

**GAA 2008 Leadership Summit**

**September 9-11, 2008 - Parsippany, New Jersey**

# **The Cost of Sustainability Initiatives and Their Impact on the Bottom Line**

Presented by:

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**September 10, 2008**



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## Presentation Outline

- **Current conditions.** A badly weakened economy and broadly rising costs are depressing growth and squeezing margins across the industry. Do we put sustainability initiatives on hold?
- **Capital investment plans.** Are commercial printers cutting back on investments? What are their investment objectives? What role do environmental concerns play?
- **The value proposition and sustainability.** What we do to get clients and keep clients. Does sustainability fit in? Can we afford the additional costs? Can we afford not to pursue?



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## Research Methodology

- **Surveys always confidential but never anonymous.** We must know who you are so we can verify and probe responses.
- **Not about e-blasting or posting a survey online and hoping someone answers.** Surveys challenge participants to think carefully about our industry's most critical issues.
- **Participants share their thoughts** because of the relationships and mutual trust we've established over years.

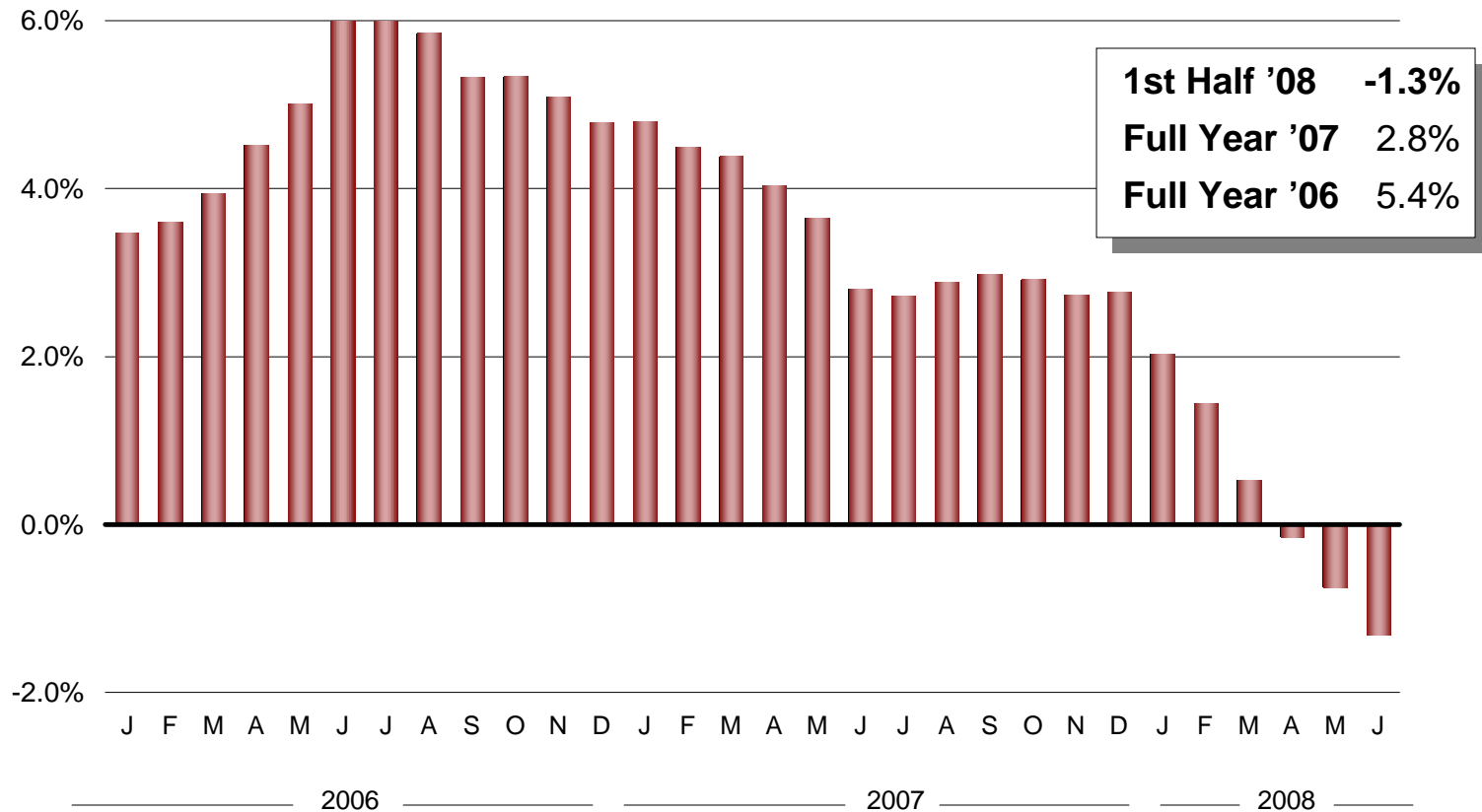


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## Total commercial printing industry sales (all sources)

Year-over-year change over the six months ending during the month indicated to capture trend.



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## An Important Qualifier

**Not everyone's sales are declining:**

- Sales were up at least 10.0% during the first five months of 2008 for one-fifth of the NAPL Printing Business Panel.
- Nearly one-third (32.1%) of our Panel are growing faster so far this year than they did during the same period last year.



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## How They're Doing It

NAPL Printing Business Panel members who have grown despite the weak economy credit several reasons:

- **Effective, aggressive marketing:**
  - “Our sales are up 25%. The economy has provided increased opportunity for us to tell our story. People are interested in hearing how we can help them.”
- **Prudent capital investments** and lean initiatives that have made them faster, more productive, and more efficient, helping them grow at the competition's expense.
- **Markets, clients, and niches** that have stood up well to the economy or a favorable local economy.



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## Another Important Qualifier

- But even companies that have defied the slowdown/recession so far must remain vigilant. Downturns are tricky and unpredictable, showing up in different places at different times—often with little warning.
- And no one in our increasingly competitive, complex business can assume that success today ensures success tomorrow.



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## What Concerns Printers Most

Percent Citing

### Top Five:

<b>The economy</b>	<b>72.5%</b>
<b>Maintaining profitability</b>	<b>49.3%</b>
<b>Rising energy prices</b>	<b>47.5%</b>
<b>Rising paper prices</b>	<b>41.3%</b>
<b>Rising wages/benefits</b>	<b>40.6%</b>

### Towards Bottom:

Management/supervisory personnel shortage	6.5%
International competition	6.5%
Consolidation of competitors	3.6%
Environmental regulations	3.6%
OSHA regulations	2.9%

Source: NAPL SOI: 2008 Strategic Perspective.





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## Profitability, Confidence Hit Hard

Over 48.0% of our Printing Business Panel report **pre-tax profitability is below year-ago levels**—the highest reading in five years.

2008		2007		
June	Feb	Nov	May	Jan
48.3%	38.5%	30.8%	31.8%	22.4%

Just 15.8% of our Panel **expect business to improve during the six months ahead**—the lowest reading since 9/11.

2008		2007		
June	Feb	Nov	May	Jan
15.8%	22.7%	23.4%	28.1%	39.0%



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## **There's no question about what's happening:**

Declining revenues and rising costs—paper, energy, health insurance, etc.—rising far beyond what can be recovered through price increases and surcharges have created a classic profit squeeze across the printing industry.

## **The question is what are we going to do about it?**

While everyone else is cutting and freezing and hoping to wait the economy out, **what are we going to do right now to come out of the downturn stronger than we went in?**



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## So What Do We Do Right Now?

*“We choose not to participate in the recession.”*

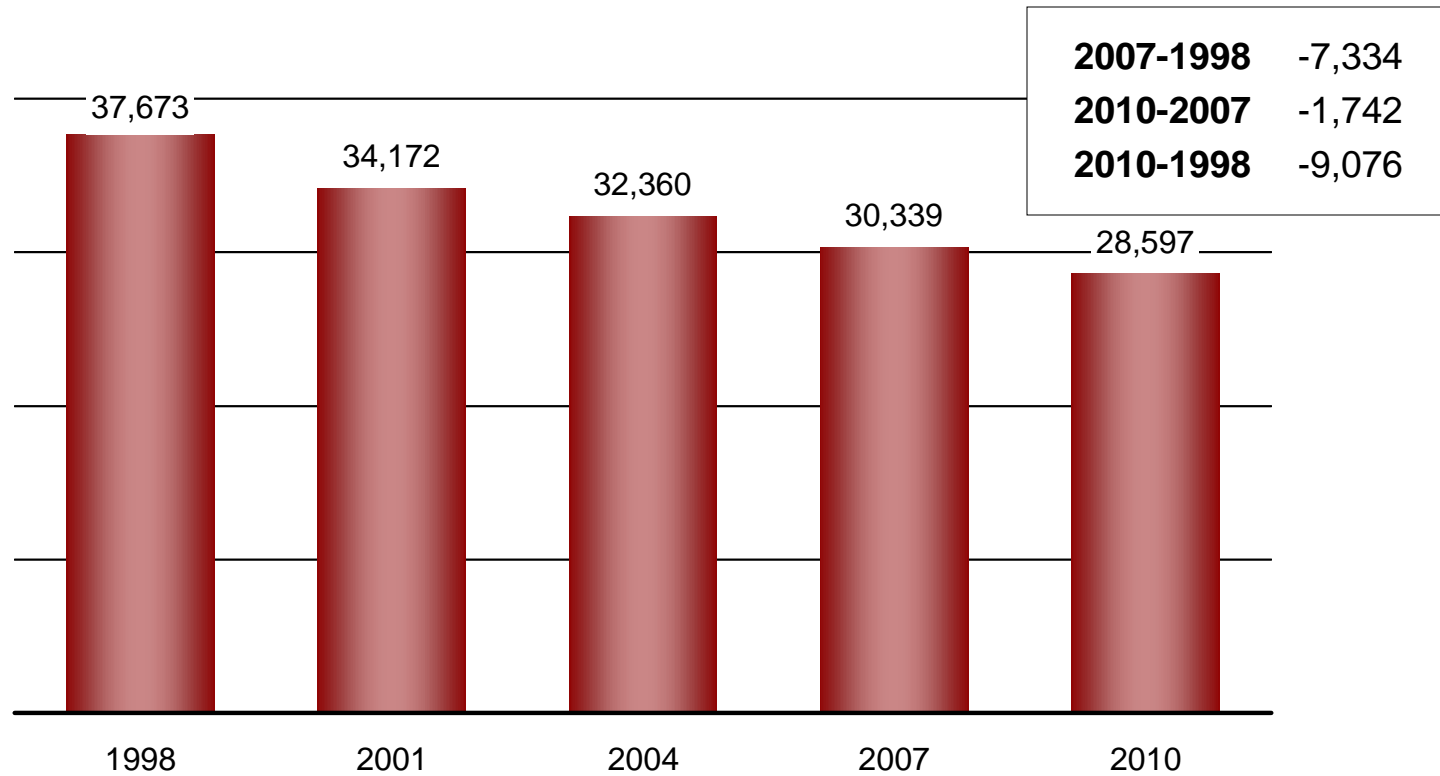
- Financial Actions
- Cost Reduction Task Force
- Step Up Marketing
- Control the Message—Externally and Internally
- Reinforce that We’re Here to Help
- Rally Around What’s Most Important



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## Printing Establishments



Source: *County Business Patterns*, U.S. Census Bureau. Figures for 2007-2010 are NAPL projections.



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Once fewer printers meant less competition.  
Not anymore:

- Digitization and the Internet are breaking down barriers, letting everyone into everyone else's business.
- Where the competition was the printer across town, it's now the printer across the country, across the ocean, the non-printer who is providing an electronic alternative to print, and even our own clients.



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Commercial printers must now:

- Compete in new ways with **people they've never had to compete with before.**
- **Anticipate the competition**, because the next wave can come from anywhere.
- **Compete in hyper-competitive markets** with little tolerance for the pass-through of inefficiency, error, waste, and spoilage.



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### A Compelling Statement

“To reach our profit goals over the next three years we will have to vigilantly watch every decision we make as to the financial impact on the company. No more knee-jerk decisions, **no more investments in services that we haven’t researched** as to the potential impact on the company and its resources, and **no more ‘me too’ investments just to do what a competitor is doing.**”

*NAPL SOI: 2008 Strategic Perspective, March 2008, page 4*



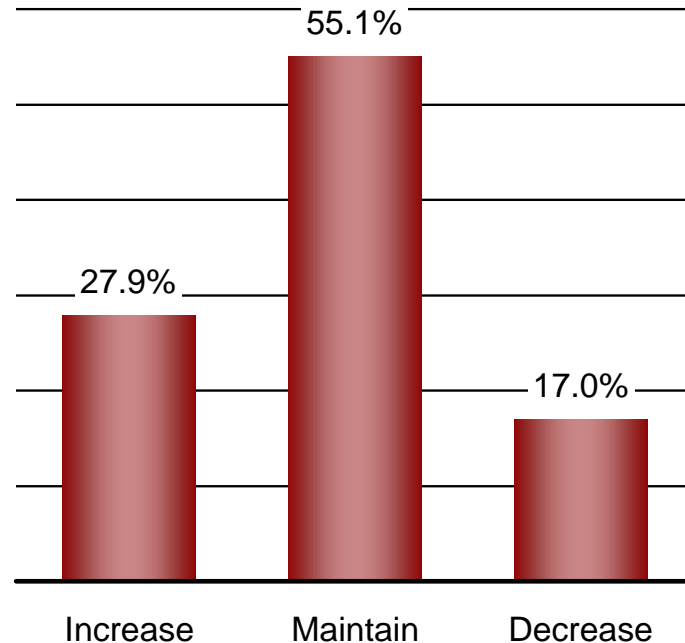
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## Do We Keep Investing?

- Despite big concern about the economy, 83.0% of *Strategic Perspective* participants plan to increase or maintain the percent of revenue they invest in capital equipment over the next three years.
- The majority view: **“We have to stay on the technology supersonic highway—it’s moving fast and the longer you wait to get on it the harder it is to catch up.”**

Percent of revenue invested in capital equipment over the next three years





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## Keep Investing: But Get It Right

- In our increasingly competitive and complex industry, **the return to being right is greater than ever—but so is the cost of being wrong. Margins for error are getting thinner and thinner.**
- One *State of the Industry* participant captures the consensus: **“Any investment we make must clearly indicate either a strong ROI or be absolutely needed to stay competitive.”**



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## Capital Investment Objectives

*“In the present market there is no room for error”—or delay.*

What *NAPL State of the Industry* participants rate as the primary objectives of their capital investment plans over the next three years.

<u>Investment Objective</u>	<u>Citing</u>
More efficient workflow/improve productivity	90.6%
Serve current markets more profitably	85.7%
Reduce labor costs/automation	80.4%
Faster turn times	72.0%
Reduce makeready/spoilage/waste	66.9%
Diversification/enter new markets	61.0%
Environmental concerns	23.9%



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## Sustainability's Importance

- Many *State of the Industry* participants emphasize that environmental objectives are **important and desirable, but secondary to other objectives right now:**
  - “We’ll pay more to be green, but productivity is first.”
  - “We have other more pressing issues we are facing. For a normal year, green would take a higher priority.”
- **And many have already embraced green.** Their reasons include customer demand, social responsibility, compliance, and that it’s just good business. Among their actions:
  - SFI and FSC certification, aggressive waste reduction and recycling, VOC minimization, alternative energy, processed chlorine free and totally chlorine free, soy-based inks, etc.



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### Good Intentions vs. Dollars and Cents

- A *State of the Industry* participant captures this ongoing battle: “Green is something everyone is talking about until the client figures out the paper will increase price by 10%. Then they forget about it.”



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### Not Everyone's Forgetting About It

As *State of the Industry* participants noted:

- “Major clients are pressuring the industry for evidence of environmental sensitivity and conservation.”
- “Some clients are starting to request a switch to soy inks and recycled papers.”



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## And Neither Can We

Additional comments:

- “The marketing potential of positioning a company as green is significant.”
- “Stewardship of the environment is not only morally correct but attractive to businesses seeking printers with the smallest effect on the environment.”



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## Getting Capital Investment Right Asking the Right Questions

- **What are our investment criteria?** Criteria should include a thorough assessment of our specific circumstances, goals, and resources, not simply case studies of what others have done.
- **Have we considered the realities and full costs of the investment as carefully as the potential benefits?** Have we really considered everything necessary to make the investment pay off?
- **How will we measure investment results?** And who will be responsible for measuring results?
- **How will we follow up on our analysis?** Just measuring and reporting results isn't enough. We have to act on what we learn. If we've made a mistake, we have to fix it—quickly. How will we?



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## Other Questions We Need to Ask

- **What is our value proposition?** What we do to get and keep clients.
- **Is it solely based on our capabilities or is the focus on the client's success?**
- **How do sustainability initiatives (current or contemplated) fit in?**
- **What are the costs of sustainability initiatives?** Are we taking everything into account? How do we measure the impact on the bottom line?





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## Costs of Sustainability Initiatives

- Certification fees
- Energy audits
- Higher prices for materials
- Human resources

**What are the costs of not pursuing sustainability initiatives?**



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## Five Basic Steps to Sustainability

- Reduce spoilage/waste and increase recycling.
- Conserve energy and use renewable resources.
- Test, master, and offer alternative manufacturing materials.
- Audit chemical usage, work with regulatory bodies, and test alternatives.
- Measure, publish, and market your actions.

Source: NAPL Executive Management Special Report, 2008 Series, Volume 21, Number 1



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## Questions We All Have to Answer

- What's stopping us from doing what we know we need to do? Lack of consensus? Poor follow-up? Poor communication? Fear of change? **It's all about execution.**
- How do we establish—company-wide—that the biggest threat to our industry is not recession, China, overcapacity, or even the competitor who doesn't know his/her costs. **It's complacency, the status quo, and assuming that what worked yesterday will work tomorrow.**

