Idealliance
Institute for
Strategic Research

FALL 2017

# Capital Investment Report

By Andrew D. Paparozzi, Chief Economist, Idealliance, and Tim Baechle, Vice President, Global Print Technologies & Workflows

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# Introduction

**We've made the point often in Idealliance State of the Industry research: While our gamut of opportunity continues to expand, our margin for error continues to shrink. New printing technologies and new services to complement print are creating transformative opportunity to satisfy a broader range of our clients' communications needs, faster and more efficiently. But the competition for those opportunities continues to intensify as the internet and digitization redefine who does what, how, and for whom.**

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To excel, we must get capital investment right. We must identify the investments that best fit our company, precisely define the value those investments offer clients and prospects, execute effectively enough to create that value, and keep getting better at all three because when *"competition is everywhere," as one State of the Industry participant aptly puts it, we are either improving or falling behind.*

The Idealliance Capital Investment Research Program was created to help us keep improving. Like State of the Industry, the program will be built on an extensive panel of regular participants to ensure data are consistent over time, to verify responses—participation is strictly confidential but never anonymous—and to build the relationships that get us behind the numbers to the defining issues, trends, and developments—today's and tomorrow's—in capital investment.

This report summarizes results of our initial survey. The survey was launched in late April 2017 and has 104 participants to date. As the profile on page 21 shows, *collectively they capture both the blurring of roles and the diversity in company demographics and performance that define our industry.*

Companies can join the Idealliance Capital Investment Research Program panel at any time. Only panel members will have complimentary access to the complete research results. If you would like to participate, please contact Tim Baechle, Vice President of Global Print Technologies & Workflows, at (703) 837-1069 or tbaechle@idealliance.org, or Andy Paparozzi, Chief Economist, at (703) 837-1062 or apaparozzi@idealliance.org.

# Executive Summary

- Results are based on 104 participants to date. Participants capture both the blurring of roles—66.3% define themselves as a combination of company types rather than any one type—and the diversity in company demographics and performance that define our industry.
- Capital investment rates (average annual capital investment as a percent of sales) vary dramatically from company to company. But 42.7% of our survey group invest between 3%+ and 6% of sales per year, while just 12.6% invest 2% or less and just 11.7% invest more than 10%.
- Capital investment rates are not correlated with profitability. How much we invest and how effectively we invest—the efficiency of our capital investment process—are very different.
- Digital infrastructure (workstations, servers, networks, etc.), toner-based, cut-sheet digital presses, and workflow software top the list of investments over the past three years.
- More than 38.0% of companies surveyed plan to increase their capital investment rate over the next three years while just 6.7% plan to reduce their rate.
- Increased efficiency and speed and replacing aging equipment that limits competitiveness are the most frequently cited reasons for investing at a higher rate over the next three years.
- Workflow software, bindery/finishing systems, and digital infrastructure top the list of investments planned for the next three years.
- Greater efficiency—including a more efficient workflow, increased automation, and reduced steps, touches, and turn times—is the top capital investment objective over the next three years.
- Two-thirds typically invest 1.0% or less of annual sales in employee development per year. Nearly 80.0% include suppliers of equipment, hardware, and software among their most important sources of employee development and 50.5% include graphic communications trade associations.
- Only 27.5% monitor post-investment results—i.e., whether an investment is meeting expectations—"very closely."
- More diverse, unbiased information on which to base capital investment decisions is what participants in our research would most like to improve about their capital investment process. This was also the top priority in 2010 when we last conducted a capital investment survey, despite the explosion of information since.
- Suppliers can "sometimes" demonstrate the ROI of their technology, according to 54.7% of companies surveyed, well above the 13.7% who rate them "very capable of demonstrating ROI."
- Suppliers can "sometimes" suggest complementary technologies to support the investment being considered, according to 56.8%, well above the 11.6% who rate them "very capable of recommending complementary technologies."
- Suppliers and manufacturers can be more helpful by listening more and talking less, learning about my business first, talking ROI once they understand us, talking "customized, not canned," and providing objective case studies, white papers, reports, and references: "Financial information received is biased towards justification rather than making an informed decision."

# Capital Investment: How Much and Where

Our survey opened with an evaluation of how much companies invest in capital equipment and where they have invested over the last three years. We measured how much as average percent of sales per year—i.e., as average annual capital investment rate—to smooth year-to-year variations in investment and to correct for differences in company size. We measured where they have invested because it is a determinant of where, why, and how much they will be investing.

## *Highlights*

**There is no "typical" capital investment rate.** Individual rates range from 1% or less to more than 20%. They do cluster, however, in three areas: 29.1% are between 2%+ and 4%, 26.2% are between 4%+ and 6%, and 20.4% are between 6%+ and 10%. The first two ranges include more than half of our research panel and all three include nearly three-quarters. In contrast, just 2.9% typically invest 1% or less of annual sales and just 4.9% typical invest more than 12.0%. *(Table 1).*

**Capital investment rates are not correlated with profitability.** Why should they be? How much we invest and how effectively we invest—the efficiency of our capital investment process—are very different things. Future research will explore how companies that consistently grow profitability manage their capital investment process and how efficient capital investment contributes to their success.

**Digital infrastructure tops the list of investments.** Nearly three-quarters of companies surveyed have invested in workstations, servers, networks, etc., over the past three years. Majorities have also invested in toner-based, cut-sheet digital presses (63.1%) and workflow software (57.3%). Nearly 47.0% have invested in bindery/finishing systems, 42.7% in premedia/prepress systems, and 40.8% in web-to-print. Collectively, our research group has invested in more than 25 areas since 2014, with 75.7% investing in at least four, 66.0% in at least five, and 48.5% in at least six.

**Table 1: On average, about how much do you invest in capital equipment, hardware, and software as a percent of sales each year?**

| Response | Percent | Response | Percent |
|---|---|---|---|
| 1% or less | 2.9% | 6%+ to 8% | 10.7% |
| 1%+ to 2% | 9.7% | 8%+ to 10% | 9.7% |
| 2%+ to 3% | 12.6% | 10%+ to 12% | 6.8% |
| 3%+ to 4% | 16.5% | 12%+ to 15% | 1.0% |
| 4%+ to 5% | 12.6% | 15%+ to 20% | 2.9% |
| 5%+ to 6% | 13.6% | More than 20% | 1.0% |

**Diversity of investments is even more telling than the order.** Investments range from traditional prep-print-finish to capabilities such as mobile, video, and 3D printing that would not even have been considered part of our industry a few years ago, reinforcing two critical points. First, our options for getting involved in clients' work earlier, staying involved longer, and satisfying a broader range of their communications needs continue to expand. Second, we are pursuing those options by complementing—not abandoning—print, as the percentage who have invested in printing capabilities from toner-based digital and inkjet to offset and flexography to print enhancement shows. (Table 2).

**Table 2: In which areas have you invested over the last three years? Please check all that apply.**

| Investment | Percent |
|---|---|
| Digital infrastructure: workstations, servers, networks, etc. | 73.8% |
| Digital presses (toner-based): Cut-Sheet | 63.1% |
| Workflow software | 57.3% |
| Bindery/finishing equipment/systems | 46.6% |
| Premedia/prepress systems | 42.7% |
| Web-to-print (including web storefronts) | 40.8% |
| Mailing capabilities | 35.9% |
| Management information systems (Including customer relationship management, resource planning, etc.) | 35.0% |
| Wide format systems (any process) | 31.1% |
| High-speed production copiers (color or B&W) | 22.3% |
| Print enhancement technology (e.g., digital enhancement, coating, varnishing, foiling, digital cutting & creasing technology.) | 15.5% |
| Offset presses: 4-or-more-color | 14.6% |
| Database management | 12.6% |
| Digital asset/content management (scanning/image capture, storage, retrieval, etc.) | 11.7% |
| Inkjet presses (except wide format): Web | 9.7% |
| Inkjet presses (except wide format): Cut-Sheet | 9.7% |
| Digital presses (toner-based): Web | 8.7% |
| Fulfillment capabilities | 7.8% |
| Flexographic presses | 3.9% |
| Industrial inkjet | 3.9% |
| Offset presses: B&W or 2-color | 2.9% |
| Dye sublimation printers | 1.9% |
| 3D printing | 1.9% |
| Other: | 8.7% |

# Capital Investment Plans and Objectives

We next asked our research group if they expect to change their capital investment rates over the next three years, and, if they do, how, why, where they plan to invest, and their capital investment objectives. Nearly 13.0% couldn't respond fully because they currently don't expect to make major investments over the next three years (6.9%) or their plans are too uncertain (5.9%).

## *Highlights*

**More than 38.0% plan to increase their investment rate, 54.8% to maintain their rate, and just 6.7% to lower their rate.** *(Table 3)*

**Increase efficiency and speed (81.0%) and replace aging equipment that limits competitiveness (76.2%) are the most frequently cited reasons for investing at a higher rate.** That isn't surprising: Even though the number of establishments in our industry has declined by 21.5%, from 30,698 in 2007 to 24,090 in 2015, according to the U.S. Census Bureau, competition is getting more intense, shrinking our margin for error, and limiting our pricing power. Inefficiencies cannot be passed on to clients. And if we can't meet their deadlines, they're likely to look for someone who can. More than half (52.4%) plan to increase their investment rate to support growth, 35.7% to enter new markets, and 21.4% to make up for not previously investing enough. *(Table 4)*

**Just 10 companies said they plan to invest at a lower rate over the next three years.** Of those companies, nine report that major investments/capacity are already in place—i.e., they don't expect to need much for the next three years. So even among the small minority who plan to reduce their capital investment rate, retrenchment is rarely the motive. Five expect to lower their investment rate due to concern about the industry's future, four because they are hesitant to take on more debt, and one each because of limited cash/credit, concern about the economy's future, and concern about the company's future.

**Workflow software and bindery/finishing equipment, each cited by 36.3%, top the list of investments planned for the next three years.** Digital infrastructure (31.4%) and MIS (29.4%) follow. Nearly 64.0% plan to invest in at least three of the areas listed and 47.1% in at least four. *(Table 5)*

**Table 3: Do you expect to invest at a higher rate, lower rate, or about the same rate over the next three years?**

| Higher Rate | Lower Rate | About the Same Rate |
|---|---|---|
| 38.5% | 6.7% | 54.8% |

**Table 4: If you plan to invest at a HIGHER rate, please indicate why.**

| Response | Percent |
|---|---|
| Increase efficiency, reduce costs, reduce turn times, etc. | 81.0% |
| Replace aging equipment that limits our competitiveness. | 76.2% |
| Expand/upgrade capacity to support our continued growth. | 52.4% |
| Expansion into new markets | 35.7% |
| Catch-up. Haven't been able to invest as much as we should. | 21.4% |
| Other | 4.8% |

Greater efficiency is clearly the top capital investment objective for the next three years, with 91.2% investing to do at least one of the following: create a more efficient workflow (67.0%), increase automation/reduce labor costs (66.0%), or reduce steps, touches, and turn times (61.2%). More than 62.0% are investing to serve current markets more profitably (47.6%), meet customer-drive demands (31.1%), or both. In comparison, 37.9% are investing to support diversification. Increasing/upgrading capacity to support growth is an objective for 50.5%.

Other objectives and the percent citing each: Reducing spoilage, rework, and waste (21.4%), continued training/development of personnel (21.4%), and color management/process control (17.5%). That just 4.9% list sustainability as a primary investment objective does not mean it isn't important, just that they have more pressing priorities for the next three years. Nearly 85.0% are investing to achieve at least three of the objectives listed and 62.1% to achieve at least four. *(Table 6)*

**Table 5: In which areas do you plan to invest over the next three years?**

| Investment | Percent |
|---|---|
| Workflow software | 36.3% |
| Bindery/finishing equipment/systems | 36.3% |
| Digital infrastructure: workstations, servers, networks, etc. | 31.4% |
| Management information systems (Including customer relationship management, resource planning, etc.) | 29.4% |
| Web-to-print (including web storefronts) | 28.4% |
| Digital presses (toner-based): Cut-Sheet | 27.5% |
| Mailing capabilities | 27.5% |
| Premedia/prepress systems | 22.5% |
| Inkjet presses (except wide format): Web | 20.6% |
| Wide format systems (any process) | 19.6% |
| Inkjet presses (except wide format): Cut-Sheet | 17.6% |
| Print enhancement technology (e.g., digital enhancement, coating, varnishing, foiling, digital cutting & creasing technology.) | 17.6% |
| Offset presses: 4-or-more-color | 12.7% |
| Database management | 11.8% |
| Digital asset/content management (scanning/image capture, storage, retrieval, etc.) | 8.8% |
| Fulfillment capabilities | 7.8% |
| High-speed production copiers (color or B&W) | 6.9% |
| Flexographic presses | 4.9% |
| Dye sublimation printers | 2.9% |
| Industrial inkjet | 2.9% |
| Digital presses (toner-based): Web | 2.0% |
| 3D printing | 2.0% |
| Offset presses: B&W or 2-color | 1.0% |
| Other: | 7.8% |

**Table 6: What are the primary objectives of your capital investment plans over the next three years?**

| Investment Objective | Percent |
|---|---|
| More efficient workflow | 67.0% |
| Increase automation/reduce labor costs | 66.0% |
| Get faster: reduce turn times, makeready, etc. | 61.2% |
| Increase/upgraded capacity to support growth/expected growth. | 50.5% |
| Serve current markets more profitably | 47.6% |
| Diversification. Enter new markets. Go in new directions. Capture new opportunities we've identified | 37.9% |
| Customer-driven requirements | 31.1% |
| Reduce spoilage, rework, waste | 21.4% |
| Continued training & development of personnel | 21.4% |
| Color management process/process control/repeatability | 17.5% |
| More environmentally friendly/sustainability. | 4.9% |
| Other | 5.8% |

## *The Effects of Uncertainty*

Emerging technologies raise challenging questions such as: Is the technology proven? Is it operationally competitive with current technologies? Is the quality there? And should I wait for prices to come down? We wanted to know if this *"is the time right"* uncertainty is affecting capital investment decisions. Nearly 40.0% of the companies we surveyed said it is, with several using an issue they are currently debating—whether or not to reallocate resources from toner-based digital to inkjet—to illustrate:

- "Inkjet will radically change my company, so a lot of thought and planning needs to go into it. The press is just one piece."
- "Uncertain if inkjet will be ready for production needs and support—20 hours per day, six days per week."
- "Love inkjet, but is it time to invest there yet? I don't think the quality is good enough for our market at this point. Plus the maintenance is so expensive."
- One owner emphasized that "uncertainty is created by the complexity surrounding all the bits and pieces of the technology," including how the technology integrates with everything else we're doing and everything required to make money with it.
- Another warns that "we cannot invest in hopes. A lot of new tech is coming out that is a hope....It is better to take something that is working and start making money with it, then wait for a hope to work and then hope you will profit from it." The solution, which we explored in depth later in our survey:

*Replace hope with fact and minimize uncertainty through a rigorous capital investment process.*

# Investing in Employee Development

The return on capital equipment ultimately depends on the skills of the employees who will operate the equipment, market and sell its capabilities, evaluate how its performance compares with expectations, etc. Consequently, we asked participants in our research how much they typically invest per year in employee development, whether they expect to increase, decrease, or maintain their investment rate over the next three years, and which sources of employee development they rely on most.

We defined employee development as all training and education (seminars, conferences, vocational courses, college courses, etc.) provided to all employees, not just production personnel. As with capital investment, we measured average annual investment as percent of sales to establish trend and correct for differences in company size.

## *Highlights*

**Investment in employee development is limited.** 35.4% invest 0.5% or less of sales annually and 66.7% invest 1.0% or less. Another 9.1% aren't sure how much they invest, and 2.0% limit employee development primarily to the training received when they purchase new equipment, hardware, or software. Just 3.0% invest 2.0% or more. *(Table 7)*

**A little more than one-third (33.7%) plan to increase their investment rate over the next three years,** well below the 53.1% who plan to maintain their rate. Just 1.0% plan to lower the rate and 12.2% aren't sure what they are going to do. *(Table 8)*

**Suppliers of capital equipment are a key source of employee training for 77.9% of our survey group,** the highest percentage by far. Graphic communications trade associations come next at 50.5%. Among academic institutions, 10.5% draw on technical/vocational schools, 7.4% on non-graphic communications colleges, and 3.2% on graphic communications colleges. Nearly 35.0% cite

**Table 7: As a percent of sales, about how much do you typically invest in employee development each year? Please include all training and education investment (seminars, conferences, vocational courses, college courses, etc.) and include ALL employees, not just production personnel.**

| Employee Development Investment Rate | Percent |
|---|---|
| 0.5% or less | 35.4% |
| 0.5%+ to 1.0% | 31.3% |
| 1.0%+ to 1.5% | 15.2% |
| 1.5%+ to 2.0% | 4.0% |
| More than 2.0% | 3.0% |
| Aren't sure/don't track | 9.1% |
| Employee development is primarily limited to the training received when we purchase new equipment, hardware, software, etc. | 2.0% |

other sources, including online training programs—"Online courses and YouTube have been a great place to learn function-based training," in the words of one company president—franchises, peer groups, internally developed programs, professional training companies, and consultants.

The majority (59.3%) use more than one source, reinforcing that different methods of education, like different methods of communication, are mutually reinforcing, not mutually exclusive. *(Table 9)*

**Table 8: Do you expect to invest at a higher rate, lower rate, or about the same rate over the next three years?**

| Increase | Decrease | Maintain | Not Sure |
|---|---|---|---|
| 33.7% | 1.0% | 53.1% | 12.2% |

**Table 9: What are your most important sources of employee development?**

| Source | Percent |
|---|---|
| Suppliers of equipment, hardware, software | 77.9% |
| Graphic communications industry trade associations | 50.5% |
| Technical/vocational schools | 10.5% |
| Non-graphic communications colleges | 7.4% |
| Graphic communications colleges | 3.2% |
| Other | 34.7% |

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# The Capital Investment Process

Capital investment is a process, not an event. What happens at each step of the process contributes to the desirability of the outcome. We investigated two make-or-break steps: the evaluation of investment alternatives, or deciding which to pursue, and the post-investment evaluation of how well an investment is meeting expectations. For the big picture, we asked our research group what they would most like to improve about their capital investment process.

## *Highlights*

**Multiple factors are considered when making a capital investment decision.** Three factors—potential revenue stream, cited by 74.5%; the value proposition the investment will support, cited by 58.2%; and the level of competition in the target market, cited by 41.8%—reflect the consensus one member of our research group expresses so well: "We are not a 'build it and they will come' company. We are very thoughtful and measured in our capital investment strategy."

Many consider both current clients and potential clients. But the former are clearly the focus: 58.2% consider how much value the investment will create for current customers, well above the 33.7% who consider developing a customer base prior to acquisition and the 17.3% who consider the investment's value in customer/market acquisition. Finally, 45.9% consider the cost of employee training—including sales training—in evaluating investments, which raises the question: Is it encouraging that nearly half do or discouraging that more than half don't? *(Table 10)*

**More than 90.0% use formal financial analysis in making capital investment decisions,** with 72.4% projecting ROI, 67.3% profitability, and 65.3% potential revenue. Just 29.6% project internal rate of return. But its advocates are staunch: "We have a preset IRR and are fiercely dedicated to that metric above all else." *(Table 11)*

**Table 10: Prior to making a capital equipment acquisition, what do you consider before going to contract?**

| Response | Percent |
|---|---|
| Running revenue streams on ROI (Total Available Market, Rate of Return, Serviceable Available Market, etc.) | 74.5% |
| Existing market value add-on (service to add value to current customer base) | 58.2% |
| Developing a value proposition prior to acquisition | 56.1% |
| Staff training related to both new equipment training and sales development training | 45.9% |
| Market saturation with competitors | 41.8% |
| Developing a customer base prior to acquisition | 33.7% |
| New market acquisition (requiring you to find new customers) | 17.3% |
| Other | 5.1% |

**Nearly two thirds (66.3%) monitor whether an investment is meeting expectations "somewhat closely,"** 27.5% "very closely," and 6.1% "not very closely." *(Table 12)*

**Nearly every company we surveyed would like to improve something about their capital investment process and 62.4% would like to improve more than one thing.** Better information on which to base investment decisions is priority #1, as it was in 2010 when we completed our previous capital investment survey despite the explosion of information since. The upgrades they'd most like and the percent citing each:

- More unbiased, agenda-free information, 41.9%. A representative comment: "RE: 'agenda-free.' I get too many calls from passionate representatives of businesses with whom we have done business over the years. Within 30 seconds it is obvious that they know nothing about our business but are trying to sell us something that will 'help' us achieve greater success. Just stop. Take the time to learn who we are first and then suggest what might meet a need we have rather than trying to suggest we have needs that are not being met."
- Better supplier engagement, more relevant market research from suppliers, 38.7%.

**Table 11: Which, if any, financial metrics do you project in making capital investment decisions?**

| Response | Percent |
|---|---|
| Return on investment | 72.4% |
| Profitability | 67.3% |
| Revenue | 65.3% |
| Internal rate of return | 29.6% |
| Don't use formal financial projections/ models in making capital investment decisions | 9.2% |
| Other | 1.0% |

- A broader perspective/more diverse information sources, 23.7%.
- Hearing all views rather than a dominant few voices, 19.4%.

**The same percentage (22.6%) would like to improve post-investment analysis as would like to improve pre-investment analysis.** And the same percentage (8.6%) would like to reach consensus faster/overcome analysis paralysis as would like to overcome the opposite problem of rushing capital investment decisions. *(Table 13)*

**Table 12: Once an investment has been made, to what degree do you monitor whether projections/expectations are being met?**

| Very Closely | | Somewhat Closely | | | Not Very Closely | |
|---|---|---|---|---|---|---|
| 7 | 6 | 5 | 4 | 3 | 2 | 1 |
| 10.2% | 17.3% | 29.6% | 23.5% | 13.3% | 2.0% | 4.1% |

**Table 13: What would you most like to improve about your capital investment process?**

| Response | Percent |
|---|---|
| More unbiased, agenda-free input to help us evaluate investment options. | 41.9% |
| Better supplier engagement. Supplier specialists providing relevant market research, doing more of the legwork, etc. | 38.7% |
| A broader perspective. Our information sources are too narrow. Need more voices/views. | 23.7% |
| Better post-investment evaluation. How did we do? Did we make the right decision? | |
| How do we do better next time? | 22.6% |
| Better pre-investment analysis. Better due diligence. Tend to chase the hot investment. | 22.6% |
| Hear all relevant views rather than a few dominant voices. | 19.4% |
| Help reaching a consensus. We tend to get bogged down. Analysis paralysis. | 8.6% |
| More time to make the decision. Too often we're rushed. | 8.6% |
| Other | 10.8% |

# The Relationship with Suppliers and Manufactures of Capital Equipment: Where It Is

We next evaluated the role of suppliers and manufacturers in the capital investment process by asking these questions: Who in their network provides the most relevant information? How knowledgeable are their account managers? How effectively do they demonstrate the ROI of their technologies? And how willing are they to recommend complementary technologies, whether they offer them or not.

## *Highlights*

**The manufacturer's direct distribution network was voted the most relevant source of information by 47.9% of our research group,** more than the total for independent dealers (14.9%), consultants (10.6%), and allied suppliers (8.5%) combined. Nearly one-fifth rated sources ranging from their peers, peer groups, and franchise to "crowd source" as most reliable. Several emphasized that they have no single most reliable source of information, relying instead on "all of the above." *(Table 14)*

**Account managers are "somewhat knowledgeable" about their products, services, and competitors according to 56.8% and "very knowledgeable" according to 35.8%.** *(Table 15)*

**Suppliers can "sometimes" demonstrate the ROI of their technology according to 54.7% and "rarely understand my business enough to drive ROI" according to 21.1%.** Just 13.7% find suppliers "very capable of demonstrating ROI of their technologies." *(Table 16)*

**Suppliers can "sometimes" suggest complementary technologies to support the investment being considered according to 56.8% and "rarely" according to 27.4%.** Just 11.6% rate suppliers "very capable" of recommending complementary technologies.

**Table 14: When engaging suppliers, from whom do you believe you get the most relevant information?**

| Response | Percent |
|---|---|
| Manufacturer's direct distribution network | 47.9% |
| Independent dealers for a product or service you are researching. | 14.9% |
| Industry consultants. | 10.6% |
| Allied suppliers to a product or service you are researching (i.e., paper supplier looking for information on a digital sheetfed press) | 8.5% |
| Other | 18.1% |

**Table 15: When researching information to make a purchase from a supplier, do you feel your account manager is:**

| Response | Percent |
|---|---|
| Somewhat knowledgeable about their product/service and competing suppliers. | 56.8% |
| Very knowledgeable about their product/service and competing suppliers. | 35.8% |
| Not very knowledgeable about their product/service and competing suppliers. | 4.2% |
| I do not rely at all on information provided to me by the suppliers I engage. | 3.2% |

**Table 16: When gathering information from suppliers, which best describes their ability to understand how their technology can be implemented and demonstrate the ROI?**

| Response | Percent |
|---|---|
| Sometimes my suppliers can demonstrate the ROI of their technologies. | 54.7% |
| Rarely my suppliers understand my business enough to demonstrate their ROI | 21.1% |
| I find my suppliers very capable of demonstrating the ROI of their technologies. | 13.7% |
| I do not rely at all on my suppliers to do business analysis on their technologies. | 10.5% |

**Table 17: When gathering information from suppliers, which best describes their ability to suggest complementary technologies to maximize your investment even if it is not something they sell or offer directly?**

| Response | Percent |
|---|---|
| Sometimes my suppliers can suggest auxiliary technologies to me. | 56.8% |
| Rarely my suppliers suggest auxiliary technologies to me. | 27.4% |
| I find my suppliers very capable of suggesting auxiliary technologies to support my investment. | 11.6% |
| I do not rely at all on my suppliers to do business analysis on their technologies | 4.2% |

# The Relationship with Suppliers and Manufactures of Capital Equipment: How to Improve Further

**We concluded our opening round of research by asking how suppliers and manufacturers of capital equipment can be more helpful. What should they do more of? What should they do less of? The responses from our diverse research group distill to this:**

**Listen more; talk less.** Learn about my company. Ask questions about where we are, where we want to go, and what we need to get there before trying to sell us.

- "They should ask more open-ended questions about my business, listen more to the answers, and talk less about how good their product or service might be and what it can do for me."
- "They should try to gain a better understanding of our overall business challenges and goals, rather than simply trying to sell a piece of equipment or software. Often, suppliers attempt to simply sell products we can afford, rather than working to place products that can add tangible value to our clients."
- "Be willing to suggest multiple alternatives and ways to problem solve. More informed about our specific business goals before suggesting solutions for the business."

**Talk ROI.** Cover everything we'll need to make the investment profitable. Talk customized for our specific circumstances, resources, and capabilities, not canned.

- "Help you see the larger picture of what it will require to implement this investment and all associated items that will be required."
- "Besides their widget, what else do I need to make it truly profitable?"
- "Listen better. Listen to what I need and to what I do. Do not provide 'canned' solutions. Provide 'customized' solutions."

**Give us independent sources, facts, and supporting evidence.** Case studies, white papers, reports from the field, references we can speak to directly, etc.

- "Provide financial information to allow us to do the ROI calculations. Financial information received is biased towards justification rather than making an informed decision."
- "Provide better references of companies using the product. Provide more help with the product instead of trying to make a sale."
- "Less selling and more field case studies with proven financial ROI."
- "More hard numbers to determine effects of my investment, i.e., profitability after installation based on my present sales."
- "They should provide more information on both pros and cons of the items, providing a more balanced and holistic view, rather than just promoting/selling."
- "Be truthful about their product's capabilities and not make me be an investigator."

**Stop talking about the shortcomings of your competitors.**

- "Fair comparative analysis among competitors is welcome. We cross-check data points, but they should know the market best, and we find their industry perspective helpful."
- "I'd like them to know the benefits of their competition and not just tell me the problems."
- "More demonstrating value. Less saying what is bad about the competition—less BS."

One owner speaks for many when he issues this warning: "Bring new tools to the table all the time—not just their bandwidth, but many. Ask me questions about new technology and feed me the information they have gathered from all of their clients. I am always looking to learn something new, and my supplier should be one of the points feeding me this information. If not, and some smart person comes in and is willing to educate me, my other supplier might find I am not buying from them anymore. Connect me with people that can help my business—that can be a new employee, client, or vendor."

# Participant Profile

**Number of Companies Surveyed:** 104

**Company Type:** 66.3% of our research group define themselves as a combination of company types rather than any one type. Majorities include general commercial printer (60.6%), provider of mailing services (54.8%), or both in their descriptions. Provider of fulfillment services is included in the descriptions of 43.3%. Wide/grand format printer, provider of marketing services, and quick printer are included in the descriptions of between one-third and one-quarter. *(Table 18)*

Niche printer includes specialties such as statement/transactional printing, folding cartons, labels, packaging, all-digital book and manual manufacturing, business forms, weekly display advertisers, direct mail, promotional cards, and envelopes.

**Company Size:** Annual sales (all sources) range from less than $500,000 to more than $250 million. Nearly 70.0% are between $1 million+ and $5 million (37.9%) or $5 million+ and $20 million (31.3%). Companies with sales of $1 million or less make up 9.7% of our sample and companies with sales greater than $40 million make up 7.7%. *(Table 19)*

**Location:** 92.3% are located in the United States, 5.8% in Canada, and 1.9% in other nations. Among participants located in America, 30.8% are in the Midwest, 26.0% in the East, 19.2% in the West, and 16.3% in the South.

**Table 18: Company Type**

| Company Type | Percent | Company Type | Percent |
|---|---|---|---|
| General commercial printer | 60.6% | Quick printer | 25.0% |
| Provider of mailing services | 54.8% | Niche printer | 20.2% |
| Provider of fulfillment services | 43.3% | Service bureau | 5.8% |
| Wide format/grand format | 31.7% | In-plant (including education) | 2.9% |
| Provider of marketing services | 30.8% | Other | 9.6% |

**Table 19: Company Size**

| 2016 Sales (all sources) | Percent | 2016 Sales (all sources) | Percent |
|---|---|---|---|
| Less than $500,000 | 2.9% | $10M+ to $20M | 16.5% |
| $500,000 to $1M | 6.8% | $20M+ to $40M | 13.6% |
| $1M+ to $3M | 22.3% | $40M+ to $100M | 3.9% |
| $3M+ to $5M | 15.6% | $100M+ to $250M | 1.9% |
| $5M+ to $10M | 14.6% | Greater than $250M | 1.9% |

**Sales Growth:*** Sales (from sources) were up an average of 11.7%, or 3.9% per year, over the last three years for all companies surveyed; up 37.5%, or 12.5% per year, for the top fifth; and down -4.8%, or -1.6% per year, for the bottom fifth. In comparison, our industry's total sales increased 5.4% between 2014 and 2016, or by an average of 1.8% per year, according to Idealliance estimates. *(Table 20)*

**Profitability:** Average annual pre-tax profitability (pre-tax income as a percent of sales) over the last three years ranges from 2.0% or less to more than 20.0%, with 26.8% averaging 2.0% or less and 35.6% averaging more than 10.0%.

**Table 20: Change in Total Sales Over Last Three Years**

| Group | Full Three Years | Per Year |
|---|---|---|
| All Companies Surveyed | 11.7% | 3.9% |
| Top 20% | 37.5% | 12.5% |
| Bottom 20% | -4.8% | -1.6% |
| Industry** | 5.4% | 1.8% |

** Because performance greatly affects capital investment, we included percent change in total sales and average annual pre-tax profitability in our participant profile, measuring both over the last three years to establish trend.*

*** Idealliance estimates. See* State of the Industry Update, *Summer 2017.*

**Table 21: Profitability**

| Rate | Percent | Rate | Percent |
|---|---|---|---|
| 2% or less | 16.8% | 10%+ to 12% | 10.9% |
| 2%+ to 4% | 10.0% | 12%+ to 15% | 7.9% |
| 4%+ to 6% | 12.9% | 15%+ to 20% | 8.9% |
| 6%+ to 8% | 15.8% | Greater than 20% | 7.9% |
| 8%+ to 10% | 8.9% | | |

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# Next Steps

We will continue to add members to our research panel to build the program's breadth and introduce telephone interviews to build its depth. As participation grows, we'll break results out by company type, size, and performance. We will build on what we learn, as all quality research does, gaining knowledge and insight each time. And we will both answer questions and raise new one, such as the following:

- How do the most consistently profitable companies manage their capital investment process and how does that contribute to their success?
- How can we improve each step in the capital investment process? What are the must-dos?
- Which online sources of employee training do our research panel find most valuable? Why?

What would you like the Idealliance Capital Investment Research Program to cover? Want to know more about participating and having access to its complete results?

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# Appendix 1: Successful Capital Investment Planning Requires a Strategic Approach

**By Ken Garner, Idealliance Senior Vice President**

Companies operating in our industry's supply chain are typically capital intensive businesses. Success can often depend on the effective investment of capital in the necessary hardware, software, and staffing required to create a competitive advantage. Maximizing your return-on-investment demands a strategic approach requiring the participation of multiple stakeholders. Here is a list of very basic considerations that successful companies think about as they build their capital expenditure strategies:

- **Success Requires Effective Proactive Planning.** Capital investment planning should be part of an annual business planning exercise, but should have a much longer multi-year horizon. In many cases a major equipment installation or significant IT commitment can take more than a year to plan and execute. Part of the goal should be proactive planning that smooths out major expenditures over an extended period of time and eliminates the need for surprise expenses related to unplanned capability replacements.
- **Success Requires the Participation of Multiple Stakeholders.** Investment decisions shouldn't be made exclusively by the top executive or the senior management team. Plant floor equipment operators often know more about what is needed than management. They need to be consulted regarding the elimination of constraints and required equipment capabilities.

  The voice of the **customer and the marketplace** need to be prominent. What do your customers want, need, and expect that you are not currently delivering? Is more automation required to make your pricing more competitive? What capabilities are your competitors investing in?

  Hopefully you see the vendors and suppliers you deal with as true partners. They are excellent sources of marketplace news. They can provide sophisticated approaches to investment break-even time frames and expected ROI. They should be committed to helping you make the absolute best decisions related to equipment and software solutions. Of course, their commitment to training and post-purchase support will be critical to success.

  Your **banking or financing professionals** can be a great source of advice regarding payment options and metrics to measure the financial contribution your investment is making to your company. Of course, certain covenants and restrictions may be present on existing lines-of-credit or loans that need to be satisfied.
- **Installation and Ramp-Up Execution Needs to Be Precise.** Poor installation and/or a longer than anticipated ramp-up can seriously erode your anticipated ROI. Make sure you and your team have invested the required time to carefully plan every element of the installation to ensure a trouble-free ramp-up to anticipated levels of productivity.

# Appendix 2: Have You Included Cybersecurity in Your CapEx Plans?

**By Ken Garner, Idealliance Senior Vice President**

A recent article appearing in the July/August issue of *Chief Executive* magazine, "Cybersecurity: The Battle Continues," written by Peter Haapaniemi sparked the question that led me to think about how many of Idealliance's members are incorporating some consideration of cybersecurity into their business planning processes. More specifically, I'm curious about how many of you are actually planning to spend money to protect important company data.

Some of you may be thinking that cyberattacks only happen to publicly traded, *Fortune 500* companies. We've all read about the notable cyberattacks on major companies and retailers. Even entire nations are being attacked as sophisticated crimeware, developed by rogue nations, is being given to organized crime groups for the purpose of extortion.

I would suggest, however, that the time is near when any dissatisfied customer or angry ex-employee can access easy-to-obtain crimeware to launch an attack on any of our companies or organizations. Or a contract or business relationship with a much larger company may expose you to risk. And with many of us moving our data management to cloud-based solutions, we may be more vulnerable than ever.

## What Can You Do?

To counter this threat, begin by educating yourself and your team. Learn from experts in the field of cybersecurity. For example, the article mentioned above makes the following points:

- Your IT department is still the key to security. They need to make sure you are consistent with all best practices related to IT security.
- Become familiar with current corporate security technologies. Make sure that any technology you employ does not violate legal or ethical boundaries.
- Understand the risks associated with entrusting a cloud provider with your data. While there are obvious risks you should be familiar with, you should also know that most reputable cloud providers employ more sophisticated approaches to security than most small or mid-sized companies.
- Understand that the weakest point in your approach to cybersecurity is not related to the systems or technology you use, but more dependent on the people you employ. One motivated employee can render even the most sophisticated defense system useless. The article points out that you also need to consider vendors, supply chain partners, and former employees.
- CEOs and other executives who have easy access to important systems and data represent a risk as well. The article points out that the "FBI reported last year that spear-phishing scams that use fake executive emails to direct payments to phony vendors had cost companies $2.3 billion in the previous three years."
- You may want to consider developing a contingency plan that would lay out your response to an attack.
- Most of us can't afford to hire a Chief Information Security Officer, but someone on staff should be given the responsibility of becoming your company's cybersecurity expert. Again, being informed and educated is the most important first step you can take to protect your company from an attack.

Returning to the first question, I'm most interested in what, if anything, you are doing related to the threat posed by cybercriminals. Let me know at kgarner@idealliance.org.

# Appendix 3: Capital Investment: Lessons Learned, Recommendations

**From Michael T. Kellogg, Chief Executive Officer, Century Direct, LLC:**

First things first. Always have a budget and keep your cap ex within the budget. This does two things. First, it makes you go slower and think about how that cap ex is going to pay for itself. If it comes within the context of a budget, some of the superlatives that your salesman is espousing regarding ROI will play itself out within that format. Secondly, if it is within the context of a budget, you might find that there are other opportunity costs with a cap ex that you had not considered, i.e., you might not be able to do something else that is pressing if the numbers don't pan out in the budget. Makes you consider all things within the context of the entire business.

### What Should You Be Doing?

If you are considering a particular piece of technology or equipment, speak to everybody who will talk to you about that equipment, all of the competitors in the space and how that piece fits with your overall service offerings. What complementary equipment is truly needed to be effective? Is the skill set in place to get up and running efficiently and quickly? What help does the supplier provide? Can you buy the service to see how it goes before buying the equipment? Turn over all the rocks. And remember that brand isn't everything.

### What Shouldn't You Be Doing?

Don't follow the crowd like a lemming. Popular sentiment doesn't pay the bills. In this business differentiation is what attracts new business. How does a cap ex move that dialog along with prospects and existing customers? "We are different from our competition because…." If it doesn't add to that equation, think again as to whether that cap ex is the right one.

### Three Recommendations for Successful Capital Investment

1. Look around for good leasing companies and negotiate every term of the lease. Terms are negotiable.
2. Try before you buy. Many new technologies are looking for a place to land. If it seems like a fit but it's hard to define the landscape, work out something that will give you an escape hatch if it doesn't work.
3. Be disciplined from a budgetary point of view. It's easy to talk yourself into an aspirational budget, especially top line relating to the new, latest and greatest equipment: "It's going to bring new sales; it's going to save us a lot of money on production." Be very critical of your natural disposition to be enthusiastic and optimistic.

**From David L. Zwang, Principal Consultant, Zwang & Company:**

This report provides an excellent landscape of what service providers are thinking and, more importantly, how they are spending money on their business. I believe that one of the most encouraging statements in this report is that service providers are focusing their spend on workflow optimization over equipment. This is one of the first times I have seen this, and hope it is a long-term trend.

Hardware purchases 'seem' safe and easy to calculate an ROI, however infrastructure and workflow optimization are what adds the value to whatever hardware you do purchase, and it keeps on giving. The decisions on infrastructure and workflow optimization can be a little more difficult to analyze in advance, both in terms of return on investment as well as how to map an optimized workflow and where to start, but when done properly offer significant and quick return. If you are having difficulty doing that analysis, there are many outside resources that can help.

The one spending item that I did find rather shortsighted was how little service providers are spending on employee training. Your employees are the lifeblood of your company. Without their education and recognition, your company will never reach its full potential.

**From Cory Sawatzki, Director of Digital Printing Technology, CGS Publishing Technologies International, LLC:**

The uses of this report are actually quite polar. I read this report two times in a row with exact opposite mentalities each time. The first time is to catch up with the direction the industry is moving and compare the moves of my aligned partners to the trends of the whole. Then I will go back and read it again, focusing on areas of growth in technology where adaptation may not be keeping up.

This allows me to see voids where new opportunity may exist. If I can see what is coming based on new technology, I can be early to market with the next trend. This report from Idealliance is one that I wait for. So much so, I debated writing about it as to keep it my own trade secret.

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# Notes

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