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An exclusive publication for members

by Bob Lindgren & Joe Polanco

Take Action – OSHA Compliance

In what seems a cyclical approach from OSHA, they've recently announced that they will be taking a much more aggressive approach in handling serious violations, with historic increases in fines and how they classify violations. Although our focus should always be on employee safety, being exposed to punitive fines . . . and the negative publicity brought by violations . . . are not factors to ignore. As with many firms in our industry, there is no single person assigned to compliance issues; thus, these may be shared responsibilities and may even incorporate an outside consultant. Regardless, this could be an excellent time for top management to review compliance and safety efforts. The upside is much more than saving money since it's about a process to create a safer work environment.

Saving Into Success

We read an article by a well-known industry consultant who had analyzed the financial statements of a money losing firm and prescribed a series of cost reductions. A save yourself into wealth approach.

What was missing was any analysis of possibility of increasing sales. It is very likely that the hit ratio (orders/quotes) of the firm was way less than 100%. So, a modest and focused decrease in pricing would have produced a significant increase in volume by capturing orders that had been lost.

As it is unlikely that the firm's out of pocket cost production was more than 60 to 70% of sales, the previously rejected orders would have produced a meaningful contribution to overhead and profit which would make the cost reductions unnecessary and perhaps counter-productive.

The Right Time to Buy . . . or Sell?

One of the industry's M&A experts recently reported a significant drop-off in "deals" within the printing industry. Although this may not be a true indicator of the buy/sell market, it does create questions for those owners wishing to expand through acquisition or sell their business. Although there are always restraining factors of when to buy or sell, the seller/buyer should look at their reasons for selling or buying without being concerned about a "hot" or "cold" market.

GRAPHIC MEDIA ALLIANCE

(Continued)

If you're a seller, are you truly ready to let go of the reins? Is your business in a position which can be readily absorbed by a buyer? As a seller, do you understand that in today's buy/sell transactions rarely is a business bought and then operated as is. "Tuck-ins" are normal and that means only select equipment (if any) will be purchased and not all the employees will transition to the buyer's company.

If you're a buyer, what is the major reason for the purchase? Is it the need for additional capacity? Or sales? Is there a need for talented personnel? All of these are important questions which should help develop a strategy of finding the "right" company to purchase. Just adding additional sales is not necessarily the right answer.

Regardless of the reasons for buying/selling, or whether the market is "hot" or "cold," the value of the business is a function of profitability. If your business is successful and the market is "cold," there may not be as many buyers, but the value is not going to change if you have a well-run business in a successful marketplace. Conversely, if you're a buyer and the firm is a good fit, "hot" or "cold" shouldn't make a difference.

"Self-Supporting"

Thoughts from Gerry Michael… Capital equipment is never "self-supporting." Remember all the illustrations you've probably seen when evaluating potential equipment acquisitions?

The ones that I always enjoyed were the illustrations of all the "new revenues" that would come from investing in some new press, or other technology. It was as if all those sales were out in the market, looking for a home. But the truth is that this is just another example of, "if you build it, they will come" mentality.

Some of the most damaging decisions I've ever seen were decisions to invest substantial amounts of scarce business capital in assets that never proved to be as productive as was hoped. The result usually was a business so badly damaged that they either never recovered, or they saw their value shrink dramatically, even if they were able to survive.

Investing in capacity never generates revenues, only sales and marketing activities does that.

It's Cheaper To Buy It Out . . .

We got an order for a job which our estimating software thinks would cost $1,000. However, another shop would do the job for us for only $850. Wouldn't the sensible decision be to farm the job out to them and put the $150 in our pocket?

Almost always, the answer is NO! The underlying reality is that our estimating software tries to assign a part of all the cost of running our business to each quote, so its $1,000 includes part of the building, part of the equipment and part of the front office. These usually amount to about 40% of the total. Thus, we'll spend about $600 (paper, buyouts, production wages, commission) to produce the job. If we send it out, we'll spend $850—not a good idea!

quoins2pixels is written by Bob Lindgren and Joe Polanco. Bob and Joe have spent decades in the printing industry, and throughout their careers, they have counseled hundreds of company owners on a variety of management topics. As a value-added service of Graphic Media Alliance, they are available to expand on these articles, or aid with projects. Bob can be reached at (818) 219-3855 and Joe at jspolanco49@gmail.com.