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An exclusive publication for members

by Bob Lindgren & Joe Polanco

Business Is About Decisions

Business requires the making of decisions. Since we can't decide the past, all decisions are about the future—what will happen if we accept that job, hire that sales rep, buy that machine, acquire that company?

When we make those decisions, our focus must be on what will change—what additional revenue will we receive, and what do we expect to spend. Just as importantly, when do we think that this will occur as there is an enormous difference between dollars received and spent now and those spent now and those received five years from now. Our conventional accounting system is not helpful as it's all historical and our estimating system is a muddle of things that we will spend (paper, etc.) and things that are allocations of overhead (rent, depreciation, etc.) that we will not be spent because of a decision.

The process should start with a proposed action step (buy the press, hire the sales rep, take the job at a discounted price, etc.), then list the amounts that will be spent and the net amounts that will be received by year. As our ability to predict the future is limited, if the decision is significant, it's worthwhile to consider alternative scenarios. The analysis must be cash based— how much out versus how much in.

Don't Blow Smoke At Yourself

It's tempting and traditional to focus on a number called "job margin/profit". To get this number, you must use budget hour costs (BHRs), the domain of the $125 per hour cost center operated by a person making $20 per hour.

Because the BHRs depend on assumed hours of utilization, the firm can lose money in a month when it's slow even though there is a positive profit/margin on every job. Just the reverse will occur when the shop is busy.

Luring behind this is the reality that only two numbers matter: the out-of-pocket cost (dollars spent on materials, buy-outs, production wages, click charges and sales commissions) and contribution (the difference between the invoice and out-of-pocket cost). The business lives or dies based on contribution, the rest is just dollar trading with employees and suppliers.

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Exit Strategy III

As our earlier articles outlined, the "simplest" transition of a family business are the ones in which family or trusted employees are the buyers. Often there are instances where that opportunity does not exist; thus, the need for the seller to "go to market." When a company is relatively small (less than $3 Million in sales), this can be a DIY (Do It Yourself) scenario. The easiest sell is to a competitor. The seller knows the potential buyers and can often negotiate those types of sales on their own. If there are no local competitors, or the size of company excludes local buyers (specialty companies – envelopes; forms, etc., or companies with sales greater than $8 Million), will often call for a third party. These firms or individuals will conduct the search for a buyer and assist with all aspects of the negotiations as well as provide market knowledge of a business' value. Although not an inexpensive proposition, third parties with knowledge of print markets will provide a seamless process and have knowledge of buyers unknown to a seller including private equity which can maximize the owner's return.

Regardless, of the choices, there are several items to keep in mind. Selling a company is a very time-consuming process and often requires a CEOs full time focus, and they should plan accordingly. A crucial aspect is taxes. A seller should discuss tax consequences with a tax expert and give thought as how the sale will be structured to minimize the tax impact, as well as understanding what is advantageous to a seller could be disadvantageous to a buyer. Finally, the seller should understand the firm's value. It's not in the seller's best interest to go through the process of selling his/her company and then discover that their valuation is not in sync with the market. Although every firm has value, the seller must be cognizant that a sale of a company is a financial transaction and prior history, or type of equipment, or market position, may have minimum effect on a company's value. If a company generates very little profits, it's value may be its assets (less liabilities) and some consideration for its book of sales. A company with above "average" profitability will engender increase value because of its profitability but could still be limited in value if only a handful of customers are generating sales or some other variable (aging equipment, shrinking market, etc.) is adversely affecting growth potential.

An astute seller will take all these issues into consideration prior to beginning the process of selling; thus, maximizing the value of the firm and rewarding their efforts.

Print – A Game Changer

With all the talk of AI (Artificial Intelligence/Machine Learning) as a potential game changer, it's easy to forget what Johannes Gutenberg's creation in the 15th century did for civilization. Education, religion, society, exploration, all were affected by the ability to communicate in a medium other than verbal. At the end of the 20th century, print was declared dead by many. Yet, it is still a preferred medium of communication in a multitude of channels . . . and will continue well into the future.

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 Print Media Association, 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.