

Critical Trends

As our industry recovers from the most challenging economy since the Great Depression, use this report as a benchmark to assess your business.

By Yolanda Simonsis, Editor/Associate Publisher

Our 2010 survey† of Critical Trends facing converters revealed some remarkable observations gleaned from the responses of 246 qualified participants across our industry (as shown below), recorded between February 4 and April 7. As a composite whole, respondents overwhelmingly indicated positive expectations in 2010 business activities compared to the past two years. And, while materials costs are still high, their rise in cost dropped significantly with a mean increase of 6.7% as compared to last year's 8.8% (see June '09, p35*).

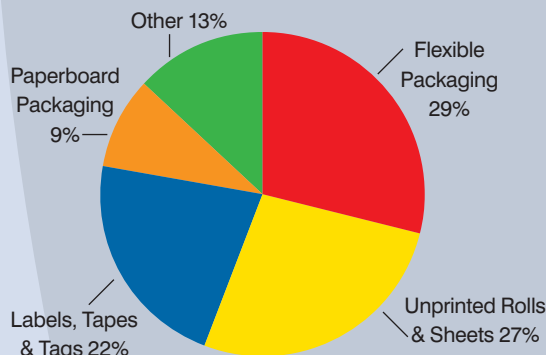
†Survey sent to an effective mailing of 16,682 recipients. Qualified returned surveys from only converters (no suppliers or equipment manufacturers) numbered at 246.

*PFFC has recorded these trends since 2006. Visit www.pffc-online.com/special_reports/ for responses to past "Critical Trends" surveys.

Primary Business

Each primary business type is well represented in the sample. Just under a third of respondents (29%) are employed in the flexible packaging sector. The typical respondent works for a company with an estimated median 75 employees.

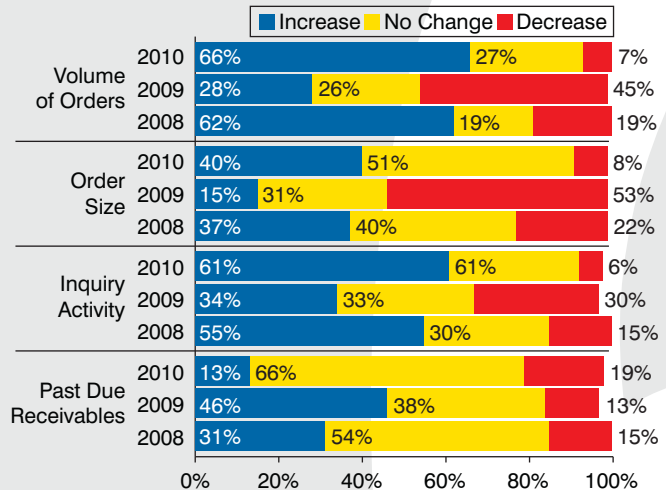
► What is the primary type of business conducted at your location?



Expectations for Business Activities: 2008 to 2010

Respondents are significantly more optimistic about business activities in 2010. Most respondents seem to believe they have seen the worst of this economic crisis. In 2010, the majority anticipates increases in volume of orders (66%) and inquiry activity (61%), and 40% expect increases in order size.

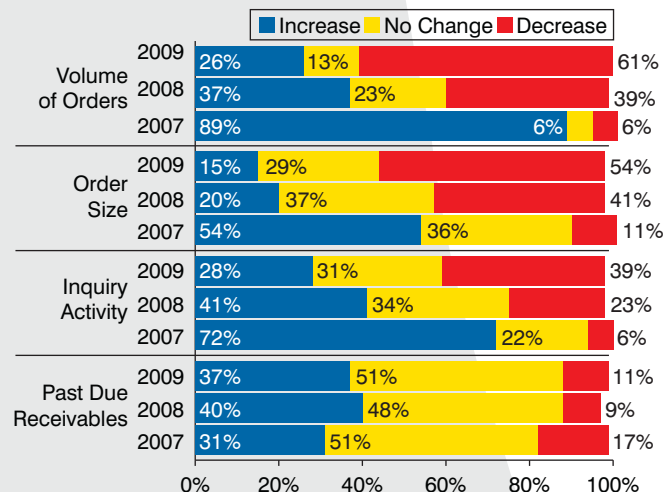
► What do you expect to happen in 2010 compared to 2009?



Business Activities: 2007 to 2009

Decreased levels of business activities intensified in 2009. As with revenue, a progressive downward trend over time exists for volume of orders, order size, and inquiry activity. Past due receivables held steady in 2009.

► Please select how 2009 compared to 2008 within your company for each of the following business activities.



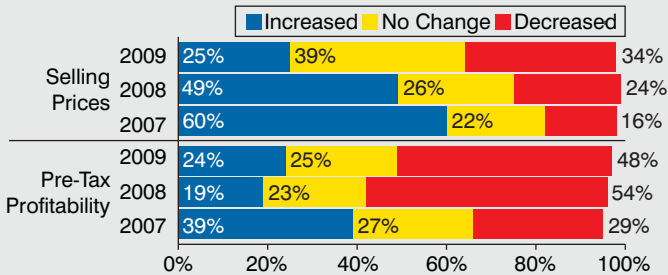
Custom Research

Penton Media can customize a research study just for you. Our team of highly accredited experts is experienced in specific industry sector research. Our expertise is backed by a proprietary database of more than 3 million business-to-business names. For more information visit www.penton.com.

Change in Financial Indicators

While decreases in selling prices continued to grow in 2009, decreases in pre-tax profitability leveled off. While almost half of respondents reported decreased pre-tax profitability in 2009 (48%), the percentage was slightly lower than 2008 levels (54%).

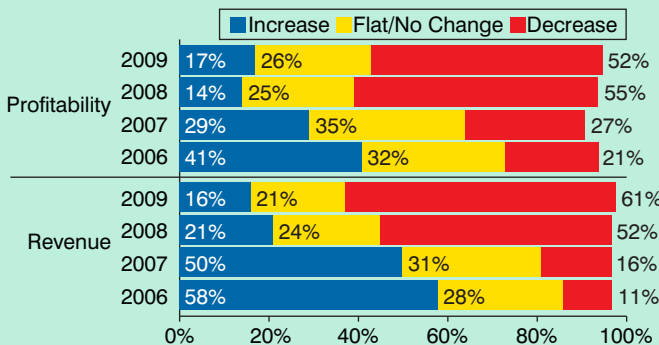
► How did your 2009 financial indicators below compare to those of 2008?



Change in Customers' Revenue and Profitability

The economic crisis continues to take a dramatic toll on customers' revenue and profitability. More than half of all respondents report their customers' profitability and revenue continued to decrease in 2009 (52% and 61% respectively).

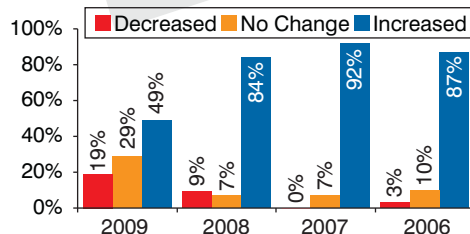
► How did your customers' business change on average in 2009 compared to 2008?



Materials Costs

Increases in materials costs dropped off significantly. Only half of respondents (49%) reported increased materials costs in 2009. Those reporting an increase in materials costs indicated an estimated mean increase of 6.7%.

► How would you describe 2009 materials costs compared to a year ago?



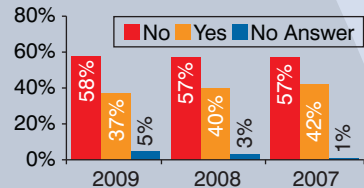
Business Impact of Imported Converted Products

The impact of imported products has remained stable over the past three years. For those negatively impacted in 2009, sales revenue was down an average 10%, and profit margin was down an average 9%.

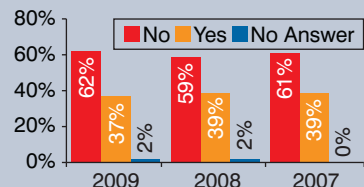
Converted products negatively impacting respondent businesses were most likely to have been imported from China (92%), followed by Other Asian (24%).

Only 15% of respondent companies have partnered with a company outside the US to produce converted products. Another 7% have plans to do so.

► Have imported converted products from countries outside of the USA negatively impacted your business in terms of 2009 sales revenue compared to 2008?



► Have imported converted products from countries outside of the USA negatively impacted your business in terms of 2009 profit margin compared to 2008?



► From where were these products imported?

China	92.3%
Other Asia	24.2%
Other Pacific Rim	16.5%
Mexico	15.4%
India	15.4%
Canada	12.1%
South America	8.8%
Middle East	5.5%
Western Europe	4.4%
Eastern Europe	4.4%

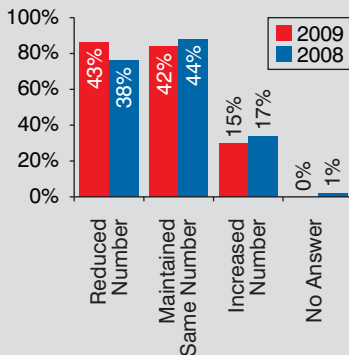
Last week we purchased a **new** 10-color CI press & a 3-layer blown film extrusion line.—Survey Respondent

Change in Employment

Respondent companies continued to reduce the number of employees. In 2010, 43% of respondents reported reducing the number of employees, following 38% reducing employees in 2009.

Employment numbers decreased an average 8% in 2009 and decreased an average 3% in 2008. In addition, 24% of respondents report decreasing spending on employee benefits in 2009. However, almost half (44%) expect to increase spending on employee benefits in 2010.

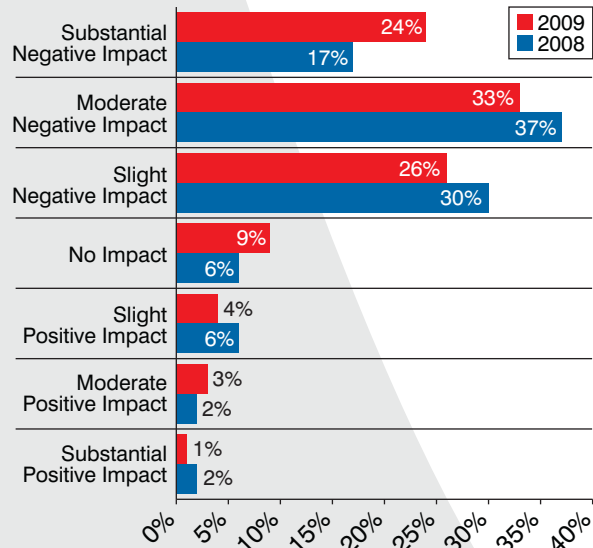
► Which statement applies to your company's total number of employees for 2009 compared to 2008?



Impact of the Economic Crisis

The economic crisis continues to take a toll on respondent businesses. The vast majority reports the economic crisis negatively impacted their businesses in 2009 (83%), which is consistent with 2008, when 84% reported a negative impact.

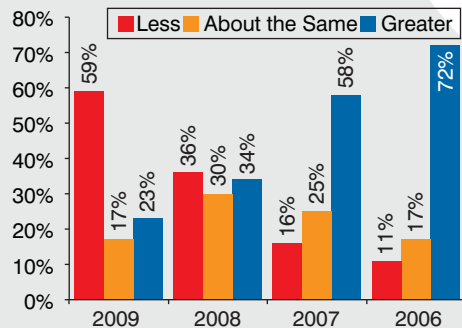
► Which best describes the impact of the economic crisis on your business in 2009?



Change in Revenue: 2008 to 2009

More than half of respondents reported decreased revenue in 2009. The percentage of respondents reporting increases in revenue has declined steadily since 2006. Respondents reported an average decrease of 9% in revenue for 2009, compared with an average increase of 3% in 2008. While 18% of respondents reported a decrease of more than 20% for the same period, only 5% of respondents reported 2009 revenue increased by more than 20% over 2008.

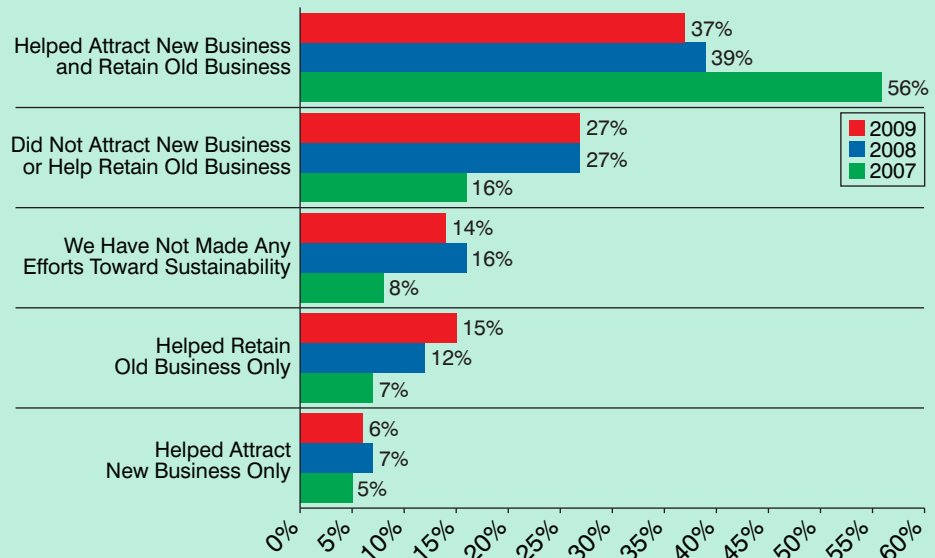
► How did 2009 sales revenue for the primary business compare to 2008 revenue?



Impact of Sustainability Efforts on Sales

Sustainability efforts continued to impact sales positively in 2009. Sustainability efforts also added costs for the majority of respondents. While 24% were able to pass those costs on to their customers, 44% had to absorb them. A full 30% of respondents report their sustainability efforts have reduced the cost of doing business.

► How did your company's sustainability efforts impact sales in 2009?



New or Expanded Service Offerings in 2010

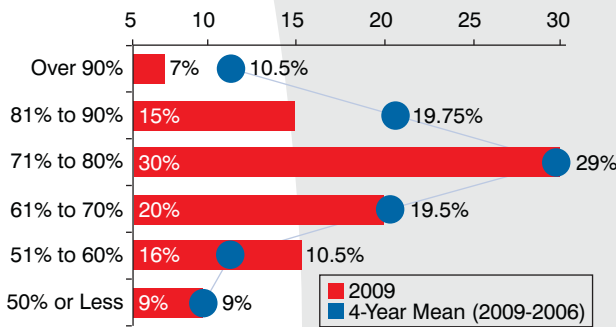
Three-fourths of respondents plan to add or expand products/services. Respondents are most likely to expand their printing (33%) capabilities, followed by coating (24%), laminating (20%), and/or slitting (20%).

While 10% of respondents plan to expand into labels or bags, just 5% are planning to expand metallizing capabilities.

Plant Capacity Utilization

Plant capacity utilization remained stable in 2009. Overall plant capacity utilization was an estimated mean 70% in 2009, compared to 70% in 2008, 79% in 2007, and 73% in 2006.

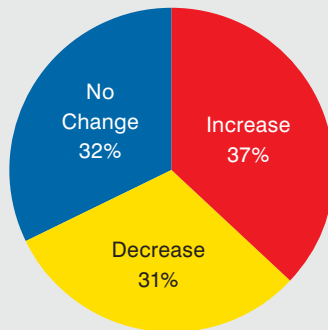
► Estimate your overall 2009 plant capacity utilization.



Business Backlog

Only 31% reported a decrease in business backlog for the last half of 2009, compared to 62% reporting a decrease in 2008.

► For the last half of 2009, did you see an increase or decrease in your business backlog compared to the first half of 2009?



► How did the costs of your company's sustainability efforts impact your business in 2009?

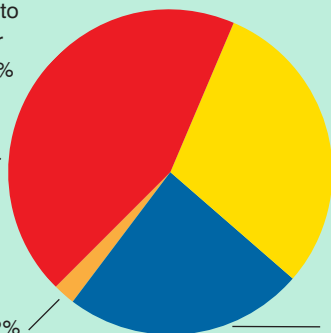


They added costs we are/were not able to pass on to our customers 44%

They have reduced cost of doing business 30%

They added costs we did pass on or have passed on successfully to our customers 24%

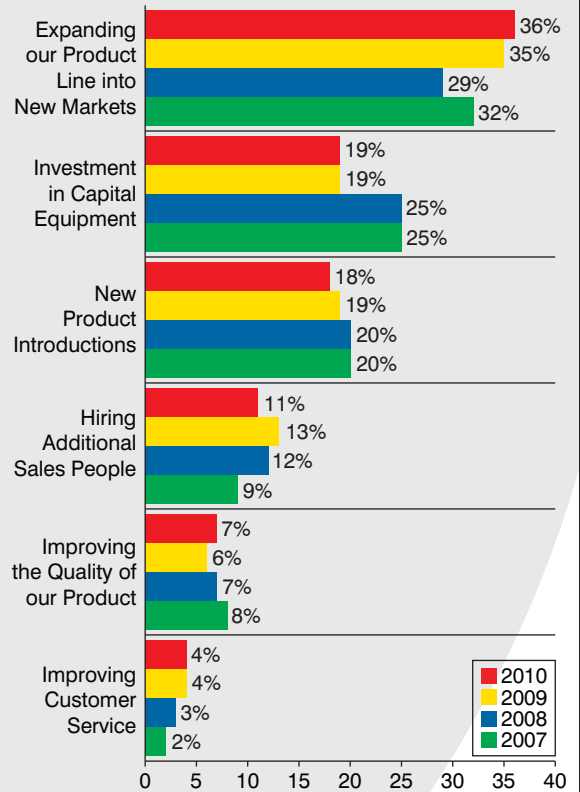
No Answer 2%



Most Profitable Company Investment

Expanding product line into new markets still is considered the best investment by 36% of respondents. Investment in capital equipment (19%) and new product introductions (18%) also are considered wise investments. Only 7% of respondents say that improving the quality of their product would impact revenue and net profit this year.

► For which ONE of the following areas would a company investment have the greatest impact on driving your revenue and net profit in the coming year(s)?



Research & Development

Investments in R&D were up in 2009, with 27% reporting an increase compared to just 19% in 2008.

► Has your company increased or decreased its investment in Research & Development?

