June 28, 2012
Any Hardware, Inc.

May sales were down 4.7% which is a little more than the average decrease we saw for last month. The problem is that not only were sales down, but the expenses were up. Combined they caused your profit to drop $41K from a year ago. You were still profitable, but not nearly as profitable. I think this should pose some real questions for you and the managers. You are carrying inventory levels that are up $200K from a year ago. You are spending a lot more on advertising than you did last year, and sales are down. That additional inventory and advertising isn't getting the job done.

We saw inventory levels drop $50K during May. Last May they dropped $75K. With it looking more and more like the economy is still soft and not on the fix, you have to consider the consequences of carrying higher inventory levels. Your cash balances are down $80K from a year ago, and you have borrowed $75K on your line of credit that you didn't have last year. This is all done to carry more inventory in the stores. That added inventory doesn't seem to be bringing added sales to the table. What it does do is put added pressure on your cash flow. I think it is time to start working those inventory levels lower.

Total expenses were up 13% for the month. Salary expense was up 3% and health insurance was up 21%. Employee costs ran over 18% of sales for the month, and May is one of your best months of the year. Advertising expense was up for the month. I'm not surprised to see advertising up as much as I am to see sales down while spending more on advertising. Store supplies ran higher both month and year. Computer, interest, and legal expenses all came in high for the month. The others ran close to last year.

Please look the statements over and call me if you have any questions.

Sincerely,

John Sanger

Accountant
Midwest Hardware Association