Semper International Fourth Quarter 2014 Industry Insight Survey

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Semper International: Fourth Quarter 2014 Industry Insight Survey

Heading into the 4th Quarter: Stunning Improvements amid Some Market Unrest

"In the 12 years we have been conducting our survey, we have never before seen ZERO respondents who are reducing staff." – Semper International Fourth Quarter Economic Insight Survey

As we launch into the final quarter of the year, our 12th annual survey shows that printers had an exceptional third quarter, with top companies showing marked improvements in both sales and profitability.

However, recent macro indicators have tempered our excitement, leaving us wondering whether we are on the cusp of a full-fledged recovery, or if the markets have a bit more bad news in store for us before they return to their pre-recession strength.

Amid all our strong data, our report launch coincides with a full 10% drop in the NASDAQ off its 52-week high. Other telltale signals of economic softening include dropping consumer confidence data, a $20-per-barrel fall in oil prices from recent highs and strong concerns that the economic malaise plaguing Asia and Europe will travel across the pond.

Despite this unsettled climate, we found extremely positive outlooks regarding spending and hiring from our responding companies. These numbers suggest that while some firms witnessed a September slowdown, this will be a soft spot and not a contraction.

In all the years we have been conducting our survey, we have never before seen zero respondents reducing staff. Profitability also came in strong, hitting a survey-high of 86%. Finally, our responding companies reported improved revenue growth for each of the past three quarters.

Overall, the print industry looks pretty positive right now, highlighted by some more exciting numbers:

- Companies reported a stunning 20-percentage point increase in quarter/quarter revenue growth
- Profitability is the strongest it's been since the second quarter of 2006
- Firms plan bumps in hiring, with a sharp decrease in respondents who plan to reduce their staff
- Sales expectations remain high, around 2/3 of responding companies expecting increased sales in each of the last three quarters

A few worrisome signals do remain on the horizon. While September is often the busiest month of the year, our questions on recent sales and sales projections showed that many companies have adopted a wait-and-see attitude, with most expecting the same sales volume this quarter versus expecting further growth.

We will also watch capital equipment investment and the continued skilled-labor shortage. As companies get busier, these factors will lead to an increase in overtime use, and potentially an inability to meet client demand, as demand begins to outpace firms' capacities to fill those needs.

Clearly this past quarter was spectacular. What remains to be seen is whether macro-level pressures, such as the end of Fed-supported Quantitative Easing and the economic market instability in Asia and Europe will create an ensuing negative drop through the end of the year.

Executive Summary: 14 Key Insights from the Second Quarter Survey

If last quarter we were witnessing an industry on the cusp of change, the past three months also clearly show that the printing industry has undergone an abrupt shift. A 90% increase in company profiles, strong sales expectations and a survey-first zero layoffs all spell improved economic health among our responding companies and a new competitive labor market.

Here are 14 critical insights revealed in our survey data:

Part I: Dollars and Cents

- Insight 1: Quarterly Revenues Rose Again – Reaching 55%
- Insight 2: Nearly 90% of Companies Reported Positive Profits
- Insight 3: Two-Week Sales Rebound, Though not as Much as We'd Expect
- Insight 4: Over 64% of Companies Expect Strong Sales Growth to Continue

Part II: Competitive Threats and Company Responses

- Insight 5: Costs and Technology Threats Growing as the Economy Recedes
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Part IV: Demographics

Let's get to the numbers.

I. Dollars and Cents

The first set of questions focuses on where the rubber meets the road: sales, revenue and profit.

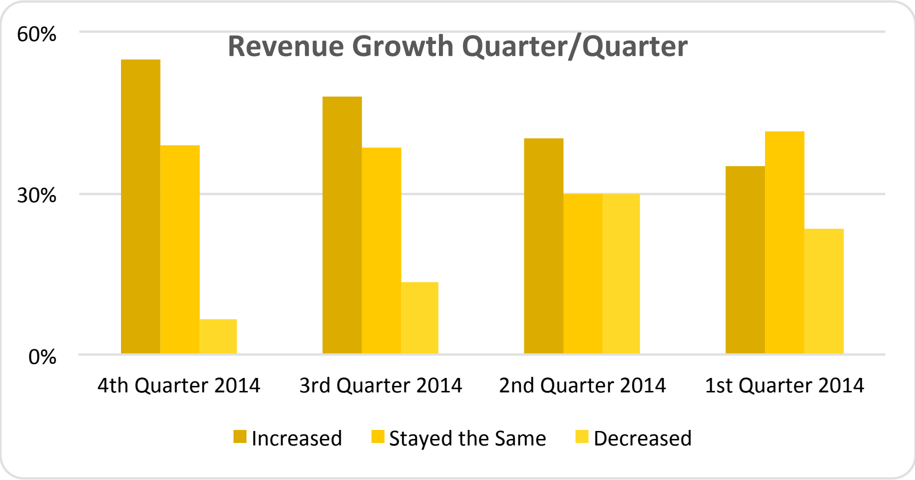
Insight 1: Quarterly Revenues Rose Again – Reaching 55%

One of the strongest signs of printing's economic recovery lies in the third quarter revenue data, which continues to show steady improvement throughout the year.

This quarter, revenue tops out above the .500 mark (for you baseball fans) to 55%, a 20-percenage point rise from the 35% firm's reported in our first quarter survey. After a long fight, it is gratifying to see sustained revenue improvement for so many of our responding companies.

This uptick indicates that many macro factors, including revitalized consumer spending and the Federal Reserve's unlimited Quantitative Easing (QE) efforts making it easier for companies to access capital, have finally consolidated into strong bottom-line success.

As a caveat, we are carefully watching the impact that recent economic unrest may have for the end of the year. While we are encouraged by the positive responses, if the unsettled markets impact holiday spending or the international economy remains on the rocks, we may see some of these dramatic improvements backtrack a bit before settling into a sustainable growth pattern.



Question: How does this [your revenue] compare to last quarter?

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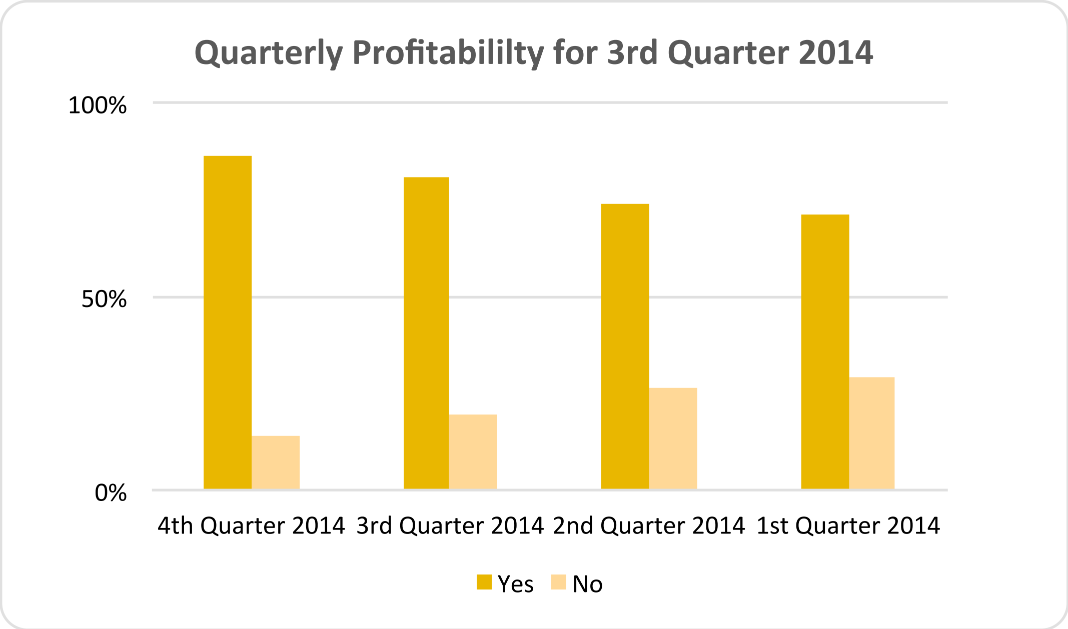
Insight 2: Nearly 90% of Companies Reported Positive Profits

Company profitability set a report record for the second quarter in a row, continuing their steady march upward to the 86% profitability mark – a 5 point improvement over last quarter's record high, and a 21 point improvement since the first quarter of the year. For those keeping track, that means that both overall revenues and firms' reported profits rose over 20 percentage points in just nine months.

This data is clearly positive, though we still see some evidence that firms are loath to start dancing in the streets quite yet. Our data shows that companies are currently taking advantage of the demand increase and rebuilding balance sheets, rather than taking these profits and re-investing in hiring or new capital investments.



Question: Did your company have a profitable first quarter 2014?

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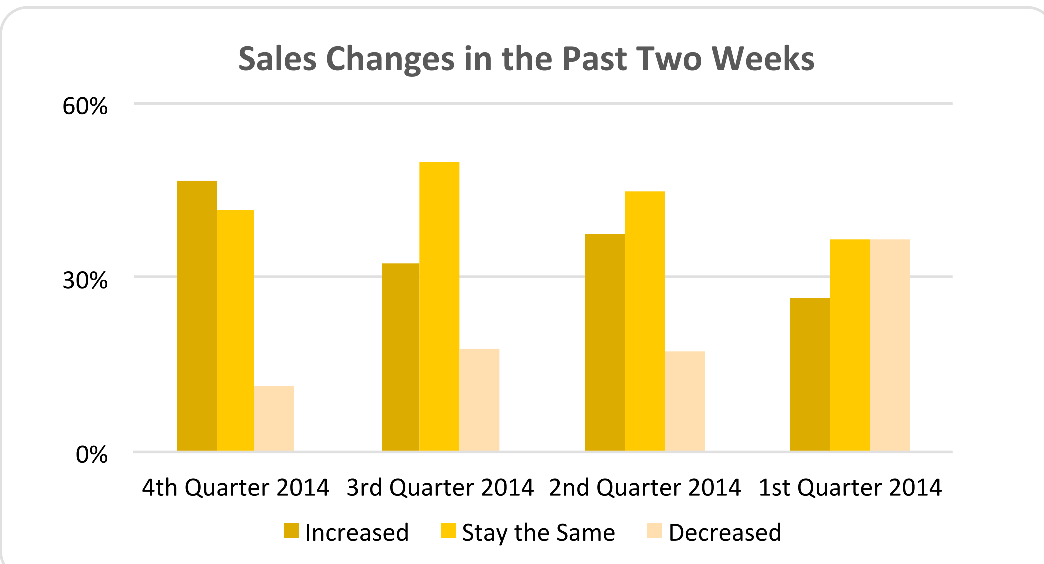
Insight 3: Two-Week Sales Rebound, Though not as Much as We Might Expect

An interesting statistic among all our positive news is our question on sales changes in the past two weeks. With the fall busy season upon us, and 20+ percentage point increases in both revenue and profitability, we would expect sales improvements to show similar increases.

However, while the 47% of companies reporting sales increases in the past two weeks is clearly a positive signal - and a 15 point improvement over the past quarter – it still raises a bit of a red flag.

As we mentioned previously, this is the 12th year we have been conducting this survey. Generally, business cycles, the election season, and holiday product prep all combine to make fall one of the busiest times of year for our core printing audiences. As such, we would expect to see a much higher two-week sales increase at this time. Instead, we see over 50% of companies reporting that sales remained the same.

At this time, it may be difficult to specifically attribute this cause. Perhaps the previous months' sales increases have hit their current growth ceiling, or stock market and oil corrections coupled with the coming elections have caused a slight pause in sales growth. Regardless, with new Fed changes on the way, we will continue to watch our sales numbers to see if the positive growth remains strong through the end of the year.



Question: How have sales changed in the last 2 weeks?

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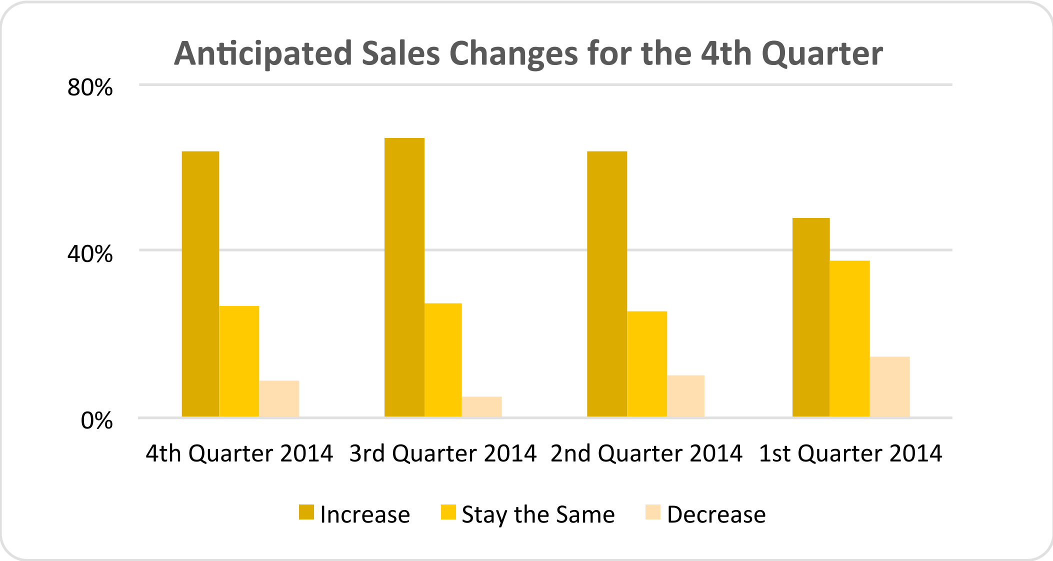
Insight 4: Over 64% of Companies Expect Strong Sales Growth to Continue

Positive sales sentiment continues into the fourth quarter, with 64% of companies in our survey expecting sales to grow this quarter, and nearly another one-third expecting sales rates to level off after several months of growth. Clearly our respondents are expecting strong demand to continue, and we hope it does!

One minor dent in our positive message is the slight uptick in companies expecting sales to decrease this quarter, up four points to 9% after the 5% low in our previous report. While this still means that less than 10% of companies are bearish on their new sales success, it does indicate some awareness of economic uncertainty in the air. We will have to wait for our year-end numbers to see whether this is a signal of leftover economic PTSD among company leaders, or if the economy may correct once more.



Question: How do you expect sales to change during the second quarter of 2014?

II. Competitive Threats and Company Responses

These questions relate to outside threats and pressures.

Insight 5: Technology and Equipment Upgrade Costs Gain Traction as Competitive Threats

As it has since the beginning of 2006, the uncertain economy still holds top billing as the industry's leading competitive threat, with 35% of print companies reporting this continued concern. In fact, this quarter saw a ten-point uptick in firms feeling economic pressures from last quarter's low.

With firms getting busier, increased overtime and rising technology costs are also hitting bottom lines. Specifically, operating costs showcased a 70% rise as a major threat – up to 17% percent again this quarter – matching our second quarter data.

We expect the labor component of costs to skyrocket, particularly as lean operations have led companies not to invest in attracting high-quality entrants into the industry over the past several years – meaning we have some catching up to do as the competition for top talent heats up.

We asked Semper President (and PGSF Past President) Brian Regan to add some insight into this trend. According to Brian, "With respect to our skilled talent issues – it is an undeniable issue and a topic we discuss often.

"The reality is, we are not training enough new people in our skilled-production workers area. At the same time, too many currently skilled workers are either leaving the industry due to retirement or getting poached by other industries. This, of course, creates a skilled-labor shortage in certain key positions within the industry, specifically Digital Press Operators, Skilled Bindery Operators, Stitchers, Cutters and Folders.

"We all know, when people need something, and there is a limited supply of that thing, the price of that needed item increases. In this case, we expect to see hourly wages in key production jobs increase as companies compete for a dwindling skilled-talent supply."

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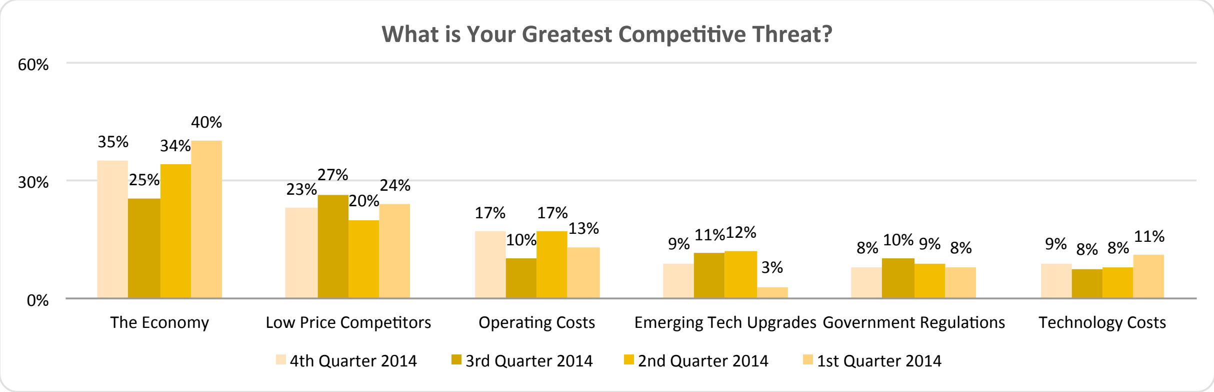


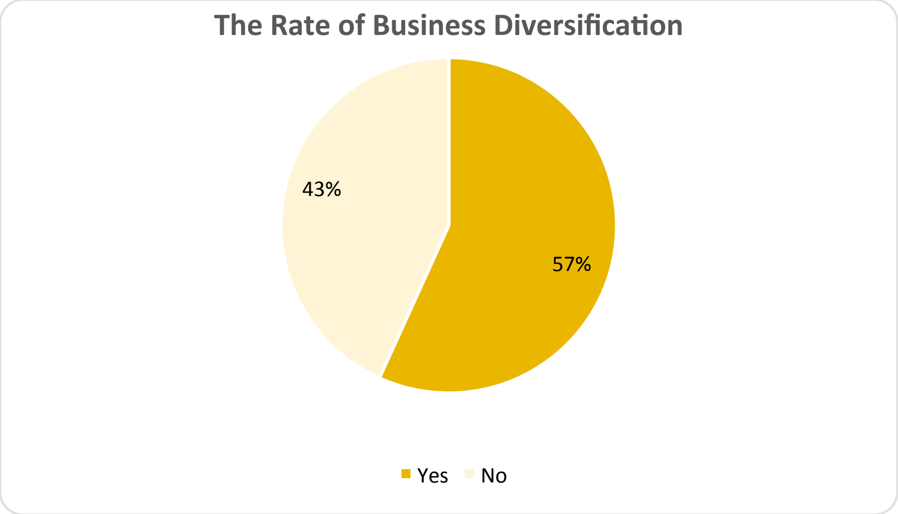
Question: What is your greatest competitive threat?

Insight 6: The Rate of Business Diversification Is Picking Up

After a relatively stable 50/50 split in business diversification rates for the first half of the year, we witnessed a 5-point uptick in the rate of business diversification to 57% this quarter.

As we mentioned last quarter, diversifying out of your traditional areas of expertise is critical in positioning your firm for long-term success. Consider natural extensions of your existing comfort zones; for example, adding an online element to your existing graphic design efforts, or exploring variable databases to supplement your traditional direct-mail approaches.

For more insight on ways that companies are diversifying their staff and driving more margin, you can read our new book on Techcreative staffing at www.techcreative.com.



Question: Are you currently diversifying your business?

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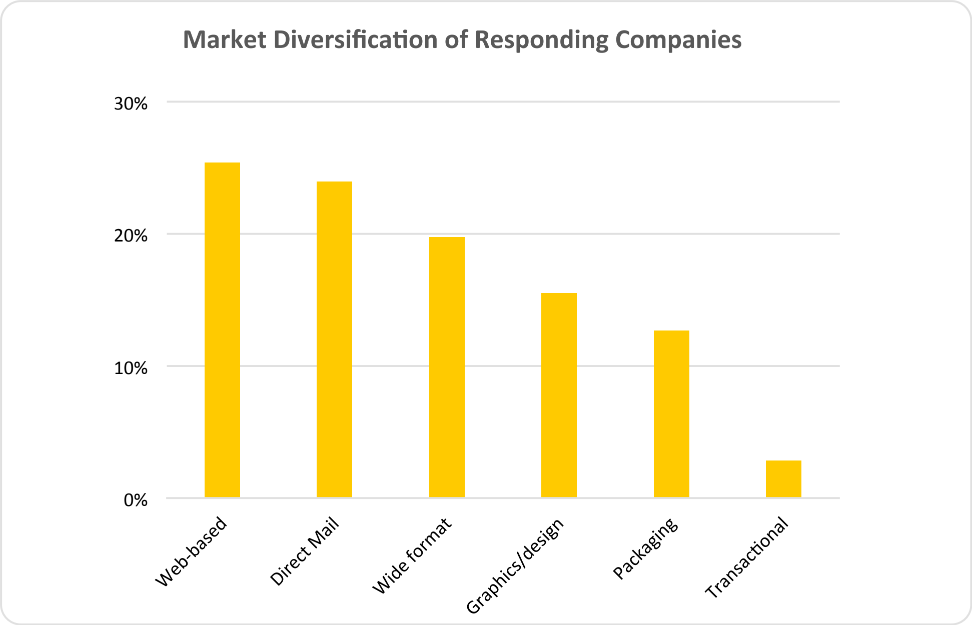
Insight 7: Market Diversification Led by Direct Mail, Wide-Format and Web-Based Media for the Third Straight Quarter

An interesting follow-up to our previous market diversification question is where print companies are looking for their diversity. While the rate of business diversification grew significantly over the past quarter, we saw virtually no chance that companies are looking to expand. As we saw in the previous two surveys, diversification among printers falls into three main categories: web-based media at 25%, direct mail at 24% and wide format printing at 20%.

We agree with the 25% of printing industries who find web-based media particularly interesting for expansion. As we look at the industries poised for growth, we see a lot of graphic design and branding firms running full-tilt towards "content." As this buzzword gains strength, it will be interesting to watch our more traditional partners stretch their wings into this arena.

With our strong roots in content management of all forms – paper, digital and even other physical mediums – printing may be well-poised to capitalize on this recent marketing buzzword.



Question: What area are you diversifying into?

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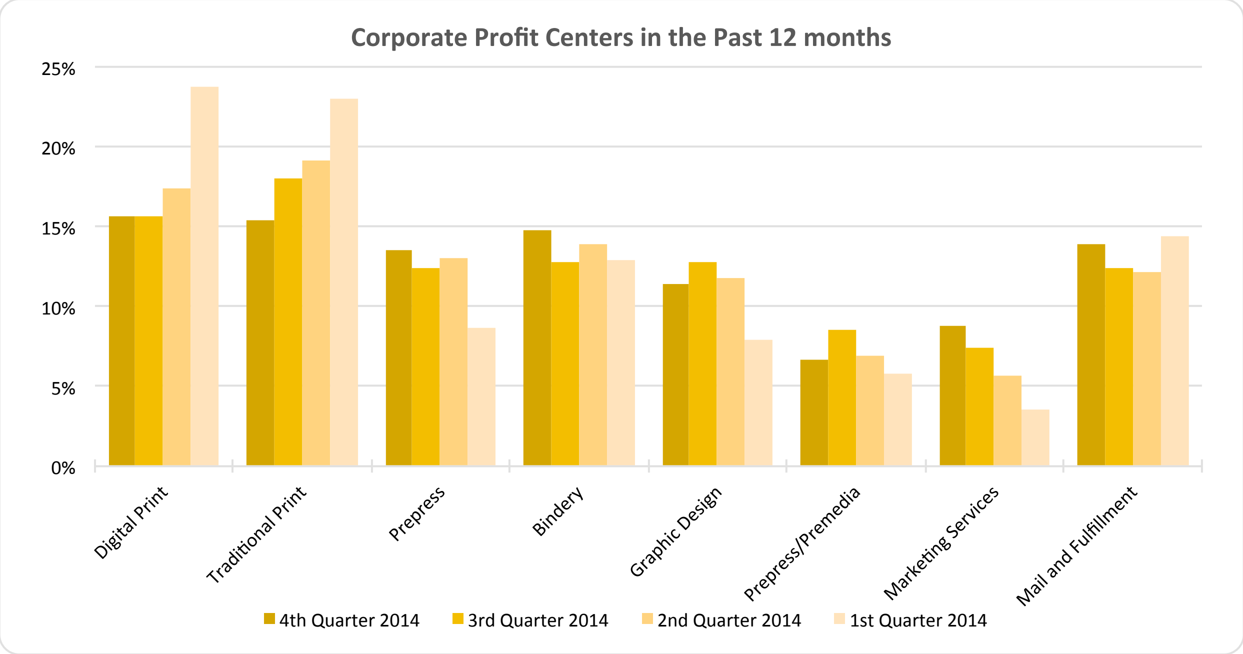
Insight 8: Profit Centers See a More Even Spread Industry-Wide

Several months ago, our charts on print company profit centers looked a bit disjointed, with digital print taking one subsection of the marketing and traditional printing taking another corner. In contrast, this quarter's survey shows a much more even spread of profit across the profit centers, and no less than six sectors reporting double-digit profits.

As you saw above, company profits for all companies have aggressively risen over the past six months. This data brings to mind the old adage that a rising tide lifts all ships. As demand has risen across the board over the last several quarters, it has simultaneously boosted profitability industry-wide.



Question: What are the primary profit centers in your organization?

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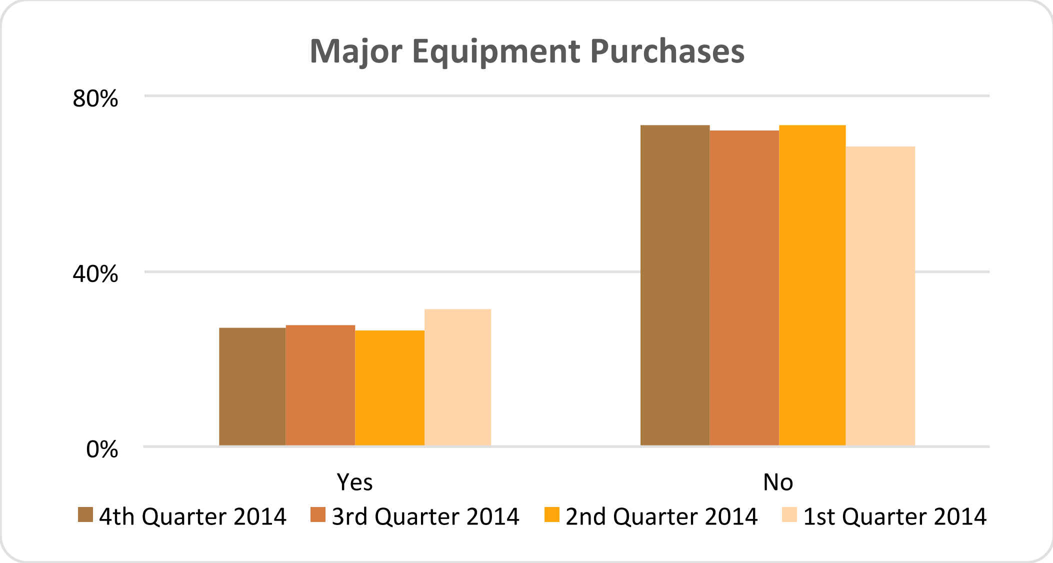
Insight 9: Despite Bottom-Line Gains, Capital Investment Fell

Our capital investment data is one of our more troublesome statistics in this quarter's survey. Despite impressive increases in profits and sales, capital investments among print companies actually fell one point this quarter to 27%.

With less than 1/3 of all firms making new equipment purchases in recent months, this low investment rate suggests that companies remain hesitant to make equipment purchases until some of the volatility ends, including the elections, the end of unlimited quantitative easing, and even the recent Ebola outbreak.

As we recognized in our Third Quarter report, we know that investing in major equipment can feel risky. However, as new technology and market factors impact the industry, the only way to prepare your firm to remain competitive in the next several years is to arm your team with the appropriate tools to meet new kinds of demand.



Question: Did you make a major equipment purchase this quarter?

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III. Staffing Trends

Finally, this group of questions focuses on hiring and staffing plans in the third quarter.

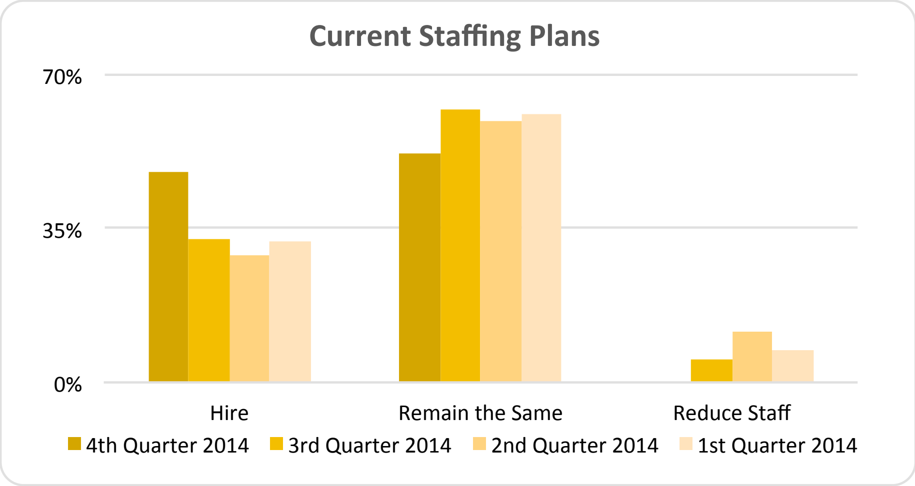
Insight 10: A Big Hiring Bump, and a First for Layoffs – Zero Turnover!

Our hiring data showcases a first in the twelve years of our survey – in fact we had to triple-check the numbers! For the first quarter in our survey history, not a single company planned to reduce their staff.

Coupled with nearly 50% of companies reporting plans to hire this quarter, this impressive zero-turnover statistic is a strong indicator that the labor market is tighter and increasingly competitive.

We are finding this across the industry, that for the first time in a decade, we are experiencing a significant labor shortage. For our responding companies, this means that they need to correspondingly change the way that they think about attracting staff – as firms come in competition with other industries and more aggressive salary demands. If we fail to pass the "MacDonald's" test (where the golden arches pays more for staff than we do), clearly we will continue to have trouble attracting quality labor.

Outside evidence confirms that this 45% improvement in hiring plans aren't an anomaly, at least in Massachusetts. According to the State House News Service, "Labor shortages and associated high-labor costs are seen as potential constraints… moving forward."



Question: What are your current hiring plans?

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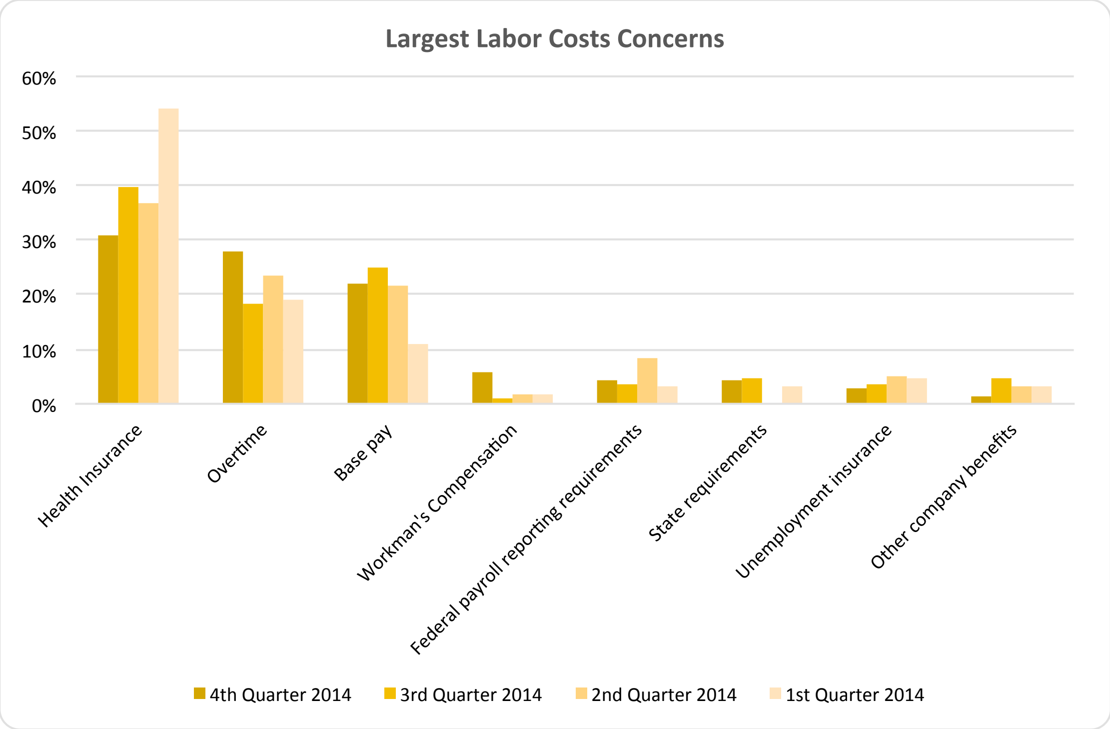
Insight 11: Overtime Costs Surge 50% This Quarter

While health insurance costs continue to plague nearly a third of companies this quarter, we saw a dramatic surge in both overtime and base-pay challenges in recent months. In fact, overtime costs rose over 55% through the third quarter to end at 28% of firms' overall labor cost exposure.

This marked increase in overtime pay clearly suggests that businesses are still trying to do more with less – which is generally a short-lived solution in a tightening labor market. From past experience, staffing experts can tell you that relying on overtime workers leads to burnout and decreased job satisfaction – which creates a seller's market for top talent.

With the race for top talent heating up, think about some other ways you can work to improve employee satisfaction. If you can't improve their work-life balance, what fun extras can you add to your workplace to keep the team invested in your success? Sometimes, it's the little things – a public "thank you" or a chair massage the last Friday of the month – that can keep your team loyal as recruiters start to actively court critical roles.



Question: Regarding labor costs, what component of the costs increased the fastest last quarter?

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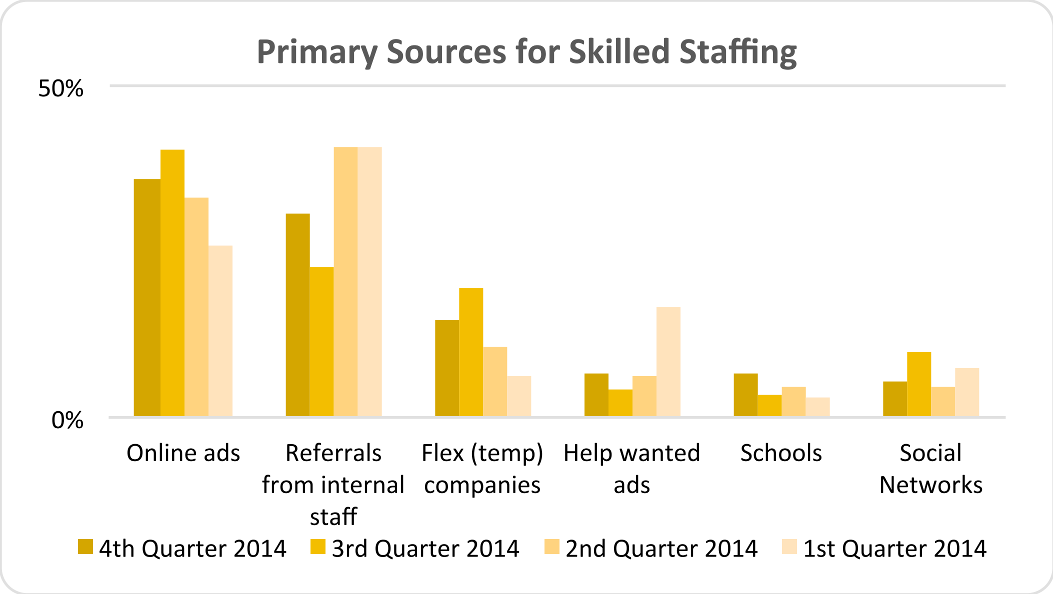
Insight 12: Looking for Skilled Staff, Employers Head Online

After many, many years of abundant, low cost talent, our survey clearly shows that the labor market have undergone an abrupt shift in favor of the employee. A 50 point increase in new hiring, zero layoffs and doubling overtime prices all clearly point to a tighter labor market.

The inevitable question then arises: Where can companies go to find this disappearing pool of skilled staff? According to our survey, at least this quarter more and more companies are opting for online ads (36%), internal referrals (31%) and online self-serve or other staffing firms, such as Printworkers.com, the PIA or Indeed.

In the effort to widen their search pool while keeping labor acquisition costs low, companies are also beginning to expand their geographic search areas, and offering relocation packages to interested talent who might be willing to change locations.

Seeing these signs, smart employers know it's time to start planning what more competition for top talent and rising base salaries will mean to your bench strength. We are also hearing reports of employee poaching among competitors by selectively offering higher compensation for key positions – a trend we would only expect to continue as the markets improve.



Question: What are your primary sources for skilled staffing?

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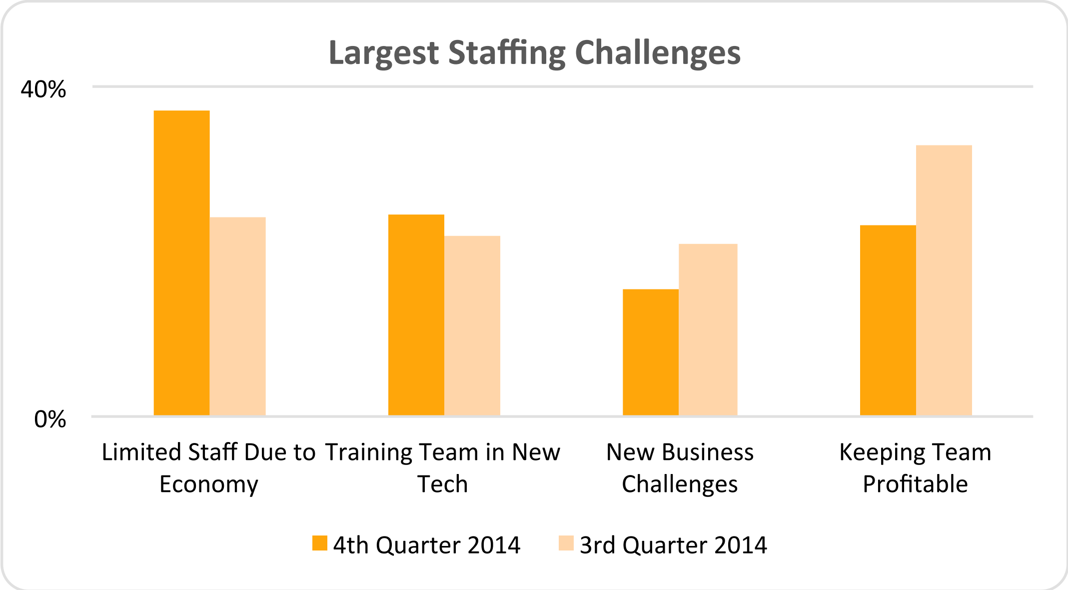
Insight 13: Staffing Limitations Replaces Profitability as Business's Core Concern

This quarter was a clear tipping point for print staffing.

Last quarter's top concern – keeping the firm profitable – saw a ten-point drop among printing firms, from more than a third threatened by that challenge to less than a quarter. Instead, this quarter saw limited staffing concerns due to economic conditions taking top billing, with 37% of companies citing this as their largest staffing challenge, a 54% increase in just one quarter!

While it may be difficult to let go of your lean-year mentality, we are beginning to see this relentless cost-control mindset take a serious toll on companies' abilities to meet demand. In the next business cycle, we expect companies to be slightly less price-obsessed, judging vendors more on their abilities to deliver a quality product than on aggressive timelines – so it's time to make sure that your team is ready for the influx.

When skilled labor becomes scarce, some firms have opted to partner with staffing firms, who have longer-term apprentice programs and training opportunities, and who can rapidly supply skilled flex or flex-to-hire talent to fill immediate needs, without wasting their finally busy assets' time by training unqualified hires or looking high and low for new job applicants.



Question: What is your biggest staffing challenge?

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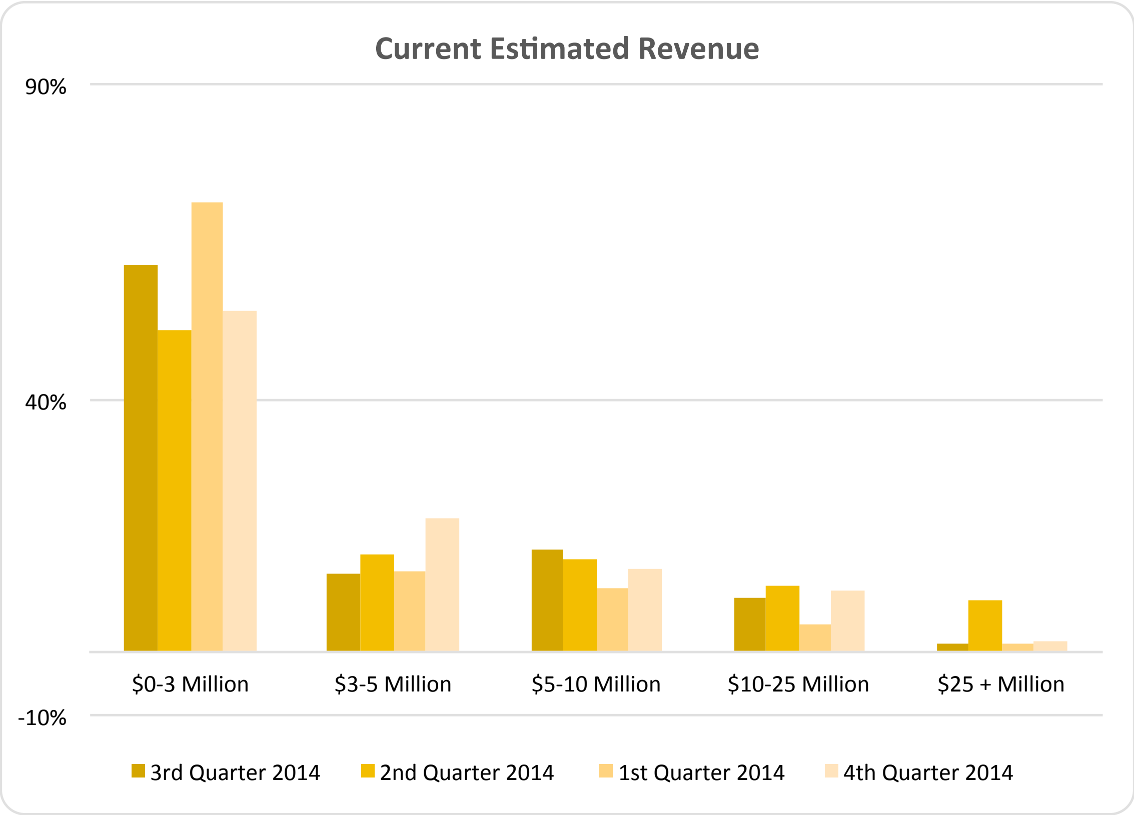
Insight 14: Small Businesses Continue to Lead Survey Responses

As in many past quarters, the majority of survey respondents this quarter came from the small business segment, with 61% of respondents coming from firms with less than $3 million in annual profits.

Given all the consolidation among large companies of late, and the fact that small businesses make up 80%–99% of the U.S. market (according to the SBEC Council), we are gratified to see them make a relational showing in our survey.



Question: What was your company's estimated revenue last quarter?

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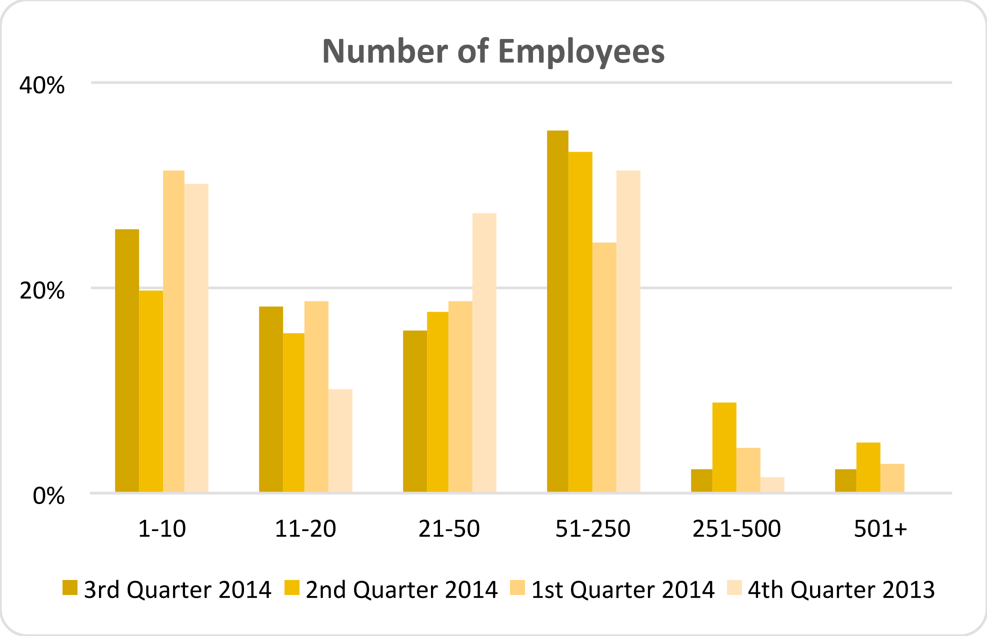
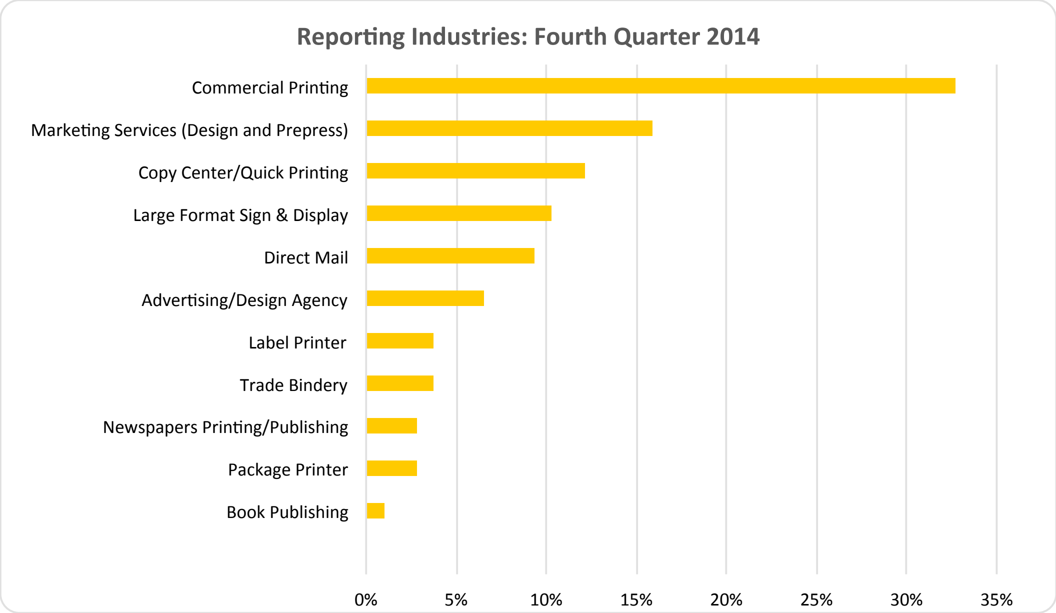
IV. Demographics



Company Size



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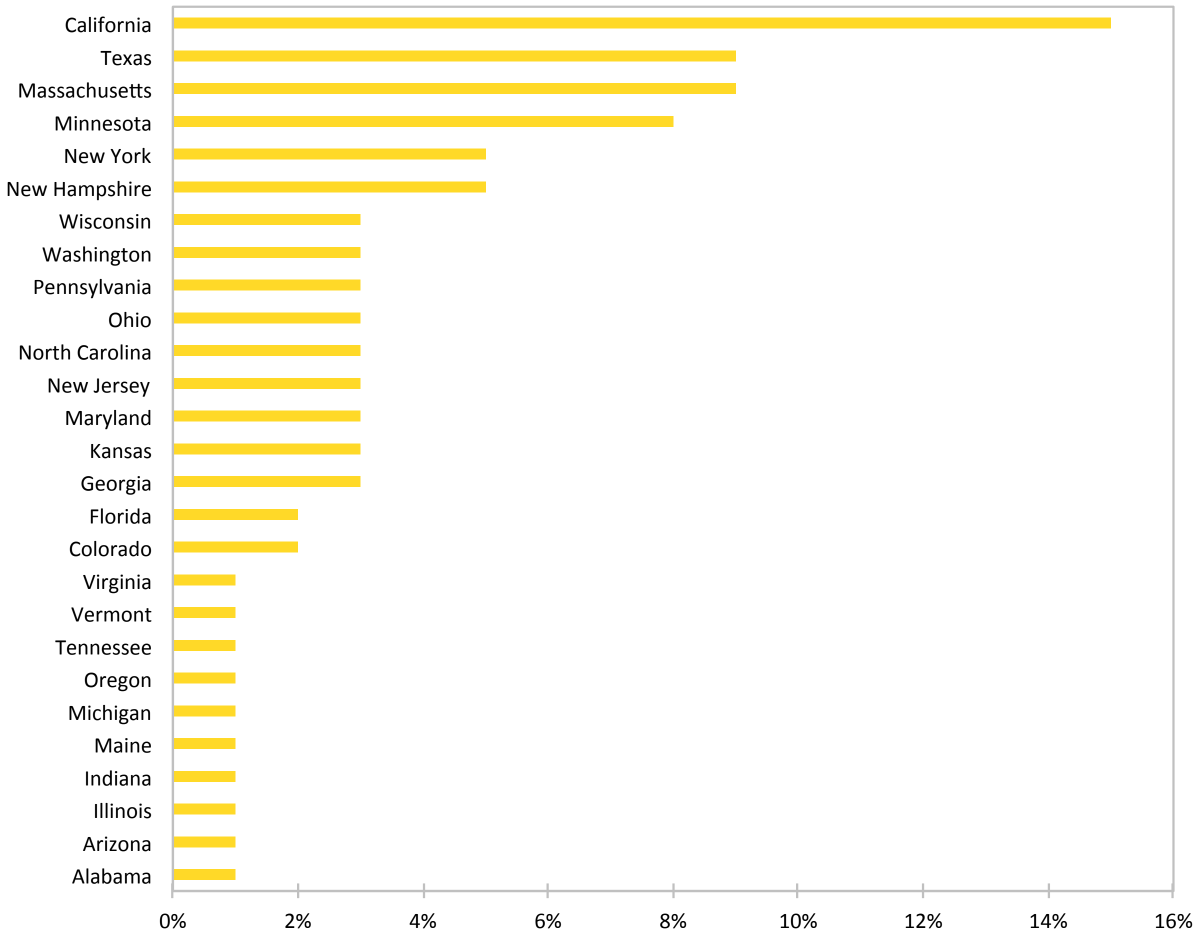

Company Location

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About Semper

Semper International, LLC, is the nation's largest and most trusted supplier of skilled staff for the print, pre-media, graphic and interactive media industry. In over 20 years of service, we have placed more than 50,000 team members in roles from Production Technicians to Experienced Managers in flex, flex-to-hire and direct-hire positions.

Literally translated, Semper means "always," and that is something we take to heart. Our experienced, reliable team personally screens and rigorously tests every applicant before we recommend them for placement. We are experts at making things happen, and we have earned a reputation for quality hires who produce on Day 1, and have built a loyal base to draw from. In fact, nearly 20% of our flex staff have been working with us for over 10 years.

We were born and raised in the industry, so we know that staffing is more than just filling a slot. Rather than just deliver a need, we become part of the team, so that your success is our success.

Speak to a Top Recruiter to Learn More Today.
Call 877-377-4687 or email: always@semperllc.com

Tell Us What You Want to Ask!

Over 12 years ago, Semper recognized that our position in the industry afforded us a unique vantage point to see economic trends affecting our industry. From the beginning, our goal has been to aggregate information from our database of over 50,000 companies, and provide this material for free as our gift back to the industry we serve.

Over the years, as the survey has become more popular, and we have watched the industry itself change, we have refined and improved our questions and processes. As we continue to improve our survey and data collection techniques, we are finding our pool of respondents increasing. We feel the results are becoming much more accurate and valuable as a result of these efforts.

We want to hear from you! Please click here to let us know what other questions you would like to see in next quarter's survey.