

Don't Leave Profit on the Table:
Use the ASA Operating Performance Report (OPR)

American Supply Association
Webinar
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WE THANK OUR
2011 SUPPLIER PARTNERS*
 FOR THEIR DEDICATION & SUPPORT

PLATINUM









THE BOLD LOOK OF **KOHLER**



GOLD



SILVER
















BRONZE

Don't Leave Profit on the Table: Use the ASA OPR

- Using “Benchmarking” Performance Measures for Better Business Control—Why This Information is Important
- Highlights of the ASA ***Operating Performance Report***
- Case Example Analysis of a Hypothetical Company
- “Profit Leaders” Company Analysis and Conclusions
- Key Measures to Monitor
- Tips for Using the OPR study
- The Economy & Other Perspectives

Why is “Benchmarking” Important

- Financial information is more useful as a ratio than an absolute figure
- Ratios need to be “Benchmarked” against some standard (i.e., industry peers, company’s historical performance, etc.) to be meaningful
- **ASA *Operating Performance Report (OPR)*** should be regarded as “guidelines” rather than absolute standards

Why is “Benchmarking” Important

- Major deviations between your own firm’s performance and industry norms are not necessarily good or bad, but signals areas of further analysis

**EVEN RELATIVELY SIMPLE ANALYSIS CAN
RESULT IN SIGNIFICANT INSIGHTS ABOUT YOUR
BUSINESS**

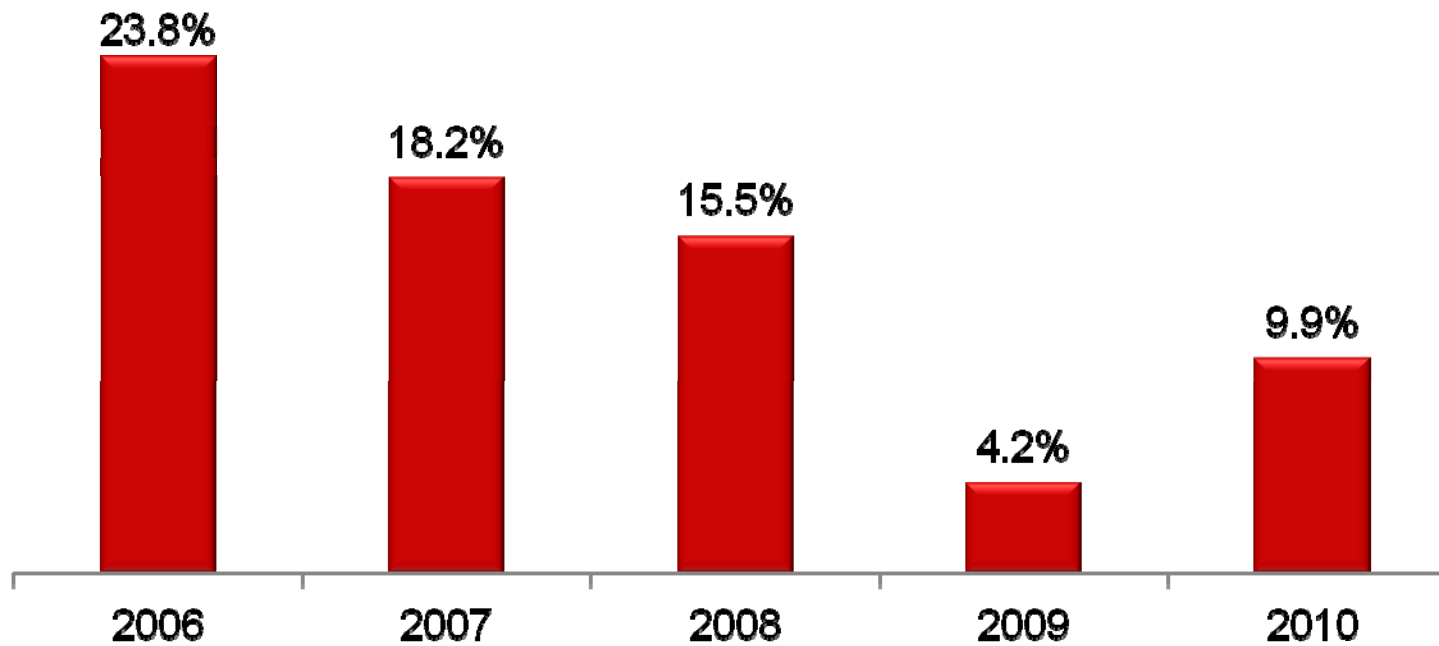
ASA Operating Performance Report

- **Measures of:**
 - Return on Investment
 - % Income Statement & Balance Sheet
 - Expense Detail
 - Gross Margin Analysis
 - Asset and Financial Management
 - “Z-Score” Financial Health Indicators
 - Productivity Information
 - Inventory & Receivables Management

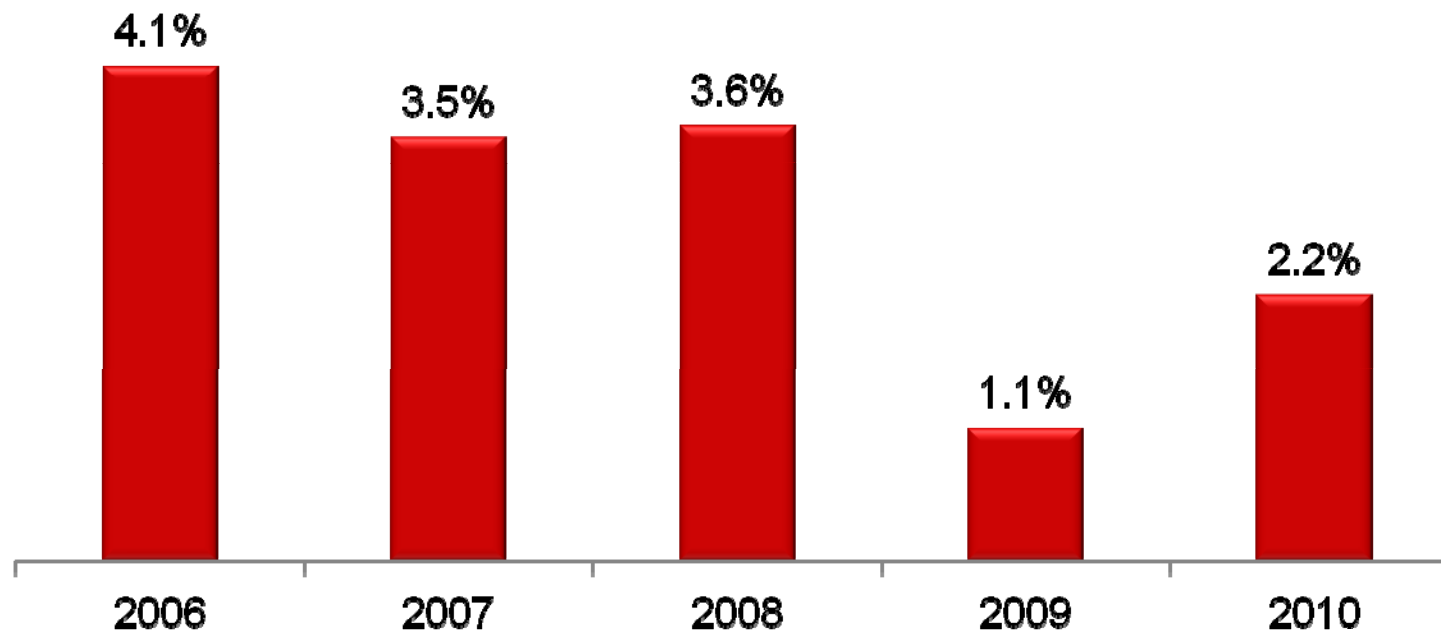
ASA Operating Performance Report

- **Data Organized by:**
 - All Responding Firms
 - High Profit Firms
 - Sales Volume Size
 - Sales Emphasis
 - Number of Branches

Before Tax Return on Net Worth (%) All Responding ASA Firms

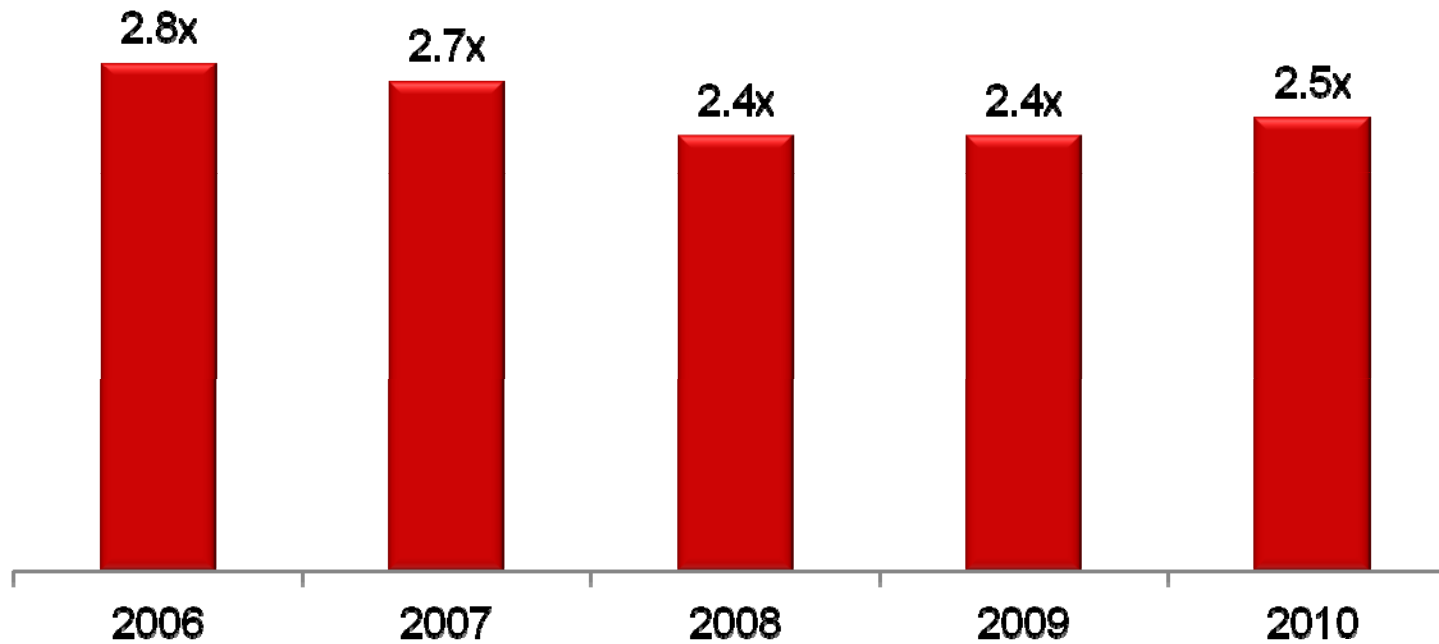


Net Profit Before Tax % of Net Sales All Responding ASA Firms

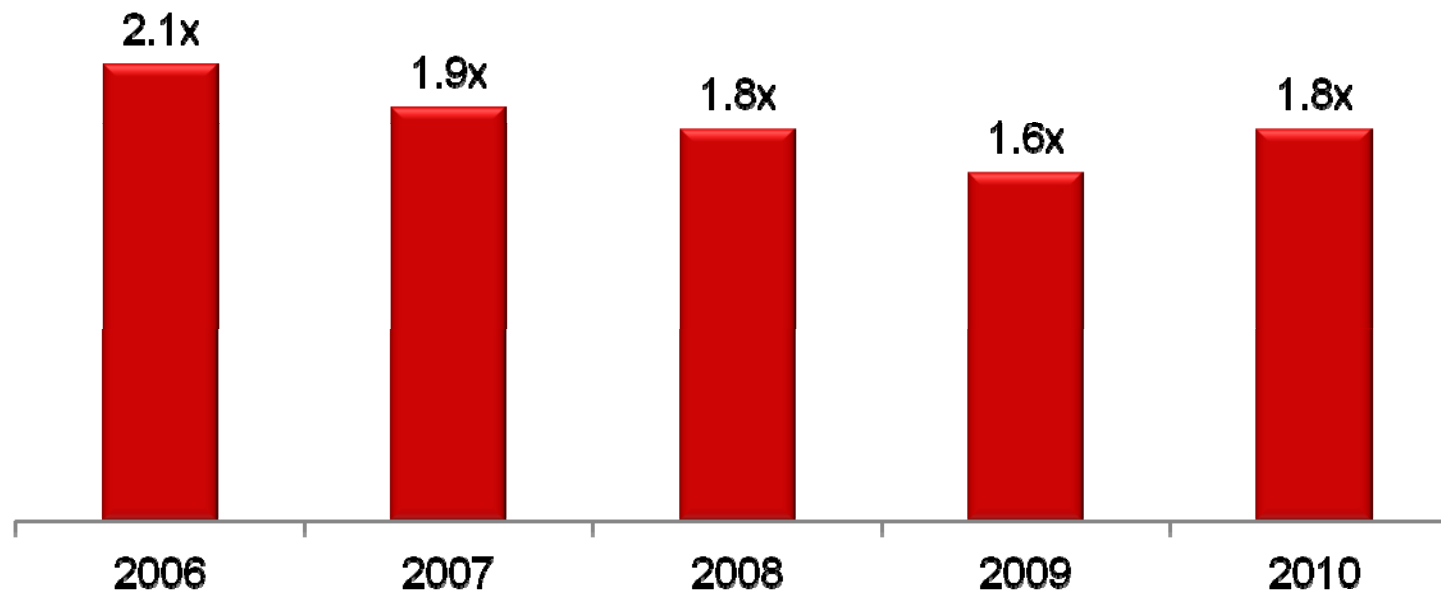


Asset Turnover (Sales/Total Assets)

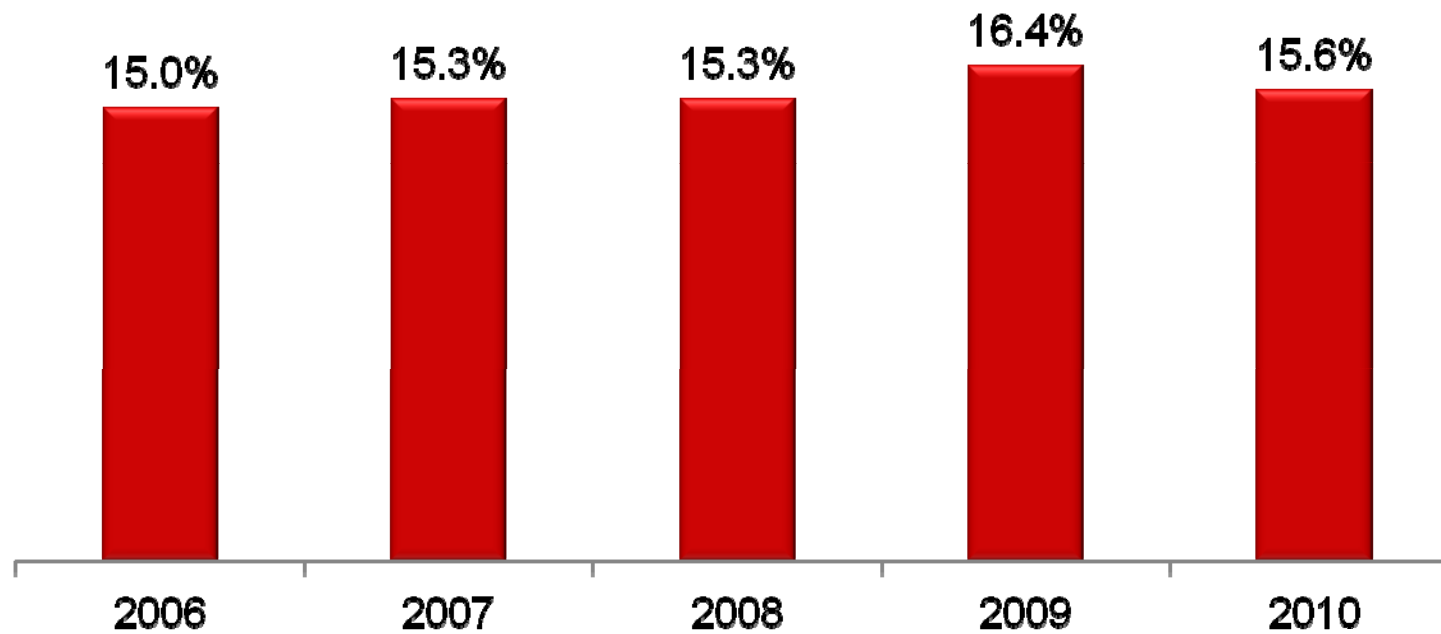
All Responding ASA Firms



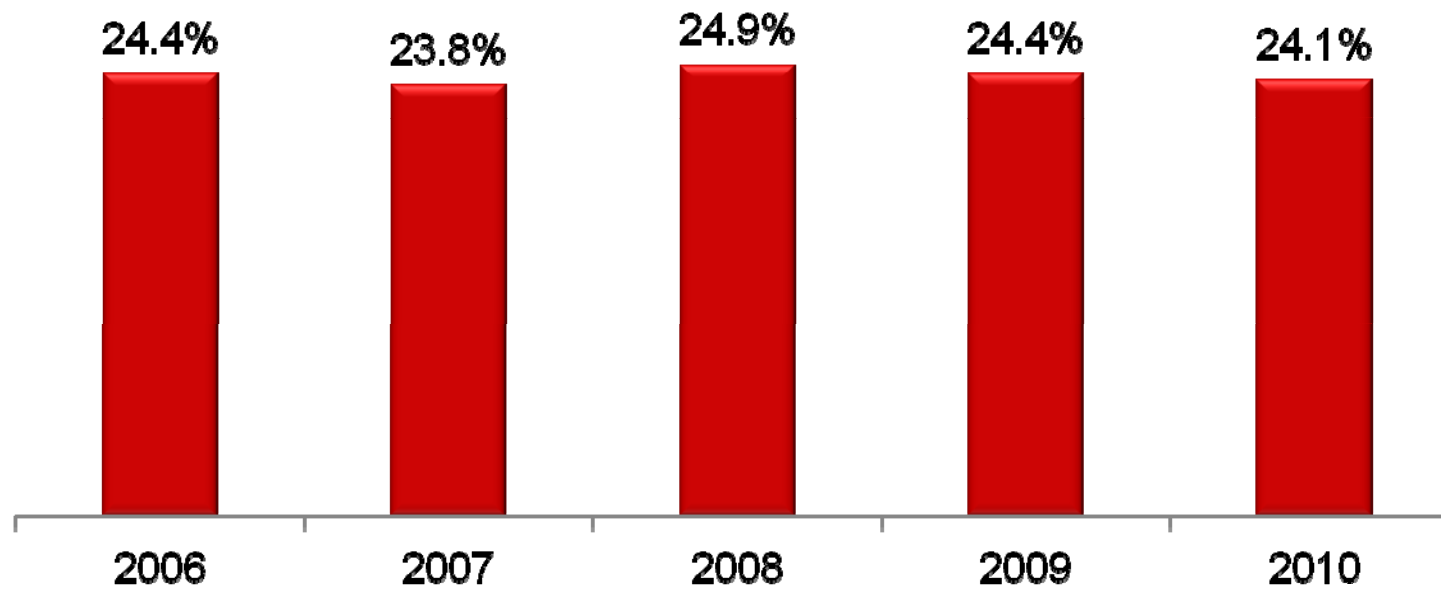
Leverage (Total Assets/Net Worth) All Responding ASA Firms



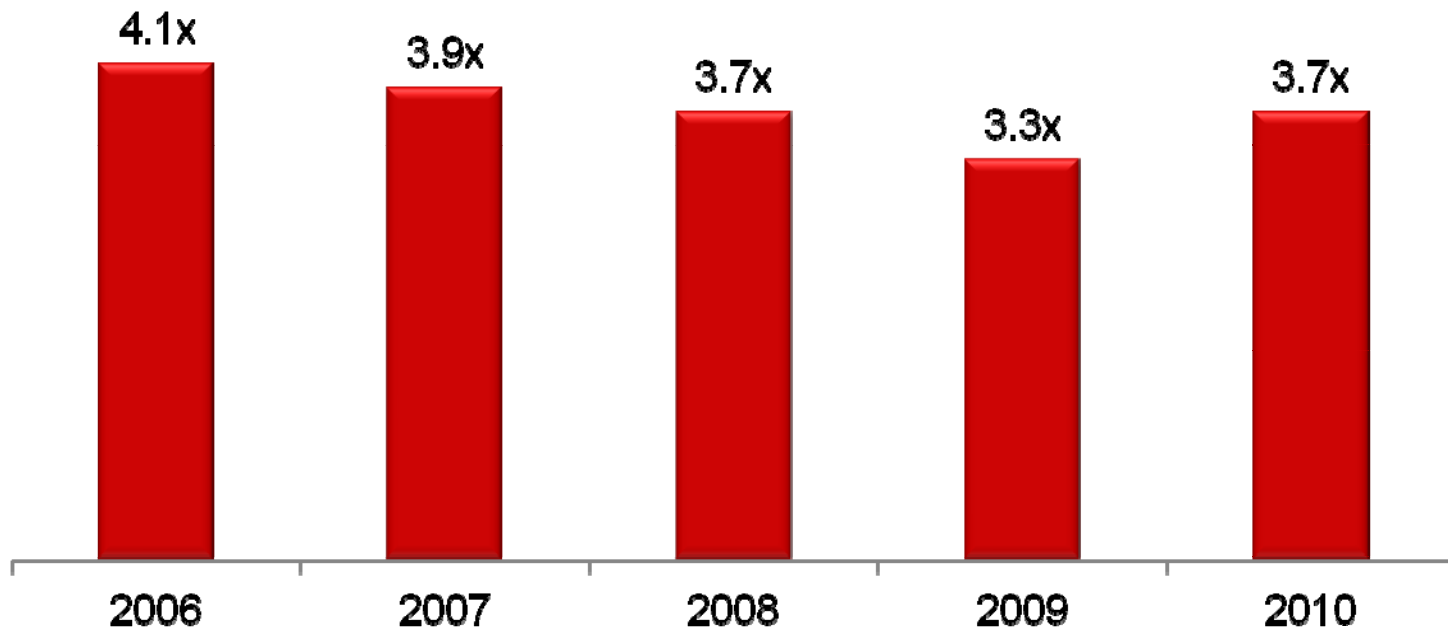
Payroll (including fringe benefits) as a % of Net Sales All Responding ASA Firms



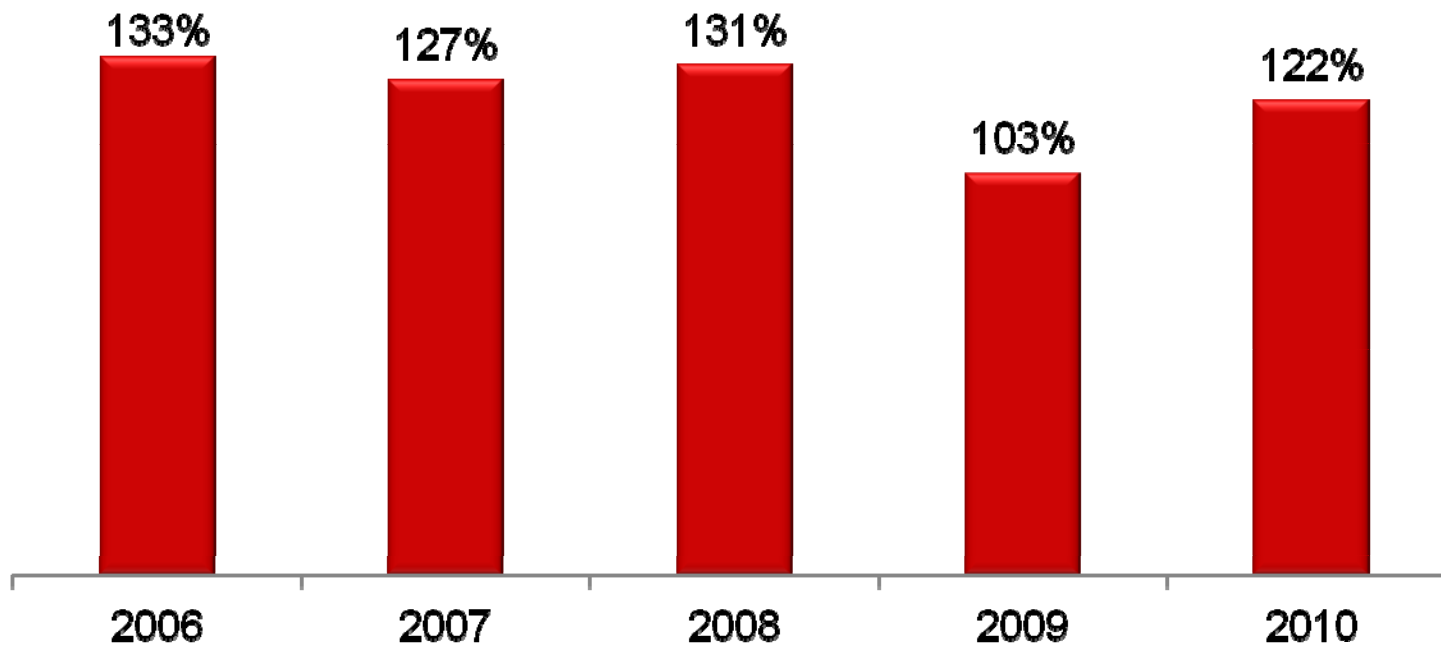
Gross Margin on Net Sales All Responding ASA Firms



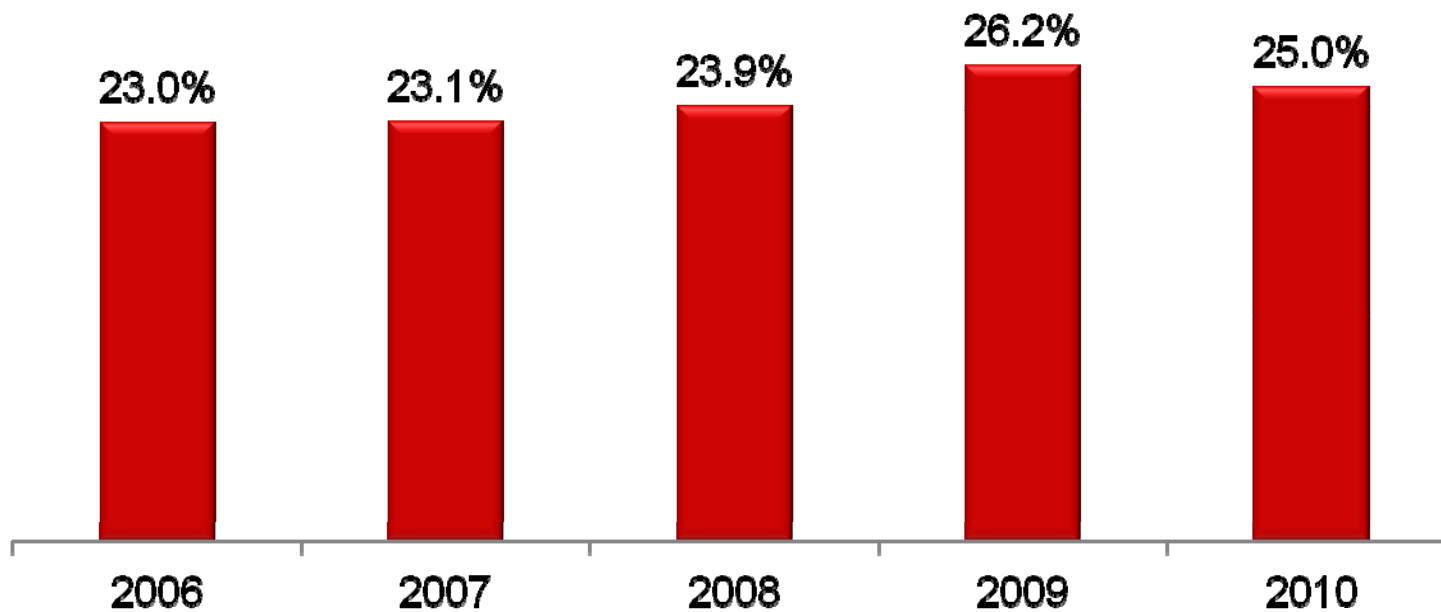
Inventory Turnover
(Whse Cost of Goods Sold to Average Inventory)
All Responding ASA Firms



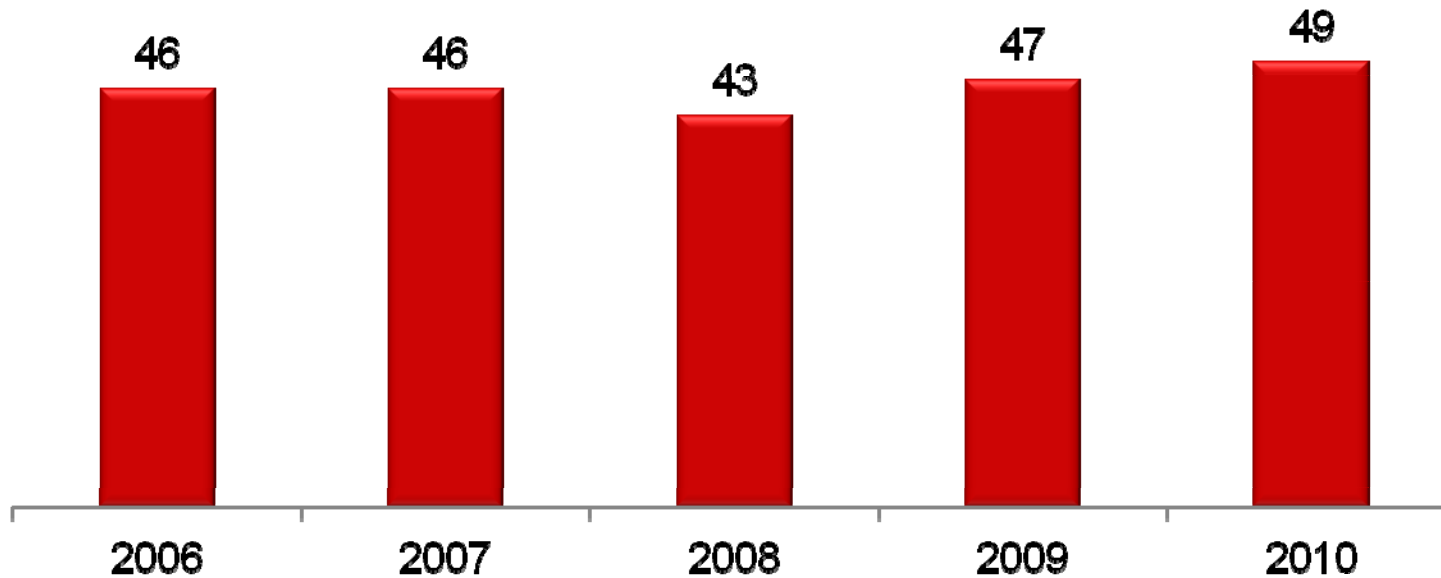
Warehouse Gross Margin Return on Inventory (GMROI) All Responding ASA Firms



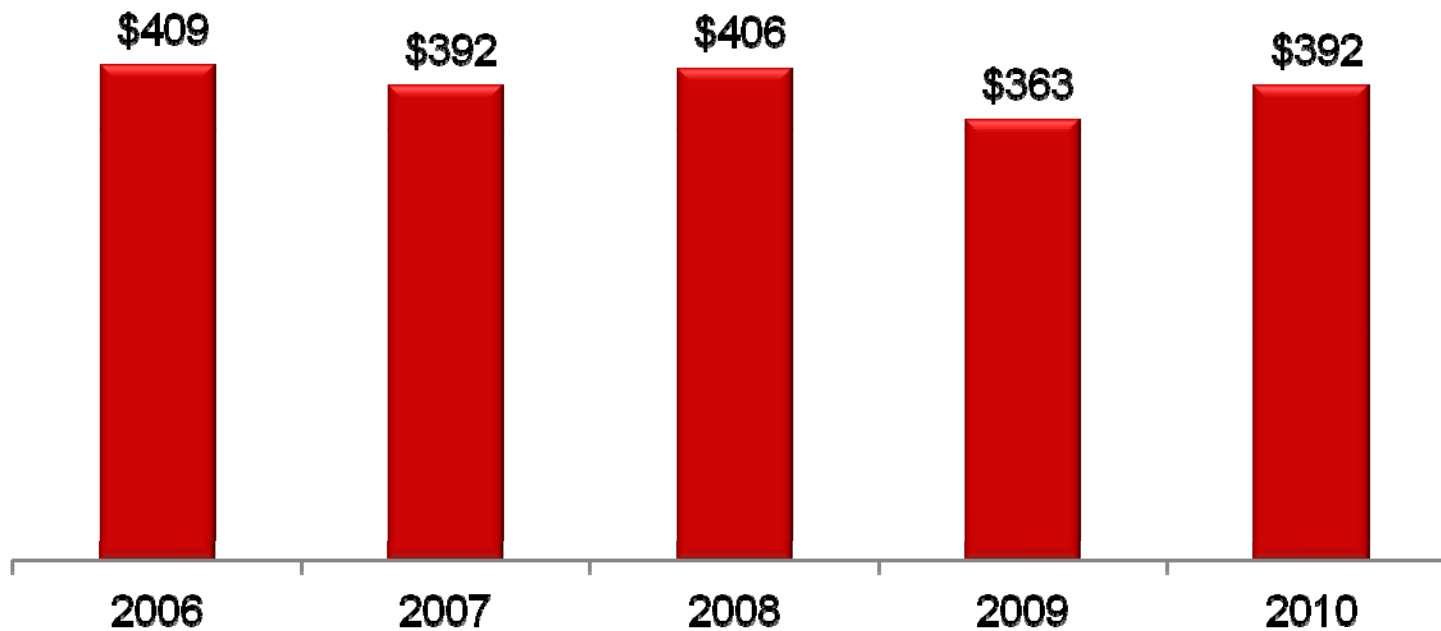
Total Operating Expenses as a % of Net Sales All Responding ASA Firms



Average Collection Period on Receivables All Responding ASA Firms

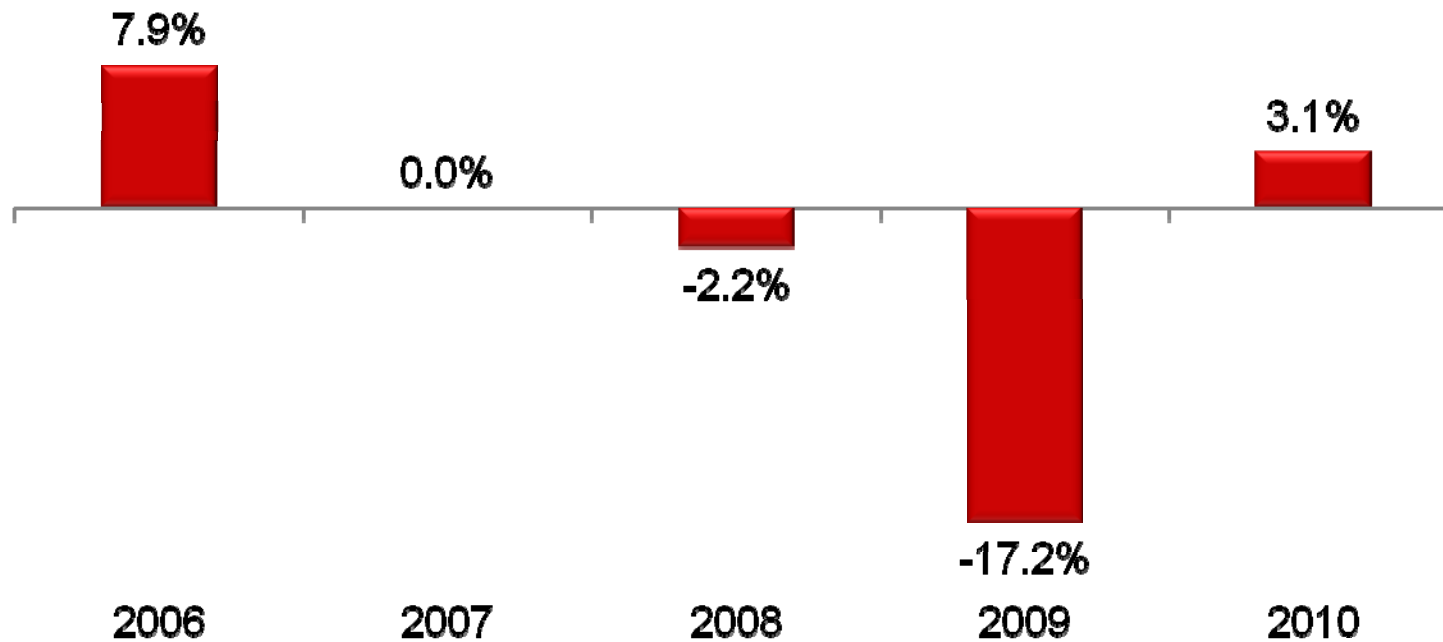


Net Sales Per Employee (\$000)* All Responding ASA Firms



*Based on full-time equivalent employees

Percent Sales Change from Prior Year All Responding ASA Firms



Hypothetical Company Case Example

Tom's Plumbing & Heating Supplies Company	Your Firm	All ASA Respondents
Return on Investment		
Before Tax Return on Assets	0.8%	5.5%
Before Tax Return on Net Worth	1.8%	8.9%
Profit Margin Management		
Payroll as a % of Net Sales	14.5%	12.9%
Gross Margin - % of Net Sales	24.4%	24.1%
Net Profit Before Tax - % of Net Sales	0.3%	2.2%
Sales & Other Income		
% Sales Change from Prior Year	3.0%	3.1%
Non-Operating Income- % of Net Sales	2.4%	4.3%

Hypothetical Company Case Example

Tom's Plumbing & Heating Supplies Company	Your Firm	All ASA Respondents
Key Expenses as a % of Net Sales		
Selling	8.9%	7.4%
Delivery	2.5%	2.3%
Warehouse	3.1%	3.2%
G & A	8.8%	8.7%
Occupancy	2.8%	3.2%
All Other Expenses	0.1%	0.2%
Total	26.2%	25.0%

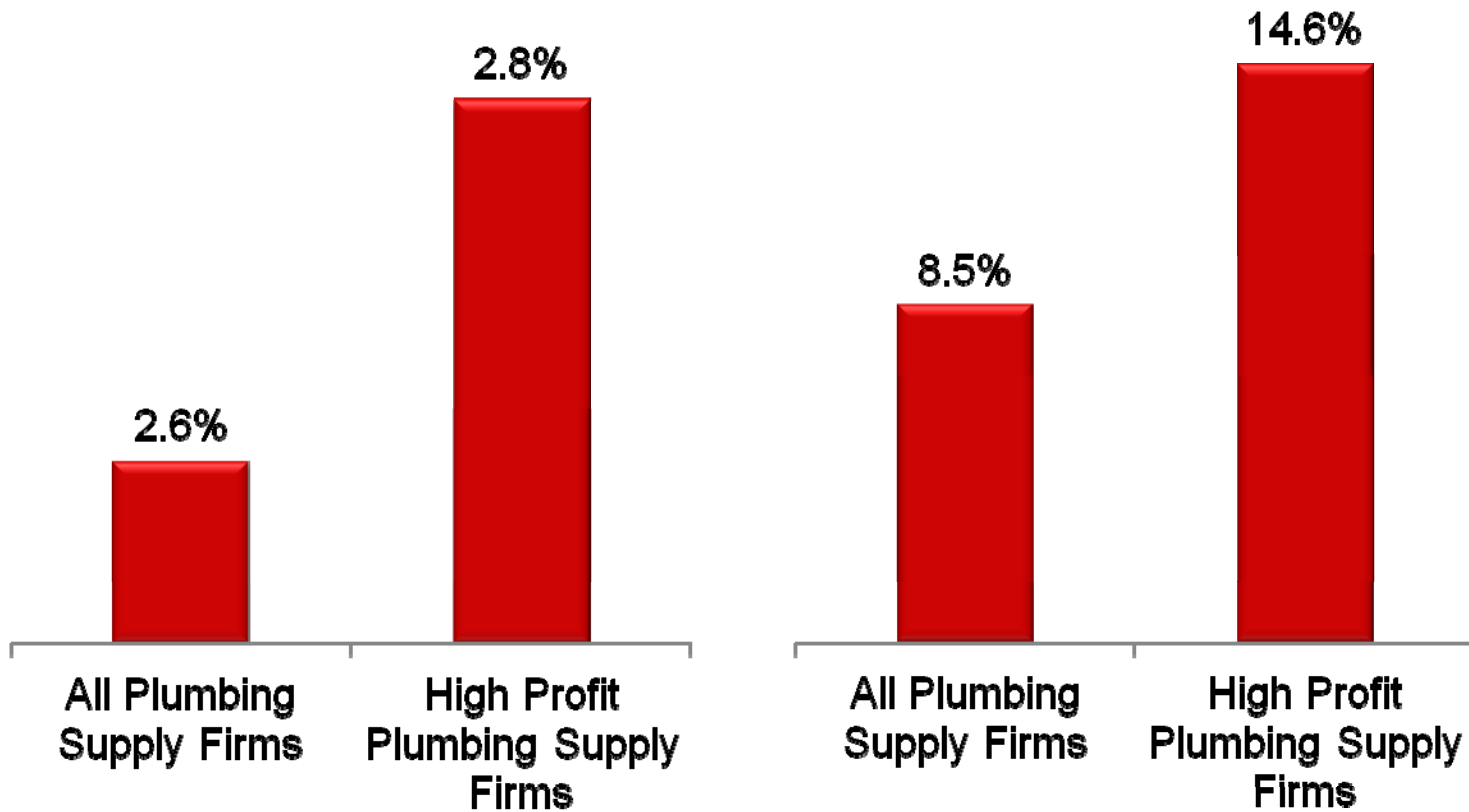
Hypothetical Company Case Example

Tom's Plumbing & Heating Supplies Company	Your Firm	All ASA Respondents
Personnel Productivity		
Sales per Employee	\$260,439	\$392,405
Gross Margin per Employee	\$50,751	\$89,512
Asset Management		
Asset Turnover (Sales/TA)	2.6x	2.5x
Accounts Receivable Days	55	49
Inventory Turnover	3.2x	3.7x
Warehouse Gross Margin Return on Average Inventory	121%	122%
Financial Management		
Current Ratio (CA/CL)	2.0x	2.5x
Leverage (TA/NW)	2.3x	1.8x

Profit Leader Analysis

Sales Growth from Prior Year

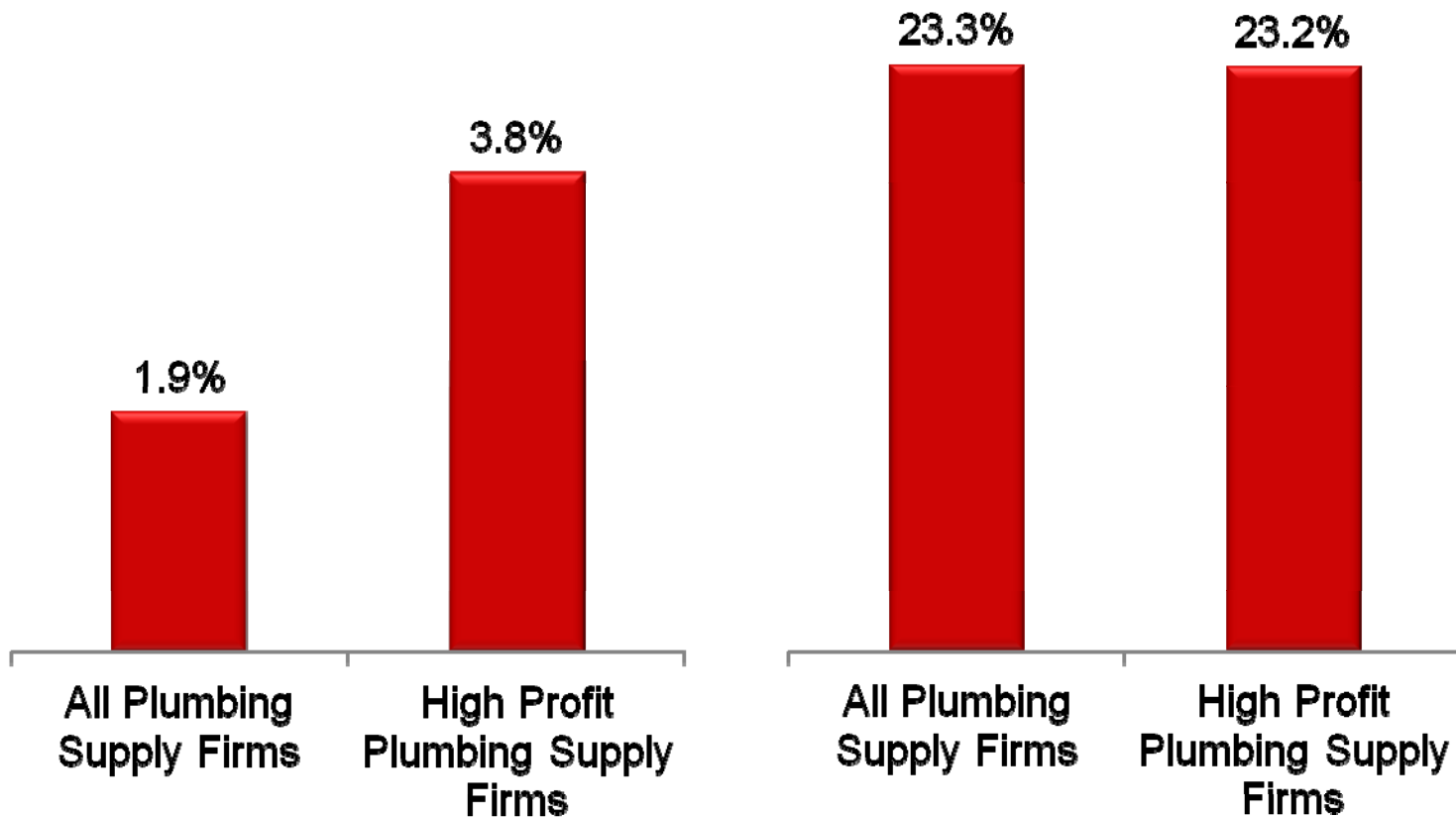
Before Tax Return on Net Worth



Profit Leader Analysis

Profits Before Tax--% of Sales

Gross Margin--% of Sales

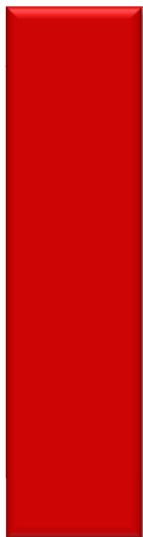


Profit Leader Analysis

Total Operating Expenses--% of Sales

Non-Operating Income--% of Sales

25.1%



All Plumbing
Supply Firms

23.4%



High Profit
Plumbing Supply
Firms

4.9%



All Plumbing
Supply Firms

5.0%



High Profit
Plumbing Supply
Firms

Profit Leader Analysis

All Plumbing Supply Firms

General &
Administrative

8.9%

Warehouse

3.2%

Selling

7.0%

High Profit Plumbing Supply Firms

General &
Administrative

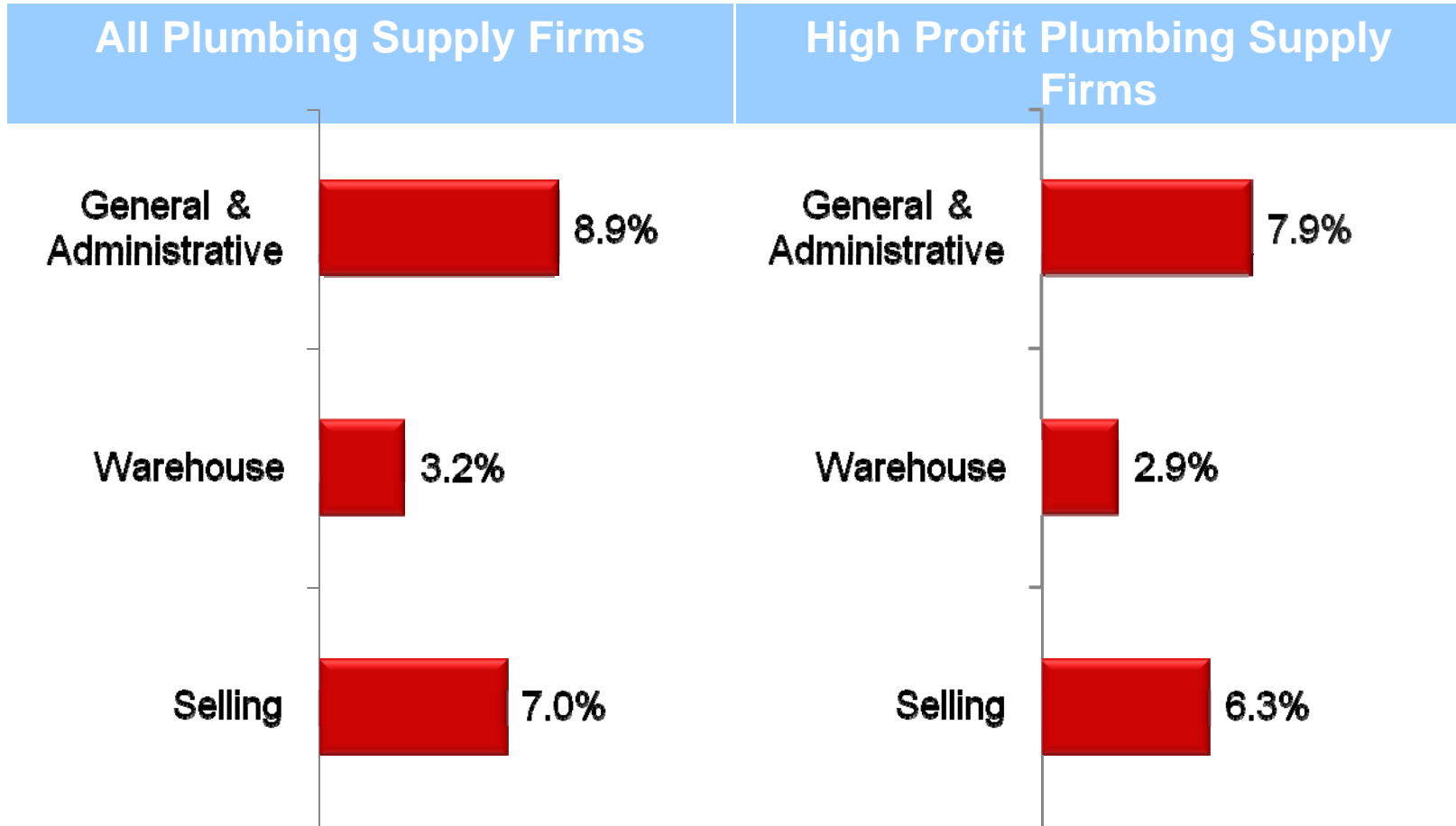
7.9%

Warehouse

2.9%

Selling

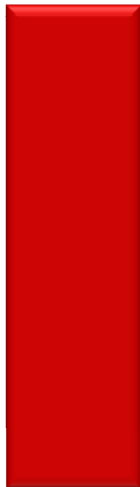
6.3%



Profit Leader Analysis

Inventory Turnover

3.8x



All Plumbing
Supply Firms

3.8x



High Profit
Plumbing Supply
Firms

Gross Margin Return on Inventory (GMROI)

128.0%



All Plumbing
Supply Firms

128.0%



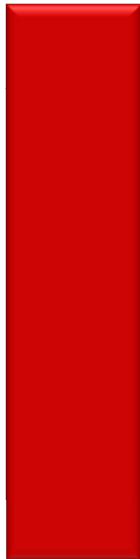
High Profit
Plumbing Supply
Firms

Profit Leader Analysis

Payroll and Fringes--% of Sales

Gross Margin per Employee
(\$000)

15.8%



All Plumbing
Supply Firms

15.4%



High Profit
Plumbing Supply
Firms

\$87



All Plumbing
Supply Firms

\$98

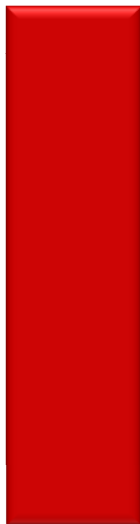


High Profit
Plumbing Supply
Firms

Profit Leader Analysis

Average Collection Period on
Receivables

49



All Plumbing
Supply Firms

50



High Profit
Plumbing Supply
Firms

Financial Leverage
(Total Assets/Net Worth)

2.5x



All Plumbing
Supply Firms

2.6x



High Profit
Plumbing Supply
Firms

Profit Leaders Analysis--Conclusions

- Somewhat higher sales growth
- Much higher profitability
- Much higher profit margins on sales
- Similar gross margin on sales
- Similar inventory turnover
- Similar gross margin return on inventory
- Higher gross margin per employee
- Lower payroll costs
- Much lower expenses as a % of sales
- Similar financial leverage

The 10 Commandments of Superior Performance

- Strong Incremental Sales Increases
- Resistance to Margin Pressures
- Strong Expense Management—Control, Control, Control
- Effective Inventory Management
- Effective Receivables Management

The 10 Commandments of Superior Performance

- Effective Personnel Management
- Effective Cash Management
- Prudent Debt Management
 - Finance long-term assets with long-term debt
 - Deal with bankers when times are good
- Realistic Sales Goal Determination
- Avoiding the Tendency of Trying to be “All Things to All People”

Fifteen Suggested Ratios to Regularly Monitor

Sales

% Change

Profit Margin Management (% of Sales)

Net Profit Before Tax

Gross Margin

Total Operating Expenses

Personnel Productivity

Payroll as a % of Sales

Gross Margin per Employee

Net Sales per Outside Salesperson

Asset Management

Inventory Turnover

Warehouse Gross Margin Return on Inventory
(GMROI)

Average Collection Period on Receivables

Overall Asset Turnover

Return on Assets

Financial Management

Total Assets to Net Worth (I.e., Equity)

Liquidity

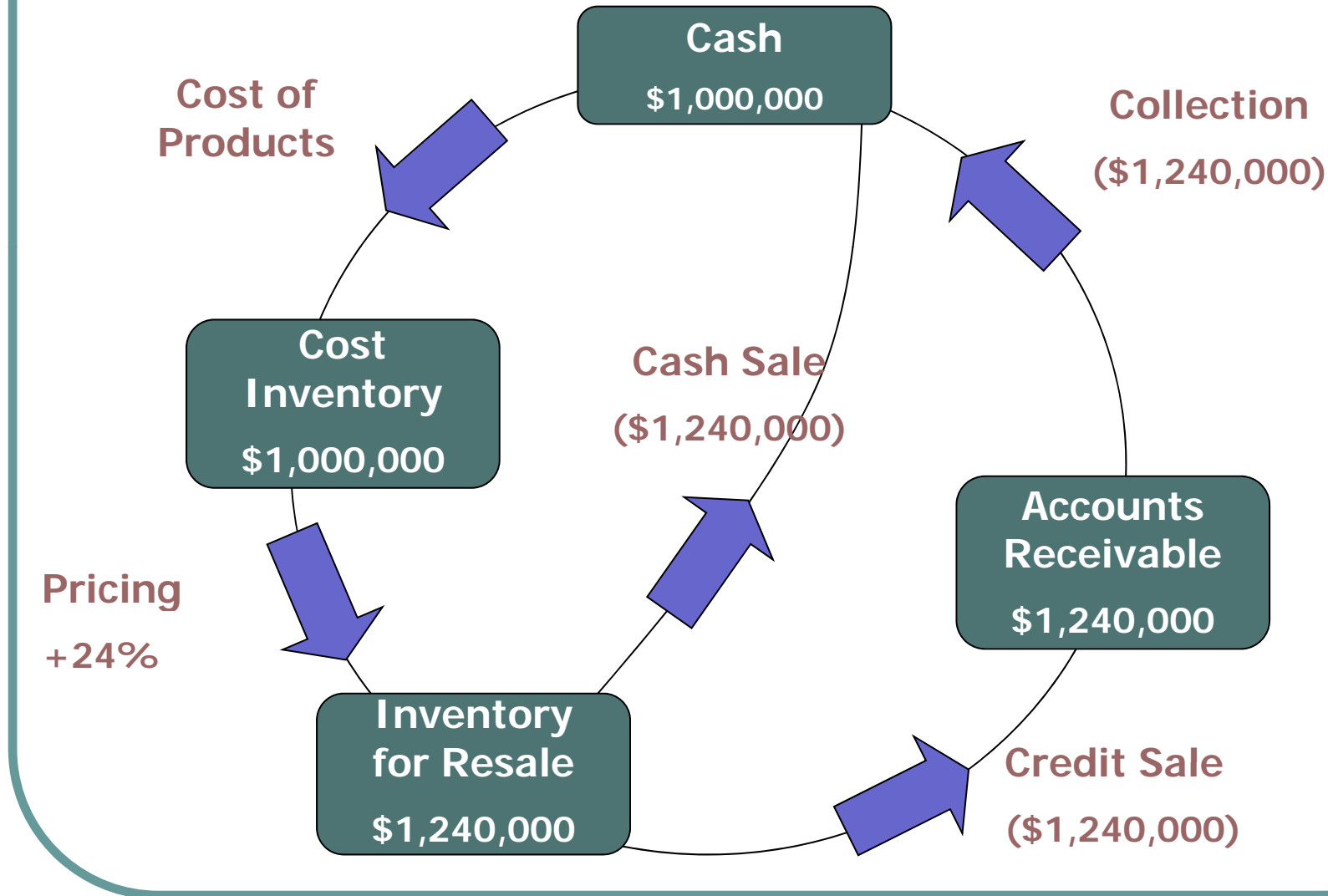
Current Ratio

Quick Ratio

The Profit Potential of Incremental Volume

Current Volume \$10,000,000		Incremental Sales +\$1,000,000 (+10%)
Cost of Goods Sold \$7,600,000 (76%)		Cost of Goods Sold \$760,000 (76%)
Variable Expenses \$1,100,000 (11%)		Variable Expenses \$110,000 (11%)
Fixed Expenses \$1,100,000 (11%)		
Profit \$200,000 (2%)		Profit \$130,000 (13%)

The Current Assets Cycle



Some Tips For Using Financial Performance Ratio Analysis

- Start off just looking at some key measures.
- Compare your firm with others that are of a similar type and size.
- Compare your firm versus the profit leaders.
- Significant variances are not necessarily good or bad, but need to be understood. If not, further investigation is needed.

Some Tips For Using Financial Performance Ratio Analysis

- Question: In what areas of the business should you focus your improvement efforts?
- Answer: Look at those areas of the business that are likely to have the greatest profitability impact.

Other Perspectives

Current Unemployment Rate: 9.1% (July 2011)

Peak Monthly Unemployment Rates During Post WWII
Recessions:

1949	7.9%	1982	10.8%
1958	7.5%	1983	10.4%
1975	9.0%	1992	7.8%
1980	7.8%	2003	6.3%
1981	8.5%	2009	10.1%

... To some extent, we have been here before!!!

To Some Extent, We Have Been Here Before. . .

Actual Quarterly Contractions of Note in Real GDP (since 1949)

Quarter	% Change in GDP from Prior Year	Quarter	% Change in GDP from Prior Year
1Q 1949	-5.4	1Q 1975	-4.8
4Q 1949	-3.7	2Q 1980	-7.9
4Q 1953	-6.2	2Q 1981	-3.2
4Q 1957	-4.1	4Q 1981	-4.9
1Q 1958	-10.4	1Q 1982	-6.4
4Q 1960	-5.0	3Q 2008	-3.7
4Q 1970	-4.2	4Q 2008	-8.9
1Q 1974	-3.5	1Q 2009	-6.7
3Q 1974	-3.9		

Recent Past “Crises” That We Survived

- Great depression, WWII, Korean War, Vietnam War, Gulf War, 9/11, Iraq War.
- The computer-driven stock crash of 1987 when the market plunged 22% in one day.
- The dot-com bubble burst, which resulted in nearly \$6 trillion of lost market value (in current dollars) of technology firms between 2000-02.
- The Enron collapse in December 2001, wiping out \$70 billion in market value and \$2.3 billion of pension funds (in current dollars).
- The 1973-74 oil crisis, when OPEC cut production, and oil prices quadrupled, and the Dow dropped 45%.
- The double digit inflation of the late 1970s.
- The Savings & Loan crisis of the early 1990s, resulting in nearly 1,000 closed S&Ls, and costing nearly \$250 billion (in current dollars).
- In the 1982 recession, GDP retrenched 1.9% and unemployment reached 10.8%. Also, real home prices (adjusted for inflation) dropped 14.2%.
- During the 1973 to 1975 recession, GDP fell 3.1% in 16 months and unemployment peaked at 9.0%

. . . To some extent, we have been here before!!!

Noteworthy Actual Budget Deficits

Quarter	% of GDP	Budget Deficit
1983	6.0%	\$208 billion
1985	5.1%	\$212 billion
1986	5.0%	\$221 billion
1984	4.7%	\$185 billion
1992	4.5%	\$290 billion
1991	4.4%	\$269 billion
1976	4.1%	\$74 billion
1990	3.9%	\$221 billion
1993	3.8%	\$255 billion
1982	3.7%	\$128 billion

14 separate years had budget deficits that exceeded the 3.1% of GDP experienced under George Bush in 2008, for which he was so highly criticized. But we have entered uncharted territory.

... We are Now in Uncharted Territory

	% of GDP	Dollars
2008 Actual	3.1%	\$455 billion
2009 Actual	10.0%	\$1.416 trillion
2010 Actual	8.9%	\$1.294 trillion
2011 Projected	10.1%	\$1.255 billion

Based on January 2011 Congressional Budget Office Data and Projections
(without the cost of national health care)

How Much is a Trillion?

Inquiring minds want to know

One Million Dollars!!!

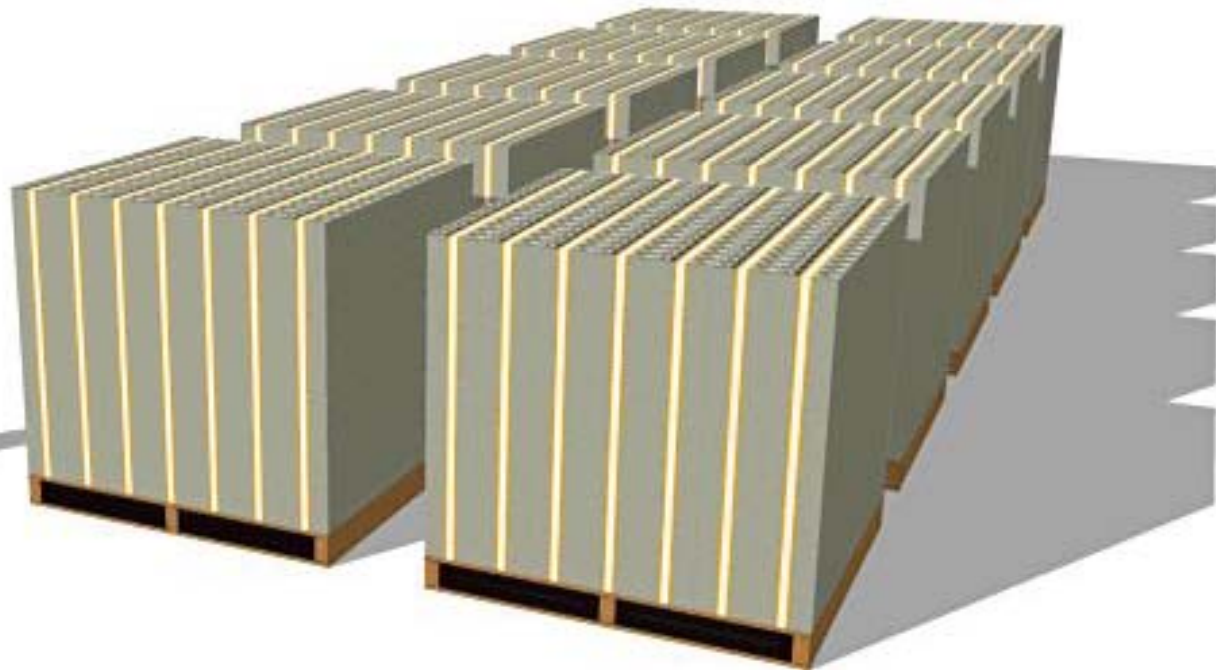
Believe it or not, this neat little pile is \$1 million dollars (100 packets of \$10,000). This could easily fit into a grocery bag.



Holy cow!

And \$1 BILLION dollars... now we're really getting somewhere...

Whoa, dude!



Please have a seat

Next we'll look at ONE TRILLION dollars. This is that number we've been hearing so much about.

What is a trillion dollars? Well, it's a million million.

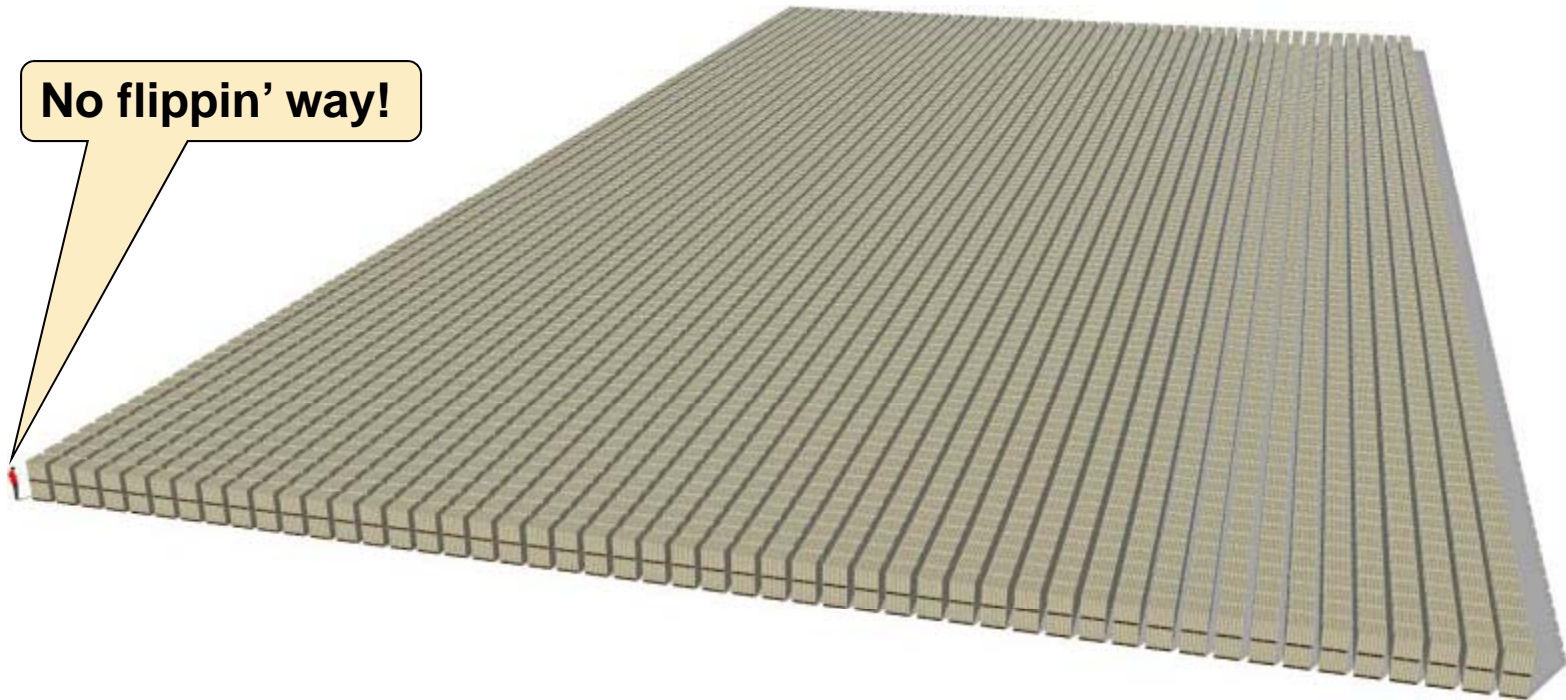
It's a thousand billion.

It's a one followed by 12 zeros.

You ready for this?

I Give You \$1 Trillion Dollars...

No flippin' way!



What Should You Do?

- Continue following “business basics,” just as you have been doing!
 - Strong expense management (but expense cuts must come through efficiency improvements).
 - Resist margin pressures and manage GMROI and inventory levels.
 - Strong receivables management (measure and follow up aggressively on past due accounts)
 - Effective personnel management (“Pay for Performance” and measure employee productivity)
 - Regular cash flow planning
 - Prudent debt management (i.e., negotiate the best rates possible; finance long-term assets with long-term debt; try to deal with bankers from a position of strength, not desperation).
 - Avoid the tendency of trying to be “all things to all people.”
- Run a “lean” operation.

Remember . . .

- Recessions are a normal part of economic and business cycles.
- Recessions can be an opportunity to:
 - Gain market share from weaker competitors that struggle or fail.
 - Find and hire excellent employees at advantageous wages, as layoffs occur throughout the economy.
 - Take advantage of bargains for products, equipment, and new construction needs.

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