



Benchmarking For the Australian Print, Packaging and Visual Communication Industry

Benchmarking Volume 1

Performance Indicators

THE DOCUMENT COMPANY
FUJI XEROX



HEIDELBERG

Acknowledgements

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Table of Contents

Foreword	iii
Introduction & Background	iv
Acknowledgements	vi
Executive Summary	vii
1. Overview of the Database – Structure and Contents	2
2. Aspects that Characterise the Financially Successful Companies	8
3. Analysis of Results, Implications and Advice for the Total Group of Enterprises	12
4. Analysis of Results for Book Producers Relative to the Total Group	39
5. Analysis of Results of Digital Producers Relative to the Total Group	51
6. Analysis of Results for Other Print Categories (by exception)	59
7. Where to from here?	72

Appendices

1. Overview of Benchmarking Methodology and Method Used	75
2. Glossary of Terms Used in this Report	76

Order Form

Benchmark to Profitability	79
PrintNet Benchmarking online	80
Key Performance Indicators	81

Report prepared by: Benchmarking PLUS in association with
Negotiaction Pty Ltd



Printing Industries Association of Australia Mission Statement

**To be the Catalyst for the prosperity of the Print,
Packaging and Visual Communication Industry**

Foreword

The implementation of the Printing Industries' Benchmarking Online Service marks a new strategic direction for the Association. Two years ago, we asked the industry what they needed to do business better. One of their highest priorities was benchmarking.

With assistance from the Commonwealth Government's EPICS Industry Infrastructure Growth Fund, we embarked upon this project, confident that we would be providing for the real needs of the industry. The enthusiastic response has confirmed our optimism. Over 250 companies applied to become part of the pilot project. To ensure accurate demographics, we filtered that number to 169.

The result has been an overwhelming success and, possibly, a world-first for the industry with the launch of PrintNet Benchmarking Online. It has also provided the industry with some thought-provoking results, as you will see from this report.

My thanks go to the sponsors who have helped us promote and publish this landmark initiative.

The encouragement we have received will see us expand and develop the Benchmarking Online Service to a world-class standard. We will publish Volume 2 (Process Benchmarks) towards the end of this year. This will complete the spectrum of Key Performance Indicators for the industry, allowing all who subscribe to the Service to accurately measure and improve their businesses.

All this is to ensure that the industry survives and grows. By improving the profitability of your business, we believe we are doing the right job for you.

Chris Segært
National President
Printing Industries Association of Australia



Introduction and Background

This is the report of the first stage of a major benchmarking study covering the Australian printing industry.

For many years it has been recognised that, in order to remain internationally competitive, the Australian printing industry must respond to significant shifts in customer demand, quantum advances in technology and major changes in the way business is done.

The nature of the structural flaws outlined in the Australian Printing Industry Benchmarking Report (1995-1996) imply that firms operating alone, with or without government assistance, are unlikely to have what it takes to address identified industry shortcomings.

Our study deals with an important element of positive change, the establishment of benchmarking material to provide well-defined information on performance standards and model templates for business processes including those that are operational in nature.

Given the transformation that is taking place within the Australian printing industry, it is understandable that enterprises operating within the industry are attempting to redefine the business approaches that are likely to bring them success. It is also understandable that these enterprises are increasingly searching for relevant, objective cues that will let them know whether or not they are on the right track and travelling well.

In the past, a search for current, objective and meaningful information typically led to frustration simply because until now this information did not exist. Indeed, PRINT21* recommended benchmarking to the Australian printing industry. The Australian Printing Industry Benchmarking Report (1995-1996) provided a useful base, and we have now built substantially on it by investigating and reporting on specific processes and specific metrics.

This benchmarking project will enable the firms within the industry to see:

- Where they stand relative to other like enterprises
- What options are available to them

* 'PRINT21' is the Printing Industries Action Agenda, a collaboration developed between the Commonwealth Government and *Printing Industries*, Graphic Arts Merchants Association of Australia, National Paper Council and Australian Paper. It has encompassed research on the state of the printing industry and as a result, some Business Diagnostic Tools have been developed. Further information can be gathered by visiting: www.printnet.com.au

- Which of these options are most attractive
- How they are going to get where they want to be

Categories covered in this project include:

- Prepress
- Commercial printing
- Book production
- Bookbinding and print finishing
- Web printing
- Digital printing
- Screen printing
- Label and tag manufacture
- Printed packaging
- Stationery and forms manufacture
- Magazines and newspapers
- Industrial products such as printed automobile dashboard fascias

Consultants ***Benchmarking PLUS*** and ***Negotiaction*** were appointed to carry out the project, under the guidance of the Printing Industries Association of Australia (*Printing Industries*) and a Reference Group comprising industry leaders in every major State and in each major sector of the printing industry.



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Executive Summary

Opportunities for all, rewards for a few?

The most significant conclusions of this report are the same as for most benchmarking projects we have conducted and are listed below:

1. Within any group of organisations that compare performance there are wide gaps between the better performers and the poorer performers. These may be partly explained by shortcomings in data quality, but the bulk of the performance differences are real.
2. Hence, if the reasons for the differences can be found and addressed there are gains to be made by all that make a commitment to enhancing performance, especially the poorer performers.
3. Even the best performers overall are not the best performers in every aspect that is being benchmarked. Hence, even for the better performers there are opportunities for improvement.

To some degree there are improvement opportunities for all 169 enterprises that provided usable data. For some enterprises the rewards will be greater than those attained by others. Of course, some of the improvement opportunities will be relatively more difficult to implement.

None of the opportunities will be taken without careful research, a positive approach to defining the opportunity, and persistent application during implementation. Unfortunately, if history is any guide it will be the enterprises that are already performing relatively well who will make the better job of it, thus preserving the gap between them and their lesser performing competitors in the industry. If so, this will not be due to luck or superior financial resources, but application of the approach just mentioned. This is possibly the type of approach that has made them the better performers in the first place!

Relative financial returns

For the total group

Taking the total group of 169 enterprises, the mid ranking enterprise in Return on Total Assets ("ROTA") makes a return of 5.1%. This is a poor return – about the same as the 10-year Commonwealth Bond Rate. However the best 10% of enterprises on this measure earn between three and four times the rate of return – a really significant difference and a very good return.

Similarly, the mid ranking enterprise in profit* margin on sales earns a margin of 3.5% – not a good margin for an enterprise with fixed capital investment in equipment to service. However once again, the best 10% of enterprises on this measure earn between three and four times the rate of return – a really significant difference and a much more acceptable margin.

For sub-groups

There are significant differences at the two extremes of performance (Best and Worst) between sub-groups of the total group of enterprises. Considering ROTA of the mid ranking enterprise:

	Sub-group	ROTA
Best	Web feed	16.4%
	Label & Tag	12.2%
	Heat-set Litho	11.0%
	Very large (web & sheet fed)	11.0%
	Book producers	8.1%
Worst	Digital	- 3.7%
	Small enterprises	- 11.0%

So to be small and digital is not good in the current climate, particularly if one accepts that a working owner of a small business should earn a salary for working before counting the return on the capital invested.

What factors or characteristics seem to drive superior financial returns?

From a sample of 17 enterprises (approx 10% of the total) selected on the basis of superior performance on a combination of:

- Return on Total Assets
- Profit Margins
- Profit Growth
- Sales Growth

the following emerges:

* Before interest, tax, and a common allowance of a salary for working members of sole traders, family businesses or small partnerships.

Comparative financial performance:

Performance Indicator	Superior performers	Total group
ROTA	19.7%	5.1%
ROTA growth index (Base 100 in year 2000)	104	85
Profit margins	11.7%	3.5%
Profit growth (2000 – 2002)	33%	5%
Sales growth (2000 – 2002)	17%	5%

Drivers of financial performance:

Printing machinery availability/ utilisation	42% (1.8 times the total group)	24%
Materials & services as % of sales	31.0%	39.4%
Sales per employee	\$167,704 (15% higher than total group)	\$146,118
Value added per employee	\$113,815 (30% higher than total group)	\$86,611
Training days per employee	3.0	1.0

Other practices:**Managing spoilage:**

- Around 60% of the superior performers measure spoilage separately from overs, versus 35% of the total group.
- Of the superior performers that measure spoilage separately, all of them measure it by operator or by crew, and make the results known to supervisors or operators.

Labour:

- Superior performers pay their people 11% more per person on average.
- But labour cost is 2.7% lower as a percentage of sales for superior performers.
- And value added per employee is 30% higher.

Machinery and equipment:

- Superior performers tend to write-off equipment faster but then are more likely to get rid of it when written off, not keep it. Even so equipment amortisation costs as a percentage of sales are lower for the superior performers.
- We conclude that they are more successful in keeping their equipment well utilised.
- They spend a greater percentage of the sales on repairs and maintenance, even though equipment appears generally to be newer.
- We conclude that they are careful to keep their equipment routinely in good order.

Organisational characteristics of the superior performers:

- Enterprises of all sizes are represented, but less likely to be medium or small enterprises.
- Superior performers are equally likely to be web or sheet fed.
- They are more likely to have a specialist product category such as folding cartons, label and tag, or industrial products.
- They could have just about any process technology.

Conclusions to be drawn

Superior performance is possible for any type of printing industry enterprise.

The gaps in financial returns (return on total assets, profit margins, growth in sales and profit) between the superior performers and the group as a whole are large, so the rewards for being a superior performer are considerable.

Superior performers universally show evidence that they manage their people effectively (as evidenced by training days per person per year, staff turnover, cost and value added per employee).

Superior performers also manage their productive capacity very effectively (as evidenced by the level of utilisation, costs per sales dollar, maintenance per sales dollar, level of attention to overs and spoilage, equipment write-off and retirement practices).

The chance of being a superior performer is higher if the enterprise has a speciality of some type (such as produce category or process technology). This may extend to the type of customer served but this is impossible to tell from the data gathered.

The chance of being a superior performer is also higher for a larger enterprise. However our conclusion here is that larger enterprises are represented more prominently because they are more likely to have professional management and hence display some of the characteristics that superior performers display. Also being a larger enterprise can be a natural outcome of being a successful smaller enterprise in earlier years. Hence, being small is no barrier, as such, to being a superior performer.



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Printing Industries Association of Australia



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