Connecting a “Comprehensive Strategic Approach” to Printing Firm Performance

Execution Tips from the October 2022 PIPI Study

PRINTING INDUSTRY
PERFORMANCE & INSIGHTS

October
2022

Providing regional printing association members a printing industry outlook view and actionable knowledge

MIDDLE TENNESSEE STATE UNIVERSITY

VISUAL MEDIA ALLIANCE

PIPI Connects a
"Comprehensive Strategic Approach"
to Printing Firm Performance:
Here are Execution Tips

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Printing firm leaders typically engage in multiple simultaneous tasks - sales, marketing, operations, human resources, and a myriad of necessary activities – so needless to say, their plates are full. Therefore, leaders must choose the management activities that are most effective in enhancing firm performance, those activities worthy of investing their valuable time.

In 2016, we began researching effective management practices in the printing industry. We looked at past research on how strategic planning affects firm performance. One would expect strategic planning to enhance firm performance. However, we were surprised to discover multiple studies finding an unclear relationship between strategic planning and firm performance. These surprising results prompted us to seek other management activities that, when applied with strategic planning, would positively impact firm performance. We found that when printing firm leaders plan strategically, set goals, and analyze financial ratios (those three together), they likely experience enhanced firm performance. We labeled this a *Comprehensive Strategic Approach* (CSA).

I have spoken at multiple industry events about CSA, which appears to resonate with printing firm leaders. Adding to the credibility of our study, it earned the *Best Paper of the Year* award in the *Journal of Small Business Strategy*. But in the context of a changing industry and a dynamic economic environment, is CSA still connected to firm performance? Also, are the findings from one study enough to make the CSA approach THE answer?

We decided to re-examine our original CSA findings in the October 2022 PIPI survey. And yes, we again found a positive relationship between applying a CSA (strategic planning, goal setting, and financial ratio analysis) and firm performance. Therefore, to help you effectively apply the three CSA elements, in this report we provide a plethora of execution tips, which are arranged in a simple bullet-point format below.

Our October 2022 survey also examined “budgeting” as a possible fourth CSA element. Surprisingly, we did not find a clear positive relationship between budgeting and firm performance. We also discuss those findings and provide budgeting execution tips.

Strategic Planning

- Strategic planning is not THE objective. Having a strategy IS the objective!
    - Engage in strategic planning to create a strategy.
    - A strategy identifies ways to win, satisfy existing customers, acquire new customers, and increase profitability.
- Strategic planning steps:
    - From a thirty-thousand-foot external view, assess your industry’s opportunities and threats. Also, continually analyze your competitors. Pay attention to trends, both inside the industry and beyond, and identify changes that your team should consider.

   - Candidly assess your firm's strengths and weaknesses related to its resources and capabilities, especially resources and capabilities that are related to your strategy.
   - Determine a mission: Who are our target customers? What unique value do we bring those customers? What are our core values and cultural elements?
   - Determine a vision: What does success look like in five years? Leadership is very much about the future.
   - Determine what resources and capabilities are necessary to provide the value stated in your mission. Develop a plan to acquire, develop, and enhance those required resources and capabilities.
   - Develop a marketing and sales plan to reach, connect, and engage with your targeted customers.
   - Understand that these planning steps are not one-time events – revisit them at least annually.
- Share your mission and vision with your entire team to ensure that everyone in the organization understands the non-negotiable points – "This is who we are!" and "That's what we do!"
- Understand the power of your organization's mission and vision. Recently, a former employee from about 25 years ago called and requested that I write a letter of recommendation. I almost teared up when she, without solicitation, quoted the mission of the first business I led.
- Think of your "mission" in more active terms, as opposed to "mission statement."
   - "Is it (the mission statement) useful for practical, day-to-day operations, or simply an archaic document that takes up space on the wall?"[1]
- A mission and vision embraced by your team will help your firm "stay in its lane." Without a mission and vision, business leaders tend to grab any "low-hanging fruit," which diverts attention from the true purpose.
- Put the mission/vision in writing and distribute it. Hold meetings to personally explain the mission/vision and its rationale. Create a memorable slogan or phrase that effectively expresses the mission/vision. Emphasize

[1] Mullane, J.V. (2002), "The mission statement is a strategic tool: when used properly" *Management Decision*.

the positive payoffs for making the mission/vision happen. Recognize employees who go above and beyond in meeting the mission and provide positive reinforcement.

- Assess your firm's values with these questions: What are our actual current values? What are our aspired values, ones that complement our strategy? How do we ingrain and reinforce our aspired values?

Goal Setting

- Financial goals are essential. But consider goals related to your mission.
    - Possible examples: number of prospects identified in your targeted customer groups, number of estimates submitted to your targeted customer groups, metrics related to the value you provide customers, or development or improvement of resources/capabilities related to the value you bring targeted customers.
- Set "SMART" goals
    - <u>S</u>pecific – Avoid general goals such as "our goal is to produce high-quality printing" or "our goal is to become a top service provider."
    - <u>M</u>easurable – Quantify your goals. Things that matter must be measured; otherwise, you can't know if and how your strategy is impacting them.
    - <u>A</u>chievable – Inspire your team with goals that require individual and organizational effort… but are doable!
    - <u>R</u>elevant – to the mission, vision, and strategy.
    - <u>T</u>ime-based – Set a goal for the goal to assess progress towards or achievement of each goal.
- Continue to share goal performance results, even when consistently meeting goals.
    - A critical value we brought our targeted customer group was "on-time delivery" – shipping on the day we promised. We shared our "on-time delivery" performance monthly with our entire employee team at shift change. Even after having achieved nearly 100% on-time delivery for multiple months, we continued to share those numbers monthly. That reinforced the value we were committed to providing our targeted customer group.

- Assess if you and your leadership team are genuinely committed to your goals.
    - An indicator of your commitment is sharing goals and results with your employees.
    - When sharing goals and ongoing goal-related performance, you are holding your employees, your leadership team, and yourself accountable to those goals – that's conviction!
- Consider Balanced Scorecard[2] goals
    - Goals related to better serving customers.
    - Goals related to manufacturing and quality.
    - Goals related to internal learning and development.
    - And, of course, financial goals.

Financial Ratio Analysis

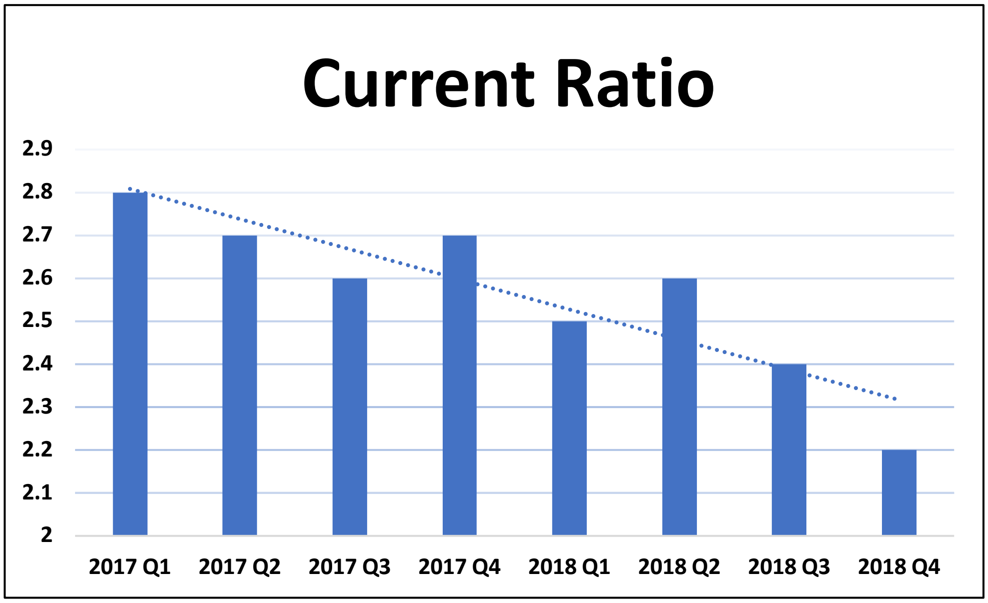
"Financial ratios" simply show the relationship between financial metrics, while "analysis" points to digging deep to find potential improvement possibilities. Interestingly, in the context of rich accounting software packages now available, research indicates that the proportion of small business leaders who analyze financial ratios has not grown in recent decades. Therefore, analyzing financial ratios could provide a potential competitive advantage.

Below, we share a few financial ratios and related points. We start with *liquidity ratios*, which reflect the firm's ability to pay its bills.

- Current Ratio = Current Assets / Current Liabilities
    - Current assets are those assets that will convert to cash within the next twelve months (the current accounting period), while current liabilities are those liabilities which will require cash within the next twelve months.
    - Looking at your current ratio (and all ratios) over time helps to spot and respond to potential problems before they arrive. The bar graph below, for instance, shows that the firm has a current ratio consistently over 2.0, which is generally considered a good number. However, it also shows a consistent downward trend that could

[2] Kaplan, R. S., & Norton, D. P. (2005). The balanced scorecard: measures that drive performance. Harvard Business Review.

suggest cash problems on the horizon. Trend analysis reveals the trajectory of company performance, allowing you to see both problems and opportunities before they surface.



- Quick Ratio = (Current Assets – Inventories) / Current Liabilities
    - Inventories are typically less liquid than other current assets. So, the quick ratio takes inventories out of current assets.
    - As paper inventories are growing, printing firm leaders may find quick ratios relevant and helpful.
- Working Capital = Current Assets – Current Liabilities
    - The business should have enough cash and near-cash reserves to cover its liabilities. Thus, working capital should ***ALWAYS*** be greater than zero. Anything less than zero indicates that the business is insolvent.

Next are profitability ratios, which reflect profit generated by assets or sales.

- Gross Profit Margin = (Net Sales – Cost of Goods Sold) / Sales
    - As your product mix evolves or fluctuates monthly, you may benefit from monitoring this ratio with a good idea of how much gross profit is needed to cover fixed costs.
- Operating Profit Margin = EBIT (Earnings before Interest and Taxes) / Sales
    - As levels of debt and taxation methodology varies among firms, EBIT is a good profit comparison tool.

- Net Profit Margin = Net Profit / Sales
  - This is the “bottom-line,” which is vital to making future investments and paying dividends.
- Return on Total Assets (ROA) = Net Profit / Average Total Assets
  - This percentage reflects the return on a firm’s investment in assets.
  - If your ROA is less than comparable firms, this might point to the need to reduce costs or diminish assets.

Efficiency Ratios indicate how well a venture uses its assets to produce revenue

- Sales-to-Total Assets Ratio = Revenue / Average Total Assets
  - This reflects the number of dollars sold for every dollar invested in assets.
  - If your sales-to-total assets is less than comparable firms, you may need to focus on increasing sales.

Cash conversion ratios indicate how efficiently firms convert various current assets into cash.

- Days in Inventory = Inventories / (Cost of Goods Sold / 365)
  - Fewer days in inventory is better.
  - View inventory as “cash on the shelves!”
  - As related to quick ratios discussed above, the increase among printing firms in paper inventory may make this ratio even more relevant.
- Days in accounts receivables… or …Average collection period = Receivables / (Credit Sales/365)
  - Lower days in accounts receivable, customers paying their bills quicker, is better.
  - I once visited a printing firm owner. He had his “game face” on and was very engaged in something. I asked, “what are you doing?” He said, “making collection calls to address our cash problem.” I asked, “what’s your total accounts receivable amount?” and calculated their days in accounts receivable, which was far lower than other printing companies. I then said, “collections are not THE source of your cash problem,” and that caught his attention. He was putting a band-aid

on the problem, while also potentially damaging valuable customer relationships!
    - A related metric is the days between shipping products and invoicing your customers. In the last company I led, we invoiced the day after shipping a product.
- Days in accounts payable = Accounts Payables / (Cost of Goods Sold / 365)
    - Number of days it takes to pay vendors; more days in accounts payable means more money in your checking account.
    - However, you must treat vendors fairly and as strategic partners, and you also must take advantage of early-pay on “on-time” discounts

From our upcoming January 2023 PIPI study, we will provide printing industry financial benchmarks for leaders to apply in evaluating and adjusting their firms. Of course, we will use “value-add” percentages. But we will also apply the financial ratios discussed above.

Budgeting

As mentioned above, we were surprised to find a weak relationship between budgeting and firm performance in our October 2022 PIPI survey data. One of my strategy co-authors proposed that strong, healthy companies may not actively budget as much as challenged firms. I bounced this thought by a regional printing association president, and he completely agreed.

I teach budgeting in my Entrepreneurial Financial Management class, and here are some interesting points those students shared:

- “By budgeting, you are building financial literacy and financial awareness!”
- “Budgeting helps you see a crisis coming!”
- “Budgeting test your strategic plan before you put it in place”

“Budgeting” has a bit of a negative connotation. Many see budgeting as restrictive. However, you might see “budgeting” as a planning tool, one for allocating resources. Budgeting helped us strategically plan and make decisions. Below, we share some basic tips related to budgeting.

- Budgeting includes these basic steps:
    - Forecasting revenue.

    - Forecasting a COGS (cost of goods sold) as a percentage of revenue.
    - Forecasting operating expenses, such as marketing/sales, general and administrative, and depreciation.
    - Calculating EBIT (Earnings before Interest and Taxes)
    - Forecasting interest and taxes.
    - Building a "proforma" income statement.
- Excel is a great tool for budgeting. Below is a simple example.

	2022 actual	2023 forecast		
Net Sales	$ 1,600,000	$ 1,904,000		
COGS	$ 960,000	$ 1,142,400	same % as 2016	
Gross Profit	$ 640,000	$ 761,600		
Marketing	$ 160,000	$ 170,000	increase by $10K	
General and Admin	$ 150,000	$ 150,000		
Depreciation	$ 55,000	$ 60,000	$5k more in deprecia	
EBIT	$ 275,000	$ 381,600		
Interest	$ 55,000	$ 55,000	fixed	
Earnings before taxes	$ 220,000	$ 326,600		
Income taxes	$ 88,000	$ 130,640	$88/$220 = 40% rate	
Net income	$ 132,000	$ 195,960		

Summary

Yes, we again clearly see that a comprehensive strategic approach – the uniquely integrated combination of strategic planning, goal setting, and financial analysis - enhances printing firm performance. That combination of management practices makes sense. Although we didn't find the same statistical connection between budgeting and firm performance, we also see merit in that management practice.

We shared above a bunch of tips for those four management practices. You might be familiar with a lot of the tips above. If so, the points above may simply serve as reminders. Not every tip above will fit every leadership team. Pick what might help your team the most. If your team is effectively using some of the points stated above, you might use this report as reinforcement. Consider making a rational decision about what points to apply and build a checklist for your leadership to cover annually.

We hope you find this material useful. Email Ralph Williams (ralph.williams@mtsu.edu) with any thoughts or suggestions about this report or future PIPI studies.

Participating Regional Printing Associations

FGA – Florida Graphic Alliance

GAA – Graphic Arts Association

GLGA – Great Lakes Graphics Association

GMA – Graphic Media Alliance

PGAMA – Printing and Graphics Association Mid-Atlantic

PIA – Printing Industries Alliance

PIAMA – Printing and Imaging Association MidAmerica

PIAS – Printing Industry Association of the South

PIASC – Printing Industry Association of Southern California

PIASD – Printing Industry Association of San Diego

PICA – Printing Industry of the Carolinas

PIMW – Printing Industry MidWest

PINE – Printing Industries of New England

PMA – Print Media Assoc.

VMA – Visual Media Alliance