# Printing Industry Economic Update
# Fourth Quarter 2021

This update is provided exclusively to members of the State of the Industry Panel. Please contact PRINTING United Alliance economists David Wilaj, dwilaj@printing.org, and Andy Paparozzi, apaparozzi@printing.org, with questions or comments.

## HIGHLIGHTS

- Price increases are likely to continue well into 2022 as the Producer Price Index (PPI) rose by more than 9% year-over-year in November. This is the largest increase since the measure began being tracked in 2010.
- -Printing industry specific raw material producer price indexes are also seeing drastic increases as the PPI for carbon black (one of the main chemicals used to create printing inks) rose by 35.4% over the last year while the wood pulp PPI rose by 46.9%.
- As inflation continues to rise across all facets of the economy, the FED has finally recognized that it is indeed structural and not transitory as initially thought. Because of this, the FED has announced that they plan three 0.25% rate increases throughout 2022, which aims to help curb inflation.
- Printing industry employment, while still below pre-pandemic levels, is steadily working its way back to where it was in January of 2020. This recovery should continue as pent-up demand for printed products will continue to drive the need for the workforce to return. The inability of some companies to bring in qualified and experienced workers may keep this number deflated until the job market steadies.
- Wages for production and nonsupervisory employees in the print industry have grown nearly 8% since January 2020 – an increase that equals the same growth rate that the industry saw from 2014 to 2020.
- The PRINTING United Alliance indexes of current and leading indicators have improved drastically since November 2020. This report contains an in-depth look at how the components of the indexes have changed over the last year.
- Must-dos cover these critical topics:
    - Digitizing your supply chain
    - Calculating your “earned growth”
    - Deciding what is and isn’t an opportunity for my company/smart diversification

## Price Increases and Inflation

Over the past few months, there has been great debate over whether the United States inflation is transitory or structural. Until recently, the Federal Reserve has echoed that rising prices would be short-lived as supply chains adjusted to a post-COVID world and that inflation would return to a level closer to the FED target rate of 2%. Throughout this period, many analysts and economists have contested this view of inflation and said that we are seeing more of a structural issue that will cause prices to increase well into 2022.

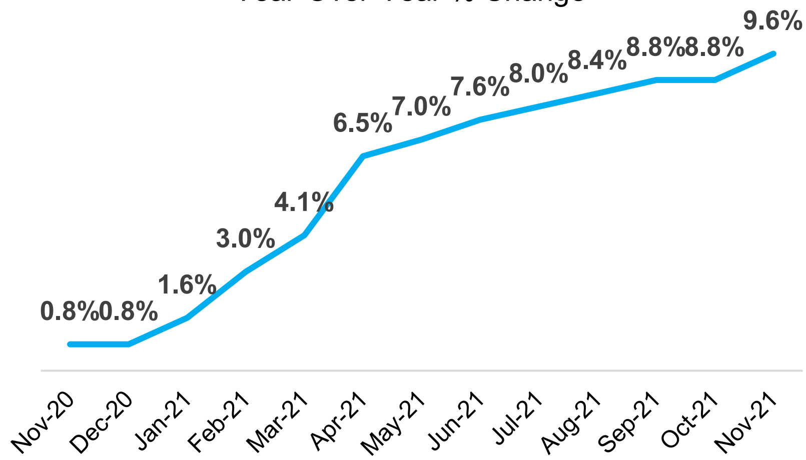
As more data became available and as more evidence of structural inflation presented itself, the FED slowly began to change course and has now released their plan to constrain inflation, which increased by 6.2% in October, the highest rate since 1990.

So what will the FED do to counter this? The typical way is by increasing interest rates, which cools the economy by discouraging investment and borrowing. While this plan has worked in the past, decelerating inflation will likely require more than FED intervention but it is a good start as this institution has finally recognized the long-term potential of our current bout with inflation. In their most recent meeting, the FED announced plans to increase interest rates by a quarter of a percent three times next year – a move that wasn't anticipated until 2023.

So what does lingering inflation mean for printers? It means that the price of materials and wages will continue to rise well into 2022, and they must begin budgeting increases into their plans if they have not done so already. According to a survey published by the Conference Board, companies are budgeting a 3.9% payroll increase for next year, which would be the highest since 2008. In the sections below, we dig deeper into how wages have already risen in our industry.

To better understand how drastically prices are changing, Figure 1 shows the monthly percent change in the Producer Price Index – the selling prices received by domestic producers for their output - for the economy as a whole. The 9.6% increase in November is the highest since the BLS began tracking this in 2010 and the steady rise since November 2020 suggests price pressures will continue to persist well into next year.

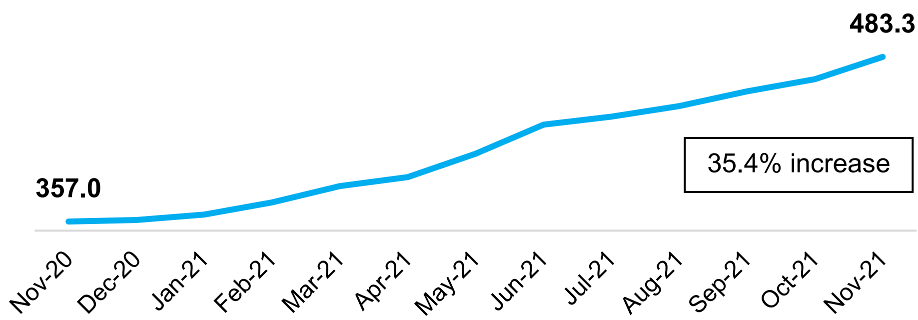
Figure 1: Producer Price Index Year-Over-Year % Change




Source: Bureau of Labor Statistics

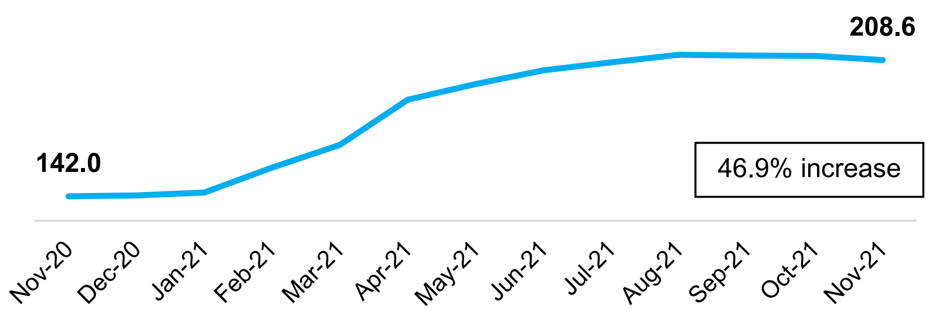
The producer price indexes below show how the prices for ink (carbon black), wood pulp, and print goods have changed over the last year. These PPIs show that printers are facing very high price increases for their raw materials and how they are also raising prices to pass off some of these additional costs. As the section below shows, 71.8% of participants in our most recent State of the Industry Survey are increasing their prices.

Figure 2: PPI - Carbon Black



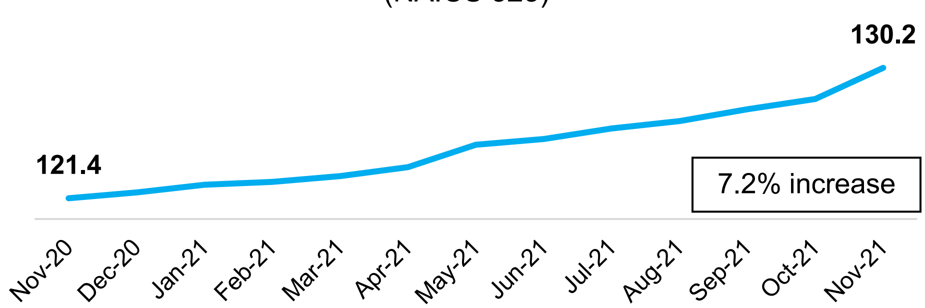

Source: Bureau of Labor Statistics

Figure 3: PPI - Wood Pulp




Source: Bureau of Labor Statistics

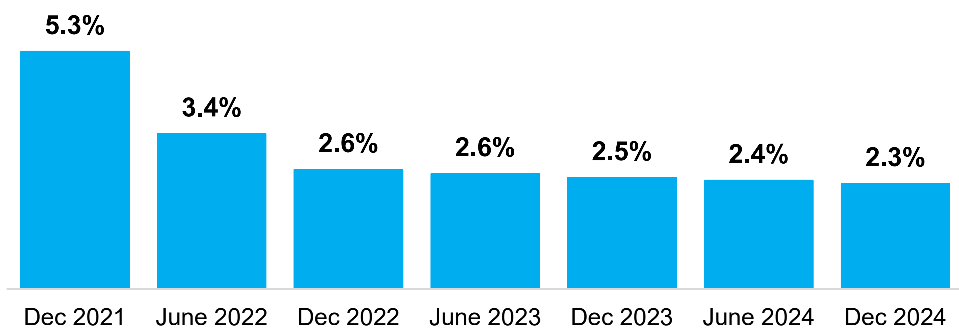
Figure 4: PPI - Print and Related Support Activites (NAICS 323)



Source: Bureau of Labor Statistics

So what do analysts surveyed by *The Wall Street Journal* think about inflation in the long term? Figure 5 shows forecasted percent change in the consumer price index (CPI) over the next 3 years. The main takeaway is that inflation is expected to linger through at least mid-year 2022 and then ease closer to the FED's target level of near 2% as we head into 2023. Time will tell if prices ease and if FED intervention works, but in the meantime, printers must continue to budget for increased prices and wages across the board.

Figure 5: Forecasted CPI (Year-Over-Year % Change)

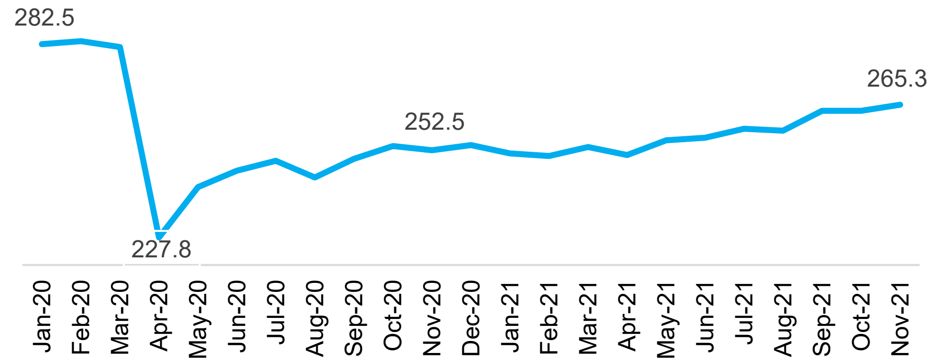



Source: Wall Street Journal Economic Forecasting Survey

## Employment and Wages

Through the early days of the pandemic, when shutdowns and layoffs were in full swing, industries across the economy saw employment declines. Businesses thought that they would simply be able to re-hire these positions once worked returned, but this quickly proved to be overly optimistic. Many in the workforce used this time to reevaluate their careers and some opted to change industry in search of something new or in search of higher wages. Others, such as those near retirement age, decided that it would be a good time to leave the workforce for good. Heavy stock, home, and crypto price increases throughout the pandemic helped many in the older generation accumulate enough wealth to accelerate retirement and businesses across the country were left to find workers from a limited pool for positions that they needed to fill quickly. Figure 6 shows the heavy drop in printing industry (NAICS 323) employment near the beginning of the pandemic, and how it has recovered since. Between January and April of 2020, nearly 20% of the workforce was eliminated, but since then employment has rebounded steadily as the total number of workers is only about 6% lower than it was prior to the pandemic. Hiring will continue as pent-up demand continues to drive the need for print-related products and many in our industry are still operating under capacity.

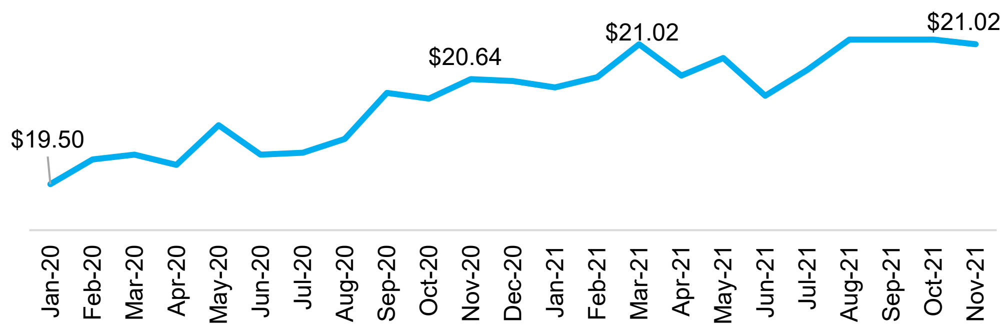
Figure 6: NAICS 323 - Production and Nonsupervisory Employees (In Thousands)




Source: Bureau of Labor Statistics

Of course, when employment shortages present themselves, they are typically followed by companies doing anything they can to attract experienced and qualified employees – and the easiest way to do this is to increase wages. Figure 7 shows how hourly wages have changed for production and nonsupervisory employees in the printing industry. Since the beginning of January 2020, wages have increased nearly 8% for these employees. To understand how drastic this jump is, the industry saw an equal percent increase in wages from January 2014 to January 2020 when the average wage increased from $18.09 to $19.50. A jump this major in a period of time this short of course causes many financial issues for printers – especially when the wage increases come in tandem with major increases in material costs. All of this contributes to the rise in inflation that was discussed in depth in the full version of the *State of the Industry Report* and also highlighted later in this report.

Figure 7: Average Hourly Wages - Production and Non-Supervisory Employees

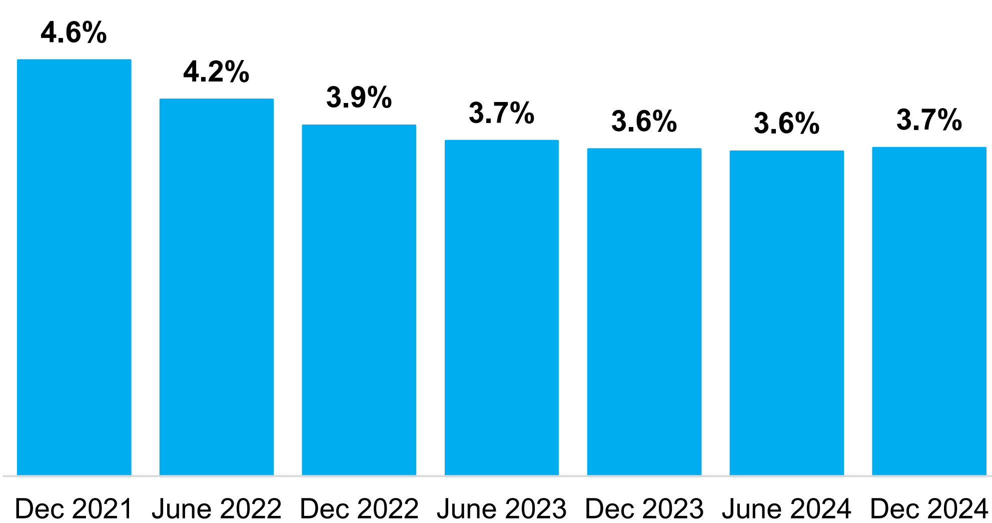



Source: Bureau of Labor Statistics

It is likely that hiring strains will last well into 2022 but shouldn't linger into 2023 as signs are pointing to improvement in the labor markets. In early 2020, the labor participation rate – the number employed and the number unemployed but currently looking for a job as a percent of the population aged 16 and older – fell to its lowest point since the early 1970s. Although it has improved, it is still the lowest rate since the late 1970s. This number should only continue to improve as workers continue to reenter the workforce and unemployment benefits expire. Of course, the question remains as to which industries these workers will choose once they are again ready to work or as the younger generation enters the workforce for the first time. Only time will tell. Companies should move aggressively to attract employees by becoming an employer of choice, building an employer brand, creating a compelling employee proposition, and maximizing employee engagement. (All are discussed in past reports in our Print Business Indicators series and can also be obtained by contacting our economics team at the emails provided at the beginning of this report.)

Another positive sign for labor markets comes from the latest version of the Wall Street Journal Economic Forecasting Survey, which talks to more than 60 of the nation's top economists and analysts to get a better feel for the direction in which key indicators in the economy are heading. In the most recent release, the group was asked to forecast unemployment rates throughout the next three years. Figure 8 shows the consensus forecasts. This group expects the unemployment rate to steadily decline and eventually get to a level near the record-breaking unemployment that was seen prior to the pandemic.

Figure 8: Forecasted Unemployment Rate




Source: *Wall Street Journal* Economic Forecasting Survey

## Print Business Indicator Update – Current and Leading Index

Our Index of Current Business Indicators and Index of Leading Business Indicators track how sales, production, prices, employment, pre-tax profitability, quote activity, work on hand, production payroll hours, and confidence are trending quarter over previous quarter. A reading above 50.0 means more of the companies we survey report that business, as measured by the components of the index, is heading higher, and a reading below 50.0 means the opposite.

Figure 9 shows how each indicator is trending compared with the previous quarter. Clearly, every indicator is performing much better than it was a year ago, and it is also easy to see where industry issues persist – employment and pricing.

Although the employment index has improved over the last year, only about a third (36.6%) of respondents report employment is trending upward. While this is nearly triple the number reported last year, we should be seeing this number increasing by a greater clip, given the fact that industry job openings continue to rise. Until these hiring struggles ease, we will likely see continued deflation of this indicator’s value.

The other indicator that shows how inflation has affected the industry is the price indicator. Specifically, 71.8% of respondents increased prices last quarter – up from 15.7% last year. As long as printers continue to face higher material prices and increasing wages, this index value will continue to rise, or at least stay the same – likely well into 2022.

**Figure 9: Index of Current and Leading Indicators**

| Indicator | Current Trend | 3rd Qtr. 2021 | 3rd Qtr. 2020 |
|---|---|---|---|
| **Index of Current Indicators** | | **77.4** | **46.9** |
| **Sales** | **Increasing** | **78.2%** | **41.3%** |
| | Staying the same | 15.3% | 20.9% |
| | Decreasing | 6.5% | 37.9% |
| **Production** | **Increasing** | **76.4%** | **36.6%** |
| | Staying the same | 18.5% | 24.3% |
| | Decreasing | 5.1% | 39.1% |
| **Employment** | **Increasing** | **36.6%** | **10.6%** |
| | Staying the same | 55.1% | 59.6% |
| | Decreasing | 8.3% | 29.8% |
| **Prices** | **Increasing** | **71.8%** | **15.7%** |
| | Staying the same | 25.9% | 71.9% |
| | Decreasing | 2.3% | 12.3% |
| **Pre-Tax Profitability** | **Increasing** | **50.5%** | **28.1%** |
| | Staying the same | 32.4% | 28.1% |
| | Decreasing | 17.1% | 43.8% |
| **Index of Leading Indicators** | | **77.7** | **53.8** |
| **Work-On-Hand** | **Increasing** | **64.8%** | **33.2%** |
| | Staying the same | 28.7% | 28.5% |
| | Decreasing | 6.5% | 38.3% |
| **Quote Activity** | **Increasing** | **69.9%** | **42.6%** |
| | Staying the same | 24.5% | 27.2% |
| | Decreasing | 5.6% | 30.2% |
| **Production Payroll Hours** | **Increasing** | **54.6%** | **23.0%** |
| | Staying the same | 39.4% | 39.1% |
| | Decreasing | 6.0% | 37.9% |
| **Confidence** | **Increasing** | **54.2%** | **30.7%** |
| | Staying the same | 31.5% | 35.2% |
| | Decreasing | 4.2% | 7.0% |
| | No sure | 10.1% | 27.1% |

Source: PRINTING United Alliance *2021-22 State of the Industry Report*

# MUST-DOS

## Digitize Your Supply Chain

COVID-19 reinforced the importance of carefully monitoring our supply chains. We must know how every link is functioning, where problems are developing, and how to address those problems. And we must know before a disruption deepens and we are left scrambling to find alternative suppliers, build inventories, and manage client expectations.

Digitizing our supply chain can get us where we need to be. A robust supplier relationship management (SRM) platform is a good start, according to Bill Hobbs, author of "Why Supply Chain is the Next Digital Transformation," inc.com.

Hobbs defines SRM as a "set of digital tools that enables you to manage and optimize your supplier partnerships -- in the same way that a CRM system allows you to improve relationships with future and potential customers." The software captures "real-time data" from the first mile to the last mile of the supply chain and provides "a comprehensive view of all of the moving parts of your supplier relationships, offering insight into what is working well and what you need to optimize." Additionally, it promotes:

- **Collaboration**. Hobbs puts it this way: "If your supply chain lives in emails, individual spreadsheets, and pen-and-paper documents, important information remains siloed and collaboration is cumbersome. When all stakeholders, both internal team members and external partners, can see the same real-time data and interact on one platform, you can make quick, well-informed decisions without running into bottlenecks."
- **Visibility**. By observing the entire supply chain, we can detect potential disruptions early, stay in touch with suppliers, adjust plans based on current, complete information, and "set up a real-time feedback loop." Bottom line: "Full visibility into production lets you align all of your teams and solve problems before they start."
- **Automation.** Supply-chain data reside in a single location with central control to access. We no longer waste time trying to figure out if data exists, and if it does, where and how to gain access. Instead, we have a "single source of truth," as Hobbs puts it, that gives us "valuable time back to focus on higher-value activities to deliver great customer experiences."

Compare SRM functions and ratings at websites such as https://softwareconnect.com/supplier-relationship-management.

As indicated, SRM is just the beginning of supply chain digitization. In "5 Ways Digital Technology Will Transform the Supply Chain," mastercontrol.com, David Butcher explains that the chain will be increasingly driven by the Internet of Things, advanced analytics, artificial intelligence, and blockchain.

Butcher describes the Internet of Things (IoT) as "the network of physical devices and systems that communicate and exchange data" over the internet through a series of embedded sensors. The sensors can be placed in almost any physical product, "providing unprecedented visibility and traceability" as it moves through the supply chain.

Data analytics structure and organize the massive quantity of data IoT sensors collect, helping us make sense of it and act on it.

Artificial intelligence (AI) enhances data analysis and forecasting. Butcher explains: "AI and machine learning technologies, which learn over time as they are exposed to more data … enable companies to collect data from a variety of areas and apply self-improving analysis. AI can be used throughout the supply chain to find patterns, forecast future scenarios, identify and correct data errors, surface risks, elevate IoT insights, and improve material planning, order scheduling, and logistics."

Finally, blockchain, which is a secure, decentralized (no person or group has control) digital ledger, will transform the supply chain through "smart contracts, traceability, authentication, and other highly decentralized supply chain management functions." (Blockchain ledgers currently record and immutably store cryptocurrency transactions.)

We must be familiar with these technologies because they will remake the supply chain by, as Butcher puts it, promoting "a more complete understanding of every element" and "helping companies to improve planning, decision-making, and responding to issues."

We must also remember that there will be future supply-chain disruptions, whether from a natural disaster, a political conflict, or something not even on our radar (just as a global pandemic wasn't on our radar two years ago). We can't count on those disruptions to pass quickly. We can, however, count on supply chain digitization to minimize the impact on us.

## Calculate Earned Growth

The concept of "earned growth" was developed by Fred Reichheld, Bain & Company, to enhance his classic measure of customer loyalty, Net Promotor Score®. NPS tracks "how consistently a firm turns customers into advocates" based on responses to this question: On a scale from 0 (not at all likely) to 10 (extremely likely), how likely would you be to recommend our company to a friend.

Clients responding 9 or 10 are promoters; 7 or 8 are passives, who "feel they got what they paid for but nothing more and who are not loyal assets with lasting value"; and 6 or less are detractors, "who are disappointed with their experience and harm the firm's growth and reputation." NPS is calculated by subtracting the percent of detractors from the percent of promoters. (See "The One Number You Need to Grow," hbr.org.)

Reichheld and coauthors Darci Darnell and Maureen Burns describe earned growth in “Net Promoter 3.0,” hbr.org. In essence, earned growth is generated by customer loyalty, measured as repeat business from current customers and the willingness of those customers to “bring their friends” – i.e., to act as promoters/advocates. (That’s the connection with NPS.) The authors argue that customer loyalty “powers sustainable, profitable growth,” adding that “firms today undervalue referrals. They treat them as icing on the cake rather than an essential (perhaps *the most* essential”) ingredient for sustainable growth.”

We calculate earned growth for this year by dividing this year’s revenue into three parts:

- Share from existing customers (customers who started the year with us). This is the “back-for-more” component – repeat purchases, additional purchases, upgrades, etc. -- also called net revenue retention.
- Share from earned new customers, or customer who came through referral/word of mouth.
- Share from bought customers, or customer acquired through “advertising, promotional deals, or commission sales” or other promotional channels.

We then express each share as a percent of last year’s sales (since we are measuring earned growth this year over last year), add the percent from current customers plus percent from earned new customers, and subtract 100%.

Reichheld and his coauthors illustrate for two companies with very different revenue compositions. Company A had total revenue of $130 in 2021 and $100 in 2020, yielding a 30% revenue growth rate. Of the $130, $85 came from repeat customers, $25 from earned new customers/referrals, and $20 from new bought customers. Expressed as a percent of 2020 revenue ($100) the numbers are 85% from current customers, 25% from earned new customers, and 20% from bought new customers. Company A’s earned growth rate for 2021 is, therefore, 85% + 25% - 100% = 10%.

Company B also had total revenue of $130 in 2021 and $100 in 2020, yielding a 30% revenue growth rate. But just $65 came from repeat customers and $10 from earned new customers/referrals, while $55 came from new bought customers. Expressed as a percent of 2020 revenue Company B’s numbers are 65% from current customers, 10% from earned new customers, and 55% from bought new customers for an earned growth rate of 65% + 10% - 100% = - 25%.

**Example of Earned Growth Calculation**

| **Breakdown of 2021 Revenue** | **Company A** | **Company B** |
|---|---|---|
| Total 2021 Revenue | $130 | $130 |
| Repeat/Upgrade Revenue | $85 | $65 |
| Earned New Customer Revenue | $25 | $10 |
| Bought New Customer Revenue | $20 | $55 |
| **Percent of 2020 Revenue** | | |
| Repeat/Upgrade Revenue | 85% | 65% |
| Earned New Customer Revenue | 25% | 10% |
| Bought New Customer Revenue | 20% | 55% |
| **Earned Growth Rate** | 85% + 25% - 100% = 10% | 65% + 10% - 100% = -25% |

To calculate earned growth we must know how customers were acquired. Reichheld's recommendation: During the onboarding process ask new customers the "primary reason they decided to give the company their business." Customers who select "'trustworthy reputation' or recommendation from 'friends or family'" are earned customers and the revenue they generate is counted as earned. In contrast, "customers who select 'helpful salesperson,' 'advertisement,' or 'special deal or promotional pricing' are tagged as bought" and the revenue they generate is unearned. (Reichheld adds that our checklist should include an open-ended "other" response.)

The authors' research shows "most firms find earned new customers to be far more profitable than bought customers, many of whom are revealed to be money losers over their life cycle" and that customer loyalty generates "bountiful economic advantages, including efficient customer acquisition" but has "little to do with marketing gimmicks and slick advertising."

Earned growth rate is a straightforward way to keep the importance and value of customer loyalty top of mind.

## Deciding What Is and Isn't an Opportunity for My Company: Smart Diversification

The challenge in our industry is not a lack of options – the challenge is deciding which options to pursue. The right choices contribute to sustainable competitive advantage. The wrong choices deplete resources, fragment operations, and undermine core capabilities.

We increase our odds of choosing correctly by carefully analyzing how well an option fits our expertise, strengths, and circumstances. We go for options that fit and pass on those that don't - no matter how much buzz they are creating.

Tools to guide our analysis include the Cagan Opportunity Assessment, Lean Canvas, and the Product Opportunity Evaluation Matrix. Pick the one with which you and your team are most comfortable, knowing that any of the three can make the difference between diversifying and diversifying profitability.

**10 Questions**

In “Assessing Product Opportunity,” svpg.com, Marty Cagan, creator of the Cagan Opportunity Assessment, reminds us that “opportunities for new products exist all around us, in every market, even mature markets … because what is possible is always changing. New technologies are constantly emerging, new people with new talents join your company, and competitors come and go.” The goal of option evaluation is “either to a) prevent the company from wasting time and money on poor opportunities; or b) for those that are good opportunities, to understand what will be required to succeed.”

Cagan’s system is based on 10 questions. The first nine require us to precisely define an opportunity, its potential, and what we must do to realize that potential, while the $10^{th}$ requires us to decide if, based on our answers to the first nine questions, the option is worth pursuing. The questions:

1. What problem will we solve/value will we deliver? Cagan warns that the answer is not about “features and capabilities” – i.e., what a new product/service will let us do -- but rather what it is going to do for clients.

2. For whom will we solve that problem? The target market.

3. How big is the opportunity? Estimated size of the target market.

4. What alternatives are out there? Substitutes for what we plan to offer and the degree of competition.

5. Why are we best suited to pursue this? Our differentiator/competitive advantage.

6. Why now? Favorable business conditions, we can get a jump on the competition, if we don’t move now we will fall too far behind, etc.

7. How will we get this product to market? Educating clients about our new capability, the value it will create for them, and why they should purchase from us.

8. How will we measure success. Our expectations and the metrics we will use to determine if expectations are being met.

9. What factors are critical to success? Internal factors, such as financial, personnel, and capital investment requirements; external factors, such as overall market conditions and access to partners; how the new capability will affect current operations, etc.

10. Give the answers to questions 1-9, is the opportunity a go or no go?

Any question may uncover an obstacle that stops us in our tracks. If we figure out how to overcome the obstacle, we move to the next question. If not, we conclude the option is not currently an opportunity for us. Either way, we've brought rigor to a process that Cagan emphasizes is far too important to be "left to intuition" or promises a major customer may not keep. (For more on the Cagan Opportunity Assessment, see "Complete an Opportunity Assessment for Proposed New Product," Steven Jones, theproductpath.com.)

**A One-Page Evaluation**

Lean canvas is the "perfect one-page format for brainstorming" the positives and negatives of an option, according to Steven Mullen, author of "An Introduction to Lean Canvas," medium.com. The canvas is a sheet of paper that is divided into nine blocks. Each block pertains to an issue we must evaluate to determine if an option is an opportunity for us. We take the blocks one by one, listing key considerations as bullet points. The blocks and the order in which we tackle them:

1. Problem. The pain the option will eliminate or the value it will create for clients.

2. Customer Segments. Our target market.

3. Unique Value Proposition. Mullen writes, "In the middle of the canvas is the UVP [unique value proposition] ... It's the primary reason a prospect should buy from you" rather than all the others who offer the product/service being evaluated.

4. Solution. Our answer to the problem. Exactly how we will make clients' lives easier/create value for them.

5. Channels. How we will reach our target market. Knowing the communication methods – social media platforms (including YouTube and TikTok), articles, blogs, lunch & learns, newsletters, emails, open houses, etc. – they prefer.

6. Revenue Streams. All sources of revenue the product/service will create. Mullen warns against pricing the new offering too low or giving it away to build market share, a tactic that "actually delays/avoids validation. Getting people to sign up for something for free is a lot different than asking them to pay. There is also the idea of perceived value."

7. Cost Structure. All the operational and capital costs, including the monthly burn rate, of taking the option to market. Combine estimates of revenue stream and cost structure to calculate a break-even point.

8. Key Metrics. How performance will be monitored and success measured.

9. Unfair Advantage. Mullen emphasizes that this is the most difficult block to complete because it is not something everyone claims, such as "commitment and passion," quality, reliability, or timely delivery, but rather specific attributes and capabilities that support our unique value proposition.

Lean canvas is most effective when we rigorously debate each block, challenge assumptions, and dig deep for factors that are often overlooked. Mullen concludes that while it is a lot of work, "going through this process will save you time, energy and money. Think about it: the worst possible outcome for any entrepreneur is to build something that no one wants!!"

### Sample Lean Canvas

Each box in the canvas pertains to a factor we must evaluate to determine whether an option is an opportunity for us. We work through the boxes one by one, entering our thoughts as bullet points.

| | | |
|---|---|---|
| **Problem**<br>The pain the product/service will relieve for clients/the value it will create for them | **Customer Segments**<br>Our target market | **Solution**<br>How we are going to solve the problem/create value |
| **Channels**<br>How we will reach our target market | **Unique Value Proposition**<br>Why clients will buy from us rather than the competition | **Revenue Streams**<br>Revenues the product/service is expected to generate |
| **Cost Structure**<br>Costs of bringing the product/service to market | **Key Metrics**<br>How we will measure performance/if expectations are being met | **Unfair Advantage**<br>Specific skills, attributes that will differentiate us |

Source: “An Introduction to Lean Canvas,” Steven Mullen, medium.com.

**The Options Report Card**

The product opportunity evaluation matrix (POEM) creates a report card for each option we are evaluating. Neal Cabage, the creator of POEM, outlines the process in “A Framework For Developing Market Opportunity,” mindtheproduct.com.

We grade each option on five filters, or subjects: customer, product/service, timing, finance, and competition/team fitness. We arrive at a grade by assessing key aspects of the filter. If we are well positioned on the aspect, we give ourselves an A or B; poorly positioned, a D or F; and somewhere in the middle, a C. (Cabage recommends letter grades rather than numbers because in the early stages the evaluations are “entirely subjective,” and letter grades encourage us to “think about the opportunity holistically.”) We then average grades across all five filters to calculate an overall grade for the option. We base our go/no-go decision on that grade. A sample report card is below.

Three points are important:

- POEM is only effective if we grade ourselves accurately and abide by the results. Inflating grades to justify an option is pointless. And we must have the discipline to pass on options with low grades, no matter how much buzz they are creating or how well others are doing with them. Given our current resources, capabilities, and circumstances, they are not an opportunity for us.
- Be wary of options with low grades in even one filter, because weakness in even one can overwhelm strength in the others. A poor grade in a filter does not necessarily mean we abandon the option; it means we do not pursue it until we can raise the grade.
- Evaluation criteria should be regularly refined—there is no universally best set or ideal number—as we learn by practicing POEM methodology.

As with the other option evaluation processes discussed, POEM is a lot of work. But the ROI is higher odds of identifying true opportunity, or equivalently, of saving the time and money lost by chasing bad fits.

**Option A** ______________________ **Overall Grade:** _____

| Customer Filter | Grade: ____ |
|---|---|
| We have identified a customer base. We aren't counting on build it and they will come. | |
| The base is substantial. The opportunity is big enough to justify development costs. | |
| We have access to the market. We know which communication methods will be most effective. | |
| **Product/Service Filter** | **Grade: ____** |
| The product/service addresses an essential customer need. It is necessary, not just nice to have. | |
| We understand how clients will benefit from this product/service and can clearly communicate the value proposition. | |
| This product/service integrates well with our core offerings. It will enhance what we do, not be a distraction that undermines our core capabilities | |
| **Timing Filter** | **Grade: ____** |
| Business conditions are favorable. Clients are confident and expanding. | |
| The time is now. We can get the jump on the competition. We risk falling too far behind if we delay. | |
| The market has not been commoditized. We can differentiate ourselves and have printing power, as opposed to getting caught up in a race to the bottom. | |
| **Financial Filter** | **Grade: ____** |
| We have an accurate calculation of the up-front costs and how much we'll have to invest just to get in the game. | |
| We know the expected cash flow, h much working capital will we have to invest each month, and when can we expect to hit breakeven? | |
| **Competition/Team Filter** | **Grade: ____** |
| We know with whom we will be competing, whether companies much like ours or a new breed with whom we have little experience. | |
| We have a differentiator: value created, range of solutions offered, production efficiency, etc. | |
| We have the expertise—technical, sales, marketing, leadership, etc.—necessary to make the option work or we know how to acquire the expertise. | |

Konica Minolta Business Solutions U.S.A., Inc. is committed to the success of its customers, the industry and the associations that support it. It is our honor to support Printing United Alliance's industry-leading economic reports. By providing invaluable insights for industry leaders regarding the critical economic conditions, Konica Minolta is proud to continue to be a trusted advisor and an indispensable partner to help business prosper.

Konica Minolta Business Solutions U.S.A., Inc., a leader in industrial and commercial printing and packaging solutions, ignites print possibilities. It delivers the latest innovations in printing, applications and expertise through its comprehensive portfolio of production print offerings that provide business more creative avenues, agility and versatility to confidently capitalize on market opportunities. Together, the future of the print world can be transformed for the better.