

Getting Serious About Profit

Prepared For

Your Group

Prepared By

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Objectives Of The Session

- Review the Profit Structure of the Industry
- Identify the Key Pressure Points in Improving Profitability
- Develop an Action Plan to Improve Financial Performance

Exhibit 1

Distribution Performance

A Tale Of Two Firms

	You Are <u>Here</u>	You Should <u>Be Here</u>
Net Sales	10,000,000	10,000,000
Cost of Goods Sold	<u>7,500,000</u>	<u>6,300,000</u>
Gross Margin	2,500,000	3,700,000
Payroll and Fringes	2,000,000	1,800,000
All Other Expenses	<u>300,000</u>	<u>1,300,000</u>
Total Expenses	<u>2,300,000</u>	<u>3,100,000</u>
Profit Before Taxes	200,000	600,000
Net Sales	100.0	100.0
Cost of Goods Sold	<u>75.0</u>	<u>63.0</u>
Gross Margin	25.0	37.0
Payroll and Fringes	20.0	18.0
All Other Expenses	<u>3.0</u>	<u>13.0</u>
Total Expenses	<u>23.0</u>	<u>31.0</u>
Profit Before Taxes	2.0	6.0

Exhibit 2

Distribution Performance

An Improvement Path For Profit Margin

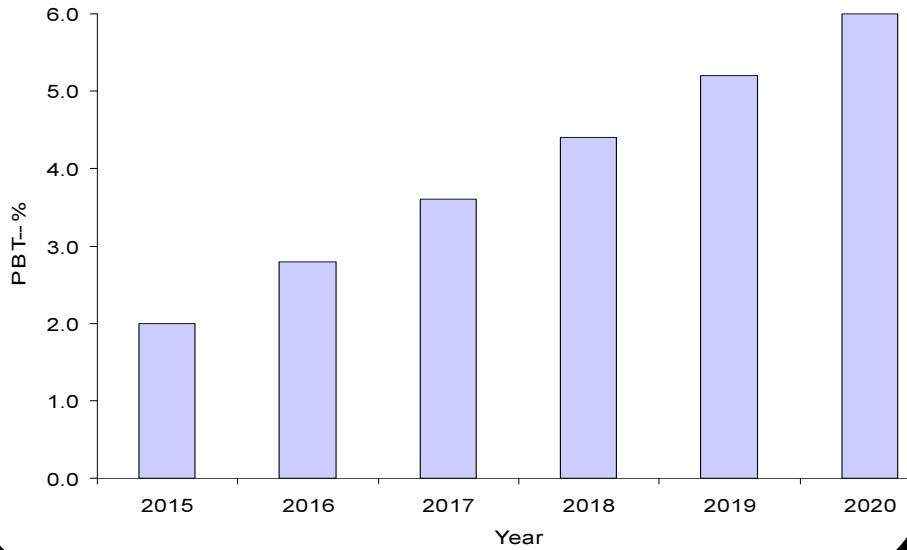


Exhibit 3

Distribution Performance

The Profit Impact of a Sales to Payroll Wedge

Income Statement (\$)	Current Results	2.0% Sales to Payroll Wedge	
		5.0% Sales Growth	15.0% Sales Growth
Net Sales	10,000,000	10,500,000	11,500,000
Cost of Goods Sold	<u>7,500,000</u>	<u>7,875,000</u>	<u>8,625,000</u>
Gross Margin	2,500,000	2,625,000	2,875,000
Expenses			
Payroll and Fringe Benefits	2,000,000	2,060,000	2,260,000
All Other Expenses	<u>300,000</u>	<u>315,000</u>	<u>345,000</u>
Total Expenses	<u>2,300,000</u>	<u>2,375,000</u>	<u>2,605,000</u>
Profit Before Taxes	200,000	250,000	270,000
Income Statement (%)			
Net Sales	100.0	100.0	100.0
Cost of Goods Sold	<u>75.0</u>	<u>75.0</u>	<u>75.0</u>
Gross Margin	25.0	25.0	25.0
Expenses			
Payroll and Fringe Benefits	20.0	19.6	19.7
All Other Expenses	<u>3.0</u>	<u>3.0</u>	<u>3.0</u>
Total Expenses	<u>23.0</u>	<u>22.6</u>	<u>22.7</u>
Profit Before Taxes	2.0	2.4	2.3

Exhibit 4

Distribution Performance

The Attack Points in Driving a Sales to Payroll Wedge

- Controlling (Maybe Eliminating) the Problem Portion of the Sales Force
- Fundamentally Altering Order Economics
- Working with the Customer Set to Change Behavior

Exhibit 5

Distribution Performance

The Reality Of Customer Profitability

<u>Customer Category</u>	<u>Percent of Customer</u>	<u>Percent of Profit</u>	<u>Number of Customers</u>	<u>Dollar Profit</u>	<u>Profit Per Customer</u>
A	15	100	60	200,000	3,333
B	15	35	60	70,000	1,167
C	35	10	140	20,000	143
D	<u>35</u>	<u>-45</u>	<u>140</u>	<u>-90,000</u>	<u>-643</u>
Total	100	100	400	200,000	500

Exhibit 6

Distribution Performance

The Attack Points in Driving a Higher Gross Margin Percentage

- Establishing a Meaningful Market Position
- Ensuring that Opportunistic Buys Actually Increase Profit
- Raising Prices in a Systematic Manner
- Controlling the Sales Force Yet Again
- Capitalizing on Supplier Price Increases

Exhibit 7

Distribution Performance

Improving The Gross Margin Percentage By Either Buying Or Pricing

Summary <u>Income Statement</u>	<u>Current</u>	<u>Buying Potential</u>	<u>Pricing Potential</u>
Gross Margin--%	25.0	25.5	25.5
Net Sales	10,000,000	10,000,000	
Cost of Goods Sold	<u>7,500,000</u>	<u>7,450,000</u>	<u>7,500,000</u>
Gross Margin	2,500,000	2,550,000	2,567,114
Variable Expenses	500,000	500,000	503,356
Fixed Expenses	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,800,000</u>
Total Expense	<u>2,300,000</u>	<u>2,300,000</u>	<u>2,303,356</u>
Profit Before Taxes	200,000	250,000	

Exhibit 8

Distribution Performance

The Typical Relationship Between Customer Size and Gross Margin Percentage

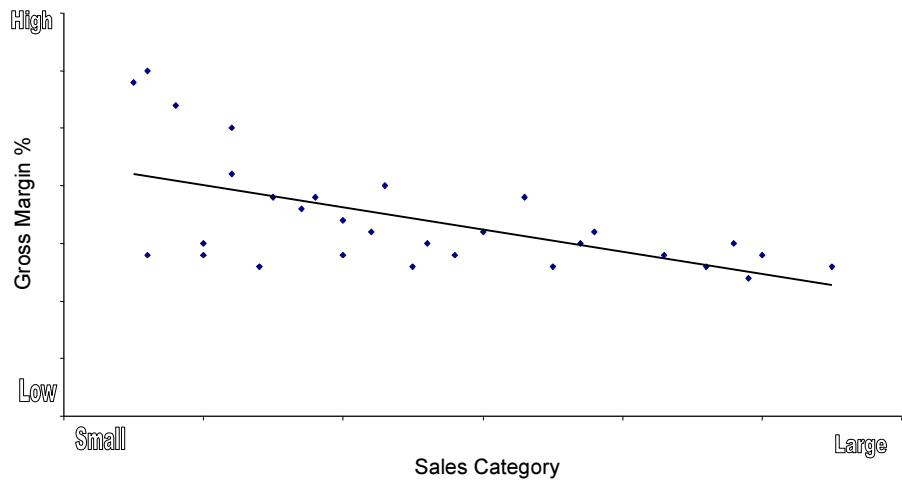


Exhibit 9

Distribution Performance

The Needed Relationship Between Cost to Serve and Gross Margin Percentage

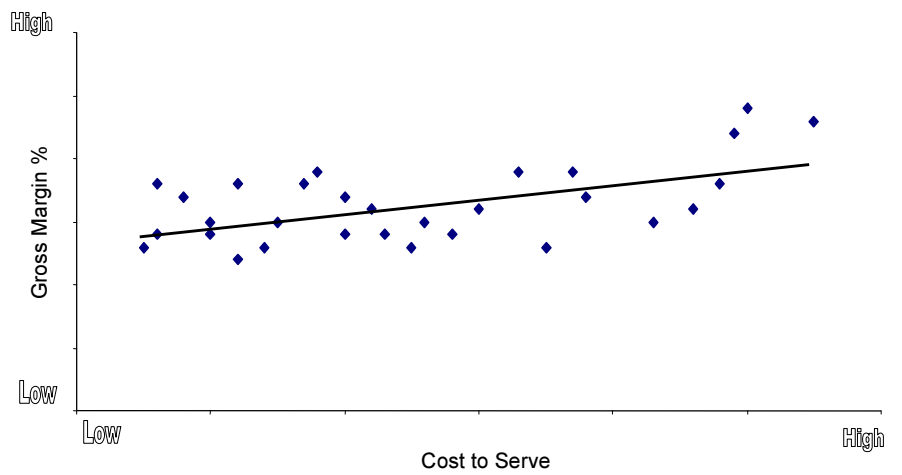


Exhibit 10

Distribution Performance