



MargolisBecker

The Business and Management Advisors

Building Value for Printing Companies

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Are you a printer whose business has been declining? You can stop your company from heading down the wrong path by implementing a turnaround plan that empowers a philosophy of building value. Simply stated, value is a function of the earnings or cash flows of a business and the related risk. Understanding the factors that drive value and how to control them can ultimately save your business from failure.

There are both internal and external factors, some that can be influenced and others that are beyond your control. Whether controllable or not, both affect value. Examples of external factors are recession, interest rates, exchange rates, materials and labor supply, market competition. Examples of internal factors are financial position, management depth, labor force, product and service mix, market position and strength, customer list and dependence, industry knowledge, uniqueness and facilities. A good turnaround plan must address all the relevant factors.

When measuring value, you will need to evaluate the strengths and weaknesses of your printing operation. This will allow management to identify and focus on areas that need improvement. A quick way to find problem areas is by calculating ratios and comparing them to industry benchmarks, such as the GATF/PIA Ratio Studies

EXAMPLE:

XYZ Printing Company has been losing money for the past three years. Management has decided to prepare a spreadsheet that lists income and expense ratios for the current fiscal year. These ratios were then compared to the most recent GATF/PIA Ratio Studies.

Selected P&L Data	XYZ Ratios	Ratio Studies (All Firm)	(Leaders)
Value of Product Produced	100%	100%	100%
Materials	31%	35%	34%
Value Added	100%	100%	100%
Factory Payroll	42%	41%	37%
Factory Expenses	37%	26%	23%
Gross Profit	21%	33%	40%
Admin Expenses	13%	16%	13%
Selling Expenses	15%	13%	12%
Interest Expense	2%	2%	2%
Operating Income (Loss)	(9%)	2%	13%

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What XYZ discovered was that their factory payroll and factory expenses were higher than the industry average and significantly higher than that of the profit leaders. This suggested that they needed to figure out how to make further cuts in these areas in order to be a profitable operation. In doing so, XYZ will be forced to evaluate its labor force. Assessing the productivity of its labor force is vital. Hourly cost-rate studies are effectively used to help restructure labor shifts in order to maximize productivity and optimize resources. Training, development and supervision are key components in running a smooth ship.

Proactively addressing the real issues and continuously making positive improvements, offers the best way to increase value, generating additional income and cash flows. A successful turnaround plan, will always identify and implement opportunities for revenue enhancement, cost reduction and capital redeployment to increase the businesses value.

Finally, the underlying premise of initiating a turnaround plan is that time is of the essence and ultimately, the clock is running against you. You may, therefore find it worthwhile to seek the counsel of an industry professional since their experience and expertise can make a difference.

MargolisBecker, The Business and Management Advisors, is a CPA firm specializing in the graphic arts industry.

Whatever your goals and needs, we have the solution. Our services include business valuations, mergers & acquisitions, turnaround management, auditing and tax compliance. The Company has prepared the PIA/GATF Ratio Studies since 1960.

If you have any comments or questions, you may reach us at:

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MEMORANDUM

MEMORANDUM FOR THE DIRECTOR
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