



SIGNAL DIAGNOSTIC AUDIT

Findings, priorities, and what to fix first.

Prairie Line Supply

Prepared for Renee Kowalski, President

Engagement SD-2026-004

Delivered 31 August 2026

Prepared by Ryan Funke, CFA

Sector 424130 — Industrial & Personal Service Paper Merchant Wholesalers

Accounting basis Accrual

Sample report — Prairie Line Supply is a fictional company, published to show the structure and standard of a Signal Diagnostic. This document is professional analysis and opinion, not an audit or attestation. Signal Strategy LLC · signalstrategy.ai

Worked example. Prairie Line Supply is fictional. This report exists to show the structure and standard of a Signal Diagnostic, not to describe a real engagement.

01

Executive Summary

The cash went into the warehouse, not the margin line.

Prairie Line is profitable and collects on time. The cash went into inventory: stock is up 37% on sales up 6%. Inventory days moved from 65 to 82, and the line of credit rose \$500,000 to fund the difference. Your own export shows why — about \$810,000 of stock has not sold in four months, and no item carries a reorder point. Bringing stock back to December's level releases roughly \$550,000 without touching a price.

The margin drift is real but small, about \$100,000 in the half, and it is not cost inflation. Most of it is mix: more of your volume arrived in your lowest-margin category, through your largest customer. The rest is the Hawkeye agreement, where price has risen less than your landed cost — product plus inbound freight — at each of the last two anniversaries. That account is 42% of revenue and pays on Net 45, so it is also where the pricing and terms conversation belongs.

On the ERP: the walk through your quoting and purchasing process confirmed that the tools you own were never set up for the question being asked of them. Prices live in rep spreadsheets, and nobody owns the inventory number. A \$200,000 decision should wait for the one-week configuration test in fix #2, which costs nothing.

What You Asked vs. What the Evidence Shows

PRESENTED AS	A pricing and cost problem — margins shrinking under cost inflation — with a reporting system too weak to see it, pointing toward a new ERP.
EVIDENCE SUPPORTS	A working-capital and purchasing-discipline problem: inventory accumulated against forecasts rather than orders and absorbed every dollar of first-half cash. Margin drift is present but secondary, and it is mix plus a repricing lag inside one account, not cost inflation. The system complaint is a configuration gap, not a capability gap.
WHY THE GAP	Margin is the number everyone watches on a monthly P&L; inventory growth is silent, because it never touches the income statement until something is written down. When cash tightens while the P&L shows profit, the instinct is to blame price and cost — the two things that do appear on the page. The system complaint is downstream of the same gap: because prices and reorder points were never put into the tools you own, the tools could not answer the question, and a new tool looked like the answer.

Findings

Every finding below is traceable to something you provided. Findings marked **Low confidence** are stated as questions for you to verify — they are not conclusions.

F1 Inventory accumulated against forecasts, not orders — days up from 65 to 82

HIGH CONFIDENCE

PURCHASING & INVENTORY

≈ \$550,000 OF CASH TIED UP ABOVE DECEMBER'S STOCKING LEVEL; ≈ \$810,000 OF STOCK WITH NO SALE IN 120+ DAYS

EVIDENCE

Inventory rose from \$1,905,000 to \$2,610,000 between December 31 and June 30 (+37%) while sales grew about 6% annualized; inventory days moved from 65 to 82 on annualized cost of goods. Cash fell \$137,000 and the line rose \$500,000. Your Fishbowl export shows 31% of inventory value (\$810,000) with no sale in 120 days or more, and no reorder points set on any SKU. Purchasing raises orders from rep requests tied to expected Hawkeye volume, which, in your words, they don't always take.

WHAT'S HAPPENING

This is accumulation, not a forward buy, and it will not reverse on its own. The mechanism is structural: reps forecast, the warehouse buys to the forecast, and the resulting number has no owner, so slow stock sits until someone notices the bank line. The fix is discipline in the tools you already have — reorder points and maximums from twelve months of actual sales velocity, a freeze on anything with more than 120 days of cover, and one person who owns inventory the way someone owns cash.

IMPACT

Returning to 65 days on today's cost base means carrying about \$2.06M instead of \$2.61M — roughly \$550,000 released, most of it repayable against the line, and about \$40,000 a year of interest with it. The \$810,000 of slow stock is the pool to work from.

F2 One customer is 42% of sales, on Net 45, and its price has lagged your landed cost at both anniversaries

HIGH CONFIDENCE

COMMERCIAL

\$6.28M OF \$14.95M TRAILING SALES; ≈ \$260,000 OF RECEIVABLE ATTRIBUTABLE TO NET 45 VS. NET 30; PRICE +2.0% / +2.5% AGAINST LANDED COST +4.1% / +3.8%

EVIDENCE

Sales-by-customer schedule and your answers to the question round. Hawkeye Foods Group is served under a 2024–2027 supply agreement on Net 45 terms with pricing reviewed at each anniversary. The last two reviews moved price by less than landed cost (product plus inbound freight) moved. Blended DSO of 33 days resolves into two populations, both on terms: Hawkeye at about 46 days on Net 45, everyone else at about 25 days on Net 30.

WHAT'S HAPPENING

Concentration this high is a risk and a lever at the same time. The lever is that 42% of revenue reprices on one date a year, so the evidence brought to that review decides most of the company's margin for the following twelve months — and the freight numbers have not been part of that conversation so far. The Net 45 terms are the second lever: fifteen days on \$6.28M of annual volume is about \$260,000 of working capital that the agreement, not your collections, is holding.

IMPACT

A one-point improvement in Hawkeye margin at the next anniversary is about \$63,000 a year; closing the gap between your cost increases and the price increases you passed on at the last two reviews is worth more. Terms back to Net 30 would release about \$260,000. Both belong in the same negotiation, with the landed-cost record as the evidence.

F3 The margin drift is mix plus a repricing lag, not cost inflation

HIGH CONFIDENCE

PRICING & MIX

≈ \$100,000 IN THE FIRST HALF: ROUGHLY \$60,000 MIX, \$40,000 REPRICING LAG

EVIDENCE

Gross margin 25.9% (FY2025) to 24.6% year to date. Category margins from the reps' own sheets held within a fifth of a point — packaging 24.8% to 24.6%, janitorial 29.1% to 28.9%, facility supplies 22.0% to 21.8% — while Hawkeye volume grew about 11% trailing, almost all in packaging film and corrugated at roughly 21%. The repricing gap on the Hawkeye agreement is documented in F2. The split between the two causes is an estimate from those figures, not a measurement.

WHAT'S HAPPENING

This matters because the two causes have different fixes and the presenting story had a third. Cost inflation is real, but category margins absorbed it; what fell was the blend, because more of the volume arrived in the lowest-margin category through the one account whose price moves once a year. The fix is a margin floor by category applied at quote time — which your existing tools can enforce once prices are in them — and a repricing cadence for the agreement that tracks landed cost.

IMPACT

Small today. It compounds through every Hawkeye anniversary that goes in without the landed-cost record.

F4 The system you have is unconfigured, not wrong

HIGH CONFIDENCE

SYSTEMS

A \$200,000 DECISION THAT CAN WAIT FOR A ONE-WEEK TEST

EVIDENCE

The process walk from the question round: reps quote from their own spreadsheets; the office keys the price into the QuickBooks invoice by hand; Fishbowl syncs quantities nightly but not prices; no reorder points exist; nobody owns the inventory figure. QuickBooks Enterprise Platinum carries item- and customer-level margin reporting and advanced pricing; Fishbowl carries landed-cost and reorder-point functions.

WHAT'S HAPPENING

Heavy spreadsheet use beside a paid tool is the most reliable sign that the tool was never set up for the job, and your walk confirmed it step by step. The pattern is common and not a criticism: configuration is nobody's job in a growing distributor. Before an ERP contract, the test is simple — one person spends a week putting prices into the items, switching on margin-by-item and by-customer reporting, turning on landed-cost tracking and reorder points, and retiring the rep sheets to a single system-fed pricing list. Then re-ask sales the question.

IMPACT

If the test passes, the ERP budget becomes working capital. If it fails, the ERP requirements are now written down and specific, which is worth more than the week cost.

Threshold Scorecard

Measured against the thresholds Signal Strategy applies to every diagnostic, so your results are comparable to any other engagement.

SIGNAL	YOUR POSITION	STATUS
Days to collect (DSO) vs. stated terms	33 days blended — 25 vs. Net 30; 46 vs. Net 45 (Hawkeye)	HEALTHY
Inventory days	82 days, up from 65	BROKEN
Slow-moving inventory	31% of value with no sale in 120+ days; no reorder points	BROKEN
Cash trend vs. profit	Cash −\$137K on \$236K profit; line +\$500K	BROKEN
Gross margin trend	25.9% → 24.6%; category margins within 0.2 pt	WATCH
Customer concentration	42% single account; 61% top three	BROKEN
Interest as % of operating income	29%, up from 18%	WATCH
Documentation & role discipline	Weak — nobody owns the inventory number; prices live in rep sheets	BROKEN

Quality of Earnings

The checks a buyer or lender would run to decide whether the profit on your P&L is what it looks like.

Earnings are of reasonable quality with two adjustments a buyer would make: FY2025 profit includes an \$85,000 one-time insurance recovery, and the working-capital build is masking a healthier operating cash flow than the bank balance suggests.

CHECK	RESULT
Owner compensation vs. market (add-backs)	Owner compensation of \$220,000 on \$14.5M of revenue is within market for the role. No adjustment.
One-time revenue treated as run-rate	FY2025 net income of \$713,000 includes an \$85,000 insurance recovery on the warehouse roof, confirmed one-time. Normalized FY2025 net income is about \$628,000.
Related-party transactions	None — confirmed in the question round.
Capitalized costs	Capital additions of \$65,000 in the half against \$108,000 of depreciation; nothing suggests operating costs are being capitalized.
Revenue concentration	42% from the largest customer, above the 40% flag, on longer terms than the rest of the book. See F2.
Working capital swings	Inventory growth of \$705,000 in six months is the core finding. Operating cash flow before working capital was about \$344,000; after it, negative. See F1.

06

Peer Comparison

Comparison is to the median of the peer set. Where Prairie Line sits within normal range, no conclusion is drawn.

METRIC	YOU	PEER MEDIAN	READ
Inventory days	82 days	58 days	Materially worse
Days sales outstanding	33 days	36 days	Within range
Gross margin	24.6%	24.1%	Within range
Operating margin	4.3%	3.9%	Within range
Current ratio	1.7	1.8	Within range

Source: Illustrative peer figures for a fictional company. Real reports cite RMA eStatement Studies by NAICS code and revenue band (here: 424130, \$10M–\$25M).

What to Fix First

Ranked by impact against effort. Start at one.

1

Put purchasing on reorder points and stop buying to forecasts

Effort Low · **Returns** ≈ \$550,000 of cash over two quarters · **Horizon** One quarter to set, two to realize

Set reorder points and maximums by SKU in Fishbowl from twelve months of actual sales velocity. Freeze purchases on anything with more than 120 days of cover — the \$810,000 in your export is the list. Buy Hawkeye stock to orders, not to rep forecasts, and give one person the inventory number the way someone owns cash. No new software required.

2

Configure the tools you own before buying another

Effort Low · **Returns** A \$200,000 decision made on evidence — or avoided · **Horizon** Two to three weeks

One person, one week: put prices into the QuickBooks items so nothing is keyed twice, switch on item- and customer-level margin reporting, turn on landed-cost tracking in Fishbowl, and retire the rep spreadsheets to a single pricing list fed from the system. Add a margin floor by category at quote time. This is the test in F4, and it produces the evidence fix #3 needs.

3

Take the landed-cost record into the Hawkeye anniversary — price and terms together

Effort Medium · **Returns** ≈ \$63,000 a year per margin point; ≈ \$260,000 of working capital if terms return to Net 30 · **Horizon** Before the next anniversary date

Build the review around documented landed-cost movement since the last anniversary and the two prior anniversaries where price rose less than cost, and put terms on the table alongside price. Decide in advance what the agreement is worth at the current margin, so the conversation has a floor. Do not open the ERP conversation with the customer's name in it.

What Was Examined

Examined in depth

- Financial — revenue and cost makeup, working capital, quality of earnings, concentration
- Operational — purchasing and inventory discipline, quoting and pricing workflow, systems in use and how they are configured

Reviewed for attribution only

- Supply chain and input costs — reviewed for attribution. Cost inflation is real but is not what consumed the cash, and category margins absorbed it.
- Sales and go-to-market — reviewed for concentration, mix and pricing cadence only. Pipeline was not examined.
- General management and P&L structure — reviewed for attribution.

Not examined — outside our scope

- Legal and contracts — outside our scope. The Hawkeye supply agreement's pricing and terms clauses are worth a read by counsel before the anniversary.
- Warehouse operations, routing and fleet — outside our scope.
- Hiring, performance management, compensation and culture — outside our scope.

Basis and Limitations

This diagnostic is professional analysis and opinion based on the information you supplied: the completed intake form, the profit and loss statement for fiscal 2025 and the six months to June 30, 2026, the balance sheet at both dates, the sales-by-customer schedule, your answers to one round of questions, the reps' margin-by-category summary, and the inventory export from Fishbowl. It is not an audit, an attestation, a legal opinion, a tax opinion, or investment advice.

Accuracy depends on the accuracy and completeness of what was provided. We did not independently verify the underlying records.

Analysis was assisted by automated tools for structured extraction, benchmark comparison and drafting. Every finding was reviewed, edited and signed by Ryan Funke, CFA before delivery. No finding reached you unreviewed.

Findings are labeled High, Moderate or Low confidence. Low-confidence findings are stated as questions for you to verify, never as conclusions.

Ryan Funke, CFA

Founder & Principal, Signal Strategy

advisory@signalstrategy.ai · signalstrategy.ai