

Printing Industry ✓



**The number
one problem of the
printing and
lithographing industry;**

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A SPEECH BY ARTHUR A. WETZEL, PRESIDENT,
PRINTING INDUSTRY OF AMERICA, TO PRINTERS
AND LITHOGRAPHERS OF PHILADELPHIA, KNOXVILLE,
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Arthur A. Wetzel
speaking on the number one
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It is a great pleasure as well as an honor to be privileged to appear before you today. I am always happy to be among my colleagues anywhere, and for the next few minutes I wish to speak as one printer and lithographer to his fellow businessmen about our mutual problems.

The problems we have in the printing business are legion, of course. But at the risk of seeming to over-simplify the situation, I am going to state at the outset that basically we really have only *one* problem, to which all others are subordinate.

That problem is: How can we fight the profit squeeze that is upon us?

First, I will describe the conditions which have induced the current profit squeeze, then I will suggest some avenues of escape from it, or ways and means of combatting it.

There is, I believe, ample evidence that we are actually in or entering in a period of dwindling profits that threaten to reach the danger point for many companies. The Pre-

liminary Ratio Study Report for 1951, of Printing Industry of America, while not entirely conclusive because it is based on a comparatively small sample, does indicate a drop in profits *before* taxes.

Early this year some forty men, representing leading printing and lithographing establishments in all parts of the country and meeting in Chicago as members of the Printing Industry of America Committee on Business Controls, were asked to report on business conditions in their areas. The consensus was that, while volume was up 7 to 10 per cent, profits were lower.

One conclusion we may draw from this survey is that more volume itself is not necessarily the way to better profits. But that is an idea I want to develop later in my remarks.

I merely mention the survey at this point as one indication of where we seem to be heading.

What are the reasons for the current poor profit showing? First of all, of course, is high taxes. It is one thing that we can do little or nothing about, for the present at least. As a nation we are committed to an expensive rearmament program supported by high taxes. This program and tax levies to support it are likely to continue with little relief for the next two years, regardless of what administration comes into power next year. Beyond that period there should be some tapering off, but we will still be supporting a permanent armament program at a rather high cost level.

The printing industry, of course, is not alone in suffering from high corporate and excess profits taxes. Net profits before taxes for all American corporations last year amounted to 44.8 billion dollars, but federal taxes cut this figure to 18.1 billion dollars, which was 4 and three-quarter billion dollars less than the year before.

But printing establishments, being mostly small unit businesses, feel the tax pinch more than larger corporations in other industries. As a rule they have neither the reserves nor the borrowing power to cushion the financial shock of high taxes. The printing business has never had a lush period that was lush *enough* nor lasted long enough to build up adequate reserves to withstand a prolonged profit squeeze.

A very large portion of the comparatively good profits the industry earned from 1946 to 1948 were plowed right back into the business to modernize plants which had been suffering from obsolescence for ten long years of depression and war. Consequently, rapidly increasing taxes have caught us without adequate liquid reserves.

I don't want to dwell too long on a situation we can do very little to remedy. But the point is, we can't escape high taxes in the foreseeable future, and the top executive who in his future planning does not take taxes into consideration as a major cost of doing business is likely to wind up behind the eight ball before he gets started.

Another major reason for our predicament is rising labor costs which have not been accompanied by commensurate increases in productivity. Since the war we are witnessing a strange phenomenon. It is strange in the sense that wage boosts are granted essentially on the basis of cost of living increases. Many companies have failed to give consideration to the need to increase productivity to match the wage boosts that are granted labor.

Management feels, on the one hand, that labor has no consideration or understanding of its problems. Labor, on the other hand, has a feeling that management has no understanding of its problems. It seems to me then, that there is need for a program within printing companies to establish a better relationship with its personnel. One of the inevitable results of developing a better relationship will be an increase in productivity.

Also contributing to the profit squeeze is the high cost of materials and overhead items. The high price of equipment is an important cost factor, too, if you carry it as a depreciation account at its true replacement value. So far I have talked about only one side of the squeeze. Just as it takes two people to make a bargain, or two to start an argument, so does it take two opposing pressures — two arms of a vise — to develop a squeeze.

I have mentioned the elements of what I call the upward part of the squeeze — higher taxes, higher labor costs, higher materials and overhead costs, and depreciation.

The downward part of the squeeze is composed of a mixture of competition, customer resistance to higher prices, and the timidity of printing management.

Part of the trouble — and it is a chronic ailment of the industry which becomes acute in times like these — is printing management's inability or unwillingness to face the simple economic fact of life that you can't continue to pay more and more without selling for more, *unless* you can find ways of getting more — more production — for what you pay. Too many printers lack the courage of their own convictions that they should ask a fair price and make it stick.

Implied in the statements I have just made are the solutions to the problem I have posed: How Can We Fight the Profit Squeeze? It is the theme for the remainder of my talk which I am going to move into abruptly by saying that there are *three* avenues of escape from the profit squeeze; three ways to fight it. They are:

1. Reduce costs.
2. Increase productivity.
3. Sell more.

Before I go into a discussion of these three points, let me say that my talk in general follows the patern of the next Printing Industry of America convention, this October in St. Louis, where discussions will be developed around the central theme: "More Profits Through Better Management." As the convention is shaping up at the moment, there will be an entire session devoted to costs, another

to productivity, another to sales.

Let's begin now to construct that wedge, starting with the pointed end we are going to insert between the two arms of the profit-squeeze vise to pry them apart — to give some breathing space to the constricted profit dollar.

1. REDUCE COSTS.

Any attempt to reduce costs must be more than a hit or miss affair. Cost reduction must proceed according to plan, *and*, intelligent, purposeful planning must be based on knowledge. Certainly a knowledge of costs and cost finding are the necessary base for any program of reducing costs. How can you improve a situation if you don't know the facts of that situation?

Lack of cost information is the cause of most cut-throat competition. The printer who, come hell or high water, is going to undersell you, is the one who doesn't know his costs. But, although he may depress the market for the time being, he is really not the one you have to worry about in the long run. You know he is committing economic suicide, perhaps slowly, but surely.

It is the successful printer who knows his costs and still undersells you that you need to be concerned about. That is competition of the highest order, the kind that strengthens the industry because it challenges you and other printers to find ways of reducing costs and improving productivity.

It is not enough to know, *after the fact*, whether you have made or lost money. You

need to know, *now*, just *where* and *why* you are making or losing money. Only a good cost system can give you this information, at the time you need it.

A good cost system is necessary to intelligent pricing, to the planning of sales with the most profitability. An analysis of your costs will enable you to move in two directions in your efforts to improve your profit picture. It will point up those departments or cost centers in which your costs are out of line, so that you can concentrate your cost reduction efforts in those areas.

Secondly, and perhaps more important, it will tell you what products are more profitable to manufacture. Let's assume that your analysis shows you have your costs down to an irreducible minimum. But that same analysis will show that some products are more profitable than others because they cost less to produce. That's your clue to revise your sales and marketing program to put more push behind the profitable items. I'll have more to say about that when I come to the third and last segment of my profit-widening wedge, Selling.

There are, of course, management tools available to you that will help you put your house in order cost-wise. It is not my primary purpose today to promote the management services of Printing Industry of America and its local associations, but I would be derelict in my duty and a traitor to my own convictions if I did not at least mention them in passing. They have been developed by

competent, practical men in our own industry who are interested in helping us solve the very problems we are discussing today.

There is the PIA Uniform Accounting and Cost Finding System and its companion piece, the Simplified Cost Finding System. Many members are using one or the other of these systems, but many, many more *should* be using them.

Another valuable management tool is the Ratios for Printing Management published annually by Printing Industry of America. Among its many uses is one which fits right in with our consideration of cost reduction. Properly used, it will point with a warning finger to weakness in your operation, to danger spots in your cost picture which need correction. It is an indispensable companion piece to your cost finding system. The latter will tell you what your costs *are*; ratios will tell you if they are out of line with normal industry experience.

II. INCREASE PRODUCTIVITY.

Now we come to Item No. 2 in our plan to beat the profit squeeze — Increasing Productivity.

Here is where management too often adopts a defeatist attitude. Labor costs are up, men and machines will produce just so much, there is very little we can do about it.

I say something can be done about it and that management is abdicating its management responsibilities if it doesn't try systematically and aggressively to increase produc-

tivity, and to win the cooperation of its workers in such a program. Again, I must mention the efforts of Printing Industry of America in this connection by pointing out that one of its newest and most important service is designed to attack the problem of productivity. I refer of course to PIA Production PAR.

The value of PIA Production PAR has been greatly enhanced by the publication this month of a new section entitled "How to develop your own data with the aid of PAR". The simple procedures outlined in this new section, employed in conjunction with PAR production data on most of the presses commonly used in the industry, will enable you to measure the performance of each of your producing units, translatable in terms of men, machines, and methods.

It will direct you to those phases of your operations that should be improved if you are to attain real efficiency in your plant. It will show you where and how you can increase your production substantially without additional expense, thus recovering profits now being lost.

The fact that printing management has not made much progress toward increasing its productivity is probably due mostly to its failure to recognize and cope with the human factor.

In this connection I have been interested in reading, in *Nation's Business* and the *Saturday Evening Post*, Peter F. Drucker's articles about the reactions and conclusions of the teams of

European businessmen and technicians who have been touring this country since 1949 to learn the secret of American productivity.

They discovered, for one thing, that it is *management* which makes wheels go round. The team from the British letterpress printing industry concluded that productivity is an attitude of mind, rather than merely the results of techniques, processes, and gadgets.

And, most important of all, they recognized the importance of the human factor in productivity. They concluded that industrial training, management development programs, the opportunity for workers to rise to the top, are important factors in America's productive capacity. Among the things they observed and remarked on were such factors as the informality of plants and offices, the attention paid to making work easy for the worker, and the skill of the foreman in leading his people.

What it all adds up to in the minds of our foreign visitors, according to Mr. Drucker, is that this country avails itself of a much higher percentage of its human resources than their own.

We in the printing industry have been slow to recognize the importance and potentials of our human resources. I am happy to say, however, that recently we have made an auspicious start in that direction. I refer to the Foreman's Management Program which is jointly sponsored by the Lithographic Technical Foundation and Printing Industry of America. It is a printing industry adaptation

of the training-within-industry program which was phenomenally successful in helping war plants meet seemingly impossible schedules during World War II.

Basically the Foreman's Management Program is a program to improve communications between management and labor through the medium of front line management — the foremen and supervisors of our plants. The program, on the one hand, gives these men management's viewpoint and, on the other, teaches them the basic human relations principles of leadership.

The end result is better understanding of management's motives by the workers. They know the score, and knowing inspires a desire on their part to *want* to be a member of the team.

The rapid growth and widespread acceptance of the Foreman's Management Program is most gratifying. It is less than a year and a half old, but already nearly 1700 foremen and supervisors in our industry have attended classes conducted by trained instructors. The impact of the program does not stop, of course, with these 1700. In fact, the benefits just begin with their completion of the classes, as they put into practice in their jobs the principles of management and human relations they have learned.

Let's assume an average of 10 men under each of these supervisors. This means that within a year and a half nearly 20,000 printing plant employees and supervisory personnel

in the industry have benefited by the program. And thousands more will be added as the program continues to expand.

One of the things that is resulting from this program is the development of a group of trained men through whom future programs can be channelled. For example, these men have had some instruction in the basic principles of Work Simplification, which is one of the simplest but most scientific and successful techniques ever devised to enlist the cooperation of workers — of our human resources — in a program to bring about a better relationship among an entire working force.

III. SELL MORE.

Now we come to the third avenue of escape from the profit squeeze, the third and widest segment of the wedge which is going to pry apart the arms of the profit-squeezing vise.

We have analyzed our costs and pared them where we can. We have initiated programs to increase productivity. We have put our house in order — but to what purpose?

To sell printing, of course. But what kind of selling, what kind of printing? As we have seen, just selling more printing is not necessarily the answer. An increase in volume may not mean an increase in profits.

No, we need to do two things: Sell more creatively, and sell more profitably.

By selling more creatively I am not talking about performing a creative idea, art, and layout service for customers, although some printers and lithographers are quite successful

in that direction. I am talking about creating new markets, new uses for printing. It is the kind of selling that is sometimes called "taking work out of competition."

Reaching for volume merely by taking jobs away from competition, even if you can do it profitably, is not good in the long run either for you or for the industry. It depresses the market, starts in motion a vicious descending spiral which will eventually bankrupt large segments of the industry.

Just as our business organizations need new blood from time to time to keep them young and vigorous, so does printing need new markets and new sources of business to keep the industry from stagnating. And to the progressive printer who steps out to develop and sell that kind of business go many advantages. He is ahead of the competition and within reason can name his own price, because the customer has no comparisons to make. And don't worry about the competition trying to work the same market after you have started it. By that time you will be off in another direction developing still other markets that your competitor may lack the enterprise to recognize and develop. Besides, the competition will help you. If just one printer plants a new idea with a customer it may not take root, but if two or more try to plant it, the customer begins to think there is something to it. Eventually there is a new market for printing for all.

Annual reports and house magazines are two major categories of printing today which

were scarcely heard of fifteen years ago. A number of enterprising printers and lithographers had a share in cultivating a demand for those products. Other new uses for printing are developed every day, often by the printer or lithographer who is alert and informed enough to spot trends in other industries and to make the most of them.

The European visitors, incidentally, noted this facet of our American economy, as it contrasts with theirs. Said one of them: "We in Europe put our stress on the actually existing market which we tend to take for granted. You look for the potential market. We consider it our job to fill existing demands; you in the United States go out to create demands."

Basically the European businessman's concept is that of a given, static market. Hence a new product is seen as cutting into the markets of all the existing markets; competition as taking away sales. Our concept is that the market is indefinitely expandable. New products create their own, new demands; competition broadens the market for all.

In order to escape from the profit squeeze through better selling, we need not only to sell more creatively, but also more profitably. By that, I mean we should concentrate our sales efforts on those products or markets which show greatest profitability in our operation.

And here a knowledge of costs comes into the picture again. You don't know what products are the most profitable for you to produce

unless you know your costs on every item.

Let's suppose your cost analysis shows that 75 per cent of your business yields a profit of only 10 per cent before taxes, while 25 per cent of your volume yields a 20 per cent return. Obviously the place to put your sales emphasis is on that 25 per cent of your volume which shows a high return. Reduce, if necessary, the amount you do at the low margin to make room for expansion in the higher profit categories.

Incidentally, you will probably find that the kind of work which yields the highest profit is in the creative field, so that selling more creatively and selling more profitably go hand in hand.

The struggle to make an adequate profit from printing is always with us, even in the best of times. Our capital investment per sales dollar is high, and we are traditionally a highly competitive, low-profit industry. Because our industry is like that, any economic dislocation hits us hard — profits drop to the danger point faster than we can adjust comfortably to the situation.

But I don't believe there is any cause for alarm. We have it in our power to improve our positions, with respect to all factors except taxes, if we but pursue an aggressive, integrated program along the lines I have suggested — the three ways to beat the profit squeeze: reduce costs, increase productivity, and do a better job of selling.

The going may be tough in the period im-

mediately ahead, but the long range view is good. We are one of the nation's biggest and most basic industries. There is room for growth ahead, for all of us individually, and for the entire industry. We must keep our perspective, and remember always that our industry is of the highest importance to the dynamic expanding economy of which we are a part.

I see no reason to believe that our industry will not continue in the direction it has been moving for the past fifty years. The dollar volume of printing and publishing in 1900 was only 347 million dollars. Today, it is at least 6 billion, or approximately 18 times as much. Adjusting for today's depreciated dollar, which is worth only about one-third as much as the 1900 dollar, the true physical volume increase of printing and publishing is in the ratio of 6 to 1. Now during that same 50-year period the population of the country merely doubled, which means that printing and publishing has grown three times as much or three times as fast as the population.

In that three to one ratio lies the clue to success of our economic system. To us in the printing industry it means that printing volume increases not only because the population grows, but also because the standard of living and educational level of the people have risen.

But printing is so closely interwoven with the rest of the economy, with other industries it serves, that what is true of printing is true of the whole economy — it moves forward in a

dynamic manner quite apart from and beyond mere population growth as the needs and desires of the people increase.

The printing industry has made and is continuing to make a distinct contribution to our expanding economy. Its contribution can be stated in this way: If a large part of the printing industry's growth can be attributed to increased activity in the whole economy and to a higher standard of living of the people, the converse is also true — printing has promoted the expanded activity of commerce and industry by communicating information to people and by stimulating their desire for more and better things.

We often say that our thriving economy and high standard of living are based on mass production. But I submit to you that mass production of goods would operate in a vacuum if there were not also *mass production of customers* through printing and its related enterprises, advertising and selling.

When you reflect thus on our important place in the economic scheme of things, doesn't it give you a lift? It does me. It makes me proud of my industry and stimulates me to exert every effort to surmount present difficulties so that I may continue to enjoy the rewards of an industry which really has a great deal to offer those, who play the game aggressively.

That's not just a pep talk. I really feel that way — and I hope you do, too.

I have been conveying to you what might be called an organized approach to the funda-

mental economic problems which now concern our industry. In the course of these remarks, I have made some mention of organized activity by Printing Industry of America to come to grips with these problems. I think it would be well to develop this latter theme in just a little more detail. This theme is that of organization.

Heaven knows, there is a multiplicity of organizations, ranging from the little local citizens association, up through the gigantic union and farm organizations. While I cannot prove it statistically, I think there is little question but that the organization of these scores and scores of groups has proceeded apace and that today the United States is *more* organized than it has ever been before.

Now, this organization did not come about by chance. Whenever there is need for organized effort, some group will attempt it, sometimes abortively, sometimes successfully. Perhaps it also could be said that the most successful organizations are not those, the units of which are most financially able to support organizations. This is a generality with which you may quarrel, but it is certainly fairly obvious that the individual members of unions have not the financial strength of the companies which employ them, and we find that organizations like the little citizens association, the Parent-Teachers Association, and even the social club frequently seem to have a strength not possessed by business organizations. This seems to be because the individual seems bet-

ter to understand the importance of his participation in collective effort. He seems to know that his individuality, his rugged individualism, has a better opportunity if he works with others.

If we follow this logic into our own industry, we find a varigated assortment of circumstances. The strength of our various local and national groups vary. But I feel quite definitely that over the past several years the strength of both local and national organizations in the graphic arts industry has increased and that there has been more and more recognition of the importance of organized effort. Perhaps much of this impetus toward organization has stemmed from the impact of industrial relations situations which required employers to band together, but that is not all of the story by any means.

I have travelled over this country a good many miles in the past several years in my work in Printing Industry of America and in other national associations and there is obviously more and more interest in nearly all of these groups in utilizing themselves not only where they have been more or less forced to, but also where they have seen opportunities for the development of many activities which ordinarily are not engaged in by single companies.

This is also true of local associations. One finds the greatest variety of opportunities in local associations because what they do will depend to a considerable degree upon local

problems. Almost without exception, they are engaged actively in the industrial relations field. The extent to which this activity will be more concerned with the open shop situation or the union shop situation will again depend upon local characteristics. Their activities will range from such things as towel service, to extensive educational operations and into major public relations activity.

In the past several years I think there has been a rather rapid development of trade associations as an important institution. As I have indicated, this has come about not only because of the plain requirement that employers had to organize for purposes of self-preservation, but it has also come about because men working together have found that they could do many things together which they could not easily do separately. Unquestionably this is a good thing but I sometimes feel that even now we are not sufficiently conscious of our opportunities in this direction.

Perhaps it is a trite way of saying it, but it is a fact that your trade association is a department of your business, housed under another roof, but nonetheless a highly significant part of your operation. You are not individually concerned about it every day because it is managed by a professional executive and by elected officers, and because you are not thus involved daily you tend to forget it. You really only come to see how important a department of your business is when the situation requires you to utilize it.

Some companies do not even belong to trade associations. When they are very large, this may be wise, but not in very many cases, in my opinion. Even the great automobile and steel companies find organization essential. If they need it, it is obvious that small unit companies with their much smaller resources need it even more.

I can be entirely modest when I make claims on behalf of Printing Industry of America, because after all I am only one of several men who have had the privilege and honor of being its President. PIA is about six and a half years old. When I recall to you the chaotic state of national organization six and a half years ago, I think we are led to the definite conclusion that Printing Industry of America meets an essential need. In other words, Printing Industry of America was not a gleam in somebody's eye nor a plaything which was organized for the pleasure of a small group of men. It would take many minutes to explain why Printing Industry of America was organized and why it was based upon the federation principle whereby the local association became an integral unit in a national organization which has shown itself to have unusual power.

I need not elaborate further. I say that the mere presentation of the idea to you that both local and national trade associations in this industry are increasing in strength is something which you will readily accept. I do ask you to accept it and to ponder on it because it

didn't happen by chance and it didn't happen
for the benefit of the few.