



2013 PROFIT Report

**An analysis of
fiscal 2012**



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Introduction

This report presents a detailed but straightforward analysis of financial and operating characteristics of 47 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 2012. The results show a typical firm generated sales of \$12,597,940 and a pre-tax profit of 1.4%. Sales for the typical high-profit firm were \$7,247,955, with a profit of 7.1%. 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 19.2%.

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 <u>Distributor</u>	High Profit DHI
Sales per Employee Measures employee productivity	\$306,186	\$344,870
Gross Margin Percentage Reflects the ability to manage COGS effectively	29.9%	33.3%
Operating Expense Percentage Focuses on expense control	28.2%	26.2%
Inventory Turnover (times) Reflects how well inventory is managed	7.1	7.8
Average Collection Period (days) Reflects accounts receivable collection practices	63.2	55.9

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

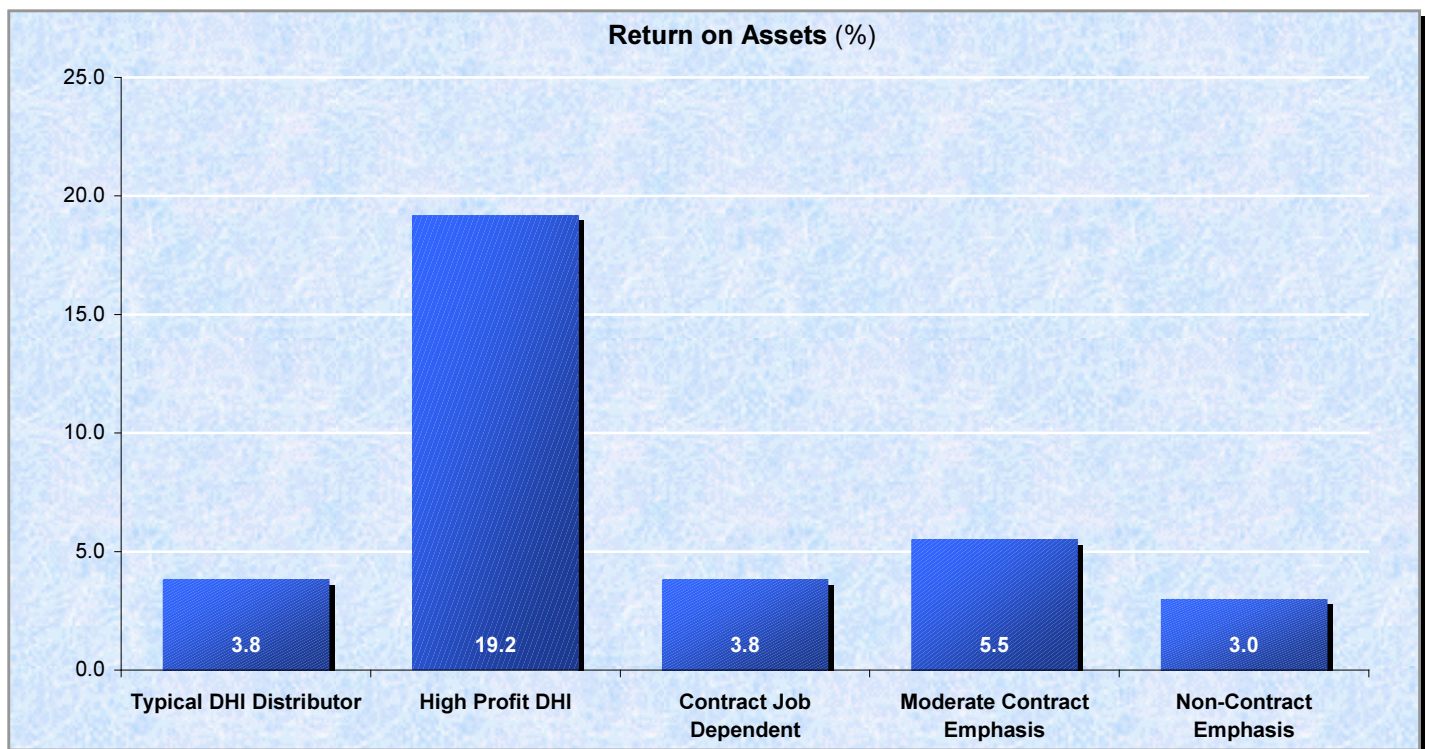
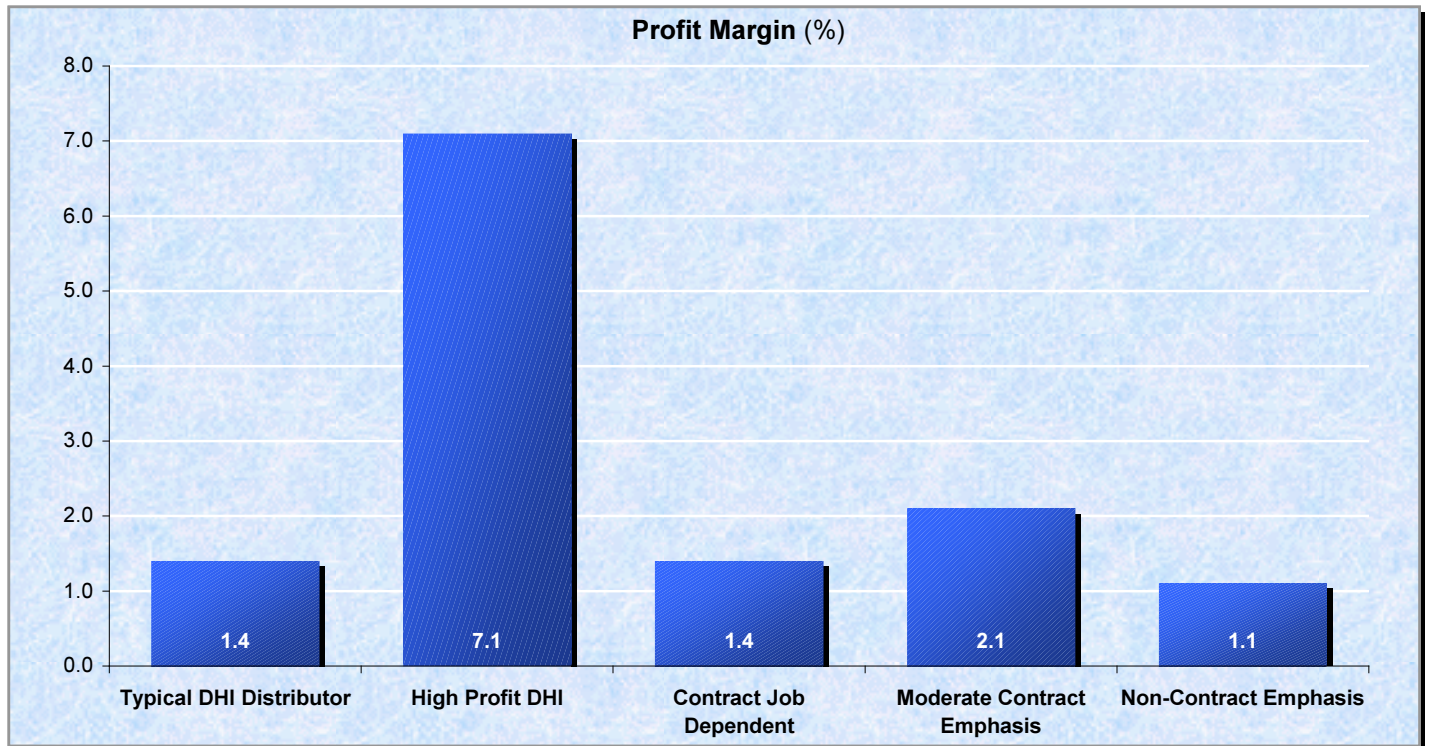
	Typical DHI <u>Distributor</u>	High Profit DHI
Income Statement		
Net Sales	\$12,597,940	\$7,247,955
Cost of Goods Sold	<u>8,831,156</u>	<u>4,834,386</u>
Gross Margin	3,766,784	2,413,569
Operating Expenses	<u>3,552,619</u>	<u>1,898,964</u>
Operating Profit	214,165	514,605
Other Income/Expenses	<u>-37,794</u>	<u>0</u>
Profit Before Taxes	\$176,371	\$514,605
Profit Before Taxes (%)	1.4%	7.1%
Assets		
Cash	\$335,945	\$300,656
Accounts Receivable	2,491,593	1,457,644
Inventory	1,175,808	671,107
All Other Assets	<u>662,558</u>	<u>255,021</u>
Total Assets	\$4,665,904	\$2,684,428
Return on Assets (Pre-Tax)	3.8%	19.2%

Executive Summary

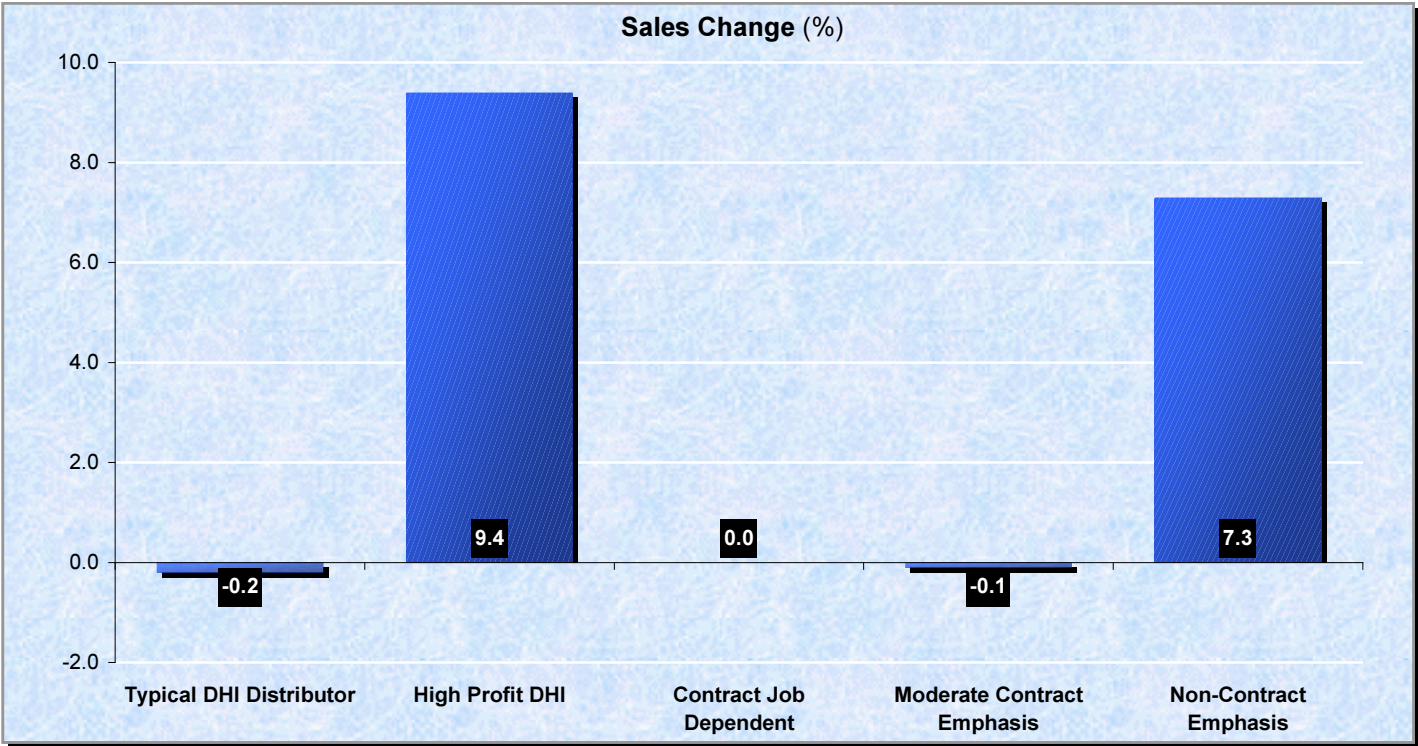
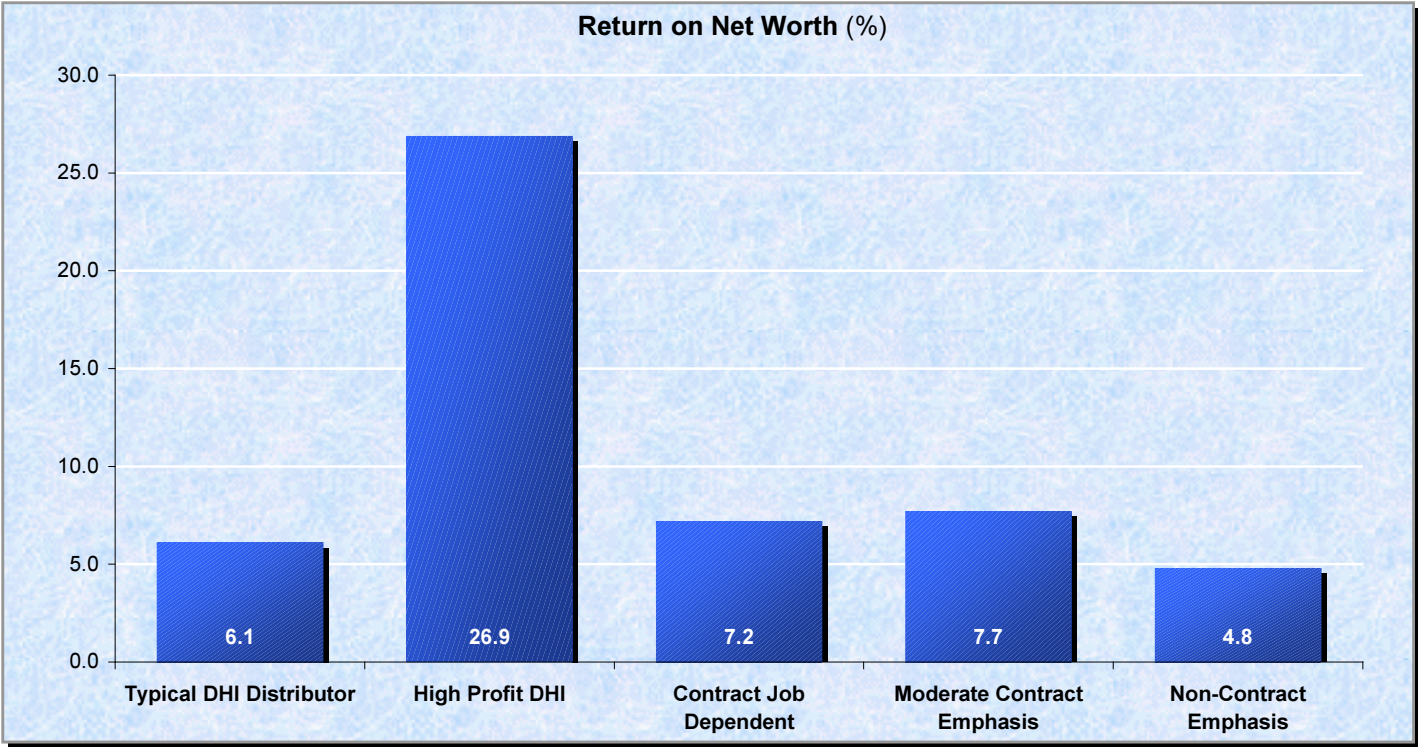
	Typical DHI <u>Distributor</u>	High Profit DHI
Typical Sales Volume	\$12,597,940	\$7,247,955
Strategic Profit Model Ratios		
Profit Margin (pre-tax)	1.4%	7.1%
Asset Turnover	2.7	2.7
Return on Assets (pre-tax)	3.8%	19.2%
Financial Leverage	1.6	1.4
Return on Net Worth (pre-tax)	6.1%	26.9%
Income Statement		
Net Sales	100.0%	100.0%
Cost of Goods Sold	<u>70.1</u>	<u>66.7</u>
Gross Margin	29.9	33.3
Operating Expenses		
Payroll Expenses	20.3	18.4
Occupancy Expenses	2.8	2.9
Other Operating Expenses	<u>5.1</u>	<u>4.9</u>
Total Operating Expenses	28.2	26.2
Operating Profit	1.7	7.1
Other Income/Expenses	<u>-0.3</u>	<u>0.0</u>
Profit Before Taxes	1.4%	7.1%
Financial Ratios		
Current Ratio	2.6	3.6
Quick Ratio	2.0	2.5
Accounts Payable to Inventory	64.0%	58.9%
Accounts Payable Payout Period (days)	26.6	24.9
Debt to Equity	0.6	0.4
EBIT to Total Assets	5.0%	22.0%
Times Interest Earned	7.4	53.4
Asset Productivity		
Average Collection Period (days)	63.2	55.9
Inventory Turnover (times)	7.1	7.8
Inventory Holding Period (days)	51.6	46.8
Gross Margin Return on Inventory	330.6%	471.6%
Growth & Cash Sufficiency		
Growth Potential Index (GPI)	7.4%	22.3%
Cash Cycle (days)	88.2	77.8
Operations		
Sales per SKU	\$6,328	\$6,371
Sales per Customer	\$48,357	\$44,784
Sales per Order	\$2,081	\$2,124
Employees		
Sales per Employee	\$306,186	\$344,870
Gross Margin per Employee	\$97,617	\$108,691
Payroll per Employee	\$60,694	\$55,080
Personnel Productivity Ratio	67.9%	55.3%

Graphical Analysis

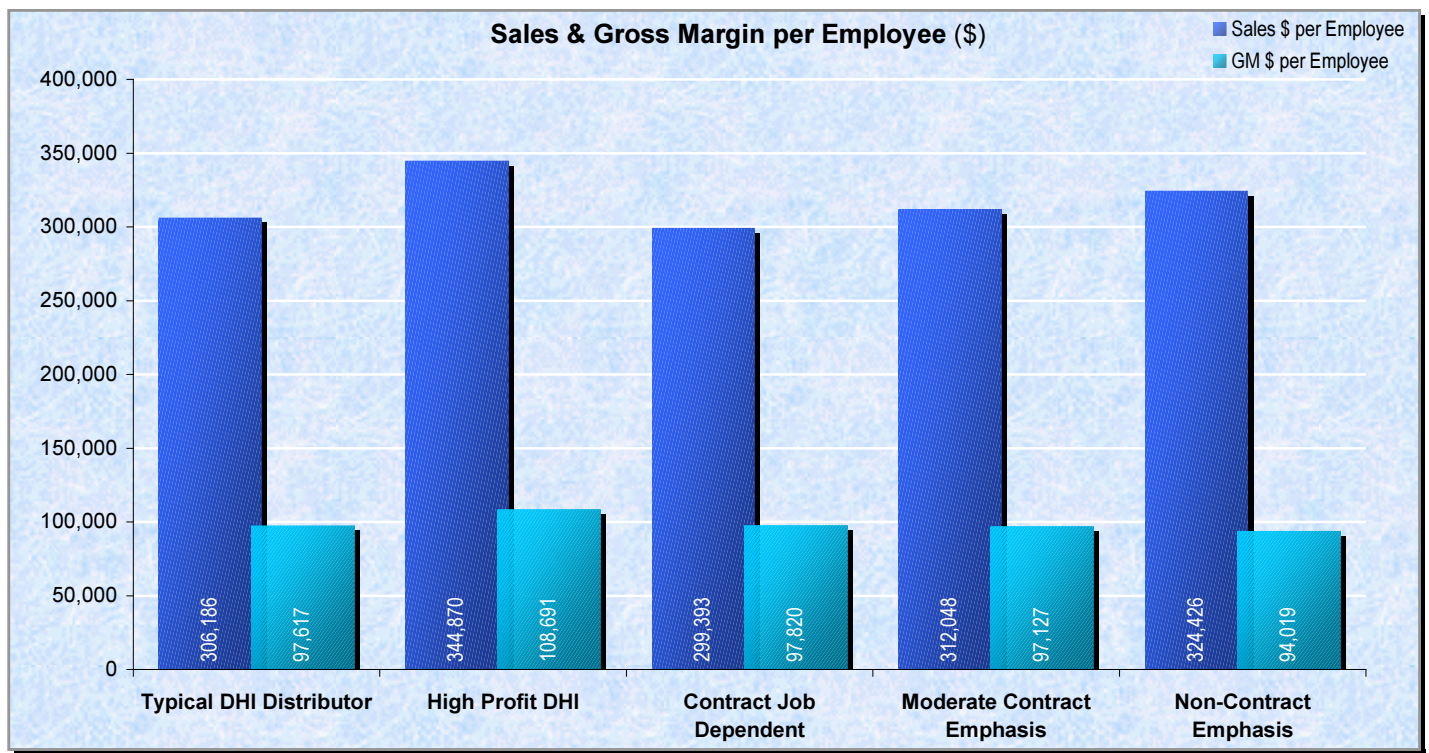
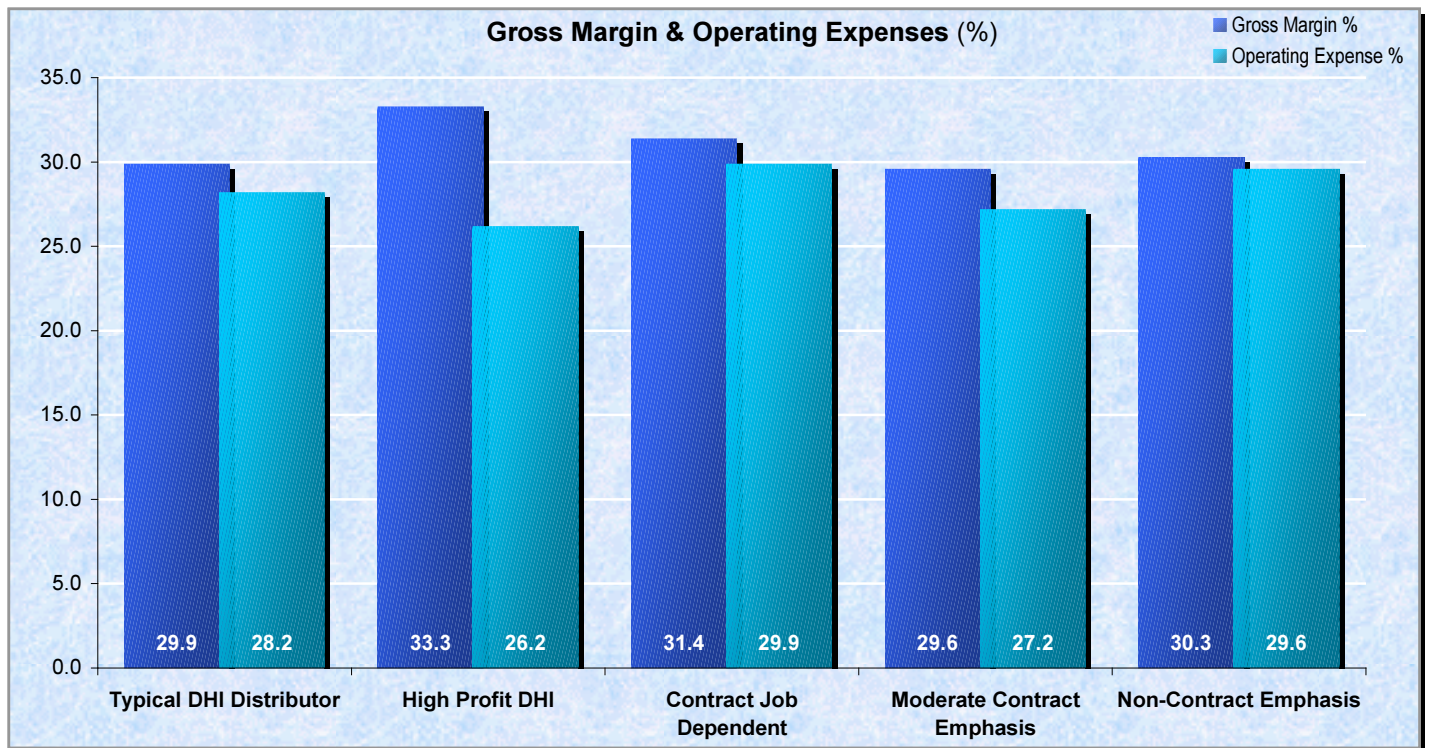
This section graphically presents results for key profitability measures and the factors that drive these results.



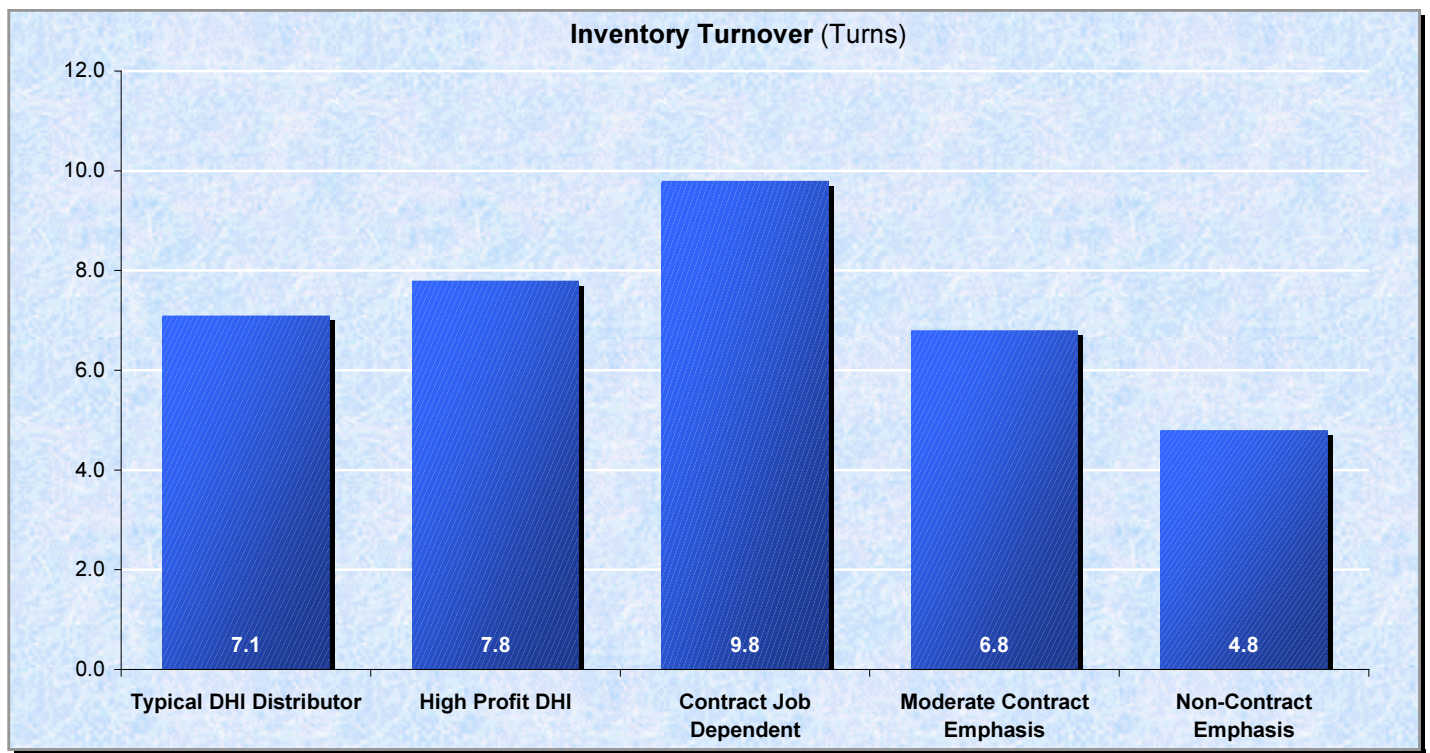
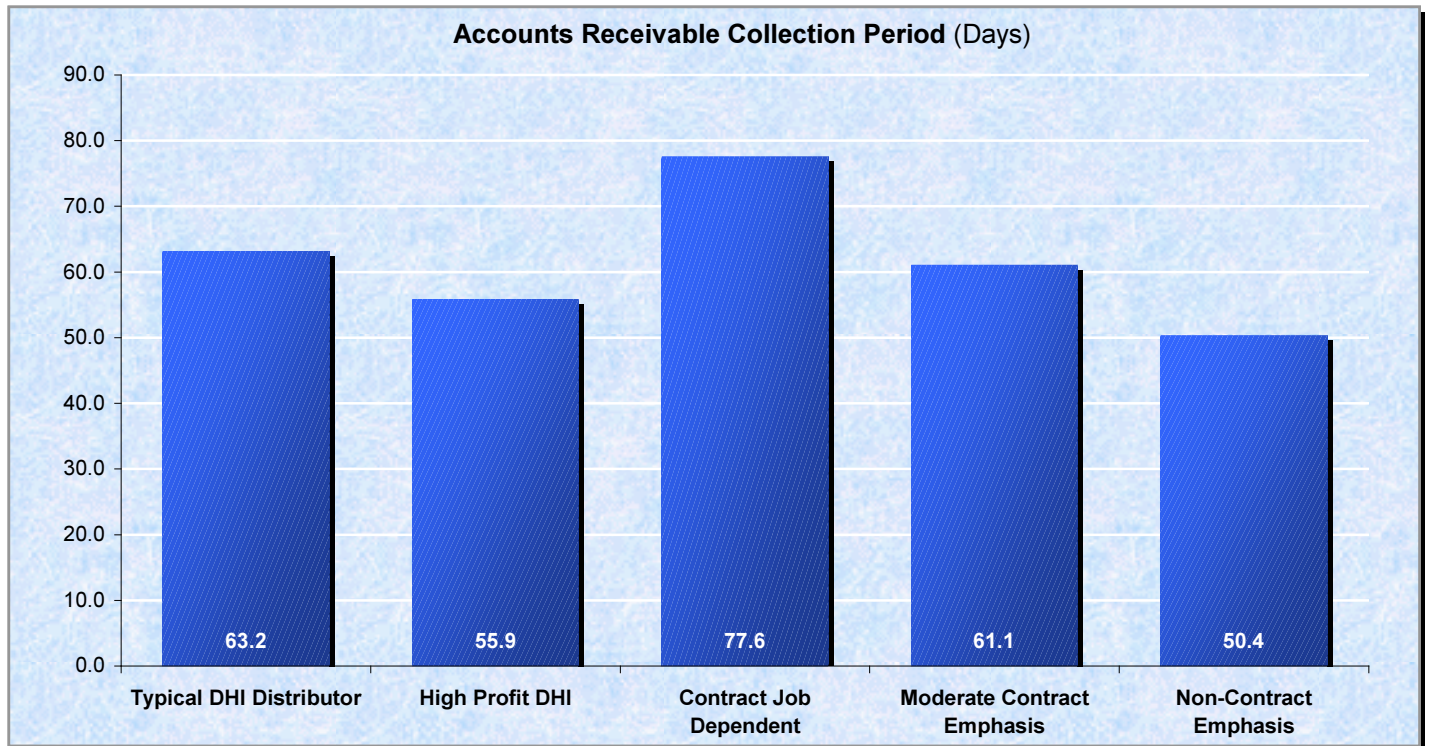
Graphical Analysis



Graphical Analysis



Graphical Analysis



Return on Investment

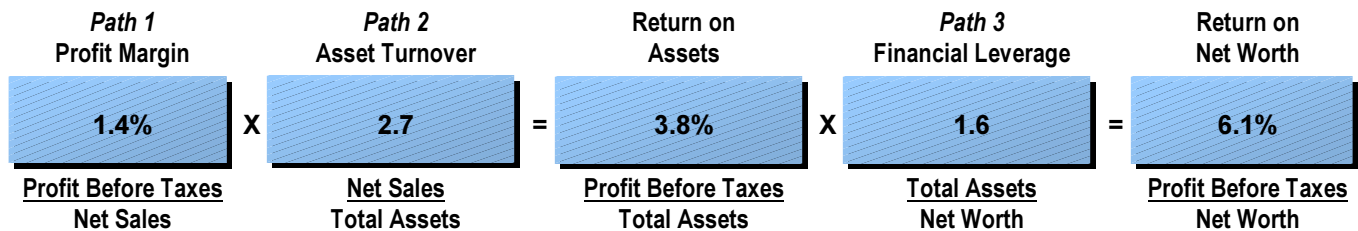
Return on investment is the most meaningful way to evaluate overall business profitability. It is important to understand how return on investment is calculated and how it can be improved.

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 1.6 times suggests that for every \$1.00 in net worth, the firm had \$1.60 in total assets.

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%	7.1%	1.4%	2.1%	1.1%
Asset Turnover	2.7	2.7	2.7	2.6	2.7
Return on Assets (pre-tax)	3.8%	19.2%	3.8%	5.5%	3.0%
Financial Leverage	1.6	1.4	1.9	1.4	1.6
Return on Net Worth (pre-tax)	6.1%	26.9%	7.2%	7.7%	4.8%

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.

	<u>Typical DHI Distributor</u>	<u>High Profit DHI</u>	<u>Contract Job Dependent</u>	<u>Moderate Contract Emphasis</u>	<u>Non- Contract Emphasis</u>
Number of Firms Reporting	47	12	15	22	8
Typical Sales Volume	\$12,597,940	\$7,247,955	\$12,927,837	\$12,905,235	\$7,822,543
Sales Change (2011 to 2012)	-0.2%	9.4%	0.0%	-0.1%	7.3%
Income Statement					
Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	<u>70.1</u>	<u>66.7</u>	<u>68.6</u>	<u>70.4</u>	<u>69.7</u>
Gross Margin	29.9	33.3	31.4	29.6	30.3
Personnel Expenses					
Executive Salaries & Bonuses	3.1	2.6	3.9	2.8	2.9
Sales Salaries & Commissions	6.8	5.9	5.6	7.1	10.0
Warehouse & Delivery Wages	1.9	1.2	1.2	2.8	1.1
All Other Employee Wages	<u>5.1</u>	<u>5.7</u>	<u>7.0</u>	<u>4.0</u>	<u>3.5</u>
Total Salaries, Wages & Bonuses	16.9	15.4	17.7	16.7	17.5
Payroll Taxes (FICA, workers' comp. & unemp.)	1.6	1.4	1.8	1.4	1.7
Group Insurance (medical, hospitalization, etc.)	1.4	1.4	1.6	1.1	1.4
Employee Benefits (profit sharing, pension, etc.)	<u>0.4</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.7</u>
Total Personnel Expenses	20.3	18.4	21.3	19.5	21.3
Occupancy Expenses					
Utilities (heat, light, power, water)	0.3	0.3	0.3	0.3	0.4
Telephone	0.3	0.3	0.3	0.3	0.3
Building Repairs & Maintenance	0.2	0.3	0.2	0.2	0.2
Rent or Real Estate Ownership	<u>2.0</u>	<u>2.0</u>	<u>2.1</u>	<u>2.0</u>	<u>1.9</u>
Total Occupancy Expenses	2.8	2.9	2.9	2.8	2.8
Other Operating Expenses					
Advertising & Promotion	0.1	0.1	0.0	0.1	0.1
Vehicle Expense	1.1	1.0	1.1	1.0	1.1
Insurance (business liability & casualty)	0.3	0.3	0.5	0.3	0.5
Depreciation	0.6	0.5	0.7	0.5	0.7
Bad Debt Losses	0.0	0.0	0.1	0.0	0.0
All Other Operating Expenses	<u>3.0</u>	<u>3.0</u>	<u>3.3</u>	<u>3.0</u>	<u>3.1</u>
Total Other Operating Expenses	5.1	4.9	5.7	4.9	5.5
Total Operating Expenses	28.2	26.2	29.9	27.2	29.6
Operating Profit	1.7	7.1	1.5	2.4	0.7
Other Income	0.1	0.1	0.0	0.1	0.5
Interest Expense	0.4	0.1	0.1	0.4	0.1
Other Non-operating Expenses	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Profit Before Taxes	1.4%	7.1%	1.4%	2.1%	1.1%

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.

	<u>Typical DHI Distributor</u>	<u>High Profit DHI</u>	<u>Contract Job Dependent</u>	<u>Moderate Contract Emphasis</u>	<u>Non- Contract Emphasis</u>
Gross Margin	100.0%	100.0%	100.0%	100.0%	100.0%
Personnel Expenses					
Executive Salaries & Bonuses	10.4	7.8	12.4	9.5	9.6
Sales Salaries & Commissions	22.7	17.7	17.8	24.0	33.0
Warehouse & Delivery Wages	6.4	3.6	3.8	9.5	3.6
All Other Employee Wages	<u>17.0</u>	<u>17.1</u>	<u>22.4</u>	<u>13.5</u>	<u>11.6</u>
Total Salaries, Wages & Bonuses	56.5	46.2	56.4	56.5	57.8
Payroll Taxes (FICA, workers' comp. & unemp.)	5.4	4.2	5.7	4.7	5.6
Group Insurance (medical, hospitalization, etc.)	4.7	4.2	5.1	3.7	4.6
Employee Benefits (profit sharing, pension, etc.)	<u>1.3</u>	<u>0.7</u>	<u>0.6</u>	<u>1.0</u>	<u>2.3</u>
Total Personnel Expenses	67.9	55.3	67.8	65.9	70.3
Occupancy Expenses					
Utilities (heat, light, power, water)	1.0	0.9	1.0	1.0	1.3
Telephone	1.0	0.9	1.0	1.0	1.0
Building Repairs & Maintenance	0.7	0.9	0.6	0.7	0.7
Rent or Real Estate Ownership	<u>6.7</u>	<u>6.0</u>	<u>6.7</u>	<u>6.8</u>	<u>6.3</u>
Total Occupancy Expenses	9.4	8.7	9.3	9.5	9.3
Other Operating Expenses					
Advertising & Promotion	0.3	0.3	0.0	0.3	0.3
Vehicle Expense	3.7	3.0	3.5	3.4	3.6
Insurance (business liability & casualty)	1.0	0.9	1.6	1.0	1.7
Depreciation	2.0	1.5	2.2	1.7	2.3
Bad Debt Losses	0.0	0.0	0.3	0.0	0.0
All Other Operating Expenses	<u>10.0</u>	<u>9.0</u>	<u>10.5</u>	<u>10.1</u>	<u>10.3</u>
Total Other Operating Expenses	17.0	14.7	18.1	16.5	18.2
Total Operating Expenses	94.3	78.7	95.2	91.9	97.8
Operating Profit	5.7	21.3	4.8	8.1	2.2
Other Income	0.3	0.3	0.0	0.3	1.7
Interest Expense	1.3	0.3	0.3	1.3	0.3
Other Non-operating Expenses	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Profit Before Taxes	4.7%	21.3%	4.5%	7.1%	3.6%

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	\$4,665,904	\$2,684,428	\$4,788,088	\$4,963,552	\$2,897,238
Assets					
Cash & Marketable Securities	7.2%	11.2%	6.9%	6.7%	14.1%
Trade Accounts Receivable	53.4	54.3	61.3	48.7	41.8
Inventory	25.2	25.0	16.8	24.8	33.2
Other Current Assets	<u>2.1</u>	<u>0.9</u>	<u>5.3</u>	<u>1.6</u>	<u>0.1</u>
Total Current Assets	87.9	91.4	90.3	81.8	89.2
Fixed & Noncurrent Assets	<u>12.1</u>	<u>8.6</u>	<u>9.7</u>	<u>18.2</u>	<u>10.8</u>
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Trade Accounts Payable	21.9%	17.4%	33.1%	11.8%	19.4%
Notes Payable	3.0	0.0	2.5	7.7	0.0
Other Current Liabilities	<u>6.4</u>	<u>5.8</u>	<u>8.6</u>	<u>5.0</u>	<u>11.8</u>
Total Current Liabilities	31.3	23.2	44.2	24.5	31.2
Long Term Liabilities	5.3	3.7	2.4	5.2	4.8
Net Worth or Owner Equity	<u>63.4</u>	<u>73.1</u>	<u>53.4</u>	<u>70.3</u>	<u>64.0</u>
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 <u>Distributor</u>	High Profit DHI	Contract Job <u>Dependent</u>	Moderate Contract <u>Emphasis</u>	Non- Contract <u>Emphasis</u>
Financial Ratios					
Current Ratio	2.6	3.6	2.2	3.1	1.8
Quick Ratio	2.0	2.5	1.6	2.1	1.9
Accounts Payable to Inventory	64.0%	58.9%	110.2%	52.7%	65.4%
Accounts Payable Payout Period (days)	26.6	24.9	39.6	20.9	34.3
Debt to Equity	0.6	0.4	0.9	0.4	0.6
EBIT to Total Assets	5.0%	22.0%	4.4%	6.7%	4.5%
Times Interest Earned	7.4	53.4	15.5	6.9	17.8

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 member, the turnover figure of 7.1 means that the firm sells out the equivalent of its inventory value 7.1 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 11.0 for the typical member indicates that the firm generates \$11.00 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.

	<u>Typical DHI Distributor</u>	<u>High Profit DHI</u>	<u>Contract Job Dependent</u>	<u>Moderate Contract Emphasis</u>	<u>Non- Contract Emphasis</u>
Collections					
Cash Sales (% of net sales)	4.0%	4.0%	3.0%	3.0%	6.5%
Average Collection Period (days)	63.2	55.9	77.6	61.1	50.4
Bad Debt Losses (% of net sales)	0.0%	0.0%	0.1%	0.0%	0.0%
Inventory					
Inventory Turnover	7.1	7.8	9.8	6.8	4.8
Inventory Holding Period (days)	51.6	46.8	37.2	53.9	75.8
Sales to Inventory Ratio	11.0	11.8	14.4	10.0	9.3
Gross Margin Return on Inventory	330.6%	471.6%	428.2%	298.0%	271.9%
Sales Path					
Warehouse Sales	90.0%	93.8%	87.0%	90.0%	93.5%
Direct Shipments	<u>10.0</u>	<u>6.2</u>	<u>13.0</u>	<u>10.0</u>	<u>6.5</u>
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%

Growth & 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 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 5.5, for example, means the firm can generate \$5.50 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.

	<u>Typical DHI Distributor</u>	<u>High Profit DHI</u>	<u>Contract Job Dependent</u>	<u>Moderate Contract Emphasis</u>	<u>Non- Contract Emphasis</u>
Cash Flow Cycle					
Average Collection Period (days)	63.2	55.9	77.6	61.1	50.4
Plus Inventory Holding Period (days)	<u>51.6</u>	<u>46.8</u>	<u>37.2</u>	<u>53.9</u>	<u>75.8</u>
Gross Cash Flow (days)	114.8	102.7	114.8	115.0	126.2
Minus A/P Payout Period (days)	<u>26.6</u>	<u>24.9</u>	<u>39.6</u>	<u>20.9</u>	<u>34.3</u>
Cash Cycle (days)	88.2	77.8	75.2	94.1	91.9
Growth & Cash Sufficiency					
Growth Potential Index	7.4%	22.3%	3.5%	11.7%	N/A%
Cash to Current Liabilities	14.2%	16.3%	12.4%	11.2%	42.5%
Defensive Interval (days)	28.1	47.1	33.1	21.1	49.9
Sales to Working Capital	5.5	4.8	6.0	5.2	7.9

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. Active customers are those making 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.)	228	120	135	432	177
Sales per Shipment Received	\$2,558	\$3,189	\$6,441	\$1,736	\$2,656
Stockkeeping Units (SKUs)	1,200	1,100	1,209	1,456	1,184
Sales per SKU	\$6,328	\$6,371	\$10,309	\$5,047	\$6,115
Inventory per SKU	\$586	\$647	\$654	\$484	\$848
Customers	201	115	132	250	253
Sales per Customer	\$48,357	\$44,784	\$110,752	\$44,146	\$38,493
Orders Shipped (monthly avg.)	387	150	354	407	415
Sales per Order	\$2,081	\$2,124	\$5,004	\$1,938	\$1,498
Lines per Order (avg.)	9.0	6.0	10.0	9.0	7.0
Sales per Order Line	\$297	\$425	\$480	\$263	\$250
Product Sales					
Builders Hardware	41.9%	41.4%	42.4%	43.3%	40.5%
Electronic Hardware	4.8	6.0	3.7	5.1	7.3
Metal Doors & Related Products	25.8	23.1	23.6	23.1	28.5
Wood Doors & Frames	15.5	12.6	18.2	15.2	13.3
Toilet Accessories & Partitions	3.8	4.1	3.4	3.9	5.2
Other	8.2	12.8	8.7	9.4	5.2
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Type of Sale					
Contract Jobs	70.0%	72.0%	90.0%	65.0%	41.0%
Non-Contract Sales	30.0	28.0	10.0	35.0	59.0
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Manufacturers	107	83	114	191	56
Sales per Manufacturer	\$98,905	\$84,229	\$135,782	\$79,813	\$175,255

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 <u>Distributor</u>	High Profit DHI	Contract Job <u>Dependent</u>	Moderate Contract <u>Emphasis</u>	Non- Contract <u>Emphasis</u>
FTE Employees	39	17	45	38	30
Sales per Employee	\$306,186	\$344,870	\$299,393	\$312,048	\$324,426
Gross Margin per Employee	\$97,617	\$108,691	\$97,820	\$97,127	\$94,019
Salary per Employee	\$51,198	\$43,628	\$50,032	\$51,017	\$52,980
Payroll per Employee	\$60,694	\$55,080	\$58,630	\$59,960	\$67,691
Payroll Expense (% of sales)	20.3%	18.4%	21.3%	19.5%	21.3%
Benefits (% of total payroll)	16.5%	17.7%	17.0%	15.1%	16.9%
Personnel Productivity Ratio	67.9%	55.3%	67.8%	65.9%	70.3%

Sales Volume

	Sales Under \$5 Million	Sales \$5 - \$10 Million	Sales \$10 - \$20 Million	Sales Over \$20 Million
Number of Firms Reporting	12	7	18	10
Typical Sales Volume	\$3,513,521	\$6,645,123	\$15,173,219	\$32,070,431
Sales Change (2011 to 2012)	-0.5%	-0.1%	-0.2%	10.7%
Strategic Profit Model Ratios				
Profit Margin (pre-tax)	2.2%	0.8%	1.6%	1.3%
Asset Turnover	3.1	2.9	2.7	2.4
Return on Assets (pre-tax)	6.8%	2.3%	4.3%	3.1%
Financial Leverage	1.5	1.9	1.4	2.7
Return on Net Worth (pre-tax)	10.2%	4.4%	6.0%	8.4%
Income Statement (% of sales)				
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	<u>65.3</u>	<u>72.7</u>	<u>70.8</u>	<u>69.1</u>
Gross Margin	34.7	27.3	29.2	30.9
Personnel Expenses				
Executive Salaries & Bonuses	4.8	3.5	2.9	2.8
Sales Salaries & Commissions	10.1	6.0	8.0	6.4
Warehouse & Delivery Wages	1.5	2.8	2.4	1.0
All Other Employee Wages	<u>4.5</u>	<u>4.7</u>	<u>2.9</u>	<u>6.3</u>
Total Salaries, Wages & Bonuses	20.9	17.0	16.2	16.5
Payroll Taxes (FICA, workers' comp. & unemp.)	1.6	1.7	1.5	1.5
Group Insurance (medical, hospitalization, etc.)	1.2	1.0	1.5	1.5
Employee Benefits (profit sharing, pension, etc.)	<u>0.0</u>	<u>0.1</u>	<u>0.5</u>	<u>0.7</u>
Total Personnel Expenses	23.7	19.8	19.7	20.2
Occupancy Expenses				
Utilities (heat, light, power, water)	0.5	0.2	0.3	0.3
Telephone	0.4	0.3	0.3	0.3
Building Repairs & Maintenance	0.2	0.1	0.2	0.2
Rent or Real Estate Ownership	<u>2.3</u>	<u>1.3</u>	<u>2.0</u>	<u>1.9</u>
Total Occupancy Expenses	3.4	1.9	2.8	2.7
Other Operating Expenses				
Advertising & Promotion	0.1	0.0	0.1	0.2
Vehicle Expenses	1.0	1.0	1.0	0.9
Insurance (business liability & casualty)	0.3	0.4	0.4	0.3
Depreciation	0.1	0.5	0.7	0.6
Bad Debt Losses	0.1	0.0	0.0	0.2
All Other Operating Expenses	<u>3.9</u>	<u>2.9</u>	<u>2.6</u>	<u>3.3</u>
Total Other Operating Expenses	5.5	4.8	4.8	5.5
Total Operating Expenses	32.6	26.5	27.3	28.4
Operating Profit	2.1	0.8	1.9	2.5
Other Income	0.3	0.0	0.0	0.0
Interest Expense	0.2	0.0	0.3	0.9
Other Non-operating Expenses	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.3</u>
Profit Before Taxes	2.2%	0.8%	1.6%	1.3%

Sales Volume

	Sales Under \$5 <u>Million</u>	Sales \$5 - \$10 <u>Million</u>	Sales \$10 - \$20 <u>Million</u>	Sales Over \$20 <u>Million</u>
Expenses in Relationship to GM (% of gross profit)				
Gross Margin	100.0%	100.0%	100.0%	100.0%
Personnel Expenses				
Executive Salaries & Bonuses	13.8	12.8	9.9	9.1
Sales Salaries & Commissions	29.1	22.0	27.4	20.7
Warehouse & Delivery Wages	4.3	10.3	8.2	3.2
All Other Employee Wages	<u>13.0</u>	<u>17.2</u>	<u>10.0</u>	<u>20.4</u>
Total Salaries, Wages & Bonuses	60.2	62.3	55.5	53.4
Payroll Taxes (FICA, workers' comp. & unemp.)	4.6	6.1	5.1	4.9
Group Insurance (medical, hospitalization, etc.)	3.5	3.7	5.1	4.9
Employee Benefits (profit sharing, pension, etc.)	<u>0.0</u>	<u>0.4</u>	<u>1.8</u>	<u>2.3</u>
Total Personnel Expenses	68.3	72.5	67.5	65.5
Occupancy Expenses				
Utilities (heat, light, power, water)	1.4	0.7	1.0	1.0
Telephone	1.2	1.1	1.0	1.0
Building Repairs & Maintenance	0.6	0.4	0.7	0.6
Rent or Real Estate Ownership	<u>6.6</u>	<u>4.8</u>	<u>6.9</u>	<u>6.1</u>
Total Occupancy Expenses	9.8	7.0	9.6	8.7
Other Operating Expenses				
Advertising & Promotion	0.3	0.0	0.3	0.6
Vehicle Expense	2.9	3.7	3.4	2.9
Insurance (business liability & casualty)	0.9	1.5	1.4	1.0
Depreciation	0.3	1.8	2.4	1.9
Bad Debt Losses	0.3	0.0	0.0	0.6
All Other Operating Expenses	<u>11.2</u>	<u>10.6</u>	<u>8.9</u>	<u>10.7</u>
Total Other Operating Expenses	15.9	17.6	16.4	17.7
Total Operating Expenses	94.0	97.1	93.5	91.9
Operating Profit	6.0	2.9	6.5	8.1
Other Income	0.9	0.0	0.0	0.0
Interest Expense	0.6	0.0	1.0	2.9
Other Non-operating Expenses	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>1.0</u>
Profit Before Taxes	6.3%	2.9%	5.5%	4.2%

Sales Volume

	Sales Under \$5 <u>Million</u>	Sales \$5 - \$10 <u>Million</u>	Sales \$10 - \$20 <u>Million</u>	Sales Over \$20 <u>Million</u>
Balance Sheet				
Typical Total Assets	\$1,133,394	\$2,291,422	\$5,619,711	\$13,362,680
Assets				
Cash & Marketable Securities	11.1%	11.2%	12.4%	2.0%
Trade Accounts Receivable	42.4	58.6	52.0	64.3
Inventory	31.0	19.0	22.3	20.3
Other Current Assets	<u>0.9</u>	<u>1.1</u>	<u>2.3</u>	<u>2.4</u>
Total Current Assets	85.4	89.9	89.0	89.0
Fixed & Noncurrent Assets	<u>14.6</u>	<u>10.1</u>	<u>11.0</u>	<u>11.0</u>
Total Assets	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth				
Trade Accounts Payable	16.7%	36.7%	16.3%	26.2%
Notes Payable	6.5	1.5	2.3	8.1
Other Current Liabilities	<u>4.6</u>	<u>5.1</u>	<u>6.0</u>	<u>20.6</u>
Total Current Liabilities	27.8	43.3	24.6	54.9
Long Term Liabilities	4.2	3.3	3.5	8.2
Net Worth or Owner Equity	<u>68.0</u>	<u>53.4</u>	<u>71.9</u>	<u>36.9</u>
Total Liabilities & Net Worth	100.0%	100.0%	100.0%	100.0%
Financial Ratios				
Current Ratio	3.4	2.0	3.6	2.2
Quick Ratio	2.0	1.5	2.7	1.5
Accounts Payable to Inventory	38.9%	116.5%	60.8%	62.6%
Accounts Payable Payout Period (days)	24.6	35.2	21.2	52.6
Debt to Equity	0.5	0.9	0.4	1.7
EBIT to Total Assets	5.9%	2.3%	5.8%	4.0%
Times Interest Earned	4.8	30.1	7.2	9.6
Asset Productivity				
Cash Sales (% of total sales)	7.0%	3.0%	3.0%	2.0%
Average Collection Period (days)	48.5	55.9	69.3	82.5
Bad Debt Losses (% of net sales)	0.1%	0.0%	0.0%	0.2%
Inventory Turnover	4.8	9.7	7.9	6.1
Inventory Holding Period (days)	75.8	37.7	46.1	64.7
Sales to Inventory Ratio	10.4	13.6	10.8	8.8
Gross Margin Return on Inventory	331.7%	384.1%	309.4%	288.9%
Sales Path				
Warehouse Sales	90.0%	85.0%	91.3%	90.0%
Direct Shipments	<u>10.0</u>	<u>15.0</u>	<u>8.7</u>	<u>10.0</u>
Total Sales	100.0%	100.0%	100.0%	100.0%
Cash Flow Cycle				
Average Collection Period (days)	48.5	55.9	69.3	82.5
Plus Inventory Holding Period (days)	<u>75.8</u>	<u>37.7</u>	<u>46.1</u>	<u>64.7</u>
Gross Cash Flow (days)	124.3	93.6	115.4	147.2
Minus A/P Payout Period (days)	<u>24.6</u>	<u>35.2</u>	<u>21.2</u>	<u>52.6</u>
Cash Cycle (days)	99.7	58.4	94.2	94.6
Growth & Cash Sufficiency				
Growth Potential Index	N/A%	N/A%	7.3%	3.1%
Cash to Current Liabilities	39.3%	16.3%	61.0%	5.9%
Defensive Interval (days)	31.8	47.1	53.6	9.5
Sales to Working Capital	7.3	6.0	4.7	5.3

Sales Volume

	Sales Under \$5 Million	Sales \$5 - \$10 Million	Sales \$10 - \$20 Million	Sales Over \$20 Million
Shipments Received (monthly avg.)	100	233	454	500
Sales per Shipment Received	\$2,694	\$2,155	\$2,481	\$3,264
Stockkeeping Units (SKUs)	1,200	1,173	1,168	1,400
Sales per SKU	\$2,180	\$5,533	\$13,100	\$12,983
Inventory per SKU	\$269	\$485	\$848	\$1,141
Customers	93	100	255	443
Sales per Customer	\$36,727	\$62,951	\$48,566	\$62,249
Orders Shipped (monthly avg.)	125	150	650	1,000
Sales per Order	\$1,668	\$3,725	\$1,692	\$4,176
Lines per Order (avg.)	5.5	10.0	9.5	10.0
Sales per Order Line	\$379	\$344	\$168	\$584
Product Sales				
Builders Hardware	38.9%	43.5%	47.6%	34.4%
Electronic Hardware	5.3	5.5	4.2	4.7
Metal Doors & Related Products	25.5	27.7	24.5	27.2
Wood Doors & Frames	13.0	20.3	16.9	13.3
Toilet Accessories & Partitions	5.7	0.6	3.2	5.0
Other	<u>11.6</u>	<u>2.4</u>	<u>3.6</u>	<u>15.4</u>
Total Sales	100.0%	100.0%	100.0%	100.0%
Type of Sale				
Contract Jobs	60.0%	72.0%	71.0%	81.0%
Non-Contract Sales	<u>40.0</u>	<u>28.0</u>	<u>29.0</u>	<u>19.0</u>
Total Sales	100.0%	100.0%	100.0%	100.0%
Manufacturers	70	60	169	175
Sales per Manufacturer	\$54,660	\$100,451	\$85,843	\$316,396
FTE Employees	15	23	45	99
Sales per Employee	\$252,000	\$311,622	\$318,907	\$353,639
Gross Margin per Employee	\$97,795	\$84,930	\$93,741	\$99,982
Salary per Employee	\$43,913	\$50,580	\$52,887	\$50,670
Payroll per Employee	\$53,559	\$55,880	\$64,820	\$61,004
Payroll Expense (% of sales)	23.7%	19.8%	19.7%	20.2%
Benefits (% of total payroll)	16.0%	16.8%	17.1%	18.5%
Personnel Productivity Ratio	68.3%	72.5%	67.5%	65.5%

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

	<u>North-eastern</u>	<u>South-eastern</u>	<u>North Central</u>	<u>Western</u>	<u>Canada</u>
Number of Firms Reporting	2	16	19	6	4
Typical Sales Volume		\$10,549,175	\$14,737,925	\$10,814,989	\$29,515,832
Sales Change (2011 to 2012)		-2.0%	5.8%	-0.2%	-2.4%
Strategic Profit Model Ratios					
Profit Margin (pre-tax)		2.0%	1.9%	0.9%	1.9%
Asset Turnover		2.7	2.7	2.8	2.0
Return on Assets (pre-tax)		5.4%	5.1%	2.5%	3.8%
Financial Leverage		1.3	1.6	1.4	2.5
Return on Net Worth (pre-tax)		7.0%	8.2%	3.5%	9.5%
Income Statement					
Net Sales		100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold		<u>70.8</u>	<u>70.0</u>	<u>70.9</u>	<u>67.9</u>
Gross Margin		29.2	30.0	29.1	32.1
Personnel Expenses					
Executive Salaries & Bonuses		3.5	3.2	3.3	N/A
Sales Salaries & Commissions		7.6	5.4	N/A	N/A
Warehouse & Delivery Wages		1.8	1.1	3.1	N/A
All Other Employee Wages		<u>3.3</u>	<u>6.3</u>	<u>N/A</u>	<u>N/A</u>
Total Salaries, Wages & Bonuses		16.2	16.0	18.2	19.4
Payroll Taxes (FICA, workers' comp. & unemp.)		1.6	1.5	1.6	1.0
Group Insurance (medical, hospitalization, etc.)		1.4	1.7	1.3	0.5
Employee Benefits (profit sharing, pension, etc.)		<u>0.2</u>	<u>0.5</u>	<u>0.0</u>	<u>0.9</u>
Total Personnel Expenses		19.4	19.7	21.1	21.8
Occupancy Expenses					
Utilities (heat, light, power, water)		0.4	0.4	0.2	0.3
Telephone		0.3	0.3	0.3	0.3
Building Repairs & Maintenance		0.2	0.2	0.1	0.4
Rent or Real Estate Ownership		<u>1.9</u>	<u>1.9</u>	<u>1.9</u>	<u>1.7</u>
Total Occupancy Expenses		2.8	2.8	2.5	2.7
Other Operating Expenses					
Advertising & Promotion		0.1	0.1	0.0	0.4
Vehicle Expenses		1.0	1.1	0.8	1.1
Insurance (business liability & casualty)		0.4	0.3	0.4	0.2
Depreciation		0.7	0.5	0.5	0.4
Bad Debt Losses		0.0	0.1	0.1	0.0
All Other Operating Expenses		<u>2.8</u>	<u>3.2</u>	<u>2.9</u>	<u>3.0</u>
Total Other Operating Expenses		5.0	5.3	4.7	5.1
Total Operating Expenses		27.2	27.8	28.3	29.6
Operating Profit		2.0	2.2	0.8	2.5
Other Income		0.4	0.0	0.2	0.0
Interest Expense		0.4	0.3	0.1	0.4
Other Non-operating Expenses		<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.2</u>
Profit Before Taxes		2.0%	1.9%	0.9%	1.9%

Regions

	<u>North- eastern</u>	<u>South- eastern</u>	<u>North Central</u>	<u>Western</u>	<u>Canada</u>
Number of Firms Reporting	2	16	19	6	4
Expenses in Relationship to GM					
Gross Margin		100.0%	100.0%	100.0%	100.0%
Personnel Expenses					
Executive Salaries & Bonuses		12.0	10.7	11.3	N/A
Sales Salaries & Commissions		26.0	18.0	N/A	N/A
Warehouse & Delivery Wages		6.2	3.7	10.7	N/A
All Other Employee Wages		<u>11.3</u>	<u>20.9</u>	<u>N/A</u>	<u>N/A</u>
Total Salaries, Wages & Bonuses		55.5	53.3	62.5	60.4
Payroll Taxes (FICA, workers' comp. & unemp.)		5.5	5.0	5.5	3.1
Group Insurance (medical, hospitalization, etc.)		4.8	5.7	4.5	1.6
Employee Benefits (profit sharing, pension, etc.)		<u>0.7</u>	<u>1.7</u>	<u>0.0</u>	<u>2.8</u>
Total Personnel Expenses		66.5	65.7	72.5	67.9
Occupancy Expenses					
Utilities (heat, light, power, water)		1.4	1.3	0.7	0.9
Telephone		1.0	1.0	1.0	0.9
Building Repairs & Maintenance		0.7	0.7	0.3	1.2
Rent or Real Estate Ownership		<u>6.5</u>	<u>6.3</u>	<u>6.6</u>	<u>5.4</u>
Total Occupancy Expenses		9.6	9.3	8.6	8.4
Other Operating Expenses					
Advertising & Promotion		0.3	0.3	0.0	1.3
Vehicle Expense		3.4	3.7	2.7	3.4
Insurance (business liability & casualty)		1.4	1.0	1.4	0.6
Depreciation		2.4	1.7	1.7	1.3
Bad Debt Losses		0.0	0.3	0.3	0.0
All Other Operating Expenses		<u>9.6</u>	<u>10.7</u>	<u>10.1</u>	<u>9.3</u>
Total Other Operating Expenses		17.1	17.7	16.2	15.9
Total Operating Expenses		93.2	92.7	97.3	92.2
Operating Profit		6.8	7.3	2.7	7.8
Other Income		1.4	0.0	0.7	0.0
Interest Expense		1.4	1.0	0.3	1.3
Other Non-operating Expenses		<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.6</u>
Profit Before Taxes		6.8%	6.3%	3.1%	5.9%

Regions

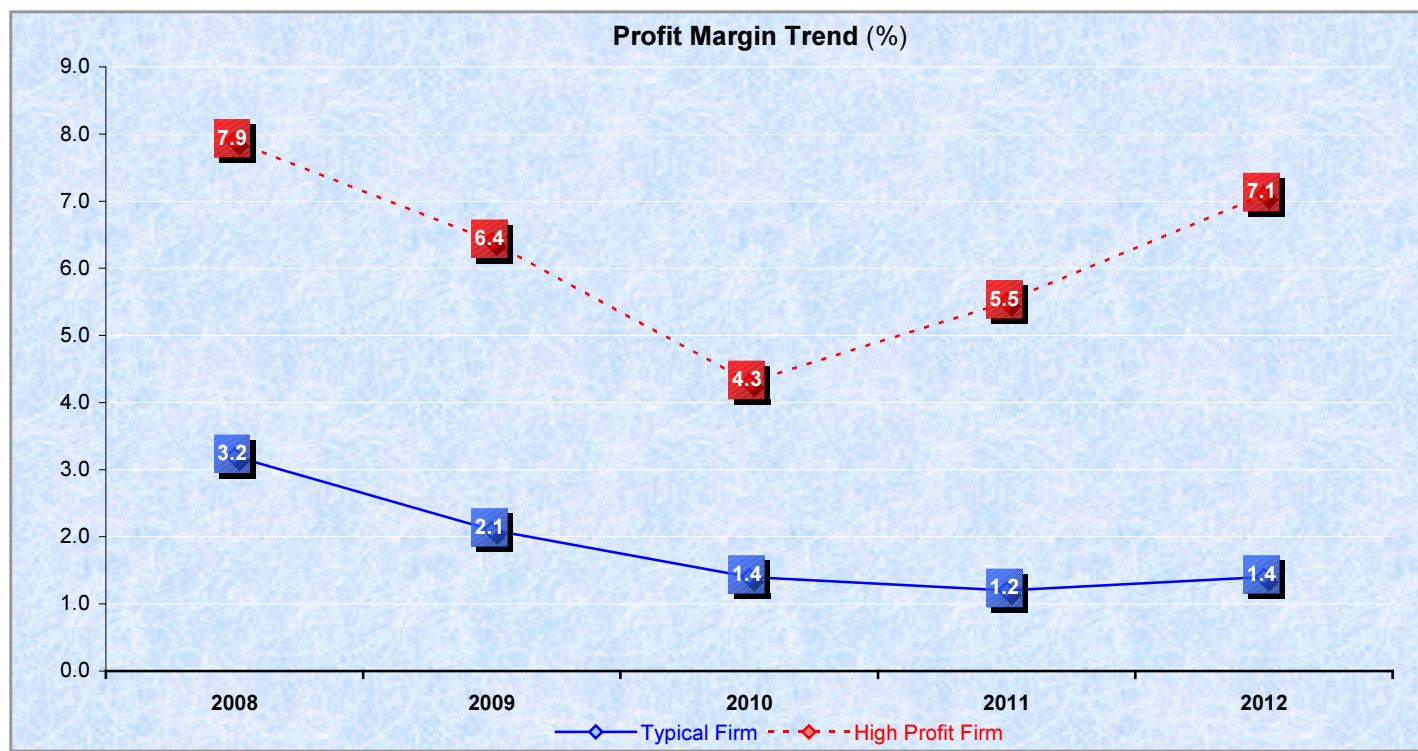
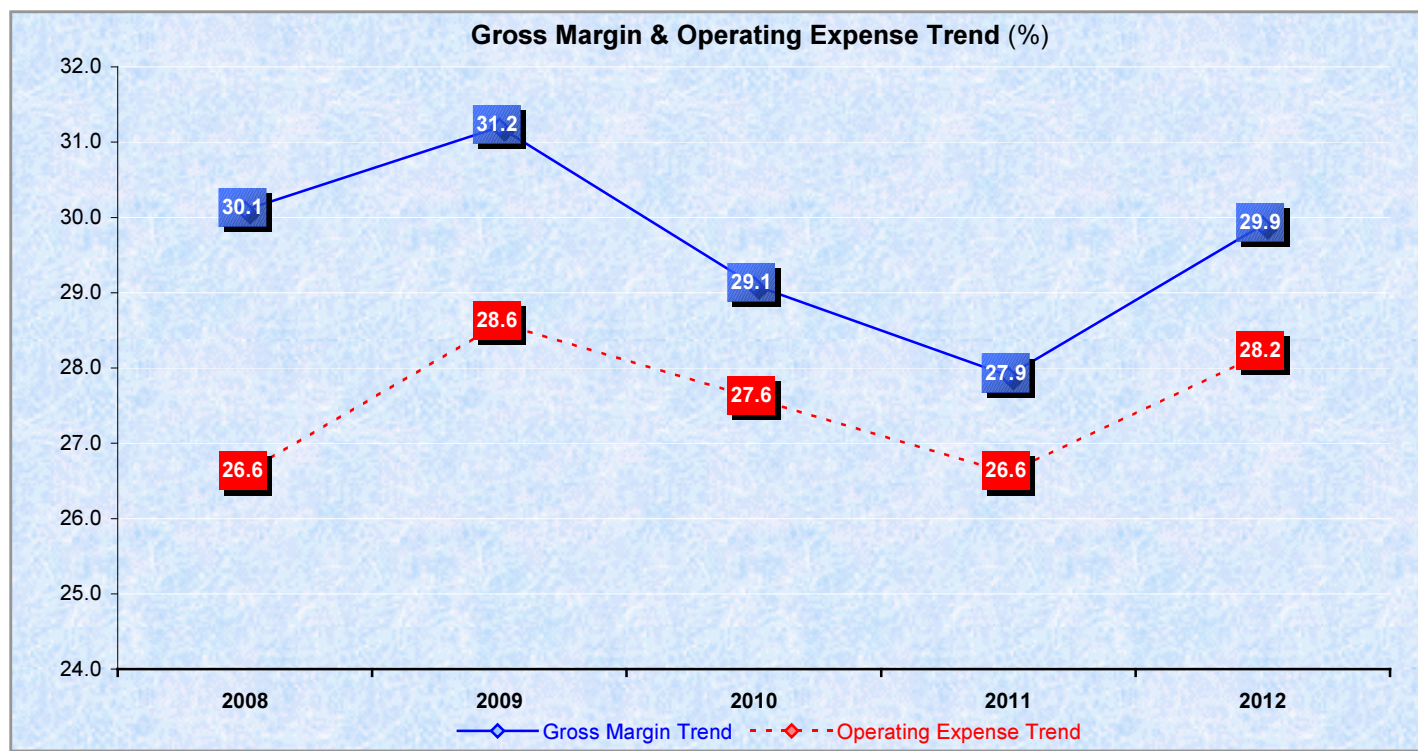
	<u>North-eastern</u>	<u>South-eastern</u>	<u>North Central</u>	<u>Western</u>	<u>Canada</u>
Number of Firms Reporting	2	16	19	6	4
Balance Sheet					
Typical Total Assets		\$3,907,102	\$5,458,491	\$3,862,496	\$14,757,916
Assets					
Cash & Marketable Securities		10.1%	5.5%	12.8%	0.0%
Trade Accounts Receivable		58.8	51.6	56.1	50.7
Inventory		17.9	28.5	21.0	26.7
Other Current Assets		<u>2.1</u>	<u>0.9</u>	<u>1.9</u>	<u>2.9</u>
Total Current Assets		88.9	86.5	91.8	80.3
Fixed & Noncurrent Assets		<u>11.1</u>	<u>13.5</u>	<u>8.2</u>	<u>19.7</u>
Total Assets		100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Trade Accounts Payable		15.2%	18.0%	19.6%	18.7%
Notes Payable		1.8	6.5	0.5	0.0
Other Current Liabilities		<u>2.3</u>	<u>6.1</u>	<u>4.9</u>	<u>37.1</u>
Total Current Liabilities		19.3	30.6	25.0	55.8
Long Term Liabilities		2.4	6.0	2.8	4.2
Net Worth or Owner Equity		<u>78.3</u>	<u>63.4</u>	<u>72.2</u>	<u>40.0</u>
Total Liabilities & Net Worth		100.0%	100.0%	100.0%	100.0%
Financial Ratios					
Current Ratio		4.1	2.8	4.2	1.3
Quick Ratio		3.2	2.0	2.8	0.7
Accounts Payable to Inventory		67.8%	58.9%	80.2%	73.6%
Accounts Payable Payout Period (days)		23.5	25.2	29.1	55.4
Debt to Equity		0.3	0.6	0.4	1.5
EBIT to Total Assets		6.0%	6.3%	3.0%	5.5%
Times Interest Earned		4.7	8.6	11.1	N/A
Asset Productivity					
Cash Sales (% of total sales)		6.5%	3.0%	2.0%	N/A%
Average Collection Period (days)		62.6	63.2	62.3	N/A
Bad Debt Losses (% of net sales)		0.0%	0.1%	0.1%	0.0%
Inventory Turnover		9.1	6.2	8.6	5.1
Inventory Holding Period (days)		40.2	58.8	42.4	74.1
Sales to Inventory Ratio		13.2	10.1	12.3	7.5
Gross Margin Return on Inventory		384.1%	314.1%	334.6%	239.6%
Sales Path					
Warehouse Sales		88.5%	90.0%	95.0%	97.5%
Direct Shipments		<u>11.5</u>	<u>10.0</u>	<u>5.0</u>	<u>2.5</u>
Total Sales		100.0%	100.0%	100.0%	100.0%
Cash Flow Cycle					
Average Collection Period (days)		62.6	63.2	62.3	N/A
Plus Inventory Holding Period (days)		<u>40.2</u>	<u>58.8</u>	<u>42.4</u>	<u>74.1</u>
Gross Cash Flow (days)		102.8	122.0	104.7	N/A
Minus A/P Payout Period (days)		<u>23.5</u>	<u>25.2</u>	<u>29.1</u>	<u>55.4</u>
Cash Cycle (days)		79.3	96.8	75.6	N/A
Growth & Cash Sufficiency					
Growth Potential Index		2.0%	10.6%	N/A%	N/A%
Cash to Current Liabilities		24.9%	15.4%	46.0%	0.0%
Defensive Interval (days)		38.7	28.1	55.1	0.0
Sales to Working Capital		4.6	5.5	4.8	10.5

Regions

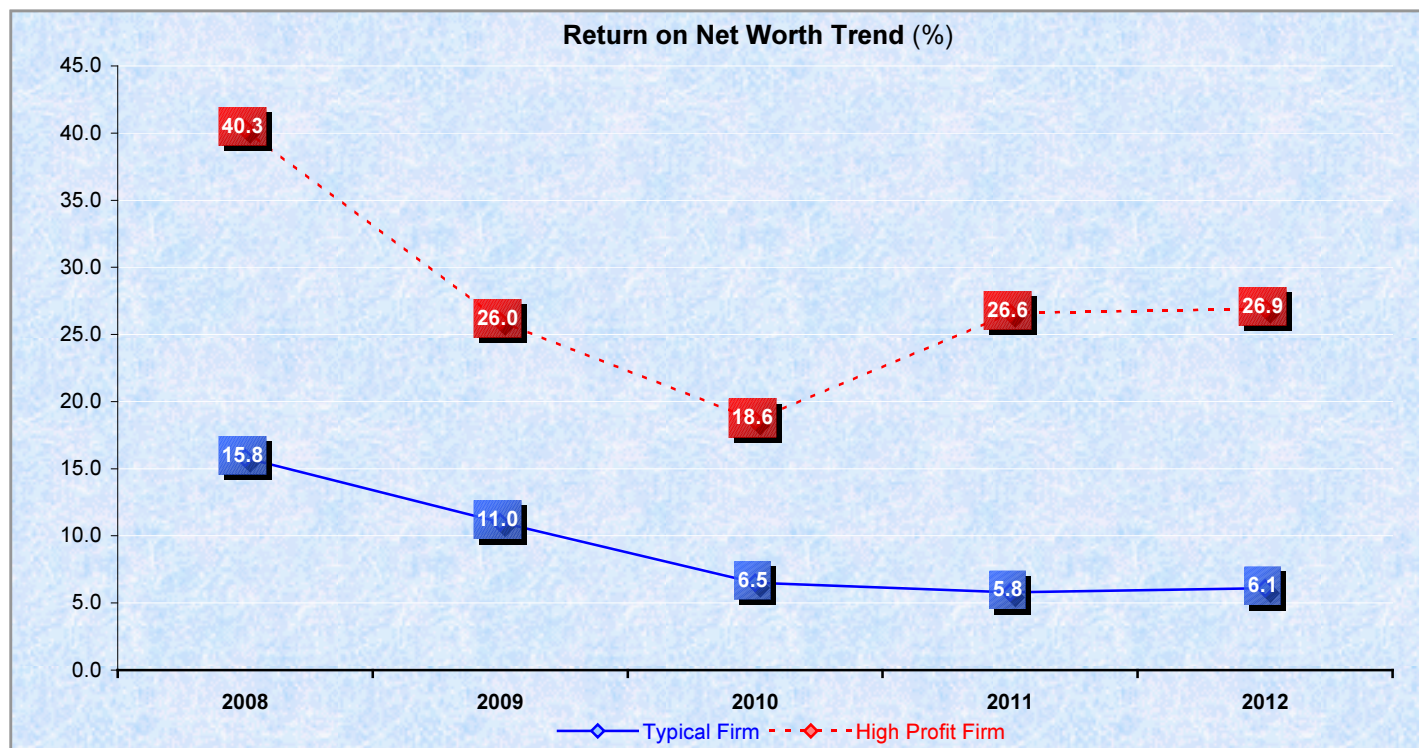
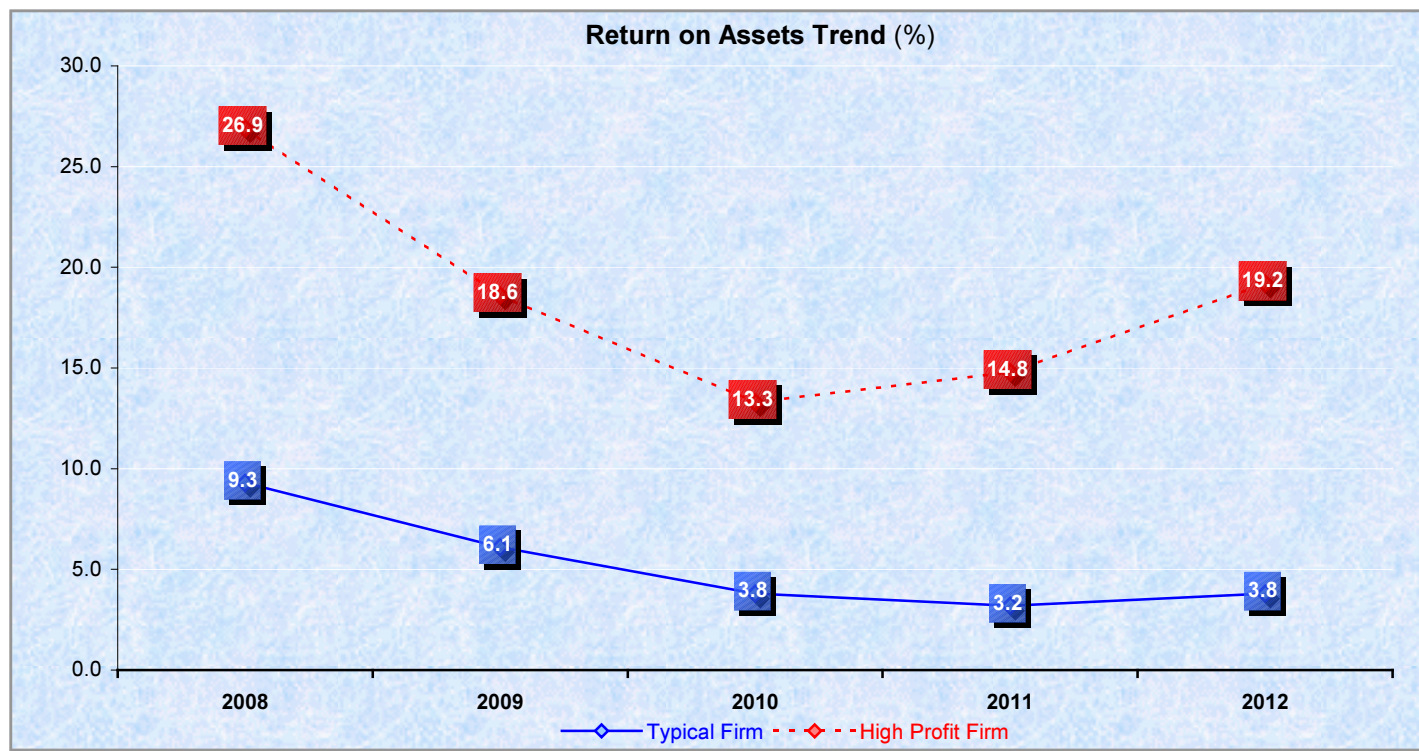
	<u>North-eastern</u>	<u>South-eastern</u>	<u>North Central</u>	<u>Western</u>	<u>Canada</u>
Number of Firms Reporting	2	16	19	6	4
Shipments Received (monthly avg.)		210	233	N/A	N/A
Sales per Shipment Received		\$3,779	\$2,330	\$N/A	\$N/A
Stockkeeping Units (SKUs)		660	1,600	1,695	5,550
Sales per SKU		\$13,100	\$2,916	\$5,566	\$11,241
Inventory per SKU		\$1,023	\$389	\$501	\$1,214
Customers		126	300	150	1,004
Sales per Customer		\$58,050	\$48,148	\$84,599	\$23,347
Orders Shipped (monthly avg.)		337	630	250	2,299
Sales per Order		\$2,166	\$1,906	\$3,625	\$1,251
Lines per Order (avg.)		10.5	8.5	5.5	N/A
Sales per Order Line		\$184	\$315	\$534	\$N/A
Product Sales					
Builders Hardware		37.2%	41.4%	49.1%	53.7%
Electronic Hardware		2.1	6.5	3.8	9.0
Metal Doors & Related Products		32.4	22.5	25.9	15.2
Wood Doors & Frames		17.6	13.9	17.5	10.2
Toilet Accessories & Partitions		3.4	4.6	1.5	5.6
Other		<u>7.3</u>	<u>11.1</u>	<u>2.2</u>	<u>6.3</u>
Total Sales		100.0%	100.0%	100.0%	100.0%
Type of Sale					
Contract Jobs		75.0%	70.0%	75.0%	69.5%
Non Contract Sales		<u>25.0</u>	<u>30.0</u>	<u>25.0</u>	<u>30.5</u>
Total Sales		100.0%	100.0%	100.0%	100.0%
Manufacturers		68	150	89	162
Sales per Manufacturer		\$92,826	\$105,585	\$100,451	\$316,396
Employees (FTE)		33	46	40	86
Sales per Employee		\$305,936	\$300,751	\$317,247	\$339,792
Gross Margin per Employee		\$85,252	\$97,820	\$107,075	\$104,364
Salary per Employee		\$43,258	\$45,636	\$53,448	\$59,691
Payroll per Employee		\$54,093	\$60,674	\$61,980	\$66,609
Payroll Expense (% of sales)		19.4%	19.7%	21.1%	21.8%
Benefits (% of total payroll)		16.8%	17.4%	15.1%	10.4%
Personnel Productivity Ratio		66.5%	65.7%	72.5%	67.9%

Trends

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



Trends



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.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Number of Firms Reporting	76	46	53	46	47
Typical Sales Volume	\$9,950,814	\$10,011,554	\$11,316,044	\$12,839,338	\$12,597,940
Sales Change (vs. prior year)	8.7%	-8.6%	-3.0%	3.1%	-0.2%
Strategic Profit Model Ratios					
Profit Margin (pre-tax)	3.2%	2.1%	1.4%	1.2%	1.4%
Asset Turnover	2.9	2.9	2.7	2.7	2.7
Return on Assets (pre-tax)	9.3%	6.1%	3.8%	3.2%	3.8%
Financial Leverage	1.7	1.8	1.7	1.8	1.6
Return on Net Worth (pre-tax)	15.8%	11.0%	6.5%	5.8%	6.1%
Income Statement					
Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	<u>69.9</u>	<u>68.8</u>	<u>70.9</u>	<u>72.1</u>	<u>70.1</u>
Gross Margin	30.1	31.2	29.1	27.9	29.9
Personnel Expenses					
Executive Salaries & Bonuses	3.3	4.4	3.8	3.3	3.1
Sales Salaries & Commissions	7.2	6.4	6.7	7.5	6.8
Warehouse & Delivery Wages	1.9	2.4	1.6	1.5	1.9
All Other Employee Wages	<u>4.0</u>	<u>3.9</u>	<u>5.0</u>	<u>4.4</u>	<u>5.1</u>
Total Salaries, Wages & Bonuses	16.4	17.1	17.1	16.7	16.9
Payroll Taxes (FICA, workers' comp. & unemp.)	1.4	1.5	1.5	1.5	1.6
Group Insurance (medical, hospitalization, etc.)	1.0	1.3	1.4	1.1	1.4
Employee Benefits (profit sharing, pension, etc.)	<u>0.3</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
Total Personnel Expenses	19.1	20.3	20.4	19.7	20.3
Occupancy Expenses					
Utilities (heat, light, power, water)	0.3	0.4	0.3	0.3	0.3
Telephone	0.3	0.4	0.3	0.3	0.3
Building Repairs & Maintenance	0.3	0.3	0.2	0.2	0.2
Rent or Real Estate Ownership	<u>1.6</u>	<u>1.9</u>	<u>1.7</u>	<u>1.4</u>	<u>2.0</u>
Total Occupancy Expenses	2.5	3.0	2.5	2.2	2.8
Other Operating Expenses					
Advertising & Promotion	0.1	0.2	0.1	0.1	0.1
Vehicle Expenses	0.9	0.8	1.0	0.9	1.1
Insurance (business liability & casualty)	0.4	0.5	0.3	0.3	0.3
Depreciation	0.4	0.6	0.5	0.4	0.6
Bad Debt Losses	0.1	0.2	0.1	0.1	0.0
All Other Operating Expenses	<u>3.1</u>	<u>3.0</u>	<u>2.7</u>	<u>2.9</u>	<u>3.0</u>
Total Other Operating Expenses	5.0	5.3	4.7	4.7	5.1
Total Operating Expenses	26.6	28.6	27.6	26.6	28.2
Operating Profit	3.5	2.6	1.5	1.3	1.7
Other Income	0.1	0.0	0.1	0.2	0.1
Interest Expense	0.4	0.5	0.2	0.3	0.4
Other Non-operating Expenses	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Profit Before Taxes	3.2%	2.1%	1.4%	1.2%	1.4%

Trends

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Typical Total Assets	\$3,431,315	\$3,452,260	\$4,191,127	\$4,755,310	\$4,665,904
Assets					
Cash & Marketable Securities	2.3%	6.3%	5.1%	6.9%	7.2%
Trade Accounts Receivable	56.3	51.1	49.1	47.4	53.4
Inventory	26.0	28.5	27.1	29.9	25.2
Other Current Assets	<u>1.5</u>	<u>1.9</u>	<u>2.6</u>	<u>2.4</u>	<u>2.1</u>
Total Current Assets	86.1	87.8	83.9	86.6	87.9
Fixed & Noncurrent Assets	<u>13.9</u>	<u>12.2</u>	<u>16.1</u>	<u>13.4</u>	<u>12.1</u>
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Net Worth					
Trade Accounts Payable	18.1%	17.9%	18.0%	19.9%	21.9%
Notes Payable	12.7	11.0	8.5	9.7	3.0
Other Current Liabilities	<u>7.5</u>	<u>7.9</u>	<u>9.4</u>	<u>9.5</u>	<u>6.4</u>
Total Current Liabilities	38.3	36.8	35.9	39.1	31.3
Long Term Liabilities	2.9	8.4	5.6	4.0	5.3
Net Worth or Owner Equity	<u>58.8</u>	<u>54.8</u>	<u>58.5</u>	<u>56.9</u>	<u>63.4</u>
Total Liabilities & Net Worth	100.0%	100.0%	100.0%	100.0%	100.0%
Financial Ratios					
Current Ratio	2.2	2.4	3.0	2.3	2.6
Quick Ratio	1.5	1.6	1.8	1.6	2.0
Accounts Payable to Inventory	73.7%	44.3%	56.1%	65.1%	64.0%
Accounts Payable Payout Period (days)	27.5	25.2	22.6	21.5	26.6
Debt to Equity	0.7	0.8	0.6	0.7	0.6
EBIT to Total Assets	10.4%	7.5%	4.1%	4.6%	5.0%
Times Interest Earned	9.0	5.2	6.3	6.9	7.4
Asset Productivity					
Cash Sales (% of total sales)	3.4%	3.1%	4.0%	2.5%	4.0%
Average Collection Period (days)	59.5	64.1	63.5	60.6	63.2
Bad Debt Losses (% of net sales)	0.1%	0.2%	0.1%	0.1%	0.0%
Inventory Turnover	6.6	6.8	6.5	7.4	7.1
Inventory Holding Period (days)	55.3	53.7	56.1	49.6	51.6
Sales to Inventory Ratio	10.3	9.9	9.4	10.4	11.0
Gross Margin Return on Inventory	337.7%	304.4%	301.2%	315.6%	330.6%
Cash Flow Cycle					
Average Collection Period (days)	59.5	64.1	63.5	60.6	63.2
Plus Inventory Holding Period (days)	<u>55.3</u>	<u>53.7</u>	<u>56.1</u>	<u>49.6</u>	<u>51.6</u>
Gross Cash Flow (days)	114.8	117.8	119.6	110.2	114.8
Minus A/P Payout Period (days)	<u>27.5</u>	<u>25.2</u>	<u>22.6</u>	<u>21.5</u>	<u>26.6</u>
Cash Cycle (days)	87.3	92.6	97.0	88.7	88.2
Growth & Cash Sufficiency					
Growth Potential Index	10.6%	6.6%	3.6%	5.9%	7.4%
Cash to Current Liabilities	6.0%	17.1%	17.1%	11.0%	14.2%
Defensive Interval (days)	10.0	26.1	19.8	24.6	28.1
Sales to Working Capital	6.2	5.8	5.0	5.0	5.5

Trends

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Shipments Received (monthly avg.)	188	173	212	215	228
Sales per Shipment Received	\$3,055	\$3,140	\$2,174	\$2,519	\$2,558
Stockkeeping Units (SKUs)	1,177	1,100	1,202	1,165	1,200
Sales per SKU	\$7,372	\$7,240	\$7,033	\$8,286	\$6,328
Inventory per SKU	\$832	\$718	\$710	\$778	\$586
Customers	200	198	210	227	201
Sales per Customer	\$54,329	\$49,770	\$40,785	\$33,606	\$48,357
Orders Shipped (monthly avg.)	286	337	370	370	387
Sales per Order	\$2,049	\$2,081	\$1,950	\$2,139	\$2,081
Lines per Order (avg.)	7.0	8.0	6.5	8.0	9.0
Sales per Order Line	\$315	\$263	\$275	\$214	\$297
Product Sales					
Builders Hardware	41.7%	42.4%	42.3%	40.4%	41.9%
Electronic Hardware	4.4	4.6	4.9	6.0	4.8
Metal Doors & Related Products	25.4	23.6	24.1	24.2	25.8
Wood Doors & Frames	16.8	18.2	16.8	17.8	15.5
Toilet Accessories & Partitions	4.5	4.2	4.4	3.7	3.8
Other	<u>7.2</u>	<u>7.0</u>	<u>7.5</u>	<u>7.9</u>	<u>8.2</u>
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Type of Sale					
Contract Jobs	73.0%	75.0%	72.0%	72.0%	70.0%
Non Contract Sales	<u>27.0</u>	<u>25.0</u>	<u>28.0</u>	<u>28.0</u>	<u>30.0</u>
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Manufacturers	90	86	131	101	107
Sales per Manufacturer	\$93,638	\$99,210	\$87,347	\$123,785	\$98,905
FTE Employees	31	28	35	39	39
Sales per Employee	\$317,315	\$302,739	\$265,966	\$303,149	\$306,186
Gross Margin per Employee	\$100,523	\$91,508	\$76,607	\$84,500	\$97,617
Salary per Employee	\$50,815	\$48,795	\$45,908	\$48,161	\$51,198
Payroll per Employee	\$61,398	\$59,139	\$56,462	\$57,070	\$60,694
Payroll Expense (% of sales)	19.1%	20.3%	20.4%	19.7%	20.3%
Benefits (% of total payroll)	14.1%	15.8%	16.9%	16.7%	16.5%
Personnel Productivity Ratio	63.5%	65.1%	70.2%	70.6%	67.9%

Ratio Calculation

<u>Ratio</u>	<u>Calculation</u>	<u>Comment</u>
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)	$\text{Avg. Collection Period} + \text{Inventory Holding Period} - \text{Accounts Payable Payout Period}$	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

<u>Ratio</u>	<u>Calculation</u>	<u>Comment</u>
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	$\frac{\text{Profit After Taxes} \times 100}{\text{AR} + \text{Inventory} - \text{AP}}$	Measures how fast the firm can grow using internally generated funds
Personnel Productivity Ratio	$\frac{\text{Payroll Expense} \times 100}{\text{Gross Profit}}$	Measures payroll expense as a percent of gross margin earned
Profit Margin	$\frac{\text{Profit Before Taxes} \times 100}{\text{Net Sales}}$	Measures profit earned as a percentage of net sales
Quick Ratio	$\frac{\text{Cash} + \text{Accounts Receivable}}{\text{Current Liabilities}}$	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	$\frac{\text{Net Sales}}{\text{Current Assets} - \text{Current Liabilities}}$	Measures ability to generate sales without tying up working capital
Times Interest Earned	$\frac{\text{Profit Before Taxes} + \text{Interest}}{\text{Interest}}$	Measures number of times earnings will cover interest payments