

British Printing Industries Federation

Farringdon Point
29-35 Farringdon Road
London EC1M 3JF

Telephone 0870 240 4085

Fax 020 7405 7784

info@bpif.org.uk

www.britishprint.com

Contents

From the Chief Executive	2
Survey background	3
Research findings	5
Conclusions	21
What is driving M & A activity?	22
The human impact of change and mergers and acquisitions	23
Appendices	25

From the Chief Executive

Unlock your company's full potential



The BPIF is the principal business support organisation for the UK print, printed packaging and graphic communications industry. However, we are not a remote ivory-tower trade body. Rather we are a hands-on business partner, working alongside

our member companies in their own businesses, to deliver improved performance and added value. To facilitate this, we have six regional business centres, each staffed by a team of industry specialists. We employ our own solicitors, health, safety and environmental advisors and HR consultants. We also offer a range of value-added consultancy from print industry experts to help printers increase profit, develop skills and grow their businesses.

Our brand carries the strap line 'making change positive' and we aim to ensure that change is a positive experience for our members rather than a negative one. This means helping them adapt to the ever-shifting and fiercely competitive print marketplace. It means helping them make the strategic and structural changes required to ensure they are able to seize the opportunities open to them and address the threats they inevitably face in such a trading environment. The business support services we offer reflect this. Vision in Print & Packaging (now incorporating our consultancy arm BPIF Business) has been merged with the BPIF and is the industry's leading provider of process improvement and lean manufacturing support programmes. The need for businesses seeking to grow through merger and acquisition to make the right deals with those seeking to restructure or exit has been addressed through the establishment of BPIF McInnes Corporate, a joint venture blending the financial acumen of McInnes Corporate with the business advisory expertise of the BPIF.

Making strategic and structural changes requires clear predictions as to what the future is expected to

hold, based on sound data. For this reason the BPIF has conducted this important new survey, the first of its kind. The research highlighted in this document provides key insights into what is happening to print businesses now and in the near future. It is clear that the market offers opportunities for those that want to continue to grow and that the changes we have seen to date are now much more fundamental and permanent in nature. Your organisation will have to adapt to these changes if you aim to stay in business - staying as you are, is not an option. The BPIF provides the tools and best practices to do so and the confidential support to ensure you have the solutions to prosper and grow.

The BPIF works closely with regional development agencies, blending our industry-specific knowledge with their local business focus in order to better support local print companies. Our collaboration with Yorkshire Forward resulted in the establishment of PrintYorkshire, who are doing a sterling job of showcasing the print capability that the region offers to print buyers nationwide and who we were delighted to partner with in putting together the industry's second Finance and Investment Conference. We will endeavour to convince other RDAs to follow Yorkshire Forward's lead, a process that we have already started by securing an agreement at the end of last year with the London Development Agency to establish a business support programme for printers in the Capital (PrintLondon). This will deliver £0.5m business support funding from the LDA over a two-year period; around 100 print companies are already benefiting from this. We will continue to work with RDAs and other business support organisations to help you make change positive for your company.

The research highlights in this document will help you and your team to develop optimal strategies applicable to your business. My team and I are keen to support you and learn more about the problems you face and help you improve your firm's profit.

I look forward to working with you in the near future.

A handwritten signature in black ink, reading "Michael Johnson". The signature is written in a cursive, flowing style.

Michael Johnson
Chief Executive
BPIF

Survey background

The survey on structural and strategic change was commissioned by the BPIF as part of its focus on understanding the underlying factors that are forcing change on business owners across the UK. It is the first survey of its kind.

Hopefully one of many outcomes of the survey will be more action taken to tackle strategic change and recognition of the importance of formulating the right strategy to combat the myriad of market forces acting upon the industry. Gaining and creating competitive advantage has never been more important: one of the most encouraging results of the survey is that 97% of respondents have undertaken a business review of some sort in the last 2 years, resulting in them implementing change strategies to create a better future.

Whatever the extent and depth of these internal reviews the gap between 'have dones', and 'have not dones' is going to amplify the differences between the weaker and stronger companies.

The development of any strategy implies two fundamentals:

- You are determined to begin to control events rather than the other way around.
- You review your options against the marketplace, and recognise planned actions are more likely to lead to success.

The findings were further validated by the range of sectors providing feedback and by input from companies across the small to medium turnover range and medium to large turnover range.

3. What market sectors are you currently involved in? (please click all that apply)		
	Response Percent	Response Count
publishing	13.2%	21
design	35.2%	56
internet services	14.5%	23
print management	30.8%	49
pre-press	45.3%	72
copy shop	10.7%	17
general commercial printing	55.4%	88
book printing	15.1%	24
manufactured stationery	10.7%	17
business forms	12.6%	20
financial printing	15.7%	25
security printing	13.2%	21
newspapers	1.3%	2
periodicals	18.2%	29
direct mail	27.0%	43
digital and data technologies	32.7%	52
marketing services	15.7%	25
point of sale	18.9%	30
cartons	8.8%	14
labels	18.9%	30
flexible packaging	4.4%	7
mailing/fulfilment	32.1%	51
finishing	35.2%	56
other (please specify)	12.0%	19
	answered question	159
	skipped question	9

Companies listed as 'other' included: packaging systems, playing and games cards, outdoor display advertising, envelopes, screen printed textiles, beer mat manufacturing, ring binding and folder manufacturing.

4. What is the turnover of your company? (please select the appropriate range)			Response Percent	Response Count
up to £1.5 million			14.6%	23
£1.5 million to £3 million			15.8%	25
£3 million to £5 million			16.5%	26
£5 million to £10 million			24.1%	38
greater than £10 million			29.1%	46
			answered question	158
			skipped question	10

The survey findings and commentary within this document seek to focus attention on what positive outcomes can be delivered as it is clear our industry is embarking on a more seismic shift due to the nature of strategic and structural issues that have built up over preceding years.

The recent BPIF *Printing for profit survey* highlighted that the good businesses are getting better and the gap between 'good' and 'less good' is getting wider, although it is clearly difficult for any firm to operate in the print market. As always, within any turbulent market there are businesses capable of bucking the trend due to having more management momentum and positive initiatives underway at one time than their competitors.

Leaving things to chance and continuing in the ways of previous years is not a sustainable solution - neither is investment for investment's sake.

Businesses today, and markets today, require and demand greater sophistication - a dynamic combination of initiatives and revenue streams spread across many areas. The business mantra "Quality Up Costs Down, Differentiation" can not be ignored.

We must also not ignore timeless fundamentals of business success such as: doing what we say we will do, delivering a product and service that meets clients' expectations, ensuring we actually communicate in an effective way and not borrowing what we might have difficulty paying back.

Whether it is ongoing fine-tuning and delivering the outcomes of a strong strategic plan or beginning the process, there is still clearly plenty that needs to be done in order to combat ongoing structural and strategic issues.

Research findings

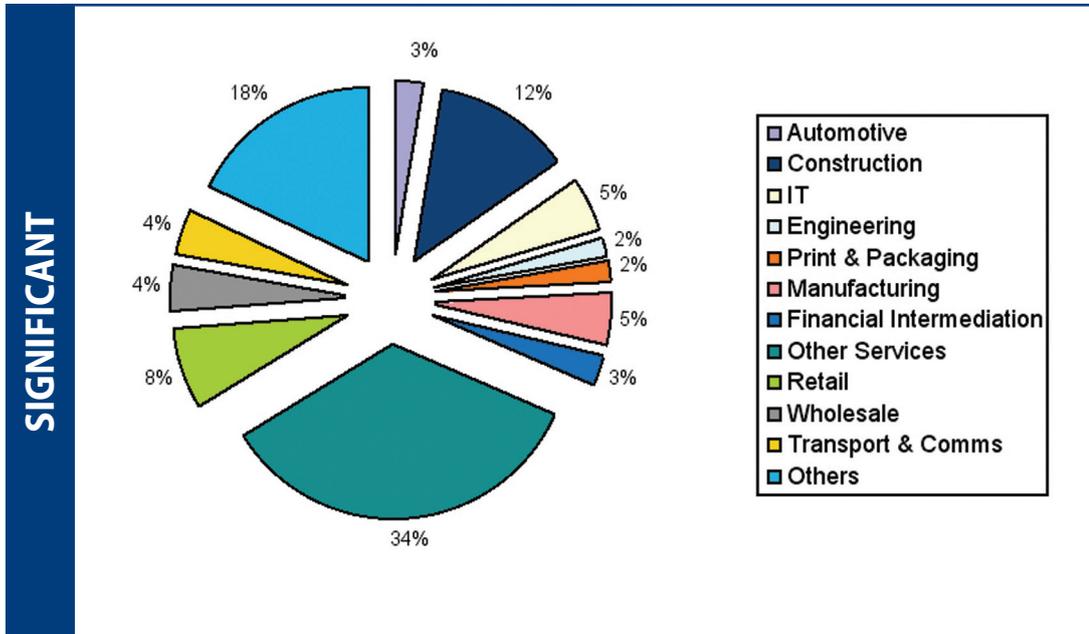
1. How optimistic/pessimistic are you about the future profitability of the UK printing industry in general, the sectors in which you operate and your company? (please click on the appropriate button in the scale below)							
	very optimistic	optimistic	neutral	pessimistic	very pessimistic	Rating Average	Response Count
UK printing industry	1.3% (2)	21.4% (34)	42.1% (67)	33.3% (53)	1.9% (3)	0.00	159
your sectors	2.5% (4)	38.6% (61)	32.9% (52)	22.8% (36)	3.2% (5)	0.15	158
your company	14.5% (23)	52.8% (84)	19.5% (31)	10.7% (17)	2.5% (4)	0.66	159
	answered question						165
	skipped question						3

Our attention is drawn to the finding that companies are more optimistic about the prospects for their own company than they are about those of the UK printing industry as a whole. It may be that in some cases those companies that are more optimistic are in defensible niches or, are genuinely out-performing their rivals. However, others may well be seeing their company's fortunes through rose-tinted spectacles. It is encouraging to see printers taking an optimistic outlook, rather than wallowing in doom and gloom, but is important to ensure that such optimism is well founded. Now more than ever is the time to benchmark your performance against others using comparative data such as that provided by the BPIF *Printing for profit survey*.

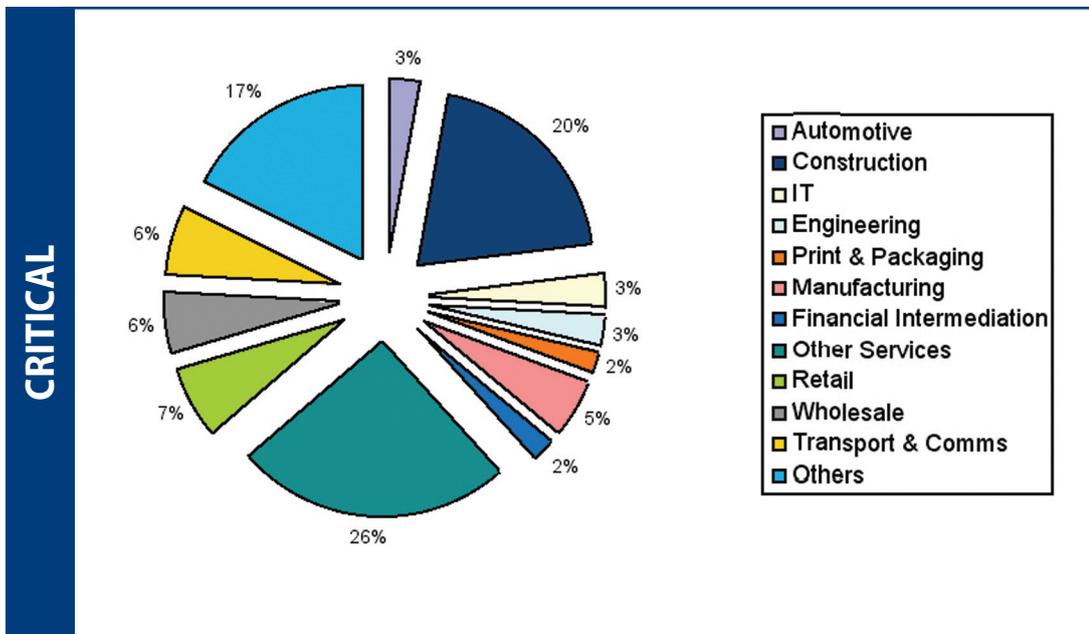
The broad range of views and feelings about one's own business sector, and the UK printing industry, reflects the extent that change is taking hold. Some feel they can respond to change while some might feel they have tried and still things remain the same. Indeed some feel left behind. The message we can deliver from this is that effective management options always exist if the factors that are causing a problem are tackled soonest. Circa 42% were neutral about the industry; this might reflect the fact that sometimes it is difficult to clearly see what is really happening. Hopefully the survey and objective debate resulting from this will help develop clarity of vision.

Historical analysis of companies recording significant or critical problems across our industry from Begbies Traynor Red Flag Alert statistics (comparing 2006 with 2007) highlights an increasing trend of companies with significant problems and the volatile nature of the market where traditional patterns of trading are changing. Markets have lost the reliability of traditional seasonality and companies can move into difficulty at any time of the year.

Percentage of companies with significant problems in the UK - 1st half 2007



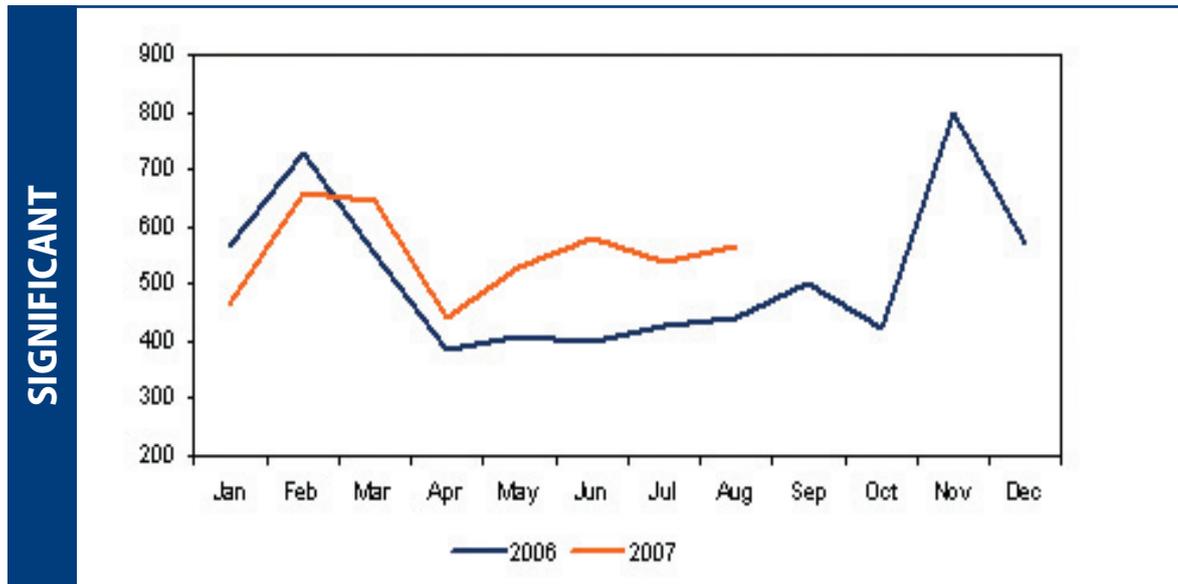
Percentage of companies with critical problems in the UK - 2006/2007



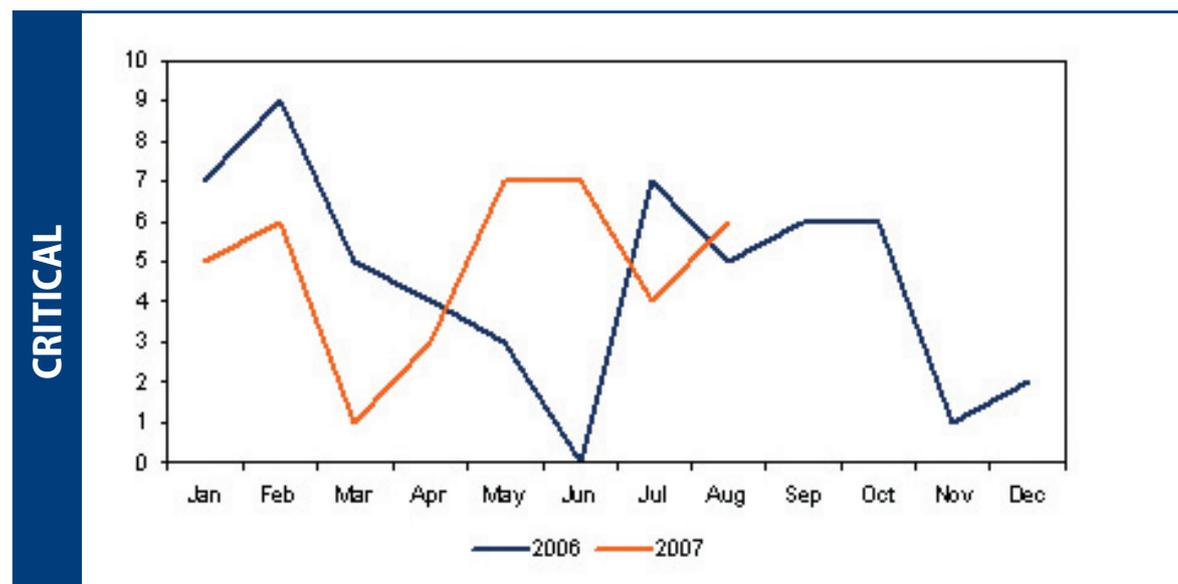
Significant problems: These are companies with either a court action and/or average, poor, very poor, insolvent or out of date accounts.

Critical problems: This group relates to winding-up petitions including applications, adjournments and dismissals.

Percentage of companies with significant problems in the UK - 1st half 2007



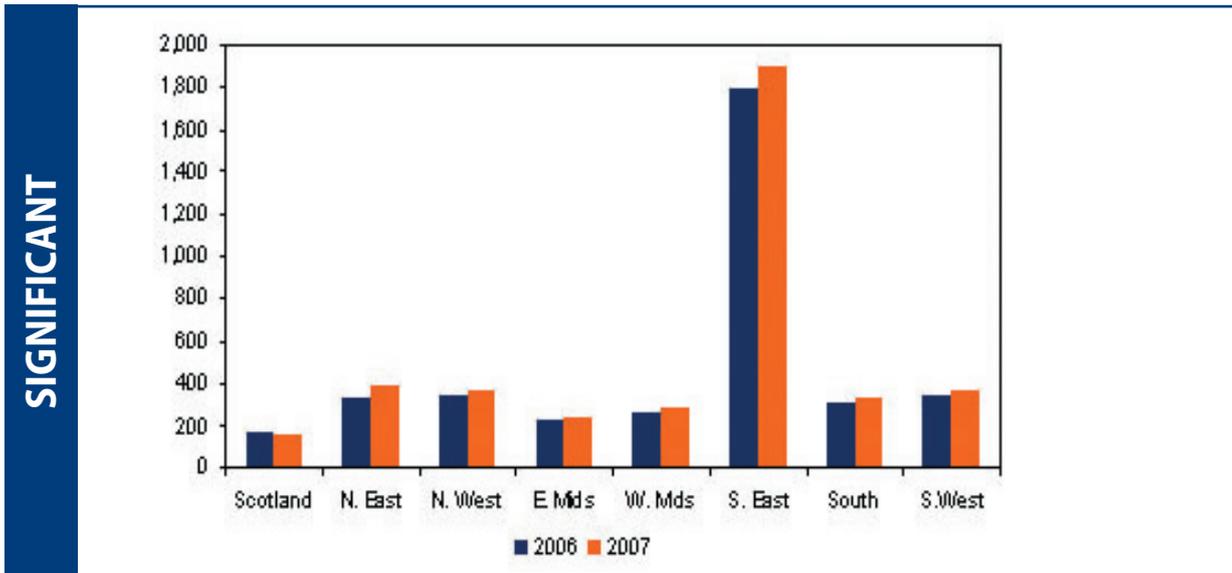
Percentage of companies with critical problems in the UK - 2006/2007



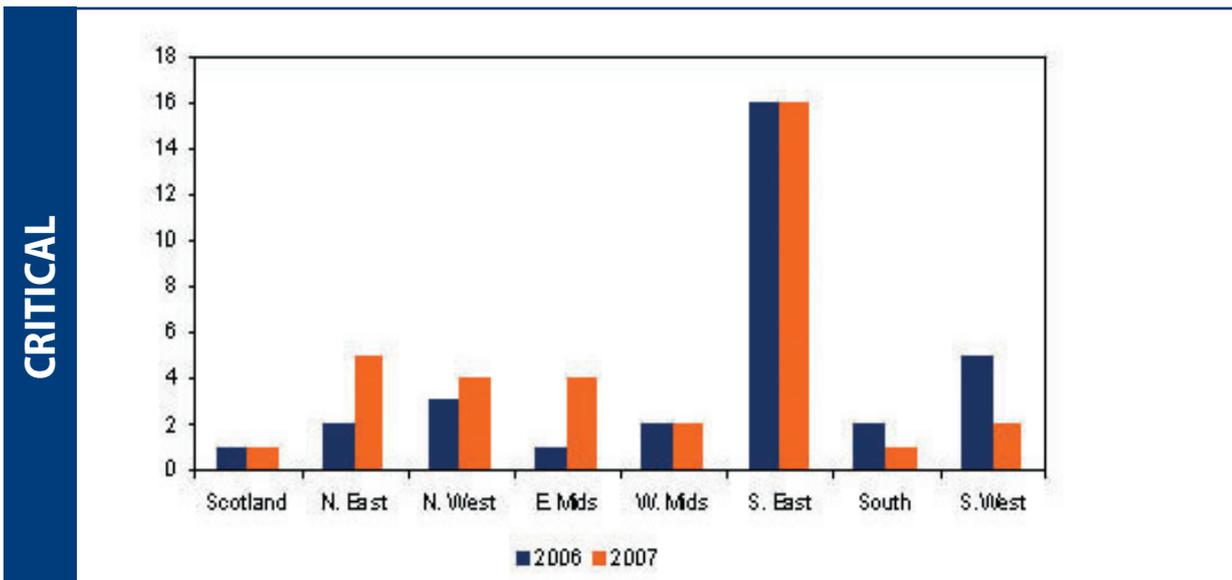
Significant problems: These are companies with either a court action and/or average, poor, very poor, insolvent or out of date accounts.

Critical problems: This group relates to winding-up petitions including applications, adjournments and dismissals.

Percentage of companies with significant problems in the UK Jan-Aug 2006/2007



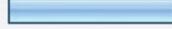
Percentage of companies with critical problems in the UK Jan-Aug 2006/2007



Significant problems: These are companies with either a court action and/or average, poor, very poor, insolvent or out of date accounts.

Critical problems: This group relates to winding-up petitions including applications, adjournments and dismissals.

(Source: Red Flag Alert Statistics for the Print & Packaging sectors in the UK for January - August 2007, Begbies Traynor - Corporate Rescue & Recovery)

2. What capacity is your business currently running at? (please estimate a range based upon your current normal working procedures and shift patterns)			Response Percent	Response Count
less than 50%			1.8%	3
50 - 60%			9.8%	16
60 - 70%			16.6%	27
70 - 80%			28.2%	46
80 - 90%			27.0%	44
90 - 100%			11.7%	19
more than 100%			4.9%	8
			answered question	163
			skipped question	5

The problems of forecasting and budgeting for future revenues in any non-contractual business are increasingly creating problems in business planning and uncertainty over the recovery of fixed overheads. Ongoing investment in new technology has created greater headroom capacity in businesses but the need to work assets harder to offset erosion of margins has never been greater. The BPIF quarterly survey of industry trading trends, *Directions*, finds that half of the businesses that are in their busiest quarter are working below capacity; so the feedback on capacity and its utilisation need to be viewed carefully.

There is real concern in those companies that are recording levels at below 70% utilisation of capacity and the effect this has on cash flow over a protracted period.

Vision in Print, who work across all print sectors in improving best practice and lean manufacturing practices, see the norm for many companies setting utilisation breakeven cost rates higher than 65-70%. Almost 40% of respondents highlighted 'too much competition' as a factor in making or sustaining profitability, and as Richard Gray, MD of Vision In Print & Packaging, comments: "With all this in mind an amazingly high proportion of companies have been slow to adopt Overall Equipment Effectiveness. OEE is an overall measure that combines downtime; running speed losses; and quality losses, yet few printers use this measure at present and often accept as the norm the equivalent of a very poor overall equipment performance. There is still so much that can be achieved to raise productivity performance to the benefit of the business."

5. Do you feel there is a need to look at consolidating turnover from other companies into your business (or vice versa)?			Response Percent	Response Count
yes			62.7%	99
no			20.9%	33
don't know			16.5%	26
answered question				158
skipped question				10

The need to maintain the top-line and recover fixed overhead costs in order just to survive has direct bearing on the feedback on consolidation of turnover.

A common comment from business owners is, "If only we had £x,xxx more turnover we would be O.K!" Growing and maintaining sales activity is extremely difficult for the great majority of organisations and the nature of competition and buyer behaviour can be very tiring, even on the most customer facing organisations, never mind businesses that struggle to keep or find a true sales developer.

Rolling other companies' turnover into your own organisation is viewed as a quick fix, but without the right strategy and know-how it can create more problems than solutions. As a stand-alone strategy it should be pursued - it also offers opportunity for a planned exit route for principal shareholders but should not be viewed as the only strategy to pursue. The pernicious competition in this market requires a blended strategy of solutions. Interestingly, 21% of the respondents felt there was no need to look at consolidating turnover from other companies!

David Ross, freelance Economist specialising in the printing industry and Editor of *Directions*, observed: "Many *Directions* respondents express an interest in strategic (acquisitive) growth. However, many are so busy on day-to day management that they rarely get past the stage of expressing the desire to do a deal. Others who go further encounter many problems: over-inflated valuations by the seller, TUPE issues, and many other legal and commercial issues. It invariably takes longer and more effort than originally envisaged and so ensure you need to seek the support of an industry specific advisor like BPIF McInnes Corporate."

There are several consolidation teams capitalising on market conditions and the reporting of M & A activity is increasing in the trade press.

6. Do you expect to authorise more or less capital expenditure during the next 12 months in comparison to the last 12 months?				
With regards to:				
(please click on the appropriate button)				
	less	the same	more	Response Count
new buildings	31.3% (42)	53.7% (72)	14.9% (20)	134
alterations to existing buildings	26.2% (37)	52.5% (74)	21.3% (30)	141
pre-press equipment	33.6% (48)	45.5% (65)	21.0% (30)	143
printing equipment	34.5% (50)	27.6% (40)	37.9% (55)	145
finishing equipment	25.9% (38)	42.2% (62)	32.0% (47)	147
MIS software	23.1% (34)	40.8% (60)	36.1% (53)	147
other office/IT equipment	15.8% (23)	60.3% (88)	24.0% (35)	146
	answered question			156
	skipped question			12

Ongoing investment in technology that improves productivity is demanded in competitive markets and those in for the long haul will continue to set the pace. There was a slight lull in spending on plant in late 2005 and early 2006 and whilst the differentiation between those that have industrial manufacturing long presses and those that cannot justify having them increases, we are seeing more spend on digital capability which is complimentary to litho services. It is interesting to note that at this stage suppliers of digital machines talk of these being complementary to litho, rather than replacing it, but the balance will change at some point!

Finishing has had to keep pace with changes in print production and complementary digital finishing capability needs to be brought into play.

The overall figures seem to show a somewhat cautious view of the future in relation to investment or the end of a recent cycle of investment and it is time for a payback.

The industry was, until recent times, seen as one that had strong value in balance sheet assets. Changes to market valuations in machinery, increasing investment in digital capability where investment is written down more quickly, and a rise in borrowing against assets to ride bad times has all helped to erode balance sheet value; but circa 59% of respondents are in a relatively strong position with ownership of their freehold. This provides additional leverage to capitalise on market conditions and security for the future.

Pensions are a huge issue for both the individual and for businesses and they can be a great obstacle to growth and development. It is surprising that some 23% still have defined pension schemes that seem to be still open and not in deficit.

7. Do you currently own the freehold for your company?			Response Percent	Response Count
yes			58.7%	91
no			41.3%	64
answered question				155
skipped question				13

8. Does your company have a defined benefit pension scheme? If yes, is it in deficit?			Response Percent	Response Count
yes; in deficit			13.6%	21
yes; not in deficit			22.7%	35
no			63.6%	98
answered question				154
skipped question				14

Responses to the question: ‘What factors do you see as being the greatest risk/threat for the future profitability of your company?’ highlight ongoing threats that are not going to go away. They plot the causes of change as seen by the industry. There is an increase in the unpredictability of many of the factors that cause organisations to change and a requirement for organisations to respond to change. This is having a dramatic effect on our industry as many cannot or will not respond.

Typical change situations triggered by these forces include:

- Downsizing or rightsizing
- Benchmarking, process re-engineering, continuous improvement
- Increases in outsourcing
- Time reduction Improvement actions
- More activity in reviewing strategic alliances and joint ventures
- Rise of M & A activity
- Expansion into different and new markets

The industry is adapting to these threats and many good business models exist that can turn them to advantage. One person’s risk is another’s opportunity. Interestingly, listed in ‘other’ were: environmental, postal strikes, raw material costs, other companies desperately trying to stay in business to the detriment of others and the emotive issue of phoenix companies.

Our industry has always adapted well to incremental change but the employment of the right people with the right skills is at the heart of ensuring that adaptation has positive outcomes. This is still an area of ongoing concern and is reflected in the survey findings.

The survey highlights that there is a greater prevalence of problems caused by fundamental change - rather than incremental change. Fundamental change affects people more dynamically, and has greater urgency attached to it. It involves greater structural and strategic shifts; this creates more management and business tension.

How well will we cope with this over the next few years?

Overseas competition is still a factor for many companies and sectors, but The English Channel still helps to an extent to keep some work on UK shores. The recent scare with Chinese suppliers and a massive recall of toxic *SpongeBob SquarePants* branded stationery has thrown the spotlight on potential risks of outsourcing print to developing nations and might help stem the tide for a while but economics always plays the biggest part in decision making.

Clearly different sectors of the overall market have threats and risks that are more pressing than others, but the companies that appear to operate and perform better have all developed strategies to combat, to greater or lesser extents, the highlighted greatest threats.

David Ross makes the comment that several *Directions* respondents have surprised themselves with their success when they have grabbed 'the bull by the horns', whether it be by raising selling prices or demanding better payment terms. Sometimes again the basics come into play and what appears to have become the norm needs to be tested.

9. What factors do you see as being the greatest risk / threat for the future profitability of your company? (please rank <u>only the three biggest threats</u> from those below; 1 for the greatest risk/threat)					
	1	2	3	Rating Average	Response Count
rise of outsourcing & print management	40.0% (28)	24.3% (17)	35.7% (25)	2.04	70
non-print media	37.5% (18)	35.4% (17)	27.1% (13)	2.10	48
bargaining power of buyers	37.5% (33)	34.1% (30)	28.4% (25)	2.09	88
access to finance	20.0% (3)	26.7% (4)	53.3% (8)	1.67	15
adaptability to change	19.4% (7)	41.7% (15)	38.9% (14)	1.81	36
employment of the right personnel	26.5% (18)	30.9% (21)	42.6% (29)	1.84	68
sustaining the right revenue streams	38.5% (30)	37.2% (29)	24.4% (19)	2.14	78
other	44.4% (8)	38.9% (7)	16.7% (3)	2.28	18
			(please specify below)		18
			answered question		148
			skipped question		20

When it comes to providing a full picture of risk to future profitability of one's own company against those of a sector, each sector will have specific pressures that are relatively unique. However, 'lack of sales' looms large at 49.5%, followed by 'tax laws' and 'too much competition'. Tax legislation as an issue might refer to recent announcements in the last budget that changed capital allowances on investment and also reflects a strong feeling that support the manufacturing sector receives a lack of 'true' support.

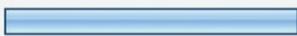
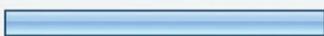
10. What is the biggest threat to profitability for your sector? (please rank <u>only the three</u> biggest threats from those below; 1 for the biggest threat)					
	1	2	3	Rating Average	Response Count
lack of sales	49.5% (50)	26.7% (27)	23.8% (24)	2.26	101
level of fixed overheads	21.3% (13)	36.1% (22)	42.6% (26)	1.79	61
overseas competition	33.3% (14)	35.7% (15)	31.0% (13)	2.02	42
government legislation	20.0% (4)	45.0% (9)	35.0% (7)	1.85	20
tax laws	44.4% (4)	33.3% (3)	22.2% (2)	2.22	9
too much competition	39.4% (41)	35.6% (37)	25.0% (26)	2.14	104
print management companies	20.6% (14)	33.8% (23)	45.6% (31)	1.75	68
other	50.0% (3)	33.3% (2)	16.7% (1)	2.33	6
(please specify below)					8
answered question					145
skipped question					23

The overriding view (86% of respondents) is that consolidation activity is going to increase over the next two years as the market realigns itself to the pressures bearing on it and shareholders seek a way out. Demographics, age profile of principal shareholders alongside succession planning are the big issues in planning and realising an exit route.

Financial pressures on businesses across the overall industry, covering access to working capital, investment capital and poor to non-existent profit margins characterising many companies will create an environment of great change.

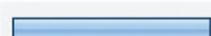
The feeling that change would be driven roughly equally by company insolvencies and planned M & A activity reflects a belief that big change lies ahead.

11. How do you think the process of consolidation is likely to proceed in the UK printing industry in the next two years? (please click on the appropriate button)			
		Response Percent	Response Count
decrease		0.0%	0
same as now		15.1%	22
increase		84.9%	124
answered question			146
skipped question			22

12. Do you think any future consolidation will largely be due to company insolvencies or mergers & acquisitions?			Response Percent	Response Count
company insolvencies			44.6%	66
mergers & acquisitions			48.7%	72
don't know			6.8%	10
			answered question	148
			skipped question	20

The research reaffirms the BPIF's decision to launch an industry specific service covering Merger and Acquisition activity. BPIF McInnes Corporate, launched last year, is a joint venture between the BPIF and McInnes Corporate Finance LLP created to help improve consolidation within the UK printing industry.

Marcus Clifford MD of BPIF McInnes Corporate comments: "All too often companies merge or acquire for the wrong reasons and with limited advice which may result in them making the wrong decisions and creating unworkable corporate structures. Consolidation should strengthen an industry however that is not always the case in print. BPIF McInnes Corporate's aim is to help companies make the right strategic choices for their future, groom companies for that process and subsequently provide a full range of financing options that allows the businesses to flourish."

13. Is your company actively pursuing, developing or considering a merger, acquisition or disposal strategy?			Response Percent	Response Count
yes; pursuing			29.5%	44
yes; developing			9.4%	14
yes; considering			31.5%	47
no			29.5%	44
			answered question	149
			skipped question	19

Whilst the level and volume of discussions on M & A issues has increased with BPIF McInnes Corporate, due to greater awareness of a new service and also increased activity generally on reviewing options, it is surprising that over two-thirds of respondents are pursuing, developing and or considering a merger, acquisition or disposal strategy. 29.7% responded with a 'no', which may indicate that they feel sufficiently confident about their future and business plans that they do not have to consider M & A activity as a growth or survival option.

Things to be mindful of when considering M & A activity

Research highlights that employee related problems are the cause of up to half of all acquisition failures (KPMG study of successful acquisitions).

Most common reasons for failure include:

- The target's management attitudes and cultural differences - 85%
- Little or no post-acquisition planning - 80%
- Lack of knowledge of industry or target - 45%
- Poor management and poor management practices in the acquired company - 45%
- In-depth knowledge of the acquiree and industry - 41%

Most common success criteria:

- Detailed post-acquisition plans and speed of implementation - 76%
- A clear purpose for making the acquisition - 76%
- Good cultural fit - 59%
- High degree of management co-operation - 47%
- In-depth knowledge of the acquiree and industry - 41%

14. If your company is actively pursuing, developing or considering a merger, acquisition or disposal strategy; what geographical location are you interested in? (please click all that apply)			Response Percent	Response Count
UK			91.3%	94
Western Europe			8.7%	9
Eastern Europe			7.8%	8
Asia			5.8%	6
other (please specify)			4.9%	5
			answered question	103
			skipped question	65

Not surprisingly most respondents who are active in M & A activities are doing so within UK boundaries but other markets have a more international aspect to them. The cost in management time and effort of trying to develop business abroad precludes the vast majority from looking outside the U.K. However, those who have gone abroad to set up a subsidiary or enter into a joint venture have mostly been successful.

An encouraging result is that 77.7% of respondents cited the compilation of a strategic business plan as the driving-force of their M & A activity. Whilst this may be a factor of the tail wagging the dog or a strategy compiled to a preconceived answer, it does reflect more management focus on trying to plan a better future and review options in a more structured manner.

The number of companies developing a strategic plan in the past would have been most probably limited to larger companies, or seen as something only larger companies undertake, but in fact development of a strategy within smaller businesses can have more tangible results sooner.

16. If your company is looking to merge or acquire; what service and product areas do you feel best suit you? (please click all that apply)			
Companies...			
		Response Percent	Response Count
the same as your current core business		44.7%	46
complementary to your current business		73.8%	76
offering diversification to your current business		34.0%	35
		answered question	103
		skipped question	65

Classic business school teachings point to four generic strategies that a business can follow as part of the development of a competitive advantage strategy. It is extremely difficult to adopt more than two of these.

- Cost Leadership
- Differentiation
- Cost Focus
- Differentiation/Focus

It is encouraging to see the extent to which companies are looking at widening their range of services and developing new skills that are complementary to their current core business. Entrepreneurial spirit is still a great driver for business owners and something we should be proud of. Competition causes businesses to seek other businesses revenue value chains from other markets. The rise of a need for marketing-led solutions and a convergence in technologies that allows free movement of data, through many output channels, means it is easier for companies to move into offering different services around a data/technology hub.

As is highlighted in the survey, it is not so easy to develop skills that service this opportunity; an easier route can be through M & A activity.

More and more companies are embracing the marketing ethos and utilising the main tools for creating competitive advantage, with a focus on:

- Core Competence
- Time Reduction
- Strategic Relationship Management
- Continuous Improvement

'Product led' is now becoming more 'service led' and we are seeing companies evolve from manufacturing through to print management and business process outsourcing entities - some continue their development to become marketing services companies with data at the core of their activities and bring an even more creative and strategic solutions approach to their customers and customers' customers.

Below is a chart you can use to plot where you are now and where you might need to be in future.

Discipline	OPERATIONAL EXCELLENCE	PRODUCT LEADERSHIP	CUSTOMER INTIMACY
VALUE	Best total cost	Best product	Best solution
THEME	Low cost relative to competitors	Unique product or brand	Serving a target particularly well
OBJECTIVES	High market share, favourable (raw material) costs	High market share, favourable (raw material) costs	Exclusive products and brands
MINDSET	Customised products or services, share of customers wallet	Out-of-the -box	Have it your way
ORGANISATION	Hierarchical, Centralised	Ad-hoc and organic	Entrepreneurial Client teams
FOCUS ON	Supply chain and cost reduction	Innovation and market introduction	Client acquisition and development

Interestingly a large proportion of respondents skipped the question of which sectors are most appealing if looking at merger and acquisition. Perhaps they want to keep a good thing to themselves, or perhaps their strategy has not yet defined the 'what'.

The hot spots in the market are still centered around data-led services and so it is not surprising to see digital and data technologies scoring high. Many companies have a good capability but it still needs good people to translate into good solutions and higher added value and profits.

17. If your company is looking to merge or acquire; what market sectors do you feel are most appealing? (please click all that apply)			
		Response Percent	Response Count
publishing	<input type="checkbox"/>	11.2%	11
design	<input type="checkbox"/>	21.4%	21
internet services	<input type="checkbox"/>	24.5%	24
print management	<input type="checkbox"/>	22.5%	22
pre-press	<input type="checkbox"/>	9.2%	9
copy shop	<input type="checkbox"/>	6.1%	6
general commercial printing	<input type="checkbox"/>	30.6%	30
book printing	<input type="checkbox"/>	7.1%	7
manufactured stationery	<input type="checkbox"/>	1.0%	1
business forms	<input type="checkbox"/>	3.1%	3
financial printing	<input type="checkbox"/>	11.2%	11
security printing	<input type="checkbox"/>	12.2%	12
newspapers	<input type="checkbox"/>	0.0%	0
periodicals	<input type="checkbox"/>	7.1%	7
direct mail	<input type="checkbox"/>	18.4%	18
digital and data technologies	<input type="checkbox"/>	42.9%	42
marketing services	<input type="checkbox"/>	19.4%	19
point of sale	<input type="checkbox"/>	11.2%	11
cartons	<input type="checkbox"/>	10.2%	10
labels	<input type="checkbox"/>	13.3%	13
flexible packaging	<input type="checkbox"/>	7.1%	7
mailing/fulfilment	<input type="checkbox"/>	27.6%	27
finishing	<input type="checkbox"/>	13.3%	13
other (please specify)	<input type="checkbox"/>	8.2%	8
		answered question	98
		skipped question	70

Mailing and fulfillment, amongst other services, are an important part of managing the product life cycle when reviewing options for growth and change. However, initiatives that still have great potential are the much-underutilised areas of Joint Ventures and Partnering. These can often be a lower risk way to extend your marketing reach and range of services, and widen your revenue generating options. It is unfortunate that too many companies operate in isolation and do not fully understand their competition and the opportunities available from complementary businesses on their doorstep.

18. Have you undertaken a review of your business in the last two years as part of your planning for the future?			Response Percent	Response Count
yes			97.3%	143
no			2.7%	4
			answered question	147
			skipped question	21

Competition forces companies to take stock of what is happening in their businesses but this should be proactive - not reactive. Ideally it should be part of everyday business life. It is encouraging to see such a high percentage, 97%, have undertaken a business review; though a concern could be the level of objectivity and extensiveness of the review process.

Many planned strategies are never implemented as often the change process is badly managed, leading to extra costs, missed opportunities and sometimes damage to the existing activities of an organisation.

Vision in Print & Packaging's experience, and that of the research it conducted for its series of Best Practice Studies (see www.visioninprint.co.uk), suggests a slightly different picture. ViP, having worked across the UK with over 300 Companies, found that it was exceptional to find the winning combination of:

1. A recent strategic/business review
2. Up-to-date cost rates
3. Effective use of CRM

In a recent PIRA survey of 42 small-to-medium sized (SME) printers, just 35% ran a full costing system, only 60% updated cost rates at least once a year and just a staggering 7% measured actual costs against estimates on a routine basis.

So what do we read into this from the findings of questions 18-20? Companies are trying to find the winning formula and move in this direction, but getting there is very time consuming when you are trying to manage all the daily and weekly things that need to be done.

There is more understanding of what activities add value and what activities add only cost. The survey revealed that some 83% had undertaken some cost base reviews and analysis of profitable revenue streams in the last 12 months and some 80% of respondents had customer relationship management schemes in place and/or were looking at this area more closely.

Utilising the support of outside agencies is a way to tackle this and get the required momentum. Doing something, even if it is part way, is better than doing nothing, albeit the most effective course is doing something right. The industry wants to change and sees the way forward but getting on with it is proving difficult. At least we know what needs to be done. The message as always is, we must try harder and we want to help you further!

19. Do you adopt customer relationship management techniques within the business and use them to grow customers?			Response Percent	Response Count
yes			79.1%	117
no			21.0%	31
			answered question	148
			skipped question	20

20. When did you last review your cost base and fully understand where the cost and profitable revenues are within the operating functions of your business?			Response Percent	Response Count
in the last 12 months			82.9%	121
1 to 3 years ago			10.3%	15
3+ years ago			6.2%	9
never			0.7%	1
			answered question	146
			skipped question	22

Conclusions

We all can see change is upon us but it is the extent and depth of structural and strategic change under the surface, which comes out of this survey that needs to be reflected, and acted upon.

Businesses are moving from discussing and reviewing M & A activity as an option for survival and growth into tangible action. The age profile of principal shareholders in many businesses across the UK is resulting in a build up of succession and exit issues.

The nature and extent of competitive forces cannot be ignored and many routes exist that can capitalise upon them.

Effective change management requires attention to detail and a process driven approach.

Understanding the forces of change and the complex issues of our turbulent business environment is one of the most critical aspects of effective management. Clearly our business environment has clearly become more complex and the dynamics more powerful.

Our industry has always faced incremental change as it is part of a dynamic communications business community and it has coped extremely well with the fundamental changes on route. The next five years will see an acceleration

in strategic and structural change taking place as a larger number of diverse forces take hold and those on the sidelines come into play.

This research hopefully reiterates that you are not alone with the pressures that you are facing and provides a picture of the issues relating to the forces that are shaping change.

A great many companies are tackling change to a greater extent head on and striving to create a formula that works on more occasions than not. In a great deal of cases it is never too late to begin this process and many opportunities exist for creating a sustainable future.

What is driving M & A activity?

MORE SO

Synergy Issues

- $2+2 = 5$
- Value created when gain is greater than transaction costs
- Greater market dominance
- Economies of scale
- Opening up of international markets
- Entry to new markets and sectors
- Tax advantages
- Diversification of risk

3rd Party Motives

- Advisors broker deal opportunity.
- Customer and supplier pressure

Bargaining Power

- Bargaining Power
- Target Company can be bought at a price below present value of target's future cash flows under new management
- Change of inefficient personnel
- Under-performing business

Survival

LESS SO

Management motivation

- Empire building
- Status issues
- Power
- Higher salaries and bonuses

The human impact of change and mergers and acquisitions

Acquiring a new company or attempting to merge two organisations has many implications. A great deal of time, effort and money is spent on ensuring that the legal requirements are met, the financial projections are sound, the product portfolio is viable and the practicalities of plant, equipment and indeed location are project managed to perfection.

It is a concern though that, despite all this effort, the true success of mergers and acquisitions is often limited by the people implications of shoehorning together, what can often feel like, polar opposite cultures.

It does not follow that if you are bringing together two similar businesses in terms of product, market, industry, or indeed size that you will find the pieces of the jigsaw fit together nicely. In fact, this is a good analogy. Imagine taking two different jigsaw puzzles, they may be similar pictures on the lid and even the same number of pieces. How do you make them into one jigsaw? You cannot just halve the number of pieces and hope that you can squeeze them together. The answer is you have to create an entirely new picture. You may think it is ok just to put all the pieces together and hope that somehow, magically it will all make sense in time. The reality is – it won't!

My advice would always be to decide as early as possible what the new picture will look like. If you are brave enough, involve your employees, from both camps, to contribute to this process. At worst, ensure that you at least communicate to them what this picture is going to look like. I have deliberately avoided going into detail on TUPE consultation requirements as much has been written about this and there is plenty of good advice available. Needless to say it is a legal requirement to consult with your employees. I believe TUPE should be seen as a minimum requirement. In order to maximise your chances of success in this new venture you need to ensure you have the right picture on the lid, first and foremost.

The next step is to then consider how well the pieces fit this new picture. This may involve reducing the number of employees you have or, potentially changing certain roles. This is a delicate but achievable procedure and again, with the right guidance, and with TUPE in mind your job is to get the pieces to fit - without the need of a shoehorn.

Although this process can be tricky, guidance on the legal requirements and a good dose of employee involvement and consultation will allow you to create the picture you want. This is a golden opportunity to do some re-invention, put lines in the sand and so forth. Take some time to decide what kind of a company you really want this new entity to be, don't just try to graft together two separate entities otherwise you will still have an us and them culture for decades to come (if you last that long).

Mergers and acquisitions are full of opportunity. If you dedicate some time to the human factor the payback will make your investment worthwhile. At the extreme there are basically two scenarios: a mixed up jigsaw full of confusion, inertia and lacking any real focus; and motivation or a set of pieces that fit together, know what the big picture looks like and is focussed, motivated and satisfied.

My golden rules for bringing together two companies from a human perspective are as follows:

Remember you are combining cultures as well as companies - you need to identify what your new culture looks like.

- Involve your employees (over and above TUPE) as much as you dare in relation to what is happening, how it will affect them and get their ideas in relation to making this process a success.
- Decide what roles you need and who are going to fill them. This needs care in relation to TUPE and should always be done with guidance from expert advisors.

- Be mindful of training needs that arise as a result of the changes. Take the opportunity to fully appreciate what you have got in terms of your human potential. This is a good time to have meaningful one to one discussions with your employees regarding their hopes, fears, aspirations, ambitions etc. This may be a type of appraisal process but should not be too bureaucratic.
- Remember you are dealing with human beings and, like it or not, they all have emotions. Often our biggest fear is the unknown. Without clarity of information we have a tendency to dramatise, fantasise and blow things out of proportion. All easily avoided if we communicate effectively. Don't get too paranoid about what 'they' will do if 'we' tell them what's happening. Employees generally respect information if **they** are treated with respect. Obviously when information is share sensitive then there is a time and a place for announcements but generally employers' hold back too long before involving their employees' there is a balance to be had.
- If you are changing your company name or keeping one of the existing names do a thorough cleansing to eradicate old logos, work wear, signage etc. This will help to endorse the new organisation and encourage employees not to hanker too much to 'the way it used to be'.
- Give your employees a reason to be excited about the future. If you have gone to the trouble and cost of making this acquisition or merger, there is a good reason for it. You may feel excited by this if this is your business, put yourself into the shoes of your employees and consider why they too should be excited. When you have worked that out you may be close to understanding how motivated they are and what, if necessary, you can do to improve this.
- Once you have created this new culture remember it needs to be maintained. Creating a harmonious working culture can be difficult but is well worth the effort. It is really about developing new good habits in terms of managing people at work. Maintaining such a culture should be a priority, especially as there is a strong correlation between employee motivation and company success.
- Finally, the time of merger or acquisition is often busy and stressful. It may feel like spinning plates and praying that they don't wobble so much that they fall to the floor. Do not hold back on getting the right type of advice and support during this process. It may be that you need some help with spinning those plates until the situation becomes more manageable.

Gillian McKnight
HR advisor

Appendices

A number of questions in the online survey provided the facility for respondents to specify an additional or alternative response to the options provided, where applicable these are listed below.

Q3. What market sectors are you currently involved in?

Other (please specify)

packaging systems
 playing and games cards
 machinery supplier
 outdoor advertising
 large format litho; point of sale
 digital photography
 envelopes
 exhibition and museum graphics
 pharmaceutical
 plastic cards
 ring binder and folder manufacturing
 screen printing textiles
 greeting card manufacture
 greeting cards
 manufacture of graphic ink
 beer mats
 education
 food packaging
 screen print supplier

Q9. What factors do you see as being the greatest risk / threat for the future profitability of your company?

Other (please specify)

foreign competition
 environmental
 competition from overseas
 foreign competition
 overseas competition - far east
 taxation, employment law, health and safety laws
 declining direct mail volumes
 postal strikes
 imports from eastern europe
 complacency and lack of strategy development
 raw material costs
 the internet
 global production
 global purchasing
 undoubtedly, cheaper imports from far east
 we are a small part of a large group
 pressure to make savings year on year
 other companies with no plan or strategy

Q10. What is the biggest threat to profitability for your sector?

Other (please specify)

printers taking finishing in-house
 over-capacity in sector
 supermarket pressure
 declining direct mail volumes
 failure to invest
 decline of sales price per page
 phoenix companies
 pressure to make savings year on year

Q14. If your company is actively pursuing, developing or considering a merger, acquisition or disposal strategy; what geographical location are you interested in?

Other (please specify)

USA
 USA
 USA
 all of the above, except the UK
 group driven therefore world-wide

Q15. What factors have influenced your company's decision to look at mergers, acquisitions or disposals?

Other (please specify)

organic growth very difficult in our sector
 cost of capital in western europe
 death of a major shareholder
 shareholders wishing to exit
 sustainability in a hardening sector

Q17. If your company is looking to merge or acquire; what market sectors do you feel are most appealing?

Other (please specify)

niche players, envelopes
 exhibition and event graphics, interior fit out
 RFID
 poorly phrased question
 food packaging
 bar code, RFID and card printing
 leaflet
 squeegee manufacturers



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