

# Driving Profit In The New Economy

Prepared For

ISSA

Prepared By

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## Objectives of the Session

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

Exhibit 1

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## Income Statement Results for Mountain View, Inc.

	<u>Dollars</u>	<u>Percent</u>
Net Sales	7,000,000	100.0
Cost of Goods Sold	<u>4,690,000</u>	<u>67.0</u>
Gross Margin	2,310,000	33.0
Payroll and Fringes	1,500,000	21.4
All Other Expenses	<u>705,000</u>	<u>10.1</u>
Total Expenses	<u>2,205,000</u>	<u>31.5</u>
Profit Before Taxes	105,000	
Fixed Expenses	1,855,000	26.5
Variable Expenses	<u>350,000</u>	<u>5.0</u>
Total Expenses	2,205,000	31.5

Exhibit 2

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### Determining Real Profit For Your Firm

1 Reported Profit		<u>105,000</u>
2 Owner's Compensation--Total		<u>100,000</u>
3 Replacement Compensation--Total		<u>75,000</u>
4 Adjustment to Profit	[ 2 - 3 ]	<u>25,000</u>
5 Actual Profit	[ 1 + 4 ]	<u>130,000</u>

Exhibit 3

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### A Tale of Two Firms

	You Are Here	You Need To Be Here
Net Sales	7,000,000	7,000,000
Cost of Goods Sold	<u>4,690,000</u>	<u>4,655,000</u>
Gross Margin	2,310,000	2,345,000
Payroll & Fringes	1,500,000	1,435,000
All Other Expenses	<u>705,000</u>	<u>595,000</u>
Total Expenses	<u>2,205,000</u>	<u>2,030,000</u>
Profit Before Taxes	105,000	315,000
Net Sales	100.0	100.0
Cost of Goods Sold	<u>67.0</u>	<u>66.5</u>
Gross Margin	33.0	33.5
Payroll & Fringes	21.4	20.5
All Other Expenses	<u>10.1</u>	<u>8.5</u>
Total Expenses	<u>31.5</u>	<u>29.0</u>
Profit Before Taxes	1.5	

Exhibit 4

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### The Relationship Between a Sales Increase and Return on Sales

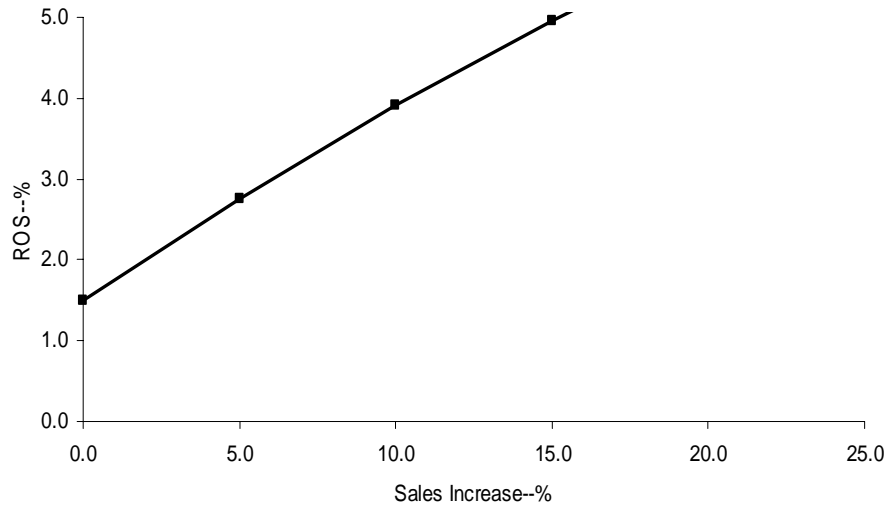


Exhibit 5

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### The Relationship Between an Expense Decrease and Return on Sales

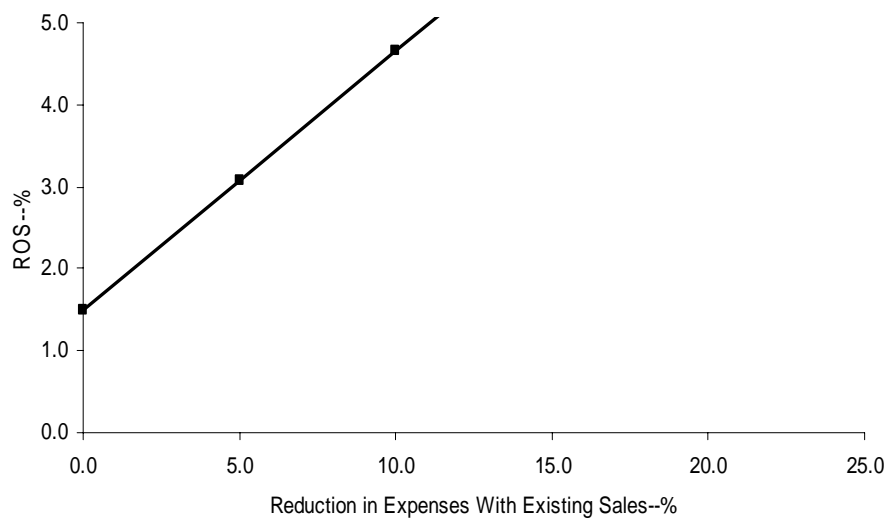


Exhibit 6

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### The Relationship Between a Gross Margin Increase and Return on Sales

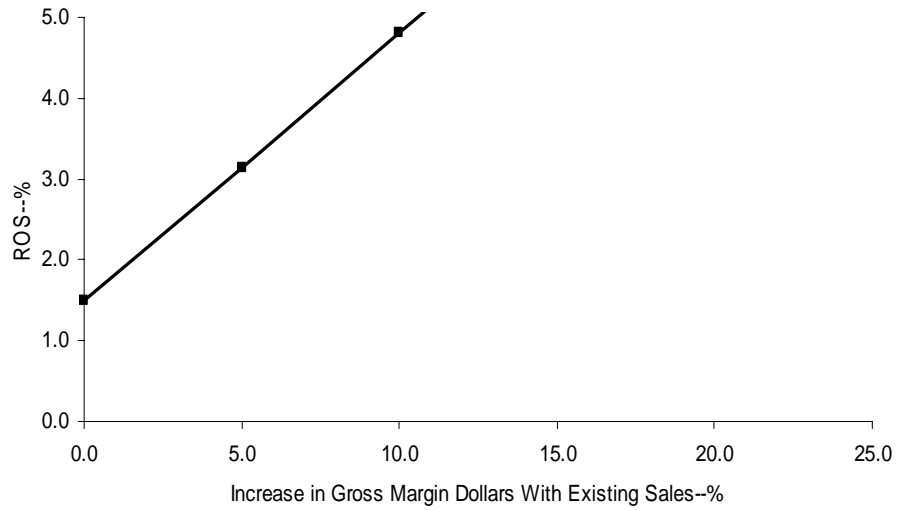


Exhibit 7

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### The Three Challenges to High-Profit Performance

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Exhibit 8

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### 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 9

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### The Sales to Payroll Gap: A Stroll Down Easy Street

Summary <u>Income Statement</u>	<u>Current</u>	<u>Potential</u>	<u>Percent Change</u>
Net Sales	7,000,000	7,700,000	10.0
Cost of Goods	<u>4,690,000</u>	<u>5,159,000</u>	10.0
Gross Margin	2,310,000	2,541,000	10.0
Payroll & Fringes	1,500,000	1,620,000	8.0
All Other Expenses	<u>705,000</u>	<u>775,500</u>	10.0
Total Expenses	<u>2,205,000</u>	<u>2,395,500</u>	8.6
Profit	105,000	145,500	38.6

Exhibit 10

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The Sales to Payroll Gap:  
Mature Market Realities

Summary Income Statement	<u>Current</u>	<u>Potential</u>	<u>Percent Change</u>
Net Sales	7,000,000	7,350,000	5.0
Cost of Goods	<u>4,690,000</u>	<u>4,924,500</u>	5.0
Gross Margin	2,310,000	2,425,500	5.0
Payroll & Fringes	1,500,000	1,545,000	3.0
All Other Expenses	<u>705,000</u>	<u>740,250</u>	5.0
Total Expenses	<u>2,205,000</u>	<u>2,285,250</u>	3.6
Profit	105,000	140,250	33.6

Exhibit 11

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The Sales to Payroll Gap:  
A Negative View

Summary Income Statement	<u>Current</u>	<u>Potential</u>	<u>Percent Change</u>
Net Sales	7,000,000	7,350,000	5.0
Cost of Goods	<u>4,690,000</u>	<u>4,924,500</u>	5.0
Gross Margin	2,310,000	2,425,500	5.0
Payroll & Fringes	1,500,000	1,605,000	7.0
All Other Expenses	<u>705,000</u>	<u>740,250</u>	5.0
Total Expenses	<u>2,205,000</u>	<u>2,345,250</u>	6.4
Profit	105,000	80,250	-23.6

Exhibit 12

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## Producing a Real Sales Gain

### Assumptions

Average Order Value	\$400.00
Lines per Order	4.0
Average Order Line	\$100.00

### The Real Sales Gain Pressure Points

	<u>Current</u>	<u>Potential</u>
Net Sales	7,000,000	_____
Average Order Line	100.00	_____
Order Lines	_____	_____
Lines per Order	4.0	_____
Orders	_____	_____

Exhibit 13

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## The Profit Impact of Low Sales Performance

	<u>Current</u> <u>Results</u>	<u>Per Sales</u> <u>Person</u>	<u>80% Volume</u> <u>Producer</u>
Net Sales	7,000,000	700,000	560,000
Cost of Goods Sold	<u>4,690,000</u>	<u>469,000</u>	<u>375,200</u>
Gross Margin	2,310,000	231,000	184,800
Commissions	231,000	23,100	18,480
Other Variable Expenses	119,000	11,900	9,520
Fixed Expenses	<u>1,855,000</u>	<u>185,500</u>	<u>185,500</u>
Total Expenses	<u>2,205,000</u>	<u>220,500</u>	<u>213,500</u>
Profit Before Taxes	105,000	10,500	

Exhibit 14

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### An Illustrative Gross Margin Improvement

Summary <u>Income Statement</u>	<u>Current</u>	<u>Buying Potential</u>	<u>Pricing Potential</u>
Gross Margin %	33.0	33.5	33.5
Net Sales	7,000,000	7,000,000	
Cost of Goods Sold	<u>4,690,000</u>		<u>4,690,000</u>
Gross Margin	2,310,000	2,345,000	
Variable Expenses	350,000	350,000	352,632
Fixed Expenses	<u>1,855,000</u>	<u>1,855,000</u>	<u>1,855,000</u>
Total Expenses	<u>2,205,000</u>	<u>2,205,000</u>	<u>2,207,632</u>
Profit Before Taxes	105,000		

Exhibit 15

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### Separating Pricing and Buying

Summary <u>Income Statement</u>	<u>Current</u>	<u>Buying Potential</u>	<u>Pricing Potential</u>
Net Sales	7,000,000	7,000,000	6,947,761
Cost of Goods Sold	<u>4,690,000</u>	<u>4,655,000</u>	<u>4,655,000</u>
Gross Margin	2,310,000	2,345,000	2,292,761
Variable Expenses	350,000	350,000	347,388
Fixed Expenses	<u>1,855,000</u>	<u>1,855,000</u>	<u>1,855,000</u>
Total Expenses	<u>2,205,000</u>	<u>2,205,000</u>	<u>2,202,388</u>
Profit Before Taxes	105,000	140,000	90,373
Buying Better--%		0.75	

Exhibit 16

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### Common Characteristics of Blind Items

- Low Sales Level
- Not Heavily Promoted
- Bought Only When Needed
- Low Price
- Repair Parts
- Unusual
- Non-Seasonal
- Unbranded

Exhibit 17

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### Don't Forget These Three Goals

- Sales volume must increase at least as fast as the consumer inflation rate plus 3% to 5%.
- Payroll must increase 2% less than sales volume
- Gross margin percentage must increase by .1% to .2%.

Exhibit 18

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## Final Thoughts: Reading Messages From Customers

### **Prices Are Too High**

- Gross Margin % Up, Sales Down
- Lots of Legitimate Price Complaints

### **Prices Are Too Low**

- Gross Margin % Down, Sales Up
- Customers Congratulate Your Efficiency
- Almost No Price Complaints
- New Customers Show Up Unannounced

Exhibit 19

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## A Two-Question Pricing Quiz

What Are You Saying If You Have to Match Your Competitor's Price?

What Do You Do When The Customer Complains About Your Price?

Exhibit 20

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The Mandate for Change  
During Each of the Next Five Years

Sales Increase %	5.0
Gross Margin %	0.2
Sales to Payroll Gap	2.0
Other Expense %	-0.1

Exhibit 21

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The Impact of Making  
The Mandated Changes

	<u>2011</u>	<u>2012</u>	<u>2016</u>
Net Sales	7,000,000	7,350,000	8,933,971
Cost of Goods	<u>4,690,000</u>	<u>4,909,800</u>	<u>5,896,421</u>
Gross Margin	2,310,000	2,440,200	3,037,550
Payroll & Fringes	1,500,000	1,545,000	1,738,911
All Other Expenses	<u>705,000</u>	<u>732,900</u>	<u>855,109</u>
Total Expenses	<u>2,205,000</u>	<u>2,277,900</u>	<u>2,594,020</u>
Profit	105,000	162,300	443,530
Net Sales	100.0	100.0	100.0
Cost of Goods	<u>67.0</u>	<u>66.8</u>	<u>66.0</u>
Gross Margin	33.0	33.2	34.0
Payroll & Fringes	21.4	21.0	19.5
All Other Expenses	<u>10.1</u>	<u>10.0</u>	<u>9.6</u>
Total Expenses	<u>31.5</u>	<u>31.0</u>	<u>29.0</u>
Profit	1.5	2.2	

Exhibit 22

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## Summary and Conclusions

Exhibit 23

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## He's Back!

Dr. Albert Bates is founder and Chief Sophist (whatever that means) of the Profit Planning Group, a research and education firm headquartered in Boulder, Colorado. The firm works mostly in the area of financial planning.

He makes approximately 100 presentations each year on topics such as Improving the Bottom Line, Doing More With Less and Pricing for Profit. He also heads the firm's investigation into profitability research for over fifty different trade associations.

Al received his doctorate from Indiana University. He is married and has three daughters. All four of the ladies in his life have black belts in Tae Kwon Do, so don't criticize his presentation too much.

He can be reached at Profit Planning Group, 303-444-6212, 1790 38th St., Suite 204, Boulder, CO 80301, [info@profitplanninggroup.com](mailto:info@profitplanninggroup.com).

Buy the book: [www.tripleyourprofitbook.com](http://www.tripleyourprofitbook.com)

Exhibit 24

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