

Making Money In a Tough Market

Prepared For

Manufacturing for Growth

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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Financial Results for Mountain View, Inc.

<u>Income Statement</u>		<u>Partial Balance Sheet</u>	
Net Sales	20,000,000	Cash	600,000
Cost of Goods Sold	<u>14,800,000</u>	Accounts Receivable	3,500,000
Gross Margin	5,200,000	Inventory	4,700,000
Payroll & Fringes	2,500,000	Other Current Assets	<u>60,000</u>
All Other Expenses	<u>1,900,000</u>	Total Current Assets	8,860,000
Total Expenses	<u>4,400,000</u>	Fixed Assets	<u>3,140,000</u>
Profit Before Taxes	800,000	Total Assets	12,000,000
Fixed Expenses	3,400,000	Variable Expenses	5.0%
Variable Expenses	1,000,000		

Return on Assets = Profit Before Taxes/Total Assets

Exhibit 2

Profit Planning Group

The Recent Trend in Return on Assets

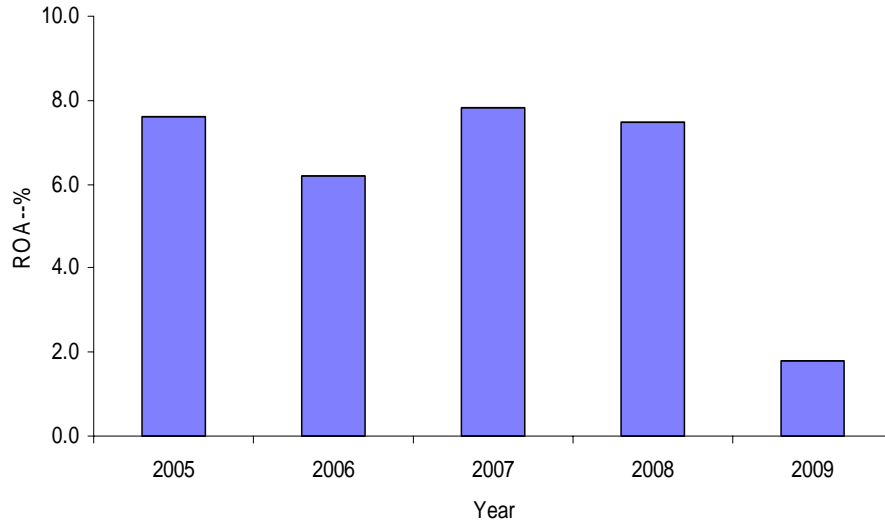


Exhibit 3

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The Recent Trend in Sales Growth

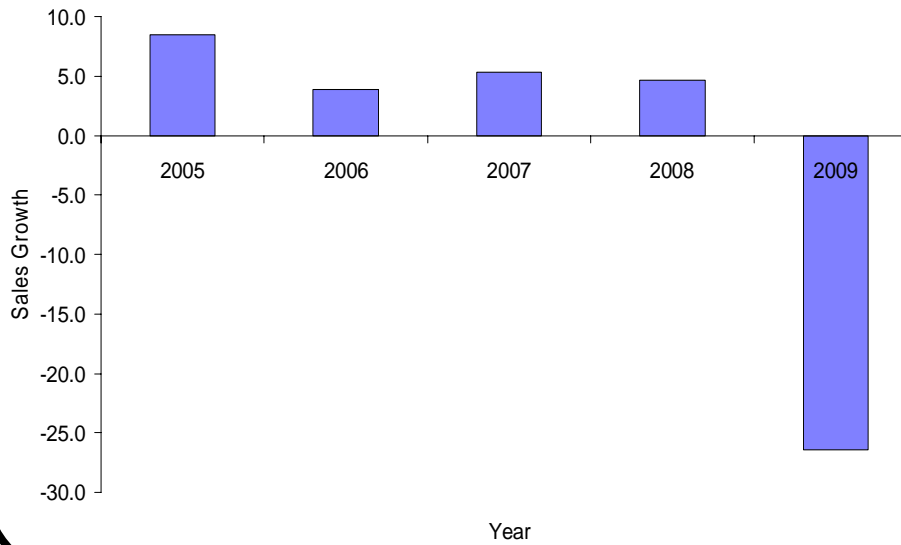


Exhibit 4

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A Tale of Two Firms

	You Are Here	You Need To Be Here
Net Sales	20,000,000	20,000,000
Cost of Goods Sold	<u>14,800,000</u>	<u>14,400,000</u>
Gross Margin	5,200,000	5,600,000
Payroll & Fringes	2,500,000	2,300,000
All Other Expenses	<u>1,900,000</u>	<u>1,700,000</u>
Total Expenses	<u>4,400,000</u>	<u>4,000,000</u>
Profit Before Taxes	800,000	1,600,000
Net Sales	100.0	100.0
Cost of Goods Sold	<u>74.0</u>	<u>72.0</u>
Gross Margin	26.0	28.0
Payroll & Fringes	12.5	11.5
All Other Expenses	<u>9.5</u>	<u>8.5</u>
Total Expenses	<u>22.0</u>	<u>20.0</u>
Profit Before Taxes	4.0	8.0

Exhibit 5

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The Only Two Things That Firms Need To Worry About (And a Barrier To Success)

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Exhibit 6

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The Relationship Between an Investment Reduction and Return on Assets

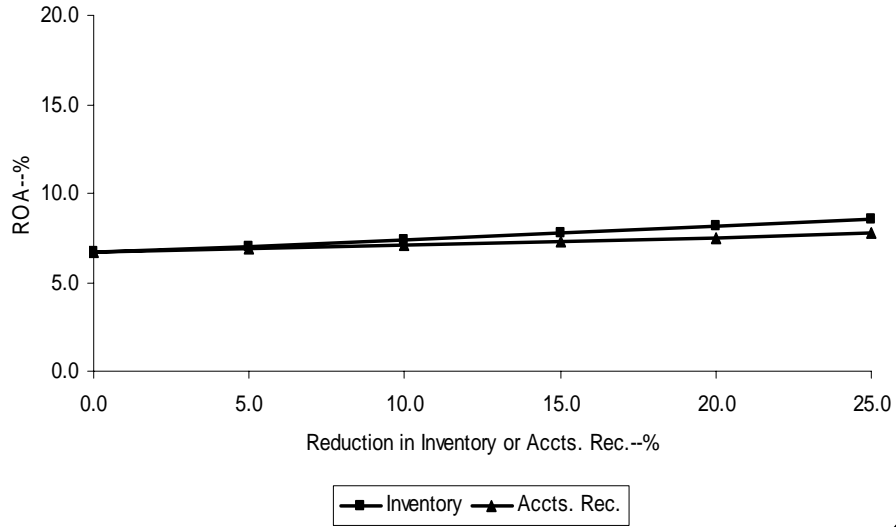


Exhibit 7

Profit Planning Group

The Relationship Between a Sales Increase and Return on Assets

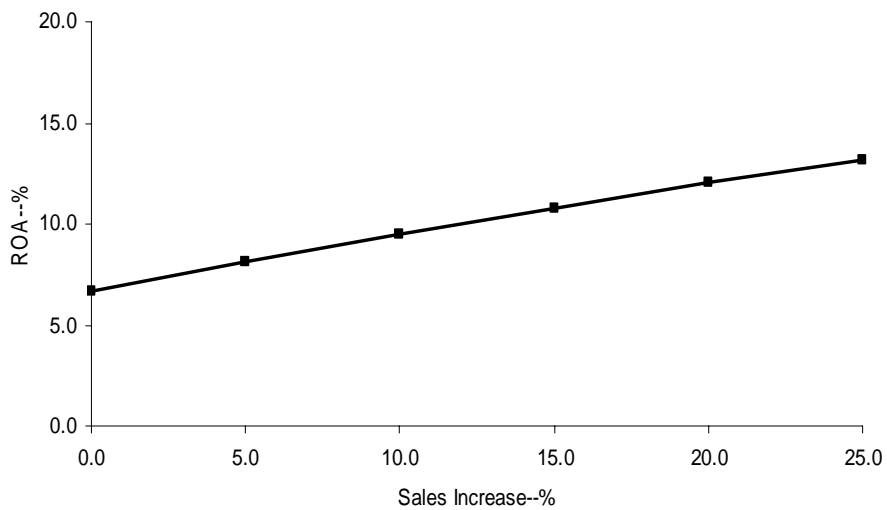


Exhibit 8

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The Relationship Between an Expense Decrease and Return on Assets

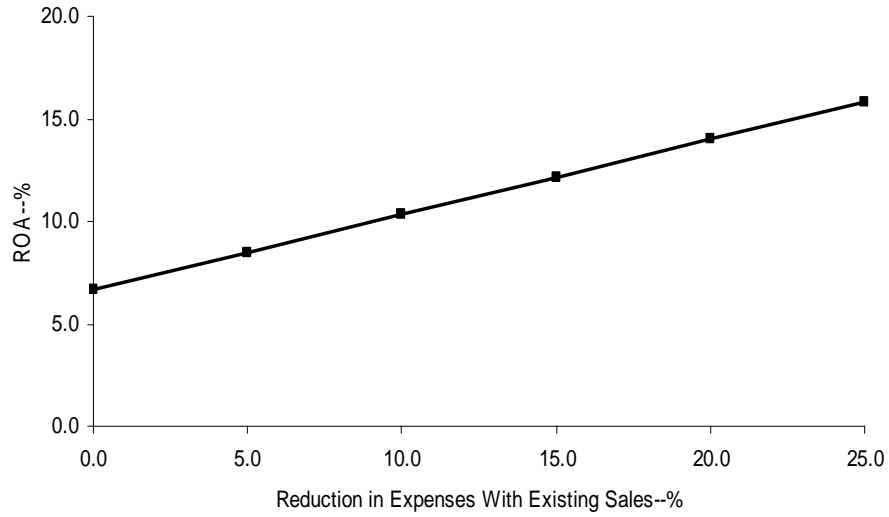


Exhibit 9

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The Relationship Between a Gross Margin Increase and Return on Assets

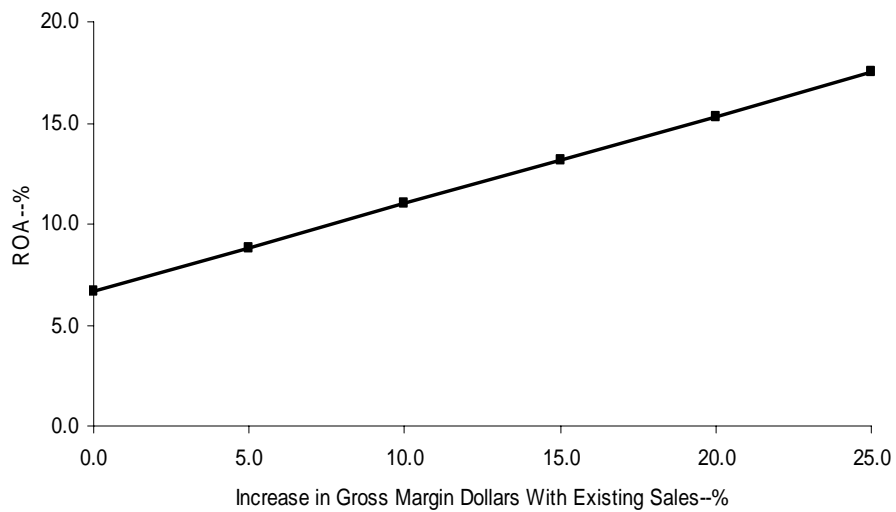


Exhibit 10

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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 11

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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	20,000,000	22,000,000	10.0
Cost of Goods	<u>14,800,000</u>	<u>16,280,000</u>	10.0
Gross Margin	5,200,000	5,720,000	10.0
Payroll & Fringes	2,500,000	2,700,000	8.0
All Other Expenses	<u>1,900,000</u>	<u>2,090,000</u>	10.0
Total Expenses	<u>4,400,000</u>	<u>4,790,000</u>	8.9
Profit	800,000	930,000	16.3

Exhibit 12

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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	20,000,000	21,000,000	5.0
Cost of Goods	<u>14,800,000</u>	<u>15,540,000</u>	5.0
Gross Margin	5,200,000	5,460,000	5.0
Payroll & Fringes	2,500,000	2,575,000	3.0
All Other Expenses	<u>1,900,000</u>	<u>1,995,000</u>	5.0
Total Expenses	<u>4,400,000</u>	<u>4,570,000</u>	3.9
Profit	800,000	890,000	11.3

Exhibit 13

Profit Planning Group

The Sales to Payroll Gap:
A Negative View

Summary Income Statement	<u>Current</u>	<u>Potential</u>	<u>Percent Change</u>
Net Sales	20,000,000	21,000,000	5.0
Cost of Goods	<u>14,800,000</u>	<u>15,540,000</u>	5.0
Gross Margin	5,200,000	5,460,000	5.0
Payroll & Fringes	2,500,000	2,675,000	7.0
All Other Expenses	<u>1,900,000</u>	<u>1,995,000</u>	5.0
Total Expenses	<u>4,400,000</u>	<u>4,670,000</u>	6.1
Profit	800,000	790,000	-1.3

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 %	26.0	26.5	26.5
Net Sales	20,000,000	20,000,000	
Cost of Goods Sold	<u>14,800,000</u>		<u>14,800,000</u>
Gross Margin	5,200,000	5,300,000	
Variable Expenses	1,000,000	1,000,000	1,006,803
Fixed Expenses	<u>3,400,000</u>	<u>3,400,000</u>	<u>3,400,000</u>
Total Expenses	<u>4,400,000</u>	<u>4,400,000</u>	<u>4,406,803</u>
Profit Before Taxes	800,000		

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	20,000,000	20,000,000	19,864,865
Cost of Goods Sold	<u>14,800,000</u>	<u>14,700,000</u>	<u>14,700,000</u>
Gross Margin	5,200,000	5,300,000	5,164,865
Variable Expenses	1,000,000	1,000,000	993,243
Fixed Expenses	<u>3,400,000</u>	<u>3,400,000</u>	<u>3,400,000</u>
Total Expenses	<u>4,400,000</u>	<u>4,400,000</u>	<u>4,393,243</u>
Profit Before Taxes	800,000	900,000	771,622
Buying Better--%		0.68	

Exhibit 16

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**The Mandate for Change
During Each of the Next Five Years**

Sales Increase %	5.0
Gross Margin %	0.3
Sales to Payroll Gap	2.0
Other Expense %	-0.4
Inventory Turnover	0.0
AR Collection Days	0.0

Exhibit 17

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**The Impact of Making
The Mandated Changes**

	<u>2011</u>	<u>2012</u>	<u>2016</u>
Net Sales	20,000,000	21,000,000	25,525,631
Cost of Goods	<u>14,800,000</u>	<u>15,477,000</u>	<u>18,506,083</u>
Gross Margin	5,200,000	5,523,000	7,019,549
Payroll & Fringes	2,500,000	2,575,000	2,898,185
All Other Expenses	<u>1,900,000</u>	<u>1,911,000</u>	<u>1,914,422</u>
Total Expenses	<u>4,400,000</u>	<u>4,486,000</u>	<u>4,812,608</u>
Profit	800,000	1,037,000	2,206,941
Cash	600,000	630,000	765,769
Accounts Receivable	3,500,000	3,675,000	4,466,985
Inventory	4,700,000	4,914,993	5,876,932
Other Current Assets	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>
Total Current Assets	8,860,000	9,279,993	11,169,686
Fixed Assets	<u>3,140,000</u>	<u>3,297,000</u>	<u>4,007,524</u>
Total Assets	12,000,000	12,576,993	15,177,210
Return on Assets	6.7%	8.2%	14.5%

Exhibit 18

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Summary and Conclusions

Exhibit 19

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Who Is This Guy?

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. When he is not traveling conducting seminars he enjoys skiing and tennis. He is not particularly good at either one.

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Exhibit 20

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