dhi Door and Hardware Institute

2011 PROFIT Report

An analysis of fiscal 2010

Prepared by
Profit Planning Group

dhi Door and Hardware Institute

Making the Most of the Recovery

Most firms are breathing a sigh of relief that the worst of the recession can now only be seen in the rearview mirror. Better times clearly are at hand and even better results seem likely over the course of the next year. It is at just this point in time when too many firms become complacent or even derelict in their financial planning.

When the economy starts to recover, there is a tendency to relish the marked improvement in profitability without giving ample thought as to whether the improvement is as large as it really should be. In short profits are undeniably better, but they could have been even better still.

Some important guidelines as to how good profitability really can be are contained in the recently completed **2011 DHI** financial benchmarking study. 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 generally tend to become magnified as the economy recovers.

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.

In 2010 the typical firm generated sales of $11,316,044. On that sales base, it produces a pre-tax profit of $158,425, which equates to a profit margin of 1.4% of sales. Stated somewhat differently, every $1.00 of sales results in 1.4 cents of profit. The results are certainly an improvement from the bottom of the recession, but are still not as strong as they should be.

In contrast to the typical firm, the high-profit firm generated a profit margin of 4.3%. 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 produce even more sales and profit. This is an on-going advantage which is amplified over time. As stated before, it is an advantage which is almost always magnified in the recovery phase of the economic cycle.

Driving Profits to Their Maximum Level

Reaching high-profit performance is a matter of identifying the factors that are most important to producing profit and then developing a plan to perform better in those areas. 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	$11,316,044	$13,147,475
Profit Margin (pre-tax)	1.4%	4.3%
The Critical Profit Variables		
Sales Change	-3.0%	1.5%
Gross Margin	29.1%	30.4%
Payroll Expense	20.4%	20.0%
Non-Payroll Expenses	7.2%	6.2%

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 firms that combine the CPVs in a way that produces high-profit results don't simply do a little better than the typical firm. They do a lot better. A few small changes in the CPVs result in major changes in profit margin.

It is also important to note that the CPVs tend to be the same in both good times and bad. However, they apply in very different ways at different points in the business cycle. The differences are especially pronounced at the point of economic recovery.

The factors that are most important to enhancing profit results 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 the early part of the recovery which will carry over to the more rapid growth stage.

- **Sales Growth**

The level of sales growth is always a key issue in generating adequate profits. Sales growth allows the firm to overcome the inevitable inroads of inflation on the expense structure. As long as sales growth outpaces inflation, the firm should be able to make at least incremental improvements in profitability.

The problem during economic recovery is that sales may actually grow too fast. Let it be noted from the start that after a recession, nobody worries about too much sales growth. In reality, they should be.

There are two problems with excessive growth. The first is that the increase in accounts receivable and inventory associated with rapid growth is often more than the firm can finance. This is especially pronounced with credit markets are tight. The second problem is that rapid growth too frequently leads to even more rapid increases in expenses. Processing more orders requires more personnel. Training issues often arise and productivity takes something of a beating.

The key to sales growth is to at least beat the increase in inflation. Ideally, sales should grow a couple of percentage points faster than expenses. If sales growth moves far beyond that level, the firm should consider focusing on gross margin more intently.

- **Gross Margin**

Surprisingly, an uptick in the economy often results in slightly lowered gross margin percentages. As firms focus intently on servicing rising sales, much of the needed emphasis on pricing goes astray. The reality is that an adequate gross margin is always a major determinant of profitability. In periods of recovery, the need for maintaining discipline in gross margin management is essential.

- **Payroll Expenses**

Payroll is by far the most important expense factor, which means that controlling payroll is essential to controlling expenses. However, in a period of recovery, payroll expense is the one factor that tends to get out of control the quickest. Given its size it is also the one with the most severe consequence for profitability.

The challenge with payroll during a recovery is that every employee feels a need to "catch up" since wage increases were usually deferred during the recession. If this is combined with overly rapid sales growth some serious payroll challenge emerge. The watchword with regard to payroll control during the initial phase of recovery is discipline.

- **Non-Payroll Expenses**

Most non-payroll expenses usually require only minor adjustment if sales really are rising faster than inflation. The lion's share of non-payroll expenses are linked directly to inflation. Controlled growth should keep them in line.

Every recession eventually ends. Once it does, many firms fail to capitalize on the advantages that sales growth provides. Firms must avoid the "back to business as usual" routine that tends to take place during recovery. It is how they end up with a profit margin of only 1.4% that the typical firm has rather than the 4.3% for the high-profit firms. The difference is not inconsequential.

Contents

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

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

Introduction

This report presents a detailed but straightforward analysis of financial and operating characteristics of 53 participating DHI firms. Results are presented in tables and graphs designed to provide a comprehensive guide for analyzing profitability.

Methodology

Surveys were mailed to all members to collect detailed financial and operating data. Completed surveys were returned directly to Profit Planning Group for analysis. Individual responses were kept strictly confidential by Profit Planning Group. Neither DHI nor any other firm had access to any individual firm's survey or results.

Report Format

This report is organized into the following sections.

- **Executive Summary**
  An overview of study results including a graphical presentation of key results.
- **Detailed Results**
  An analysis of return on investment and financial and productivity ratios.
- **Regions**
  Geographic regions are analyzed. Participants were grouped according to regions specified by DHI.
- **Trends**
  An examination of changes in performance over time for key results and ratios.
- **Ratio Calculation**
  A summary of ratio calculations.

Statistics

- **Medians**
  Most of the figures presented in this report are based on median results. A median is the middle value in the sorted list of all reported values. Unlike averages, medians are not influenced by extreme values and, therefore, best represent a typical firm. Medians are the preferred statistic for this analysis.
- **High-Profit Group**
  A high-profit group was identified based on pre-tax return on assets (ROA). This group includes firms with the top ROA results. High-profit results are based on the medians of data reported by these firms.
- **Averages for Inventory, Accounts Receivable, and Accounts Payable**
  If available, calculations use average values for inventory, accounts receivable, and accounts payable.
- **FIFO Adjustment**
  For firms reporting LIFO reserve data, inventory, cost of goods sold and gross margin were adjusted to a FIFO basis.
- **The N/A Label**
  Throughout this report, "N/A" designates results that are not available due to limited data.

Executive Summary

Financial performance varied widely among participants in 2010. The results show a typical firm generated sales of $11,316,044 and a pre-tax profit of 1.4%. Sales for the typical high-profit firm were $13,147,475, with a profit of 4.3%. Of greatest consequence, the typical firm had a 3.8% pre-tax return on assets (profit before taxes expressed as a percentage of total assets) while the typical high-profit firm generated an ROA of 13.3%.

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

The Critical Profit Variables

	Typical DHI Distributor	High Profit DHI
Sales per Employee Measures employee productivity	$265,966	$304,008
Gross Margin Percentage Reflects the ability to manage COGS effectively	29.1%	30.4%
Operating Expense Percentage Focuses on expense control	27.6%	26.2%
Inventory Turnover (times) Reflects how well inventory is managed	6.5	7.3
Average Collection Period (days) Reflects accounts receivable collection practices	63.5	55.5

High-profit firms may not always perform better in every CPV but their *combined* CPV performance produces better overall results. The following table presents a comparison of these results. Since these differences can dramatically improve operating performance it is important that every firm is aware of their impact.

An Overview of Financial Results

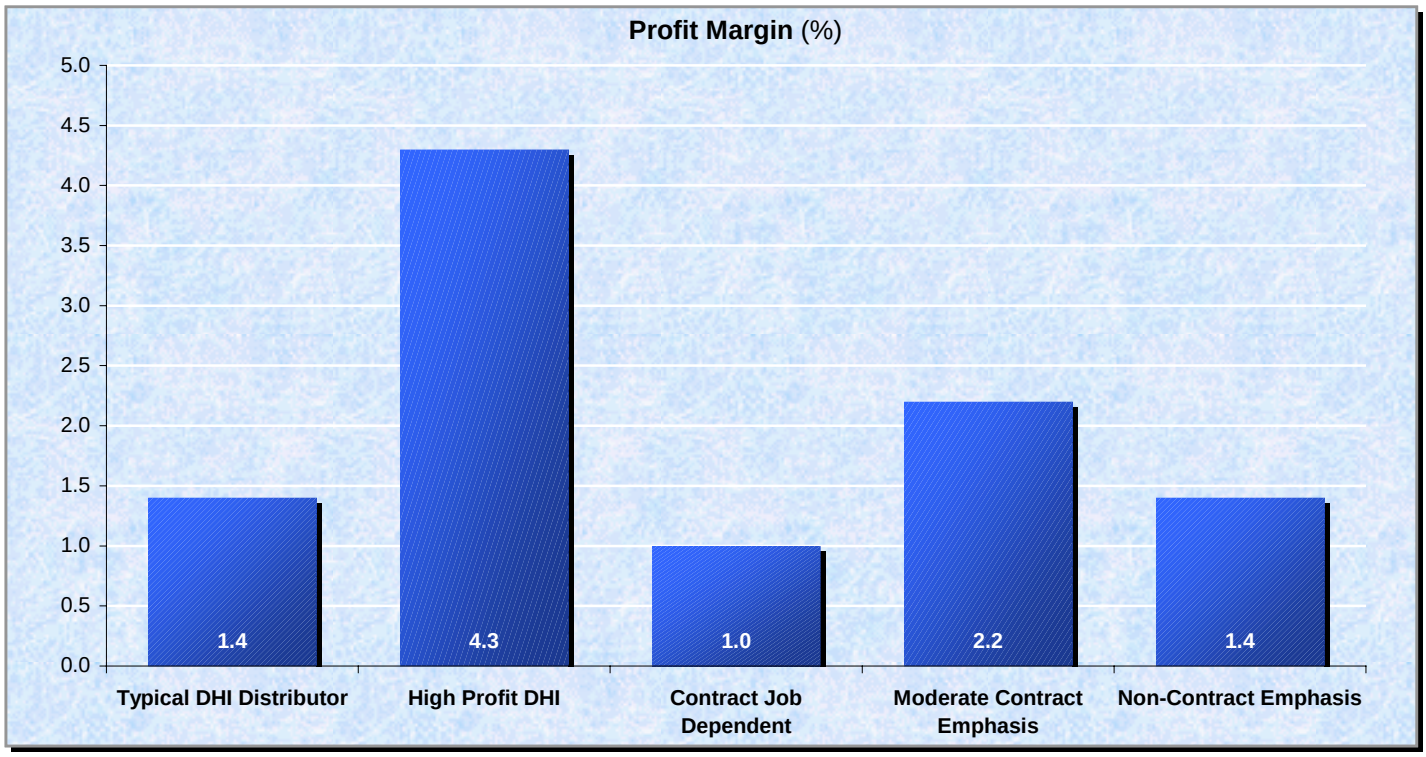
	Typical DHI Distributor	High Profit DHI
Income Statement		
Net Sales	$11,316,044	$13,147,475
Cost of Goods Sold	8,023,075	9,150,643
Gross Margin	3,292,969	3,996,832
Operating Expenses	3,123,228	3,444,638
Operating Profit	169,741	552,194
Other Income/Expenses	-11,316	13,147
Profit Before Taxes	$158,425	$565,341
Profit Before Taxes (%)	1.4%	4.3%
Assets		
Cash	$213,748	$190,850
Accounts Receivable	2,057,844	2,103,596
Inventory	1,135,795	1,102,692
All Other Assets	783,740	843,983
Total Assets	$4,191,127	$4,241,121
Return on Assets (Pre-Tax)	3.8%	13.3%

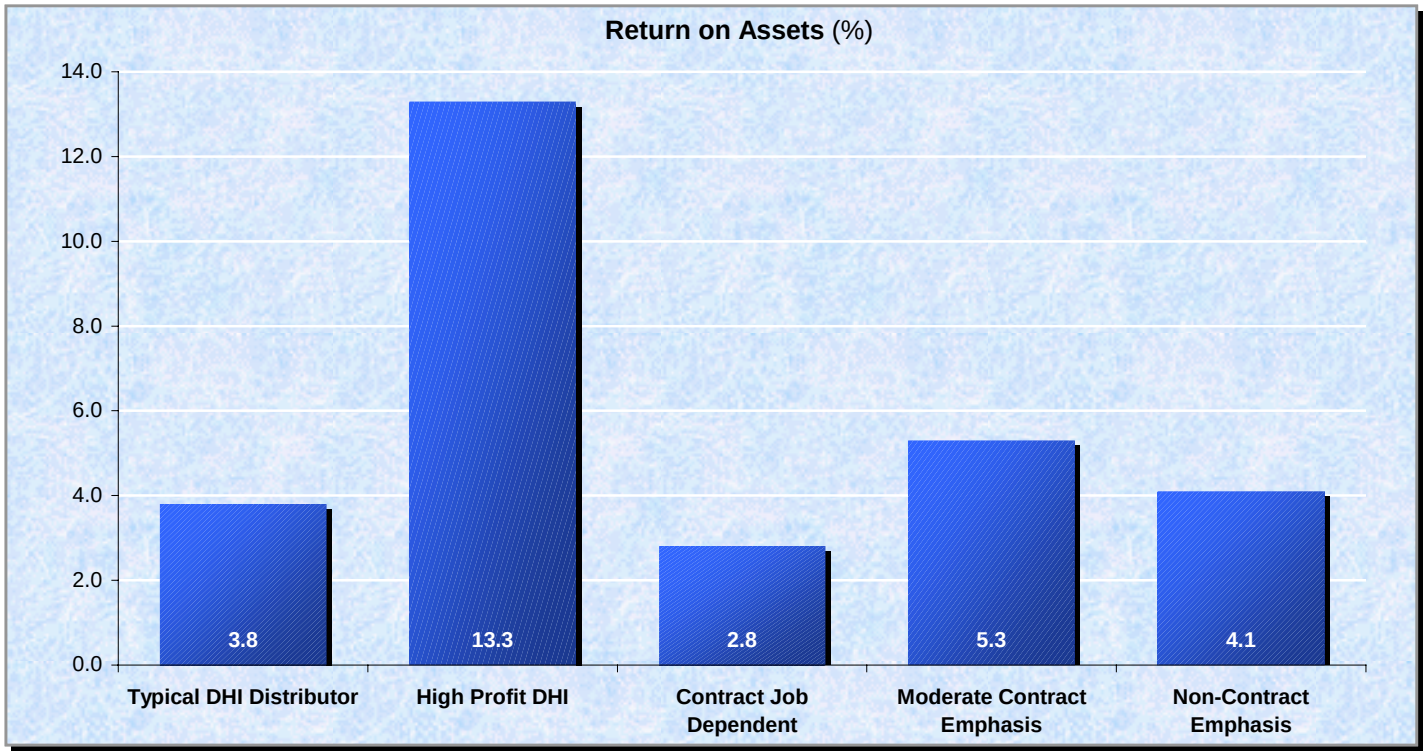
Executive Summary

	Typical DHI Distributor	High Profit DHI
Typical Sales Volume	$11,316,044	$13,147,475
Strategic Profit Model Ratios		
Profit Margin (pre-tax)	1.4%	4.3%
Asset Turnover	2.7	3.1
Return on Assets (pre-tax)	3.8%	13.3%
Financial Leverage	1.7	1.4
Return on Net Worth (pre-tax)	6.5%	18.6%
Income Statement		
Net Sales	**100.0%**	**100.0%**
Cost of Goods Sold	70.9	69.6
Gross Margin	**29.1**	**30.4**
Operating Expenses		
Payroll Expenses	20.4	20.0
Occupancy Expenses	2.5	2.3
Other Operating Expenses	4.7	3.9
Total Operating Expenses	**27.6**	**26.2**
Operating Profit	**1.5**	**4.2**
Other Income/Expenses	-0.1	0.1
Profit Before Taxes	**1.4%**	**4.3%**
Financial Ratios		
Current Ratio	3.0	3.5
Quick Ratio	1.8	1.9
Accounts Payable to Inventory	56.1%	37.0%
Accounts Payable Payout Period (days)	22.6	19.5
Debt to Equity	0.6	0.4
EBIT to Total Assets	4.1%	13.9%
Times Interest Earned	6.3	26.1
Asset Productivity		
Average Collection Period (days)	63.5	55.5
Inventory Turnover (times)	6.5	7.3
Inventory Holding Period (days)	56.1	49.7
Gross Margin Return on Inventory	301.2%	340.9%
Growth & Cash Sufficiency		
Growth Potential Index (GPI)	3.6%	19.6%
Cash Cycle (days)	97.0	85.7
Operations		
Sales per SKU	$7,033	$7,706
Sales per Customer	$40,785	$43,825
Sales per Order	$1,950	$2,139
Employees		
Sales per Employee	$265,966	$304,008
Gross Margin per Employee	$76,607	$91,718
Payroll per Employee	$56,462	$60,459
Personnel Productivity Ratio	70.2%	65.8%

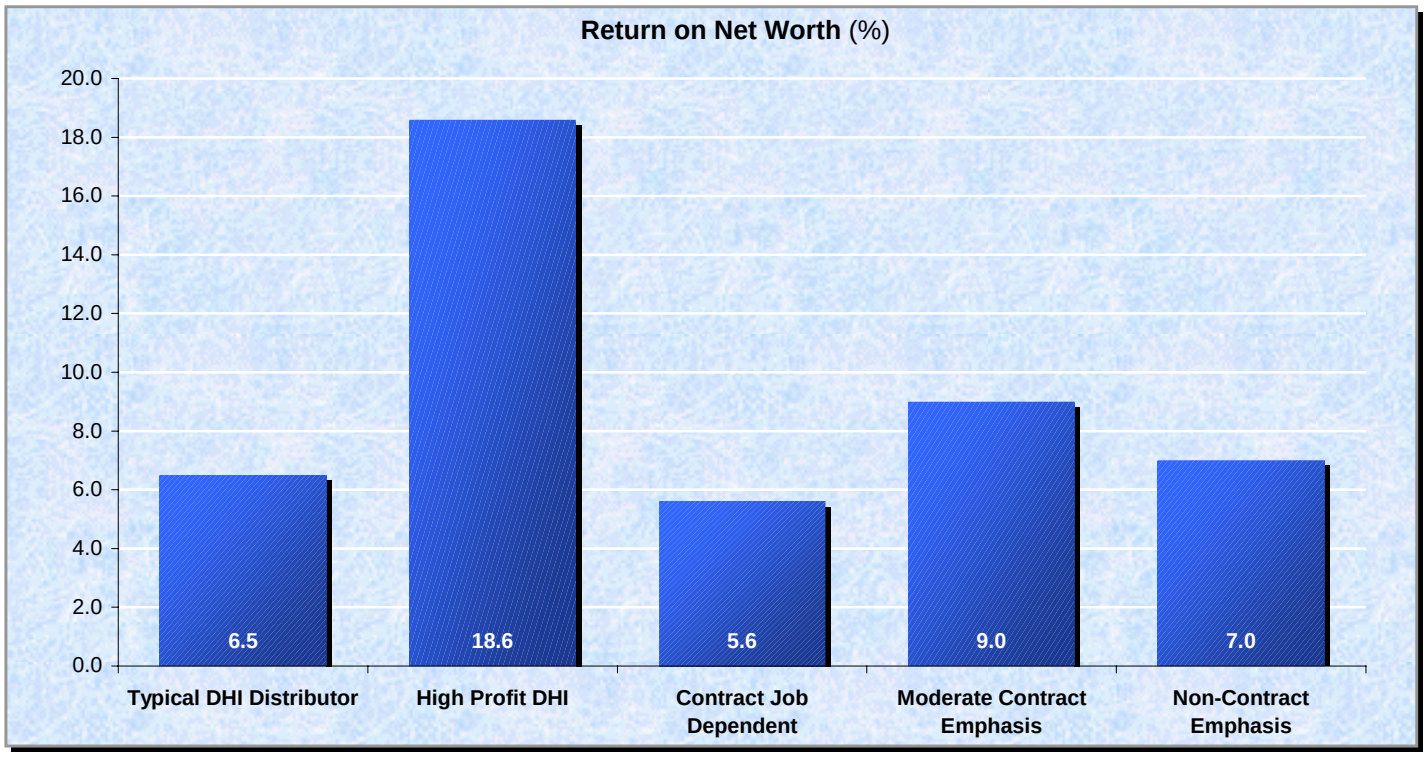
Graphical Analysis

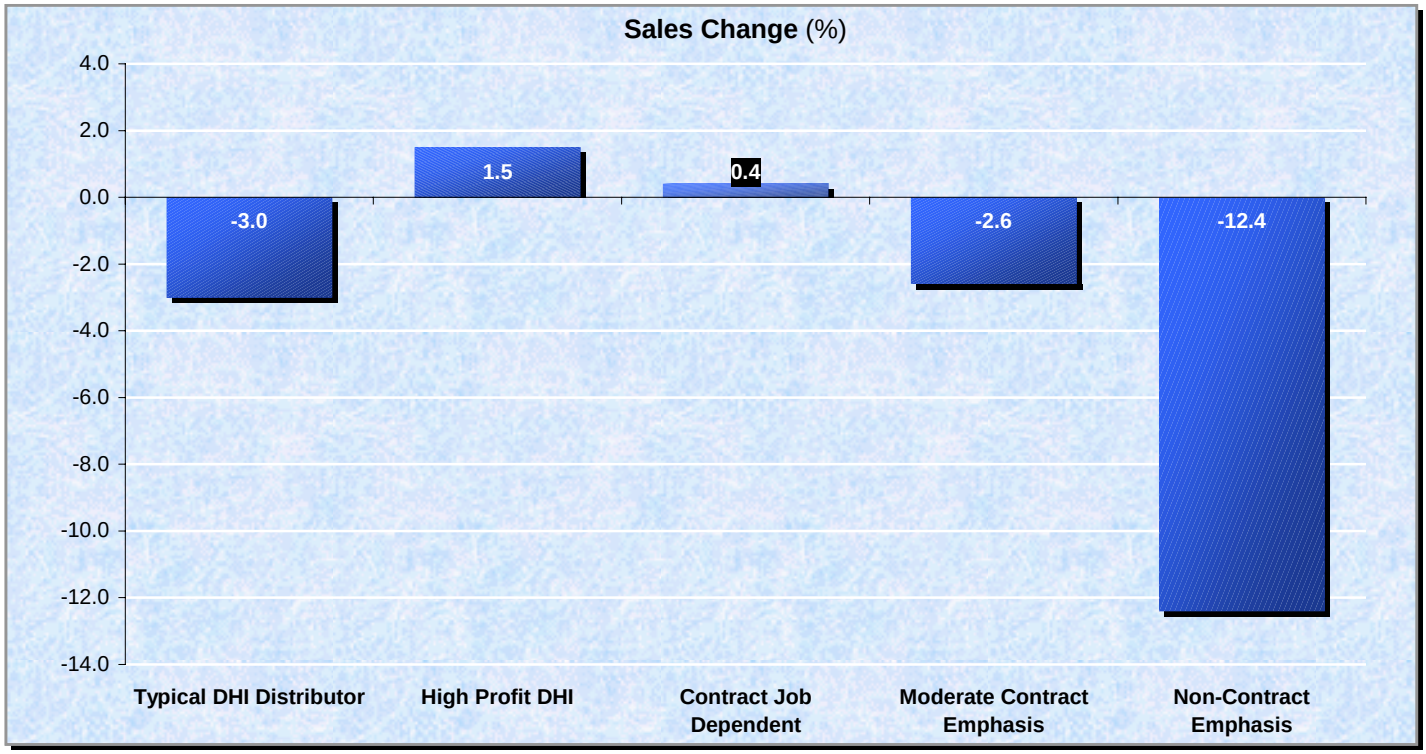
This section graphically presents results for key profitability measures and the factors that drive these results.





Graphical Analysis





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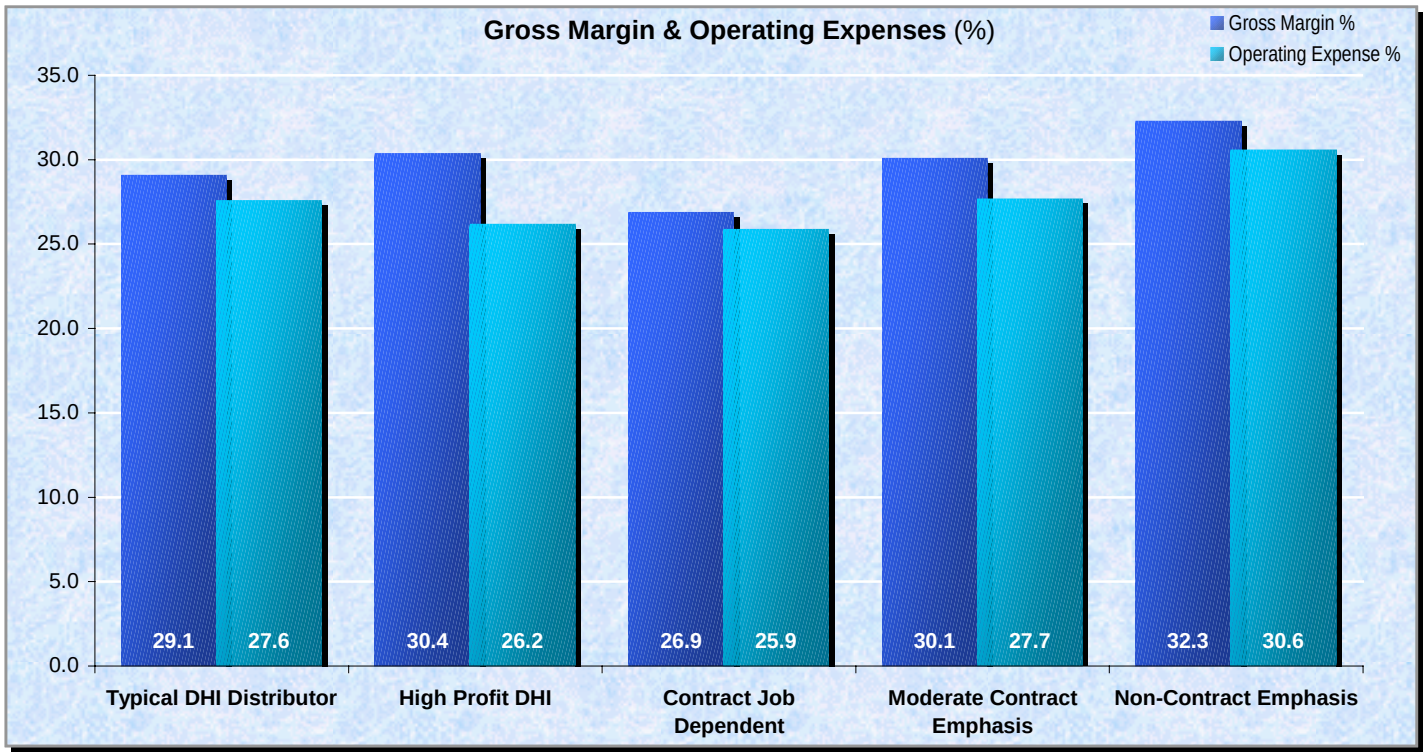
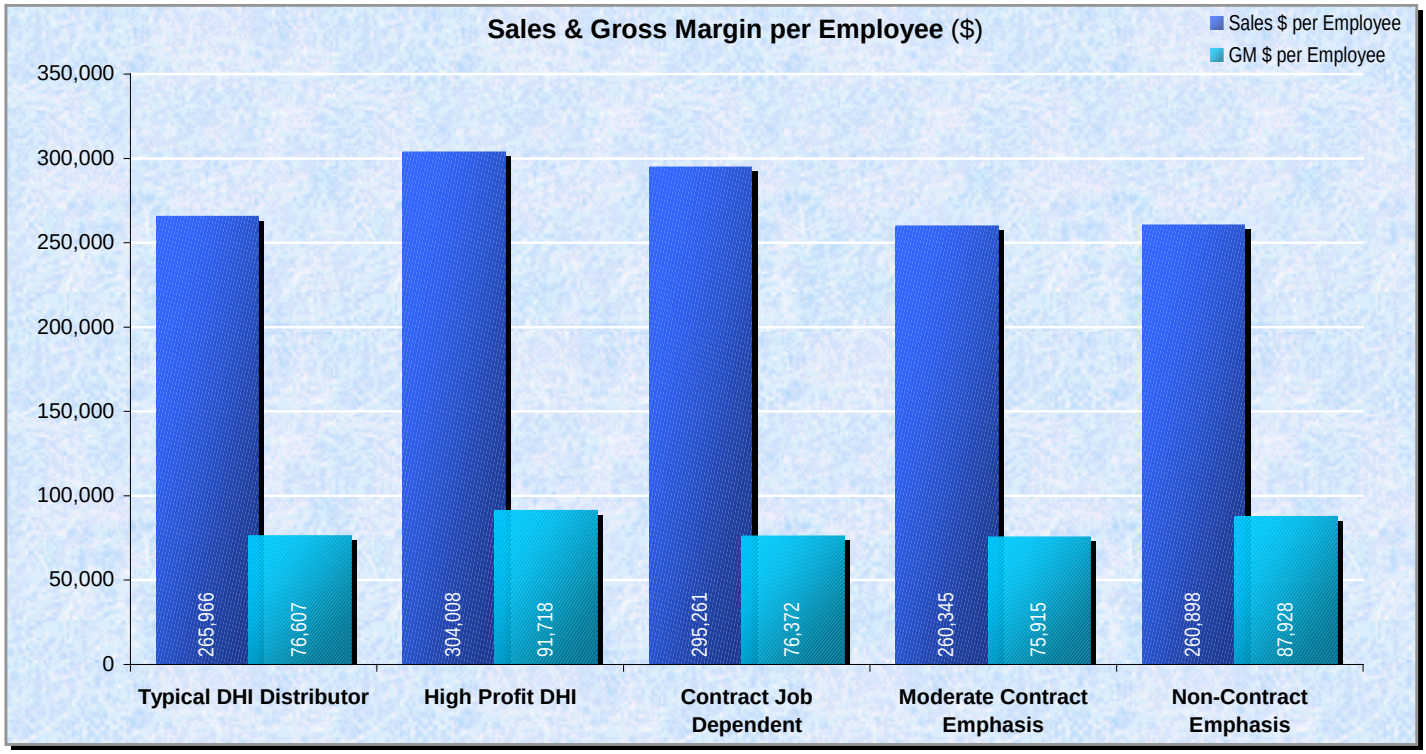
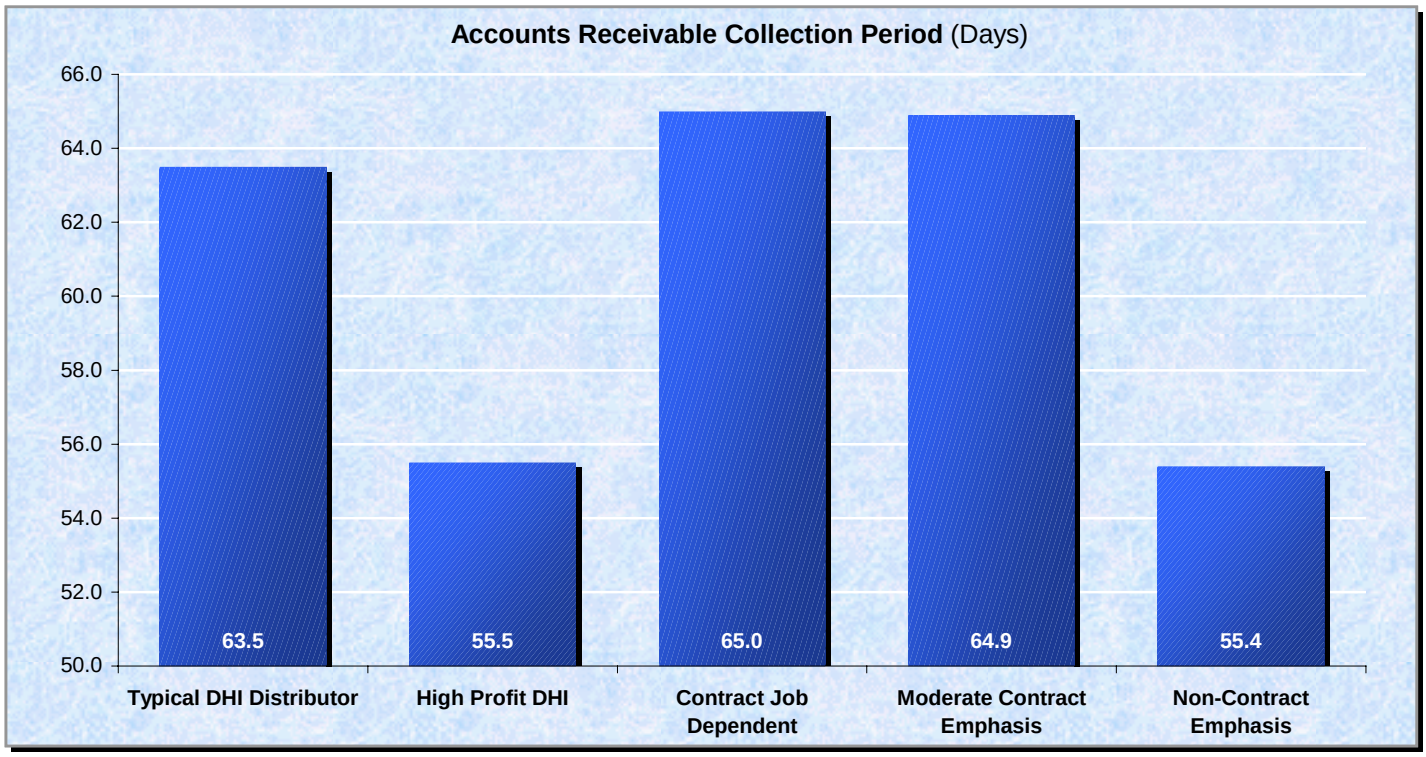
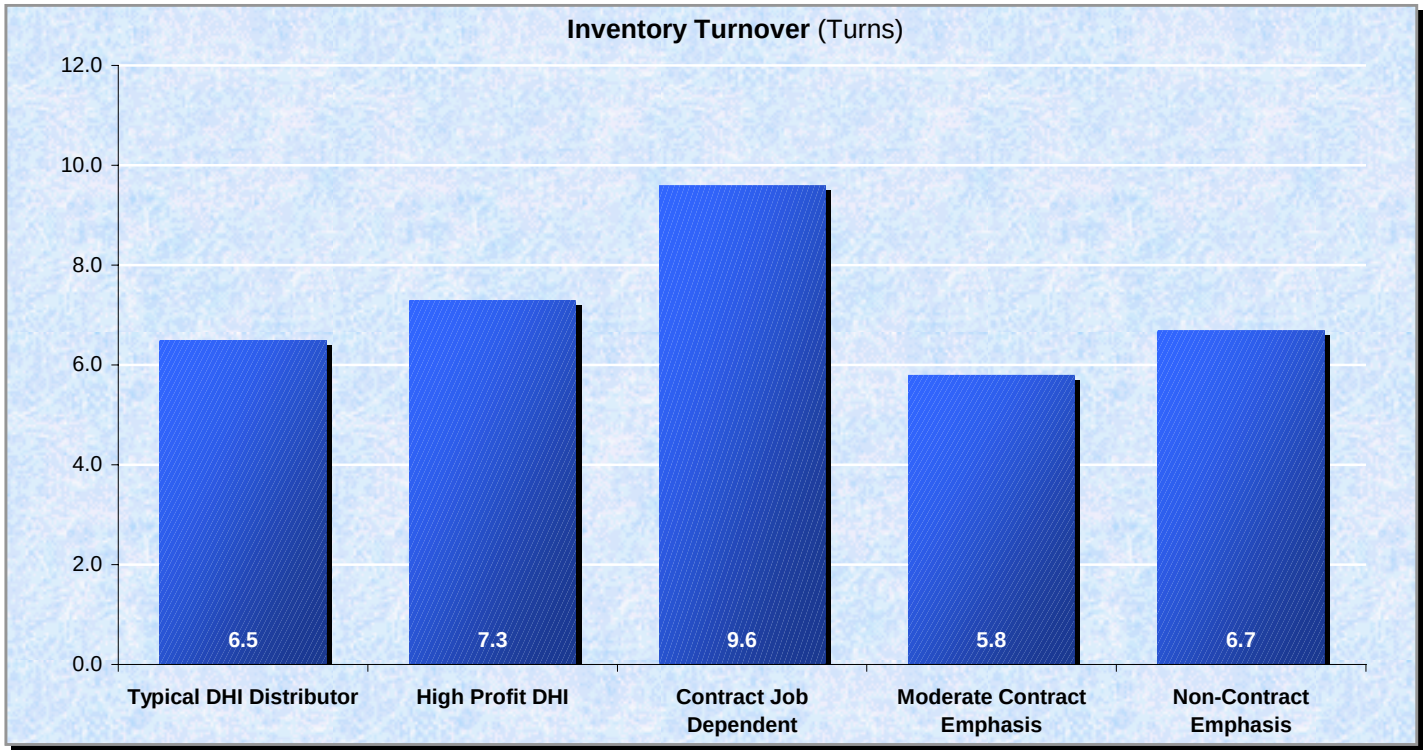




Graphical Analysis





Return on Investment

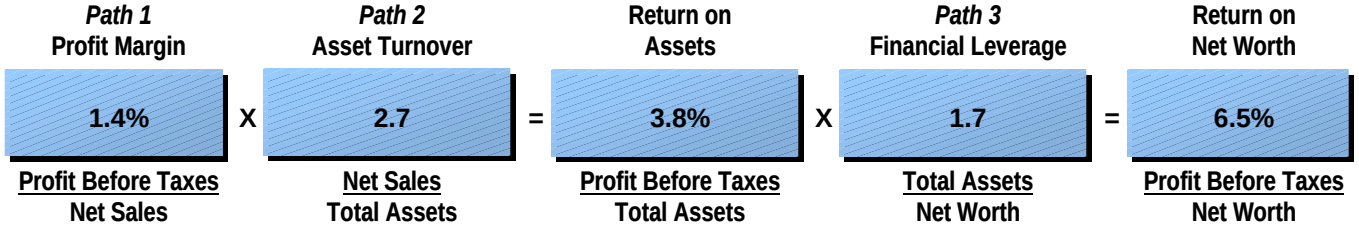
Return on investment is the most meaningful way to evaluate overall business profitability. It is important to understand how return on investment is calculated and how it can be improved.

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 owners. Both have their 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**. This model is simply a graphical representation of a comprehensive return on investment analysis. The figure below presents the strategic profit model for the typical firm.



***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 1.4% means that for every $1.00 of sales the business was able to produce 1.4¢ in profit before taxes. Profit margin focuses on revenue, 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 2.7 means that the firm is able to generate $2.70 in sales for every $1.00 in assets. If a firm's cash, accounts receivable, inventory, property, equipment, and all other assets can be used as efficiently as possible, then maximum revenue 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.

***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 1.7 times suggests that for every $1.00 in net worth, the firm had $1.70 in total assets. If for every $1.70 in total assets the owners put up $1.00, then outsiders put up the remaining $0.60.

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 for improvement opportunities and trade-offs made to increase overall profitability.

	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Strategic Profit Model Ratios					
Profit Margin (pre-tax)	1.4%	4.3%	1.0%	2.2%	1.4%
Asset Turnover	2.7	3.1	2.8	2.4	2.9
Return on Assets (pre-tax)	3.8%	13.3%	2.8%	5.3%	4.1%
Financial Leverage	1.7	1.4	2.0	1.7	1.7
Return on Net Worth (pre-tax)	6.5%	18.6%	5.6%	9.0%	7.0%

Income Statement

The income statement reflects the ability of management to generate sales at a reasonable margin, control expenses and earn an equitable profit. It serves as the primary scorecard of management's effectiveness.

	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Number of Firms Reporting	53	13	16	24	11
Typical Sales Volume	$11,316,044	$13,147,475	$13,685,795	$9,777,299	$7,334,447
Sales Change (2009 to 2010)	-3.0%	1.5%	0.4%	-2.6%	-12.4%
Income Statement					
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	70.9	69.6	73.1	69.9	67.7
Gross Margin	**29.1**	**30.4**	**26.9**	**30.1**	**32.3**
Personnel Expenses					
Executive Salaries & Bonuses	3.8	2.3	3.3	4.1	4.3
Sales Salaries & Commissions	6.7	7.1	4.5	6.9	8.2
Warehouse & Delivery Wages	1.6	3.5	0.8	2.2	2.3
All Other Employee Wages	5.0	4.1	7.5	3.9	3.2
Total Salaries, Wages & Bonuses	17.1	17.0	16.1	17.1	18.0
Payroll Taxes (FICA, workers' comp. & unemp.)	1.5	1.4	1.6	1.5	1.8
Group Insurance (medical, hospitalization, etc.)	1.4	1.3	1.1	1.5	1.5
Employee Benefits (profit sharing, pension, etc.)	0.4	0.3	0.3	0.4	0.5
Total Personnel Expenses	**20.4**	**20.0**	**19.1**	**20.5**	**21.8**
Occupancy Expenses					
Utilities (heat, light, power, water)	0.3	0.3	0.3	0.4	0.4
Telephone	0.3	0.2	0.3	0.3	0.3
Building Repairs & Maintenance	0.2	0.2	0.2	0.2	0.3
Rent or Real Estate Ownership	1.7	1.6	1.6	1.8	2.5
Total Occupancy Expenses	**2.5**	**2.3**	**2.4**	**2.7**	**3.5**
Other Operating Expenses					
Advertising & Promotion	0.1	0.1	0.1	0.1	0.1
Vehicle Expense	1.0	0.8	0.8	1.0	1.1
Insurance (business liability & casualty)	0.3	0.3	0.4	0.3	0.4
Depreciation	0.5	0.3	0.7	0.4	0.6
Bad Debt Losses	0.1	0.1	0.0	0.1	0.2
All Other Operating Expenses	2.7	2.3	2.4	2.6	2.9
Total Other Operating Expenses	**4.7**	**3.9**	**4.4**	**4.5**	**5.3**
Total Operating Expenses	**27.6**	**26.2**	**25.9**	**27.7**	**30.6**
Operating Profit	**1.5**	**4.2**	**1.0**	**2.4**	**1.7**
Other Income	0.1	0.2	0.1	0.1	0.1
Interest Expense	0.2	0.1	0.1	0.3	0.4
Other Non-operating Expenses	0.0	0.0	0.0	0.0	0.0
Profit Before Taxes	**1.4%**	**4.3%**	**1.0%**	**2.2%**	**1.4%**

Expenses in Relationship to Gross Margin

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

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

	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Gross Margin	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Personnel Expenses					
Executive Salaries & Bonuses	13.1	7.6	12.3	13.6	13.3
Sales Salaries & Commissions	23.0	23.4	16.7	22.9	25.4
Warehouse & Delivery Wages	5.5	11.5	3.0	7.3	7.1
All Other Employee Wages	17.2	13.4	27.9	13.0	9.9
Total Salaries, Wages & Bonuses	58.8	55.9	59.9	56.8	55.7
Payroll Taxes (FICA, workers' comp. & unemp.)	5.2	4.6	5.9	5.0	5.6
Group Insurance (medical, hospitalization, etc.)	4.8	4.3	4.1	5.0	4.6
Employee Benefits (profit sharing, pension, etc.)	1.4	1.0	1.1	1.3	1.6
Total Personnel Expenses	**70.2**	**65.8**	**71.0**	**68.1**	**67.5**
Occupancy Expenses					
Utilities (heat, light, power, water)	1.0	1.0	1.1	1.3	1.2
Telephone	1.0	0.7	1.1	1.0	0.9
Building Repairs & Maintenance	0.7	0.7	0.7	0.7	0.9
Rent or Real Estate Ownership	5.8	5.3	6.0	6.0	7.8
Total Occupancy Expenses	**8.5**	**7.7**	**8.9**	**9.0**	**10.8**
Other Operating Expenses					
Advertising & Promotion	0.3	0.3	0.4	0.3	0.3
Vehicle Expense	3.4	2.6	3.0	3.3	3.4
Insurance (business liability & casualty)	1.0	1.0	1.5	1.0	1.2
Depreciation	1.7	1.0	2.6	1.3	1.9
Bad Debt Losses	0.3	0.3	0.0	0.3	0.6
All Other Operating Expenses	9.4	7.6	8.9	8.7	9.0
Total Other Operating Expenses	**16.1**	**12.8**	**16.4**	**14.9**	**16.4**
Total Operating Expenses	**94.8**	**86.3**	**96.3**	**92.0**	**94.7**
Operating Profit	**5.2**	**13.7**	**3.7**	**8.0**	**5.3**
Other Income	0.3	0.7	0.4	0.3	0.2
Interest Expense	0.7	0.3	0.4	1.0	1.2
Other Non-operating Expenses	0.0	0.0	0.0	0.0	0.0
Profit Before Taxes	**4.8%**	**14.1%**	**3.7%**	**7.3%**	**4.3%**

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.

	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Typical Total Assets	$4,191,127	$4,241,121	$4,887,784	$4,073,874	$2,529,120
Assets					
Cash & Marketable Securities	5.1%	4.5%	10.3%	3.3%	8.0%
Trade Accounts Receivable	49.1	49.6	54.1	47.6	43.1
Inventory	27.1	26.0	17.4	28.4	29.0
Other Current Assets	2.6	1.6	4.8	2.7	1.6
Total Current Assets	83.9	81.7	86.6	82.0	81.7
Fixed & Noncurrent Assets	16.1	18.3	13.4	18.0	18.3
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Trade Accounts Payable	18.0%	11.6%	26.1%	12.7%	17.2%
Notes Payable	8.5	6.8	2.2	11.0	10.0
Other Current Liabilities	9.4	5.1	18.0	8.0	5.8
Total Current Liabilities	35.9	23.5	46.3	31.7	33.0
Long Term Liabilities	5.6	4.1	2.6	7.8	9.3
Net Worth or Owner Equity	58.5	72.4	51.1	60.5	57.7
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 asset 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.

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.

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.

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.

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.

	Typical DHI Distributor	High Profit DHI	Contract Job Dependent	Moderate Contract Emphasis	Non-Contract Emphasis
Financial Ratios					
Current Ratio	3.0	3.5	2.0	3.3	3.0
Quick Ratio	1.8	1.9	1.5	1.9	1.8
Accounts Payable to Inventory	56.1%	37.0%	82.0%	34.5%	57.1%
Accounts Payable Payout Period (days)	22.6	19.5	30.1	18.3	22.9
Debt to Equity	0.6	0.4	1.0	0.5	0.4
EBIT to Total Assets	4.1%	13.9%	2.6%	4.5%	5.0%
Times Interest Earned	6.3	26.1	6.7	6.0	4.7

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 member, the turnover figure of 6.5 means that the firm sells out the equivalent of its inventory value 6.5 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 9.4 for the typical member indicates that the firm generates $9.40 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 invested 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)	4.0%	3.2%	1.0%	4.0%	7.0%
Average Collection Period (days)	63.5	55.5	65.0	64.9	55.4
Bad Debt Losses (% of net sales)	0.1%	0.1%	0.0%	0.1%	0.2%
Inventory					
Inventory Turnover	6.5	7.3	9.6	5.8	6.7
Inventory Holding Period (days)	56.1	49.7	38.3	63.2	54.5
Sales to Inventory Ratio	9.4	10.6	12.1	8.9	9.6
Gross Margin Return on Inventory	301.2%	340.9%	405.6%	283.1%	323.4%
Sales Path					
Warehouse Sales	90.0%	90.0%	90.0%	90.0%	96.0%
Direct Shipments	10.0	10.0	10.0	10.0	4.0
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%

Growth and Cash Sufficiency

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 reduce cash on hand. 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.

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.

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 5.0, for example, means the firm can generate $5.00 in sales for every $1.00 invested in working capital. This ratio can be improved by changes in any of the three working capital variables—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)	63.5	55.5	65.0	64.9	55.4
Plus Inventory Holding Period (days)	56.1	49.7	38.3	63.2	54.5
Gross Cash Flow (days)	119.6	105.2	103.3	128.1	109.9
Minus A/P Payout Period (days)	22.6	19.5	30.1	18.3	22.9
Cash Cycle (days)	97.0	85.7	73.2	109.8	87.0
Growth & Cash Sufficiency					
Growth Potential Index	3.6%	19.6%	3.5%	3.2%	6.8%
Cash to Current Liabilities	17.1%	46.9%	23.6%	13.8%	18.4%
Defensive Interval (days)	19.8	17.3	29.1	13.2	36.7
Sales to Working Capital	5.0	5.0	5.0	5.0	6.2

Operations

Operational issues are frequently overlooked as determinants of profitability. The following ratios measure 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 characteristics 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 customers are those mading six or more purchases annually.

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.)	212	344	150	380	235
Sales per Shipment Received	$2,174	$1,962	$2,527	$2,047	$2,284
Stockkeeping Units (SKUs)	1,202	1,400	872	1,400	1,185
Sales per SKU	$7,033	$7,706	$10,485	$6,059	$5,594
Inventory per SKU	$710	$710	$881	$771	$611
Customers	210	214	110	281	250
Sales per Customer	$40,785	$43,825	$104,522	$38,120	$29,208
Orders Shipped (monthly avg.)	370	412	430	350	435
Sales per Order	$1,950	$2,139	$2,608	$1,798	$1,280
Lines per Order (avg.)	6.5	8.5	6.0	7.0	8.0
Sales per Order Line	$275	$270	$376	$290	$189
Product Sales					
Builders Hardware	42.3%	49.4%	39.0%	49.4%	33.1%
Electronic Hardware	4.9	4.1	4.9	4.0	7.9
Metal Doors & Related Products	24.1	22.2	25.9	23.4	23.5
Wood Doors & Frames	16.8	14.9	16.8	16.4	18.3
Toilet Accessories & Partitions	4.4	3.7	5.4	2.7	7.4
Other	7.5	5.7	8.0	4.1	9.8
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Type of Sale					
Contract Jobs	72.0%	75.0%	87.5%	70.0%	40.0%
Non-Contract Sales	28.0	25.0	12.5	30.0	60.0
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Manufacturers	131	97	116	150	100
Sales per Manufacturer	$87,347	$84,526	$130,157	$84,099	$121,587

Employees

Employees are the lifeblood of the organization. Without a properly motivated and compensated workforce, 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 (PPR) 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
FTE Employees	35	38	42	37	23
Sales per Employee	$265,966	$304,008	$295,261	$260,345	$260,898
Gross Margin per Employee	$76,607	$91,718	$76,372	$75,915	$87,928
Salary per Employee	$45,908	$51,386	$45,908	$44,762	$49,829
Payroll per Employee	$56,462	$60,459	$53,948	$57,356	$62,628
Payroll Expense (% of sales)	20.4%	20.0%	19.1%	20.5%	21.8%
Benefits (% of total payroll)	16.9%	17.5%	17.2%	16.5%	18.5%
Personnel Productivity Ratio	70.2%	65.8%	71.0%	68.1%	67.5%

Sales Volume

	Sales Under $5 Million	Sales $5 - $10 Million	Sales $10 - $20 Million	Sales Over $20 Million
Number of Firms Reporting	13	12	19	8
Typical Sales Volume	$3,580,318	$6,649,570	$14,833,607	$50,454,699
Sales Change (2009 to 2010)	-15.2%	-5.7%	2.4%	-1.0%
Strategic Profit Model Ratios				
Profit Margin (pre-tax)	-0.7%	2.0%	2.2%	1.0%
Asset Turnover	2.9	2.8	2.8	2.2
Return on Assets (pre-tax)	-2.0%	5.6%	6.2%	2.2%
Financial Leverage	4.1	1.7	1.4	2.0
Return on Net Worth (pre-tax)	-8.2%	9.5%	8.7%	4.4%
Income Statement (% of sales)				
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	67.2	70.9	71.4	72.8
Gross Margin	**32.8**	**29.1**	**28.6**	**27.2**
Personnel Expenses				
Executive Salaries & Bonuses	5.2	4.7	2.9	1.0
Sales Salaries & Commissions	8.1	7.6	5.0	8.0
Warehouse & Delivery Wages	2.3	2.2	1.2	1.5
All Other Employee Wages	3.8	2.8	7.1	5.5
Total Salaries, Wages & Bonuses	19.4	17.3	16.2	16.0
Payroll Taxes (FICA, workers' comp. & unemp.)	2.1	1.5	1.4	1.1
Group Insurance (medical, hospitalization, etc.)	1.7	1.1	1.2	1.4
Employee Benefits (profit sharing, pension, etc.)	0.2	0.5	0.5	0.4
Total Personnel Expenses	**23.4**	**20.4**	**19.3**	**18.9**
Occupancy Expenses				
Utilities (heat, light, power, water)	0.6	0.3	0.3	0.4
Telephone	0.4	0.3	0.3	0.3
Building Repairs & Maintenance	0.3	0.2	0.2	0.1
Rent or Real Estate Ownership	2.7	1.7	1.6	1.7
Total Occupancy Expenses	**4.0**	**2.5**	**2.4**	**2.5**
Other Operating Expenses				
Advertising & Promotion	0.2	0.1	0.1	0.1
Vehicle Expenses	1.2	1.0	0.8	0.7
Insurance (business liability & casualty)	0.5	0.3	0.3	0.1
Depreciation	0.5	0.3	0.8	0.5
Bad Debt Losses	0.1	0.0	0.1	0.4
All Other Operating Expenses	3.2	2.2	2.7	2.4
Total Other Operating Expenses	**5.7**	**3.9**	**4.8**	**4.2**
Total Operating Expenses	**33.1**	**26.8**	**26.5**	**25.6**
Operating Profit	**-0.3**	**2.3**	**2.1**	**1.6**
Other Income	0.2	0.1	0.2	0.0
Interest Expense	0.5	0.4	0.1	0.5
Other Non-operating Expenses	0.1	0.0	0.0	0.1
Profit Before Taxes	**-0.7%**	**2.0%**	**2.2%**	**1.0%**

Sales Volume

	Sales Under $5 Million	Sales $5 - $10 Million	Sales $10 - $20 Million	Sales Over $20 Million
Expenses in Relationship to GM (% of gross profit)				
Gross Margin	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Personnel Expenses				
Executive Salaries & Bonuses	15.9	16.2	10.1	3.7
Sales Salaries & Commissions	24.7	26.1	17.5	29.4
Warehouse & Delivery Wages	7.0	7.6	4.2	5.5
All Other Employee Wages	11.5	9.6	24.8	20.2
Total Salaries, Wages & Bonuses	59.1	59.5	56.6	58.8
Payroll Taxes (FICA, workers' comp. & unemp.)	6.4	5.2	4.9	4.0
Group Insurance (medical, hospitalization, etc.)	5.2	3.8	4.2	5.1
Employee Benefits (profit sharing, pension, etc.)	0.6	1.7	1.8	1.5
Total Personnel Expenses	**71.3**	**70.2**	**67.5**	**69.4**
Occupancy Expenses				
Utilities (heat, light, power, water)	1.8	1.0	1.0	1.5
Telephone	1.2	1.0	1.0	1.1
Building Repairs & Maintenance	0.9	0.7	0.7	0.4
Rent or Real Estate Ownership	8.3	5.8	5.7	6.3
Total Occupancy Expenses	**12.2**	**8.5**	**8.4**	**9.3**
Other Operating Expenses				
Advertising & Promotion	0.6	0.3	0.3	0.4
Vehicle Expense	3.7	3.4	2.8	2.6
Insurance (business liability & casualty)	1.5	1.0	1.0	0.4
Depreciation	1.5	1.0	2.8	1.8
Bad Debt Losses	0.3	0.0	0.3	1.5
All Other Operating Expenses	9.8	7.6	9.6	8.7
Total Other Operating Expenses	**17.4**	**13.3**	**16.8**	**15.4**
Total Operating Expenses	**100.9**	**92.0**	**92.7**	**94.1**
Operating Profit	**-0.9**	**8.0**	**7.3**	**5.9**
Other Income	0.6	0.3	0.7	0.0
Interest Expense	1.5	1.4	0.3	1.8
Other Non-operating Expenses	0.3	0.0	0.0	0.4
Profit Before Taxes	**-2.1%**	**6.9%**	**7.7%**	**3.7%**

Sales Volume

	Sales Under $5 Million	Sales $5 - $10 Million	Sales $10 - $20 Million	Sales Over $20 Million
Balance Sheet				
Typical Total Assets	$1,234,592	$2,374,846	$5,297,717	$22,933,954
Assets				
Cash & Marketable Securities	2.5%	16.8%	13.2%	0.9%
Trade Accounts Receivable	41.5	42.1	52.9	48.8
Inventory	29.3	29.3	19.0	24.4
Other Current Assets	2.4	3.0	1.2	2.2
Total Current Assets	75.7	91.2	86.3	76.3
Fixed & Noncurrent Assets	24.3	8.8	13.7	23.7
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth				
Trade Accounts Payable	21.9%	17.1%	13.5%	15.8%
Notes Payable	36.9	7.0	7.1	3.0
Other Current Liabilities	5.0	10.3	7.5	11.8
Total Current Liabilities	63.8	34.4	28.1	30.6
Long Term Liabilities	11.7	6.9	1.9	20.4
Net Worth or Owner Equity	24.5	58.7	70.0	49.0
Total Liabilities & Net Worth	100.0%	100.0%	100.0%	100.0%
Financial Ratios				
Current Ratio	1.5	3.2	3.0	3.1
Quick Ratio	0.9	1.8	2.0	2.0
Accounts Payable to Inventory	58.6%	31.9%	61.1%	57.4%
Accounts Payable Payout Period (days)	38.1	18.5	22.4	28.5
Debt to Equity	0.7	0.7	0.4	1.0
EBIT to Total Assets	-0.1%	6.4%	6.2%	2.9%
Times Interest Earned	N/A	5.4	8.5	2.4
Asset Productivity				
Cash Sales (% of total sales)	7.0%	2.0%	4.0%	1.5%
Average Collection Period (days)	53.1	44.3	72.3	81.1
Bad Debt Losses (% of net sales)	0.1%	0.0%	0.1%	0.4%
Inventory Turnover	5.5	6.2	9.2	6.0
Inventory Holding Period (days)	67.0	58.9	39.8	61.3
Sales to Inventory Ratio	8.1	9.6	13.4	8.3
Gross Margin Return on Inventory	257.8%	321.4%	400.4%	181.6%
Sales Path				
Warehouse Sales	94.0%	90.0%	92.0%	89.4%
Direct Shipments	6.0	10.0	8.0	10.6
Total Sales	100.0%	100.0%	100.0%	100.0%
Cash Flow Cycle				
Average Collection Period (days)	53.1	44.3	72.3	81.1
Plus Inventory Holding Period (days)	67.0	58.9	39.8	61.3
Gross Cash Flow (days)	120.1	103.2	112.1	142.4
Minus A/P Payout Period (days)	38.1	18.5	22.4	28.5
Cash Cycle (days)	82.0	84.7	89.7	113.9
Growth & Cash Sufficiency				
Growth Potential Index	N/A%	6.4%	4.9%	0.7%
Cash to Current Liabilities	6.6%	26.5%	32.9%	4.4%
Defensive Interval (days)	9.2	55.9	52.3	4.4
Sales to Working Capital	5.8	4.1	5.1	4.6

Sales Volume

	Sales Under $5 Million	Sales $5 - $10 Million	Sales $10 - $20 Million	Sales Over $20 Million
Shipments Received (monthly avg.)	120	208	500	1,418
Sales per Shipment Received	$1,971	$2,360	$2,082	$1,856
Stockkeeping Units (SKUs)	837	1,100	1,390	4,697
Sales per SKU	$3,704	$7,033	$9,148	$7,716
Inventory per SKU	$248	$809	$713	$972
Customers	120	140	263	1,400
Sales per Customer	$25,574	$53,167	$54,426	$38,907
Orders Shipped (monthly avg.)	120	200	620	1,700
Sales per Order	$1,448	$2,608	$1,818	$1,603
Lines per Order (avg.)	5.0	6.8	10.0	4.0
Sales per Order Line	$265	$468	$212	$378
Product Sales				
Builders Hardware	44.2%	40.3%	46.3%	34.4%
Electronic Hardware	5.5	5.9	3.8	4.4
Metal Doors & Related Products	24.1	28.0	21.7	23.9
Wood Doors & Frames	15.2	17.7	16.3	17.2
Toilet Accessories & Partitions	3.6	4.7	3.3	7.7
Other	7.4	3.4	8.6	12.4
Total Sales	100.0%	100.0%	100.0%	100.0%
Type of Sale				
Contract Jobs	62.5%	74.0%	75.0%	73.0%
Non-Contract Sales	37.5	26.0	25.0	27.0
Total Sales	100.0%	100.0%	100.0%	100.0%
Manufacturers	78	51	182	180
Sales per Manufacturer	$30,193	$129,979	$79,981	$310,245
FTE Employees	15	27	49	197
Sales per Employee	$223,081	$273,375	$301,222	$287,350
Gross Margin per Employee	$65,641	$75,223	$81,200	$79,313
Salary per Employee	$41,260	$52,675	$44,852	$47,985
Payroll per Employee	$47,826	$66,639	$55,205	$58,250
Payroll Expense (% of sales)	23.4%	20.4%	19.3%	18.9%
Benefits (% of total payroll)	17.5%	18.0%	17.2%	15.2%
Personnel Productivity Ratio	71.3%	70.2%	67.5%	69.4%

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.

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	3	16	22	7	5
Typical Sales Volume		$9,021,361	$11,590,233	$8,675,627	$18,151,714
Sales Change (2009 to 2010)		2.8%	-2.2%	-5.7%	-0.9%
Strategic Profit Model Ratios					
Profit Margin (pre-tax)		2.2%	0.9%	1.1%	2.2%
Asset Turnover		2.8	2.7	2.5	2.3
Return on Assets (pre-tax)		6.2%	2.4%	2.7%	5.1%
Financial Leverage		1.7	1.7	1.5	2.1
Return on Net Worth (pre-tax)		10.5%	4.1%	4.0%	10.7%
Income Statement					
Net Sales		**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold		69.6	72.2	72.2	68.0
Gross Margin		**30.4**	**27.8**	**27.8**	**32.0**
Personnel Expenses					
Executive Salaries & Bonuses		4.8	3.0	5.1	2.3
Sales Salaries & Commissions		6.0	5.9	7.3	8.7
Warehouse & Delivery Wages		1.6	1.3	2.0	1.6
All Other Employee Wages		5.1	5.4	1.0	6.1
Total Salaries, Wages & Bonuses		17.5	15.6	15.4	18.7
Payroll Taxes (FICA, workers' comp. & unemp.)		1.7	1.4	1.5	1.1
Group Insurance (medical, hospitalization, etc.)		1.5	1.5	1.2	0.5
Employee Benefits (profit sharing, pension, etc.)		0.3	0.3	0.6	0.8
Total Personnel Expenses		**21.0**	**18.8**	**18.7**	**21.1**
Occupancy Expenses					
Utilities (heat, light, power, water)		0.3	0.4	0.2	0.3
Telephone		0.3	0.3	0.4	0.3
Building Repairs & Maintenance		0.2	0.2	0.2	0.3
Rent or Real Estate Ownership		1.7	1.4	2.1	2.4
Total Occupancy Expenses		**2.5**	**2.3**	**2.9**	**3.3**
Other Operating Expenses					
Advertising & Promotion		0.1	0.1	0.0	0.4
Vehicle Expenses		1.1	1.0	1.0	1.2
Insurance (business liability & casualty)		0.4	0.3	0.7	0.2
Depreciation		0.9	0.5	0.3	0.8
Bad Debt Losses		0.0	0.4	0.0	0.0
All Other Operating Expenses		2.3	3.3	3.0	2.6
Total Other Operating Expenses		**4.8**	**5.6**	**5.0**	**5.2**
Total Operating Expenses		**28.3**	**26.7**	**26.6**	**29.6**
Operating Profit		**2.1**	**1.1**	**1.2**	**2.4**
Other Income		0.2	0.2	0.0	0.0
Interest Expense		0.1	0.4	0.1	0.2
Other Non-operating Expenses		0.0	0.0	0.0	0.0
Profit Before Taxes		**2.2%**	**0.9%**	**1.1%**	**2.2%**

Regions

	North-eastern	South-eastern	North Central	Western	Canada
Number of Firms Reporting	3	16	22	7	5
Expenses in Relationship to GM					
Gross Margin		**100.0%**	**100.0%**	**100.0%**	**100.0%**
Personnel Expenses					
Executive Salaries & Bonuses		15.8	10.8	18.3	7.2
Sales Salaries & Commissions		19.7	21.2	26.3	27.2
Warehouse & Delivery Wages		5.3	4.7	7.2	5.0
All Other Employee Wages		16.8	19.4	3.6	19.0
Total Salaries, Wages & Bonuses		57.6	56.1	55.4	58.4
Payroll Taxes (FICA, workers' comp. & unemp.)		5.6	5.0	5.4	3.4
Group Insurance (medical, hospitalization, etc.)		4.9	5.4	4.3	1.6
Employee Benefits (profit sharing, pension, etc.)		1.0	1.1	2.2	2.5
Total Personnel Expenses		**69.1**	**67.6**	**67.3**	**65.9**
Occupancy Expenses					
Utilities (heat, light, power, water)		1.0	1.4	0.7	0.9
Telephone		1.0	1.1	1.4	0.9
Building Repairs & Maintenance		0.7	0.7	0.7	0.9
Rent or Real Estate Ownership		5.6	5.1	7.6	7.6
Total Occupancy Expenses		**8.3**	**8.3**	**10.4**	**10.3**
Other Operating Expenses					
Advertising & Promotion		0.3	0.4	0.0	1.3
Vehicle Expense		3.6	3.6	3.6	3.8
Insurance (business liability & casualty)		1.3	1.1	2.5	0.6
Depreciation		3.0	1.8	1.1	2.5
Bad Debt Losses		0.0	1.4	0.0	0.0
All Other Operating Expenses		7.6	11.9	10.7	8.1
Total Other Operating Expenses		**15.8**	**20.2**	**17.9**	**16.3**
Total Operating Expenses		**93.2**	**96.1**	**95.6**	**92.5**
Operating Profit		**6.8**	**3.9**	**4.4**	**7.5**
Other Income		0.7	0.7	0.0	0.0
Interest Expense		0.3	1.4	0.4	0.6
Other Non-operating Expenses		0.0	0.0	0.0	0.0
Profit Before Taxes		**7.2%**	**3.2%**	**4.0%**	**6.9%**

Regions

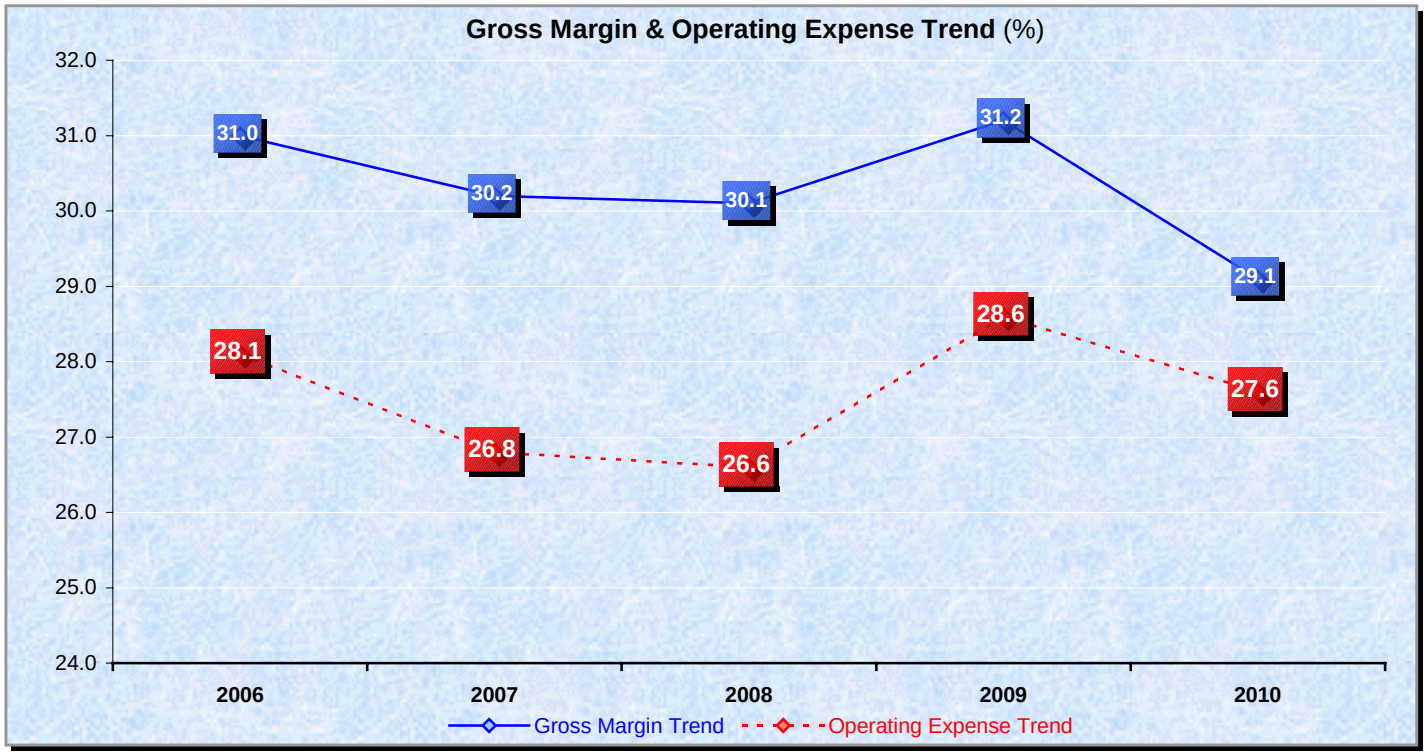
	North-eastern	South-eastern	North Central	Western	Canada
Number of Firms Reporting	3	16	22	7	5
Balance Sheet					
Typical Total Assets		$3,221,915	$4,292,679	$3,470,251	$7,892,050
Assets					
Cash & Marketable Securities		10.6%	3.5%	6.6%	0.0%
Trade Accounts Receivable		49.7	45.1	54.3	57.9
Inventory		24.2	29.6	25.0	24.7
Other Current Assets		1.7	0.9	5.4	1.7
Total Current Assets		86.2	79.1	91.3	84.3
Fixed & Noncurrent Assets		13.8	20.9	8.7	15.7
Total Assets		100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Trade Accounts Payable		24.6%	12.8%	22.4%	16.7%
Notes Payable		3.3	12.2	1.9	1.0
Other Current Liabilities		7.9	9.4	5.3	28.4
Total Current Liabilities		35.8	34.4	29.6	46.1
Long Term Liabilities		6.9	7.5	2.5	7.3
Net Worth or Owner Equity		57.3	58.1	67.9	46.6
Total Liabilities & Net Worth		100.0%	100.0%	100.0%	100.0%
Financial Ratios					
Current Ratio		3.4	2.9	3.3	1.9
Quick Ratio		2.0	1.8	1.8	1.2
Accounts Payable to Inventory		50.4%	31.3%	111.2%	58.6%
Accounts Payable Payout Period (days)		21.0	14.4	37.8	31.8
Debt to Equity		0.4	0.7	0.5	1.1
EBIT to Total Assets		4.5%	3.3%	3.0%	6.2%
Times Interest Earned		7.6	6.3	10.0	7.5
Asset Productivity					
Cash Sales (% of total sales)		6.0%	2.0%	1.0%	4.0%
Average Collection Period (days)		63.5	54.1	84.4	99.4
Bad Debt Losses (% of net sales)		0.0%	0.4%	0.0%	0.0%
Inventory Turnover		7.1	5.8	10.1	7.0
Inventory Holding Period (days)		51.5	63.2	36.1	52.1
Sales to Inventory Ratio		9.8	8.1	12.3	10.6
Gross Margin Return on Inventory		340.9%	242.2%	323.0%	324.0%
Sales Path					
Warehouse Sales		90.0%	93.0%	91.0%	98.0%
Direct Shipments		10.0	7.0	9.0	2.0
Total Sales		100.0%	100.0%	100.0%	100.0%
Cash Flow Cycle					
Average Collection Period (days)		63.5	54.1	84.4	99.4
Plus Inventory Holding Period (days)		51.5	63.2	36.1	52.1
Gross Cash Flow (days)		115.0	117.3	120.5	151.5
Minus A/P Payout Period (days)		21.0	14.4	37.8	31.8
Cash Cycle (days)		94.0	102.9	82.7	119.7
Growth & Cash Sufficiency					
Growth Potential Index		1.8%	3.5%	3.9%	4.9%
Cash to Current Liabilities		29.4%	7.4%	32.9%	0.0%
Defensive Interval (days)		50.0	9.4	55.9	0.0
Sales to Working Capital		4.8	4.9	5.1	6.0

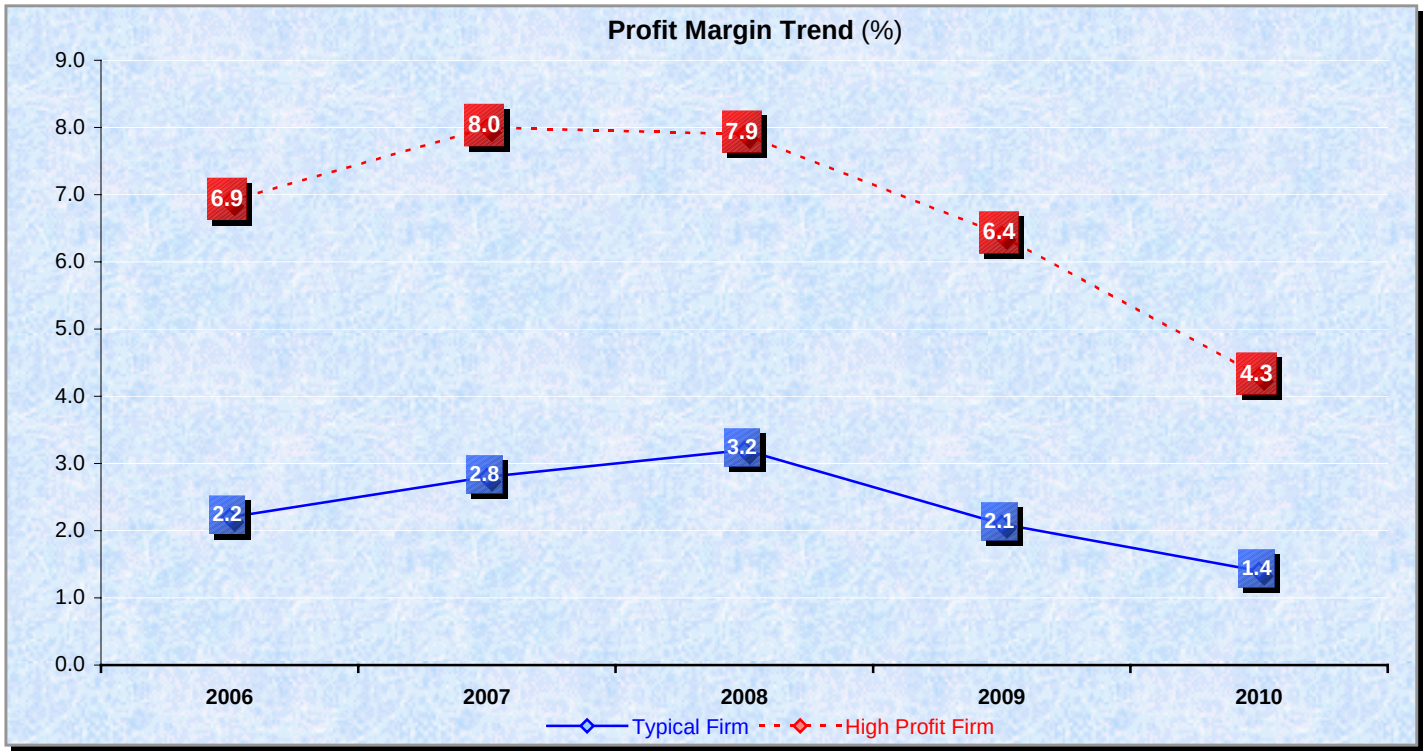
Regions

	North-eastern	South-eastern	North Central	Western	Canada
Number of Firms Reporting	3	16	22	7	5
Shipments Received (monthly avg.)		200	194	150	788
Sales per Shipment Received		$2,360	$2,144	$2,350	$1,643
Stockkeeping Units (SKUs)		1,003	1,450	686	5,700
Sales per SKU		$7,635	$4,653	$12,642	$7,198
Inventory per SKU		$650	$640	$920	$885
Customers		145	242	70	850
Sales per Customer		$56,401	$29,208	$77,396	$28,369
Orders Shipped (monthly avg.)		257	435	350	1,300
Sales per Order		$2,116	$1,671	$2,199	$1,150
Lines per Order (avg.)		6.0	8.0	5.0	17.5
Sales per Order Line		$312	$233	$651	$79
Product Sales					
Builders Hardware		37.1%	43.2%	49.1%	51.4%
Electronic Hardware		5.4	2.9	8.0	5.8
Metal Doors & Related Products		27.6	22.2	25.2	15.6
Wood Doors & Frames		19.0	17.3	13.2	9.7
Toilet Accessories & Partitions		4.5	5.0	0.5	7.8
Other		6.4	9.4	4.0	9.7
Total Sales		100.0%	100.0%	100.0%	100.0%
Type of Sale					
Contract Jobs		73.0%	68.6%	85.0%	75.0%
Non Contract Sales		27.0	31.4	15.0	25.0
Total Sales		100.0%	100.0%	100.0%	100.0%
Manufacturers		110	131	50	146
Sales per Manufacturer		$76,965	$90,059	$155,132	$233,167
Employees (FTE)		33	44	25	48
Sales per Employee		$249,842	$273,051	$301,222	$339,973
Gross Margin per Employee		$71,823	$73,757	$86,291	$105,940
Salary per Employee		$43,128	$44,110	$43,900	$61,735
Payroll per Employee		$52,304	$53,948	$53,282	$66,026
Payroll Expense (% of sales)		21.0%	18.8%	18.7%	21.1%
Benefits (% of total payroll)		16.9%	17.6%	18.5%	N/A%
Personnel Productivity Ratio		69.1%	67.6%	67.3%	65.9%

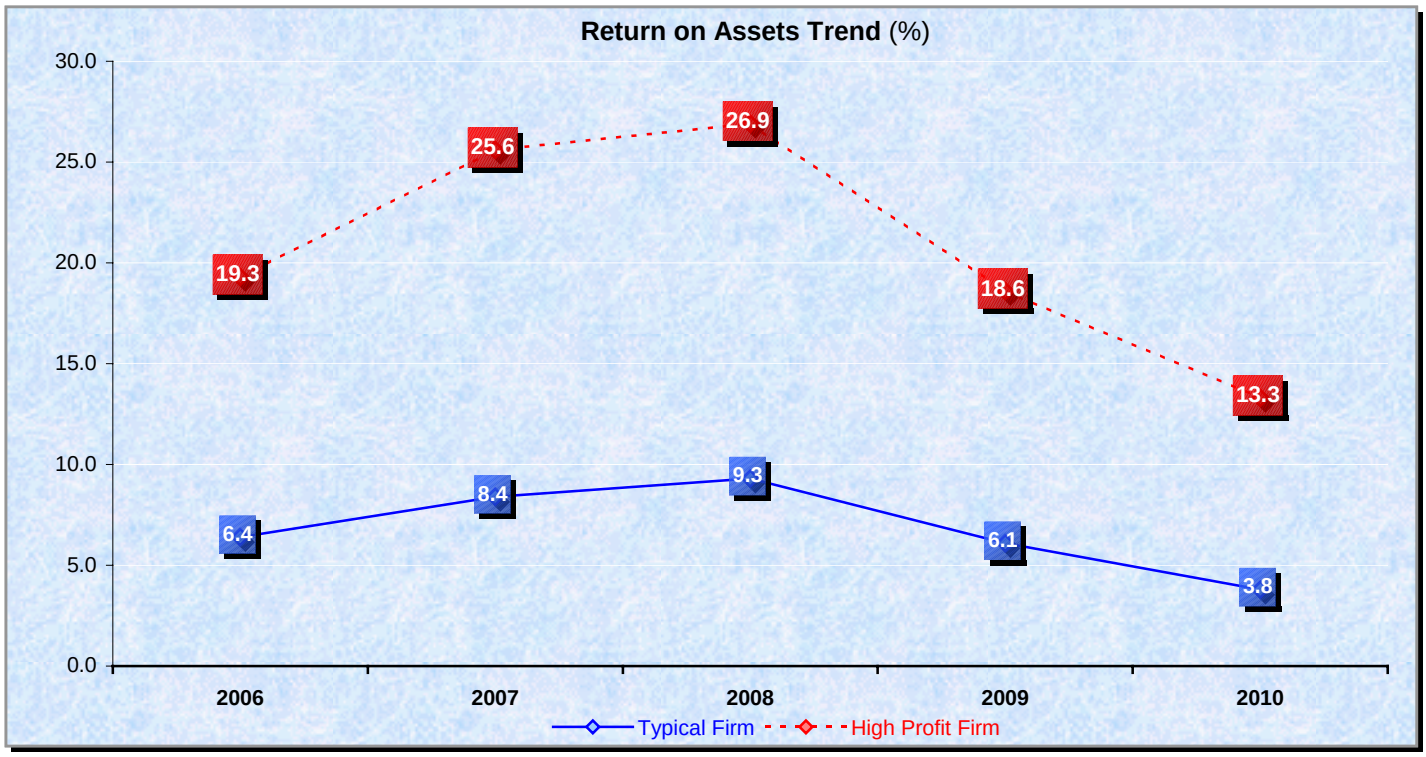
Trends

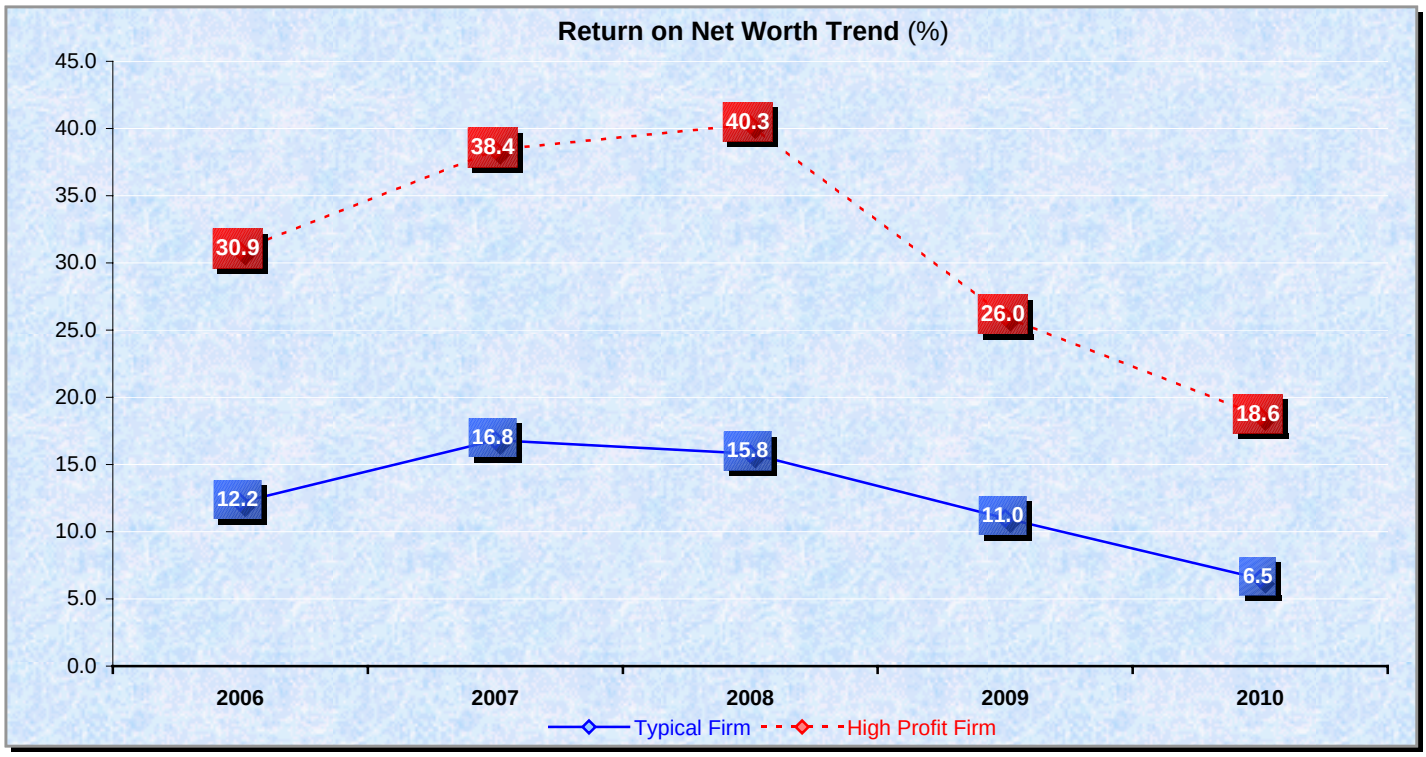
The following graphs present trends for key ratios complied from prior survey results.





Trends


Return on Assets Trend (%)
30.0
25.0
20.0
15.0
10.0
5.0
0.0
19.3
25.6
26.9
18.6
13.3
6.4
8.4
9.3
6.1
3.8
2006
2007
2008
2009
2010
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
30.9
38.4
40.3
26.0
18.6
12.2
16.8
15.8
11.0
6.5
2006
2007
2008
2009
2010
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.

	2006	2007	2008	2009	2010
Number of Firms Reporting	77	75	76	46	53
Typical Sales Volume	$7,986,880	$8,371,000	$9,950,814	$10,011,554	$11,316,044
Sales Change (vs. prior year)	6.9%	8.2%	8.7%	-8.6%	-3.0%
Strategic Profit Model Ratios					
Profit Margin (pre-tax)	2.2%	2.8%	3.2%	2.1%	1.4%
Asset Turnover	2.9	3.0	2.9	2.9	2.7
Return on Assets (pre-tax)	6.4%	8.4%	9.3%	6.1%	3.8%
Financial Leverage	1.9	2.0	1.7	1.8	1.7
Return on Net Worth (pre-tax)	12.2%	16.8%	15.8%	11.0%	6.5%
Income Statement					
Net Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	69.0	69.8	69.9	68.8	70.9
Gross Margin	**31.0**	**30.2**	**30.1**	**31.2**	**29.1**
Personnel Expenses					
Executive Salaries & Bonuses	4.2	3.6	3.3	4.4	3.8
Sales Salaries & Commissions	6.6	6.2	7.2	6.4	6.7
Warehouse & Delivery Wages	2.1	1.6	1.9	2.4	1.6
All Other Employee Wages	4.2	4.2	4.0	3.9	5.0
Total Salaries, Wages & Bonuses	17.1	15.6	16.4	17.1	17.1
Payroll Taxes (FICA, workers' comp. & unemp.)	1.4	1.5	1.4	1.5	1.5
Group Insurance (medical, hospitalization, etc.)	1.1	1.2	1.0	1.3	1.4
Employee Benefits (profit sharing, pension, etc.)	0.6	0.5	0.3	0.4	0.4
Total Personnel Expenses	**20.2**	**18.8**	**19.1**	**20.3**	**20.4**
Occupancy Expenses					
Utilities (heat, light, power, water)	0.3	0.3	0.3	0.4	0.3
Telephone	0.3	0.3	0.3	0.4	0.3
Building Repairs & Maintenance	0.2	0.3	0.3	0.3	0.2
Rent or Real Estate Ownership	1.7	1.5	1.6	1.9	1.7
Total Occupancy Expenses	**2.5**	**2.4**	**2.5**	**3.0**	**2.5**
Other Operating Expenses					
Advertising & Promotion	0.2	0.2	0.1	0.2	0.1
Vehicle Expenses	1.0	1.0	0.9	0.8	1.0
Insurance (business liability & casualty)	0.4	0.4	0.4	0.5	0.3
Depreciation	0.6	0.6	0.4	0.6	0.5
Bad Debt Losses	0.0	0.1	0.1	0.2	0.1
All Other Operating Expenses	3.2	3.3	3.1	3.0	2.7
Total Other Operating Expenses	**5.4**	**5.6**	**5.0**	**5.3**	**4.7**
Total Operating Expenses	**28.1**	**26.8**	**26.6**	**28.6**	**27.6**
Operating Profit	**2.9**	**3.4**	**3.5**	**2.6**	**1.5**
Other Income	0.1	0.1	0.1	0.0	0.1
Interest Expense	0.8	0.7	0.4	0.5	0.2
Other Non-operating Expenses	0.0	0.0	0.0	0.0	0.0
Profit Before Taxes	**2.2%**	**2.8%**	**3.2%**	**2.1%**	**1.4%**

Trends

	2006	2007	2008	2009	2010
Typical Total Assets	$2,754,096	$2,790,333	$3,431,315	$3,452,260	$4,191,127
Assets					
Cash & Marketable Securities	2.4%	2.3%	2.3%	6.3%	5.1%
Trade Accounts Receivable	55.7	56.2	56.3	51.1	49.1
Inventory	26.5	23.7	26.0	28.5	27.1
Other Current Assets	1.8	1.2	1.5	1.9	2.6
Total Current Assets	86.4	83.4	86.1	87.8	83.9
Fixed & Noncurrent Assets	13.6	16.6	13.9	12.2	16.1
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Trade Accounts Payable	19.0%	20.6%	18.1%	17.9%	18.0%
Notes Payable	14.5	9.3	12.7	11.0	8.5
Other Current Liabilities	7.9	11.0	7.5	7.9	9.4
Total Current Liabilities	41.4	40.9	38.3	36.8	35.9
Long Term Liabilities	6.0	9.1	2.9	8.4	5.6
Net Worth or Owner Equity	52.6	50.0	58.8	54.8	58.5
Total Liabilities & Net Worth	100.0%	100.0%	100.0%	100.0%	100.0%
Financial Ratios					
Current Ratio	2.1	2.0	2.2	2.4	3.0
Quick Ratio	1.4	1.4	1.5	1.6	1.8
Accounts Payable to Inventory	62.9%	68.9%	73.7%	44.3%	56.1%
Accounts Payable Payout Period (days)	30.2	28.6	27.5	25.2	22.6
Debt to Equity	0.9	1.0	0.7	0.8	0.6
EBIT to Total Assets	8.7%	10.5%	10.4%	7.5%	4.1%
Times Interest Earned	3.8	5.0	9.0	5.2	6.3
Asset Productivity					
Cash Sales (% of total sales)	4.0%	4.3%	3.4%	3.1%	4.0%
Average Collection Period (days)	69.7	64.7	59.5	64.1	63.5
Bad Debt Losses (% of net sales)	0.0%	0.1%	0.1%	0.2%	0.1%
Inventory Turnover	7.3	7.8	6.6	6.8	6.5
Inventory Holding Period (days)	50.0	46.8	55.3	53.7	56.1
Sales to Inventory Ratio	10.5	10.5	10.3	9.9	9.4
Gross Margin Return on Inventory	321.9%	353.0%	337.7%	304.4%	301.2%
Cash Flow Cycle					
Average Collection Period (days)	69.7	64.7	59.5	64.1	63.5
Plus Inventory Holding Period (days)	50.0	46.8	55.3	53.7	56.1
Gross Cash Flow (days)	119.7	111.5	114.8	117.8	119.6
Minus A/P Payout Period (days)	30.2	28.6	27.5	25.2	22.6
Cash Cycle (days)	89.5	82.9	87.3	92.6	97.0
Growth & Cash Sufficiency					
Growth Potential Index	7.5%	8.8%	10.6%	6.6%	3.6%
Cash to Current Liabilities	5.8%	5.6%	6.0%	17.1%	17.1%
Defensive Interval (days)	9.1	10.6	10.0	26.1	19.8
Sales to Working Capital	6.5	6.4	6.2	5.8	5.0

Trends

	2006	2007	2008	2009	2010
Shipments Received (monthly avg.)	200	200	188	173	212
Sales per Shipment Received	$2,115	$2,239	$3,055	$3,140	$2,174
Stockkeeping Units (SKUs)	1,115	1,165	1,177	1,100	1,202
Sales per SKU	$4,215	$4,841	$7,372	$7,240	$7,033
Inventory per SKU	$556	$502	$832	$718	$710
Customers	180	172	200	198	210
Sales per Customer	$46,316	$43,966	$54,329	$49,770	$40,785
Orders Shipped (monthly avg.)	395	339	286	337	370
Sales per Order	$1,614	$1,693	$2,049	$2,081	$1,950
Lines per Order (avg.)	7.0	8.0	7.0	8.0	6.5
Sales per Order Line	$252	$243	$315	$263	$275
Product Sales					
Builders Hardware	40.2%	42.9%	41.7%	42.4%	42.3%
Electronic Hardware	5.5	5.6	4.4	4.6	4.9
Metal Doors & Related Products	24.8	23.3	25.4	23.6	24.1
Wood Doors & Frames	16.5	17.1	16.8	18.2	16.8
Toilet Accessories & Partitions	4.3	4.7	4.5	4.2	4.4
Other	8.7	6.4	7.2	7.0	7.5
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Type of Sale					
Contract Jobs	72.0%	75.0%	73.0%	75.0%	72.0%
Non Contract Sales	28.0	25.0	27.0	25.0	28.0
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Manufacturers	86	95	90	86	131
Sales per Manufacturer	$78,262	$73,246	$93,638	$99,210	$87,347
FTE Employees	26	25	31	28	35
Sales per Employee	$279,081	$287,531	$317,315	$302,739	$265,966
Gross Margin per Employee	$91,343	$90,375	$100,523	$91,508	$76,607
Salary per Employee	$43,818	$45,285	$50,815	$48,795	$45,908
Payroll per Employee	$54,662	$54,743	$61,398	$59,139	$56,462
Payroll Expense (% of sales)	20.2%	18.8%	19.1%	20.3%	20.4%
Benefits (% of total payroll)	15.3%	17.0%	14.1%	15.8%	16.9%
Personnel Productivity Ratio	65.1%	62.3%	63.5%	65.1%	70.2%

Ratio Calculation

Ratio	Calculation	Comment
Accounts Payable Payout Period (days)	$\frac{\text{Accounts Payable}}{\text{Cost of Goods Sold} \div 365 \text{ days}}$	Measures the promptness of paying suppliers
Accounts Payable to Inventory	$\frac{\text{Accounts Payable} \times 100}{\text{Year-end Inventory}}$	Measures the percent of inventory financed by suppliers of that inventory
Average Collection Period (days)	$\frac{\text{Accounts Receivable}}{\text{Credit Sales} \div 365 \text{ days}}$	Measures the promptness of paying suppliers
Asset Turnover	$\frac{\text{Net Sales}}{\text{Total Assets}}$	Measures sales generated per dollar of assets
Cash Cycle (days)	Avg. Collection Period + Inventory Holding Period – Accounts Payable Payout Period	Days invested in a product from purchase until the sales invoice is collected
Cash to Current Liabilities	$\frac{\text{Cash} \times 100}{\text{Current Liabilities}}$	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 (days)	$\frac{\text{Cash}}{(\text{Operating Expenses} - \text{Depreciation}) \div 365 \text{ days}}$	Measures how long the firm can operate on existing cash balances
EBIT to Total Assets	$\frac{(\text{Profit Before Taxes} + \text{Interest}) \times 100}{\text{Total Assets}}$	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	$\frac{\text{Gross Profit Dollars}}{\text{Net Sales}}$	Measures profitability after the costs of making or buying the product are subtracted from sales
Gross Margin Return on Inventory	$\frac{\text{Warehouse Gross Profit} \times 100}{\text{Inventory}}$	Measures gross margin earned per dollar of inventory

Ratio Calculation

Ratio	Calculation	Comment
Inventory Holding Period (days)	$\frac{365 \text{ days}}{\text{Inventory Turnover}}$	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
Growth Potential Index	$\frac{\text{Profit After Taxes x 100}}{\text{AR + Inventory – AP}}$	Measures how fast the firm can grow using internally generated funds
Personnel Productivity Ratio	$\frac{\text{Payroll Expense x 100}}{\text{Gross Profit}}$	Measures payroll expense as a percent of gross margin earned
Profit Margin	$\frac{\text{Profit Before Taxes x 100}}{\text{Net Sales}}$	Measures profit earned as a percentage of net 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	$\frac{\text{Profit Before Taxes}}{\text{Total Assets}}$	Measures profit earned as a percent of assets
Return on Net Worth	$\frac{\text{Profit Before Taxes}}{\text{Net Worth}}$	Measures profit earned as a percent of net worth
Sales per Employee	$\frac{\text{Net Sales}}{\text{Number of FTE Employees}}$	Measures sales generated per full-time employee
Sales to Fixed Assets	$\frac{\text{Net Sales}}{\text{Net Fixed Assets}}$	Measures the productivity of each dollar invested in fixed assets
Sales to Inventory	$\frac{\text{Warehouse Sales}}{\text{Year-end Inventory}}$	Measures dollar sales generated per dollar of inventory
Sales to Working Capital	$\frac{\text{Net Sales}}{\text{Current Assets – Current Liabilities}}$	Measures 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