

Printing Industries of America



**CENTER FOR PRINT
ECONOMICS
AND MANAGEMENT**

FLASH REPORT

Printing Industry Profit Profiles for 2017

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In this *Flash* we report on the latest PIA *Dynamic Ratios* findings on printing industry profitability. But first, due to the increasingly fluctuating nature of the macroeconomy, we provide a quick update on our latest outlook.

Quick Economic Update: Increasing Signs of Turmoil so Caution is in Order

PIA's *Center for Print Economics and Management* constantly monitors the economy, and our current view is that it will most likely continue to expand at a modest but increasing pace over next year. We believe the recent economic acceleration will continue with growth in the 2.5- to 3-percent range. The improved pace of economic growth is the direct result of the recent tax changes and the roll-back in business regulations. These two policies together have added about 0.5- to 1-percentage growth to the economy.

However, after nine years of sustained growth, there are increasingly significant downside risks to this optimistic view. More specifically, there are five significant risks that should be scrutinized over the next few months:

1. A potential trade war and trade restrictions such as tariffs and quotas slowing down the global and U.S. economies. Recent tariffs on steel and aluminum, if not eliminated, could escalate to other segments. While these restrictions help targeted industries, they do more harm than good to the overall economy and will slow down growth.
2. Labor shortages in some occupations and industries could also place a ceiling on growth.
3. Specialized bottlenecks in sectors like trucking and railroads could also stymie growth.
4. Costs and pricing pressures could push the Federal Reserve to overly tighten credit and interest rates and reduce consumer and business spending.
5. A natural slowing after 9 years of growth could occur as the current economic expansion loses steam and putters out.

Print markets generally track with the economy, so if the economy performs as expected over the next year print, should remain healthy. However, any of the above downside economic risks will also disrupt print markets.

Most likely the economic momentum will overcome these obstacles and continue growing. At most, these obstacles should only limit economic growth at no more than 3 to 3.5 percent and print

growth to no more than 2 percent. However, the situation is at a sensitive balance point so be vigilant regarding significant changes in investment and business strategies.

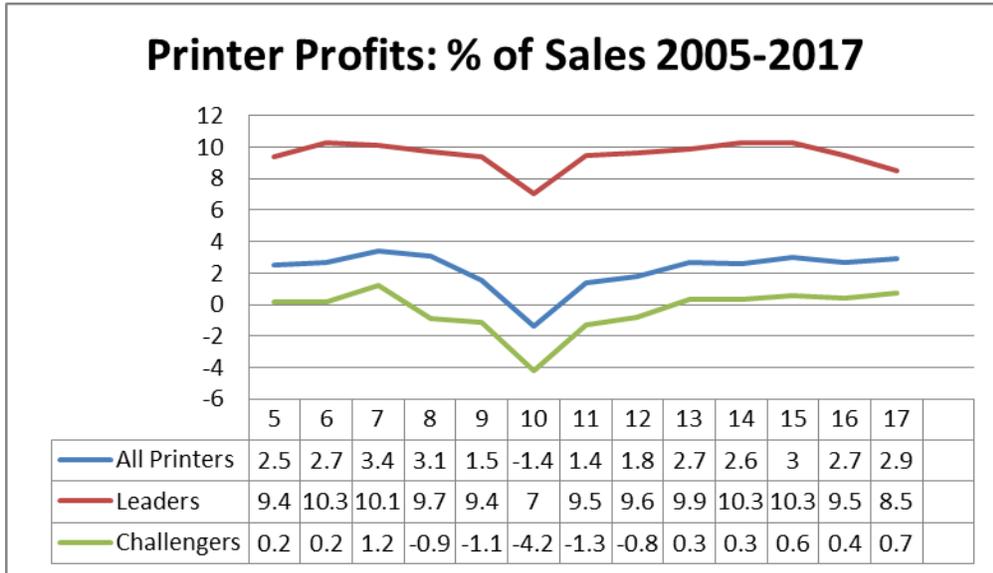
Now, we return to our main topic—current trends in industry profitability.

Plotting Print Profits 2005–2017

The 2017 Printing Industries of America *Dynamic Ratio Survey* results are in, and the findings indicate a modest rise in printing industry profitability. On average, the typical printing firm's profit as a percent of sales increased from 2.66 percent the previous year to 2.92 percent. In contrast, industry profit leaders—printers in the top 25 percent of profitability—saw their profit rates on sales dip to 8.8 percent. Profit challengers—printers in the lower 75 percent of profitability—experienced profit gains.

Over the entire period from 2005 to 2015, printers participating in the *Ratios* averaged around 2-percent profit on sales. Of course, the *Great Recession* pulled the average down significantly, but since the recovery the average has bounced back to longer-term trends. Profit challengers, printers in the bottom 75 percent of profitability, actually lost money in the recession-impacted years from 2007–2012. However, their profit rate of 0.7 percent this past year was the highest ever over the last 13 years.

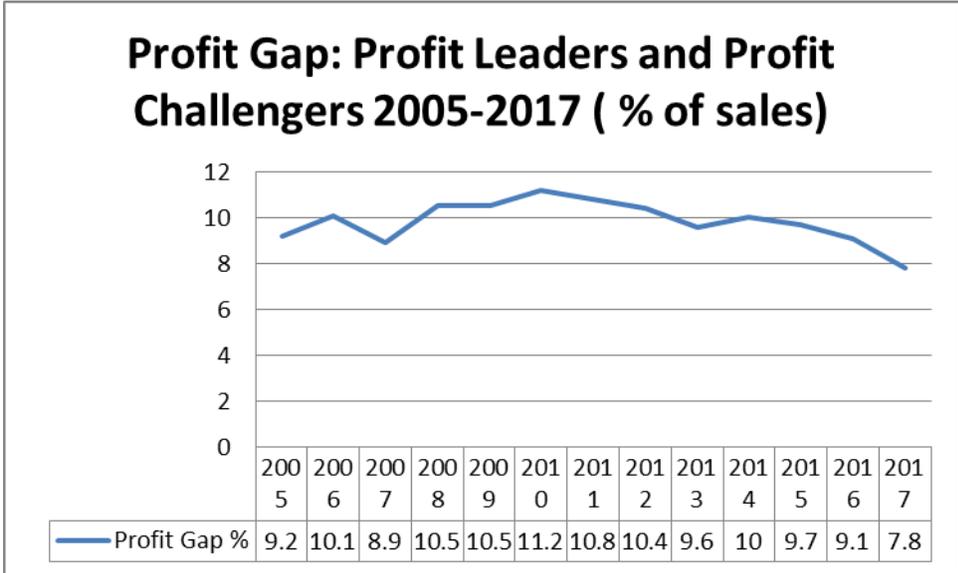
The worst year for all printers—profit leaders and profit challengers—came at the tail end of the *Great Recession* in 2010 as both industry sales and profitability were most impacted. This dramatically demonstrates the fact print performs best in mature economic recoveries and does poorest at the bottom of recessions.



Tracking the *Profit Gap*

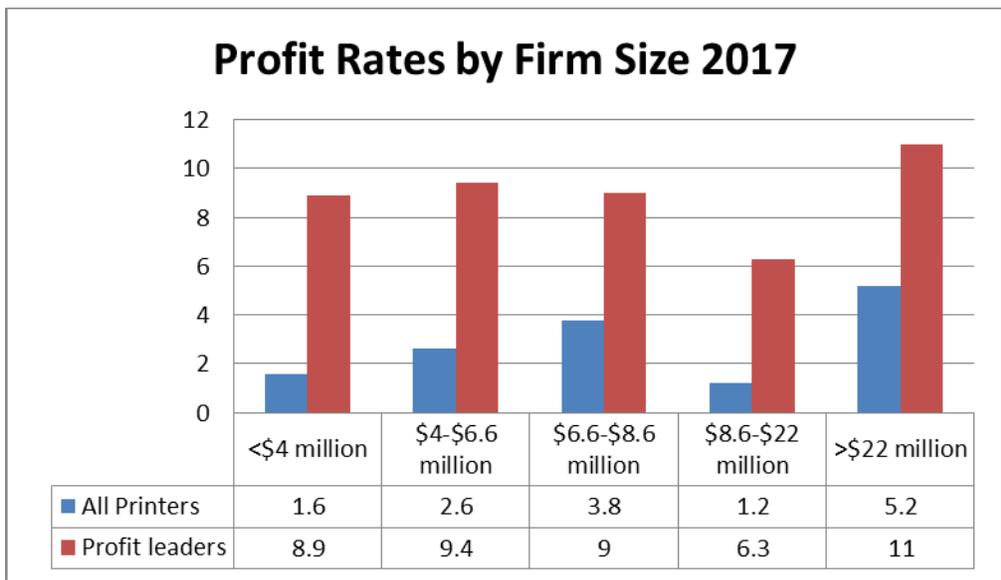
Over the last 13 years, the profit gap between profit leaders and profit challengers averaged around 10 percentage points—a whopping difference of \$1 million in profits for a \$10-million-a-year printer. Interestingly, the profit gap expanded during the *Great Recession* years, reaching a peak of 11.2 percentage points in 2010. In contrast, the profit gap typically recedes during economic expansions with the smallest gap appearing this year after almost 9 years of expansion.

The explanation for this pattern may be that the strategic and tactical advantages that profit leaders possess are most important during challenging times. But during better times a rising tide does indeed lift all ships and the profit gap recedes.



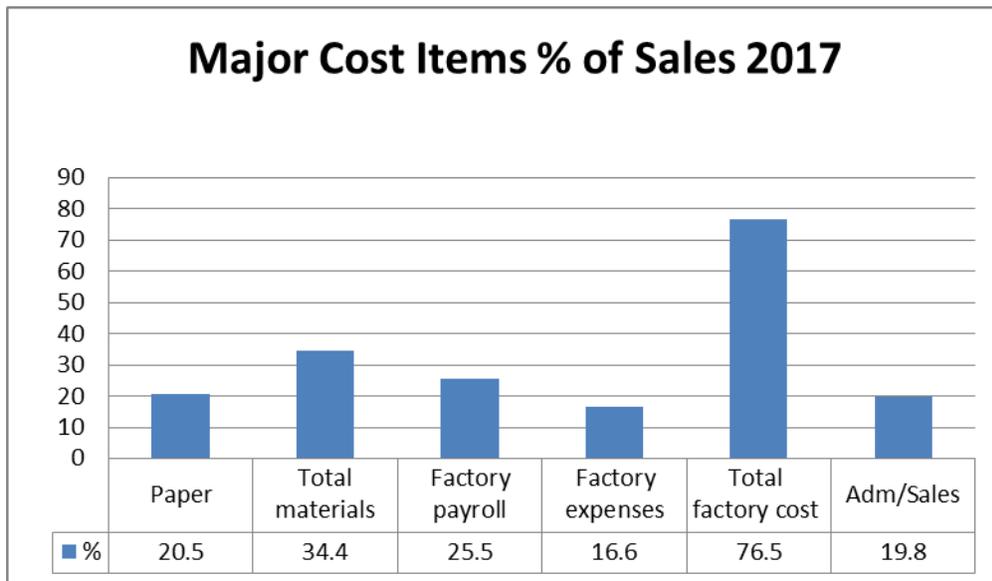
Profit Patterns by Printing Firm Size

As usual, profit rates vary considerably by the size of the printing firm. All printers' profit rates generally increase as firm size increases except for the \$8.6 to \$22 million-size category. For all printers, getting larger generally increases profitability. However, for profit leaders, size is not as strong a predictor of profitability. The size pattern for profit leaders is different in that smaller and mid-size printer profit leaders do just about as well as larger printer profit leaders. This relationship has existed for a number of years.



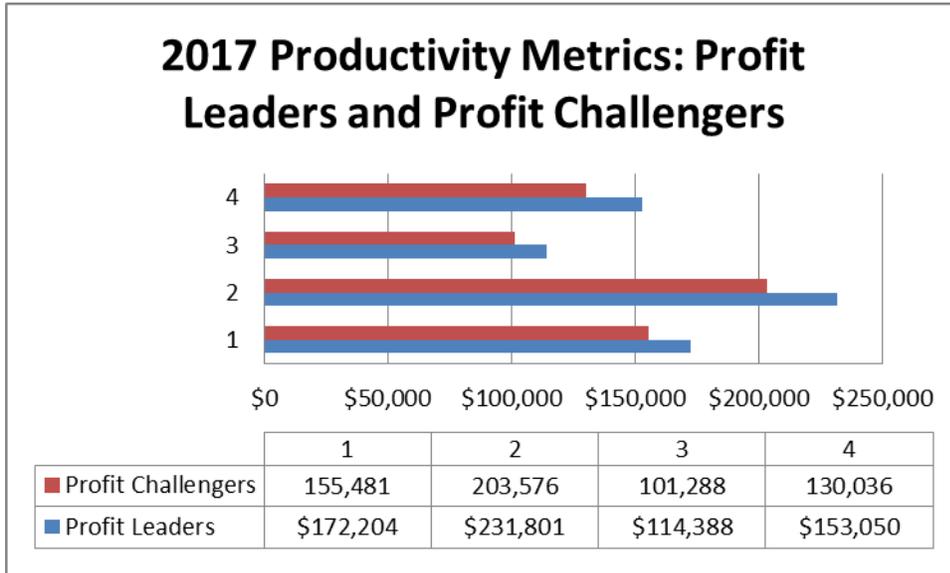
Industry Cost Profiles

For the most part, the composition of costs for major expense items as a percent of sales changed little over the past year. Total factory costs averaged 76.5 percent of sales for all printers. Total materials costs (paper, plates, ink, other chargeable materials, and outside services) accounted for 34.4 percent of total sales. Factory payroll and factory expenses amounted to 41 percent of the typical printing sales dollar. Administrative and selling expenses comprised 19.8 cents of every sales dollar.



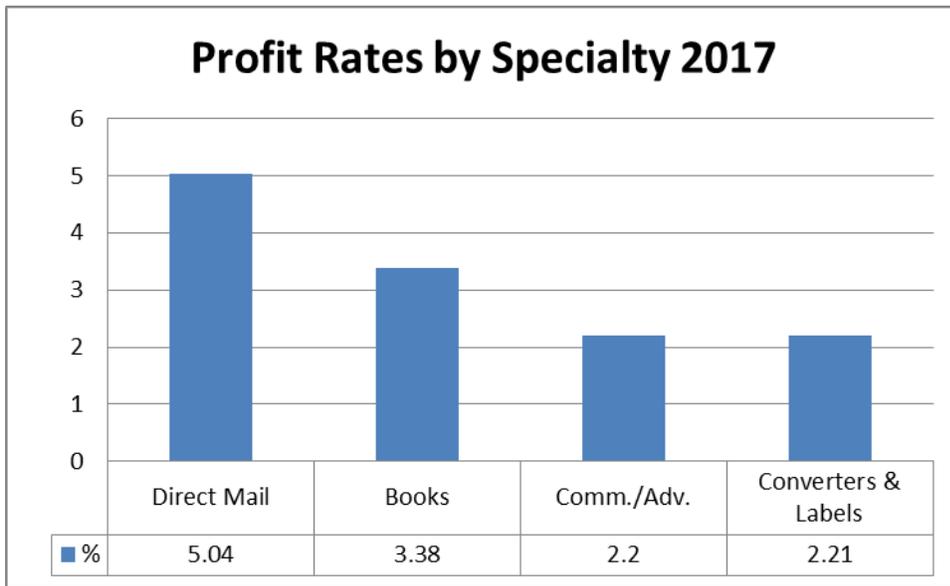
2017 Productivity Metrics

Profit leaders consistently remain more productive than the average printer. Over the past year, profit leaders were 10 to 18 percent more productive in terms of sales per employee/factory employee and value added per employee/factory employee. In terms of operations, this means that profit leaders have fewer employees at the same level of sales compared to all printers and in particular profit challengers. Correspondingly, other *Ratios* metrics indicate profit leaders are more capital intensive than the average printer and profit challengers. Thus, profit leaders are substituting capital for labor at a higher rate.



Profits by Print Sector

Year after year, profit rates always vary considerably by product specialty. Of the four printing product specialties covered in the survey, the top profit producing segment was direct mail followed by books, commercial advertising, and converters/label and wrapper printers.



Check Your Metrics

Printers use the *Ratios* reports to evaluate their performance against industry profit leaders. From this information you can evaluate your strengths and weaknesses in terms of expenses,

productivity, revenue sources, assets, liabilities, and much more. Specific reports are available for various firm profiles by size of firm, printing process, and print market segments.

To order your *Ratios Volume* go to www.printing.org .

Under Construction: Financial Metrics Redesign for 2019

After almost 100 years, the PIA *Ratios* program will undergo a complete redesign for 2019. The redesign will include:

- A new user-friendly data-collection system requiring less information and providing more flexible response alternatives.
- A focus on key performance metrics and significant statistics rather than income statements and balance sheet line items.
- A simpler report with flexible and targeted options.

We will provide more updates as progress develops on this important member service.