

Stu's View

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Industry Benchmarks Indicate Profit for First Time in 4 years!

Effective Use of the Ratios (Part 2)

For October 2011

In a previous article, we revealed what the profit leaders know about making money in the printing industry these days: It is imperative that you use the annual Printing Industries of America Ratio Studies. These nationwide industry reports will help you track and adapt to the broader industry trends, zero in on profit-draining trouble spots in your organization, and provide significant budget and operational benchmarks as the basis for timely and cost effective management decisions.

A comparison of some Ratio category results for profit leaders (PLs) to the industry average quickly reveals an important secret to success: profit leaders consistently squeeze more out of every dollar they spend.

PIA Ratios 2011: Industry Average vs. Profit Leaders (PLs)

Ratio	Industry Average	Profit Leaders	Difference	Notes
Profit Margin as a % of Sales	1.42%	9.47%	8.05%	Removing PLs from industry standard leaves 75% of printers breaking even or losing money.
Material Costs as a % of Sales	35.16%	34.06%	1.10%	PLs allow less waste; take advantage of cheaper purchase costs and discounts.
Direct Labor as a % of Sales	15.25%	13.81%	1.44%	PLs get more production out of every direct labor dollar they spend.
Total Payroll as a % of Value Added – Sales less Material Costs (*)	60.52%	53.84%	6.68%	The largest expense area, but also the most controllable. (*) 2011 numbers are high. Normal levels are 55-57% industry average; 50-52% for PLs.
Factory Payroll Costs as a % of Sales	24.93%	22.24%	2.69%	Includes management, production coordinators, estimators, payroll taxes & benefits, etc.
Total Factory Cost as a % of Sales	18.01%	15.84%	2.17%	Includes building rent, utilities, repairs & maintenance, etc.; Excludes labor.

To identify the profit-making roadblocks in your organization, compare your numbers to the profit leaders in Ratio categories such as:

- **Financial:**
 - Material %
 - Value Added
 - Total Labor Costs
 - Value Added per Factory Employee
 - Sales and Value Added per Employee
 - **Direct and Support Labor** (shows how much non-direct labor is needed to support \$1 of direct labor. The current support labor efficiency is \$1.14, including sales commissions).
 - **Return on Investment (ROI)**. An ROI calculation removes financing issues and focuses on how much income your assets are producing. The current profit leader ROI is 19.09%.
- **Facility Cost** (how much it costs to run your facility)
- **Production Costs:**
 - Impressions per hour per piece of equipment
 - Average make ready time
 - Overtime per cost center
 - Waste measurement
- **Sales**
 - Hit ratios (sales quotes vs. actual jobs)
 - Number of cold calls
 - Number of possible prospects
 - Number of plant visits
 - Number of new clients

Profit leaders continue to demonstrate, it is possible to be profitable in the printing industry. Some tips:

- Know your Ratio numbers, and compare them regularly to both the industry average and to profit leaders of the same size and product type.
- Use your Ratio comparisons as a benchmark for your own budget process and to quickly identify your company's problem areas.
- Monitor changes in your numbers, and make timely management adjustments to improve or protect your profitability.

The Ratios are an accurate, effective, essential part of company management in the printing industry. Use them well and wisely for maximum profitability.

Stu's View is contributed by Stuart Margolis, CPA and Partner of MargolisBecker LLC to provide information that helps firms operate profitably. More information can be found at www.margolisbecker.com.

About MargolisBecker

MargolisBecker has long been recognized as the financial expert for the printing and allied graphic communications industry, assisting thousands of companies with strategic and financial management, valuation, mergers/acquisitions, accounting, audit and tax services. The firm is noted for its expertise in enabling printing companies to optimize profits. Proudly, it is the purveyor of the industry's *Cash is King*,

and *Value-Added Principles of Management*, and compiles the annual Printing Industries of America Ratios, the industry's premier financial benchmarking tool.