



Special Report

Economic Comparison of Premedia Companies by Primary Service Provided

Excerpted from the 2007 IPA Economic Study

This report is excerpted from a new, in-depth section of the IPA Economic Study that analyzes survey results by primary service provided: Prepress, Printing, or Creative/Advisory/Management. The complete 95-page, 2007 IPA Economic Study examines high profit companies and what makes them successful as well provides information based on size of company as measured by sales. A section on repeat respondents provides data useful for trend analysis. Study participants will receive a free Individual Company Performance Report along with a free copy of the final report when it is released in early September. Non-participants may purchase the report (\$200-IPA member, \$400-non-member). To order, go to www.ipa.org.

Primary Service Provided Analysis

Comparison of Companies by Primary Service Provided

For the very first time, the IPA Economic Study analyzed the survey results by the primary service provided. The Economic Study looks at three different service areas: Prepress Services, Printing Services and Creative/Advisory/Management Services. We were looking for companies that generated at least 50% of their sales from one of these services. Any company that didn't generate at least 50% of their sales from any one of these services was left out of this analysis. Only two companies fell into this category. This special analysis looks to further explore the impact that primary service provided had on profitability, efficiency, employee productivity, liquidity and leverage.

As shown in the summary income statement below, the financial results of the three groups are quite different. Companies engaged primarily in prepress services generated the highest gross profit as a percent of sales while also incurring the highest administrative and sales expense as a percent of sales. Companies engaged in primarily creative/advisory/management services generated "middle of the pack" gross profit as a percent of sales, but were able to hold down administrative and sales expenses to generate the highest operating profit at 12.7%. Companies engaged in primarily printing services generated the lowest gross profit as a percent of sales which led to them also reporting the lowest operating profit at only 4.5%.

Summary Income Statement By Primary Service Provided (Shown as a percent of sales)				
	Primarily Prepress Services	Primarily Printing Services	Primarily Creative/Advisory/ Management Services	
Sales	100.0%	100.0%	100.0%	
Purchases	13.6	35.5	12.7	
Value Added	86.4	64.5	87.3	
Factory Expenses	48.2	40.4	56.9	
Cost of Goods Sold	61.8	75.9	69.6	
Gross Profit	38.2	24.1	30.4	
Administrative & Sales Expense	27.5	19.6	17.7	
Operating Income	10.7	4.5	12.7	
Other Expense (income)	0.6	1.0	2.9	
Net Income Before Tax	10.1	3.5	9.8	

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Companies engaged in primarily prepress services sold the highest level of packaging, at 41.4% of sales. Promotional materials were mostly sold by companies primarily engaged in printing services (24.3% of sales). Companies engaged primarily in creative/advisory/management services sold the highest levels of advertising materials (33.4% of sales) and catalogs (21.8% of sales).

Product Categories as a Percent of Sales			
	Primarily Prepress Services*	Primarily Printing Services*	Primarily Creative/Advisory/Management Services*
Advertising Materials	16.8%	29.6%	33.4%
Promotional Materials	9.4%	24.3%	4.8%
Catalogs	18.0%	13.0%	21.8%
Publications	6.9%	12.5%	4.3%
Direct Response	2.9%	5.3%	6.3%
Packaging	41.4%	13.3%	21.9%
Other	4.6%	2.0%	7.5%
Total: All Product Types	100.0%	100.0%	100.0%

Among customer types, the primarily printing service companies generated more business with agencies/designers (23.1% of sales) than their counterparts. Companies engaged in primarily prepress services reported a higher percentage of sales with printers/converters than those primarily engaged in printing services or creative/advisory/management services.

Customer Profile as a Percent of Sales			
	Primarily Prepress Services*	Primarily Printing Services*	Primarily Creative/Advisory/Management Services*
Agencies/Designers	10.2%	23.1%	12.9%
Printers/Converters	28.1%	4.1%	6.8%
Publishers/Newspapers	6.6%	13.3%	11.3%
Direct Corporate	54.3%	57.3%	65.2%
Other	0.8%	2.3%	3.8%
Total: All Customer Types	100.0%	100.0%	100.0%

The chart below displays the best and worst reported results for selected key measures by primary service provided.

Measure	Best Results Reported by:	Worst Results Reported by:
EBITDA as a % of Sales	Prepress (23.4%)	Printing (9.2%)
Gross Profit as a % of Sales	Prepress 38.2%	Printing 24.1%
Average Collection Period	C/A/M 37.4 days	Prepress 57.3 days
Asset Turnover	C/A/M 3.2x	Printing 2.1x
Sales per Employee	Printing \$166,441	Prepress \$135,990
Gross Profit per Employee	Prepress \$47,760	C/A/M \$32,874
Current Ratio (liquidity)	Prepress 3.6x	Printing 1.5x
Total Debt to Equity (leverage)	C/A/M 0.1x	Printing 1.4x

NOTE: C/A/M = Creative/Advisory/Management Services

Primary Service Provided Analysis

	Primarily Prepress Services*	Primarily Printing Services*	Primarily Creative/Advisory/ Management Services*
KEY PERFORMANCE MEASURES			
PROFITABILITY			
Net Income Before Taxes as a % of Sales	10.1%	3.5%	9.8%
Net Income Before Taxes as a % of Value Added	11.6%	5.5%	11.5%
Value Added as a % of Sales	86.4%	64.5%	87.3%
Gross Profit as a % of Sales	38.2%	24.1%	30.4%
EBITDA as a % of Sales	23.4%	9.2%	18.8%
Total Return on Assets (pre-tax)	13.9%	10.1%	35.7%
Pre-Tax Return on Equity	21.6%	20.7%	46.7%
EFFICIENCY			
Average Collection Period	57.3 Days	51.7 Days	37.4 Days
Accounts Payable Payout Days	70.3 Days	43.9 Days	48.2 Days
Days of Raw Inventory	46.8 Days	24.9 Days	64.9 Days
Days of Total Inventory	22.0 Days	24.3 Days	13.5 Days
Asset Turnover	2.3X	2.1X	3.2X
EMPLOYEE PRODUCTIVITY			
Sales per Employee	\$135,990	\$166,441	\$143,831
Value Added per Employee	\$116,349	\$104,213	\$124,119
Gross Profit per Employee	\$47,760	\$40,703	\$32,874
Pre-Tax Income per Employee	\$15,704	\$5,744	\$16,336
Sales per Sales Dept Employee	\$1,224,748	\$1,962,415	\$2,386,791
LIQUIDITY			
Current Ratio	3.6X	1.5X	2.4X
Quick Ratio	3.4X	1.5X	2.2X
Cash Ratio	0.2X	0.2X	1.1X
Working Capital Turnover	4.0X	4.8X	9.1X
LEVERAGE			
Total Debt to Equity	0.4	1.4	0.1
Current Liabilities to Equity	0.3	0.9	0.1
Long Term Debt to Equity	0.1	0.7	0.0
Times Interest Earned	8.3	3.0	0.3

*Specific service accounted for 50% or more of sales.

Primary Service Provided Analysis

	Primarily Prepress Services*	Primarily Printing Services*	Primarily Creative/Advisory/ Management Services*
INCOME STATEMENT (percent of sales)			
SALES	100.0%	100.0%	100.0%
PURCHASES			
Paper and Substrates	0.6%	20.3%	0.0%
All Other Chargeable Materials	9.8%	7.3%	7.1%
Outside Services	3.2%	8.0%	5.6%
TOTAL PURCHASES	13.6%	35.5%	12.7%
VALUE ADDED	86.4%	64.5%	87.3%
FACTORY EXPENSES			
Direct Labor & Fringes	23.8%	19.1%	25.4%
Estimators, CSRs, schedulers, preplanners	6.8%	3.5%	9.2%
Production supervisors and managers	2.3%	2.9%	6.3%
Shipping and maintenance personnel	1.0%	1.0%	0.3%
Total Other Factory Labor & Fringes	10.2%	7.5%	15.8%
All Other Factory Expenses	14.3%	13.8%	15.7%
TOTAL FACTORY COSTS	48.2%	40.4%	56.9%
COST OF GOODS SOLD	61.8%	75.9%	69.6%
GROSS PROFIT	38.2%	24.1%	30.4%
ADMINISTRATIVE & SALES EXPENSES			
Administrative Salaries & Fringes	9.9%	5.7%	5.8%
All Other Administrative Expenses	5.9%	4.2%	5.1%
Sales Salaries & Fringes	8.9%	7.6%	4.7%
All Other Sales Expenses	2.8%	2.1%	2.2%
TOTAL ADMINISTRATIVE & SALES EXPENSES	27.5%	19.6%	17.7%
OPERATING INCOME	10.7%	4.5%	12.7%
OTHER (INCOME)/EXPENSE			
Interest Expense	0.9%	1.9%	0.3%
Other (Income) Expense	-0.3%	-0.9%	2.6%
TOTAL OTHER (INCOME)/EXPENSE	0.6%	1.0%	2.9%
NET INCOME BEFORE TAX	10.1%	3.5%	9.8%

*Specific service accounted for 50% or more of sales.

Primary Service Provided Analysis

	Primarily Prepress Services*	Primarily Printing Services*	Primarily Creative/Advisory/ Management Services*
TOTAL LABOR COSTS (% of sales)			
Wages	43.6%	33.7%	45.4%
Payroll Taxes	3.4%	3.8%	2.8%
Company-Paid Health Benefits	3.7%	2.6%	3.3%
Company-Paid Retirement Benefits	1.0%	1.0%	1.2%
SUPPLEMENTAL INFORMATION			
Total Depreciation and Amortization	12.4%	3.8%	8.7%
EBITDA (in dollars)	\$1,411,064	\$1,890,932	\$2,711,057
EBITDA as a % of Sales	23.4%	9.2%	18.8%
Sales Growth (versus previous year)	0.3%	5.0%	-13.1%
BALANCE SHEET (% of assets)			
ASSETS			
CURRENT ASSETS			
Cash & Equivalents	17.9%	10.8%	18.8%
Accounts Receivable	36.0%	29.5%	29.0%
Paper and Substrate Inventory	0.1%	3.1%	0.0%
Other Raw Materials Inventory	3.2%	1.5%	4.3%
W.I.P. & Finished Goods Inventory	4.2%	5.9%	4.4%
All Other Current Assets	2.8%	2.8%	3.6%
TOTAL CURRENT ASSETS	64.1%	53.7%	60.0%
Gross Fixed Assets	114.9%	149.3%	101.6%
Less: Accumulated Depreciation	94.2%	105.6%	77.9%
NET FIXED ASSETS	20.7%	43.7%	23.8%
OTHER ASSETS	15.3%	2.6%	16.3%
TOTAL ASSETS	100.0%	100.0%	100.0%
LIABILITIES & EQUITY			
CURRENT LIABILITIES			
Accounts Payable	7.3%	11.3%	9.1%
Current Notes Payable	8.2%	8.5%	5.0%
All Other Current Liabilities	9.6%	16.9%	11.4%
TOTAL CURRENT LIABILITIES	25.1%	36.7%	25.5%
LONG-TERM DEBT	13.9%	51.2%	40.1%
TOTAL LIABILITIES	39.0%	87.9%	65.6%
TOTAL EQUITY	61.1%	12.2%	34.4%
TOTAL LIABILITIES & EQUITY	100.0%	100.0%	100.0%

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