

## Eye on the Future at the WASDA Annual Meeting & Partnership Forum

February 27 – March 2, 2005  
La Mansion Del Rio Hotel  
San Antonio, Texas

What's ahead for the industry? How will governmental and regulatory changes impact the day-to-day business of waterworks companies? What are the influences shaping distribution strategies and sales trends?



Trying to determine what lies ahead is the best way to prepare for it. Attendees will discover answers to these questions and more when they get a "Glimpse Into the Future" at the upcoming WASDA Annual Meeting and Partnership Forum.

The event will feature a mix of educational sessions and networking forums, all

designed to help participants to position their companies for sales growth and new opportunities in today's dynamic marketplace.

### Educational Programs = Insights on the Future Business and Industry

Educational sessions will focus on what's ahead in the industry and how to prepare for success. On February 28, the WASDA Government Relations program will feature a **member of the House Subcommittee on Water Resources and the Environment**. These timely comments will explain the status of current water legislation and provide useful tips on how industry members can enact change by effectively lobbying their Congressional Representatives.

For more news you can use, on February 28 the meeting will also feature a panel of industry leaders discussing **antitrust issues** and the industry. This is

*continued on page 2*

## People are Talking...

About the new format of the Connections Newsletter:

*"The new WASDA Newsletter is easy to read and provides a great opportunity to get industry news. Now it is even easier to get involved in the activities of the association"*

**Debbie DeSantis, Plastic Trends, Inc.**

Let us know what you think about the new "look" of WASDA Connections and other publications!

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*Bringing together all elements of the waterworks and sewer distribution industry for the purpose of promoting, educating and representing its participants.*

### WASDA

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# Annual Meeting Update

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a unique chance to learn from others' experience about how to protect fair trade and commerce in this industry.

On March 1, renowned futurist, Ed Barlow, (Creating the Future Inc.) will address **“Aligning Water and Sewer Distribution with a Continuum of Change.”** This insightful session will explore the trends that will shape the future of the business world, government regulations, industry issues and customer service.

## Networking Forums = Opportunities for Business and Friendship

WASDA Meetings are the premier way to establish and strengthen industry partnerships. This year's event will feature a combination of evening social events and scheduled networking opportunities. Participants will have ample opportunity to exchange ideas with industry colleagues and foster new and existing partnerships.

The **Annual WASDA Golf Tournament** features an ideal way to mix business with pleasure. Not only will participants get to spend quality time with industry colleagues, but they can enjoy the challenges and fun of the legendary Pecan Valley Golf Club. The course, created by famed architect J. Press Maxwell, was recently named the #1 public daily fee golf course in the whole (huge) state of Texas! What better way to relax with industry friends?

To add to the fun, **the Women of WASDA (WOW)** will have their own opportunity to meet new and old friends on an excursion through La Villita, where they will enjoy history, shopping and lunch.

## San Antonio = An Ideal Setting for WASDA

The WASDA meeting will be held in beautiful San Antonio, Texas, convenient to reach and easy to enjoy! There is something for everyone in this colorful town, from historical sights to modern culture to fine dining and fun activities. Temperatures in the low 70's will make it easier than ever to get out and

enjoy the Riverwalk and other outdoor venues. The WASDA host hotel, La Mansion del Rio, is conveniently located in the heart of the city and combines a rich history with the best of modern amenities.

## Participation = A Better Future!

WASDA members who want to create their own future will not miss this important and timely event. It's not too late to register. For complete details and registration information, as well as a list of registrants to date, visit [www.wasda.com](http://www.wasda.com).

### WASDA Annual Meeting 2005 Schedule of Events

#### Sunday, February 27

8:00 am – 12:00 pm	Board Meeting
1:00 pm – 2:00 pm	Committee Meetings (Marketing/Membership/Program)
2:00 pm – 3:00 pm	Committee Meetings (Associate/Gov't)
2:00 pm – 7:00 pm	Registration
5:30 pm – 6:00 pm	First Timer's Reception
6:00 pm – 7:00 pm	Opening Reception

#### Monday, February 28

7:00 am – 7:00 pm	Registration
7:00 am – 7:50 am	Breakfast
8:00 am – 9:00 am	Business Session
9:00 am – 9:50 am	Committee Reports
9:00 am – 10:00 am	Companion Breakfast
10:00 am – 12:00 pm	Government Relations Presentation
11:00 am – 1:30 pm	Companion Program
12:15 pm – 1:30 pm	Delegate Lunch
12:15 pm – 1:30 pm	Board Luncheon Meeting
1:30 pm – 3:00 pm	Antitrust Panel Discussion
6:30 pm – 7:30 pm	Networking Reception
8:00 pm	Dutch Treat Networking Dinners

#### Tuesday, March 1

8:00 am – 12:00 pm	Registration
8:00 am – 8:50 am	Breakfast
9:00 am – 10:00 am	Associate Member Business Session
10:00 am – 12:00 pm	Futurist Presentation, Ed Barlow
12:15 pm – 4:30 pm	Working Lunch/Strategic Issues Roundtables
7:00 pm – 10:00 pm	WASDA Western Dinner Party

#### Wednesday, March 2

8:00 am – 1:00 pm	Golf Tournament
1:00 pm – 2:00 pm	Golf Awards & Reception

**Attention Associate Members!** Your presence at the Associate Member Committee Meeting on Sunday is not mandatory, but it is welcome if you would like to participate. At this meeting, the six candidates for Associate Director will decide who will serve on the Board.

# Message from the President

Greetings,

Soon we'll be in San Antonio for the 2005 WASDA Spring Meeting. I look forward to seeing everyone there. As WASDA moves forward and grows, these meetings promise to be exciting and informative experiences. With both Distributors and Manufacturers in attendance the program committee has been charged with developing a program

that will be valuable to all of us. There are several key things that will happen at this meeting.

The Associate Members will be picking one of their peers to represent them on the WASDA Board of Directors. That person will be backed by the Associate Member's Committee. This will bring valuable input to the Board from the manufacturing side.

The Distributors will also elect three new Board members from a slate of four. This is a change from the past. If you're not attending please vote by proxy. We value your input.

If you are currently a non-member and are undecided about joining WASDA, take advantage of attending one meeting as a non-member. I know after

doing this and seeing the program content and the networking opportunities available, your decision will be an easy one.

Now for the highlights! The newly created Government Relations Committee will have a presentation by a member of Congress on Water Resources and the Environment. We will also have a Panel discussion on Antitrust. In our current litigious society this is something we all need to be aware of.

On Tuesday, we'll have noted futurist, Ed Barlow, for a session on "Aligning Water & Sewer Distribution with a Continuum of Change." This promises to be entertaining as well as informative. Later we'll have our popular Networking Roundtables. With the addition of Manufacturers to the mix, I can only see these getting better.

Mixed in with all this will be the Welcome Reception on Sunday, Networking Dinners on Monday, The WASDA Dinner Party on Tuesday night, and for those of you so inclined, a Golf Tournament on Wednesday.

With the hard work of the various committees and staff, this promises to be our most interesting and valuable meeting ever. I look forward to seeing you in Texas.

*Gregory L. Strayer*



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*Connections* is a publication of the Water and Sewer Distributors of America.

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# Special Report

## WASDA Profit Improvement Report

By Dr. Albert D. Bates

### Is The Smart Money Really All That Smart?

In recent years a somewhat heated debate has developed regarding the most appropriate approach to improve financial performance. In simplest terms the two approaches can be thought of as an operations approach and a working capital approach.

- **The Operations Approach**—This view, which is more traditional, suggests that firms should focus on the income statement side of the business, emphasizing modest sales growth, gross margin management and the tight control of expenses. Small improvements in performance are suggested. In this perspective, inventory and accounts receivable are viewed as necessary investments to generate required levels of sales volume.
- **The Working Capital Approach**—This more contemporary view suggests that inventory and accounts receivable are major cash traps which must be drained. The cost savings associated with lower investment levels will provide the higher profit for the firm. The emphasis is on making dramatic changes in investment levels rather than small ones. From a Wall Street perspective, this would be characterized as the smart money approach to improved results.

This report examines the two different approaches to improving financial performance in terms of their potential impact on profitability. It will do so in two ways. First, it will compare the financial impact of small operating improvements versus large working capital ones. Second, it will attempt to integrate the two diverse philosophies into a unified profit improvement plan.

### The Profitability Impact of Operations and Working Capital

**Exhibit 1** presents financial results for the typical WASDA member. Typical means that half of the

firms will perform below the results shown and half will perform above the results.

According to the most recent Statistical Report, this typical firm generates \$12,500,000 in sales volume, operates on a gross margin of 22.0%, and produces a pre-tax profit of \$400,000 or 3.2% of sales. The key issue from a working capital perspective is that the firm requires \$4,000,000 in total asset investment in order to generate this level of sales and profit. Of this amount \$1,600,000 is in inventory and \$1,675,000 is in accounts receivable. With this investment, the firm produces a return on assets of 10.0%

The second column of numbers, **Operations Control**, looks at how the same firm would have fared if it had been able to produce two percent improvements in three areas of the business: (1) Two percent higher sales volume, (2) two percent more gross margin dollars on those higher sales (moving the gross margin percentage from 22.0% to 22.4%) and (3) a two percent reduction in payroll expenses.

As can be seen, the operations impact is fairly straightforward, with an increase in both sales and gross margin and a decrease in payroll. There is also an increase in both inventory and accounts receivable to support the sales. The overall result is that profits are increased sharply, from the \$400,000 current level to \$540,350, an increase of 35.1%. In addition, the ROA increases to 13.3%. In short, even modest improvements in operations have a large profit payout.

In contrast, the final column of numbers, **Working Capital Control**, examines the impact of a rather dramatic fifteen percent reduction in both inventory and accounts receivable. To make the best case for the working capital approach, it is assumed that the investment reductions can be made with no decrease in sales. Clearly, there is the potential that such large changes could undermine the entire business.

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# Special Report

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The working capital approach rests upon generating costs savings from the lowered level of investment. In the analysis, a carrying cost of fifteen percent is assumed for both inventory and accounts receivable. This reflects the interest expense and related costs associated with maintaining such investments.

With the fifteen percent reduction in both inventory and accounts receivable, total assets falls by \$435,575. Using the fifteen percent carrying cost, the total cost savings is \$65,336. When the expense reduction and investment reduction are combined, the ROA becomes 13.1%.

Some financial observers suggest that the actual carrying cost is in excess of fifteen percent. However, in a low interest rate environment, fifteen percent is more likely high than low. This presents the best-case scenario for the working capital approach.

The net result is that small changes in operations are much more significant than even large improvements in working capital management. This is not to say that the working capital approach is not without merit. Surely, excessive investment should be avoided. However, it clearly points out that massive changes in investment are required to generate a significant profit improvement.

The implication for WASDA members should be obvious. There is certainly a need to control the investment level. However, the operations side of the business must continue to be paramount.

## Developing an Integrated Approach

The debate as to whether firms are best served by dramatically reducing investment or by improving operations should not be a debate at all. Improving operational performance will increase profitability quicker than any other approach and with less effort.

At the same time, the challenge of managing cash flow has led firms to look at the working capital approach more approvingly than ever before. What

most firms should focus on is making small improvements in investment levels, not large ones. They must make the changes without reducing the effort that must be devoted to the operational side of the business.

The following table suggests some highly specific goals for WASDA members. They are larger than the two factors used before, but are reasonable expectations for every firm. If implemented, they will allow the firm to grow without facing cash flow challenges and also produce a sharp increase in profits.

- Sales Increase: 3 to 5%
- Gross Margin Percentage Increase: .2 to .3 percentage points
- Payroll Percentage Decrease: .1 to .2 percentage points
- Inventory Turnover Increase: .1 to .2 turns
- Average Collection Period Decrease: .5 to 1.0 days

The above list is for the typical firm. Since no single firm is exactly typical, every firm must tailor the goals slightly. Guidelines for doing so are contained in the Profit Improvement Profile that every WASDA member receives by taking part in the Statistical survey.

## Moving Forward

To ensure adequate profit levels in the future, WASDA members must focus on the factors that matter. For the vast majority of firms, the factors that matter are on the operations side of the businesses. The control of both inventory and accounts receivable can be a valuable adjunct to improved operations. However, they should remain an adjunct only, not the primary focus of the firm.

### About the Author:

*Dr. Albert D. Bates is founder and president of Profit Planning Group, a distribution research firm headquartered in Boulder, Colorado.*

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# Association News

## Welcome New Members

WASDA is pleased to welcome the following new members:

### Associate Members

**WELCOME**

**Cla-Val Company**, Newport Beach, CA

**Fernco, Inc.**, Davison, MI

**Neptune Technology Group, Inc.**, Tallahassee, AL

**Crispin Multiplex**, Berwick, PA

**National Pipe & Plastics, Inc.**, Vestal, NY

**Multi Fittings Corporation**, London, ON CANADA

**Dresser Piping Specialties**, Bradford, PA

**Plastic Trends**, Shelby Township, MI

**Prinsco Inc.**, Prinsburg, MN

## Calling for Emeritus Members

Do you know a former member of WASDA who is retired but still has much to offer the industry? Nominate them for Emeritus Membership! As an Emeritus Member, these individuals can participate in WASDA meetings and continue to bestow their industry-related wisdom to the membership. These honorary members may also check the pulse on the happenings of WASDA through Connections.

## Coming Soon! A New and Improved [www.wasda.com](http://www.wasda.com)

The new WASDA website will go live in early March, immediately following the Annual Meeting. The new site will make it easier than ever to get timely industry news and information about WASDA programs and services.

## In Memoriam

Earl C. Bradley, CEO/Founder of EBAA Iron, Inc., Eastland, Texas, passed away January 7, 2005

## A Managerial Sidebar on Calculating the Carrying Cost

The investment in both inventory and accounts receivable causes firms to incur some expenses simply to maintain the investment. Unfortunately, these expenses are scattered throughout the income statement and are somewhat difficult to aggregate.

When they are aggregated they are commonly referred to as carrying costs. The idea of a carrying cost for inventory is well known. The idea of one for accounts receivable is not widely discussed.

The following table suggests the carrying costs for both inventory and accounts receivable. In both cases the **cost is expressed as a percentage of the investment**. As can be seen, the inventory carrying cost is probably close to 15.0%, while the accounts receivable carrying cost is closer to 8.0%.

Factor	Inventory	Accounts Receivable
Interest Expense	6.0%	6.0%
Insurance	1.0	0.0
Property Taxes	1.0	0.0
Bad Debts	0.0	1.0
All Other	7.0	1.0
Total	15.0%	8.0%

The other expenses for both inventory and accounts receivable include the cost of administration and maintenance. For inventory they include maintaining inventory records, cycle counting and related expenses. For accounts receivable they simply include the cost of the accounting function.

# Scholarship News

## Calendar of 2005 Industry Events

### WASDA Annual Meeting

February 27 – March 2  
La Mansion del Rio  
San Antonio, TX

### New England Water Works Association (NEWWA)

Spring Exposition  
April 5 –7  
Location TBD

### AWWA Annual Conference and Exposition (ACE)

June 12 – 16  
San Francisco, CA

### *Just Announced!*

### WASDA Fall Meeting

October 23 – 25  
Westin Michigan Avenue\*  
Chicago, IL  
\*contract pending

### Water Environment Federation (WEF)

WEFTEC.05  
October 29 – November 2  
Washington, DC

**Important!** The WASDA Partnership Forum (Contact Table Program) will be held at the Fall Meetings starting in 2005.

## 2005 Matt Stager Memorial Scholarship

*Student Application Deadline – April 1*

The Matt Stager Memorial Scholarship Fund was established to honor Mr. Stager, a past president of WASDA, by assisting children of employees of WASDA member companies in achieving their higher education goals. The family of Matt, along with the Directors of WASDA, wants to continue to build his legacy by awarding outstanding, diligent, industrious, intellectual individuals with annual college scholarships in his honor.

**Applications:** Applications may be obtained by calling WASDA at (215) 564-3484. Candidates must make certain that a transcript of their high school grades is sent to the Scholarship Selection Committee along with their letters of recommendation and Counselor's Report.

**Deadline:** All applications must be submitted no later than April 1, 2005. The award winners will be notified no later than June 1, 2005.

For an application or to make a contribution to the scholarship fund, contact:

### The Matt Stager Memorial Scholarship Fund

C/o WASDA  
100 North 20th Street, Fourth Floor  
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Fax: 215.963.9785  
E-mail: wasda@fernley.com  
www.wasda.com

### Scholarship Fund Annual Report

2005 CONTRIBUTIONS  
(As of February 18, 2005)

**FOUNDERS (\$10,000 or more)**  
Water & Sewer Distributors of America

**SPONSORS (\$5,000 - \$9,999)**  
Groeniger & Company

**PATRONS (\$1,000 - \$4,999)**  
Dana Kepner Company, Inc.  
Ohio Water & Wastewater Supply  
Mueller Company  
Northern Water Works Supply, Inc.  
The Leander Family Charitable Fund

**BENEFACTORS (\$50 - \$999)**  
ACT Pipe & Supply, LTD.  
Smith-Blair, Inc.

Total 2005 Contributions \$21,850.00

## Important Board decisions impacting meeting attendance

In order to allow all members to benefit from future WASDA meetings, the Board of Directors voted to open all meetings to all members. Associate members are invited to attend both the Annual and Fall Meetings in their entirety to take advantage of the excellent networking and educational opportunities available.

Prospective members may attend one meeting as a prospect before joining WASDA.

# Legislative News

## AHP Legislation

A second term for President Bush means that legislation to facilitate the establishment of Association Health Plans (AHPs) may have momentum at the beginning of the 109th Congress. House Education and Workforce Committee Chair John Boehner (R-Ohio), along with fellow committee members Reps Sam Johnson (R-Texas) and Nydia Velazquez (D-NY), plan to introduce a new AHP bill early this year. This bipartisan legislation passed the House twice in the 108th Congress, but saw little progress in the Senate.

This information provided courtesy of the NUCA Washington Report



## News from NAW

### New Business Income Tax Deduction Available For Certain U.S. Production Activities

The American Jobs Creation Act signed into law by President Bush on October 22, 2004 included a new tax benefit for certain “production activities” conducted in the United States on or after January 1, 2005. On January 19, 2005, the Treasury Department and IRS issued a Notice under section 199 of the Internal Revenue Code regarding the deduction relating to income attributable to domestic production activities. The Notice provides interim guidance on which taxpayers may rely until proposed regulations are issued.

The income tax deduction under section 199 is not limited to the traditional manufacturing company. It is available for a wide variety of production activities — including many activities which may be carried on by a wholesaler-distributor or its affiliated businesses.

#### Qualified Production Activity Broadly Defined

The following activities are among the qualified production activities which are eligible for the income tax deduction:

- The manufacture, production, growth or extraction

in whole or significant part in the U.S. of tangible personal property or software.

- Construction or substantial renovation of real property in the U.S., including residential and commercial buildings and infrastructure such as roads, power lines, water systems and communication facilities. Engineering and architectural services performed in the U.S. and relating to the construction of real property.
- The term “produce” includes (1) construct, build, install, manufacture, develop, improve, create, raise or grow (26 CFR 1.263A-2(a)(1)(i)); and (2) also includes reconstruct, making of property out of scrap, salvage or junk material, as well as from new or raw material, processing, manipulating, refining or changing the form of an article, or by combining or assembling two or more articles, and includes soil cultivation, raising livestock and mining materials (26 CFR 1.48.1(d)(2)).

#### Amount of Income Tax Deduction

For 2005, the deduction equals 3% of the lesser of taxable income derived from a qualified production activity; or taxable income, for the taxable year. However, the deduction for a taxable year is limited to 50% of the W-2 wages paid by the taxpayer during the calendar year that ends in such taxable year. In 2010, when the deduction is fully phased-in, the 3% rate will have increased to 9%.

#### More Information

Tax code provisions are usually complex and need to be applied to a company’s specific activities, with the advice of tax professionals. New section 199 is no exception. For more information on this income tax deduction provision and its potential applicability to your business refer to:

Treasury Department Fact Sheet dated January 19, 2005 (5 pages); go to:  
[www.ustreas.gov/press/releases/reports/199fact-sheetjs2200.pdf](http://www.ustreas.gov/press/releases/reports/199fact-sheetjs2200.pdf)

IRS Notice 2005-14 (102 pages); go to:  
[www.treas.gov/press/releases/reports/notice200514js2200.pdf](http://www.treas.gov/press/releases/reports/notice200514js2200.pdf)

# WASDA WELCOMES YOUR INPUT

**MEMBERS OF WASDA ONLY**, please use this form to provide WASDA with news about your company and input on issues you'd like to see covered in *Connections*.

## Member News

List any recent employee promotions, branch openings, strategic alliances, acquisitions, etc.:

## Topic Suggestions

Are there any issues you'd like to see addressed, such as market conditions, improving your operations, international issues, business technologies, ISO certification, etc., in a future issue of *Connections*? Suggest an article and author or submit an article yourself.

## Quality Kudos

Has your company recently been recognized for its "quality" efforts: ISO certifications, favored distributor, special awards, etc.? Share your success with other WASDA members by listing the information here:

## WWW Update

Since the printing of the directory, if your company has acquired a new website or email and would like to publish the update in *Connections*, please list it here:

### Submitted by:

Name: \_\_\_\_\_ Title \_\_\_\_\_

Company: \_\_\_\_\_ Phone: \_\_\_\_\_

Your e-mail address: \_\_\_\_\_ Company e-mail address: \_\_\_\_\_

Return this form by fax to: WASDA • Lindsay Groff • 215-963-9785