



# Profit Matters

## Lesson 1 – Getting to Gross Profit

16 August 2021

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Chief Financial Officer – World Floor Covering Association



# About me

- Celebrating 37 years in flooring nearly 30 @ Shaw
- IE by degree 1<sup>st</sup> 8 years in carpet manufacturing
- 5 years of logistics experience
- Directed the Operations activities of Shaw's retail venture
- Brought sales automation to over 1100-member sales force
- Director of Digital Marketing and Advertising
- Started multiple successful business ventures
- Significant consulting experience in the flooring industry
- Joined the WFCA 7 years ago and oversee the Finance/HR/Technology





# Profit Matter Expectations

- Finance/Accounting/Business Management from an owner/manager perspective
  - Understanding key financial concepts and how they impact your business
  - How to read and understand financial statements (P&L, balance sheet, etc.)
  - How to calculate key financial ratios and what to do with them
  - Budgeting process
  - Revenue
  - Expenses
  - Capital concepts
  - Fixed assets & depreciation
  - ... and much more.
- Benchmarking
- Profitability Improvement



# Benchmarking

- WFCA's Financial Management Report
- New Business Intelligence Tool
  - Powered by RFMS
  - Aggregated (anonymous) data from over 1000 flooring dealers
    - Retail
    - Commercial
    - Builder
    - Regional
    - Size
  - Near-real-time feeds





# Basic Financial Concepts & Terms

## Income Statement (P&L) Items

- Revenue
  - Operating (Sales)
  - Non-operating
- Cost of Goods Sold
- Expense
  - Operating
  - Non-operating
- Profit (Income)
  - Gross
  - Net

## Balance Sheet Items

- Assets
  - Variable
  - Fixed
- Liabilities
  - Short-term
  - Long-term
- Owners' Equity



# Income Statement (P&L) – Basic Structure

Revenue (sales)

- Cost of Sales (GOGS)

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= Gross Profit (margin)

- Operating Expense

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= Operating Income

+ Non-operating Income

- Non-operating Expense

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= Net Profit (income) Before Tax





# Income Statement (P&L) YoY 2020 vs 2019

Industry Reporting for WFC

Industry Profitability ▾ / Company Averages ▾

= 2020/01

= 2020/12

= Year Over Year

= Sales Income

## Income Report by Company Average

	Current \$	% of Sales Current	Prior Period \$	% of Sales Prior Period	% Change
Total Sales Income	\$12,835,559		\$12,879,642		
Cost Of Sales	\$8,719,885	67.94 %	\$8,834,867	68.60 %	-0.66 %
Gross Profit	\$4,115,674	32.06 %	\$4,044,775	31.40 %	0.66 %
Operating Expense	\$3,512,538	27.37 %	\$3,525,125	27.37 %	-0.00 %
Operating Profit	\$603,137	4.70 %	\$519,650	4.03 %	0.66 %
Other Income	\$292,109	2.28 %	\$131,319	1.02 %	1.26 %
Non Operating Expense	\$59,042	0.46 %	\$85,347	0.66 %	-0.20 %
Net Profit before taxes	\$836,204	6.51 %	\$565,622	4.39 %	2.02 %

Operating

Non-Operating



# Income Statement (P&L) YoY 1<sup>st</sup> Half 2021 vs 2020

Industry Reporting for WFCB

## Industry Profitability ▾ / Company Averages ▾

= 2021/01

= 2021/06

= Year Over Year

= Sales Income

	Current \$	% of Sales Current	Prior Period \$	% of Sales Prior Period	% Change
<b>Total Sales Income (Revenue)</b>	<b>\$6,656,719</b>		<b>\$5,813,153</b>		
<b>Cost Of Sales</b>	<b>\$4,518,302</b>	<b>67.88 %</b>	<b>\$3,944,456</b>	<b>67.85 %</b>	<b>0.02 %</b>
<b>Gross Profit (Income)</b>	<b>\$2,138,418</b>	<b>32.12 %</b>	<b>\$1,868,697</b>	<b>32.15 %</b>	<b>-0.02 %</b>
<b>Operating Expense</b>	<b>\$1,748,681</b>	<b>26.27 %</b>	<b>\$1,624,996</b>	<b>27.95 %</b>	<b>-1.68 %</b>
<b>Operating Profit (Income)</b>	<b>\$389,736</b>	<b>5.85 %</b>	<b>\$243,701</b>	<b>4.19 %</b>	<b>1.66 %</b>
<b>Other Income (Revenue)</b>	<b>\$135,689</b>	<b>2.04 %</b>	<b>\$94,079</b>	<b>1.62 %</b>	<b>0.42 %</b>
<b>Non Operating Expense</b>	<b>\$34,927</b>	<b>0.52 %</b>	<b>\$27,567</b>	<b>0.47 %</b>	<b>0.05 %</b>
<b>Net Profit before taxes</b>	<b>\$490,499</b>	<b>7.37 %</b>	<b>\$310,213</b>	<b>5.34 %</b>	<b>1.97 %</b>

Operating

Non-Operating





# Revenue

- Revenue is generally defined as cash in-flow resulting from activities of your business.
  - Operating Revenue – cash in-flow from primary activity (sales)
    - Includes sales of products and services (installation)
    - “Top-line”
  - Non-operating Revenue – cash in-flow from secondary activities
    - Interest
    - Investment gains



# Operating Revenue (Sales)

## Gross vs. Net

Gross Sales

(-)Less

Coupons/discounts

Sales tax collected

Returns and allowances

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= Net Operating Revenue (Net Sales)





# 2020 vs 2019 Comparison

Industry Reporting for WFC

Log



## Industry Sales ▾ / Store Type Averages ▾

= 01/01/2020   = 12/31/2020   = Year Over Year   = Delivered Sales

☒ Delivered Sales

☐ Written Sales

Data Updated Through:

8/14/2021

Data Sample Size:

■ High

Avg Sales / Store

\$3,722,176

Avg Sales / Store Prior

\$3,752,473

Change

↓ -0.81%

Avg GM / Store

33.28%

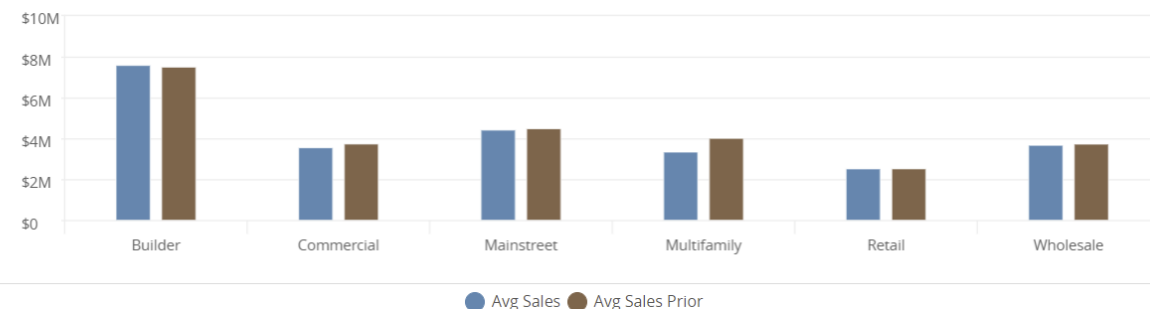
Avg GM / Store Prior

32.82%

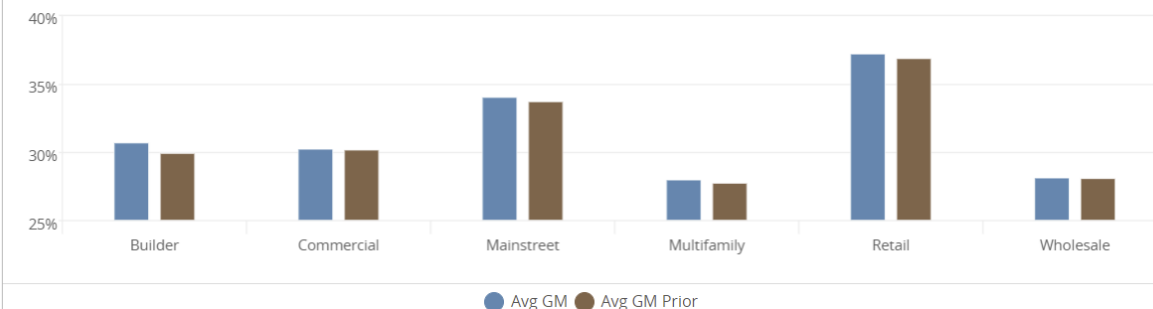
Change

↑ 0.46%

Avg Sales / Store by Store Type



Avg GM / Store by Store Type



Avg Sales Change / Store by Store Type



Avg GM Change / Store by Store Type





## Revenue (Sales) 2020 vs 2019 Comparison

Avg Sales / Store

\$3,722,176

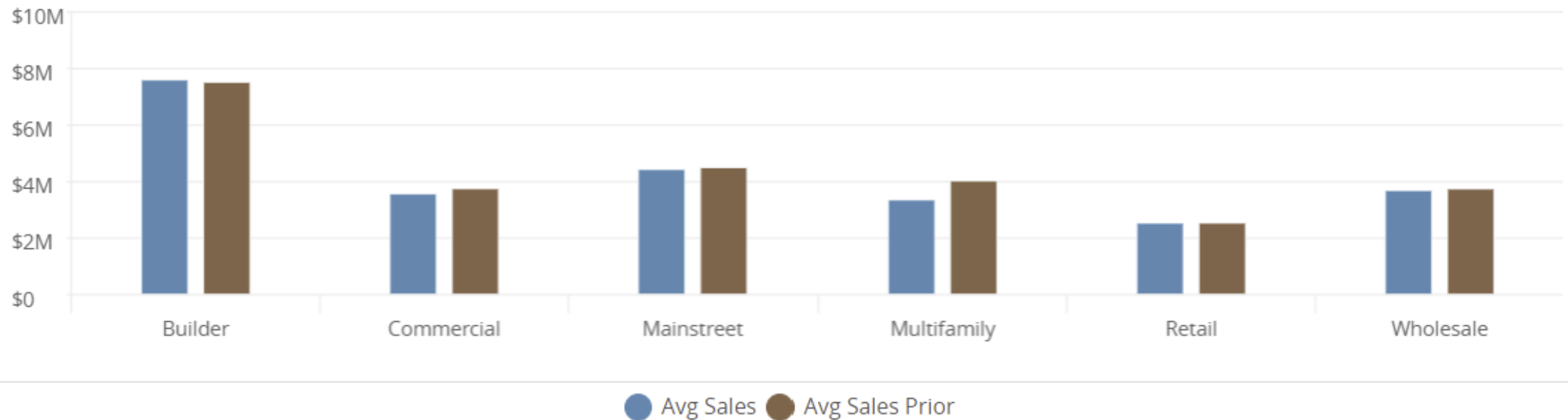
Avg Sales / Store Prior

\$3,752,473

Change

↓ -0.81%

Avg Sales / Store by Store Type







# Revenue (Sales) 1<sup>st</sup> Half 2021 vs 1 Half 2020 Comparison

Avg Sales / Store

\$2,006,149

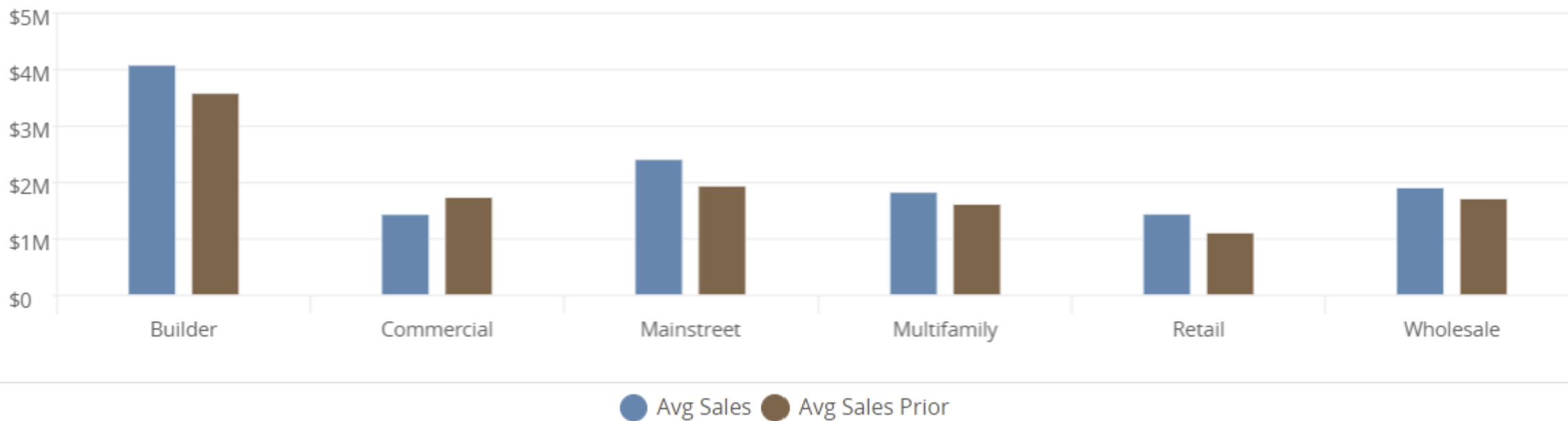
Avg Sales / Store Prior

\$1,697,389

Change

↑ 18.19%

Avg Sales / Store by Store Type





# Revenue (Sales) YoY Change 2020 vs 2019 Comparison

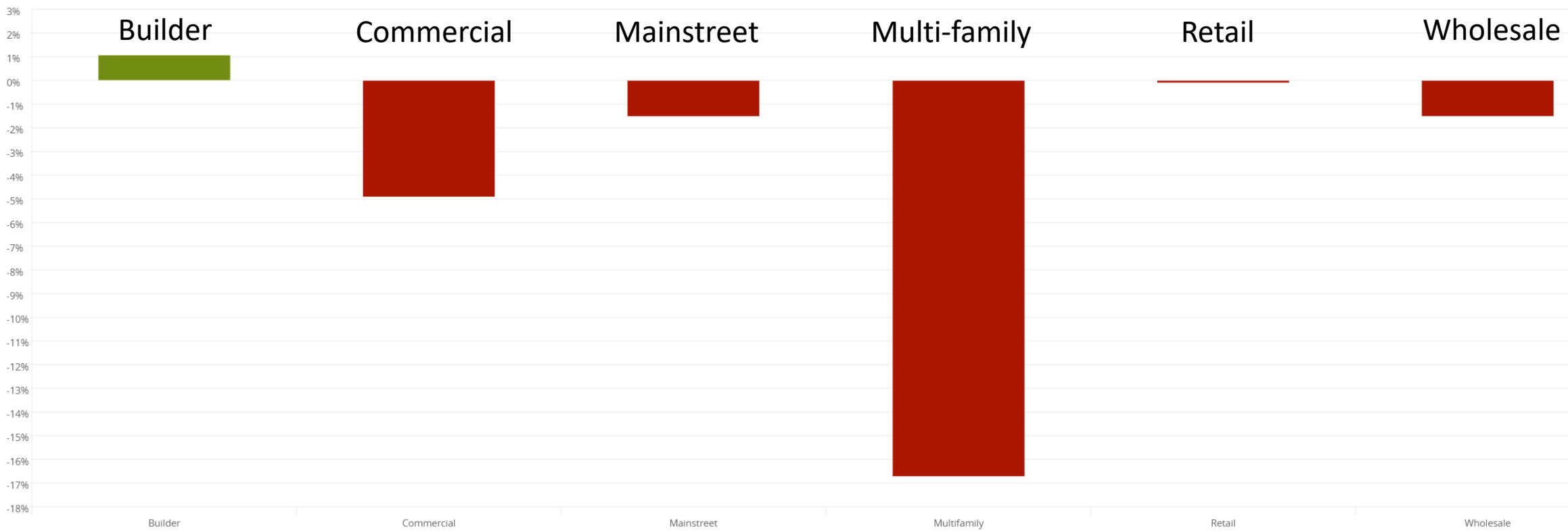
Industry Reporting for WFC

Logout



Industry Sales ▾ / Store Type Averages ▾

Avg Sales Change / Store by Store Type







# Revenue (Sales) YoY Change 1<sup>st</sup> Half 2021 vs 1 Half 2020 Comparison

Industry Reporting for WFC

[Logout](#)



Industry Sales ▾ / Store Type Averages ▾

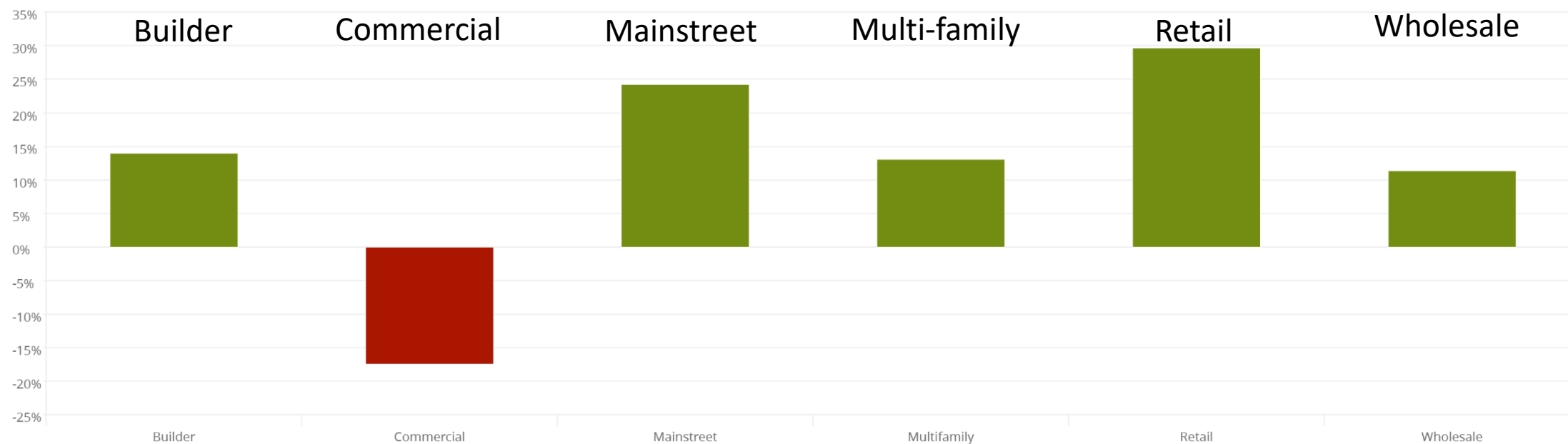
= 01/01/2021

= 06/30/2021

= Year Over Year

= Delivered Sales

Avg Sales Change / Store by Store Type





# Income Statement (P&L) – Basic Structure

Revenue (sales)

- Cost of Sales (GOGS)

= Gross Profit (margin)

- Operating Expense

---

= Operating Income

+ Non-operating Income

- Non-operating Expense

---

= Net Profit (income) Before Tax





# COGS 2020 vs 2019 Comparison

Industry Profitability ▾ / Company Averages ▾

= 2020/01

= 2020/12

= Year Over Year

= Cost of Sales

## Cost of Sales Detail

	Current	Current %	Prior Period	Prior Period %	% Change
Cost of Sales					
Cost of Materials	\$6,063,714	47.16 %	\$6,194,917	48.10 %	-0.93 %
Freight	\$167,752	1.31 %	\$172,612	1.34 %	-0.03 %
Subcontractors	\$1,301,954	10.14 %	\$1,309,191	10.16 %	-0.02 %
Salaries Benefits Installers	\$1,033,272	8.05 %	\$999,597	7.76 %	0.29 %
(Purchase discounts)	-\$64,622	-0.50 %	-\$66,191	-0.51 %	0.01 %
Claims	-\$5,838	-0.05 %	-\$11,325	-0.09 %	0.04 %
Samples & Displays	\$17,590	0.14 %	\$16,694	0.13 %	0.01 %
Use Tax Paid	\$73,329	0.57 %	\$70,280	0.55 %	0.03 %
Cost of Sales - Other	\$142,733	1.11 %	\$149,090	1.16 %	-0.05 %
	<b>\$8,719,885</b>	<b>67.94 %</b>	<b>\$8,834,867</b>	<b>68.60 %</b>	<b>-0.66 %</b>



# COGS 1<sup>st</sup> Half 2021 vs 1 Half 2020 Comparison

Industry Reporting for WFCA



## Industry Profitability ▾ / Company Averages ▾

= 2021/01

= 2021/06

= Year Over Year

= Cost of Sales

	Current	Current %	Prior Period	Prior Period %	% Change
<b>Cost of Sales</b>					
Cost of Materials	\$3,143,421	47.22 %	\$2,760,743	47.49 %	-0.27 %
Freight	\$93,933	1.41 %	\$79,446	1.37 %	0.04 %
Subcontractors	\$696,363	10.46 %	\$573,047	9.86 %	0.60 %
Salaries Benefits Installers	\$521,600	7.84 %	\$467,377	8.04 %	-0.20 %
(Purchase discounts)	-\$36,239	-0.54 %	-\$29,934	-0.51 %	-0.03 %
Claims	-\$3,833	-0.06 %	-\$2,518	-0.04 %	-0.01 %
Samples & Displays	\$5,794	0.09 %	\$6,870	0.12 %	-0.03 %
Use Tax Paid	\$37,472	0.56 %	\$33,270	0.57 %	-0.01 %
Cost of Sales - Other	\$59,791	0.90 %	\$56,154	0.97 %	-0.07 %
	<b>\$4,518,302</b>	<b>67.88 %</b>	<b>\$3,944,456</b>	<b>67.85 %</b>	<b>0.02 %</b>





# Income Statement (P&L) – Basic Structure

Revenue (sales)

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= Gross Profit (margin)

- Operating Expense

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= Operating Income

+ Non-operating Income

- Non-operating Expense

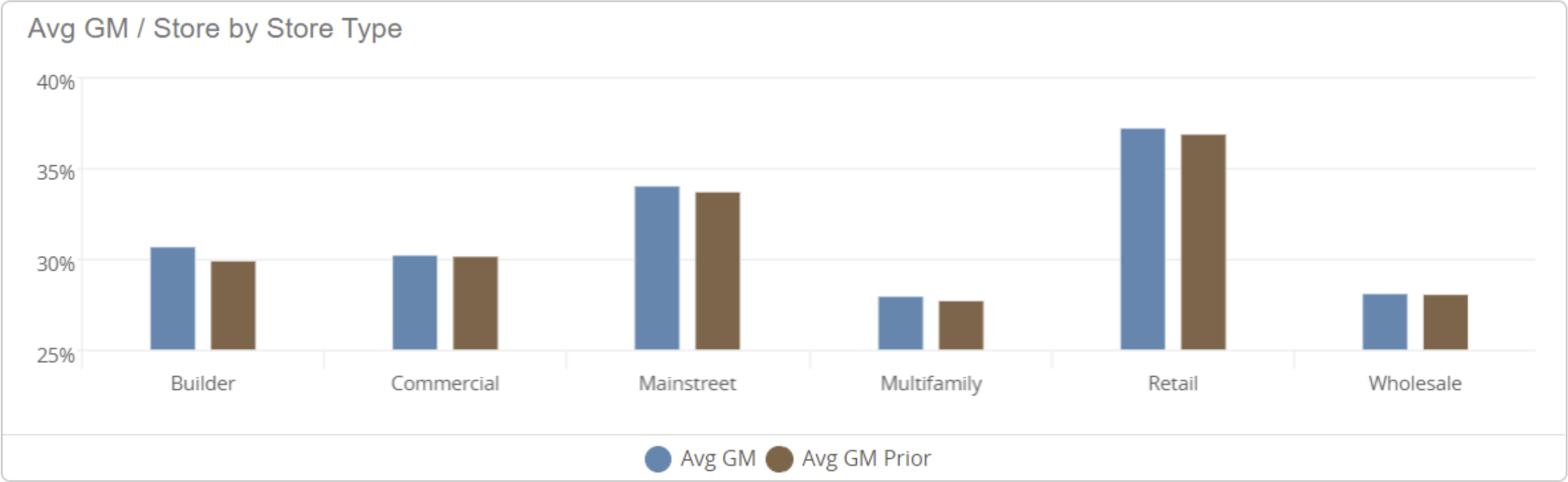
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= Net Profit (income) Before Tax



# Gross Margin % 2020 vs 2019 Comparison

Avg GM / Store	Avg GM / Store Prior	Change
33.28%	32.82%	↑ 0.46%







# Gross Margin % 1<sup>st</sup> Half 2021 vs 1 Half 2020 Comparison

Avg GM / Store

33.33%

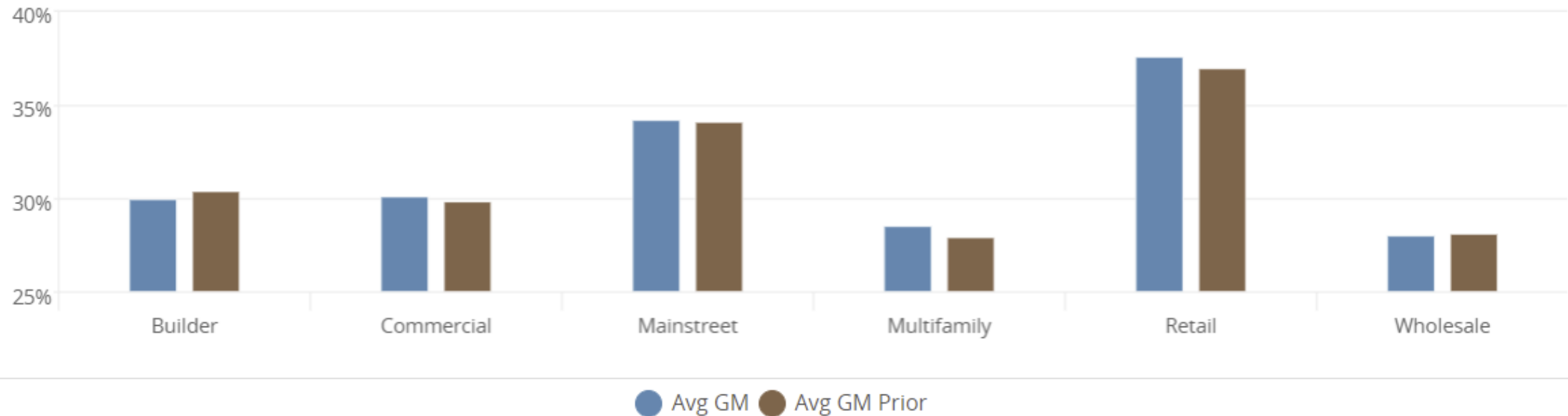
Avg GM / Store Prior

32.90%

Change

↑ 0.43%

Avg GM / Store by Store Type





# Summary

- Primarily focused on:
  - Revenue (operating)
  - Cost of Sales (COGS)
  - Gross Profit
- Next Session we dive deeper into how cost and selling price (product and labor) affect Revenue, COGS and Gross Profit
- Learn concepts of mark-up, margin and how to calculate each
- Learn how to calculate and set prices for product and labor to grow revenue and maximize gross profits





# Thank you!

Q/A

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