

Interior Design



Tennessee Small Business Development Center

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Industry: 541410 - Interior Design Services
 Sales Range: All Sales Ranges
 Data Source: Private Companies
 Location: All Areas
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INDUSTRY FINANCIAL DATA AND RATIOS

Average by Year (Number of Financial Statements)

Financial Metric	Last 12 Months (38)	2016 (45)	2015 (81)	Last 5 Years (435)	All Years (1,270)
Current Ratio	2.60	2.49	3.64	2.98	3.08
Quick Ratio	1.68	1.61	2.63	2.12	2.13
Gross Profit Margin	56.82%	57.56%	53.87%	53.10%	51.27%
Net Profit Margin	10.07%	10.13%	7.30%	7.82%	6.53%
Inventory Days	152.01	184.33	93.30	99.46	82.76
Accounts Receivable Days	53.55	71.61	31.56	35.87	32.91
Accounts Payable Days	104.21	116.22	63.42	70.94	50.02
Interest Coverage Ratio	8.95	10.62	13.36	13.10	10.52
Debt-to-Equity Ratio	2.90	2.87	2.21	2.24	2.37
Debt Service Coverage Ratio	5.23	5.23	9.31	8.41	8.12
Return on Equity	67.67%	67.92%	54.29%	59.54%	49.44%
Return on Assets	34.01%	32.91%	23.35%	29.75%	27.40%
Gross Fixed Asset Turnover	15.95	14.02	19.31	16.92	16.36
Sales per Employee	\$161,866	\$147,154	\$88,517	\$205,570	\$218,251
Profit per Employee	\$53,725	\$46,550	(\$1,824)	\$24,007	\$19,578
Growth Metric	Last 12 Months (16)	2016 (17)	2015 (50)	Last 5 Years (254)	All Years (705)
Sales Growth	19.77%	15.84%	17.45%	12.08%	9.71%
Profit Growth	39.40%	25.94%	42.89%	23.56%	17.81%

INDUSTRY DATA COMMON SIZE

Average by Year (Number of Financial Statements)

Income Statement	Last 12 Months (38)	2016 (45)	2015 (81)	Last 5 Years (435)	All Years (1,270)
Sales (Income)	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Sales (COGS)	43.18%	42.44%	46.13%	46.90%	48.73%
Gross Profit	56.82%	57.56%	53.87%	53.10%	51.27%
Depreciation	0.24%	0.15%	0.39%	0.51%	0.59%
Overhead or S,G, & A Expenses	38.09%	39.80%	38.30%	36.05%	36.81%
Payroll	27.23%	26.96%	21.83%	20.64%	19.69%
Rent	4.37%	4.49%	4.18%	3.82%	3.94%
Advertising	0.77%	0.84%	1.06%	1.21%	1.41%
Other Operating Income	0.00%	0.00%	0.01%	0.00%	0.00%
Other Operating Expenses	8.18%	7.25%	7.54%	8.41%	7.08%
Operating Profit	10.31%	10.35%	7.65%	8.13%	6.80%
Interest Expense	0.24%	0.22%	0.27%	0.25%	0.24%
Other Income	0.02%	0.02%	0.01%	0.02%	0.02%
Other Expenses	0.02%	0.02%	0.09%	0.08%	0.07%
Net Profit Before Taxes	10.07%	10.13%	7.30%	7.82%	6.51%
Adjusted Net Profit Before Taxes	10.07%	10.13%	7.30%	7.82%	6.53%
EBITDA	10.55%	10.50%	7.97%	8.58%	7.34%
Taxes Paid	3.12%	2.77%	1.73%	1.91%	1.94%
Net Income	6.94%	7.36%	5.57%	5.91%	4.57%
Balance Sheet	Last 12 Months (38)	2016 (45)	2015 (81)	Last 5 Years (435)	All Years (1,270)
Cash (Bank Funds)	22.75%	21.87%	27.28%	26.40%	26.37%
Accounts Receivable	32.31%	31.41%	23.24%	21.45%	22.37%
Inventory	9.92%	9.34%	7.42%	8.68%	8.31%
Other Current Assets	4.91%	5.35%	4.57%	4.70%	5.16%
Total Current Assets	76.82%	78.03%	78.96%	76.05%	73.28%
Gross Fixed Assets	52.56%	48.04%	43.60%	49.18%	48.22%
Accumulated Depreciation	30.76%	27.48%	26.09%	28.49%	25.28%
Net Fixed Assets	21.80%	20.57%	17.50%	20.69%	22.94%
Other Assets	1.39%	1.41%	3.53%	3.25%	3.78%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%
Accounts Payable	20.47%	19.81%	13.69%	14.61%	16.17%

Notes Payable / Current Portion of Long Term Debt	0.00%	0.00%	0.14%	0.18%	0.22%
Other Current Liabilities	23.64%	24.49%	24.31%	29.15%	30.71%
Total Current Liabilities	49.66%	49.07%	46.54%	54.51%	58.20%
Total Long Term Liabilities	17.03%	16.42%	22.25%	20.25%	18.64%
Total Liabilities	66.69%	65.50%	68.79%	74.76%	76.85%
Preferred Stock	0.00%	0.00%	0.00%	0.00%	0.00%
Common Stock	0.07%	0.08%	0.06%	0.10%	0.10%
Additional Paid-in Capital	0.05%	0.04%	0.05%	0.04%	0.04%
Other Stock / Equity	-1.86%	0.01%	1.29%	-0.38%	2.44%
Ending Retained Earnings	31.88%	30.19%	23.57%	29.10%	25.47%
Total Equity	33.31%	34.50%	31.21%	25.24%	23.15%
Total Liabilities + Equity	100.00%	100.00%	100.00%	100.00%	100.00%

LIQUIDITY

What are some potential ways to improve the company's ability to meet obligations as they come due?

- ▶ Collect secure down payments from clients. This will ensure that their money is funding operations as opposed to the business's money.
- ▶ Sell unnecessary or unproductive assets to boost cash. These are assets that are not contributing sufficiently to the generation of income and cash flow (possibly because they are under-utilized).
- ▶ Prepare yearly forecasts that show cash flow levels at various points in time. Try updating them on a monthly or even bi-weekly basis to help predict/prepare for potential cash shortfalls that may occur in the future.
- ▶ Borrow some long-term money (if necessary and possible) and put the funds into a liquid (cash) account.
- ▶ Pull frequent (weekly) accounts receivable reports in order to examine how effective the business is at collecting funds. Apply and collect late fees on delinquent Accounts Receivable when possible -- charge interest on past due invoices.
- ▶ Provide discounts to customers who pay in full early in order to speed up collections. Under certain circumstances, this can be an effective strategy -- these cash receipts can be invested in growth or higher interest rate accounts.
- ▶ Structure Accounts Receivable properly. Consider providing different credit terms to different customers based upon credit-worthiness (risk) and the overall relationship involved. Make sure giving credit will increase revenues and income.
- ▶ If the business is having trouble meeting obligations, term out some short-term debt if possible -- move some short-term debt down the Balance Sheet to long-term debt. This will usually require refinancing from the bank.
- ▶ Try to establish a sufficient line of credit from the bank. Talking with the bank can be helpful in determining the amount of short-term credit needed to run the business. The business should obtain, but not necessarily use, as much financing as possible from the bank.
- ▶ Finance over the long term rather than the short term when financing is possible and necessary. This can help reduce per period cash outflows.
- ▶ Monitor the impact that tax payments may have on cash. Keep enough money aside to be able to meet future tax obligations based on earnings.
- ▶ Monitor the amount of money that is being used for activities unrelated to the business. An example could be money taken out of the business on draws to principals.
- ▶ Obtain external financing if necessary and possible. Locate investors who may be interested in supplying funds to the business.
- ▶ Avoid pre-paying expenses or Accounts Payable. The reason is to keep funds inside the business (potentially earning interest) for as long as possible. Discounts may be an exception.

- ▶ Eliminate or reduce some overhead to reduce monthly expenses. Small decreases in overhead will typically yield large cash savings over time, especially if fixed costs can be reduced (those costs that tend to stay the same over time).

PROFITS & PROFIT MARGIN

What are some things the company might do to develop favorable profitability trends?

- ▶ Consider hiring a procurement manager to manage the search for new clients. This will streamline your processes and decrease overhead costs since your staff will have more time for planning and design.
- ▶ If contractors are used for structural or technical work, make sure to establish clear deadlines for their work since delays on a project can be costly.
- ▶ Create good monthly budgets with cost reduction goals, broken down by account, that are put right into an accounting system (chart of accounts). This should allow management the ability to pull "variance reports" to compare budgeted revenues and expenses with actual revenues and expenses.
- ▶ Obtain internal reports that identify the business's key performance indicators (KPIs). KPIs help managers make good decisions by identifying the figures that are critical to performance. Net profit is not a KPI -- profits are a result of managing KPIs well.
- ▶ Take advantage of/negotiate for volume discounts or other concessions with current suppliers.
- ▶ Search out multiple qualified vendors to get the best prices through competition, while maintaining quality. If the business is not continually reviewing/updating its existing and potential vendor lists, it may overspend on supplies.
- ▶ Obtain an annual business check-up. Meet with an accountant or banker to review financial statements and get advice on how to improve performance.
- ▶ Generate accurate financial reports on a timely basis -- within 40 days of the end of the financial period. Good financial reports are the backbone of management decisions.
- ▶ Be sure to track how much return (additional sales) the business gets from increases in advertising. Advertising methods should be dictated by effectiveness. Try to determine where new business comes from through surveys and talking to clients.
- ▶ Monitor the costs going into all office supplies. With more important costs being monitored closely, many businesses forget to look at this smaller cost, and often allow it to be higher than necessary.
- ▶ Enroll the business in the right insurance program at a good cost by evaluating alternative carriers. Meet with insurance agents to determine ways to reduce costs by assessing coverage and deductibles.

SALES

What are some things the company can consider to encourage sales growth?

- ▶ Work with clients to establish cost preferences and then create good designs with the desired functionality. This can help develop a good reputation and increase the chance of new business through referrals.
- ▶ Use client surveys. Send confidential surveys to clients and ask them how the business might better

meet their needs. By getting this information from clients, the business will be able to improve services, which will increase sales/revenue over time.

- ▶ Be sure to subscribe to and READ the trade journals of the industry, such as Display & Design Ideas. Typically, there is no greater source of good operational information than a trade journal and they contain many ideas that can help increase sales and keep clients.
- ▶ Clearly define the mission of the business and make it visible to potential clients. This can be done through strategically placed advertisements and serves to let potential clients know what services they can expect from the business.
- ▶ Work to consistently meet and exceed the expectations of clients. Clarify client expectations up front when necessary. Effectively meeting client expectations is often central to obtaining repeat business.
- ▶ Keep open communication with clients to help ensure quality service. Many clients will return to a business that returns calls and emails promptly and answers all questions promptly and knowledgeably.
- ▶ Compare the business to other interior design firms and work to meet and exceed industry standards. This can help improve the business's competitive position and retain clients who might be seeking an alternative provider.
- ▶ Establish a niche that the business is known for, such as commercial design. Develop the niche in relation to the target audience the business is trying to reach in order to maximize revenues from that group.
- ▶ Go out and talk with clients in their environment. Nothing replaces time with clients because you get ideas on how to improve your services while building loyalty.
- ▶ Use industry experts and consultants to help you improve your business. This is particularly helpful if you feel like you want to concurrently keep and get more clients. People with long experience in an industry can save you years of time by leveraging their knowledge.
- ▶ Leave business cards with clients at the onset of work. This provides clients with contact information to quickly reach the business. In addition, these cards have the potential to help with referral business by being passed around to clients and potential clients.
- ▶ Offer additional services, such as face-to-face meetings and free consultation for current customers, to differentiate the business from others in the industry.
- ▶ Compile a portfolio to show off previous work. Present the portfolio to potential clients to generate increased business.
- ▶ Consider joining an association, such as the American Society of Interior Designers, to keep up-to-date with trends and important news in the industry. Membership can also help increase the credibility of the business in the eyes of potential customers.
- ▶ Set up a referral network. Ask satisfied clients to refer over other possible clients. "Word of mouth" advertising is truly the most powerful (and least expensive) way to build a business. Be sure to keep track of all past clients and stay in touch with them periodically.
- ▶ Ensure that marketing materials are consistent throughout the business. Look across all materials at one time to be sure that main themes are consistent and that layouts (including colors) are similar. The goal of sales and marketing materials is to build an image and a brand so that people will recognize the

business and be attracted to it.

- ▶ Make it known to clients that their business is appreciated. For example, sending a thank-you note is often a simple act that can help make clients feel valued.
- ▶ Display the achievements of the business to help establish the business as a quality provider to potential clients. For example, obtain and display testimonials and/or awards won.