

The Certified Public Accountants Who Listen



LG PEN GROUP HOW DO PIA/GATF PROFIT LEADERS WIN/HANDLE PRICE CUTTING

Stuart W. Margolis, CPA, MT

smargolis@MargolisBecker.com

Website:www.MargolisBecker.com

Washington, DC Philadelphia
10001 Derekwood Lane, Suite 210 555 City Line Avenue, Suite 460
Lanham, MD 20706 Bala Cynwyd, PA 19004
888.577.1717 p 301.577.1313 f 301.577.0431 888.577.1717 p 610.667.4310 f 610.667.2099



MargolisBecker
The Certified Public Accountants Who Listen

WHAT ARE WE GOING TO COVER TODAY?

1. **WHAT CAUSES COMPETITION**
2. **UNDERSTANDING THE MARKET PLACE**
3. **VOLUME VS. PRICING DISCIPLINES**
4. **PROFIT LEADER TRAITS - KEYS TO PROFITABILITY**
5. **PRICING ADVANTAGES**
6. **PRODUCTION / COST ADVANTAGES**

WHAT CAUSES COMPETITION?

<u>Causes</u>	<u>More Competition</u>	<u>Less Competition</u>
Ease of entry	Easy to start a printing company	Hard to start a printing company
Technology	Easy to master	Difficult to master
Capital costs	Low capital costs	High capital costs
Regulatory	Low regulatory hurdles	High regulatory hurdles
Managerial	Labor skill is low	Labor skill is high
Age of industry	Around forever	Just started

UNDERSTANDING THE MARKETPLACE

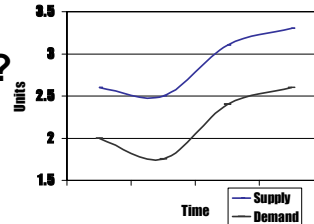
- Supply and Demand
- What do our Customers Want?
- Are we Selling a Commodity?
- Does Cost or the Market set the Price?
- Market Adjustments



UNDERSTANDING THE MARKETPLACE

SUPPLY AND DEMAND

- Are they equal?
- Why is one side always ahead?
- Where is Supply heading
- Where is Demand heading
- What is a “Mature Industry”
- Where were we 100 years ago.



UNDERSTANDING THE MARKETPLACE

SUPPLY AND DEMAND

- Various Media Types
 - *Word of Mouth*
 - *Smoke Signals*
 - *Wall Drawings*
 - *Handwritten on Paper*
 - *Printed on Paper*
 - *Telegraph*
 - *Phonograph*
 - *Radio*
 - *Television*
 - *Cable*
 - *Internet*

UNDERSTANDING THE MARKETPLACE SUPPLY AND DEMAND

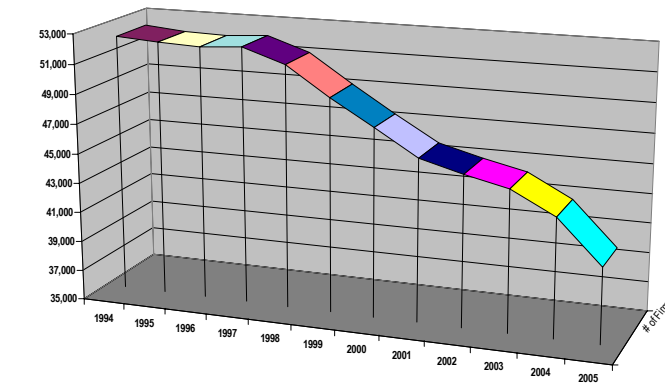
FIGURE 3.2—Print and Electronic Alternatives

State of the Industry participants citing electronic alternatives to print as a significant issue by market. These data were collected in summer and fall 2004. Number of respondents is in parentheses.

Market	Citing	Market	Citing
Business Forms (33)	75.0%	Direct Mail/Direct Marketing (174)	36.7%
Annual Reports (18)	61.1%	Magazines/Periodicals (45)	36.4%
Newsletters (62)	60.0%	Financial & Legal (14)	35.7%
Magazine Inserts (14)	58.3%	Newspaper Inserts (15)	33.3%
Quick Printing (49)	57.1%	Books (25)	29.2%
Directories, Manuals, and Documentation (57)	53.7%	Labels, Wrappers, Tags (42)	26.8%
Catalogs (76)	51.4%	Weekly Papers/Shoppers (12)	25.0%
Stationery (41)	51.3%	Packaging (31)	13.3%
Promotion (93)	49.4%	Display Advertising (25)	8.0%

UNDERSTANDING THE MARKETPLACE SUPPLY AND DEMAND

Number of Firms



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
# of Firms	52,404	52,186	52,097	52,272	51,305	49,410	47,667	45,963	45,181	44,514	42,976	40,070

UNDERSTANDING THE MARKETPLACE WHAT DO OUR CUSTOMERS WANT?

- The market is wide
- The front edge is different than the back edge
- Business is business – give them what they want
- Change is the only thing you can depend on
- Customers will in most cases dictate the change

UNDERSTANDING THE MARKETPLACE ARE WE SELLING A COMMODITY?

- We should define “Commodity”
- Commodities have a fluid marketplace
- Commodity pricing is set by supply and demand
- Commodities are similar products – where 100 lbs of your commodity is the same as 100 lbs of someone else’s commodity



UNDERSTANDING THE MARKETPLACE DOES COST OR THE MARKET SET THE PRICE

- Age old dilemma
- Should you price a job via a cost estimate plus a mark-up
- Should you price a job via feeling out the marketplace
- What are the real differences between the two

UNDERSTANDING THE MARKETPLACE MARKET ADJUSTMENTS

- Outside conditions effect the marketplace
- They typically effect the Demand with either increases or decreases
- They can effect the Supply side (i.e. energy, technology changes, etc.)

VOLUME VS. PRICING DISCIPLINES

PRODUCT COST ANALYSIS

ANNUAL BUDGET		
Sales		\$ 5,000
Costs		
Variable	\$ 3,000	
Fixed	<u>1,000</u>	
		<u>4,000</u>
Profit		<u>\$ 1,000</u>
OTHER DATA		
Produced and Sold (number of widgets)		<u>4</u>
Cost per Widget		
Variable	\$ 750	
Fixed	<u>250</u>	
		<u>\$ 1,000</u>
Profit mark-up		<u>25%</u>

VOLUME VS. PRICING DISCIPLINES

ESTIMATE		
# of Widgets to be Sold		<u>1</u>
Cost per Widget		
Variable	\$ 750	
Fixed	<u>250</u>	
Total Cost		<u>1,000</u>
Profit Mark-up @ 25%		<u>250</u>
Widget's Target Selling Price		<u>\$ 1,250</u>

VOLUME VS. PRICING DISCIPLINES

ABC WIDGET CO. PRODUCT COST ANALYSIS

	1st WIDGET	2nd WIDGET	3rd WIDGET	4th WIDGET	TOTAL
Sold For	\$ 900	\$ 1,500	\$ 1,500	\$ 1,100	\$ 5,000
Cost	1,000	1,000	1,000	1,000	4,000
Profit (Loss)	\$ (100)	\$ 500	\$ 500	\$ 100	\$ 1,000

Is it worth selling the 1st Widget for a Loss?

VOLUME VS. PRICING DISCIPLINES

	1st WIDGET	2nd WIDGET	3rd WIDGET	4th WIDGET	TOTAL
Sold For	\$ -	\$ 1,500	\$ 1,500	\$ 1,100	\$ 4,100
Cost					
Variable		750	750	750	2,250
Fixed	250	250	250	250	1,000
	250	1,000	1,000	1,000	3,250
Profit (Loss)	\$ (250)	\$ 500	\$ 500	\$ 100	\$ 850

Was it worth selling the 1st Widget for a Loss?

VOLUME VS. PRICING DISCIPLINES

When we don't sell

- Variable Costs Disappear
- Fixed Costs Stay the Same
- We Earn Less Profit

When we do sell

- Variable Costs Increase
- Fixed Costs Stay the Same
- We Earn More Profit

Any Sale in Excess Over Variable Cost Helps Covers Fixed Costs

VOLUME VS. PRICING DISCIPLINES

- **Theory**

Any Sale in Excess Over Variable Cost Helps Covers Fixed Costs

- **Reality**

If You Sell Everything Below Costs and You Don't Sell Enough – You Will Lose Money

VOLUME VS. PRICING DISCIPLINES

OVERHEAD COMPONENTS

• FACTORY PAYROLL	\$	X
• FACTORY EXPENSES		X
• ADMINISTRATIVE EXPENSES		X
• SELLING EXPENSES		X
• INTEREST EXPENSE		X

VOLUME VS. PRICING DISCIPLINES

- Why increase fixed overhead when you are selling below costs?
- Don't add fixed overhead until you are selling at cost or above

PROFIT LEADER TRAITS - KEY DIFFERENCES

PRODUCTION EFFICIENCY COST LEADERS vs. DIFFERENTIATED VALUE ADDED

- More Internal
 - More Print/Ink on Paper
 - Product Specialists
 - Focus Training on Production/Technical
 - More use of Benchmarking - Ratios, Productivity Benchmarks
- More External/Strategic Focus
 - More Prepress, Post Press and Ancillary
 - Customer Specialists
 - Higher Proportion of Payroll to Training

PIA Ratios Keys to Profitability Survey
Dr. Ron Davis, Economist

PIA/GATF FINANCIAL RATIO STUDIES

- VOLUME 1 MANAGEMENT GUIDE TO THE PIA/GATF RATIOS
- VOLUME 2 ALL PRINTERS BY SALES VOLUME & GEOGRAPHIC REGION
- VOLUME 3 ALL PRINTERS BY PRODUCT SPECIALTY
- VOLUME 4 SHEETFED PRINTERS BY SIZE AND GEOGRAPHIC REGION
- VOLUME 5 WEB OFFSET PRINTERS - HEATSET
- VOLUME 6 WEB OFFSET PRINTERS - NON-HEATSET
- VOLUME 7 COMBINATION OFFSET - SHEETFED/WEB
- VOLUME 8 BOOK MANUFACTURERS RATIOS
- VOLUME 9 PRINTERS WITH SALES OVER \$18,000,000
- VOLUME 10 BINDERS
- VOLUME 11 PRINTERS WITH SALES UNDER \$3,000,000
- VOLUME 12 QUICK PRINTERS
- VOLUME 13 FORMS & DOCUMENT PRINTERS
- VOLUME 14 LABEL PRINTERS
- VOLUME 15 DIGITAL PRINTERS
- VOLUME 16 COMMERCIAL & ADVERTISING PRINTERS
- CFA CUSTOMIZED FINANCIAL ANALYSIS

2005 PIA/GATF RATIOS - ALL PRINTERS

SALES = 100%

	ALL FIRMS REPORTING		DIFF
	ALL FIRMS	PROFIT LEADERS	
SALES OR VALUE OF PRODUCT PRODUCED	<u>100.00</u>	<u>100.00</u>	
FACTORY COST OF PRODUCT			
MATERIALS			
Paper	21.87	21.20	
Other chargeable materials	5.69	6.05	
Outside services	7.76	7.34	
TOTAL MATERIALS	<u>35.32</u>	<u>34.59</u>	0.73%
FACTORY PAYROLL	25.81	23.92	1.89
FACTORY EXPENSES	<u>16.61</u>	<u>14.60</u>	2.01
TOTAL FACTORY COST OF PRODUCT	<u>77.74</u>	<u>73.11</u>	
GROSS PROFIT	<u>22.26</u>	<u>26.89</u>	
ADMINISTRATIVE AND SELLING EXPENSES			
Administrative expenses	9.79	9.31	0.48
Selling expenses	<u>8.89</u>	<u>7.62</u>	1.27
TOTAL ADMINISTRATIVE AND SELLING EXPENSES	<u>18.68</u>	<u>16.93</u>	
INCOME BEFORE INTEREST EXPENSE	3.58	9.96	
Interest expense	<u>1.39</u>	<u>0.94</u>	0.45
OPERATING INCOME	2.19	9.02	
Other income	<u>0.34</u>	<u>0.41</u>	0.07
INCOME BEFORE INCOME TAXES	<u>2.53</u>	<u>9.43</u>	6.90%

2006 PIA/GATF RATIOS - ALL PRINTERS**SALES = 100%**

	ALL FIRMS REPORTING		DIFF
	ALL FIRMS	PROFIT LEADERS	
SALES OR VALUE OF PRODUCT PRODUCED	<u>100.00 %</u>	<u>100.00 %</u>	
FACTORY COST OF PRODUCT			
MATERIALS			
Paper	21.98	20.79	
Other chargeable materials	5.37	5.17	
Outside services	<u>7.77</u>	<u>6.94</u>	
TOTAL MATERIALS	35.12	32.90	2.22%
FACTORY PAYROLL	25.75	24.05	1.70
FACTORY EXPENSES	<u>16.98</u>	<u>16.01</u>	0.97
TOTAL FACTORY COST OF PRODUCT	<u>77.85</u>	<u>72.96</u>	
GROSS PROFIT	<u>22.15</u>	<u>27.04</u>	
ADMINISTRATIVE AND SELLING EXPENSES			
Administrative expenses	9.46	8.84	0.62
Selling expenses	<u>9.09</u>	<u>7.66</u>	1.43
TOTAL ADMINISTRATIVE AND SELLING EXPENSES	<u>18.55</u>	<u>16.50</u>	
INCOME BEFORE INTEREST EXPENSE	3.60	10.54	
Interest expense	<u>1.44</u>	<u>1.06</u>	0.38
OPERATING INCOME	2.16	9.48	
Other income	<u>0.58</u>	<u>0.82</u>	0.24
INCOME BEFORE INCOME TAXES	<u>2.74%</u>	<u>10.30%</u>	7.56%

LABOR COSTS

	% OF SALES	
	ALL FIRMS	PROFIT LEADERS
LABOR		
FACTORY PAYROLL	25.75%	24.05%
ADMINISTRATIVE PAYROLL	6.16	5.92
SALES PAYROLL	7.51	6.36
	<u>39.42%</u>	<u>36.33%</u>
MATERIALS	<u>35.12%</u>	<u>32.90</u>
INCOME BEFORE INCOME TAXES	<u>2.74%</u>	<u>10.30%</u>
TOTAL OF ABOVE	<u>77.28%</u>	<u>79.53%</u>
OTHER EXPENSES	<u>22.72%</u>	<u>20.47%</u>

2006 PIA/GATF RATIOS - ALL PRINTERS**VALUE ADDED = 100%**

	ALL FIRMS REPORTING	
	ALL FIRMS	PROFIT LEADERS
SALES OR VALUE OF PRODUCT PRODUCED	X	X
LESS: PAPER, OTHER CHARGEABLE MATERIALS AND OUTSIDE SERVICES	X	X
VALUE ADDED BY MANUFACTURE	100.00%	100.00%
FACTORY PAYROLL	40.01	36.17
FACTORY EXPENSES	26.16	23.70
TOTAL FACTORY COST OF PRODUCT	66.17	59.84
GROSS PROFIT	33.83	40.13
ADMINISTRATIVE AND SELLING EXPENSES		
Administrative expenses	14.44	13.08
Selling expenses	14.04	11.44
TOTAL ADMINISTRATIVE AND SELLING EXPENSES	28.48	24.52
INCOME BEFORE INTEREST EXPENSE	5.35	15.61
Interest expense	2.23	1.56
OPERATING INCOME	3.12	14.05
Other income	0.94	1.27
INCOME BEFORE INCOME TAXES	4.06 %	15.32 %

LABOR COSTS

	% OF VALUE ADDED	
	<u>ALL FIRMS</u>	<u>PROFIT LEADERS</u>
LABOR		
FACTORY PAYROLL	40.01 %	36.17 %
ADMINISTRATIVE PAYROLL	9.38	8.78
SALES PAYROLL	11.62	9.51
	<u>61.01 %</u>	<u>54.46 %</u>
INCOME BEFORE INCOME TAXES	<u>4.06 %</u>	<u>15.32 %</u>
TOTAL OF ABOVE	<u>65.07 %</u>	<u>69.78 %</u>
OTHER EXPENSES	<u>34.93 %</u>	<u>30.22 %</u>

LABOR MANAGEMENT

- **Production Scheduling**
- **Follow Up**
- **Increase in Efficiency**
- **Increase in Productivity**

LABOR COST CONTROLS

- **Reduced Overtime**
- **Lower Hourly Rates**
- **Cross Training**
- **Time Off**

LABOR COST CONTROL LABOR MANAGEMENT

PURPOSE:

- **Maximize Production At The Lowest Cost**

HOW DO YOU HANDLE THE HIGHS AND LOW?

- **Production Hours are Needed When You Have the Work**
- **Production Cost Needs to Disappear When There is No Work**

LABOR COST CONTROL LABOR MANAGEMENT

THEORY

- **What is maximum capacity in a Commercial Print Shop or**
- **What does maximum capacity mean in a Commercial Print Shop**

The Certified Public Accountants Who Listen



LG PEN PEER GROUP MIS: SETTING STANDARDS FOR INCREASED EFFICIENCY

Stuart W. Margolis, CPA, MT

smargolis@MargolisBecker.com

Website:www.MargolisBecker.com

Washington, DC Philadelphia
10001 Derekwood Lane, Suite 210 555 City Line Avenue, Suite 460
Lanham, MD 20706 Bala Cynwyd, PA 19004
888.577.1717 p 301.577.1313 f 301.577.0431 888.577.1717 p 610.667.4310 f 610.667.2099



MargolisBecker
The Certified Public Accountants Who Listen

THIS DISCUSSION IS GOING TO CENTER ON FOUR ELEMENTS

- **Profitability Budgeting -- Profit Planning
(Accounting Function)**
- **Budgeted Hourly Cost Rates
(Accounting & Cost/Production Function)**
- **Production Hours Management
(Cost/Production System Function)**
- **Production Standard Management
(Cost/Production System Function)**

© 2007 MargolisBecker, LLC



PROFITABILITY BUDGETING -- PROFIT PLANNING

- **Accounting Function**
- **The Best Way to be Profitable is to Plan for it.**
- **The Best Way to Plan for it is to Prepare a Budget -- PROFIT PLAN**
- **This is a Macro Management Function**

ABC PRESS, INC.
PROFIT PLAN - STATEMENT OF OPERATIONS

	ANNUAL PROFIT PLAN	% OF VALUE OF PRODUCT PRODUCED		PIA *	
				RATIOS	
VALUE OF PRODUCT PRODUCED	\$ 15,600,000	100.00	%	100.00	%
LESS: MATERIALS					
Paper	\$ 4,134,000	26.50		23.68	
Other chargeable materials	859,200	5.51		7.69	
Outside services	1,092,000	7.00		6.92	
	<u>6,085,200</u>	<u>39.01</u>		<u>38.29</u>	
		% OF VALUE ADDED		% OF VALUE ADDED	
VALUE ADDED	9,514,800	100.00	%	100.00	%
OTHER FACTORY COST OF PRODUCT					
FACTORY PAYROLL					
Supervision	\$ 334,800	3.52		3.34	
Indirect labor	565,200	5.94		6.17	
Direct labor	2,563,200	26.94		22.39	
Employee benefits	330,000	3.47		4.35	
Payroll taxes	270,000	2.84		2.54	
	<u>4,063,200</u>	<u>42.71</u>		<u>38.79</u>	
FACTORY EXPENSES	<u>1,880,400</u>	<u>19.76</u>		<u>22.75</u>	
	<u>5,943,600</u>	<u>62.47</u>		<u>61.54</u>	
GROSS PROFIT	3,571,200	37.53		38.46	
ADMINISTRATIVE AND SELLING EXPENSES					
Administrative expenses	1,028,400	10.81		11.96	
Selling expenses	1,152,000	12.11		9.72	
	<u>2,180,400</u>	<u>22.92</u>		<u>21.68</u>	
	<u>1,390,800</u>	<u>14.61</u>		<u>16.78</u>	
INTEREST EXPENSE	<u>252,000</u>	<u>2.65</u>		<u>1.24</u>	
	<u>1,138,800</u>	<u>11.96</u>		<u>15.54</u>	
OTHER INCOME (EXPENSE)	<u>24,000</u>	<u>0.25</u>		<u>0.92</u>	
INCOME BEFORE INCOME TAXES	\$ 1,162,800	12.21	%	16.46	%

*Abstracted from the 2005 PIA Ratio Study for Printers with sales over \$15,000,000 who are classified as Profit Leaders.

BUDGETED HOURLY COST RATES

- This is an Accounting & Cost/Production Function
- Once Your Profit Plan is Complete - Concentrate on Sales
- First Item, Calculate What You Are Going to Cost Your Product At
- Calculate Your Hourly Cost Rates (Budgeted)
- This is a Micro Management Function

SALES/PRICE CALCULATION

MATERIALS			
Paper			\$250
Other chargeable materials			50
Outside services			<u>100</u>
			400
Materials mark-up at 15%			<u>60</u>
			460
		Hourly	
		Cost	
COST CENTER COSTS	Hours	Rate	
<u>PRE-PRESS</u>	<u>3</u>	<u>\$ 90</u>	<u>270</u>
PRESS	6	120	720
BINDERY	3	50	<u>150</u>
			<u>1,140</u>
TOTAL COST			1,600
PROFIT MARK-UP AT XX% OF TOTAL COST			<u>XXX</u>
SELLING PRICE			<u>\$ X,XXX</u>

ABC PRESS, INC.
PROFIT PLAN
ALL-INCLUSIVE BUDGETED HOURLY COST RATES

	PREPRESS		PRESSES				BINDERY	
	TOTAL	GENERAL	ELECTRONIC PREPRESS	CONVENTIONAL PREPRESS	2/C 28", HEIDELBURG	40" PRESSES	MACHINE BINDERY	HAND BINDERY
FACTORY LABOR								
Supervision	\$ 334,800	\$ 334,800						
Indirect labor	565,200	565,200						
Direct labor	2,563,200	600	598,600	\$ 435,500	\$ 104,400	\$ 825,100	\$ 283,500	\$ 315,500
Employee benefits	330,000	73,700	55,300	39,900	11,400	87,200	30,300	32,200
Payroll taxes	270,000	68,500	48,500	35,500	8,500	67,500	24,000	17,500
	<u>4,063,200</u>	<u>1,042,800</u>	<u>702,400</u>	<u>510,900</u>	<u>124,300</u>	<u>979,800</u>	<u>337,800</u>	<u>365,200</u>
Allocation of General Expenses		(1,042,800)	242,300	176,400	42,900	338,400	116,700	126,100
	<u>4,063,200</u>	<u>0</u>	<u>944,700</u>	<u>687,300</u>	<u>167,200</u>	<u>1,318,200</u>	<u>454,500</u>	<u>491,300</u>
FACTORY EXPENSES								
Depreciation and amortization	480,000	13,000	70,000	30,000	15,000	326,000	25,000	1,000
Equipment rentals	58,800		58,800					
Factory supplies and expenses	380,400	65,800	76,800	51,000	12,200	152,400	20,500	1,700
Freight and postage	12,000	12,000						
Heat, light and power	120,000	61,700	5,100	3,400	2,100	28,800	15,500	3,400
Insurance expense	91,200	45,800	10,600	7,700	1,900	14,600	5,000	5,600
Packing and shipping supplies	44,400	44,400						
Rent	210,000	40,100	15,000	10,000	6,000	84,000	44,900	10,000
Repairs and maintenance								
Building	60,000	11,400	4,300	2,900	1,700	24,000	12,800	2,900
Machinery and equipment	229,200	54,300	36,000	12,000	6,000	108,000	11,700	1,200
Spoilage	60,000	60,000						
Taxes - property	20,400	3,900	1,500	1,000	600	8,100	4,300	1,000
Vehicle expenses	100,800	100,800						
Waste removal	13,200	13,200						
	<u>5,943,600</u>	<u>526,400</u>	<u>1,222,800</u>	<u>805,300</u>	<u>212,700</u>	<u>2,064,100</u>	<u>594,200</u>	<u>518,100</u>
Allocation of General Expenses		(526,400)	118,900	78,300	20,700	200,500	57,700	50,300
TOTAL FACTORY COSTS	<u>5,943,600</u>	<u>0</u>	<u>1,341,700</u>	<u>883,600</u>	<u>233,400</u>	<u>2,264,600</u>	<u>651,900</u>	<u>568,400</u>
Administrative, Selling, Interest Expense and Other Income	2,408,400		543,800	358,000	94,600	917,600	264,100	230,300
	<u>8,352,000</u>	<u>0</u>	<u>1,885,500</u>	<u>1,241,600</u>	<u>328,000</u>	<u>3,182,200</u>	<u>916,000</u>	<u>798,700</u>
Less: Material Mark-up at 15%	(912,900)		(206,100)	(135,700)	(35,800)	(347,800)	(100,200)	(87,300)
ALL INCLUSIVE COSTS	<u>\$ 7,439,100</u>	<u>\$ 0</u>	<u>\$ 1,679,400</u>	<u>\$ 1,105,900</u>	<u>\$ 292,200</u>	<u>\$ 2,834,400</u>	<u>\$ 815,800</u>	<u>\$ 711,400</u>
TOTAL AVAILABLE HOURS	115,846		24,167	19,496	4,394	19,773	16,239	31,777
Chargeable hours @ 70%	81,093		16,917	13,647	3,076	13,841	11,367	22,244
Chargeable hours @ 75%	86,885		18,125	14,622	3,296	14,830	12,179	23,833
Chargeable hours @ 80%	92,678		19,334	15,597	3,515	15,818	12,991	25,422
Chargeable hours @ 85%	98,468		20,542	16,572	3,735	16,807	13,803	27,010
All-Inclusive Budgeted Hourly								
Cost Rates @ 70% Utilization			\$ 99.27	\$ 81.04	\$ 94.99	\$ 204.78	\$ 71.77	\$ 31.98
Cost Rates @ 75% Utilization			\$ 92.66	\$ 75.63	\$ 88.65	\$ 191.13	\$ 66.98	\$ 29.85
Cost Rates @ 80% Utilization			\$ 86.86	\$ 70.90	\$ 83.13	\$ 179.19	\$ 62.80	\$ 27.98
Cost Rates @ 85% Utilization			\$ 81.75	\$ 66.73	\$ 78.23	\$ 168.64	\$ 59.10	\$ 26.34

**ABC PRESS, INC.
THE BIG ESTIMATE**

TARGET SELLING PRICE

MATERIALS

Paper		\$	4,134,000
Other chargeable materials			859,200
Outside services			1,092,000
			6,085,200
Materials mark-up at 15.00%			912,900

\$ 6,998,100

COST CENTER COSTS

Electronic Prepress

	Hours	Rate	
Desktop	10,875	\$ 90	978,750
Dolev	3,625	120	435,000
Scanner	3,625	110	398,750

Conventional Prepress

Camera/Stripping	7,311	75	548,325
Misomex	731	75	54,825
Platemaking	2,924	65	190,060
Proofing	3,656	65	237,640

2/C 28", Heidelberg

1/C Work	703	80	56,240
2/C Work	2,812	100	281,200

40" presses

1/C Work	790	115	90,850
2/C Work	3,164	145	458,780
3/C Work	791	165	130,515
4/C Work	6,327	190	1,202,130
5/C Work	2,373	220	522,060
6/C Work	2,373	250	593,250

Machine Bindery

Cutting	2,598	65	168,870
Folding	6,496	65	422,240
Saddle Stitcher	2,598	80	207,840
Other Machines	1,299	70	90,930

Hand Bindery

Hand Bindery	20,338	32	650,816
Small Machine	5,084	35	177,940

7,897,011

TOTAL COST

14,895,111

PROFIT MARK-UP AT 15% OF TOTAL COST

2,234,267

TARGET SELLING PRICE

17,129,378

RESERVE AVAILABLE FOR NECESSARY REDUCTIONS

(1,529,378)

PROFIT PLAN SALES

\$ 15,600,000

PRODUCTION HOURS MANAGEMENT

- This is a Cost/Production System Function
- Once You Completed the Profit Plan and HCR's Then Hour Management Will Evaluate Profitability
- Compare Actual Hours to Budgeted Hours
- This is a Micro Management Function

ABC PRESS, INC. ESTIMATED CHARGEABLE HOURS VS. ACTUAL

COST CENTER	ESTIMATED CHARGEABLE HOURS	ACTUAL CHARGEABLE HOURS	DIFFERENCE	% OF ESTIMATED
Electronic Prepress				
Desktop	10,875	11,528	653	106%
Dolev	3,625	3,915	290	108%
Scanner	3,625	3,988	363	110%
	<u>18,125</u>	<u>19,431</u>	<u>1,306</u>	<u>107%</u>
Conventional Prepress				
Camera/Stripping	7,311	7,677	366	105%
Misomex	731	694	(37)	95%
Platemaking	2,924	2,778	(146)	95%
Proofing	3,656	3,912	256	107%
	<u>14,622</u>	<u>15,061</u>	<u>439</u>	<u>103%</u>
2/C 28", Heidelberg				
1/C Work	703	626	(77)	89%
2/C Work	2,812	2,868	56	102%
	<u>3,515</u>	<u>3,494</u>	<u>(21)</u>	<u>99%</u>
40" presses				
1/C Work	790	822	32	104%
2/C Work	3,164	3,480	316	110%
3/C Work	791	815	24	103%
4/C Work	6,327	6,074	(253)	96%
5/C Work	2,373	2,326	(47)	98%
6/C Work	2,373	2,136	(237)	90%
	<u>15,818</u>	<u>15,653</u>	<u>(165)</u>	<u>99%</u>
Machine Bindery				
Cutting	2,598	2,624	26	101%
Folding	6,496	6,626	130	102%
Saddle Stitcher	2,598	2,208	(390)	85%
Other Machines	1,299	1,156	(143)	89%
	<u>12,991</u>	<u>12,614</u>	<u>(377)</u>	<u>97%</u>
Hand Bindery				
Hand Bindery	20,338	20,135	(203)	99%
Small Machine	5,084	5,237	153	103%
	<u>25,422</u>	<u>25,372</u>	<u>(50)</u>	<u>100%</u>
TOTAL HOURS	<u>90,493</u>	<u>91,625</u>	<u>1,132</u>	<u>101%</u>

PRODUCTION STANDARD MANAGEMENT

- **This is a Cost/Production System Function**
- **Problem, Sales Price is Estimate Based, and Estimates Use Production Standards**
- **Compare Your Production Standards to Actual Achieved Production**
- **Differences Should Be Evaluated -- Adjust Standard or Improve Production**
- **This is a Micro Management Function**

ABC PRESS, INC. PRODUCTION STANDARDS VS. ACTUAL

PROCESS/ COST CENTER	ACTUAL			STANDARD	% OF STANDARD
	HOURS	QUANTITY	QTY/HOUR		
40" presses					
1/C MR	316	101	3.12	3.00	104.0%
2/C MR	1,345	954	1.41	1.25	113.0%
3/C MR	356	509	0.70	0.67	105.0%
4/C MR	3,005	6,678	0.45	0.50	89.3%
5/C MR	1,187	3,208	0.37	0.40	92.0%
6/C MR	1,246	4,153	0.30	0.33	91.2%
Run 1/C	474	3,917,136	8,264	8,000	103.3%
Run 2/C	1,819	14,926,714	8,206	7,800	105.2%
Run 3/C	435	3,314,700	7,620	7,500	101.6%
Run 4/C	3,322	22,915,156	6,898	7,200	95.8%
Run 5/C	1,187	7,918,477	6,671	6,800	98.1%
Run 6/C	1,126	6,660,290	5,915	6,500	91.0%
	15,818				

STUART W. MARGOLIS, CPA. MT

For more than 26 years, Stuart W. Margolis, CPA, contributed to the success of thousands of graphic arts companies through educational yet enjoyable seminars, articles, publications and one-on-one consulting services.



Mr. Margolis helps graphic arts firms re-engineer their management and accounting practices, propelling businesses to profitability through the use of value added concepts, profit planning, cost analysis and monitoring.

Stuart Margolis grew up in the graphic arts industry. Starting in 1979, he worked with his father Harris Margolis, CPA (deceased) and founder of their prestigious firm. Recently, Margolis merged their firm with another management and accounting practice that specializes in the Graphic Arts, Becker and Company. The new firm, MargolisBecker, combines more talents and diversity, offering our printing clients more services and expertise.

As a partner, Stuart performs consulting, accounting, auditing, and tax services for hundreds of graphic arts firms. He prepares and analyzes Printing Industries of America's (PIA/GATF's) Ratio Study, the industry's premier financial benchmarking tool. He is the author of the printing industry's Chart of Accounts and co-author of A Printer's Guide to Profits, 1-2-3.

Mr. Margolis frequently speaks at major industry events, conferences and seminars including: Graph Expo, the PIA/GATF Presidents' Conference and Management Leadership Institute, Printing Industry Financial Executives' conferences, Graphics of the Americas, The Charlotte Show, Midwest Graphics, and others.

As a C.P.A., he is a member of the American and Pennsylvania Institutes of Certified Public Accountants. Mr. Margolis has a B.S. in Economics and Accounting from the University of Pennsylvania's Wharton School of Business and a Master's degree in Taxation from Villanova University