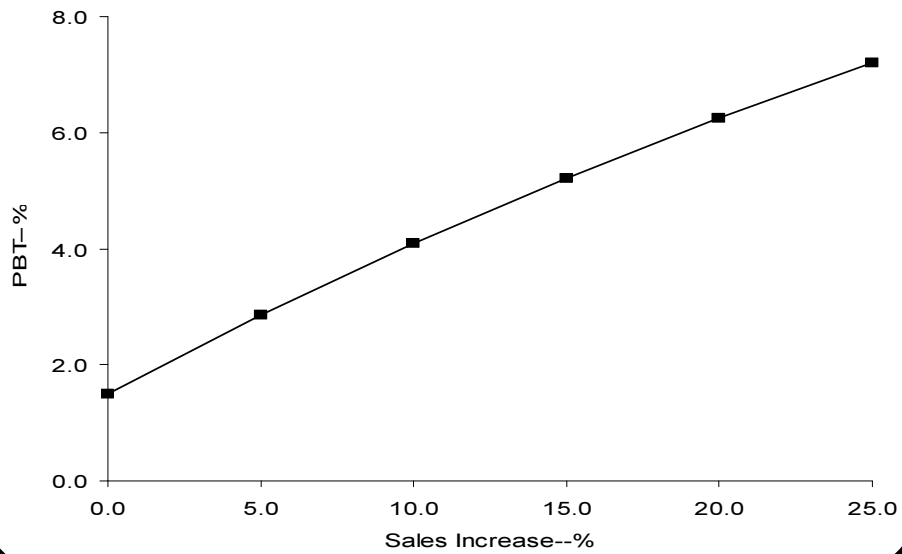


Exhibit 6 Distribution Performance Project

The Relationship Between An Expense Decrease And Profit Margin

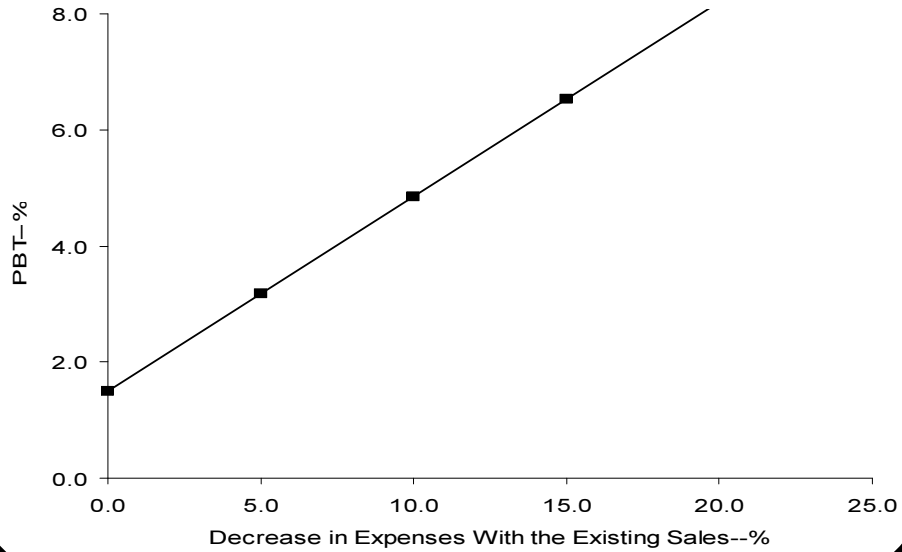


Exhibit 7

Distribution Performance Project

The Relationship Between A Gross Margin Increase And Profit Margin

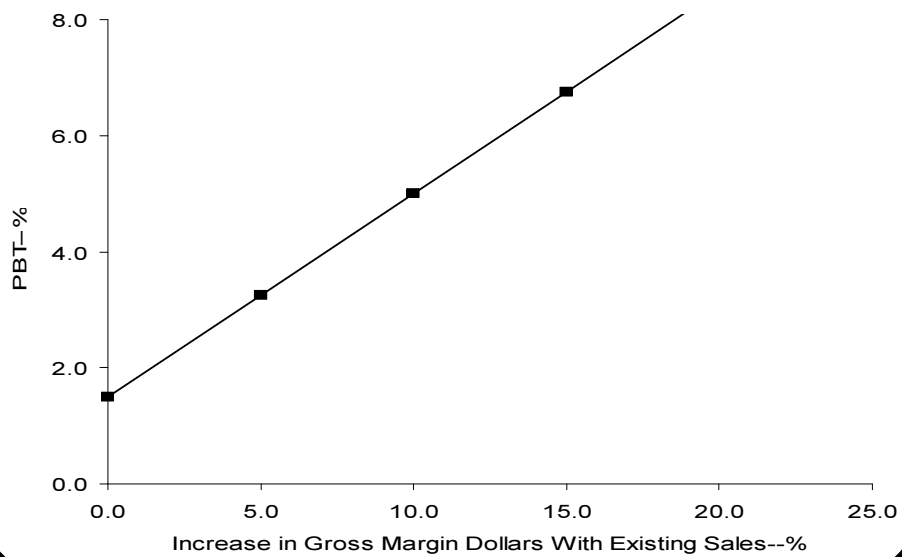


Exhibit 8

Distribution Performance Project

The Recent Trend In Sales Growth

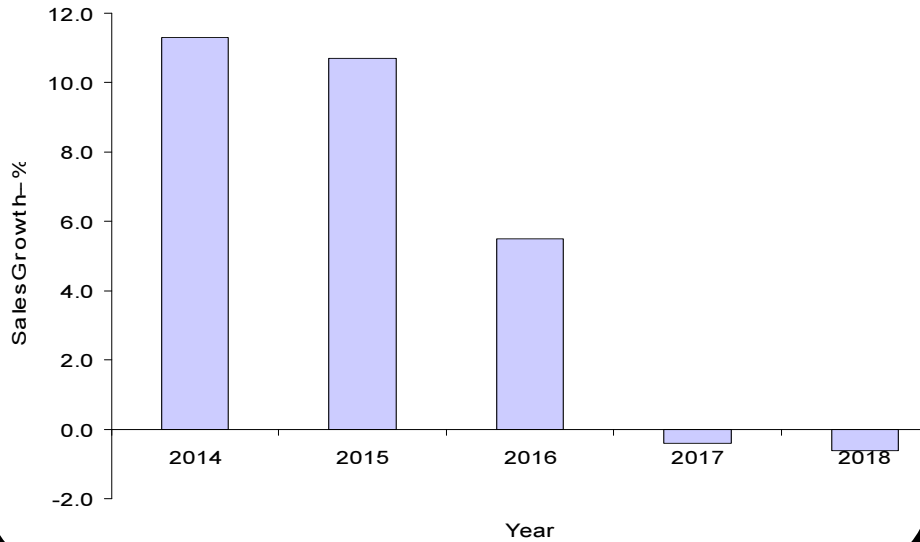


Exhibit 9

Distribution Performance Project

Maintaining Sales Growth: Life In A Mature Market

Summary <u>Income Statement</u>	<u>Current</u>	<u>Potential</u>	<u>Percent Change</u>
Net Sales	20,000,000	21,000,000	5.0
Cost of Goods Sold	<u>13,000,000</u>	<u>13,650,000</u>	5.0
Gross Margin	7,000,000	7,350,000	5.0
Total Expenses	<u>6,700,000</u>	<u>6,901,000</u>	3.0
Net Profit	300,000	449,000	49.7

Exhibit 10

Distribution Performance Project

Whipsaw Sales Growth: Life In A Mature Market

Summary <u>Income Statement</u>	<u>Current</u>	<u>Potential</u>	<u>Percent Change</u>
Net Sales	20,000,000	21,000,000	5.0
Cost of Goods Sold	<u>13,000,000</u>	<u>13,650,000</u>	5.0
Gross Margin	7,000,000	7,350,000	5.0
Total Expenses	<u>6,700,000</u>	<u>7,102,000</u>	6.0
Net Profit	300,000	248,000	-17.3

Exhibit 11

Distribution Performance Project

The Economics of Commoditization

Summary <u>Income Statement</u>	<u>Current</u>	<u>No Cut In Expenses</u>	<u>Expense Cut</u>
Net Sales	20,000,000	19,000,000	19,000,000
Cost of Goods Sold	<u>13,000,000</u>	<u>13,000,000</u>	<u>13,000,000</u>
Gross Margin	7,000,000	6,000,000	6,000,000
Total Expense	<u>6,700,000</u>	<u>6,700,000</u>	<u>5,700,000</u>
Profit Before Taxes	300,000	-700,000	300,000

Exhibit 12

Distribution Performance Project

Improving The Gross Margin Percentage By Either Buying Or Pricing

Summary <u>Income Statement</u>	<u>Current</u>	<u>Buying Potential</u>	<u>Pricing Potential</u>
Gross Margin--%	35.0	35.5	35.5
Net Sales	20,000,000	20,000,000	20,155,039
Cost of Goods Sold	<u>13,000,000</u>	<u>12,900,000</u>	<u>13,000,000</u>
Gross Margin	7,000,000	7,100,000	7,155,039
Variable Expenses	1,000,000	1,000,000	1,007,752
Fixed Expenses	<u>5,700,000</u>	<u>5,700,000</u>	<u>5,700,000</u>
Total Expense	<u>6,700,000</u>	<u>6,700,000</u>	<u>6,707,752</u>
Profit Before Taxes	300,000	400,000	

Exhibit 13 Distribution Performance Project

The Impact Of A Five Percent Supplier Price Increase

Summary <u>Income Statement</u>	<u>Current</u>	<u>Dollar For Dollar</u>	<u>Percent For Percent</u>
Net Sales	20,000,000	20,650,000	21,000,000
Cost of Goods Sold	<u>13,000,000</u>	<u>13,650,000</u>	<u>13,650,000</u>
Gross Margin	7,000,000	7,000,000	7,350,000
Fixed Expenses	5,700,000	5,700,000	5,700,000
Variable Expenses	<u>1,000,000</u>	<u>1,032,500</u>	<u>1,050,000</u>
Total Expenses	<u>6,700,000</u>	<u>6,732,500</u>	<u>6,750,000</u>
Net Profit	300,000	267,500	

Exhibit 14 Distribution Performance Project

The Improvement Model: A Rack-Suit Plan

- Increasing 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 (not gross margin dollars) by
- Decrease the other expense percentage (not expense dollars) by

Exhibit 15 Distribution Performance Project

The Impact Of Making The Mandated Changes

	<u>2019</u>	<u>2020</u>	<u>2024</u>
Net Sales	20,000,000	21,000,000	25,525,631
Cost of Goods Sold	<u>13,000,000</u>	<u>13,608,000</u>	<u>16,336,404</u>
Gross Margin	7,000,000	7,392,000	9,189,227
Payroll and Fringes	3,400,000	3,502,000	3,941,532
All Other Expenses	<u>3,300,000</u>	<u>3,423,000</u>	<u>3,956,473</u>
Total Expenses	<u>6,700,000</u>	<u>6,925,000</u>	<u>7,898,005</u>
Profit Before Taxes	300,000	467,000	1,291,223
Net Sales	100.0	100.0	100.0
Cost of Goods Sold	<u>65.0</u>	<u>64.8</u>	<u>64.0</u>
Gross Margin	35.0	35.2	36.0
Payroll and Fringes	17.0	16.7	15.4
All Other Expenses	<u>16.5</u>	<u>16.3</u>	<u>15.5</u>
Total Expenses	<u>33.5</u>	<u>33.0</u>	<u>30.9</u>
Profit Before Taxes	1.5	2.2	

Exhibit 16 Distribution Performance Project

Summary And Conclusions

- A realistic profit goal is a .5% to 1.0% increase in PBT per year
- Driving higher profit requires focusing on the right things
- We need to have at least a modest sales increase each year
- We must get control of gross margin, largely through pricing

Exhibit 17

Distribution Performance Project

Oh No! He's Back!

Dr. Albert Bates is founder the Principal in the Distribution Performance Project, a research and education entity focusing exclusively on distribution.

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.

When not conducting convention sessions he enjoys tennis and skiing. He is lousy at both of them.

Buy the book: ***Breaking Down the Profit Barriers in Distribution*** from Amazon or Barnes & Noble. Trade paper only.



Exhibit 18

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