

Profitability Trends In Distribution

Prepared For
NSDJA

Prepared by
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Exhibit 1 Return on Assets by Industry Segment and for NSDJA Members

The American economy is in a unique position at the present time. Some industry segments are enjoying growth and prosperity, while others continue to experience severe recessionary pressures.

Exhibit 1 examines Return on Assets (profit before taxes expressed as a percent of total assets) for three segments of distribution:

- **Industrial Distribution**—Industries heavily committed to the factory floor.
- **Construction**—Industries primarily selling to contractors for both housing and commercial construction.
- **Consumer**—Industries selling consumer products.

As can be seen, profitability is heavily influenced by the industry segment being serviced. While firms cannot change their primary industry focus, they do have some strategic options in terms of the segments they service.

Exhibit 1

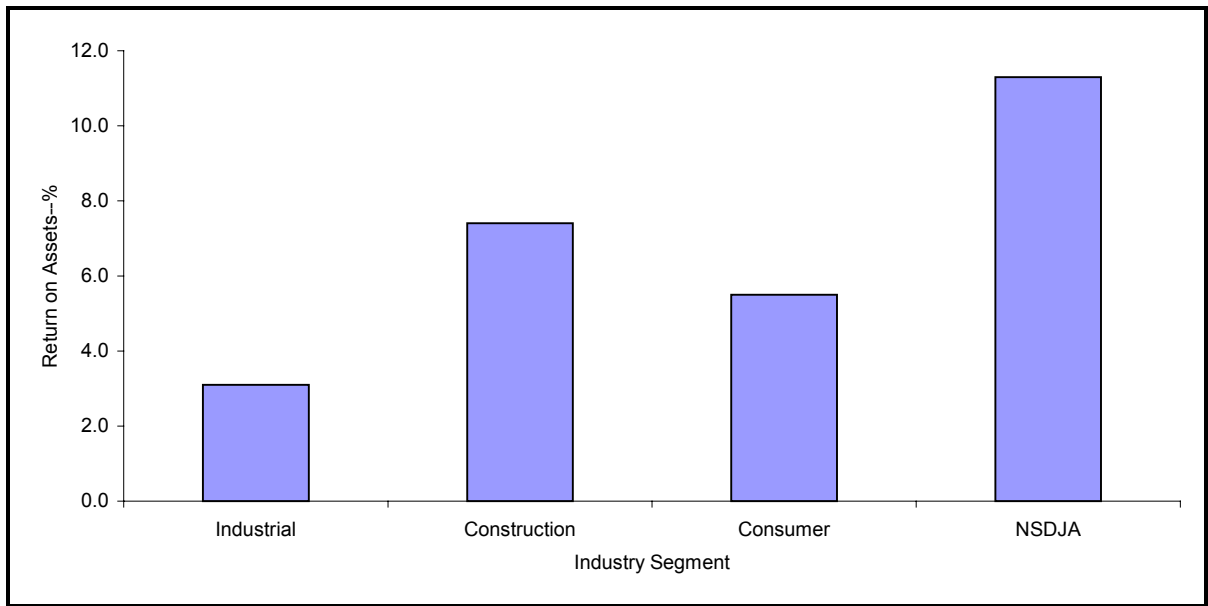


Exhibit 2 Sales Growth in 2002 by Industry Segment and for NSDJA Members

Probably the single most important driver of industry profitability at the present time is sales growth. Growth rates vary widely by segment and can be very directly related to return on assets in the previous exhibit. The industrial sector continued to experience a sales decline while both the construction and consumer segments experienced sales gains.

To a certain extent sales growth is dictated by the industry being served. However, in virtually every industry there are important differences between sales growth rates for individual firms. At present, sales growth is of overwhelming importance.

Exhibit 2

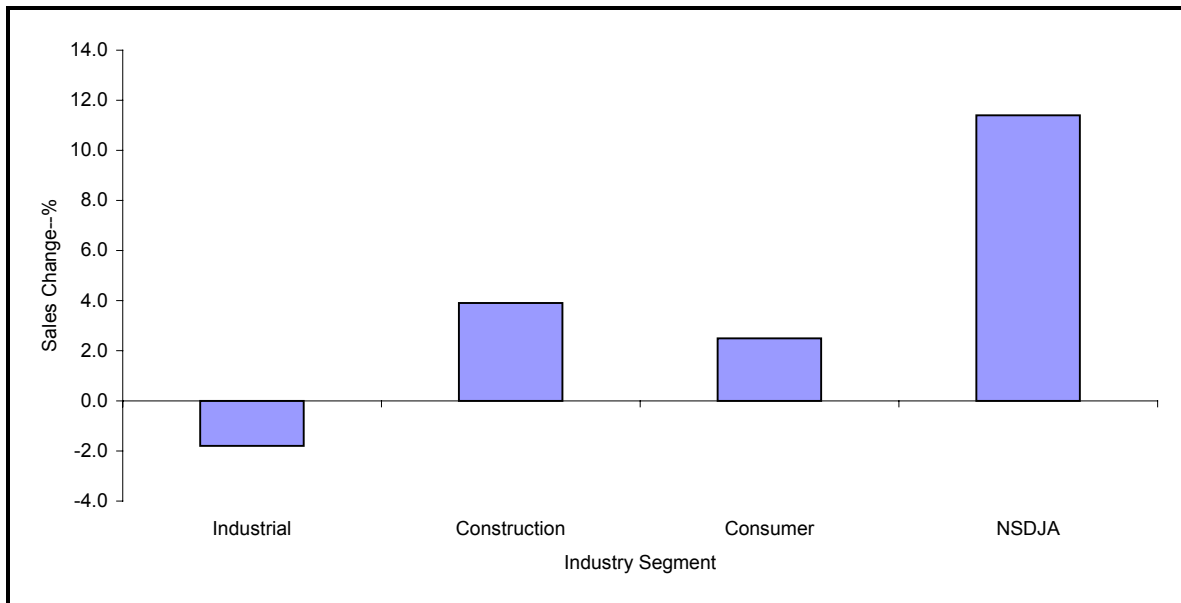


Exhibit 3 The Change in Gross Margin Percentage in 2002 by Industry Segment and for NSDJA Members

Gross margin has the most pronounced impact on profitability of any of the directly-controllable profitability variables. However, gross margin is the variable that is also under the most attack. The industrial segment managed a slight gain to help offset sales problems. The construction segment experienced a decline, while the gross margin for consumer products was unchanged.

Exhibit 3

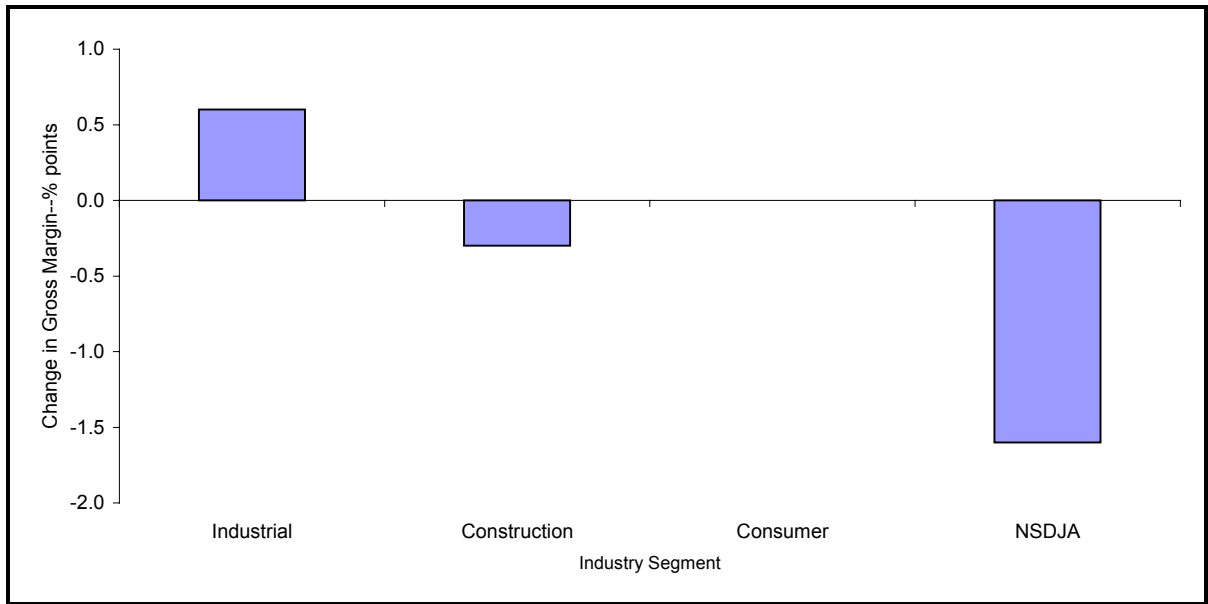


Exhibit 4 The Change in the Operating Expense Percentage in 2002 by Industry Segment and for NSDJA Members

Expense control represents the second most important of the profitability variables. Unfortunately, expense ratios tended to move upward in every single segment. Most of the upward movement is attributable to increases in payroll expense, especially health insurance. Moving forward, payroll costs need to be the primary focus of management.

Exhibit 4

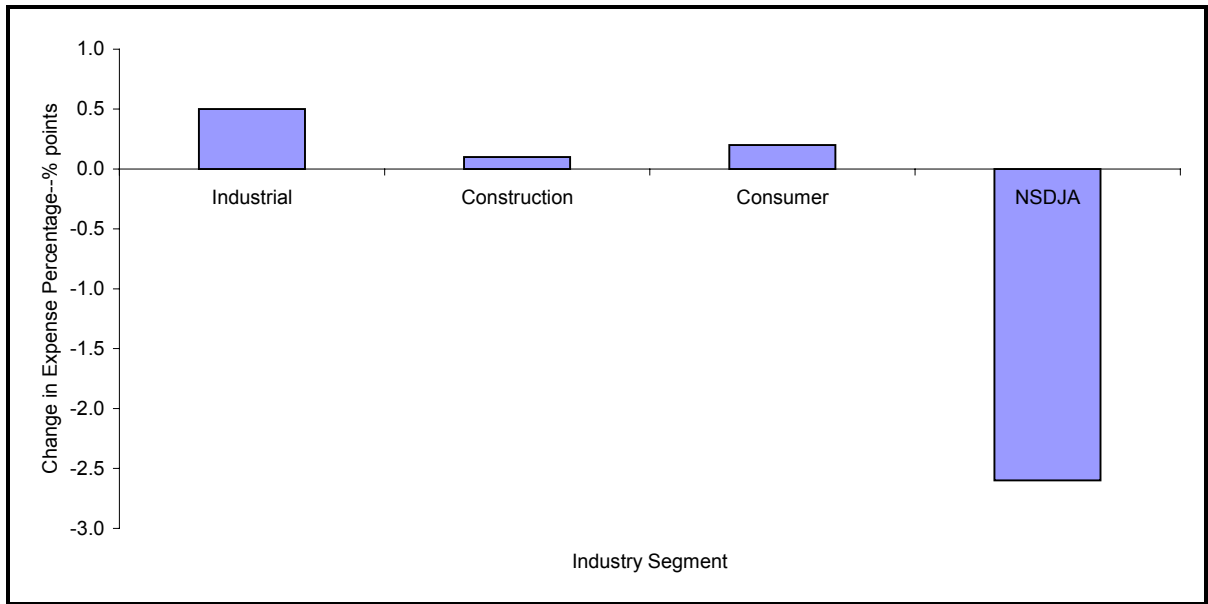


Exhibit 5 The Change in Inventory Turnover in 2002 by Industry Segment and for NSDJA Members

Inventory turnover has only a modest impact on profitability, but it has a huge impact on cash flow. In a period of slow (or even negative) growth, inventory turnover takes on much greater importance than in rapid growth periods. The trend in inventory turnover was uniformly bad in 2002 with small, but important declines in every segment.

To the extent that the turnover decline represents an attempt to improve service in a slow economy, there is no cause for immediate alarm. Better times will bring turnover back in line. However, if the decline in turnover reflects dead items that have not been purged from the assortment, turnover has the potential to be a major long-term problem.

Exhibit 5

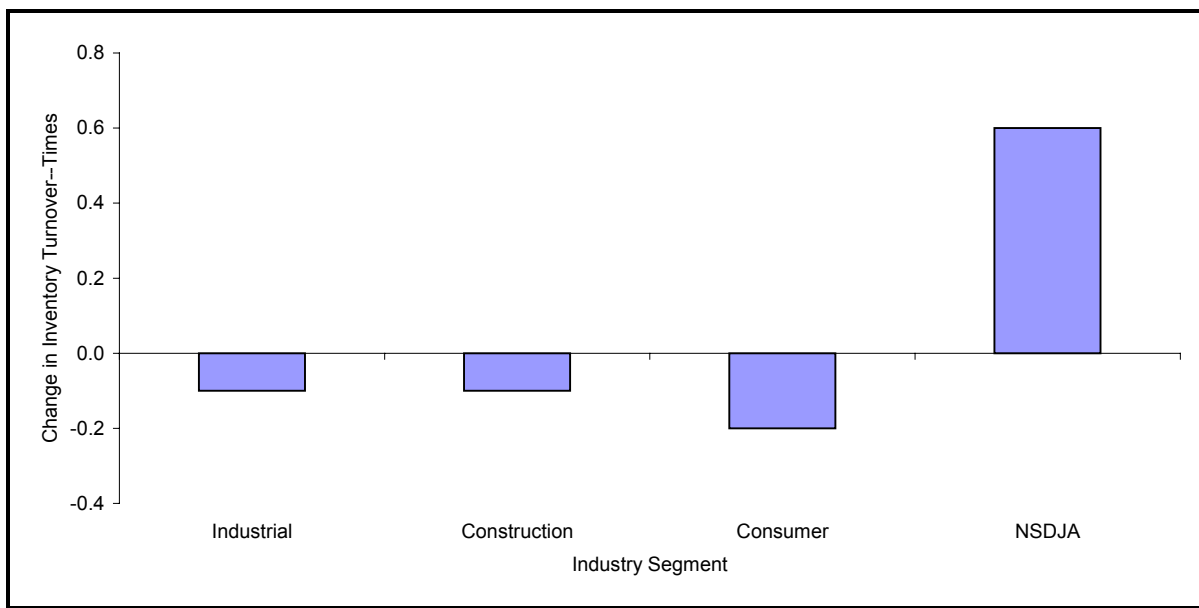


Exhibit 6 The Change in the Average Collection Period in 2002 by Industry Segment and for NSDJA Members

The average accounts receivable collection period typically varies by one to one and a half days in most industries each year. In 2002, every industry segment was well within this range. Only figures outside of this range would represent important improvements or declines in performance.

Exhibit 6

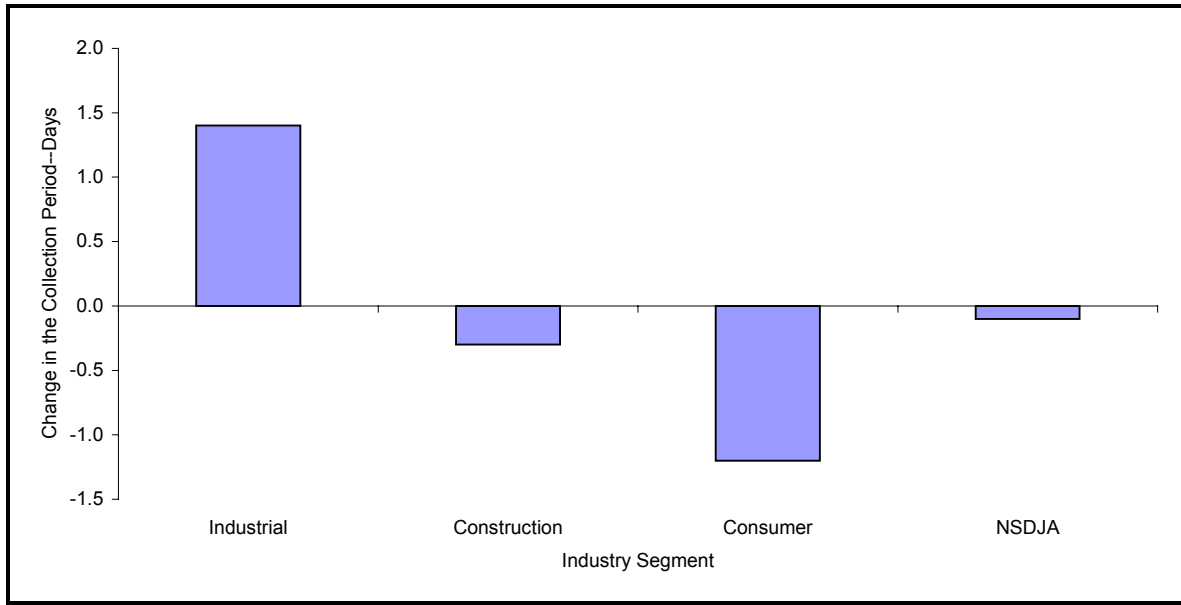


Exhibit 7 Return on Assets for the Typical and High-Profit NSDJA Member

Despite the on-going profitability challenges in distribution, virtually every segment has its winners and losers. NSDJA is no different in that regard. Exhibit 7 suggests that the potential exists to control the profit variables and produce demonstrably superior profit results.

Exhibit 7

