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Financial Benchmarking Study - 18th Edition

EXECUTIVE SUMMARY & COMMENTS

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Introduction

The intent of this executive summary is to highlight the significant facts uncovered in the study. It is designed to be a quick overview. Further detail about any item can be found in the body of the study. These studies have been conducted every two years since the early 1980s. They have provided a wealth of information about trends in such areas as: Sales volume; Company profitability; Mix of products and services offered; Sales per employee; Sales per square foot; Cost percentage for payroll, rent, etc; and many, many more important factors in running a successful business.

It is important to note that many of the firms reporting for this study are not the same companies that completed the survey three years ago. Therefore, it is important not to attach too much significance to minor variations or changes from one period to the next. With that said, these Benchmarking results give us our best look at the health of this industry. It does indeed show broad trends as well as significant differences among various categories.

To give you an idea of how a different mix of respondents can change the outcome, consider the results from this study. It will show that annual sales volume declined by 4.5% from 2013 to 2016. BUT, when I looked back on the annual sales volume for 2013 for the 124 companies that participated this year, it showed that their average was $1,049,125 and their 2016 annual sales volume of $1,080,803 was actually an increase of $31,678 or 3.2%. So, the sales decline in 2016 appears to be simply the result of a different mix of respondents than 2013.

Another point I'd like to make here is about the increase in Net Owner's Compensation on these results as compared to the last few years. As shown in the Table below, the Net Owner's Compensation Percentage has increased on each of the last 3 study results, including this one. Note: I've also shown 1983 as a reference.

TABLE 1

Cost Percentage Comparisons for the last 4 Study Results (plus 1983 as reference)

Year	1983	2009	2011	2013	2016
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods	29.7	29.5	31.2	30.4	30.7
Payroll	24.3	32.9	32.5	33.0	31.6
Overhead	28.1	26.9	24.8	22.9	21.7
TOTAL COSTS	82.1%	89.3%	88.5%	86.3%	84.0%
Net Owner's Compensation	17.9%	10.7%	11.5%	13.7%	16.0%

As you can see in Table 1, Net Owner's Compensation has increased from a low of 10.7% in 2009 to the current 16.0%. What I found very interesting is that virtually all of this increase is due to a reduction in the cost of Overhead. This cost category has declined from 26.9% to 21.7% or a decline of 5.2 percentage points. The increase in Net Owner's Compensation is 5.3 percentage points or virtually the same.

Over this seven year period (2009 to 2016), payroll costs have declined by 1.3 percentage points while the cost of goods has increased by 1.2 percentage points.

So, what is the takeaway from this seven years of percentage comparisons? I have a few thoughts:

1. The cost of goods sold has been very consistently in the 30% range and this dates all the way back to our first study results in 1983, where it was 29.7%.
2. Payroll has been hanging around 32 to 33% for the last 7 years. As you can see in the column to the left, that number was 24.3% back in 1983. That was the key to why Net Owner's Compensation was better back in the 1980s. Then for several years, this payroll cost percentage continued to climb until it got into the 32 to 33% range.
3. The bright spot on these results is the Overhead Costs, which has declined again and is now down to 21.7%. Through 2011, this had been holding in a range of 25 to 27% for several years. As you can see in the 1983 data, it was actually even higher, at 28.1% back then.
4. In summary on this item, if you are not making the kind of Net Owner's Compensation that you would like to make, I would suggest taking a good look at your Overhead Costs. You may have not made the improvements here that appear to have been made by many in the industry.
5. With all of that said, you must keep in mind that this group of respondents is not the same group that responded in previous years. Therefore, some of this difference could be attributed simply to a different mix of businesses.

Recap

Following are some general comments about these results:

All Firms – There were a total of 124 usable responses in these results. This consisted of 100 companies who were Independent firms and 24 participants who were members of a Franchise organization. Most participants are single shop operations with 117 companies in this category. Only 7 firms indicating that they were operating multiple shops.

33 Years Of Industry Trends (1983 to 2016)

Over the 24 years from 1983 to 2007, the industry had seen a steady increase in annual sales volume. In the early years, the growth was often 5% or 6% per year. In the decade from 1997 to 2007, it tended to be an annual growth of anywhere from 2% to 5%. But, in each of those two-year study results, there WAS some growth.

Then we ran into the 2009 survey results and saw a very large decline of 14% over that two-year period. This was most probably the result of the bad economy at the time, which adversely affected the printing industry along with most every other industry. Since 2009, the last three studies have shown mixed results, with a good increase in 2011 and now a decrease in 2013 and 2016.

To recap, average sales volume has been in a range from about $1 million to $1.2 million from 2003 right up to the current results that are shown below. I think this is reflecting the fact that many struggling companies are leaving the industry and that is helping to keep the average sales volume up. But, at the same time, the maturity of the industry is making it difficult for the current companies to increase sales.

The following table shows the change in annual sales volume over the past 13 years:

Sales Volume History of Participants

Year	Average Sales	Change
2003	$1,010,864	
2005	$1,079,031	+6.7%
2007	$1,181,915	+9.5%
2009	$1,016,939	-14.0%
2011	$1,202,058	+18.2%
2013	$1,132,253	-5.8%
2016	$1,080,803	-4.5%
13 year change	+$69,939	+.5%*

**Average annual compound growth rate*

Now back to the GOOD NEWS about the higher Profitability!

The Net Owner's Compensation percentage on these results is the highest that it has been in more than 10 years. As you will see in the study results for all firms, the average Net Owner's Compensation came in at 16.0%.

There were only two other readings above 13% in the past 11 years. Net Owner's Compensation was 13.7% in 2013 and 13.4% in 2005. As a matter of clarification, in the quick printing industry, Net Owner's Compensation is defined as *"that money which is left over after covering all expenses of the business, but before paying one working owner a salary or giving that owner any fringes."*

I'd like to make some important clarifications regarding the above definition. As pointed out, only one working owner should be excluded from the payroll expenses of the business. If there are two or more working owners, an appropriate wage and fringe package (for these additional owners) should be included in payroll costs. This will allow all participating companies to be compared on an equal basis.

In arriving at Net Owner's Compensation, the cost for Depreciation and Amortization are considered expenses of the business. While these are often added back in by owners in arriving at their Owner's Discretionary Income (See the Key Ratio section), they are not considered a part of Net Owner's Compensation. Again, this is done in order to allow us to compare all participants on an equal basis.

So, with the above definition and clarification out of the way, let's get back to the **GOOD NEWS** about increased profitability. While the sales volume was down by 4.5% (as shown earlier), the increase in Net Owner's Compensation percentage easily made up for this decline and caused Net Owner's Compensation Dollars to increase by $17,938 (from $154,822 in 2013 to $172,760 on these results).

As mentioned earlier, this increase in profitability in 2016 came from two main areas. Payroll costs declined 1.4 percentage points while Overhead dropped by 1.2 percentage points. These more than made up for a slight increase of .3 percentage points in Cost of Goods.

Regarding overhead cost, reductions in this expense category have been a pleasant surprise over the past few years. While payroll costs have increased by 7.3 percentage points since 1983, the cost of overhead has declined by 6.4 percentage points. This has allowed our industry to maintain a reasonable Net Owner's Compensation level.

In **Table 2**, I've shown Profit and Loss Comparisons for various years. This data points out some of the historical items regarding Industry Profit and Loss.

TABLE 2

Profit and Loss Comparisons for Various Years

	1983		1993		2003		2016	
Regular Printing	$254,800	75.8%	$397,923	59.2%	$617,926	61.1	$515,509	47.7%
Copying	51,700	15.4	178,666	26.6	198,364	19.6	324,338	30.0
Brokered Sales	27,600	8.2	62,328	9.3	134,471	13.3	194,291	18.0
Other	2,000	.6	32,658	4.9	60,103	6.0	46,665	4.3
TOTAL SALES	**$336,100**	**100.0%**	**$671,575**	**100.0%**	**$1,010,864**	**100.0%**	**$1,080,803**	**100.0%**
Cost of Sales	99,800	29.7	192,021	28.6	294,943	29.2	332,027	30.7
Payroll	81,600	24.3	195,224	29.1	328,986	32.5	341,469	31.6
Overhead	94,600	28.1	199,735	29.7	271,208	26.8	234,547	21.7
TOTAL COSTS	**$276,000**	**82.1%**	**586,980**	**87.4%**	**895,137**	**88.5%**	**908,043**	**84.0%**
NET OWNER'S COMPENSATION	**$60,100**	**17.9%**	**$84,595**	**12.6%**	**$107,365**	**11.5 %**	**$172,760**	**16.0%**

NOTE: ***Until the year 2001, "Regular Printing" included sales from all categories except "copying, brokered sales and other." Since 2001, various sales categories have been broken out from regular printing. For this comparison, I've combined these breakout sales in order to compare to past years where the breakout is not available.***

Net Profit Per Employee

This is another good way to compare the profitability of different companies. It is calculated by taking Net Owner's Compensation and then deducting a fair value to cover the salary and fringes for the one working owner who is normally included in Net Owner's Compensation. The formula we use is $14,000 base salary plus 4% of annual sales volume. That salary gets multiplied by 1.18 (adds 18%) to cover fringe benefits. For example, in a company with $1 million in sales, the salary would be $54,000 ($14,000 + 4% of sales). The total would be $63,720 ($54,000 x 1.18).

So, let's look at how we calculated Net Profit Per Employee for "All Firms". With annual sales of $1,080,803, the fair salary and fringes for an owner is estimated to be $67,534. Since Net Owner's Compensation was $172,760, the company Net Profit was $105,226 (this is also referred to as Excess Earnings). The Key Ratio sheet (page 57) shows that there were a total of 8.0 employees, but that included the working ... ce we dedu ... pay for the working owner, we no... ve 7.0 employees ... be used t... Profit ... e. D... 05,226 by 7.0 e... ults in $15...