
# 2010 PROFIT Report

**An analysis of fiscal 2009**

**Confidentially prepared by Profit Planning Group**

# Beating the Recession:
# Profit Performance in a Down Year

By almost any measure that can be used, 2009 was a tough year. However, even in the midst of a difficult economy, profit opportunities continued to exist. Just as in good times, some firms didn't merely survive, they prospered. Understanding just how firms adapted to changing circumstances to keep generating adequate profits provides a basis for both immediate action and for future planning.

The recently completed **2010 DHI** financial benchmarking study provides detailed financial and operating benchmarks for the industry. As always, the primary benefit of the report is that it highlights the distinction between the performance of the typical firm and the high-profit firm. The differences are important in normal times; they are critical in tough times.

## Typical Versus High Profit

The typical firm in the survey is the firm with financial results in the exact middle of the results for all participating firms. That is, on any given measure, half of the firms performed better than the typical firm and half performed worse.

The typical firm generates sales of $10,011,554. On that sales base, it produces a pre-tax profit of $210,243, which equates to a profit margin of 2.1% of sales. Stated somewhat differently, this means that every $1.00 of sales results in 2.1 cents of profit.

In both good years and bad, most firms tend to produce results that are relatively close to those of the typical firm. The challenge when the economy slips is that being typical is only good enough for survival. They are well below the level necessary to reinvest in the firm for the future.

In contrast to the typical firm, the high-profit firm, operating with the exact same set of economic and competitive challenges, generates a profit margin of 6.4%. This means that even if the high-profit firm had the same sales volume as the typical firm, it would generate more profit for reinvestment in the firm which, in turn, will allow it to produce even more sales and profit. This is an on-going advantage which is amplified over time. Furthermore, it is an advantage which is almost always magnified in periods of recession.

## Getting Profits Up in a Down Market

Generating strong profit results is never an easy proposition. However, in a strong economy, some level of profit is almost guaranteed barring unusual circumstances. Firms can rely on sales growth to overcome poorly managed financial aspects of the business to remain profitable. With more difficult economic conditions, every aspect of the firm is under pressure and inefficiencies are more exposed.

Reaching high-profit performance is a matter of identifying what factors are most important to producing profit and then developing a plan to perform better in those areas. While other factors cannot be forgotten, they are given a strong dose of benign neglect. In benchmarking terms, the important items are called the critical profit variables (CPVs). The CPV results for the typical firm and high-profit firm are summarized in **Exhibit 1**.

***Exhibit 1***
***The Critical Profit Variables***

| | Typical | High Profit |
|---|---|---|
| **Performance Results** | | |
| Net Sales | $10,011,554 | $10,795,448 |
| Profit Margin (pre-tax) | 2.1% | 6.4% |
| **The Critical Profit Variables** | | |
| Sales Change | -8.6% | -11.9% |
| Gross Margin | 31.2% | 33.5% |
| Payroll Expense | 20.3% | 19.7% |
| Non-Payroll Expenses | 8.3% | 7.0% |

Two notes of caution are always in order when comparing typical and high-profit firms. First, no firm produces superior results for every single CPV in either good times or bad. Successful firms manage their CPV performance so as to maximize overall profitability. Second, the CPVs that impact cash flow are **not** the ones that impact profit.

**Cash Flow**

In a soft economy, one phrase that is heard often is “cash is king”. This thinking leads firms to try to reduce assets—inventory, accounts receivable and fixed assets—to convert them to cash. This cash conversion process is both understandable and, perhaps, desirable. However, it suffers from two key limitations.

First, the factors that drive cash are not the same ones that drive profitability. Cash may be an issue in a recession, but profits are an even bigger issue. The cash challenge inevitably arises because there are no profits to invest back into the firm. A serious problem arises when the “cash is king” mantra causes firms to take their eye off of the profit ball.

Second, converting assets to cash often makes the profit challenge even worse. If firms liquidate operating assets, such as inventory or accounts receivable, too much, they lessen their ability to generate sales. In doing so, they have entered a death spiral.

For these reasons, this analysis focuses on profitability. If firms are going to be successful in the longer term, they can’t just hunker down. They need to continue to build the base for the future. That base rests on higher profits.

**Profitability**

In ensuring profitability in a soft market, four factors have the greatest potential impact on profit. These must be the center of planning attention. These factors are sales growth, gross margin, payroll expenses and non-payroll expenses. The firms that successfully control these four critical areas have a major financial advantage in slow times which tends to carry over into good times.

- **Sales Growth**

The absolute level of sales volume is seldom a profit driver. Large firms may achieve economies of scale and may have advantages in purchasing. However, these advantages are frequently offset by the tendency of large firms to become bureaucratic.

The real issue is sales growth. In a down market growth is a scarce commodity. Even growth, however, by itself, has been overrated. The pressing need in profit improvement is to focus on sales growth relative to expense growth. Ideally, firms should target sales increases somewhere between one to two percentage points *faster* than the increases in operating expenses.

In a growing market, maintaining the gap between sales growth and expense growth is not necessarily easy, but it does seem achievable. When sales are stagnant, or even declining, the degree of difficulty increases sharply. However, this sales to expense delta is always the key to profit.

- **Gross Margin**

The ability to generate adequate gross margin is always a major determinant of profitability. Financial success over the long term demands strong gross margin performance. In periods of slow growth, there are intense pressures on gross margin but most firms can still find opportunities for significant margin enhancement.

- **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 importance as a driver of profitability. This is because payroll expenses, especially the fringe benefit components, have increased relentlessly in both good times and bad over the past decade.

- **Non-Payroll Expenses**

Most non-payroll expenses usually require only minor adjustment. Unfortunately, numerous expense categories must be examined and adjusted. Controlling non-payroll expenses will probably always involve examining every expense category with the goal of identifying options making modest improvements.

Every recession eventually ends. Once it does, many firms will return to their “business as usual” routine. They would be well advised, however, to remember both the challenges and opportunities associated with this recession. A company that can build their profit base in a down market will enjoy a major advantage on the upside.

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# Introduction

This report presents a detailed but straightforward analysis of the financial and operational characteristics of DHI firms. Results were based on the data provided by 46 participants. The tables and graphs in this report are designed to provide comprehensive guidelines for analyzing profitability.

## Survey Methodology

Questionnaires were mailed to all members to collect detailed financial information. Completed questionnaires were returned directly to Profit Planning Group for analysis. 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.

## Report Format

This report is organized into the following sections

- **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 present 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**
  This section presents results based on sales size.
- **Regions**
  Regional results are presented in this section. Participants were grouped into areas specified by DHI.
- **Trends**
  This section presents an overview of changes in performance over time for key results and ratios.
- **Appendix**
  The appendix presents a summary of ratio calculations.

## Explanation of Statistics

- **The N/A Label**
  Throughout this report, "N/A" designates results that are not available due to a limited sample size.
- **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. For this analysis, medians are, therefore, the preferred statistic 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 2009. The results show that the typical firm had sales of $10,011,554 and a pre-tax profit of 2.1 percent. High-profit firms had sales of $10,795,448, and profit of 6.4 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 6.1 percent. For the high profit firm return on assets was 18.6 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**<br>Measures employee productivity | $302,739 | $299,673 |
| **Gross Margin Percentage**<br>Reflects the ability to manage COGS effectively | 31.2% | 33.5% |
| **Operating Expense Percentage**<br>Focuses on expense control | 28.6% | 26.7% |
| **Inventory Turnover** (times)<br>Reflects how well inventory is managed | 6.8 | 7.7 |
| **Average Collection Period** (days)<br>Reflects accounts receivable collection practices | 64.1 | 52.1 |

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** | $10,011,554 | $10,795,448 |
| Cost of Goods Sold | 6,887,949 | 7,178,973 |
| **Gross Margin** | 3,123,605 | 3,616,475 |
| Operating Expenses | 2,863,304 | 2,882,384 |
| **Operating Profit** | 260,301 | 734,091 |
| Other Income/Expenses | -50,058 | -43,182 |
| **Profit Before Taxes** | $210,243 | $690,909 |
| **Assets** | | |
| Cash | $217,493 | $550,940 |
| Accounts Receivable | 1,703,689 | 1,479,302 |
| Inventory | 911,640 | 882,920 |
| All Other Assets | 619,438 | 809,406 |
| **Total Assets** | $3,452,260 | $3,722,568 |
| **Return on Assets** | 6.1% | 18.6% |

# Executive Summary

| | Typical DHI Distributor | High Profit DHI |
|---|---|---|
| **Typical Sales Volume** | $10,011,554 | $10,795,448 |
| **Strategic Profit Model Ratios** | | |
| Profit Margin (pre-tax) | 2.1% | 6.4% |
| Asset Turnover | 2.9 | 2.9 |
| Return on Assets (pre-tax) | 6.1% | 18.6% |
| Financial Leverage | 1.8 | 1.4 |
| Return on Net Worth (pre-tax) | 11.0% | 26.0% |
| **Income Statement** | | |
| **Net Sales** | **100.0%** | **100.0%** |
| Cost of Goods Sold | 68.8 | 66.5 |
| **Gross Margin** | **31.2** | **33.5** |
| **Operating Expenses** | | |
| Payroll Expenses | 20.3 | 19.7 |
| Occupancy Expenses | 3.0 | 2.7 |
| Other Operating Expenses | 5.3 | 4.3 |
| **Total Operating Expenses** | **28.6** | **26.7** |
| **Operating Profit** | **2.6** | **6.8** |
| Other Income/Expenses | -0.5 | -0.4 |
| **Profit Before Taxes** | **2.1%** | **6.4%** |
| **Financial Ratios** | | |
| Current Ratio | 2.4 | 3.9 |
| Quick Ratio | 1.6 | 2.5 |
| Accounts Payable to Inventory | 44.3% | 42.4% |
| Accounts Payable Payout Period (days) | 25.2 | 21.9 |
| Debt to Equity | 0.8 | 0.4 |
| EBIT to Total Assets | 7.5% | 19.4% |
| Times Interest Earned | 5.2 | 22.3 |
| **Asset Productivity** | | |
| Average Collection Period (days) | 64.1 | 52.1 |
| Inventory Turnover (times) | 6.8 | 7.7 |
| Inventory Holding Period (days) | 53.7 | 47.4 |
| Gross Margin Return on Inventory | 304.4% | 409.3% |
| **Growth & Cash** | | |
| Growth Potential Index (GPI) | 6.6% | 39.7% |
| Cash Cycle (days) | 92.6 | 77.6 |
| **Operations** | | |
| Sales per SKU | $7,240 | $10,367 |
| Sales per Customer | $49,770 | $53,970 |
| Sales per Order | $2,081 | $2,075 |
| **Employees** | | |
| Sales per Employee | $302,739 | $299,673 |
| Gross Margin per Employee | $91,508 | $98,649 |
| Payroll per Employee | $59,139 | $56,152 |
| Personnel Productivity Ratio | 65.1% | 58.8% |

# Return on Investment

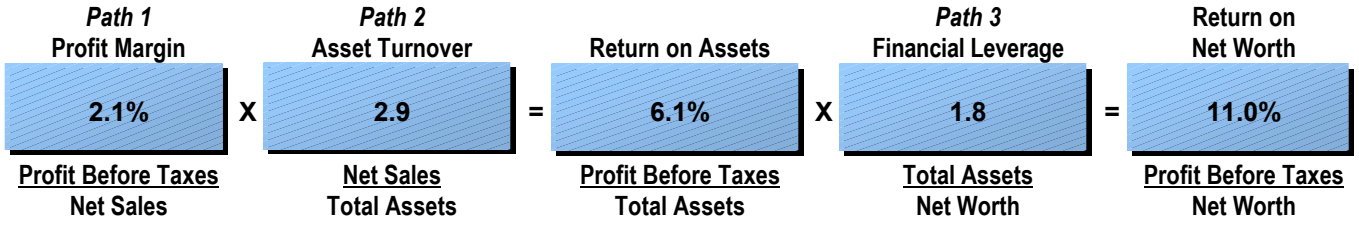
Return on investment is the most meaningful way to evaluate overall company profitability. It is important to understand how return on investment is calculated and how it can be improved. The elements of a complete return on investment analysis are shown in the table on the facing page.

## 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.




**The Strategic Profit Model**

***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 2.1 percent means that for every $1.00 of sales the company was able to produce 2.1¢ 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 6.1 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 1.8 times suggests that for every $1.00 in net worth, the firm had $1.80 in total assets. If for every $1.80 in total assets the owners put up $1.00, then outsiders put up the remaining $0.80.

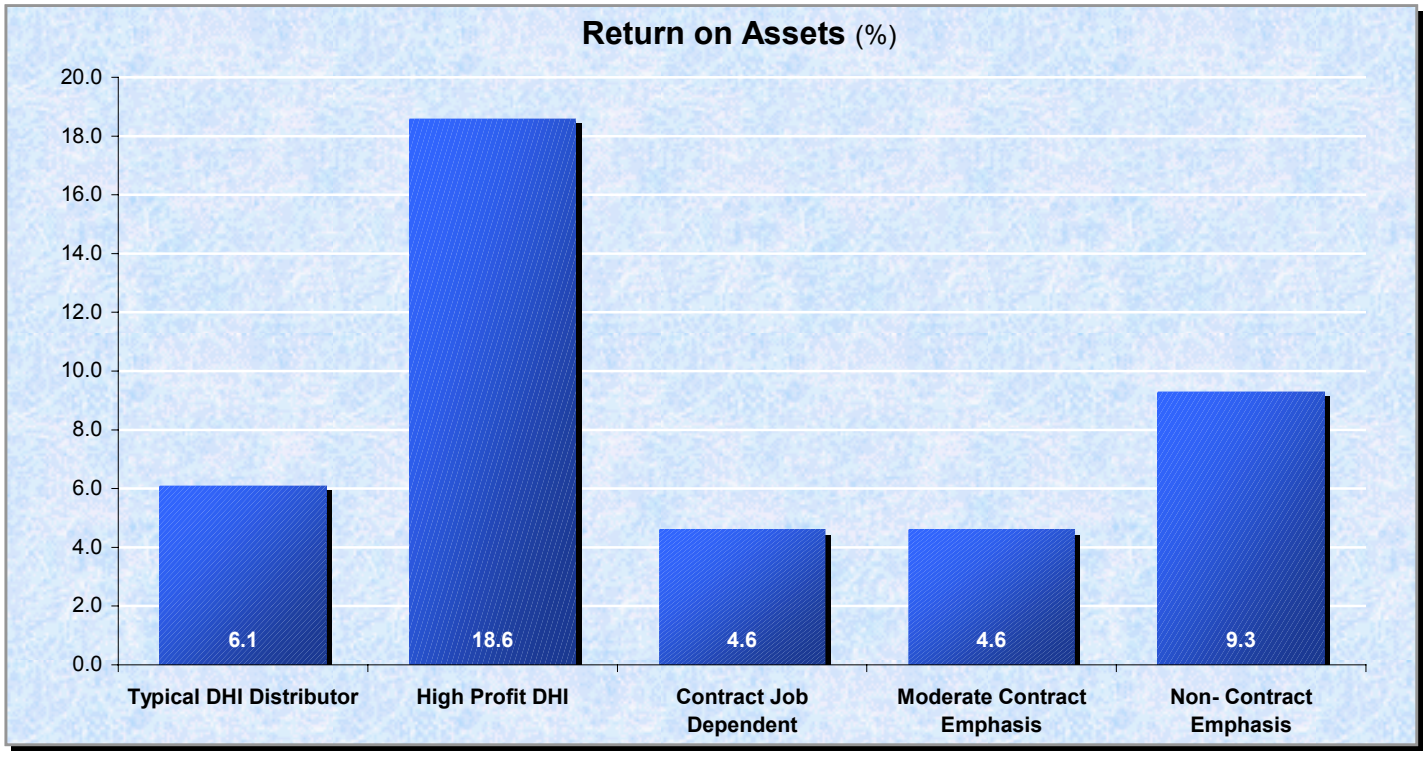
# Return on Investment

**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 11.0 percent; that is, for every $1.00 of net worth, the firm produced 11.0¢ of profit before taxes.

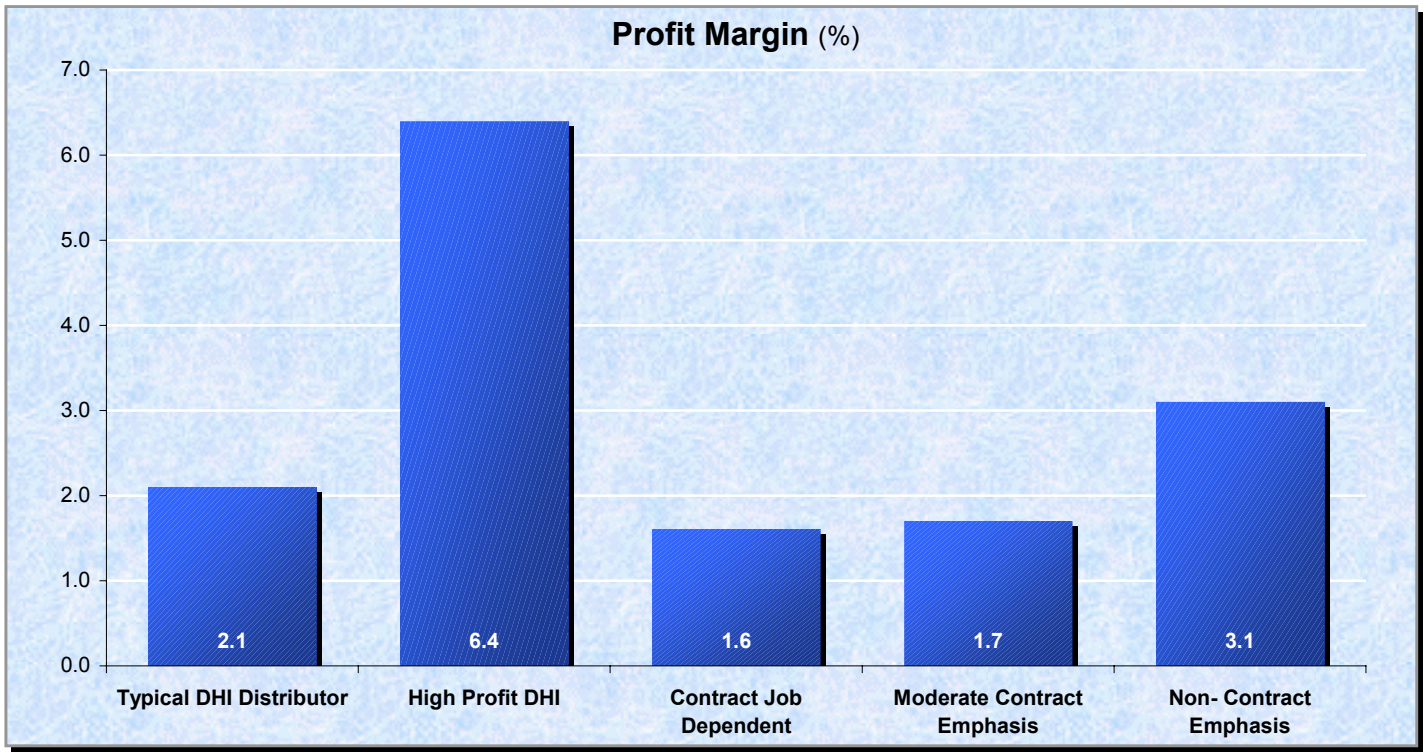
Companies must earn an adequate return on investment to satisfy the owners' needs. The following table provides guidelines for return on assets and for return on net worth.

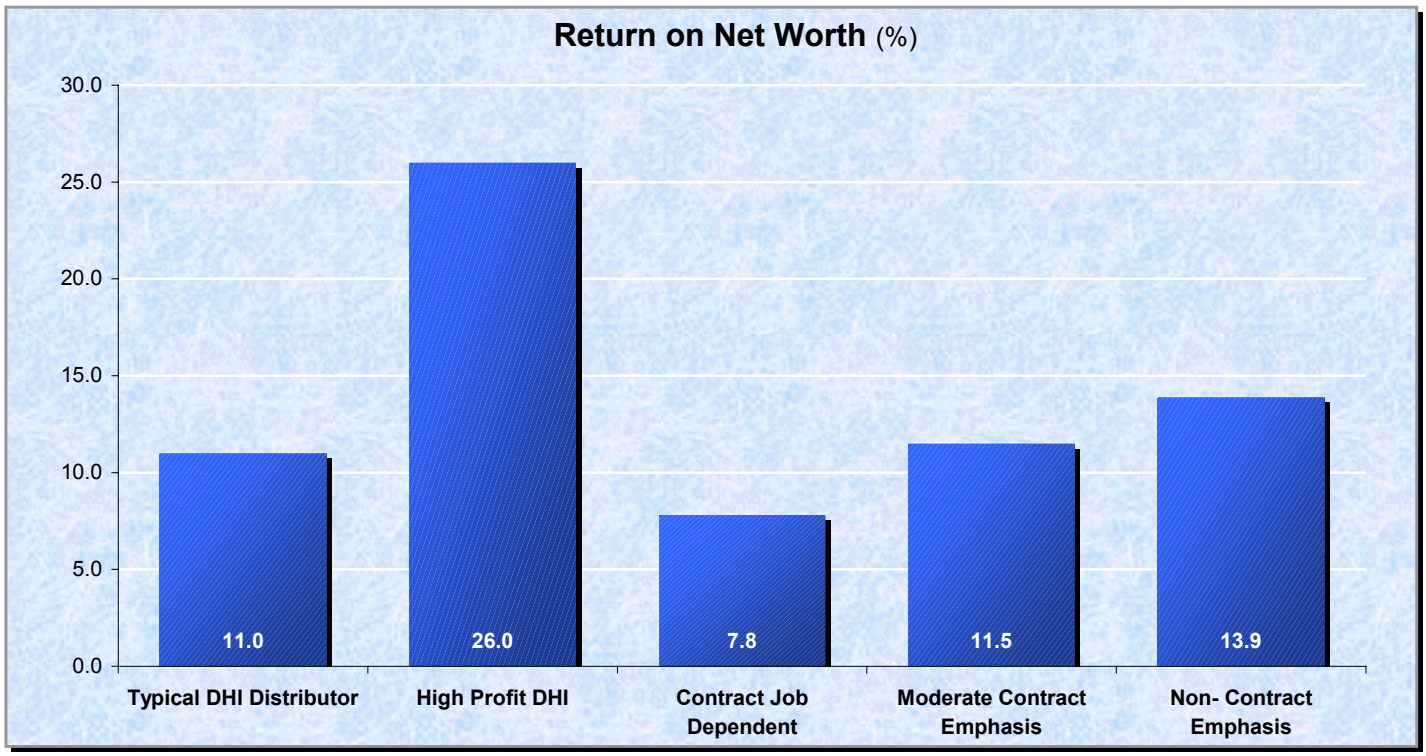
| Primary Financial Objective | Return on Assets | Return on Net Worth | Effect on Company Performance |
|---|---|---|---|
| Minimum | 4-5% | 8-10% | Minimum long-term return necessary to ensure survival. |
| Target | 8-10% | 15-20% | Meets owners' minimum needs, but doesn't provide for growth or offset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

| | Typical DHI Distributor | High Profit DHI | Contract Job Dependent | Moderate Contract Emphasis | Non-Contract Emphasis |
|---|---|---|---|---|---|
| **Strategic Profit Model Ratios** | | | | | |
| Profit Margin (pre-tax) | 2.1% | 6.4% | 1.6% | 1.7% | 3.1% |
| Asset Turnover | 2.9 | 2.9 | 2.9 | 2.7 | 3.0 |
| Return on Assets (pre-tax) | 6.1% | 18.6% | 4.6% | 4.6% | 9.3% |
| Financial Leverage | 1.8 | 1.4 | 1.7 | 2.5 | 1.5 |
| Return on Net Worth (pre-tax) | 11.0% | 26.0% | 7.8% | 11.5% | 13.9% |



# Graphical Analysis



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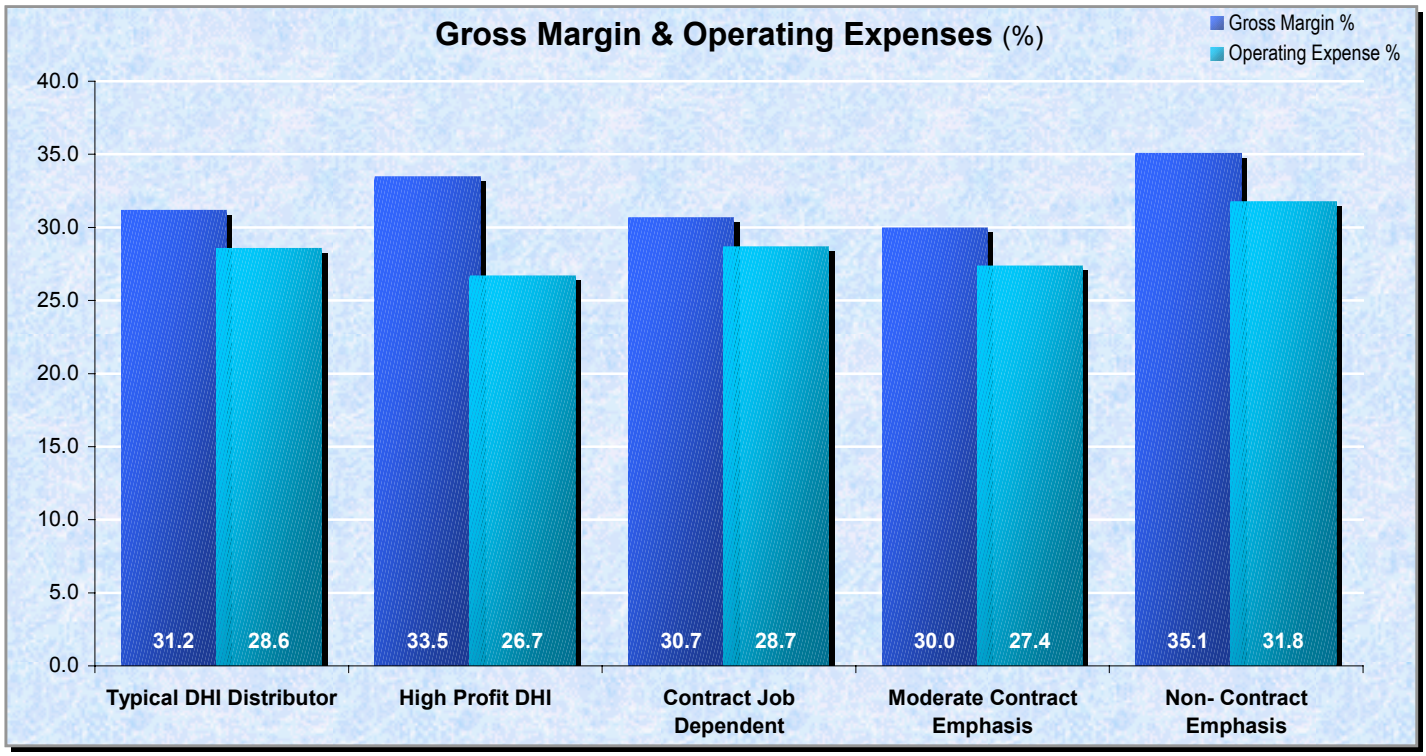


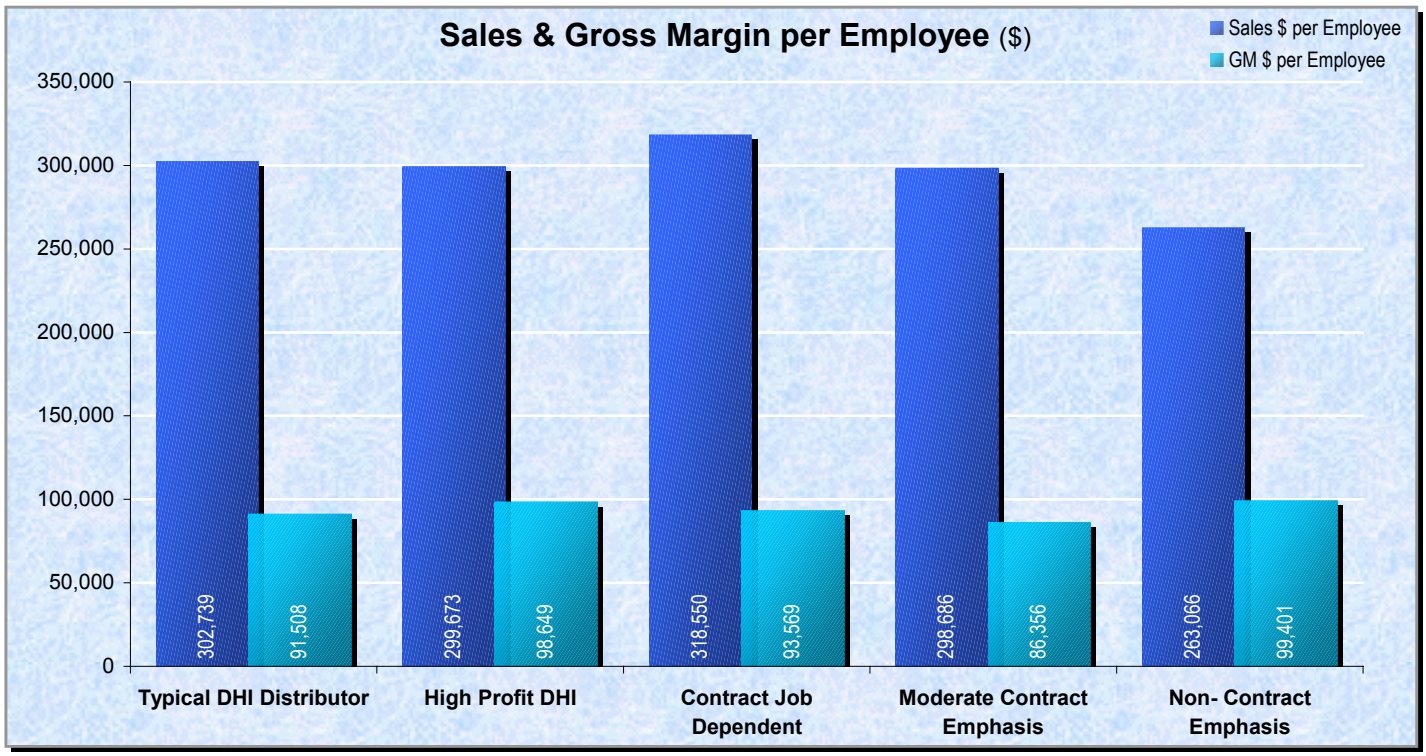

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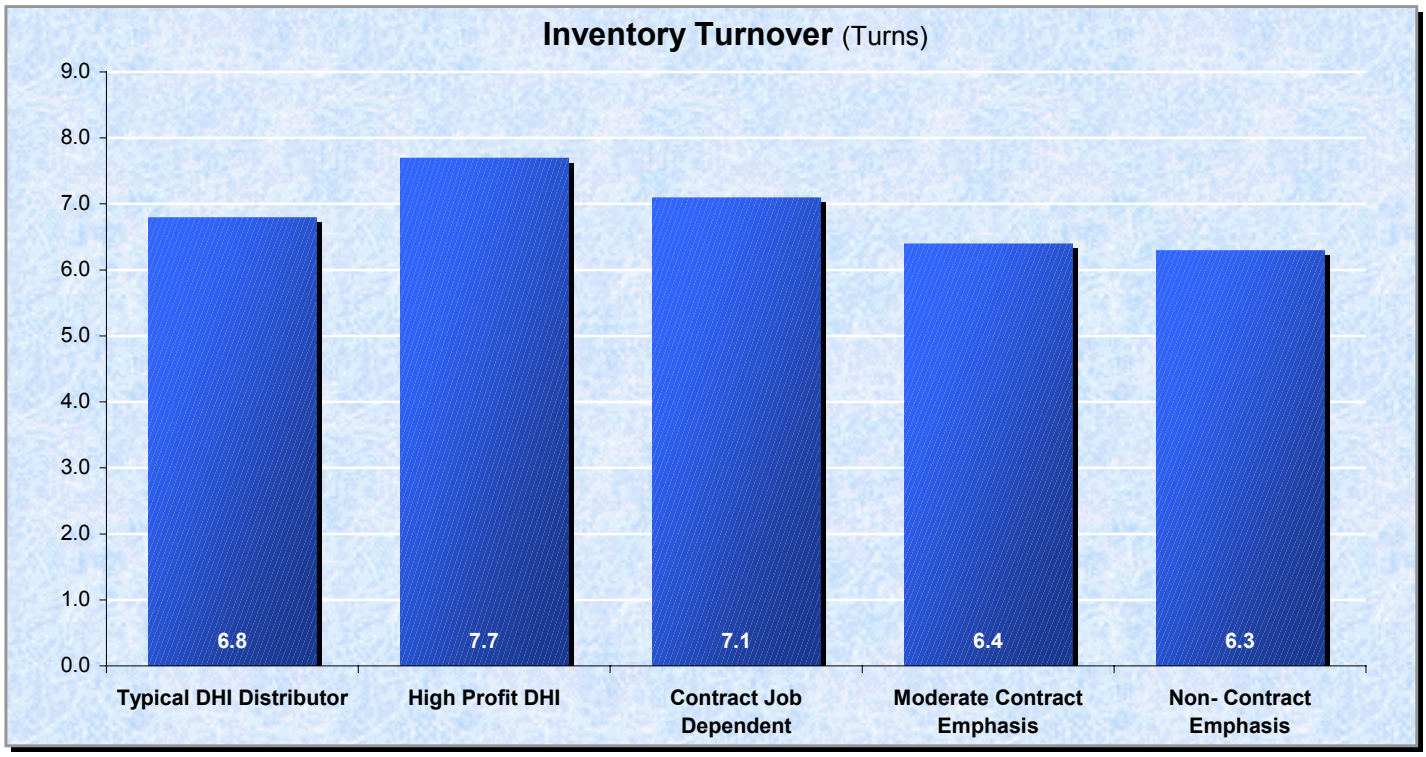
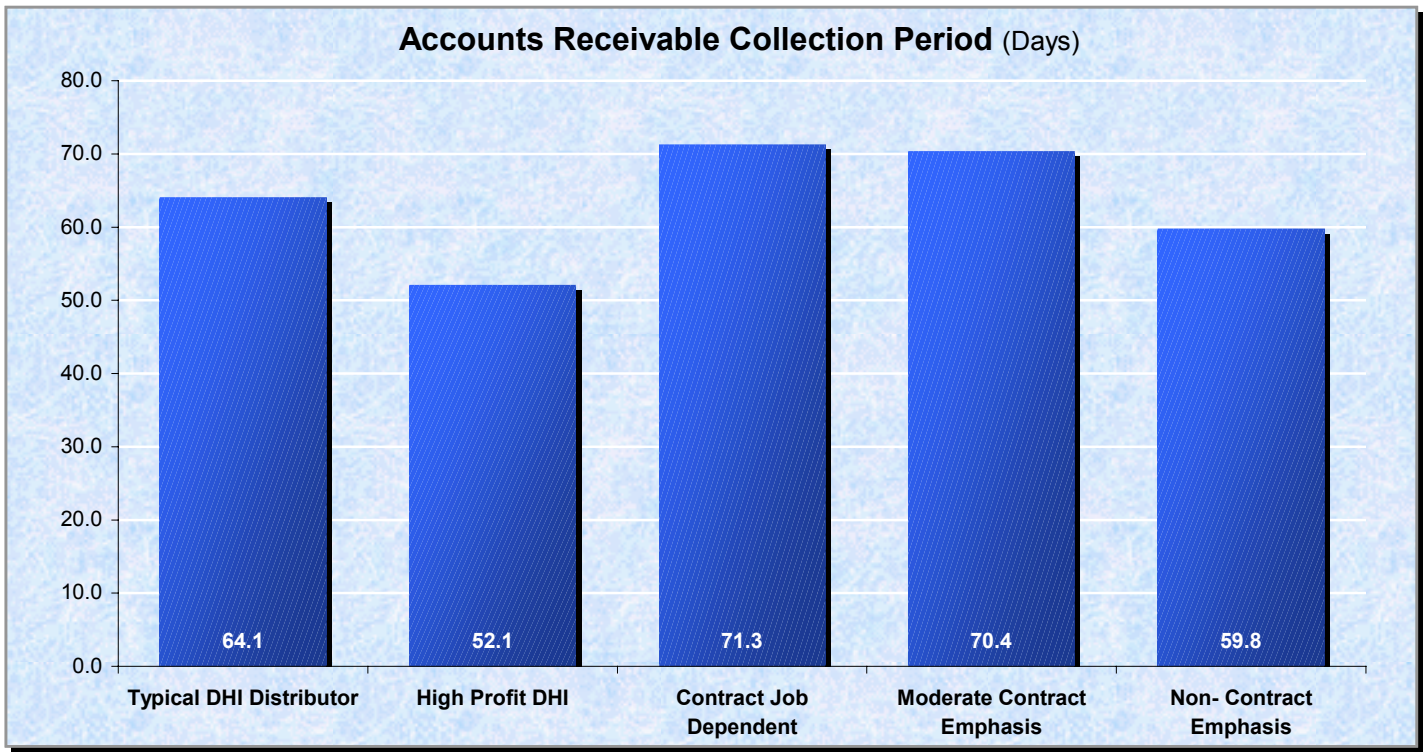


# Income Statement

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** | 46 | 12 | 20 | 16 | 9 |
| **Typical Sales Volume** | $10,011,554 | $10,795,448 | $10,011,554 | $12,506,255 | $3,518,520 |
| Sales Change (2008 to 2009) | -8.6% | -11.9% | -5.7% | -8.7% | -11.9% |
| **Income Statement** | | | | | |
| **Net Sales** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| Cost of Goods Sold | 68.8 | 66.5 | 69.3 | 70.0 | 64.9 |
| **Gross Margin** | **31.2** | **33.5** | **30.7** | **30.0** | **35.1** |
| **Personnel Expenses** | | | | | |
| Executive Salaries & Bonuses | 4.4 | 4.6 | 4.7 | 2.4 | 6.5 |
| Sales Salaries & Commissions | 6.4 | 6.3 | 5.7 | 7.7 | 8.3 |
| Warehouse & Delivery Wages | 2.4 | 3.0 | 1.5 | 3.4 | 3.5 |
| All Other Employee Wages | 3.9 | 2.5 | 5.6 | 3.1 | 1.4 |
| Total Salaries, Wages & Bonuses | 17.1 | 16.4 | 17.5 | 16.6 | 19.7 |
| Payroll Taxes (FICA, workers' comp. & unemp.) | 1.5 | 1.6 | 1.5 | 1.4 | 1.7 |
| Group Insurance (medical, hospitalization, etc.) | 1.3 | 1.3 | 1.2 | 1.1 | 1.4 |
| Employee Benefits (profit sharing, pension, etc.) | 0.4 | 0.4 | 0.3 | 0.8 | 0.3 |
| **Total Personnel Expenses** | **20.3** | **19.7** | **20.5** | **19.9** | **23.1** |
| **Occupancy Expenses** | | | | | |
| Utilities (heat, light, power, water) | 0.4 | 0.4 | 0.3 | 0.4 | 0.4 |
| Telephone | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 |
| Building Repairs & Maintenance | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Rent or Ownership in Real Estate | 1.9 | 1.7 | 2.0 | 1.5 | 2.3 |
| **Total Occupancy Expenses** | **3.0** | **2.7** | **2.9** | **2.6** | **3.4** |
| **Other Operating Expenses** | | | | | |
| Advertising & Promotion | 0.2 | 0.1 | 0.2 | 0.2 | 0.1 |
| Vehicle Expense | 0.8 | 0.7 | 0.7 | 0.9 | 0.5 |
| Insurance (business liability & casualty) | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 |
| Depreciation | 0.6 | 0.4 | 0.7 | 0.6 | 0.3 |
| Bad Debt Losses | 0.2 | 0.2 | 0.2 | 0.3 | 0.1 |
| All Other Operating Expenses | 3.0 | 2.4 | 3.0 | 2.5 | 3.9 |
| **Total Other Operating Expenses** | **5.3** | **4.3** | **5.3** | **4.9** | **5.3** |
| **Total Operating Expenses** | **28.6** | **26.7** | **28.7** | **27.4** | **31.8** |
| **Operating Profit** | **2.6** | **6.8** | **2.0** | **2.6** | **3.3** |
| Other Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 |
| Interest Expense | 0.5 | 0.3 | 0.4 | 0.9 | 0.4 |
| Other Non-operating Expenses | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| **Profit Before Taxes** | **2.1%** | **6.4%** | **1.6%** | **1.7%** | **3.1%** |

# 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 | 14.1 | 13.7 | 15.3 | 8.0 | 18.5 |
| Sales Salaries & Commissions | 20.5 | 18.8 | 18.6 | 25.7 | 23.6 |
| Warehouse & Delivery Wages | 7.7 | 9.0 | 4.9 | 11.3 | 10.0 |
| All Other Employee Wages | 12.5 | 7.5 | 18.2 | 10.3 | 4.0 |
| Total Salaries, Wages & Bonuses | 54.8 | 49.0 | 57.0 | 55.3 | 56.1 |
| Payroll Taxes (FICA, workers' comp. & unemp.) | 4.8 | 4.7 | 4.9 | 4.7 | 4.8 |
| Group Insurance (medical, hospitalization, etc.) | 4.2 | 3.9 | 3.9 | 3.7 | 4.0 |
| Employee Benefits (profit sharing, pension, etc.) | 1.3 | 1.2 | 1.0 | 2.7 | 0.9 |
| **Total Personnel Expenses** | **65.1** | **58.8** | **66.8** | **66.4** | **65.8** |
| **Occupancy Expenses** | | | | | |
| Utilities (heat, light, power, water) | 1.3 | 1.2 | 1.0 | 1.3 | 1.1 |
| Telephone | 1.3 | 0.9 | 1.0 | 1.3 | 1.1 |
| Building Repairs & Maintenance | 1.0 | 0.9 | 1.0 | 1.0 | 0.9 |
| Rent or Ownership in Real Estate | 6.1 | 5.1 | 6.4 | 5.0 | 6.6 |
| **Total Occupancy Expenses** | **9.7** | **8.1** | **9.4** | **8.6** | **9.7** |
| **Other Operating Expenses** | | | | | |
| Advertising & Promotion | 0.6 | 0.3 | 0.7 | 0.7 | 0.3 |
| Vehicle Expense | 2.6 | 2.1 | 2.3 | 3.0 | 1.4 |
| Insurance (business liability & casualty) | 1.6 | 1.5 | 1.6 | 1.3 | 1.1 |
| Depreciation | 1.9 | 1.2 | 2.3 | 2.0 | 0.9 |
| Bad Debt Losses | 0.6 | 0.6 | 0.7 | 1.0 | 0.3 |
| All Other Operating Expenses | 9.6 | 7.1 | 9.7 | 8.3 | 11.1 |
| **Total Other Operating Expenses** | **16.9** | **12.8** | **17.3** | **16.3** | **15.1** |
| **Total Operating Expenses** | **91.7** | **79.7** | **93.5** | **91.3** | **90.6** |
| **Operating Profit** | **8.3** | **20.3** | **6.5** | **8.7** | **9.4** |
| Other Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 |
| Interest Expense | 1.6 | 0.9 | 1.3 | 3.0 | 1.1 |
| Other Non-operating Expenses | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 |
| **Profit Before Taxes** | **6.7%** | **19.1%** | **5.2%** | **5.7%** | **8.8%** |

# 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 51.1 percent of assets and 28.5 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 |
|---|---|---|---|---|---|
| **Typical Total Assets** | $3,452,260 | $3,722,568 | $3,452,260 | $4,631,946 | $1,172,840 |
| **Assets** | | | | | |
| Cash & Marketable Securities | 6.3% | 14.8% | 8.1% | 5.8% | 8.3% |
| Trade Accounts Receivable | 51.1 | 40.8 | 56.7 | 47.7 | 49.5 |
| Inventory | 28.5 | 28.9 | 21.2 | 25.0 | 32.8 |
| Other Current Assets | 1.9 | 1.0 | 1.7 | 2.9 | 2.0 |
| Total Current Assets | 87.8 | 85.5 | 87.7 | 81.4 | 92.6 |
| Fixed & Noncurrent Assets | 12.2 | 14.5 | 12.3 | 18.6 | 7.4 |
| Total Assets | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| **Liabilities and Net Worth** | | | | | |
| Trade Accounts Payable | 17.9% | 12.9% | 16.4% | 20.0% | 14.8% |
| Notes Payable | 11.0 | 6.4 | 12.0 | 27.2 | 2.8 |
| Other Current Liabilities | 7.9 | 2.9 | 8.6 | 6.7 | 4.0 |
| Total Current Liabilities | 36.8 | 22.2 | 37.0 | 53.9 | 21.6 |
| Long Term Liabilities | 8.4 | 7.0 | 5.7 | 5.7 | 13.3 |
| Net Worth or Owner Equity | 54.8 | 70.8 | 57.3 | 40.4 | 65.1 |
| 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 |
|---|---|---|---|---|---|
| **Financial Ratios** | | | | | |
| Current Ratio | 2.4 | 3.9 | 2.4 | 1.5 | 4.3 |
| Quick Ratio | 1.6 | 2.5 | 1.8 | 1.0 | 2.7 |
| Accounts Payable to Inventory | 44.3% | 42.4% | 63.1% | 43.8% | 40.9% |
| Accounts Payable Payout Period (days) | 25.2 | 21.9 | 25.2 | 26.9 | 23.0 |
| Debt to Equity | 0.8 | 0.4 | 0.7 | 1.5 | 0.5 |
| EBIT to Total Assets | 7.5% | 19.4% | 5.8% | 7.0% | 10.5% |
| Times Interest Earned | 5.2 | 22.3 | 5.0 | 2.9 | 8.8 |

# Asset Productivity

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 6.8 means that the firm sells out the equivalent of its inventory value 6.8 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 9.9 for the typical DHI member indicates that the firm generates $9.90 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 |
|---|---|---|---|---|---|
| **Collections** | | | | | |
| Cash Sales (% of net sales) | 3.1% | 4.0% | 2.0% | 3.5% | 5.0% |
| Average Collection Period (days) | 64.1 | 52.1 | 71.3 | 70.4 | 59.8 |
| Bad Debt Losses (% of net sales) | 0.2% | 0.2% | 0.2% | 0.3% | 0.1% |
| **Inventory** | | | | | |
| Inventory Turnover | 6.8 | 7.7 | 7.1 | 6.4 | 6.3 |
| Inventory Holding Period (days) | 53.7 | 47.4 | 51.4 | 57.0 | 57.9 |
| Sales to Inventory Ratio | 9.9 | 11.7 | 11.0 | 9.0 | 10.4 |
| Gross Margin Return on Inventory | 304.4% | 409.3% | 329.6% | 249.2% | 406.6% |
| **Sales Path** | | | | | |
| Warehouse Sales | 90.0% | 94.7% | 91.0% | 90.0% | 90.0% |
| Direct Shipments | 10.0 | 5.3 | 9.0 | 10.0 | 10.0 |
| Total Sales | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

# Growth and Cash

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 5.8, for example, means the firm can generate $5.80 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) | 64.1 | 52.1 | 71.3 | 70.4 | 59.8 |
| Plus Inventory Holding Period (days) | 53.7 | 47.4 | 51.4 | 57.0 | 57.9 |
| Gross Cash Flow (days) | 117.8 | 99.5 | 122.7 | 127.4 | 117.7 |
| Minus A/P Payout Period (days) | 25.2 | 21.9 | 25.2 | 26.9 | 23.0 |
| Cash Cycle (days) | 92.6 | 77.6 | 97.5 | 100.5 | 94.7 |
| **Growth & Cash Sufficiency** | | | | | |
| Growth Potential Index | 6.6% | 39.7% | 6.6% | 5.3% | 11.2% |
| Cash to Current Liabilities | 17.1% | 66.7% | 21.9% | 10.8% | 38.4% |
| Defensive Interval (days) | 26.1 | 66.2 | 53.1 | 9.4 | 34.7 |
| Sales to Working Capital | 5.8 | 5.1 | 5.9 | 7.1 | 4.8 |

# Operations

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.) | 173 | 309 | 100 | 304 | 40 |
| Sales per Shipment Received | $3,140 | $3,026 | $3,213 | $2,466 | $4,398 |
| **Stockkeeping Units** (SKUs) | 1,100 | 1,166 | 845 | 2,000 | 900 |
| Sales per SKU | $7,240 | $10,367 | $7,443 | $5,273 | $4,357 |
| Inventory per SKU | $718 | $755 | $718 | $755 | $638 |
| **Customers** | 198 | 168 | 116 | 300 | 88 |
| Sales per Customer | $49,770 | $53,970 | $92,893 | $35,663 | $38,367 |
| **Orders Shipped** (monthly avg.) | 337 | 565 | 200 | 550 | 165 |
| Sales per Order | $2,081 | $2,075 | $2,190 | $1,787 | $1,562 |
| Lines per Order (avg.) | 8.0 | 6.5 | 8.0 | 9.0 | 6.0 |
| Sales per Order Line | $263 | $382 | $359 | $182 | $256 |

# 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 |
|---|---|---|---|---|---|
| **Product Sales** | | | | | |
| Builders Hardware | 42.4% | 38.2% | 40.7% | 46.1% | 38.7% |
| Electronic Hardware | 4.6 | 2.9 | 3.8 | 5.7 | 4.9 |
| Metal Doors & Related Products | 23.6 | 21.7 | 22.4 | 25.9 | 22.3 |
| Wood Doors & Frames | 18.2 | 28.0 | 17.9 | 15.7 | 23.8 |
| Toilet Accessories & Partitions | 4.2 | 3.7 | 5.2 | 2.3 | 5.6 |
| Other | 7.0 | 5.5 | 10.0 | 4.3 | 4.7 |
| Total Sales | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| **Type of Sale** | | | | | |
| Contract Jobs | 75.0% | 70.0% | 85.0% | 71.0% | 40.0% |
| Non-Contract Sales | 25.0 | 30.0 | 15.0 | 29.0 | 60.0 |
| Total Sales | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| **Manufacturers** | 86 | 67 | 77 | 138 | 48 |
| Sales per Manufacturer | $99,210 | $137,502 | $139,620 | $102,568 | $71,939 |

# Employees

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 also 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 |
|---|---|---|---|---|---|
| **Employees** (FTE) | 28 | 38 | 28 | 41 | 14 |
| Sales per Employee | $302,739 | $299,673 | $318,550 | $298,686 | $263,066 |
| Gross Margin per Employee | $91,508 | $98,649 | $93,569 | $86,356 | $99,401 |
| Salary per Employee | $48,795 | $45,929 | $53,064 | $47,114 | $41,860 |
| Payroll per Employee | $59,139 | $56,152 | $61,897 | $57,203 | $52,166 |
| Payroll Expense (% of sales) | 20.3% | 19.7% | 20.5% | 19.9% | 23.1% |
| Benefits (% of total payroll) | 15.8% | 16.8% | 14.6% | 16.6% | 14.7% |
| Personnel Productivity Ratio | 65.1% | 58.8% | 66.8% | 66.4% | 65.8% |

# Sales Volume

| | Sales Under $5 Million | Sales $5 - $10 Million | Sales $10 - $15 Million | Sales Over $15 Million |
|---|---|---|---|---|
| **Number of Firms Reporting** | 14 | 9 | 10 | 13 |
| **Typical Sales Volume** | $2,938,794 | $7,097,000 | $12,270,898 | $18,640,245 |
| Sales Change (2008 to 2009) | -14.9% | -5.7% | -7.2% | -8.6% |
| **Strategic Profit Model Ratios** | | | | |
| Profit Margin (pre-tax) | 1.2% | 1.1% | 3.1% | 3.3% |
| Asset Turnover | 2.7 | 3.0 | 3.1 | 2.5 |
| Return on Assets (pre-tax) | 3.2% | 3.3% | 9.6% | 8.2% |
| Financial Leverage | 1.7 | 2.3 | 1.6 | 2.2 |
| Return on Net Worth (pre-tax) | 5.4% | 7.6% | 15.4% | 18.0% |
| **Income Statement** | | | | |
| **Net Sales** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| Cost of Goods Sold | 66.0 | 69.5 | 68.5 | 71.0 |
| **Gross Margin** | **34.0** | **30.5** | **31.5** | **29.0** |
| **Personnel Expenses** | | | | |
| Executive Salaries & Bonuses | 5.1 | 3.3 | 5.0 | 3.6 |
| Sales Salaries & Commissions | 6.9 | 10.2 | 6.8 | 4.9 |
| Warehouse & Delivery Wages | 3.5 | 3.0 | 2.3 | 1.3 |
| All Other Employee Wages | 2.8 | 2.4 | 3.1 | 6.8 |
| Total Salaries, Wages & Bonuses | 18.3 | 18.9 | 17.2 | 16.6 |
| Payroll Taxes (FICA, workers' comp. & unemp.) | 1.6 | 1.5 | 1.5 | 1.4 |
| Group Insurance (medical, hospitalization, etc.) | 1.5 | 1.0 | 1.3 | 1.0 |
| Employee Benefits (profit sharing, pension, etc.) | 0.3 | 0.1 | 0.7 | 0.5 |
| **Total Personnel Expenses** | **21.7** | **21.5** | **20.7** | **19.5** |
| **Occupancy Expenses** | | | | |
| Utilities (heat, light, power, water) | 0.5 | 0.3 | 0.3 | 0.3 |
| Telephone | 0.5 | 0.3 | 0.3 | 0.2 |
| Building Repairs & Maintenance | 0.4 | 0.2 | 0.4 | 0.2 |
| Rent or Ownership in Real Estate | 2.5 | 1.9 | 1.5 | 1.4 |
| **Total Occupancy Expenses** | **3.9** | **2.7** | **2.5** | **2.1** |
| **Other Operating Expenses** | | | | |
| Advertising & Promotion | 0.2 | 0.1 | 0.1 | 0.1 |
| Vehicle Expenses | 0.8 | 0.8 | 0.8 | 0.6 |
| Insurance (business liability & casualty) | 0.9 | 0.5 | 0.4 | 0.3 |
| Depreciation | 0.8 | 0.4 | 0.7 | 0.4 |
| Bad Debt Losses | 0.3 | 0.0 | 0.3 | 0.3 |
| All Other Operating Expenses | 3.5 | 3.0 | 2.4 | 2.5 |
| **Total Other Operating Expenses** | **6.5** | **4.8** | **4.7** | **4.2** |
| **Total Operating Expenses** | **32.1** | **29.0** | **27.9** | **25.8** |
| **Operating Profit** | **1.9** | **1.5** | **3.6** | **3.2** |
| Other Income | 0.0 | 0.0 | 0.0 | 0.4 |
| Interest Expense | 0.7 | 0.4 | 0.5 | 0.3 |
| Other Non-operating Expenses | 0.0 | 0.0 | 0.0 | 0.0 |
| **Profit Before Taxes** | **1.2%** | **1.1%** | **3.1%** | **3.3%** |

# Sales Volume

| Expenses in Relationship to GM | Sales Under $5 Million | Sales $5 - $10 Million | Sales $10 - $15 Million | Sales Over $15 Million |
|---|---|---|---|---|
| **Gross Margin** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| **Personnel Expenses** | | | | |
| Executive Salaries & Bonuses | 15.0 | 10.8 | 15.9 | 12.4 |
| Sales Salaries & Commissions | 20.3 | 33.4 | 21.6 | 16.9 |
| Warehouse & Delivery Wages | 10.3 | 9.8 | 7.3 | 4.5 |
| All Other Employee Wages | 8.2 | 8.0 | 9.8 | 23.4 |
| Total Salaries, Wages & Bonuses | 53.8 | 62.0 | 54.6 | 57.2 |
| Payroll Taxes (FICA, workers' comp. & unemp.) | 4.7 | 4.9 | 4.8 | 4.8 |
| Group Insurance (medical, hospitalization, etc.) | 4.4 | 3.3 | 4.1 | 3.4 |
| Employee Benefits (profit sharing, pension, etc.) | 0.9 | 0.3 | 2.2 | 1.8 |
| **Total Personnel Expenses** | **63.8** | **70.5** | **65.7** | **67.2** |
| **Occupancy Expenses** | | | | |
| Utilities (heat, light, power, water) | 1.5 | 1.0 | 1.0 | 1.0 |
| Telephone | 1.5 | 1.0 | 1.0 | 0.7 |
| Building Repairs & Maintenance | 1.2 | 0.7 | 1.3 | 0.7 |
| Rent or Ownership in Real Estate | 7.3 | 6.2 | 4.7 | 4.8 |
| **Total Occupancy Expenses** | **11.5** | **8.9** | **8.0** | **7.2** |
| **Other Operating Expenses** | | | | |
| Advertising & Promotion | 0.6 | 0.3 | 0.3 | 0.3 |
| Vehicle Expense | 2.4 | 2.6 | 2.5 | 2.1 |
| Insurance (business liability & casualty) | 2.6 | 1.6 | 1.3 | 1.0 |
| Depreciation | 2.4 | 1.3 | 2.2 | 1.4 |
| Bad Debt Losses | 0.9 | 0.0 | 1.0 | 1.0 |
| All Other Operating Expenses | 10.2 | 9.9 | 7.6 | 8.8 |
| **Total Other Operating Expenses** | **19.1** | **15.7** | **14.9** | **14.6** |
| **Total Operating Expenses** | **94.4** | **95.1** | **88.6** | **89.0** |
| **Operating Profit** | **5.6** | **4.9** | **11.4** | **11.0** |
| Other Income | 0.0 | 0.0 | 0.0 | 1.4 |
| Interest Expense | 2.1 | 1.3 | 1.6 | 1.0 |
| Other Non-operating Expenses | 0.0 | 0.0 | 0.0 | 0.0 |
| **Profit Before Taxes** | **3.5%** | **3.6%** | **9.8%** | **11.4%** |

# Sales Volume

| | Sales Under $5 Million | Sales $5 - $10 Million | Sales $10 - $15 Million | Sales Over $15 Million |
|---|---|---|---|---|
| **Balance Sheet** | | | | |
| **Typical Total Assets** | $1,088,442 | $2,365,667 | $3,958,354 | $7,456,098 |
| **Assets** | | | | |
| Cash & Marketable Securities | 9.2% | 0.8% | 6.0% | 11.4% |
| Trade Accounts Receivable | 49.1 | 46.2 | 53.0 | 55.4 |
| Inventory | 26.2 | 33.8 | 26.6 | 16.0 |
| Other Current Assets | 1.0 | 4.4 | 0.9 | 2.9 |
| Total Current Assets | 85.5 | 85.2 | 86.5 | 85.7 |
| Fixed & Noncurrent Assets | 14.5 | 14.8 | 13.5 | 14.3 |
| Total Assets | 100.0% | 100.0% | 100.0% | 100.0% |
| **Liabilities and Net Worth** | | | | |
| Trade Accounts Payable | 21.9% | 17.0% | 14.3% | 27.0% |
| Notes Payable | 7.0 | 19.9 | 8.4 | 4.9 |
| Other Current Liabilities | 3.0 | 10.6 | 7.0 | 16.7 |
| Total Current Liabilities | 31.9 | 47.5 | 29.7 | 48.6 |
| Long Term Liabilities | 10.4 | 9.5 | 6.4 | 6.3 |
| Net Worth or Owner Equity | 57.7 | 43.0 | 63.9 | 45.1 |
| Total Liabilities & Net Worth | 100.0% | 100.0% | 100.0% | 100.0% |
| **Financial Ratios** | | | | |
| Current Ratio | 2.7 | 1.8 | 2.9 | 1.8 |
| Quick Ratio | 1.8 | 1.0 | 2.0 | 1.4 |
| Accounts Payable to Inventory | 40.8% | 45.4% | 38.5% | 74.9% |
| Accounts Payable Payout Period (days) | 38.9 | 21.1 | 19.2 | 25.7 |
| Debt to Equity | 0.7 | 1.3 | 0.6 | 1.2 |
| EBIT to Total Assets | 5.1% | 4.5% | 11.2% | 9.0% |
| Times Interest Earned | 2.7 | 3.8 | 7.2 | 12.0 |
| **Asset Productivity** | | | | |
| Cash Sales (% of total sales) | 5.0% | 3.5% | 3.4% | 2.0% |
| Average Collection Period (days) | 62.0 | 60.1 | 60.8 | 74.7 |
| Bad Debt Losses (% of net sales) | 0.3% | 0.0% | 0.3% | 0.3% |
| Inventory Turnover | 5.0 | 8.1 | 8.2 | 7.1 |
| Inventory Holding Period (days) | 73.0 | 45.1 | 44.5 | 51.4 |
| Sales to Inventory Ratio | 7.8 | 11.7 | 10.7 | 11.6 |
| Gross Margin Return on Inventory | 238.8% | 325.3% | 329.6% | 314.3% |
| **Sales Path** | | | | |
| Warehouse Sales | 89.0% | 92.0% | 95.0% | 92.0% |
| Direct Shipments | 11.0 | 8.0 | 5.0 | 8.0 |
| Total Sales | 100.0% | 100.0% | 100.0% | 100.0% |
| **Cash Flow Cycle** | | | | |
| Average Collection Period (days) | 62.0 | 60.1 | 60.8 | 74.7 |
| Plus Inventory Holding Period (days) | 73.0 | 45.1 | 44.5 | 51.4 |
| Gross Cash Flow (days) | 135.0 | 105.2 | 105.3 | 126.1 |
| Minus A/P Payout Period (days) | 38.9 | 21.1 | 19.2 | 25.7 |
| Cash Cycle (days) | 96.1 | 84.1 | 86.1 | 100.4 |
| **Growth & Cash Sufficiency** | | | | |
| Growth Potential Index | 5.0% | 5.7% | 5.6% | 9.9% |
| Cash to Current Liabilities | 28.8% | 1.7% | 20.2% | 23.5% |
| Defensive Interval (days) | 55.8 | 3.9 | 18.5 | 57.7 |
| Sales to Working Capital | 3.8 | 10.1 | 6.1 | 5.8 |

# Sales Volume

| | Sales Under $5 Million | Sales $5 - $10 Million | Sales $10 - $15 Million | Sales Over $15 Million |
|---|---|---|---|---|
| **Shipments Received** (monthly avg.) | 50 | 150 | 300 | 500 |
| Sales per Shipment Received | $3,806 | $3,279 | $3,253 | $2,681 |
| **Stockkeeping Units** (SKUs) | 540 | 975 | 1,850 | 1,500 |
| Sales per SKU | $4,207 | $7,086 | $7,317 | $12,222 |
| Inventory per SKU | $475 | $745 | $525 | $826 |
| **Customers** | 75 | 170 | 195 | 483 |
| Sales per Customer | $31,563 | $44,724 | $62,548 | $42,990 |
| **Orders Shipped** (monthly avg.) | 110 | 277 | 475 | 1,000 |
| Sales per Order | $2,284 | $2,081 | $2,154 | $1,960 |
| **Lines per Order** (avg.) | 6.0 | 7.5 | 10.0 | 10.0 |
| Sales per Order Line | $313 | $285 | $256 | $139 |
| **Product Sales** | | | | |
| Builders Hardware | 41.1% | 42.4% | 45.7% | 41.5% |
| Electronic Hardware | 5.0 | 4.3 | 4.8 | 4.1 |
| Metal Doors & Related Products | 21.7 | 25.2 | 23.0 | 24.9 |
| Wood Doors & Frames | 22.9 | 16.8 | 15.9 | 15.8 |
| Toilet Accessories & Partitions | 5.1 | 1.7 | 5.5 | 4.0 |
| Other | 4.2 | 9.6 | 5.1 | 9.7 |
| Total Sales | 100.0% | 100.0% | 100.0% | 100.0% |
| **Type of Sale** | | | | |
| Contract Jobs | 57.5% | 81.4% | 74.5% | 75.0% |
| Non Contract Sales | 42.5 | 18.6 | 25.5 | 25.0 |
| Total Sales | 100.0% | 100.0% | 100.0% | 100.0% |
| **Manufacturers** | 86 | 48 | 82 | 150 |
| Sales per Manufacturer | $42,004 | $149,166 | $160,931 | $189,119 |
| **Employees** (FTE) | 9 | 25 | 43 | 54 |
| Sales per Employee | $273,952 | $291,341 | $298,647 | $344,600 |
| Gross Margin per Employee | $94,801 | $88,770 | $82,901 | $96,936 |
| Salary per Employee | $45,953 | $54,238 | $43,407 | $56,969 |
| Payroll per Employee | $56,900 | $62,379 | $56,129 | $65,938 |
| Payroll Expense (% of sales) | 21.7% | 21.5% | 20.7% | 19.5% |
| Benefits (% of total payroll) | 15.7% | 12.1% | 16.9% | 14.9% |
| Personnel Productivity Ratio | 63.8% | 70.5% | 65.7% | 67.2% |

# Regions

To analyze regional performance, firms were grouped into the following DHI regions plus Canada. Use caution when evaluating results with small samples. Results are suppressed for regions with insufficient samples for analysis.

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

**Southeastern** 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** 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** 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

| | North-eastern | South-eastern | North Central | Western | Canada |
|---|---|---|---|---|---|
| **Number of Firms Reporting** | 4 | 15 | 18 | 6 | 3 |
| **Typical Sales Volume** | | $11,517,788 | $9,898,358 | $9,447,391 | |
| Sales Change (2008 to 2009) | | -10.9% | -11.6% | -1.4% | |
| **Strategic Profit Model Ratios** | | | | | |
| Profit Margin (pre-tax) | | 3.7% | 1.5% | 1.6% | |
| Asset Turnover | | 3.2 | 2.7 | 3.1 | |
| Return on Assets (pre-tax) | | 11.8% | 4.0% | 5.0% | |
| Financial Leverage | | 1.9 | 1.8 | 1.7 | |
| Return on Net Worth (pre-tax) | | 22.4% | 7.2% | 8.5% | |
| **Income Statement** | | | | | |
| **Net Sales** | | **100.0%** | **100.0%** | **100.0%** | |
| Cost of Goods Sold | | 65.7 | 69.1 | 68.4 | |
| **Gross Margin** | | **34.3** | **30.9** | **31.6** | |
| **Personnel Expenses** | | | | | |
| Executive Salaries & Bonuses | | 4.8 | 5.3 | N/A | |
| Sales Salaries & Commissions | | 6.8 | 5.8 | N/A | |
| Warehouse & Delivery Wages | | 2.8 | 1.5 | 2.7 | |
| All Other Employee Wages | | 3.3 | 5.0 | N/A | |
| Total Salaries, Wages & Bonuses | | 17.7 | 17.6 | 18.9 | |
| Payroll Taxes (FICA, workers' comp. & unemp.) | | 1.7 | 1.4 | 1.4 | |
| Group Insurance (medical, hospitalization, etc.) | | 1.6 | 1.4 | 1.0 | |
| Employee Benefits (profit sharing, pension, etc.) | | 0.4 | 0.5 | 0.1 | |
| **Total Personnel Expenses** | | **21.4** | **20.9** | **21.4** | |
| **Occupancy Expenses** | | | | | |
| Utilities (heat, light, power, water) | | 0.4 | 0.4 | 0.3 | |
| Telephone | | 0.3 | 0.3 | 0.3 | |
| Building Repairs & Maintenance | | 0.3 | 0.3 | 0.2 | |
| Rent or Ownership in Real Estate | | 2.3 | 1.6 | 2.0 | |
| **Total Occupancy Expenses** | | **3.3** | **2.6** | **2.8** | |
| **Other Operating Expenses** | | | | | |
| Advertising & Promotion | | 0.1 | 0.2 | 0.2 | |
| Vehicle Expenses | | 0.7 | 0.9 | 0.7 | |
| Insurance (business liability & casualty) | | 0.8 | 0.5 | 0.5 | |
| Depreciation | | 0.9 | 0.6 | 0.4 | |
| Bad Debt Losses | | 0.2 | 0.4 | 0.0 | |
| All Other Operating Expenses | | 2.8 | 2.8 | 3.5 | |
| **Total Other Operating Expenses** | | **5.5** | **5.4** | **5.3** | |
| **Total Operating Expenses** | | **30.2** | **28.9** | **29.5** | |
| **Operating Profit** | | **4.1** | **2.0** | **2.1** | |
| Other Income | | 0.0 | 0.1 | 0.0 | |
| Interest Expense | | 0.4 | 0.6 | 0.5 | |
| Other Non-operating Expenses | | 0.0 | 0.0 | 0.0 | |
| **Profit Before Taxes** | | **3.7%** | **1.5%** | **1.6%** | |

# Regions

| | North-eastern | South-eastern | North Central | Western | Canada |
|---|---|---|---|---|---|
| **Number of Firms Reporting** | 4 | 15 | 18 | 6 | 3 |
| **Expenses in Relationship to GM** | | | | | |
| **Gross Margin** | | **100.0%** | **100.0%** | **100.0%** | |
| **Personnel Expenses** | | | | | |
| Executive Salaries & Bonuses | | 14.0 | 17.2 | N/A | |
| Sales Salaries & Commissions | | 19.8 | 18.8 | N/A | |
| Warehouse & Delivery Wages | | 8.2 | 4.9 | 8.5 | |
| All Other Employee Wages | | 9.6 | 16.1 | N/A | |
| Total Salaries, Wages & Bonuses | | 51.6 | 57.0 | 59.8 | |
| Payroll Taxes (FICA, workers' comp. & unemp.) | | 5.0 | 4.5 | 4.4 | |
| Group Insurance (medical, hospitalization, etc.) | | 4.7 | 4.5 | 3.2 | |
| Employee Benefits (profit sharing, pension, etc.) | | 1.1 | 1.6 | 0.3 | |
| **Total Personnel Expenses** | | **62.4** | **67.6** | **67.7** | |
| **Occupancy Expenses** | | | | | |
| Utilities (heat, light, power, water) | | 1.2 | 1.3 | 0.9 | |
| Telephone | | 0.9 | 1.0 | 0.9 | |
| Building Repairs & Maintenance | | 0.9 | 1.0 | 0.6 | |
| Rent or Ownership in Real Estate | | 6.6 | 5.2 | 6.4 | |
| **Total Occupancy Expenses** | | **9.6** | **8.5** | **8.8** | |
| **Other Operating Expenses** | | | | | |
| Advertising & Promotion | | 0.3 | 0.6 | 0.6 | |
| Vehicle Expense | | 2.0 | 2.9 | 2.2 | |
| Insurance (business liability & casualty) | | 2.3 | 1.6 | 1.6 | |
| Depreciation | | 2.6 | 1.9 | 1.3 | |
| Bad Debt Losses | | 0.6 | 1.3 | 0.0 | |
| All Other Operating Expenses | | 8.2 | 9.1 | 11.1 | |
| **Total Other Operating Expenses** | | **16.0** | **17.4** | **16.8** | |
| **Total Operating Expenses** | | **88.0** | **93.5** | **93.3** | |
| **Operating Profit** | | **12.0** | **6.5** | **6.7** | |
| Other Income | | 0.0 | 0.3 | 0.0 | |
| Interest Expense | | 1.2 | 1.9 | 1.6 | |
| Other Non-operating Expenses | | 0.0 | 0.0 | 0.0 | |
| **Profit Before Taxes** | | **10.8%** | **4.9%** | **5.1%** | |

# Regions

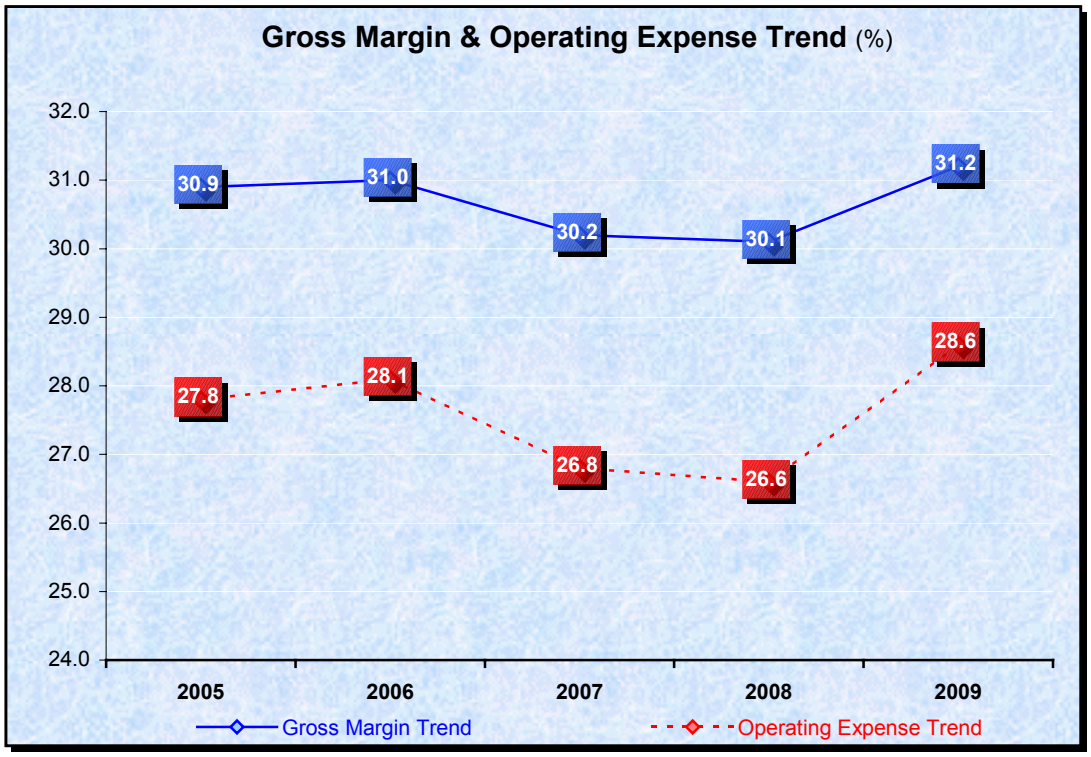
| | North-eastern | South-eastern | North Central | Western | Canada |
|---|---|---|---|---|---|
| **Number of Firms Reporting** | 4 | 15 | 18 | 6 | 3 |
| **Balance Sheet** | | | | | |
| **Typical Total Assets** | | $3,599,309 | $3,666,059 | $3,047,545 | |
| **Assets** | | | | | |
| Cash & Marketable Securities | | 7.1% | 11.5% | 5.4% | |
| Trade Accounts Receivable | | 51.2 | 47.0 | 54.3 | |
| Inventory | | 27.8 | 25.1 | 23.5 | |
| Other Current Assets | | 1.8 | 1.7 | 3.8 | |
| Total Current Assets | | 87.9 | 85.3 | 87.0 | |
| Fixed & Noncurrent Assets | | 12.1 | 14.7 | 13.0 | |
| Total Assets | | 100.0% | 100.0% | 100.0% | |
| **Liabilities and Net Worth** | | | | | |
| Trade Accounts Payable | | 15.2% | 17.9% | 11.8% | |
| Notes Payable | | 10.9 | 5.1 | 19.7 | |
| Other Current Liabilities | | 3.3 | 11.6 | 7.9 | |
| Total Current Liabilities | | 29.4 | 34.6 | 39.4 | |
| Long Term Liabilities | | 18.5 | 10.8 | 0.4 | |
| Net Worth or Owner Equity | | 52.1 | 54.6 | 60.2 | |
| Total Liabilities & Net Worth | | 100.0% | 100.0% | 100.0% | |
| **Financial Ratios** | | | | | |
| Current Ratio | | 3.0 | 2.5 | 2.2 | |
| Quick Ratio | | 2.0 | 1.7 | 1.5 | |
| Accounts Payable to Inventory | | 40.9% | 42.6% | 74.3% | |
| Accounts Payable Payout Period (days) | | 24.6 | 18.7 | 19.9 | |
| Debt to Equity | | 0.9 | 0.8 | 0.7 | |
| EBIT to Total Assets | | 13.1% | 5.7% | 6.5% | |
| Times Interest Earned | | 10.3 | 3.5 | 4.2 | |
| **Asset Productivity** | | | | | |
| Cash Sales (% of total sales) | | 5.0% | 2.5% | 1.0% | |
| Average Collection Period (days) | | 60.8 | 65.7 | 60.1 | |
| Bad Debt Losses (% of net sales) | | 0.2% | 0.4% | 0.0% | |
| Inventory Turnover | | 7.0 | 6.3 | 10.4 | |
| Inventory Holding Period (days) | | 52.1 | 57.9 | 35.1 | |
| Sales to Inventory Ratio | | 10.4 | 8.7 | 14.3 | |
| Gross Margin Return on Inventory | | 403.0% | 237.0% | 343.9% | |
| **Sales Path** | | | | | |
| Warehouse Sales | | 93.4% | 90.0% | 93.5% | |
| Direct Shipments | | 6.6 | 10.0 | 6.5 | |
| Total Sales | | 100.0% | 100.0% | 100.0% | |
| **Cash Flow Cycle** | | | | | |
| Average Collection Period (days) | | 60.8 | 65.7 | 60.1 | |
| Plus Inventory Holding Period (days) | | 52.1 | 57.9 | 35.1 | |
| Gross Cash Flow (days) | | 112.9 | 123.6 | 95.2 | |
| Minus A/P Payout Period (days) | | 24.6 | 18.7 | 19.9 | |
| Cash Cycle (days) | | 88.3 | 104.9 | 75.3 | |
| **Growth & Cash Sufficiency** | | | | | |
| Growth Potential Index | | N/A% | 7.3% | N/A% | |
| Cash to Current Liabilities | | 24.1% | 33.2% | 13.7% | |
| Defensive Interval (days) | | 23.6 | 55.2 | 8.6 | |
| Sales to Working Capital | | 5.9 | 5.4 | 5.9 | |

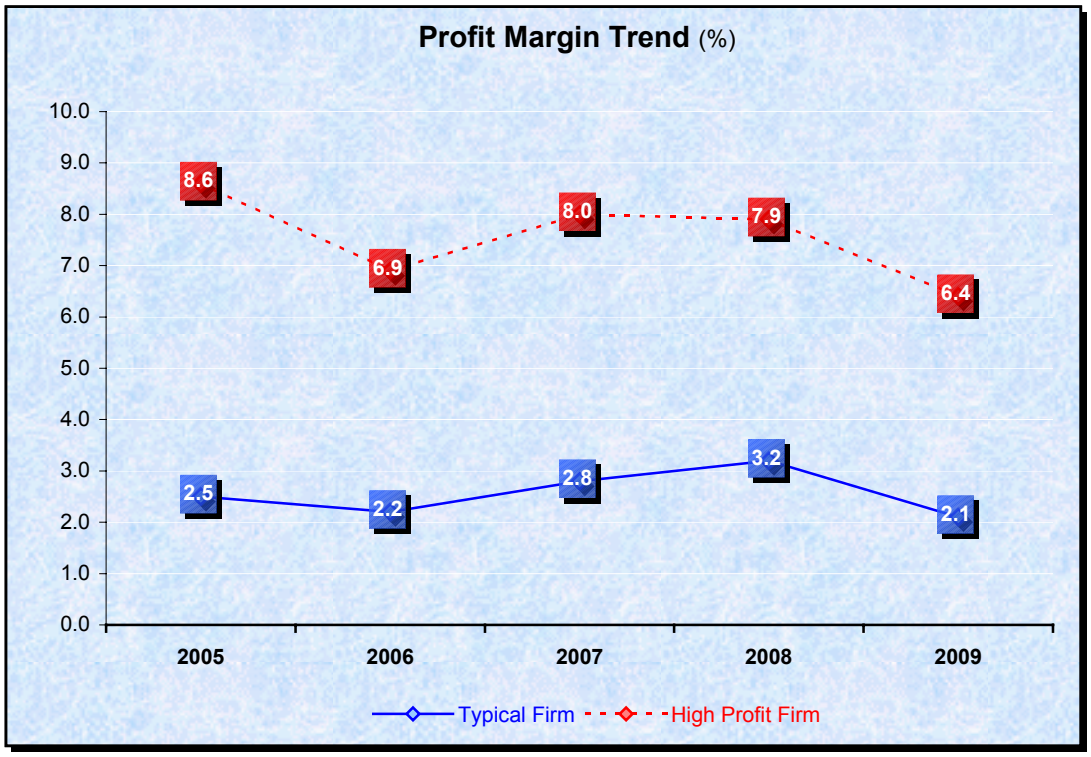
# Regions

| | North-eastern | South-eastern | North Central | Western | Canada |
|---|---|---|---|---|---|
| **Number of Firms Reporting** | 4 | 15 | 18 | 6 | 3 |
| **Shipments Received** (monthly avg.) | | 165 | 125 | 100 | |
| Sales per Shipment Received | | $3,266 | $2,765 | $2,775 | |
| **Stockkeeping Units** (SKUs) | | 875 | 1,148 | 731 | |
| Sales per SKU | | $7,443 | $4,777 | $11,945 | |
| Inventory per SKU | | $718 | $736 | $812 | |
| **Customers** | | 170 | 203 | 55 | |
| Sales per Customer | | $51,914 | $35,663 | $114,718 | |
| **Orders Shipped** (monthly avg.) | | 200 | 362 | 100 | |
| Sales per Order | | $2,190 | $1,777 | $2,775 | |
| Lines per Order (avg.) | | 10.0 | 7.0 | 6.0 | |
| Sales per Order Line | | $256 | $233 | $490 | |
| **Product Sales** | | | | | |
| Builders Hardware | | 38.2% | 44.3% | 42.5% | |
| Electronic Hardware | | 2.5 | 5.6 | 3.8 | |
| Metal Doors & Related Products | | 24.8 | 23.6 | 19.5 | |
| Wood Doors & Frames | | 21.1 | 15.1 | 22.9 | |
| Toilet Accessories & Partitions | | 5.6 | 4.4 | 2.3 | |
| Other | | 7.8 | 7.0 | 9.0 | |
| Total Sales | | 100.0% | 100.0% | 100.0% | |
| **Type of Sale** | | | | | |
| Contract Jobs | | 79.2% | 70.0% | 82.5% | |
| Non Contract Sales | | 20.8 | 30.0 | 17.5 | |
| Total Sales | | 100.0% | 100.0% | 100.0% | |
| **Manufacturers** | | 78 | 100 | 35 | |
| Sales per Manufacturer | | $137,502 | $73,303 | $301,917 | |
| **Employees** (FTE) | | 28 | 32 | 28 | |
| Sales per Employee | | $302,800 | $307,941 | $299,612 | |
| Gross Margin per Employee | | $100,222 | $90,104 | $87,823 | |
| Salary per Employee | | $45,953 | $49,153 | $50,644 | |
| Payroll per Employee | | $56,900 | $59,812 | $60,141 | |
| Payroll Expense (% of sales) | | 21.4% | 20.9% | 21.4% | |
| Benefits (% of total payroll) | | 17.3% | 15.8% | 11.7% | |
| Personnel Productivity Ratio | | 62.4% | 67.6% | 67.7% | |

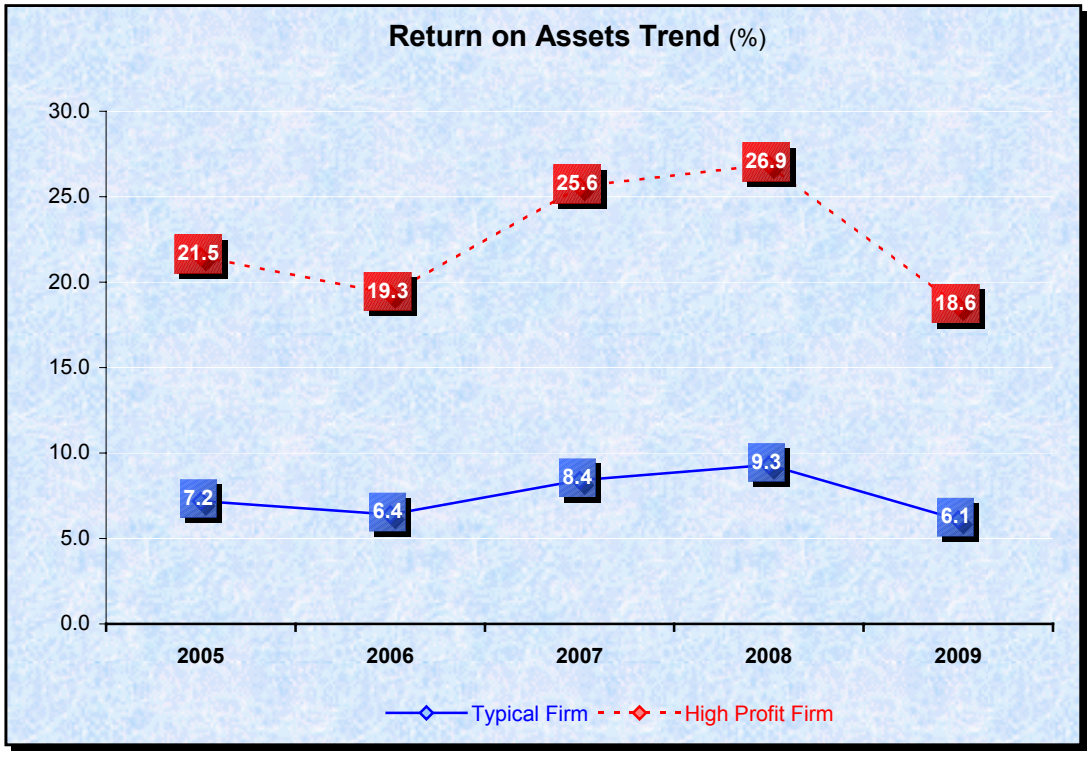
# Trends

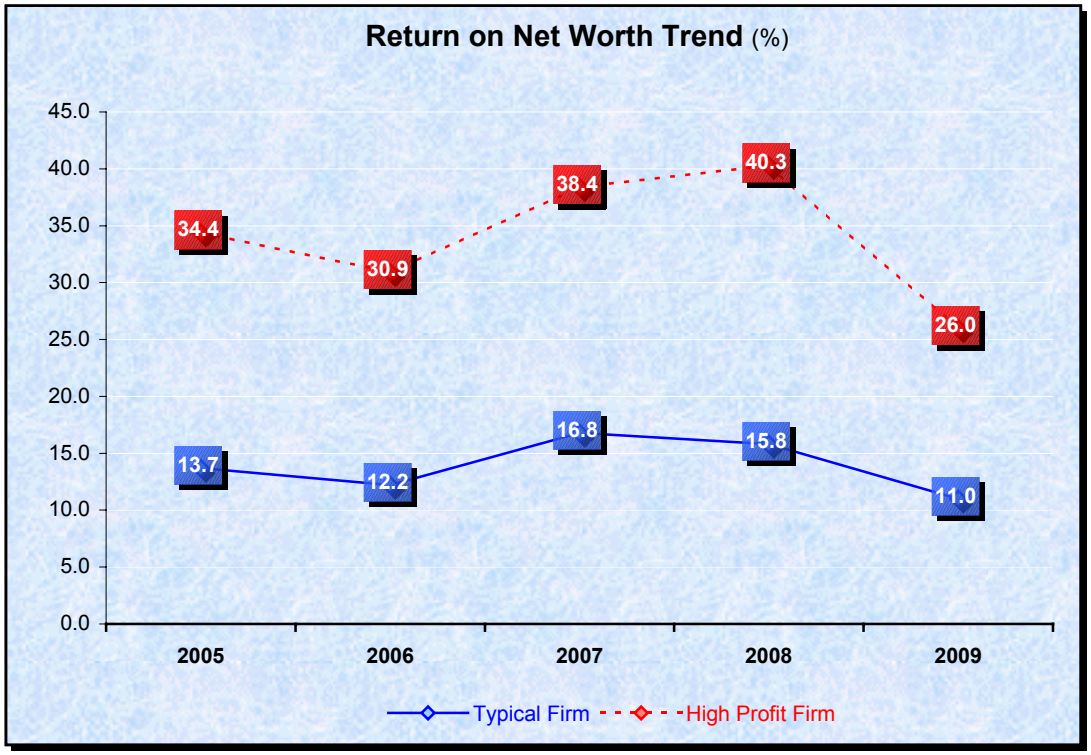
The following graphs present trends for key ratios complied from prior survey results.



# Trends


Return on Assets Trend (%)
30.0
25.0
20.0
15.0
10.0
5.0
0.0
21.5
19.3
25.6
26.9
18.6
7.2
6.4
8.4
9.3
6.1
2005
2006
2007
2008
2009
Typical Firm
High Profit Firm


Return on Net Worth Trend (%)
45.0
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
34.4
30.9
38.4
40.3
26.0
13.7
12.2
16.8
15.8
11.0
2005
2006
2007
2008
2009
Typical Firm
High Profit Firm

# Trends

These tables present five-year trends for selected ratios. Historical data were compiled from prior reports. Different members may have participated each year so the results do not represent a consistent sample.

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| **Number of Firms Reporting** | 55 | 77 | 75 | 76 | 46 |
| **Typical Sales Volume** | $9,610,799 | $7,986,880 | $8,371,000 | $9,950,814 | $10,011,554 |
| Sales Change (vs. prior year) | 7.4% | 6.9% | 8.2% | 8.7% | -8.6% |
| **Strategic Profit Model Ratios** | | | | | |
| Profit Margin (pre-tax) | 2.5% | 2.2% | 2.8% | 3.2% | 2.1% |
| Asset Turnover | 2.9 | 2.9 | 3.0 | 2.9 | 2.9 |
| Return on Assets (pre-tax) | 7.2% | 6.4% | 8.4% | 9.3% | 6.1% |
| Financial Leverage | 1.9 | 1.9 | 2.0 | 1.7 | 1.8 |
| Return on Net Worth (pre-tax) | 13.7% | 12.2% | 16.8% | 15.8% | 11.0% |
| **Income Statement** | | | | | |
| **Net Sales** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| Cost of Goods Sold | 69.1 | 69.0 | 69.8 | 69.9 | 68.8 |
| **Gross Margin** | **30.9** | **31.0** | **30.2** | **30.1** | **31.2** |
| **Personnel Expenses** | | | | | |
| Executive Salaries & Bonuses | 3.7 | 4.2 | 3.6 | 3.3 | 4.4 |
| Sales Salaries & Commissions | 6.3 | 6.6 | 6.2 | 7.2 | 6.4 |
| Warehouse & Delivery Wages | 2.1 | 2.1 | 1.6 | 1.9 | 2.4 |
| All Other Employee Wages | 4.6 | 4.2 | 4.2 | 4.0 | 3.9 |
| Total Salaries, Wages & Bonuses | 16.7 | 17.1 | 15.6 | 16.4 | 17.1 |
| Payroll Taxes (FICA, workers' comp. & unemp.) | 1.5 | 1.4 | 1.5 | 1.4 | 1.5 |
| Group Insurance (medical, hospitalization, etc.) | 1.2 | 1.1 | 1.2 | 1.0 | 1.3 |
| Employee Benefits (profit sharing, pension, etc.) | 0.5 | 0.6 | 0.5 | 0.3 | 0.4 |
| **Total Personnel Expenses** | **19.9** | **20.2** | **18.8** | **19.1** | **20.3** |
| **Occupancy Expenses** | | | | | |
| Utilities (heat, light, power, water) | 0.4 | 0.3 | 0.3 | 0.3 | 0.4 |
| Telephone | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 |
| Building Repairs & Maintenance | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 |
| Rent or Ownership in Real Estate | 1.5 | 1.7 | 1.5 | 1.6 | 1.9 |
| **Total Occupancy Expenses** | **2.5** | **2.5** | **2.4** | **2.5** | **3.0** |
| **Other Operating Expenses** | | | | | |
| Advertising & Promotion | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 |
| Vehicle Expenses | 0.9 | 1.0 | 1.0 | 0.9 | 0.8 |
| Insurance (business liability & casualty) | 0.5 | 0.4 | 0.4 | 0.4 | 0.5 |
| Depreciation | 0.6 | 0.6 | 0.6 | 0.4 | 0.6 |
| Bad Debt Losses | 0.2 | 0.0 | 0.1 | 0.1 | 0.2 |
| All Other Operating Expenses | 3.0 | 3.2 | 3.3 | 3.1 | 3.0 |
| **Total Other Operating Expenses** | **5.4** | **5.4** | **5.6** | **5.0** | **5.3** |
| **Total Operating Expenses** | **27.8** | **28.1** | **26.8** | **26.6** | **28.6** |
| **Operating Profit** | **3.1** | **2.9** | **3.4** | **3.5** | **2.6** |
| Other Income | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| Interest Expense | 0.7 | 0.8 | 0.7 | 0.4 | 0.5 |
| Other Non-operating Expenses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Profit Before Taxes** | **2.5%** | **2.2%** | **2.8%** | **3.2%** | **2.1%** |

# Trends

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| **Typical Total Assets** | $3,314,069 | $2,754,096 | $2,790,333 | $3,431,315 | $3,452,260 |
| **Assets** | | | | | |
| Cash & Marketable Securities | 1.7% | 2.4% | 2.3% | 2.3% | 6.3% |
| Trade Accounts Receivable | 57.4 | 55.7 | 56.2 | 56.3 | 51.1 |
| Inventory | 27.2 | 26.5 | 23.7 | 26.0 | 28.5 |
| Other Current Assets | 1.3 | 1.8 | 1.2 | 1.5 | 1.9 |
| Total Current Assets | 87.6 | 86.4 | 83.4 | 86.1 | 87.8 |
| Fixed & Noncurrent Assets | 12.4 | 13.6 | 16.6 | 13.9 | 12.2 |
| Total Assets | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| **Liabilities and Net Worth** | | | | | |
| Trade Accounts Payable | 18.0% | 19.0% | 20.6% | 18.1% | 17.9% |
| Notes Payable | 12.6 | 14.5 | 9.3 | 12.7 | 11.0 |
| Other Current Liabilities | 8.1 | 7.9 | 11.0 | 7.5 | 7.9 |
| Total Current Liabilities | 38.7 | 41.4 | 40.9 | 38.3 | 36.8 |
| Long Term Liabilities | 8.7 | 6.0 | 9.1 | 2.9 | 8.4 |
| Net Worth or Owner Equity | 52.6 | 52.6 | 50.0 | 58.8 | 54.8 |
| Total Liabilities & Net Worth | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| **Financial Ratios** | | | | | |
| Current Ratio | 2.3 | 2.1 | 2.0 | 2.2 | 2.4 |
| Quick Ratio | 1.5 | 1.4 | 1.4 | 1.5 | 1.6 |
| Accounts Payable to Inventory | 56.8% | 62.9% | 68.9% | 73.7% | 44.3% |
| Accounts Payable Payout Period (days) | 30.7 | 30.2 | 28.6 | 27.5 | 25.2 |
| Debt to Equity | 0.9 | 0.9 | 1.0 | 0.7 | 0.8 |
| EBIT to Total Assets | 9.3% | 8.7% | 10.5% | 10.4% | 7.5% |
| Times Interest Earned | 4.6 | 3.8 | 5.0 | 9.0 | 5.2 |
| **Asset Productivity** | | | | | |
| Cash Sales (% of total sales) | 3.5% | 4.0% | 4.3% | 3.4% | 3.1% |
| Average Collection Period (days) | 65.6 | 69.7 | 64.7 | 59.5 | 64.1 |
| Bad Debt Losses (% of net sales) | 0.2% | 0.0% | 0.1% | 0.1% | 0.2% |
| Inventory Turnover | 6.9 | 7.3 | 7.8 | 6.6 | 6.8 |
| Inventory Holding Period (days) | 52.9 | 50.0 | 46.8 | 55.3 | 53.7 |
| Sales to Inventory Ratio | 10.1 | 10.5 | 10.5 | 10.3 | 9.9 |
| Gross Margin Return on Inventory | 319.8% | 321.9% | 353.0% | 337.7% | 304.4% |
| **Cash Flow Cycle** | | | | | |
| Average Collection Period (days) | 65.6 | 69.7 | 64.7 | 59.5 | 64.1 |
| Plus Inventory Holding Period (days) | 52.9 | 50.0 | 46.8 | 55.3 | 53.7 |
| Gross Cash Flow (days) | 118.5 | 119.7 | 111.5 | 114.8 | 117.8 |
| Minus A/P Payout Period (days) | 30.7 | 30.2 | 28.6 | 27.5 | 25.2 |
| Cash Cycle (days) | 87.8 | 89.5 | 82.9 | 87.3 | 92.6 |
| **Growth & Cash Sufficiency** | | | | | |
| Growth Potential Index | 8.6% | 7.5% | 8.8% | 10.6% | 6.6% |
| Cash to Current Liabilities | 4.4% | 5.8% | 5.6% | 6.0% | 17.1% |
| Defensive Interval (days) | 7.6 | 9.1 | 10.6 | 10.0 | 26.1 |
| Sales to Working Capital | 7.0 | 6.5 | 6.4 | 6.2 | 5.8 |

# Trends

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| **Shipments Received** (monthly avg.) | 205 | 200 | 200 | 188 | 173 |
| Sales per Shipment Received | $2,249 | $2,115 | $2,239 | $3,055 | $3,140 |
| **Stockkeeping Units** (SKUs) | 1,425 | 1,115 | 1,165 | 1,177 | 1,100 |
| Sales per SKU | $4,754 | $4,215 | $4,841 | $7,372 | $7,240 |
| Inventory per SKU | $491 | $556 | $502 | $832 | $718 |
| **Customers** | 240 | 180 | 172 | 200 | 198 |
| Sales per Customer | $32,473 | $46,316 | $43,966 | $54,329 | $49,770 |
| **Orders Shipped** (monthly avg.) | 453 | 395 | 339 | 286 | 337 |
| Sales per Order | $1,619 | $1,614 | $1,693 | $2,049 | $2,081 |
| Lines per Order (avg.) | 7.0 | 7.0 | 8.0 | 7.0 | 8.0 |
| Sales per Order Line | $233 | $252 | $243 | $315 | $263 |
| **Product Sales** | | | | | |
| Builders Hardware | 44.2% | 40.2% | 42.9% | 41.7% | 42.4% |
| Electronic Hardware | 6.4 | 5.5 | 5.6 | 4.4 | 4.6 |
| Metal Doors & Related Products | 25.3 | 24.8 | 23.3 | 25.4 | 23.6 |
| Wood Doors & Frames | 14.4 | 16.5 | 17.1 | 16.8 | 18.2 |
| Toilet Accessories & Partitions | 3.4 | 4.3 | 4.7 | 4.5 | 4.2 |
| Other | 6.3 | 8.7 | 6.4 | 7.2 | 7.0 |
| Total Sales | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| **Type of Sale** | | | | | |
| Contract Jobs | 70.0% | 72.0% | 75.0% | 73.0% | 75.0% |
| Non Contract Sales | 30.0 | 28.0 | 25.0 | 27.0 | 25.0 |
| Total Sales | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| **Manufacturers** | 95 | 86 | 95 | 90 | 86 |
| Sales per Manufacturer | $78,419 | $78,262 | $73,246 | $93,638 | $99,210 |
| **Employees** (FTE) | 35 | 26 | 25 | 31 | 28 |
| Sales per Employee | $265,275 | $279,081 | $287,531 | $317,315 | $302,739 |
| Gross Margin per Employee | $83,060 | $91,343 | $90,375 | $100,523 | $91,508 |
| Salary per Employee | $43,204 | $43,818 | $45,285 | $50,815 | $48,795 |
| Payroll per Employee | $52,464 | $54,662 | $54,743 | $61,398 | $59,139 |
| Payroll Expense (% of sales) | 19.9% | 20.2% | 18.8% | 19.1% | 20.3% |
| Benefits (% of total payroll) | 16.1% | 15.3% | 17.0% | 14.1% | 15.8% |
| Personnel Productivity Ratio | 64.4% | 65.1% | 62.3% | 63.5% | 65.1% |

# Appendix

| 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<br>+ Inventory Holding Period<br>- 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 |