

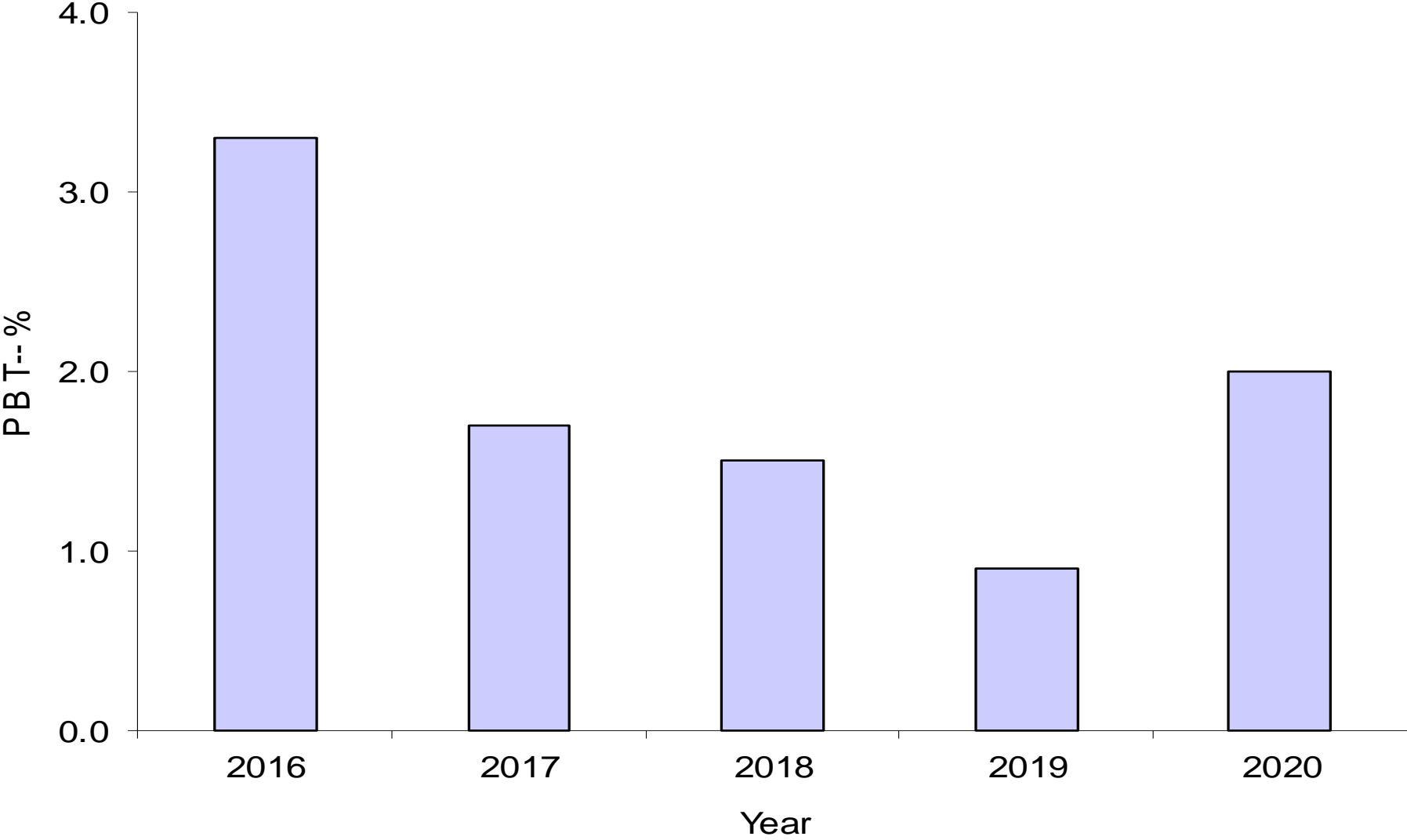
Objectives Of The Session

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

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>12,800,000</u>	<u>64.0</u>
Gross Margin	7,200,000	36.0
Payroll and Fringes	4,200,000	21.0
All Other Expenses	<u>2,600,000</u>	<u>13.0</u>
Total Expenses	<u>6,800,000</u>	<u>34.0</u>
Profit Before Taxes	400,000	2.0
Fixed Expenses	5,800,000	
Variable Expenses	1,000,000	5.0

The Recent Trend In Profit Margin



The Realities of Profit Margin Changes

Sales Growth—Highly Episodic

Gross Margin—Relatively Constant

Expenses—Rising Steadily

An Improvement Path For Profit Margin

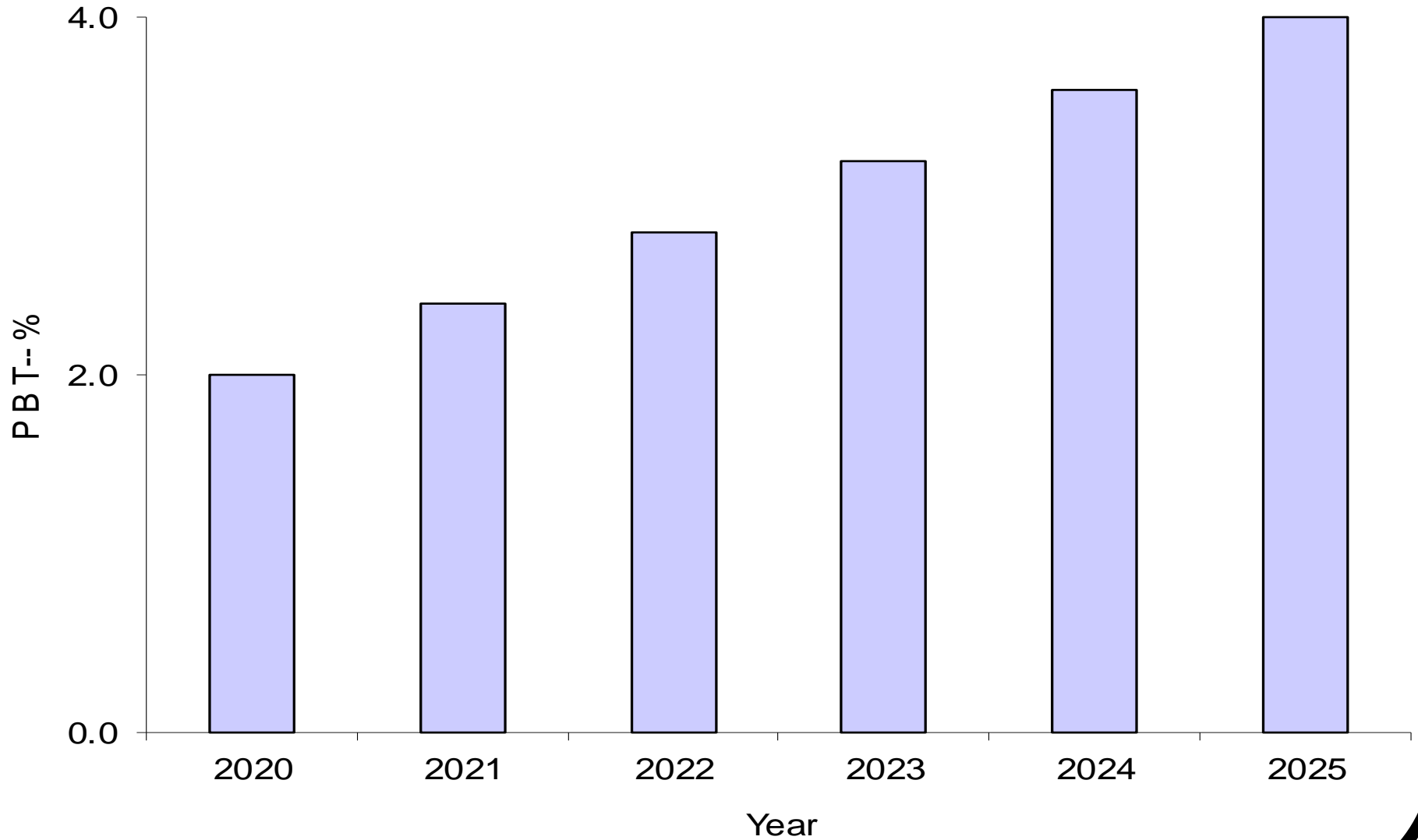
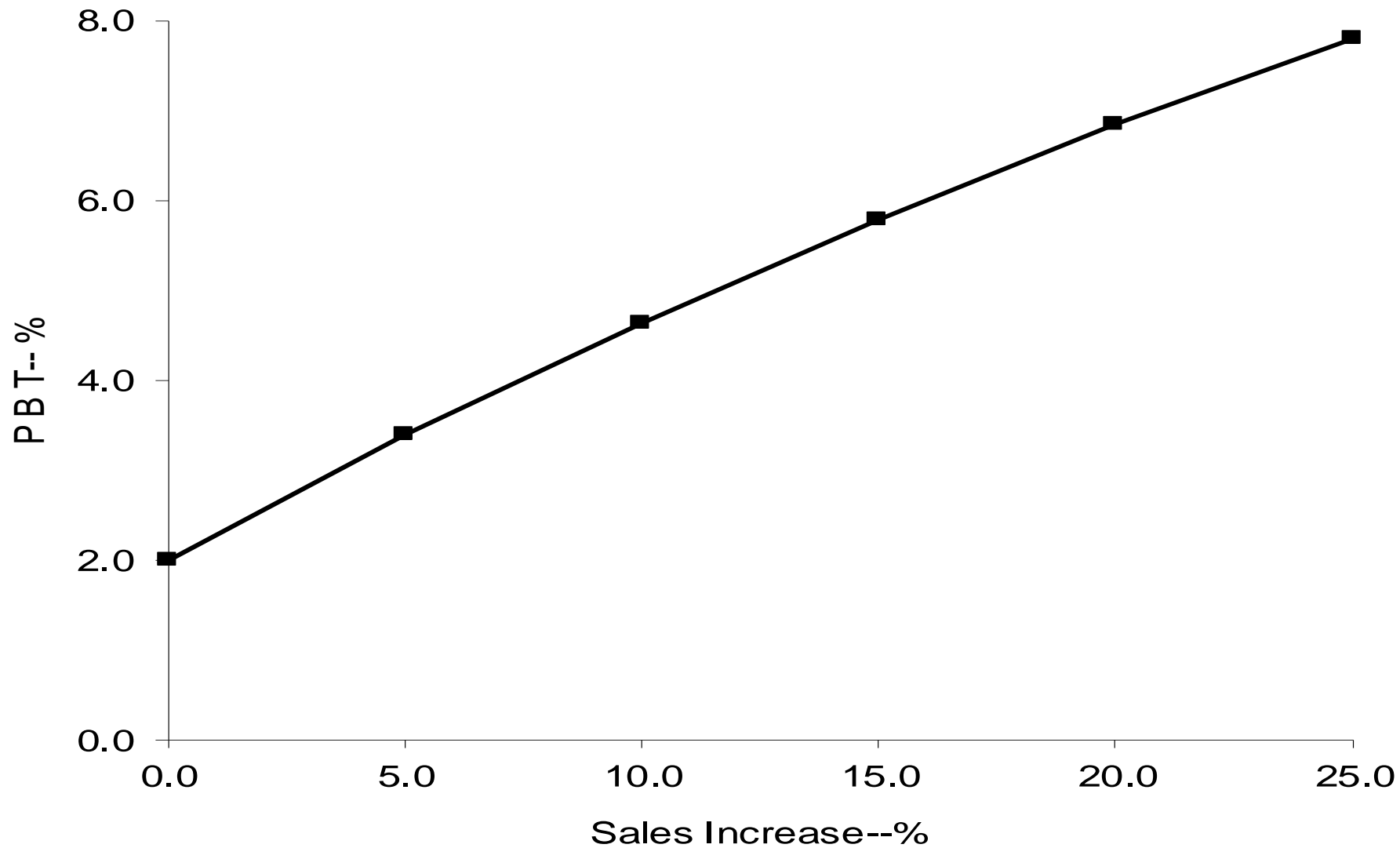


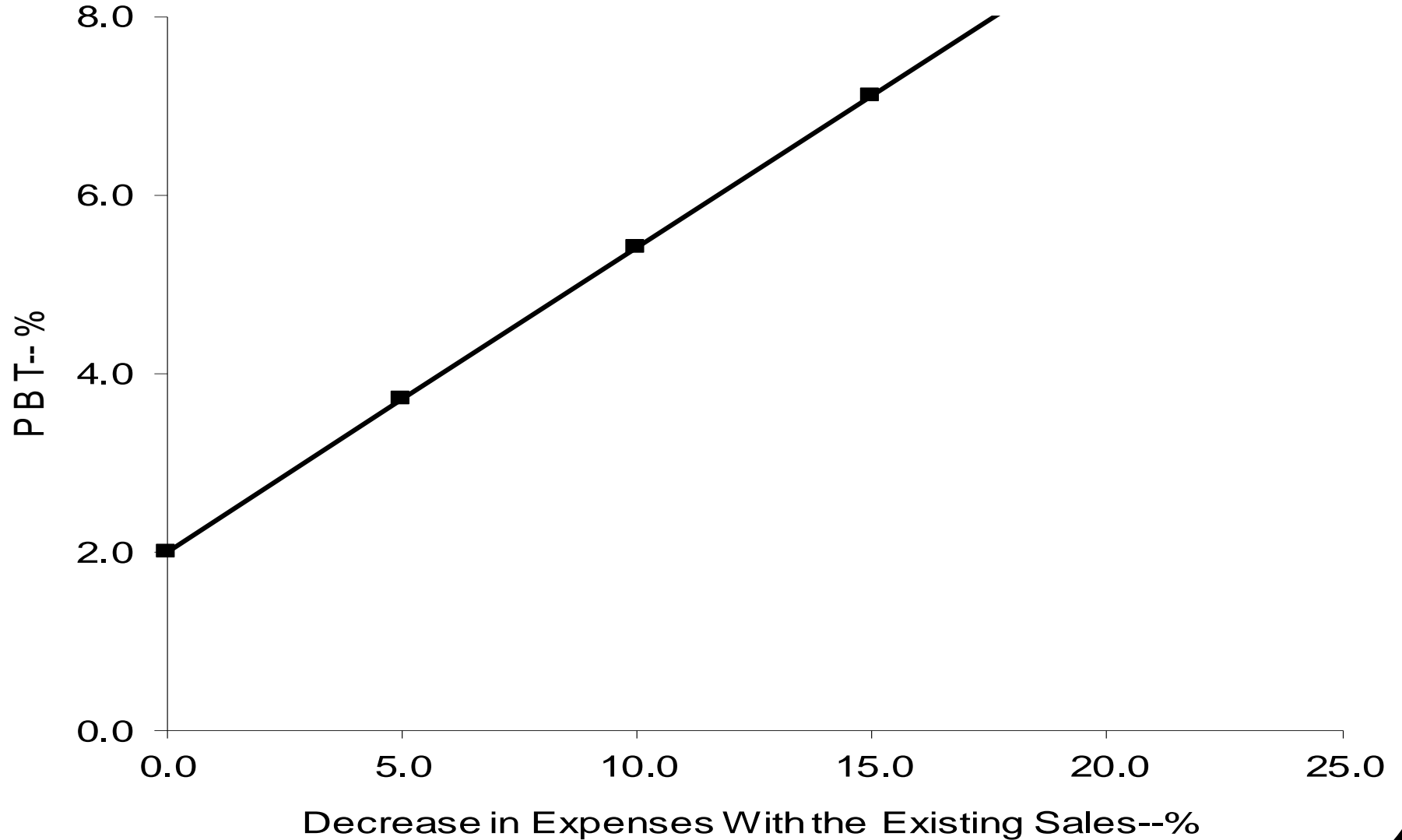
Exhibit 5

Distribution Performance Project

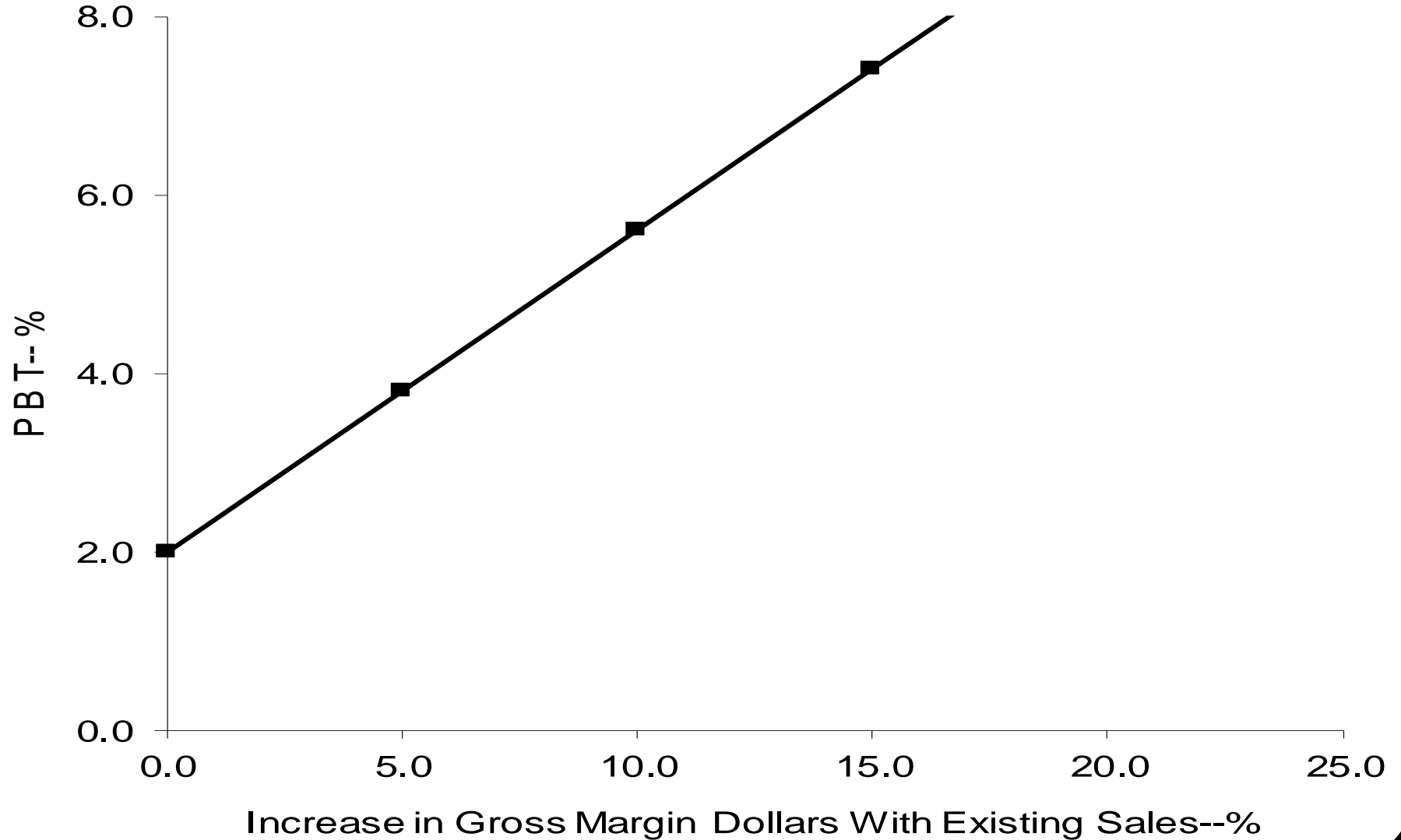
The Relationship Between A Sales Increase And Profit Margin



The Relationship Between An Expense Decrease And Profit Margin



The Relationship Between A Gross Margin Increase And Profit Margin



The Sales To Payroll Gap: 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>12,800,000</u>	<u>13,440,000</u>	5.0
Gross Margin	7,200,000	7,560,000	5.0
Payroll & Fringes	4,200,000	4,326,000	3.0
All Other Expenses	<u>2,600,000</u>	<u>2,730,000</u>	5.0
Total Expenses	<u>6,800,000</u>	<u>7,056,000</u>	3.8
Net Profit	400,000	504,000	26.0

The Sales To Payroll Gap: The Potential To Have A Negative Gap

<u>Summary</u> <u>Income Statement</u>	<u>Current</u>	<u>Potential</u>	<u>Percent</u> <u>Change</u>
Net Sales	20,000,000	21,000,000	5.0
Cost of Goods Sold	<u>12,800,000</u>	<u>13,440,000</u>	5.0
Gross Margin	7,200,000	7,560,000	5.0
Payroll & Fringes	4,200,000	4,494,000	7.0
All Other Expenses	<u>2,600,000</u>	<u>2,730,000</u>	5.0
Total Expenses	<u>6,800,000</u>	<u>7,224,000</u>	6.2
Net Profit	400,000	336,000	-16.0

Why Do You Keep Hounding On This Payroll Stuff?

Sales Per Employee:

2005: \$290,000

2015: \$335,000

Payroll Percent of Sales:

2005: 18.0%

2015 21.0%

Where Do The Payroll Dollars Go?

<u>Payroll Category</u>	<u>Percent of Sales</u>	<u>Percent of Payroll</u>
Officers/Owners	1.5	7.1
Sales Force	7.0	
Operations	4.0	19.0
All Other	<u>8.5</u>	<u>40.5</u>
Total	21.0	100.0

Profitability In Relationship To Workload

	<u>Total Firm</u>	<u>Per Order</u>	<u>Per Line</u>
Net Sales	20,000,000	500.00	200.00
Gross Margin	7,200,000	180.00	72.00
Total Expenses	6,800,000	170.00	68.00
Net Profit	400,000		

The Sales Impact of Enhanced Order Economics

	Item		Current	Potential
1	Number of Orders		42,105	42,105
2	Lines per Order		2.5	
3	Lines Ordered	[1 x 2]	105,263	109,474
4	Fill Rate		95.0%	
5	Lines Filled	[3 x 4]	100,000	104,219
6	Average Order Line		\$200.00	
7	Net Sales	[5 x 6]	\$20,000,000	\$21,052,227
	Increase in Sales			

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--%	36.0	36.5	36.5
Net Sales	20,000,000	20,000,000	20,157,480
Cost of Goods Sold	<u>12,800,000</u>	<u>12,700,000</u>	<u>12,800,000</u>
Gross Margin	7,200,000	7,300,000	7,357,480
Variable Expenses	1,000,000	1,000,000	1,007,874
Fixed Expenses	<u>5,800,000</u>	<u>5,800,000</u>	<u>5,800,000</u>
Total Expense	<u>6,800,000</u>	<u>6,800,000</u>	<u>6,807,874</u>
Profit Before Taxes	400,000	500,000	

Separating Pricing And Buying

Summary <u>Income Statement</u>	<u>Current</u>	<u>Buying Potential</u>	<u>Pricing Potential</u>
Net Sales	20,000,000	20,000,000	19,843,750
Cost of Goods Sold	<u>12,800,000</u>	<u>12,700,000</u>	<u>12,700,000</u>
Gross Margin	7,200,000	7,300,000	7,143,750
Variable Expenses	1,000,000	1,000,000	992,188
Fixed Expenses	<u>5,800,000</u>	<u>5,800,000</u>	<u>5,800,000</u>
Total Expense	<u>6,800,000</u>	<u>6,800,000</u>	<u>6,792,188</u>
Profit Before Taxes	400,000	500,000	
 Cost of Goods Reduction--%		 0.78	

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	20,640,000	21,000,000
Cost of Goods Sold	<u>12,800,000</u>	<u>13,440,000</u>	<u>13,440,000</u>
Gross Margin	7,200,000	7,200,000	7,560,000
Fixed Expenses	5,800,000	5,800,000	5,800,000
Variable Expenses	<u>1,000,000</u>	<u>1,032,000</u>	<u>1,050,000</u>
Total Expenses	<u>6,800,000</u>	<u>6,832,000</u>	<u>6,850,000</u>
Net Profit	400,000	368,000	

Some Tools—Free, No Less

distperf.com

Programs tab then down to hands-on tools

- What if
- Understanding the CPVs
- Profit-first Planning

The Mandate For Change During Each Of The Next Five Years

Net Sales	5.0
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Gross Margin %	0.1
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Sales to Payroll Gap	2.0
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Other Expense %	-0.1
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The Impact Of Making The Mandated Changes

	<u>2020</u>	<u>2021</u>	<u>2025</u>
Net Sales	20,000,000	21,000,000	25,525,631
Cost of Goods Sold	<u>12,800,000</u>	<u>13,419,000</u>	<u>16,208,776</u>
Gross Margin	7,200,000	7,581,000	9,316,855
Payroll and Fringes	4,200,000	4,326,000	4,868,951
All Other Expenses	<u>2,600,000</u>	<u>2,709,000</u>	<u>3,190,704</u>
Total Expenses	<u>6,800,000</u>	<u>7,035,000</u>	<u>8,059,655</u>
Profit Before Taxes	400,000	546,000	1,257,200

Net Sales	100.0	100.0	100.0
Cost of Goods Sold	<u>64.0</u>	<u>63.9</u>	<u>63.5</u>
Gross Margin	36.0	36.1	36.5
Payroll and Fringes	21.0	20.6	19.1
All Other Expenses	<u>13.0</u>	<u>12.9</u>	<u>12.5</u>
Total Expenses	<u>34.0</u>	<u>33.5</u>	<u>31.6</u>
Profit Before Taxes	2.0	2.6	

Summary And Conclusions

- A realistic profit goal is a 4.0% PBT, but probably over time

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.



The Real Profit Drivers

Prepared For

CTDA

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