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Semper International Fourth Quarter 2015 Industry Insight Survey Report

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Executive Summary: Economic Insights for the Fourth Quarter 2015

What a difference a quarter makes! I start off with our introductory line from last quarter on purpose. Clearly the Federal Reserve's Quantitative Easing cutback, recent Chinese turmoil and the threat of the Federal Reserve raising interest rates have started to have a real impact on the overall economy.

In the data, we see that the Third Quarter started off much stronger than previous quarters this year, but ended with some ominous clouds on the horizon. On a strong positive note, last quarter we reported a contraction in profits – and it is a testament to the industry's resilience and flexibility that so many firms made the necessary adjustments in just three months to get profitability back up and increase sales.

In our fourth quarter report you will find:

- Profitability roars back with 84% of firms positive in the third quarter
- Margin holds strong with 50% of companies living in the sweet spot (5-10% margin)
- Some troubling economic indicators surfaced:
    - Sales forecast for the fourth quarter dropped below 50%
    - Less companies are diversifying
    - More companies are concerned about maintaining profitability

As we ended this quarter however, our survey results show marked concern on future business. Businesses are husbanding capital as shown by a fourth consecutive quarter of reduced investment in diversification. We see our respondents very concerned about keeping the profitability gains they made clearly in sight. It seems companies are expecting at least a short-term contraction in business and are looking to conserve resources in preparation.

On the world stage, the middle east is in turmoil and Europe is under siege. The sudden Chinese slow-down, devaluation and brinksmanship with the US are all sending waves through the global economic system. Some might find themselves asking, "When will we finally recover from this economic malaise?"

This year has shown some bright spots: the labor market is consistently stronger and a decent Second Quarter GDP report bolstered consumer confidence. We expect the upcoming Third Quarter GDP numbers will reflect this turmoil and an inevitable hunkering down among businesses in the past few months. Specific to our industry, we know there is considerable excitement and hope for the future. After attending the recent Graph Expo, and seeing the energy in the room, we are excited to see where the next few months take us.

Looking Ahead: What this report means for the industry

As we continue through the traditional busy season we see companies wisely using flexible staffing for demand spikes and hiring as required for core roles. As an industry, have become very good at circling the wagons and holding steady for the duration whenever we smell smoke. The smart companies are continually looking at diversification, capital expansion and market share growth.

Let's get on to the survey report.

David Regan, CEO
Semper International LLC

David Regan is the CEO of Semper International, the nation's largest and most trusted supplier of skilled staff for the print, pre-media, graphic and interactive media industry. With over 20 years of service, David and the Semper team have placed more than 50,000 team members in top companies from Staples and Jack Morton to small and midsized printing and production companies.

Dave cut his teeth early in printing working in—and ultimately managing—his family's small commercial print shop. Always an entrepreneur, he founded several small startups during that time including one of the first MAC rental companies and a Boston-based bulletin board network, precursor to today's community forums.

From these humble beginnings, his first company PressTemps eventually expanded from one small office in Boston to the Semper International of today with ten offices nationwide and two sister companies: PrintWorkers.com, the top printing job board in the nation, and Semper PT, a corporate wellness benefits provider.

David lives in Massachusetts and in his spare time he races sailboats and practices Jujitsu.

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I. Dollars and Cents

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

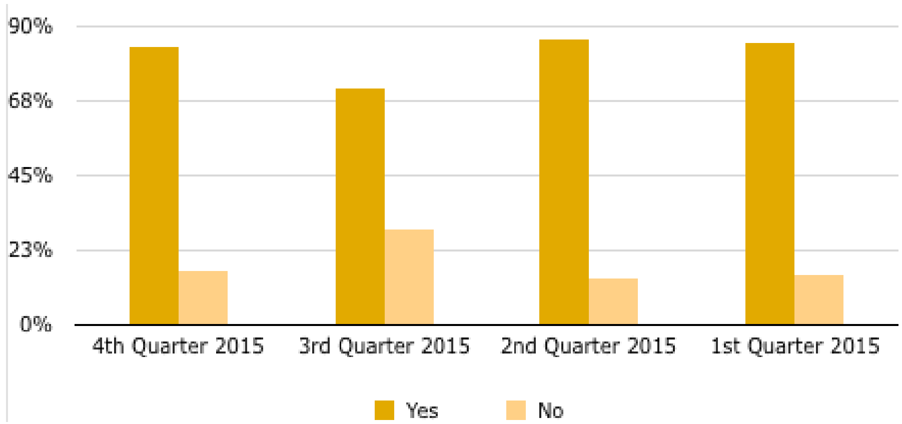
Insight 1: Strong Profits Show Signs of Strength

The third quarter saw the return of strong corporate profits, with 84% of companies reporting profitability – reflecting strong operational control after last quarter's slight dip.

This question reflects the industry's ability to quickly regain our high levels of profitability when demand suddenly shifts. After surviving the last seven-plus years of "recovery," this quick resurgence on the bottom line highlights how incredibly efficient firms have become in keeping profitable, lean and focused on survival.

It's important to keep in mind, however, that some of these lean management skills – which have so much value in a recovery phase - may well end up hurting your firms' ultimate growth potential. A single-minded focus on the bottom line can stall or slow needed retooling and investment in diversification or market acquisition strategies, all of which are necessary for the long-term health of your firm. Over the next several months, keep in mind that long-term success requires a healthy mix of cost cutting strategies and investments for the future.

Quarterly Profits



Question: Did your company have a profitable third quarter 2015?

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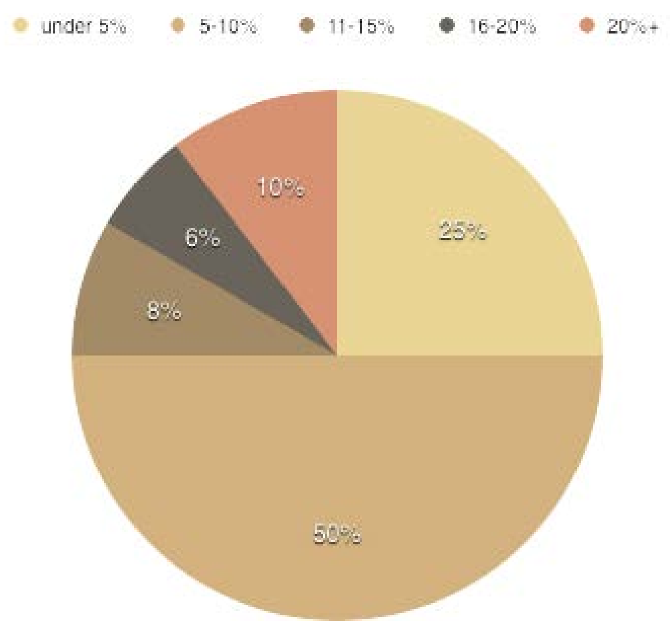
Insight 2: Net margins drop, with 25% making less than 5% net profit

In contrast to our strong profitability results, reported net margin dropped this quarter, particularly among companies who were already struggling a bit.

In our second quarter reporting net margin data, we find that 50% of firms now fall in the 5-10% total net margin range, which is a steep increase from the 39% in the same range earlier this year. Similarly, one in four companies are now posting less than 5% net margin – a possible trigger for some of the more protectionist spending we see in later data. If these results force a series of standalone cost cutting measures, our concern is that reduced spending will casue a reduction of investment in growth areas.

Still, we see that firms in the 16-20% and 20%+ margin segments held steady this quarter, indicating that there are some firms out there who continue to enjoy strong economic growth. Likely, this continued strength is due to continual reinvestment in growth and diversification.

Quarterly Net Revenue



Question: What was your overall revenue as a percent of profits?

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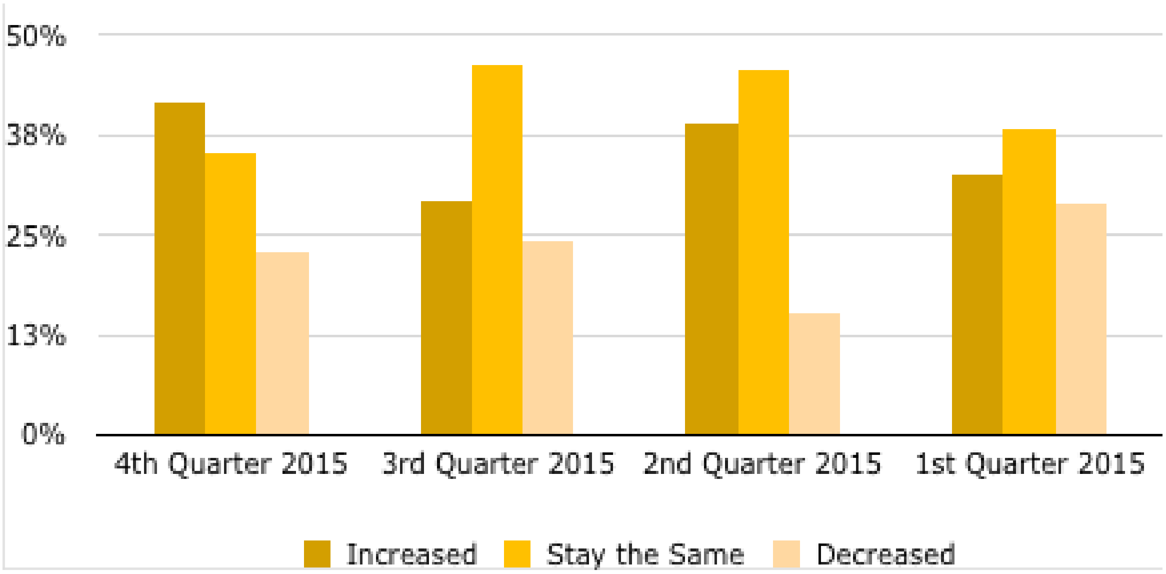
Insight 3: Sales rise 31%

Another positive economic indicator surfacing this quarter is our strong two weeks sales data. This quarter, 42% of firms reported sales growth, up from 29% in the summer months. We also saw a slight drop (1% point) in the firms reporting a decrease in sales – all positive signs for continued economic health in the industry.

However, indexing this sales data against sales outlooks and profitability centers, we see most of this activity was in end-stage production. With a sharp downturn in new orders, this quarter's sales outlooks are decidedly less optimistic.

Sales Changes in the Past Two Weeks



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

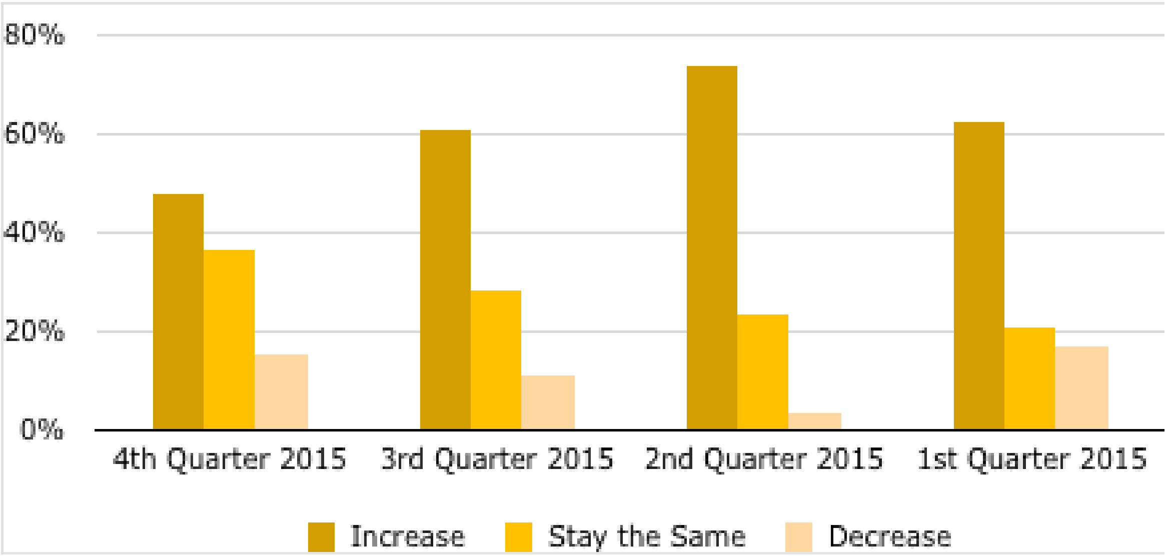
Insight 4: Sharp decline in upcoming sales outlooks

Here is our first storm cloud. Despite strong quarterly sales, profits and the upcoming holiday season, the number of companies anticipating sales growth dropped below 50% for the first time since the 3rd quarter of 2014. This is the second survey in a row to record a decrease in demand expectations, and is surprising since the marketing boom that usually accompanies a presidential election cycle has historically delivered solid growth for the industry.

Still, with just 15% of companies expecting sales to decline in the fourth quarter, the verdict is not fully in for companies' long-term sales planning.

Time will tell whether the bear or the bull will ultimately take hold in the economy. Clearly, companies are feeling a rapid shift of fortunes and are circling their wagons to protect sales and profits. We will be sure to watch carefully over the next few months to see if we are seeing general seasonal oscillations, or a categorical economic shift.

Anticipated Sales Change for the Next Quarter



Question: How do you expect sales to change during the fourth quarter of 2015?

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II. Competitive Threats and Company Responses

These questions relate to outside threats and pressures.

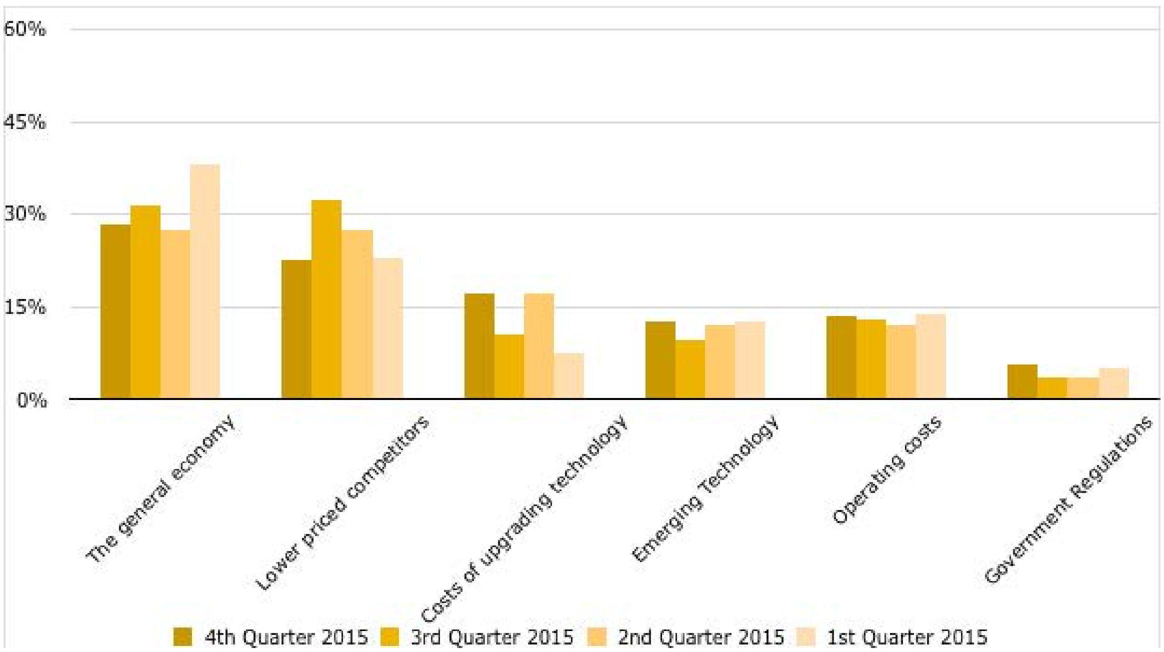
Insight 5: Competition and economic threats loom large

According to our survey, many firms are hyper-aware of competitive threats, as the level of threat analysis rose across the board. Of particular concern among survey participants this quarter are:

- The general economy at 28%
- Lower priced competitors at 22%, and
- The cost of upgrading technology at 17%.

The one-two punch of cutthroat competition and general economic uncertainty makes sense. It is hard for firms to raise prices when the demand for their products shifts up and down so frequently. Unfortunately, this can become a “Catch-22” for companies – they don’t want to invest because they’re worried about sales, but sales won’t increase until you invest in marketing and/or innovation.

What is Your Greatest Competitive Threat?



Question: What is your greatest competitive threat?

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(Insight 5 Continued)

CEO Insight

It will be interesting to see what happens as we and other observers watch this slight downturn in the economic cycle. As a student of economics, I would expect to see talk of increased government stimulus spending (also called Keynesian strategies) in the election campaigns to use the power of the government to bolster a nervous consumer market.

If the government is to be called on to invest in the country, doing so at a time of zero or negative interest rates is the best time. Regardless of your political color, if we know that government spending accounts for nearly 20% of the economy, we can expect people on both sides of the aisles to start talking about fiscal stimulus to get the country firing on all cylinders again (though we can expect one side to bring it up before the election and one after).

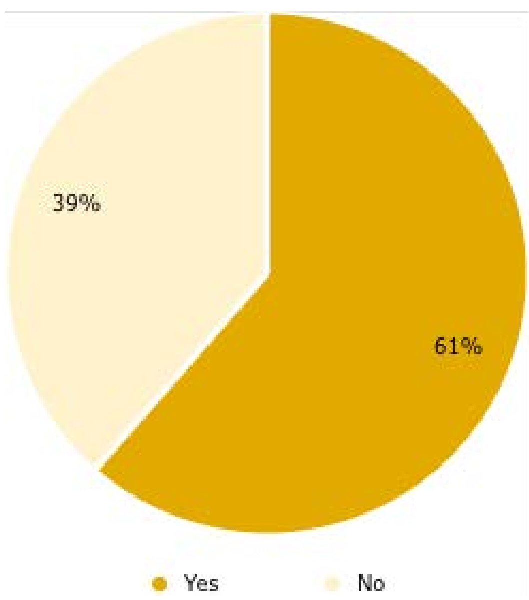
– Dave Regan

Insight 6: Diversification rates down for a second quarter

Our second storm cloud comes in the area of diversification, which fell for the second quarter in a row from 71% in the third quarter to just 61% of firms reporting diversification strategies for the upcoming quarter – signaling increased uncertainty among responding companies and a need to clamp down on the bottom line.

With so many uncertainties today, the data shows companies are just not willing to trust in a recovery. In a changing economy, it is hard to overstate the need to invest in adaptive diversification strategies. As we see in the net margin results, companies that fail to invest in the future do so at their peril.

The Rate of Business Diversification



Question: Are you currently diversifying your business?

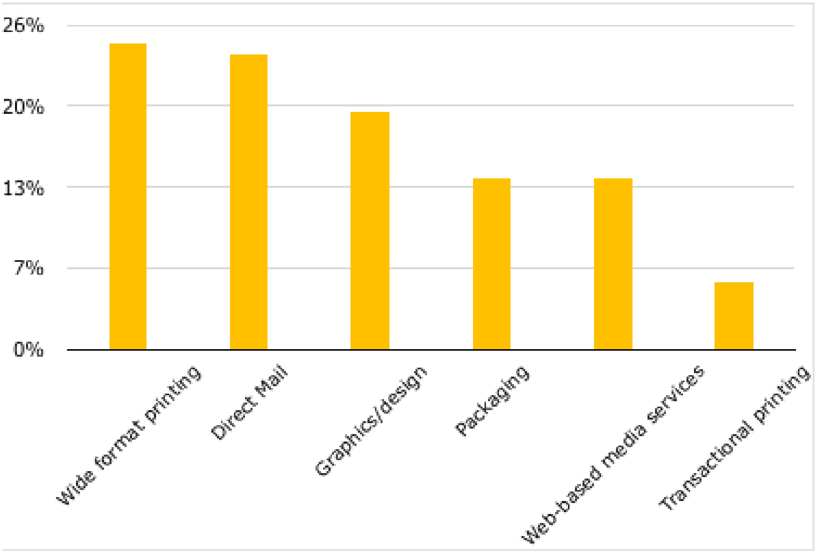
Insight 7: Wide-format investment holds strong, while web-based diversity slows slightly

Wide format printing leads the diversification charge for another quarter. In fact, one in four of our survey respondents this quarter are investing in wide format printing. In looking more deeply at wide format strategies, we see a strong connection between this area and 3D printing. (Keep an eye out for a deeper dive into these links in the very near future!)

Direct mail services also saw sharp growth in the past quarter, up to 24% of all diversification strategies from 16% in the previous quarter. Despite the naysayers a few years back, it looks like direct mail has once again become trendy and effective among even the most advanced marketing agencies.

On a slight downturn, web-based media dropped a bit this quarter to 14% of all investment, perhaps as companies run to the security of the known in a time of economic change. Whatever our investment rates, the web is here to stay. And, if companies such as Walmart are feeling the competitive impacts of web services such as Amazon, we all need to think about aggressive digital first investments.

Market Diversification of Responding Companies



Question: What area are you diversifying into?

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Insight 8: Digital and traditional printing drive profits

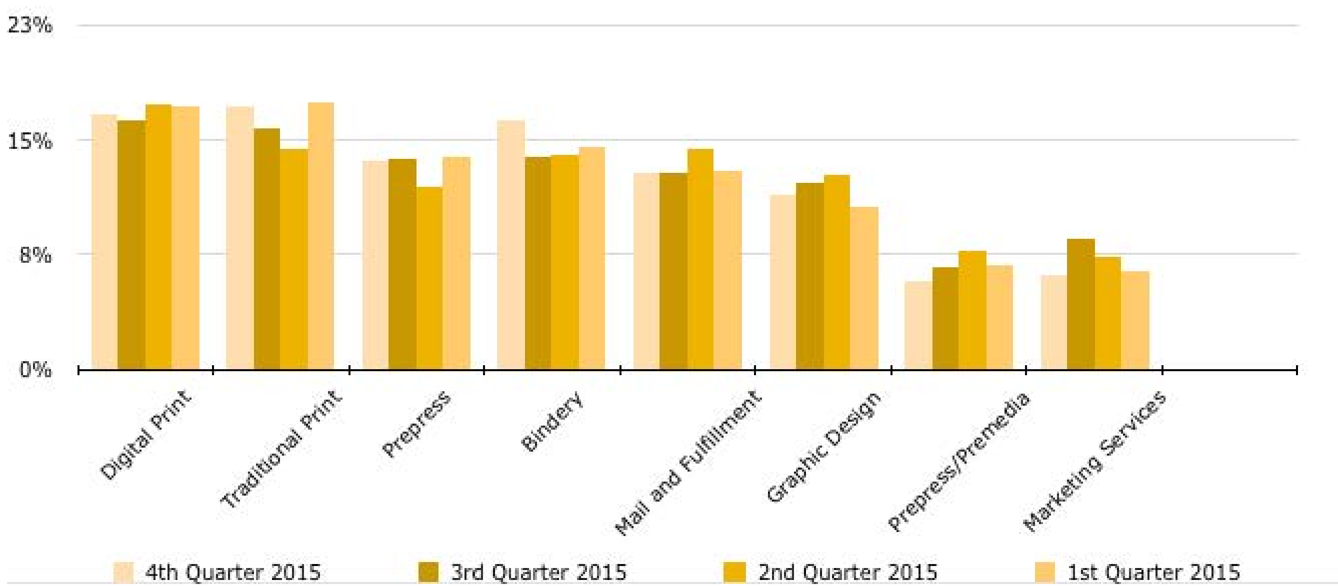
Insight Eight reviews profit centers for the third quarter to find out where our responding companies are making margin this quarter.

According to our data, there are five leading areas of profits:

- Digital Print - 17%
- Traditional Print – 17%
- Bindery – 16%
- Prepress – 14%
- Mail and Fulfillment – 13%

To an industry insider, this data looks like the third storm cloud. According to these numbers, the last stages of printing production, including bindery and fulfillment are driving a plurality of profits this quarter. As we saw in the new order concerns in Insight Four, while this is good for the bindery workers, it also means that new order areas and mid-cycle production is slowing down. Keep an eye out next quarter to see if traditional printing makes a bigger resurgence, or if premedia and production drop as well.

Corporate Profit Centers in the Past 12 Months

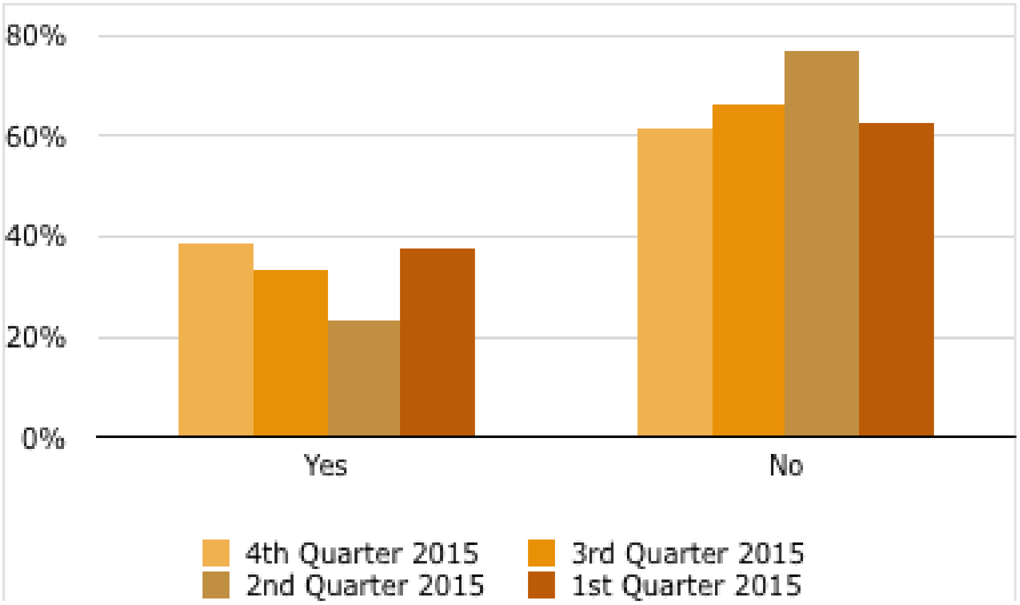


Question: What are the primary profit centers in your organization?

Insight 9: Capital investment grows to nearly 40%

In contrast to some of our negative economic indicators, equipment purchases rose for the third quarter in a row to 39% - a 21% lift from last quarter. Potentially, some of this quarter's leaner net margins may be a result of capital investment for future growth – which is actually a positive signal for our industry.

Major Equipment Purchases



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

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III. Staffing Trends

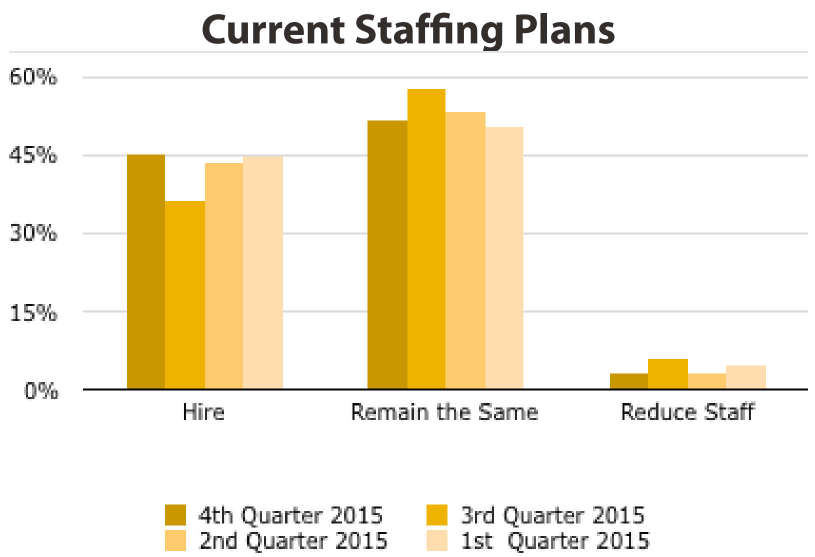
Finally, this group of questions focuses on hiring and staffing plans in the fourth quarter.

Insight 10: Hiring rates grow 25%

Another key economic indicator is the rate of investment in new talent. This past quarter, we saw a ¼ increase in firms reporting they plan to hire this quarter – up from 36% last survey to 45%. Considering many respondents indicated they had been busy and profitable in the last survey, a recovery in hiring is to be expected.

While this is a strong positive sign amid some of our rainclouds, we should also sound a note of caution. Reducing staff is a leading indicator, but other data in our report paints a murkier picture. Especially as we talk to clients moving from the West to East coast, we are hearing more insecurity and trepidation right now than bullish hiring.

If you are considering investing to support additional capacity, you may want to consider flex talent as a means of managing demand without permanently adding to overhead costs.



Question: What are your current hiring plans?

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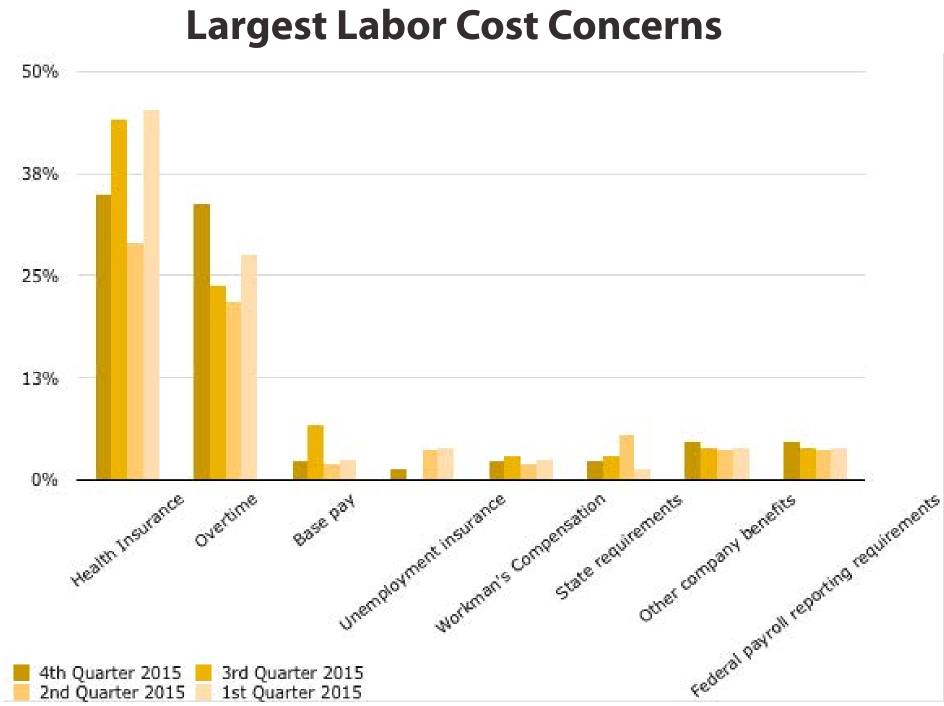
Insight 11: 34% of firms report rising overtime costs

This quarter, we saw a huge spike in companies reporting rising overtime costs, accounting for roughly one in three companies covered by our survey. This huge spike in overtime as a concern is interesting. Overtime payment rates can incur significant expenses, and firms facing more bottom line pressures will aim to avoid.

There are many simple ways to keep costs down while still meeting client needs. Reducing overtime is a strong step towards cost management. As we mentioned in Insight 10, one option to help you meet continued needs without paying overtime is flex hiring. We have a number of clients who refuse to allow overtime, and instead deploy flex labor to meet temporary demand without paying exorbitant overtime fees.

Also of note this quarter is a reduced (while still elevated) concern over health insurance premiums, which dropped from 44% of the survey population to 35%. However, this signal is likely more related to the calendar year than a shift away from insurance expense concerns. Most renewals happen in January and July, so we can expect firms to report a higher level of cost consciousness when these prices are top of mind.



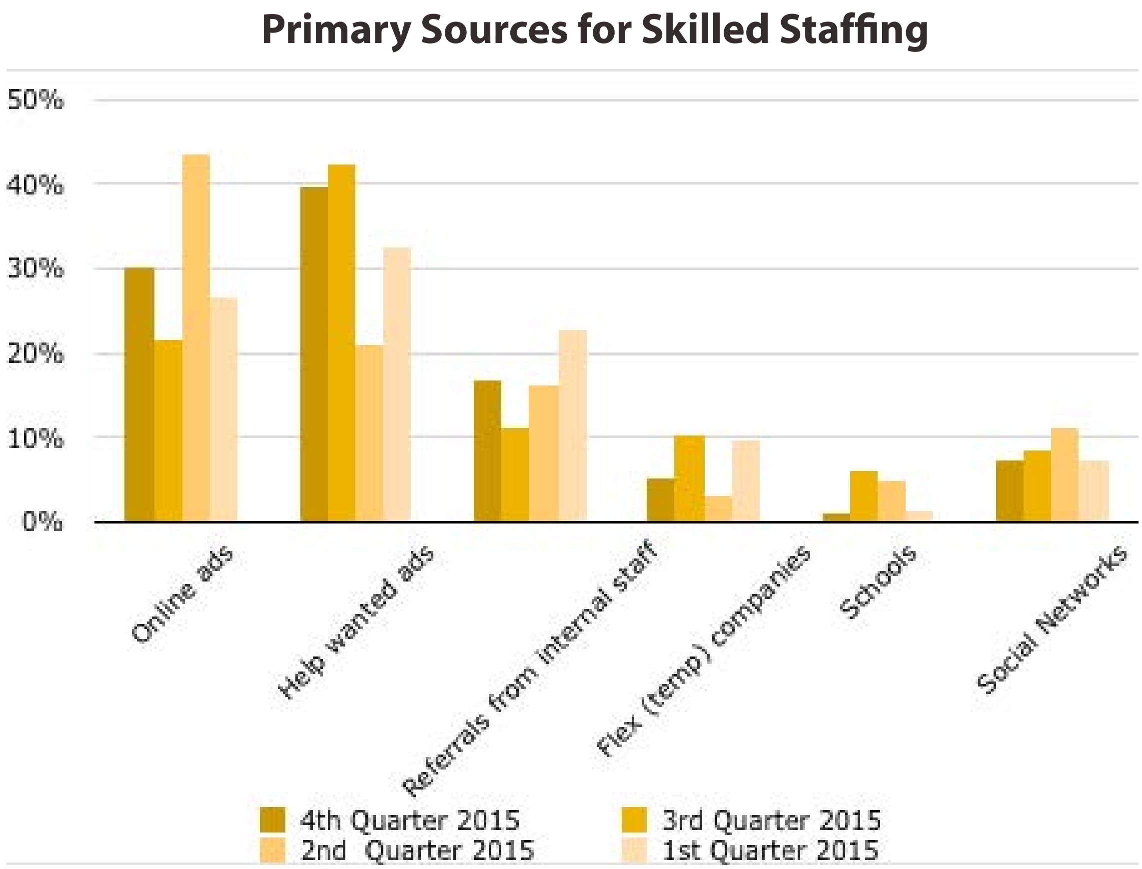
Question: Regarding labor costs, what component of the costs has been increasing the fastest last quarter?

Insight 12: Help wanted ads hit 40% industry penetration

When asked about top sources of skilled staffing, two major solutions arise: Help wanted ads (40%) and referrals from family and friends (30%).

Help wanted and online ads as a source of talent makes infinite sense for many organizations. While you often filter through some number of unqualified candidates, it's also the fastest way to reach a broad audience.

Somewhat more troubling is firms' strong reliance on referrals. While referrals can seem like a good source of trusted talent, we have seen many companies suddenly face serious HR issues when family and friends are brought in.



Question: What are your primary sources for skilled staffing?

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Insight 13: Top concerns include limited staff and profitability

Insight 13 brings us our last storm cloud. When asked about their largest staffing challenges, we find two significant issues on the forefront of respondents' minds: Limited staff due to the economy (39%) and keeping my team profitable (35%).

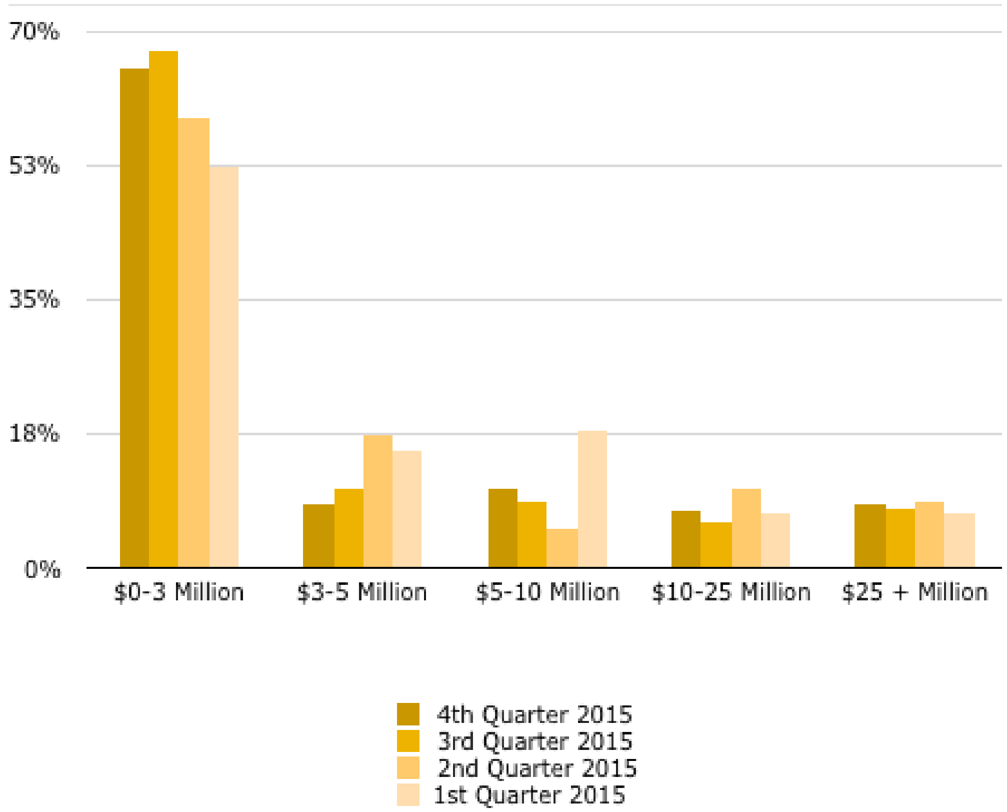
Time will tell how these current mixed economic indicators play out. Whatever the outcome, we hope the end of the coming presidential election season will ultimately provide some needed political peace and fiscal security needed to get this country moving again.

Question: What is your biggest staffing challenge?

Insight 14: Survey participation lead by small- and mid-sized firms

Our continued alliance with Printing Impressions has increased the survey participation rate in all strata of the industry. It is a pleasure to see continued participation in small (26%) and mid-sized firms (28%) as they make up the bread and butter of the U.S. economy.

Current Estimated Revenue



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

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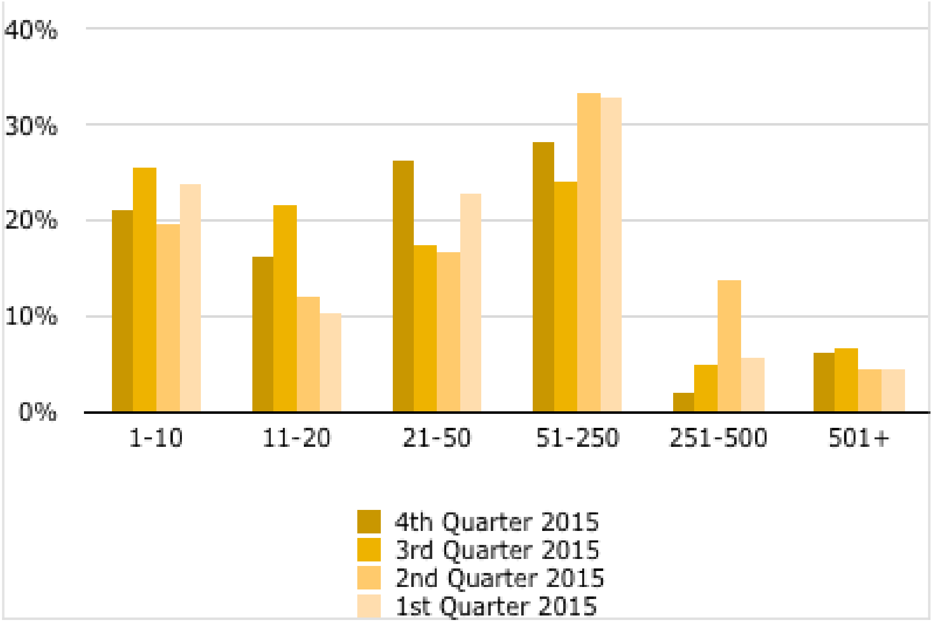
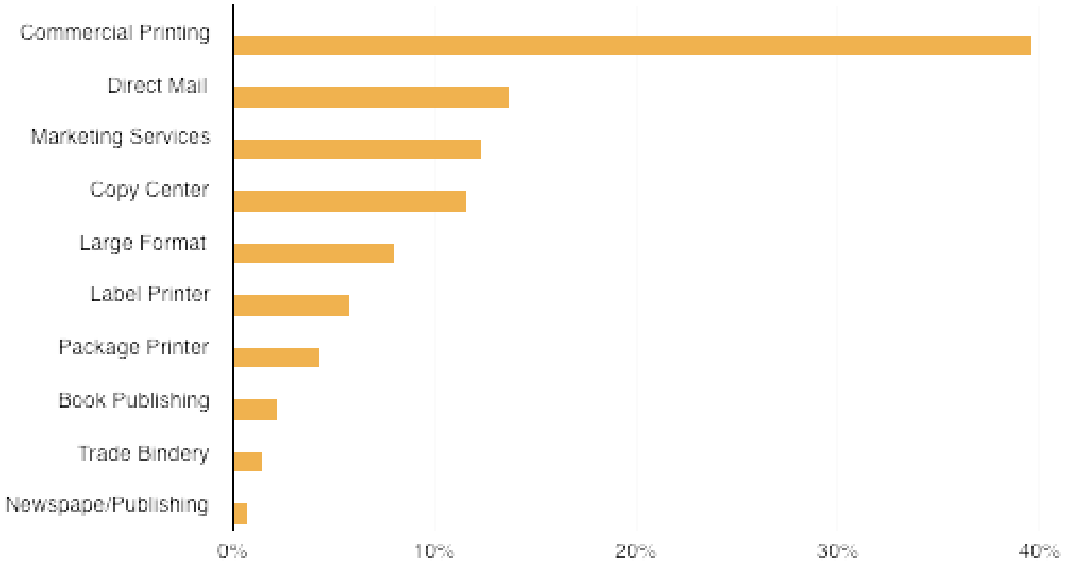
IV. Demographics

Number of Employees per Company



Reporting Industries: Q2 2015



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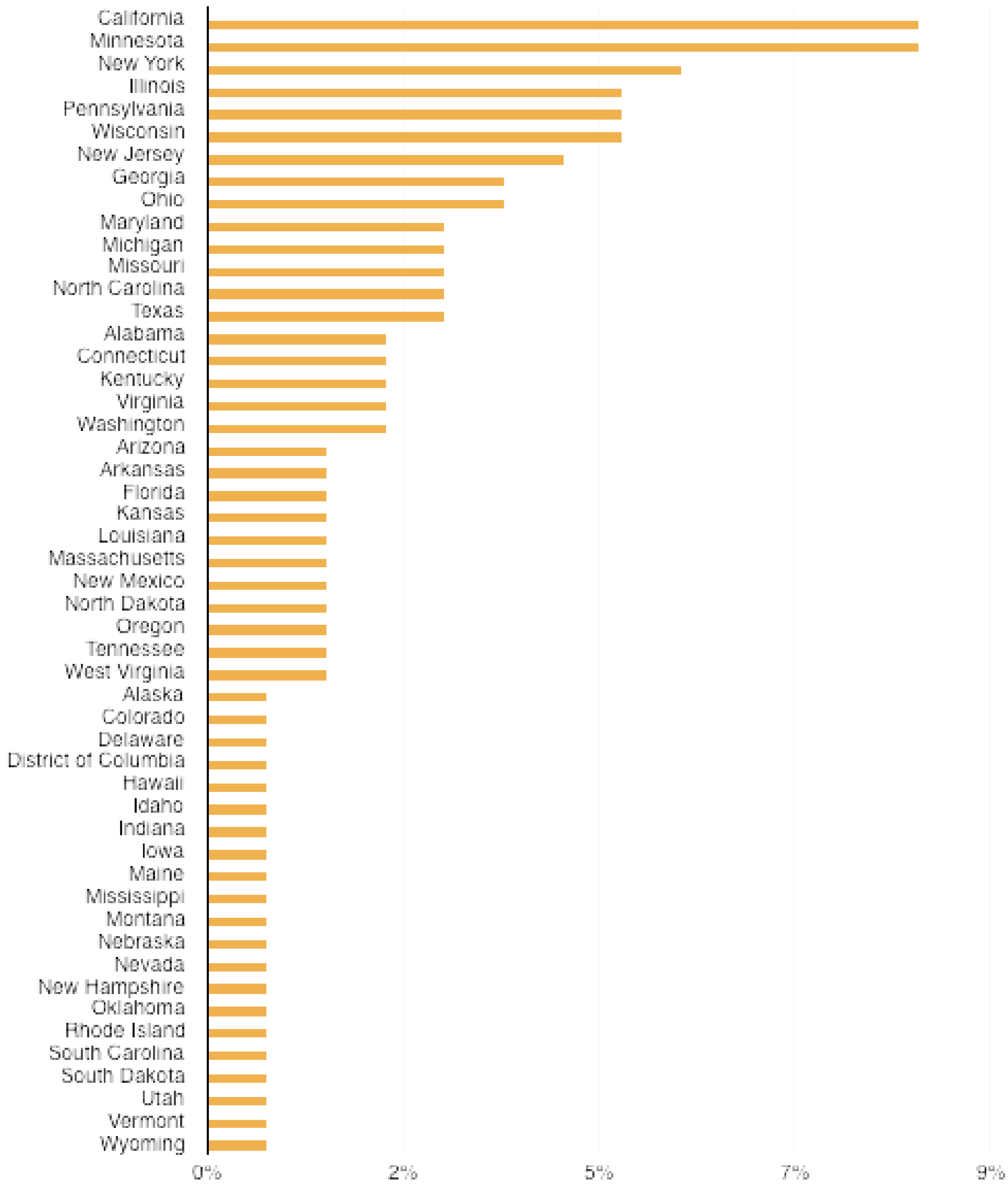
Company Location



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About Semper

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

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

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

Click Here to Email a Top Recruiter Today

Tell Us What You Want to Ask!

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

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

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

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