

Paying for Performance Or Just Paying?

Prepared For

Your Group

Prepared By

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Your Schedule

Objectives Of The Session

- Review the Profit Structure of the Industry
- Identify how Payroll Costs Impact Profitability
- Develop an Action Plan to Improve Financial Performance

Exhibit 1

Distribution Performance Project

Income Statement Results For Mountain View, Inc.

	<u>Dollars</u>	<u>Percent</u>
Net Sales	20,000,000	100.0
Cost of Goods Sold	<u>12,800,000</u>	<u>64.0</u>
Gross Margin	7,200,000	36.0
Payroll and Fringes	3,800,000	19.0
All Other Expenses	<u>2,900,000</u>	<u>14.5</u>
Total Expenses	<u>6,700,000</u>	<u>33.5</u>
Profit Before Taxes	500,000	

Exhibit 2

Distribution Performance Project

The Personnel Productivity Ratio--The PPR

The Percent of Each Gross Margin Dollar
That Must Be Devoted to Payroll

Salaries and Fringe Benefits
Gross Margin

=

3,800,000
7,200,000

Exhibit 3

Distribution Performance Project

A Tale Of Two Firms

	You Are <u>Here</u>	You Should <u>Be Here</u>
Net Sales	20,000,000	20,000,000
Cost of Goods Sold	<u>12,800,000</u>	<u>12,400,000</u>
Gross Margin	7,200,000	7,600,000
Payroll and Fringes	3,800,000	3,600,000
All Other Expenses	<u>2,900,000</u>	<u>2,600,000</u>
Total Expenses	<u>6,700,000</u>	<u>6,200,000</u>
Profit Before Taxes	500,000	1,400,000
Net Sales	100.0	100.0
Cost of Goods Sold	<u>64.0</u>	<u>62.0</u>
Gross Margin	36.0	38.0
Payroll and Fringes	19.0	18.0
All Other Expenses	<u>14.5</u>	<u>13.0</u>
Total Expenses	<u>33.5</u>	<u>31.0</u>
Profit Before Taxes	2.5	

Exhibit 4

Distribution Performance Project

Compensation Comparisons

Position	Assoc Comp Vs. All Distributors (%)	Range of Assoc Compensation	
CEO			
Branch Manager	-12.5	50,000	90,000
Outside Sales	-10.3	65,000	75,000
Inside Sales	-23.0	40,000	50,000
Operations Manager	12.3	75,000	100,000
Controller	10.9	80,000	114,000
Credit Manager	0.0	40,000	85,000
Truck Driver	10.8	35,000	50,000
Warehouse Employee	3.5	27,000	40,000

Exhibit 5

Distribution Performance Project

What the Hey is Up With This Payroll Stuff?

Sales Per Employee:

2005: \$250,000

2015: \$350,000

Payroll Percent of Sales:

2005: 19.2%

2015 %

PPR

2005: 52.9

5012:

Exhibit 6

Distribution Performance Project

Key Employee Productivity Comparisons

Ratio	Typical	High Profit
Sales per Employee	\$350,000	\$375,000
Payroll per Employee	\$68,500	\$72,000
PPR	53.3%	48.0%

Exhibit 7

Distribution Performance Project

Controlling Payroll Without Sacrificing Employee Enthusiasm (Well Maybe A Little)

Build a Two Percent Sales Growth to Payroll Growth Gap

Sales Growth	Payroll Growth
5	3
10	8
15	13

Exhibit 8

Distribution Performance Project

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	20,000,000	21,000,000	23,000,000
Cost of Goods Sold	<u>12,800,000</u>	<u>13,440,000</u>	<u>14,720,000</u>
Gross Margin	7,200,000	7,560,000	8,280,000
Expenses			
Payroll and Fringe Benefits	3,800,000	3,914,000	4,294,000
All Other Expenses	<u>2,900,000</u>	<u>3,045,000</u>	<u>3,335,000</u>
Total Expenses	<u>6,700,000</u>	<u>6,959,000</u>	<u>7,629,000</u>
Profit Before Taxes	500,000		
Income Statement (%)			
Net Sales	100.0	100.0	100.0
Cost of Goods Sold	<u>64.0</u>	<u>64.0</u>	<u>64.0</u>
Gross Margin	36.0	36.0	36.0
Expenses			
Payroll and Fringe Benefits	19.0	18.6	18.7
All Other Expenses	<u>14.5</u>	<u>14.5</u>	<u>14.5</u>
Total Expenses	<u>33.5</u>	<u>33.1</u>	<u>33.2</u>
Profit Before Taxes	2.5	2.9	2.8

Exhibit 9

Distribution Performance Project

Profitability In Relationship To Workload

	<u>Total Firm</u>	<u>Per Order</u>	<u>Per Line</u>
Net Sales	20,000,000	500.00	175.00
Gross Margin	7,200,000	180.00	63.00
Total Expenses	6,700,000	167.50	58.63
Net Profit	500,000		

Exhibit 10

Distribution Performance Project

The Improvement Model: A Rack-Suit Plan

- Increasing sales by at least the inflation rate plus a safety factor of
- Force payroll to grow slower than sales to create a sales to payroll wedge of
- Increase the gross margin percentage (not gross margin dollars) by
- Decrease the other expense percentage (not expense dollars) by

Exhibit 11 Distribution Performance Project

The Impact Of Making The Mandated Changes

	<u>2016</u>	<u>2017</u>	<u>2021</u>
Net Sales	20,000,000	21,000,000	25,525,631
Cost of Goods Sold	<u>12,800,000</u>	<u>13,356,000</u>	<u>15,825,891</u>
Gross Margin	7,200,000	7,644,000	9,699,740
Payroll and Fringes	3,800,000	3,914,000	4,405,241
All Other Expenses	<u>2,900,000</u>	<u>2,982,000</u>	<u>3,318,332</u>
Total Expenses	<u>6,700,000</u>	<u>6,896,000</u>	<u>7,723,574</u>
Profit Before Taxes	500,000	748,000	1,976,166
Net Sales	100.0	100.0	100.0
Cost of Goods Sold	<u>64.0</u>	<u>63.6</u>	<u>62.0</u>
Gross Margin	36.0	36.4	38.0
Payroll and Fringes	19.0	18.6	17.3
All Other Expenses	<u>14.5</u>	<u>14.2</u>	<u>13.0</u>
Total Expenses	<u>33.5</u>	<u>32.8</u>	<u>30.3</u>
Profit Before Taxes	2.5	3.6	

Exhibit 12 Distribution Performance Project