



## VOX PRINTING

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# CONTINUOUS IMPROVEMENT ISSUE

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Vox Printing employees participate each year in the Ronald McDonald House Walk for Kids. Read more about the company on page 10.



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# Leadership Thoughts to Ponder

Dr. Ralph Williams Jr. and Dr. Deana Raffo, Middle Tennessee State University, Jones College of Business

• **Customer demands are intense, the need for continuous innovation is vital, and our national culture is changing. In that context, leading a printing business is more challenging than ever.** Compared to my 25-year career of leading printing companies—a span that ended about eight years ago—directing and guiding companies is now more demanding. Upon beginning my career in academia, I was surprised at the practical applicability of many business theories, especially those related to leadership. The goal in this article is to share a couple of leadership concepts—and related implementation thoughts—that may help you develop and refine your approach.

• James McGregor Burns, in his renowned book, *Leadership* (1978), proposed two leadership styles: transactional and transformational. Transactional leadership is an exchange-based relationship in which followers' pursuit of objectives is based on the potential exchange of rewards (or punishments) for accomplishments (or failures). In contrast, transformational leaders seek to motivate followers through higher-level needs, encourage followers to view group interests as a priority, and emphasize moral values. As the theory developed, transformational leadership was proposed to include four components: (1) formulating and articulating mission, vision, and challenging goals;

(2) instilling pride in being associated with the team; (3) treating followers as individuals; and (4) seeking different perspectives when addressing problems. Transformational leaders motivate followers to rise above their self-interests and accomplish more as individuals and as a team.

Multiple studies have confirmed a positive relationship between the presence of transformational leadership and performance. Yet, why might transformational leadership enhance performance? Maybe it's because intrinsic motivation subordinates experience by following transformational leaders, resulting in more commitment and effort. Possibly, the unification around organization mission presented by transformational leaders, providing direction and a sense of purpose, boosts performance. Finally, the shared values demonstrated by such leaders, which unites the team, may result in higher performance.

Transactional leadership, based on exchanges (examples include bonuses or reprimands for desired or undesired outcomes), is assumed more control-oriented than transformational leadership. Furthermore, as transformational leaders seek to satisfy followers' higher needs and engage the full person, transformational leadership is more complex, yet more effective. Early in the development of the theories, transformational and transactional leadership were considered opposite ends of a dichotomy; a leader could be either, but not both. Later, researchers theorized transformational and transactional



leadership as separate concepts; a leader could be both. Before transformational leadership, the terms “manager” and “leader” were considered synonymous; individuals with either of these titles were assumed to perform the same functions. With the introduction of transformational leadership theory, researchers identified managing and leading as different; managers were seen as transactional, and leaders as transformational.

## Implementation Thoughts

These concepts are interesting in theory, but from a practical standpoint, what can a printing company leader take from this discussion? Consider the following thoughts:

- As stated above, leaders can apply both transformational and transactional leadership. The keys are awareness of both approaches and making a deliberate decision about which to apply in what situation.
- Implementing transformational leadership includes: (1) identifying and articulating a mission and vision for success, (2) enhancing acceptance of group goals, (3) presenting high-performance expectations, (4) providing individualized support, (5) recognizing accomplishments, and (6) continuing intellectual stimulation.
- All six of these strategies are important. But related to the first, before you can identify and articulate a mission and vision, you must have a mission and vision.
- While some propose charisma is a must for transformational leadership, others propose it is not. However, there are non-charismatic transformational leaders. Consider the 11 level-five leaders in Collins’

book, *Good to Great* (a read worthy of your time). The key is effective communication! And whether you are charismatic or not, you can communicate effectively.

- Dr. Deana Raffo, my co-author, and I are exploring the importance of credibility in transformational leadership. Credibility includes two aspects: expertness (the leader knows his/her stuff) and trustworthiness (followers can believe their leader). Trust, consistency, expertise, honesty, competency, follow-through, reliability, and “walks the talk” are terms that describe credibility. To lead in a transformational manner, earn credibility from your followers by continuing to learn and making your words as solid as granite.
- When filling leadership positions in your company, you might consider applicants’ potential to lead in a transformational manner and earn credibility. And last, transformational leadership is trainable. You might explore potential leadership classes at executive education centers or small business associations.

In closing, we hope these thoughts help you consider a path for further developing your leadership skills, which are vital to your employees’ contributions, your company’s success, and your effect on those around you.

## LEARN MORE

The concepts presented here are supported by numerous academic journal articles. If you are interested in a list of related readings, email [ralph.williams@mtsu.edu](mailto:ralph.williams@mtsu.edu).



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# Getting Lean: The CI Conference

James Workman, TAGA Managing Director, Vice President,  
Center for Technology and Research, Printing Industries of America

## The 2018 Continuous Improvement Conference is right around the corner: April 8–11 in Chicago.

After two decades, the conference continues to be the only industry event focused on helping printing and converting companies achieve operational excellence by using the concepts of Lean manufacturing and other management systems. Attendees directly link reduced costs, lowered waste, and increased profit margins to ideas gained at the conference.

The conference is presented by Printing Industries of America (PIA) and Specialty Graphic Imaging Association (SGIA). It is organized around four subject areas:

- Leadership and Culture
- Process and Tools—Fundamental
- Process and Tools—Advanced
- Growing and Developing People

This year's theme, Set Priorities—Create Value—Unlock Potential, acknowledges the critical aspects of establishing improvement priorities, minimizing non-value-added activities, and unleashing the many talents of employees in the quest for operational excellence. Each of these topics will be explored at the conference.

By the numbers, there will be 30 speakers, 25 presentations, seven networking and social sessions, three preconference workshops, and two plant tours. In short, there is content for everyone, whether they're already advanced in their knowledge or they are still exploring the process of putting a systematic improvement strategy in place at their company.



The keynote lineup this year is led by Pascal Dennis and Marcus Nicolls.

Dennis is a former Toyota executive and author of six books, including *Getting the Right Things Done*. He'll be discussing the nuts and bolts of implementing a Lean management system.

Nicolls, an executive at Partners in Leadership and co-author of *Fix It: Getting Accountability Right*, will reveal the steps that help people take more accountability for their actions and results. In addition, there will be keynotes from leaders at Vox Printing, Ace Metal Crafts, and Amazon.

Companies committed to the goal of operational excellence will gain practical ideas—many delivered by fellow printers—to rid themselves of inefficiencies, boost customer satisfaction, and get closer to their goal.

The conference gets excellent reviews. In 2017, 98 percent of attendees said they'd recommend it to a colleague. Said one attendee: "The Continuous Improvement Conference was one of the best conferences I have attended. Everything was top drawer including the keynote speakers, the conference workbook, and the breakout sessions. I came back with 12 pages of ideas and action items."

## LEARN MORE

Learn more about the conference by visiting the website at [ci.printing.org](http://ci.printing.org).

# Continuous Improvement: Building Your House of Lean

## 1 THE CONCEPT OF LEAN

The core idea is to maximize customer value while minimizing waste.

In Lean principles, waste is defined as part of the work process that does not add value for the customer.

Successful Lean implementation requires leadership, employee engagement, teamwork, learning, and managing change.

24%

amount of printing companies that promote a Lean culture daily or have made Lean methods a way of doing business.<sup>1</sup>

54%

amount of printing company managers that believe their employees would agree that management routinely encourages and receives improvement ideas from them.<sup>2</sup>

## 2 START WITH 5S

<b>Sort</b>	Remove unnecessary items from the work space.
<b>Set in Order</b>	Set up the workflow to reduce motion and improve efficiency.
<b>Shine</b>	Keep the work space and equipment clean and well-maintained.
<b>Standardize</b>	Apply a consistent workflow to tasks.
<b>Sustain</b>	Maintain what has been accomplished in previous standards.

2  
5S

## 3 COMMON AREAS OF WASTE IN PRINT<sup>3</sup>

**Inventory:** raw materials, work-in-process, and finished goods inventory are all considered waste in a Lean environment.

**Waiting:** time spent by employees waiting for materials, product, and information.

**Over Production:** producing more than is required by the next production step or customer.

**Defects:** scrapped or reworked product due to incorrect information and processes. Particularly damaging if they reach the customer.

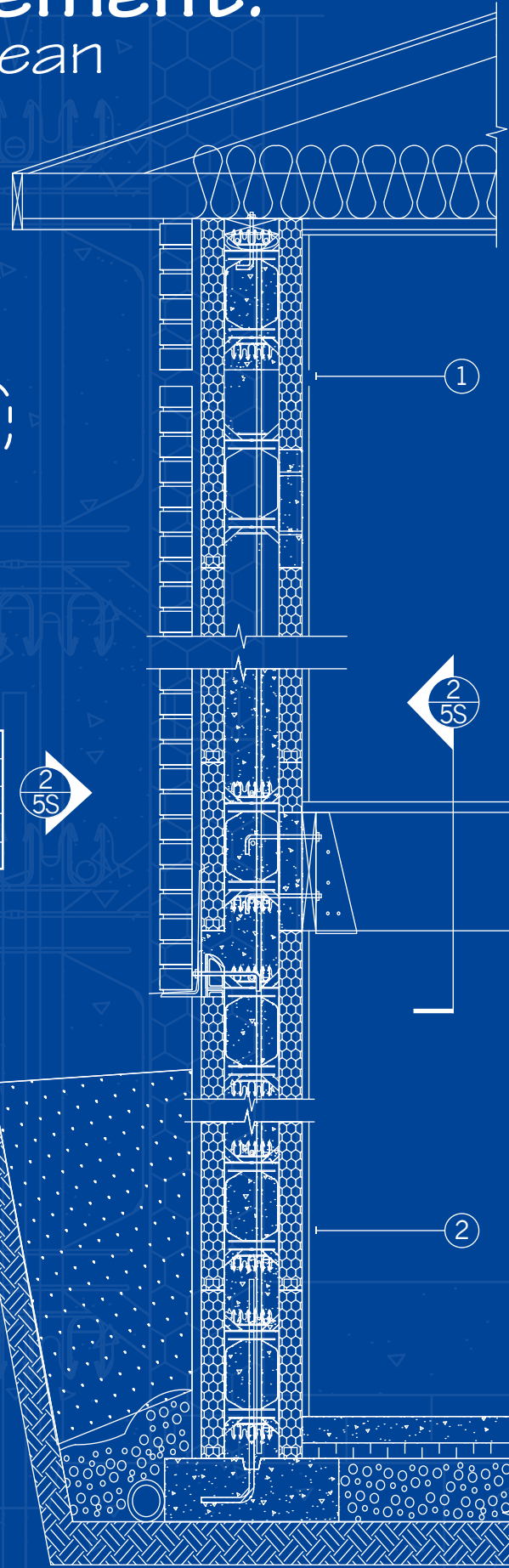
**Transportation:** moving product from one place to another adds no value.

**Movement:** more walking, bending, and other movement than is necessary. Frequently confused with work.

**Processing:** producing printed products in a way that uses more resources than the customer demands.

29%

amount of printing companies that have engaged in formal makeready reduction projects resulting in significant savings in time and materials.<sup>1</sup>



## RESOURCES

<sup>1</sup> Based on 488 responses to Printing Industries of America's Lean Manufacturing Assessment Tool between November 2011 and January 2018. The responses cannot be extrapolated to the overall industry. <http://prnt.in/pialean>.

<sup>2</sup> Based on 134 responses to Printing Industries of America's Culture Audit survey between August 2014 and January 2018. You can access the survey at <http://prnt.in/cultureaudit>.

<sup>3</sup> Cooper, Kevin, Malcolm G. Keif, and Kenneth L. Macro. *Lean printing: pathway to success*. Pittsburgh: Printing Industries Press, 2007.

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# John Compton, CI Conference Consultant

Sarah Sudar, Copywriter, Printing Industries of America

**For more than 25 years, John Compton, principal of the quality and productivity improvement consulting firm Compton & Associates, has offered guidance on PIA's Continuous Improvement Conference.**

Prior to starting his own firm, he served as the vice president of quality and training for Vertis Communications and vice president of quality and organizational development at the Fort Dearborn Company, as well as professor of quality management and director of the Center for Quality and Productivity in the Graphic Arts at the Rochester Institute of Technology. With his 40 years in the printing industry focused on continuous improvement, he shares some of what he has learned.

**Q: How do you define continuous improvement?**

A: Continuous improvement is a view of the world that recognizes activities and processes can always be made better. Those processes that are important to our life and our businesses are good things on which to make continuous, incremental improvements. The objective is to achieve

outcomes from these processes that have greater value to us. Although we could improve everything, we don't have enough time in our lives to do so. Consequently, we sort out the activities that are crucial to what we are trying to accomplish. In printing, we think about what operations are the most valuable to our customers, how we create greater value for them, and which processes are central to value creation. Those are the best targets for improvement.

**Q: What continuous improvement trends have you seen in the printing industry?**

A: Our industry has gone through improvements in a variety of ways. In terms of how we run our businesses, we have shifted from an industry that was product-oriented (inspection of in-process or finished work—sometimes 100-percent inspection, sometimes partial inspection) as our primary quality practice in the 1960s and 1970s. In the 1980s and 1990s, the industry became more process-oriented in our thinking, recognizing when you have the right processes you get the right results. In the early 2000s, many printing companies began to recognize the need for an even greater focus on work processes, the waste that is embedded in them, and ways to eliminate it. Again, the objective is to deliver greater value to customers and respond to shorter lead times utilizing fewer resources. This requires a clear understanding of how our customers define value and the ability to design and operate value streams that maximize that value while continually minimizing the waste.

While the printing industry has made great strides in applying continuous improvement methods, I think our



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industry is behind the curve in terms of improvement when compared to, say, the automotive industry, electronics industry, or just about any other industry where companies produce products that go directly to consumers. Printing companies are, in most cases, in the business-to-business market, not the direct-to-consumer market. It seems the need for rapid quality improvement came to those industries that were driven by the consumer and what they require and expect in the product. Our industry was buffered from this consumer pressure for many years, and I think that's one of the reasons why we have been slower to apply structured process improvement as a business strategy. That is changing though, as many printing companies are now moving to implement a continuous improvement strategy. The attendance of nearly 300 people at the 2017 PIA Continuous Improvement Conference is certainly evidence of it.

**Q: Why is continuous improvement important?**

A: Any company can buy state-of-the-art equipment, digital technologies, and raw materials. What differentiates one from another is the ability to operate its processes (equipment, raw materials, facilities, and people) and improve them at a rate that is greater than the competition. Continuous improvement becomes a way of running a business. You create a powerful market position when you deliver greater value for customers with shorter lead times while consuming fewer resources. In my experience, achieving a high rate of improvement inside a company is the only way you create lasting separation from competitors. So much so that if you manage a substantially higher rate of improvement than your competition, you're going to make life for your competitors very difficult.

**Q: How is continuous improvement implemented?**

A: There are two parts to managing improvements. The first is the technical side: equipment, technology, work flows, standard methods, and the like. The other side is the social side of the equation, i.e. people. All improvements in any organization occur because of people. Without your people understanding what improvement is and being encouraged to continually bring improvement to processes, you aren't going to get very far. With proper management of people, we can tap into their brainpower regarding how

to improve processes and minimize waste. When you involve your people and provide them with know-how and encouragement, you create an improvement energy that is nearly infinite when you get it going. That's a difficult concept for many businesses to understand. Everyone wants to know the techniques and tools, and although those are important, no tool or method is going to improve a process. It requires people effectively using the tools to improve processes.

**Q: How does a business interested in continuous improvement get started?**

A: Companies tend to focus on things that are easy to see, such as physical waste, since it's more visible. However, that doesn't mean it is the highest cost area or the one that is limiting the creation of greater value for the customer, but many printers tend to start there. I encourage clients to learn more about continuous improvement, understand what it is, and learn as much as possible about what customers define as value. PIA's Continuous Improvement Conference is an excellent resource for people new to the area of continuous improvement because they can listen to case studies, attend tutorial sessions, and talk with peers to understand what's required when implementing improvement strategies.



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Sarah Sudar, Copywriter, Printing Industries of America

**When was the last time you ate at McDonald's?**

**Chances are you came across a Vox Printing product while you were there.**

The Oklahoma City printer specializes in quick service restaurant products, like trayliners and placemats.

The company was started in January 1971 by Dennis and LaVerna Reid first as a general commercial business serving small businesses and churches in Oklahoma City. In the third month of operation, McDonald's approached the company to start printing menu tickets (when orders were still taken by hand) for regional restaurants in the area, which eventually spread to printing for McDonald's across the country.

"We were able to get in there because McDonald's wasn't able to get menu tickets printed fast enough from their national supplier and my parents said they could do it," says David Reid, current president of Vox Printing. "They worked nights and weekends on the small equipment to get it done, which is what our company philosophy has always been:

to always find a way to meet customer deadlines and help them out in any way that we can."

As business with McDonald's grew to include coupons, flyers, giveaways, and short-run pieces, Vox Printing decided in the 1990s to focus on this quick service food niche market and phased out their commercial printing business. The current printing options range from clam shells, French fry cartons and wraps, to deli boxes, drive-thru trays, and carry-out containers, servicing a variety of fast food restaurants. Staying within the food industry, Vox Printing also works with grocers and food brands to print produce trays and packaging cartons. Beyond printing, Vox Printing has an in-house creative team that works directly with McDonald's to create new products that are rolled out across the country.

In addition to its products, Vox Printing prides itself in its employees and the workplace culture. Having won the Best Workplace in the Americas Award (BWA) by PIA for the past 11 years and being one of the best places to work in Oklahoma by okc.BIZ for 10 years, Vox Printing has made it a mission to build a trusting and transparent relationship



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## Congratulations to the 2018 Best Workplace in the Americas Winners

### Best Workplace in the Americas Best of the Best Award Winners

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	Columbus, WI
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Midland Information Resources	Davenport, IA
MOSAIC	Cheverly, MD
Shutterfly, Inc.	
	Fort Mill, SC
	Tempe, AZ
	Shakopee, MN
	Redwood City, CA
Suttle-Straus, Inc.	Waunakee, WI
Royle Printing	Sun Prairie, WI
SeaChange Print Innovations	Plymouth, MN
Superior Lithographics	Los Angeles, CA
Vistaprint	Windsor, ON
CJK Group, Inc. Companies:	
Bang Printing	Brainerd, MN
Sentinel Printing	St. Cloud, MN
Sinclair Printing Company	Palmdale, CA
Sinclair Printing Company	Los Angeles, CA
Hess Print Solutions	Brimfield, OH
Sheridan Michigan	Chelsea, MI
Sheridan Pennsylvania	Hanover, PA
Sheridan New Hampshire	Hanover, NH
Sheridan Journal Services	Waterbury, VT
PubFactory	Boston, MA

### Best Workplace in the Americas Award Winners

Company	Location
Alcom Printing Group, Inc.	Harleysville, PA
Allen Press, Inc.	Lawrence, KS
Boutwell, Owens & Co., Inc.	Fitchburg, MA
Colortree Group	Henrico, VA
Communicorp, Inc.	Columbus, GA
CRW Graphics	Pennsauken, NJ
Disc Graphics, Inc.	Hauppauge, NY
Disc Graphics, Inc.	Hauppauge, NY
GPA, Specialty Substrate Solutions	McCook, IL
Graphic Visual Solutions	Greensboro, NC
Hammer Packaging Corp.	Rochester, NY
Inland	La Crosse, WI
MBI, Inc.	Deland, FL
Midstates Group	Aberdeen, SD
Phototype	Cincinnati, OH
Ripon Printers	Ripon, WI
Runbeck Election Services, Inc.	Tempe, AZ
Smyth Companies, LLC	St. Paul, MN
Steinhauser	Newport, KY
Supreme Graphics	Arcadia, WI
Syracuse Label & Surround Printing	Syracuse, NY
Tailored Label Products	Menomonee Falls, WI
The John Roberts Company	Minneapolis, MN
Transcontinental Robbie Inc.	Lenexa, KS
Vox Printing Inc	Oklahoma City, OK
Weldon, Williams & Lick	Ft. Smith, AK
Worzalla	Stevens Point, WI

with their employees, which has helped tremendously when instituting continuous improvement methods.

“We have built a relationship of trust so that when we introduce new CI Initiatives and ask employees to do it, they trust that we are doing something for their benefit and the benefit of the company,” says Robert Reid, vice president of operations.

He adds that this trusting relationship with employees empowers them to ask questions and to ask for changes when they see fit and that there has been little pushback from employees when continuous improvements have been implemented because they are excited to do anything that betters the company.

Continuous improvement has been an important part of Vox’s business strategy since the beginning and has been instilled into their family values.

“Our parents were brought up on farms, doing things efficiently. They transferred that work ethic to us, so we are always looking for ways to do things better and get things done faster,” says David Reid.



In the early 1990s, the company sent management to various seminars held by their local PIA affiliate where they learned how to create a culture of continuous improvement. It wasn’t until 2008 that they made the changes necessary to sustain their improvements. At this time they made continuous improvement a major focus, promoting an internal employee to be a Lean coordinator. His first responsibility was to attend PIA’s Continuous Improvement Conference. Vox Printing first started with 5S, which proved to be very successful in all of their presses and production



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CANON SEE IMPOSSIBLE

The Magazine Distribution Patron

areas, and then focused on quick change procedures for their web presses and has maintained these improvements for the past 10 years. Next came a new inventory management system and putting into place standard work training.

In 2010, Vox Printing purchased a packaging company in Texas and lost sight of continuous improvement for a couple of years, but refocused in 2014. Instead of having just the tools and processes in place, they included their people into the process. Each morning, the management team would take a tour of each of the presses and talk to employees about the problems that were preventing them from running the press to its fullest potential. This process is still implemented, though now in a digital format with software and sensors on all presses.

In mid-January, Vox Printing adopted Paul Acre's two-second Lean style of continuous improvement, giving employees time each day to fix things that bug them and look for waste. Training for the more than 60 employees has been developed, including a book club-type format that Robert is leading the charge on. In each of the company's four shifts, he has set aside time to meet with employees about this new concept each week.

“Benefits of this style of improvement has a whole lot to do with increasing employee engagement; it will make the job easier and less frustrating and give them an opportunity to express creativity, while reducing waste and increasing profit margin,” says Robert Reid.

David Reid adds that training employees on Lean also helps take the burden off of management to always be looking for ways to improve things. Employees can now do it and they know better than anyone else what could be improved in their areas.

The Reids hope that Vox Printing will continuously be one of the best workplaces. They have created a profit sharing plan with 10 percent of the profit going back to employees, giving them even more stake in making Vox a better place to be. And, Robert will continue to make each Vox Printing employee a homemade birthday cake of his or her choice.

## LEARN MORE...

At [voxprinting.com](http://voxprinting.com) and hear more about Vox Printing's continuous improvements during Robert's talk, "Vox's CI Awakening," at this year's Continuous Improvement conference.



# Overcoming Your Continuous Improvement Fears

Phyllis Mikolaitis, Sales Training Solutions & DigiPrint Academy

## With so many courses and books on Lean and discussions of metrics, it can look pretty scary.

But like many new things, implementing a continuous improvement program is not nearly as frightening as you think. You can be successful if you follow a proven process, one step at a time.

A continuous improvement program can increase your revenue and bottom line. According to David Mann, author of *Crafting a Lean Culture*, it is not uncommon for businesses that transition to Lean to reach or exceed a 50-percent reduction in total cycle time, process time, errors, and rework.

Let me clarify some terms before I go further. Six Sigma focuses on improving the quality of your product or services. Lean focuses on the elimination of waste in the entire value stream. Lean Six Sigma is a powerful combination that results in continuous improvement throughout the company and both customer and employee satisfaction.

### Executive Commitment

Where do you begin? Well, it is important to involve everyone from the top down and the bottom up. However, it's critical to get the executives onboard first. You and your managers must understand Lean Six Sigma and its benefits. Whether your organization is a sole proprietorship or an enterprise with multiple locations, the leader(s) must make a sincere commitment to Lean and include your employees in the process. For sustained success, you must remain committed and actively use processes.

You will need a vision of where you are going and what you want to achieve. So, take the time to create a mission statement. It will be a guide for you and your employees to create goals and objectives and to make decisions.

If you own a small shop, you will probably be the champion and lead the projects. If you lead a larger organization, you may appoint a manager or hire a certified black belt.

### Communication

The commitment to continuous improvement is a cultural change for organizations and resistance is normal. Getting your employees to share accurate information and support changes begins with an open communication plan.

It will help put employees at ease if you share what Lean Six Sigma is, why you are committed to it, and the benefits to them. Reassure them that the assessment and other activities are not to find fault, but reflect a sincere interest in the current state of the organization and making improvements. Continue to reinforce your commitment and communicate that their support and active participation is appreciated.

### Self-Assessment

Many people want to dive in with a short-term focus on improving one area to impress everyone with the results. However, starting with a self-assessment will provide you with sustained success. Each organization has its unique infrastructure, processes, and experience in its craft. It is a best practice to determine where you are so you can create a plan to get to your goal. I recommend several activities to get a view of your current state.



- Walk around the company stopping in each area to ask about what is working and what the obstacles are. Do they have the tools and training they need? Are the workflow and interactions with other departments smooth? Do you have the right infrastructure? You will obtain the most information and gain employee trust by listening.
- Hold brainstorming meetings with representatives of each department.
- Ask employees to gather information on daily “fires,” defects, and customer complaints.
- You do not have to do complicated math; there are simple tools to obtain the metrics to post your results.

Don't rush into a solution until you gather data to ensure you have reached the root cause of the problem.

### Creating a Strategy & Implementation Plan

Your strategy is a high-level focus on your approach. Your implementation plan includes the following: a work plan, required resources, a budget, a risk assessment, and a quality control process. The result is a roadmap for implementation.

### Employee Engagement

Treat your employees as an asset and invest in their development just as you invest in any other asset. Take their recommendations seriously and give them challenges and opportunities to participate in the process. Offer opportunities to grow and move up in the organization. Your investment will result in security, loyalty, and employee satisfaction.

### Summary

Getting started is really not scary. Start learning more about Lean Six Sigma and how it can help your company grow. PIA online courses are developed for those in the print industry and facilitated by experts in both Lean and printing.

## LEARN MORE...

Phyllis Mikolaitis is a sales coach, developer, and author with more than 35 years of global experience. She is dedicated to going beyond the typical “how to” courses to the heart of the techniques and processes. Visit Phyllis and her partner, John Switzer, at [salestrainingolutions.com](http://salestrainingolutions.com) to learn more about sales skills, business storytelling, People-Centered Leadership, Lean, and continuous improvement.

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# What's the Value of My (or Their) Business?

Bob Lindgren, Management and Business Advisor and President/CEO Emeritus, Printing Industries Association of Southern California; and Gerry Michael, Graphic Arts Principal, Falco Sult

**At some point every firm thinks about the possibility of sale of the business to another investor or a competitor.** They may also look into the opportunity of buying another firm and adding it to their own. Central to this thought process is establishing a value either for their firm or the acquired one.

Valuation of any asset is based on the ability to estimate what a market price for that asset is likely to be, but just as important is an understanding of the possible range of values that affect every transaction. Market value is a theoretically useful concept, but of equal value are the maximum and minimum values, since the final transaction is likely to occur at some amount between these two. If market value is in that range, then that's helpful; however, if market value falls outside of those amounts, then a transaction is going to be very difficult to complete.

What are the maximum and minimum values? For most sellers, the minimum value is the present value of the expected future profit stream for as long as the seller is willing to continue to work, or the firm's liquidation value

if it's greater. This is based on the way the company has been operated by the seller and any expected changes they believe they will make.

However, for buyers, the maximum value is the present value of the profits that they will receive, after financing costs, and with whatever improvements the buyer believes they can implement after a transaction. We see then that the difference between the minimum and the maximum values has a lot to do with the difference between the buyer's and seller's expectations about the future.

A deal is possible if the buyer's maximum is higher than the seller's minimum. It logically follows from this that each party should first focus on the other's position to try to get the best price.

This concept of markets is crucial to an understanding of values. Markets must include several important elements, such as:

- Willing buyers
- Willing sellers



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- Alternatives to the asset in question that can be used as comparisons
- Open exchange of information about the asset in question

When all the above exist, it is possible to estimate how such a market will result in a price being set for the asset. That price is generally called “fair market value.” For buyers and sellers of companies, this is the only really relevant value.

But it’s important to keep in mind that in any such exercise the determined market value is really just a single number, and true market value is far more than that. The single number is a representation of a range of possible values and is intended to represent the most likely outcome, not the exact value one should expect. Think of this like a weather forecast.

How often have you seen the local meteorologist talk about the “chance of measurable precipitation?” They

always express this as a percentage, like “there’s a 75% chance of rain tomorrow.” But what does that really mean? Basically, it means that 75% of the time that the expected conditions exist there will be water falling from the sky. So, when you leave the house you take along an umbrella, right? But if you live in Los Angeles, you probably also know that you should bring along your sunglasses, since there’s

**A moment’s reflection suggests that the business is most valuable to similar firms that can bring the seller’s volume into their plant...**

still a pretty good likelihood that the sun will be shining. Like the weather forecast, the value you determine for your company at this point is a good estimate, but it’s just that. The actual transaction value may well be more, or less, than this single-point estimate. The reasons are many and include the following.

The first point to be considered is that buying or selling a printing business is fundamentally different from buying or selling your house. Your house is a physical asset with a reasonably discernable value, based primarily on the

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— Birgit Plautz, Manager of Technical Services, GMG Americas



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existence of numerous alternatives to the specific house. This creates a level of confidence in the value where the purchase can be financed in the market and the purchase price is usually cash to the seller. A printing business (or any other small business) is a financial asset, similar to any other investment you might consider. Its value lies in the future stream of income and cash flows that will result from the products or services the company offers and the set of customer relationships upon which it relies for future sales.

Neither seller nor buyer can guarantee that these customers will be there in the future or even buy printing at all. And the ability to provide the products or services of the seller includes many factors, not the least of which is the contributions of the selling company's owner, who will likely be leaving the company after a purchase. As you've heard before, "Past results are no guarantee of future performance."

This reality results in a situation where for the vast majority of transactions, the amount of cash paid on closing is significantly reduced unless the seller is willing to settle for a sharply reduced value. It usually results in the seller financing a significant part of the deal and very likely includes a contingent payment based on retained sales for a period of time, often termed an "earnout."

**In general, if the business or its principals own the real estate, this is a separate value from that of the business itself.**

A moment's reflection suggests that the business is most valuable to similar firms that can bring the seller's volume into their plant, thus reducing or eliminating the seller's overhead and pushing its sales into high-profit territory. This is exactly the effect that motivates possible buyers to consider an acquisition. But in these cases, buyers will generally not want to share this increased value with the seller, since the increased value is the result of the buyer's resources already in place, not something that the seller is bringing to the table. Still, finding the right buyer is key to gaining the highest return.

Thus, the value of the business is directly related to its future scenario. Folding into a larger but similar firm maximizes value. On the other hand, selling to an independent investor or employee group does not maximize value, though there are considerations with these types of transactions that can actually help to increase value. In the case of an investor, they may be willing to pay a higher price for a company that helps them gain a multi-location enterprise, which can increase the overall valuation of their entire operation. With insider transitions, generally it's much easier to convince the buyers of the underlying strengths and potential of the company, which also tends to increase the value to the buyer. Another value driver is the risk which is allocated between the buyer and seller. The value is minimized if the seller wants a guaranteed price with the majority paid on closing. In the same manner, it is maximized if the seller is willing to accept the majority of the payment as a payment for retained sales and is willing to sell on terms.

In general, if the business or its principals own the real estate, this is a separate value from that of the business itself. Also, in the case of acquisitions where the company will be folded into the operations of a buyer, the seller's production equipment is usually not central to its value and may be sold to create additional value to the seller. However, if the company will continue to operate independently following the sale, then the condition of the equipment can be a consideration, especially if the buyer will need to make significant investments in equipment after the closing.

Finally, most transactions are for the customer list and right to do business with them and do not include the seller's corporation, as the buyer usually wants to shield themselves from any past liabilities. For this reason, the issue of working capital that is transferred to a buyer can become an important discussion and will affect the ultimate sales price, perhaps significantly. The business value is therefore subject to adjustment for any working capital that will have to be fronted by the buyer.

**It's critically essential that both buyer and seller are comfortable with each other as their cooperation and that of their people is essential to make this a real winner.**

If a transaction is to occur, the parties first have to identify each other. If the object is to sell the firm, a likely buyer will have to be contacted and a conversation begun. If the object is to buy another firm, the right seller needs to be found. Generally, the right target in either case is a firm with similar production capabilities and client base, as this will enhance the economies of scale through the elimination of overhead. It is also important to understand that both buyer and seller must have the prospect of winning, i.e., they both perceive they will be better off completing the deal. The value to the buyer should be higher than the value to the seller, which enables them to meet somewhere in the middle.

Once the parties have agreed on an outline of the deal, they need to bring in the professionals (lawyers, accountants, etc.) to get the details right. If you have reached an understanding that the transaction is a potential win for both parties, then they can push through to completion and document the understanding in a way that provides protections for both sides. It's critically essential that both buyer and seller are comfortable with each other as their cooperation and that of their people is essential to make this a real winner.

For a more comprehensive look at the value of business, view this article and accompanying business valuation spreadsheets online at [www.printing.org/lindgren-michael](http://www.printing.org/lindgren-michael).

## ABOUT THE AUTHORS

### Bob Lindgren

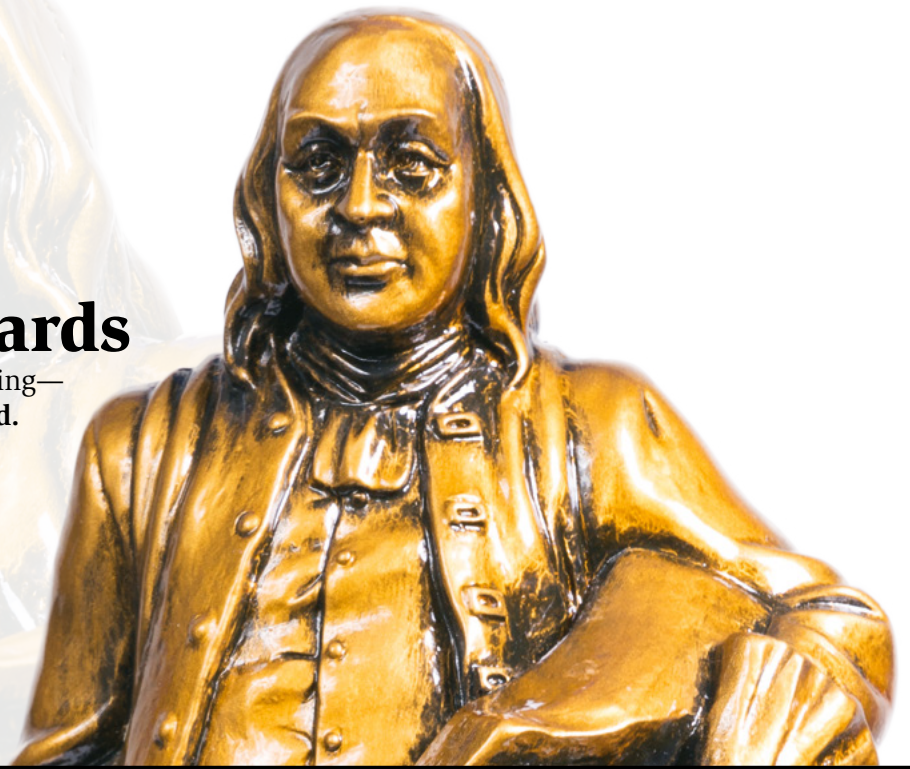
is management and business advisor for Printing Industries Association of Southern California and its president/CEO emeritus. He has worked with printers in Los Angeles and Chicago for more than 50 years. He has an MBA in accounting and finance from the University of Chicago.

### Gerry Michael

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