The Three Great Profit Myths

Prepared For

Distribution Strategy Group

Objectives Of The Session

- Review the Three Great Profit Myths
  -Investment Reduction Drives Profit
  -Sales Solves Most Problems
  -Technology Will Drive Higher Profit
- Identify the Key Pressure Points in Improving Profitability
- Develop an Action Plan to Improve Financial Performance

Income Statement Results For Mountain View, Inc.

	Dollars	Percent
Net Sales	50,000,000	100.0
Cost of Goods Sold	37,500,000	75.0
Gross Margin	12,500,000	25.0
Payroll and Fringes	7,500,000	15.0
All Other Expenses	3,500,000	7.0
Total Expenses	11,000,000	22.0
Profit Before Taxes	1,500,000	3.0

Exhibit 2

Income Statement Results For Mountain View, Inc.

	Dollars	Percent
Net Sales	50,000,000	100.0
Cost of Goods Sold	37,500,000	75.0
Gross Margin	12,500,000	25.0
Payroll and Fringes	7,500,000	15.0
All Other Expenses	3,500,000	7.0
Total Expenses	11,000,000	22.0
Profit Before Taxes	1,500,000	3.0
Accounts Receivable	4,750,000	
Inventory	6,250,000	

The Relationship Between A Sales Increase And Profit Margin

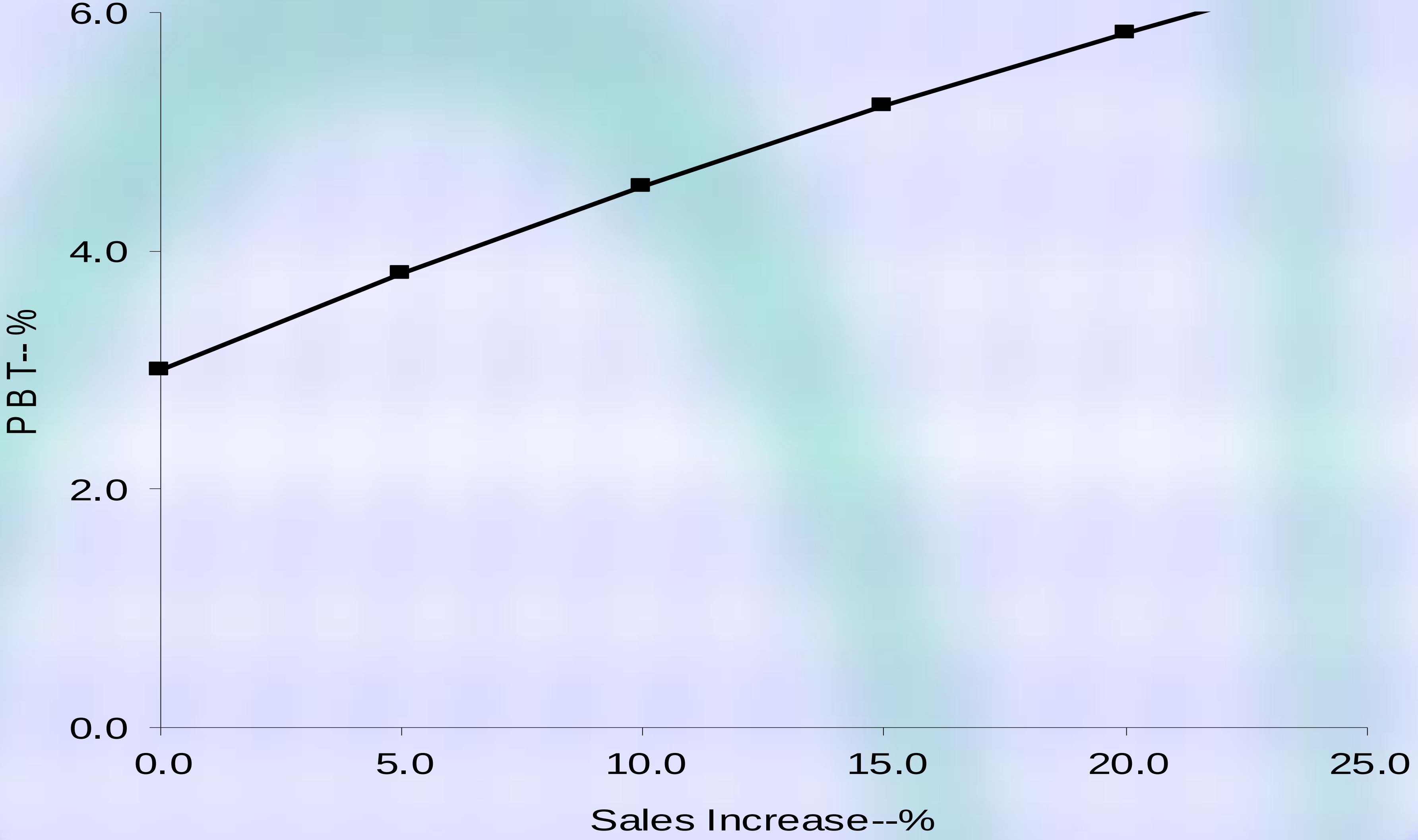


Exhibit 3

Distribution Performance Project

The Relationship Between An Expense Decrease And Profit Margin

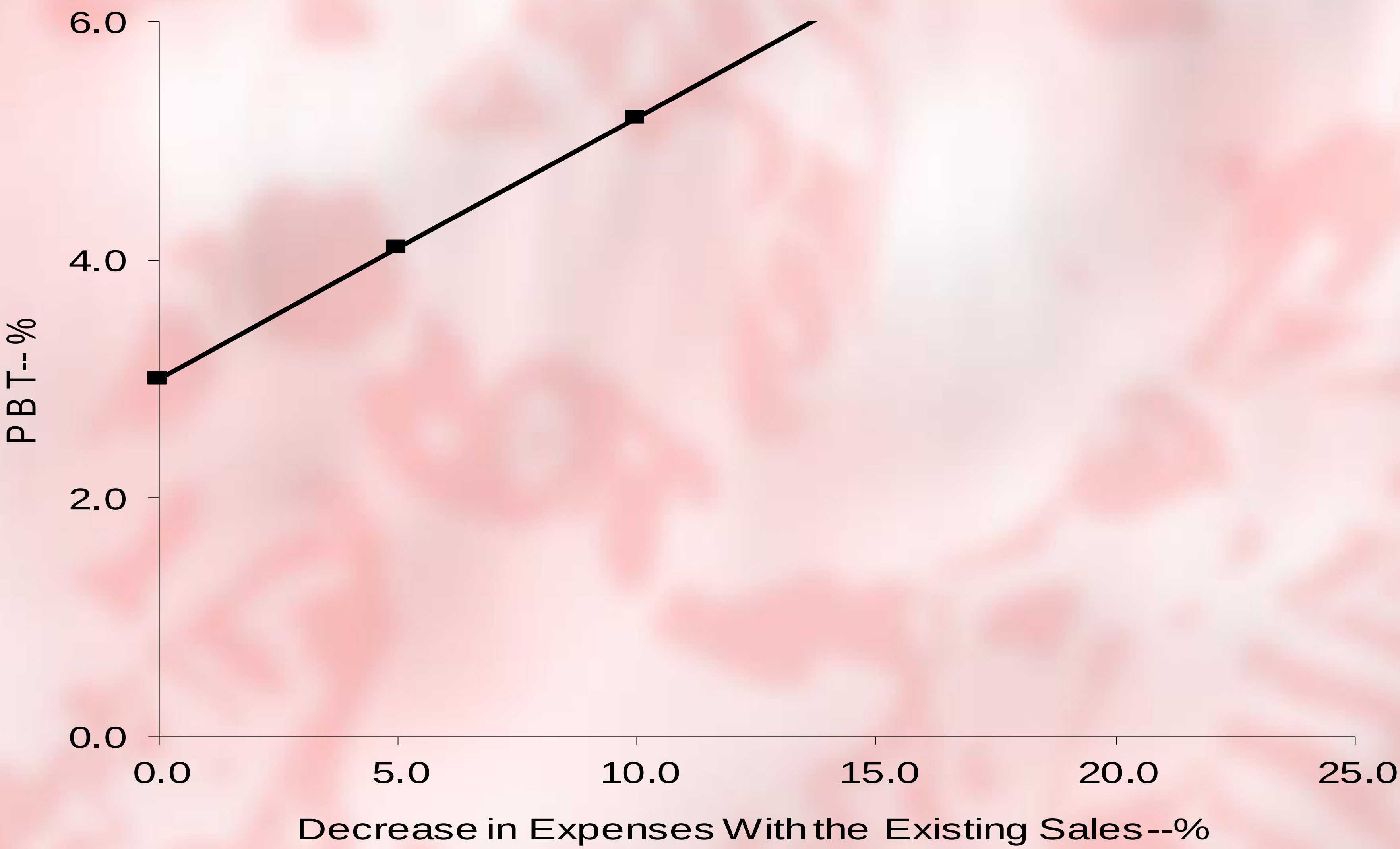


Exhibit 4

Distribution Performance Project

The Relationship Between A Gross Margin Increase And Profit Margin

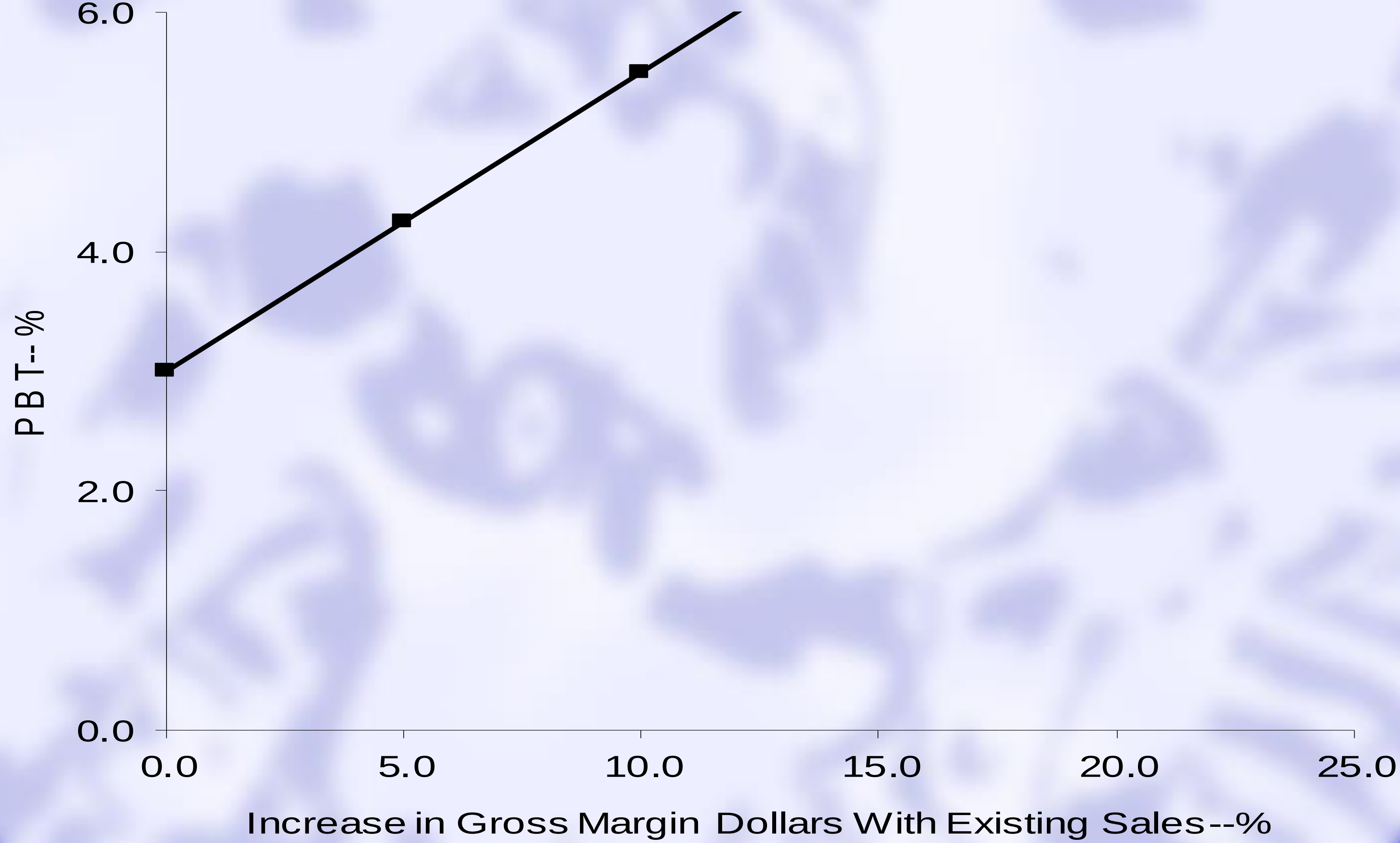
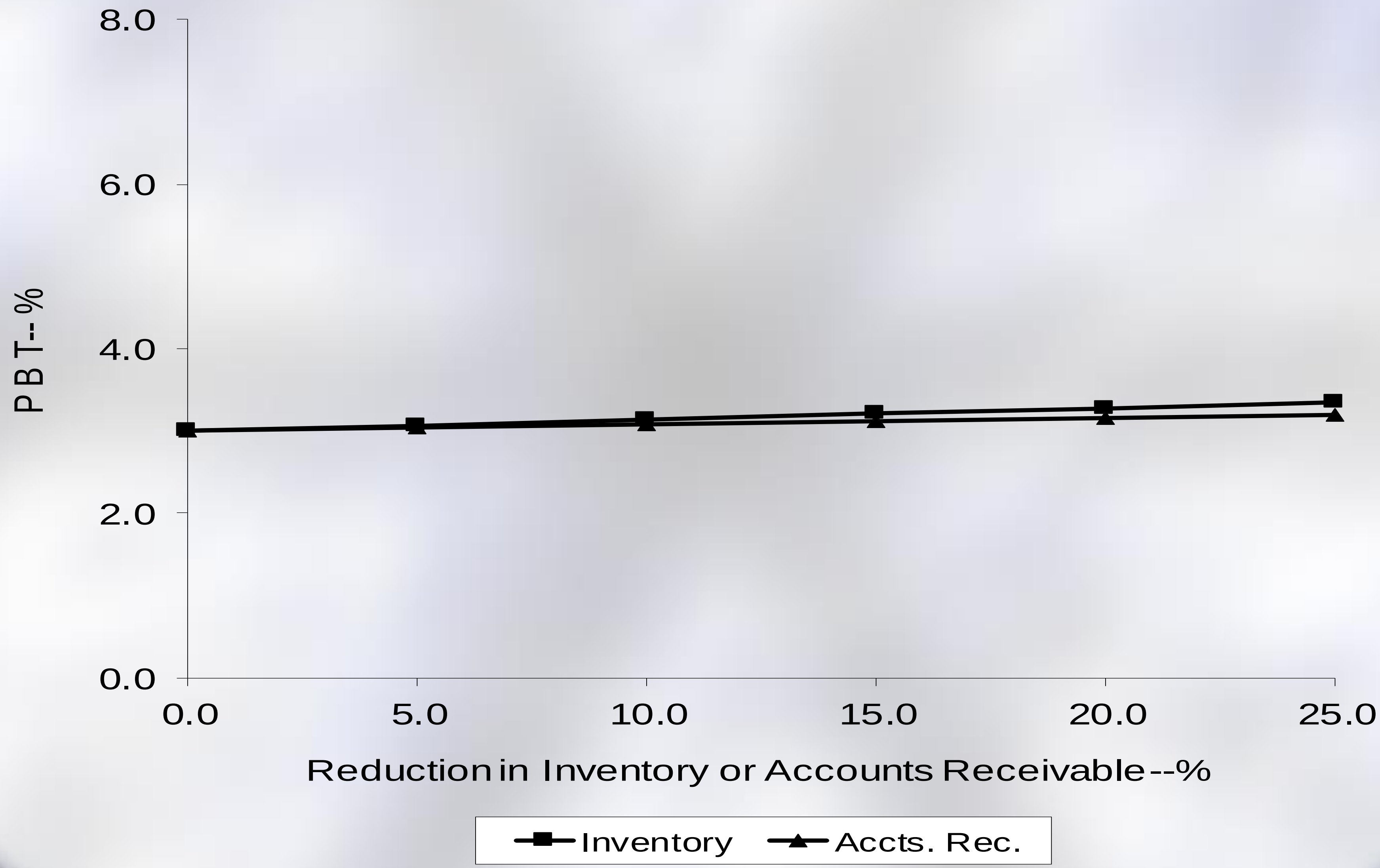


Exhibit 5

The Relationship Between An Investment Reduction And Profit Margin



An Improvement Path
For Profit Margin

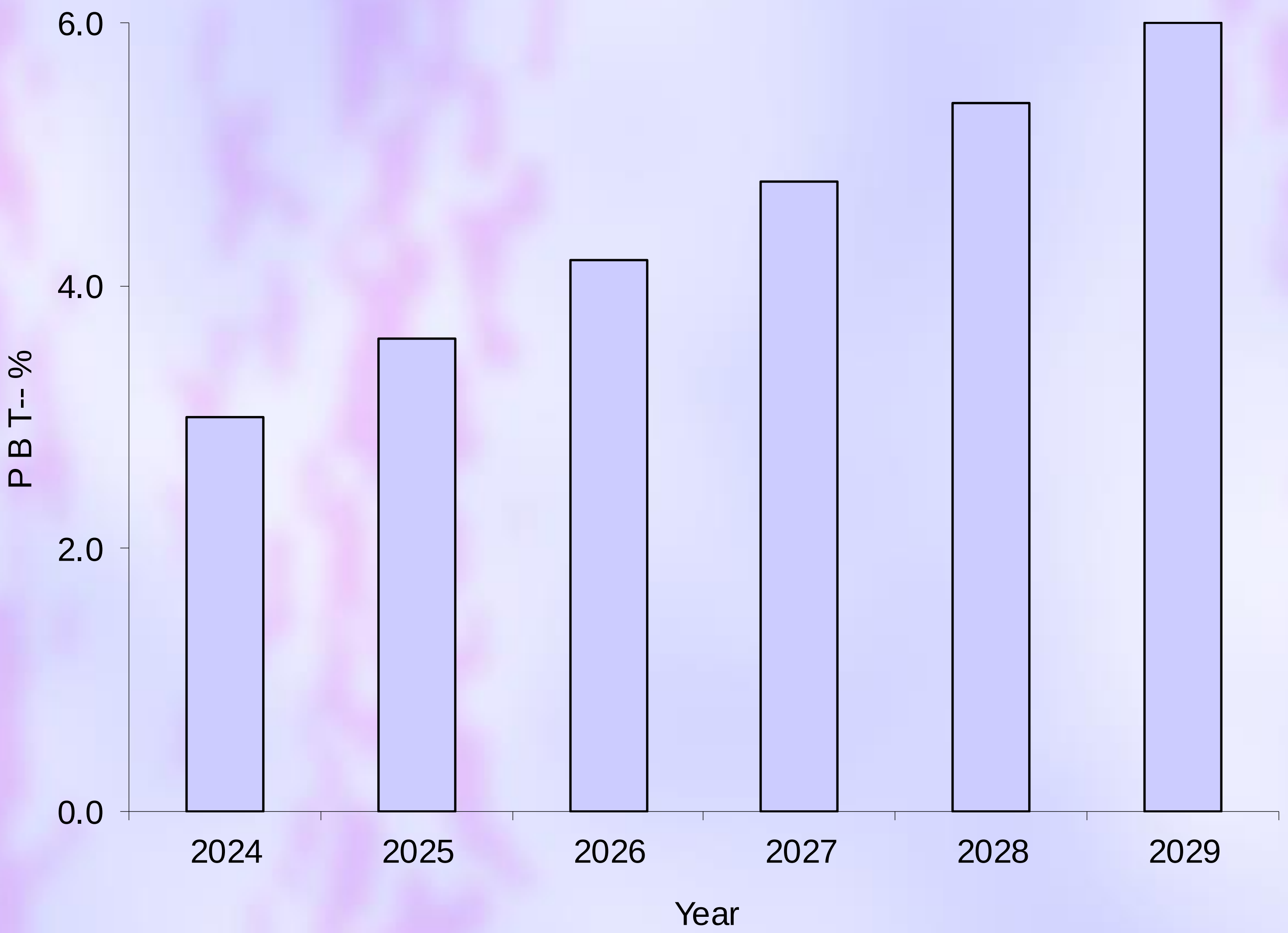


Exhibit 7

Distribution Performance Project

Summary And Conclusions

- A realistic profit goal is to double profit, but probably over some time frame

The Improvement Model:
A Rack-Suit Plan

- Increasing sales by at least the inflation rate plus a safety factor of 3%

- Force payroll to grow slower than sales to create a sales to payroll wedge of 2%

- Increase the gross margin percentage (not gross margin dollars) by 0.2%

- Decrease the other expense percentage (not expense dollars) by 0.2%

The Profit Impact of a Sales to Expense Wedge

Income Statement ($)	Current Results	10.0% Sales Growth 8.0% Expense Growth	10.0% Sales Growth 12.0% Expense Growth
Net Sales	50,000,000	55,000,000	55,000,000
Cost of Goods Sold	37,500,000	41,250,000	41,250,000
Gross Margin	12,500,000	13,750,000	13,750,000
Total Expenses	11,000,000	11,880,000	12,320,000
Profit Before Taxes	1,500,000	1,870,000	1,430,000
PBT%	3.0%	3.4%	2.6%

The Attack Points in Driving a Sales to Expense Wedge

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

Exhibit 10

Distributors Have Gotten Much More Sophisticated Throughout the Years

- Bar Coding
- Fleet Scheduling
- Activity Based Costing
- Internet Sales
- Supply Chain Management
- RFID Technology
- Lots More

So What is the Impact of All This Technology So Far?

Sales Per Employee:
2011: $450,000
2022: $625,000

Payroll Percent of Sales:
2011: 16.5%
2022: 16.6%

Summary And Conclusions

- A realistic profit goal is to double profit, but probably over some time frame
- Driving higher profit requires focusing on the right things--Gross margin, expenses and sales in that order

The Mandate for Change
During Each of the Next Five Years

Net Sales	5.0
Gross Margin %	0.2
Sales to Payroll Gap	2.0
Other Expense %	-0.2
Inventory Turnover	0.0
Collection Period	0.0

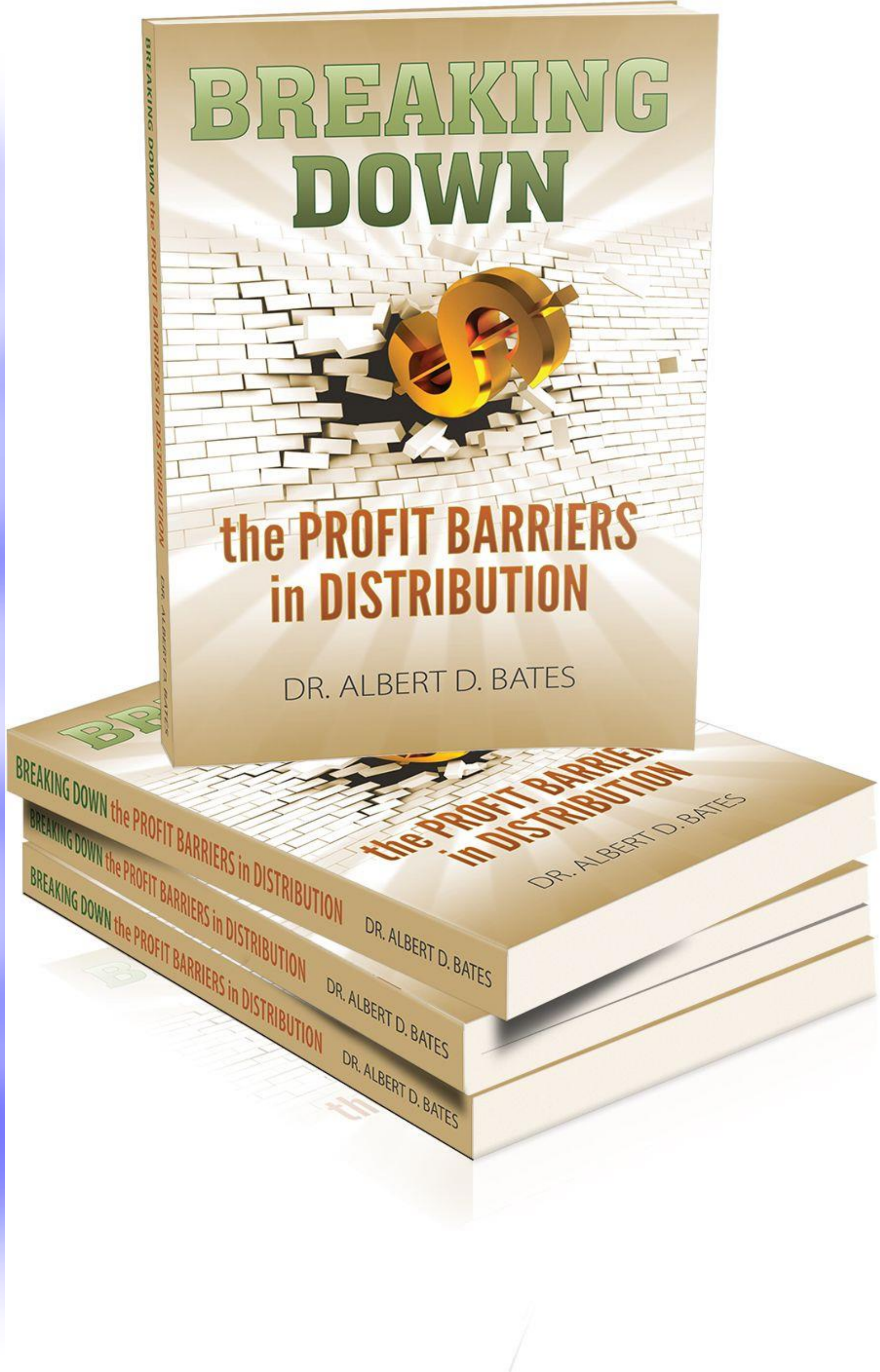
Exhibit 13

The Impact of Making
The Mandated Changes

	2024	2025	2029
Net Sales	50,000,000	52,500,000	63,814,078
Cost of Goods Sold	37,500,000	39,270,000	47,222,418
Gross Margin	12,500,000	13,230,000	16,591,660
Payroll and Fringes	7,500,000	7,725,000	8,694,556
All Other Expenses	3,500,000	3,570,000	3,828,845
Total Expenses	11,000,000	11,295,000	12,523,400
Profit Before Taxes	1,500,000	1,935,000	4,068,260
Net Sales	100.0	100.0	100.0
Cost of Goods Sold	75.0	74.8	74.0
Gross Margin	25.0	25.2	26.0
Payroll and Fringes	15.0	14.7	13.6
All Other Expenses	7.0	6.8	6.0
Total Expenses	22.0	21.5	19.6
Profit Before Taxes	3.0	3.7	6.4

Summary and Conclusions

- A realistic profit goal is to double profit, but probably over some time frame
- Driving higher profit requires focusing on the right things--Gross margin, expenses and sales in that order
- You probably should have a plan


BREAKING DOWN
the PROFIT BARRIERS in DISTRIBUTION
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