



# **Financial Trends in Distribution**

**Between  
2003 and 2007**

**Prepared by Profit Planning Group**

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THE IFDA FOUNDATION FOR  
*Education & Research*

## Introduction

This study of the 2003 – 2007 financial trends in distribution has been completed in order to benefit the foodservice distribution members of the International Foodservice Distributors Association. The association and its Foundation for Education & Research believe that, by having a better understanding of our past, we might better predict and prepare for our future.

The accompanying set of exhibits provides an overview of financial trends in distribution between 2003 and 2007. These exhibits place special emphasis on the changes between 2006 and 2007.

The analysis covers forty different lines of trade in distribution. In developing such a macro-view of distribution, it is not possible to compare most financial ratios directly. For example, some industries have a high gross margin and accompanying high expenses while others have a low gross margin and low expenses.

What is possible, however, is to compare the direction and magnitude of change. The emphasis is on the amount of change seen in performance during the time period covered.

In most of the exhibits, results for all of distribution are divided into subgroups:

- **Industrial** – Industries that primarily serve the factory floor
- **Construction** – Industries that primarily serve the construction trades
- **Consumer** – Industries that sell consumer products or service businesses that sell to consumers
- **IFDA Members** – A subset of IFDA's foodservice distribution members as represented in IFDA's Foodservice Distributor Productivity Financial Report

IFDA is a Washington, D.C.-based trade organization, representing foodservice distributors throughout the U.S., Canada, and internationally. IFDA's 170+ members include headline, systems, and specialty foodservice distributors that supply food and related products to restaurants, institutions, and other food-away-from-home foodservice operations. IFDA members operate more than 700 facilities and sell more than \$100 billion in food and related products to the fastest growing sector in the food industry.

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## Exhibit 1 The Trend in Return on Assets

Profitability results for 2007 demonstrated the beginning of an inevitable “up and down” pattern. For most distributors, Return on Assets (ROA) remained strong in 2007 but did begin to slip. The simplest way to think of 2007 is that it was three-fourths of a very good year and a final one-fourth of a mediocre year.

ROA is the best overall measure of financial performance in distribution. The ratio is net profit before taxes (but after all expenses) expressed as a percentage of total assets. Total assets represents the total investment in the business.

For an individual line of trade, a median ROA of 5.0% is considered the absolute minimum acceptable level of performance. If ROA falls below that level, firms begin to give serious consideration to liquidation in order to re-deploy assets into higher-returning areas. In contrast, a median ROA of 10.0% in an individual line of trade is an indication of a strong, vibrant industry.

### Return on Assets by Year

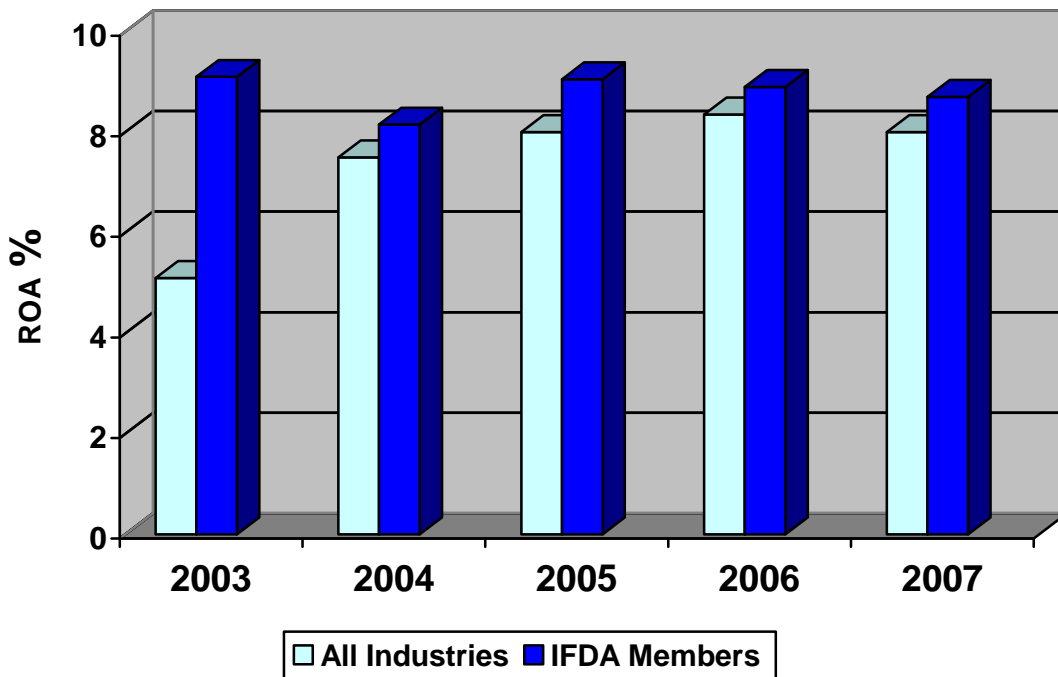


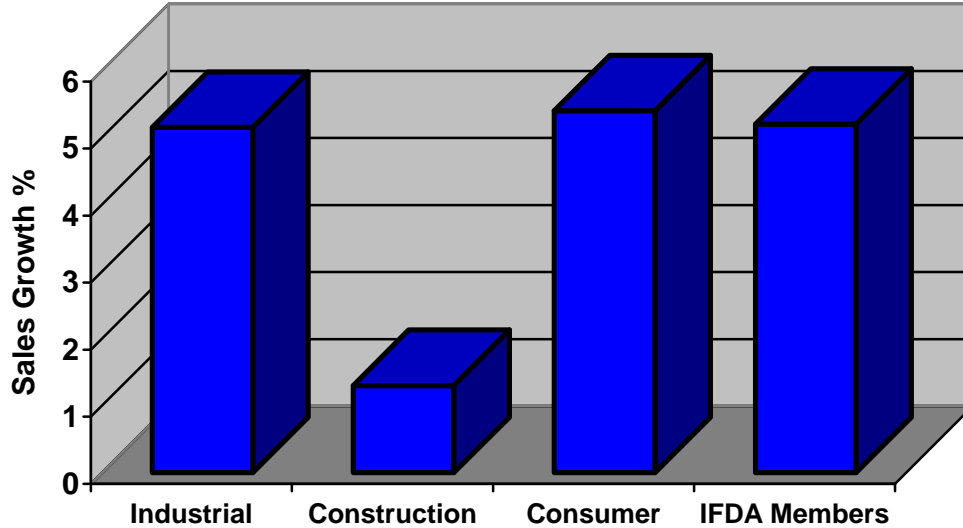
Exhibit 2  
**Sales Growth by Segment**

Since the economic challenges began in the home mortgage arena, distributors in the construction segment have felt and seen the unfortunate impact on sales growth. Even in construction, however, 2007 did see some modest sales growth.

Across all forty lines of trade there was a significant increase in the level of business activity over and above any price increases. A significant part of the growth in the industrial sector was due to the rapid escalation in commodity prices, especially for steel and copper.

Finally, consumer markets continued to serve as the engine of growth during 2007. Growth remained strong in that segment during almost the entire year.

**Sales Growth by Industry Segment  
2007 vs. 2006**



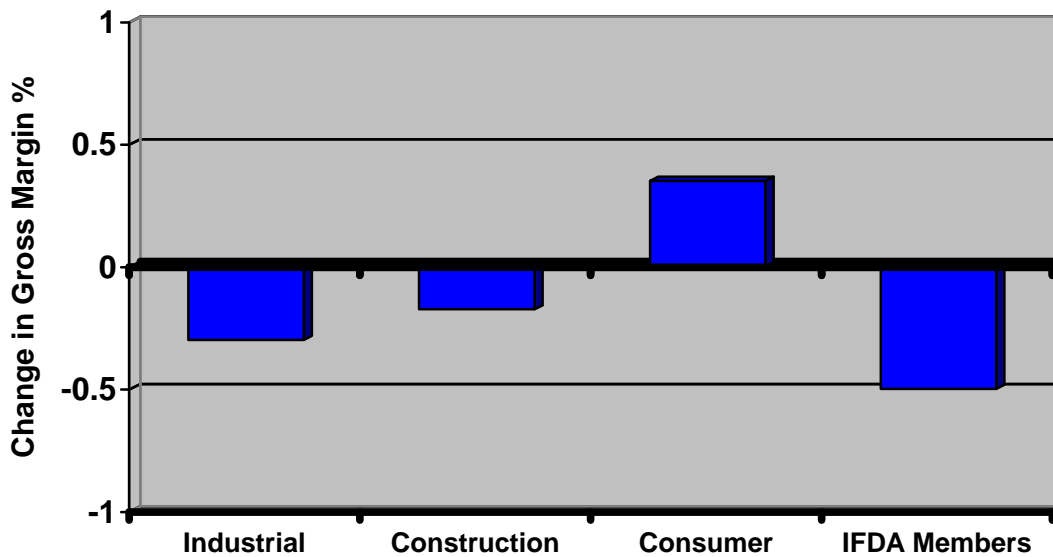
### Exhibit 3

## The change in Gross Margin Percentage

In prior years, most segments of distribution were able to increase their gross margin percentages. In 2007, this trend saw an abrupt interruption.

A significant portion of the problem in 2007 was associated with the price increases that helped drive growth. Price increases from suppliers sometimes become difficult to pass along to customers. In the classic scenario, a 5% price increase from suppliers is partially absorbed and only 3% is passed along to customers. While sales and gross margin dollars rise, the gross margin percentage falls. This has very significant long-term profit implications.

**Change in Gross Margin % by Industry Segment  
2007 vs. 2006**

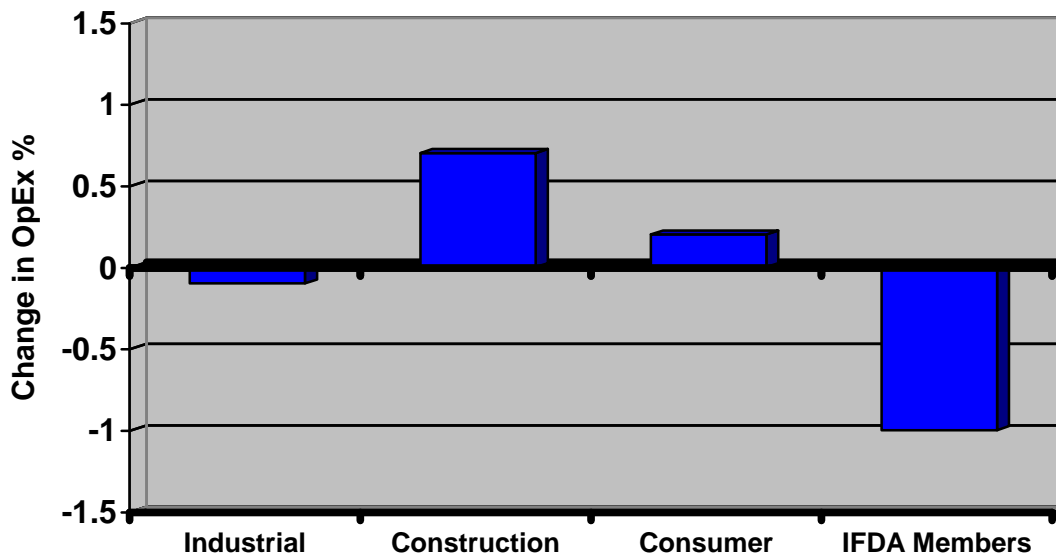


## Exhibit 4 The Change in Operating Expense Percentages

Any time sales growth is diminished, operating expenses as a percent of sales tend to increase. This was the classic pattern followed by the construction segment of distribution. The pattern was also duplicated in the consumer segment where sales continued to grow but not at the spectacular rates seen in previous years.

The Industrial segment was the only one where the operating expense percentage actually fell. In large part, this drop was due to price increases which inflated sales to artificially high levels.

**Change in Operating Expense % by Industry Segment  
2007 vs. 2006**

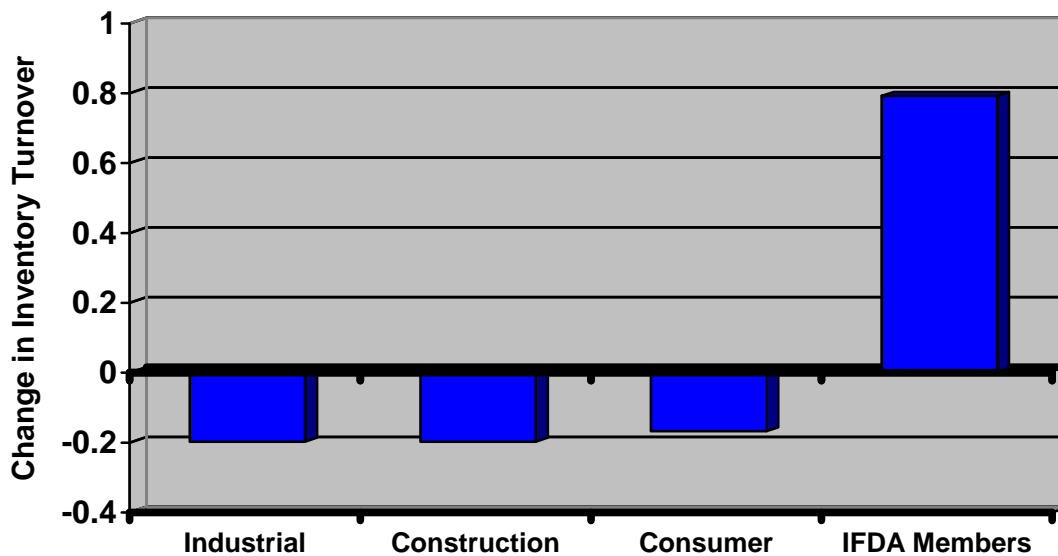


## Exhibit 5 The Change in Inventory Turnover

In 2007, inventory turnover fell in every industry group. It seems likely that the slow down in economic activity in the fourth quarter caught many firms off guard. Sales growth moderated while inventory build-ups were still taking place.

Inventory turnover plays only a minor role in driving profitability. However, it plays a much more significant role with regard to cash flow. The decline in turnover, albeit somewhat modest, is still a concern particularly for highly leveraged firms.

**Change in Inventory Turnover by Industry Segment  
2007 vs. 2006**

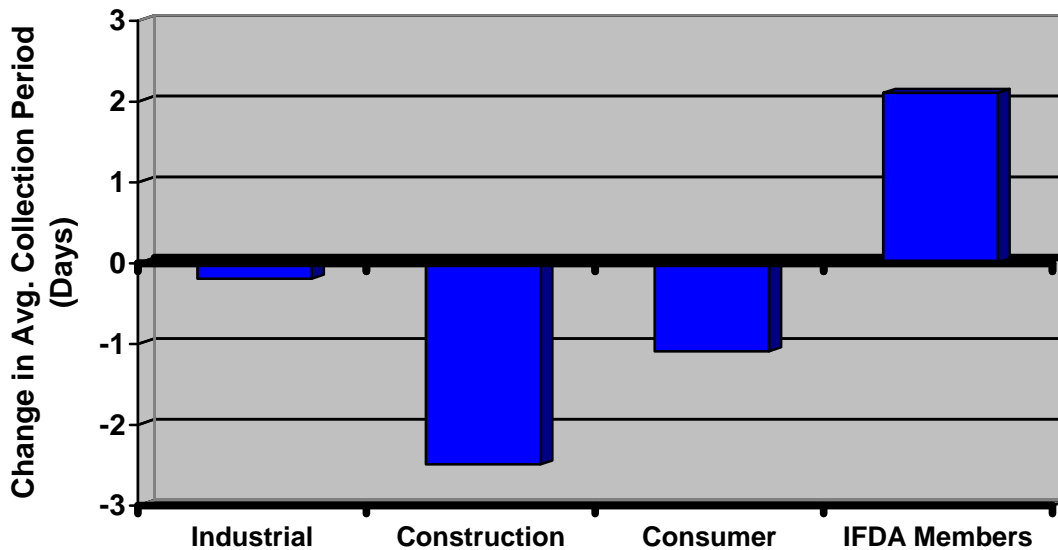


## Exhibit 6 The Change in the Average Collection Period

The collection period decreased in all three segments. This change was an unprecedented movement for the industry, as was the decline in turnover.

The fact that the collection period was improving in light of slower growth is somewhat surprising. Typically, as sales growth lowers, the collection period will increase as customers take advantage of opportunities to delay payment. It is possible that, given the unexpected reduction in sales growth, firms responded by tightening credit and collection policies. Accounts receivable can respond more quickly and easily than can inventory. Faced with some cash flow challenges, cutting receivables may have been the only available course of action.

**Change in Average Collection Period  
by Industry Segment  
2007 vs. 2006**



## Conclusion

It is IFDA's hope and belief that the future will be bright for foodservice distribution. IFDA frequently provides industry research, benchmarking, and operational guides in an effort to arm members with knowledge they need to succeed.

If you would like more in-depth financial results for foodservice distribution, please refer to **IFDA's Foodservice Distributor Productivity Financial Report**. The 28<sup>th</sup> annual edition, published in 2008, is now available. For ordering information, go to [www.ifdaonline.org](http://www.ifdaonline.org) or contact Myra Shelton at (703) 532-9400 x9943.