

Finance 101

Prepared For

AHTD

Prepared By

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Objectives of the Session

- Set a Realistic Profit Target
 - How Much
 - How Fast
- Develop an Action Program to Reach the Profit Target
 - Priorities for Action
 - Realistic Improvements

Exhibit 1

Profit Planning Group

Financial Results for Mountain View, Inc.

<u>Income Statement</u>		<u>Balance Sheet</u>	
Net Sales	20,000,000	Cash	420,000
Cost of Goods Sold	<u>14,600,000</u>	Accounts Receivable	2,739,726
Gross Margin	5,400,000	Inventory	1,368,750
Payroll & Fringes	3,500,000	Other Current Assets	<u>26,250</u>
All Other Expenses	<u>1,400,000</u>	Total Current Assets	4,554,726
Total Expenses	<u>4,900,000</u>	Fixed Assets	<u>695,274</u>
Profit Before Taxes	500,000	Total Assets	5,250,000
Income Taxes	<u>150,000</u>		
Profit After Taxes	350,000	Accounts Payable	1,600,000

Return on Assets = Profit Before Taxes/Total Assets

Exhibit 2

Profit Planning Group

Financial Results for Mountain View, Inc.

<u>Income Statement</u>		<u>Partial Balance Sheet</u>	
Net Sales	20,000,000	Cash	420,000
Cost of Goods Sold	<u>14,600,000</u>	Accounts Receivable	2,739,726
Gross Margin	5,400,000	Inventory	1,368,750
Fixed Expenses	3,900,000	Other Current Assets	<u>26,250</u>
Variable Expenses	<u>1,000,000</u>	Total Current Assets	4,554,726
Total Expenses	<u>4,900,000</u>	Fixed Assets	<u>695,274</u>
Profit Before Taxes	500,000	Total Assets	5,250,000

Exhibit 3

Profit Planning Group

An Improvement Path For Return on Assets

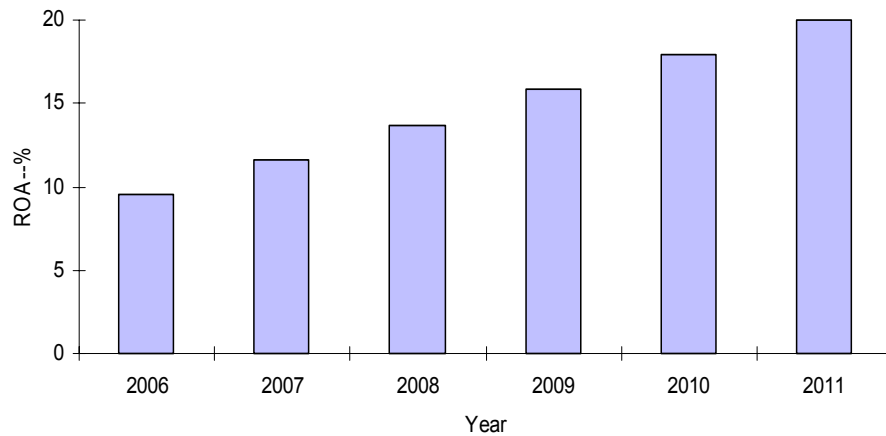


Exhibit 4

Profit Planning Group

The Relative Impact of A One Percent Improvement

<u>Improvement Area</u>	<u>Profit Increase--%</u>
Pricing	38.0
Buying	29.2
Unit Sales	8.8
Fixed Costs	7.8
Inventory	0.3
Accounts Receivable	0.4

Exhibit 5

Profit Planning Group

That Can't Be Right

<u>Summary Income Statement</u>	<u>Current</u>	<u>Pricing</u>	<u>Unit Sales</u>
Net Sales	20,000,000	20,200,000	20,200,000
Cost of Goods	<u>14,600,000</u>	<u>14,600,000</u>	_____
Gross Margin	5,400,000	5,600,000	
Fixed Expenses	3,900,000	3,900,000	3,900,000
Variable Expenses	<u>1,000,000</u>	<u>1,010,000</u>	<u>1,010,000</u>
Total Expenses	<u>4,900,000</u>	<u>4,910,000</u>	<u>4,910,000</u>
Profit Before Taxes	500,000	690,000	

Exhibit 6

Profit Planning Group

That Still Can't Be Right

<u>Summary Income Statement</u>	<u>Current</u>	<u>Buying</u>	<u>Fixed Expenses</u>
Net Sales	20,000,000	20,000,000	20,000,000
Cost of Goods	<u>14,600,000</u>	<u>14,454,000</u>	<u>14,600,000</u>
Gross Margin	5,400,000	5,546,000	5,400,000
Fixed Expenses	3,900,000	3,900,000	3,861,000
Variable Expenses	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Total Expenses	<u>4,900,000</u>	<u>4,900,000</u>	<u>4,861,000</u>
Profit Before Taxes	500,000	646,000	539,000

Exhibit 7

Profit Planning Group

I'm Telling You Man, That Can't Be Right

<u>Summary Income Statement</u>	<u>Current</u>	<u>Inventory Reduction</u>	<u>A/R Reduction</u>
Net Sales	20,000,000	20,000,000	20,000,000
Cost of Goods	<u>14,600,000</u>	<u>14,600,000</u>	<u>14,600,000</u>
Gross Margin	5,400,000	5,400,000	5,400,000
Fixed Expenses	3,900,000	3,900,000	3,900,000
Variable Expenses	1,000,000	1,000,000	1,000,000
Change in Costs	<u>0</u>	<u>-1,643</u>	<u>-1,918</u>
Total Expenses	<u>4,900,000</u>	<u>4,898,358</u>	<u>4,898,082</u>
Profit Before Taxes	500,000	501,643	501,918
Inventory	1,368,750	1,355,063	1,368,750
Accounts Receivable	2,739,726	2,739,726	2,712,329

Exhibit 8

Profit Planning Group

Different Management Actions That Produce The Same Profit

<u>Improvement Area</u>	<u>Improvement %</u>
Pricing	1.0
Buying	1.3
Unit Sales	4.3
Fixed Costs	4.9
Inventory	115.7
Accounts Receivable	99.1

Exhibit 9

Profit Planning Group

The Personnel Productivity Ratio--PPR

The Percent of Each Gross Margin Dollar
That Must Be Devoted to Payroll

Salaries and Fringe Benefits
Gross Margin

=

3,500,000
5,400,000

=

Exhibit 10

Profit Planning Group

**The Profitable Sales Response:
A Moderate Growth Plan**

<u>Summary Income Statement</u>	<u>Current</u>	<u>Potential</u>	<u>Percent Change</u>
Net Sales	20,000,000	21,000,000	5.0
Cost of Goods	<u>14,600,000</u>	<u>15,330,000</u>	<u>5.0</u>
Gross Margin	5,400,000	5,670,000	5.0
Payroll & Fringes	3,500,000	3,589,950	2.6
All Other Expenses	<u>1,400,000</u>	<u>1,470,000</u>	<u>5.0</u>
Total Expenses	<u>4,900,000</u>	<u>5,059,950</u>	<u>3.3</u>
Profit	500,000	610,050	22.0
PPR	64.8%	63.3%	
Other Expenses	7.0%	7.0%	

Exhibit 11

Profit Planning Group

**Sales Volume Sensitivity:
A Negative View**

<u>Summary Income Statement</u>	<u>Current</u>	<u>Potential</u>	<u>Percent Change</u>
Net Sales	20,000,000	21,000,000	5.0
Cost of Goods	<u>14,600,000</u>	<u>15,330,000</u>	5.0
Gross Margin	5,400,000	5,670,000	5.0
Payroll and Fringes	3,500,000	3,760,050	7.4
All Other Expenses	<u>1,400,000</u>	<u>1,470,000</u>	5.0
Total Expenses	<u>4,900,000</u>	<u>5,230,050</u>	6.7
Profit	500,000	439,950	-12.0
PPR	64.8%	66.3%	
Other	7.0%	7.0%	

Exhibit 12

Profit Planning Group

The Relationship Between a PPR Reduction and Return on Assets

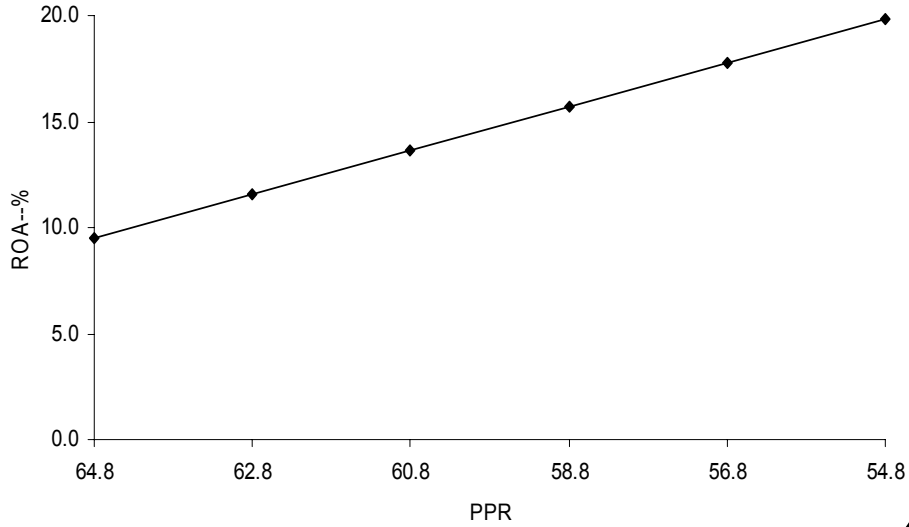


Exhibit 13

Profit Planning Group

Producing a Real Sales Gain

Assumptions

Average Order Value	\$900.00
Lines per Order	3.0
Average Order Line	\$300.00

The Real Sales Gain Pressure Points

	<u>Current</u>	<u>Potential</u>
Net Sales	20,000,000	_____
Average Order Line	300.00	_____
Order Lines	_____	_____
Lines per Order	3.0	_____
Orders	_____	_____

Exhibit 14

Profit Planning Group

The Impact of a 2% Price Cut

Summary <u>Income Statement</u>	<u>Current</u>	<u>Worst Case</u>	<u>Possible Case</u>
Average Transaction	900	882	882
Cost of Goods per Transaction	657	657	657
Number of Transactions	22,222	22,222	24,323
Net Sales	20,000,000	19,600,000	21,452,886
Cost of Goods Sold	<u>14,600,000</u>	<u>14,600,000</u>	
Gross Margin	5,400,000	5,000,000	
Variable Expenses	1,000,000	980,000	1,072,644
Fixed Expenses	<u>3,900,000</u>	<u>3,900,000</u>	<u>3,900,000</u>
Total Expenses	<u>4,900,000</u>	<u>4,880,000</u>	4,972,644
Profit Before Taxes	500,000	120,000	

Exhibit 15

Profit Planning Group

The Increase in Dollar Sales Required to Exactly Offset a Price Reduction

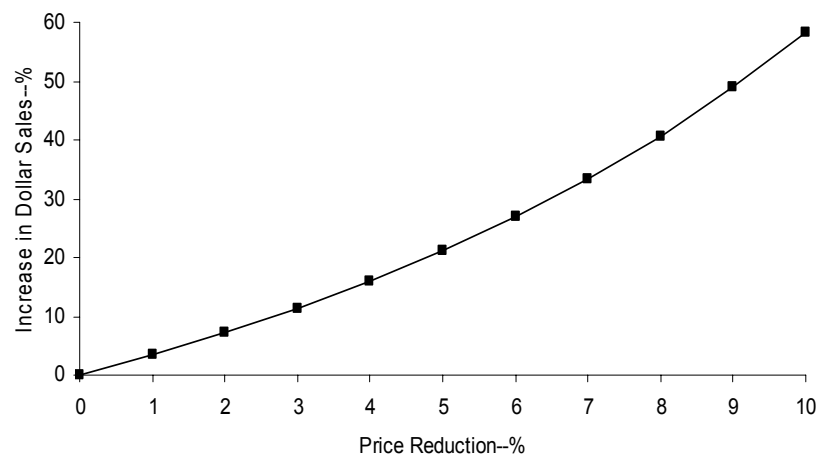


Exhibit 16

Profit Planning Group

The Relationship Between Gross Margin and Return on Assets

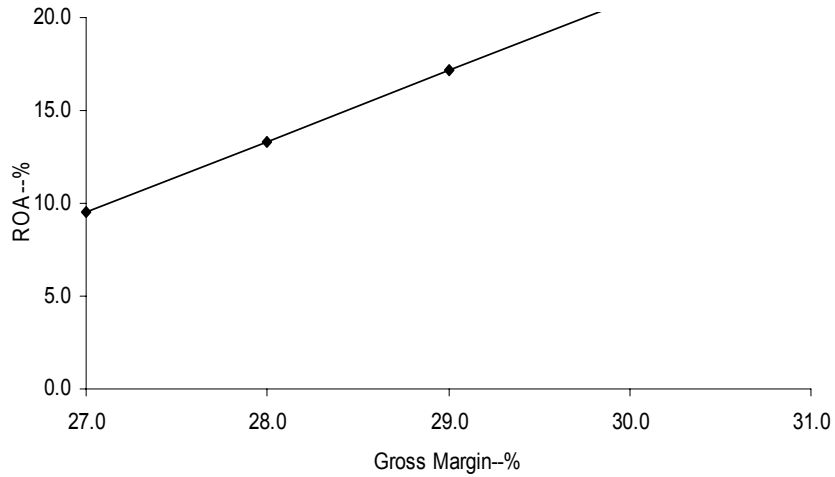


Exhibit 17

Profit Planning Group

The Impact of Gross Margin on the PPR

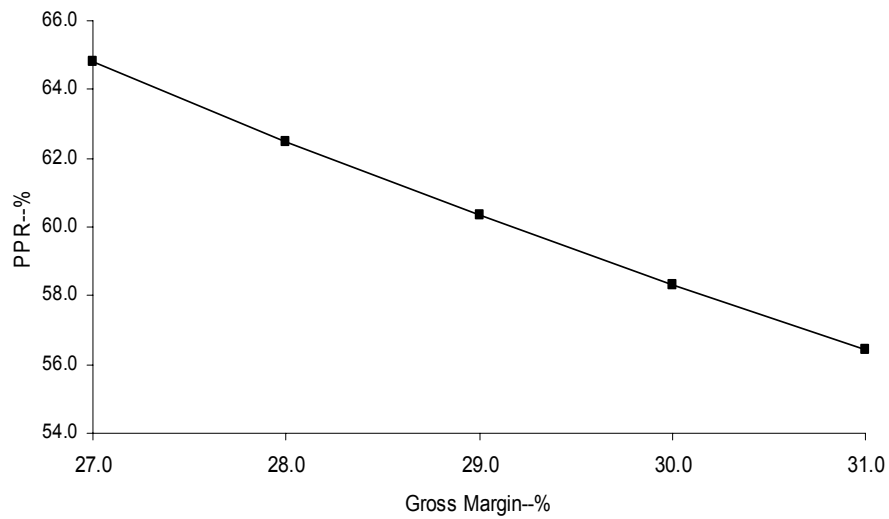


Exhibit 18

Profit Planning Group

Impacting Gross Margin With Product Mix

Velocity Code	<u>Sales</u>	<u>GM%</u>	<u>Gross Margin</u>	<u>Potential Sales</u>	<u>Gross Margin</u>
A	12,000,000	22.0	2,640,000	12,000,000	2,640,000
B	4,000,000	27.0	1,080,000	4,000,000	1,080,000
C	3,000,000	37.0	1,110,000	3,000,000	1,110,000
D	<u>1,000,000</u>	<u>57.0</u>	<u>570,000</u>		
Total	20,000,000	27.0	5,400,000		

Exhibit 19

Profit Planning Group

Impacting Gross Margin With Blind-Item Pricing

Velocity Code	<u>Sales</u>	<u>GM%</u>	<u>Gross Margin</u>	<u>Potential Sales</u>	<u>Gross Margin</u>
A	12,000,000	22.0	2,640,000	12,000,000	2,640,000
B	4,000,000	27.0	1,080,000	4,000,000	1,080,000
C	3,000,000	37.0	1,110,000	3,000,000	1,110,000
D	<u>1,000,000</u>	<u>57.0</u>	<u>570,000</u>		
Total	20,000,000	27.0	5,400,000		

Exhibit 20

Profit Planning Group

Common Characteristics of Blind Items

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

Exhibit 21

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Improving Gross Margin By Controlling Sales Force Pricing Decisions

<u>Summary</u> <u>Income Statement</u>	<u>Current</u>	Unnecessary 5% <u>Price Cut</u>
Net Sales	20,000,000	19,000,000
Cost of Goods Sold	<u>14,600,000</u>	
Gross Margin	5,400,000	
Commissions 10.0% of G. M.	540,000	
Other Variable Expenses 2.3% of Sales	460,000	
Fixed Expenses	<u>3,900,000</u>	
Total Expenses	<u>4,900,000</u>	
Profit Before Taxes	500,000	

Exhibit 22

Profit Planning Group

The Relationship Between Inventory Turnover and Return on Assets

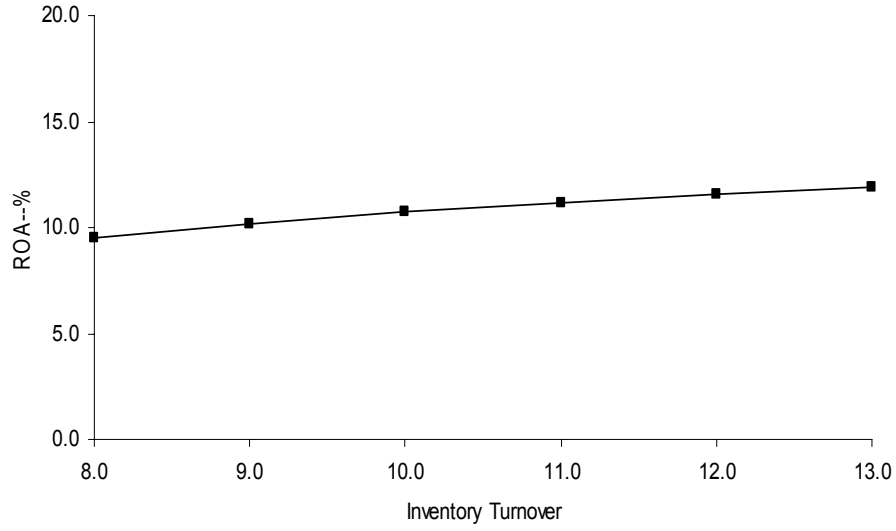


Exhibit 23

Profit Planning Group

The Relationship Between The Collection Period and Return on Assets

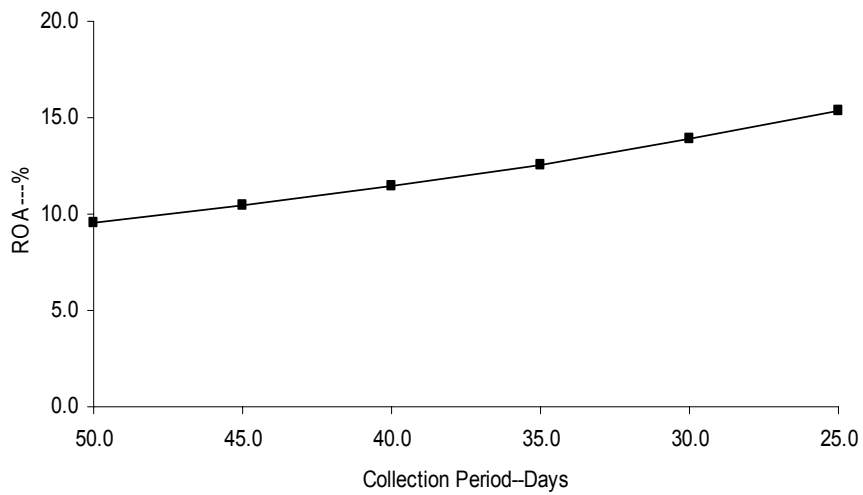


Exhibit 24

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

Sales Increase %	5.0
Gross Margin %	0.2
PPR	-1.5
Other Expense %	0.0
Inventory Turnover	0.0
AR Collection Days	0.0

Exhibit 25

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**The Impact of Making
The Mandated Changes**

	<u>2006</u>	<u>2007</u>	<u>2011</u>
Net Sales	20,000,000	21,000,000	25,525,631
Cost of Goods	<u>14,600,000</u>	<u>15,288,000</u>	<u>18,378,455</u>
Gross Margin	5,400,000	5,712,000	7,147,177
Payroll & Fringes	3,500,000	3,616,542	4,096,391
All Other Expenses	<u>1,400,000</u>	<u>1,470,000</u>	<u>1,786,794</u>
Total Expenses	<u>4,900,000</u>	<u>5,086,542</u>	<u>5,883,185</u>
Profit	500,000	625,458	1,263,991
Cash	420,000	441,000	536,038
Accounts Receivable	2,739,726	2,876,712	3,496,662
Inventory	1,368,750	1,433,250	1,722,980
Other Current Assets	<u>26,250</u>	<u>26,250</u>	<u>26,250</u>
Total Current Assets	4,554,726	4,777,212	5,781,930
Fixed Assets	<u>695,274</u>	<u>730,038</u>	<u>887,365</u>
Total Assets	5,250,000	5,507,250	6,669,296
Return on Assets	9.5	11.4	

Exhibit 26

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Summary and Conclusions

A PDF file of this seminar will be available for one month
on our web site: www.profitplanninggroup.com
Go to the seminars section

Exhibit 27

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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.

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

Exhibit 28

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