FINANCIAL PERFORMANCE

APPAREL DECORATORS

Staying on top of industry trends is essential to your success.

Throughout the year, SGIA's research team creates top-notch reports for the industry, and works with consultancies to conduct commissioned research.

SGIA members get unlimited access to the resulting reports, featured here, that reflect the scope of the printing industry.

If you have any questions please contact research@sgia.org.

Executive Summary

SGIA conducted its second quarter industry survey in May 2019. The goal of the survey was to look at the industry's financial performance. A total of 443 respondents participated in the survey. The following report is based on the responses of 55 apparel decorators.

At least eight out of ten are U.S. companies (83.6%), 10.9% are international and 5.5% are Canadian. More than a third of the respondents (38.2%) serve more than one segment, with graphic and sign production (40.0%) as the most frequently cited. About half of the companies are in in-plant operations (42.8%). The respondents tend to serve businesses and consumers together (B2B and B2C) (58.0%), 28.0% focus on businesses only (B2B) and 14.0% serve customers only (B2C). The majority serve at the local (70.9%) and regional (63.6%) level, while slightly more than half (50.9%) are national and 16.4% are international companies. About two out of three companies (60.0%) serve at least two geographic areas. More than three-quarters (76.4%) of the companies are small with fewer than 20 employees.

Multi-technology is the top choice among the respondents (74.5%). Almost two-thirds of the companies (62.3%) offer finishing and post-production services, and they also tend to exchange services with one another. More than 50% of production capacity is used by 60.4% of the respondents.

Two out of three companies (66.7%) had increases in sales during the current year, and the median sales increase for the companies was 11.0%. The expectations for the future are even higher, as 78.7% expect their sales to grow. Almost every company (91.9%) expects at least a 10% sales increase. Why do they expect an increase? The strength of the current markets, new products and services, and marketing and sales support were mentioned the most.

The level of profitability increase is lower than the sales increase: 36.4% had a current increase in profits and 52.3% expect it for the future. The profit margin of 9% or higher was reported by about two out of three respondents (65.9%) The main drivers of profit growth are sales, more profitable work and increased efficiency in operations. The most frequently mentioned obstacles were shortage of skilled production labor and rising costs of labor and materials.

The analysis of the open-ended questions suggests that high-profit companies (profit margin of more than 8%) tend to overcome obstacles by focusing more attention on the employees (hiring and training processes), while low-profit companies (profit margins of 8% or less) focus more on sales and marketing. However, those are just preliminary findings and this topic needs to be explored further.

The average number of days of sales outstanding is 26. This number is slightly lower than the standard credit terms of 30 days or less identified by the majority of respondents (92.7%). The outstanding terms are not getting longer for 80.5% of the apparel decorators, with 53.7% having no change and 26.8% seeing them decrease. No past due 2018 account receivables were reported by 12.2% as of April 1, 2019, and more than half (51.2%) had no more than 10%.

In reviewing the financial ratios of the survey respondents, we found that outside purchases/sales and payroll/sales were lower for the more profitable group compared to the less profitable group. High-profit companies also had higher sales and value added per employee. This topic will need to be discovered further.

Methodology

For the purpose of the survey, companies were asked to provide their basic financial information (Table 1), which allowed us to calculate the following financial ratios:

1. Outside Purchases/Sales
2. Value Added/Sales
3. Gross Profit/Sales
4. Sales per Employee
5. Value Added per Employee

This is our first survey focusing on the financial data, and we hope to explore more metrics in the future.

Table 1: Financial Metrics

Apparel Decorators Financial Metrics	
1. Gross Sales Sales from all sources, including brokered sales.	**8. Selling Expenses** Total cost (including payroll taxes) of compensating sales personnel, including sales management. Includes advertising, travel/entertainment, vehicle and other sales-related expenses.
2. Outside Materials and Services Cost of all materials (textiles, paper and other substrates, ink, plates, etc.) and all services (preparatory, printing, finishing, etc.) purchased from other companies to produce jobs.	**9. Administrative Expenses** Total cost (including payroll taxes) of compensating executive, office and administrative personnel. Includes accounting, legal, collection, insurance, office supplies and other costs of running the overall business.
3. Value Added Gross Sales (1) – Outside Materials and Services (2).	**10. Income Before Interest and Taxes (EBIT)** Gross Profit (7) – Selling Expenses (8) – Administrative Expenses (9).
4. Total Payroll Everything associated with paying employees, including payroll taxes. Includes all working owners at fair compensation — i.e., what it would take to replace them.	**11. Income Before Income Taxes** EBIT (10) – interest expenses + nonoperating income, if any.
5. Factory/Production Payroll Total cost of compensating (including payroll taxes) employees who are directly (press/equipment operators, production supervisors, etc.) or indirectly (estimating, job planning, packing, shipping, etc.) associated with production.	**12. Employees** All full-time personnel plus the full-time equivalent of all part-time employees.
6. Factory/Production Overhead Equipment rental/leases, utilities, real estate taxes, rent, depreciation, repairs and maintenance, etc.	**13. Sales Personnel** All full-time outside salespeople, including selling owners.
7. Gross Profit Gross Sales (1) – Outside Materials and Services (2) – Factory/Production Payroll (5) – Factory/Production Overhead (6).	**14. Days of Sales Outstanding for a Month** Accounts receivable balance on the last day of the month/total credit sales for the month* number of days in the month.

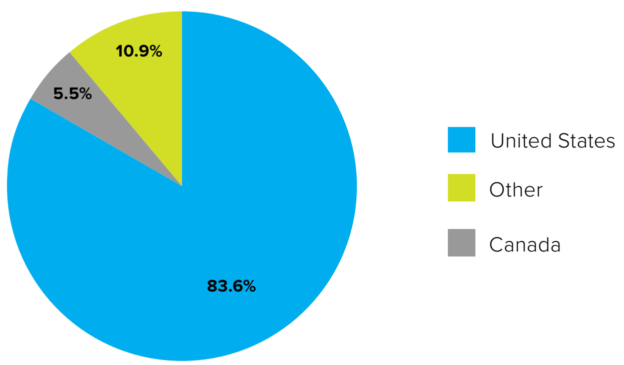
Profile of Participating Companies

Apparel decorators from 55 companies have participated in this survey. The majority (83.6%) represent U.S. companies, 5.5% are Canadian and 10.9% are international.

Slightly more than a third of the companies (38.2%) serve at least one additional industry sector besides their primary segment, with about half (40.0%) offering graphic and sign printing (Graph 2). Of the companies, 42.8% are in in-plant operations.

More than half of the companies (58.0%) serve businesses and consumers (B2B and B2C), slightly more than a quarter (28.0%) serve businesses only (B2B) and 14.0% serve consumers only (B2C) (Table 2).

Graph 1: Location



Graph 2: Industry Segments Served

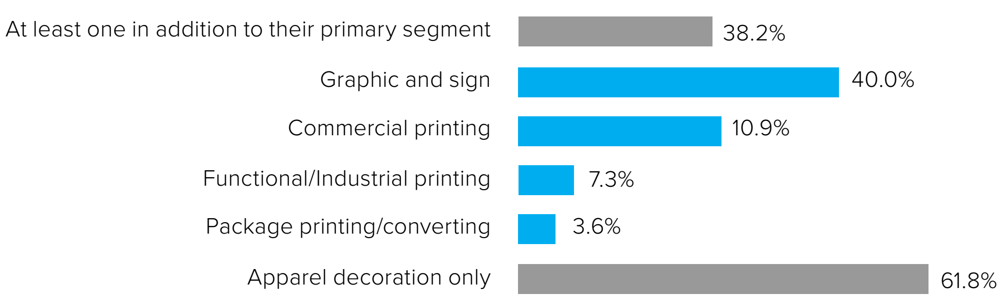


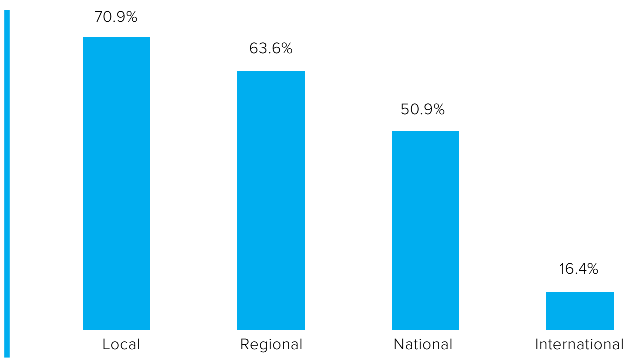
Table 2: Type of Business

Apparel Decorators Type of Business	
Business-to-Business (B2B)	28.0%
Business-to-Consumer (B2C)	14.0%
Both B2B and B2C	58.0%

Local (70.9%) and regional (63.6%) markets are served by the majority of apparel decorators, while more than half serve at the national level (50.9%) and 16.4% are international (Graph 3). Of the respondents, 60.0% provide their services to at least two markets.

About half of the companies (45.5%) have been in business for more than 20 years while 54.5% have been in business for 20 years or less (Graph 4). At least three out of four companies (76.4%) are small: 58.2% have fewer than 10 employees and 18.2% have between 10 and 19 employees (Table 3).

Graph 3: Areas Served



Graph 4: Company Age

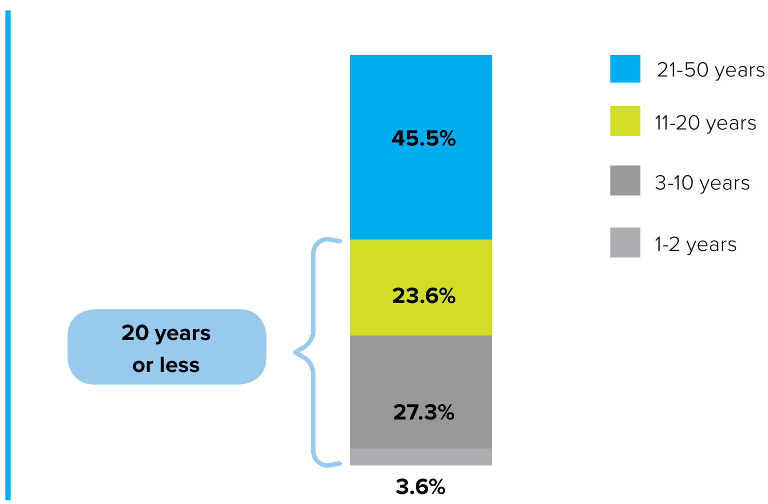


Table 3: Company Size

Apparel Decorators Company Size	
1 - 4	47.3%
5 - 9	10.9%
10 - 19	18.2%
20 - 49	10.9%
50 - 99	7.3%
100 - 249	3.6%
1,500 - 1,999	1.8%

Production Technology and Equipment in Use

About three-quarters of respondents (74.5%) rely on a multi-technological approach (Graph 5). About two out of three apparel decorators (62.3%) offer finishing services. Survey participants also tend to exchange services with their peers (Table 4). About two-thirds (60.4%) use more than 50% of their production capacity, and around a third (30.2%) use more than 70% (Graph 6).

Graph 5: Technology Mix

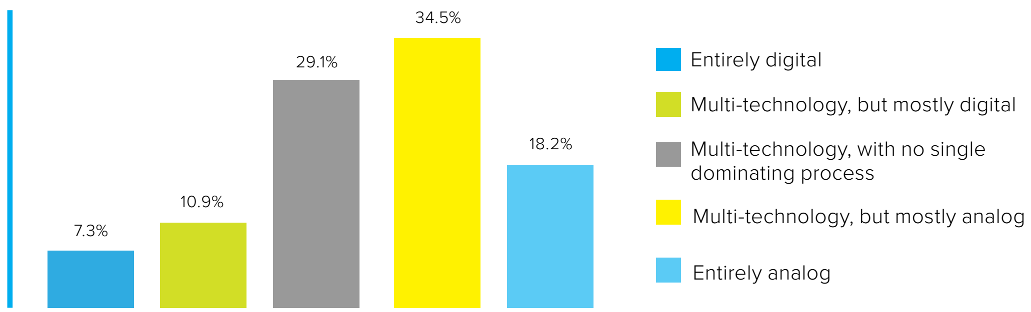
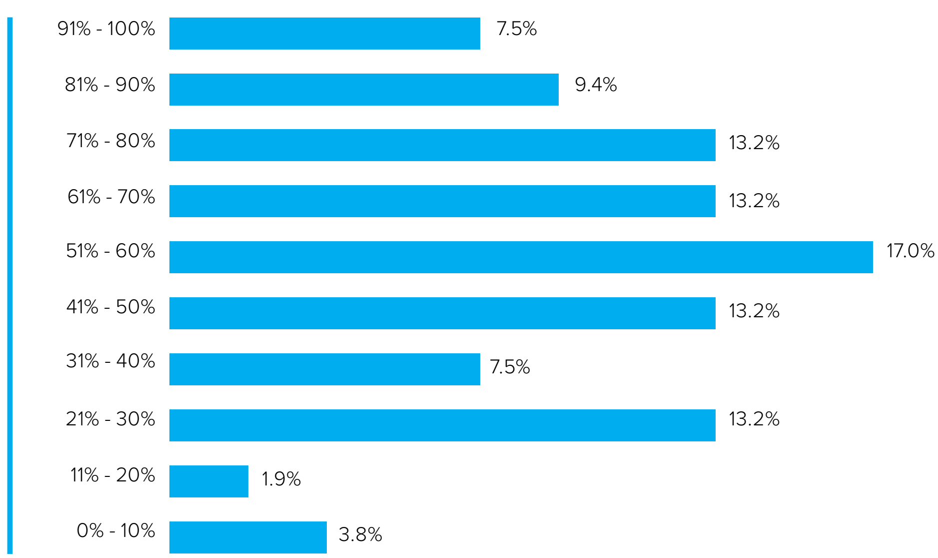


Table 4: Production and Post-Production Services Exchange

Apparel Decorators Production and Post-Production Services Exchange	
Provide PRODUCTION services TO other printers	60.4%
Provide FINISHING/POST-PRINT services TO other printers	26.4%
Purchase PRODUCTION services FROM other printers	45.3%
Purchase FINISHING/POST-PRINT services FROM other printers	20.8%

Graph 6: Capacity Utilization



Financial Performance

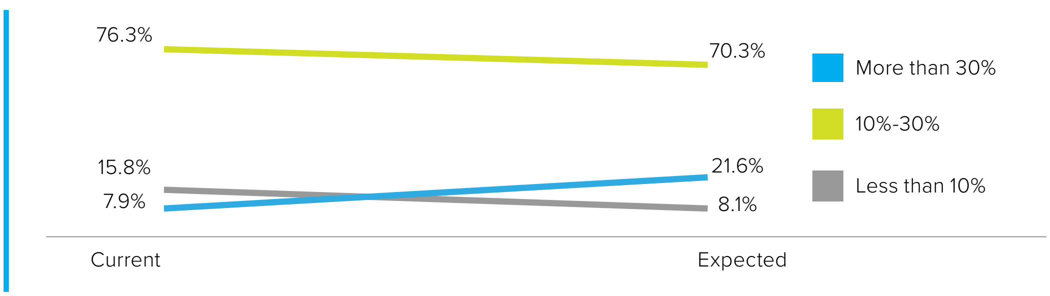
Two-thirds of the companies (66.7%) had increases in sales in 2018 compared to the previous year, and the median sales increase was 11.0%. More than three out of four respondents (78.7%) expect sales to increase in 2019, with the median percentage increase being 15.0% (Table 5). Almost all of the companies (91.9%) expect at least a 10% sales increase (Graph 7).

What are the driving forces behind expected sales increases? Although a number of reasons were given, about half of the respondents indicated new products and services (45.9%) and the strength of current markets (40.5%). However, marketing (40.5%) and sales effectiveness (40.5%) and more resources devoted to these also play a very important role here (Graph 8).

Table 5: Company Sales

Apparel Decorators Company Sales	Current Compared to Past Year	Expected in 2019
Higher	66.7% (Median 11.0%)	78.7% (Median 15.0%)
Same	14.6%	14.9%
Lower	18.8%	6.4%

Graph 7: Percentage of Sales Increase



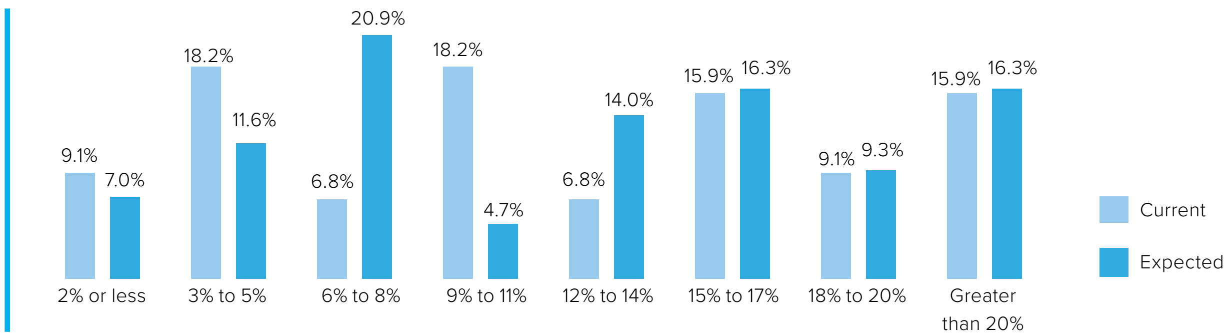
Graph 8: Why Sales Will Increase

What about the profitability? Those reporting a profit margin of 9% or higher comprised 65.9% (Graph 9). However, slightly more than a third of the respondents (36.4%) had an increase in profits in the current year (Table 6), which is about half of those with increased sales. Although the expectations are higher with more than half envisioning increased profits in the future (52.3%), they are still lower than the sales. The number of companies who anticipate a decrease in profits is expected to decline. The main reasons for the increased profitability are sales growth (82.6%), more profitable work captured (65.2%) and increased efficiency in operations (60.9%) (Graph 10).

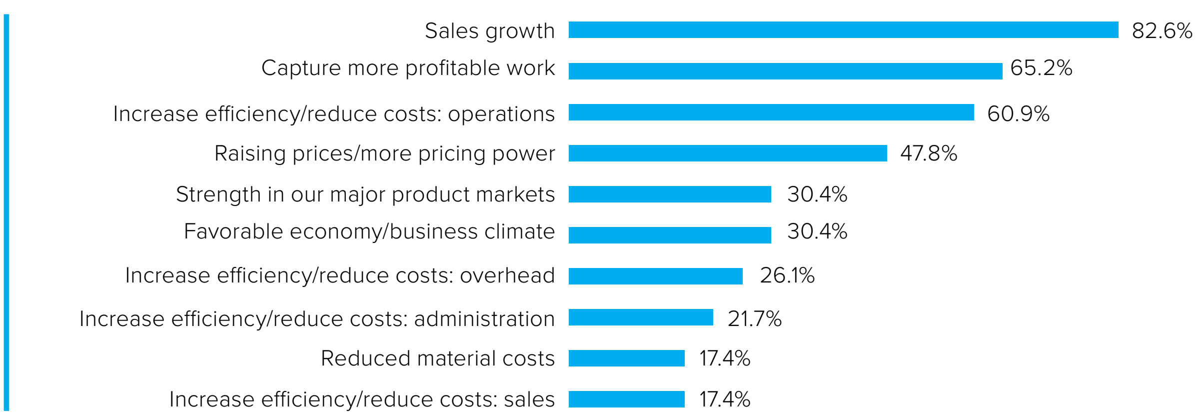
Table 6: Pretax Profitability

Apparel Decorators Pretax Profitability	Current Compared to Past Year	Expected in 2019
Increase	36.4%	52.3%
Stay the same	50.0%	40.9%
Decrease	13.6%	6.8%

Graph 9: Pretax Profitability Rate



Graph 10: Why Pretax Profitability Will Increase



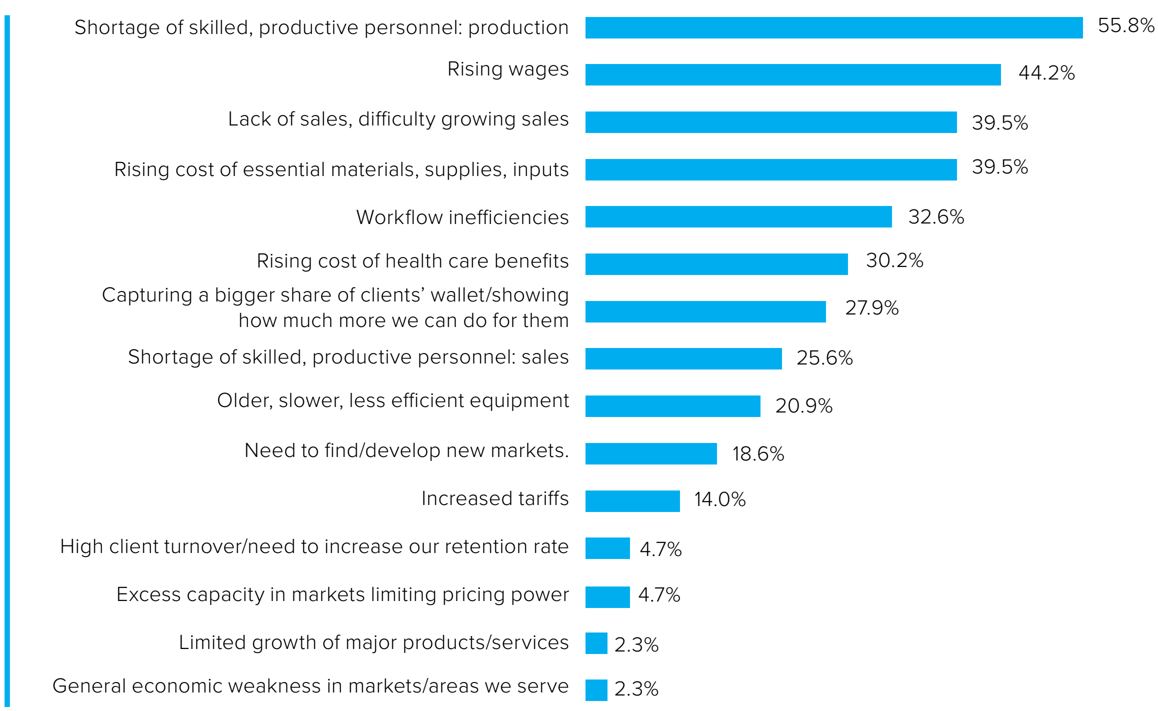
What challenges do companies face on the road to higher profitability? For more than half of the respondents (55.8%), it is the shortage of skilled, productive personnel in production. Another obstacle mentioned by 44.2% of the respondents was rising wages, followed by lack of sales (39.5%) and rising material costs (39.5%) (Graph 11).

Is there any difference between companies with high profit margin and low profit margin? For the purpose of comparison, we assume that companies with an 8% profit margin or less are low-profit companies and companies with profits higher than 8% are high-profit companies. High profits expect their sales to increase due to new products and services offered, strength of current markets served, marketing more effectively and price increases. The top mentions for the low profits were selling and marketing more effectively, a favorable economy and business climate, and new products and services offered. The choices are very similar, but low profits seem to rely more on the external factors, such as economic conditions and favorable business climate.

Why will profits increase? For about half (46.7%) of the low profits, the sales growth and increased operations efficiency are two equally important prerequisites, followed by capturing more profitable work (40.0%). For the high-profit companies, the responses vary, but sales growth (41.4%) tops the list.

When asked about the biggest obstacles to being more profitable, high- and low-profit companies made very similar choices: shortage of production labor, rising wages and lack of sales. The analysis of the open-ended questions suggests that high-profit companies tend to overcome obstacles by focusing more attention on the employees (hiring and training processes), while low profits focus on the sales and marketing side. However, this topic needs to be explored further.

Graph 11: Obstacles to Being More Profitable



Standard Credit Terms

The number of days of sales outstanding is 10 or less for 35.5% of the companies, between 11 and 30 days for 35.5%, and at least 30 days for 29.1%, with the average being 26 days (Graph 12). This number is slightly lower than the standard credit terms of 30 days or less identified by at least nine out of ten respondents (92.7%). There is currently a positive trend of the sales outstanding terms not increasing for 80.5% of the apparel decorators, with 53.7% having no change and 26.8% seeing them get shorter (Graph 12). At least one out of ten respondents (12.2%) had no 2018 account receivables past due as of April 1, 2019, while more than half (51.2%) had 10% or less. Slightly more than a third (34.2%) had between 11% and 30% of receivables past due (Table 7).

Graph 12: Days of Sales Outstanding, First Three Months, 2019

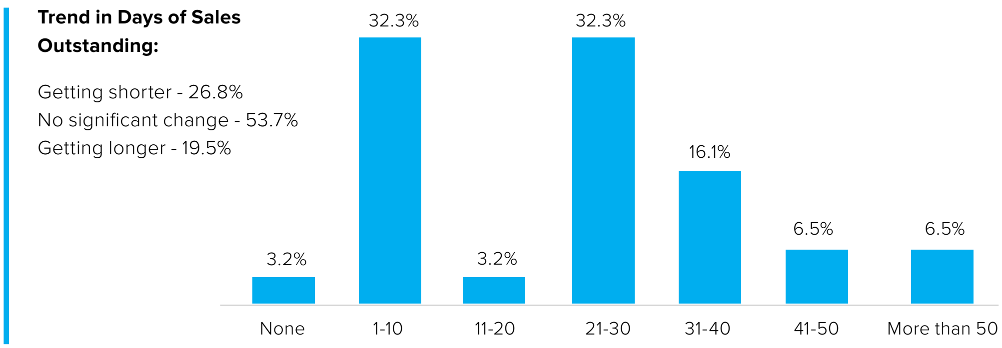


Table 7: Percent of 2018 Account Receivables Past Due as of April 1, 2019

Apparel Decorators Percent of your 2018 account receivables past due as of April 1, 2019	
0%	12.2%
1% - 10%	51.2%
11% - 20%	17.1%
21% - 30%	17.1%
31% - 40%	0%
41% - 50%	0%
51% - 60%	0%
61% - 70%	2.4%

Financial Ratios

In an effort to understand industry financial performance, SGIA's survey asked participants for several basic numbers from their income statement, such as sales, expenses and income. The goal was to develop the ratios that will allow companies to measure themselves against the industry. We received 43 responses from apparel decorating companies for the income statement questions, allowing us to investigate deeper into the subject: why sales are growing, but profits aren't keeping up; where money is lost between the top and the bottom lines of the income statements; and so on. We found that outside purchases/sales and payroll/sales were lower for the more profitable group compared to the lower profitable group. High-profit companies also have higher sales and value added per employee (Table 8).

This report is our step forward to not only provide benchmarking information to the companies, but also to share our findings with the industry on the most successful strategies that make companies more profitable and competitive on the market. In the future, we hope to explore it more as we are growing our research participation.

Table 8: Key Financial Ratios

Apparel Decorators Key Financial Ratios	All	High Profits	Low Profits
Outside Purchases/Sales	41.4%	36.3%	48.7%
Value Added/Sales	58.6%	63.7%	51.3%
Gross Margin/Sales	29.4%	31.3%	27.9%
Payroll/Sales	30.7%	30.3%	31.2%
Sales per employee	$111,750	$112,395	$110,997
Value added per employee	$82,902	$93,782	$72,023

About SGIA Research

Research to Count On and Act On

SGIA research provides first-hand accounts of what's happening in the printing industry, what's expected and why. We survey the community regularly, collecting information on key business indicators and explanations that put the indicators in context. We conduct follow-up telephone interviews to enhance context and insight. And because our surveys reach across the community — including graphic and sign producers, apparel decorators, functional printers, commercial printers, package printers/converters, in-plant printers, manufacturers, distributors and suppliers — we capture the realities of convergence, the phenomenon of printers moving beyond their primary industry segments.

Two practices further distinguish SGIA research. Representative panels of participants reduce non-response bias, a source of serious potential error in survey research, and increase the comparability of data from survey to survey. Second, through "best in business intelligence" analyses, we go beyond what to do to how to do it.

The result is research the printing community can count on to be accurate, relevant and actionable, transforming what's happening and what's ahead into opportunities rather than threats.

SGIA Research Reports

The results of SGIA research are summarized in reports issued throughout the year. Among them:

Quarterly Industry Benchmarking Reports

- **First Quarter: Markets and Products.** Markets served, products provided, the ones printers believe have growth potential and those they'd like to add. Trends in and expectations for key metrics, including sales, production and profitability. Average capacity utilization. Printers' confidence in their primary business segment and in the American economy.
- **Second Quarter: Financial Benchmarking.** Sales growth and profitability rates for the past year and expectations for the coming year. Why sales and profitability are increasing or decreasing. Obstacles to increasing profitability. Days of receivables outstanding, receivables trends, standard credit terms and percent of sales past due.
- **Third Quarter: Wages, Salaries and Sales Compensation.** Compensation rates and employee benefits by region and printing industry segment for more than 30 job titles. Detailed sales compensation data, including compensation rates, methods, commission structure and bonus structure.
- **Fourth Quarter: Growth Strategies and Capital Investment.** Capital equipment installed, purchased over last 12 months and expected to be purchased over next 12 months by type. Factors influencing capital investments. Financing capital investments. Current and future growth strategies in production, management and sales. Current and future methods of attracting new customers. Barriers to growth.

Industry Benchmarking Report Supplements

A closer look at the critical issues and trends raised in the Quarterly Industry Benchmarking Reports, cross-segment analysis of sales growth, profitability and other performance indicators, takeaways from telephone interviews and best-in-business-intelligence how-to's. Published periodically.

SGIA Economy Watch

A summary of the American economy's performance, prospects and defining issues, including trends in GDP, business investment, consumer spending, employment and other major economic indicators. Published quarterly.

Participating in SGIA Research

SGIA members and non-members are eligible to participate in SGIA research. The benefits of participation include early access to all research reports and exclusive access to reports such as the Industry Benchmarking Report Supplements. To participate, contact Olga Dorokhina, Research Coordinator (olga@sgia.org) or Andy Paparozzi, Chief Economist (apaparozzi@sgia.org).

Accessing Research Results

Quarterly Industry Benchmarking Reports and Economy Watch are provided to SGIA members as a member benefit, and members can download the full reports at SGIA.org (login required). Non-members can download summary infographics. To join SGIA and have access to the full reports, visit www.sgia.org/membership or call 888-385-3588.

About Olga and Andy

Olga Dorokhina, Research Coordinator

Olga Dorokhina, Research Coordinator at SGIA, has extensive experience in research in Canada and the United States. Being involved in all stages of research, from survey design to data analysis and reports' presentation, Olga strongly believes that numbers could tell us interesting stories. We just need to listen to them while making our everyday business decisions. Her goal is to understand where companies fall on the industry spectrum and provide them with the tools to achieve their potential.

Andrew D. Paparozzi, Chief Economist

Andrew D. Paparozzi analyzes and reports on economic, technological, social and demographic trends that will define the printing industry's future. His most important responsibility, however, is being an observer of the industry by listening to the issues and concerns of company owners, executives and managers. He came to SGIA after more than 30 years at the National Association for Printing Leadership (NAPL), where he developed numerous studies on commercial printing industry's performance and prospects, including the State of the Industry Series and the Capital Investment Report. Andrew holds a Bachelor's degree in economics from Boston College and a Master's degree in economics — with concentrations in econometrics and public finance — from Columbia University.

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