

Channel Profitability Growing the Pie?

Prepared For

Your Group

Prepared By

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Objectives Of The Session

- Review the Profit Structure of the Industry
- Identify the Key Areas of Conflict Between Suppliers and Distributors
- Suggest Some Potential Areas of Common Opportunity

Exhibit 1

Distribution Performance Project

Differing Perceptions in the Channel

Area of Disagreement	Manufacturers	Distributors
Market Focus	National	Local, Regional
Product Focus	One Line	Multiple Lines
Time Frame	Long Run	Short Run
Ideal Market	Lots of Competing Distributors	One Exclusive Distributor
Profit Drivers	Sales	Margin, Expenses

Exhibit 2

Distribution Performance Project

Income Statement Results For
Loyal Distributor, Inc.

	<u>Dollars</u>	<u>Percent</u>
Net Sales	20,000,000	100.0
Cost of Goods Sold	<u>14,000,000</u>	<u>70.0</u>
Gross Margin	6,000,000	30.0
Payroll and Fringes	3,250,000	16.3
All Other Expenses	<u>2,250,000</u>	<u>11.3</u>
Total Expenses	<u>5,500,000</u>	<u>27.5</u>
Profit Before Taxes	500,000	

Exhibit 3

Distribution Performance Project

Balance Sheet For
Loyal Distributor, Inc.

Cash	375,000
Accounts Receivable	2,750,000
Inventory	3,000,000
Other Current Assets	<u>150,000</u>
Total Current Assets	6,275,000
Fixed Assets	<u>1,225,000</u>
Total Assets	7,500,000

Accounts Payable

Exhibit 4

Distribution Performance Project

Income Statement Results For
Friendly Supplier, Inc.

	<u>Dollars</u>	<u>Percent</u>
Net Sales	20,000,000	100.0
Cost of Goods Sold	<u>12,000,000</u>	<u>60.0</u>
Gross Margin	8,000,000	40.0
Payroll and Fringes	4,500,000	22.5
All Other Expenses	<u>1,500,000</u>	<u>7.5</u>
Total Expenses	<u>6,000,000</u>	<u>30.0</u>
Profit Before Taxes	2,000,000	

Exhibit 5

Distribution Performance Project

Balance Sheet For
Friendly Supplier, Inc.

Cash	662,500
Accounts Receivable	3,000,000
Inventory	2,500,000
Other Current Assets	<u>265,000</u>
Total Current Assets	6,427,500
Fixed Assets	<u>6,822,500</u>
Total Assets	13,250,000
Accounts Payable	1,000,000

Exhibit 6

Distribution Performance Project

Two Different Profit Models

	Loyal Distributor	Friendly Supplier
Profit Margin	2.5%	10.0%
X		
Asset Turnover	2.7	1.5
=		
Return on Assets		

Exhibit 7

Distribution Performance Project

Profitability Realities

Factor	Suppliers	Distributors
Gross Margin	High	Low
Expenses	High	Low
Profit Margin	High	Low
Assets Investment	High	Low
Return on Assets	High	Moderate

Exhibit 8

Distribution Performance Project

The Relationship Between An Investment Reduction And Return On Assets

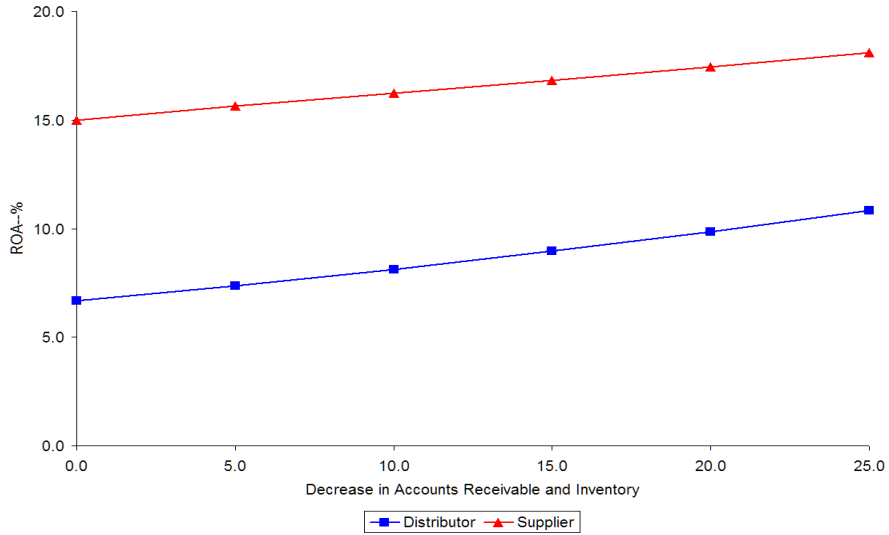


Exhibit 9

Distribution Performance Project

The Relationship Between A Sales Increase And Return On Assets

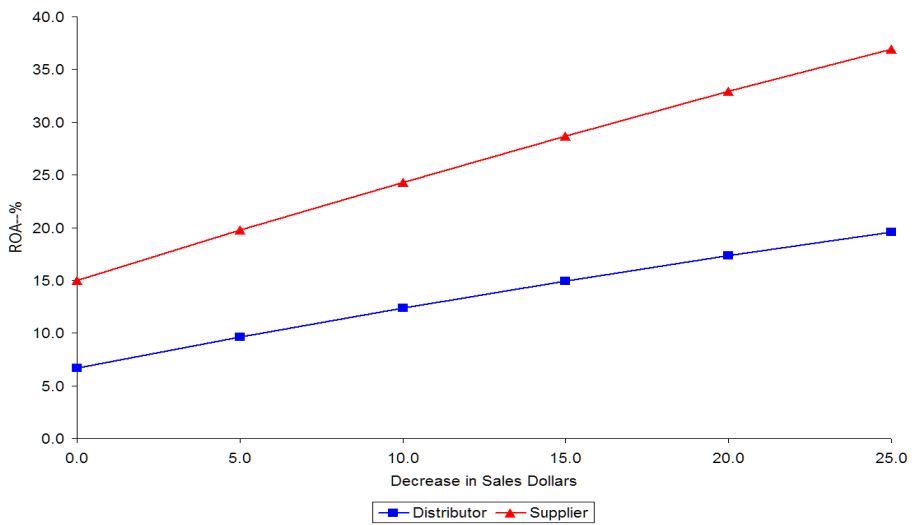


Exhibit 10

Distribution Performance Project

The Relationship Between An Expense Decrease And Return On Assets

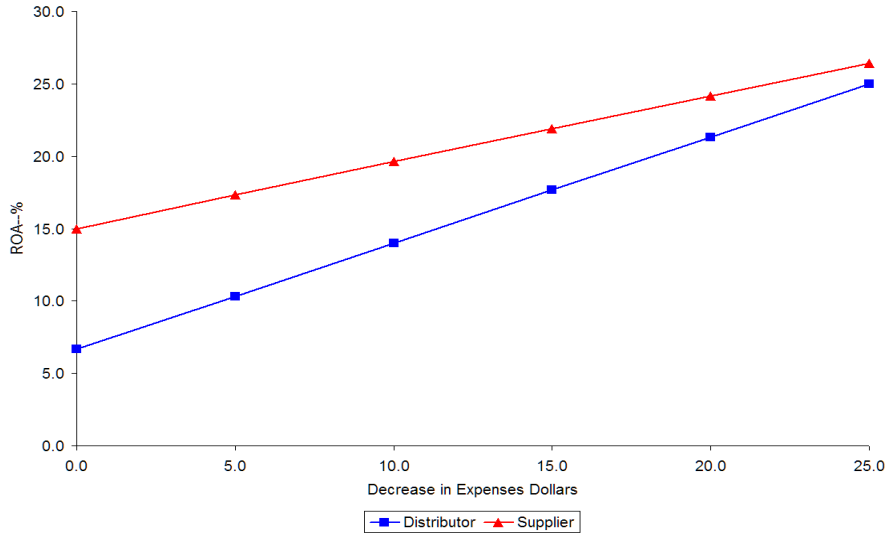


Exhibit 11 Distribution Performance Project

The Relationship Between A Gross Margin Increase And Return On Assets

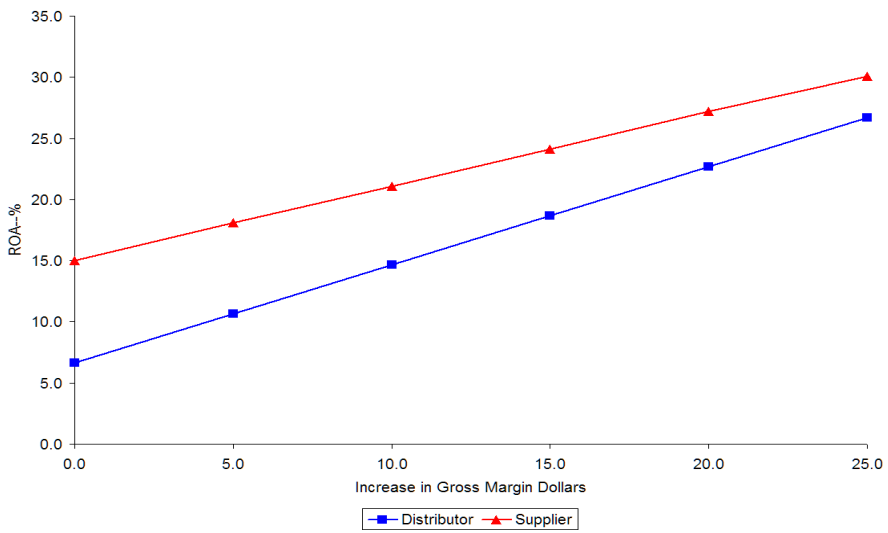


Exhibit 12 Distribution Performance Project