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Years from now, the print industry will likely consider the current economic recession as a telling bellwether, a line in the sand that separated print companies that succeeded from ones that didn't.

A key dynamic that's already differentiating those two groups is the ability and willingness to invest in technology that maximizes profits and efficiency. When we look back later and analyze what the current downturn meant, this—more than any other factor—will have divided leaders from laggards.

That's why valuation is critical today. It's a gatekeeper that determines access to investment capital and lines of credit that make acquiring new technology possible. Valuation is also a determining factor in partnership and M&A deals.

"In these tough times, it's vital to regain and retain your value, expand your growth opportunities, preserve your credit lines and protect your investments," says Bob Cronin, a managing partner at The Open Approach LLC, a Westmont, IL-based graphic arts consulting firm specializing in M&A activity, strategic planning, business model development, alliance opportunities and other services. (Cronin was CEO of Wallace for eight years, growing its business from $400 million in sales to $1.5 billion. Moore acquired Wallace in May 2003, and six months later, RR Donnelley & Sons Inc. bought Moore Wallace.)

Many printers today aim to receive new loans or refinance existing ones. They realize that lenders charge more to riskier borrowers, and they literally can't afford to have balance sheets blotted by fully depreciated printing equipment and unnecessary expenses. Creditors don't like to see that, and loan volume is shrinking: Data from the Federal Deposit Insurance Corp. (FDIC) show that commercial and industrial (C&I) loan volume grew significantly from 2006 to mid-2007, but then fell off sharply with the onset of the recession in 2008.

The good news is that business credit isn't evaporating in the print industry. Financial experts say one reason is that many print suppliers can evaluate customers and underwrite financing through their own credit arms. At Graph Expo, this process helped several exhibitors announce a steady stream of equipment sales. For example, trade printer 4over Inc. purchased six Komori Lithrone presses for its new plants in FL, NJ and TX, reporting no trouble accessing capital.

One consensus among print-industry financing consultants is that obtaining loans for capital purchases is challenging today, but the bigger issue is unfavorable rates for that capital. In fact, about 80% of U.S. banks increased interest rate spreads on loans to medium and large businesses last year, according to a report by the Federal Reserve Board. "The restrictive credit standards of banks, combined with the degraded balance sheets of a large fraction of firms, is leading many businesses to assume that they cannot get credit on favorable terms, and consequently they do not approach financial institutions for new loans or credit lines."

That's exactly what Peter Schaefer says is happening in the print industry. Schaefer, a partner with New Direction Partners, an investment banking, valuation and consulting firm to graphic communications clients, has heard repeatedly this year from print-conference attendees that they are "waiting out" the recession until the economy improves.

"This isn't time to hunker down and do nothing," Schaefer says. Instead, to improve valuation, printers should stay abreast of technology and make strategic, sometimes difficult decisions about trimming costs and abandoning wasteful, unproductive habits. "This is actually the perfect time to be aggressive and willing to adapt and embrace changes in the marketplace," he says. "It is virtually impossible to remain status quo during a recession [and prosper after it]."

The vital first step toward improving valuation is analyzing all processes with a critical eye and controlling costs wherever possible, says Jim Anderson, president of Phoenix-based consultancy Corporate Development Associates. This includes eliminating excess inventory and streamlining internal workflow, he says.

Paul Reilly, a partner at New Direction Partners (and former CEO, President and Chairman of Cenveo Inc.), says companies should live by financial benchmarks and ratios, such as sales-per-employee and return-on-investment.

According to Reilly and Schaefer, print companies seeking to increase valuation and attain better access to capital should employ these six strategies:

1. Focus on maximizing long-term value, not short-term earnings growth. Owners of high-value companies embrace the concept of retaining earnings to preserve the opportunity for future growth. They understand how their actions impact financial statements, and therefore aren't afraid to downsize or implement difficult initiatives. Management of these companies work diligently to obtain a target capital structure and rely on sound financial benchmarks such as ROI before buying equipment.

2. Understand how external threats and opportunities affect your business. High-value companies are acutely aware of the actions, investments, strengths and weaknesses of each main competitor. In addition, they understand how national, regional and local economic factors impact not only their business, but their customers' as well. High-value firms also understand current banking conditions and trends.

3. Overcome the job-shop manufacturing mentality. One reason it's hard to make money in printing is because the industry adheres to the job-shop manufacturing process—the toughest and most expensive of all manufacturing processes. High-value printers generate superior gross margins by having managers in each department who possess a fanaticism for engineering throughput and maximizing equipment use. They embrace advanced prepress and pressroom technology.

4. Create a profit-driven, engaged culture that rewards best practices and invites feedback. High-value printers incent employees to offer suggestions on how to improve the production process. Some of those firms reward employees with a significant percentage of savings generated by their suggestions. (The owner of a New Direction Partners client recently arranged for a seminar for all employees, and demonstrated the impact of certain expense categories on profit. He started with a bucket that contained 100 pennies, and then had employees guess how many pennies would come out to reflect the cost of paper, utilities, etc. By the end of the exercise, only a few pennies remained. He reported that for months afterward, he would walk around the plant and see employees working together to minimize these expenses so there would be more pennies for everyone to enjoy.)

5. Launch sales and marketing efforts that are complementary, but not equal in stature. High-value firms have highly skilled and energetic sales professionals who are empowered yet managed. Leadership often has hands-on daily sales activities at these firms. Most of these businesses have a marketing professional on staff or a partnership with a marketing firm that focuses on demonstrating the business' core capabilities and service offerings.

6. Target prospects with similar values, then control as much data as possible. Attracting companies with similar values generates customer loyalty. Another way to earn loyalty is to make it as difficult as possible for the customer to take its business to a competitor. The best ways to accomplish this is by controlling as much of the data as possible or by developing a niche.

"There is no question that this is a difficult environment in which printers can continue to build value in their organizations," Schaefer says. "When the days become brighter, some companies will be glad that it took these steps and will be positioned to reap the benefits of a strong harvest."

Additional Note: **The U.S. House Committee on Small Business** held a hearing last week titled "Laying the Groundwork for Economic Recovery: Expanding Small Business Access to Capital." The hearing examined both the role that the **Small Business Association** could play in providing more credit to small businesses and other steps to better achieve the mission of making credit more readily available to small firms during the current economic recession. Witnesses included a panel of representatives of banks and a panel of small business owners, each of which shared their current business experiences with the Committee. Highlights from the testimony are available on **YouTube**. *>>>More*