ISA
INDUSTRIAL SUPPLY ASSOCIATION
Linking Channel Partners

2011 PROFIT Report

Executive Summary

An analysis of fiscal 2010

Prepared by
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Introduction

This report presents a detailed but straightforward analysis of financial and operating characteristics of 74 participating ISA firms. Results are presented in tables and graphs designed to provide a comprehensive guide for analyzing profitability.

Methodology

Survey questionnaires were mailed to all members to collect detailed financial and operating information. Completed questionnaires were returned directly to Profit Planning Group for analysis. Individual responses were kept strictly confidential by Profit Planning Group. No one from ISA or any other firm had access to any individual firm's survey or results.

Statistics

- **Medians**
  Most of the figures presented in this report are based on median results. A median is the middle value in the sorted list of all reported values. Unlike averages, medians are not influenced by extreme values and are, therefore, the preferred statistic for this analysis. Medians best represent a typical firm's results.
- **High-Profit Group**
  A high-profit group was identified based on pre-tax return on assets (ROA). This group includes firms with the top ROA results. The high-profit column presents results based on the medians of the data reported by these participants.
- **Averages for Inventory, Accounts Receivable, and Accounts Payable**
  If available, calculations use average values for inventory, accounts receivable, and accounts payable.
- **FIFO Adjustment**
  If LIFO reserve information was collected, cost of goods sold, gross margin, and inventory were adjusted to present FIFO performance.
- **The N/A Label**
  Throughout this report, "N/A" designates results that are not available due to limited samples.

Executive Summary

Financial performance varied widely among participants in 2010. The results show that the typical firm generated sales of $14,837,742 and a pre-tax profit of 1.7%. Sales for the typical high-profit firm were $14,442,519, with a profit of 4.7%. Of greatest consequence, the typical firm had a 5.4% pre-tax return on assets (profit before taxes expressed as a percentage of total assets) while the typical high-profit firm generated an ROA of 17.4%.

A number of factors led to the differences in overall results. In most instances these differences can be illustrated by examining what are commonly called the critical profit variables (CPVs). The following exhibit compares the critical profit variables for the typical firm and the typical high-profit firm.

The Critical Profit Variables

	Typical ISA Distributor	High Profit ISA
Sales per Employee Measures employee productivity	$359,317	$389,839
Gross Margin Percentage Reflects the ability to manage COGS effectively	24.7%	25.5%
Operating Expense Percentage Focuses on expense control	22.8%	20.4%
Inventory Turnover (times) Reflects how well inventory is managed	4.7	6.4
Average Collection Period (days) Reflects accounts receivable collection practices	47.6	41.7

High-profit firms may not always perform better in every CPV but their *combined* CPV performance produces better overall results. The following table presents a comparison of these results. Since these differences can dramatically improve operating performance it is important that every firm is aware of their impact.

An Overview of Financial Results

	Typical ISA Distributor	High Profit ISA
Income Statement		
Net Sales	$14,837,742	$14,442,519
Cost of Goods Sold	11,172,820	10,759,677
Gross Margin	3,664,922	3,682,842
Operating Expenses	3,383,005	2,946,274
Operating Profit	281,917	736,568
Other Income/Expenses	-29,675	-57,770
Profit Before Taxes	$252,242	$678,798
Profit Before Taxes (%)	1.7%	4.7%
Assets		
Cash	$120,557	$284,947
Accounts Receivable	1,901,086	1,588,677
Inventory	1,724,887	1,186,629
All Other Assets	890,264	843,131
Total Assets	$4,636,794	$3,903,384
Return on Assets (Pre-Tax)	5.4%	17.4%

Executive Summary

	Typical ISA Distributor	High Profit ISA
Typical Sales Volume	$14,837,742	$14,442,519
Strategic Profit Model Ratios		
Profit Margin (pre-tax)	1.7%	4.7%
Asset Turnover	3.2	3.7
Return on Assets (pre-tax)	5.4%	17.4%
Financial Leverage	2.3	1.9
Return on Net Worth (pre-tax)	12.4%	33.1%
Income Statement		
Net Sales	**100.0%**	**100.0%**
Cost of Goods Sold	75.3	74.5
Gross Margin	**24.7**	**25.5**
Operating Expenses		
Payroll Expenses	15.3	13.9
Occupancy Expenses	2.3	1.9
Other Operating Expenses	5.2	4.6
Total Operating Expenses	**22.8**	**20.4**
Operating Profit	**1.9**	**5.1**
Other Income/Expenses	-0.2	-0.4
Profit Before Taxes	**1.7%**	**4.7%**
Financial Ratios		
Current Ratio	1.9	2.2
Quick Ratio	1.0	1.3
Accounts Payable to Inventory	48.4%	91.7%
Accounts Payable Payout Period (days)	28.4	23.2
Debt to Equity	1.1	0.9
EBIT to Total Assets	6.9%	16.7%
Times Interest Earned	4.7	9.3
Asset Productivity Ratios		
Average Collection Period (days)	47.6	41.7
Inventory Turnover	4.7	6.4
Inventory Holding Period (days)	76.9	56.8
Gross Margin Return on Inventory	147.4%	270.2%
Growth & Cash Sufficiency Ratios		
Growth Potential Index (GPI)	4.8%	29.2%
Cash Cycle (days)	96.1	75.3
Cash To Current Liabilities	2.9%	14.9%
Defensive Interval (days)	6.5	20.2
Sales To Working Capital	8.1	8.2
Operations		
Sales per SKU	$1,167	$1,683
Sales per Customer	$18,473	$24,321
Sales per Order	$518	$678
Employees		
Sales per Employee	$359,317	$389,839
Gross Margin per Employee	$90,470	$106,924
Payroll per Employee	$57,535	$63,794
Personnel Productivity Ratio	61.9%	54.5%