

## Stu's View

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# Industry Trends: Factors Impacting Profitability

The printing industry's economic decline and recovery over the last 11 years is traced and documented in the Printing Industries of America's Ratio Survey Results ("The Ratios"). Here we will explore factors impacting profitability, and how they relate to the broadening gap between the industry Profit Leaders (those in the top 25% of profitability) and all printers (All Printers).

### Profits and Firm Size:

Profits as a percentage of sales vary greatly among printing firms. As shown in the Exhibit below, the average 2011 profitability as a percentage of sales varied from 0.05% among **All Firms** to an average high of 11.6% among **Profit Leaders**.

Profits(Losses) and Firm Size before tax profit (loss) as a % of sales		
ANNUAL SALES:	ALL FIRMS:	PROFIT LEADERS:
Less than \$3M	1.1%	11.6%
\$3M-\$6M	2.0%	9.8%
\$6M - \$10M	0.5%	7.0%
\$10-\$18M	2.9%	8.6%
Over \$18M	2.5%	10.4%

In the **All Firms** Category, firms with annual sales above \$10 million outperformed smaller firms. The trend was not evident among **Profit Leaders**. In both the All Firms and the Profit Leader Categories, printers with sales between \$6 million to \$10 million produced the lowest profitability percentages, a strong indicator that the competitiveness is highest in this sales range.

In the **Profit Leader** Category (firms with profitability in the top 25%), printers with less than \$3 Million in sales led the charge showing annual profit as a percentage of sales of 11.6%. Profit Leading Firms with annual sales over \$18 million demonstrated profit as a percentage of sales of 10.4%.

## Profits and Market Segment Specialty

Each year The Ratios demonstrate that profit rates also vary significantly by product specialty. Of the ten printing product specialties covered in The Ratios survey, the top profit producing segment was Forms/Document Printers with average profit as a percentage of sales of 5.30%. Profits of 5.15% in the Packaging Segment surpassed Book Manufacturing of 4.52% for the first time in over five years. Label Printers (profit of 3.22%) and Direct Mail Firms (profit of 1.86%) demonstrated average profit above the overall industry average of 1.8%. The biggest leap in profit was seen in the largest segment, Commercial Print/Advertising, which jumped from 0.63% to 1.34%. Even though averages in this segment were still below industry averages, a two year upward trend is encouraging. The Magazine/Periodicals segment also showed a profit increase, going from 0.03% to 0.54%. The most dramatic decrease in average profit within a market segment was seen in the Quick Print segment where profit decreased from 3.46% to 0.95% in one year.

<b>Profits (Losses) by Product Specialty</b>						
<b>Product Specialty</b>	<b>Profit (Loss) Rates by Year % of Sales</b>					
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Printing</b>						
Forms/Documents	5.30%	n/a	1.09%	1.32%	3.85%	3.03%
Packaging	5.15	4.88%	2.40	5.03	4.42	4.81
Books	4.52	6.64	4.73	7.47	5.78	7.60
Labels	3.22	3.26	0.56	1.45	2.16	3.59
Direct Mail	1.86	1.26	0.10	7.05	3.64	3.46
Commercial/Advertising	1.34	0.63	(2.24)	0.69	2.73	3.03
Quick Printing	0.95	3.46	n/a	7.45	5.10	1.57
Magazines/Periodicals	0.54	(0.03)	0.46	1.18	2.67	3.66
Newspapers	n/a	5.93	n/a	4.53	3.17	4.15
Inserts	n/a	n/a	n/a	n/a	2.33	3.27
<b>Non-printing</b>						
Binding	(1.30)	1.15	(1.88)	0.44	3.11	4.54

## Profits and Management

The Ratios does not attempt to quantify managerial strengths and weaknesses of firms. Through experience, we have found that strong managerial oversight, viable forecasting and good day to day planning help to keep profitability high regardless of firm size or specialty. If your company is experiencing lower than expected profit take a step back and evaluate options. Typically, sound and validated critical decision making is a necessary component for success.

*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](http://www.margolisbecker.com).*

### **About MargolisBecker**

MargolisBecker has long been recognized as the financial expert for the printing, packaging and allied graphic communications industries, 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 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 printing industry's premier financial benchmarking tool.

#### **About New Direction Partners**

The team at New Direction Partners LLC has guided over 200 printing company owners through the sales and merger process. The advisory services reflect a full set of skills to help you sell or expand your business: valuation, management consulting, financial advisory and investment banking. The deep experience and industry expertise at New Direction makes it uniquely suited to serve printing, packaging and allied graphic arts businesses.