



**2010  
SSA Annual  
Financial Analysis**

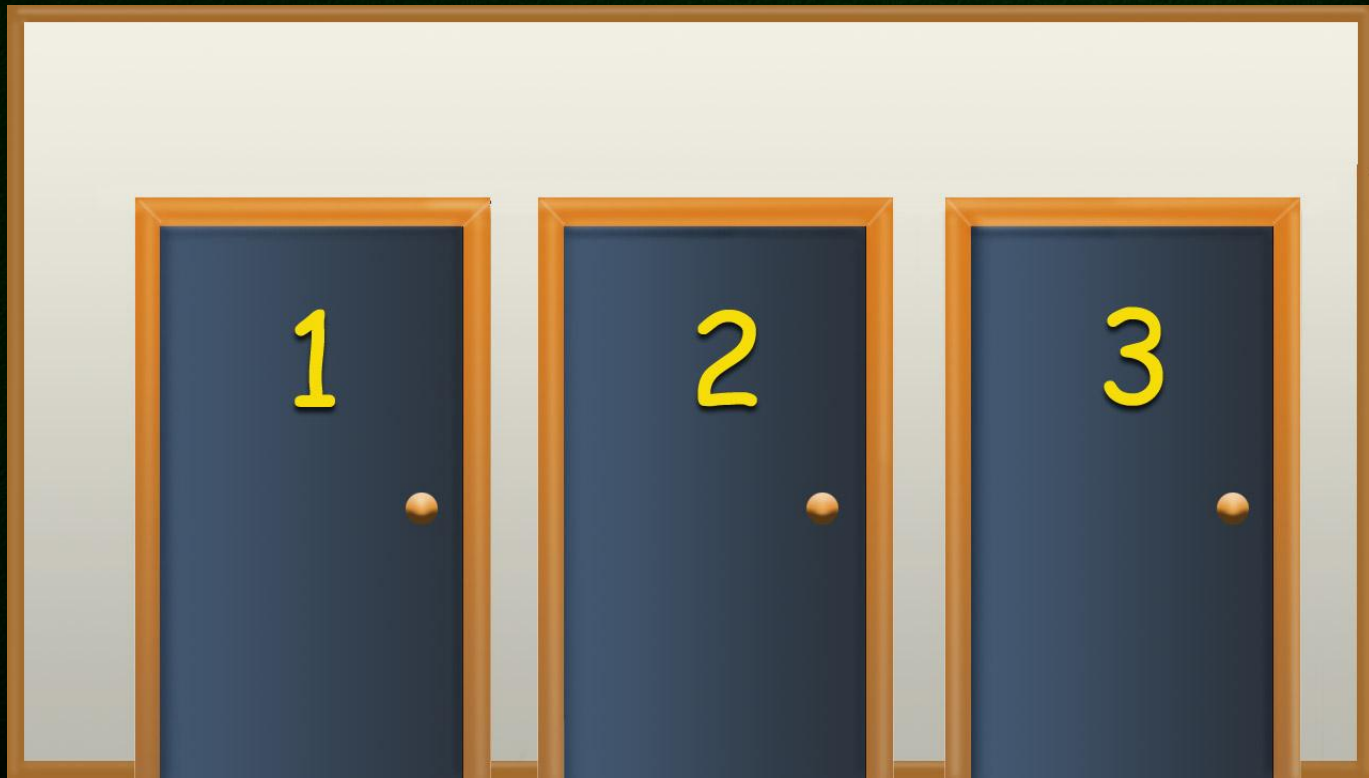
**Hidden Gold at the margin...  
Finding it is no longer optional.**

Confidentially prepared for Service Specialists Association

# GAAP... Not The Perfect Tool

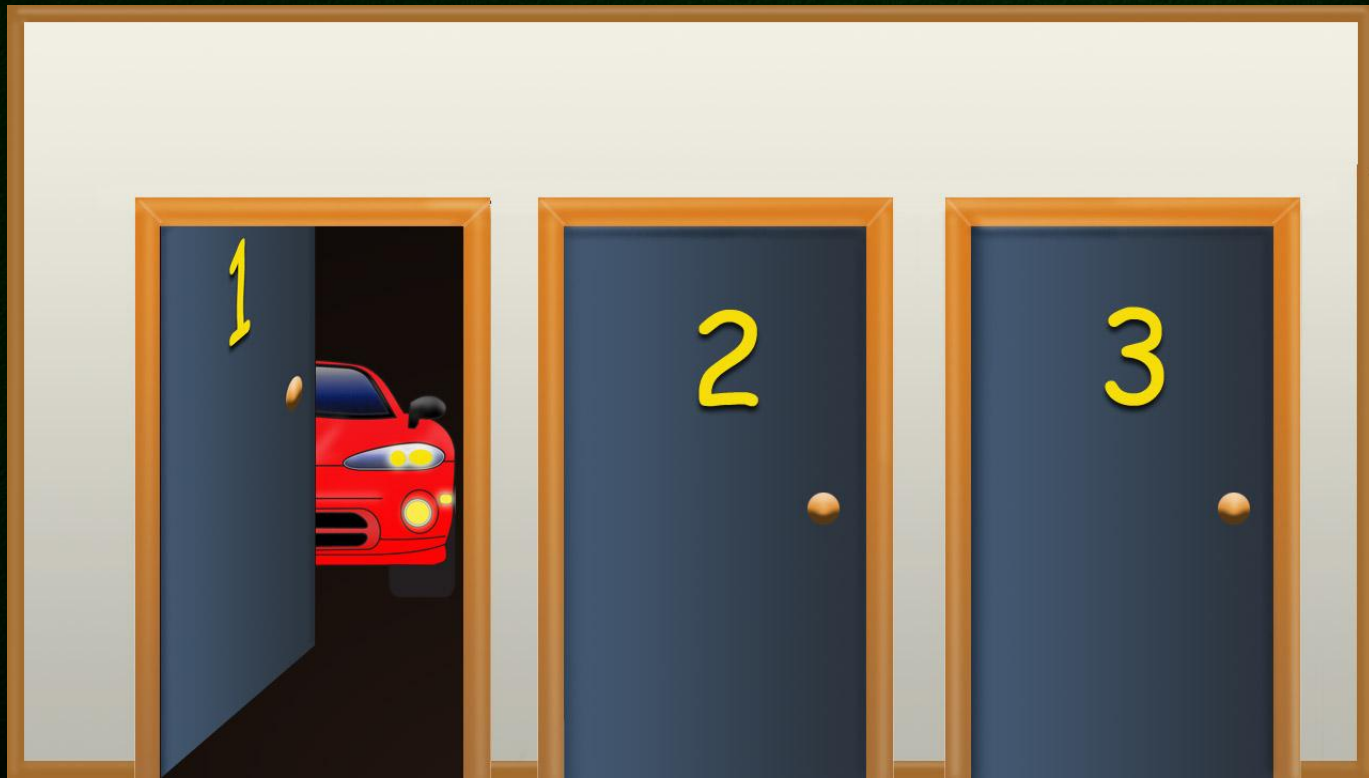
- Basic limitation of GAAP rules.
  - Systems undervalue customers by excluding all information about them from financial statements...  
...Despite customers being a company's primary asset, as they are solely responsible for every penny of revenue.
- GAAP is designed to collect and distribute information at the product and service level... but may trivialize important detail.

# All Info Can Be Critical...



Monty Hall Paradox

# The Three Doors



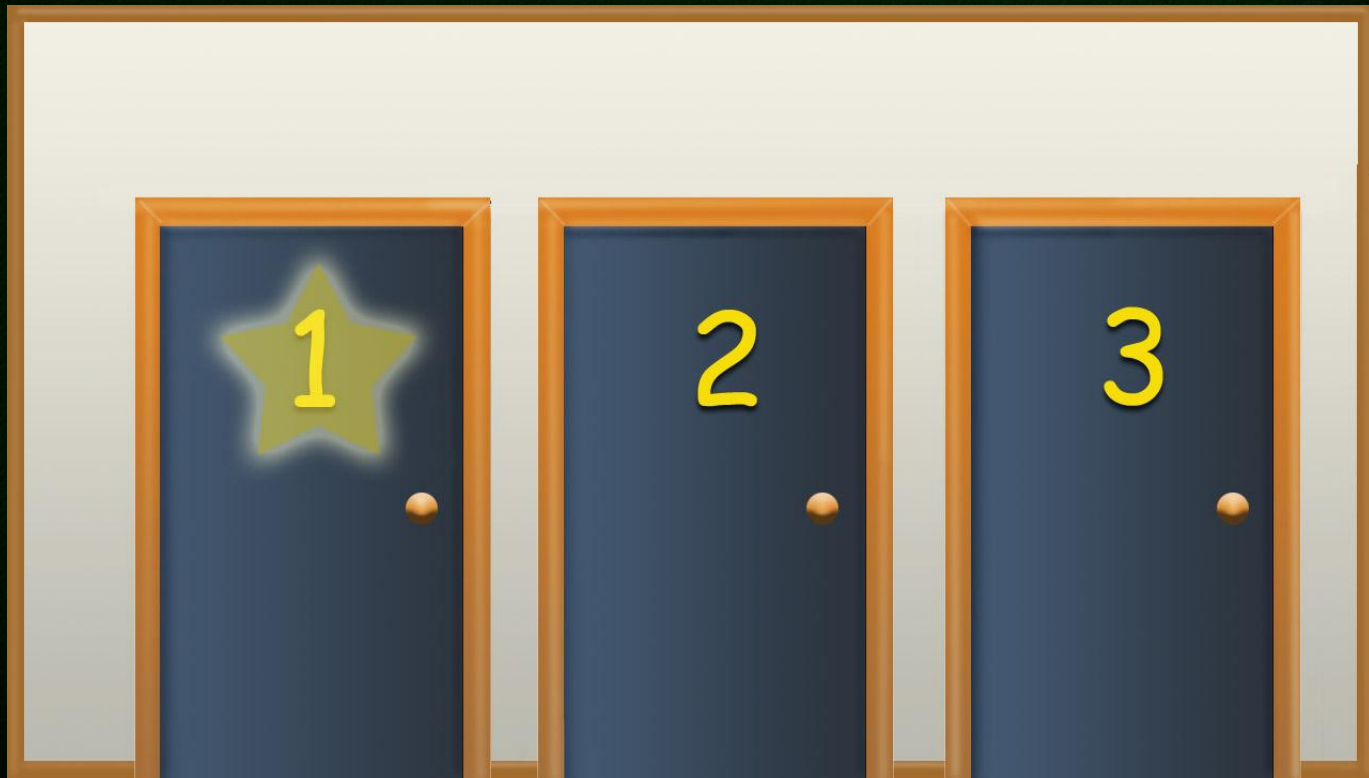
There's a car behind one of the doors.

# The Three Doors



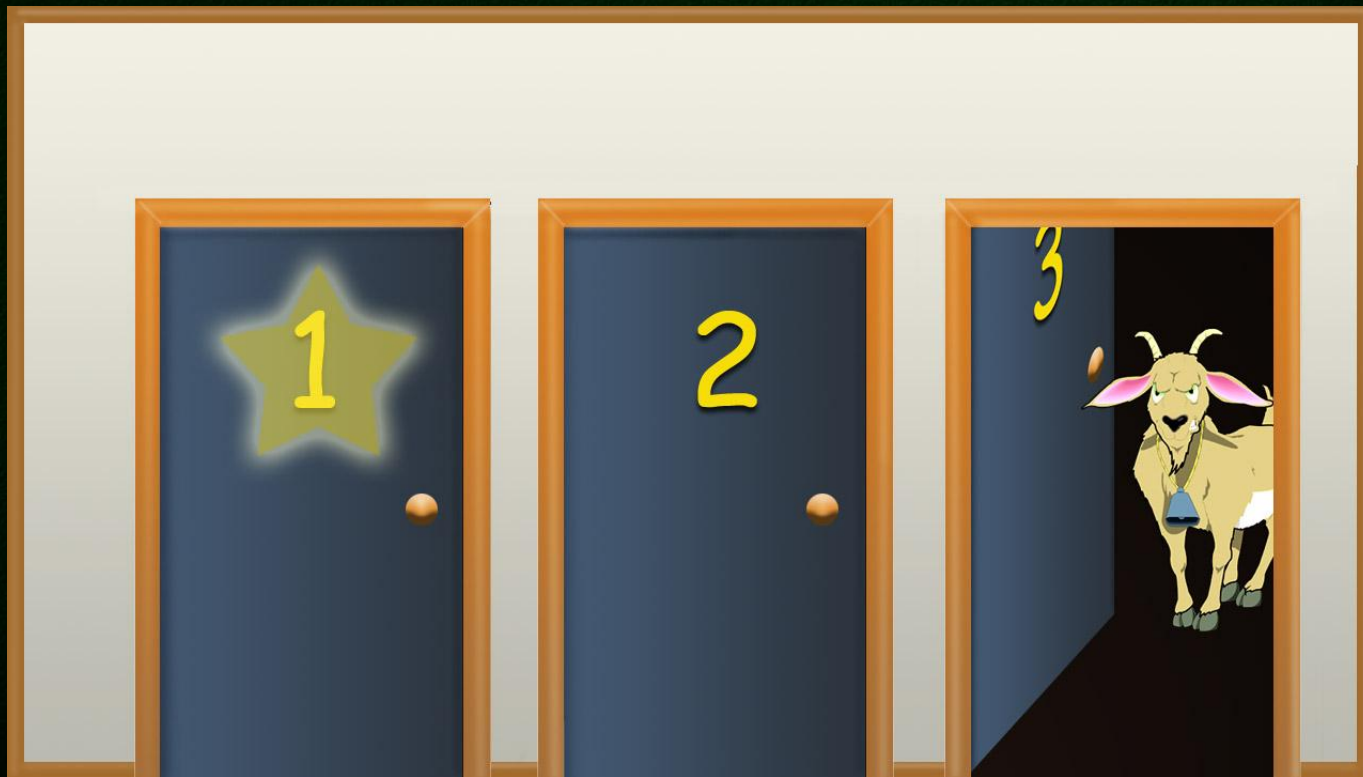
There are goats behind the other two.

# The Three Doors



Without knowing what's where,  
you pick one of the doors.

# The Three Doors

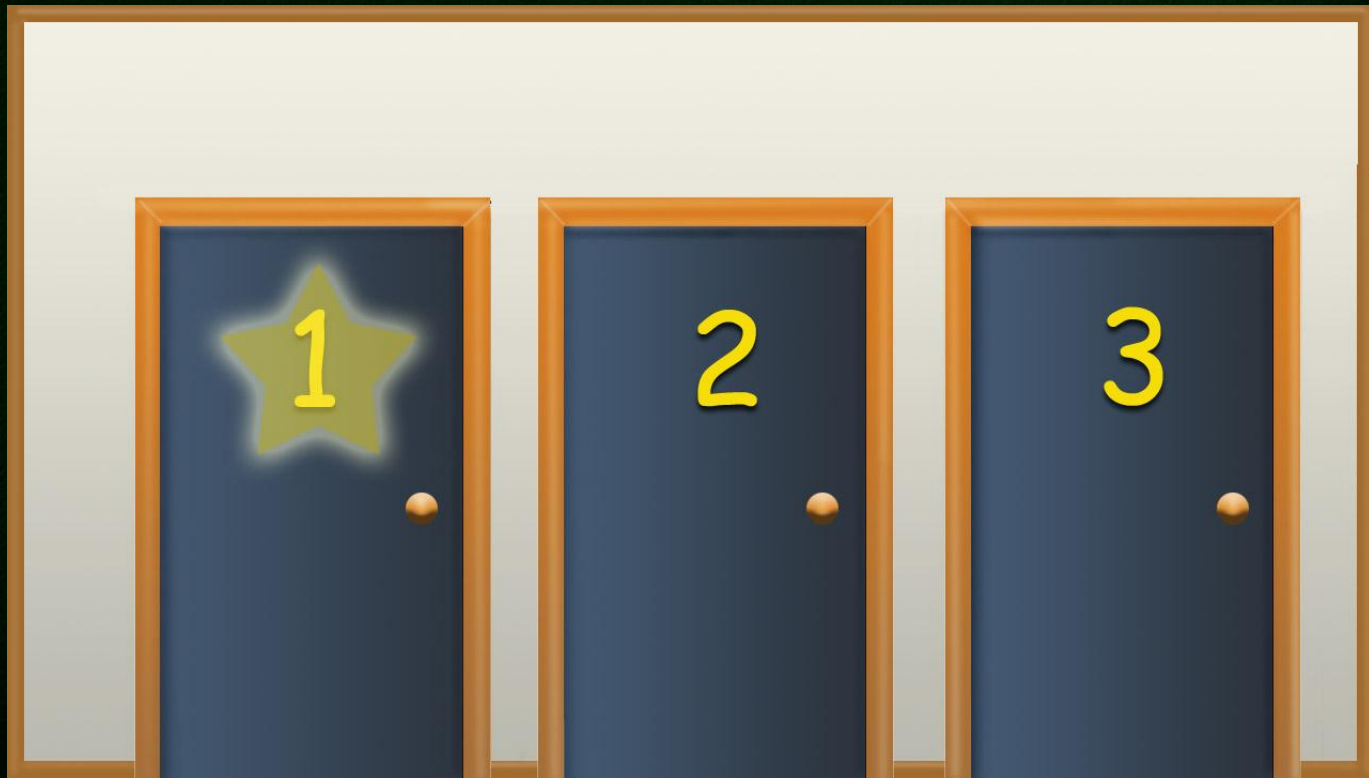


The game show host now reveals a goat behind one of the remaining doors.

IT'S HARD TO BELIEVE BUT ...

You'll **double your chances** of getting  
the car if you switch.

**If you always stick with  
your original choice ...**



**... you'll win one out of three times.**

When you make your initial choice, there are exactly **three** possibilities.

- You picked the car.
- You picked the first goat.
- You picked the second goat.

# IMPORTANT NOTE

**One out of three** times,  
you'll pick the car.

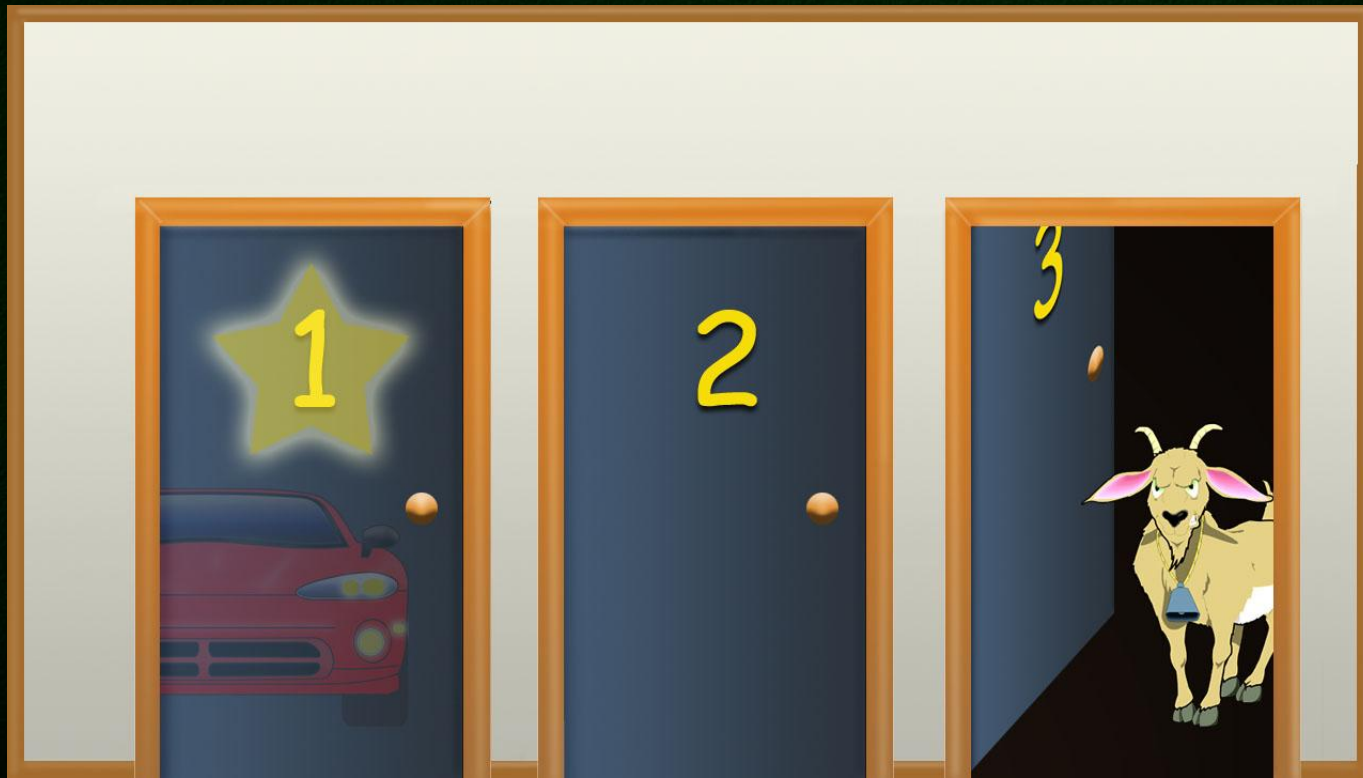
- You picked the car.
- You picked the first goat.
- You picked the second goat.

# IMPORTANT NOTE

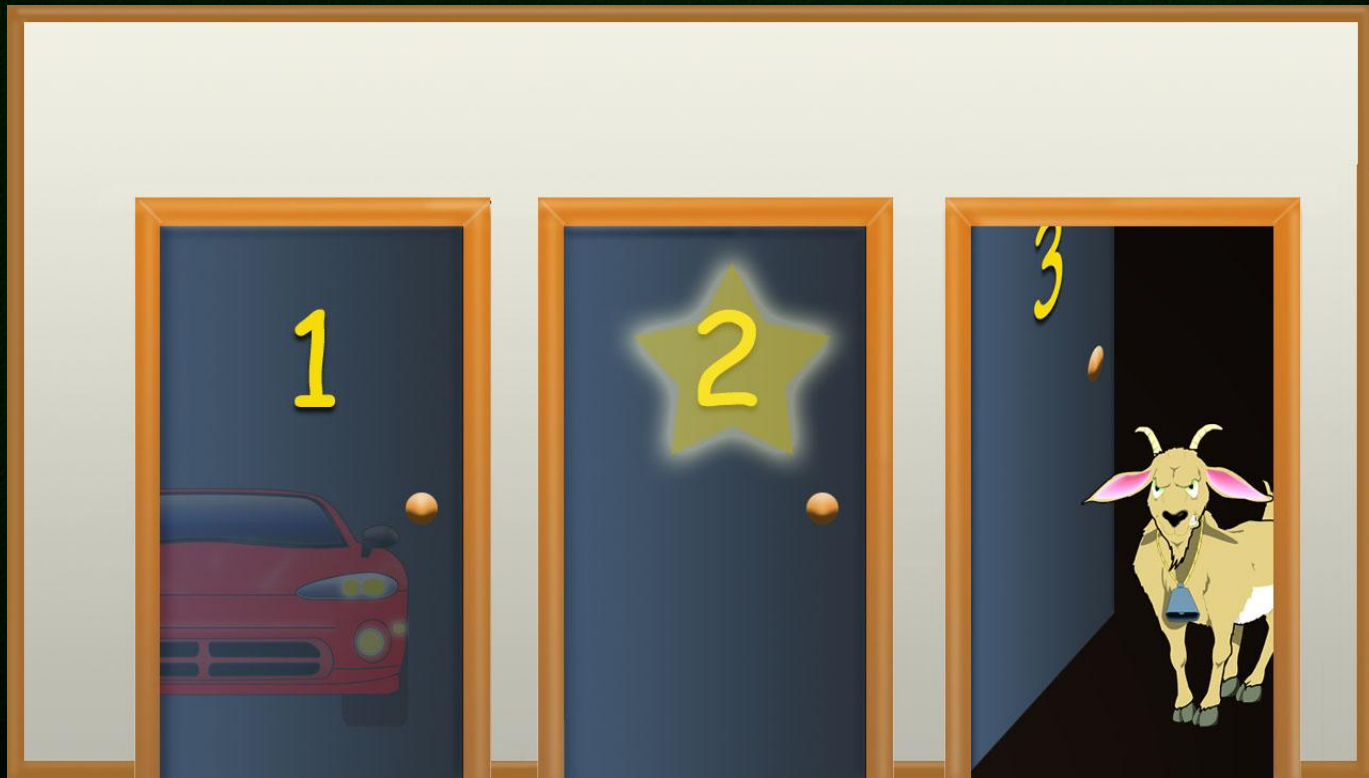
**Two out of three** times,  
you'll pick a goat.

- You picked the car.
- **You picked the first goat.**
- **You picked the second goat.**

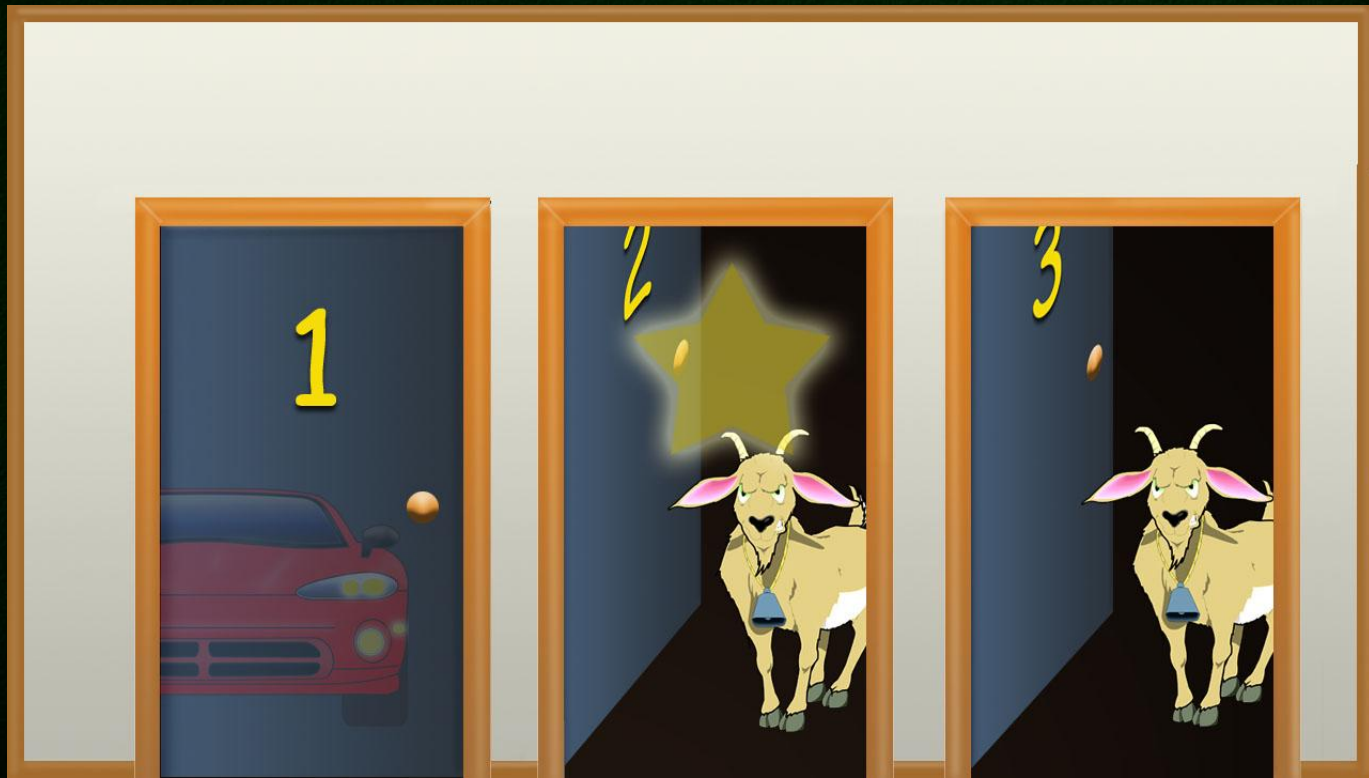
So, if you picked the car,  
and the host shows you one of the goats ...



... and you switch ...



... you lose.



(Sorry.)

**HOWEVER ...**

**Two out of three times**, you're going to pick a goat.

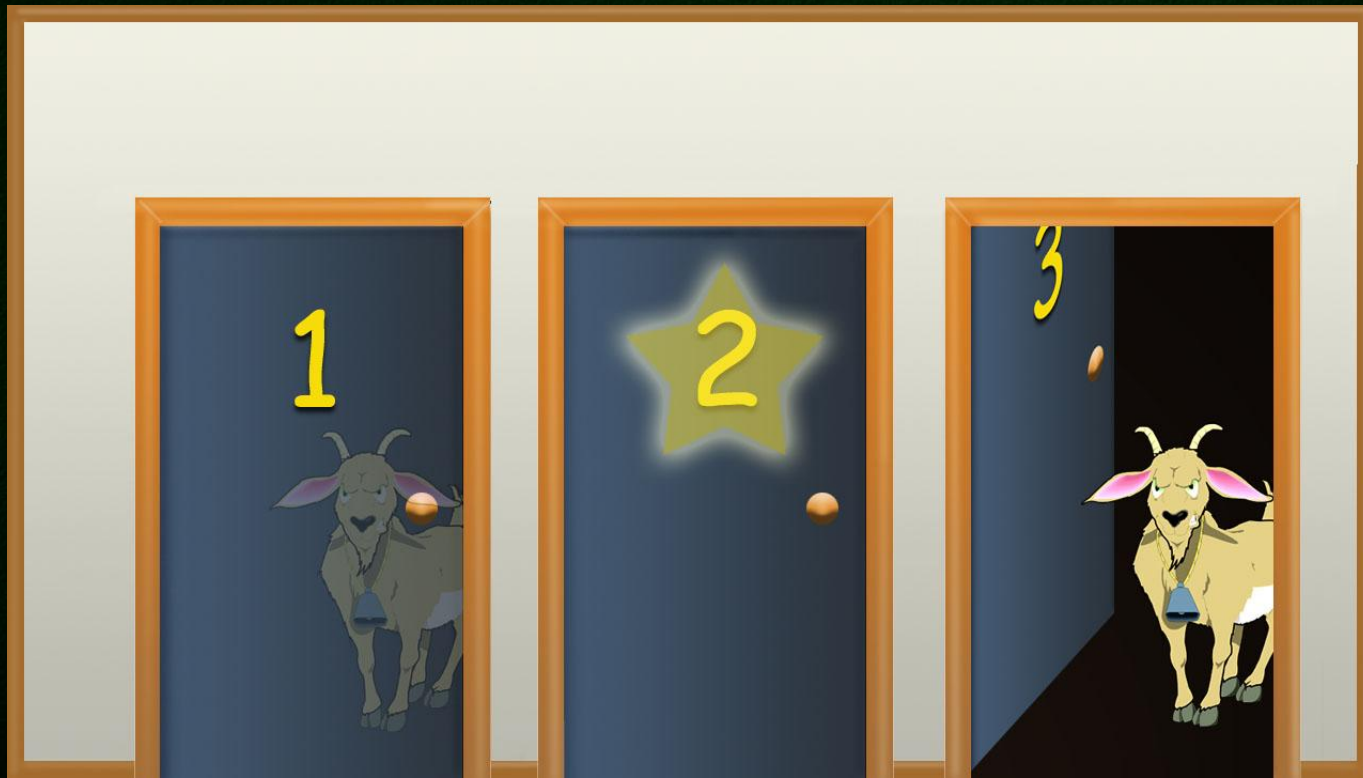


When the host reveals which door the **other goat** is behind ...

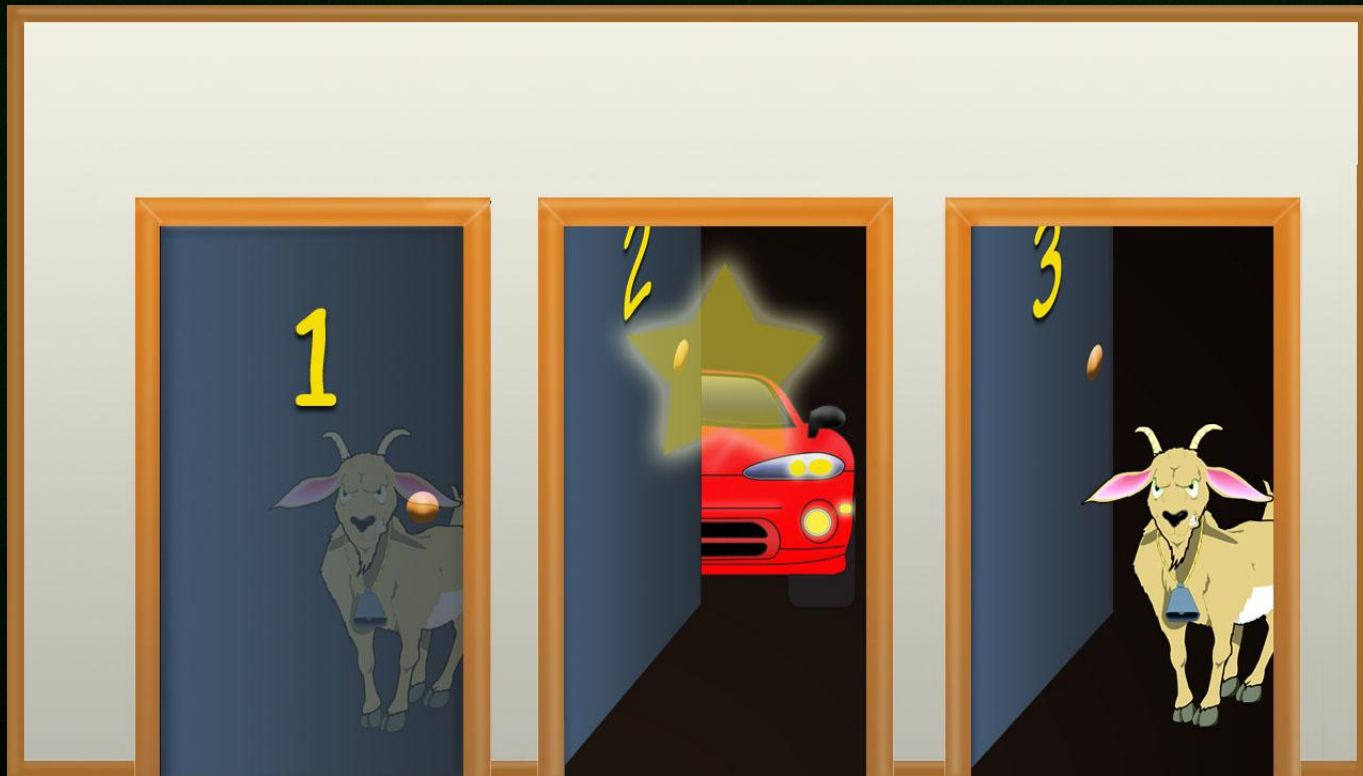


... he's **also** telling you where the car is.

So **two out of three** times,  
when you switch ...



... you win.



You just doubled your odds.

# The Moral To The Story

Important information was revealed in step 2,  
but most people will ignore it because it doesn't  
**seem important at the time.**

# Financial Results Overview

	<u>Typical</u>	<u>High Profit</u>
<b>Net Sales</b>	\$2.094	\$2.410
Cost of Goods Sold	1.277	1.407
<b>Gross Margin</b>	817	1.003
Operating Expenses	788	889
<b>Operating Profit</b>	29	113
Other Income/Expenses	13	0
Profit Before Taxes	\$42	\$113
<b>Profit Before Taxes</b>	<b>2.0%</b>	<b>4.7%</b>

# Financial Results Overview

	Typical	High	Under \$2	Over \$2
<b>Sales Volume</b>	\$2.094	\$2.410	\$1.518	\$3.553
Sales Change	-9.8%	-2.9%	<b>-10.5%</b>	-3.1%
<b>Net Sales</b> (less returns, discounts & allowances)				
Parts Sales	81.5%	82.4%	68.5%	82.4%
<b>Labor Sales</b>	18.5	17.6	31.5	17.6
<b>Cost of Goods Sold</b>				
Parts Cost	45.3	43.3	3.4	43.9
Direct Labor	14.3	14.3	9.7	15.6
Shop Overhead	1.4	0.8	0.6	1.6
<b>Total COGS</b>	<b>61.0</b>	<b>58.4</b>	<b>53.7</b>	<b>61.1</b>
<b>Gross Margin</b>	<b>39.0</b>	<b>41.6</b>	<b>46.3</b>	<b>38.9</b>

# Financial Results Overview

	<u>Typical</u>	<u>High</u>	<u>Under \$2</u>	<u>Over \$2</u>
<b>Gross Margin</b>	<b>39.0</b>	<b>41.6</b>	<b>46.3</b>	<b>38.9</b>
Total Salaries	15.6	16.0	18.5	15.3
<b>Total Payroll Expenses</b>	<b>22.6</b>	<b>23.3</b>	<b>25.2</b>	<b>23.5</b>
<b>Occupancy Expenses</b>	<b>6.7</b>	<b>5.6</b>	<b>8.4</b>	<b>5.2</b>
<b>Other Op Expense</b>	<b>8.3</b>	<b>8.0</b>	<b>9.9</b>	<b>8.6</b>
<b>Total Op Expenses</b>	<b>37.6</b>	<b>36.9</b>	<b>43.5</b>	<b>37.3</b>
<b>Operating Profit</b>	<b>1.4</b>	<b>4.7</b>	<b>2.8</b>	<b>1.6</b>

# Financial Ratios Overview

	<u>Typical</u>	<u>High</u>	<u>Under \$2</u>	<u>Over \$2</u>
Current Ratio	4.8	5.6	5.6	2.8
Quick Ratio	1.7	2.3	2.3	0.9
<b>A/P to Inventory</b>	23.9%	23.2%	23.9%	24.9%
A/P Days	30.0	30.9	22.3	30.9
Debt to Equity	0.2	0.2	0.2	0.5
EBIT to Total Assets	4.8%	10.2%	6.6%	5.1%
Times Interest Earned	11.0	12.8	7.5	2.6

# Asset Productivity Overview

	<u>Typical</u>	<u>High</u>	<u>Under \$2</u>	<u>Over \$2</u>
Cash Sales (% of net)	40.0%	39.0%	40.0%	33.5%
Average Collection (days)	34.6	37.0	<b>50.5</b>	31.6
Bad Debt Losses	.1%	0.1%	0.1%	0.2%
Inventory Turnover	4.9	4.4	5.0	4.1
Inventory (days)	74.5	83.0	73.0	89.0
Sales to Inventory Ratio	8.0	6.9	8.1	6.8
GMROI	270.5	252.1	270.5	272.1
Sales to Fixed Assets	17.2	17.2	22.5	16.8

# Cash Flow Cycle

	<u>Typical</u>	<u>High</u>	<u>Under \$2</u>	<u>Over \$2</u>
Average Collection Period	34.6	37.0	50.5	31.6
+ <u>Inventory Holding Period</u>	74.5	83.0	73.0	89.0
= Gross Cash Flow (days)	109.1	120.0	123.5	120.6
- <u>A/P Payout Period (days)</u>	30.0	30.9	22.3	30.9
= <b>Cash Cycle (days)</b>	79.1	89.1	<b>101.2</b>	89.7

# Employee Productivity

	<u>Typical</u>	<u>High</u>	<u>Under \$2</u>	<u>Over \$2</u>
Sales / Outside Salesperson	\$1.846	\$1.850	\$1.764	\$2.078
Sales / Employee	\$160.4	\$169.9	\$154.5	\$169.9
Gross Margin / Employee	\$66.5	\$72.1	\$64.1	\$71.3
<b>Labor Rate Charged</b> / Hour	\$76	\$80	\$76	\$75
Technician Wage Paid / Hour	\$20	\$20	\$17	\$20

# Employee Productivity

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Sales / Outside Salesperson	\$1.846	\$1.850	\$1.764	\$2.078
Sales / Employee	\$160.4	\$169.9	\$154.5	\$169.9
Gross Margin / Employee	\$66.5	\$72.1	\$64.1	\$71.3
Labor Rate Charged / Hour	\$76	\$80	\$76	\$75
Technician Wage Paid / Hour	\$20	\$20	\$17	\$20

<u>Productivity Trend</u>	<u>2005</u>	<u>2007</u>	<u>2009</u>
Sales per Outside Salesperson	\$1.607	\$1.467	\$1.846
Sales per Employee	\$138.4	\$146.2	\$160.4
Gross Margin per Employee	\$54.9	\$58.1	\$66.5

# Benefit Program Trends

<b>Trend</b>	<b>2005</b>	<b>2007</b>	<b>2009</b>
Cafeteria Plan	35%	23%	25%
Medical/Hospital	97	100	100
Dependent M / H	90	94	77
Dental Plan	67	56	53
Vision/Optical Plan	30	33	18
Prescription Drug Plan	73	72	77
Group Term Life	67	67	65
Long-term Disability	43	28	18

# Employer Paid Trends

<b>Trend</b>	<b>2005</b>	<b>2007</b>	<b>2009</b>
Employee Medical/Hospitalization	65%	85%	100%
Dependent Medical/Hospitalization	50	66	55
Dental Plan	50	65	63
Vision/Optical Plan	50	66	N/A
Prescription Drug Plan	57	66	100

# Employer Paid Trends

<b>Trend</b>	<b>2005</b>	<b>2007</b>	<b>2009</b>
Defined Benefit Plan	7%	17%	7%
Payroll Deduction/SEP/SIMPLE IRA	37	33	29
Profit Sharing Plan	23	17	57
401(k)	30	50	64
<b>Miscellaneous Benefits</b>			
Personal Time Off (PTO) Program	47%	47%	47%
Non-PTO Paid Vacations	94	100	100
Non-PTO Sick/Personal Days	77	64	58
<b>Participate in ASE Certification</b>	60	71	47

# The Critical Profit Variables: The Gold Is at the Margins

	<u>Typical</u>	<u>High</u>
<b>Net Sales per Employee</b> <i>Measures employee productivity</i>	160.3	\$169.9
<b>Gross Margin Percentage</b> <i>Reflects the ability to manage costs</i>	39.0%	41.6%
<b>Operating Expense Percentage</b> <i>Focuses on expense control</i>	37.6%	36.9%
<b>Inventory Turnover (times)</b> <i>Reflects how well inventory is managed</i>	4.9	4.4
<b>Average Collection Period (days)</b> <i>Reflects accounts receivable collection</i>	34.6	37.0

# Post Sales Service - “keeping the promise”

Research shows that decisions to buy from a specific supplier are **driven more by loyalty to the previous supplier than any other criteria.**

**PSS Objective:**

**To generate ‘leasing’ security for ‘ownership’**

# PSS & Customer Lifetime Value

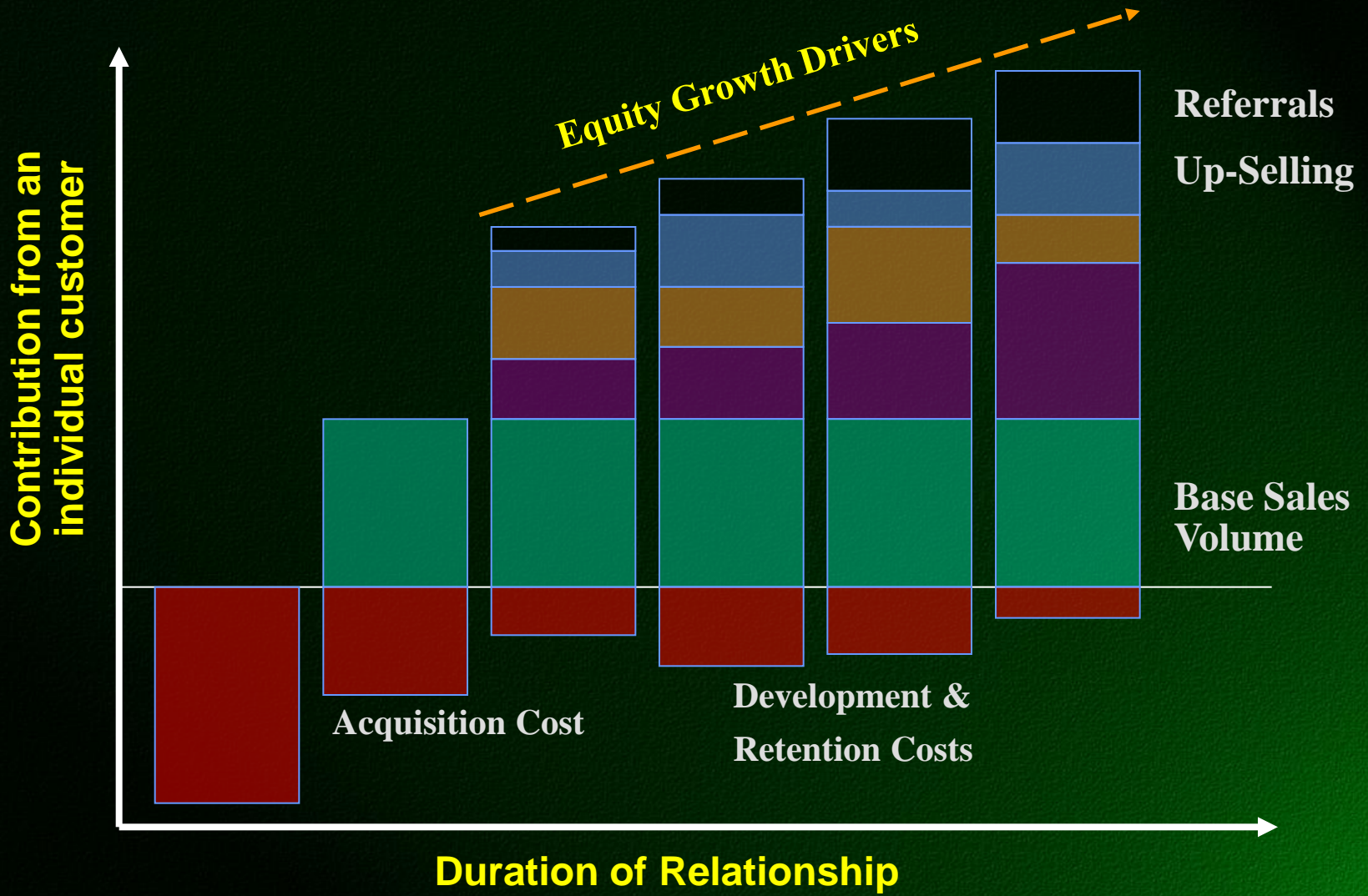
## Increasing focus on customer value portfolios

- Not classifying customers as being of high or low value, but viewing them as a portfolio of customers of different risk-adjusted value.
- **Risk reduces the value of a customer.**
- Risk can be associated with highly volatile spending patterns or declining loyalty in more competitive markets
- **In the highly networked HD world simple dissatisfaction triggered by silly mistakes can be disproportionately expensive.**

# PSS & Customer Lifetime Value

## Incorporating word of mouth into CLV

- Most CLV models assume that customers are solitary figures.
- People are social animals and the power of relationship word-of-mouth in driving purchases is now well established.
- **Buying groups, purchaser mobility and dealer associations assure that there are no secrets.**



# Understanding Your Profitability



(Hint... It doesn't happen in big chunks)

Hidden Gold at the margin...  
Finding it is no longer optional.

# (Hint... It doesn't happen in big chunks)

- Who are the “best” accounts... and how do we define them?
- Do you sub-divide them by how much estimated operating profit you currently earn from them?
- Do you sub-divide customer segments and strata into why they buy (e.g. loyalty, best total value, or pure price)?
- Do you give any weighting of importance to how fast a customer has been growing and how fast they are likely to grow over the next 5 years

# Discussion Break Outs

- Include both Shops and Suppliers at each table

**What transactional improvements  
(within the channel)  
can positively affect these key numbers?**

- 45 minute discussion and then report



