

Does Collaboration with other producers hold the key to business survival for commercial printers?

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The numerous Australian Commercial Printers (offset and digital printers) that I have recently spoken to have experienced drops in revenue of between 30-90% as a result of economic downturns caused by COVID 19.

Clearly, at that these lower volumes, the vast majority of commercial printers are unprofitable even after they have taken advantage of the financial assistance / relief supplied from the Government, landlords and perhaps suppliers.

To stay in the game and to have an opportunity to come out the other end, with a profitable and sustainable business model, most will need to “collaborate” with other printers – some may be trade printers, others will be competitors, and “like minded” and / or “like situation” printers.

What do we mean when we say “collaborate”?

Collaboration means working with other printers (or print brokers / managers) to optimise our staff numbers, hours of operation, equipment utilisation and minimising expenses. And more likely than not this collaboration will also involve reducing the size of, or the sharing / moving of premises.

The most common forms of “collaboration” will be:

- A. “Reduce Manufacturing” and focus on sales and marketing. A significant reduction in on site manufacturing, focus on manufacturing niches or highly utilised efficient plant and a subsequent increase in outsourcing (collaborate with reputable and established trade supplier/s who can consistently deliver).
- B. “Joint Venture” (JV) or “Joint Collaboration”- The sharing of premises and equipment with another printer (or print manager / broker).

Either choice may initially seem to be uncomfortable and challenging, especially (B), as most business proprietors are used to “running their own race”.

However, when one objectively considers the facts, the need to survive and to move to a sustainable new model, it may be the only alternative for most commercial printers.

Why the need to collaborate?

To me, we must accept that the world has changed and that nobody can confidently predict what it is going to look like on the other side. Opinions vary widely – what the fall may be, how long it will last for and how fast and complete the rebound may be. Yesterday the NAB stated they had a wide variance of “best case / worst case” scenarios – the reality is, they, as one of Australia’s largest banks, don’t know the extent of the economic fallout of COVID 19.

The basic maths:

If you have, say 50% less commercial print pie (as above between 30% & 90% fall in volumes), you will not need all the staff and machinery.

In fact, you need at least half as much, because we already have an industry with vastly under-utilised plant / staff. We also know that sitting and waiting for anticipated volumes is one of our biggest dis-economies of scale.

Some may argue that “when things return to normal” the commercial print pie will be the same size. However, given the year on year on year consistent falls in volumes over the past 10 years, we have constantly had our pie size reduced. I also contend that COVID 19 has/will only accelerate the reduction of the pie size even more.

This is because throughout the crises printer’s customers will have found other means to promote their goods and services. They either will not come back or will come back with “less” demands for print.

"Less" could be shorter run lengths, reduced pagination, or less range of printed products. And different markets will have different speeds to return to print.

So the new norm, post COVID 19, may be 30% less commercial print pie. Again, the truth is we don't know, but to me this is my best guess.

The other reality:

Many businesses were sailing "close to the wind" pre COVID 19. In my experience in conducting around 20 commercial printing businesses appraisals over the past year, 80% were trading at less than a 10% EBITDA (Ratio of Sales to EBITDA).

So, any significant drop in volume will push such firms into the red, some significantly into the red and out of business. Something needs to give.

What are the alternatives to collaboration?

The three main alternative categories to collaboration:

1. Businesses with good pre COVID 19 profits, who right-size their business throughout the crisis and trade through may buy the distressed businesses (or parts of businesses) that will inevitably come onto the market, to "even out" their sales.
2. Businesses with low / marginal profits or worse (beforehand) - might tip in more money and punt again. However, post COVID 19 they may still have an unsustainable business model. Are we just "putting off" the inevitable? Some of these businesses will then fall into category (3) below.
3. Businesses that merge, sell, close or liquidate. Some forced, some by chance, some voluntary.

There will be slight variations to the above, however I think these will be the main alternative categories.

So, isn't at least an earnest discussion about how best to collaborate with other printers / producers in the mix of alternatives to be considered?

The End Game;

The main objective of collaboration is for each party is to have a profitable and sustainable business.

Also, with that, to have a better chance to either pass on the business via succession or to achieve a much higher value when ultimately selling the business – And with (B) the most logical purchaser may be the JV partner.

The difficulty with (B) it is to get the two proprietors to put their egos to the side. They need to be aligned with each other's interests / objectives and understand that there will need to be a lot of give and take for joint success. Both need to understand that without each other, at some stage down the track, they may not have a business at all.

Summary

Most commercial printers are experiencing significant falls in revenue of between 30% and 90%. We don't know how long this will last, how fast each business recovers this lost sale revenue, and whether sales will ever return to pre COVID 19 levels.

Businesses will take advantage of Government, perhaps landlord and supplier help – however, this may not be enough to avoid being unprofitable and they may have to tip in more money into what may already be an unsustainable business model.

For many, who want to avoid sale and closure, they need to consider entering into "collaborations" with other printers to survive. These collaborations may not be easy but can provide a business model that produces good profits and is sustainable, and at the end of the day, at the proprietor's choosing a lot more saleable.

Need Help? – What Ascent Partners offers:

Ascent Partners is well placed and credentialed to facilitate "collaborations", mergers, business sales and acquisitions to our industry:

- *Track record / Experience - We have provided over 80 business transactions, conducted in excess of 200 business appraisals / valuations and have the means to dispose of surplus plant and equipment.*
- *Network - We have a highly developed a network of over 2,500 businesses on our data base. We know who's who in the Australian Print Market.*

- *Objective assessment - We can provide an objective assessment of your business, determining if and what type of collaborations should be considered.*
- *Facilitating the “matching” process to other suitable businesses in this spirit of collaboration.*

Next step - Register your interest for our MATCH MAKING collaboration program:

To register your interest in finding a suitable business to “match” with please contact me, Richard Rasmussen, at richard@ascentpartners.com.au or on 0402 021 101. All discussions will be held in the Strictest of Confidence

If you would like to take part in a short industry wide survey go to

<http://www.ascentpartners.com.au>