



NGA / FMS Financial
Management
Conference
Sacramento, CA
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Financial statements – what value do they bring to your operation?

Do your financials provide information – correct and timely – to steer your business?

- 5 to 7 business day turn around on period financial statements
- Weekly production reporting (MAG, FLASH) – early in the week (Monday or Tuesday)
 - Sales comparisons
 - Margins (purchases)
 - Labor
- Is your balance sheet correct? Is it reconciled?
 - If not, your P&L is wrong
 - P&L is simply a “squeeze” between two balance sheets
- **Budget preparation?**
 - If not, how do you effectively communicate your expectations to all levels of the organization?
 - How do you measure effectiveness?
 - Monitor incentive payment plans?
 - PLAN YOUR CASH FLOW and know ahead of time possible pinch points?
- **Period financial statement package**
 - Balance sheet
 - Cash flow statement
 - P&L
 - Budget vs. actual comparison
 - Key balance sheet reconciliation analysis

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Plan your close and execute work ahead!

	Period 9 - ended 9/24/11	Financial statement target date		10/3/2011		
Step	Work flow	Associate responsible	Expected delivery date	Status	Period end workbook updated?	Remarks
1	Cash - all bank accounts reconciled and reconciliations reviewed?	Jon C	Wed after pd close	Done	Yes	Outstanding deposit for store Y, under review
2	Receivables - verified against POS data or subledger	Jennifer J	Tues after pd close	Done	Yes	
3	Inventories					
	Perishable - physical counts entered into inventory system at period end	Jennifer J	Tues after pd close	Done	Yes	Store X - late providing info
	Non perishables - done and entered quarterly	Jennifer J	Tues after pd close	Done	Yes	
4	Coin star verified	Jennifer J	Tues after pd close	Done	Yes	large write off at store Z???
5	Cash on hand verified	Jennifer J	Tues after pd close	Done	Yes	
6	Lottery inventory and AP verified	Jennifer J	Tues after pd close	Done	Yes	
7	Fixed asset additions / deletions reviewed	Jennifer J	Tues after pd close	Done	Yes	
	Depreciation booked	Jon C	Week before close	Done	Yes	Adjusted for current year based on 5% lift of prior year performance
8	Wholesaler rebates and patronage accrued and analyzed	Jon C	Week before close			

Process flow outline weekly production

- **Weekly:**
 - Time & Attendance should be approved, corrected, and in system by end of day Monday.
 - Payroll should be processed, checks printed, and updated by end of day Wednesday.
 - If client wants payroll accrual entry prior to Wednesday, the Gross to Net accrual process should be initiated as soon as time has been entered into system.
 - All AP invoices for the prior week should be posted by end of day Tuesday.
 - All daily sales (CR entries) should be posted daily for the prior day's activities. All CR entries for the prior week should be completed no later than Monday following the week end.
 - All manual checks/EFT payments for the prior week should be posted on Monday following the week end.
 - Ideally, these items should be posted as they occur.
 - Once all CR, AP, CD, & PR entries have posted, the weekly flash reports for the prior week ended can be generated.

Process flow outline

period end

- **Monthly Close:**

- All outstanding items from the bank reconciliation process should be addressed/posted and communicated back to the FMS Treasury Management Department.
- Ensure that all CR, AP, CD entries have been entered for the period just ended.
- Once bank recs have been completed and all entries verified, the monthly preclose should be set to ensure no changes to the cash balance.
- All balance sheet accounts should be reconciled.
- Monthly journal entries should be posted.
- Generate preliminary financial statements and review.
- Make any correcting journal entries/reclassifications.
- Generate final set of financial statements and publish to owners.

Financial Statement Package

- Balance sheet
 - Assets – what you own – ordered in descending liquidity (cash to intangible assets)
 - Liabilities – what you owe – ordered in descending term of payment timing – AP to long term debt
 - Equity – owner’s investment and withdrawals and historic earnings of organization
 - If your balance sheet is not correct, your P/L is inaccurate
 - Your lenders PUT MAJOR value on your balance sheet and its veracity
 - If it is wrong or obviously misstated, you lose credibility instantly
 - P&L – period’s financial results (pd, qtr, YTD) – bottom line performance
 - Key is to put accurate P/L into your manager’s hands ASAP after each week or period end so course corrections can be made

Financial Statement Package

- Statement of cash flows – great summary report indicative of sources and uses of cash for the time frame
 - Earnings at EBTDA
 - Change in current assets and liabilities
 - Financing activity – loans, note payments, capital injection
 - Change in your cash position
 - GREAT planning tool if you are experiencing cash tightness

Budgets – inspect what you expect

Push accountability to all levels of organization

	Actual	Commitment	Last Year	Actual %	Cmt %	LY %	Cmt Var	LY Var	Commitment		LY	
									Volume	Rate	Volume	Rate
Combined Sales	264,053,748	270,992,019	285,956,321	100.00%	100.00%	100.00%	(6,938,271)	(21,902,573)	(6,938,271)	-	(21,902,573)	-
Whse Sales	251,195,627	256,985,096	270,833,183	95.61%	95.12%	95.18%	(5,789,469)	(19,637,556)	(7,071,368)	1,281,899	(20,765,587)	1,128,031
Whse Serv Fees	10,368,224	11,335,131	12,364,201	3.95%	4.20%	4.35%	(966,907)	(1,995,977)	(311,905)	(655,002)	(948,000)	(1,047,977)
Fee Adj	(368,257)	(388,902)	(428,500)	-0.14%	-0.14%	-0.15%	20,645	60,243	10,701	9,943	32,854	27,389
Freight Fees	3,158,896	3,854,750	3,585,961	1.20%	1.43%	1.26%	(695,854)	(427,065)	(106,070)	(589,785)	(274,946)	(152,119)
Allowances	(5,269)	(4,217)	(23)	0.00%	0.00%	0.00%	(1,051)	(5,246)	116	(1,168)	2	(5,248)
Volume Disc	(1,000,113)	(902,296)	(784,672)	-0.38%	-0.33%	-0.28%	(97,817)	(215,441)	24,828	(122,645)	60,163	(275,604)
Pallet allowance	-	-	-	0.00%	0.00%	0.00%	-	-	-	-	-	-
Volume Related Adj	(607,665)	(703,788)	(1,010,686)	-0.23%	-0.26%	-0.36%	96,123	403,021	19,366	76,757	77,492	325,529
Total Whse Sales	262,741,443	270,175,774	284,559,465	100.00%	100.00%	100.00%	(7,434,331)	(21,818,022)	(7,434,331)	-	(21,818,022)	-
Eliminate Interdivision Sales	(2,419,064)	(2,106,941)	(2,355,786)	-0.92%	-0.78%	-0.83%	(312,123)	(63,278)	57,976	(370,099)	180,625	(243,903)
Elim Corp Retail Sales	(91,912,879)	(99,786,457)	(101,770,013)	-34.98%	-36.93%	-35.76%	7,873,578	9,857,134	2,745,789	5,127,789	7,803,010	2,054,124
Net Sales after Elims	168,409,500	168,282,377	180,433,667	64.10%	62.29%	63.41%	127,124	(12,024,166)	(4,630,567)	4,757,690	(13,834,387)	1,810,220
Whse Prod Cost	(244,232,248)	(250,021,260)	(263,169,622)	-92.96%	-92.54%	-92.48%	5,789,012	18,937,374	6,879,747	(1,090,735)	20,177,999	(1,240,625)
Variance to Commitment		ACT	CMT	VARIANCE		VARIANCE EXPLANATIONS						
				\$	%							
TOTAL		31,262,983	24,233,156	7,029,827	29.0%							
TOP 10												
Customer A		2,405,894	-	2,405,894	0.0%	All sales planned through new store opening, but due to delays transition was pushed back						
Customer B		4,432,513	3,165,722	1,266,791	40.0%	Lost volume here due to a competitive opening						
Customer C		3,764,698	3,052,119	712,579	23.3%	Client shopped his business, we lost portion due to competitive pricing issues						
Customer D		5,356,302	4,724,744	631,559	0.0%	New store performing better than planned						

Benchmarking

How do you compare against similar retailers (common wholesaler, trade approach, demographic, or geographic)

- **Benchmarking** is the process of comparing one's business processes and [performance metrics](#) to industry bests and/or [best practices](#) from other industries. Management identifies the best firms in their industry, or in another industry where similar processes exist, and compare the results and processes of those studied to one's own results and processes
- The term *benchmarking* was first used by [cobblers](#) to measure people's feet for shoes. They would place someone's foot on a "bench" and mark it out to make the pattern for the shoes. Benchmarking is used to measure performance using a specific

Benchmarking Best Practices

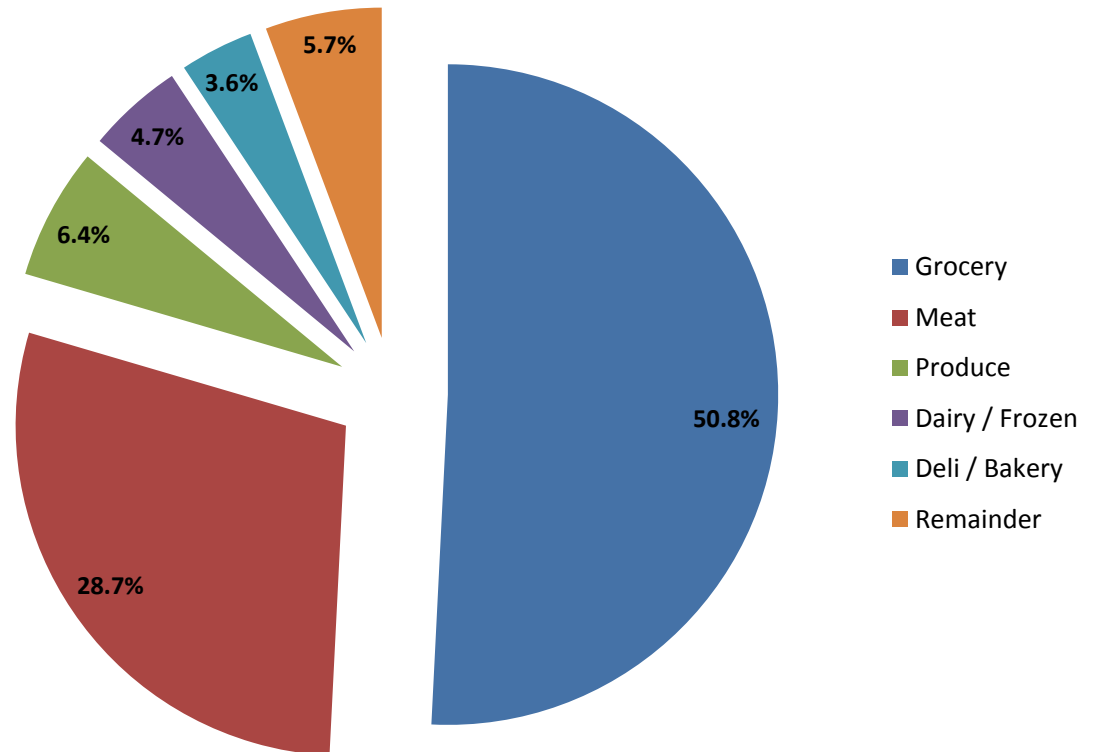
- Identify the top tier in your peer group
 - Identify the traits the “best few” have that separates them from the pack
 - How do YOU compare against these key attributes?
 - How can YOU emulate these to make your business more successful?

Benchmarking – compare yourself to your peers wholesaler analytic

P/L		2010				Balance Sheet results		YE 2010		
Total Sales						Metrics				
Avg Wkly		\$ 136,250				Current ratio		2.11		
Distribution						Quick ratio		0.67		
Grocery		45.7%				Cash ratio		0.37		
Meat		23.9%				Debt-to-equity ratio		2.52		
Produce		7.8%				Debt ratio		0.72		
Dairy		7.7%								
Frozen		4.8%				Inventory Information				
HBC / GM		2.3%					Days Supply		Turns - annually	
Deli		4.4%				GROCERY	46.0		7.9	
Bakery		1.2%				FROZEN	36.5		10.0	
Pharmacy		1.5%				DAIRY	16.5		22.1	
Fuel		0.6%				HBA/GM	183.8		2.0	
Gross Margin						MEAT	13.7		26.7	
Grocery		21.0%				DELI	18.2		20.0	
Meat		26.6%				PRODUCE	9.7		37.5	
Produce		31.5%				FLORAL	63.9		5.7	
Dairy		23.3%				BAKERY	20.2		18.0	
Frozen		25.4%				Overall	36.2		10.1	
HBC / GM		23.4%								
Deli		38.5%								
Bakery		42.7%								
Pharmacy		22.7%								
Fuel		5.1%								
Total		24.5%								
Other Income		2.4%								
Labor										
Productive Wages		10.0%								
Other wages		1.7%								
Taxes / Bennies		2.7%								
Total Wages		11.6%								
Fully loaded wages		14.3%								
Supplies		1.6%								
Advertising		1.2%								
Occupancy		5.6%								
Admin		2.8%								
Total Expenses		25.4%								
Net Income		2.4%								

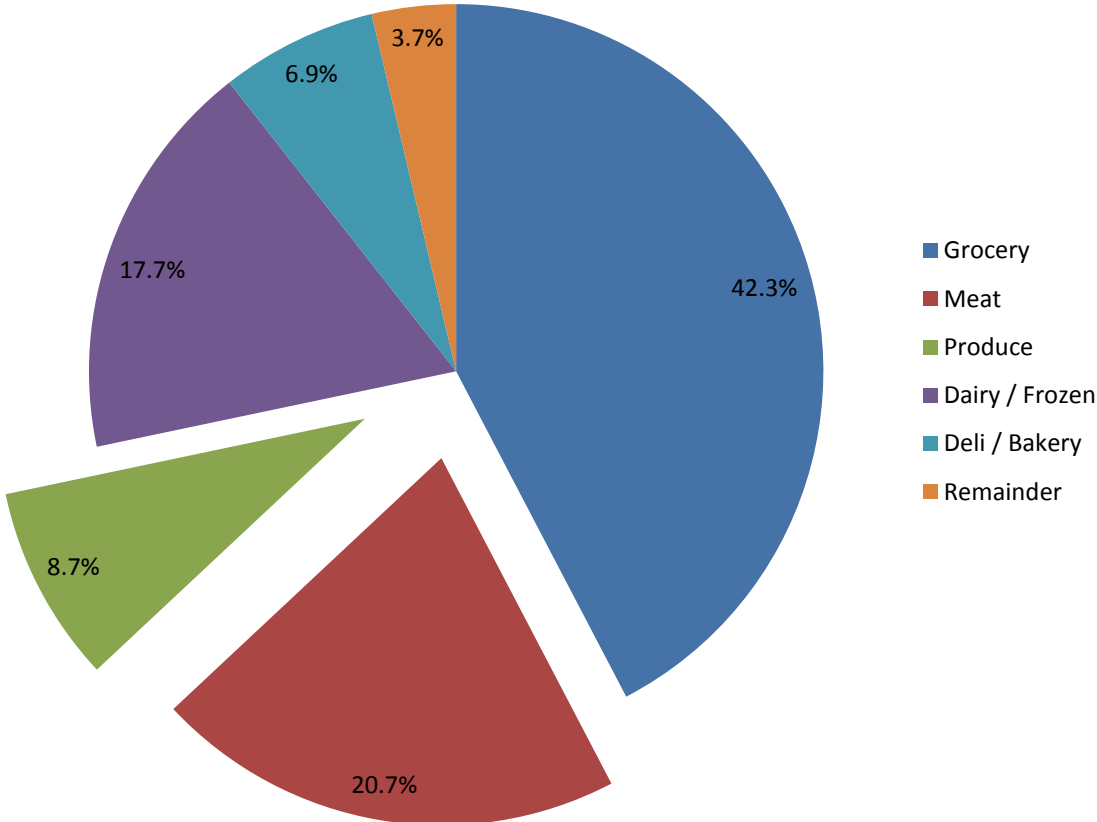
Best Few – Sales Concentration

- Note the combined sales concentration of meat and produce at 35.1%



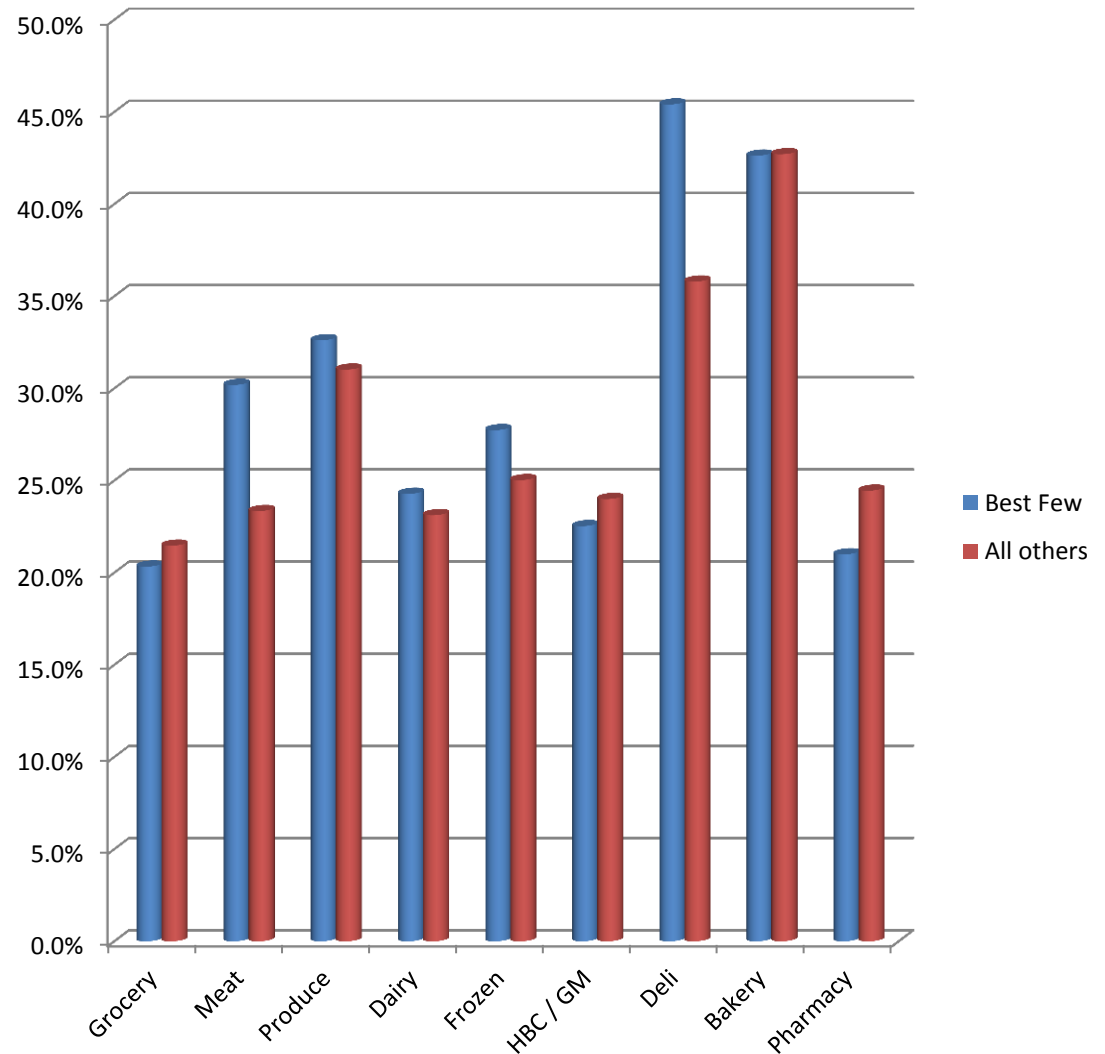
All Others – Sales Concentration

- Note the combined sales concentration of meat and produce at 29.4%



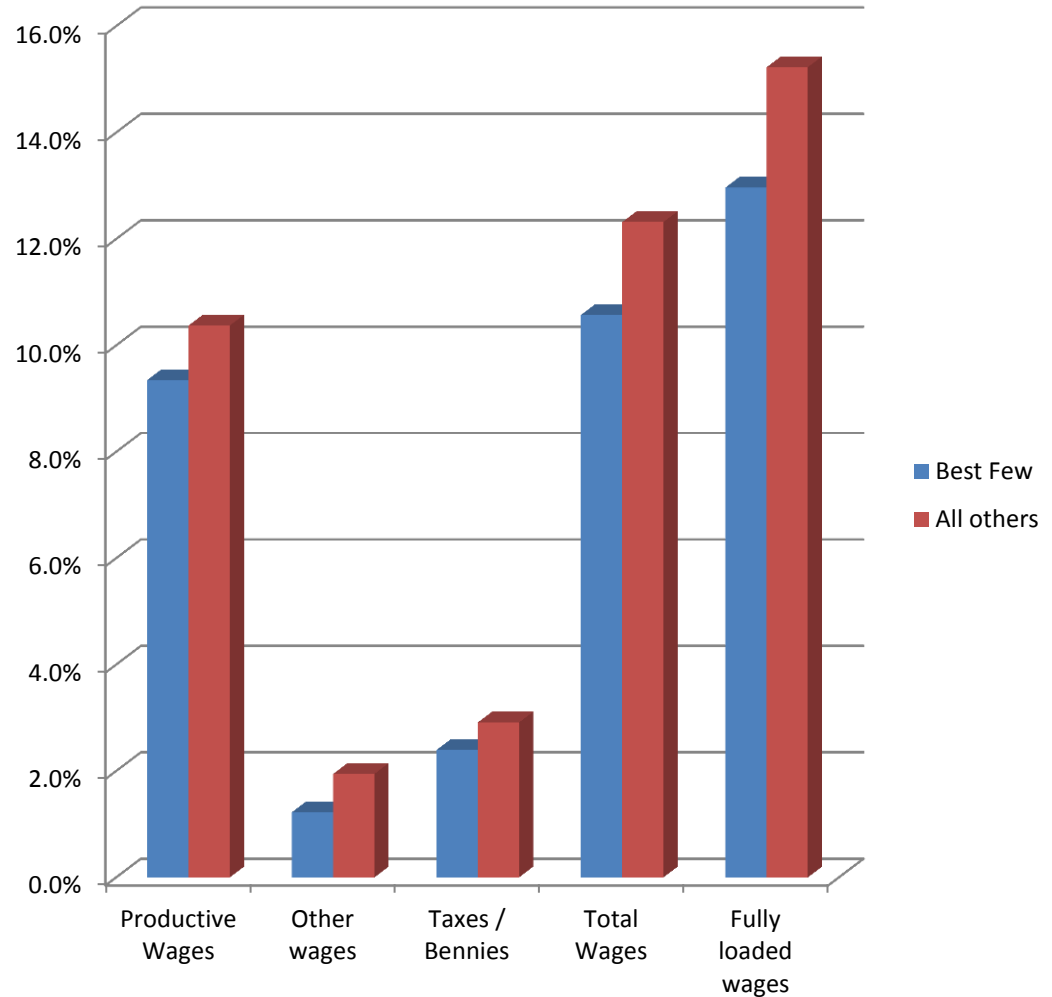
Margins by category – Best Few vs. All Others

- Remember Best Few had almost 25% more concentration in meat and produce, they also had higher margin than All Others in these categories
- Grocery slightly less in Best Few. Perhaps competitive pricing in center store leads to sales increases in perimeter categories?



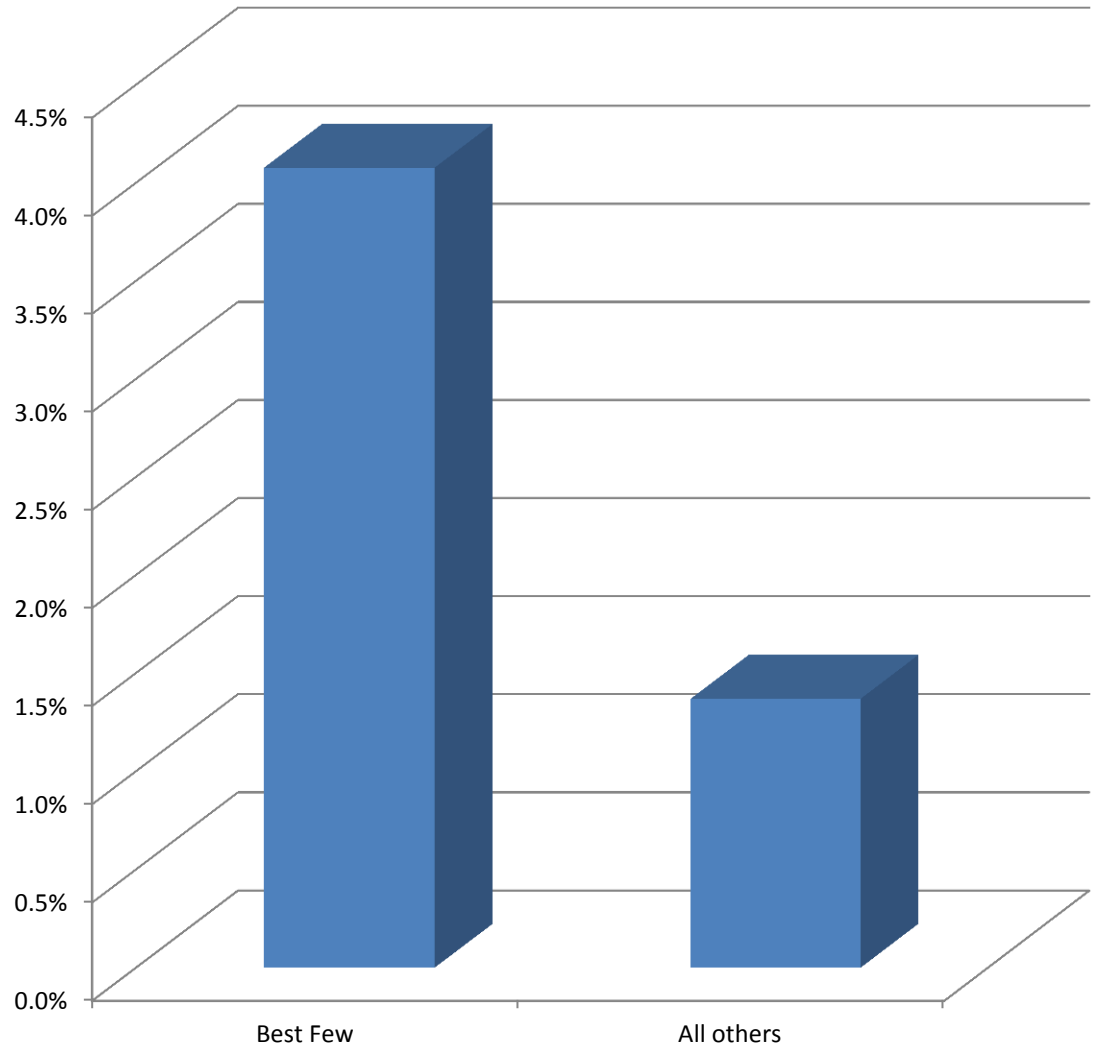
Labor % - Best Few vs. All Others

- Labor for Best Few nearly 200 b.p. better than all others – EVEN WITH higher concentrations in higher labor cost departments as meat and produce



Net Income- Best Few vs. All Others

- Higher concentration in perimeter perishables
- **PLUS**
- Higher margins in those categories
- **PLUS**
- Better expense control, especially in labor
- **EQUALS**
- Substantially better bottom line performance 4.1% vs. 1.4%



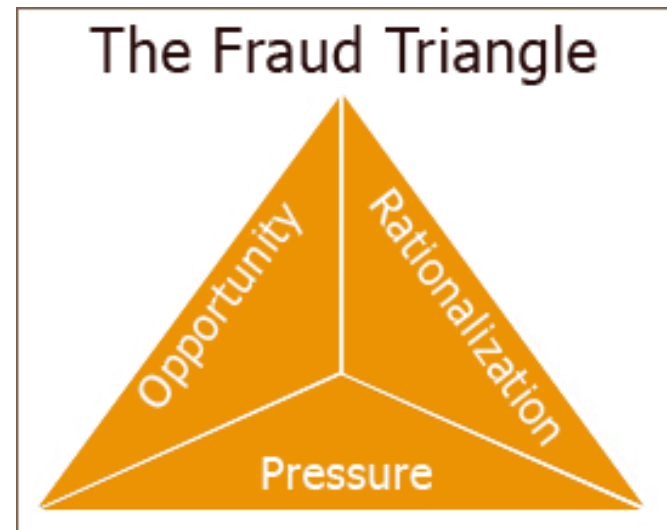
Financial statements

when properly executed diminish risk of fraud / theft

- Timely balance sheet reconciliations
 - Especially bank reconciliations. EXAMINE the reconciling items
- Internal controls (especially segregation of duties)
- Operational audits
- DSD oversight

Accounting Basics – not just a good idea, but also deters employee / vendor fraud and theft

- Employee / vendor theft factoids
 - The economic downturn has created financial hardships for many of your employees. Employees previously deemed beyond reproach are discovered everyday stealing from their employers.
 - **Rationalization** – the owners make so much money and I have worked so hard for so many years, they owe this to me
 - **Pressure** – late on mortgages, mounting bills, spouse’s lost job
 - **Opportunity** – no controls, poorly executed internal controls, lack of segregation of duties
- **Statistics**
 - 60% of inventory losses caused by employees
 - U.S. retailers lost \$33B in 2010
 - National Retail Federation
 - 1 in 33 employees apprehended for theft from employer
 - 75% of employees steal from employer, most repeatedly
 - Average theft \$640 per occurrence
 - Jack Hayes International
 - Employee theft fastest growing crime in America
 - FBI



Theft prevention = Ca\$h

- An audit is checking a few items from a large group to discover the soundness of procedures or actual figures.
- You do not have time to be everywhere all of the time
- Policing with spot checks sends a clear message
 - “Inspect what you expect”
- Task Book: follow up, hold associates accountable

Theft prevention = Ca\$h

- Vendors should pick up damages and returns prior to delivering – issue credit **first**.
- Control your receiving area
 - Delivery Times
 - Clearly marked, defined receiving area
 - Number of Vendors (1 in receiving, 1 prepping)
 - Audit receivers: In person or through camera checks
 - Retrain and re-observe
 - GIG reporting across vendors by store
 - Rotate Receivers
 - Store Mgr randomly audit vendor receiving activity

Theft prevention = Ca\$h

Pricing and department verification

- Scan Checks: worst case 2% error rate
 - Reduce audit frequency based on performance
- Departmental controls
 - Is an item billed and scanned through the same department
 - Do you have proper controls over transfers between departments and stores?

Theft prevention = Ca\$h

- Count safes after close on a random basis using personnel independent of the daily process
 - Floating (watch out for floating deposits)
 - Bad Checks – verify totals
 - Obvious Shortages
 - Count Everything and tie back to the “Check Up” Logs
 - ATM’s
 - Self Check Out Registers

THEFT is up

Theft prevention = Ca\$h

- **Lottery**

- Obtain lottery payable report from state (report will tell you what you owe today for both activated and not active lottery scratch tickets plus online sales. Ensure your payables equals this total at period end
- Inventory lottery tickets each period– both activated and inactive tickets – retain this value on your balance sheet. Count all tickets, ensure a packet is all there (i.e. no missing tickets from middle of pack)
- Review P/L results for shortages, investigate
 - Randomly verify store counts, rotate inventory takers

FMS Resources

Web Site : www.fmsolutions.com

Go to the “Retailer Toolbox”



Thank You!

Questions?

