

TECHNOLOGY ▶ SOLUTIONS ▶ RESOURCES



## MEMBER SPOTLIGHT

Specialty Print Communications  
 Commitment to Innovation



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**December 2018 vol 10 issue 8 \$15**

Printing Industries of America and Its Affiliates—Your National and Local Resource



# DO YOU KNOW?

## What percentage of consumers will pay more for a better customer experience?



# 86%

Customer experience is a high priority. It is so important that **86% of consumers will pay more for a better experience.\***

\*Harris Interactive, Customer Experience Impact Report

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### Correction:

In the Summer Forecast issue of The Magazine, Renée Yardley of Rolland was misidentified as Michelle Bartolini.

Renée Yardley is VP of Sales and Marketing at Rolland.

December 2018 | Volume 10, Issue 8

The Magazine—ISSN: 1947-4164

Editor: Ellen Lewis / Assistant Editor: Sam Shea / Design: Dan Mauro / Publisher: Jenn Strang

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*Printing Industries of America: The Magazine* is published by Printing Industries of America, a member-supported, nonprofit, scientific, technical, and educational organization dedicated to the advancement of the graphic communications industries worldwide. A subscription to the magazine is included with every affiliate membership. Nonmember subscriptions are \$200 per year for subscribers in the U.S. and \$300 for those outside the U.S. Single copies are \$15 except for the Forecast issues, which are \$99 for members and \$199 for nonmembers. To subscribe, order single copies, or order the *Forecast*, call 800-910-4283, fax 412-741-2311, or visit [www.printing.org/store](http://www.printing.org/store). For complete membership information, please email [membership@printing.org](mailto:membership@printing.org).

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# Seasons Greetings and May the Good Times Continue...

Michael Makin, President & CEO, Printing Industries of America

Heading into the holiday season, the U.S. printing industry is in very good shape—too good, some economists might argue—because after 114 months of successive economic expansion, the economy could recede next year.

But I for one want to keep my holiday mug half full, and Printing Industries of America continues to be bullish on both the economy and printing industry expanding in 2019, although 2020 may be a different story.

First let's look at the good news. The economy remains in high gear with GDP growing at a blistering pace (at least through the first half of the year). Core inflation is down, business profits are up, and productivity is also inching upwards. These key indicators all bode well for print.

The economy has seen almost 100 consecutive months of job growth, and unemployment is at a 39-year low. Manufacturing jobs have seen a particular boost, with more than 300,000 jobs created during 2018.

PIA predicts that there is only a 30-percent chance of the economy going into recession in 2019, with a 50-percent chance that the economy will pick up steam and a 20-percent chance that it will stay at its current growth level.

What might take us off course? External shocks such as an oil shortage or global financial crisis, trade wars, military conflict, or, heaven forbid, a major terrorism incident could have negative impacts on the economy. Lastly, the economy may well just run out of steam after having such a lengthy recovery period, the second longest in history. But we believe this is more likely in 2020 than next year.

## What about print?

Print traditionally excels in a modern recovery, and these past two years have been no exception. The printing industry dominated all manufacturing industries in terms of shipments, new orders, production, and employment in 2018.

PIA forecasts the industry to grow between 1.5 and 2.5 percent in 2019, depending on the expansion of the general economy. Inkjet, wide format, and digital continue to be identified as the top print processes to explore, with packaging, direct mail, and web-to-print offerings as the hottest market segments.

In terms of top verticals to pursue, packaged foods, medical/pharma, telecomm, and banking/insurance continue to lead the list.

Whatever segment you choose to pursue, Printing Industries of America wishes you great success and is here to serve. From our family to yours, all the best this holiday season and may 2019 be an outstanding year for all!

Michael Makin, MBA  
President and CEO



# Greetings from Printing Industries of America!

Bryan T. Hall, Chairman of the Board, Printing Industries of America  
President, Graphic Visual Solutions

It is an honor and privilege to serve for a second year as your Chairman of the Board of Printing Industries of America and its Foundation. In my first year, I was thrilled to travel across the country, participate in our industry's top events and conferences, and meet many of you along the way. Our industry has a greater reach and impact than I ever imagined. Print certainly is alive and well!

I have been in the industry for more than 30 years and, like most of you, I have "ink in my veins." Along the way my company, Graphic Visual Solutions, has grown from a small printer to a medium-sized printer to now a fairly large printer.

I have been an engaged member of PIA and my local affiliate, Printing Industries of the Carolinas, for more than 25 years. I rely on PIA benefits and resources to help me grow my business and make it more profitable. These resources include: education and training, conferences, buying programs, consulting, the PIA Ratios and wage studies, economic and governmental affairs flash reports, and technical assistance. I cannot imagine running my business without all that PIA and its local affiliates have to offer.

As Chairman, I am very excited about what PIA has planned for next year. Here are the highlights of our 2019 key initiatives:

- **Create a "Print Powers America" month and facilitate plant tours to grow awareness of our industry and gain financial support through grassroots activity.**
- **Continue to develop and grow the iLearning Center by adding course content. This complimentary benefit for printer members is available 24/7 and offers quality content and training resources.**

- **Relaunch the PIA Ratios, making them more relevant to printers' current needs for performance and operating metrics.**
- **Reboot the National Buying Program to bring additional savings to our members.**
- **Expand our service offerings to further increase the value of membership.**
- **Continue to enhance the content and speakers at our four major national conferences: Color 2019, President's Conference, the 71st annual Technical Association of the Graphic Arts Conference, and the Continuous Improvement Conference.**

Membership in PIA is no different than anything else in life: You get out of it what you put into it. Participation is critical! I encourage you to join me in attending one of our industry-leading conferences this year, participate in the ratio or wage surveys, or take advantage of the iLearning Center.

During 2019, I will continue traveling across the country to visit as many affiliates and members as possible. I hope to meet and get to know many of you. My objective is to learn about your needs as members and gain a better understanding of how PIA and our affiliates can support and strengthen the print community. Thank you again for the opportunity to serve you and our industry. Wishing everyone a happy and prosperous New Year!

Bryan T. Hall  
Chairman of the Board, Printing Industries of America

# CHAIRMAN HALL HITS THE ROAD



9



5



10



8



4



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2



Chairman Bryan Hall made a whirlwind tour during his 2017-2018 year of service. Here are a few highlights of his travels!

1. 2017 PIA Fall Admin Meetings and Induction Ceremony — Charlotte, NC
2. National Print Owners Association Conference and Graphics of the Americas — Ft. Lauderdale, FL
3. 2018 President's Conference — San Antonio, TX
4. TAGA 70th Annual Technical Conference — Baltimore, MD
5. 2018 Continuous Improvement Conference — Chicago, IL
6. PIASC Graphics Night — Los Angeles, CA
7. Visiting PostyCards— Kansas City, MO
8. Graphic Arts Association Neographics — Philadelphia, PA
9. 2018 Pacific Printing Industries PrintRocks — Portland, OR
10. 2018 Premier Print Awards — Chicago, IL



# A Multifaceted Approach to Color Success

Joe Marin, Vice President, Education and Training,  
Printing Industries of America

Managing color throughout the supply chain and producing it accurately—the first time, every time—across various production processes requires a multifaceted approach. Sounds challenging, right? From photography to design to production, managing color with accuracy and consistency is achievable across any reproduction process—as long as you have the right tools and the right knowledge. There is no better place to obtain that knowledge than at the **Color19 Conference, hosted by PIA and SGIA.**

Whether you're a creative, brand professional, production specialist, or a color management expert, this year's conference will have sessions that fit you perfectly. Color is multifaceted, and understanding the complexities of all aspects of color throughout the production cycle is vital to success. Building on last year's conference, Color19 is back with more than 35 in-depth sessions featuring four unique tracks, including **Brand & Design; Print Production How-to; Wide-Format Inkjet; and Standards, Research, and Emerging Technology.**

Color19 is where you will find the best, most practical, in-depth information from the most knowledgeable color experts in the world. Color gets underway with color management expert and G7® inventor Don Hutcheson, who leads a foundational color management class featuring live demonstrations with equipment, hardware, and software—free to all registered attendees. The focus then shifts to

the main conference event on Sunday, where you will see informative and inspiring keynote presentations from Mike Scrutton, Director of Print Technology and Strategy for Adobe, followed by Mike Graff, President & CEO of Sandy Alexander. Monday, you'll hear from PDF guru Dov Isaacs, Principal Scientist for Adobe, followed Tuesday morning by a fascinating research study from Erica Walker of Clemson University.

The Print Production How-to track is exactly that—practical, in-depth how-to sessions that also feature equipment and software demonstrations of color management processes. Our Brand & Design track sessions concentrate on the needs of brand owners and designers when it comes to their roles and responsibilities in color workflow, management, and production. There is also a comprehensive Wide-Format Inkjet track in which attendees are encouraged to bring their own output and where, in a hands-on/demonstration session, they'll import the data from a printed test form and assess device consistency and accuracy. Finally, in the Standards and Research track you'll learn all about the latest standards and new technologies impacting our industry.

There should be a least one person on your staff with deep color expertise. At Color19, you will have access to the most knowledgeable color experts in the business and the best color tracks and sessions in the industry—there's no better place to connect, network, and learn. Join us at the PIA/SGIA Color19 Conference on January 12–15, 2019, at the Hilton San Diego Resort and Spa.

Find out more at [www.printing.org/color](http://www.printing.org/color).

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SET THE PAGE FREE

# GENERATION Z + PRINT

With Millennials well into adulthood, businesses are now turning their attention to the next generation entering the workforce: Generation Z. Who are they, and what are their attitudes toward print?

## WHO IS GENERATION Z?

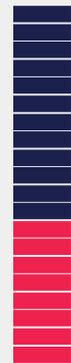
Born between  
**1995-2012**



Approximately  
**78.2 million**  
almost 25% of  
the population



Estimated  
to make up  
**40%**  
of consumers by  
**2020**<sup>1</sup>



### DIGITAL NATIVES

Have never known a life without Google, mobile phones, and WiFi



### MOBILE-CENTRIC

Spend nearly 3 hours a day on social media applications<sup>2</sup>



### SOCIALLY CONSCIOUS

Appreciate brands that make authentic, personal connections with them<sup>3</sup>



In a recent survey, **65%** of Generation Z respondents feel that brands should take a stand on social issues<sup>4</sup>



### SAVVY SHOPPERS

Value personalized shopping experiences

Prefer engaging with products at brick-and-mortar stores



**75%** use their phones to research products while shopping<sup>5</sup>



## GENERATION Z AND THE APPEAL OF PRINT

Generation Z represents an emerging market for the print industry<sup>6</sup>. Recent reports find that they:



Spend about 1 hour each week reading magazines<sup>7</sup>

Favor printed learning materials (textbooks, research articles) to help them focus<sup>9</sup>

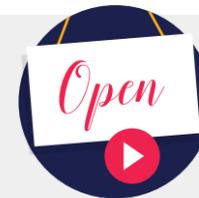


Prefer reading printed books<sup>8</sup>

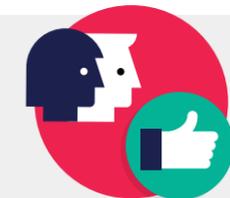


Value print media and trust print publications more than digital media<sup>10</sup>

## REACHING GENERATION Z



Incorporate technology into brick-and-mortar experiences



Build customer relationships in person and on social media channels



Provide personalized and customized products and services



Share your company mission and values

### Resources

- <sup>1</sup> MNI Targeted Media Inc. (2018). Generation Z: Unique & Powerful. White Paper. <https://insightlab.mnitargetedmedia.com/?article=generation-z-unique-and-powerful>
- <sup>2</sup> Valentine, O. (2018). Trends 18: Getting to Know Generation Z. Global Web Index. <https://blog.globalwebindex.com/chart-of-the-day/generation-z-trends/>
- <sup>3</sup> Handley, L. (2018). There's a Generation below Millennials and Here's What They Want from Brands. CNBC. <https://www.cnbc.com/2018/04/09/generation-z-what-they-want-from-brands-and-businesses.html>
- <sup>4</sup> King, M. (2018). Three Things You Need To Know About Marketing To Gen Z Women. Forbes. <https://www.forbes.com/sites/michelleking/2018/07/10/a-new-report-reveals-three-things-you-need-to-know-about-marketing-to-gen-z-women/#c8068f16cc17>
- <sup>5</sup> IBM's Institute for Business Value (2018). What do Gen Z shoppers really want? <https://nrf.com/resources/retail-library/what-do-gen-z-shoppers-really-want>
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- <sup>7</sup> MNI Targeted Media Inc. (2018). Generation Z: Unique & Powerful. White Paper.
- <sup>8</sup> Sweeney, E. (2018). Survey Shows Digital-Native Gen Z Prefers In-Person Interaction with Brands. Marketing Dive. <https://www.marketingdive.com/news/survey-shows-digital-native-gen-z-prefers-in-person-interaction-with-brands/530744/>
- <sup>9</sup> Brown, N. (2018). Generation Z and the Future of Print Marketing. Business.com. <https://www.business.com/articles/nicholas-brown-generation-z-and-the-future-of-print-marketing/>
- <sup>10</sup> Fletcher, H. (2018). Gen Z Marketing Is Going Retro. Target Marketing. <https://www.targetmarketingmag.com/article/gen-z-marketing-going-retro/>

# Member Spotlight: Specialty Print Communications

Sarah Sudar, Copywriter, Printing Industries of America

Adam LeFebvre grew up in the printing industry, watching his father and grandfather run their own businesses. He knew from an early age that he would follow in their footsteps. What he didn't expect is that his business would grow to over 500 employees with an annual income of over \$90 million.

LeFebvre received a print management degree from Western Michigan University in 1996 and opened up Specialty Printing Company in Plano, Texas the same year with three employees.



He says he and his father always had a pact that they would come back together in business, and that happened in 1997 when LeFebvre moved the company home to Chicago.

Around this time, his father's printing business was going bankrupt due to unfortunate market conditions. It was the love for the industry and helping clients be better marketers that kept them both in the industry.

With the newly combined family business, LeFebvre started to aggressively upgrade and expand Specialty's equipment to accommodate for more volume of work and growth in sales. Sales grew from \$1.32 million in 1997 to over \$40 million in 2003.

"At that point, I thought that if we just kept buying low-cost equipment and filling it up, we were not going to be sustainable," says LeFebvre. "It didn't feel like the right positioning for us in a print market that had volatility."

In the mid 2000s, the company name changed to Specialty Print Communications to better align with their mission and vision. In 2003, the company got aggressive again and



changed its focus to how it was going to maintain a competitive advantage for the future instead of just keeping busy in the moment. Equipment was upgraded again, including two Goss presses, a brand new Heidelberg SP102, and an M110 C, which was the only non-new piece of equipment they bought because it wasn't made anymore. Sales grew into the \$50-million range, and then in 2008, the American economy declined due to the Great Recession.

With creativity and grit, the company went under another internal analysis. The company got really bold and brave and decided they needed to pick a niche in the printing market and run full speed ahead.

**"We needed to figure out what we were going to be doing in the world because we were producing more efficiently, but we were just a commercial printer," says LeFebvre.**

In 2008, Specialty decided to focus on high-value direct mail services. The company made the commitment to invest in

opening a 64,000-square-foot letter shop but were turned down by five banks. LeFebvre says in another very bold move, the company gathered its own cash through its network and purchased the letter shop building. "We never intended to be a cash buyer, but that's how certain we were that we needed this for the future of the business that we wanted to run," says LeFebvre.

When he called the bank to let the lender know they were able to finance the purchase on their own, the bank ironically told Specialty they were approved and the bank ended up financing the letter shop building after closing.

LeFebvre hired the right professionals that knew about the business, and in 16 months the company was exceeding their five-year revenue plan. They knew they had made the right decision, and LeFebvre says they decided that Specialty was going to be the coolest, neatest, and most wiz-bang direct mail provider that they could be.

Over the years, LeFebvre says he's seen that data is driving the bus, quantities of printing are getting smaller, and the quality of data is getting richer. In response to this,

the company decided that the letter shop had to be automated and replicate some of the same things that they can do in an in-line environment if they are going to be efficient in selling smaller quantities with multiple sales. They did so by bringing in complex binding and finishing equipment.

**“Printing is easy, but finishing adds the wiz-bang,” says LeFebvre.**

Technology is also changing the industry as a whole and will continue to be a changing force. LeFebvre says he sees a convergence coming out of robust high-speed output with incredible data handling capabilities. Also, the finishing equipment industry that was dominated by big players for a while is going to be heavily challenged by small shop innovators. The ability of smaller shops to be quick and nimble when designing and building equipment will allow for innovation that a number of the big players are simply not used to.

LeFebvre credits Specialty’s success to their high risk tolerance and die-hard commitment to innovation.

“It’s not computer technology innovation, but the ability to take products that were unachievable and find ways to automate them, improve upon them, and really focus on the customers to consistently give them a better product for the same money or bring them something new that makes them more money,” says LeFebvre.

He adds that it’s the customers’ return on investment that drives it all. He’s extremely proud of the people in the company and he is more than willing to enter them into an innovation competition, knowing they would definitely walk away with a trophy.

“They are willing to jump off the bridge with me because they know there is water to land in,” says LeFebvre.

For more information on Specialty Print Communications, visit:

[www.specialtyprintcomm.com](http://www.specialtyprintcomm.com).



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# Print Update: Looking Back on 2018 to 2019

Dr. Ronnie H. Davis, Senior Vice President and Chief Economist,  
Center for Print Economics and Management, Printing Industries of America

In this article we take a look back at the path of print markets over the past year. In the upcoming Winter Forecast issue of *The Magazine*, we will change direction and focus on the future with our view of 2019 print markets. Since print markets generally track with the overall economy, we discuss major economic trends over the past year and our economic outlook for next year.

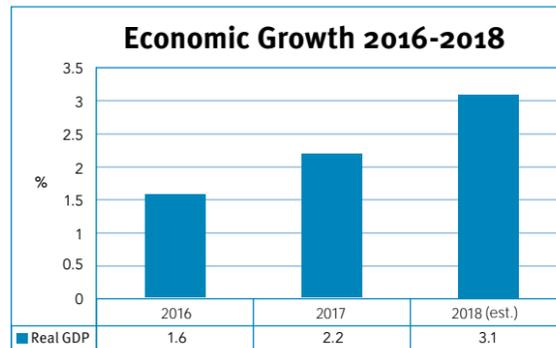
## The Economy Rolls On

The major driver of print is the overall economy, and the American economy has been doing well over the course of this year. The current expansion is now over 112 months old—the second longest in 164 years of record keeping. For 2018, the economy expanded by 2.2 percent in the first quarter and 4.2 percent in the third quarter on an annual rate basis. The estimate for the third quarter is somewhere around 3.5 to 4 percent. Over the full year, growth should be well above 3 percent.

The robust economy has strengthened labor markets and reduced unemployment to a “full employment” level of 3.7 percent. Wages are rising after years of sluggish growth. The primary causes of the uptick in growth and employment have been deregulation and corporate tax reform.

## Print’s Strong Path in 2018

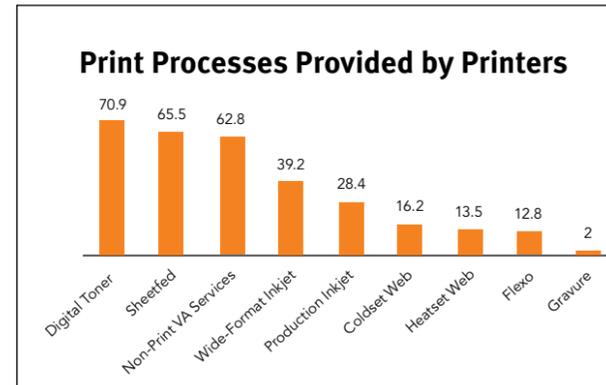
The robust economy has pulled print along at a similar pace over the past year. Although they remain competitive as always, print markets are growing around one to two percent per year. This rate may not seem particularly high. However, when applied



to total U.S. print production of approximately \$170 billion in annual shipments, this results in over \$2 billion or more in additional print per year. Moreover, the aggregate U.S. printing industry is composed of around 42,000 establishments and 800,000 employees.

Within this large economic footprint the mix of print processes provided by printers is evolving. Over the past year, the most common print process provided by printers was digital toner. The next most common process was sheetfed printing followed by a diverse mix of value-added ancillary services and inkjet technologies. At the same time, conventional processes such as lithographic web, flexography, and gravure still persist and endure.

In terms of sales growth by process, the print processes and services that experienced the highest sales growth over the past year are:



- Digital toner-based processes
- High-speed production inkjet processes
- Non-print ancillary value-added services

Digging deeper into sales growth by value-added services, printers report the highest growth came from these five areas:

- Web-to-print e-commerce storefront print fulfillment
- Fulfillment
- Web-to-print storefront marketing and brand management
- Logistics management
- Database and digital asset management services

In regards to specific print products, printers report the hottest demands over the past year were for:

- Private label converting
- Signage
- Labels and packaging
- Specialty printing and direct mail

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## Industrial Tracking Systems

- MCS Perfect Match 10 Industrial Tracking System
- MCS Output Camera Systems



## High-Speed Inserting

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- MailStream Direct
- FTS-Transactional Inserter

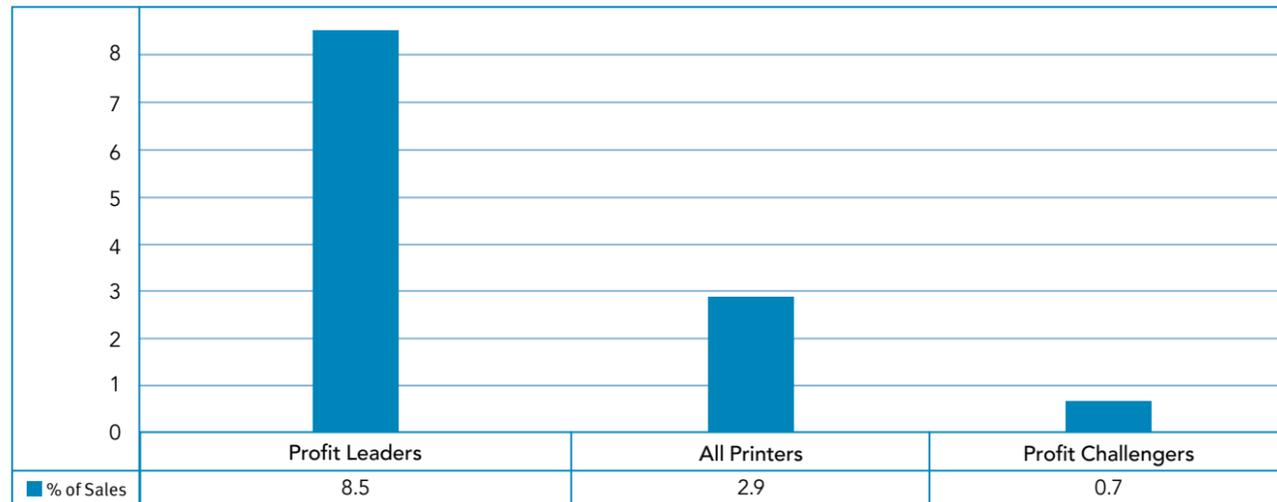


## Digital Presses

- MCS KM 3080 & 6100 - Color
- MCS KM 6136 & 2250 - B&W



## Printer's Profits as a % of Sales



What about profits? These strong print sales are, in turn, pulling up printers' profits. The most recent metric from PIA's Ratios program shows profits as a percent of sales at 2.9 percent, near historic highs for the industry. Industry profit leaders (printers in the top 25 percent of profitability) are at 8.5 percent and profit challengers (printers in the lower 75 percent of profitability) are at 0.7 percent.

In conclusion, 2018 stacks up as a very good year for print and for printers. Now the big question is: Will these favorable trends continue? That will be the topic for our upcoming article on the 2019 economy and print.



## Printing Industries of America CENTER FOR PRINT ECONOMICS AND MANAGEMENT



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# Q&A with Upper Valley Career Center

Ralph Ash, Design and Digital Instructor

Sarah Sudar, Copywriter, Printing Industries of America

Upper Valley Career Center (UVCC) opened in 1975 in Piqua, Ohio and currently enrolls 1,000 high school juniors and seniors in 25 career-technical programs, including Design & Digital Print Technologies. This year, the Design & Digital Print Technologies program has 21 juniors and 15 seniors and has had a waitlist to get in for the past five years.

We sat down with Ralph Ash, Design and Digital Instructor, to talk about UVCC's printing program and how it's placing skilled students in the workforce.

## What's the history of the Design & Digital Print Technologies program?

The program was started in 1975 and it was originally called Graphic Arts, which focused on letterpress offset printing. The program has had to adapt over the years to keep current with the industry and the ever-changing technology. Now, the program is focused on all aspects of the printing industry with no portion of the industry more important than another. The program is PrintED certified and now offers the students many pathways into the job market or college. We have expanded the program to offer computer design and illustration, offset printing technologies with a full bindery, package design, digital workflow, digital printing, screen printing and sign making, and Adobe certifications. 3D printing and laser engraving are offered as an elective.

In the first year, the students are trained for output and learn how to operate all the various output devices that drive the production side of our lab. They are also trained on every piece of equipment in the lab. In their second year, the students produce printed materials for the school, associate schools, and patronage projects for the public. Seniors can also take part in work-related experiences.

## What is attracting Gen Z students to the program?

I think the biggest attractions to students are the diversity of the program and the options provided for employment or a college degree. I have noticed the Gen Z students like things in small doses, but they can handle several things at once. The more I can offer to the students, the more they remain focused and excited about the program. Since we offer many different types of printing methods and ways of output, the students usually find an area of the curriculum they like and even pursue it as a career pathway.

## How are you teaching these specialized skills to Gen Z students?

They need instant gratification, so I give them small projects that they can produce as a printed piece at the beginning of any new process that we are studying. This allows them to have a better understanding of why we need to follow the proper procedure or steps to accomplish a task. One thing I have found that works for today's students is to let them get their hands on something at the beginning of a project (such as a booklet or a shirt) instead of at the end.



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## How have you seen teaching styles change over the years?

When I first started in vocational education, there was no real pressure for preparing students for college; it was more about getting students placed in the world of work. Then, the focus shifted to the importance of college, and the feeling was that every student needed to attend college to be successful. This led to a dip in enrollment, as the majority of the students were being told by the associate schools that they could not get to college through the vocational school. During the last few years there has been a big focus on career readiness, and now students are encouraged to get a vocational degree and earn college credit or certifications through the career centers. Our program has set up articulation agreements with several colleges and has added the Adobe certification process to the curriculum. This has really benefited us the past five years, as we are getting students who have a career pathway in mind and we are able to provide them with a means of attaining their goals.

## How and where are you placing graduates?

The last two years, our overall career/college placement rate, including military service, was 96 percent. I am placing our students while most of them are still in school. We have had a lot of support from our business partners and continue to grow with placement opportunities and apprenticeship opportunities. These companies want students who understand the process and who are trainable. I have more jobs than I do students at this time!

## For more information on the Upper Valley Career Center, visit [www.uppervalleycc.org](http://www.uppervalleycc.org)

Ralph Ash is a Design and Digital Technologies Instructor at Upper Valley Career Center (UVCC) and has worked at the school for 26 years. Prior to joining UVCC, he worked as Head Pressman at St. Rita's Medical Center in Lima, Ohio.



## Brittany Whitestone Has Sights Set on the 2019 WorldSkills Competition

Gen Z Student on the Pathway to Success

Sarah Sudar, Copywriter, Printing Industries of America

College junior Brittany Whitestone shocked herself by winning the 2016 and 2017 SkillsUSA Competitions and is preparing to compete at the world level this August in Russia.

Brittany became interested in printing in high school after taking a Graphic Communications class. She enrolled in the Print Production program at the Carroll County Career and Technology Center in Westminster, Maryland, while in high school and learned how to do a job from start to finish.

**“It was a surreal feeling to win two times in a row. To this day, I am still amazed by how I’ve grown.” says Brittany.**

It was learning the whole process, from designing her own work to printing it, that really made Brittany fall in love with printing.

After attending the Art Institute of Tampa for graphic design, she had a change of heart and decided to focus on printing. She visited the California University of Pennsylvania and got really excited to be a part of the graphics and multimedia program. You can find her in classes Mondays through Thursdays and training for WorldSkills on the weekends. She heads off campus and drives over five hours to Lehigh Career and Technical Institute in Allentown, PA, to learn the ins and outs of a 4-color offset press.

At this past SkillsUSA Competition, Brittany had to run a 2-color offset press, digital press, folder, cutter, estimate a job, use InDesign, and go through a knowledge test and job interview. When she heads to the WorldSkills Competition, she’ll need to know more: how to run a 4-color offset press, mix ink, run a 2-color press, perform maintenance, run a digital press, and run a Sinapse simulator.

Brittany is excited to head to Russia to compete. She says it will be fun to see a different culture while printing, doing something that she loves.

Read more about Brittany on the blog at: [printing.org/blog](http://printing.org/blog)

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## We're Thinking About Another Press

Bob Lindgren, The Management Guys and Gerry Michael, GA Michael & Company, LLC

Sound familiar? Every firm faces this question all the time. It is, after all, the nature of being in a manufacturing industry, one where both technology and markets seem to be perpetually changing. Of course, every time there's a major change in the industry, someone is knocking on your door to tell you why you simply have to be part of it. This may be a great new step for your business, but it can also be an expensive burden, making profit even harder to achieve. A wrong decision like this can depress profits for many years to come. So before you leap off this bridge, it's critical that you think through the decision and the financial impacts it will produce.

Like most business decisions, the question that you have to address is this: Will the benefits from this investment be greater than the investment cost? Sounds simple, but let's break the question into pieces and look carefully at each one.

### The first question is: What is the initial cost of a decision to move forward?

The easy part is learning about the initial purchase cost. But other initial costs are equally important to consider. Don't forget that there may be substantial costs in installation (floor modifications, electric, plumbing, air handling and venting, etc.). There will also be a learning curve as your people are trained in its operation. There may be a need to create an inventory of replacement parts and consumable supplies. If the decision involves new capabilities, there may also be marketing costs

to introduce the capability to your customer base and to train both estimators and sales personnel. Finally, a successful installation requires a final test and acceptance process, which should be carried out by a competent outside expert (PIA's Jim Workman at 412-259-1710 is a good source for this).

All of the above will create distractions for you—and for your personnel in the short run, at the very least—and possibly will impact your ability to both be active in sales and to produce jobs if it impacts your production flow, which these almost always do. Some dollar value needs to be placed on this disruption, since it's as much a part of the initial costs as is a bill from your electrician.

But the really critical question is: Will the new press (prepress system, binding line, etc.) pay for itself and also make a significant contribution to the bottom line of the firm? Obviously, hoping that you will get "lucky" or believing the cliché, "if you build it they will come" is taking a big risk. Just as obviously, though most of the costs will come today, the return on your investment will come in the future, making it hard to reliably predict. But you have to think systematically about this and identify the key assumptions on which you will base your predictions. Otherwise, you have no basis to monitor the actual performance that this investment will produce.

The process of systematic thought begins with identifying the sources and probable amounts that the new press will earn. In general, only two revenue streams are likely to be produced by new capital equipment. Either it provides you with a capability that you don't currently have, or it increases the output on capability you have now. But let's look closely at each of these. For new capability, before you invest significant

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amounts of capital, it's prudent to test the market by selling the capability you are considering at the market price you believe prevails, while buying out the work from a trade vendor. Even if this results in losses on individual jobs, what better way to test the marketability of this capability before making a significant investment? Ultimately, the only people that can pay for any investment by you are your customers. Before investing in new capability, therefore, you need to be sure they are prepared to pick up the bill.

For increased output on current capability, the analysis has to focus on what you will do with that capability. If you are currently operating at or near capacity, on at least 20 hours a day of equipment manning, then the idea of increased revenues from faster production may make sense. However, if you are having a hard time filling up a single shift, expanded capacity makes no sense.

Regardless of which of these revenue streams you will rely on, when estimating the benefit from such sales, be sure to consider all costs that will increase as a result, including the costs of the

additional jobs, marketing costs, commissions, and possibly even administrative costs of handling a greater number of orders. Ultimately, only marginal cash flow should be considered.

### The Tax Effect

The tax effect is the easiest. Just the act of buying the press and bringing it into service will produce a stream of funds coming from the reduction of income taxes your firm would otherwise pay. This is the depreciation permitted by the IRS multiplied by the firm's marginal tax rate. For example, if the capital cost of the equipment is \$100,000, the result of the 100% expensing under the new tax law using a 25% marginal tax rate is potentially a \$25,000 decrease in tax costs in that year, but that can be deceptive.

Remember that you pay taxes on profits. It's not at all uncommon for a company to experience somewhat depressed profits, or possibly even losses, following a significant investment in new equipment, even if only for that year. In that case the benefit of this deduction may be deferred to a later year.



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### Cost Reduction

Earlier we discussed the issue of increased production flow. This is often seen in a reduction in the cost of doing the work that we now have. If we conclude that makeready time will be reduced by 1.5 hours for the average job, we can project the number of makereadies we are likely to do on our existing book of business each year, multiply it by 1.5, and consider the effect of that reduction in production hours. It is tempting to multiply this by the budgeted hourly rate used by our estimating system, but it is disastrously wrong. Why? There are two reasons. First, if our estimating system uses a rate of \$300/hour for the press, we will not save \$450 per makeready (1.5 times \$300). The only amount that we may actually save is the wages of the crew (the press and the other overhead costs are unaffected), giving us a more likely savings of \$75 (1.5 times \$50). And that savings only occurs if we believe we will actually send the crew home when this time is freed up, which is not likely in today's challenging labor market. This brings us to the second reason: Savings must be realizable to be counted, which can be a problem if the improvement in efficiency leaves us with the same workforce.

### New Sales at Lower Prices

We may see the possibility of selling work in situations where we are not currently competitive since the greater efficiency of the new press may put us in the game. This requires systematic thought, as just guessing at a number won't work. What will work best is a list of specific clients, current or potential, that you believe you can sell to at a lower price along with dollar amounts of possible sales to each. From these projected sales, you need to subtract the paper, other purchased materials, and sales commissions to get to the incremental revenue from these sales. But relying on estimates is not necessary. You can easily test this assumption by simply lowering prices to open these markets now. As was the case with new capabilities earlier, testing the market before making major investments is the more prudent course.

### New Products

Finally, there may be the possibility of selling work that could not be produced with your existing equipment. Obvious examples are variable data and large format. Here

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the analysis is similar to that for the new work at lower prices. The difference in this situation is the expectation that pricing levels would be higher rather than lower because of increased value to the client. These results can be very powerful but may require a refocusing of the sales effort since you are beginning to sell a very different product.

### Unfortunately, There's Tax

As we all know, the government giveth and it taketh away. Just as we reduced our taxes by recording depreciation, we will increase them with the reduction of cost, additional work at lower prices, and new products.

### OK, We're Done, But...

After we identify the sources of net revenue, we have to consider that the press or other equipment may likely have a usable life span of several years and thus the returns should

be considered over its probable life cycle. If we consider a machine with a six-year life, for example, while we will pay for it in the first year, it will earn (hopefully) for the entire six years, although likely at a slower pace in later years due to competition from newer equipment. We cannot simply add up the results from the whole six years because of the time value of money.

This can be seen by considering the choice of receiving \$1,000 today or \$1,000 a year from now. It's clear that you would prefer \$1,000 today as you could spend it or invest it during that year. For exactly that reason, the dollars coming back in year six are not the same as the dollars spent in year one. The simple way to address this is to discount the dollars received in later years by a percentage that realistically reflects the use that the funds might have had. Usually a rate of between 12 and 20 percent is appropriate for this purpose. How does one do this? It's actually relatively simple. Based on whatever discount rate you choose, there are discount factor tables readily available from a number of sources. Simply multiply each year's expected net cash flow

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For more information on the Ben Franklin Honor Society, including historical documentation and bylaws, visit [www.printing.org/honorsociety](http://www.printing.org/honorsociety).





by the appropriate discount factor for the rate and year and add each year's discounted value together. This is the discounted value of your benefits. Subtract all of the initial costs of the investment to get the Net Present Value that you anticipate.

### The Action Step

If the sum of the present value over the probable life of the equipment is positive, the project is a go—if it's negative, it should be discarded or reworked.

### The Problem of Uncertainty

What if our projection is wrong? Obviously, if it turns out better than we projected, we're delighted—if it doesn't, we're in the soup. For this reason, we have to be very careful and detailed about the assumptions on which we base our projections for new sales and new products. We might even try out alternative versions (higher or lower) to see what might happen.

Fortunately, the tax effect is locked in and the cost reduction (if it exists) is usually solid. We might take comfort in the fact that the time value of money reduces the impact of future results, which are exactly those in which we have the least confidence. But we still need to be as accurate as we possibly can be. As they say, past performance is no assurance of future results.

Is there a simpler way to look at these decisions? Perhaps, but it means that you have to remove the risk of error from simplification, so it's something that should seldom be used. A useful rule of thumb is that if the identifiable net revenue flows in the first year are at least three times the purchase cost, it's a go. Otherwise, it needs a more detailed analysis or needs to be rethought.

### What About Financing?

Whether we can pay for the equipment out of our checking account, borrow the money from the bank, or lease it from the seller has really nothing to do with the wisdom of making the purchase—just because we can swing it, doesn't mean it's a good idea. Ultimately, you still need to pay off the entire cost of the equipment investment, plus interest. Frankly, there is a limit to the total debt any company can safely afford to incur. Using debt to acquire capital equipment that is not economically justified reduces the amount available for other potentially better investments later.

### About the Authors

Bob Lindgren of The Management Guys is also the former management and business advisor for Printing Industries Association of Southern California. He has worked with printers both in Los Angeles and Chicago for more than 50 years and has an MBA in accounting and finance from the University of Chicago.

Gerry Michael is a CPA/consultant who has focused his practice on the printing industry for nearly 35 years, first as the founder of GA Michael & Company and later as Graphic Arts lead partner at Carlson Advisors. Currently, he works with printers across the country on management and strategic planning issues, as well as advising clients on mergers and acquisitions within the industry. He is a frequent speaker at industry meetings and a contributor to various industry publications.



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