

Executive Summary

Financial performance varied widely among participants in 2010. The results show a typical firm generated sales of \$3,434,976 and a pre-tax profit of 0.7%. Sales for the typical high-profit firm were \$4,479,562, with a profit of 4.4%. Of greatest consequence, the typical firm had a 2.4% 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 22.0%.

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

	<u>Typical WF&FSA</u>	<u>High Profit WF&FSA</u>
Sales per Employee Measures employee productivity	\$187,952	\$192,149
Gross Margin Percentage Reflects the ability to manage COGS effectively	36.2%	38.6%
Operating Expense Percentage Focuses on expense control	35.9%	34.5%
Inventory Turnover (times) Reflects how well inventory is managed	13.7	13.4
Average Collection Period (days) Reflects accounts receivable collection practices	67.9	52.4

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

	<u>Typical WF&FSA</u>	<u>High Profit WF&FSA</u>
Income Statement		
Net Sales	\$3,434,976	\$4,479,562
Cost of Goods Sold	<u>2,191,515</u>	<u>2,750,451</u>
Gross Margin	1,243,461	1,729,111
Operating Expenses	<u>1,233,156</u>	<u>1,545,449</u>
Operating Profit	10,305	183,662
Other Income/Expenses	<u>13,740</u>	<u>13,439</u>
Profit Before Taxes	\$24,045	\$197,101
Profit Before Taxes (%)	0.7%	4.4%
Assets		
Cash	\$134,455	\$213,227
Accounts Receivable	311,111	277,733
Inventory	225,727	226,666
All Other Assets	<u>310,129</u>	<u>178,286</u>
Total Assets	\$981,422	\$895,912
Return on Assets (Pre-Tax)	2.4%	22.0%

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	Typical <u>WF&FSA</u>	High Profit <u>WF&FSA</u>	Sales Under \$2 <u>Million</u>	Sales \$2 - \$3 <u>Million</u>	Sales \$3 - \$5 <u>Million</u>	Sales \$5 - \$15 <u>Million</u>	Sales Over \$15 <u>Million</u>
Number of Firms Reporting	92	23	21	20	21	15	15
Typical Sales Volume	\$3,434,976	\$4,479,562	\$1,412,944	\$2,523,712	\$3,753,300	\$7,464,146	\$19,005,428
Sales per Location	\$2,727,072	\$3,621,364	\$983,415	\$2,417,558	\$3,550,998	\$5,921,653	\$5,722,582
Sales Change (2009 to 2010)	-0.6%	0.7%	-4.9%	-1.9%	0.2%	0.7%	2.3%
Strategic Profit Model Ratios							
Profit Margin (pre-tax)	0.7%	4.4%	-2.6%	1.4%	0.8%	1.5%	1.0%
Asset Turnover	3.5	5.0	3.6	2.4	3.2	3.3	4.0
Return on Assets (pre-tax)	2.4%	22.0%	-9.4%	3.4%	2.6%	4.9%	4.0%
Financial Leverage	1.6	1.5	2.7	1.2	1.5	1.5	1.8
Return on Net Worth (pre-tax)	3.8%	33.0%	-25.4%	4.1%	3.9%	7.3%	7.2%
Income Statement							
Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	<u>63.8</u>	<u>61.4</u>	<u>64.3</u>	<u>64.0</u>	<u>63.2</u>	<u>64.7</u>	<u>62.9</u>
Gross Margin	36.2	38.6	35.7	36.0	36.8	35.3	37.1
Operating Expenses	35.9	34.5	38.5	35.0	36.6	34.1	36.1
Total Payroll Expenses	21.5	21.2	21.1	19.9	22.6	21.1	23.4
Total Occupancy Expenses	4.0	3.8	3.9	3.9	4.0	3.4	4.3
Total Other Operating Expenses	<u>10.4</u>	<u>9.5</u>	<u>13.5</u>	<u>11.2</u>	<u>10.0</u>	<u>9.6</u>	<u>8.4</u>
Total Operating Expenses	35.9	34.5	38.5	35.0	36.6	34.1	36.1
Operating Profit	0.3	4.1	-2.8	1.0	0.2	1.2	1.0
Other Income/Expense	<u>0.4</u>	<u>0.3</u>	<u>0.2</u>	<u>0.4</u>	<u>0.6</u>	<u>0.3</u>	<u>0.0</u>
Profit Before Taxes	0.7%	4.4%	-2.6%	1.4%	0.8%	1.5%	1.0%
Financial Ratios							
Current Ratio	2.5	2.5	2.3	4.6	2.8	2.6	1.6
Quick Ratio	1.4	1.6	1.1	2.3	1.6	1.6	0.8
Accounts Payable to Inventory	111.6%	88.5%	88.7%	163.8%	80.2%	128.6%	119.4%
Accounts Payable Payout Period (days)	24.4	23.8	23.2	21.1	27.3	25.4	45.6
Debt to Equity	0.4	0.5	0.1	0.1	0.4	0.4	0.8
EBIT to Total Assets	2.8%	16.8%	-0.3%	0.2%	2.6%	5.2%	4.1%
Times Interest Earned	2.3	31.8	N/A	20.8	3.1	1.3	4.9
Asset Productivity							
Cash Sales (% of net sales)	67.2%	50.0%	73.6%	75.0%	57.5%	37.5%	29.5%
Average Collection Period (days)	67.9	52.4	108.3	90.0	92.2	58.0	47.7
Inventory Turnover (total company)	13.7	13.4	15.7	30.6	11.8	13.6	10.7
Inventory Holding Period (days)	26.6	27.3	23.2	11.9	31.5	26.8	34.1
Sales to Inventory Ratio	21.6	22.8	25.0	48.0	18.9	20.6	16.0
Gross Margin Return on Inventory	818.4%	903.0%	924.2%	1,622.0%	706.3%	701.2%	523.1%
Product Sales							
Hardgoods	18.0%	18.3%	17.7%	18.4%	19.5%	17.6%	18.1%
Perishable Goods	82.0	81.7	82.3	81.6	79.3	81.5	81.4
All Other Products	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>1.2</u>	<u>0.9</u>	<u>0.5</u>
Total Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Product Gross Margin							
Hardgoods	35.5%	38.5%	32.3%	35.9%	36.3%	35.6%	35.5%
Perishable Goods	36.0	38.3	36.1	35.2	36.6	35.5	35.8
All Other Products	36.0	44.0	32.7	N/A	46.6	44.9	46.0
Total Company Gross Margin	36.2	38.6	35.7	36.0	36.8	35.3	37.1
FTE Employees							
Payroll per Employee	\$39,299	\$40,331	\$33,572	\$36,300	\$39,794	\$43,013	\$45,048
Sales per Employee	\$187,952	\$192,149	\$162,077	\$183,242	\$181,016	\$204,941	\$203,436
Gross Margin per Employee	\$66,521	\$75,944	\$58,299	\$66,248	\$67,962	\$75,073	\$74,218