Investment in Technology: A Distinction with a Difference

By Paul V. Reilly and James A. Russell

NEW DIRECTION PARTNERS

Technology investment promotes growth, and when growth is sustainable, it increases valuation: a justification for investing now, and a foundation for reaping the rewards as a seller later on.

A plain truth for our commercial printing clients is that a company's valuation is directly linked to its investment in technology. In the commercial industry, having a roomful of traditional iron is no longer a guarantee of receiving an acceptable offer from a buyer. Today, in fact, a printing company seen as laggard in terms of technology may have trouble attracting any competitive offers at all.

We think that investment in technology is just as crucial for producers of labels and packaging, but we sometimes wonder if the message is being heard clearly enough.

It's our impression, for example, that converters haven't embraced customer-facing e-commerce solutions to the same extent that commercial printers have. These online ordering systems keep customers "sticky" by making it easy for them to do business with their providers.

Connecting the systems to MIS and internal production workflows speeds up order processing and manufacturing, eliminates touch points, and cuts costs. These are all traits of a highly efficient, and therefore highly desirable, label or packaging business.

There are good explanations for the disparity in e-commerce adoption between commercial printers and converters. Because the latter's products are more standardized than the former's and tend to be produced in larger runs, there's not as much immediate need for the continuous access and the custom ordering features of an online portal.

But, as the article about run length trends in this issue reports, handling shorter runs in multiple versions is becoming a way of life for many converters (see page 00). This makes adding an e-commerce solution not only a convenience for customers, but an important point of differentiation for the provider – a step that ultimately leads to an improved valuation for the business.

Even if the owner has no immediate plans to sell, technology investment enhances the company's marketability by making it more productive, more profitable, and harder for its customers to forsake for a competitor.

Internally, ERP (enterprise resource planning) systems improve margins by integrating operations and optimizing processes. Data management systems that enable converters to oversee customers' data as well as their own create revenue streams as well as the "stickiness" that long-term customer loyalty comes from.

Another wise investment, especially for label and packaging producers facing demand for shorter runs, is in equipment and software for rapid design and prototyping. As their product lines become more diversified, brands want to be able to envision what the new packaging variants will look like – and they want to see the samples quickly.

Converters equipped to work collaboratively with their brand-owning clients' creative and structural designers will have an edge of technical distinction as the demand for short-run, versioned labels and packaging intensifies. Those who can carry their brands from infancy to mass-market acceptance with the help of design and prototyping services will share in that success, both now as providers and later on as prospective sellers.

Investment targeted to new product applications can also be transformative for converters. We're thinking in particular of flexible packaging, the most desirable of all packaging segments to be in. We have seen companies post three- and fourfold increases in revenue after establishing a foothold in flexible packaging, while significantly improving their EBITDA multiples at the same time.

Investment in Technology: A Distinction with a Difference

By Paul V. Reilly and James A. Russell

Companies prepared to reinvent themselves through technology investment can make the most dramatic gains of all. One client of ours, originally a commercial printer, decided to pursue a niche in providing an integrated packaging solution for a fast-growing segment of the medical supply industry. This was highly ambitious, because the task requires zero-error performance in matching product components to individualized packages – nothing less than 100% accuracy will do.

Our client developed the necessary core competencies, learning, among other things, how to set up the manufacturing cells in which this type of production take place. The company also installed tracking systems and software to keep the work within its ultra-strict parameters.

The niche became the company's specialty, and when the business finally changed hands, the payoff of the investment was spectacular: the owner sold at the highest multiple of EBITDA that we have seen in any transaction over the last 15 years.

Although this kind of ROI is exceptional, it teaches a lesson about differentiation through technology investment that every label and packaging producer can benefit from. Technology investment promotes growth, and when growth is sustainable, it increases valuation. Acquiring new capabilities increases revenues in the near term and positions the company for a profitable sale when the time comes for the owner to seek an exit strategy.

We tell commercial printing clients that it's become difficult to sell that type of business at a premium unless there is something that sets it apart: a product or a service that the competition doesn't provide and can't easily replicate. We urge these printers to set themselves apart with technology that gives them an edge – and it's advice that we don't hesitate to offer packaging and label producers as well. Made correctly, this is one investment that more than pays for itself.

New Direction Partners is an investment banking and financial advisory services formed by Peter Schaefer, Paul Reilly, Jim Russell and Tom Williams to serve the printing and related industries. Services include merger advisory services through the representation of selling shareholders as well as buy side representation, valuation services, financing and refinancing efforts, turnaround and restructuring services, and temporary/interim management consulting. To learn more about New Direction Partners, visit New Direction Partners' website at www.newdirectionpartners.com.