

Stu's View

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Industry Benchmarks Indicate Profit Growth for the first time in 5 years! Effective Management Using the PIA Ratios

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It is time to buckle down and align goals with sound benchmarks. This year's PIA Ratios show growth in profits for the industry on average and among industry profit leaders. What is the secret to making money in the printing industry these days? What are the profit leaders doing differently than the rest of the industry?

Detailed answers to both of these questions are provided to you as a critical management resource in the annual Printing Industries of America (PIA) Ratio Studies. Industry leaders understand it, absorb it and live it. These important benchmarks allow you to learn from the mistakes of others and uncover secrets to success. Successful managers understand that numbers talk. They listen, digest and respond.

To most effectively use the PIA Ratio Studies, we recommend you adhere to these important guidelines:

- 1) Use industry standard formatting for your financial statements** to facilitate comparison to and interpretation of the Ratio data. The standard format has Sales or Value of Product Produced as the top level revenue item with expenses grouped in sections below it. Those costs; Materials, Factory Labor, Factory Expenses, Administrative Expenses and Selling Expense, follow each other.
- 2) List your Value Added (VA) calculation on the face of your internal financial statements.** $VA = Sales - Material\ Costs$. It reveals the actual value you added to the paper, the ink, the finishing, etc. It is often called your inside sales. By excluding pass through expenses such as expensive paper or outside bindery costs, you will be able to focus on variations of your firm's manageable expenses such as factory expenses, factory payroll, and administrative/selling expenses that need to be tightly managed every financial reporting period and on every job.
- 3) Calculate most of your Ratios as a % of VA, not as a % of Sales.** Using VA as the basis of ratio calculation has historically provided a better benchmark for monitoring costs and profit. For example, most

industry studies have shown that factory labor costs as a % of VA need to be at 40% or less if the company is going to be profitable. Only material costs and outside services should be calculated as a % of sales. Here is an example statement you can follow:

Sample Printers Value Added Financial Statement

	DOLLARS	% OF SALES
<i>Sales or Value of Product Produced</i>	<i>\$ 100.00</i>	<i>100.00%</i>
Materials		
Paper	19.56	19.56%
Other chargeable materials	5.15	5.15
Outside Services	8.53	8.53
Total Materials	33.24	33.24%
		% of VA
<i>Value Added or Inside Sales</i>	<i>\$ 66.76</i>	<i>100.00%</i>
Other Factory Costs		
Factory Payroll	25.62	38.38
Factory Expenses	17.08	25.58
Total Other Factory Costs	42.70	63.96
Gross Profit	24.06	36.04
Administrative and Selling Expenses		
Administrative Expenses	10.03	15.02
Selling Expenses	9.74	14.59
Total Administrative and Selling Expenses	19.77	29.61
Income Before Interest Expense	4.29	6.43
Interest Expense	1.79	2.68
Operating Income	2.50	3.75
Other Income	0.51	0.76
<i>Income Before Income Taxes</i>	<i>\$ 3.01</i>	<i>4.51%</i>

- 4) Compare your actual numbers to your budget** as a benchmark using monthly financial statements and rolling income statements. To monitor expenses and control costs, compare your monthly financial statements to your budget. Monthly financial statements provide clear and concise pictures that can be readily compared to budget and to industry standards. There are limitations to the monthly statement, however; so we also recommend using a 3 to 6 month rolling income statement to monitor general corporate management costs and make timely decisions, particularly in today's more volatile economy.

Compare yourself to the PIA Ratio Studies. The Ratios reports are structured by specialization area and printer size to provide highly accurate industry benchmarks. Compare your own business to the profit leaders of your market niche. It will help you identify troublesome cost areas and set achievable goals.

Next month, Part 2 of this article will explain how to interpret the PIA Ratios for your business planning needs. The Ratios are an accurate, effective, essential part of company management in the printing industry. If you have not already

done so, we urge you to align your accounting with industry standards so you can gain full utility of the resources available to you. Information on the Ratios can be found a www.printing.org or www.margolisbecker.com.

Stu's View is contributed by Stuart Margolis, CPA and Partner of MargolisBecker LLC to provide information that helps firms operate profitably. More information can be found at www.margolisbecker.com.

About MargolisBecker

MargolisBecker has long been recognized as the financial expert for the printing and allied graphic communications industry, assisting thousands of companies with strategic and financial management, valuation, mergers/acquisitions, accounting, audit and tax services. The firm is noted for its expertise in enabling printing companies to optimize profits. Proudly, it is the purveyor of the industry's *Cash is King*, and *Value-Added Principles of Management*, and compiles the annual Printing Industries of America Ratios, the industry's premier financial benchmarking tool.