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Stu's View

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Competing with the Majors

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In today's highly competitive printing market, many small to mid-sized printers feel themselves pitted against industry powerhouses like Consolidated Graphics (CGX), RR Donnelly (RRD), Cenveo (CV) and Quadgraphics (QUAD). Realistically, a small to medium-sized printer can't compete head to head with the "big guys". What can be done, however, is figure out how to work around them. To do this, let's first look at an overview of the marketing strategies and current statistics for these four major printers:

A Comparison of Major Print Companies
(as of May 2011)

Company	Market Strategy	Operating Income % of Sales	Quarterly Sales Increase	Enterprise Value (trading at)	EBITDA to Debt Ratio	Notes
CGX	Commercial printing concentration with growth through disciplined acquisitions.	6.80%	8.90%	5.70%	5.20%	Strongest balance sheet in industry; same store sales increase of 5.3%.
RRD	Increased market penetration through existing customer base (publications, direct mail); focus on paper & electronic communications.	6.10%	10.00%	5.90%	3.00%	Quarterly sales increase all due to acquisitions
CV	Strategic acquisitions based on product and market expansion and efficiency. Investing in digital and variable print technology.	3.40%	11.00%	8.36%	6.50%	Growth due to acquisitions plus single digit organic growth. Most highly leveraged of the majors.
QUAD	Focus on efficient manufacturing and distribution, technology; publications focus.	10.00%	70.00%	6.38%	3.00%	Quarterly sales increase all due to acquisition. Well run company.

Note several interesting things here:

- There is a similar focus on acquisition by all the majors, which has supported increased quarterly sales figures.
- All these majors have a clearly defined vision and market focus.

- Operating incomes for CGX and Donnelly are similar, and growth rates for CGX and Cenveo are fairly close.
- All are trading at an Enterprise Value well above average, due to a combination of their size, their strong management strategies, and other factors.
- The majors benefit from economies of scale, particularly when it comes to obtaining capital and purchasing power. A major with a 3% EBITDA ratio (Earnings Before Interest Tax Depreciation and Amortization) can still get a loan; and their greater purchasing power provides the additional edge of a profit margin as much as 3% over the average printing company.

So is there hope for a smaller printer to compete with the majors? Absolutely!

- Don't compete with the majors on price. That's a war we simply cannot win.
- Do make necessary large investments, but only when it is the right decision and timing for your company, and not simply to keep up with the majors.
- Do realize that we can play where they don't play. Look for markets where they are not concentrated, like medium sized companies. Vistaprint has done a great job of this. They are growing at 20% quarter over quarter by concentrating on those small to medium sized customers.
- Do be flexible. If a customer comes in with an unusual demand, a large company can take months to work through their decision making process. As an independent owner, you can make a decision the next day. That kind of customer responsiveness and customization is a real plus in client relationships.
- Do respond quickly to technological innovations. Their size again hampers the majors, as any technology change must be considered in terms of multiple locations. We can use our smaller size and flexibility to bring out new products much more quickly than they can.
- Do consider partnering with other independents (or even sometimes with a major) when services are needed beyond our capabilities. The majors buy services every day, sometimes at a lower price than you can make them. You can do the same thing with another independent.
- Do stay focused on our customer relationships, providing the work they need in a timely manner. Strong customer relationships are the best defense against a major (or a competitor) trying to break through.

Remember – it's not about "competing" with the majors so much as co-existing successfully with them.

Stu's View is contributed by Stuart Margolis, CPA and Partner of MargolisBecker LLC to provide information that helps firms operate profitably. More information can be found at www.margolisbecker.com.

About MargolisBecker

MargolisBecker has long been recognized as the financial expert for the printing and allied graphic communications industry, assisting thousands of companies with strategic and financial management, valuation, mergers/acquisitions, accounting, audit and tax services. The firm is noted for its expertise in enabling printing companies to optimize profits. Proudly, it is the purveyor of the industry's *Cash is King*, and *Value-Added Principles of Management*, and compiles the annual Printing Industries of America Ratios, the industry's premier financial benchmarking tool.

About New Direction Partners

The team at New Direction Partners LLC has guided over 200 printing company owners through the sales and merger process. The advisory services reflect a full set of skills to help you sell or expand your business: valuation, management consulting, financial advisory and investment banking. The deep experience and industry expertise at New Direction makes it uniquely suited to serve printing, packaging and allied graphic arts businesses.