

WASDA Industry Profile Report Summary of Benefits

In today's increasingly complex business environment, it is more important than ever to maintain a competitive edge. While monitoring every aspect of your business is a critical component for formulating business strategy, it is equally important to look at the industry as a whole to gauge success and pinpoint improvement opportunities. In an effort to provide a comprehensive format for setting individual performance goals and understanding the direction of the industry, WASDA offers the **Industry Profile** report. In this article we will explore how your organization can benefit from this report and how you can use data-driven decisions to optimize the efficiency and growth of your company.

The Advantages of Benchmarking

Measuring key performance metrics on an individual level is a starting point, but how does an organization determine operational efficiency? The concept of benchmarking takes into consideration a standard for which a comparison can be made. Looking at numbers in isolation yields little insight and only when you look at the industry as a point of reference will you find value and opportunity for improvement. This is where the **Industry Profile** yields incredible benefits.

A Look at the Data

Industry Insights, an independent third-party research firm, has been confidentially conducting the **Industry Profile** on behalf of WASDA for the past six years. The following is a look at what has been learned during this time and how the industry has changed. As you read through these industry metrics, keep in mind how your company performed during the past six years. Are you outpacing the industry or are you lagging behind?

Exhibit 1 illustrates the year-over-year sales growth of those distributors who participated in the **Industry Profile** survey and Exhibit 2 shows the net profit before taxes during the same timeframe. Clearly impacted by the recession, respondents reported a double-digit loss in sales during 2009 but rebounded to 1.9% growth the following year. The industry has experienced growth every year since 2009 and reached a peak of 9.3% in 2012.

Despite the sharp decline in sales growth in 2009, the industry remained profitable with a 1.1% net profit margin. As a whole, companies have remained profitable every year since 2009 (six year average of 2.7%) and net profits reached the highest level in 2014 at 4.2%.

EXHIBIT 1. DISTRIBUTORS YEAR-OVER-YEAR SALES GROWTH

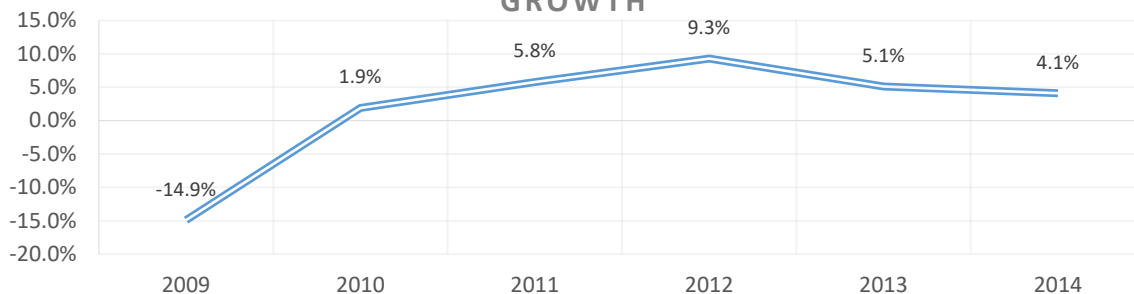
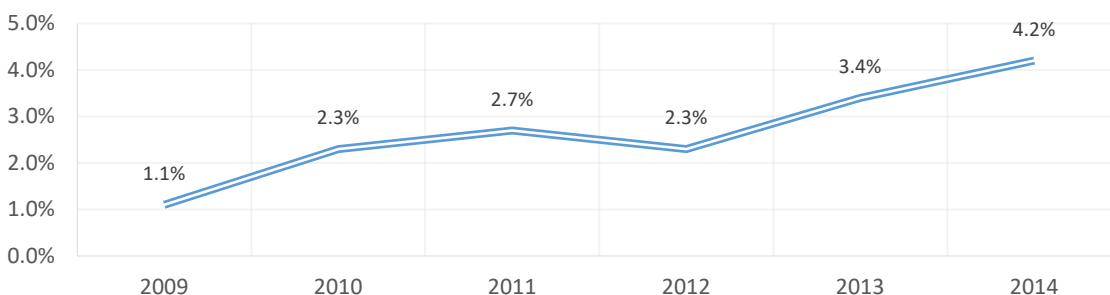


EXHIBIT 2. DISTRIBUTORS NET PROFIT MARGIN (NET PROFIT BEFORE TAX AS A % OF NET SALES)



To further expand on how the industry has changed over the past six years, Exhibit 3 shows a summary income statement and a select few key performance measures for fiscal years 2009 and 2014 and the directional change of each.

A number of important changes in industry performance are readily identifiable in looking at the key metrics shown in the table below.

- **Cost of Sales** – The direct cost of goods sold for the industry has declined slightly from 78.7% of net sales to 77.9%. Intuitively, this has led to a slight increase in overall gross profit margin.
- **Operating Expenses** – Nearly all operating expense categories have decreased since 2009. In every industry, the best way to be profitable is to control costs. The two main components that negatively affect profitability are the cost of sales and operating expenses. With both cost of sales and total operating expenses better managed over the past 6 years, the industry experienced...
 - **Higher Net Profit** – The better control of expenses in 2014 equated into a nearly two percent higher net operating profit as compared to 2009. This was most heavily influenced by a 1.2% drop in G&A costs.
 - **Higher Return on Assets** – The industry experienced a sharp increase in return on assets which has effectively tripled over the six year period. Companies are efficiently utilizing their invested capital to generate sales with an 11.1% return in 2014 as compared to only a 3.7% return in 2009.
 - **Higher Inventory Turnover** – The industry turned their inventory 5.2 times over the course of the year in 2014 which is an improvement over 2009 (4.7 times).
 - **Higher Employee Productivity** – Employees are often considered the most important “asset” to any business. They run the day-to-day operations and are an extension of the company. An extremely important driver to profitability is the productivity you are able to get out of your employees relative to their cost. Looking at how net sales per employee has changed since over the past six years is very telling. In 2009, the industry was generating \$527,470 of sales per employee which has increased to \$577,566 in 2014. Essentially, employees are producing nearly 10% more revenue in 2014 vs. 2009.

Exhibit 3.	FY2009	FY2014	Direction of Change
INCOME STATEMENT (% OF NET SALES)			
Net Sales	100.0%	100.0%	
Cost of Goods Sold	78.7%	77.9%	↓
Gross Profit Margin	21.3%	22.1%	↑
Operating Expenses:			
Selling Expenses	6.1%	5.7%	↓
Delivery Expenses	2.2%	1.6%	↓
Warehouse Expenses	1.7%	1.2%	↓
General & Administrative Expenses	7.2%	6.0%	↓
Occupancy Expenses	2.0%	1.8%	↓
Other Operating Expenses	1.2%	3.3%	↑
Total Operating Expenses	20.4%	19.6%	↓
Net Operating Profit	0.9%	2.6%	↑
Total Other Income	0.2%	1.6%	↑
Net Profit Before Tax	1.1%	4.2%	↑
OTHER KEY MEASURES			
Return on Assets - Before Tax	3.7%	11.1%	↑
Inventory Turns (COGS / Inventory)	4.7	5.2	↑
Net Sales Per Employee	\$527,470	\$577,566	↑

Summary and Conclusions

In summary, while there have been changes in the industry and dramatic changes to the economy, the bottom line is that success and profitability is created by those companies that follow the basics of business. They focus on four or five of the areas identified above that result in the most significant profitability impact. Moreover, companies that are the most profitable are not necessarily significantly superior in each of these areas. Rather, the cumulative impact of being even somewhat better in all of these areas, results in substantially higher profit margins.

Remember, *those who do not learn from history are condemned to repeat it*. Fortunately, we have more than a six year history of the *Industry Profile* to learn what leads to success in the industry.

Benefits of Participation

In an industry where companies have access to very little data, this study will be a key source of benchmarking information that can help you analyze your own company, identify key trends and help you plan strategically for the future. This important study provides you with invaluable benchmarks that can assist in:

- Pinpointing Strengths and Weaknesses
- Identifying Opportunities
- Fast Tracking Business Loans
- Sales and Acquisitions

Those who participate in the study will receive a copy of the Full Industry-Wide Report and a customized Company Performance Report. These valuable benefits will be **FREE** of charge to anyone participating in the survey.

Full Industry-Wide Report - this report includes comparative financial ratios and operating statistics of industry members based on key data segments (All Respondents, Profitability, Net Sales, Number of FTEs, etc.). Included in this report will be How-To Guidelines explaining the best way to utilize the results, a textual and graphical Executive Summary highlighting key findings, multi-year trend analysis, and extensive Detailed Tables of data aggregations.

Company Performance Report (CPR) - these are confidential, individualized reports of a participant's own financial ratios, operating statistics, and profile characteristics shown alongside the appropriate industry data segment. These reports provide respondents an easy means for interpreting their results, since their own ratios are already calculated for them in a manner that is consistent with the industry calculations.

Additionally, the CPR will also include a **"Report Card"** which will essentially "grade" each company on key ratios using the quartiles as benchmarks. The Report Card will focus on the key operating ratios and will provide actionable feedback on the success and/or improvement areas specific to your company.

The next WASDA Industry Profile Survey will take place in May 2017!