

## Mark Your Calendars!

**March 8, 2002**

**"Spring Golf Tournament"**

Industry Hills  
Eisenhower Golf Course

Hosted Cocktail Reception &  
Hors d'oeuvres

**2002 Network With Your Peers Reception**

**March 9, 2002**

Business Program

**"Dealing With Change"**

Presented by Michael Frugé  
Pacific Palms Conference  
Resort Room Rates: \$109.00  
single/double occupancy  
(800) 524-4557 (cut-off date for  
rooms is February 8<sup>th</sup>)

**June 7, 2002**

**"Summer Golf Tournament"**

Presidio Golf Course  
San Francisco, CA

**General Membership Meeting, "If You Had The Power, What Would You Do?"**

Sheraton Fisherman's Wharf  
San Francisco, CA  
Room Rates: \$169.00 single/  
double occupancy  
(888) 627-7024 (cut-off date for  
rooms is May 7<sup>th</sup>)

**October 10-14, 2002**

**"53<sup>rd</sup> Annual Convention"**

Sheraton Baganvillas Resort  
& Towers  
Puerto Vallarta Blvd.

Francisco Medina Ascencio No. 999  
48330 Puerto Vallarta,  
Jalisco, Mexico

Phone: 52 (3) 226-0404

Convention Hotel Information:

Room Rates:

Resort - \$80.00 single/double occ.

Tower - \$110.00 single/double occ.

One Bedroom - \$130.00 (max 4)

\*Plus appropriate taxes and  
gratuities (mandatory)

## President's Message:

I'll never forget this quote that I heard years ago. "The only constant in the world, is change!" This is especially true today. We all had expected some kind of slow down or somekind of correction in the market place. We could not even imagine that Sept.11th could or would happen in our lifetime. But it has and we must go forward with our lives and our business's. The WRA membership is made up of a wide variety of companies and people. I believe that is why we have such great meetings AND very close and competitive business relationships. Let's all take a look at ourselves this year and try to make more if not all the meetings around the district. Your board of directors are striving to bring you the best programs that we can. Your participation is most important. I look forward to seeing all of you in 2002.

Paul McKee, ScottBlue Reprographics  
WRA President

## Staff Perspective

In 1999 it was Y2K!

In 2000 it was dot.coms!

In 2001 it was the economy and the tragic events of September 11<sup>th</sup>

In 2002...what's next!

Some of the most asked questions that we get all of the time are...Is it getting better out there yet or is it just me having problems? When do you see the market getting back to normal? With these lower interest rates being advertised, why is it so difficult to get money? And finally, the most frequently asked question, how did they come up with that price?

First, lets address the issue of the economy. To be candid, all the events of September 11<sup>th</sup> did was magnify an already soft economy or for some put another nail in the economy's coffin. Actually since the 4<sup>th</sup> quarter of 1999, we have been experiencing a declining marketplace. Need evidence? Just track your

personal investments, IRA's, 401K's, S&P 500, or the majority of investments in the stock market ...a dramatic decline, led in part by the rapid decline of the dot.coms (whom I might add were touted as the wave of the future and bane to the way we were currently doing business...surprise, surprise, surprise!) and the tech market (the majority of which was beta site technology that managed to irritate both us and our customer while trying to get it right), as well as, a flat to negative growth rate for most other industries (the majority of which actually produced a product and not just a service or a firm that simply out-sources its product). What is the significance of firms producing a product versus one creating a service...the impact of a industry's multiplier effect...generating additional jobs and creating wealth for support firms is 1<sup>1/2</sup> to 3 times greater for an industry that creates a product versus one that just provides a service or out-sources its product overseas. How did this affect us? Well on the West Coast, most firms reported a flat or small gain for 2000 and a negative growth rate for 2001.

Was there an upside in 2001? Yes, there was. Based on a survey done by Gorelick & Associates, a West Chester, PA sales and marketing consulting firm, the number of firms that were classified as High Profit Firms increased from an average of 20 to 22% of the total to over 30% in 2001. What drove this increase in the number of High Profit Firms? Certainly not increased sales, but rather it was their ability to manage their cash, reduce their costs (which really means controlling their labor costs) and increase their efficiency in their production departments resulting in making these firms the Low Cost Producer in this volatile marketplace. The resulting onslaught on 2001 pricing levels had a lesser impact on them than the rest of the firms. However, like in any economic scenario, if the number of High Profit Firms increased what about the rest of the firms? On average they saw an erosion in their profits. In years past approximately 25% of the firms were High Profit Firms, 50% made some profit and approximately 25% of the firms lost money. With

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an increase in the number of the high profit firms, the group hardest hit were those who were in that 1% to 7% pre-tax profit range. Their profit margins declined with more of them joining the ranks of the non-profit firms. Two critical areas of concern for these firms was first their inability to control their labor costs quickly and second their inability to manage their cash flow.

Is the market getting better? I believe it is getting better. We are getting over the shock of the 11<sup>th</sup>; the majority of firms and individuals are taking to heart the call for increased spending. However, like most of us who have been around the block a while, we need to see some consistent growth numbers (maybe not large percentage increases but rather consistent ones) over a sustained period of time. Most of the experts are calling for a substantial turnaround by the 3<sup>rd</sup> quarter of 2002. For planning purposes, it's our suggestion that you plan as if 2002 will be a mirror image 2001. Concentrate on controlling costs and production efficiency while remembering that managing your "cash" will be the critical element to your survival and profitability. Are there any "hot" markets that will lead the way? Absolutely! Projected to be the "hottest" are banking and insurance, energy, home improvement, business services and logistics and transportation. The question becomes, is there an opportunity for my firm in these markets?

One of the impacts of 2001 was the assault by the Feds to provide a boost to the economy by lowering interest rates to encourage more borrowing by business, which would lead to creation of more jobs, etc., etc. Even though all the experts are touting the availability of this inexpensive money, in-effect it has had less of an impact than originally thought...why you ask? Because of the very stringent qualifying rules established by lending institutions, few firms qualify for the cheaper money. To demonstrate this point let me relay a situation that happened to a member firm. As interest rates dropped a member firm that had been in some financial difficulty tried to re-finance an existing

contract with an un-named manufacturer to take advantage of the lower rates. After much reviewing they were told that they did not qualify for the lower rates. If they had been able to qualify, refinancing would have taken their existing \$3,600 per month payment down to \$2,800. They didn't qualify for the \$2,800 per month payment, however, they are still obligated and qualified in the eyes of the manufacturer to make the \$3,600 per month payment ...makes you wonder doesn't it. Another known deterrent to this process was the impact high pre-payment penalties on existing loans on leases had on the process. While not highly publicized, it did have an impact and will continue to do so in the future for many firms. This leads to the observation that cheaper money is good only when you can get it and it makes sound fiscal sense.

The final observation is regarding the "price" competition that has always been an issue or a topic of discussion no matter the state of the economy. How can they charge that price? Don't they know what it costs? What are they doing...giving it away? There are no easy answers to these questions. In some cases the difference between a one-shift operation versus a three-shift operation can sometimes translate into a 15% to as high as a 20% discount in a price while still maintaining some targeted profit margins. Does this make economic sense... that is management's decision? Just understand that when using this type of pricing philosophy as the norm the three-shift operation has now spread its fixed costs over three-shifts requiring it to keep those three shifts operational. Then there is the "Value Added" pricing strategy in which the value of the job or project is determined by the buyer. Hopefully, the price covers all of the direct out-of-pocket costs, i.e., materials, buyouts and internal labor including fringe benefits, and then contributes some value to help recapture some of the rest of the firms fixed costs. The theory is that if it contributes something then it's worth doing the job and that you will pick the job that always creates

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the highest value added. Sounds good in theory but in practice all this implies is that the customer is driving the pricing levels down by constantly complaining and we are their accomplices by going along with it. You have to determine for each job and project when the answer has to be no! One other pricing strategy that seems to rearing its ugly head is one where you don't discount your jobs to your better customers but do so to those that you wouldn't ordinarily get. The theory being that it is better to get these marginal jobs because they will contribute something extra, because the majority of your costs have been recaptured by your better or core customers. Lets see, give the break to the marginal customer and not your best customer...need to think about that one.

The bottom line is that no matter the state of the economy, pricing will always be an issue. It will always generate heated discussion and opinions and will always be driven by the philosophy of its management team and how busy they are. Understanding what is going on can only help you deal with these issues. Remember, the key to your success will be your ability to control your costs and manage your money. The number of High Profit Firms is growing so the opportunity is there for those willing to adapt to the ever-changing marketplace.

2002 is going to be different, very different. 2001 and the events of September 11<sup>th</sup> had an impact that is going to reshape the way we do business from now on. There will continue to be wonderful opportunities available, however, the driving force will not just be technology but will also have to include our ability to manage and control our won business. For many 2002 will test their managerial skills, however the rewards for those who adapt the quickest and most efficiently will be just as just as great.

Look forward to seeing you all throughout 2002!

WRA Staff

## Some Good Ideas

Put your paychecks in envelopes that say "Brought to you by our Customers." At least once in a while, have the CEO personally hand out the paychecks. Give your clients samples of your new paycheck envelopes.

## Send Statements

You'd be surprised how much impact sending a Statement of Account will have on your receivables. This should be a simple listing of the unpaid items at the end of the month and it should be in your clients' hands within two or three business days after the beginning of the next month. This piece of timely information will give the accounting folks at the client a tool to look for the invoices that people are sitting on so that they can record the liability. Since most systems record liability by writing checks, you're on the way to getting paid. If they can't find an invoice, a duplicate can be sent to them immediately rather than when you call after 60 days. It might also be worthwhile to add a line saying something like "Any disputes to this account must be detailed in writing within thirty days" which may strengthen your hand in a later collection effort.



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## **California members....**

### **Vacation Pay**

In California, employers cannot take away vacation pay once it is earned by an employee under the employer's vacation policy. However, since there is no legal requirement to provide for vacation pay, an employer may establish a policy which provides that employees who do not use all of their vacation entitlement will not earn any additional entitlement until the previously earned amounts are used. This "use it or don't earn any more" policy is perfectly legal whereas a "use it or lose it" policy is not. The correct language for this purpose can be obtained by calling Doug Moore at Ext. 218 (email: [doug@piasc.org](mailto:doug@piasc.org)). Recently a pay award was won by an ex-employee because the employer's policy was not clear on this distinction and also because the automated payroll service in use printed on each check stub the hours of vacation pay earned and the employer had neglected to see that the numbers on the system agreed with their policy. Automated payroll systems almost always have this capability, but letting the number print on the check stub is an accident waiting for a place to happen unless the system is closely monitored. This is a particular problem with exempt employees who naturally don't report time records. While they do take vacation, capturing the information in the system can be a challenge, leading to a spurious accrual of vacation hours at high rates of pay. Call Doug Moore at Ext. 218 (email: [doug@piasc.org](mailto:doug@piasc.org)) for help on this.

### **Meal Period Warning**

The California Wage Orders state that no employer shall employ any hourly person for more than five hours without providing that person with an off-duty meal period of not less than thirty minutes. Waivers between the company and an employee are allowed based on specific numbers of hours an employee works in a workday. An on-duty meal period is also permitted but only when the nature of

the work prevents an employee from being relieved of all duty. The orders require that the employee and the company mutually agree in a written agreement to an on-duty meal period. This on-duty meal period must be paid. The on-duty meal agreement must state that the employee in writing can revoke agreement at any time. The California Labor Commissioner has made it clear they will view the nature of work exceptions narrowly when applying them to all industries. The penalty for failing to provide a meal period in accordance with the wage orders is an additional one-hour of pay at the employee's regular rate of compensation for each day that the meal period is not provided. If an on-duty agreement was not allowed by the Labor Commissioner in the future, in addition to the pay the employee received for working the on-duty meal period, the company would also owe the employee one additional hour of pay for each workday the meal period was not provided. In the past, large printing companies have applied and received annual exemptions from the off-duty meal period from the Labor Commissioner, allowing an on-duty paid meal period for employees operating web and large commercial offset presses. The most sound business decision due to current ambiguities surrounding the use of nature of work agreements is to provide all employees off-duty meal periods in accordance with the wage orders and severely limit the use of on-duty meal agreements to press operations where it can be shown that total shutdown of equipment would cause severe hardship to the company and the employees operating that equipment.



# WRA 2001 – 2002 Board Members

Spring 2002

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