FINANCIAL PERFORMANCE

GRAPHIC AND SIGN PRODUCERS

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.

SGIA

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 123 graphic and sign producers.

The vast majority are U.S. companies (80.5%) while 10.6% are international and 8.9% are based in Canada. With about half of the companies (41.5%) serving more than one segment, the most frequently mentioned additional segment served was commercial printing. About one out of three respondents is an in-plant printer. The respondents tend to serve either businesses only (B2B) (45.5%) or both businesses and consumers (B2B and B2C) (39.8%), and only 4.9% are B2C companies. The majority work on the local (73.2%) and regional (68.3%) levels. While two out of three printers (60.2%) have been in business for at least 20 years, there are new companies as well, with 18.7% having been in business for a decade or less. More than half of the companies (53.7%) are small, with 20 employees or fewer.

Digital technology is used to a varied extent by at least three out of four printers (78.1%). Finishing services and the exchange of production and post-production services among the printers are very popular, as the majority of participants offer them. Capacity utilization is more than 50% for 75.2% of the respondents.

Two out of three printers had sales increase during the current year, with the median of 10.5%, and 70.5% expect their sales to increase in the future. Marketing more effectively, favorable economy and new products and services were mentioned the most as the reasons behind the positive sales expectations. On the profitability side, the number of companies with current profit margin increases is lower than was reported for sales — about every second company (47.9%) had profit increase and slightly more (53.1%) expect their profits to increase. However, the percentage of those with declining profits is getting smaller when comparing current and expected profits. Sales growth (72.5%) was stated as one of the main reasons for the expected increase in profits, but 60.8% believe in cost reduction and higher efficiency in operations while 58.8% attribute an expected increase to capturing more profitable work.

The main obstacles to increasing profitability are costs: rising wages (53.2%), rising costs for health care benefits (40.4%), shortage of skilled labor (40.4%), and materials and supplies costs (47.9%). On the credit terms side, the number of days of sales outstanding is 30 days or more for at least half of the companies (61.5%) and the average is 36.7 days. Sales outstanding terms are getting shorter for 17.7% of the companies, and staying the same for 58.8%.

The financial ratios for the high-profit companies are higher for valued added, profit and EBIT as percentages of sales, and they have higher sales and value added per employee. How do they overcome the obstacles to higher profitability? If we compare the high- and low-profit companies, will their strategies differ? Based on the responses received, high-profit companies focus more on the labor side, while low-profit companies focus on production, but these are preliminary findings that need to be explored 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

Graphic and Sign 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.

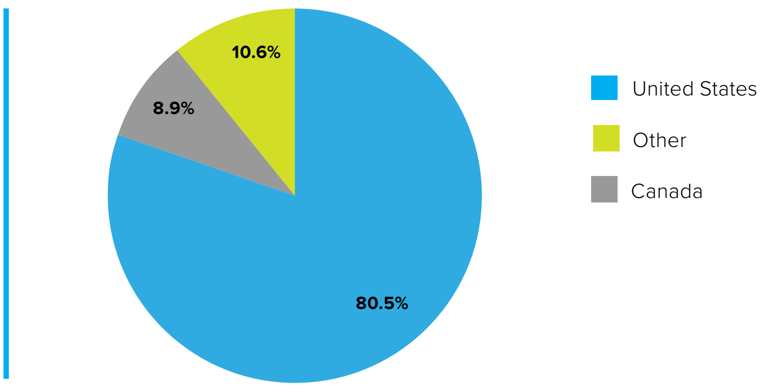
Profile of Participating Companies

Graphic and sign producers from 123 companies have participated in this survey. Four out of five respondents (80.5%) represent U.S. companies, 8.9% are Canadian and 10.6% are internationally based. When asked about the industry segments they work in, 41.5% have identified that they serve more than one segment: about one-third serve commercial printing (30.9%) and about one-fifth (18.7%) are in functional. About one-third (31.7%) of the companies are in in-plant operations.

The focus is on serving other businesses either solely (B2B) (45.5%), or in conjunction with consumers (B2B and B2C) (39.8%) (Table 2). Local (73.2%) and regional (68.3%) markets are served by the majority of printers (Graph 3).

Two out of three printers (60.2%) have been in business for at least 20 years while 18.7% have been in business ten years or less (Graph 4). More than half of the companies (53.7%) are small with 20 employees or fewer (Table 3).

Graph 1: Location



Graph 2: Industry Segments Served

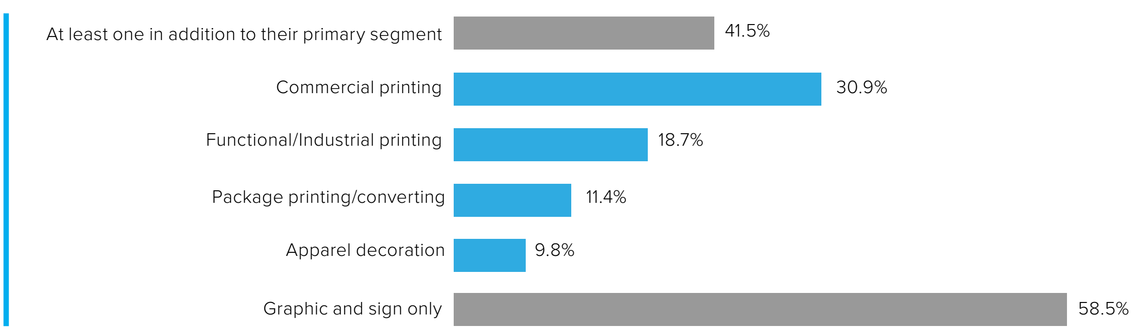
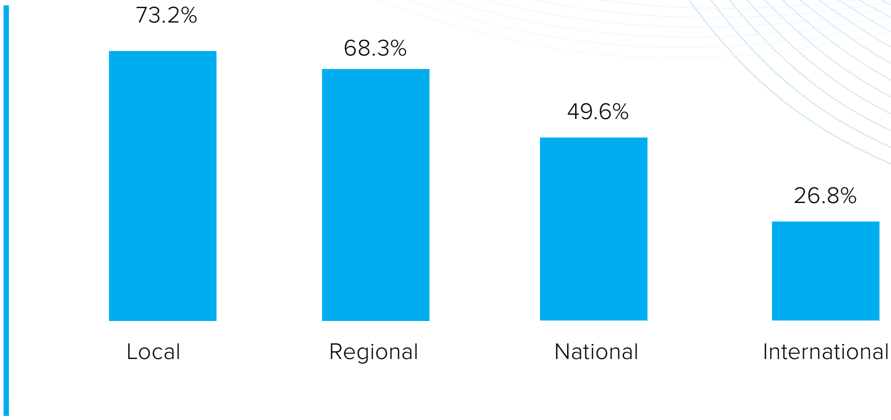


Table 2: Type of Business

Graphic and Sign Type of Business	
Business-to-Business (B2B)	45.5%
Business-to-Consumer (B2C)	4.9%
Both B2B and B2C	39.8%

Graph 3: Areas Served



Graph 4: Company Age

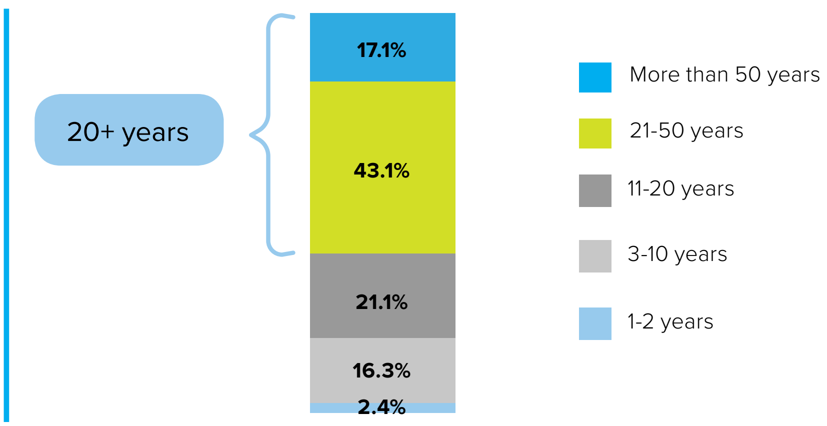


Table 3: Company Size

Graphic and Sign Company Size	
1 - 4	22.8%
5 - 9	10.6%
10 - 19	20.3%
20 - 49	22.8%
50 - 99	6.5%
100 - 249	7.3%
250 - 499	4.1%
500 - 749	2.4 %
750 - 999	0.0%
1,000 - 1,499	0.8%
1,500 - 1,999	0.8%
2,000 - 2,499	0.8%
2,500 - 4,999	0.0%
5,000 or more	0.8%

Production Technology and Equipment in Use

More than three-quarters of the companies (78.1%) use digital either entirely or as part of a multi-technological approach, and nearly half of the companies (48.0%) are entirely digital (Graph 5).

About nine out of ten printers (85.7%) offer finishing services. Printers also tend to exchange services with one another (Table 4). Three-quarters of respondents (75.2%) use more than 50% of their capacity (Graph 6).

Graph 5: Technology Mix

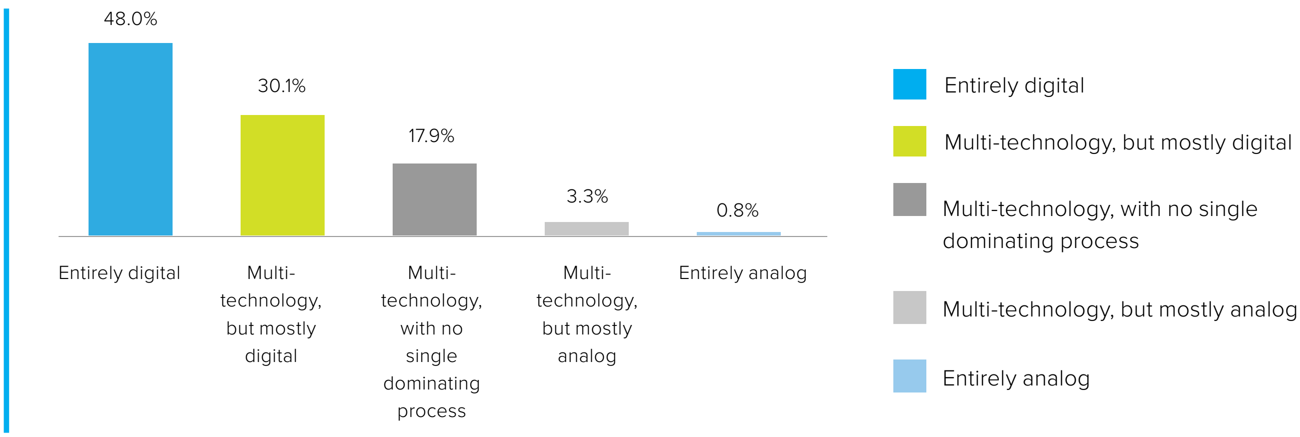
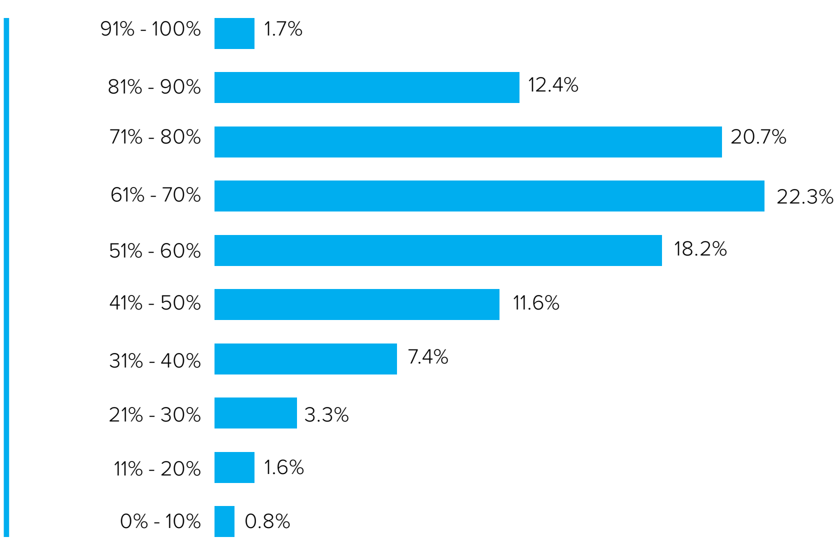


Table 4: Production and Post-Production Services Exchange

Graphic and Sign Production and Post-Production Services Exchange	
Provide PRODUCTION services TO other printers	63.9%
Provide FINISHING/POST-PRINT services TO other printers	43.7%
Purchase PRODUCTION services FROM other printers	67.2%
Purchase FINISHING/POST-PRINT services FROM other printers	57.1%

Graph 6: Capacity Utilization



Financial Performance

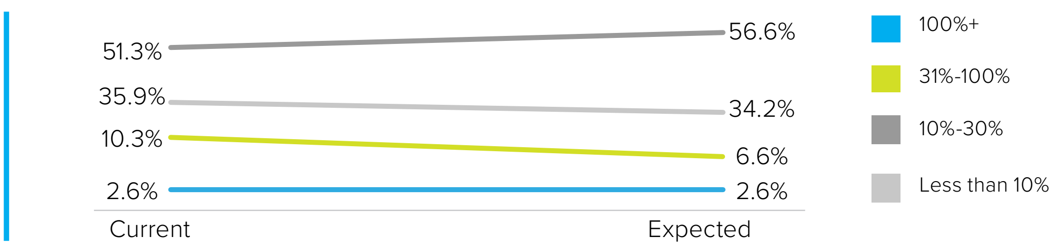
Comparing 2018 sales with the previous year's, two out of three companies (66.1%) saw an increase in sales, with the median increase being 10.5%. The expectations are higher, as 70.5% expect sales to improve (Table 5), and the majority (65.8%) expect their sales to grow by at least 10% (Graph 7).

Why do they expect sales to increase? Marketing more effectively was mentioned as the top reason (64.9%), followed by a favorable economy (51.4%), new products and services (44.6%), and strength of current products (43.2%) (Graph 8). The top reasons for an expected sales decrease were the economy and not selling as effectively as needed (Graph 9).

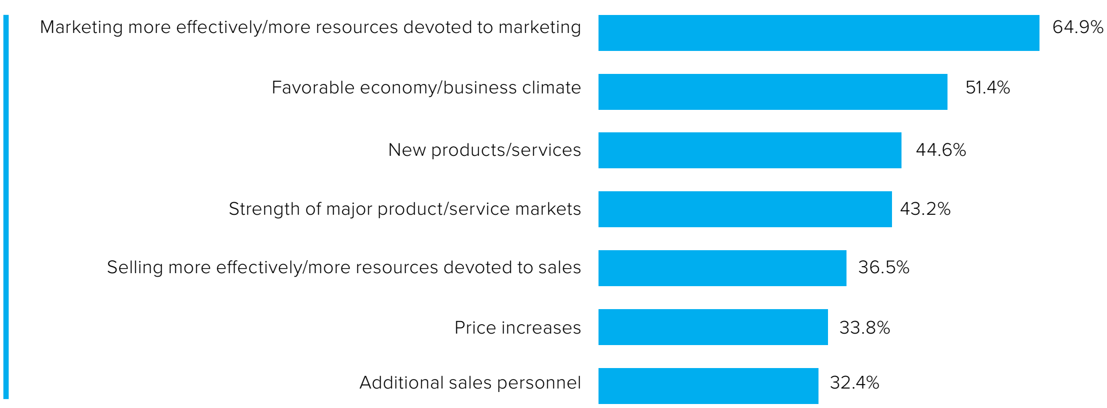
Table 5: Company Sales

Graphic and Sign Company Sales	Current Compared to Past Year	Expected in 2019
Increase	66.1% (Median 10.5%)	70.5% (Median 10.0%)
Stay the same	18.3%	21.9%
Decrease	15.6%	7.6%

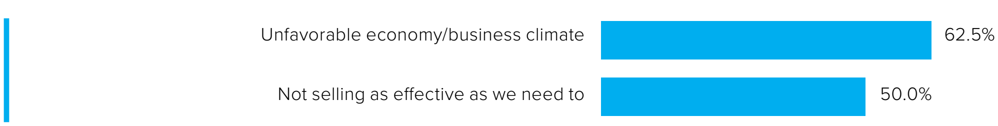
Graph 7: Percentage of Sales Increase



Graph 8: Why Sales Will Increase



Graph 9: Why Sales Will Decrease



What about the profitability? At least 9% profit margin was reported by 60.4% of participants — that pool is expected to grow to 66.0% in the upcoming year. The number of companies with the current increase in profit margin is lower than was reported for sales, as only about half of the companies (47.9%) had increases in their numbers and slightly more than half (53.1%) expect their profits to grow (Table 6).

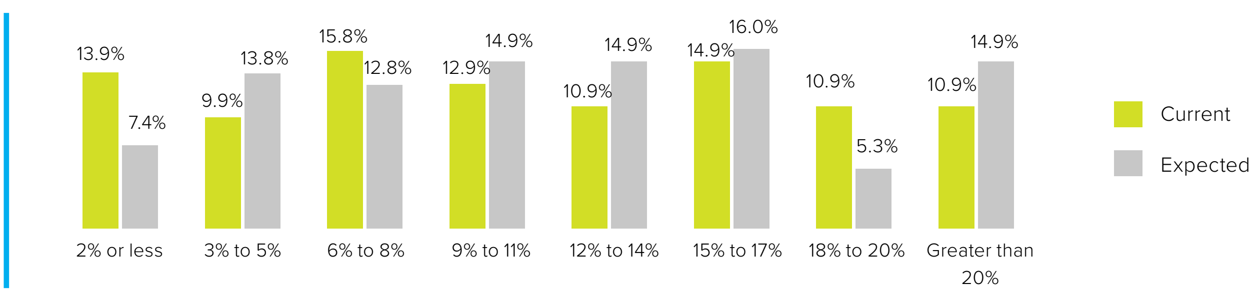
On a positive note, the percentage of those with declining profits is shrinking when comparing the current and expected profits (Table 6). What are the reasons behind the optimistic expectations for profits?

While about three-quarters of the companies (72.5%) attribute improved profits to sales, more than half (60.8%) believe that cost reduction, better efficiency in operations and capturing more profitable work (58.8%) can improve the profits (Graph 11).

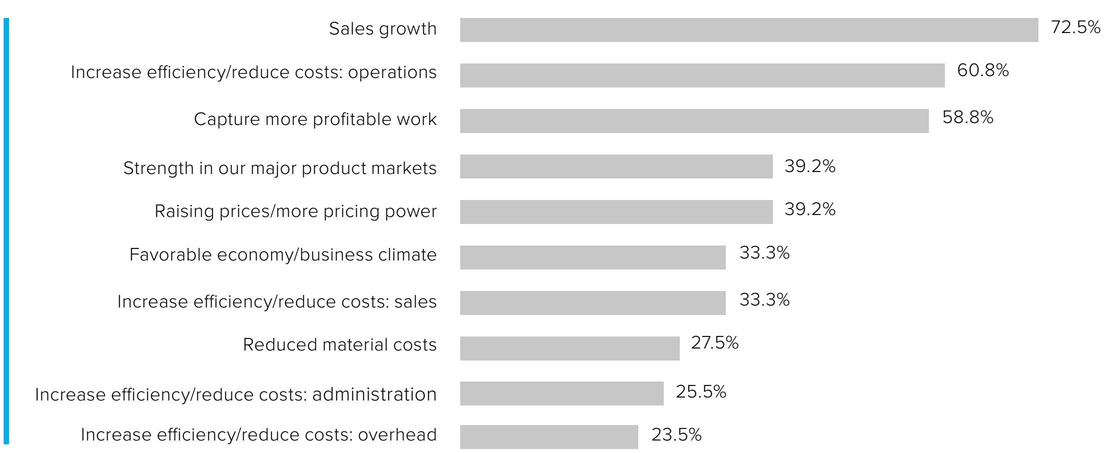
Table 6: Pretax Profitability

Graphic and Sign Pretax Profitability	Current Compared to Past Year	Expected in 2019
Increase	47.9%	53.1%
Stay the same	34.4%	36.5%
Decrease	17.7%	10.4%

Graph 10: Pretax Profitability Rate

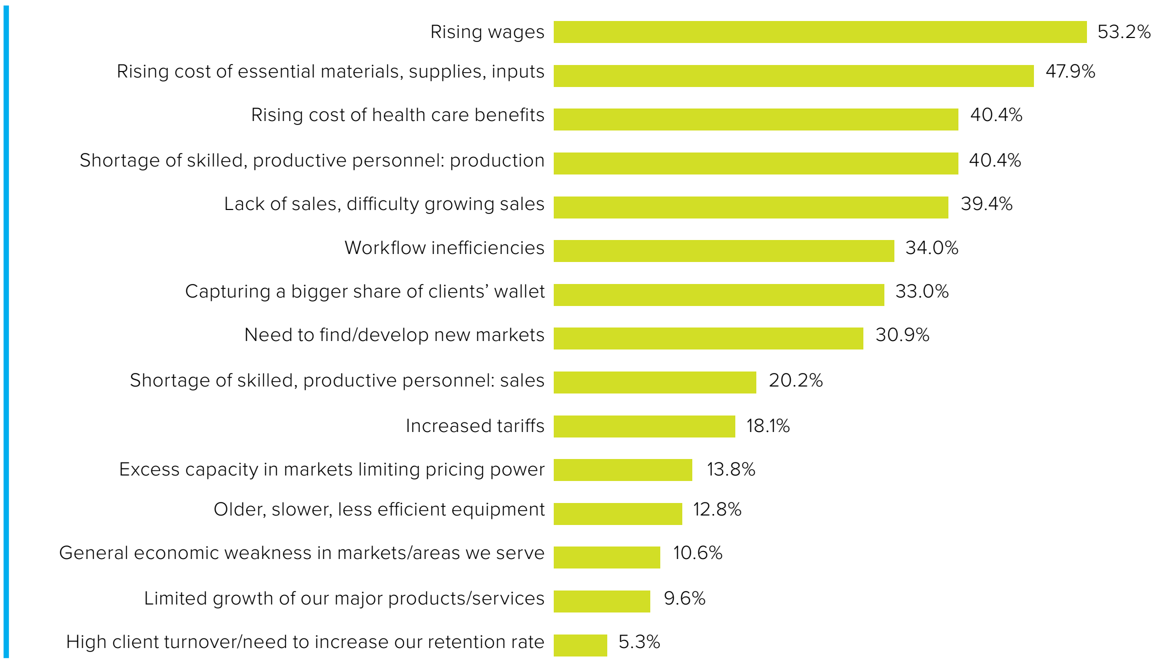


Graph 11: Why Pretax Profitability Will Increase



What are the obstacles to being more profitable? Costs top the list, specifically rising wages (53.2%), increasing costs for health care benefits (40.4%), shortage of skilled labor (40.4%), and materials and supplies costs (47.9%) (Graph 12).

Graph 12: Obstacles to Being More Profitable



Is there any difference between companies with high profit margin and low profit margin? For the purpose of comparison, we assume that companies with 8% profit margin or less are low-profit companies and companies with the profits higher than 8% are high-profit companies.

Sales increases are attributed to more effective marketing, strength of major markets, and new products and services by high-profit companies. Low profits made very similar choices with the only exception of the favorable economy/business climate receiving more credit for sales increases. Profit increase is attributed to sales growth, capturing more profitable work and increased efficiency/cost reduction by both groups. However, the first two factors were the highest rated by high profits, and the last factor was the top choice for the low profits. When asked about the obstacles to being more profitable, the high profit responses varied significantly, with no major issue identified. The majority of low profits, on the other hand, identified two major issues: rising wages and rising costs of health care, followed by workflow inefficiencies.

How do companies overcome the obstacles to being more profitable? While reviewing the open-ended responses and counting the frequencies of mentions, we noticed that low-profit respondents focus more on the production improvement/efficiency, and high-profit companies focus on personnel, hiring and training (Table 7). Those are the preliminary findings that require us to look deeper into the subject.

Table 7: How Low- and High-Profit Companies are Addressing Obstacles to Higher Profitability

How Low- and High-Profit* Companies are Addressing Obstacles to Higher Profitability (top mentioned topics)			
Low Profits		**High Profits**	
Efficiency	31.0%	Personnel (hiring, training, retaining)	40.8%
Personnel (hiring, training, retaining)	14.3%	Marketing/Sales	20.4%
Equipment	14.3%	New products/services	12.2%
Cost Reduction	11.9%	Efficiency	8.2%
New Products/Services	9.5%	Equipment	6.1%
Marketing/Sales	7.1%	Focus on company's strengths	6.1%

**Low profits are companies with profit margins of 8% or less and high profits have profit margins higher than 8%.*

''We are ready to pay more for high-quality people. Can't afford low-output personnel at today's pay rates."

"Spending additional time on recruitment methods to find talented individuals in sales, administration and production."

"Improved in-house training, with off-site training and educational programs being offered to the selected employees. New incentive program based on productivity/profitability benchmarks."

Standard Credit Terms

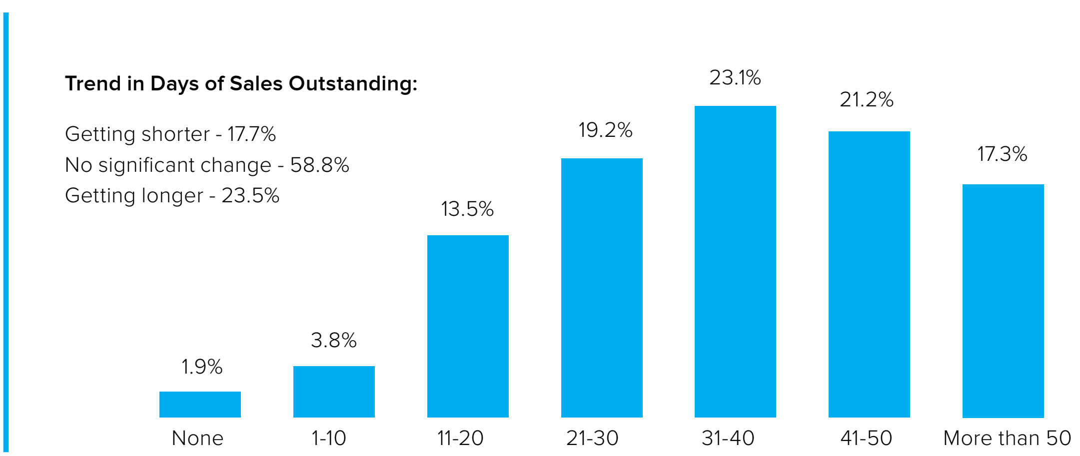
The number of days of sales outstanding is at least 30 days for 61.5% of the companies, and the average is 36.7 days (Graph 13). This number is slightly higher than the standard credit terms of 30 days or less identified by at least four out of five respondents (82.3%).

There is currently a positive trend of the sales outstanding terms not increasing for 76.5% of the printers, with 58.8% having no change and 17.7% reporting they're getting shorter (Graph 13). Of the respondents, 11.6% had no 2018 account receivables past due as of April 1, 2019, while more than one third (37.2%) had no more than 10%. About the same number of respondents (36.0%) indicated having between 11% and 30% of receivables past due (Table 8).

Table 8: Percent of 2018 Account Receivables Past Due as of April 1, 2019

Graphic and Sign Percent of your 2018 account receivables past due as of April 1, 2019	
0%	11.6%
1% - 10%	37.2%
11% - 20%	20.9%
21% - 30%	15.1%
31% - 40%	8.1%
41% - 50%	2.3%
51% - 60%	2.3%
61% - 70%	1.2%
71% - 80%	1.2%

Graph 13: Days of Sales Outstanding, First Three Months, 2019



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 41 responses from graphic and sign producers for those 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 statement; and so on.

Comparing high and low profits, we found that outside purchases/sales and payroll/sales were lower for the more profitable group. They also have higher sales and value added per employee.

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 in the market. In the future, we hope to explore it more as we are growing our research participation.

Table 9: Key Financial Ratios

Graphic and Sign Key Financial Ratios	All	High Profits	Low Profits
Outside Purchases/Sales	30.8%	28.6%	34.7%
Value Added/Sales	69.2%	71.4%	65.3%
Gross Margin/Sales	33.0%	34.8%	29.9%
Payroll/Sales	30.3%	28.3%	33.8%
Sales Per Employee	$177,050	$200,241	$145,442
Value Added Per Employee	$116,669	$127,288	$101,356

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

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.

Andy Paparozzi

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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