Door and Hardware Institute

Benchmarking for Success: Hanging Tough in Tough Times

The recently completed **2008 DHI PROFIT Report** provides the most comprehensive set of benchmarks available for financial performance in the industry. The report suggests that the industry was not immune to the economic challenges that emerged during the last half of the year. However, some firms continued to prosper despite sales and margin pressures. The differences between the typical firm and high-profit one are significant for both planning and control purposes. They need to be well understood by every manager in the firm.

What High Profit Means

The typical firm in the benchmarking survey is the firm exactly in the middle of all firms in terms of its financial results. That is, half of the companies will perform better than the typical one and half will perform worse. Most firms tend to produce results that are fairly close to the typical results. The continual challenge is, however, that being typical is simply not good enough. To see why, it is useful to compare typical and high-profit results.

The typical firm generates sales of $8,371,000. On that sales base, it produces a pre-tax profit of $234,388. This means the firm produces a profit margin of 2.8% of sales. Stated somewhat differently, every $1.00 of sales results in 2.8 cents of profit.

The high-profit company, operating with the exact same set of economic and competitive challenges, generates a profit margin of 8.0%. This means that the high-profit company, even if it had the same sales as the typical one, would generate more profit to invest in the firm which will allow it to produce even more sales and more profit. It is an on-going advantage that is magnified over time.

How Do They Do That?

Reaching high-profit performance is a matter of identifying what is important and developing a plan to do better on those factors. In benchmarking terms, the items that are important are called the critical profit variables (CPVs). The CPVs are outlined in exhibit 1 with specific information on the results produced by both the typical and high-profit firm.

One caution is always in order when comparing typical and high-profit firms. Namely, no single business produces superior results for every single CPV. It is simply not possible. Successful firms combine the CPVs in a way that maximizes overall profitability.

Exhibit 1: The Critical Profit Variables
In reviewing these CPVs remember that the high-profit firm is far from perfect. Individual firms may significantly outperform high-profit firms on individual factors. What high-profit firms accomplish well is assembling a set of CPVs that result in greater profitability. This is a model that every firm can use to improve financial performance.

The Critical Profit Variables

	Typical	High Profit
Net Sales	$8,371,000	$8,371,000
Profit Margin (pre-tax)	2.8%	8.0%
The Big Three		
Sales Change	8.2%	16.2%
Gross Margin	30.2%	31.2%
Payroll Expense	18.8%	16.9%
The Little Three		
Non-Payroll Expenses	8.0%	6.0%
Inventory Turnover (times)	7.8	7.7
Average Collection Period (days)	64.7	54.9

Exhibit 1.

The "Big Three"

In planning, the CPVs should be thought of in terms of the "big three" and the "little three." The big three are sales growth, gross margin and payroll expenses. These are the factors with the greatest potential to impact profit. Firms that can successfully control these items have a major financial advantage.

- **Sales Growth**
  Managers almost always think of sales growth in absolute terms. That is, they think of 5% growth or 10% growth. Ideally, managers should modify their thinking to focus on relative growth. This means think of sales growth in relationship to expense growth. Ideally, firms should target sales increases of somewhere between one to two percentage points *faster* than operating expenses. If they do so, profits will improve.

- **Gross Margin**
  The ability to generate an adequate gross margin continues to be one of the major determinants of profitability. Financial success over the long term demands strong gross margin performance. While the high-profit firm does not necessarily have a higher gross margin every year, it always produces superior margin performance in relationship to operating expenses.

- **Payroll Expenses**
  Payroll is by far the most important expense factor, which means that controlling payroll is essential to controlling expenses. In recent years payroll has rivaled gross margin in its importance as a driver of profitability. This is because payroll expenses, especially the fringe benefits component, have increased relentlessly.

The "Little Three"

Firms that can control sales growth, gross margin and payroll are much more likely to generate high profits than those that do not. In contrast, these "little three" CPVs represent opportunities to fine-tune the business. They are important, but are secondary to the "big three".

- **Non-Payroll Expenses**
  In analyzing non-payroll expenses, it is usually found that only minor adjustments are required. Unfortunately, there are numerous areas within the firm that need to be examined. Controlling non-payroll expenses will probably always involve examining every expense category with the hope of making modest improvements in a number of different areas.

- **Inventory Turnover**
  The rate of inventory turnover has a dramatic impact on cash flow. As a result, it has been a major area of concern for the last several years. It was suggested above that firms need to generate at least a modest rate of sales growth. If that growth is to be maintained without running out of cash, then inventory turnover must be improved, at least slightly. For most businesses that slight increase in turnover will be enough to ensure financial integrity. Making excessive changes in turnover has the potential for out-of-stock situations.

- **Average Collection Period**
  The average collection period (sometimes called the *days sales outstanding*) has proven to be probably the most difficult of the CPVs to improve unilaterally. This is because in every line of trade there is an "industry-standard" set of terms of sale. However, continual review of the average collection period can result in important improvements and a resulting improvement in cash flow.

Door and Hardware Institute

2008 PROFIT Report

(2007 Data)

Profit Planning Group

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Introduction

The **2008 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 75 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

This report is organized into the following sections to assist specific areas of inquiry. Throughout this report, "N/A" designates results that are not available due to a limited sample size.

- **Executive Summary**
  The summary presents an overview of study results with an emphasis on the differences between the typical firm and the high profit company.
- **Detailed Results**
  Detailed results presents an in-depth analysis of return on investment, the income statement, the balance sheet, and financial and productivity ratios. Commentary and supporting graphs focus on these results.
- **Sales Volume Analysis**
  This section presents results based on sales size.
- **Regional Analysis**
  Detailed regional results are presented in this section. Participants were grouped according areas specified by DHI.
- **Trend Analysis**
  This section presents an overview of changes in performance over time for key results and ratios.
- **Appendix**
  The appendix presents an overview of survey methodology and a summary of ratio calculations

Explanation of Statistics

- **Medians**
  Most of the figures presented in this report are based on median results. A median value is the middle value in the sorted list of all reported values. Unlike averages (means), medians are not influenced by extreme highs or lows. Medians are, therefore, the preferred statistic for this analysis since they best represent a typical firm's results.
- **High Profit Firms**
  The high profit category includes the top firms based on pre-tax return on assets (ROA).
- **FIFO Adjustment**
  If LIFO reserve data were collected, firms were adjusted to FIFO impacting cost of goods, gross margin, and inventory.
- **Averages for Inventory, Accounts Receivable, and Accounts Payable**
  If available, ratio calculations use average values for inventory, accounts receivable, and accounts payable.

Executive Summary

Financial performance varied widely within the industry in 2007. The results show that the typical firm had sales of $8,371,000 and a pre-tax profit of 2.8 percent. High-profit firms had sales of $8,371,000, and profit of 8.0 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 8.4 percent. For the high profit firm return on assets was 25.6 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	$287,531	$330,463
Gross Margin Percentage Reflects the ability to manage COGS effectively	30.2%	31.2%
Operating Expense Percentage Focuses on expense control	26.8%	22.9%
Inventory Turnover (times) Reflects how well inventory is managed	7.8	7.7
Average Collection Period (days) Reflects accounts receivable collection practices	64.7	54.9

High profit firms seldom perform better in all of the critical profit variables. Instead, it is the sum-total of their CPV performance that produces better overall results. Since these differences can dramatically improve operating performance it is important that every firm is aware of their impact. The following exhibit presents the results for the typical firm compared with the results for high profit firms.

An Overview of Financial Results

	Typical DHI Distributor	High Profit DHI
Income Statement		
Net Sales	$8,371,000	$8,371,000
Cost of Goods Sold	5,842,958	5,759,248
Gross Margin	2,528,042	2,611,752
Operating Expenses	2,243,428	1,916,959
Operating Profit	284,614	694,793
Other Income/Expenses	-50,226	-25,113
Profit Before Taxes	$234,388	$669,680
Assets		
Cash	$64,178	$188,348
Accounts Receivable	1,420,040	1,196,136
Inventory	689,169	679,890
All Other Assets	616,946	551,564
Total Assets	$2,790,333	$2,615,938
Return on Assets	8.4%	25.6%

Executive Summary

	Typical DHI Distributor	High Profit DHI
Typical Sales Volume	$8,371,000	$8,371,000
Strategic Profit Model Ratios		
Profit Margin (pre-tax)	2.8%	8.0%
Asset Turnover	3.0	3.2
Return on Assets (pre-tax)	8.4%	25.6%
Financial Leverage	2.0	1.5
Return on Net Worth (pre-tax)	16.8%	38.4%
Income Statement		
Net Sales	**100.0%**	**100.0%**
Cost of Goods Sold	69.8	68.8
Gross Margin	**30.2**	**31.2**
Operating Expenses		
Payroll Expenses	18.8	16.9
Occupancy Expenses	2.4	2.2
Other Operating Expenses	5.6	3.8
Total Operating Expenses	**26.8**	**22.9**
Operating Profit	**3.4**	**8.3**
Other Income/Expenses	-0.6	-0.3
Profit Before Taxes	**2.8%**	**8.0%**
Financial Ratios		
Current Ratio	2.0	2.8
Quick Ratio	1.4	1.9
Accounts Payable to Inventory	68.9%	49.3%
Accounts Payable Payout Period (days)	28.6	23.1
Debt to Equity	1.0	0.5
EBIT to Total Assets	10.5%	26.9%
Times Interest Earned	5.0	21.0
Asset Productivity Ratios		
Average Collection Period (days)	64.7	54.9
Inventory Turnover (times)	7.8	7.7
Inventory Holding Period (days)	46.8	47.4
Gross Margin Return on Inventory	353.0%	376.8%
Growth & Cash Sufficiency Ratios		
Growth Potential Index (GPI)	8.8%	35.3%
Cash Cycle (days)	82.9	79.2
Operating Productivity Ratios		
Sales per SKU	$4,841	$5,529
Sales per Customer	$43,966	$43,390
Sales per Order	$1,693	$2,042
Employee Productivity Ratios		
Sales per Employee	$287,531	$330,463
Gross Margin per Employee	$90,375	$102,785
Payroll per Employee	$54,743	$55,976
Personnel Productivity Ratio	62.3%	54.2%

Return on Investment

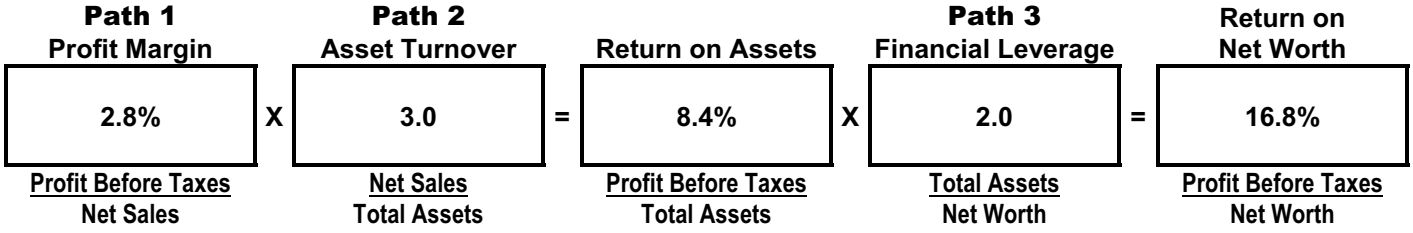
Return on investment is the most meaningful way to evaluate overall company profitability. It is important to understand how return on investment is calculated and how it can be improved. The elements of a complete return on investment analysis are shown in the table on the facing page.

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 2.8 percent means that for every $1.00 of sales the company was able to produce 2.8¢ 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 3.0 means that the firm is able to generate $3.00 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 8.4 percent.

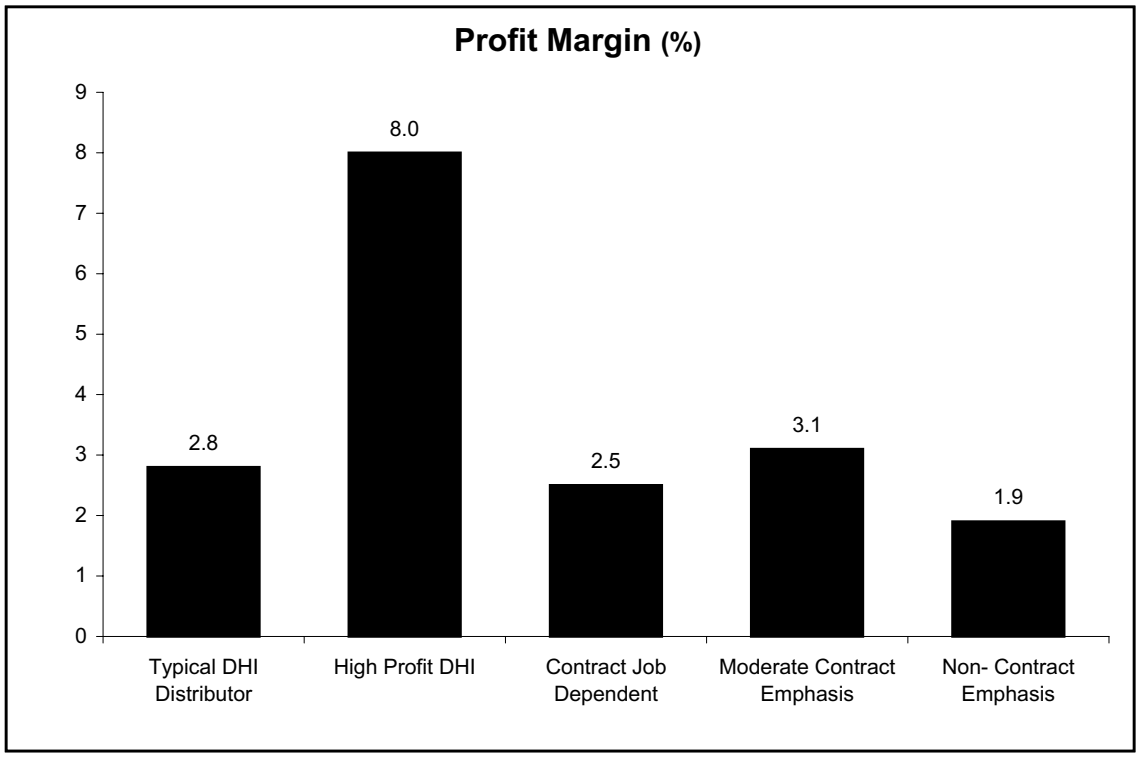
Path 3: Financial Leverage = Total Assets ÷ Net Worth—Financial leverage measures the total dollars of assets per dollar of net worth. The ratio measures the extent to which the firm uses outside (non-owner) financing. The higher the ratio, the more the firm relies on outside financing. The ratio of 2.0 times suggests that for every $1.00 in net worth, the firm had $2.00 in total assets. If for every $2.00 in total assets the owners put up $1.00, then outsiders put up the remaining $1.00.

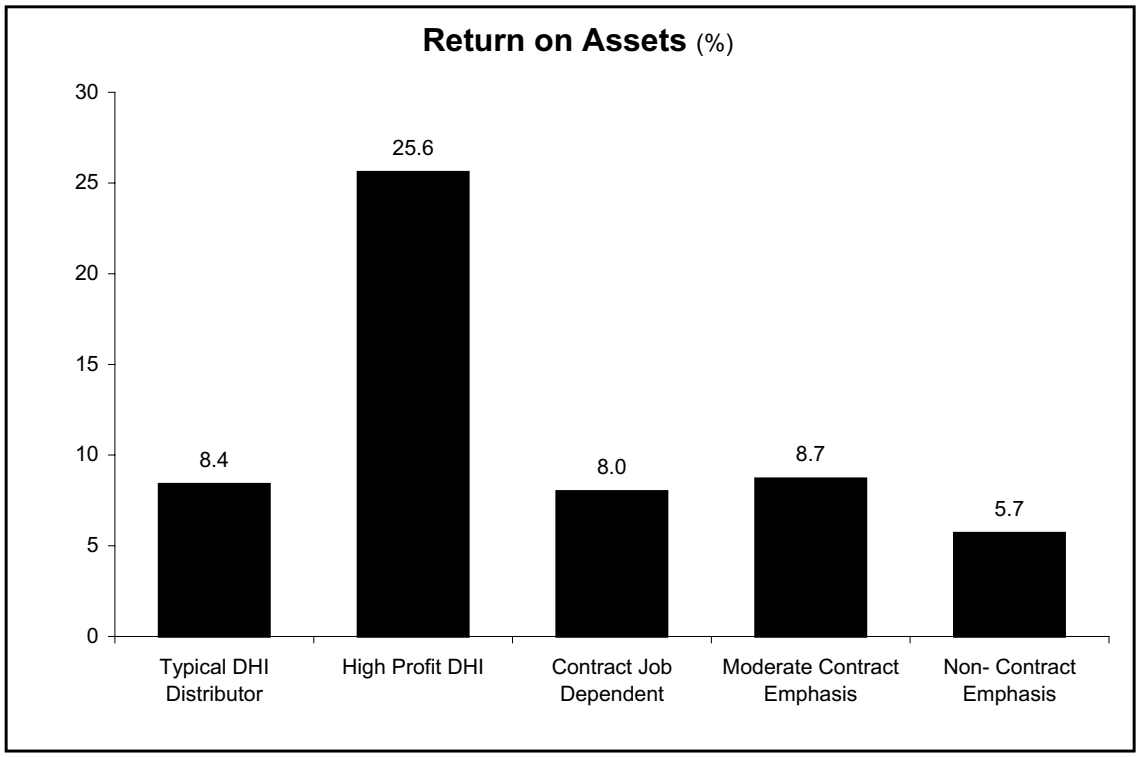
Return on Net Worth = Profit Before Taxes ÷ Net Worth x 100—The end result of the three profitability pathways is return on net worth. It is seldom possible to generate an adequate rate of return on net worth by emphasizing just one of the profitability pathways. Each pathway should be examined carefully 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 16.8 percent; that is, for every $1.00 of net worth, the firm produced 16.8¢ of profit before taxes.

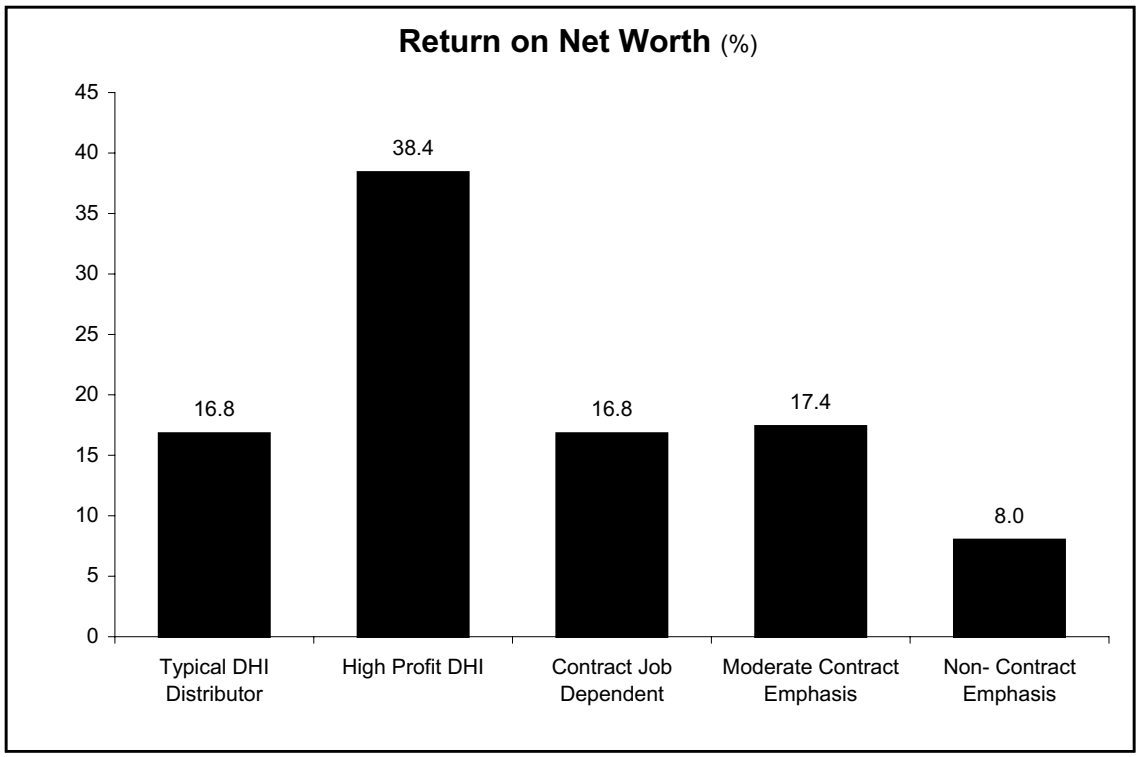
Companies must earn an adequate return on investment to satisfy the owners' needs. The following table provides guidelines for return on assets and for return on net worth.

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)	2.8%	8.0%	2.5%	3.1%	1.9%
Asset Turnover	3.0	3.2	3.2	2.8	3.0
Return on Assets (pre-tax)	8.4%	25.6%	8.0%	8.7%	5.7%
Financial Leverage	2.0	1.5	2.1	2.0	1.4
Return on Net Worth (pre-tax)	16.8%	38.4%	16.8%	17.4%	8.0%




Return on Assets (%)
30
25
20
15
10
5
0
25.6
8.4
8.0
8.7
5.7
Typical DHI Distributor
High Profit DHI
Contract Job Dependent
Moderate Contract Emphasis
Non- Contract Emphasis


Return on Net Worth (%)
45
40
35
30
25
20
15
10
5
0
38.4
16.8
16.8
17.4
8.0
Typical DHI Distributor
High Profit DHI
Contract Job Dependent
Moderate Contract Emphasis
Non- Contract Emphasis

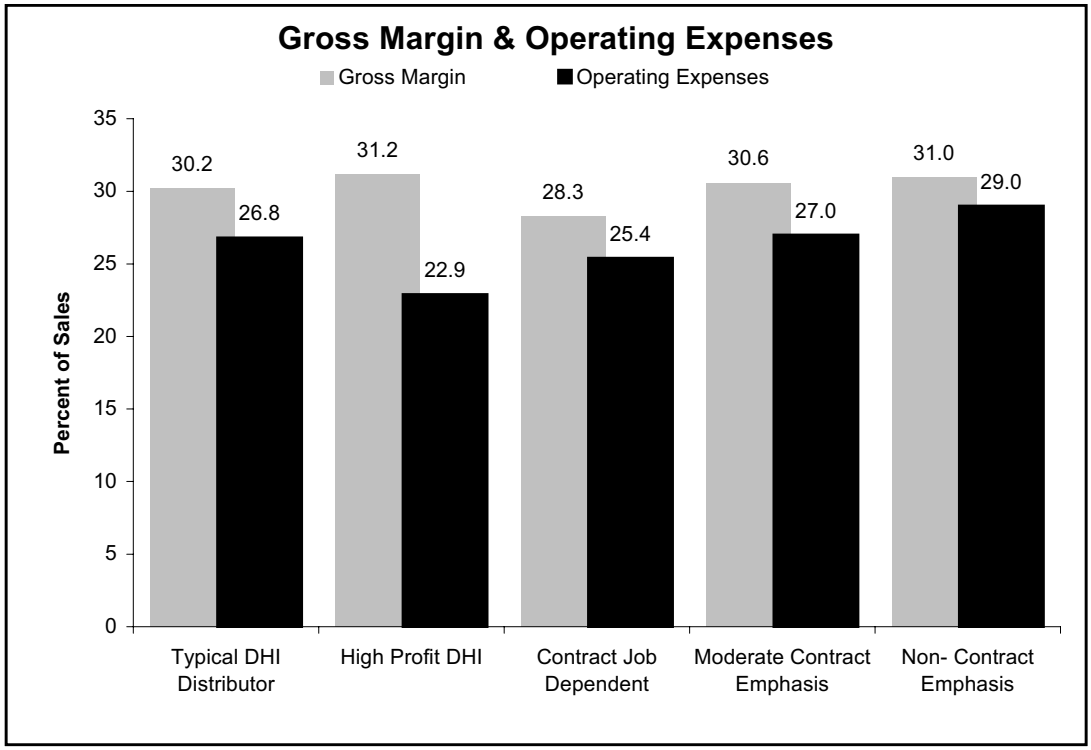
Income Statement

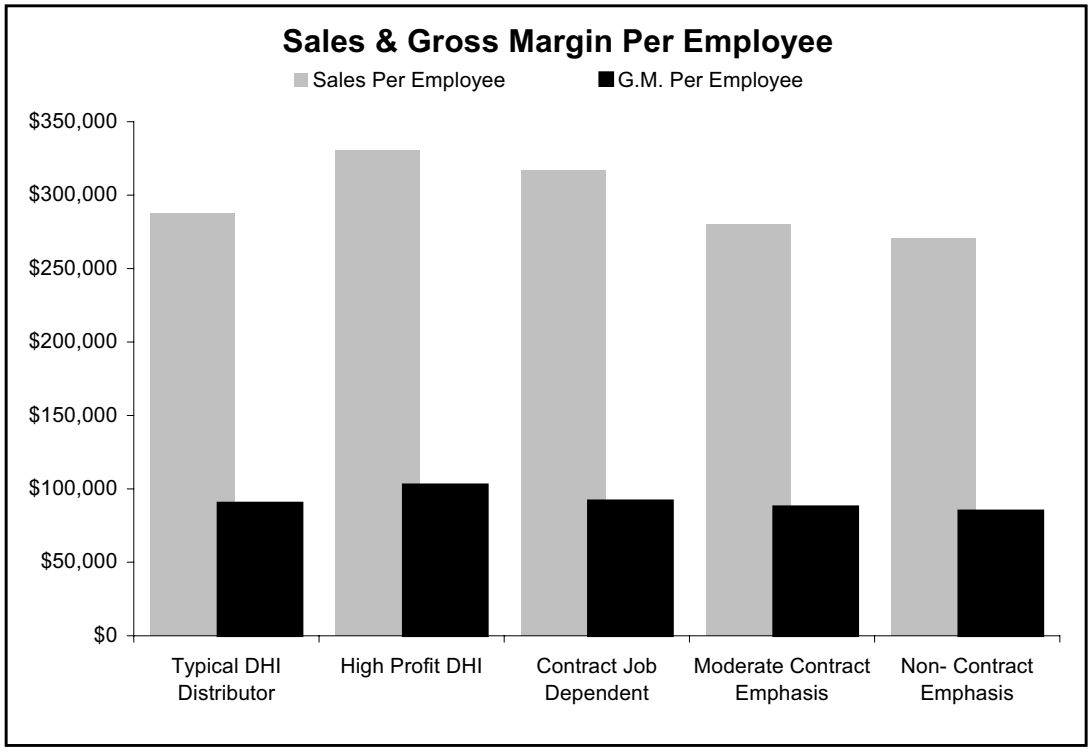
The income statement reflects the ability of management to generate sales, produce a reasonable margin on those sales, control expenses and earn an equitable profit. Thus, it serves as the primary scorecard of management's effectiveness. The Income Statement can be evaluated in two different modes:

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	75	19	31	31	12
Typical Sales Volume	$8,371,000	$8,371,000	$8,606,531	$8,371,000	$5,114,695
Sales Change (2007 vs. 2006)	8.2%	16.2%	7.5%	13.3%	-2.6%
Income Statement					
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	69.8	68.8	71.7	69.4	69.0
Gross Margin	**30.2**	**31.2**	**28.3**	**30.6**	**31.0**
Personnel Expenses					
Executive Salaries & Bonuses	3.6	2.1	3.3	3.3	3.5
Sales Salaries & Commissions	6.2	6.2	5.4	8.0	6.8
Warehouse & Delivery Wages	1.6	1.7	1.4	1.3	1.7
All Other Employee Wages	4.2	4.3	5.0	3.9	3.9
Total Salaries, Wages & Bonuses	15.6	14.3	15.1	16.5	15.9
Payroll Taxes (FICA, workers' comp. & unemp.)	1.5	1.3	1.4	1.5	1.5
Group Insurance (medical, hospitalization, etc.)	1.2	1.0	1.1	1.0	1.9
Employee Benefits (profit sharing, pension, etc.)	0.5	0.3	0.3	0.4	0.9
Total Personnel Expenses	**18.8**	**16.9**	**17.9**	**19.4**	**20.2**
Occupancy Expenses					
Utilities (heat, light, power, water)	0.3	0.3	0.3	0.3	0.4
Telephone	0.3	0.2	0.3	0.3	0.3
Building Repairs & Maintenance	0.3	0.2	0.3	0.2	0.4
Rent or Ownership in Real Estate	1.5	1.5	1.6	1.4	1.8
Total Occupancy Expenses	**2.4**	**2.2**	**2.5**	**2.2**	**2.9**
Other Operating Expenses					
Advertising & Promotion	0.2	0.2	0.1	0.2	0.2
Vehicle Expense	1.0	0.7	0.8	1.0	1.0
Insurance (business liability & casualty)	0.4	0.3	0.3	0.4	0.6
Depreciation	0.6	0.5	0.5	0.4	0.7
Bad Debt Losses	0.1	0.1	0.0	0.1	0.2
All Other Operating Expenses	3.3	2.0	3.3	3.3	3.2
Total Other Operating Expenses	**5.6**	**3.8**	**5.0**	**5.4**	**5.9**
Total Operating Expenses	**26.8**	**22.9**	**25.4**	**27.0**	**29.0**
Operating Profit	**3.4**	**8.3**	**2.9**	**3.6**	**2.0**
Other Income	0.1	0.1	0.1	0.1	0.3
Interest Expense	0.7	0.4	0.5	0.6	0.4
Other Non-operating Expenses	0.0	0.0	0.0	0.0	0.0
Profit Before Taxes	**2.8%**	**8.0%**	**2.5%**	**3.1%**	**1.9%**


Gross Margin & Operating Expenses
Gross Margin
Operating Expenses
Percent of Sales
35
30
25
20
15
10
5
0
30.2
26.8
31.2
22.9
28.3
25.4
30.6
27.0
31.0
29.0
Typical DHI Distributor
High Profit DHI
Contract Job Dependent
Moderate Contract Emphasis
Non- Contract Emphasis


Sales & Gross Margin Per Employee
Sales Per Employee
G.M. Per Employee
$350,000
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$0
Typical DHI Distributor
High Profit DHI
Contract Job Dependent
Moderate Contract Emphasis
Non- Contract Emphasis

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	11.9	6.7	11.7	10.8	11.3
Sales Salaries & Commissions	20.5	19.9	19.1	26.1	21.9
Warehouse & Delivery Wages	5.3	5.4	4.9	4.2	5.5
All Other Employee Wages	13.9	13.8	17.7	12.7	12.6
Total Salaries, Wages & Bonuses	51.6	45.8	53.4	53.8	51.3
Payroll Taxes (FICA, workers' comp. & unemp.)	5.0	4.2	4.9	4.9	4.8
Group Insurance (medical, hospitalization, etc.)	4.0	3.2	3.9	3.3	6.1
Employee Benefits (profit sharing, pension, etc.)	1.7	1.0	1.1	1.3	2.9
Total Personnel Expenses	**62.3**	**54.2**	**63.3**	**63.3**	**65.1**
Occupancy Expenses					
Utilities (heat, light, power, water)	1.0	1.0	1.1	1.0	1.3
Telephone	1.0	0.6	1.1	1.0	1.0
Building Repairs & Maintenance	1.0	0.6	1.1	0.7	1.3
Rent or Ownership in Real Estate	4.9	4.8	5.5	4.6	5.8
Total Occupancy Expenses	**7.9**	**7.0**	**8.8**	**7.3**	**9.4**
Other Operating Expenses					
Advertising & Promotion	0.7	0.6	0.4	0.7	0.6
Vehicle Expense	3.3	2.2	2.8	3.3	3.2
Insurance (business liability & casualty)	1.3	1.0	1.1	1.3	1.9
Depreciation	2.0	1.6	1.8	1.3	2.3
Bad Debt Losses	0.3	0.3	0.0	0.3	0.6
All Other Operating Expenses	10.9	6.5	11.6	10.7	10.4
Total Other Operating Expenses	**18.5**	**12.2**	**17.7**	**17.6**	**19.0**
Total Operating Expenses	**88.7**	**73.4**	**89.8**	**88.2**	**93.5**
Operating Profit	**11.3**	**26.6**	**10.2**	**11.8**	**6.5**
Other Income	0.3	0.3	0.4	0.3	0.9
Interest Expense	2.3	1.3	1.8	2.0	1.3
Other Non-operating Expenses	0.0	0.0	0.0	0.0	0.0
Profit Before Taxes	**9.3%**	**25.6%**	**8.8%**	**10.1%**	**6.1%**

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 56.2 percent of assets and 23.7 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
Typical Total Assets	$2,790,333	$2,615,938	$2,689,541	$2,989,643	$1,704,898
Assets					
Cash & Marketable Securities	2.3%	7.2%	3.9%	1.5%	0.4%
Trade Accounts Receivable	56.2	51.1	59.1	52.9	42.7
Inventory	23.7	24.0	19.1	28.7	29.5
Other Current Assets	1.2	0.8	2.3	1.0	1.1
Total Current Assets	83.4	83.1	84.4	84.1	73.7
Fixed & Noncurrent Assets	16.6	16.9	15.6	15.9	26.3
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Trade Accounts Payable	20.6%	15.9%	19.1%	19.6%	16.3%
Notes Payable	9.3	5.8	13.5	10.7	0.0
Other Current Liabilities	11.0	8.4	13.3	7.1	9.1
Total Current Liabilities	40.9	30.1	45.9	37.4	25.4
Long Term Liabilities	9.1	3.2	6.5	12.6	3.2
Net Worth or Owner Equity	50.0	66.7	47.6	50.0	71.4
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	2.0	2.8	1.8	2.2	2.9
Quick Ratio	1.4	1.9	1.4	1.5	1.7
Accounts Payable to Inventory	68.9%	49.3%	87.1%	68.9%	40.3%
Accounts Payable Payout Period (days)	28.6	23.1	28.3	33.0	24.3
Debt to Equity	1.0	0.5	1.1	1.0	0.4
EBIT to Total Assets	10.5%	26.9%	9.6%	10.4%	6.9%
Times Interest Earned	5.0	21.0	6.0	6.2	5.8

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 ÷ 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 7.8 means that the firm sells out the equivalent of its inventory value 7.8 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 ÷ 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 ÷ 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)	4.3%	5.0%	3.0%	4.6%	5.5%
Average Collection Period (days)	64.7	54.9	63.8	71.5	48.9
Bad Debt Losses (% of net sales)	0.1%	0.1%	0.0%	0.1%	0.2%
Inventory Turnover	7.8	7.7	8.9	6.7	6.5
Inventory Holding Period (days)	46.8	47.4	41.0	54.5	56.2
Sales to Inventory Ratio	10.5	11.3	14.1	9.8	9.6
Gross Margin Return on Inventory	353.0%	376.8%	444.8%	314.4%	290.9%
Warehouse Sales	92.0%	90.9%	90.9%	91.0%	95.0%
Direct Shipments	8.0	9.1	9.1	9.0	5.0
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 that 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 6.4, for example, means the firm can generate $6.40 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)	64.7	54.9	63.8	71.5	48.9
Plus Inventory Holding Period (days)	46.8	47.4	41.0	54.5	56.2
Gross Cash Flow (days)	111.5	102.3	104.8	126.0	105.1
Minus A/P Payout Period (days)	28.6	23.1	28.3	33.0	24.3
Cash Cycle (days)	82.9	79.2	76.5	93.0	80.8
Growth Potential Index	8.8%	35.3%	9.8%	9.1%	7.3%
Cash to Current Liabilities	5.6%	23.9%	8.5%	4.0%	1.6%
Defensive Interval (days)	10.6	36.2	21.3	8.2	2.0
Sales to Working Capital	6.4	5.3	6.2	7.0	5.2

Operating Productivity Ratios

Operational issues are frequently overlooked as determinants of profitability. However, the ability to increase the firm's 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 ÷ Number of Lines per Order—Processing orders also involves a relatively fixed cost per order line. Increasing the 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 (monthly avg.)	200	217	160	300	130
Sales per Shipment Received	$2,239	$2,858	$2,359	$1,998	$3,293
Stockkeeping Units (SKUs)	1,165	1,336	1,120	1,214	1,468
Sales per SKU	$4,841	$5,529	$4,930	$5,857	$3,773
Inventory per SKU	$502	$674	$474	$604	$509
Customers	172	200	100	212	167
Sales per Customer	$43,966	$43,390	$72,441	$38,050	$36,588
Orders Shipped (monthly avg.)	339	301	263	428	250
Sales per Order	$1,693	$2,042	$2,438	$1,592	$1,333
Lines per Order (avg.)	8.0	7.5	8.0	7.0	9.3
Sales per Order Line	$243	$283	$302	$207	$233

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	42.9%	38.9%	38.3%	46.6%	44.8%
Electronic Hardware	5.6	3.4	6.8	4.3	6.2
Metal Doors & Related Products	23.3	27.8	23.4	23.1	24.5
Wood Doors & Frames	17.1	21.1	20.6	15.9	11.4
Toilet Accessories & Partitions	4.7	4.1	5.0	3.8	6.5
Other	6.4	4.7	5.9	6.3	6.6
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Sales by Type of Sale					
Contract Jobs	75.0%	80.0%	85.0%	70.0%	40.0%
Non-Contract Sales	25.0	20.0	15.0	30.0	60.0
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Manufacturers	95	61	100	100	70
Sales per Manufacturer	$73,246	$101,138	$80,444	$74,536	$64,529

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)	25	24	25	25	22
Sales per Employee	$287,531	$330,463	$317,213	$280,374	$270,525
Gross Margin per Employee	$90,375	$102,785	$91,960	$87,867	$84,968
Salary per Employee	$45,285	$45,777	$46,652	$43,641	$43,247
Payroll per Employee	$54,743	$55,976	$55,332	$52,745	$55,942
Payroll Expense (% of sales)	18.8%	16.9%	17.9%	19.4%	20.2%
Benefits (% of total payroll)	17.0%	15.4%	15.6%	14.9%	21.3%
Personnel Productivity Ratio	62.3%	54.2%	63.3%	63.3%	65.1%

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	10	20
Typical Sales Volume	$3,381,841	$8,365,000	$13,013,756	$18,730,915
Sales Change (2007 vs. 2006)	8.1%	11.2%	4.1%	8.2%
Strategic Profit Model Ratios				
Profit Margin (pre-tax)	2.3%	3.2%	2.9%	2.7%
Asset Turnover	2.9	3.2	3.0	2.8
Return on Assets (pre-tax)	6.7%	10.2%	8.7%	7.6%
Financial Leverage	1.9	1.9	1.7	2.1
Return on Net Worth (pre-tax)	12.7%	19.4%	14.8%	16.0%
Income Statement				
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	69.7	71.1	68.5	69.6
Gross Margin	**30.3**	**28.9**	**31.5**	**30.4**
Personnel Expenses				
Executive Salaries & Bonuses	3.6	3.0	4.0	3.8
Sales Salaries & Commissions	7.4	7.9	7.5	4.8
Warehouse & Delivery Wages	1.4	1.6	2.0	1.2
All Other Employee Wages	3.5	3.2	4.2	6.4
Total Salaries, Wages & Bonuses	15.9	15.7	17.7	16.2
Payroll Taxes (FICA, workers' comp. & unemp.)	1.5	1.4	1.6	1.4
Group Insurance (medical, hospitalization, etc.)	1.2	1.1	1.1	1.0
Employee Benefits (profit sharing, pension, etc.)	0.3	0.5	0.7	0.8
Total Personnel Expenses	**18.9**	**18.7**	**21.1**	**19.4**
Occupancy Expenses				
Utilities (heat, light, power, water)	0.4	0.3	0.3	0.3
Telephone	0.3	0.3	0.4	0.3
Building Repairs & Maintenance	0.2	0.3	0.3	0.3
Rent or Ownership in Real Estate	2.1	1.2	0.8	1.3
Total Occupancy Expenses	**3.0**	**2.1**	**1.8**	**2.2**
Other Operating Expenses				
Advertising & Promotion	0.2	0.2	0.2	0.2
Vehicle Expenses	1.0	0.9	1.0	0.8
Insurance (business liability & casualty)	0.5	0.4	0.3	0.3
Depreciation	0.7	0.3	0.6	0.5
Bad Debt Losses	0.0	0.1	0.2	0.2
All Other Operating Expenses	3.4	2.6	3.4	3.3
Total Other Operating Expenses	**5.8**	**4.5**	**5.7**	**5.3**
Total Operating Expenses	**27.7**	**25.3**	**28.6**	**26.9**
Operating Profit	**2.6**	**3.6**	**2.9**	**3.5**
Other Income	0.2	0.1	0.4	0.1
Interest Expense	0.5	0.5	0.4	0.9
Other Non-operating Expenses	0.0	0.0	0.0	0.0
Profit Before Taxes	**2.3%**	**3.2%**	**2.9%**	**2.7%**

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	11.9	10.4	12.7	12.5
Sales Salaries & Commissions	24.4	27.3	23.8	15.8
Warehouse & Delivery Wages	4.6	5.5	6.3	3.9
All Other Employee Wages	11.6	11.1	13.4	21.1
Total Salaries, Wages & Bonuses	52.5	54.3	56.2	53.3
Payroll Taxes (FICA, workers' comp. & unemp.)	5.0	4.8	5.1	4.6
Group Insurance (medical, hospitalization, etc.)	4.0	3.8	3.5	3.3
Employee Benefits (profit sharing, pension, etc.)	0.9	1.8	2.2	2.6
Total Personnel Expenses	**62.4**	**64.7**	**67.0**	**63.8**
Occupancy Expenses				
Utilities (heat, light, power, water)	1.3	1.0	1.0	1.0
Telephone	1.0	1.0	1.3	1.0
Building Repairs & Maintenance	0.7	1.0	1.0	1.0
Rent or Ownership in Real Estate	6.9	4.2	2.4	4.2
Total Occupancy Expenses	**9.9**	**7.2**	**5.7**	**7.2**
Other Operating Expenses				
Advertising & Promotion	0.7	0.7	0.6	0.7
Vehicle Expense	3.3	3.1	3.2	2.6
Insurance (business liability & casualty)	1.7	1.4	1.0	1.0
Depreciation	2.3	1.0	1.9	1.6
Bad Debt Losses	0.0	0.3	0.6	0.7
All Other Operating Expenses	11.1	9.1	10.8	10.9
Total Other Operating Expenses	**19.1**	**15.6**	**18.1**	**17.5**
Total Operating Expenses	**91.4**	**87.5**	**90.8**	**88.5**
Operating Profit	**8.6**	**12.5**	**9.2**	**11.5**
Other Income	0.7	0.3	1.3	0.4
Interest Expense	1.7	1.7	1.3	3.0
Other Non-operating Expenses	0.0	0.0	0.0	0.0
Profit Before Taxes	**7.6%**	**11.1%**	**9.2%**	**8.9%**

Sales Volume Analysis

	Sales Under $5 Million	Sales $5 - $10 Million	Sales $10 - $15 Million	Sales Over $15 Million
Balance Sheet				
Typical Total Assets	$1,166,152	$2,614,063	$4,337,919	$6,689,613
Assets				
Cash & Marketable Securities	6.2%	0.6%	0.5%	4.1%
Trade Accounts Receivable	46.5	53.2	63.3	58.7
Inventory	24.9	29.5	21.3	20.0
Other Current Assets	2.6	1.3	0.6	3.9
Total Current Assets	80.2	84.6	85.7	86.7
Fixed & Noncurrent Assets	19.8	15.4	14.3	13.3
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth				
Trade Accounts Payable	22.0%	17.2%	16.9%	18.8%
Notes Payable	9.3	8.7	3.7	12.8
Other Current Liabilities	6.8	9.4	14.9	11.9
Total Current Liabilities	38.1	35.3	35.5	43.5
Long Term Liabilities	9.3	12.1	5.7	8.9
Net Worth or Owner Equity	52.6	52.6	58.8	47.6
Total Liabilities & Net Worth	100.0%	100.0%	100.0%	100.0%
Financial Ratios				
Current Ratio	2.1	2.4	2.4	2.0
Quick Ratio	1.4	1.5	1.8	1.4
Accounts Payable to Inventory	64.8%	64.9%	78.5%	69.5%
Accounts Payable Payout Period (days)	31.2	23.6	23.4	23.6
Debt to Equity	0.9	0.9	0.7	1.1
EBIT to Total Assets	8.1%	11.8%	9.9%	10.1%
Times Interest Earned	5.6	7.4	8.3	4.0
Asset Productivity Ratios				
Cash Sales (% of total sales)	5.0%	3.0%	4.8%	2.9%
Average Collection Period (days)	54.1	56.8	64.4	73.6
Bad Debt Losses (% of net sales)	0.0%	0.1%	0.2%	0.2%
Inventory Turnover	7.0	8.0	9.5	7.1
Inventory Holding Period (days)	52.1	45.6	38.4	51.4
Sales to Inventory Ratio	10.3	11.0	14.2	9.7
Gross Margin Return on Inventory	360.6%	300.3%	506.6%	333.4%
Warehouse Sales	97.0%	89.0%	90.5%	90.0%
Direct Shipments	3.0	11.0	9.5	10.0
Total Sales	100.0%	100.0%	100.0%	100.0%
Growth & Cash Sufficiency Ratios				
Cash Flow Cycle				
Average Collection Period (days)	54.1	56.8	64.4	73.6
Plus Inventory Holding Period (days)	52.1	45.6	38.4	51.4
Gross Cash Flow (days)	106.2	102.4	102.8	125.0
Minus A/P Payout Period (days)	31.2	23.6	23.4	23.6
Cash Cycle (days)	75.0	78.8	79.4	101.4
Growth Potential Index	7.3%	10.2%	5.1%	10.1%
Cash to Current Liabilities	16.3%	1.7%	1.4%	9.4%
Defensive Interval (days)	19.7	4.3	1.2	10.8
Sales to Working Capital	4.9	7.0	7.2	7.0

Sales Volume Analysis

	Sales Under $5 Million	Sales $5 - $10 Million	Sales $10 - $15 Million	Sales Over $15 Million
Operating Productivity Ratios				
Shipments Received (monthly avg.)	100	189	449	500
Sales per Shipment Received	$1,970	$2,419	$2,190	$2,359
Stockkeeping Units (SKUs)	714	1,336	1,500	1,625
Sales per SKU	$3,940	$4,510	$7,254	$7,373
Inventory per SKU	$442	$450	$441	$941
Customers	59	200	250	595
Sales per Customer	$49,981	$38,469	$46,679	$40,329
Orders Shipped (monthly avg.)	150	353	811	915
Sales per Order	$1,687	$1,885	$1,252	$1,965
Lines per Order (avg.)	6.0	7.5	8.0	9.0
Sales per Order Line	$251	$290	$135	$239
Merchandising Profile				
Sales by Product Category				
Builders Hardware	42.5%	40.7%	45.2%	43.8%
Electronic Hardware	4.3	5.0	5.1	8.2
Metal Doors & Related Products	24.9	25.0	22.1	20.5
Wood Doors & Frames	18.0	17.8	15.8	16.0
Toilet Accessories & Partitions	3.7	4.7	6.5	5.2
Other	6.6	6.8	5.3	6.3
Total Sales	100.0%	100.0%	100.0%	100.0%
Sales by Type of Sale				
Contract Jobs	74.3%	75.0%	71.0%	77.5%
Non Contract Sales	25.7	25.0	29.0	22.5
Total Sales	100.0%	100.0%	100.0%	100.0%
Manufacturers	66	73	195	222
Sales per Manufacturer	$54,335	$118,754	$56,965	$95,183
Employee Productivity Ratios				
Total Employees (FTE)	12	25	45	55
Sales per Employee	$243,499	$309,815	$278,045	$321,710
Gross Margin per Employee	$76,365	$92,538	$91,827	$98,332
Salary per Employee	$40,991	$45,313	$49,121	$47,385
Payroll per Employee	$48,853	$56,954	$60,672	$57,972
Payroll Expense (% of sales)	18.9%	18.7%	21.1%	19.4%
Benefits (% of total payroll)	15.9%	16.0%	16.1%	16.5%
Personnel Productivity Ratio	62.4%	64.7%	67.0%	63.8%

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, Bahaman 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	4	21	31	13	6
Typical Sales Volume	$4,935,306	$11,347,835	$7,069,535	$4,423,931	$14,544,532
Sales Change (2007 vs. 2006)	1.1%	5.7%	14.3%	8.7%	3.7%
Strategic Profit Model Ratios					
Profit Margin (pre-tax)	4.4%	1.8%	2.8%	4.7%	2.3%
Asset Turnover	3.2	3.1	3.0	3.2	2.4
Return on Assets (pre-tax)	14.1%	5.6%	8.4%	15.0%	5.5%
Financial Leverage	1.4	2.0	2.0	1.8	2.5
Return on Net Worth (pre-tax)	19.7%	11.2%	16.8%	27.0%	13.7%
Income Statement					
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	69.3	71.7	70.5	68.3	67.2
Gross Margin	**30.7**	**28.3**	**29.5**	**31.7**	**32.8**
Personnel Expenses					
Executive Salaries & Bonuses	N/A	3.9	3.6	3.3	1.7
Sales Salaries & Commissions	8.1	6.5	5.3	6.5	8.9
Warehouse & Delivery Wages	4.0	1.8	1.3	1.5	1.2
All Other Employee Wages	N/A	3.4	4.8	4.4	4.4
Total Salaries, Wages & Bonuses	15.3	15.6	15.0	15.7	16.2
Payroll Taxes (FICA, workers' comp. & unemp.)	1.6	1.5	1.4	1.4	0.8
Group Insurance (medical, hospitalization, etc.)	0.8	1.2	1.3	1.2	0.6
Employee Benefits (profit sharing, pension, etc.)	0.3	0.4	0.5	0.4	1.7
Total Personnel Expenses	**18.0**	**18.7**	**18.2**	**18.7**	**19.3**
Occupancy Expenses					
Utilities (heat, light, power, water)	0.4	0.3	0.3	0.3	0.3
Telephone	0.1	0.3	0.3	0.3	0.4
Building Repairs & Maintenance	0.4	0.2	0.3	0.2	0.4
Rent or Ownership in Real Estate	1.9	1.2	1.6	1.8	1.7
Total Occupancy Expenses	**2.8**	**2.0**	**2.5**	**2.6**	**2.8**
Other Operating Expenses					
Advertising & Promotion	0.3	0.1	0.1	0.2	0.5
Vehicle Expenses	1.0	0.8	0.8	1.0	1.0
Insurance (business liability & casualty)	0.3	0.4	0.4	0.5	0.2
Depreciation	0.5	0.6	0.6	0.3	0.5
Bad Debt Losses	0.1	0.2	0.1	0.0	0.4
All Other Operating Expenses	3.0	3.1	3.4	3.3	4.5
Total Other Operating Expenses	**5.2**	**5.2**	**5.4**	**5.3**	**7.1**
Total Operating Expenses	**26.0**	**25.9**	**26.1**	**26.6**	**29.2**
Operating Profit	**4.7**	**2.4**	**3.4**	**5.1**	**3.6**
Other Income	0.0	0.2	0.1	0.1	0.0
Interest Expense	0.1	0.7	0.7	0.5	1.3
Other Non-operating Expenses	0.2	0.1	0.0	0.0	0.0
Profit Before Taxes	**4.4%**	**1.8%**	**2.8%**	**4.7%**	**2.3%**

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%**	**100.0%**
Personnel Expenses					
Executive Salaries & Bonuses	N/A	13.8	12.2	10.4	5.2
Sales Salaries & Commissions	26.4	23.0	18.0	20.5	27.1
Warehouse & Delivery Wages	13.0	6.4	4.4	4.7	3.7
All Other Employee Wages	N/A	11.9	16.3	13.9	13.4
Total Salaries, Wages & Bonuses	49.8	55.1	50.9	49.5	49.4
Payroll Taxes (FICA, workers' comp. & unemp.)	5.2	5.3	4.7	4.4	2.4
Group Insurance (medical, hospitalization, etc.)	2.6	4.2	4.4	3.8	1.8
Employee Benefits (profit sharing, pension, etc.)	1.0	1.4	1.7	1.3	5.2
Total Personnel Expenses	**58.6**	**66.0**	**61.7**	**59.0**	**58.8**
Occupancy Expenses					
Utilities (heat, light, power, water)	1.3	1.1	1.0	0.9	0.9
Telephone	0.3	1.1	1.0	0.9	1.2
Building Repairs & Maintenance	1.3	0.7	1.0	0.6	1.2
Rent or Ownership in Real Estate	6.2	4.2	5.5	5.8	5.2
Total Occupancy Expenses	**9.1**	**7.1**	**8.5**	**8.2**	**8.5**
Other Operating Expenses					
Advertising & Promotion	1.0	0.4	0.3	0.6	1.5
Vehicle Expense	3.3	2.8	2.7	3.2	3.0
Insurance (business liability & casualty)	1.0	1.4	1.4	1.6	0.6
Depreciation	1.6	2.1	2.0	0.9	1.5
Bad Debt Losses	0.3	0.7	0.3	0.0	1.2
All Other Operating Expenses	9.8	11.0	11.6	10.4	13.9
Total Other Operating Expenses	**17.0**	**18.4**	**18.3**	**16.7**	**21.7**
Total Operating Expenses	**84.7**	**91.5**	**88.5**	**83.9**	**89.0**
Operating Profit	**15.3**	**8.5**	**11.5**	**16.1**	**11.0**
Other Income	0.0	0.8	0.4	0.3	0.0
Interest Expense	0.3	2.5	2.4	1.6	4.0
Other Non-operating Expenses	0.7	0.4	0.0	0.0	0.0
Profit Before Taxes	**14.3%**	**6.4%**	**9.5%**	**14.8%**	**7.0%**

Regional Analysis

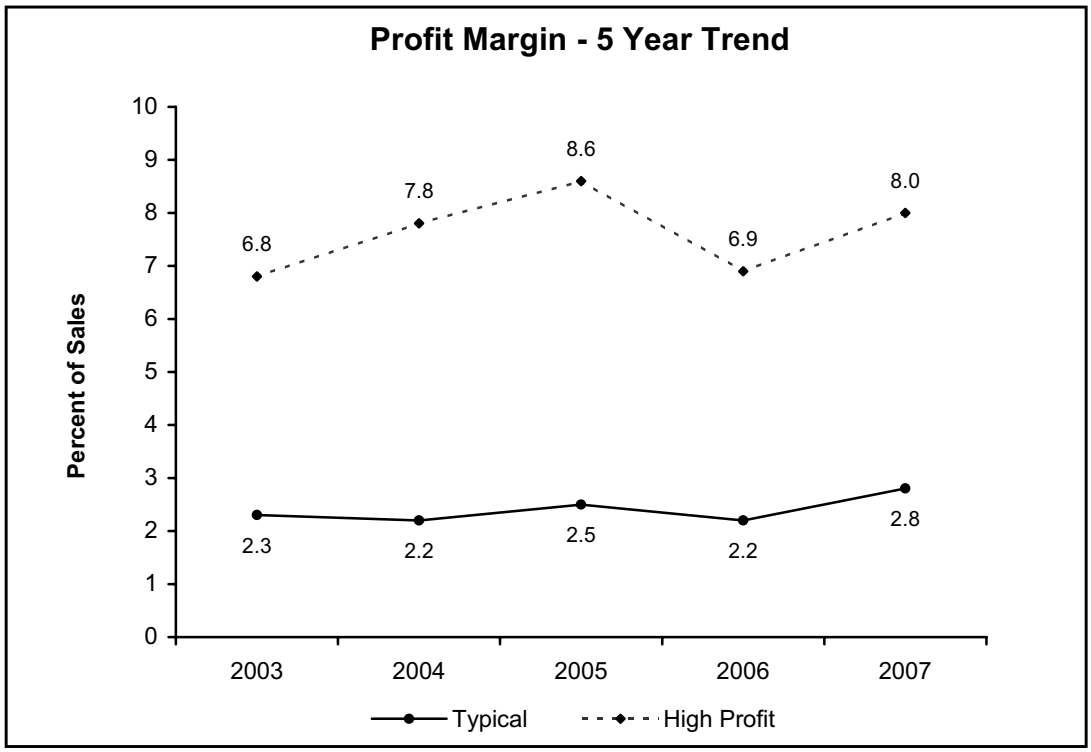
	North-eastern	South-eastern	North Central	Western	Canada
Balance Sheet					
Typical Total Assets	$1,542,283	$3,660,592	$2,356,512	$1,382,478	$6,060,222
Assets					
Cash & Marketable Securities	7.6%	1.6%	3.5%	8.9%	0.0%
Trade Accounts Receivable	47.2	58.7	52.4	55.5	55.7
Inventory	36.6	21.1	28.9	19.8	26.0
Other Current Assets	0.4	1.7	1.1	2.8	0.7
Total Current Assets	91.8	83.1	85.9	87.0	82.4
Fixed & Noncurrent Assets	8.2	16.9	14.1	13.0	17.6
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Trade Accounts Payable	24.0%	15.2%	20.5%	17.2%	21.1%
Notes Payable	0.7	6.1	9.7	13.1	0.1
Other Current Liabilities	3.9	13.3	6.8	10.7	31.6
Total Current Liabilities	28.6	34.6	37.0	41.0	52.8
Long Term Liabilities	0.0	15.4	13.0	3.4	7.2
Net Worth or Owner Equity	71.4	50.0	50.0	55.6	40.0
Total Liabilities & Net Worth	100.0%	100.0%	100.0%	100.0%	100.0%
Financial Ratios					
Current Ratio	3.2	2.4	2.3	2.1	1.6
Quick Ratio	1.9	1.7	1.5	1.6	1.1
Accounts Payable to Inventory	69.8%	65.2%	58.3%	105.9%	81.2%
Accounts Payable Payout Period (days)	34.1	21.9	24.6	31.5	51.8
Debt to Equity	0.4	1.0	1.0	0.8	1.5
EBIT to Total Assets	14.4%	7.7%	10.5%	16.6%	8.6%
Times Interest Earned	45.0	3.6	5.0	10.4	2.8
Asset Productivity Ratios					
Cash Sales (% of total sales)	4.0%	3.8%	3.0%	4.8%	5.0%
Average Collection Period (days)	58.4	60.3	62.5	74.3	94.0
Bad Debt Losses (% of net sales)	0.1%	0.2%	0.1%	0.0%	0.4%
Inventory Turnover	4.7	8.3	7.0	12.9	6.4
Inventory Holding Period (days)	77.7	44.0	52.1	28.3	57.0
Sales to Inventory Ratio	7.1	12.8	9.8	18.5	9.6
Gross Margin Return on Inventory	243.3%	440.7%	319.7%	460.4%	314.1%
Warehouse Sales	86.4%	90.0%	93.5%	95.0%	95.0%
Direct Shipments	13.6	10.0	6.5	5.0	5.0
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Growth/Cash Sufficiency Ratios					
Cash Flow Cycle					
Average Collection Period (days)	58.4	60.3	62.5	74.3	94.0
Plus Inventory Holding Period (days)	77.7	44.0	52.1	28.3	57.0
Gross Cash Flow (days)	136.1	104.3	114.6	102.6	151.0
Minus A/P Payout Period (days)	34.1	21.9	24.6	31.5	51.8
Cash Cycle (days)	102.0	82.4	90.0	71.1	99.2
Growth Potential Index	15.1%	5.1%	10.3%	33.5%	7.9%
Cash to Current Liabilities	26.6%	4.6%	9.5%	21.7%	0.0%
Defensive Interval (days)	37.9	7.9	12.1	36.4	0.0
Sales to Working Capital	5.2	7.6	5.8	4.9	8.3

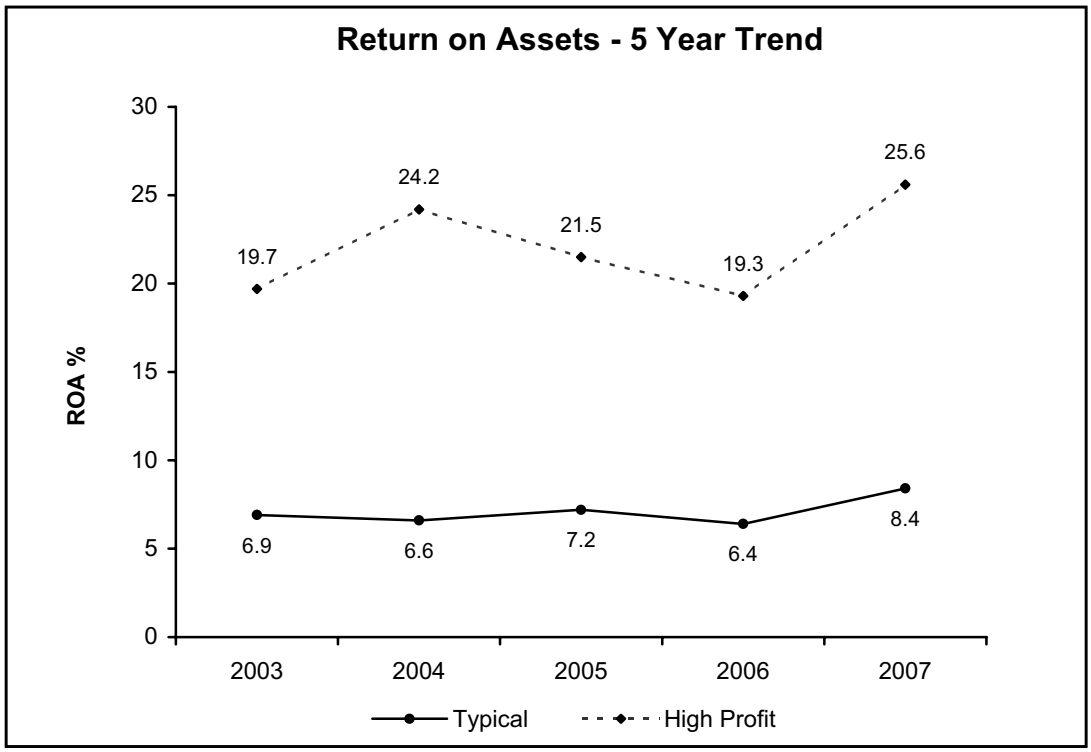
Regional Analysis

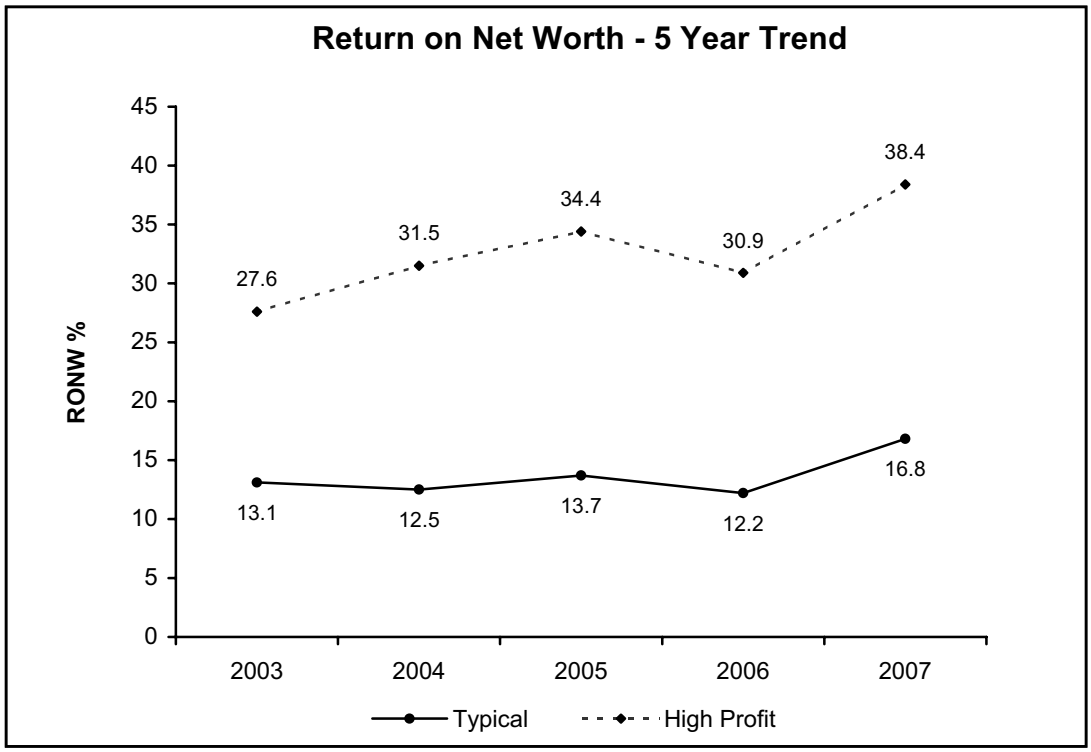
	North-eastern	South-eastern	North Central	Western	Canada
Operating Productivity Ratios					
Shipments Received (monthly avg.)	165	337	201	150	700
Sales per Shipment Received	$2,109	$2,218	$2,337	$3,365	$1,628
Stockkeeping Units (SKUs)	1,289	1,128	1,273	660	1,665
Sales per SKU	$3,221	$7,299	$4,316	$6,457	$6,454
Inventory per SKU	$462	$450	$486	$644	$526
Customers	125	200	184	39	300
Sales per Customer	$43,415	$49,892	$38,050	$124,557	$38,910
Orders Shipped (monthly avg.)	237	353	370	148	1,250
Sales per Order	$1,603	$1,699	$1,577	$2,297	$1,181
Lines per Order (avg.)	9.5	8.0	7.0	7.3	10.0
Sales per Order Line	$254	$268	$246	$331	$85
Merchandising Profile					
Sales by Product Category					
Builders Hardware	35.9%	38.4%	45.3%	43.8%	47.4%
Electronic Hardware	4.8	4.7	5.8	5.2	10.0
Metal Doors & Related Products	27.0	23.8	23.5	22.4	20.2
Wood Doors & Frames	16.5	19.7	14.9	20.5	12.6
Toilet Accessories & Partitions	1.8	6.4	4.7	2.5	5.8
Other	14.0	7.0	5.8	5.6	4.0
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Sales by Type of Sale					
Contract Jobs	77.5%	80.0%	70.0%	80.0%	71.0%
Non Contract Sales	22.5	20.0	30.0	20.0	29.0
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Manufacturers	73	150	100	60	150
Sales per Manufacturer	$67,588	$56,739	$67,006	$74,536	$154,508
Employee Productivity Ratios					
Total Employees (FTE)	13	36	20	22	44
Sales per Employee	$368,262	$277,467	$287,041	$283,085	$306,480
Gross Margin per Employee	$112,463	$88,609	$90,375	$86,041	$105,082
Salary per Employee	$56,104	$45,891	$44,926	$43,641	$45,142
Payroll per Employee	$65,119	$54,689	$55,113	$52,745	$57,890
Payroll Expense (% of sales)	18.0%	18.7%	18.2%	18.7%	19.3%
Benefits (% of total payroll)	15.0%	16.6%	17.6%	16.0%	16.1%
Personnel Productivity Ratio	58.6%	66.0%	61.7%	59.0%	58.8%

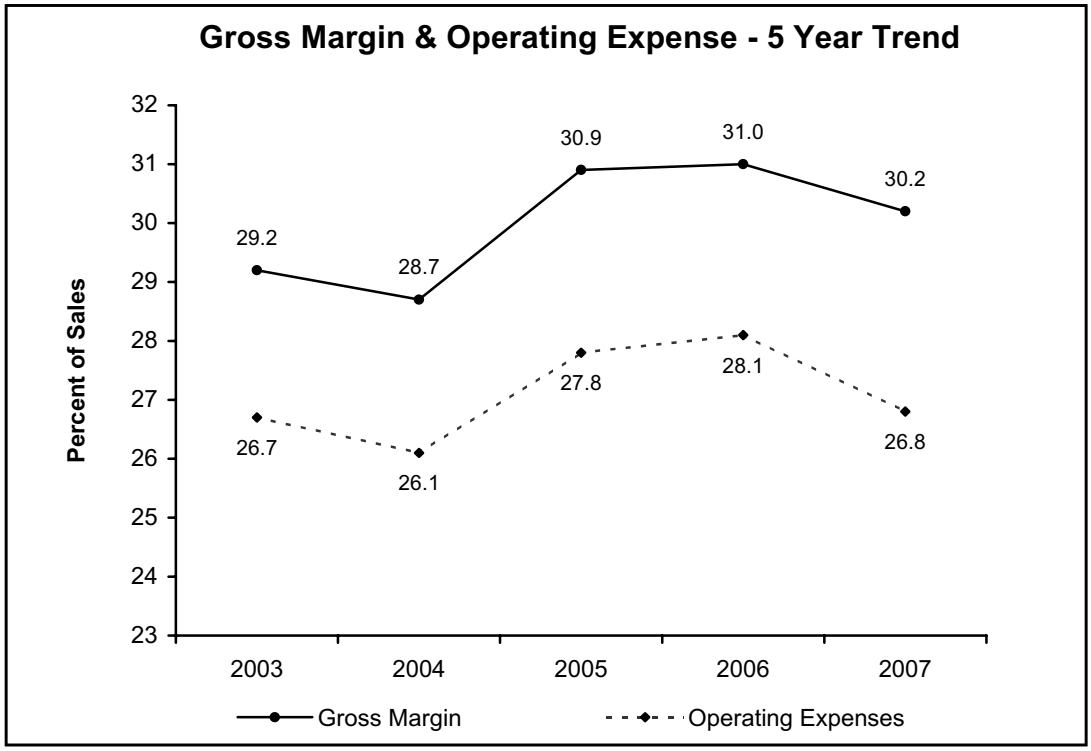
Trend Analysis

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 %
45
40
35
30
25
20
15
10
5
0
27.6
31.5
34.4
30.9
38.4
13.1
12.5
13.7
12.2
16.8
2003
2004
2005
2006
2007
Typical
High Profit


Gross Margin & Operating Expense - 5 Year Trend
Percent of Sales
32
31
30
29
28
27
26
25
24
23
29.2
28.7
30.9
31.0
30.2
26.7
26.1
27.8
28.1
26.8
2003
2004
2005
2006
2007
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.

	2003	2004	2005	2006	2007
Number of Firms Reporting	67	79	55	77	75
Typical Sales Volume	$6,887,449	$8,163,160	$9,610,799	$7,986,880	$8,371,000
Sales Change (vs. prior year)	1.0%	8.6%	7.4%	6.9%	8.2%
Strategic Profit Model Ratios					
Profit Margin (pre-tax)	2.3%	2.2%	2.5%	2.2%	2.8%
Asset Turnover	3.0	3.0	2.9	2.9	3.0
Return on Assets (pre-tax)	6.9%	6.6%	7.2%	6.4%	8.4%
Financial Leverage	1.9	1.9	1.9	1.9	2.0
Return on Net Worth (pre-tax)	13.1%	12.5%	13.7%	12.2%	16.8%
Income Statement					
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	70.8	71.3	69.1	69.0	69.8
Gross Margin	**29.2**	**28.7**	**30.9**	**31.0**	**30.2**
Personnel Expenses					
Executive Salaries & Bonuses	3.1	3.4	3.7	4.2	3.6
Sales Salaries & Commissions	6.5	6.8	6.3	6.6	6.2
Warehouse & Delivery Wages	1.7	2.1	2.1	2.1	1.6
All Other Employee Wages	4.7	3.5	4.6	4.2	4.2
Total Salaries, Wages & Bonuses	16.0	15.8	16.7	17.1	15.6
Payroll Taxes (FICA, workers' comp. & unemp.)	1.3	1.4	1.5	1.4	1.5
Group Insurance (medical, hospitalization, etc.)	1.1	1.1	1.2	1.1	1.2
Employee Benefits (profit sharing, pension, etc.)	0.4	0.4	0.5	0.6	0.5
Total Personnel Expenses	**18.8**	**18.7**	**19.9**	**20.2**	**18.8**
Occupancy Expenses					
Utilities (heat, light, power, water)	0.3	0.3	0.4	0.3	0.3
Telephone	0.3	0.3	0.3	0.3	0.3
Building Repairs & Maintenance	0.2	0.2	0.3	0.2	0.3
Rent or Ownership in Real Estate	1.8	1.6	1.5	1.7	1.5
Total Occupancy Expenses	**2.6**	**2.4**	**2.5**	**2.5**	**2.4**
Other Operating Expenses					
Advertising & Promotion	0.2	0.2	0.2	0.2	0.2
Vehicle Expenses	0.8	0.8	0.9	1.0	1.0
Insurance (business liability & casualty)	0.4	0.4	0.5	0.4	0.4
Depreciation	0.7	0.6	0.6	0.6	0.6
Bad Debt Losses	0.2	0.1	0.2	0.0	0.1
All Other Operating Expenses	3.0	2.9	3.0	3.2	3.3
Total Other Operating Expenses	**5.3**	**5.0**	**5.4**	**5.4**	**5.6**
Total Operating Expenses	**26.7**	**26.1**	**27.8**	**28.1**	**26.8**
Operating Profit	**2.5**	**2.6**	**3.1**	**2.9**	**3.4**
Other Income	0.1	0.1	0.1	0.1	0.1
Interest Expense	0.3	0.5	0.7	0.8	0.7
Other Non-operating Expenses	0.0	0.0	0.0	0.0	0.0
Profit Before Taxes	**2.3%**	**2.2%**	**2.5%**	**2.2%**	**2.8%**

Trend Analysis

	2003	2004	2005	2006	2007
Balance Sheet					
Typical Total Assets	$2,295,816	$2,721,053	$3,314,069	$2,754,096	$2,790,333
Assets					
Cash & Marketable Securities	4.5%	1.6%	1.7%	2.4%	2.3%
Trade Accounts Receivable	51.0	55.3	57.4	55.7	56.2
Inventory	27.9	27.1	27.2	26.5	23.7
Other Current Assets	1.9	1.2	1.3	1.8	1.2
Total Current Assets	85.3	85.2	87.6	86.4	83.4
Fixed & Noncurrent Assets	14.7	14.8	12.4	13.6	16.6
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Trade Accounts Payable	19.0%	20.1%	18.0%	19.0%	20.6%
Notes Payable	13.5	12.5	12.6	14.5	9.3
Other Current Liabilities	6.5	7.5	8.1	7.9	11.0
Total Current Liabilities	39.0	40.1	38.7	41.4	40.9
Long Term Liabilities	8.5	7.3	8.7	6.0	9.1
Net Worth or Owner Equity	52.6	52.6	52.6	52.6	50.0
Total Liabilities & Net Worth	100.0%	100.0%	100.0%	100.0%	100.0%
Financial Ratios					
Current Ratio	2.2	2.1	2.3	2.1	2.0
Quick Ratio	1.4	1.4	1.5	1.4	1.4
Accounts Payable to Inventory	59.1%	56.5%	56.8%	62.9%	68.9%
Accounts Payable Payout Period (days)	28.7	28.1	30.7	30.2	28.6
Debt to Equity	0.9	0.9	0.9	0.9	1.0
EBIT to Total Assets	7.8%	8.1%	9.3%	8.7%	10.5%
Times Interest Earned	8.7	5.4	4.6	3.8	5.0
Asset Productivity Ratios					
Cash Sales (% of total sales)	2.0%	4.0%	3.5%	4.0%	4.3%
Average Collection Period (days)	66.1	62.0	65.6	69.7	64.7
Bad Debt Losses (% of net sales)	0.2%	0.1%	0.2%	0.0%	0.1%
Inventory Turnover	6.9	7.1	6.9	7.3	7.8
Inventory Holding Period (days)	52.9	51.4	52.9	50.0	46.8
Sales to Inventory Ratio	10.2	10.2	10.1	10.5	10.5
Gross Margin Return on Inventory	302.5%	309.7%	319.8%	321.9%	353.0%
Growth/Cash Sufficiency Ratios					
Cash Flow Cycle					
Average Collection Period (days)	66.1	62.0	65.6	69.7	64.7
Plus Inventory Holding Period (days)	52.9	51.4	52.9	50.0	46.8
Gross Cash Flow (days)	119.0	113.4	118.5	119.7	111.5
Minus A/P Payout Period (days)	28.7	28.1	30.7	30.2	28.6
Cash Cycle (days)	90.3	85.3	87.8	89.5	82.9
Growth Potential Index	4.6%	4.8%	8.6%	7.5%	8.8%
Cash to Current Liabilities	11.5%	4.0%	4.4%	5.8%	5.6%
Defensive Interval (days)	10.8	5.5	7.6	9.1	10.6
Sales to Working Capital	6.3	6.6	7.0	6.5	6.4

Trend Analysis

	2003	2004	2005	2006	2007
Operating Productivity Ratios					
Shipments Received (monthly avg.)	200	167	205	200	200
Sales per Shipment Received	$2,492	$2,593	$2,249	$2,115	$2,239
Stockkeeping Units (SKUs)	1,275	1,239	1,425	1,115	1,165
Sales per SKU	$4,182	$4,601	$4,754	$4,215	$4,841
Inventory per SKU	$501	$489	$491	$556	$502
Customers	200	200	240	180	172
Sales per Customer	$32,107	$29,647	$32,473	$46,316	$43,966
Orders Shipped (monthly avg.)	350	400	453	395	339
Sales per Order	$1,479	$1,514	$1,619	$1,614	$1,693
Lines per Order (avg.)	7.0	7.0	7.0	7.0	8.0
Sales per Order Line	$222	$198	$233	$252	$243
Merchandising Profile					
Sales by Product Category					
Builders Hardware	43.5%	41.8%	44.2%	40.2%	42.9%
Electronic Hardware	4.5	5.2	6.4	5.5	5.6
Metal Doors & Related Products	25.2	26.1	25.3	24.8	23.3
Wood Doors & Frames	17.0	15.8	14.4	16.5	17.1
Toilet Accessories & Partitions	4.4	4.1	3.4	4.3	4.7
Other	5.4	7.0	6.3	8.7	6.4
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%	72.0%	75.0%
Non Contract Sales	30.0	30.0	30.0	28.0	25.0
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Manufacturers	90	78	95	86	95
Sales per Manufacturer	$88,986	$81,896	$78,419	$78,262	$73,246
Employee Productivity Ratios					
Total Employees (FTE)	32	34	35	26	25
Sales per Employee	$251,800	$253,294	$265,275	$279,081	$287,531
Gross Margin per Employee	$70,720	$72,426	$83,060	$91,343	$90,375
Salary per Employee	$38,478	$36,198	$43,204	$43,818	$45,285
Payroll per Employee	$45,051	$43,091	$52,464	$54,662	$54,743
Payroll Expense (% of sales)	18.8%	18.7%	19.9%	20.2%	18.8%
Benefits (% of total payroll)	14.9%	15.5%	16.1%	15.3%	17.0%
Personnel Productivity Ratio	64.4%	65.2%	64.4%	65.1%	62.3%

Appendix

Survey Methodology

Questionnaires were mailed to all DHI 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	$\frac{\text{Warehouse Gross Profit}}{\text{Inventory}} \times 100$	Measures gross margin earned per dollar of 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	$\frac{\text{Warehouse Cost of Goods Sold}}{\text{Inventory}}$	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 sales generated per full-time employee
Sales to Inventory	$\frac{\text{Warehouse Sales}}{\text{Inventory}}$	Measures dollar sales generated per dollar of 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