

Make Your Industrial Distribution Business Even Better with Performance Metrics



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Now, more than ever, industrial distributors need to have their finger on the pulse of their business. They need to know not only how they're doing, but the state of their industry and how they compare to industry peers.

Most distributors can justifiably feel pretty good about their recent operating performance. A growing manufacturing economy has helped generate reasonable sales growth for most firms.

At the same time, there is continual pressure on gross margins from both existing and potentially new competitors. Upward pressures on costs, particularly payroll, refuse to go away.

A distributor's [business management ERP software](#) should help them determine the state of their business with a wide variety of tools and reports to give the needed up-to-date information.

Three Questions Industrial Distributors Should Ask

Dr. Albert Bates, founder of the [Profit Planning Group](#), states that you can't run a business in today's competitive environment without benchmarks - you have to have metrics.

He recommends that distributors ask themselves three key questions:

How are we doing?

What is the typical level of profitability in the industry?

How good can we be?

What results are being generated by the most successful firms?

How do we get to high-profit results?

Which of the Critical Profit Variables (CPVs) appear to drive profitability?

[Profit Planning Group](#) recently conducted a study involving about 15 different lines of trade across distribution and they asked, what causes people to be profitable?

They found that about 10% of firms produced high profit on a consistent basis. To find out why, they looked at six factors:

- **Sales Size**
- **Sales Growth**
- **Gross Margin Percentage**
- **Operating Expense Percentage**
- **DSO (Day Sales Outstanding)**
- **Inventory Turnover**

Of the six factors, they found that Gross Margin and Operating Expenses were the most powerful in terms of driving profitability. In a recent article for MDM magazine, [Little Things Mean a Lot](#), Dr. Bates provides small steps to take to be able to improve your gross margins and expenses at the same time.



Key performance statistics every industrial distributor should measure

According to Profit Planning Group, every industrial distributor should be measuring these metrics or KPIs:

Performance Results

- **Profit Margin (pre-tax) Percentage**
- **Return on Assets Percentage**

Critical Profit Variables

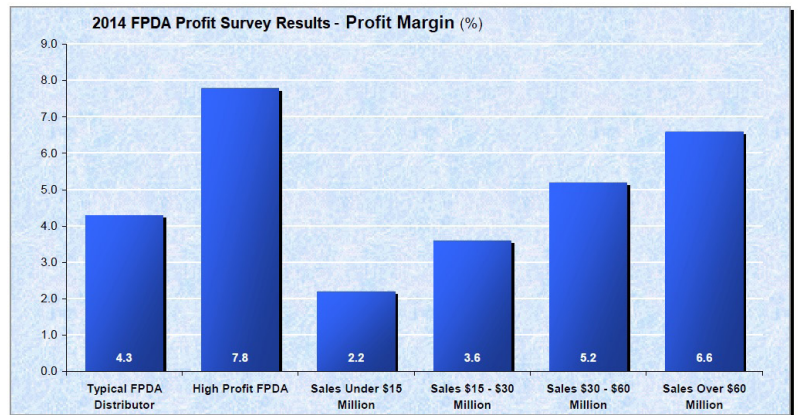
- **Sales per Employee** - Measures employee productivity
- **Total Gross Margin Percentage** - Reflects the ability to manage COGS effectively
- **Operating Expense Percentage** - Focuses on expense control
- **DSO (Day Sales Outstanding)** - Average A/R Collection Period
- **Inventory Turnover (times)** - Reflects accounts receivable collection practices

The first question above is easily answered by examining the two performance metrics. These figures present two different measures of profit.

Profit Before Taxes % measures pre-tax profit as a percent of revenue.

Return on Assets (ROA) calculates the same pre-tax profit figure as a percent of the total asset investment in the business.

The second question is answered by obtaining metrics in order to compare your business to others in your industry.



How can you rate yourself against the competition?

Many trade associations like AHTD, FPDA, MCAA, NAHAD, and NFPA provide industry reports providing a wealth of information that allows you to benchmark your organization against peers and keep on top of industry trends and forecasts.

To benchmark yourself against your peers, several trade associations offer an annual **Profit Report** using member data and prepared by the Profit Planning Group.

The **FPDA Motion & Control Network** (FPDA) and the **Association for High Technology Distribution** (AHTD) both offer several benchmarking reports, including the **Profit Report**.

The Profit Report is an annual financial analysis of typical distributor performance in terms of sales growth, return on investment, gross margin, and additional comparative financial performance information.

Participating members are provided an individual Company Productivity Report, which can be used to compare company profitability to their peers in the industry.

Comprehensive data is provided including the Critical Profit Variables (CPV) listed above for distributors broken down by annual Sales and listed by **Typical Distributors and High Profit Distributors**.

The report lists comprehensive data on the following categories: income statements, return on investment, expense in relationship to gross margin, balance sheet, financial ratios, asset productivity, growth and cash sufficiency, operations, sales profile, and employees. The results in reports can also be broken down by Line of Business, Region, and Trends.

For example the FPDA Report breaks down the Line of Business into distributors who have and emphasis in the following sales categories: Hydraulic emphasis, Mixed emphasis, and Warehouse Assembly Percentage under and over 15%.

Dr. Bates of Profit Planning Group explains why it's important to participate in these Benchmarking Reports. Click link for [YouTube video](#).



The **Association for Hose & Accessories Distribution** (NAHAD) in partnership with CoMetrics provides participating member companies with confidential, leading-edge business insights through their **Distributor Performance Dashboards** (DPD). Participants are able to compare their company to others in the industry, year-over-year, in complete confidence and with total security - all at no cost.

Key benefits include:

- Perform your annual business 'Fiscal Check-Up'
- Develop a history of comparable, annual growth data
- Identify the 'low-hanging fruit' to achieve the easiest, quickest financial benefits
- Achieve measurable performance and productivity improvements
- Obtain the key business metrics and data necessary for successful succession planning

The **NFPA** provides members with a **State of the Fluid Power Industry Distributor Survey** which includes data from participating members on current month and annual shipments, employment and backlog figures.

Industrial Distribution Industry Reports

To understand how your company is doing, you'll also need to know the current status of your industry. The following associations are also a good resource to use if you're thinking of expanding your line card and services.

NFPA - The National Fluid Power Association



The NFPA provides a Market Information Executive Summary Report, collecting data from multiple NFPA market reports to deliver a quarterly snapshot of the current and future market conditions in the fluid power industry. The reports used to create this snapshot include:

- **The Confidential Shipments Statistics (CSS) Program** - A monthly source of aggregated industry data for the U.S. fluid power industry, allowing participants to understand current trends and benchmark company performance.
- **NFPA Forecast: U.S. Customer Markets** - A quarterly report from ITR Economics that includes a domestic outlook and commentary on the current year and next two years ahead for our industry and 29 major customer markets.
- **Global Market Reports and Forecasts** - A collection of global market reports prepared by Oxford Economics that investigate our global marketplace through a variety of detailed analysis and demand forecasts of popular customer markets, all broken down by country.
- **Customer Market File (CMF)** - Monthly data and trend graphs of key customer markets, leading economic indicators, and producer pricing statistics that allow users to track changes, identify trends, and develop projections.

The NFPA holds an annual **Industry & Economic Outlook Conference** featuring top economic experts providing forecasts and economic information. The NFPA also publishes an **Annual Report on the US Fluid Power Industry**, which reviews both the size and economic impact of the industry, as well as explores the energy consumption, best practices and current R&D directions of fluid power technology.

NAHAD - The Association for Hose & Accessories Distribution



NAHAD, in partnership with Cleveland Research Company, provides a monthly ***Industry Trends Report***, which gives a monthly snapshot of NAHAD member sales activity, new orders, market trends and business forecasts, as compiled from NAHAD member input on a simple, quick, completely confidential online survey.

NAHAD also offers a quarterly ***Markets Monitor Report***, produced in partnership with MDM Analytics, which provides pricing trends and market data for five common industrial product groups sold by NAHAD members: hydraulic hose, industrial hose, conveyor belts, transmission belts, and seals and o-rings. The Reports provide a national benchmark and comparisons of the latest quarterly data with the previous quarter as well as the previous year.

And each week, NAHAD sends members the weekly NAM Economic Report published by the National Association of Manufacturers.

AHTD - Association for High Technology Distribution



AHTD members have access to the quarterly reports by ITR Economics, a global economic forecasting and consulting firm. These reports allow members to know exactly where your markets are now and what growth rates to expect for the next couple of years. Business leaders, industry organizations, financial advisers, and banking institutions around the world rely on ITR Economics forecasting to identify key economic trends, to pinpoint when changes will occur, and to determine what actions to take to position themselves for future growth.

MCAA - The Measurement, Control & Automation Association



The MCAA publishes an ***Annual Market Forecast***. The report, prepared by the analysts at Global Automation Research, focuses on the Process Instrumentation and Automation (PI&A) markets in both the United States and Canada. Twelve industry segments and product categories are examined in-depth, with a forecast timeline extending to 2022.

They also provide a number of research articles on market opportunities in the measurement, flow control and automation field in their ***Markets Insights*** section of the website.

MCAA - Motion Control & Motor Association



The MCMA compiles detailed market data from a number of industry sources, including motion control companies. MCMA develops quarterly statistical reports and market opportunity studies.

The MCMA provides the following quarterly reports:

- Distributor Sales - Summary of sales volume and growth, regional distribution of sales, sales by product category.
- Manufacturer (Supplier) Sales - Summary of orders & shipments
- Economic Indicators for US Manufacturing by Industry
- Quarterly Trend Analysis Report of the Motion Control Market - Growth Rate, Orders and Shipments by product line and category.

MDM - Modern Distribution Management

MDM magazine publishes an annual ***Economic Benchmarks for Wholesale Distribution*** - comprehensive economic reference guide to the U.S. wholesale distribution industry compiled using a model originally developed by Dr. Adam Fein and Pembroke Consulting Inc. This report is based on information collected by the U.S. Census Bureau, the Bureau of Labor Statistics and the Bureau of Economic Analysis and contains information on: **Key Performance Statistics, Share of Revenue by End-Customer Market, Revenue Growth, Employment Growth, Inventory-to-Sales Ratio, Trend Data** and more.

Software to Run Your Industrial Distribution Efficiently

Now is the time to analyze your business and compare it to similar organizations in your marketplace to determine the steps needed to make it more competitive and profitable.

TrulinX software by Tribute, Inc. can help you run your industrial distribution business efficiently to put the steps in place recommended by Profit Planning Group. You'll have the tools needed to increase gross margins, decrease operating expenses through many time saving features, increase inventory turnover, and reduce average A/R collection period (DSO).

TrulinX will allow you to improve and track your performance, ensuring you are profitable and responsive in this tough market.

About Us

Tribute Inc. is a provider of industrial distribution management software with over 35 years of experience in the fluid power, motion control, industrial hose, fluid handling, pump, sealing, instrumentation, process control, and automation marketplace.

Tribute's flagship product, TrulinX, has features to help manage complex fabrication projects. No other software system provides the level of sophistication that TrulinX does in tracking and managing assemblies, subassemblies, labor, and burden down to the component level.

Tribute is a member of many trade associations including AHTD, FPDA, ISD, GFA, NAHAD, NFPA and NIBA. Tribute partners with manufacturers including **Bosch Rexroth, ContiTech, Dixon Valve & Coupling, Eaton Corp., Gates Corp., Garlock Sealing Technologies, Pall Corporation, Parker Hannifin, Sun Hydraulics**, and is headquartered in Hudson, Ohio.

TrulinX

Domain Expertise

TrulinX software is ideally suited to help you successfully manage your fluid power, motion control and automation distribution & fabrication business because of our knowledge and industry focus.

Implementation Team

Our experienced transition team has worked and been trained in your industry. They train your team onsite to get your business up and running quickly and efficiently.

Return on Investment

With a staff that truly understands your unique business requirements and a timely implementation, you will realize your ROI much more quickly.

Customer Service

Our knowledgeable and friendly support staff still answer the phone, and over 90% of support calls are resolved in the first day, statistics unmatched in our industry!

Customer Commitment

We are 100% committed to your success because it's a reflection of our success.

