

LARRY HUNT'S HIGH SPEED COPY NEWS

HIGH SPEED COPYING INDUSTRY UPDATE • VOL. 18, NO. 4 • APRIL 2009

Enclosed with this newsletter ... is a Special Report entitled "Profitable Hiring in Unprofitable Times". This report was written by Debra Thompson, who is very highly regarded in our industry in the area of Human Resources. Her recently published book, "No More Rotten Eggs – 13 Steps to Hiring Grade AA Talent" is a must read for owners & managers in our industry.

In the enclosed report, Debra offers some excellent ideas on how companies can use these tough times to improve the quality of their work force. I think you'll find this information very helpful in working through this recession.

Following are some price quotes ... received this month on various copiers:

1. Demo Konica Minolta bizhub 1050e

(Includes: ADF, Internal Fiery Rip, multi-folding & punch unit, stapler finisher, saddle stitch finisher and paper feed unit)

Net Price (No trade-in) \$45,200

Service & supplies (100,000 minimum) \$.0045 ea.

11" x 17" copies billed as one click

Service pricing frozen for five years.

Editor comments: Based on the accessories shown, the price on this 105 copy-per-minute Demo model is reasonable when compared to past quotes on new units. The deal was improved by an additional \$3,500 based on the lease rate used. It was well below the typical rate of a \$1.00 buyout lease.

While the service rate of \$.0045 would normally be somewhat high, since it is frozen for five years, it is equivalent to \$.0041 if not frozen. That rate is in line.

2. New Xerox 4112 Copier/printer with RIP

(Includes: External Fiery Rip and analyst services)

Net Price (No trade-in) \$37,000

Service and supplies: (200,000 minimum) \$.005 ea.

Overage \$.0039 ea.

11" x 17" copies billed as one click

Editor comments: This equipment price is about \$2,000 higher than some recent quotes on this 110 cpm

model, when compared on an apples to apples basis. The service pricing is the Xerox standard.

The minimum copy commitment ... topic from last month brought a response from a printer who wrote: "We use Xerox copiers and are required to have a minimum copy commitment in order to get a good service rate. While we haven't been able to get them to drop the minimum monthly commitment, we were able to get them to total up the minimum for a three-month period. This allows us to have monthly fluctuations in our volume and still meet our minimums. With some effort, you can even get them to use a six month total for the minimum."

Buying out an existing lease ... was covered in a reader inquiry. He e-mailed: "We're being quoted on a new copier and the vendor indicated that he will give us a check for \$15,000 to pay off the balance on our existing lease (18 months remaining on our 48 month lease). This \$15,000 additional discount seems to make the deal too good to pass up. I have two questions. Is it common to get this type of offer and what do you think of this rebate check?"

Editor comments: The most critical thing to know about the above situation is: The so-called \$15,000 rebate check is NOT a rebate check. It is simply a LOAN that will be added to the cost of the new copier. It will be included in the new lease payments.

As long as the buyer has good credit, the vendor is happy to sell a new machine and lend the buyer some money to pay off the existing machine. I see this practice quite frequently and virtually every time, the amount of the rebate check can be found in the new lease payment.

It is rarely a good idea to upgrade to new equipment when there is still 18 months owed on the existing machine. But buyers can be lulled into thinking it is OK if they don't have to worry about the existing payments. Don't be fooled by this sales tactic.

While the recession is having ... a significant negative impact on many industries, it doesn't appear to be hurting quick printing as badly as some others. This is according to the latest Quick Print Pulse survey conducted recently by NAQP.

The 90+ respondents to this survey are predicting that 2009 sales will be down about 1%. Average sales volume was \$1,162,612 and Sales Per Employee was \$123,126.

When asked which production areas might see sales gains or losses in 2009, the two areas predicted to do the best were Offset Printing and Color Digital Sales. Each of these areas was predicted to grow by about 5%. On the loss side, B&W copying was expected to have a slight decline of about .5%.

Some interesting results came when the participants were asked about their intentions regarding hiring and terminating employees during 2009. The results were broken down by profitability of the respondents. Here are the findings:

Options/Choices	Top	Bottom
	40%	40%
Very likely to terminate one or more employees	10.9%	17.9%
Possible but not currently under consideration	26.7%	35.9%
We don't foresee terminating employees in 2009	36.7%	41.1%
It is likely that we will add employees in 2009	16.7%	5.1%

As you can see in the first column, the profitable companies are more likely (16.7% vs. 10.9%) to hire employees in 2009 than terminate. Since these firms are making good profits, they appear to be in a financial position to do extra marketing or make other business decisions that will help them grow during this recession.

On the flip side, the Bottom 40% are struggling to make profits and many of this group are probably losing money. It's not surprising to see that a larger percentage of them are planning to terminate at least one employee. The surprise is that this 17.9% number is not larger.

When asked about concerns with the economy, participants gave the following replies:

Economic Concerns

Very concerned and pessimistic	20.2%
Moderately concerned & pessimistic	28.1%
Mildly concerned, but confident economy will rebound in 12 to 18 months	48.3%
Optimistic that economy will rebound	3.4%

I hope you have found this information helpful. If you're coping well with this recession, keep up the great work. This should be a wonderful opportunity to prepare your company for the growth that should come when the recession ends.

If you're struggling with declining sales and profits, you need to work extra hard to get your costs in line with your lower sales level. If you can keep the profit percentage reasonably close to where it had been, then you should be OK once the recession ends and things start to improve again.

Some weaker companies will not survive and their business will go to those who remain after the recession ends. You need to be one of those companies.

Reducing staff ... was covered as part of last month's Special Report. In response, a reader wrote: "In your scenario of sales volume dropping 10% in a two-year period, you suggest that this firm should probably reduce staff by one employee. But, how do I know that sales are going to decline until the period is over? And, if they do decline, how can I go back and retroactively fire an employee to make up for the shortfall?"

My sales are up one month and down the next. I don't know how one year will compare to the next until it is over. In the last 10 years, we have averaged about an 8% annual growth. But, we are down for the last three months, but not last month. When do you fire someone?"

Editor comments: I certainly can understand the frustration of this reader. And I am certainly not suggesting that anyone reduce staff simply because of a fluctuation in monthly sales. But, sometimes there are clear signs that sales have declined and they are not coming back any time soon. Here are two examples:

1. A company is doing \$1,000,000 per year and they have two good accounts that are doing about \$150,000 each. Overall sales have been growing at about 5% per year for the past 5 years. During the past 6 months, they lost one of these accounts. This company went bankrupt. Even if normal sales grow by 5%, this would only bring them back to \$892,500 for the next 12 months (\$1,000,000 minus \$150,000 + \$42,500 growth on the \$850,000). This company should probably reduce staff by about 10% or so.

2. Sales volume had been flat for 2006 and 2007, but then declined by 3% in 2008. So far in 2009, sales are declining at about a 4% pace. A review of their 50 largest customers shows that most of them are still with this printer, but purchases are down by 5%. Unless this printing company can figure out a way to get sales growing again very soon, they probably need to look at reducing staff.

The reader's situation does not seem to fit either of these scenarios. He has been growing by 8% per year and so is probably doing many things very right. I would suggest that he is probably not a candidate for reducing payroll. Even if he went through a two or three-year period where sales declined by 2 or 3% per year, he could probably weather that storm because his sales would probably start growing again as soon as this recession ended. While I think he can wait it out, many printers will NOT have that luxury. If they try to wait it out, they will GO OUT of BUSINESS.

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SPECIAL REPORT

Larry Hunt's High Speed Copy News

APRIL 2009

Profitable Hiring in Unprofitable Times

Debra Thompson

These are really tough times. Sales are down. Your customers are disappearing. Those that are left are changing their ordering habits. They are ordering less or delaying delivery for a better time. The net effect is that profits are down and Sales Per Employee (SPE) is down also and as a result payroll as a percent of sales is up and increasing. In businesses in all industries, the usual solution is a layoff. If you do that, you will get some short-term benefits in payroll costs and SPE. Frankly, however, that will do little to improve the one area that needs real help and that is your decreasing sales. Letting the people go is a sign of surrender.

Graphics industry business forecasts point to the continuing contraction of the industry and an overall reduction in sales. But during every natural disaster, there are those isolated homes that survive the onslaught of wind or rain or fire. So it is in business. Many graphics businesses are growing and increasing their sales in the face of the general downturn. Those are the companies that did not go into survival mode. Companies that went into survival mode focused on buying time for themselves by using their current business methods, equipment, and ideas. They did not have the vision of the future to get them out of "survival-only thinking". If you are not doing well, then you need to restructure your print business and get out of survival mode as quickly as possible.

For those of you who are seeking growth and doing what it takes to do well, I have a suggestion: This is a great time to improve the quality of your staff. There are qualified candidates either already on the streets or very nervous about the prospects of the company they are currently with and are looking for a new stable opportunity. I really love the book, *Good to Great*, by Jim Collins. I love the analogy between a bus and a business and the need to define where the bus is going and what seats you need on the bus. The bus driver's job is to get the right people on the bus and to get the wrong people off the bus. Even more important: Get the right people in the right seats. Examine your staff and see whether you have the level of commitment and engagement that you need in order to succeed. If not, then take advantage of this chance to upgrade the quality of your workforce. It will pay off in increased productivity and profitability.

As you define your bus for the future, you might consider the words of Dr. Joe Webb in an article that appeared in Whattheythink.com on February 25, 2009.

"The printing industry will be vastly different after the recession ends than it was going into it. This industry always changes, especially in recessions."

"First, it is print process agnostic. That is, it reflects the growing perception among buyers that selection of the print process is no longer critical except in process-exclusive situations. Offset or digital, buyers will consider the selected process as meaningless in their overall decision.

"Second, print buyers buy an outcome, the effects of using the printed goods, not the printed goods themselves. No one engages in an economic transaction unless they consider the benefits to be greater than their costs. Buyers have a desired result in mind when they finally choose to use print.

"Third, post recession print businesses have a seamless integration of information technology workflow, both administratively and for production, from the beginning to the end of their entire business process, before the job is created and after the job is done."

If you have anticipated his advice and are doing well in this recession, focus your planning on continuing your success. Share the good news with your employees. Let them know that the company is doing well. If you are silent on the company's good fortunes, they may become nervous and jump to another company when the opportunity arises. Make retention a priority. While it is beneficial to replace poor performers with Grade AA talent, it is counterproductive to lose the top performers that you have.

Keep morale steady by communicating with your employees and speaking honestly about the challenges the company is facing; do a skills analysis and tap into unused resources that allow employees to add to the bottom line and enable the company to achieve its goals; project the duration of the downturn for your organization based on the business plan, and plan cost cutting in incremental stages, rather than one abrupt change, to reflect the duration of the downturn.

Take the opportunity to train. In many companies, the first reaction to financial difficulties is to eliminate training. Increase the skill levels of your people and prepare them for the inevitable recovery. Show you are confident in your people and that you are planning for the future. Provide leadership and management training and raise the overall competency of your entire staff.

If you find it necessary to cut salaries or benefits, get some feedback from your employees on what is most valuable to them. It is important that you ensure any cost cutting measures do more good than harm. It is also important to communicate clearly the reason for changes clearly and openly. Recognize that stress about the future has health implications. Find ways to emphasize wellness to help keep morale and productivity up.

If you do have to make layoff decisions, use a reasoned process that analyzes the value of the employees. Keeping lower salaried personnel instead of talented personnel may doom the company to a death spiral. Make sure that any cuts do not eliminate the resources that the employees need to do their jobs; that they get the encouragement and support of supervisors and that reward and recognition continues even if in a non-financial manner.

Bottom Line:

Successful companies spend a lot of time on communication - keeping their people informed and in the loop. They hold regular meetings to let the people know what is going on. They acknowledge the stress that is undeniably present. Never tell employees that everything will be "business as usual." The reality is change is occurring. It is a fact that apprehensive employees are not as productive because of lower morale. So keep up the communication and pay attention to rewards for good performance. Communication is always important but in this time and condition it is more important than ever.

When you conduct a layoff, be straightforward about the reasons for the layoff. Be supportive. Encourage the employee to think of this as an opportunity to find something better suited to their skills. Describe benefits such as severance pay, COBRA insurance, and outplacement services that are available. Treat those employees who are negatively impacted with dignity, respect and support. It is the right thing to do and it is an effective way of showing those who survive what kind of company they are working for.

*Debra Thompson is President of TG & Associates, a consulting firm, specializing in Human Resources specifically for the Graphics Industry. She and her partner, Bill Greif, offer Customized Recruiting Services and provide specialized tests and assessments for hiring, developing and retaining top performers. Their newest book, **No More Rotten Eggs – 13 Steps to Hiring Grade AA Talent**, has won numerous awards in Business Book Competitions. Visit Debra's website at www.TGAssociates.com or call toll free: 877-842-7762.*