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The Business and Management Advisors

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Stu's View

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Profit Improvement: Secrets of the Profit Leaders

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How do you increase efficiency *and* profitability – in today's marketplace? Five key components are common among most profit leaders:

- Specialization
- Top-Down defined game plan
- Customer focused sales and marketing effort
- Ongoing commitment to a strong balance sheet and profits
- Careful investment in technological efficiencies

Specialization
Profit leaders know their company's sweet spot. They focus on specific knowledge and abilities and become an expert of their domain. Generally, profit leaders center on a particular printed product or process, and do it better than most or supply a customer service that can't be found elsewhere and do it better than most.

Top-Down Defined Game Plan
Profit leaders know where they are headed and their employees know they play an important role in getting there. Leaders clearly and consistently ensure all efforts support the firm's objectives. They have a strategic plan carefully developed by people who care and communicate their plans to their staff.

A Customer Focused Sales and Marketing Effort
From the game plan, management prepares a specifically-tailored sales plan and customer service protocols, with every facet of the organization supporting the company's strategic goal. Top management is committed to and participates in the marketing efforts. After all, there is no better salesperson that the leader of a company who combines industry knowledge with customer dedication.

Ongoing Commitment to a Strong Balance Sheet and Profits
Profit leaders know the value of maintaining a strong balance sheet. In a highly competitive industry, there is a clear link between maximizing efficiency and maximizing profit. A strong balance sheet lets you decide how to handle opportunities and weaknesses. Building a strong balance requires industry

leaders to constantly track performance against key industry indicators to ensure ongoing profitability. Some examples are below:

Key Profit Indicators

			2010 PIA Ratios	
Measurement	**Measures**	**Calculation**	**Average, All Firms**	**Profit Leaders**
Value Added (VA) per Factory Employee (1)	How much VA (2) a factory employee produces in a given year	Company Total VA / Total # factory employees	$128,000	$148,000
EBITDA (3) to Sales	Compares print co. value by assessing theoretical cash flow (4) by removing financial statement non-cash expenses and debt financing costs	Pre-tax Income + Net Interest Expense + Depreciation + Amortization / Sales	7.63%	15.12%
Return on Assets	Return on Investment (ROI) – The capital or assets used to produce income	Income before Interest Expense / Net Assets	5.20%	19.09%
Debt Service Coverage Ratio	Assesses the ratio of available cash flow to cover current debt payments (P&I)	EBITDA / Annual Debt Service (5)	Banks usually require a minimum of 1.2 to 1	

(1) Factory employees include direct, indirect, and supervisory employees, but exclude sales, marketing, administrative and executives.
(2) Value Added = Sales Less Material Costs (paper, plates, ink, outside services).
(3) EBITDA = Earnings Before Interest Taxes Depreciation and Amortization
(4) EBITDA is a measure of Cash Flow before debt payments. Its measure normalizes a co's abilities to pay debt and create investment return.
(5) EBITDA Ratio minimum required by banks today; you need $1.20 of EBITDA for every $1 of debt payment due.

Careful Investment in Technology Efficiencies

Profit leaders maintain a strong balance sheet while judiciously investing in technology and opportunities. When making an investment, they make sure that ROI projections are clear and achievable. Progress is monitored and adjustments made until profitability is achieved.

Stu's View is contributed by Stuart Margolis, CPA and Partner of MargolisBecker LLC to provide information that helps firms operate profitably. More information can be found at www.margolisbecker.com.

About MargolisBecker

MargolisBecker has long been recognized as the financial expert for the printing and allied graphic communications industry, assisting thousands of companies with strategic and financial management, valuation, mergers/acquisitions, accounting, audit and tax services. The firm is noted for its expertise in enabling printing companies to optimize profits. Proudly, it is the purveyor of the industry's *Cash is King*, and *Value-Added Principles of Management*, and compiles the annual Printing Industries of America Ratios, the industry's premier financial benchmarking tool.

About New Direction Partners

The team at New Direction Partners LLC has guided over 200 printing company owners through the sales and merger process. The advisory services reflect a full set of skills to help you sell or expand your business: valuation, management consulting, financial advisory and investment banking. The deep experience and industry expertise at New Direction makes it uniquely suited to serve printing, packaging and allied graphic arts businesses.