



**PRINTING  
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*Advancing Graphic Communications*

# FLASH REPORT

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**Profiling People Cost and Profitability**

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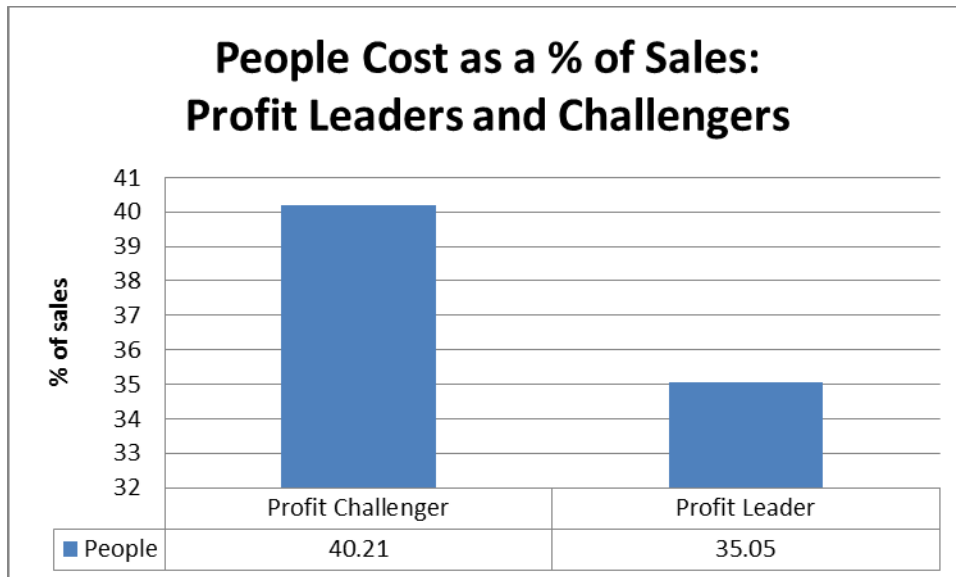
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## Profiling People Costs and Profitability

Over the past dozen years the profit gap between profit leaders—printers in the top 25 percent of profitability--and profit challengers—the remaining 75 percent-- averaged 10 percentage points—a whopping difference of \$1 million in profits for a \$10 million a year printer. Since over 40 cents of every dollar of a typical printer’s sales is expended on people (wages, salaries, benefits and payroll taxes) managing people and their costs are a key determinant of profitability. In this *Flash* we dig deeper into this topic by tapping information in the 2015-2016 *Ratios*.

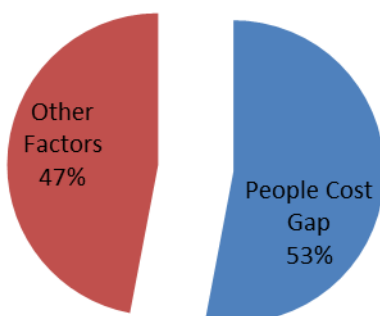
### The People Cost-Profit Gap

For all printers participating in this year’s *Ratios*, profit challengers paid an average of 40.2 percent of sales for people costs---wages, salaries, benefits and payroll taxes. In contrast, profit leaders expended an average of just 35 percent for a difference of 5.2 percentage points.



For 2015 the average gap in profit as a percent of sales between profit leaders and profit challengers was 9.7 percent. Thus, the people cost gap accounted for over 50 percent of the profit gap. Of course, this is an over-simplification since previous research has demonstrated that the full source of the profit gap is both lower costs and higher revenues and prices. However, this does reveal the close relationship between managing people costs and profitability.

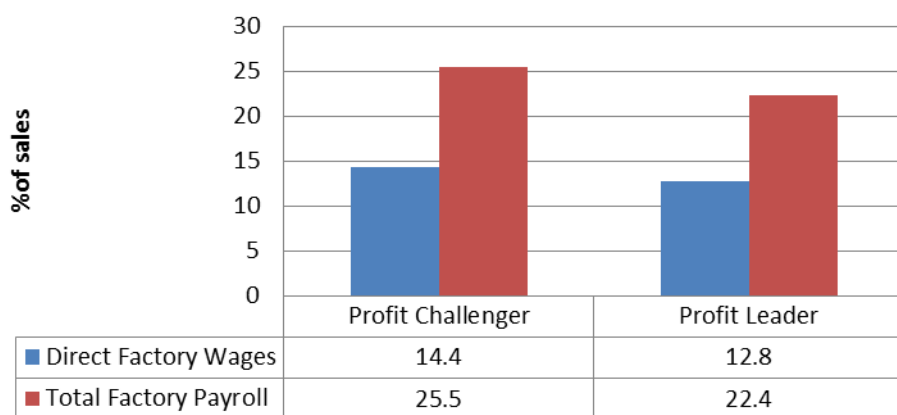
## Sources of the Profit Gap



### People and Profit in the Plant

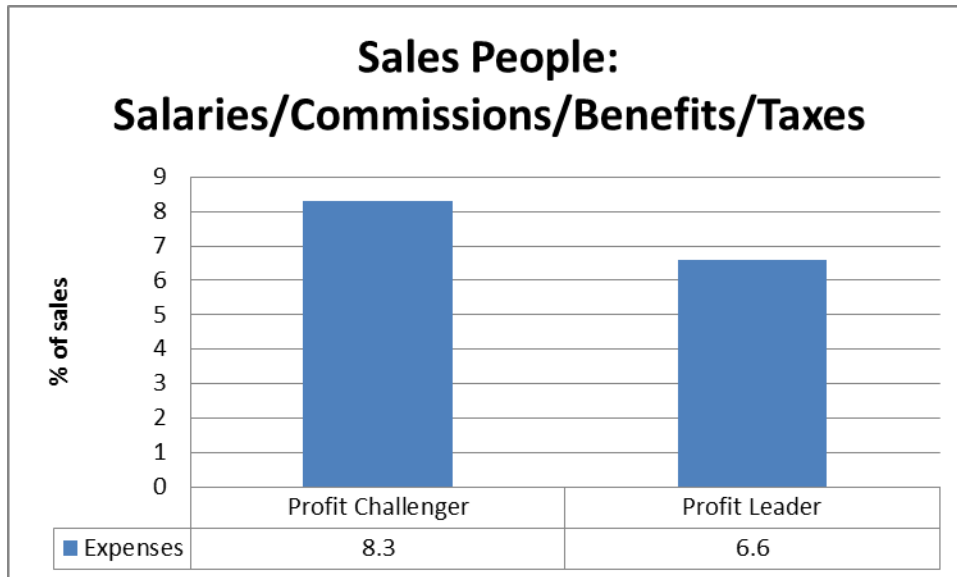
About two-thirds of a representative printing firm's employees are production workers. Total factory payroll accounts for 25.5 percent of a profit challenger's sales and only 22.4 percent of a profit leader's—a difference of 3.1 percentage points. Direct factory wages represent about half of the difference.

## Plant People: Direct Wages & Total Factory Payroll



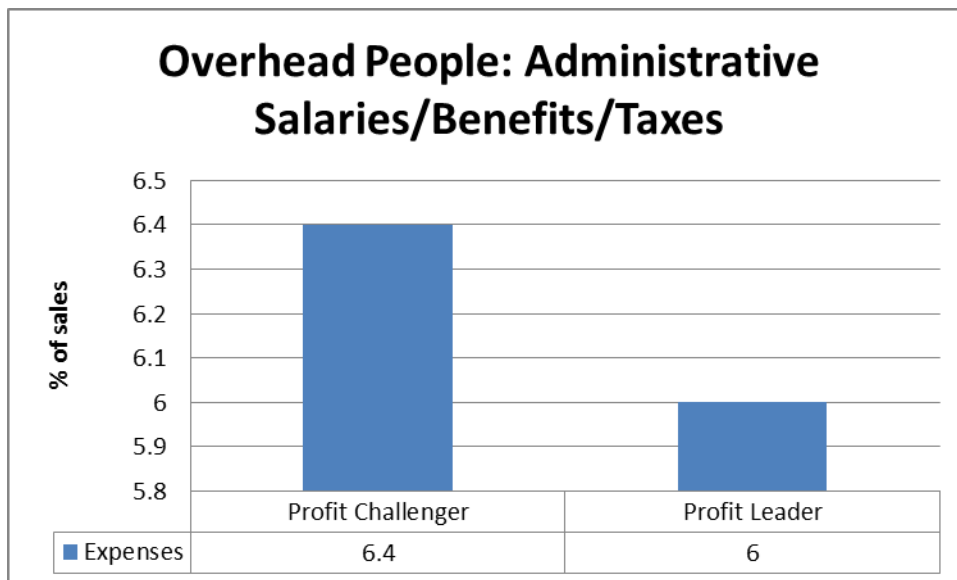
### Sales People and the Profit Gap

Selling expenses average around 15 percent of total sales. Expenses directly related to sales personnel—salaries, commissions, benefits and payroll taxes—make up about half of this. The cost as a percent of sales difference between profit leaders and profit challengers was 1.7 percentage points last year.

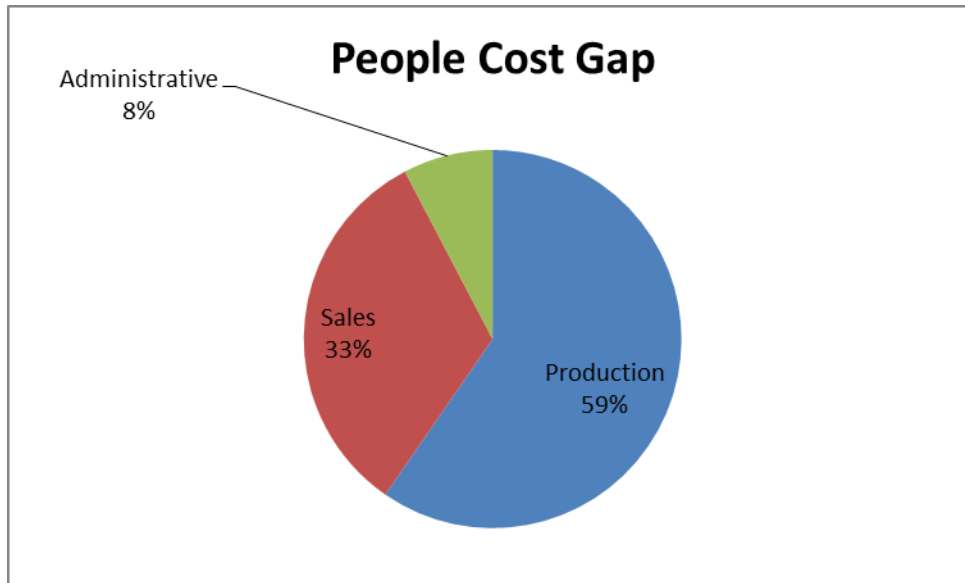


#### The Administrative People Profit Gap

What about “overhead” people? Here, the relative difference between profit leaders and challengers is less but still shows profit leaders with lower cost ratios.

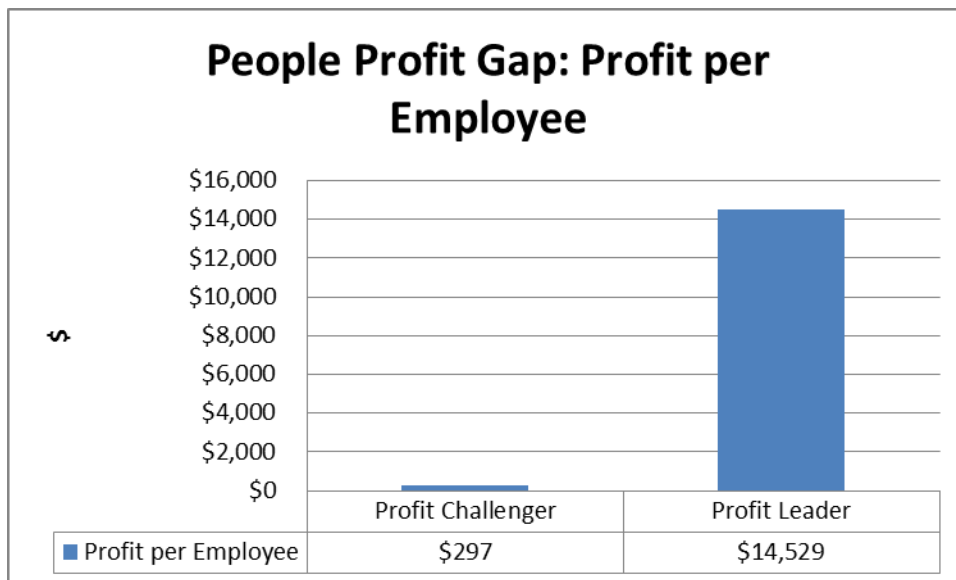


In total, the relative people cost gap between profit leaders and challengers is based primarily in the plant—almost 60 percent of the difference. This is not surprising since a majority of printing employees are in production. Most of the remainder of the comparative cost advantage can be attributed to the sales department.

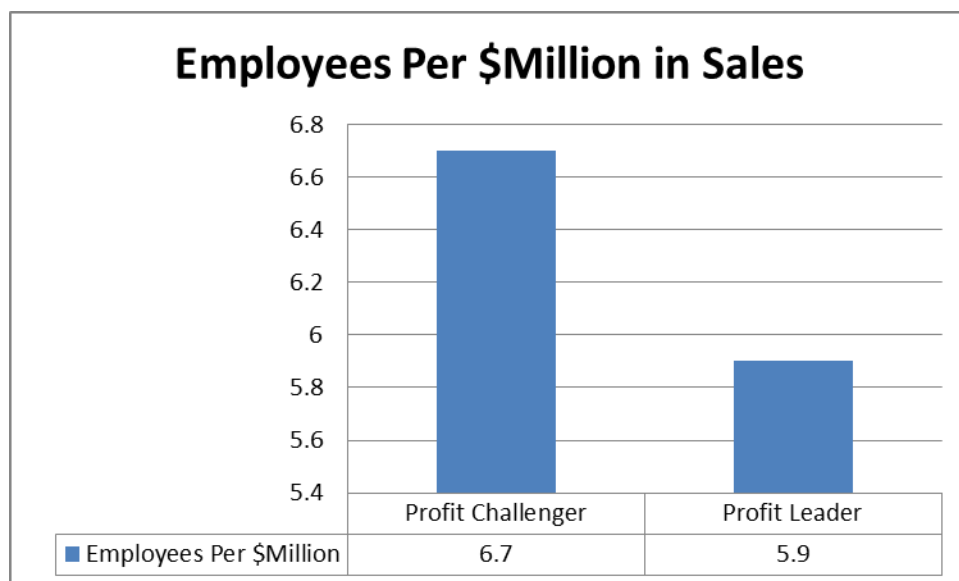


#### Per Employee Perspective

On a per employee basis profit leaders earn an excess of \$14 thousand over profit challengers. This key metric really brings the competitive advantage of profit leaders into clear focus.



What's their secret? Of course, there is no one key management secret. One might think that the key is that profit leaders pay less, on average, for the same employees than profit challengers but this is not the reason. A look at the arithmetic of calculating profit per employee for profit leaders compared to challengers indicates that profit leaders have both higher profits and fewer employees. The employee count difference is substantial. According to the PIA *Ratios*, profit leaders utilize significantly less employees per \$1 million in sales than profit challengers—an average difference of almost one full-time equivalent employee.



Profit leaders are able to use less labor per sales dollar because they abide by the classic dictum of substituting capital for labor. For example, in 2015, profit leaders averaged \$108,350 in net assets employed per factory worker compared to just \$92,690.

### Check Your People Cost Metrics

Use the *Ratios* reports to evaluate your people cost metrics against your profit leading peers so you can improve your profit per employee and overall profitability. Specific reports are available for various firm profiles by size of firm, printing process, and print market segments.

To order your *Ratios Volume* go to [www.printing.org](http://www.printing.org) or call 866-855-4283.

### Establish Your True Costs and Price More Competitively

Many printing companies do not know how to calculate their own budgeted hourly cost rates, so they use cost rates out of publications. These published rates do not reflect the company's own costs and can put them at risk by not recovering their costs, which can lead to financial loss; or by over-recovering costs, which can lead to noncompetitive pricing.

Some companies use spreadsheets to calculate their cost rates. However, spreadsheets are less flexible, are difficult to update, have a higher probability of cost rates calculation errors, and take a more of a person's time to create and maintain BHRs.

Printing Industries of America has partnered with Profectus to [\*\*offer members a 20% discount to their Cost Rates Advisor Budgeted Hourly Rates Software\*\*](#). This intuitive

platform will help you calculate your true budgeted hourly cost rates based on your organization's actual costs.

[Cost Rates Advisor](#) will benefit you as a PIA member by giving you a more accurate picture of your true costs so you can confidently and competitively price and cost jobs. It will help you eliminate pricing errors that can lead to lost work or lost profits, and improve estimates to make you more competitive and profitable.