

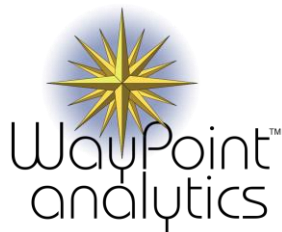
## **Profit Performance Report**

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# **Acme Distributing Co.**

prepared for  
**Bill Jameson, President**

**as of 2017-03-17**



## Executive Summary

Acme Distributing Co. reported NBT of \$290,101 on revenues of \$20,330,947, a rate of 1.4%. This is in the fourth (lower) quintile of companies in a data pool of \$30B of distribution company results. This company underperforms most companies in the principle conversion metric a "for profit" company is intended to produce. This places the company in the Trailing tier of profit performance.

(For definitions of the terms in this report, see the Glossary.)

	NBT Range	Industry Avg
World Class	15% – 26%+	9.1%
Upper Tier	7.5% – 15%	16.1%
Typical / Average	2.5% – 7.5%	43.3%
<b>Trailing</b>	<b>&lt; 2.5%</b>	<b>31.5%</b>

Estimating from industry averages, the company likely produced actual NBT of \$832,873 from profitable sales, and then lost \$542,772 on the 62.4% of transactions that are typically unprofitable. Unprofitable transactions are where Cost-to-Serve exceeds Operating Cash. This means the company likely has roughly \$542,772 of untapped profit potential in the *business it's already doing*.

The company has an Op Cash to Op Exp ratio of \$1.50:1, compared to a market average of \$1.43:1. This means the company generates \$1.50 in operating cash for each dollar it expends in operating expenses. (Op Cash is operating cash or gross profit. Op Exp is all expenses excluding compensation for customer-facing sales reps.) This is a critical measure of operating efficiency, and the company is typical compared the market.

In the most meaningful profit measure, the company generated \$1,486,058 in NBC at a rate of 7.3%. Compared to a market average of 7.2%, your business is typical of the market. NBC is profit after operating expenses excluding compensation for customer-facing sales reps – it's the profit split between the sales force and the company. Your company's conversion rate of Op Cash to NBC is 33.1%, compared to the industry at 30.0%. In this critical measure of operational efficiency, your firm is typical of the market.

Your sales operation generates Op Cash of \$498,558/rep, and your company overall handles

business worth Op Cash of \$166,186/FTE. The company spends 80.5% of NBC on the sales force, for an NBC > NBT conversion rate of 19.5%, compared to an industry averages of 26.3% and 73.7%.

Overall, the company's total workforce compliment generates: Op Cash at \$83.09/hour; NBC at \$27.52/hour; and NBT at \$5.37/hour. Average labor cost is \$22.32/hour for all personnel, including management.

(See the Profit Performance section for more information about the range of distribution company performance levels, and the drivers that propel companies to the top of the league.)

To improve the company's performance in a significant and sustainable way, it's necessary to implement a perpetual measuring system so everyone can see the numbers as they change. Next, implement an advanced analytical system to get granular cost and profit numbers so that managers can shift the balance between efficient and inefficient conversions (customers, products, services, etc.) and activities in each operational area. WayPoint Analytics ([www.WayPointAnalytics.net](http://www.WayPointAnalytics.net)) is the only advanced analytical system that can generate all of the cost and profit numbers necessary to do this work.

It will be necessary to identify the particular relationships that add or detract profit to move the company into the next tier of profit performance.

For a video walk-through of the Executive Summary, [click here](#).



# Table of Contents

- Profit Performance Report ..... 1
- Executive Summary ..... 1
- Table of Contents ..... 2
- Profit Performance ..... 3
  - Distribution Performance Strata ..... 3
  - Keys to Superior Performance ..... 3
  - Anyone Can Do It ..... 4
- Acme Distributing Co. .... 5
- Order Entry Operations ..... 6
  - Operating Metrics ..... 6
- Warehouse Operations ..... 8
  - Operating Metrics ..... 8
- Delivery Operations ..... 10
  - Operating Metrics ..... 10
- Sales ..... 12
  - Operating Metrics ..... 12
- Overhead ..... 14
  - Operating Metrics ..... 14
- Company Performance ..... 16
  - Profit Efficiency Metrics ..... 16
  - Conversion Metrics ..... 17
  - Personnel Costs / Productivity ..... 17
- Conclusion ..... 20
- Glossary ..... 21
- WayPoint Analytics ..... 22

# Profit Performance

The Profit Performance Report applies deep analytics to several of the performance statistics of your company and provides the metrics used in some of the most sophisticated and numbers-driven approaches to increasing company growth and profits.

The assessment report also compares your company's statistics to those of a significant slice of the distribution industry (collectively, more than \$30B of company data), so you will see how your organization compares to other companies. In the mix are both average companies and several of the top performers worldwide.

## Distribution Performance Strata

In our work over the past decades, we've noticed that distribution company profit performance levels can be stratified into four categories.

### World Class

There are a small number of companies that have developed both a super-efficient business model and have taken a disciplined approach to following it. These companies operate at a level that delivers NBT (NBT) profit rates above 20%.

This performance level is possible in only certain sectors, and with certain business models, but is sustainable in the long-term.

The common factors necessary for this performance level are covered in the next section.

### Upper Tier

These companies operate at profit rates three to four times those of typical distributors.

One of the interesting attributes of players in this category is that they're nearly immune to recession. Recessionary contraction will typically take 5% off the NBT performance of most distributors, putting them into money-losing territory. Upper Tier companies remain profitable, with rates reduced to only two times those of typical companies in non-recession years.

These companies have broken away from the traditional ways of running distribution companies

and instead apply several of the performance keys in the next section.

### Typical / Average

These companies operate at a 3%-4% NBT rate in nominal years, below in tougher times. The vast majority of distribution companies fall into this category.

These companies operate largely on models and with policies and processes that follow the leaders by several years. They are reasonably disciplined in their operations, but they rarely innovate, implementing changes only after most other companies already have.

### Trailing

At the bottom are companies that are barely profitable or are chronically losing money.

These are commonly once-great companies that haven't found a way to keep up with change, unable to re-create past success while carefully following practices that used to work.

These companies rarely have good data or the analytics needed to identify areas of opportunity or drag, they are vulnerable to relying on monolithic activities that produce mixed results, or have significant hidden downsides.

## Keys to Superior Performance

There are a number of markers common to the very best of the high-performance companies.

### Core Competence

The first marker seems like common sense, yet it is lost in the vast array of activities necessary for the successful operation of a distribution organization. That is, a distributor must be very good (read: highly efficient) at the core function of a distributor, which is moving product from vendors to customers.

### Efficiency

At its core, every function of a distributor needs to be efficient. This means maximum output for minimum input, whether the input is headcount, expenditures or time.

The top companies relentlessly improve their efficiency in every significant area because they

know this directly drives cash-flow, profit, and growth.

### Automation

Warehouse automation is becoming a crucial element in increasing core efficiency. Increasing the movement of product to machine speeds while eliminating manpower in the movement are obvious efficiency boosts.

More importantly, reducing error rates saves significant cost while increasing customer satisfaction.

Automation is not the exclusive domain of mega-companies; smaller companies now see substantial gains by making their own investments in automation.

### No Duplication

The absolute elimination of duplicative space, personnel, and systems is an important (and frequently overlooked) area.

Multiple branches or locations are a frequent contributor to duplication of costs where duplicated space and personnel costs outweigh the savings of incremental transport costs for servicing customers from a more distant location. Where customers fall into a wholesale (rather than retail) model, a local presence through a sales office or showroom may meet customer requirements.

### **Effective Use of Transport**

Third-party delivery companies can frequently provide reduced and more variable cost structures than traditional in-house operations. Competition and automation investments made by the carriers have changed the landscape, opening significant opportunities to increase operating efficiency and customer service in delivery operations.

### **Future Sales Model**

The top players have moved to a much more specialized sales model where different parts of the team are responsible for each step in the sales pipeline. This increases sales effectiveness while reducing costs in one of the most expensive areas of distributor operations.

For a detailed look at this critical area, we recommend ["The Machine" by Justin Roff-Marsh](#).

## **Analytics**

The top tier companies are universally numbers-driven. They invest in analytical systems like WayPoint Analytics that reveal surprising and often counter-intuitive facts about the parts of their operations that contribute or detract from profits.

Managing at this level of sophistication is about identifying areas of opportunity and areas of drag, and then developing attitudes, processes, and systems to shift the balance so there are more contributors than detractors. This is done in products, sales territories, customers, vendors and more, resulting in highly-tuned business models that deliver extraordinary profit levels.

## **Anyone Can Do It**

Every company can achieve these profit levels if they are disciplined about adopting best practices in these areas.

Executives need only three things to make substantial and sustainable profit gains:

- the knowledge that a higher performance level is possible, and in fact being achieved by others in the market
- an on-going system to measure performance, so that progress can be monitored
- a detailed costing system that shows which specific activities, products and customer relationships are contributing or detracting from progress toward higher performance (see WayPoint Analytics at [www.WayPointAnalytics.net](http://www.WayPointAnalytics.net) for more information)

With these, shifting the balance between contributing and detracting activities is a straightforward process, and rapid cash flow and profit gains are the natural result.

For a video walk-through of this section, [click here](#).



# Acme Distributing Co.

These are the statistics you reported for Acme Distributing Co. and some derivative statistics on your performance, compared to industry averages.

		Company	Industry
Revenue	\$20,330,947	100.0%	100.0%
Op Cash	\$4,487,023	22.1%	24.0%
Op Expenses	\$1,524,885	34.0%	25.7%
Overhead	\$1,476,080	32.9%	44.2%
Sales Costs	\$1,195,957	26.7%	7.9%
Net Before Tax	\$290,101	1.4%	5.3%

**Op Cash** – The rate at which revenue creates operating cash. Operating cash is monies left from revenue after goods are paid for, and drives company cash flow. The Op Cash rate goes up when margins and fees are increased, rebates are increased, or product costs or freight in are reduced. Acme Distributing Co.'s Op Cash conversion rate is 22.1%, roughly similar to industry average.

**Op Expenses** – The rate at which expenses from core distribution operations consume Op Cash. Op expenses are expenses incurred through the core logistics of distribution: order entry; light assembly; warehouse product handling; and delivery. The Op Expense rate is reduced through improvements in cost efficiency in these four logistical areas of distribution operations.

**Overhead** – The rate at which non-operational expenses consume Op Cash. Overhead expenses are those incurred in the management and support activities surrounding the core logistical operations of distribution. The overhead rate is reduced by cutting costs or by holding costs steady while increasing revenue.

**Sales Costs** – The rate at which sales compensation consumes Op Cash. Sales compensation costs are composed of base salary, commissions and bonuses paid to customer-facing sales reps. Sales Costs for Acme Distributing Co. run at 26.7%, roughly 3 times industry rates.

**Net Before Tax** – The net profit from company operations before considering taxes on profits. NBT rate varies between 3% and 20%+ in the broad market. Companies with deep understanding of their individual profit drivers shift the balance of money-

making and money-losing accounts and activities inhabit the upper reaches of the profit rate range.

	Company	Industry
Op Cash / Order	\$338	\$190
Op Cash / Pick	\$91	\$29
Op Cash / Ship	\$401	\$280
Op Cash / Head	\$166,186	N/A

**Op Cash / Order** – The average Op Cash value of a customer order. Shifting the mix of customers with high and low Op Cash orders is a significant contributor to rapid and significant profit rate gains.

**Op Cash / Pick** – The average Op Cash value of a pick/pack operation in the warehouse. Shifting the mix of high and low Op Cash picks by adding fees to small orders, or curtailing the volume of small orders will increase this metric. Reducing order frequency in an account can drive significant improvement, when the same Op Cash is spread across a smaller number of picks.

**Op Cash / Ship** – The average Op Cash per delivery. This value can be quickly increased by combining deliveries transported at a lower frequency.

**Op Cash / Head** – The Op Cash per employee. At your company, this figure is \$166,186, about similar to of the industry. This is a critical benchmark value indicating the overall productivity of the company. Above-industry scores on this metric are frequently correlated with high profits, high pay and fast growth.



# Order Entry Operations

Order Entry (O/E) is the first critical component of your company's operational chain, and the first opportunity to affect your bottom line in sometimes unanticipated ways. Here we examine how much you are spending to capture orders through your mix of manual and automated systems. This is your organization's first opportunity to shift the balance to increase operating efficiency.

Here we report on metrics indicating the conversion rates and efficiency of this first component of the logistical flow of your operations. Efficiency is the real measure of any part of an organization (or all of it) as it reflects how good it is at what it does. In effect, it shows how much it produces for the costs of running it.

You'll see how much average Op Cash is available from your orders, how much is consumed by your whole operational chain, and how much by your O/E unit.

In addition, you'll see your total O/E expenditures per head and the Op Cash value processed per O/E dollar expended.

## Operating Metrics

Advanced metrics measuring efficiency rates in your company, when compared with industry averages can help identify areas to improve and areas to protect. These numbers evaluate the relative performance of your organization, and indicate those items where improvement is both possible and beneficial.

For the Order Entry component of the business, it's useful to look at operating cash, profit rates and conversions on a "per order" basis. This helps in understanding how much operating cash is available the average order, how much of it is consumed by company operations, and what portion is consumed by Order Entry operations.

	Company	Industry
Op Cash / Order	\$337.52	\$190.80
Op Exp / Order	\$225.74	\$138.42
Order Entry Exp / Order	\$10.92	\$9.13
Order Entry Exp / FTE	\$96,815	N/A
Op Cash:Order Entry Exp	\$30.90:1	\$20.89:1

## Op Cash / Order

Your results here are good. Your Operating Cash per order is above the industry average. Based on these numbers, you have a solid pricing strategy that can drive more profit to your bottom line.

## Op Exp / Order

Your operating expenses per order are higher than your industry's average. In order to keep operating expenses down you need to lower your transaction counts. These include orders, invoices, line items and shipments.

## Order Entry Exp / Order

Currently, your order entry expenses exceed the industry average. This is a hidden profit leak that can be easily fixed by your O/E department becoming more efficient. Evaluate your personnel and their productivity, looking for ways to streamline internal processes.

## Order Entry Exp / FTE

Your O/E costs per employee are higher than your industry's average. Streamline your O/E expenses. Consider re-evaluating your headcount and productivity to boost O/E efficiency. Also, improve process efficiency by moving orders to electronic processing and combining orders for fewer instances with larger quantities.

## Op Cash:Order Entry Exp

The Op Cash to Order Entry expense ratio indicates the overall financial efficiency of your O/E operations. The purpose of annual reviews of procedures and pricing policies is to move more Op Cash dollars for each dollar spent on O/E to the bottom line.

Compared to the industry average, your Operating Cash exceeds the dollars spent on your O/E department. Your O/E expenses are lower than your operating cash, which drives more profit to your bottom line. Excellent!

The analysis in this section shows several measures and indicators of your company's performance. WayPoint Analytics is the system high-profit companies use to show exactly what products and which customer relationships are driving these metrics so they can act to directly affect their cash flow and profits, for significant and sustainable

gains. Visit [www.WayPointAnalytics.net](http://www.WayPointAnalytics.net) to learn more, and to schedule a no-obligation demonstration so you can see it in action.

For a video walk-through of this section, [click here](#).





# Warehouse Operations

Warehouse operations are the heart and soul of distribution, and where a distributor *must* have a core competence. This operational area will make or break the performance of any distribution company.

Both long-standing and emerging market leaders are those distributors with absolute mastery over the efficiencies and conversions in warehousing and transportation – the core of product-flow in distribution.

The undisputed leaders have created operations with substantial superior efficiency and conversion measures through automation, systems, and a relentless elimination of redundancy.

In this section, you'll see how much average Op Cash (operating cash) is available from your orders, and how much is consumed by your whole operational chain.

More specifically, we report your organization's total costs per pick, total warehouse costs by FTE (full-time equivalent), and the Op Cash value of every dollar spent on warehouse operations.

## Operating Metrics

Advanced metrics measuring efficiency rates in your company, when compared with industry averages can help identify areas to improve and areas to protect. These numbers evaluate the relative performance of your organization, and indicate those items where improvement is both possible and beneficial.

For the Warehouse component of the business, it's useful to look at operating cash, profit rates and conversions on a "per pick" basis. This helps in understanding how much operating cash is available the average pick, how much of it is consumed by company operations, and what portion is consumed by Warehouse operations.

	Company	Industry
Op Cash / Pick	<b>\$91.48</b>	\$29.49
Op Exp / Pick	\$61.19	<b>\$20.64</b>
Whse Exp / Pick	\$15.34	<b>\$4.41</b>
Whse Exp / FTE	\$107,510	\$0
Op Cash:Whse Exp	\$5.96:1	<b>\$6.68:1</b>

## Op Cash / Pick

Your warehouse operation runs more efficiently than the industry average. The orders you fill have higher Operating Cash than your competitors likely do.

## Op Exp / Pick

Your total operating expenses per pick are above industry average. It is likely that your picks are higher than that of your competitors. Lower your overall operating expenses by encouraging customers to order more product less frequently. Increasing productivity through automation, or improvement in systems and procedures will help here.

## Whse Exp / Pick

Your warehouse expense per pick is above your industry's average. You need a more efficient way to pick, pack in order to lower these warehouse costs.

## Whse Exp / FTE

Your warehouse efficiency is below the industry average. Evaluate your warehouse costs and personnel count in order to lower costs and add profit to your bottom line.

## Op Cash:Whse Exp

The Op Cash to Warehouse Expense ratio indicates the overall financial efficiency of your warehouse operation. Moving more Op Cash dollars for each dollar spent on the operation is the critical goal for improving profit contribution in this group.

Comparing your Op Cash to dollars spent on your warehouse operations to the industry average, you have opportunity to improve. You appear not to be as efficient as your competitors may be, so take the time to lower your warehouse costs by examining how your pick and pack operation functions.

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# Delivery Operations

Among the core competencies of distribution, Delivery is monumentally important – second only to Warehouse Operations.

Modern customer expectations for a range of delivery timing and methods has led to much broader utilization of delivery specialist companies that can often provide better service at lower costs. This is changing the competitive landscape as distributors offer customers more options to fit individual circumstances.

Understanding the true cost of delivery, and identifying customer relationships where delivery expenditures exceed available Op Cash is vital to profit generation.

In this section, we look at how much average Op Cash (operating cash) is available from your deliveries, and how much of that is consumed in your whole operational chain.

We also report your organization's total costs per delivery, total delivery costs by FTE, and the Op Cash value of every dollar spent on delivery operations.

## Operating Metrics

Advanced metrics measuring efficiency rates in your company, when compared with industry averages can help identify areas to improve and areas to protect. These numbers evaluate the relative performance of your organization, and indicate those items where improvement is both possible and beneficial.

For the Delivery component of the business, it's useful to look at operating cash, profit rates and conversions on a "per delivery" basis. This helps in understanding how much operating cash is available the average delivery, how much of it is consumed by company operations, and what portion is consumed by Delivery operations.

	Company	Industry
Op Cash / Delivery	\$400.88	\$265.37
Op Exp / Delivery	\$268.11	\$187.66
Delivery Exp / Delivery	\$46.02	\$22.04
Op Cash:Delivery Exp	\$8.71:1	\$12.04:1

## Op Cash / Delivery

Your delivery operation runs more efficiently than the industry average, which means that your Op Cash per shipment is higher than others in your industry. This typically indicates a strong pricing strategy on your part.

## Op Exp / Delivery

You aren't doing quite as well as your peers in the industry when considering the expense of your delivery operations. How you are handling deliveries? How can you make them more efficient? Are you charging minimum order fees? Are you making a profit on delivery costs? Are you charging for deliveries at all?

## Delivery Exp / Delivery

Your current expense per shipment is inefficient. In fact, your costs exceed the industry average. In order to lower those costs, re-evaluate your shipment counts and the quantity and efficiency of your personnel.

## Op Cash:Delivery Exp

Compared to the industry average, your Operating Cash exceeds the dollars spent on your delivery operation. Your delivery expenses are lower than your operating cash, which drives more profit to your bottom line. Excellent!

Currently, your Operating Cash is below the industry average when looking at the dollars spent on your delivery department. Ask yourself where you might streamline costs or increase productivity. Re-evaluate the size and efficiency of your delivery department and take steps to find a better balance and fit.

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# Sales

Like all other areas of distribution, the shape of sales units is changing radically.

A generational shift in customer contacts, rapid advances in personal communication, social media, easily available information and attitudes toward sales are changing the way sales are generated.

Customers are increasingly demanding "business reasons" like price and service to switch or stay, and personal relationships are fading – no longer the glue that binds customers to the company. Funding both of these dynamics requires both a reduction in sales costs, and greater efficiency in operations.

Companies making this leap are also becoming substantially more focused on high-value accounts that are difficult to detect without advanced analytics.

Here we look at Revenue to Op Cash conversion rate (Gross Margin %) as a measure of the sales group's effectiveness at maximizing the price component of Op Cash generation. Also, we examine how much average Op Cash (operating cash) the sales team is generating on the average order. This number is the product of the volume at the price level set on the sale.

## Operating Metrics

Advanced metrics measuring efficiency rates in your company, when compared with industry averages can help identify areas to improve and areas to protect. These numbers evaluate the relative performance of your organization, and indicate those items where improvement is both possible and beneficial.

For the Sales component of the business, it's useful to look at operating cash, profit rates and conversions on a "per order" basis. This helps in understanding how much operating cash is available the average order, how much of it is consumed by company operations, and what portion is consumed by Sales costs.

	Company	Industry
Rev > Op Cash	22.1%	23.7%
Op Cash / Order	\$337.52	\$198.27
Op Exp / Order	\$225.74	\$140.42
Sales Comp Exp / Order	\$89.96	\$14.93
Sales Comp Exp / FTE	\$132,884	\$0
Op Cash:Sales Comp Exp	\$3.75:1	\$13.28:1

### Op Cash / Order

You likely have a solid pricing strategy that ensures your Operating Cash per Order is higher than your industry's average. Maintain this strategy to keep your competitive edge.

### Op Exp / Order

Your operating expenses per order are higher – and likely less efficient – than your industry's average. This means that your transaction counts may be higher and, thus, costlier than those of your competitors. These factors can include order count, invoice count, shipment count and line item count. Encouraging customers to order more product less frequently will have a significant positive impact on these counts and will effectively lower your overall operating expenses.

### Sales Comp Exp / Order

The compensation per order for your sales team is higher than the industry average. You should re-evaluate your commission plan and perhaps pay based on NBC. Paying on NBC will compensate your sales force on money winning customers, not money-losing customers, and increase profits for you and your sales team.

### Sales Comp Exp / FTE

Your sales compensation expense per sales rep is above your industry's average. Re-examine your commission plan. Consider paying on NBC (net before compensation); paying on NBC can increase profits by incentivizing money winning customers, not money-losing, through your sales force's own compensation.

### Op Cash:Sales Comp Exp

The Op Cash to Sales Expense ratio indicates the overall financial efficiency of your sales operation. Moving more Op Cash dollars for each dollar spent

on sales creates a highly-leverage return on the effort put in.

Comparing the dollars spent on your sales compensation to the profit they generate, you are below the industry average. Your pricing strategy and commission plan need to be re-evaluated. Consider paying on NBC; this can increase profits as you will compensate your sale team on money-winning customers, not money-losing customers.

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# Overhead

Overhead represents the balance of your company expenses not specifically defined in the previous sections.

These will include administrative, accounting, IT services, executives and ownership, as well as miscellaneous expenses.

Overhead represents an important and necessary component of the infrastructure required to operate a business. Like other areas, it's also important to measure and actively manage the size and cost of overhead in terms of the Op Cash and profits available.

In this section, we look at how much average Op Cash (operating cash) is available from your deliveries, and how much of that is consumed in your whole operational chain.

Then, report your organization's total costs per invoice, and total overhead costs by FTE, and the Op Cash value of every dollar spent on overhead.

## Operating Metrics

Advanced metrics measuring efficiency rates in your company, when compared with industry averages can help identify areas to improve and areas to protect. These numbers evaluate the relative performance of your organization, and indicate those items where improvement is both possible and beneficial.

For the Overhead component of the business, it's useful to look at operating cash, profit rates and conversions on a "per invoice" basis. This helps in understanding how much operating cash is available the average invoice, how much of it is consumed by company operations, and what portion is consumed by Overhead costs.

	Company	Industry
Op Cash / Invoice	<b>\$325.41</b>	\$171.09
Op Exp / Invoice	\$217.63	<b>\$119.70</b>
Overhead Exp / Invoice	\$144,039.90	<b>\$47.42</b>
Overhead Exp / FTE	\$361,121,124	\$0
Op Cash:Overhead Exp	\$0.00:1	<b>\$3.61:1</b>

## Op Cash / Invoice

Your Operating Cash per invoice is higher than your industry's average. You have a solid pricing strategy and the number of invoices you are generating is likely lower than your competitors. Lowering transaction counts at the order, invoice, shipment and line item level are the key to increased profits.

## Op Exp / Invoice

Your total operating expenses per invoice exceeds The industry average. Your transaction counts are higher than your competitors. These include order count, invoice count, shipment count and line item count. Encouraging customers to order more product less frequently will have a large impact on these counts and will effectively lower your overall operating expenses.

## Overhead Exp / Invoice

Your overhead expense per invoice exceeds your industry's average. Re-evaluate and streamline your overhead expenses in order to lower these costs and increase your bottom line.

## Overhead Exp / FTE

Your overhead efficiency is below industry average. Your overhead costs, employee count, and employee productivity should all be re-evaluated. A competitive edge here is in reach, but you must streamline these costs.

## Op Cash:Overhead Exp

The Op Cash to Overhead expense ratio indicates the overall financial efficiency of your overhead. Moving more Op Cash dollars for each dollar spent on overhead is the purpose of annual reviews of headcount and pricing policies.

You are below the industry average when comparing your overhead Operating Cash to dollars spent on your overhead. Your expenses outstrip your profits, and that isn't where you want to be. You need to re-evaluate the departments that make up your overhead and, where necessary, streamline costs and headcount.

The analysis in this section shows several measures and indicators of your company's performance. WayPoint Analytics is the system high-profit companies use to show exactly what products and which customer relationships are driving these

metrics so they can act to directly affect their cash flow and profits, for significant and sustainable gains. Visit [www.WayPointAnalytics.net](http://www.WayPointAnalytics.net) to learn more, and to schedule a no-obligation demonstration so you can see it in action.

For a video walk-through of this section, [click here](#).





# Company Performance

There are numerous metrics that describe the relative efficiency of conversions that occur in the operating areas that are components of the company total operations. The only effective way to drive sustainable positive improvement in the company's performance is to change procedures and policies that drive improvements in the component areas.

## Profit Efficiency Metrics

Efficiency metrics are indicators of how much you get out for what you put in. Increases of these measures will correspond to greater cash flow and higher profits.

	Company	Industry
ROTA	6.9%	0.0%
Op Cash / Op Exp\$	<b>\$1.50</b>	\$1.43
NBC / Op Exp\$	<b>\$0.50</b>	\$0.43
NBT / Op Exp\$	\$0.10	<b>\$1.43</b>
Op Cash / Ovhd\$	<b>\$3.04</b>	\$2.26
NBC / Ovhd\$	<b>\$1.01</b>	\$0.68
NBT / Ovhd\$	\$0.20	<b>\$2.26</b>

## ROTA

Fundamentally, your Return on Total Assets (ROTA) is a measure of how effectively your company uses its assets (in all forms) to generate revenue. Your ROTA illustrates how much money each dollar invested in your company generates. Through ROTA, you are able to see the resources your company has available before paying expenses. If this number is out of balance, it is a sure sign that you need to investigate your costs, pricing, and efficiency.

## Op Cash / OpExp\$

By evaluating your operating cash per dollar expended on operations, you can determine how much profit you are getting out for what cash you put in. In any business, your objective is to draw in as much operating cash - or gross profit, as they are the same - as you can. You want to raise this number and protect it. The best way to improve this value is efficiently moving product from manufacturer to customer - the core competency of distribution. There are many different elements of your business that can have their efficiency

improved; ultimately, efficiency is a matter of getting the most value out of the resources you put in, whether those resources are material, labor, or administrative.

## NBC / OpExp\$

Your NBC per dollar expended on operations is a record of how much operating cash is available to pay your sales and to generate a profit for your company.

## NBT / OpExp\$

Your NBT per dollar expended on operations determines how much profit is generated in your company for each dollar spent.

## Op Cash / Ovhd\$

Your overhead, encompassing all of your administration and general expenses, is a key component of your business. However, like any other department in your distribution flow, it has its costs, even if those expenses are not directly tied to one of the core steps of picking, assembling, packing, shipping, and billing product. If your operating cash – your gross profit – isn't growing as quickly as your overhead costs, your profits are eroding. You must grow your input before you can expand these other elements of your company (such as the money you spend on your executives). The best use of this number is over the long term: it is a good measure for your performance, and very useful to compare to previous years, quarters, or other periods.

## NBC / Ovhd\$

Here you are able to examine how the dollars spent on your overhead correlate with your NBC total. This is one of the first stages where you can see how good your company is at carrying the money won from sales to the bottom line profit. You must maximize your rate of conversion.

## NBT / Ovhd\$

Like NBC per G&A, here you are looking at how good your company is at moving money earned from sales to your bottom line. In this case, it is your NBT dollars that you are able to examine in comparison to and in conjunction with the other stages of your expenses. Understanding the importance of conversions such as this is part of the

fundamental skillset of a capable owner or manager of a business.

## Conversion Metrics

Conversion metrics reflect the company’s capabilities in maximizing profit retention as it’s carried from the source (revenue) through the company’s operations to the bottom line.

	Company	Industry
Rev > Op Cash	22.1%	24.0%
Rev > NBC	7.3%	7.2%
Rev > NBT	1.4%	5.3%
Op Cash > NBC	33.1%	30.0%
Op Cash > NBT	6.5%	22.2%
NBC > NBT	19.5%	73.7%

### Rev > Op Cash

The flow of revenue into operating cash measures how good your company is at setting and then getting a price for your products. Pricing determines whether you generate enough operating cash to pay to move your product to your customer. There is a limit to how high you can raise your prices and the cost of serving some customers exceed what you can make in profit. You may not be able to realistically charge enough to cover the expenses of serving that customer.

### Rev > NBC

The Revenue to NBC conversion is an excellent indicator of how good your company is at getting money to the NBC line. At a company level, this serves as an average of how valuable your company’s relationships are with your collective roster of customers. It is a mix of your high-value and your low-to-no value customers. This is an aggregate of all of your accounts; the higher your number, the more efficient you are.

### Rev > NBT

Conversion of Revenue to NBT is the very purpose of a for-profit company. This metric indicates the profit-generating capability of the whole organization.

Common performance ranges on this metric are: Trailing (negative to 2.5%); Typical/Average (2.5% – 5%); Upper Tier (5% – 15%); World-Class (15% – 25%).

## Op Cash > NBC

Serving your customer has its own costs. This value indicates how much of your operating cash you are able to hold onto after you run your product through your operations, after you’ve delivered that product, and after you’ve collected your money from your customer. By looking at the resulting value, you gain a good indication of how efficient your company is and whether your pricing is in a good spot.

## Op Cash > NBT

When reviewing how much of your Operating Cash transfers to the NBT, you get a sense of how efficient your entire company is. The higher that this number is, the better, and it can serve as an excellent benchmark to determine whether you are improving, especially if you compare your current results to your performance history.

## NBC > NBT

Your conversion of your NBC to NBT is a measure of your efficiency in compensating your sales force. This value illustrates how much money you pay to get the sales that are generating your operating cash. If you view your NBC as the amount of money you have to split between your salesforce and your company, how much of that split is going to the company? This value can be used to ask questions about compensation and effectiveness.

## Personnel Costs / Productivity

Personnel costs and productivity measures are indicators of how good the organization is at utilizing its people to generate or process value (cash and profit).

	Company	Industry
Op Cash / FTE	\$166,186	N/A
Op Cash / Sales FTE	\$498,558	N/A
Op Exp / Ops FTE	\$166,720	N/A
NBC / Ops FTE	\$82,559	N/A
NBT / FTE	\$10,744	N/A
Op Cash Productivity	\$83.09	N/A
NBC Productivity	\$27.52	N/A
NBT Productivity	\$5.37	N/A
Company Labor Cost	\$22.32	N/A

## Op Cash / FTE

By comparing your full-time employees to your Operating Cash, you are able to extrapolate key metrics associated with personnel costs and productivity. If a new person is added to your company and your sales stay the same, this number will drop. Hire to support your company's growth and be sure that hiring is a result of an increase in your operating cash flow and an inability to effectively handle the workload. Viewed in this way, your Operating Cash per full-time employee can serve as a filter to your hiring and headcount.

## Op Cash / FTE (Sales)

Examining Operating Cash per Full Time Sales Employee brings a valuable metric into play: you are able to see how much average operating cash each member of your sales team generates. This can then serve as a benchmark for evaluating productivity and effectiveness. Furthermore, if you are able to identify and improve low-performing sales team members, you raise your entire average.

## Op Exp / FTE (Ops)

From the perspective of supporting your business, considering the Operating Expenses per Full-Time Operations Employees captures the average cost of your employees and the resources used to support them. This goes beyond pay and encompasses expenses such as office materials, furniture, technology, and even the heat, lighting, and rent costs of your facilities. You want to try to reduce this number and lower the average cost per employee.

## NBC / FTE (ops)

NBC per full-time employee is similar to measuring Operating Cash. This gives you the opportunity to see how much NBC is created by each person in Operations and in Overhead.

## NBT / FTE

Your NBC is an indicator of how much profit you produce per each person in your company. The most significant value of this metric is found in comparing this number to previous periods of performance, such as monthly, quarterly, or annually.

## Op Cash Productivity

Your Operating Cash Productivity provides a breakdown of how much operating cash you produce per man hour. This measures the cost of your workforce per hour, and can help you identify how and where your compensation may be outpacing your operating cash.

## NBC Productivity

The values offered by your NBC Productivity per full-time employee provides insight on whether the money spent on payroll is winning you performance that justifies that expense.

## NBT Productivity

Similar to your NBC Productivity, the NBT Productivity per full-time employee is a stage closer to your bottom profit line. This value further underscores the idea that you cannot spend more on fulfilling an order than you bring in. That is not a sustainable model, but seeing it modeled as a metric may provide a clearer perspective.

## Company Labor Cost

Your Company Labor Cost provides an idea of what your company costs overall. Each time you deliver raises to your staff, this number goes up. You must make certain that other numbers are going up by more so as to cover the increased draw over time on your operating cash. You need your company to grow in order to fund pay and raises. Do note that if your company labor costs increase but your productivity drops, then this may be a marker that your people are not earning their incentives and you may not be able to justify (or sustain) these increases.

The analysis in this section shows several measures and indicators of your company's performance. WayPoint Analytics is the system high-profit companies use to show exactly what products and which customer relationships are driving these metrics so they can act to directly affect their cash flow and profits, for significant and sustainable gains. Visit [www.WayPointAnalytics.net](http://www.WayPointAnalytics.net) to learn more, and to schedule a no-obligation demonstration so you can see it in action.

For a video walk-through of this section, [click here](#).



## Conclusion

The Profit Performance Report report reports the advanced measures that capture and quantify the relative efficiencies of the operating components of your business. Each operational unit contributes to, or detracts from, the overall efficiency and profit conversion in your organization.

Measuring the component parts of the business and working to create change that improves the measures in each area is the only pathway to greater cash flow and profits.

In addition to regularly reviewing the company's performance on these metrics, it's important to use deep analytics to see which customers, territories, product lines, products, vendors and partners are creating significant profits or losses. Armed with granular cost and profit information, direct action to build on profitable activities, and to curtail those that are wasting profit already made, is the key to moving the company forward.

Advanced LIPA (Line Item Profit Analytics) systems are companion systems to your company ERP, using your transaction and financial data to derive very detailed cost and profit information to drive priorities, policies and actions that increase efficiency and profit performance.

You can learn more about the most-used such system – WayPoint Analytics – in the last section of this report.



# Glossary

**CoGS** – Cost of Goods Sold – purchase cost of product sold to customer as it appears above the Gross Profit line on a P&L statement (may include cost modifiers such as inbound freight and vendor rebates)

**CTS** – Cost-to-Serve – total of all operating expenses, excluding: rep-level sales compensation, extraordinary items, and usually non-cash expenses like depreciation

**CTS%** – CTS Rate % – percentage of revenue consumed by CTS ( $CTS \div \text{revenue}$ )

**Delivery** – a transaction event encompassing a single delivery of one or more items from one or more customer orders

**Delta** – difference in results (usually profit) from one time period to another (usually year-over-year same period)

**Efficiency** – a measure that show how much you get out of something for the amount you put in. Efficiency is critical to the financial success of an organization as it measures the core competence of what it does.

**GM%** – Gross Margin Rate – the percentage of revenue represented by GP ( $GP \div \text{revenue} \times 100$ ) (this is the common name for  $Rev > Op\ Cash$  conversion)

**GP** – Gross Profit – fraction of revenue remaining after CoGS is deducted ( $\text{Revenue} - \text{CoGS}$ ) (also called Op Cash)

**Invoice** – a transaction event of a payment request for one or more SKUs in response to a customer request for goods or services

**LIPA** – Line-Item Profit Analytics – using highly granular (usually invoice line-item) profit to evaluate profits or losses in very small increments of transactional business

**NBC** – Net Before Compensation – profit left after CoGS and CTS are deducted from revenue ( $\text{Revenue} - \text{CoGS} - \text{Op Exp}$ )

**NBC%** – NBC Rate – percentage of revenue represented by the NBC ( $\text{NBC} \div \text{revenue}$ )

**NBT** – Net Before Taxes – net or operating profit remaining after all operating expenses are covered ( $\text{Op Cash} - \text{Op Exp} - \text{Sales Compensation}$ )

**NBT%** – NBT Rate – percentage of revenue represented by the NBT ( $\text{NBT} \div \text{revenue}$ )

**Op Cash** – Operating Cash – Shown as Gross Profit in most systems, this is the actual cash left after paying for the product, and pays for operating expenses and sales compensation related to the sale, leaving profits for the company. If Op Cash is insufficient to cover costs, a loss will be produced, reducing profits previously accumulated.

**Op Exp** – Operating Expenses – all expenses related to the transaction or entity, excluding sales compensation

**Order** – a transaction event encompassing a single customer request for goods or services

**Pick** – a transaction event encompassing a pick & pack operation where a quantity of a single SKU for a single order is handled in the warehouse

**PIP** – Peak Internal Profit – the total profit generated by only the money-making invoice lines

**QPM** – Quantum Profit Management – an advanced management philosophy and practice where very granular profit results are used to drive strategies and tactics that drive large numbers of incremental improvements in profitability

**SKU** – Stock Keeping Unit – a single, orderable item in your company’s selection of products offered to customers



# WayPoint Analytics

At WayPoint, our mission is to help our clients meet and exceed their goals. We provide deep profit analytics and the knowledge to use them, moving profit and cash-flow performance well beyond normal and expected levels. Simply put, our clients are among the most profitable companies in the world.

The analysis in this report shows numerous measures and indicators of your company's performance. WayPoint shows where and how to act on the ones that can bring rapid and sustained efficiency and profit gains.

	Auto Parts	Food	Printing	House	New Items	All Customer Types
Revenue	\$1,849,864	\$5,919,477	\$12,349,046	\$219,072	\$2,807	\$20,440,266
CoGS	\$1,590,423	\$4,218,331	\$9,640,103	\$125,589	\$1,583	\$15,576,029
Freight In	\$8,398	\$209,084	\$50,034	\$644	\$8	\$288,168
Cost of Goods	\$1,598,821	\$4,427,415	\$9,690,137	\$126,232	\$1,591	\$15,844,197
Gross Profit	\$351,043	\$1,492,062	\$2,658,913	\$92,840	\$1,216	\$4,596,069
%	18.9%	25.2%	21.5%	42.4%	43.3%	22.5%
Selling Exp	\$30,358	\$88,532	\$187,720	\$7,059	\$80	\$313,749
Order Entry Exp	\$7,995	\$52,749	\$75,375	\$9,994	\$120	\$145,233
Whse Exp	\$30,949	\$326,086	\$224,189	\$64,533	\$907	\$647,463
Fleet Exp	\$21,272	\$153,795	\$302,339	\$27,239	\$341	\$405,476
G & A	\$113,266	\$334,643	\$713,033	\$12,427	\$162	\$1,173,531
Expenses	\$203,839	\$956,605	\$1,402,857	\$120,542	\$1,811	\$2,685,454
%	58.1%	64.1%	52.7%	129.9%	132.5%	58.4%
Sales Comp	\$143,719	\$542,182	\$979,706	\$14,624	\$381	\$1,660,519
Net Profit	40.9%	36.3%	36.0%	16.0%	31.9%	36.5%
Cost-to-Serve	\$347,558	\$1,498,787	\$2,382,562	\$135,368	\$1,999	\$4,368,273
%	99.0%	100.4%	89.5%	145.8%	164.4%	94.9%
Net Profit	\$3,484	(\$5,480)	\$278,658	(\$42,526)	(\$784)	\$233,350
%	8.2%	(0.16%)	2.3%	(19.4%)	(27.9%)	1.1%
Lines	2,873	20,349	22,859	3,115	43	49,947
Invoices	950	6,214	8,958	1,045	14	17,179
Shipments	767	5,758	7,328	1,009	14	14,874
Orders	929	6,129	8,758	1,045	14	16,875

Detailed side-by-side P & L reports comparing locations, reps, product lines, customer groups, and more.

Now that you've had an opportunity to review your metrics, we'd like to explain how WayPoint Analytics will help you improve your profitability and propel your company even further with our advanced reporting capabilities.

Imagine having the ability to enter both your transactional data and your financial data into a secure system that generates deep analytical reports, providing you with unprecedented advanced metrics on profit performance, operational efficiency, and other areas of your company. These are the numbers you've always wanted, but were never able to obtain.

Rep	Revenue	Percentage	Profit Margin
1 O'Connell, Mireya	\$306,792	14.1%	14.1%
2 Campbell, Jocelyn	\$272,011	12.5%	26.6%
3 Tatum, Moshe	\$271,550	12.5%	39.0%
4 Barnhill, Apriyl	\$242,973	11.2%	50.2%
5 Fuller, Minh	\$146,228	6.7%	56.9%
6 Salerno, Britni	\$141,299	6.5%	63.4%
7 Gomes, Nobuko	\$128,534	5.9%	69.3%
8 Schwarz, Jovita	\$128,445	5.9%	75.2%
9 Coggins, Marchelle	\$80,450	3.7%	78.9%
10 McMaster, Vonda	\$59,168	2.7%	81.6%
11 McClure, Pamela	\$57,418	2.6%	84.2%
12 DeJesus, Trenton	\$52,431	2.4%	86.6%
13 Townes, Olinda	\$45,168	2.1%	88.7%
14 Pence, Branden	\$40,647	1.9%	90.6%
15 Daley, Edyth	\$40,149	1.8%	92.4%
16 Lake, Charles	\$37,153	1.7%	94.1%
17 Ebert, Donovan	\$35,648	1.6%	95.7%
18 Dennison, Luci	\$30,126	1.4%	97.1%
19 Kiser, Shloh	\$27,844	1.3%	98.4%
20 Seeley, Damaris	\$21,057	1.0%	99.4%
21 Corder, Liana	\$19,371	0.9%	100.3%
22 Dotson, Joell	\$16,855	0.8%	101.0%
23 Leyva, Francie	\$11,948	0.5%	101.9%
24 Rogers, Fritz	\$8,749	0.4%	102.0%
25 Orlando, Shalanda	\$7,650	0.4%	102.3%
26 Dickerson, Liandra	\$6,464	0.3%	102.8%
27 Homer, Ozella	\$3,844	0.2%	102.8%
28 Nielson, Nicolette	\$2,373	0.1%	102.9%
29 Royal, Noelia	\$2,205	0.1%	103.0%

Rank any group by revenue, op cash, expenses, profit.

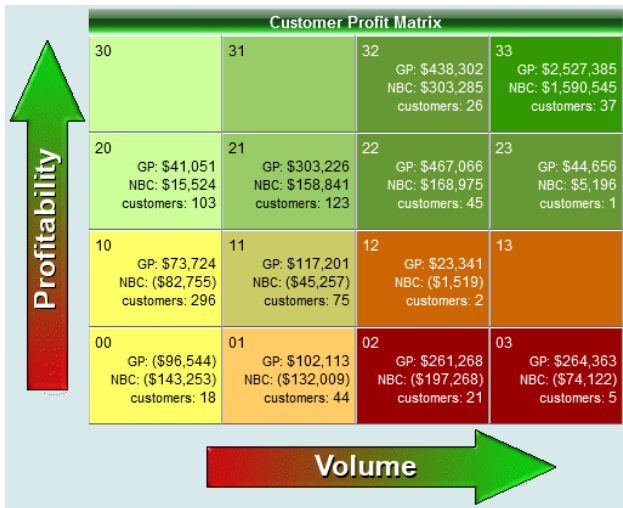
Imagine, too, being able to pinpoint the exact areas where profit is being generated, as well as where it mysteriously leaks away. WayPoint gives you that ability and more.

With the reports you'll create in WayPoint, you can compare and contrast the various departments and divisions of your company, measure the profitability of every order at the line item level, compare the profitability of various sales territories, product lines, and even vendors, all to give you and your team the greatest insights possible into every aspect of your business.

Stokes Merrill Inc		
Invoice Rev	\$276,195	
Pymt Disc	(\$3,452)	
Revenue	\$272,743	BE: \$2474   \$1830/inv
Invoice CoGS	\$204,801	
Freight In	\$10,239	
Vendor Rebates	(\$1,041)	
Cost of Goods	\$214,000	
Gross Profit	\$58,744	21.5%   \$394/inv
Selling Exp	\$5,550	multiple allocations
Order Entry Exp	\$2,072	228 @ \$9.09 per order
Whse Exp	\$38,212	762 @ \$50.15 per line item
Shipping & Del Exp	\$8,516	203 @ \$41.95 per shipment
G & A	\$13,363	234 @ \$57.11 per invoice
Expenses	\$67,714	24.8%   \$454/inv
NBC	(\$8,971)	-3.3%   -\$80/inv
Sales Comp	\$11,673	19.9% (of GP)
Cost-to-Serve	\$79,387	29.1%   \$533/inv
Operating Profit	(\$20,644)	-7.6%   (\$139)/inv

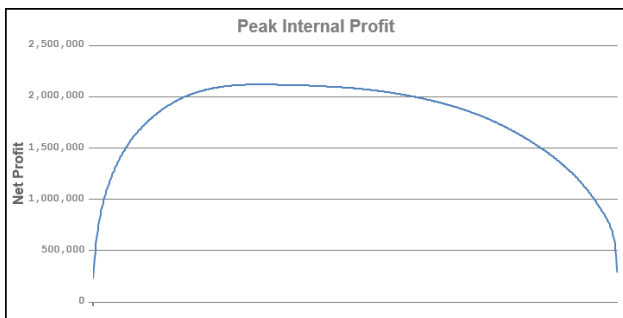
Detailed P & L on every customer, product, rep or vendor.

Statistics have shown again and again that distribution companies are making more money than they realize, but lose that money to profit leaks in areas where they least suspect. With WayPoint, you will immediately recognize where those profit leaks are and be able to correct them. You'll also identify truly profitable orders and customers, so you and your team can better direct your time and effort toward developing more of both.



Op cash vs profit matrix identifies important sub-groups.

The metrics used in WayPoint Analytics are like no other anywhere else in the world. They were created specifically for distribution companies and measure variables that other reporting programs not only do not measure – they cannot measure. When using WayPoint, your reporting abilities go far beyond anything you may have seen through your trade associations or anywhere else.



Whale curve visualizes balance of profit opportunities in your existing sales.

Distribution companies who use WayPoint have a tremendous advantage over those who do not simply because they know more about their company's operations. With that knowledge, they typically generate three to four times the profit of other

distributors in their industries. In addition, not only are users able to direct their efforts toward more profit-generating activities, they also receive expert advisory services from the principals at WayPoint, Bruce Merrifield and Randy MacLean, who show WayPoint clients how to convert their information into profitable action.

We'd be delighted to join your team and share with you the power that our system offers in your fight for profitability and growth. Call us today at **480-426-9959**, and set up a session for your team to see how WayPoint Analytics helps companies make so much money.

For a video about this section, [click here](#).

