



CAVENDISH

Merging to Survive and To Be Successful



When we get through the present recession, many printers will be in a stronger position than when they entered it. The question is who will they be, and what are they doing now that put themselves in that position?

My guess is that right now they have a low debt to equity ratio, they have made and are implementing action plans based on the economic realities, and are adopting strategies that are aimed at making them stronger

Four types of printers

Based on what I see in the market today, 2011 will see for following four groups of printing businesses

- Group 1 The 10% where the proprietor makes a market wage and the business achieves a 10% or greater net profit
- Group 2 The 50%, where the proprietor will just make a market wage and the business achieves less than 10% net profit
- Group 3 The 25% where the proprietor will make little or no wage, perhaps tipping equity, and the business will achieve breakeven profit
- Group 4 The 15% that will be liquidated or simply close their doors, perhaps after the proprietor has tipped in additional equity

You may argue the percentages, but I think the groups are accurate enough for most readers to guess which group they may be in upon reflecting on their 2011 calendar year performance

The issue/problem I see now is that many within groups 2-4 are adopting a wait and see approach. They are digging in, trading on, making the best of it. No real action plans, with the market realities either not seen or not acknowledged

For those I suggest they need to start looking a lot closer at their business, the market, and the customers they serve. And then ask themselves, or perhaps some trusted advisors, is their business capable of getting you at least to a Group 2 business? What needs to happen now to increase the chances of making it happen? And if they can't see they can get to group 2, what is their motive for staying on in the same business structure?

The merger / alliance option

One of the facts of our industry is that it is capital intensive and generally has a fairly low equipment utilisation rate, underutilized facilities and often inefficiently used labour. So doesn't it make sense for many printers, especially in these tough economic times, to consider pooling some of their equipment, labour and facilities resources?

Does it not make sense, for at least Groups 2-4, to at least consider ways to get through this together, and perhaps entertain the thought of developing business models that will not only survive, but have a very good chance of becoming a member of Group 1? Note, Group 1 printers are not necessarily high turnover printers, they are spread throughout most categories of printers

Below is very simplistic example of what could be achieved in a merger:

| | Printer A | Printer B | Merged entity |
|-------------------|---------------------|------------------|----------------------|
| | Group 2 or 3 | Group 3 | Group 1 |
| Turnover | £1,500,000 | £2,500,000 | £4,000,000 |
| Owner's Wage | £80,000 | £25,000 | £160,000 |
| Staff | 8 | 15 | 20 |
| Staff wages | £320,000 | £600,000 | £800,000 |
| Turnover per head | £187,500 | £166,666 | £200,000 |
| COGS and expenses | £1,500,000 | £2,500,000 | £3,600,000 |
| Profit | £0 | £0 | £400,000 |

My point here is that together Printer A and Printer B could develop a business model and structure that may make the new entity a Group 1 printer. And it could be developed with minimal, if any retrenchments – job sharing could be a real option for many employees and perhaps owners. The business could also have a lower debt to equity ratio.

So why do not people consider a merger or alliance?

1. Egos – We're competitive beasts, we think we're better than the other guys
2. Inability to work with others – We've operated a business all our lives and we can't possibly have an equal share in a business with someone else
3. Inability to align business direction / strategy
4. They get tied up in the intricacies of how it would all work, rather than focusing on the big picture
5. Inability to overcome irrational / emotional hurdles – e.g.- "I'm a Komori man, I could never work in a Heidelberg shop"
6. They don't know where to begin

The sad part is that many can see the benefits but are unable to get over one or more of these hurdles. And in doing so, will be forever destined to being a Group 2-4 printer. Often engaging someone external to both businesses can assist in overcoming these hurdles – most evolve around personal / emotive issues, not the financials.

Forming alliances is also a much overlooked strategy. Would it not make sense for some printers to just operate a sales and perhaps some pre press operation, and form an alliance with a trade printer or another printer to do their work? Why couldn't that work? There are a huge amount of alliance alternatives available – why not share a trades person or a machine or a driver or a building? Get creative, the printer next door is in all likelihood is in the same Group as you.

One would think a monty for an alliance / merger would be two franchisees who belong to the same chain and have adjoining territories – double the turnover, job share some staff, one set of manufacturing premises, one shop front?

Market Realities

I'm not saying merging or forming alliances is for everyone, but I do think these options should now be on a fair proportion of the printing proprietor's radar screens. It's about market realities – about recognising where you are now and how you are going to step up to a higher Group ranking. And if you're not aiming at Group 1 or 2, why are you even in it?

Consider who could be a fit with you and your business and what each party could bring to the table. Think not only of what printers look like you but also what printers / other providers serve your client base or niche? Think about what could be a win-win for both of you

The stakes are high for a fair portion of our industry in 2011. Those that evaluate the market realities and act according, possibly through merger or alliance, will be far better placed than those who adopt the wait and see approach and do nothing.

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About the Author Colin Thompson

Colin is a former successful Managing Director of Transactional/Print Manufacturing Plants, Print Management/Workflow Solutions companies and other organisations, former Group Chairman of the Academy for Chief Executives and Non-Executive Director, helping companies raise their `bottom-line` and `increase cash flow`. Plus, helping individuals to be successful in business and life in general. Author of several publications, research reports, guides, business and educational models on CD-ROM/Software/PDF and over 400 articles published on business and educational subjects worldwide. Plus, International Speaker and Visiting University Professor.

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