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**ECONOMICS**  
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# FLASH REPORT

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*Checking your KPMs (Key Performance Metrics)*

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## Checking Your KPMs (Key Performance Metrics)

“To manage it you need to measure it” is a common dictate of effective management. Recently, more and more printers are focusing on this directive as they search for *Key Performance Metrics (KPMs)* to provide management oversight.

PIA’s *Center for Print Economics and Management* has investigated this issue and selected eight KPMs that we believe best represent superior performance in the printing industry based on historical analysis of PIA *Ratios*. Our eight KPMs are:

- Gross profit as a percentage of sales (sales minus total cost of product as a percentage of sales)
- Before tax profit as a percentage of sales (sales minus all expenses before income taxes as a percentage of sales)
- Before-tax profit per employee (full-time equivalent employees)
- Gross profit per factory employee (full-time equivalent factory employees)
- Sales per employee (full-time equivalent employees)
- Sales per factory employee (full-time equivalent factory employees)
- Value added per employee (full-time equivalent employees)
- Value added per factory employee (full-time equivalent factory employees)

Calculating your KPMs is the first step of a three step process of *how*, *why*, and *what* that printers need to know to improve their firm’s performance.



The typical metrics used for variance analysis (step two) that correlate with superior financial performance depend on the particular printer and their KPM scores. Creating an action plan (or step three) for improvement involves using both KPMs and variance analysis to help enact change

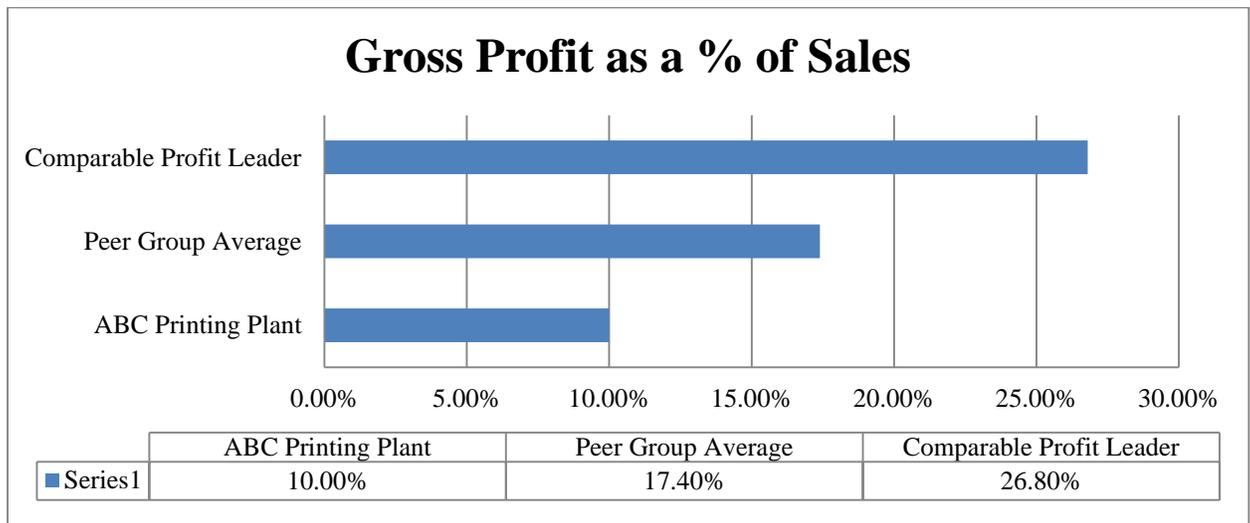
for the betterment of the business. The action plan provides specific recommendations such as reducing paper waste, reducing administrative or production headcounts, or adjusting pricing.

### A Typical KPM Evaluation

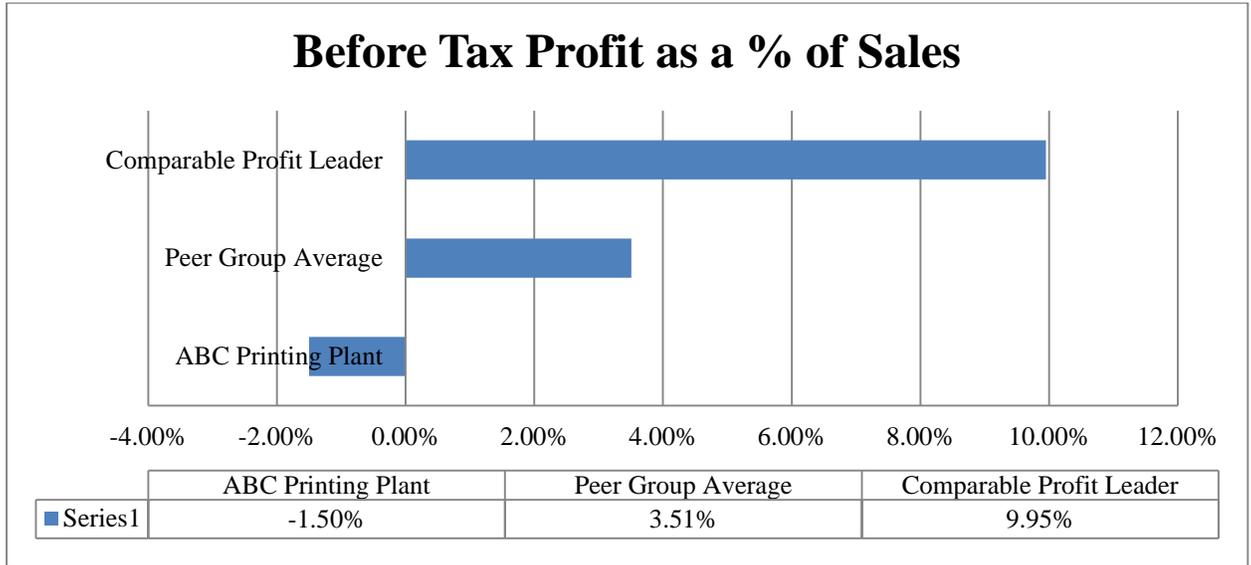
Now, let's examine how a typical printer might use our set of KPMs to understand how they stand up to competitors. For our representative firm, ABC Printing, there might be two similar groups of printing plants for comparison. These peer groups are similar in terms of size and process or printed product, and are from the *PIA Financial Ratios Database*.

ABC Printing's financial performance is below par compared to similar peer group printers and especially profit leading commercial and advertising printers in all eight of the Key Performance Metrics:

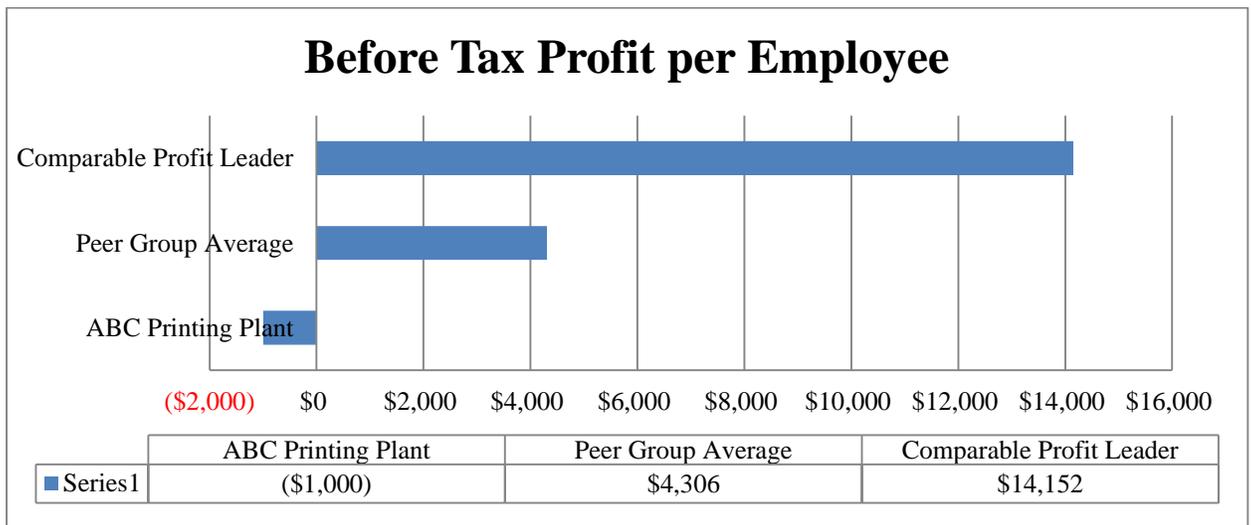
- ABC Printing's gross profit as a percentage of sales is less than half of the average for the peer group and about 75% below comparable profit leaders.



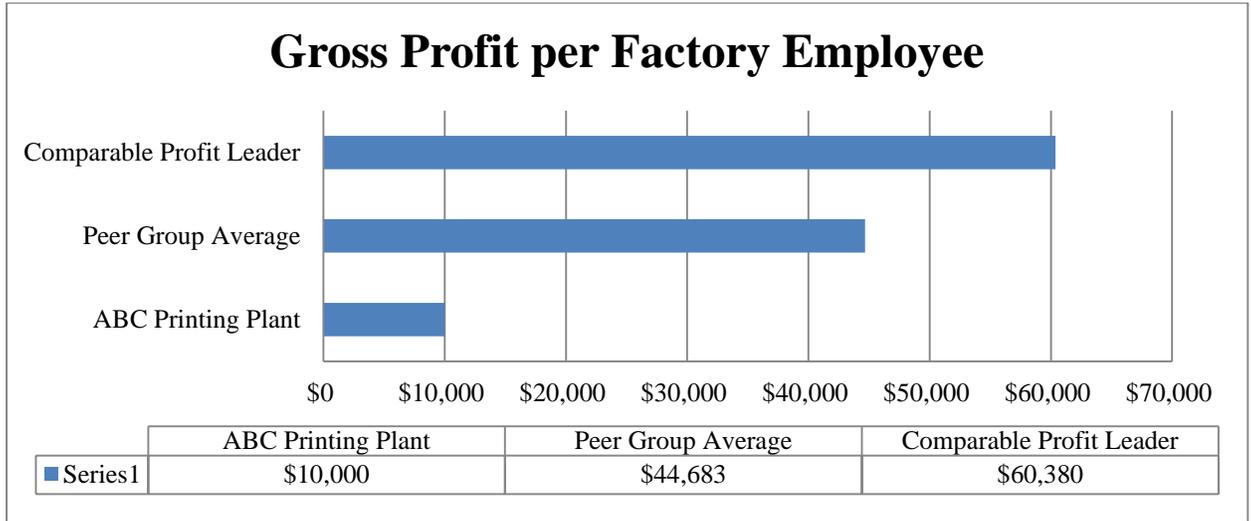
- ABC Printing's before-tax profit as a percentage of sales is almost 5% below the peer group average and over 11% below comparable printer profit leaders.



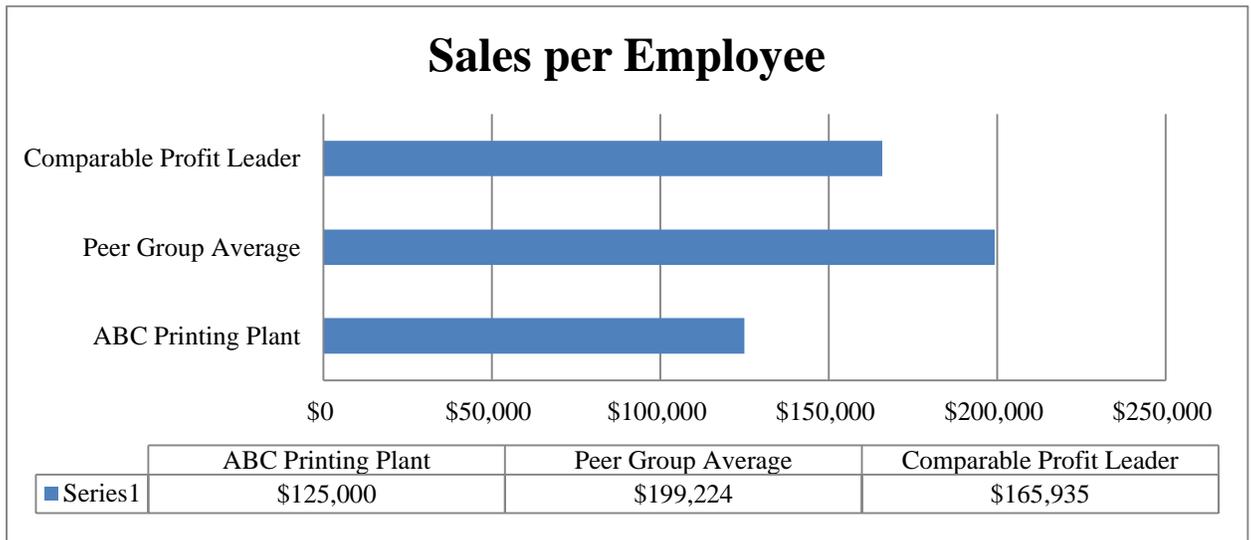
- ABC Printing’s before-tax profit per employee is actually a loss of \$1,000, significantly below the average of \$4,306 for the peer group and \$14,152 for comparable profit leaders.



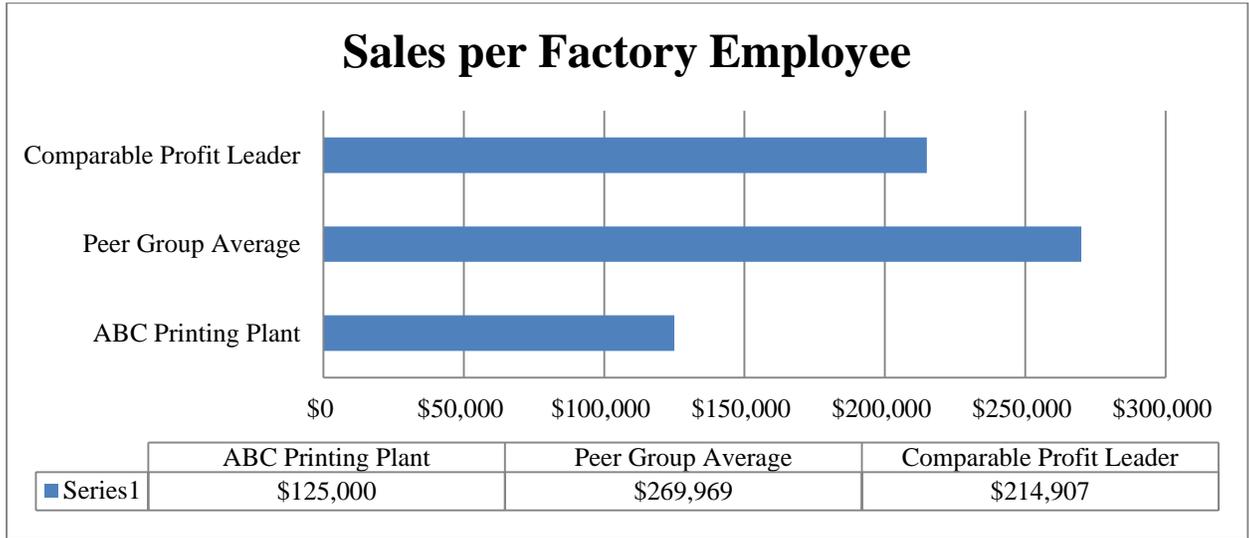
- ABC Printing’s gross profit per factory employee of \$10,000 is only about 25% of the peer group average (\$44,683) and less than 15% of comparable profit leaders (\$60,380).



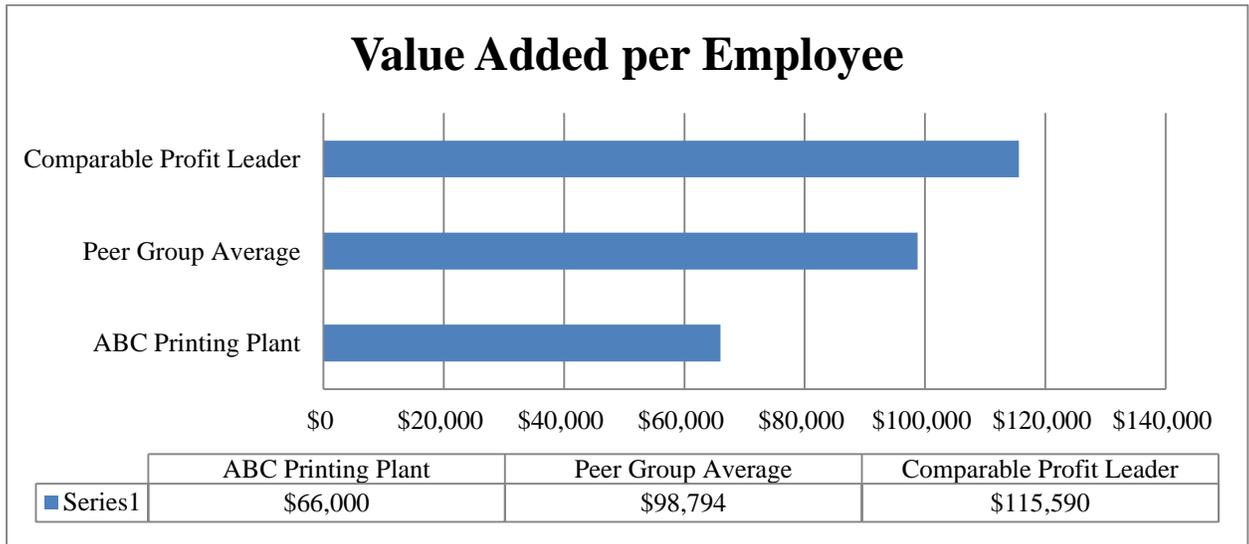
- The sales-per-employee metric at ABC Printing (\$125,000) is around 60% of the peer group average (\$199,224) and about 70% of comparable profit leading printers.



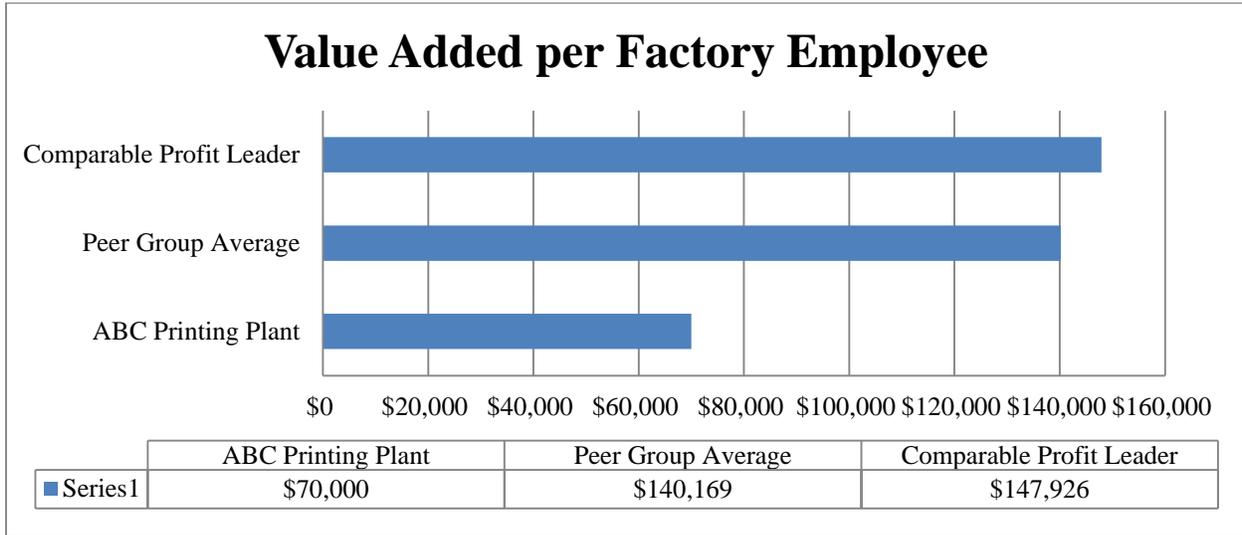
- The sales-per-factory-employee metric for ABC Printing is only around 50% of the peer group average and approximately 60% of comparable profit leaders.



- ABC Printing’s value added per employee is slightly more than 60% of the peer group average and a little more than 50% of the average comparable profit-leading printer.



- ABC Printing’s value added per factory employee metric (\$66,000) is 46% of the peer group average (\$140,169) and 43% of the average for comparable profit leaders (\$147,926).



## Enacting Change

Once the KPM analysis is completed the next step is the variance analysis. As mentioned earlier, typical metrics used for variance analysis depend on the particular printer and their KPM scores. These are highly variable from one printer to the next.

Creating an action plan (or step three) for improvement involves using both KPMs and variance analysis to help enact change to propel the business forward. A good action plan not only shines light on strengths and weaknesses but also provides specific recommendations such as reducing paper waste, reducing administrative or production headcounts, or adjusting pricing. Be forewarned; this level of attention to detail takes a great deal of preparation, analysis, and time.

Fortunately, PIA’s *Center for Print Economics and Management* has developed a process for members to obtain a customized action plan to improve their bottom-line performance—a *Financial Performance Analysis*. The key features of the new *Financial Performance Assessment* include:

- A detailed comparison and analysis of the printer’s key performance metrics with profit-leading firms that are similar in size, business models, and printing processes.
- A comprehensive variance analysis examining the underlying reasons for performance issues.
- An action plan with recommendations for specific strategic management practices and operational improvements, such as lowering costs, saving resources, changing prices, and other actions to stop losses and increase sales and profits.

- The findings are presented in both a detailed report to management plus a web-based presentation to the printer's management team.
- On-going assistance and consultation as needed to help in implementation of the action plan.

### **Your Own *Financial Performance Analysis***

To participate in an assessment companies need only to complete a confidential questionnaire on their current financials. The assessment report is delivered within three weeks. This new *Financial Performance Assessment* is a quick, affordable, and useful way for printers to promptly determine their strengths and weaknesses and get a template for improved performance. Since the average difference between a profit-leading printer and the average printer is around 10% of sales or \$100,000 per million dollars in annual sales. The *Financial Performance Assessment* can help printers bridge this gap and pay for it many times over.

To see a full sample *Financial Performance Assessment* [click here](#). If you would like to discuss a *Financial Performance Assessment* for your firm contact Dr. Ron Davis at 434-591-0527 or [rdavis@printing.org](mailto:rdavis@printing.org).