Door and Hardware Institute

2007 PROFIT Report

(2006 Data)

Profit Planning Group

Contents

Prepared by
Profit Planning Group
1790 38th Street, Suite 204
Boulder, CO 80301
303 444 6212 v
303 444 9245 f

Prepared for
Door & Hardware Institute
14150 Newbrook Drive, Suite 200
Chantilly, VA 20151-2223
703 222 2010 v
703 222 2410 f
www.dhi.org

Introduction

The **2007 DHI PROFIT Report** provides detailed financial results of door and hardware distribution firms. Results profiled in this report are based on income statement, balance sheet, and operating data provided by 77 participating companies. The tables and graphs contained in this report are designed to provide comprehensive, yet straightforward guidelines for analyzing profitability among door and hardware companies.

Report Format

The report is organized into a number of sections, each designed to assist management in a specific area of inquiry:

- **Executive Summary**—The summary provides an overview of the study results, with emphasis on the differences between the typical firm and the high profit company.
- **Detailed Results**—In-depth reporting of return on investment, income statement, balance sheet, financial ratios and productivity ratios is provided in this section of the report. Management commentary is included that clearly describes these operating statistics. This section also focuses on the results by level of emphasis on contract business. The categories include Contract Job Dependent (over 75% of sales), Moderate Contract Emphasis (50% – 75% of sales), and Non-Contract Emphasis (less than 50% of sales).
- **Sales Volume Analysis**—This section profiles DHI member results based on sales size.
- **Regional Analysis**—Participating firms were grouped according to the five DHI areas.
- **Trend Analysis**—The trend section highlights how performance has changed over time on key measures.
- **Appendix**—Finally, the appendix provides an overview of the survey methodology and detailed information on the calculation of the financial ratios used in the report.

Explanation of Statistics

Almost all of the figures provided in this report are **medians**. The median for a particular variable or calculation is the middle number of all values reported arrayed from lowest to highest. Unlike the mean (or average), the median is not influenced by any extremely high or low values reported. Therefore, the median is the preferred statistic for this analysis as it best represents the typical company's results.

Mean results are used in reporting Sales by Product Category. The mean is simply the arithmetic average.

To determine the group of **high profit firms,** all participating firms are ranked on the basis of pre-tax return on assets (ROA). The high profit category includes the top twenty-five percent of the firms based on ROA. The figures reported for the high profit firms represent a median for this group.

Please note that throughout the report, "N/A" designates data not available due to limited sample size.

Participant Support

Each DHI member that participated in the study received a personalized Profit Improvement Profile (PIP) and access to Profit Toolkit Online. The PIP contains comparisons of the firm's financial performance to the industry. Areas where improvement opportunities exist are indicated and specific suggestions are provided to help achieve higher profitability.

Profit Toolkit Online is a program designed to assist the firm in its financial planning process. This Microsoft® Excel-based application is available only to survey participants.

Executive Summary

Financial performance varied widely within DHI in 2006. As can be seen in the exhibit on the facing page, the typical firm had sales of $7,986,880 and a pre-tax profit of 2.2 percent. In contrast, the high-profit firm had sales of $11,530,870, and profit of 6.9 percent. Of greatest consequence, the typical firm had a pre-tax return on assets (profit before taxes expressed as a percentage of total assets) of 6.4 percent. For the high profit firm return on assets was 19.3 percent.

A number of factors led to the differences in results. In most instances these differences can best be illustrated by what are commonly called the critical profit variables (CPVs). The following exhibit compares the typical and the high profit firm on the critical profit variables.

The Critical Profit Variables

	Typical DHI Distributor	High Profit DHI
Sales per Employee Measures employee productivity	$279,081	$341,501
Gross Margin Percentage Reflects the ability to manage COGS effectively	31.0%	33.4%
Operating Expense Percentage Focuses on expense control	28.1%	25.7%
Inventory Turnover (times) Reflects how well inventory is managed	7.3	9.5
Average Collection Period (days) Reflects accounts receivable collection practices	69.7	61.7

The high profit firm seldom performs better on all of the critical profit variables. Instead, it is the sum-total of their performance on the CPVs that produces higher overall results. The nature of the differences and their underlying reasons need to be understood by every DHI member.

The typical and the high profit firms have different sales volumes. They also differ on the critical profit variables identified above. The result is dramatically improved operating performance. The following exhibit indicates the results the typical firm achieved and the results the high profit company earned.

An Overview of Financial Results

	Typical DHI Distributor	High Profit DHI
Income Statement		
Net Sales	$7,986,880	$11,530,870
Cost of Goods Sold	5,510,947	7,679,559
Gross Margin	2,475,933	3,851,311
Operating Expenses	2,244,313	2,963,434
Operating Profit	231,619	887,877
Other Income/Expenses	-55,908	-92,247
Profit Before Taxes	$175,711	$795,630
Assets		
Cash	$66,098	$148,254
Accounts Receivable	1,464,159	1,886,817
Inventory	679,432	727,537
All Other Assets	544,407	1,355,560
Total Assets	$2,754,096	$4,118,168
Return on Assets	6.4%	19.3%

Executive Summary

	Typical DHI Distributor	High Profit DHI
Typical Sales Volume	**$7,986,880**	**$11,530,870**
Strategic Profit Model Ratios		
Profit Margin (pre-tax)	2.2%	6.9%
Asset Turnover	2.9	2.8
Return on Assets (pre-tax)	6.4%	19.3%
Financial Leverage	1.9	1.6
Return on Net Worth (pre-tax)	12.2%	30.9%
Income Statement		
Net Sales	**100.0%**	**100.0%**
Cost of Goods Sold	69.0	66.6
Gross Margin	**31.0**	**33.4**
Operating Expenses		
Payroll Expenses	20.2	16.8
Occupancy Expenses	2.5	3.0
Other Operating Expenses	5.4	5.9
Total Operating Expenses	**28.1**	**25.7**
Operating Profit	**2.9**	**7.7**
Other Income/Expenses	-0.7	-0.8
Profit Before Taxes	**2.2%**	**6.9%**
Financial Ratios		
Current Ratio	2.1	2.7
Quick Ratio	1.4	1.9
Accounts Payable to Inventory	62.9%	32.6%
Accounts Payable Payout Period (days)	30.2	21.7
Debt to Equity	0.9	0.6
EBIT to Total Assets	8.7%	21.6%
Times Interest Earned	3.8	9.6
Asset Productivity Ratios		
Average Collection Period (days)	69.7	61.7
Inventory Turnover (times)	7.3	9.5
Inventory Holding Period (days)	50.0	38.4
Gross Margin Return on Inventory	321.9%	406.9%
Growth & Cash Sufficiency Ratios		
Growth Potential Index (GPI)	7.5%	22.5%
Cash Cycle (days)	89.5	78.4
Operating Productivity Ratios		
Sales per SKU	$4,215	$3,812
Sales per Customer	$46,316	$43,189
Sales per Order	$1,614	$2,055
Employee Productivity Ratios		
Sales per Employee	$279,081	$341,501
Gross Margin per Employee	$91,343	$107,004
Payroll per Employee	$54,662	$58,242
Personnel Productivity Ratio	65.1%	50.2%

Return on Investment

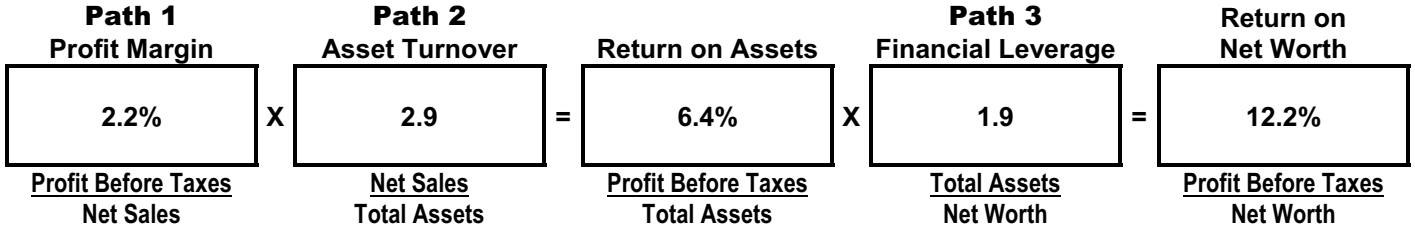
Return on investment is the most meaningful way to evaluate overall company profitability. It is important to understand how return on investment is calculated and how it can be improved. The elements of a complete return on investment analysis are shown in the table on the facing page.

Strategic Profit Model

There are two distinct return on investment measures: return on assets and return on net worth. **Return on Assets** looks at the economic viability of the firm. **Return on Net Worth** (or Return on Owner Equity) examines the return being generated for the firm's owners. Each has its own value in analyzing performance.

These two return on investment ratios are driven by three performance ratios: **Profit Margin, Asset Turnover** and **Financial Leverage**. Each of these represents a different strategy, or profitability pathway, to improve return on investment.

These five ratios can be combined into what is commonly called the **Strategic Profit Model**. It is simply a graphical representation of a comprehensive return on investment analysis. The strategic profit model is shown below using figures for the typical DHI member.



Path 1: Profit Margin = Profit Before Taxes ÷ Net Sales x 100—The first, and most important, profitability pathway is profit margin management. In the figure above, a profit margin of 2.2 percent means that for every $1.00 of sales the company was able to produce 2.2¢ in profit before taxes. Profit margin focuses on sales productivity, gross margin management and operating expense control.

Path 2: Asset Turnover = Net Sales ÷ Total Assets—Asset turnover reflects the sales the firm produces per dollar invested in assets. The ratio of 2.9 means that the firm is able to generate $2.90 in sales for every $1.00 in assets. If a firm's assets, cash, accounts receivable, inventory, property, equipment, and all other assets, can be used as efficiently as possible, then a maximum amount of sales can be generated from a given asset investment.

Return on Assets = Profit Before Taxes ÷ Total Assets x 100—Return on assets (ROA) is the direct result of the first two pathways; profit margin multiplied by asset turnover. This measure of performance is a good indicator of the firm's ability to survive and prosper. The pre-tax return on assets ratio should at least equal the cost of capital. For the typical DHI member ROA is 6.4 percent.

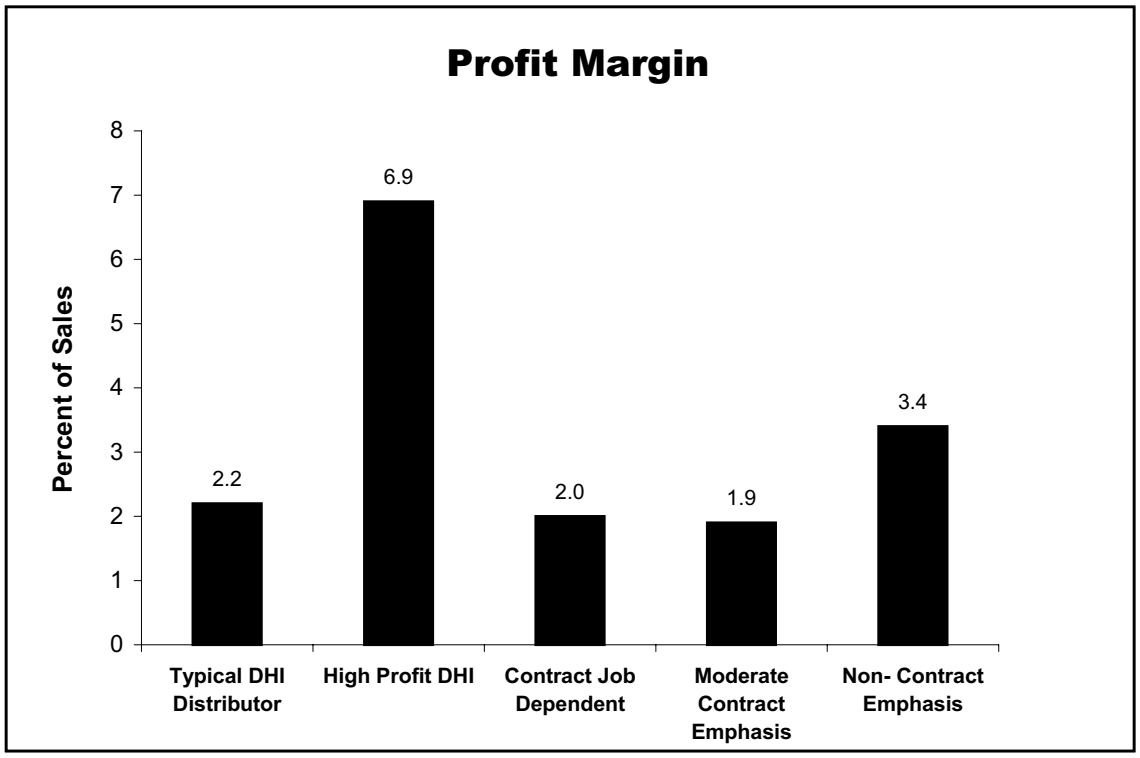
Path 3: Financial Leverage = Total Assets ÷ Net Worth—Financial leverage measures the total dollars of assets per dollar of net worth. The ratio measures the extent to which the firm uses outside (non-owner) financing. The higher the ratio, the more the firm relies on outside financing. The ratio of 1.9 times suggests that for every $1.00 in net worth, the firm had $1.90 in total assets. If for every $1.90 in total assets the owners put up $1.00, then outsiders put up the remaining $0.90.

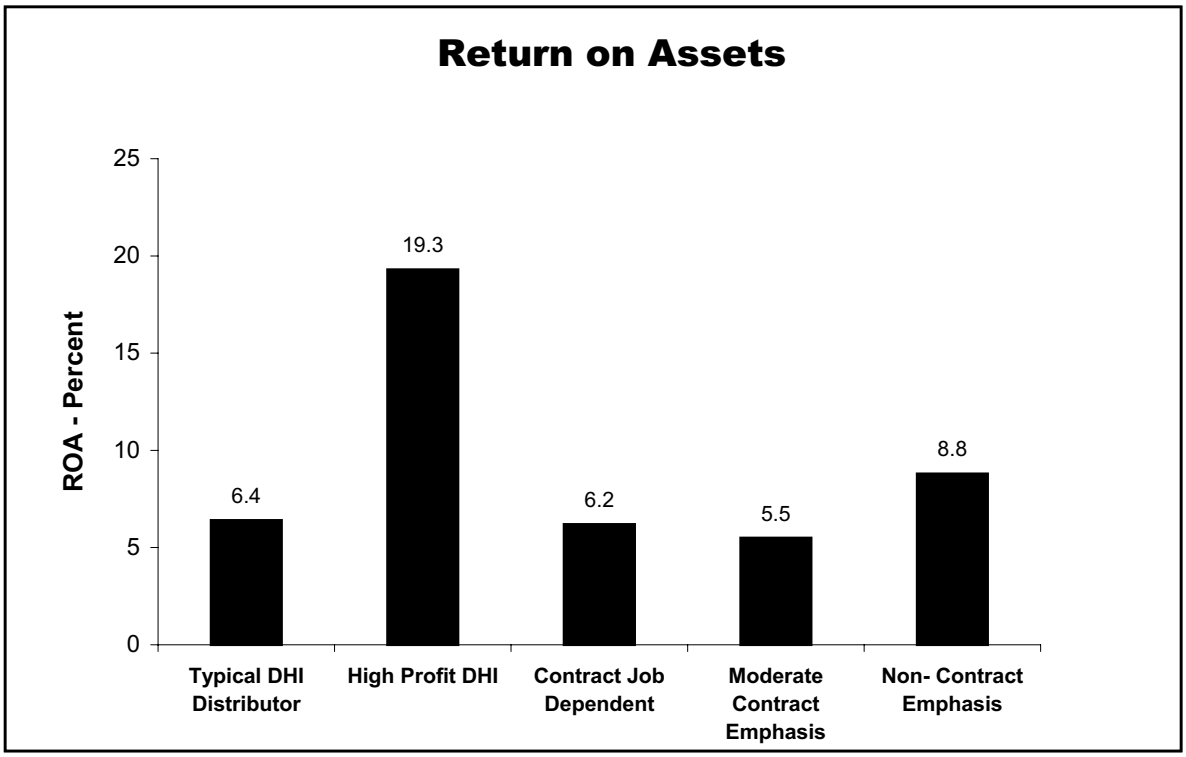
Return on Net Worth = Profit Before Taxes ÷ Net Worth x 100—The end result of the three profitability pathways is return on net worth. It is seldom possible to generate an adequate rate of return on net worth by emphasizing just one of the profitability pathways. Each pathway should be examined carefully for improvement opportunities and then trade-offs made in order to increase overall profitability. An improvement plan should not be based upon any single measure of performance, but be developed with the complete picture in mind, i.e., the impact on return on net worth. The typical DHI firm has a return on net worth of 12.2 percent; that is, for every $1.00 of net worth, the firm produced 12.2¢ of profit before taxes.

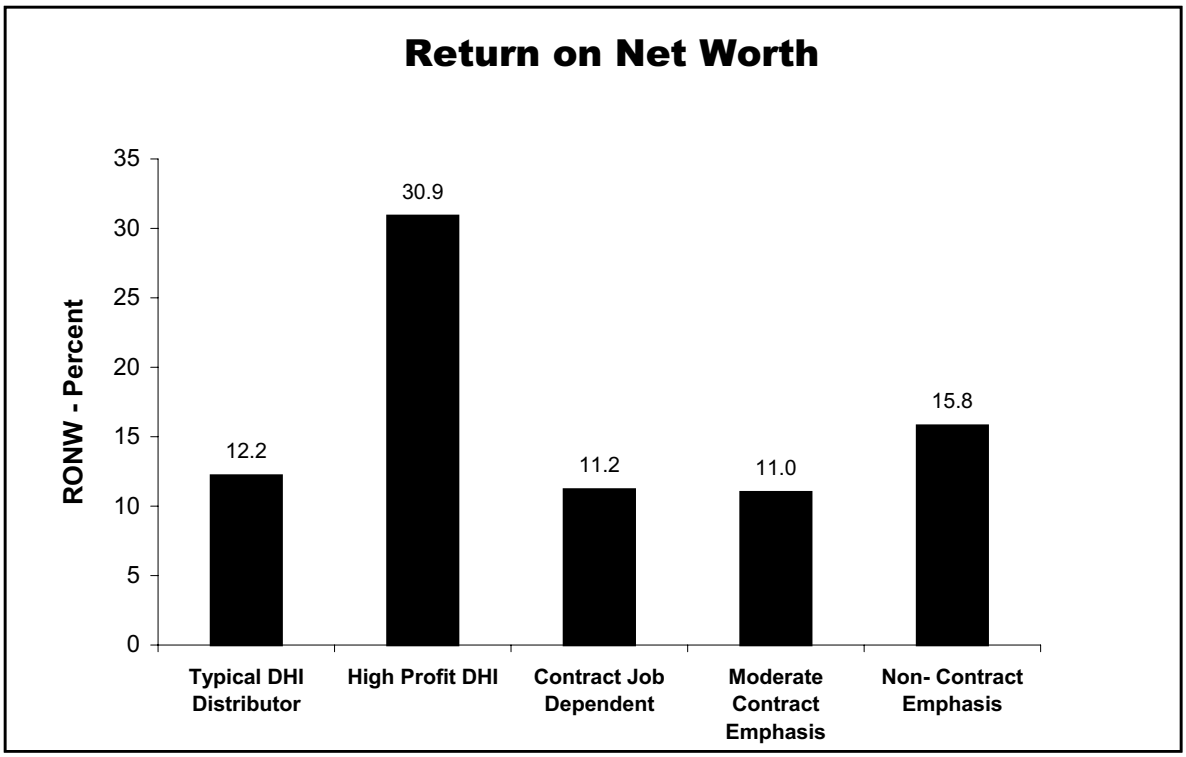
Companies must earn an adequate return on investment to satisfy the owners' needs. The following table provides guidelines for return on assets and for return on net worth.

Primary Financial Objective	Return on Assets	Return on Net Worth	Effect on Company Performance
Minimum	4-5%	8-10%	Minimum long-term return necessary to ensure survival.
Target	8-10%	15-20%	Satisfies owners' minimum needs, but doesn't provide for growth or offset inflation.
Top Performance	15-20%	30-40%	Would make the firm one of the top profit producers in the industry.

Strategic Profit Model Ratios	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Profit Margin (pre-tax)	2.2%	6.9%	2.0%	1.9%	3.4%
Asset Turnover	2.9	2.8	3.1	2.9	2.6
Return on Assets (pre-tax)	6.4%	19.3%	6.2%	5.5%	8.8%
Financial Leverage	1.9	1.6	1.8	2.0	1.8
Return on Net Worth (pre-tax)	12.2%	30.9%	11.2%	11.0%	15.8%




Return on Assets
ROA - Percent
25
20
15
10
5
0
19.3
6.4
6.2
5.5
8.8
Typical DHI Distributor
High Profit DHI
Contract Job Dependent
Moderate Contract Emphasis
Non- Contract Emphasis


Return on Net Worth
RONW - Percent
35
30
25
20
15
10
5
0
12.2
30.9
11.2
11.0
15.8
Typical DHI Distributor
High Profit DHI
Contract Job Dependent
Moderate Contract Emphasis
Non- Contract Emphasis

Income Statement

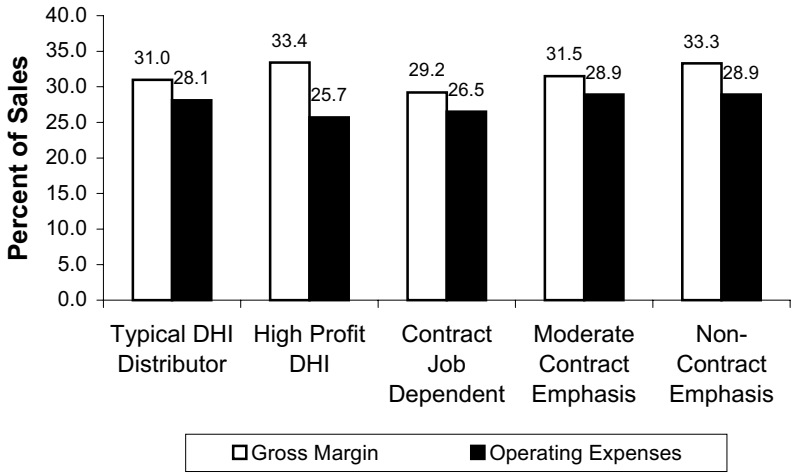
The income statement reflects the ability of management to generate sales, produce a reasonable margin on those sales, control expenses and earn an equitable profit. Thus, it serves as the primary scorecard of management's effectiveness. The Income Statement can be evaluated in two different modes:

Percent of Sales—This is the traditional approach shown on this page. It provides a basis for evaluating margin and expenses in relationship to the underlying sales volume.

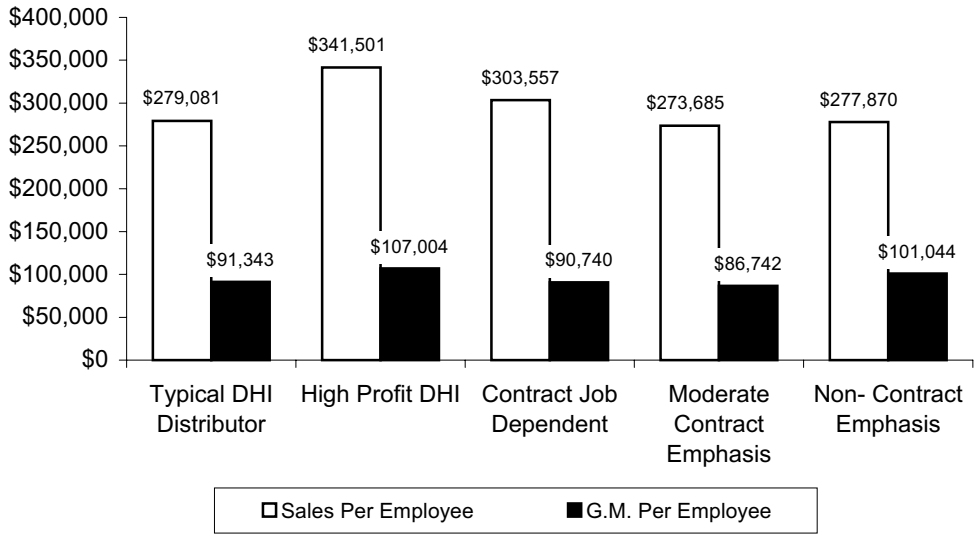
Percent of Gross Margin—This approach, shown on the next table, demonstrates what percentage of each margin dollar is absorbed by different expense categories. Some care needs to be exercised in this analysis as it is sensitive to changes in gross margin dollars as well as changes in expenses.

	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Number of Firms Reporting	77	19	30	30	15
Typical Sales Volume	$7,986,880	$11,530,870	$9,799,471	$7,761,529	$3,652,120
Sales Growth (2006 vs. 2005)	6.9%	16.5%	3.5%	6.7%	16.5%
Income Statement					
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	69.0	66.6	70.8	68.5	66.7
Gross Margin	**31.0**	**33.4**	**29.2**	**31.5**	**33.3**
Personnel Expenses					
Executive Salaries & Bonuses	4.2	3.1	3.1	4.7	3.3
Sales Salaries & Commissions	6.6	4.2	5.5	6.7	7.3
Warehouse & Delivery Wages	2.1	1.7	1.6	2.2	2.7
All Other Employee Wages	4.2	4.1	5.0	4.1	3.6
Total Salaries, Wages & Bonuses	17.1	13.1	15.2	17.7	16.9
Payroll Taxes (FICA, workers' comp. & unemp.)	1.4	1.5	1.5	1.4	1.6
Group Insurance (medical, hospitalization, etc.)	1.1	1.3	1.2	1.2	1.4
Employee Benefits (profit sharing, pension, etc.)	0.6	0.9	0.5	0.5	1.0
Total Personnel Expenses	**20.2**	**16.8**	**18.4**	**20.8**	**20.9**
Occupancy Expenses					
Utilities: Heat, Light, Power, Water	0.3	0.4	0.3	0.4	0.4
Telephone	0.3	0.2	0.3	0.4	0.3
Building Repairs & Maintenance	0.2	0.4	0.2	0.2	0.3
Rent or Ownership in Real Estate	1.7	2.0	1.6	1.8	1.8
Total Occupancy Expenses	**2.5**	**3.0**	**2.4**	**2.8**	**2.8**
Other Operating Expenses					
Advertising & Promotion	0.2	0.2	0.2	0.2	0.4
Vehicle Expense	1.0	1.1	0.7	1.1	0.9
Insurance (business liability & casualty)	0.4	0.5	0.6	0.5	0.4
Depreciation	0.6	0.7	0.5	0.6	1.0
Bad Debt Losses	0.0	0.1	0.1	0.0	0.1
All Other Operating Expenses	3.2	3.3	3.6	2.9	2.4
Total Other Operating Expenses	**5.4**	**5.9**	**5.7**	**5.3**	**5.2**
Total Operating Expenses	**28.1**	**25.7**	**26.5**	**28.9**	**28.9**
Operating Profit	**2.9**	**7.7**	**2.7**	**2.6**	**4.4**
Other Income	0.1	0.1	0.0	0.1	0.1
Interest Expense	0.8	0.9	0.7	0.8	1.1
Other Non-operating Expenses	0.0	0.0	0.0	0.0	0.0
Profit Before Taxes	**2.2%**	**6.9%**	**2.0%**	**1.9%**	**3.4%**

Gross Margin & Operating Expenses



Sales & Gross Margin Per Employee



Expenses in Relationship to Gross Margin

Gross margin represents the income available after paying for all product purchases. Many firms like to examine expenses in relationship to gross margin. The feeling is that gross margin represents the money available for expenses and profit, so the analysis provides a good basis for control.

One word of caution is in order. Gross margins may vary by an appreciable amount in the industry. Consequently, an expense item that is a low percentage of gross margin may reflect excellent expense control or it may reflect greater success in producing gross margin. The figures must always be viewed in that light.

	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Gross Margin	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Personnel Expenses					
Executive Salaries & Bonuses	13.5	9.3	10.6	14.9	9.9
Sales Salaries & Commissions	21.3	12.6	18.9	21.3	21.9
Warehouse & Delivery Wages	6.8	5.1	5.5	7.0	8.1
All Other Employee Wages	13.5	12.1	17.2	13.0	10.8
Total Salaries, Wages & Bonuses	55.2	39.1	52.2	56.2	50.8
Payroll Taxes (FICA, workers' comp. & unemp.)	4.5	4.5	5.1	4.4	4.8
Group Insurance (medical, hospitalization, etc.)	3.5	3.9	4.1	3.8	4.2
Employee Benefits (profit sharing, pension, etc.)	1.9	2.7	1.7	1.6	3.0
Total Personnel Expenses	**65.1**	**50.2**	**63.1**	**66.0**	**62.8**
Occupancy Expenses					
Utilities: Heat, Light, Power, Water	1.0	1.2	1.0	1.3	1.2
Telephone	1.0	0.6	1.0	1.3	0.9
Building Repairs & Maintenance	0.6	1.2	0.7	0.6	0.9
Rent or Ownership in Real Estate	5.5	6.0	5.5	5.7	5.4
Total Occupancy Expenses	**8.1**	**9.0**	**8.2**	**8.9**	**8.4**
Other Operating Expenses					
Advertising & Promotion	0.6	0.6	0.7	0.6	1.2
Vehicle Expense	3.2	3.3	2.4	3.5	2.7
Insurance (business liability & casualty)	1.3	1.5	2.1	1.6	1.2
Depreciation	1.9	2.1	1.7	1.9	3.0
Bad Debt Losses	0.0	0.3	0.3	0.0	0.3
All Other Operating Expenses	10.4	9.9	12.3	9.2	7.2
Total Other Operating Expenses	**17.4**	**17.7**	**19.5**	**16.8**	**15.6**
Total Operating Expenses	**90.6**	**76.9**	**90.8**	**91.7**	**86.8**
Operating Profit	**9.4**	**23.1**	**9.2**	**8.3**	**13.2**
Other Income	0.3	0.3	0.0	0.2	0.3
Interest Expense	2.6	2.7	2.4	2.5	3.3
Other Non-operating Expenses	0.0	0.0	0.0	0.0	0.0
Profit Before Taxes	**7.1%**	**20.7%**	**6.8%**	**6.0%**	**10.2%**

Balance Sheet

The balance sheet is an underutilized financial statement. If properly analyzed, it provides significant insights into the financial structure of the firm. This page examines the composition of the balance sheet while the pages that follow derive some key ratios from the balance sheet information.

Both the assets and liabilities sides of the balance sheet offer insights into the investment posture of the business. The assets side reflects where investments are made. The liabilities side identifies which business stakeholders made the investment.

Assets

Most firms are cash short. Ideally cash balances should equal at least two to three percent of total assets. For firms below that level, the potential for cash flow problems continually exists.

The bulk of the asset investment for most companies is in accounts receivable and inventory. For the typical DHI member, these two represent 55.7 percent of assets and 26.5 percent of assets respectively. The importance of these two factors in maintaining financial liquidity cannot be overstated. Several financial ratios to be discussed will focus on how well these two asset categories are utilized.

Liabilities and Net Worth

Liabilities and net worth represent the two methods of funding assets. Two items are of special significance in this section of the balance sheet. These include (1) the ability of the firm to make use of interest-free financing, and (2) the level of financial conservatism employed.

Accounts payable represents an interest-free source of capital for the firm. In most cases firms are trying to use accounts payable to finance a major portion of their inventory investment. This involves both efforts to turn the inventory faster and efforts to negotiate longer credit terms.

The amount of net worth or owner equity on the balance sheet indicates the financial conservatism of the firm. Net worth is the sum of the owners' paid-in capital, plus loans from owners, plus all earnings retained in the business. For financially conservative companies net worth is typically fifty percent of total assets, or higher. If net worth is less than one-third of total assets, the firm is exceptionally aggressive in its use of debt. In this case, some degree of caution in future expansion would be suggested.

	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Assets					
Cash & Marketable Securities	2.4%	3.6%	3.5%	2.5%	1.3%
Trade Accounts Receivable	55.7	55.8	60.9	55.8	46.6
Inventory	26.5	25.4	19.4	28.3	34.3
Other Current Assets	1.8	2.4	2.4	1.3	0.6
Total Current Assets	86.4	87.2	86.2	87.9	82.8
Fixed & Noncurrent Assets	13.6	12.8	13.7	12.1	17.2
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Trade Accounts Payable	19.0%	17.7%	22.0%	18.8%	15.7%
Notes Payable	14.5	6.9	10.0	16.1	9.7
Other Current Liabilities	7.9	7.4	7.7	5.9	9.8
Total Current Liabilities	41.4	32.0	39.7	40.8	35.2
Long Term Liabilities	6.0	5.5	4.7	9.2	9.2
Net Worth or Owner Equity	52.6	62.5	55.6	50.0	55.6
Total Liabilities & Net Worth	100.0%	100.0%	100.0%	100.0%	100.0%

Financial Ratios

Suppliers, bankers and outside creditors have a wide range of financial ratios at their disposal to measure the overall financial integrity of the firm. The specific ratios that are most commonly used in this process are covered on this page.

Current Ratio = Current Assets ÷ Current Liabilities—The current ratio measures the margin of safety that management maintains in order to allow for the inevitable unevenness in the flow of funds through the current assets and current liability accounts. A company needs a supply of current funds to be assured of being able to pay its bills when they come due. As a general rule, the current ratio should be 2.0 or higher.

Quick Ratio = (Cash + Accounts Receivable) ÷ Current Liabilities—Quick assets include cash, marketable securities, and current accounts receivable. Presumably, these items can be converted into cash quickly at approximately their stated amounts, unlike inventory which is the principal current asset excluded from this calculation. The quick ratio is, therefore, a measure of the extent to which liquid resources are readily available to meet current obligations. A guideline for the quick ratio is 1.0.

Accounts Payable to Inventory = Accounts Payable ÷ Inventory x 100—This ratio measures the extent to which a company's inventory is financed by the suppliers of that inventory. Increasingly, firms are looking to finance a major portion of their inventory via supplier financing.

Accounts Payable Payout Period = Accounts Payable ÷ (Cost of Goods Sold ÷ 365 days)—The accounts payable payout period measures the timeliness of paying suppliers. This figure is related directly to the normal credit terms of the company's purchases.

Debt to Equity = Total Liabilities ÷ Net Worth—The greater the proportion of its financing that is obtained from owners, the less worry the company has in meeting its fixed obligations. At the same time excessive reliance on owner financing slows the rate at which the firm can grow. The debt to equity ratio shows the balance that management has struck between debt and owners' equity. A mix of $1.00 debt to $1.00 equity is usually considered prudent.

EBIT to Total Assets = Earnings Before Interest and Taxes ÷ Total Assets x 100—EBIT to total assets is a return on investment ratio that provides a profit analysis based on earnings, before interest and income taxes. This ratio is best compared with a company's annual interest rate on borrowed funds. If a firm's EBIT to total assets ratio is higher than their cost of capital, there is a favorable spread between the two. A spread of at least 2.0 points is desirable.

Times Interest Earned = (Profit Before Taxes + Interest) ÷ Interest—The times interest earned ratio measures the number of times profit before interest and taxes will cover total interest payments on debt. The result indicates the level to which income can decline without impairing the company's ability to meet interest payments on its liabilities. If the ratio falls below 1.0, the firm is not generating enough earnings to cover the interest due on loans. A reasonable target is 6 to 8 times.

	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Current Ratio	2.1	2.7	2.2	2.2	2.4
Quick Ratio	1.4	1.9	1.6	1.4	1.4
Accounts Payable to Inventory	62.9%	32.6%	108.9%	63.4%	31.6%
Accounts Payable Payout Period (days)	30.2	21.7	35.8	27.1	27.4
Debt to Equity	0.9	0.6	0.8	1.0	0.8
EBIT to Total Assets	8.7%	21.6%	8.4%	7.8%	11.7%
Times Interest Earned	3.8	9.6	3.9	3.4	4.1

Asset Productivity Ratios

Given the significance of both accounts receivable and inventory, it is important to measure the productivity of these asset investments using the ratios on this page. For both of these asset categories the objective is not necessarily to minimize their value. Rather, the objective is to utilize both for maximum profitability.

Average Collection Period = Accounts Receivable ÷ (Credit Sales ÷ 365 days)—The average collection period can be evaluated against the credit terms offered by the company. As a rule, the collection period should not exceed 1 1/3 times the regular payment period. That is, if your company's typical terms call for payment in 30 days, then the collection period should not exceed 40 days.

Inventory Turnover = Cost of Goods Sold ÷ Average Inventory—Inventory turnover is an indication of the velocity with which merchandise dollars move through the business. In the case of the typical DHI member, the turnover figure of 7.3 means that the firm sells out the equivalent of its inventory value 7.3 times per year.

Inventory Holding Period = 365 days ÷ Inventory Turnover—The inventory holding period reflects how many days of inventory are on hand. That is, it shows how long it should take to sell off the existing inventory. Business managers and owners must be concerned with a holding period that is longer than necessary due to the high costs of capital tied up in excess inventory. On the other hand, reducing inventory levels too much could result in lost sales if certain products are not available when the customer wants them. The cost of carrying inventory has to be balanced against the profit opportunities lost by not having product in stock ready for sale.

Sales to Inventory Ratio = Net Sales ÷ Average Inventory at Cost—The sales to inventory ratio is another method for measuring how quickly inventory turns over in the company. It demonstrates how much sales volume is produced per dollar of inventory investment. The figure of 10.5 for the typical DHI member indicates that the firm generates $10.50 of sales annually for each dollar tied up in inventory.

Gross Margin Return on Inventory = Gross Profit ÷ Average Inventory x 100—The basic objective of Gross Margin Return on Inventory (GMROI) is to view the inventory from a return on investment perspective. Consequently, the ratio measures how many gross margin dollars are produced from each dollar tied up in inventory. GMROI facilitates the evaluation of products with widely varying gross margin and inventory utilization rates.

	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Cash Sales (% of net sales)	4.0%	3.2%	2.0%	3.6%	5.0%
Average Collection Period (days)	69.7	61.7	74.8	73.2	55.3
Bad Debt Losses (% of net sales)	0.0%	0.1%	0.1%	0.0%	0.1%
Inventory Turnover	7.3	9.5	9.0	6.8	4.9
Inventory Holding Period (days)	50.0	38.4	40.6	53.7	74.5
Sales to Inventory Ratio	10.5	14.0	14.0	10.0	7.4
Gross Margin Return on Inventory	321.9%	406.9%	406.9%	321.9%	212.6%
Warehouse Sales	90.0%	90.0%	89.1%	90.0%	90.0%
Direct Shipments	10.0	10.0	10.9	10.0	10.0
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%

Growth and Cash Sufficiency Ratios

Most firms are anxious to expand their sales base. As they do so, however, cash flow becomes a major issue. Ideally, firms would like to have enough cash to fund expansion and to provide a buffer in the event of a cyclical slowdown in the industry. At the same time, no firm wants to have excessive cash balances remaining idle.

This section examines cash sufficiency utilizing a number of financial ratios, most of which are not well understood. However, these ratios provide insight into how fast the firm can grow, the cash flow required for additional sales growth and ways to enhance growth with existing cash balances.

Cash Cycle = Average Collection Period + Inventory Holding Period - Accounts Payable Payout Period The cash cycle determines the number of days of investment in a product from the time it is purchased from the supplier until the sales invoice is collected from the customer. Anything that can be done to shorten this period facilitates sales growth without additional outside investment. All three of the components of this ratio were covered on the preceding two pages.

Growth Potential Index = Profit After Taxes ÷ (Accounts Receivable + Inventory - Accounts Payable) The Growth Potential Index (GPI) measures approximately how fast the firm can increase its sales each year using only internally generated funds. Increasing sales faster than the growth potential index will necessitate additional borrowing. Increasing sales slower than the growth potential index will create additional cash reserves.

Cash to Current Liabilities = Cash ÷ Current Liabilities x 100—This is the most stringent test of the ability of the firm to meet its short-term obligations with existing cash balances. To be truly conservative with cash, this ratio should be in the ten to twenty percent range.

Defensive Interval = Cash ÷ (Operating Expenses other than Depreciation ÷ 365 days)—The defensive interval measures how long the firm can operate using nothing but existing cash balances. It provides a worst-case analysis of the adequacy of the firm's cash position if sales and collections suddenly deteriorated. Ideally this ratio should be ten days or more.

Sales to Working Capital = Net Sales ÷ (Current Assets - Current Liabilities)—Measures the ability of the firm to generate sales without tying up high levels of investment in working capital. A ratio of 6.5, for example, means the firm can generate $6.50 in sales for every $1.00 invested in working capital. This ratio can be impacted by changes in any of the three working capital items—improving inventory turnover, reducing accounts receivable collections or obtaining more favorable accounts payable payment terms.

	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Cash Flow Cycle					
Average Collection Period (days)	69.7	61.7	74.8	73.2	55.3
Plus Inventory Holding Period (days)	50.0	38.4	40.6	53.7	74.5
Gross Cash Flow (days)	119.7	100.1	115.4	126.9	129.8
Minus A/P Payout Period (days)	30.2	21.7	35.8	27.1	27.4
Cash Cycle (days)	89.5	78.4	79.6	99.8	102.4
Growth Potential Index	7.5%	22.5%	7.5%	6.2%	15.8%
Cash to Current Liabilities	5.8%	11.3%	8.8%	6.1%	3.7%
Defensive Interval (days)	9.1	16.9	10.7	11.0	7.1
Sales to Working Capital	6.5	5.0	6.7	7.3	5.0

Operating Productivity Ratios

Operational issues are frequently overlooked as determinants of profitability. However, the ability to increase the firm's average order value or to produce a higher level of sales per customer has a dramatic impact on financial results. The following ratios are the most commonly measured ones in evaluating operational performance.

Sales per SKU = Net Sales ÷ Number of Stockkeeping Units—A stockkeeping unit (SKU) is a single item defined as narrowly as possible, considering issues such as size, color, manufacturer, style and the like. Two items purchased from the same supplier that are the same size, but different colors, are two distinct SKUs. The ability to produce a high level of sales per SKU suggests that the firm has simplified its operations for maximum productivity.

Inventory per SKU = Inventory ÷ Number of SKUs—The critical role of inventory is to provide the maximum level of customer service. This is usually achieved by carrying a high level of inventory behind each item sold.

Sales per Customer = Net Sales ÷ Number of Active Customers—If the firm can generate adequate sales per customer it can minimize the amount of time and expense it incurs in finding additional customers. A high sales per customer also suggests a more effective use of delivery vehicles and other operating assets. An active customer is defined as one that made at least six purchases from the firm during the year.

Sales per Order = Net Sales ÷ Number of Orders Shipped—Processing, filling and delivering a customer order involves a large amount of expense that is the same regardless of invoice size. The higher the sales per order, the more able the firm is to cover these fixed expenses with the additional gross margin dollars generated on the sale.

Sales per Order Line = Net Sales ÷ Average Number of Lines per Order—Processing orders also involves a relatively fixed cost per order line. Increasing the average line value also enables the firm to cover fixed costs more profitably.

	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Shipments Received (per month)	200	200	160	235	155
Sales per Shipment Received	$2,115	$2,986	$2,622	$1,779	$2,986
Stockkeeping Units (SKUs)	1,115	1,400	1,000	1,191	1,067
Sales per SKU	$4,215	$3,812	$4,794	$5,145	$3,482
Inventory per SKU	$556	$552	$590	$425	$562
Customers	180	200	120	219	210
Sales per Customer	$46,316	$43,189	$73,978	$38,890	$33,906
Orders Shipped (per month)	395	335	275	407	266
Sales per Order	$1,614	$2,055	$2,081	$1,411	$1,277
Average Lines per Order	7.0	6.0	6.5	9.0	6.0
Sales per Order Line	$252	$343	$343	$203	$232

Merchandising Profile

Most firms fail to take control over their product and customer mixes. Oftentimes the choice of products offered and customers serviced is left almost to chance. The two must complement each other, and that balance is not achieved without some measure of planning.

Product Mix

To be effective today it is necessary to continually review the assortment being carried to ensure that it is appropriate. The focal point of such a review should be the needs of the customer base being serviced. If a particular stockkeeping unit (SKU) does not offer something truly unique to the customer, it should be a candidate for elimination. For most firms, a periodic product review should be an important part of the planning and controlling of the merchandise mix. In this way, investment in dead inventory can de detected and eliminated well before it becomes a problem.

Customer Mix

For too many firms an inordinate amount of time and effort is spent serving unprofitable customers. Companies should periodically review the customers they are serving in light of the sales being generated by each customer. With this information, the firm can begin to develop a plan on how to profitably serve each individual account. While it may not be wise to refuse to sell a customer, it is proper to adjust the amount of attention paid to each in accordance with their importance to you. In most firms, substantial improvement opportunities exist in rethinking and appropriately redeploying the customer sales effort.

	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Sales by Product Category					
Builders Hardware	40.2%	42.5%	36.9%	44.4%	39.5%
Electronic Hardware	5.5	3.1	6.2	5.5	4.7
Metal Doors & Related Products	24.8	27.5	25.1	23.4	28.8
Wood Doors & Frames	16.5	17.6	19.5	17.8	9.3
Toilet Accessories & Partitions	4.3	3.6	4.1	4.6	4.4
Other	8.7	5.7	8.2	4.3	13.3
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Sales by Type of Sale					
Contract Jobs	72.0%	80.0%	85.0%	70.0%	25.1%
Non-Contract Sales	28.0	20.0	15.0	30.0	74.9
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Manufacturers	86	167	93	91	68
Sales per Manufacturer	$78,262	$72,089	$84,923	$77,139	$77,685

Employee Productivity Ratios

Employees are the lifeblood of the organization. Without a properly motivated and compensated work force, few firms can produce much more than basic levels of performance. Employee payroll costs make up the single largest expense category on the income statement.

In controlling employee payroll, the key to success is not the absolute level of compensation, but rather the productivity of employees. The two key employee productivity ratios presented in this report are sales per employee and the personnel productivity ratio. Both ratios are measures of employee output.

Sales per Employee = Net Sales ÷ Total Full-Time Equivalent Employees—This is simply the level of sales generated per full-time equivalent (FTE) employee. The ratio provides a means to estimate how many additional employees will be required as the firm expands its sales base.

Personnel Productivity Ratio = Payroll Expense ÷ Gross Margin x 100—The personnel productivity ratio expresses total payroll expense as a percentage of gross margin. Total payroll includes not only salaries and wages, but all payroll taxes, insurance coverage and other fringe benefits. The ratio measures the portion of each gross margin dollar that must be committed to payroll. This is one of the few productivity ratios where a lower figure is desirable.

	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Total Employees (FTE)	26	32	33	23	14
Sales per Employee	$279,081	$341,501	$303,557	$273,685	$277,870
Gross Margin per Employee	$91,343	$107,004	$90,740	$86,742	$101,044
Salary per Employee	$43,818	$46,458	$46,458	$42,592	$42,954
Payroll per Employee	$54,662	$58,242	$57,058	$51,030	$56,277
Payroll Expense (% of sales)	20.2%	16.8%	18.4%	20.8%	20.9%
Benefits (% of total payroll)	15.3%	22.0%	17.4%	14.9%	19.1%
Personnel Productivity Ratio	65.1%	50.2%	63.1%	66.0%	62.8%

Sales Volume Analysis

	Sales Under $5 Million	Sales $5 - $10 Million	Sales $10 - $15 Million	Sales Over $15 Million
Number of Firms Reporting	28	17	14	17
Typical Sales Volume	$2,783,538	$7,746,456	$13,387,828	$19,338,237
Sales Growth (2006 vs. 2005)	1.0%	8.0%	8.3%	13.2%
Strategic Profit Model Ratios				
Profit Margin (pre-tax)	1.9%	1.5%	3.2%	2.9%
Asset Turnover	2.8	3.3	3.1	2.5
Return on Assets (pre-tax)	5.3%	4.9%	9.9%	7.2%
Financial Leverage	1.9	1.8	2.0	1.8
Return on Net Worth (pre-tax)	10.1%	8.8%	19.8%	13.0%
Income Statement				
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	65.9	70.9	69.4	69.9
Gross Margin	**34.1**	**29.1**	**30.6**	**30.1**
Personnel Expenses				
Executive Salaries & Bonuses	4.9	4.2	4.9	2.7
Sales Salaries & Commissions	6.3	6.3	5.1	5.5
Warehouse & Delivery Wages	2.5	2.8	1.3	1.6
All Other Employee Wages	4.1	3.4	3.6	5.5
Total Salaries, Wages & Bonuses	17.8	16.7	14.9	15.3
Payroll Taxes (FICA, workers' comp. & unemp.)	1.7	1.4	1.3	1.6
Group Insurance (medical, hospitalization, etc.)	1.4	1.0	1.2	1.3
Employee Benefits (profit sharing, pension, etc.)	0.5	0.4	0.8	0.7
Total Personnel Expenses	**21.4**	**19.5**	**18.2**	**18.9**
Occupancy Expenses				
Utilities: Heat, Light, Power, Water	0.4	0.3	0.3	0.3
Telephone	0.5	0.3	0.3	0.3
Building Repairs & Maintenance	0.3	0.3	0.2	0.3
Rent or Ownership in Real Estate	2.0	1.4	1.9	1.4
Total Occupancy Expenses	**3.2**	**2.3**	**2.7**	**2.3**
Other Operating Expenses				
Advertising & Promotion	0.3	0.2	0.1	0.4
Vehicle Expenses	1.1	1.0	1.1	0.9
Insurance (business liability & casualty)	0.7	0.5	0.3	0.3
Depreciation	0.7	0.6	0.5	0.5
Bad Debt Losses	0.1	0.1	0.1	0.1
All Other Operating Expenses	4.0	2.8	3.7	2.8
Total Other Operating Expenses	**6.9**	**5.2**	**5.8**	**5.0**
Total Operating Expenses	**31.5**	**27.0**	**26.7**	**26.2**
Operating Profit	**2.6**	**2.1**	**3.9**	**3.9**
Other Income	0.0	0.1	0.2	0.1
Interest Expense	0.7	0.7	0.9	1.1
Other Non-operating Expenses	0.0	0.0	0.0	0.0
Profit Before Taxes	**1.9%**	**1.5%**	**3.2%**	**2.9%**

Sales Volume Analysis

	Sales Under $5 Million	Sales $5 - $10 Million	Sales $10 - $15 Million	Sales Over $15 Million
Expenses in Relationship to GM				
Gross Margin	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Personnel Expenses				
Executive Salaries & Bonuses	14.4	14.4	16.0	9.0
Sales Salaries & Commissions	18.5	21.6	16.7	18.3
Warehouse & Delivery Wages	7.3	9.6	4.2	5.3
All Other Employee Wages	12.0	11.7	11.8	18.3
Total Salaries, Wages & Bonuses	52.2	57.4	48.7	50.8
Payroll Taxes (FICA, workers' comp. & unemp.)	5.0	4.8	4.3	5.3
Group Insurance (medical, hospitalization, etc.)	4.1	3.4	3.9	4.3
Employee Benefits (profit sharing, pension, etc.)	1.5	1.4	2.6	2.3
Total Personnel Expenses	**62.8**	**67.0**	**59.5**	**62.7**
Occupancy Expenses				
Utilities: Heat, Light, Power, Water	1.2	1.0	1.0	1.0
Telephone	1.5	1.0	1.0	1.0
Building Repairs & Maintenance	0.9	1.0	0.7	1.0
Rent or Ownership in Real Estate	5.8	4.9	6.2	4.7
Total Occupancy Expenses	**9.4**	**7.9**	**8.9**	**7.7**
Other Operating Expenses				
Advertising & Promotion	0.9	0.7	0.3	1.3
Vehicle Expense	3.2	3.4	3.6	3.0
Insurance (business liability & casualty)	2.1	1.7	1.0	1.0
Depreciation	2.1	2.1	1.6	1.7
Bad Debt Losses	0.3	0.3	0.3	0.3
All Other Operating Expenses	11.6	9.7	12.1	9.3
Total Other Operating Expenses	**20.2**	**17.9**	**18.9**	**16.6**
Total Operating Expenses	**92.4**	**92.8**	**87.3**	**87.0**
Operating Profit	**7.6**	**7.2**	**12.7**	**13.0**
Other Income	0.0	0.4	0.7	0.3
Interest Expense	2.0	2.4	2.9	3.7
Other Non-operating Expenses	0.0	0.0	0.0	0.0
Profit Before Taxes	**5.6%**	**5.2%**	**10.5%**	**9.6%**

Sales Volume Analysis

	Sales Under $5 Million	Sales $5 - $10 Million	Sales $10 - $15 Million	Sales Over $15 Million
Balance Sheet				
Assets				
Cash & Marketable Securities	4.4%	0.6%	3.8%	0.6%
Trade Accounts Receivable	51.5	58.0	58.1	59.9
Inventory	30.2	29.2	21.5	24.4
Other Current Assets	1.8	1.1	3.5	0.8
Total Current Assets	87.9	88.9	86.9	85.7
Fixed & Noncurrent Assets	12.1	11.1	13.1	14.3
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth				
Trade Accounts Payable	20.0%	19.1%	19.9%	12.7%
Notes Payable	12.7	14.1	13.1	14.3
Other Current Liabilities	6.1	5.9	10.3	7.7
Total Current Liabilities	38.8	39.1	43.3	34.7
Long Term Liabilities	8.5	5.3	6.7	9.7
Net Worth or Owner Equity	52.6	55.6	50.0	55.6
Total Liabilities & Net Worth	100.0%	100.0%	100.0%	100.0%
Financial Ratios				
Current Ratio	2.3	2.3	2.0	2.5
Quick Ratio	1.4	1.5	1.4	1.7
Accounts Payable to Inventory	65.4%	62.9%	87.7%	59.5%
Accounts Payable Payout Period (days)	32.8	28.2	24.8	34.3
Debt to Equity	0.9	0.8	1.0	0.8
EBIT to Total Assets	7.3%	7.3%	12.7%	10.0%
Times Interest Earned	3.7	3.1	4.6	3.6
Asset Productivity Ratios				
Cash Sales (% of total sales)	5.0%	4.0%	5.0%	1.8%
Average Collection Period (days)	71.5	63.6	59.2	82.0
Bad Debt Losses (% of net sales)	0.1%	0.1%	0.1%	0.1%
Inventory Turnover	6.1	7.6	10.2	6.2
Inventory Holding Period (days)	59.8	48.0	35.8	58.9
Sales to Inventory Ratio	10.3	10.6	14.6	8.7
Gross Margin Return on Inventory	337.5%	311.8%	425.8%	274.6%
Warehouse Sales	90.0%	90.0%	91.5%	90.0%
Direct Shipments	10.0	10.0	8.5	10.0
Total Sales	100.0%	100.0%	100.0%	100.0%
Growth & Cash Sufficiency Ratios				
Cash Flow Cycle				
Average Collection Period (days)	71.5	63.6	59.2	82.0
Plus Inventory Holding Period (days)	59.8	48.0	35.8	58.9
Gross Cash Flow (days)	131.3	111.6	95.0	140.9
Minus A/P Payout Period (days)	32.8	28.2	24.8	34.3
Cash Cycle (days)	98.5	83.4	70.2	106.6
Growth Potential Index	9.0%	4.4%	9.5%	7.6%
Cash to Current Liabilities	11.3%	1.5%	8.8%	1.7%
Defensive Interval (days)	16.6	5.1	7.7	6.1
Sales to Working Capital	5.1	8.7	7.0	6.7

Sales Volume Analysis

	Sales Under $5 Million	Sales $5 - $10 Million	Sales $10 - $15 Million	Sales Over $15 Million
Operating Productivity Ratios				
Shipments Received (per month)	142	210	400	500
Sales per Shipment Received	$1,560	$2,860	$2,041	$3,640
Stockkeeping Units (SKUs)	750	1,575	1,008	4,000
Sales per SKU	$2,764	$3,443	$8,422	$6,580
Inventory per SKU	$388	$451	$831	$806
Customers	60	200	312	720
Sales per Customer	$56,246	$37,797	$40,123	$38,890
Orders Shipped (per month)	150	300	775	1,087
Sales per Order	$1,331	$1,968	$1,403	$1,848
Average Lines per Order	6.0	7.0	6.0	7.0
Sales per Order Line	$234	$316	$217	$240
Merchandising Profile				
Sales by Product Category				
Builders Hardware	37.4%	42.6%	43.1%	40.9%
Electronic Hardware	4.4	5.6	8.4	5.1
Metal Doors & Related Products	26.5	24.1	23.2	24.3
Wood Doors & Frames	16.3	18.3	14.2	15.4
Toilet Accessories & Partitions	3.6	5.2	3.3	5.2
Other	11.8	4.2	7.8	9.1
Total Sales	100.0%	100.0%	100.0%	100.0%
Sales by Type of Sale				
Contract Jobs	70.0%	75.0%	72.0%	75.0%
Non Contract Sales	30.0	25.0	28.0	25.0
Total Sales	100.0%	100.0%	100.0%	100.0%
Manufacturers	53	75	187	171
Sales per Manufacturer	$56,683	$103,688	$76,813	$194,873
Employee Productivity Ratios				
Total Employees (FTE)	11	23	41	71
Sales per Employee	$245,999	$279,934	$320,431	$301,175
Gross Margin per Employee	$75,488	$85,500	$94,859	$93,247
Salary per Employee	$38,168	$42,975	$47,497	$46,336
Payroll per Employee	$47,734	$53,077	$59,815	$57,280
Payroll Expense (% of sales)	21.4%	19.5%	18.2%	18.9%
Benefits (% of total payroll)	16.8%	14.4%	18.1%	19.0%
Personnel Productivity Ratio	62.8%	67.0%	59.5%	62.7%

Regional Analysis

To evaluate regional differences, the reporting firms were classified according to the following DHI areas:

Northeastern Area*: Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania (Harrisburg and east), Rhode Island, Vermont

Southeastern Area: Alabama, Arkansas, Bahama Islands, District of Columbia, Florida, Georgia, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Panama, Puerto Rico, South Carolina, Tennessee, Texas (except El Paso), Virginia

North Central Area: Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana (Miles City and north, east of Great Falls), Nebraska, North Dakota, Ohio, Pennsylvania (West of Harrisburg), South Dakota, West Virginia, Wisconsin

Western Area: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana (south of Miles City, east of Butte), Nevada, New Mexico, Oregon, Texas (El Paso only), Utah, Washington, Wyoming

Canada*

*Due to limited sample size, data cannot be presented for the Northeastern Area and caution should be exercised in evaluating the results for Canada.

	North-eastern	South-eastern	North Central	Western	Canada
Number of Firms Reporting	5	20	32	14	6
Typical Sales Volume		$9,761,732	$8,542,677	$4,738,139	$14,106,680
Sales Growth (2006 vs. 2005)		9.6%	5.0%	6.5%	8.3%
Strategic Profit Model Ratios					
Profit Margin (pre-tax)		1.8%	2.1%	2.6%	3.4%
Asset Turnover		3.3	2.9	2.9	2.5
Return on Assets (pre-tax)		5.9%	6.1%	7.5%	8.5%
Financial Leverage		1.8	2.0	1.8	2.7
Return on Net Worth (pre-tax)		10.6%	12.2%	13.5%	22.9%
Income Statement					
Net Sales		**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold		69.5	69.5	67.8	68.1
Gross Margin		**30.5**	**30.5**	**32.2**	**31.9**
Personnel Expenses					
Executive Salaries & Bonuses		5.7	3.5	4.4	2.4
Sales Salaries & Commissions		5.2	4.8	6.9	7.9
Warehouse & Delivery Wages		2.1	1.8	2.3	1.3
All Other Employee Wages		4.6	5.1	3.3	2.9
Total Salaries, Wages & Bonuses		17.6	15.2	16.9	14.5
Payroll Taxes (FICA, workers' comp. & unemp.)		1.4	1.5	1.5	0.7
Group Insurance (medical, hospitalization, etc.)		1.2	1.4	0.9	0.4
Employee Benefits (profit sharing, pension, etc.)		0.5	0.6	0.6	1.5
Total Personnel Expenses		**20.7**	**18.7**	**19.9**	**17.1**
Occupancy Expenses					
Utilities: Heat, Light, Power, Water		0.3	0.4	0.3	0.3
Telephone		0.3	0.4	0.3	0.4
Building Repairs & Maintenance		0.3	0.3	0.2	0.3
Rent or Ownership in Real Estate		1.4	2.0	1.8	1.8
Total Occupancy Expenses		**2.3**	**3.1**	**2.6**	**2.8**
Other Operating Expenses					
Advertising & Promotion		0.1	0.3	0.2	0.4
Vehicle Expenses		1.0	1.0	1.0	1.0
Insurance (business liability & casualty)		0.4	0.5	0.7	0.2
Depreciation		0.6	0.7	0.6	0.4
Bad Debt Losses		0.1	0.1	0.0	0.0
All Other Operating Expenses		3.2	2.9	3.9	6.0
Total Other Operating Expenses		**5.4**	**5.5**	**6.4**	**8.0**
Total Operating Expenses		**28.4**	**27.3**	**28.9**	**27.9**
Operating Profit		**2.1**	**3.2**	**3.3**	**4.0**
Other Income		0.2	0.1	0.0	0.0
Interest Expense		0.5	1.2	0.7	0.6
Other Non-operating Expenses		0.0	0.0	0.0	0.0
Profit Before Taxes		**1.8%**	**2.1%**	**2.6%**	**3.4%**

Regional Analysis

	North-eastern	South-eastern	North Central	Western	Canada
Expenses in Relationship to GM					
Gross Margin		**100.0%**	**100.0%**	**100.0%**	**100.0%**
Personnel Expenses					
Executive Salaries & Bonuses		18.7	11.5	13.7	7.5
Sales Salaries & Commissions		17.0	15.7	21.4	24.8
Warehouse & Delivery Wages		6.9	5.9	7.1	4.1
All Other Employee Wages		15.1	16.7	10.2	9.1
Total Salaries, Wages & Bonuses		57.7	49.8	52.4	45.5
Payroll Taxes (FICA, workers' comp. & unemp.)		4.6	4.9	4.7	2.2
Group Insurance (medical, hospitalization, etc.)		3.9	4.6	2.8	1.3
Employee Benefits (profit sharing, pension, etc.)		1.6	2.0	1.9	4.7
Total Personnel Expenses		**67.8**	**61.3**	**61.8**	**53.7**
Occupancy Expenses					
Utilities: Heat, Light, Power, Water		1.0	1.3	0.9	0.9
Telephone		1.0	1.3	0.9	1.3
Building Repairs & Maintenance		1.0	1.0	0.6	0.9
Rent or Ownership in Real Estate		4.6	6.6	5.6	5.6
Total Occupancy Expenses		**7.6**	**10.2**	**8.1**	**8.7**
Other Operating Expenses					
Advertising & Promotion		0.3	1.0	0.6	1.3
Vehicle Expense		3.3	3.3	3.1	3.1
Insurance (business liability & casualty)		1.3	1.6	2.2	0.6
Depreciation		2.0	2.3	1.9	1.3
Bad Debt Losses		0.3	0.3	0.0	0.0
All Other Operating Expenses		10.5	9.5	12.1	18.8
Total Other Operating Expenses		**17.7**	**18.0**	**19.9**	**25.1**
Total Operating Expenses		**93.1**	**89.5**	**89.8**	**87.5**
Operating Profit		**6.9**	**10.5**	**10.2**	**12.5**
Other Income		0.6	0.3	0.1	0.1
Interest Expense		1.6	3.9	2.2	1.9
Other Non-operating Expenses		0.0	0.0	0.0	0.0
Profit Before Taxes		**5.9%**	**6.9%**	**8.1%**	**10.7%**

Regional Analysis

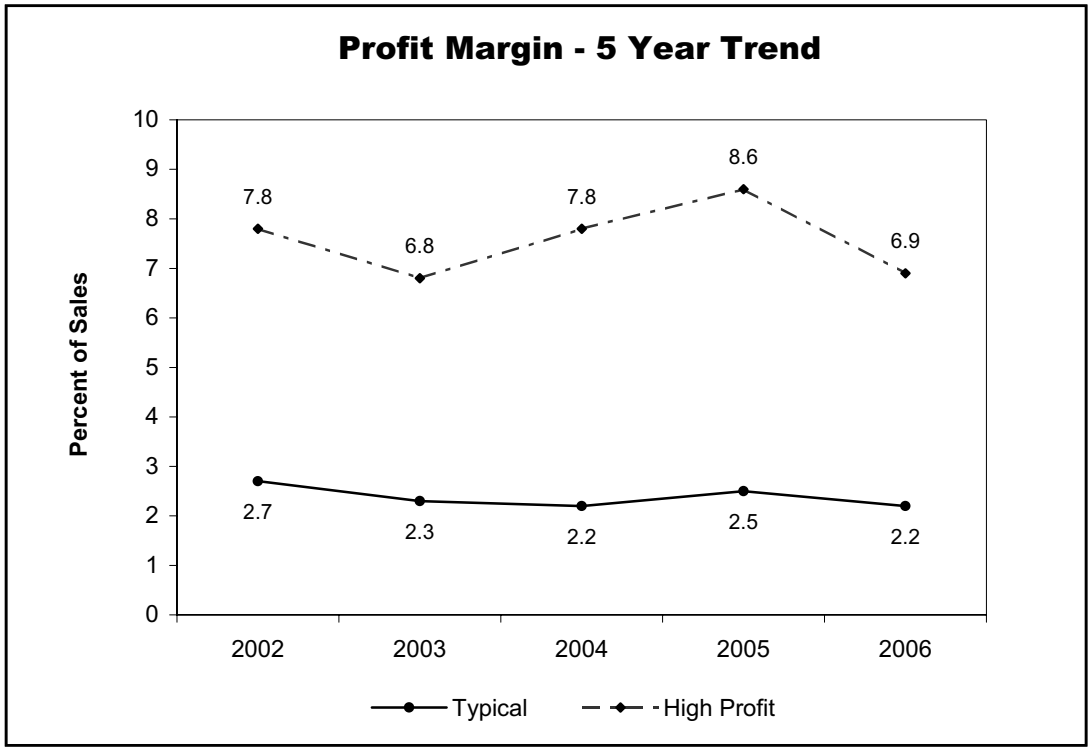
	North-eastern	South-eastern	North Central	Western	Canada
Balance Sheet					
Assets					
Cash & Marketable Securities		6.7%	2.2%	3.0%	0.0%
Trade Accounts Receivable		55.9	51.6	63.8	55.1
Inventory		22.6	27.0	19.8	28.5
Other Current Assets		1.2	1.3	2.8	0.6
Total Current Assets		86.4	82.1	89.4	84.2
Fixed & Noncurrent Assets		13.6	17.9	10.6	15.8
Total Assets		100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Trade Accounts Payable		17.9%	15.5%	19.5%	25.5%
Notes Payable		12.6	18.0	8.4	16.5
Other Current Liabilities		7.7	6.3	12.0	12.7
Total Current Liabilities		38.2	39.8	39.9	54.7
Long Term Liabilities		6.2	10.2	4.5	8.2
Net Worth or Owner Equity		55.6	50.0	55.6	37.0
Total Liabilities & Net Worth		100.0%	100.0%	100.0%	100.0%
Financial Ratios					
Current Ratio		2.3	2.1	2.2	1.5
Quick Ratio		1.6	1.4	1.7	1.0
Accounts Payable to Inventory		81.9%	54.9%	80.8%	90.1%
Accounts Payable Payout Period (days)		28.2	25.9	30.9	52.8
Debt to Equity		0.8	1.0	0.8	1.7
EBIT to Total Assets		7.6%	9.6%	9.6%	10.0%
Times Interest Earned		4.6	2.8	4.7	6.7
Asset Productivity Ratios					
Cash Sales (% of total sales)		5.0%	3.1%	2.0%	5.0%
Average Collection Period (days)		59.6	65.2	74.2	109.8
Bad Debt Losses (% of net sales)		0.1%	0.1%	0.0%	0.0%
Inventory Turnover		10.2	5.8	8.9	5.6
Inventory Holding Period (days)		35.8	62.9	41.0	65.2
Sales to Inventory Ratio		15.8	8.7	14.0	8.1
Gross Margin Return on Inventory		516.1%	261.2%	444.6%	252.3%
Warehouse Sales		82.5%	90.0%	92.0%	95.0%
Direct Shipments		17.5	10.0	8.0	5.0
Total Sales		100.0%	100.0%	100.0%	100.0%
Growth/Cash Sufficiency Ratios					
Cash Flow Cycle					
Average Collection Period (days)		59.6	65.2	74.2	109.8
Plus Inventory Holding Period (days)		35.8	62.9	41.0	65.2
Gross Cash Flow (days)		95.4	128.1	115.2	175.0
Minus A/P Payout Period (days)		28.2	25.9	30.9	52.8
Cash Cycle (days)		67.2	102.2	84.3	122.2
Growth Potential Index		6.7%	6.1%	12.9%	9.1%
Cash to Current Liabilities		17.5%	5.5%	7.5%	0.0%
Defensive Interval (days)		10.0	9.3	12.5	0.0
Sales to Working Capital		7.8	5.7	5.2	8.6

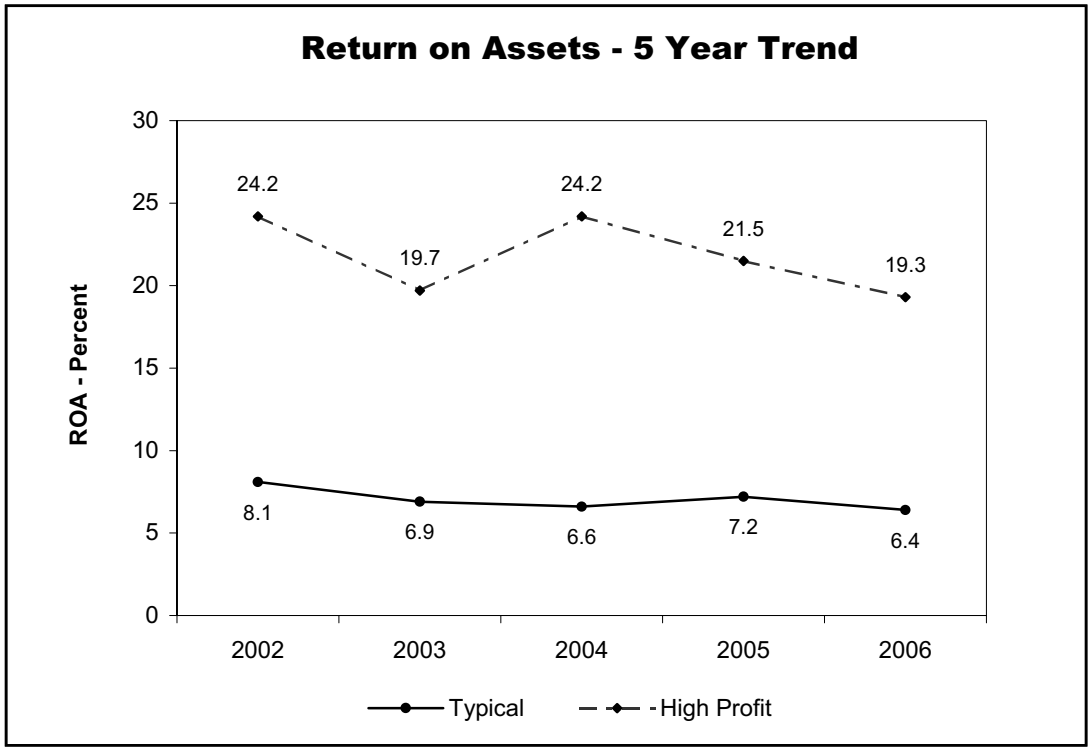
Regional Analysis

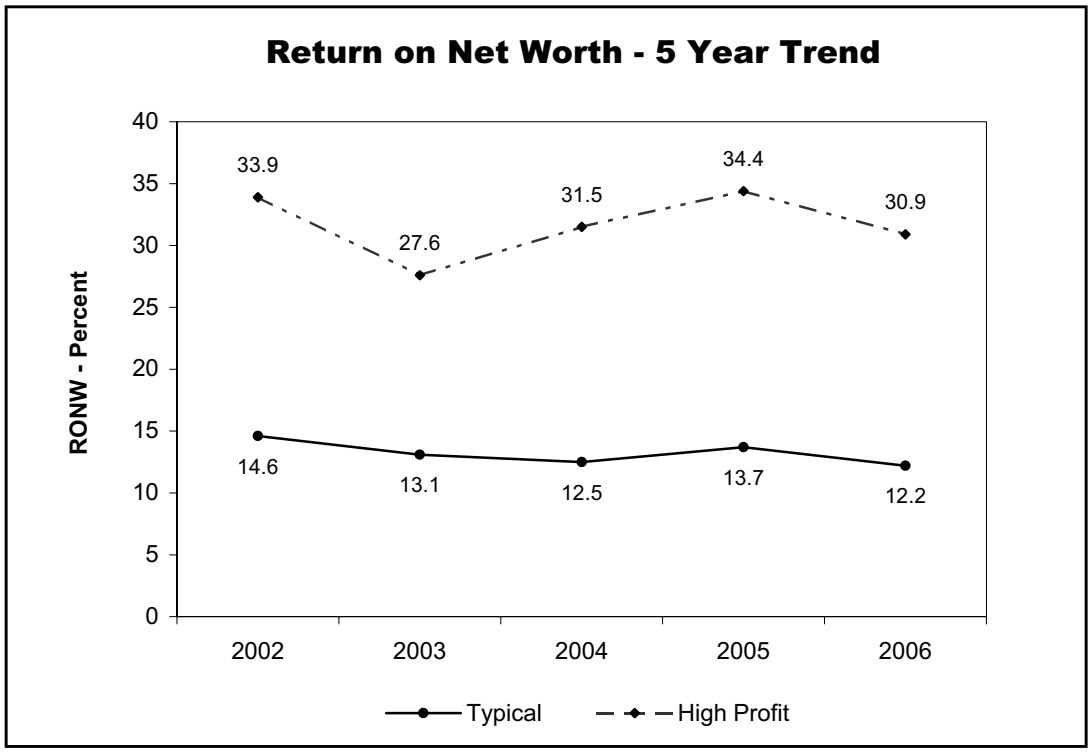
	North-eastern	South-eastern	North Central	Western	Canada
Operating Productivity Ratios					
Shipments Received (per month)		200	200	200	700
Sales per Shipment Received		$3,696	$2,041	$2,030	$1,665
Stockkeeping Units (SKUs)		1,000	1,117	1,017	3,900
Sales per SKU		$8,059	$3,481	$5,201	$4,380
Inventory per SKU		$590	$516	$569	$821
Customers		195	235	59	245
Sales per Customer		$47,392	$32,667	$63,007	$47,856
Orders Shipped (per month)		500	400	205	993
Sales per Order		$2,066	$1,470	$1,984	$1,325
Average Lines per Order		8.5	6.0	6.0	10.0
Sales per Order Line		$235	$219	$343	$96
Merchandising Profile					
Sales by Product Category					
Builders Hardware		35.4%	40.1%	46.4%	44.8%
Electronic Hardware		5.8	5.4	3.9	8.7
Metal Doors & Related Products		22.8	27.3	24.0	21.7
Wood Doors & Frames		19.1	14.1	18.0	17.0
Toilet Accessories & Partitions		6.8	4.1	1.4	5.3
Other		10.1	9.0	6.3	2.5
Total Sales		100.0%	100.0%	100.0%	100.0%
Sales by Type of Sale					
Contract Jobs		75.0%	70.0%	75.5%	75.0%
Non Contract Sales		25.0	30.0	24.5	25.0
Total Sales		100.0%	100.0%	100.0%	100.0%
Manufacturers		89	91	74	145
Sales per Manufacturer		$77,685	$78,218	$67,144	$128,830
Employee Productivity Ratios					
Total Employees (FTE)		37	27	23	42
Sales per Employee		$277,408	$269,120	$271,876	$310,872
Gross Margin per Employee		$93,775	$91,126	$80,099	$99,370
Salary per Employee		$45,289	$42,423	$43,272	$44,219
Payroll per Employee		$57,280	$53,001	$50,574	$56,190
Payroll Expense (% of sales)		20.7%	18.7%	19.9%	17.1%
Benefits (% of total payroll)		15.0%	18.7%	15.1%	15.2%
Personnel Productivity Ratio		67.8%	61.3%	61.8%	53.7%

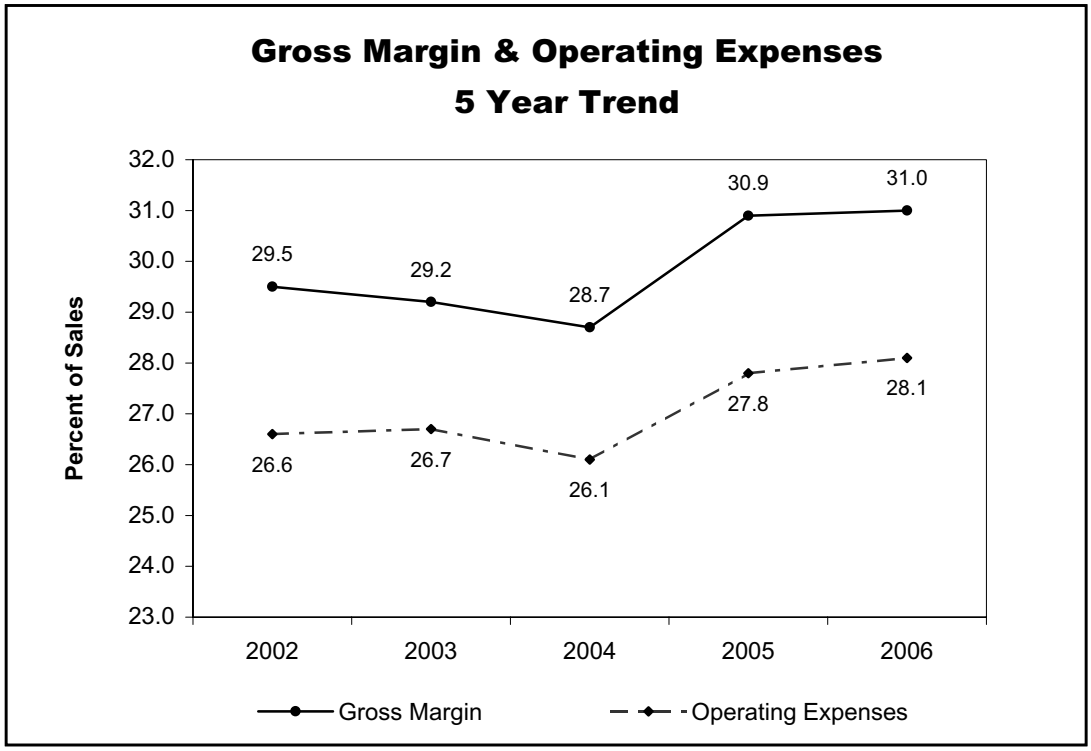
Trend Analysis

The following graphs summarize the five-year trend for selected key ratios. Please note that the data were compiled from prior **DHI PROFIT Reports**. As different distributors may have participated each year, the trend results shown do not represent a consistent sample of DHI members.






Return on Net Worth - 5 Year Trend
RONW - Percent
40
35
30
25
20
15
10
5
0
33.9
27.6
31.5
34.4
30.9
14.6
13.1
12.5
13.7
12.2
2002
2003
2004
2005
2006
Typical
High Profit


Gross Margin & Operating Expenses
5 Year Trend
Percent of Sales
32.0
31.0
30.0
29.0
28.0
27.0
26.0
25.0
24.0
23.0
29.5
29.2
28.7
30.9
31.0
26.6
26.7
26.1
27.8
28.1
2002
2003
2004
2005
2006
Gross Margin
Operating Expenses

Trend Analysis

The following table summarizes the five-year trend for key ratios and measures. Please note that the data were compiled from prior **DHI PROFIT Reports**. As different distributors may have participated each year, the trend results shown do not represent a consistent sample of DHI members.

	2002	2003	2004	2005	2006
Number of Firms Reporting	83	67	79	55	77
Typical Sales Volume	$6,777,103	$6,887,449	$8,163,160	$9,610,799	$7,986,880
Sales Growth (vs. prior year)	-0.9%	1.0%	8.6%	7.4%	6.9%
Strategic Profit Model Ratios					
Profit Margin (pre-tax)	2.7%	2.3%	2.2%	2.5%	2.2%
Asset Turnover	3.0	3.0	3.0	2.9	2.9
Return on Assets (pre-tax)	8.1%	6.9%	6.6%	7.2%	6.4%
Financial Leverage	1.8	1.9	1.9	1.9	1.9
Return on Net Worth (pre-tax)	14.6%	13.1%	12.5%	13.7%	12.2%
Income Statement					
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	70.5	70.8	71.3	69.1	69.0
Gross Margin	**29.5**	**29.2**	**28.7**	**30.9**	**31.0**
Personnel Expenses					
Executive Salaries & Bonuses	4.5	3.1	3.4	3.7	4.2
Sales Salaries & Commissions	4.9	6.5	6.8	6.3	6.6
Warehouse & Delivery Wages	1.9	1.7	2.1	2.1	2.1
All Other Employee Wages	4.9	4.7	3.5	4.6	4.2
Total Salaries, Wages & Bonuses	16.2	16.0	15.8	16.7	17.1
Payroll Taxes (FICA, workers' comp. & unemp.)	1.4	1.3	1.4	1.5	1.4
Group Insurance (medical, hospitalization, etc.)	1.0	1.1	1.1	1.2	1.1
Employee Benefits (profit sharing, pension, etc.)	0.4	0.4	0.4	0.5	0.6
Total Personnel Expenses	**19.0**	**18.8**	**18.7**	**19.9**	**20.2**
Occupancy Expenses					
Utilities: Heat, Light, Power, Water	0.3	0.3	0.3	0.4	0.3
Telephone	0.4	0.3	0.3	0.3	0.3
Building Repairs & Maintenance	0.2	0.2	0.2	0.3	0.2
Rent or Ownership in Real Estate	1.8	1.8	1.6	1.5	1.7
Total Occupancy Expenses	**2.7**	**2.6**	**2.4**	**2.5**	**2.5**
Other Operating Expenses					
Advertising & Promotion	0.1	0.2	0.2	0.2	0.2
Vehicle Expenses	0.7	0.8	0.8	0.9	1.0
Insurance (business liability & casualty)	0.3	0.4	0.4	0.5	0.4
Depreciation	0.6	0.7	0.6	0.6	0.6
Bad Debt Losses	0.1	0.2	0.1	0.2	0.0
All Other Operating Expenses	3.1	3.0	2.9	3.0	3.2
Total Other Operating Expenses	**4.9**	**5.3**	**5.0**	**5.4**	**5.4**
Total Operating Expenses	**26.6**	**26.7**	**26.1**	**27.8**	**28.1**
Operating Profit	**2.9**	**2.5**	**2.6**	**3.1**	**2.9**
Other Income	0.1	0.1	0.1	0.1	0.1
Interest Expense	0.3	0.3	0.5	0.7	0.8
Other Non-operating Expenses	0.0	0.0	0.0	0.0	0.0
Profit Before Taxes	**2.7%**	**2.3%**	**2.2%**	**2.5%**	**2.2%**

Trend Analysis

	2002	2003	2004	2005	2006
Balance Sheet					
Assets					
Cash & Marketable Securities	5.3%	4.5%	1.6%	1.7%	2.4%
Trade Accounts Receivable	50.2	51.0	55.3	57.4	55.7
Inventory	27.7	27.9	27.1	27.2	26.5
Other Current Assets	1.5	1.9	1.2	1.3	1.8
Total Current Assets	84.7	85.3	85.2	87.6	86.4
Fixed & Noncurrent Assets	15.3	14.7	14.8	12.4	13.6
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Trade Accounts Payable	19.5%	19.0%	20.1%	18.0%	19.0%
Notes Payable	8.9	13.5	12.5	12.6	14.5
Other Current Liabilities	6.6	6.5	7.5	8.1	7.9
Total Current Liabilities	35.0	39.0	40.1	38.7	41.4
Long Term Liabilities	9.4	8.5	7.3	8.7	6.0
Net Worth or Owner Equity	55.6	52.6	52.6	52.6	52.6
Total Liabilities & Net Worth	100.0%	100.0%	100.0%	100.0%	100.0%
Financial Ratios					
Current Ratio	2.4	2.2	2.1	2.3	2.1
Quick Ratio	1.6	1.4	1.4	1.5	1.4
Accounts Payable to Inventory	61.4%	59.1%	56.5%	56.8%	62.9%
Accounts Payable Payout Period (days)	28.0	28.7	28.1	30.7	30.2
Debt to Equity	0.8	0.9	0.9	0.9	0.9
EBIT to Total Assets	9.0%	7.8%	8.1%	9.3%	8.7%
Times Interest Earned	10.0	8.7	5.4	4.6	3.8
Asset Productivity Ratios					
Cash Sales (% of total sales)	2.5%	2.0%	4.0%	3.5%	4.0%
Average Collection Period (days)	66.5	66.1	62.0	65.6	69.7
Bad Debt Losses (% of net sales)	0.1%	0.2%	0.1%	0.2%	0.0%
Inventory Turnover	7.2	6.9	7.1	6.9	7.3
Inventory Holding Period (days)	50.7	52.9	51.4	52.9	50.0
Sales to Inventory Ratio	10.4	10.2	10.2	10.1	10.5
Gross Margin Return on Inventory	323.4%	302.5%	309.7%	319.8%	321.9%
Growth/Cash Sufficiency Ratios					
Cash Flow Cycle					
Average Collection Period (days)	66.5	66.1	62.0	65.6	69.7
Plus Inventory Holding Period (days)	50.7	52.9	51.4	52.9	50.0
Gross Cash Flow (days)	117.2	119.0	113.4	118.5	119.7
Minus A/P Payout Period (days)	28.0	28.7	28.1	30.7	30.2
Cash Cycle (days)	89.2	90.3	85.3	87.8	89.5
Growth Potential Index	9.9%	4.6%	4.8%	8.6%	7.5%
Cash to Current Liabilities	15.1%	11.5%	4.0%	4.4%	5.8%
Defensive Interval (days)	11.4	10.8	5.5	7.6	9.1
Sales to Working Capital	6.2	6.3	6.6	7.0	6.5

Trend Analysis

	2002	2003	2004	2005	2006
Operating Productivity Ratios					
Shipments Received (per month)	135	200	167	205	200
Sales per Shipment Received	$2,231	$2,492	$2,593	$2,249	$2,115
Stockkeeping Units (SKUs)	1,500	1,275	1,239	1,425	1,115
Sales per SKU	$3,370	$4,182	$4,601	$4,754	$4,215
Inventory per SKU	$392	$501	$489	$491	$556
Customers	200	200	200	240	180
Sales per Customer	$29,622	$32,107	$29,647	$32,473	$46,316
Orders Shipped (per month)	325	350	400	453	395
Sales per Order	$1,369	$1,479	$1,514	$1,619	$1,614
Average Lines per Order	7.0	7.0	7.0	7.0	7.0
Sales per Order Line	$214	$222	$198	$233	$252
Merchandising Profile					
Sales by Product Category					
Builders Hardware	42.2%	43.5%	41.8%	44.2%	40.2%
Electronic Hardware	4.1	4.5	5.2	6.4	5.5
Metal Doors & Related Products	23.1	25.2	26.1	25.3	24.8
Wood Doors & Frames	17.7	17.0	15.8	14.4	16.5
Toilet Accessories & Partitions	3.9	4.4	4.1	3.4	4.3
Other	9.0	5.4	7.0	6.3	8.7
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Sales by Type of Sale					
Contract Jobs	70.0%	70.0%	70.0%	70.0%	72.0%
Non Contract Sales	30.0	30.0	30.0	30.0	28.0
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Manufacturers	100	90	78	95	86
Sales per Manufacturer	$74,533	$88,986	$81,896	$78,419	$78,262
Employee Productivity Ratios					
Total Employees (FTE)	32	32	34	35	26
Sales per Employee	$233,161	$251,800	$253,294	$265,275	$279,081
Gross Margin per Employee	$66,539	$70,720	$72,426	$83,060	$91,343
Salary per Employee	$35,124	$38,478	$36,198	$43,204	$43,818
Payroll per Employee	$43,048	$45,051	$43,091	$52,464	$54,662
Payroll Expense (% of sales)	19.0%	18.8%	18.7%	19.9%	20.2%
Benefits (% of total payroll)	14.7%	14.9%	15.5%	16.1%	15.3%
Personnel Productivity Ratio	65.3%	64.4%	65.2%	64.4%	65.1%

Appendix

Survey Methodology

Questionnaires were mailed to all DHI distributor members. The primary focus of these questionnaires was to collect detailed financial and operating information. All completed DHI member questionnaires were returned to the Profit Planning Group for coding and tabulation.

The analyses in this report are the result of extensive review by the Profit Planning Group. It is important to note that all individual company responses were kept strictly confidential by the Profit Planning Group. No one from DHI or its staff had access to any individual firm's results.

Ratio Definitions

Ratio	Calculation	Comment
Accounts Payable Payout Period (days)	$\frac{\text{Accounts Payable}}{\text{(Cost of Goods Sold} \div \text{365 days)}}$	Measures promptness of paying suppliers
Accounts Payable to Inventory	$\frac{\text{Accounts Payable}}{\text{Year-end Inventory}} \times 100$	Measures the percent of inventory financed by suppliers of that inventory
Average Collection Period (days)	$\frac{\text{Accounts Receivable}}{\text{(Credit Sales} \div \text{365 days)}}$	Measures the average days between sales and receipt of customer payment
Asset Turnover	$\frac{\text{Net Sales}}{\text{Total Assets}}$	Measures sales generated per dollar of assets
Cash Cycle (days)	Average Collection Period + Inventory Holding Period - Accounts Payable Payout Period	Measures the number of days invested in a product from purchase until sales invoice is collected
Cash to Current Liabilities	$\frac{\text{Cash}}{\text{Current Liabilities}} \times 100$	Measures ability to pay short-term debt with cash
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Measures ability to pay short-term debt with current assets
Debt to Equity	$\frac{\text{Total Liabilities}}{\text{Net Worth}}$	Measures balance between debt and owner equity
Defensive Interval	$\frac{\text{Cash}}{\text{(Operating Expenses - Depreciation)} \div \text{365 days}}$	Measures how long the firm can operate on existing cash balances
EBIT to Total Assets	$\frac{\text{Profit Before Taxes + Interest}}{\text{Total Assets}} \times 100$	Measures earnings from operations before interest and taxes as a percent of total assets
Financial Leverage	$\frac{\text{Total Assets}}{\text{Net Worth}}$	Measures assets financed per dollar of net worth
Gross Margin	$\frac{\text{Gross Profit Dollars}}{\text{Net Sales}} \times 100$	Measures profitability after the costs of making or buying the product are subtracted from sales
Gross Margin Return on Inventory	$\frac{\text{Warehouse Gross Profit}}{\text{Average Inventory}} \times 100$	Measures gross margin earned per dollar of average inventory

Appendix

Ratio	Calculation	Comment
Growth Potential Index	$\frac{\text{Profit After Taxes}}{\text{Accounts Receivable + Inventory - Accounts Payable}}$	Measures how fast the firm can grow using internally generated funds
Inventory Holding Period (days)	$\frac{\text{365 days}}{\text{Inventory Turnover}}$	Measures the number of days inventory is typically held in stock
Inventory Turnover	$\frac{\text{Warehouse Cost of Goods Sold}}{\text{Average Inventory}}$	Measures the number of times the entire inventory stock is sold per year
Personnel Productivity Ratio	$\frac{\text{Payroll Expense}}{\text{Gross Profit}} \times 100$	Measures payroll expense as a percent of gross margin earned
Profit Margin	$\frac{\text{Profit Before Taxes}}{\text{Net Sales}} \times 100$	Measures profit earned as a percent of sales
Quick Ratio	$\frac{\text{Cash + Accounts Receivable}}{\text{Current Liabilities}}$	Measures the ability to pay short-term debt with assets that can be converted to cash most quickly
Return on Assets	$\frac{\text{Profit Before Taxes}}{\text{Total Assets}} \times 100$	Measures profit earned as a percent of assets
Return on Net Worth	$\frac{\text{Profit Before Taxes}}{\text{Net Worth}} \times 100$	Measures profit earned as a percent of net worth
Sales per Employee	$\frac{\text{Net Sales}}{\text{Full-Time Equivalent Employees}}$	Measures average sales generated per full-time employee
Sales to Inventory	$\frac{\text{Warehouse Sales}}{\text{Average Inventory}}$	Measures dollar sales generated per dollar of average inventory
Sales to Working Capital	$\frac{\text{Net Sales}}{\text{Current Assets - Current Liabilities}}$	Measures the ability to generate sales without tying up working capital
Times Interest Earned	$\frac{\text{Profit Before Taxes + Interest}}{\text{Interest}}$	Measures number of times earnings will cover interest payments