

How to Improve Distributor Profitability

Greg Manns, CPA • Industry Insights, Inc. • October 28, 2018



About Industry Insights

- We are a team of Statisticians, CPAs, and IT Professionals
- Survey based research for associations and their members
- Objective third-party
- Survey research is not an “offshoot”
- Conducted hundreds of operating and compensation surveys for the wholesale distribution industry



Trusted Responsive Experts Since 1980

Audience Polling Question Results

Including this year's conference, how many STAFDA annual conferences have you attended?

One - This is my first time attending

48%

2 - 5

23%

More than 5

29%

0%

10%

20%

30%

40%

Data Driven Decisions



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“ If we have data, let's look at data.
If all we have are opinions, let's go with mine.

Jim Barksdale, former President and CEO of Netscape.

The Importance of Information

“Information is the oil of the 21st century, and analytics is the combustion engine.” - Peter Sondergaard, Senior Vice President at Gartner

“(This) is surely the century of data.” - David Donoho, Professor of statistics at Stanford University

“It’s amazing how much data is out there. The question is how do we put it in a form that’s usable?” - Bill Ford Jr., Ford

“ The goal is to turn data into information, and information into insight.
Carly Fiorina, former executive, president, and chair of Hewlett-Packard Co.

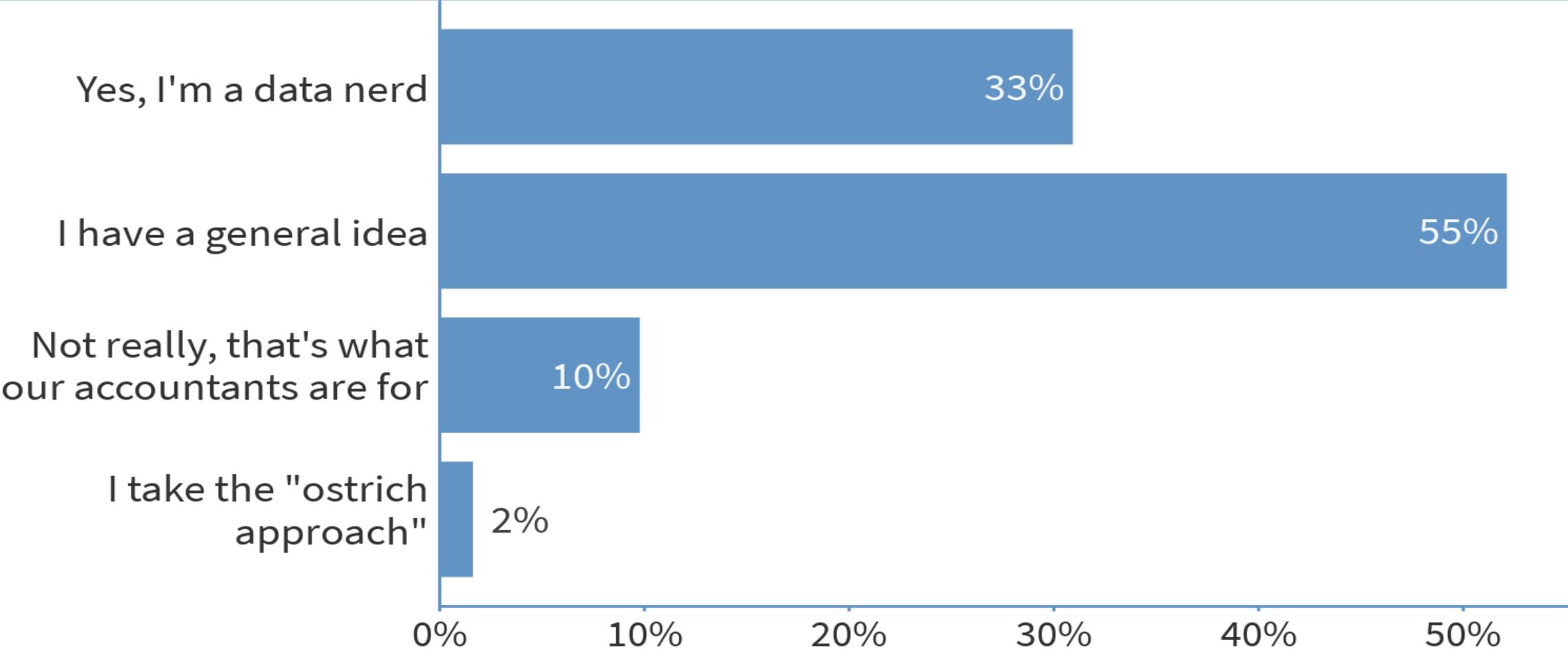
Utilizing Benchmarks

- Financial information is more useful as a ratio than as an absolute figure
- Ratios create a common platform for reviewing information and basing decisions
- Ratios must be compared against some standard
 - Industry Peers
 - Historical Performance
 - Budgets

	Company #1	Company #2
Profits (\$)	\$100,000	\$100,000
Sales (\$)	\$200,000	\$2,000,000
Profit Margin (%)	50%	5%

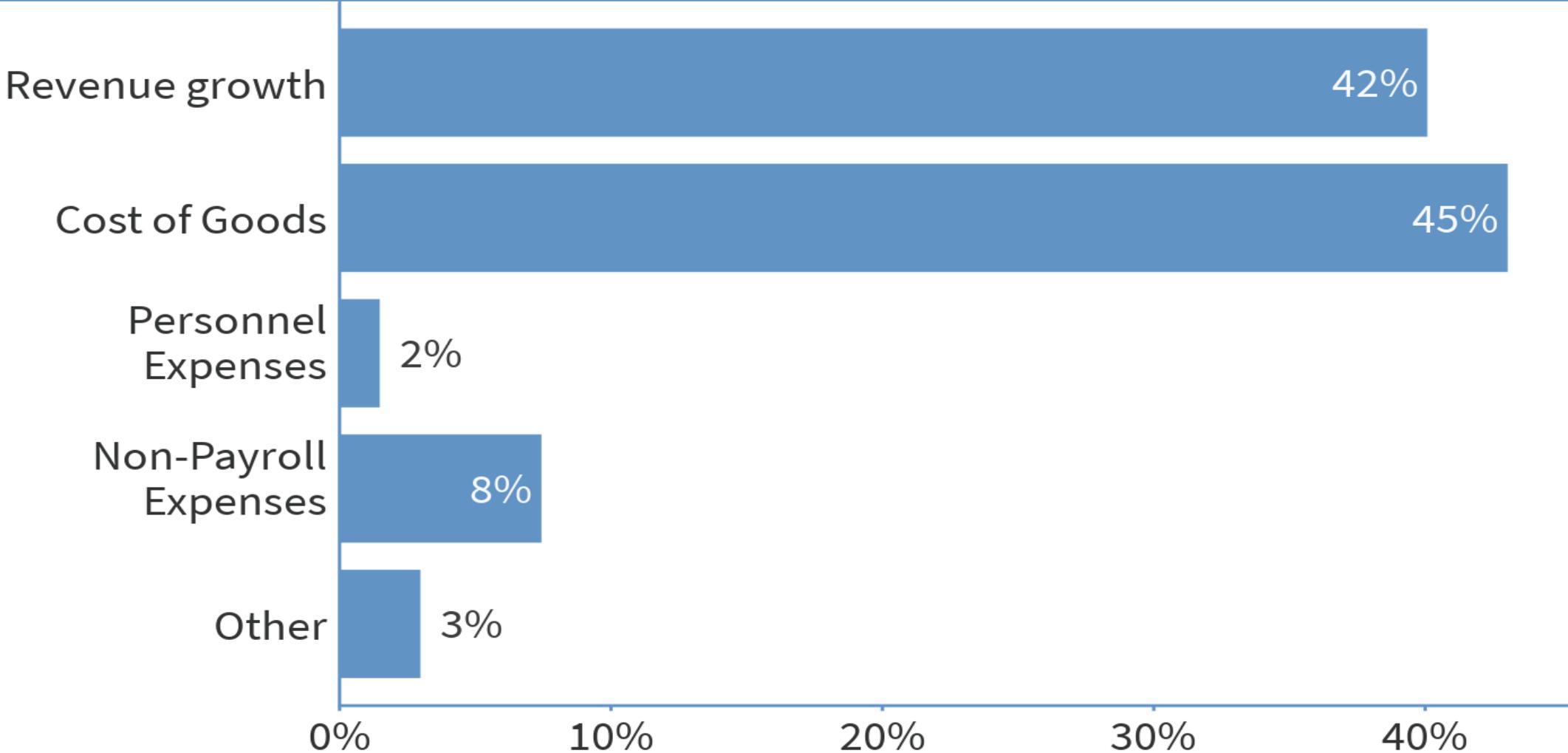
Audience Polling Question Results

Do you know your company's financial performance vs. your company's historical trends and/or industry benchmarks?



Audience Polling Question Results

What is the top area you address when looking to improve your profitability?



What's Driving Profits?

Product

Cost of Goods Sold

+

People

Personnel Costs

= Profits

Profit Before Taxes
Return on Assets

Products



Products

Sales Growth

$(\text{Current Net Sales} - \text{Prior Net Sales}) \div \text{Prior Net Sales}$



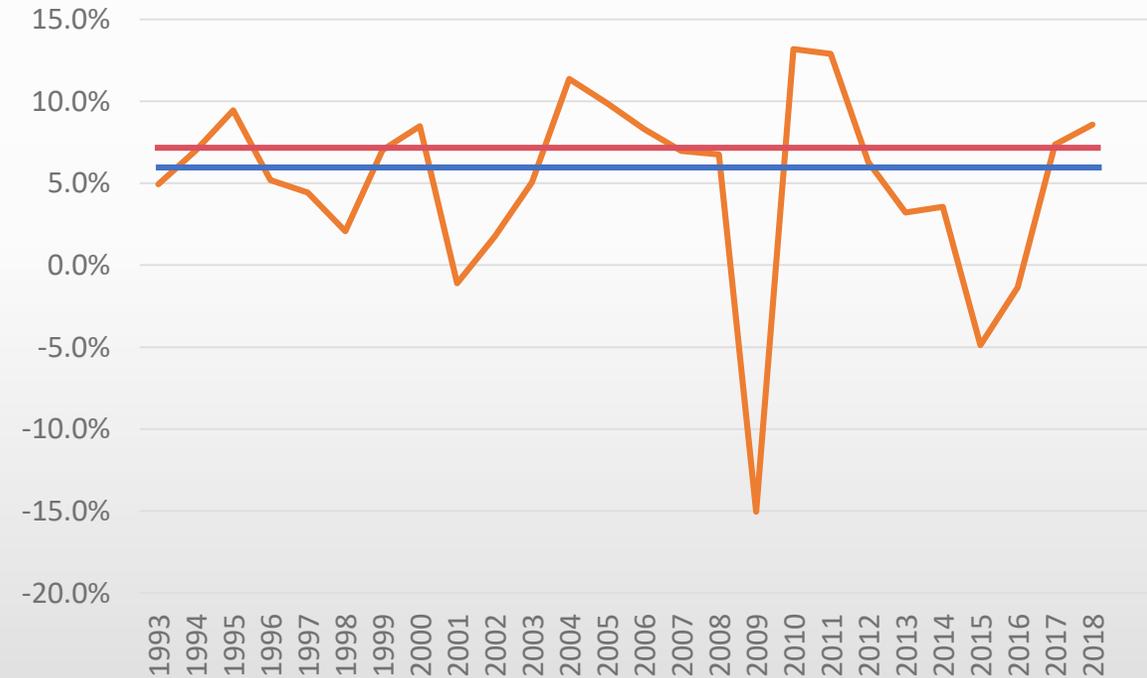
All Firms



High Profit

Source: Industry Insights Wholesale Distributor Analysis

Total Wholesale Sales Growth



Source: U.S. Census Bureau, Monthly Wholesale Trade Report

Impact of 1% Sales Growth

	Dollars	%	Dollars	%
Net Sales	10,000,000	100.0%	10,100,000	100.0%
Cost of Goods Sold	7,500,000	75.0%	7,500,000	74.3%
Gross Margin	2,500,000	25.0%	2,600,000	25.7%
Variable Expenses	500,000	5.0%	505,000	5.0%
Fixed Expenses	1,500,000	15.0%	1,500,000	14.9%
Profit (Loss)	500,000	5.0%	595,000	5.9%
Profit Improvement			95,000	19.0%

Impact of 1% Improvement in COGS

	Dollars	%	Dollars	%
Net Sales	10,000,000	100.0%	10,000,000	100.0%
Cost of Goods Sold	7,500,000	75.0%	7,425,000	74.3%
Gross Margin	2,500,000	25.0%	2,575,000	25.8%
Variable Expenses	500,000	5.0%	500,000	5.0%
Fixed Expenses	1,500,000	15.0%	1,500,000	15.0%
Profit (Loss)	500,000	5.0%	575,000	5.8%
Profit Improvement			75,000	15.0%

Impact of 1% Improvement in Fixed Expenses

	Dollars	%	Dollars	%
Net Sales	10,000,000	100.0%	10,000,000	100.0%
Cost of Goods Sold	7,500,000	75.0%	7,500,000	75.0%
Gross Margin	2,500,000	25.0%	2,500,000	25.0%
Variable Expenses	500,000	5.0%	500,000	5.0%
Fixed Expenses	1,500,000	15.0%	1,485,000	14.9%
Profit (Loss)	500,000	5.0%	515,000	5.2%
Profit Improvement			15,000	3.0%

Summary

% Change in Sales/Pricing	% Change In Profit
1%	19.0%
3%	57.0%
5%	95.0%

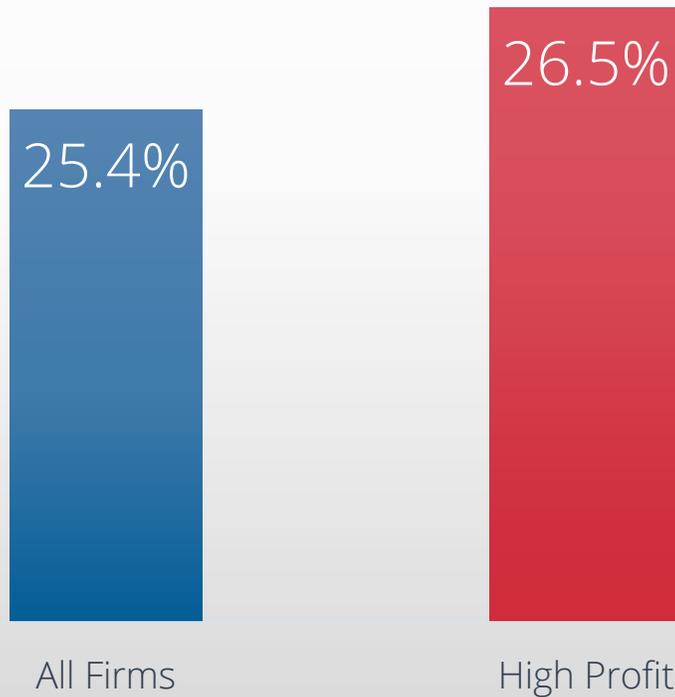
% Change in COGS/Buying	% Change In Profit
1%	15.0%
3%	45.0%
5%	75.0%

% Change in Fixed Costs	% Change In Profit
1%	3.0%
3%	9.0%
5%	15.0%

Products

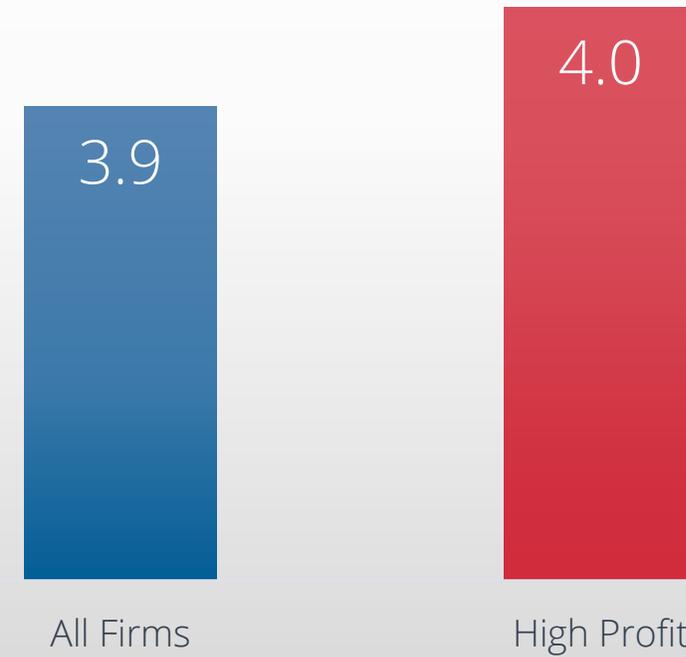
Gross Margin

$(\text{Net Sales} - \text{Cost of Goods Sold}) \div \text{Net Sales}$



Inventory Turnover

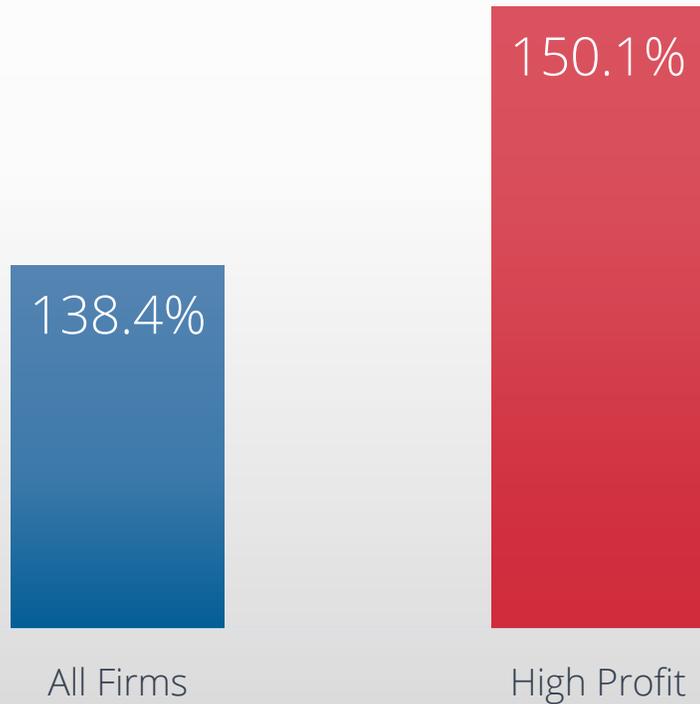
$\text{Cost of Good Sold} \div \text{Average Inventory}$



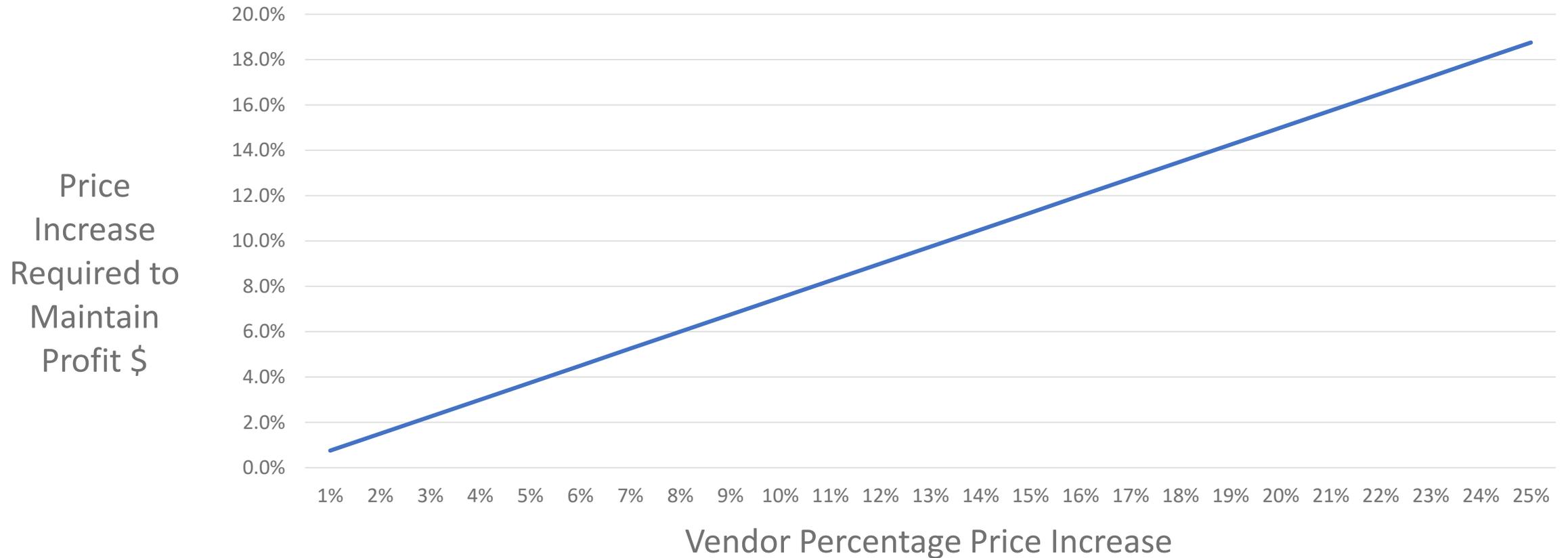
Products

Gross Margin Return on Inventory

Gross Margin \$ ÷ Average Inventory \$



Pricing Pressures



COGS %

X

Vendor Price Increase %

=

Price increase % necessary
to maintain profit \$

People



STAFDA

Connecting your Products to your People



“The sales department isn’t the whole company, but the whole company better be the sales department.”
- Philip Kotler

- “You don’t sell to distributors. You sell through them and with them.”
- “Low paid salesmen are expensive. High paid salesmen are cheap.”
- Defined marketing as simply “meeting needs profitably.”

By KATE GIBSON · MONEYWATCH · July 5, 2018, 11:58 AM

Strong labor market has more Americans quitting their jobs

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The U.S. labor shortage is reaching a critical point

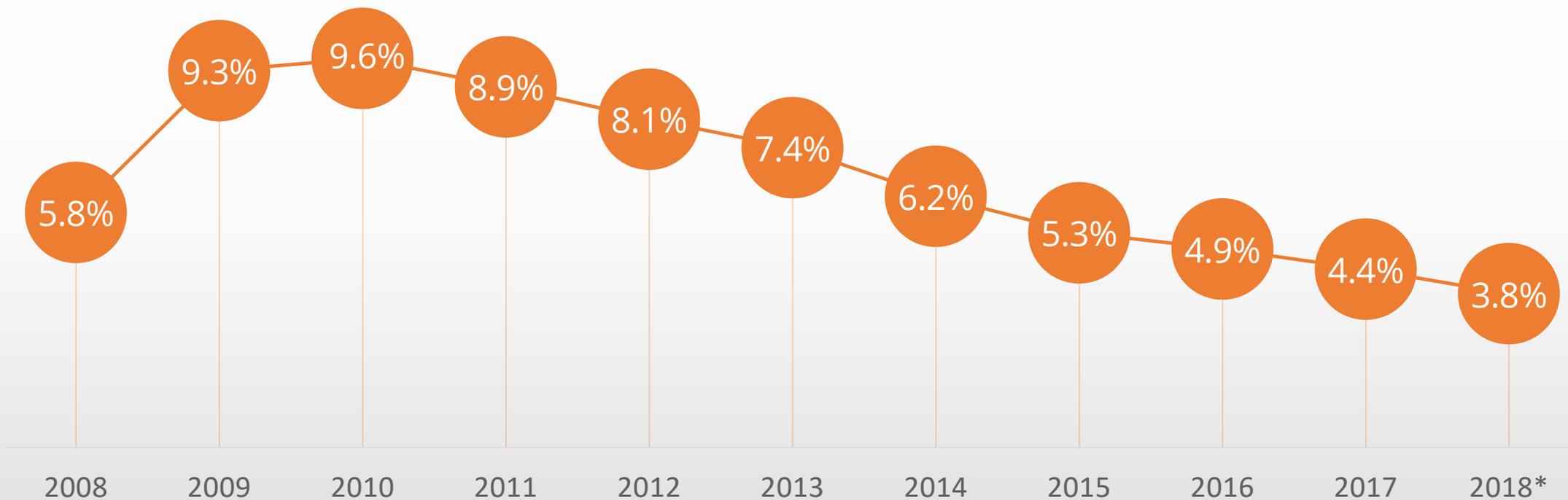
- Private **BUSINESS**'s grew less than expected in June, likely due not just to a slow

- For the first time, companies are working overtime to find new employees
- Economic growth is slowing, and inflation is rising

A tight labor market leaves short-staffed businesses scrambling to recruit, retain and even transport workers.



Unemployment



Source: Bureau of Economic Analysis

*Forecast

Labor Markets

Number of unemployed persons per job opening

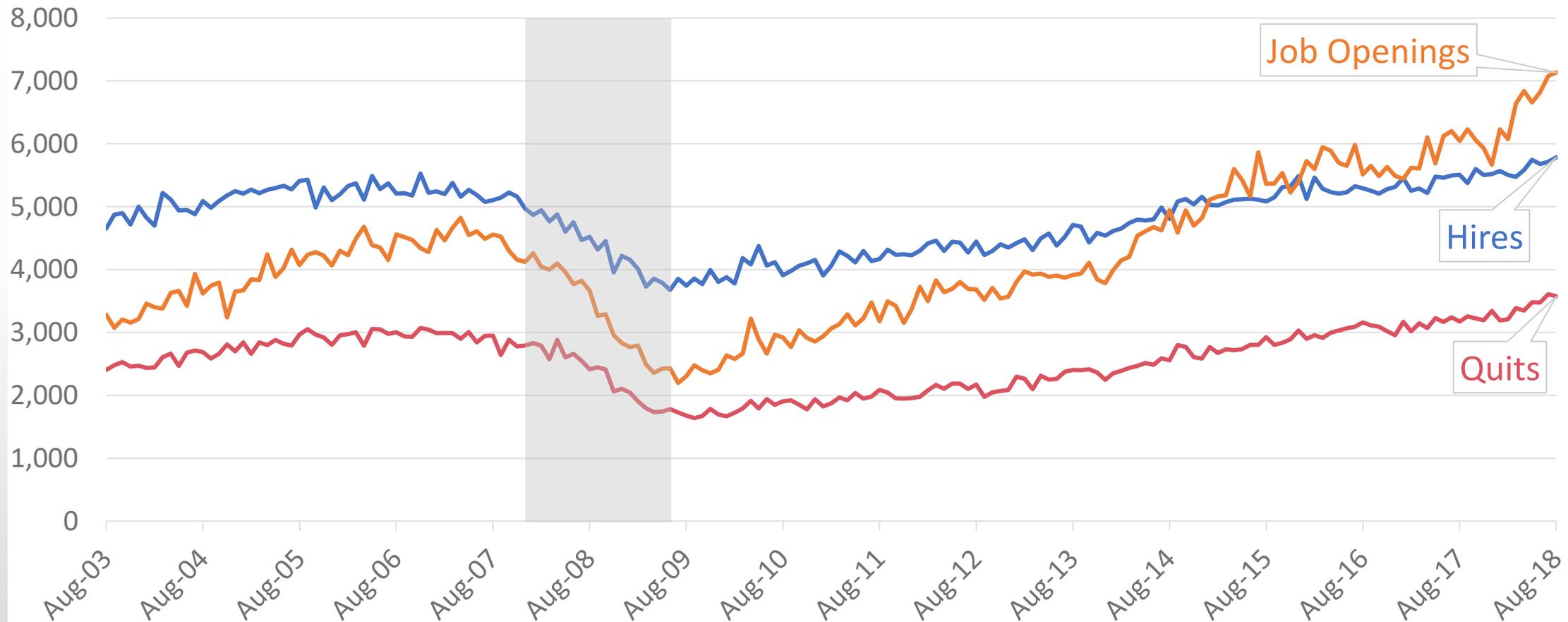


Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.

Source: U.S. Bureau of Labor Statistics

Labor Markets

Job openings, hires, and quits (in thousands)



Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.

Source: U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, October 16, 2018.

Cross-Industry Compensation and Benefits Study

- Online confidential survey form
- Conducted by objective, third-party (Industry Insights) in early 2018
- STAFDA was a co-sponsor of the study
(www.compensationbenchmarking.com)
- 1,037 distribution companies representing nearly 9,500 locations



2018 Cross-Industry Compensation and Benefits Report

Your Association(s)

STAFDA

Welcome to the 2018 Cross-Industry Compensation & Benefits Report portal. For assistance with the reports or data, contact Mike Ferris of Industry Insights by phone (614.389.2100 ext. 241) or email (comp@industryinsights.com).



Static Reports

This section contains your:

- Cross-Industry Compensation & Benefits Report
- Excel Results
- Individual Cross-Industry Company Compensation Report (CCR)



Reporting Tools

Interactive online reporting tools that allow users to filter the results by their own selected criteria.

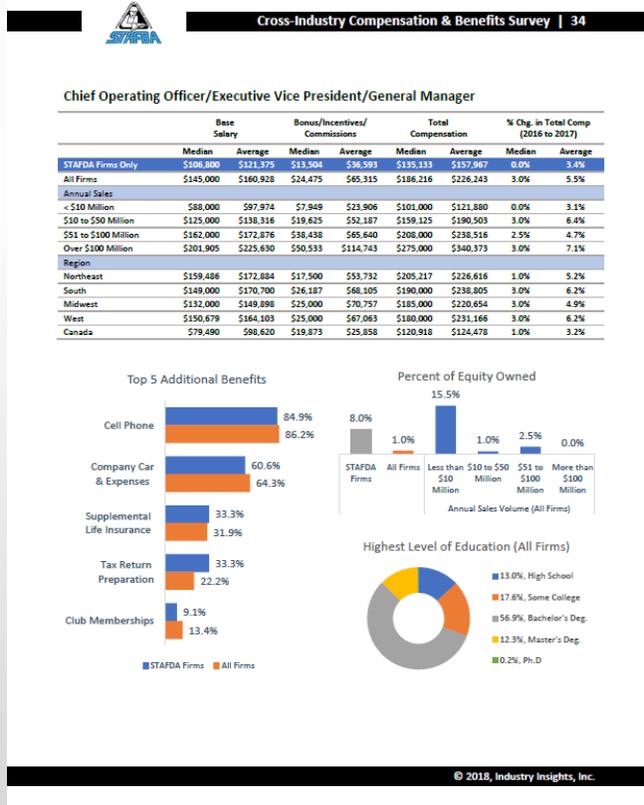
Cross-Industry Report

Cross-Industry Compensation & Benefits Survey

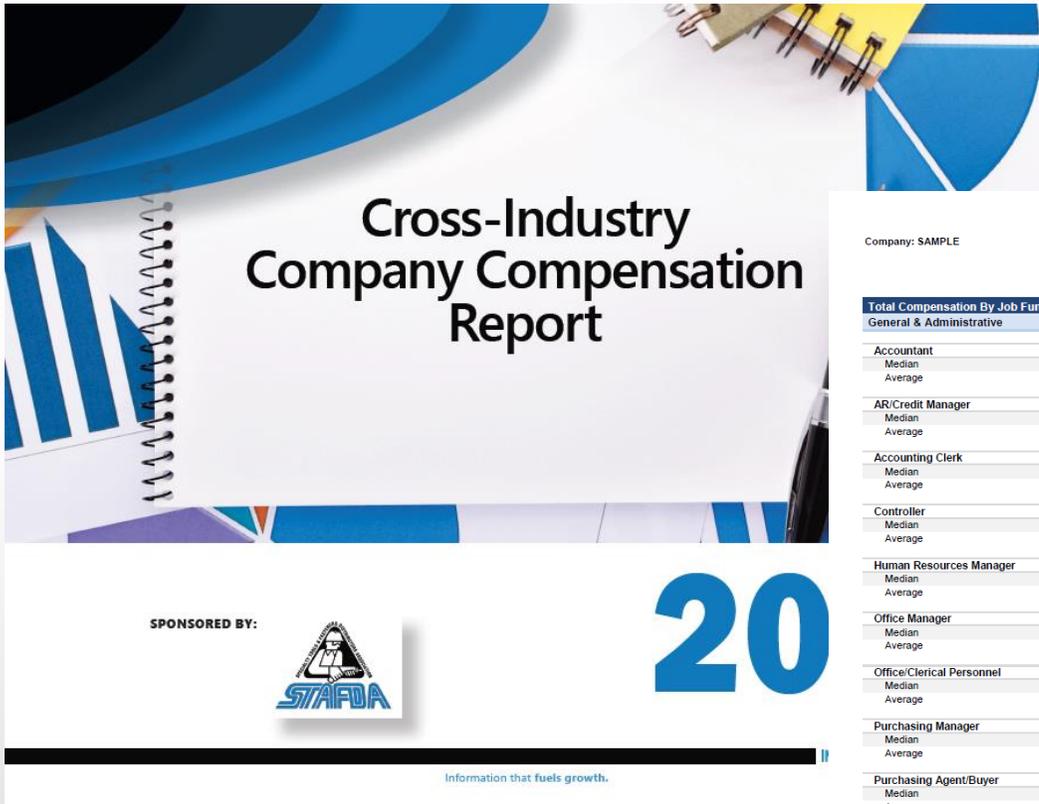
2018

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Company Compensation Report (CCR)



2018 Results
Cross-Industry Compensation Benefits Survey

Company: SAMPLE

	Your Firm	All Firms	STAFDA Members	Private Firms	Territory: Regional	Sales: \$10MM-\$50MM	Region: Pacific
Total Compensation By Job Function							
General & Administrative							
Accountant							
Median	\$57,675	\$58,000	\$51,000	\$57,190	\$56,742	\$55,000	\$68,120
Average	\$59,546	\$59,546	\$55,249	\$59,660	\$59,320	\$57,864	\$67,693
AR/Credit Manager							
Median	\$52,918	\$55,734	\$43,000	\$55,643	\$55,000	\$49,100	\$59,032
Average		\$59,597	\$48,523	\$59,684	\$58,863	\$51,079	\$63,637
Accounting Clerk							
Median	\$38,126	\$38,155	\$36,506	\$38,000	\$38,480	\$37,618	\$40,000
Average		\$39,963	\$37,701	\$39,953	\$40,438	\$41,073	\$43,194
Controller							
Median	\$85,475	\$90,118	\$61,000	\$80,148	\$91,511	\$84,075	\$96,000
Average		\$96,841	\$61,563	\$97,445	\$96,011	\$86,807	\$103,810
Human Resources Manager							
Median	\$69,880	\$71,111	\$62,553	\$72,015	\$73,391	\$63,711	\$76,500
Average		\$74,960	\$58,263	\$75,230	\$75,335	\$63,580	\$82,527
Office Manager							
Median	\$54,053	\$55,000	\$54,000	\$55,000	\$55,000	\$54,800	\$50,520
Average		\$57,448	\$56,425	\$58,186	\$59,684	\$56,165	\$53,943
Office/Clerical Personnel							
Median	\$35,233	\$35,000	\$35,000	\$35,000	\$35,000	\$34,000	\$37,400
Average		\$36,625	\$35,095	\$36,497	\$36,564	\$35,057	\$37,386
Purchasing Manager							
Median	\$71,373	\$73,200	\$65,000	\$73,065	\$72,800	\$69,992	\$74,181
Average		\$80,171	\$64,010	\$80,174	\$79,317	\$72,015	\$85,038
Purchasing Agent/Buyer							
Median	\$50,093	\$51,000	\$48,254	\$50,702	\$50,000	\$48,800	\$52,000
Average		\$55,132	\$48,698	\$53,900	\$52,544	\$50,894	\$59,207
Training Coordinator							
Median	\$63,794	\$64,260	ISD	\$65,000	\$65,000	\$65,000	\$59,712
Average		\$67,605	ISD	\$67,208	\$66,014	\$68,576	\$64,886

Confidential © 2018, Industry Insights, Inc. Employee Compensation - Page 1

- Compare your company alongside industry comparisons
- Quickly identify your results versus the industry norms



Online Reporting Tools



Executive
Compensation



Employee
Compensation



Branch-level
Compensation



Benefits



Distributor Profile
Information

Employee Compensation

1. Select the criteria you wish to apply to the results to create your custom report.
2. The most commonly used filters are displayed first, and Advanced Filters may be selected for an expanded list of additional filtering criteria.
3. A minimum of 10 responding organizations is needed in order to run a report.
4. Click Run Report to generate your report.

Number of Organizations: **1,037**

Display Your Data?

Annual Sales Volume

Region

Association Specific Filter

Advanced Filters 

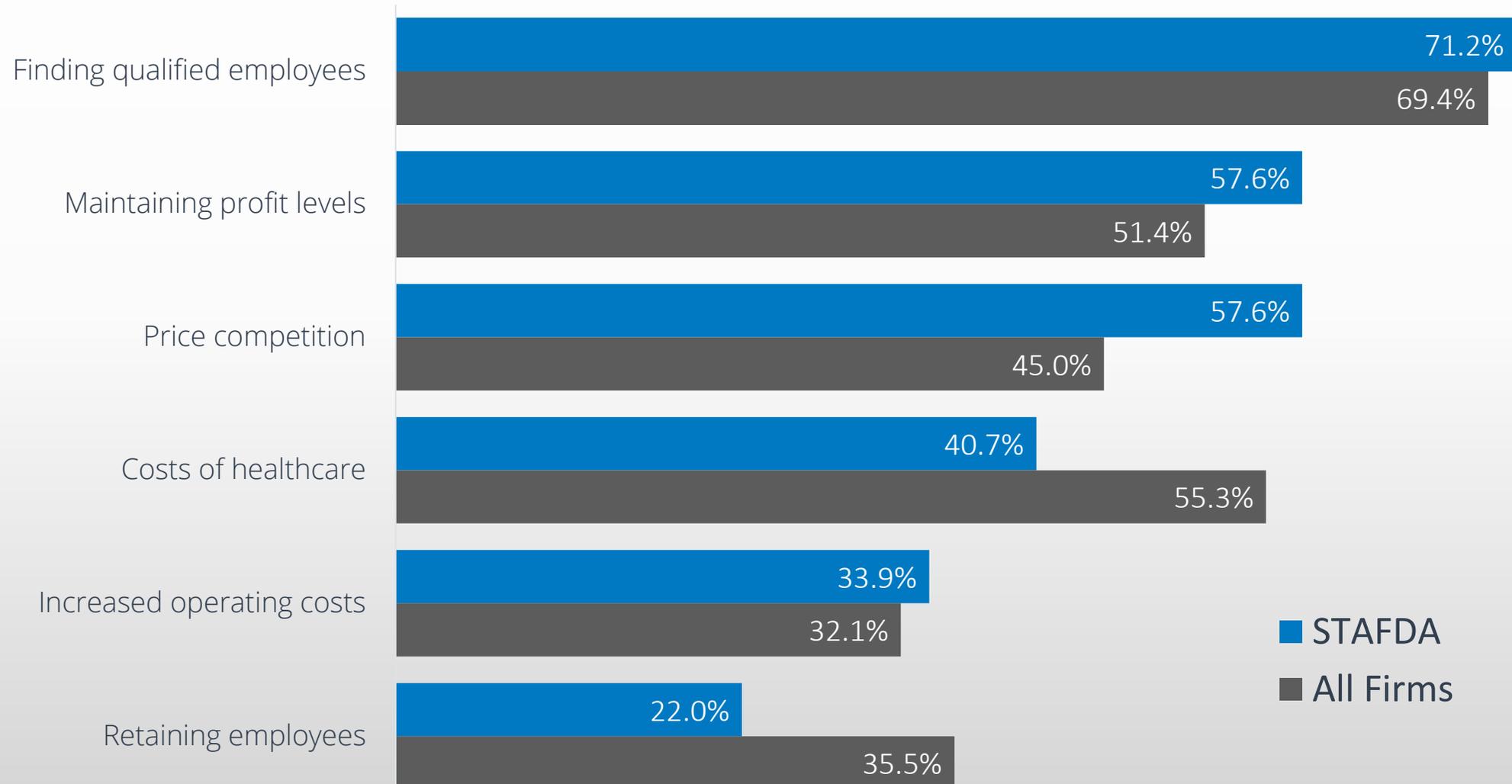
Selected Filters

Run Report

Clear Filters

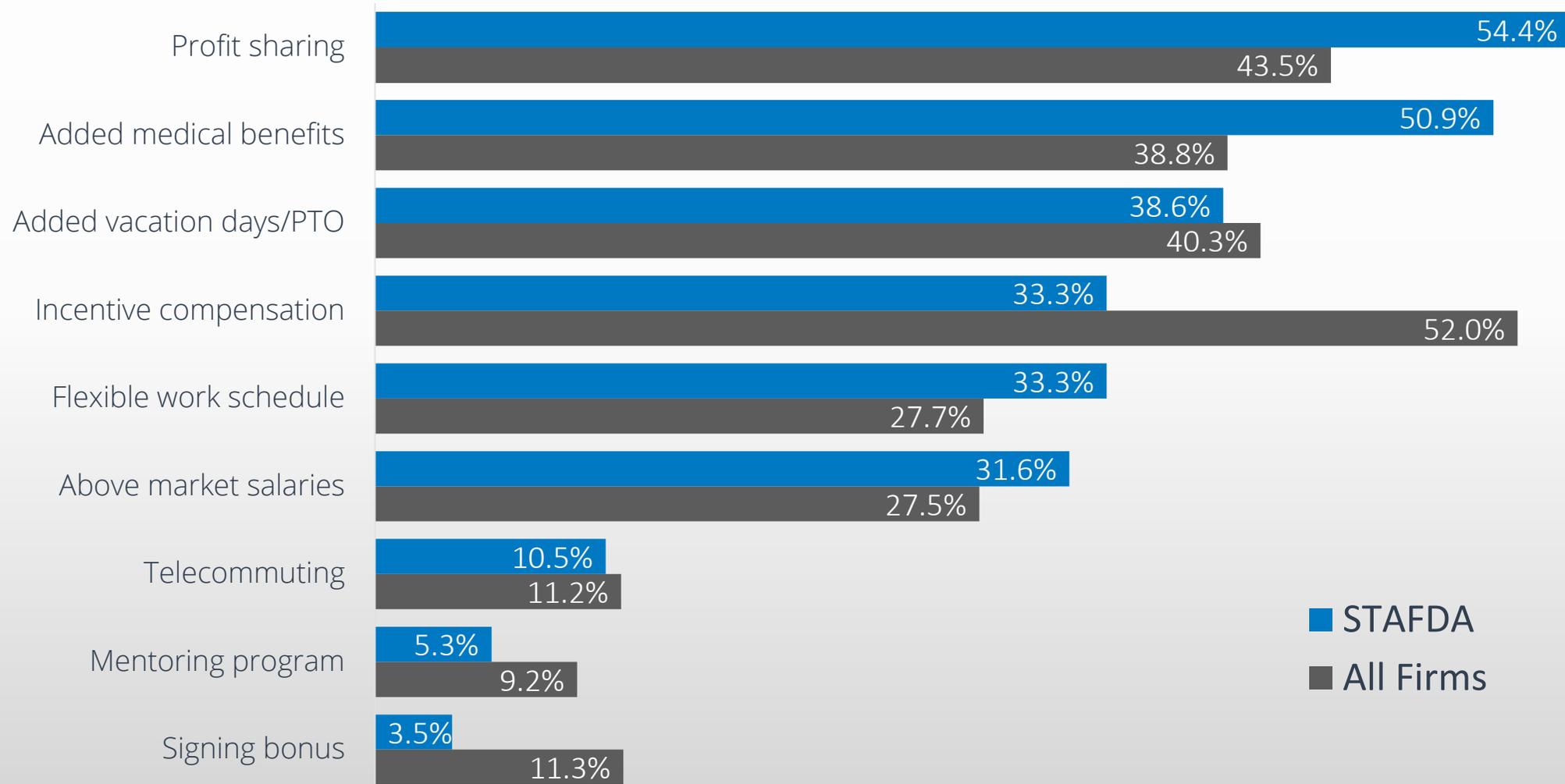
Top Issues

Which of the following is a major concern/issue of your company?



Recruiting and Retention

What benefits/compensation tools are your company using to attract and retain employees?



Days to Fill Open Positions

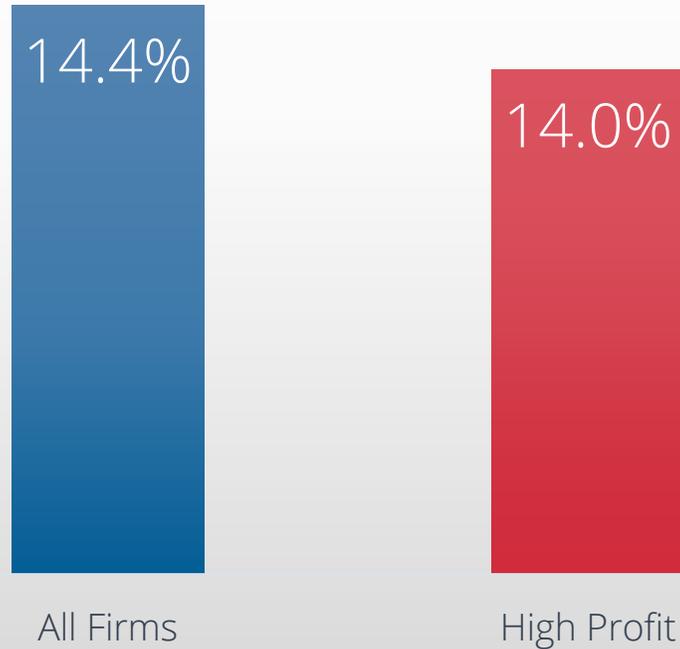
Average days to fill by position type



People

Payroll & Fringe Benefits to Net Sales (%)

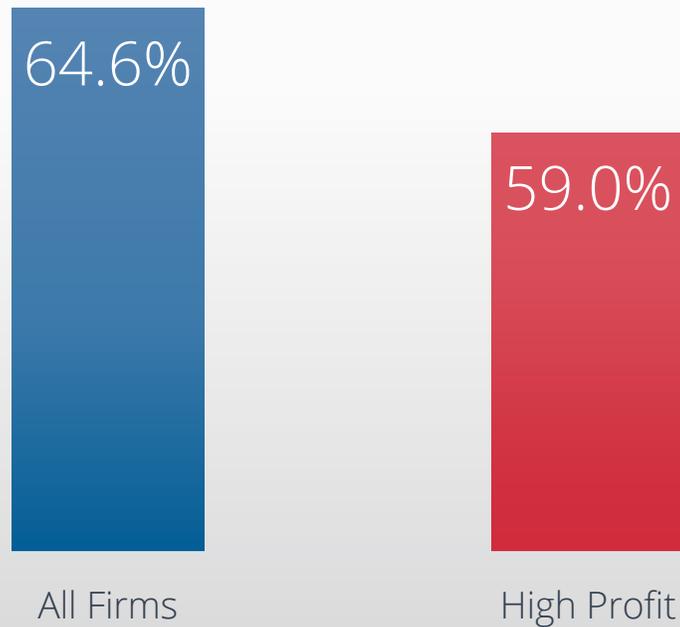
(Total Payroll + Fringe Benefits Expense) ÷ Net Sales



People

Personnel Productivity Ratio (PPR)

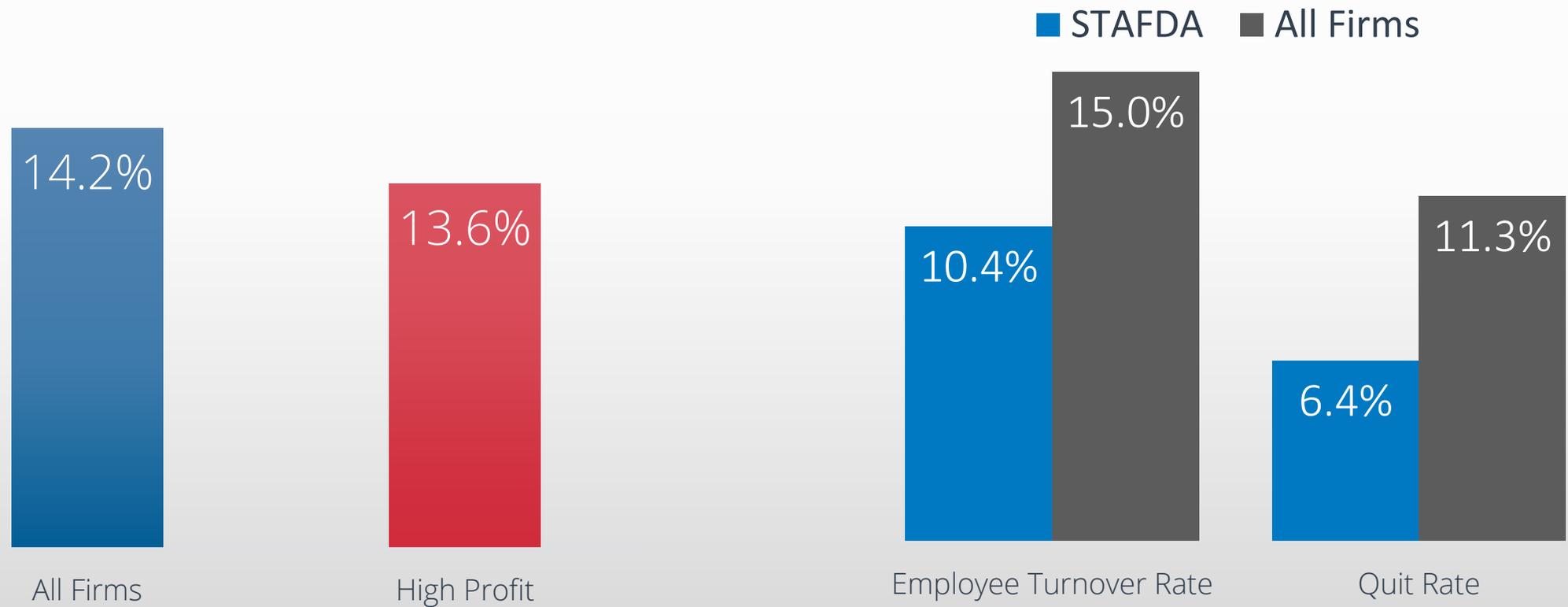
(Total Payroll + Fringe Benefits Expense) ÷ Gross Margin



People

Employee Turnover

Number of Employee Separations ÷ Average Number of Employees



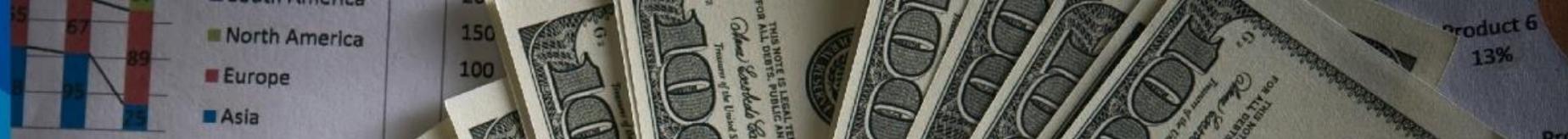
People

Sales per Employee (\$000s)

(Net Sales ÷ \$1,000) ÷ Number of Full-time Equivalent Employees

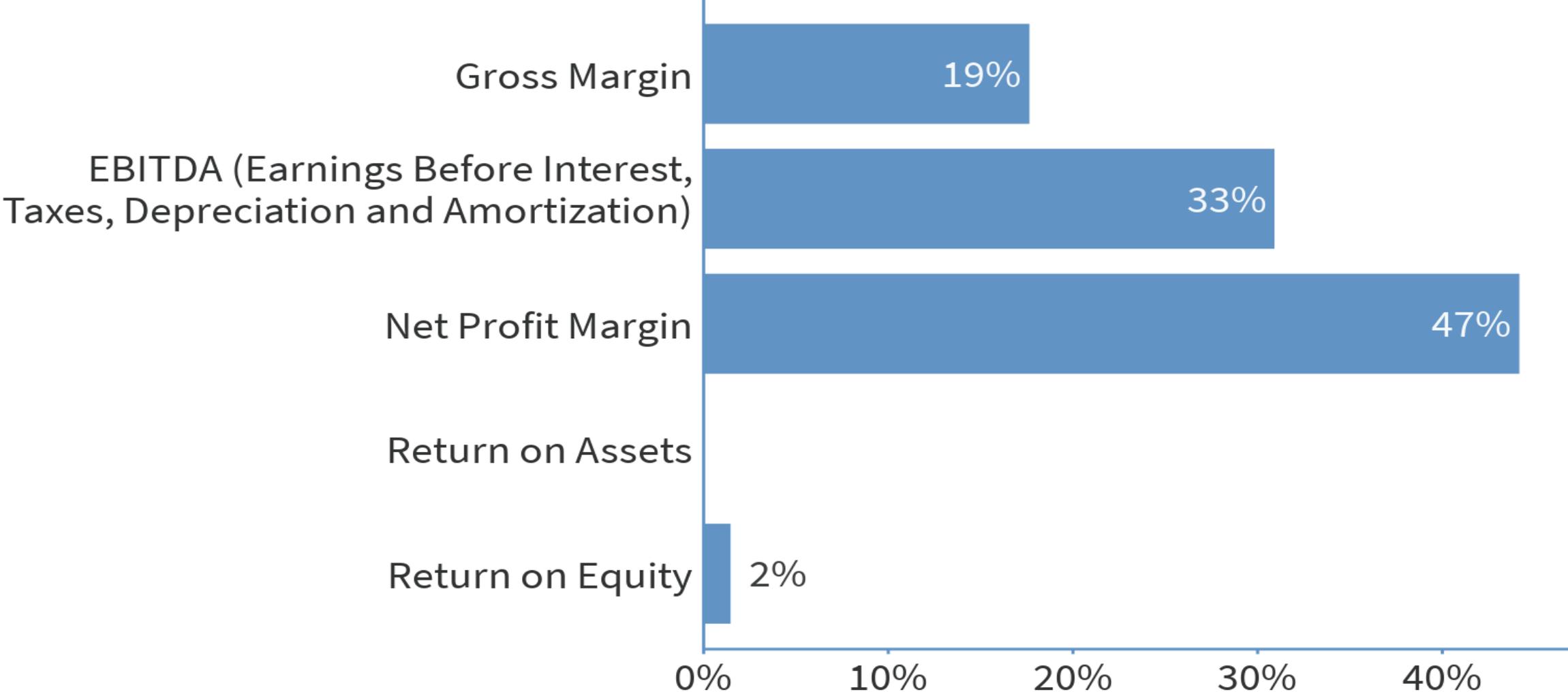


Profits



Audience Polling Question Results

What ratio or measure do you first think of when I say "profitability?"



Financial Data

IS

BS

Return on Assets

Income Statement	Balance Sheet
Net Profit Before Taxes	Total Assets
Cost of Good Sold	Cash & Receivables
Payroll	Inventory
Non-payroll Expense	Fixed Assets

3 Step Summary Evaluation

Step 1: Financial Performance

1. Return on Assets
 2. Return on Net Worth
 3. Sales Growth
 4. Gross Margin
 5. Net Profit Margin
-

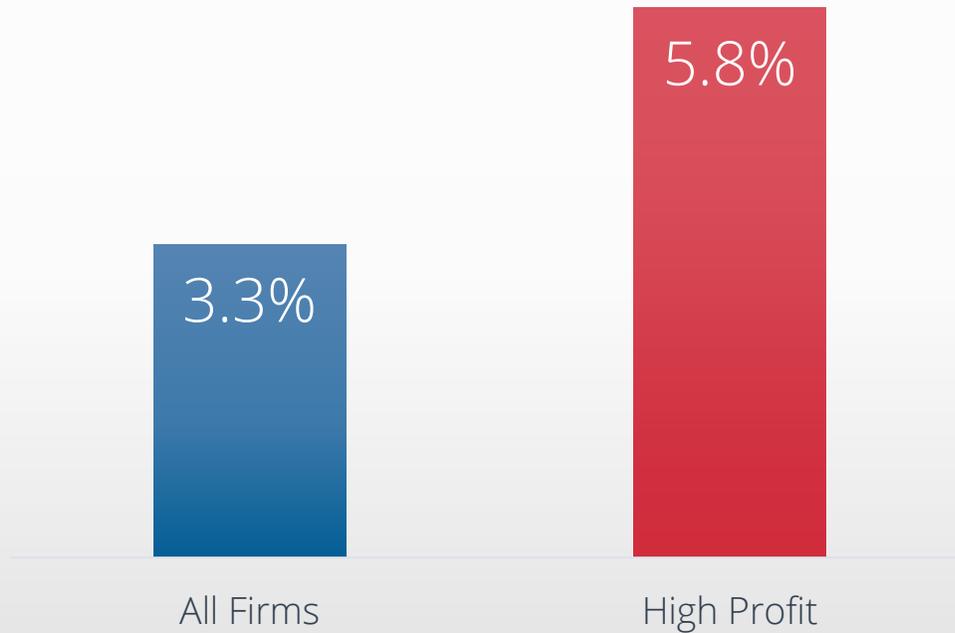
Step 2: Financial Position (Balance Sheet)

6. Asset Turnover
 7. Financial Leverage
 8. Current Ratio
-

Step 3: Productivity

9. Inventory Turnover
10. Gross Margin Return on Inventory
11. Sales per Employee
12. Payroll Expense Percentage
13. Personnel Productivity Ratio

Profit Margin



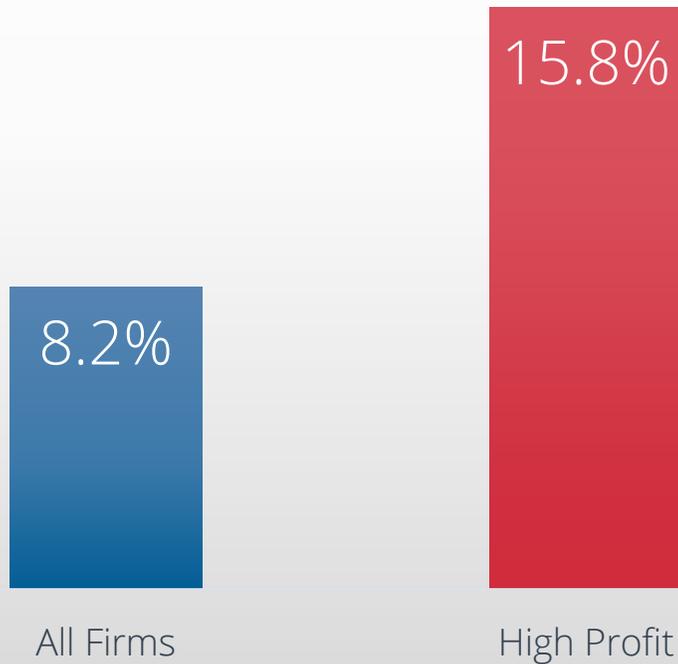
Net Profit Before Taxes \div Net Sales

- Indicates how effectively your firm is managing overall costs and expenses to earn a profit.
- The portion of each revenue dollar that remains after paying all business expenses, except for income tax.

Overall Financial Performance

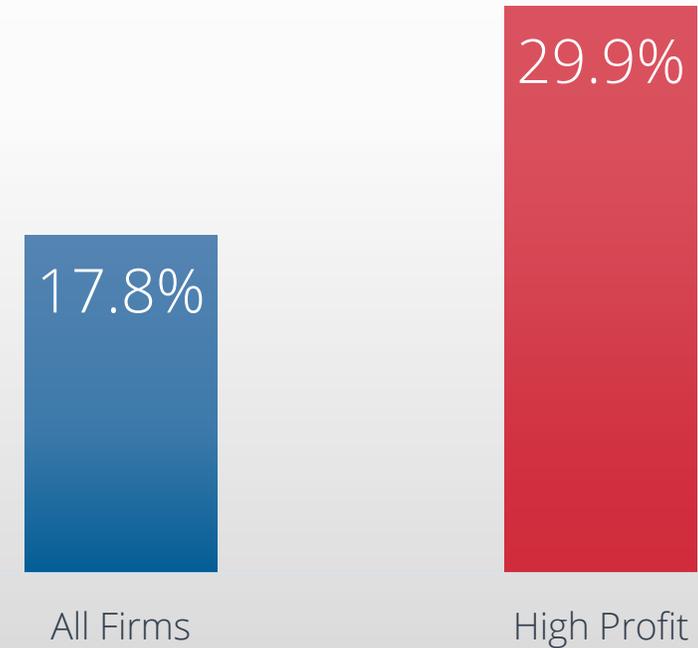
Return on Assets

Net Profit Before Taxes ÷ Total Assets



Return on Net Worth

Net Profit Before Taxes ÷ Net Worth



Other Financial Information

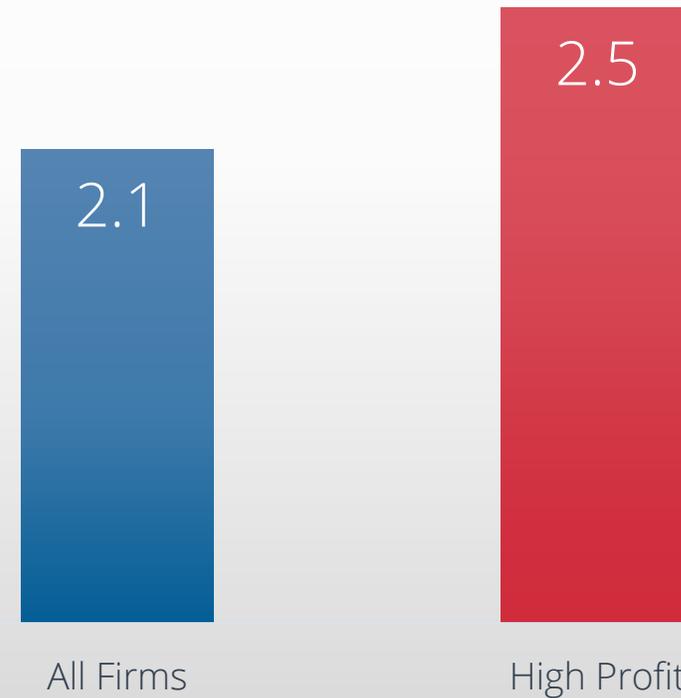
Financial Leverage

Total Assets ÷ Total Net Worth



Current Ratio

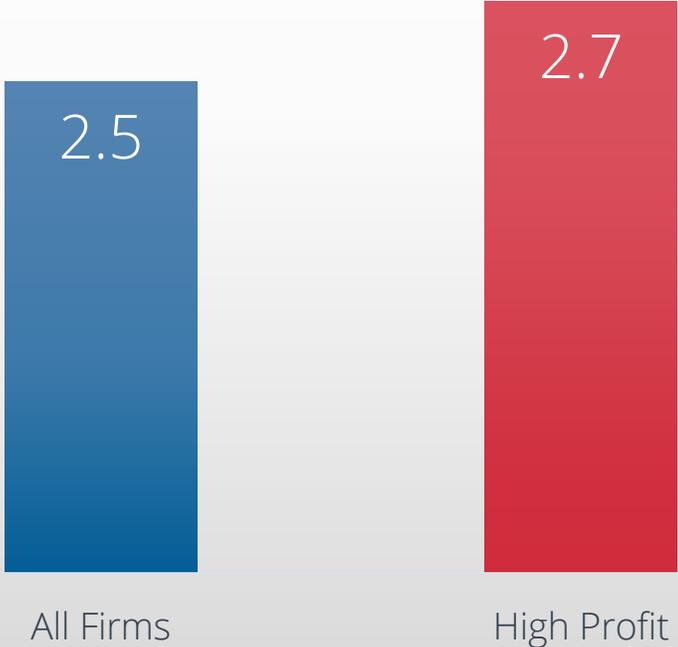
Current Assets ÷ Current Liabilities



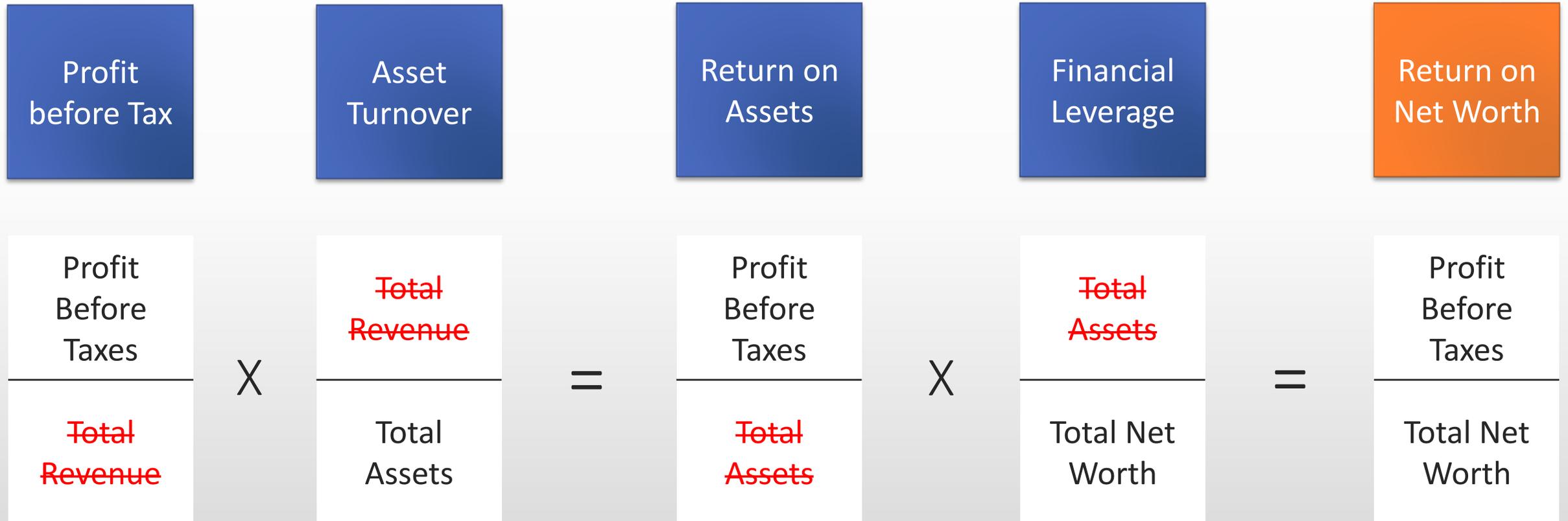
Other Financial Information

Asset Turnover

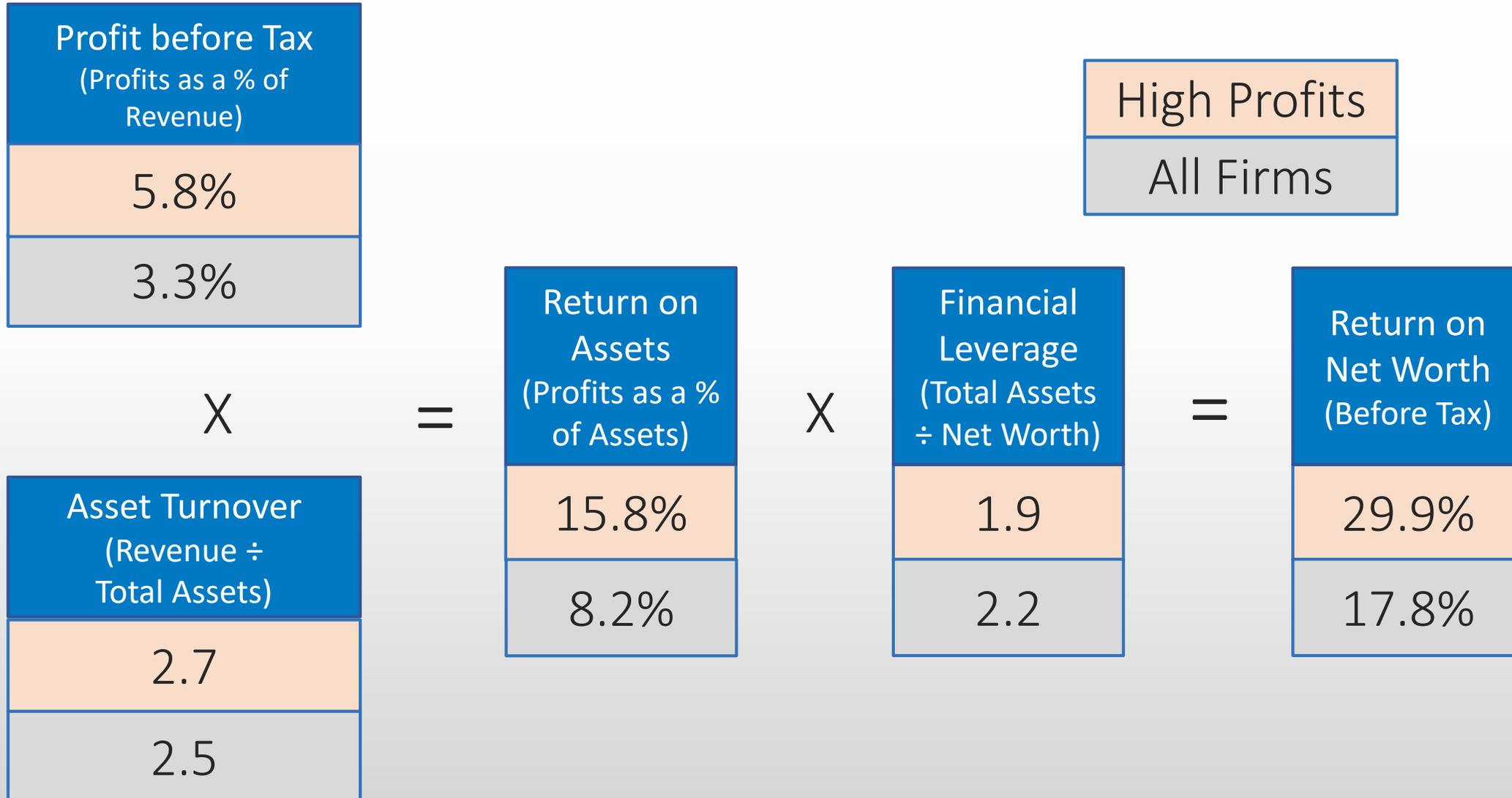
Net Sales ÷ Total Assets



Pathway to Profitability



Pathway to Profitability



Summary



Products

	All Firms	High Profit	
% Sales Change from Prior Year-Overall	6.0%	7.1%	✓
Gross Margin	25.4%	26.5%	✓
Inventory Turns (COGS / Inventory)	3.9	4.0	✓
Gross Margin Return on Investment (Gross Margin / Avg Inventory)	138.4%	150.1%	✓

People

	All Firms	High Profit	
Net Sales Per Employee	\$589,300	\$621,754	✓
Payroll & Fringe Benefits to Net Sales (%)	14.4%	14.0%	✓
PPR % (Payroll & Fringe Benefits to Gross Margin)	64.6%	59.0%	✓
Employee Turnover	14.2%	13.6%	✓
Total Number of Job-Related Injuries and Illnesses that Occurred?	6.2	4.1	✓
Total Number of Job-Related Injuries and Illnesses that Resulted in Lost Work Days?	1.9	1.0	✓

Profits

	All Firms	High Profit	
Return on Assets (Net Profit Before Taxes ÷ Total Assets)	8.2%	15.8%	✓
Return on Net Worth (Net Profit Before Taxes ÷ Net Worth)	17.8%	29.9%	✓
Profit Margin (Net Profit Before Taxes ÷ Net Sales)	3.3%	5.8%	✓

Profit Leader Overview

High Profit Company's Generally Reported:

- Above Average Revenue Growth
- Better Expense Control
- Better Inventory Control
- Higher Operating Margins
- Lower Payroll Expenses as % of Sales and as a % of GM
- Higher Sales per Employee
- Lower Employee Turnover
- More Productive Asset Usage
- Less Leveraged

Action Plans



Benchmarking Cycle



- ✓ Look at your recent year-end information alongside key industry-specific statistics
- ✓ Identify areas you could improve
- ✓ Develop a strategy
- ✓ Each level requires more effort but the foundation is available

Profitability Improvement Plans

Gross Margin

- Prioritize
- Suppliers
- Inventory Mix
- Profitability by product
- Plans
 - Drive sales
 - Improve margins
 - Control costs

Profitability Improvement Plans

Expense Control

- Financials statements (accurate and timely)
- Budgeted to actual analysis
- Expense review
- Performance pay
- Owner hours
- Occupancy costs

Productivity Improvement Plans

Employees

- Staff size
- Training
- Turnover
- Incentives
- Overtime
- Processes and systems

Closing Thoughts



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- Make a plan of the KPIs to monitor
- Compare these to your historical performance and industry norms
- Major deviations between your own firm's performance and industry norms are not necessarily good or bad, but are signals of areas for further analysis

Questions and Comments

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