CAPITAL INVESTMENT SURVEY **2011**

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Foreword

Getting capital investment right is crucially important to the success of any company. It is also far more challenging now, owing to the increasingly dynamic nature of the factors and forces acting on the economy and the markets in which printing companies operate.

Companies that make the right investment decisions right will be able to capture the most profitable clients and markets. Companies that don't will be left to compete on unfavourable terms and can expect meagre returns.

Uncertainty is more prevalent today than ever before. Although all companies are grappling with the same issues, some are responding to the challenges they face more effectively than others. As ever, fortune favours those that take decisive actions based on sound information. Current risk factors and continuing economic turbulence require a more structured and robust process that can identify and realise emerging opportunities as and when these arise.

This survey report reviews investment plans and priorities for the next three years against those adopted in the past three years. We also examine how the investment process can be improved and issues relating to financing investment. We hope that the results of our 2011 *Capital Investment Survey* will provide you with a better understanding of current trends impacting on investment decision-making in our industry; providing you and your team with useful information to help you choose the right course for the future.

Marcus Clifford
Eastern Regional Director, BPIF

Introduction

It is surprising how often organisations buy expensive additional equipment without understanding that while it may provide increased productivity or capacity, it will not necessarily increase overall throughput. And while replacing old kit with new invariably offers reduced costs and additional facilities, will it deliver the return on investment needed to justify its purchase within the expected payback period?

Investment is a key strategic issue, requiring high-quality decision-making and the adoption of a well-managed and well-informed planning process. The cost of getting it wrong is severe, with painful ramifications. In extreme cases, the survival of the entire company may be jeopardised.

This survey report confirms that the characteristics of successful investments, as seen by our respondents, are many, varied and usually blended. Standout objectives include seeking more efficient workflow, better turnaround times and faster production, followed by reducing to labour costs and achieving greater levels of automation. There is however broad agreement that the central requirement is to focus on tangible outcomes and to be clear as to what creates competitive advantage in the eyes of the customer.

Although only half of respondents report poor experiences with lending institutions, it is very apparent that the harsher economic climate has changed the nature of relationships with lenders and the nature of support available from them. However notwithstanding continuing constraints in accessing external funding, investment intentions for the next three years remain high. That said though, it is clear that all companies will need to place renewed emphasis on defining specific objectives for any capital spend, linked to tangible and measurable outcomes.

The report highlights post-press as a key focus for investment over the next three years. Regarded by some in the past as the Cinderella of the printing industry, finishing solutions are increasingly seen as a prime source of added value, able to drive client sales by enhancing the end-customer experience. Workflow solutions, variable data digital capabilities and web to print/e-commerce solutions also feature highly, as print continues to embrace advances in digital technologies. No surprise either therefore that variable and static digital capabilities combined top the list of investment priorities.

The survey results show that investment in litho printing over the next three years will be mainly satisfied by purchasing used machinery: lithography's share of the overall market is still dominant, but showing some decline. They also suggest that the battle for who gets increased market share is based on efficiency and relevance, with victors likely be those that are able to integrate printed media effectively and economically into client campaigns. Capital Investment plans are notably focusing on adding new value added capabilities. Investment in other areas is by and large replacing current capability, but with associated performance benefits.

Less than half of respondents appear to have a clear and defined business plan in place, and so many firms still have much to do to help chart a better future. The most trusted source of information in making capital investment decisions is still seen to be internal expertise and own experience, although manufacturers and suppliers are also seen as an important source. There are encouraging signs that many businesses are discussing their business plans with their customers but it's also clear that a lot more can be done to engage and get closer to them.

Obtaining clarity in today's economic and market conditions is frustratingly difficult, however much effort you put into seeking it. Decision-making in uncertain times is challenging, and all businesses need to be developing plans that anticipate a variety of different future scenarios. Business planning needs to be based on thorough and rigorous research involving colleagues, customers, suppliers, and industry experts. We hope this report will also play its part in helping you to get investment right.

Kyle Jardine
Research and Information Manager
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Marcus Clifford
Eastern Regional Director
BPIF

Executive Summary

Respondents

- 121 companies with annual turnovers ranging from £120,000 to £145 million participated in the 2011 survey.

- The combined turnover of all participants was £916 million, representing around 6.5% of the UK printing industry. A more detailed methodology and respondents' profile is available in the appendices.

Key future factors

- 58.6% of respondents selected *'exceptional client service and turnaround times at a competitive price'* as one of the top three characteristics for success.

- *'Solutions provider'* and *'exceptional knowledge of clients' business'* were also recognised as important characteristics, with 18.9% and 15.3% respectively ranking them as the most important characteristic.

- Being *'financially sound'* and having the *'ability to adapt quickly to changing conditions*' were selected in the top three characteristics by 45.9% and 38.7% of respondents respectively.

- *'Marketing' was* selected as a top three characteristic by only 18% of respondents.

- Larger companies place a greater emphasis on *'solutions provider - focused on making clients more successful".* 29.4% of companies with a turnover of £10 million or more selected this as the number one characteristic, compared to just 14% of companies with a turnover less than £2 million.

Capital investment plans

- The majority of respondents have a positive outlook for 2011 compared to 2007.54.1% of respondents expect sales to have a greater value than pre-recession levels, whilst 30.3% expect lower sales.

- 20.2% of respondents are expecting 2011 sales to be 20%+ higher than 2007 levels.

- The majority of respondents (54.6%) indicated that their own capital investment rates over the over the 2008 to 2010 period were in the 0-5.9% range. However, 11.8% reported annual average capital investment expenditure to be equal or greater than 15% of average annual sales.

- Looking to their future capital investment plans, the standout most important objective for future capital investment expenditure for many respondents was *'more efficient workflow'*; selected as one of their top 3 objectives by 70% of respondents and ranked most important by 18.2%. *'Reduce spoilage'* was selected as the most important by 18.2% of respondents, but didn't attract many second and third rankings.

- Other popular objectives were to *'enter new markets'*, *'serve current markets more profitably'* and *'reduce labour costs / automate',* claiming top three importance rankings from 46.4%, 43.6% and 45.5% respectively.
- Only 8.2% of respondents seemingly prioritised *'environmentally friendly'* initiatives as a top capital investment objective.
- Many respondents (41.2%) are expecting to hold the same level of investment over then next three years as they have in the last three years. Furthermore more companies (30.9%) expect to invest a greater amount than a lesser amount (21.8%).

Capital investment priorities

- The most popular area for investment is *binding and finishing*, selected as a priority target by 47.7% of respondents in the last three years and by 44% as a priority for the next three years.
- Other priority investment targets over the last three years have been *management information systems* (selected by 35.8% of respondents), *workflow solutions* (33.9%) and *computer-to-plate* (32.1%).
- Further top priorities for coming three years are *workflow solutions* (33% of respondents), *variable data digital presses* (32.1%) and *web-to-print / e-commerce* (31.2%). Had *digital presses (variable and static)* being combined as a single category then it would have topped the table, with 46.8% of respondents prioritising it in the next three years. However s*tatic digital presses* are showing a decline in investment priority selection from 24.8% to 20.2%, whereas *variable data digital presses* are exhibiting growth from 21.1% to 32.1%.
- Investment growth intentions of 11% (in terms of respondents' priority selection) in variable data digital presses was only surpassed by the 15% growth exhibited by *web-to-print / e-commerce* and the 13.7% in *mailing and fulfilment capabilities*.
- Investment in *direct imaging litho presses* will be mainly satisfied by used machinery (60% of responding investors in that category).
- Second hand equipment is an important market for *all litho presses*. With the exception of *flexographic presses,* used equipment takes a significant share of most of the heavy machinery items.
- The used market takes a much smaller share of the *digital, software and workflow* related investment areas.
- Respondents will be investing to add capacity in the areas of *web-to-print / e-commerce*, *ink-jet, digital asset / content management*, *database management*, *wide format* and *mailing and fulfilment.*

Capital investment process

- 89% of respondents are at least having some discussion regarding clients' business plan, but 61% of respondents reported having less than 20% of their clients discussing their business plans with them.

- 39% of respondents reported having such detailed discussions with 20% or more of their clients.
- 20% of printers have never discussed their business plan with a client. In-depth discussions about business plans and future investment intentions with clients is not something all companies will be suited to or comfortable with, but with 80% of printers having at least some precedent for this it must be beneficial for some.
- The most trusted source of information in making capital investment decisions was *'own experience / expertise'*; selected in the top three most important sources by 95.4% of respondents and ranked number 1 in terms of importance by 71.3% of respondents.
- The second most important source of information was the *'manufacturers / suppliers'*, with 13.9% of first choices though 74.1% of all respondents placed them in the top 3. T*rade associations*, *peer groups* and *trade press* were also seen as having a role to play in providing information and offering advice.
- *'Help reaching a consensus'* tops the list of suggestions for what can be done to improve the capital investment process, with 59.8% of respondents selecting it. *'Better post-investment analysis'* follows behind, selected by 45.7% of respondents, while *'hearing all relevant views'* (30.4%) is the third most commonly selected area for improvement.

Financing investment

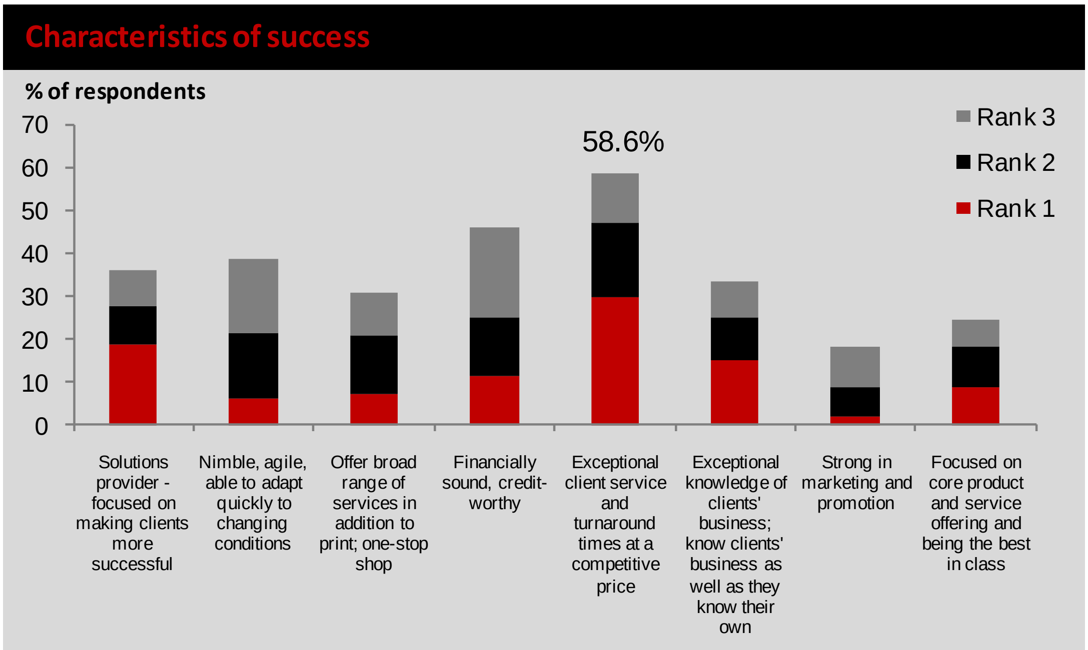
- 27% of respondents indicated little or insufficient support from financial institutions for their investment plans. However 50% indicated either 'good support' or a 'great relationship' with their relevant financial institutions.
- The vast majority (73%) of responding companies reported 'no change' in the provision of support from financial institutions since the coalition government came into power. Only 2% of respondents reported an improvement, with 25% experiencing a deterioration in support. This negative balance of 23% will be partly due to a wider realisation of the current economic situation and continued prudence from financial institutions towards risk with SMEs and possibly with the printing industry in particular.

Setting a future course

- Respondents were asked to rate on a score from 1 to 7 how well their company's course was set for the next three years. '1' represented companies with clear and defined business plans, with the company's course being extremely well set, ranging through to '7' representing those with no business plan and no set course for the company to run. Only 6.6% of respondents placed themselves in 5-7 on the scale and only 43.5% in categories 1 and 2. However the relatively high number of respondents (49.1%) placing themselves in categories 3 and 4 on the scale creates an overall average at 2.8 on the 1-7 scale. It is evident that a number of respondents have concerns over the economic and industry climate, which affect how well set they see their business course.

1 Key success factors

Respondents were asked to say what kind of company they believed would be most successful in our industry in the next three years:



58.6% of respondents selected *'exceptional client service and turnaround times at a competitive price'* as one of the top three characteristics for success. 29.7% ranked it as the most important characteristic.

'Solutions provider' and *'exceptional knowledge of clients' business'* were also recognised as important characteristics with 18.9% and 15.3% respectively ranking them as the most important characteristic.

Being *'financially sound'* and having the *'ability to adapt quickly to changing conditions'*, whilst not ranked highly as the most important characteristic were selected in the top three characteristics by 45.9% and 38.7% of respondents respectively.

'Marketing' is clearly not yet seen as a priority characteristic for success; it was selected as a top three characteristic by only 18% of respondents.

An analysis of the responses to this question by company size analysis reveals that larger companies place a greater emphasis on *'solutions provider - focused on making clients more successful'* as a priority characteristic for success. 29.4% of companies with a turnover of £10 million or more selected this as the number one characteristic; compared to just 14% of companies with a turnover less than £2 million.

Comments from respondents:

Adding value and knowing your market is the key to success.

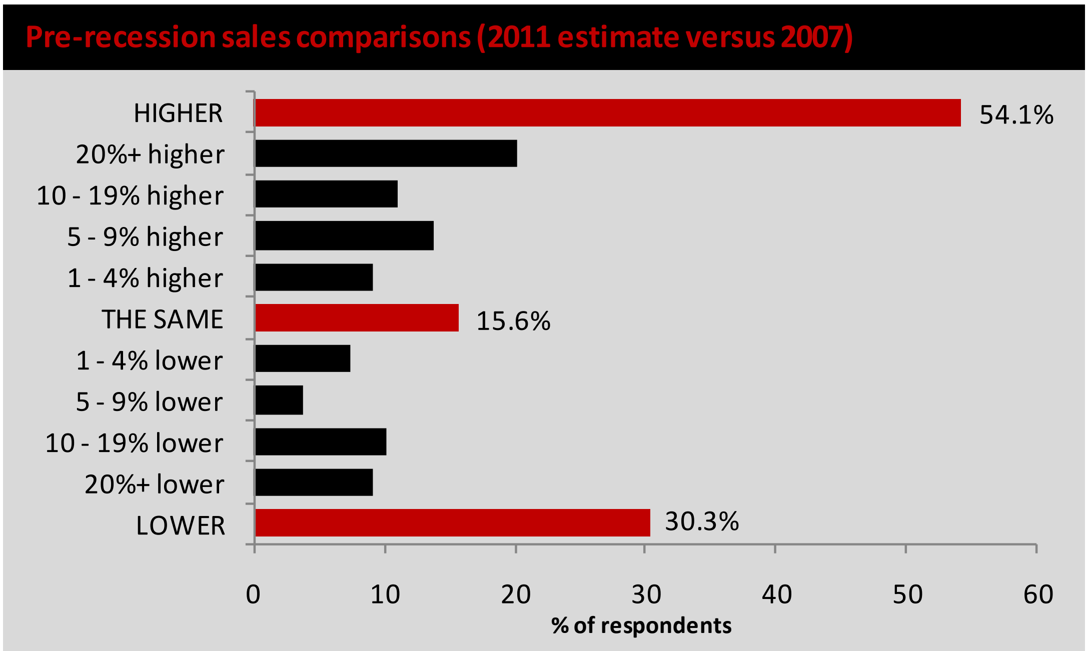
Most important in my mind, "those companies that can gain sustained competitive advantage".

Know your Clients, know your market.

2 Capital investment plans

2.1 Turnover expectations

Turnover expectations are one of the key drivers for capital investment decisions. We therefore asked respondents how they expected their 2011 sales value would compare relative to their 2007 (pre-recession) sales:

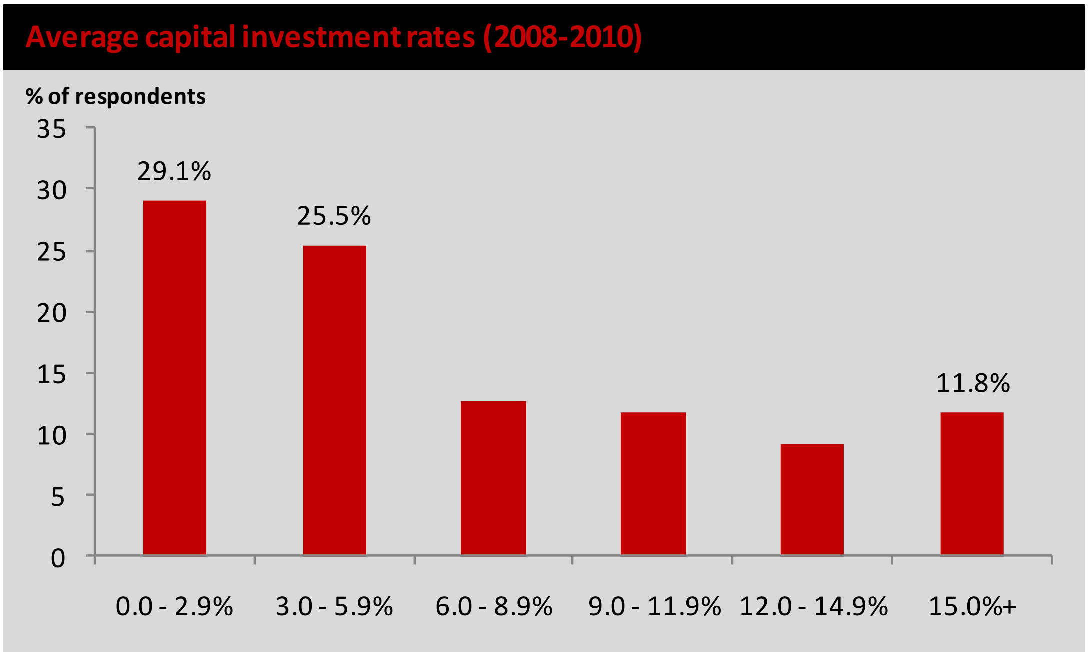


The majority have a positive outlook for 2011 compared to 2007. 54.1% of respondents expect sales to have a greater value than pre-recession levels, whilst 30.3% expect lower sales - the difference being a positive balance of 23.8%.

It is encouraging, though perhaps somewhat optimistic, that 20.2% of respondents are expecting 2011 sales to be 20%+ higher than 2007 levels.

2.2 Recent investment rates

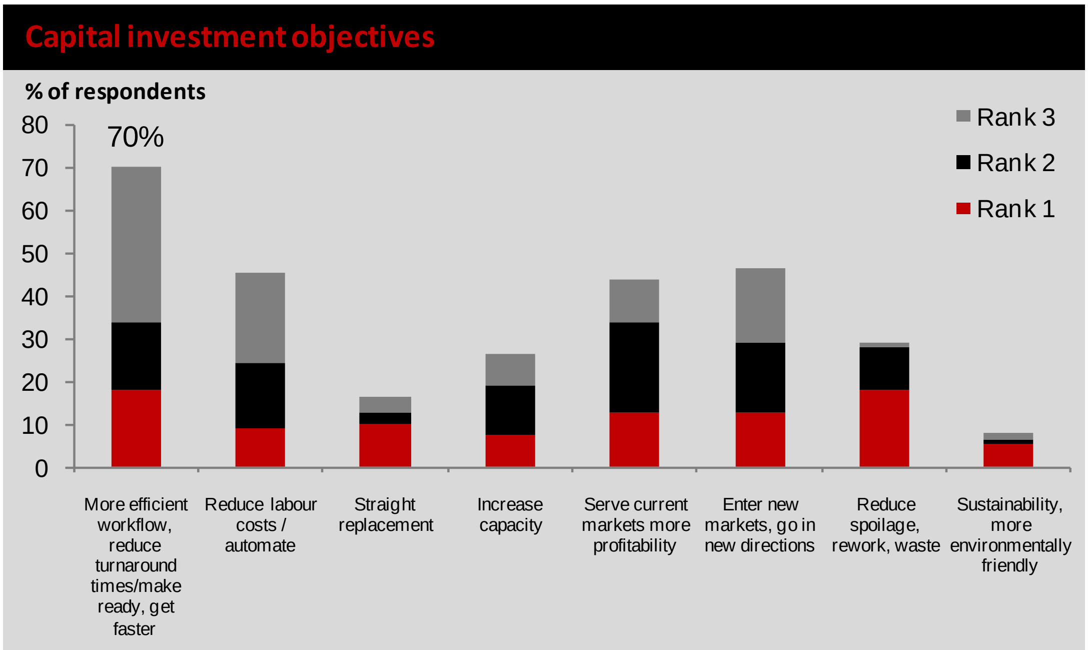
We asked respondents to tell us what their company's annual average investment in capital equipment, hardware or software as a percentage of average annual sales had been over the past three years (2008-2010):



When asked to indicate their own capital investment rates the majority of respondents (54.6%) were in the 0-5.9% range. However 11.8% reported annual average capital investment expenditure to be equal or greater than 15% of average annual sales over the 2008 to 2010 period.

2.3 Objectives for future investment

Looking to their future capital investment plans, we asked what objectives would be most important over the next three years:



The standout most important objective for future capital investment expenditure for many respondents was *'more efficient workflow'*; selected as one of their top 3 objectives by 70% of respondents and ranked most important by 18.2%. Similarly, the more specific *'reduce* *spoilage'* was selected as the most important by 18.2% of respondents but didn't attract many second and third rankings.

Other popular objectives were to *'enter new markets'*, *'serve current markets more profitably'* and *'reduce labour costs / automate'* claiming top three importance rankings from 46.4%, 43.6% and 45.5% respectively.

Although only 8.2% of respondents seemingly prioritised *'environmentally friendly' initiatives* as a top capital investment objective it doesn't necessarily follow that few companies regard environmental objectives as important. It may be just that the extreme competitiveness, evident in an industry in the throes of considerable structural change, ensures that other objectives are more pressing.

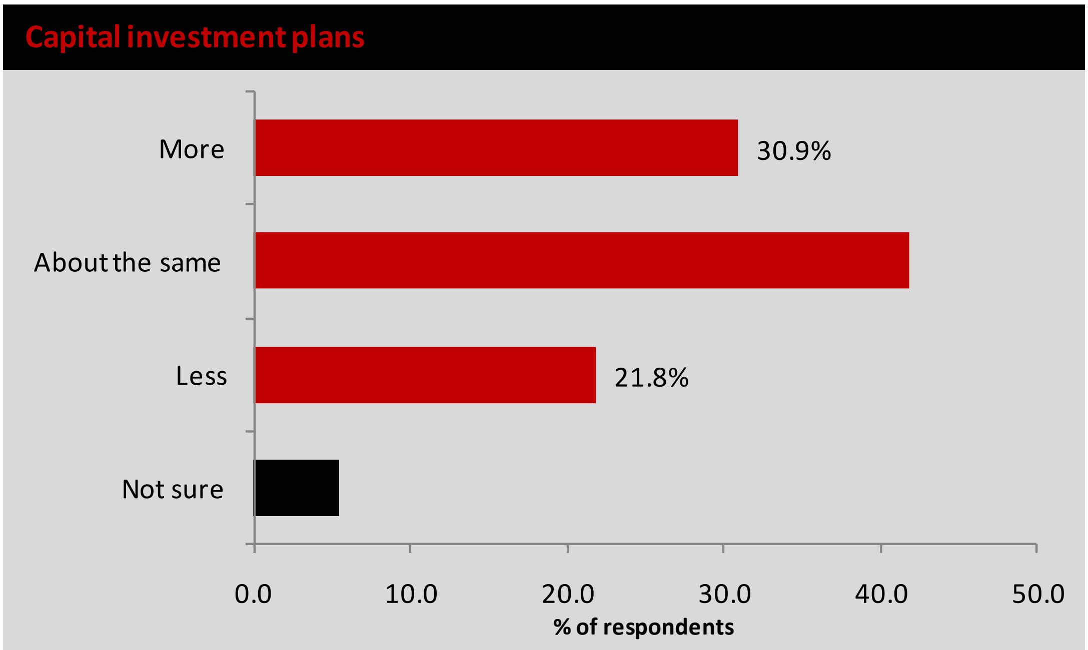
Other objectives stated:

Reduce outwork costs and increase internal value added.

Reduce carbon footprint.

2.4 Level of investment planned

We asked respondents whether they expected to invest more, less or the same amount over the next three years (2011-2013) as they did over the last three years (2008-2010):



Many respondents (41.2%) are expecting to hold the same level of investment over then next three years as they have in the last three years. Furthermore more companies (30.9%) expect to invest a greater amount than a lesser amount (21.8%). The positive balance of 9.1% provides further evidence for investment growth in the next few years.

Much of the reasoning behind additional investment fits in line with the objectives already covered. Some examples of explanations from respondents for more or less investment include:

More:

Broaden the strategic offering, Under-invested last 3 years.

Company continues to grow strongly also acquisitions.

Improve mechanised production. Less reliance on hand work.

Investment in digital, web to print, workflow to meet our current customer requirements and take us into new markets. Investment in studio software and web to print will improve efficiency/productivity. Investment in litho to service new business we have won. Possible investment to take advantage of an opportunity to supply our existing customers.

More positive about the future.

Need to catch up a bit if the recession subsides.

New products and markets.

To build on our success throughout the recession years.

Less:

Consolidate what we have to survive.

Dramatically reduced margin, no profits.

Factory is now fully fit for purpose with new equipment.

Investment in technology and staff rather than plant and machinery.

Major project completed.

Market conditions.

Move away from expensive litho presses to more dynamic software driven solutions that adds more value to client offering and gives better ROCE.

Not making enough money at present to re invest it.

The previous investment gave us the capacity, we now need to fill that capacity.

We have totally replaced all our major plant.

3 Capital investment priorities

3.1 Priority areas

Respondents were asked about their capital investment priorities over the last three years and their priorities for the next three years:

Capital investment priorities	% of respondents		
	Next 3 years	Last 3 years	Either or both
Bindery/finishing equipment systems	44.0	47.7	66.1
Workflow solutions	33.0	33.9	55.0
Digital presses (variable data)	32.1	21.1	42.2
Web-to-print, e-commerce	31.2	15.6	40.4
Management information systems	28.4	35.8	55.0
Litho presses: 4 colour or more	26.6	24.8	44.0
Mailing and fulfillment capabilities	22.0	8.3	26.6
Digital presses (static)	20.2	24.8	36.7
Digital infrastructure; workstations, servers etc.	18.3	23.9	33.0
Database management capabilities	17.4	11.9	25.7
Computer-to-plate	13.8	32.1	43.1
Digital asset / content management	13.8	9.2	20.2
Wide-format (any process)	12.8	17.4	22.9
High speed copiers (b&w or colour)	7.3	8.3	12.8
Litho presses: direct imaging	4.6	1.8	6.4
Flexographic presses	4.6	2.8	5.5
Ink-jet systems (except wide-format)	3.7	8.3	9.2
Litho presses: b&w or 2 colour	3.7	2.8	6.4
Other	3.7	6.4	9.2

The most popular area for investment is *binding and finishing*, selected as a priority target by 47.7% of respondents in the last three years and by 44% as a priority for the next three years. It seems likely that the trade finishing sector will feel mounting pressure from printers continuing to expand their capabilities and bring more finishing in-house in the coming years.

Other priority investment targets over the last three years have been *management information systems* (selected by 35.8% of respondents), *workflow solutions* (33.9%) and *computer-to-plate* (32.1%).

Further top priorities for the coming three years are *workflow solutions* (33% of respondents), *variable data digital presses* (32.1%) and *web-to-print / e-commerce* (31.2%).

It's also worth noting that had *digital presses (variable and static)* being combined as a single category then it would have topped the table with 46.8% of respondents prioritising it in the next three years. However the reason why separate categories were used is justified by examining the shifting priorities between the last three years and the next three years. *Static digital presses* are showing a decline in investment priority selection from 24.8% to 20.2%, whereas *variable data digital presses* are exhibiting growth from 21.1% to 32.1%.

Investment growth intentions of 11% (in terms of respondents' priority selection) in variable data digital presses was only surpassed by the 15% growth exhibited by *web-to-print / e-commerce* and the 13.7% in *mailing and fulfilment capabilities*.

Examples of other investment targets included:

Camera Inspection Systems for Quality Control.

Charitable giving and awareness.

Computer, accounts package, computerised phone system.

Delivery vehicle will need replacing.

Embroidery equipment.

In new products & services to use our equipment better.

Laminate and Gluing.

Letterpress label printing.

Specialist niche not in mainstream printing.

3.2 Priorities by company size

Capital investment priorities	% of respondents		
(companies with less than £2m turnover)	Next 3 years	Last 3 years	Either or both
Bindery/finishing equipment systems	47.5	47.5	65.0
Web-to-print, e-commerce	37.5	7.5	42.5
Digital presses (variable data)	32.5	15.0	42.5
Litho presses: 4 colour or more	27.5	10.0	35.0
Workflow solutions	25.0	17.5	37.5
Digital presses (static)	25.0	30.0	45.0
Management information systems	22.5	25.0	45.0
Wide-format (any process)	17.5	17.5	27.5
Mailing and fulfillment capabilities	17.5	7.5	25.0
Database management capabilities	15.0	12.5	25.0
Digital infrastructure; workstations, servers etc.	15.0	17.5	27.5
Computer-to-plate	12.5	22.5	35.0
High speed copiers (b&w or colour)	12.5	12.5	20.0
Litho presses: direct imaging	12.5	2.5	15.0
Digital asset / content management	10.0	5.0	15.0
Litho presses: b&w or 2 colour	7.5	5.0	12.5
Flexographic presses	5.0	2.5	5.0
Ink-jet systems (except wide-format)	2.5	2.5	5.0
Other	5.0	5.0	10.0

Capital investment priorities (companies with £2m - £10m turnover)	% of respondents Next 3 years	Last 3 years	Either or both
Bindery/finishing equipment systems	40.4	48.1	67.3
Management information systems	36.5	40.4	61.5
Workflow solutions	34.6	46.2	63.5
Web-to-print, e-commerce	30.8	23.1	42.3
Digital presses (variable data)	25.0	25.0	38.5
Litho presses: 4 colour or more	23.1	32.7	48.1
Mailing and fulfillment capabilities	21.2	1.9	23.1
Database management capabilities	19.2	7.7	23.1
Computer-to-plate	19.2	38.5	51.9
Digital infrastructure; workstations, servers etc.	17.3	25.0	32.7
Digital presses (static)	17.3	26.9	34.6
Digital asset / content management	11.5	7.7	17.3
Wide-format (any process)	9.6	15.4	19.2
High speed copiers (b&w or colour)	3.8	7.7	9.6
Ink-jet systems (except wide-format)	1.9	5.8	5.8
Litho presses: b&w or 2 colour	1.9	1.9	3.8
Flexographic presses	1.9	1.9	3.8
Litho presses: direct imaging	0.0	1.9	1.9
Other	1.9	7.7	9.6

Capital investment priorities (companies with £10m+ turnover)	% of respondents Next 3 years	Last 3 years	Either or both
Digital presses (variable data)	52.9	23.5	52.9
Workflow solutions	47.1	35.3	70.6
Bindery/finishing equipment systems	47.1	47.1	64.7
Litho presses: 4 colour or more	35.3	35.3	52.9
Mailing and fulfillment capabilities	35.3	29.4	41.2
Digital asset / content management	29.4	23.5	41.2
Digital infrastructure; workstations, servers etc.	29.4	35.3	47.1
Web-to-print, e-commerce	17.6	11.8	29.4
Management information systems	17.6	47.1	58.8
Database management capabilities	17.6	23.5	35.3
Digital presses (static)	17.6	5.9	23.5
Ink-jet systems (except wide-format)	11.8	29.4	29.4
Wide-format (any process)	11.8	23.5	23.5
Flexographic presses	11.8	5.9	11.8
High speed copiers (b&w or colour)	5.9	0.0	5.9
Computer-to-plate	0.0	35.3	35.3
Litho presses: direct imaging	0.0	0.0	0.0
Litho presses: b&w or 2 colour	0.0	0.0	0.0
Other	5.9	5.9	5.9

3.3 New or used equipment?

The survey asked whether the capital equipment, hardware and software that respondents were planning to purchase over the next three years would be new, used or a combination of both:

New or used investment?	% within each category		
	New	Used	Both
Flexographic presses	100.0	0.0	0.0
Database management capabilities	94.4	5.6	0.0
High speed copiers (b&w or colour)	90.9	0.0	9.1
Workflow solutions	88.4	4.7	7.0
Digital asset / content management	87.5	6.3	6.3
Management information systems	86.7	3.3	10.0
Web-to-print, e-commerce	85.3	2.9	11.8
Digital presses (variable data)	85.2	11.1	3.7
Digital infrastructure; workstations, servers etc.	84.2	0.0	15.8
Wide-format (any process)	80.0	6.7	13.3
Digital presses (static)	75.0	10.7	14.3
Ink-jet systems (except wide-format)	75.0	0.0	25.0
Computer-to-plate	56.3	25.0	18.8
Litho presses: b&w or 2 colour	50.0	33.3	16.7
Litho presses: 4 colour or more	43.3	36.7	20.0
Litho presses: direct imaging	40.0	60.0	0.0
Bindery/finishing equipment systems	38.5	13.5	48.1
Mailing and fulfillment capabilities	35.0	35.0	30.0
Other	100.0	0.0	0.0

The table above shows that investment in *direct imaging litho presses* will be mainly satisfied by used machinery (60% of responding investors in that category). Indeed, unsurprisingly due to the cost of investment involved and perhaps the availability, second hand equipment is an important market for *all litho presses*. With the exception of *flexographic presses,* used equipment takes a significant share of most of the heavy machinery items. Understandably due to the cost and/or uniqueness required, the used market takes a much smaller share of the *digital, software and workflow* related investment areas.

3.4 Additional or replacement capacity?

We asked whether the capital investments planned for the next three years would add to existing capacity, replace existing capacity, or do both:

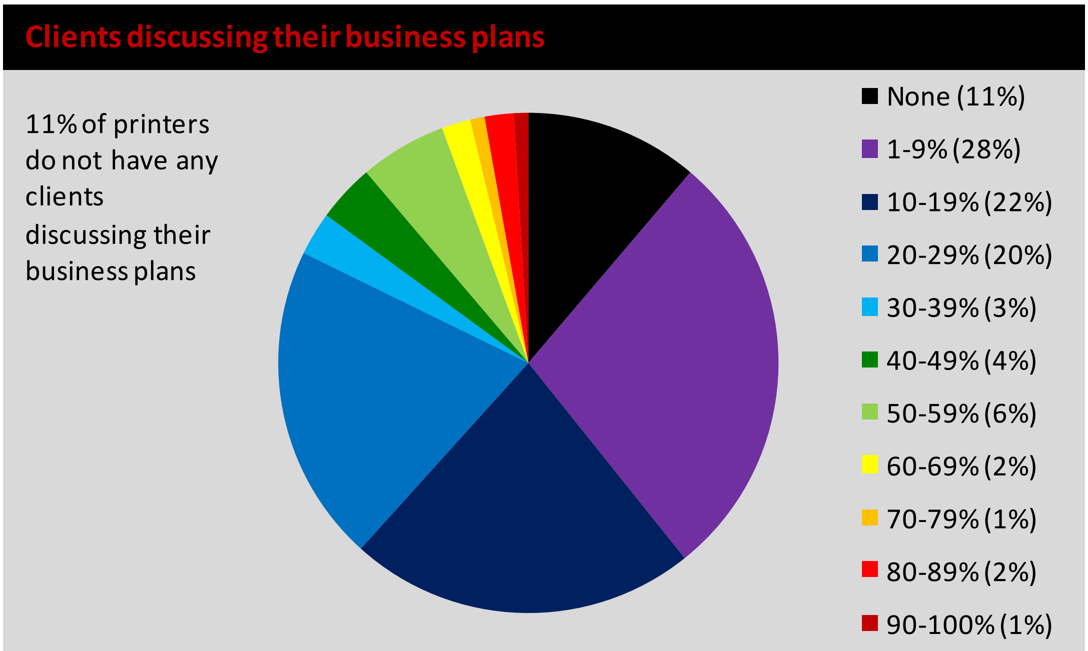
Addition or replacement to capacity?	% within each category		
	Addition	Replacement	Both
Web-to-print, e-commerce	75.0	6.3	18.8
Ink-jet systems (except wide-format)	71.4	14.3	14.3
Digital asset / content management	66.7	5.6	27.8
Database management capabilities	61.1	16.7	22.2
Wide-format (any process)	60.0	6.7	33.3
Mailing and fulfillment capabilities	57.9	10.5	31.6
Digital presses (static)	39.1	43.5	17.4
Digital presses (variable data)	36.7	33.3	30.0
Workflow solutions	33.3	42.9	23.8
Management information systems	27.3	48.5	24.2
Bindery/finishing equipment systems	20.8	25.0	54.2
Digital infrastructure; workstations, servers etc.	20.0	15.0	65.0
Computer-to-plate	20.0	60.0	20.0
Flexographic presses	20.0	20.0	60.0
Litho presses: 4 colour or more	15.2	60.6	24.2
Litho presses: b&w or 2 colour	14.3	71.4	14.3
High speed copiers (b&w or colour)	0.0	88.9	11.1
Litho presses: direct imaging	0.0	66.7	33.3
Other	50.0	50.0	0.0

Respondents will notably be investing to add capacity in the areas of *web-to-print / e-commerce*, *ink-jet, digital asset / content management*, *database management*, *wide format* and *mailing and fulfilment*. Many companies clearly believe it is important to expand their in-house capabilities.

4 Capital investment process

4.1 Awareness of clients' business plans

Knowing your clients' future plans is invaluable in helping decide on the nature and extent of future investment. We therefore asked respondents what percentage of their clients would discuss their business plan with them.



There has been much comment in the printing industry regarding the importance of a close alignment with customers and knowing more about their businesses, yet it remains unclear just how many printers have been taking this advice on board. 89% are at least having some discussion regarding clients' business plans.

The chart above shows that 61% of respondents reported having less than 20% of their clients discussing their business plans with them. However, as one respondent pointed out, the 'top 20% of customers is 80% of business': meaning that it is often advisable for printers to select the most appropriate clients to have such discussions with. A perhaps surprisingly high 39% of respondents reported having such detailed discussions with 20% or more of their clients.

Comments:

Focussed on the larger ones.

Don't know - never pursued this line of enquiry beyond a very basic level.

Invited to a breakfast meeting with a client who was expanding and they wanted to outline their vision to their key suppliers.

Relevant plans only.

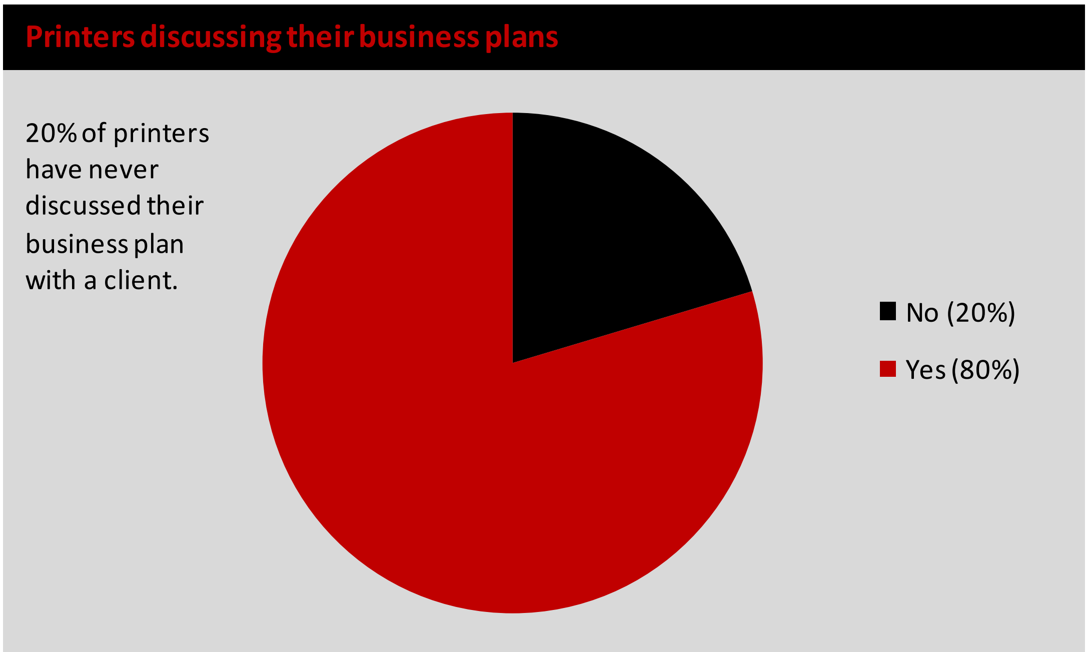
They might discuss general aims with a piece of work but not a long-term business plan.

Top 20% of customers is 80% of business.

Traditional print sales staff or customer services staff (in SMEs) rarely discuss business plans with clients. We will have these conversations particularly with Framework clients.

4.2 Sharing investment intentions with clients

Similarly clients need to be aware of their suppliers' own business plans, in order that they are able to factor in any additional services or benefits these may offer them into their purchasing strategy. We asked respondents whether they had discussed their own business plan with any of their clients.



20% of printers have never discussed their business plan with a client. It would seem that printers are more reticent about discussing their own business plans with clients; or perhaps there is less interest from clients in having them do so.

In-depth discussions about business plans and future investment intentions with clients is not something all companies will be suited to, or comfortable with. However with 80% of printers having at least some precedent for this, it must be beneficial for some. Some of the comments provided below provide further insight to the reasoning behind some companies' decisions to openly discuss their business plans with clients:

Comments:

At key account reviews and budgeting.

Especially last year - people looking for stability.

In relation to their needs and what we may lack in fulfilling them.

One has to do so.

The business plan and the planned new technologies are discussed and sold in advance to key customers, to ensure payback.

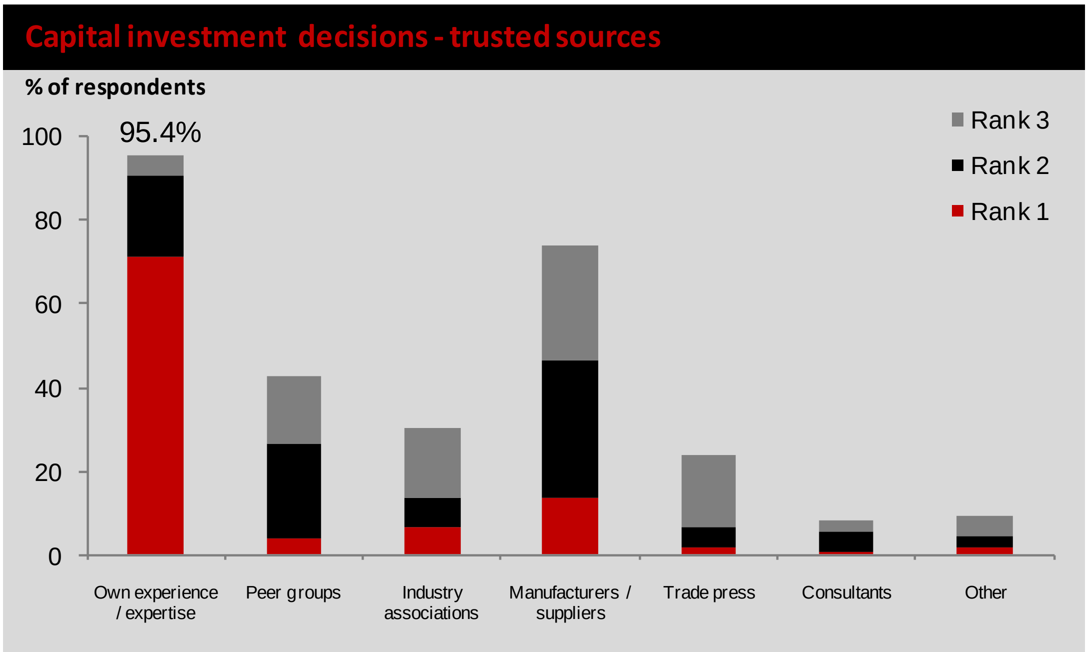
To help ascertain need for new markets etc.

We have good business relationships with a number of our long standing clients, and regularly chat about business and future plans.

We identify our investment proposals to ensure they can utilise the increased capacity or sell the new products that would be available. We also ask what they would like us to invest in to enhance their product offering.

4.3 Sources of information

We asked what sources of information are most important in terms of the reliance and trust respondents placed on them:



The most trusted source of information in making capital investment decisions was *'own experience / expertise'*; selected in the top three most important sources by 95.4% of respondents and ranked number 1 in terms of importance by 71.3% of respondents.

Somewhat further back but still clearly the second most important source was the *'manufacturers / suppliers'*, with 13.9% of first choices though 74.1% of all respondents placed them in the top 3.

The next rated important sources were *trade associations*, *peer groups* and *trade press,* all of which were seen as having a role to play in providing information and offering advice.

Other sources:

Clients.

Customers.

Marketing intelligence.

Thorough testing always before purchase.

We do our own research, visit existing users. Never the first to buy new technology.

We have just struck a deal this month with a supplier based on 2 factors. 1.Price 2. Their ability to follow up an approach with a quotation and timescale So many others have made contact by phone or e-mail, been given copious amounts of details and then never replied nor sent quote for months [i.e. NOT days. NOT weeks but months].

Web.

4.4 Improving the capital investment process

We asked what respondents would most want to improve about their capital investment process:

Areas for improvement	% of respondents
Help reaching a consensus, we tend to get bogged down.	59.8
Better post-investment evaluation. How did we do? Did we make the right decision? How do we do better next time?	45.7
Hear all relevant views rather than a few dominant voices.	30.4
Move too quickly. Tend to chase the 'hot' investment. Better analysis. Better due diligence.	27.2
More time to make the decision. Too often we're rushed.	15.2
A broader prospective. Our information sources are too narrow. Need more views/voices.	14.1
More unbiased, agenda free input to help us evaluate investment options.	10.9
Other	3.3

When it comes to suggestions for what can be done to improve the capital investment process, the table above shows which areas respondents view as prime targets for improvement. *'Help reaching a consensus'* tops the list, with 59.8% of respondents selecting it. *'Better post-investment analysis'* follows behind, selected by 45.7% of respondents, while *'hearing all relevant views'* (30.4%) is the third most commonly selected area for improvement.

So even though respondents have placed a heavy reliance on their own expertise, many openly acknowledged that their internal practices could benefit from some further refinement or guidance.

Other areas for improvement:

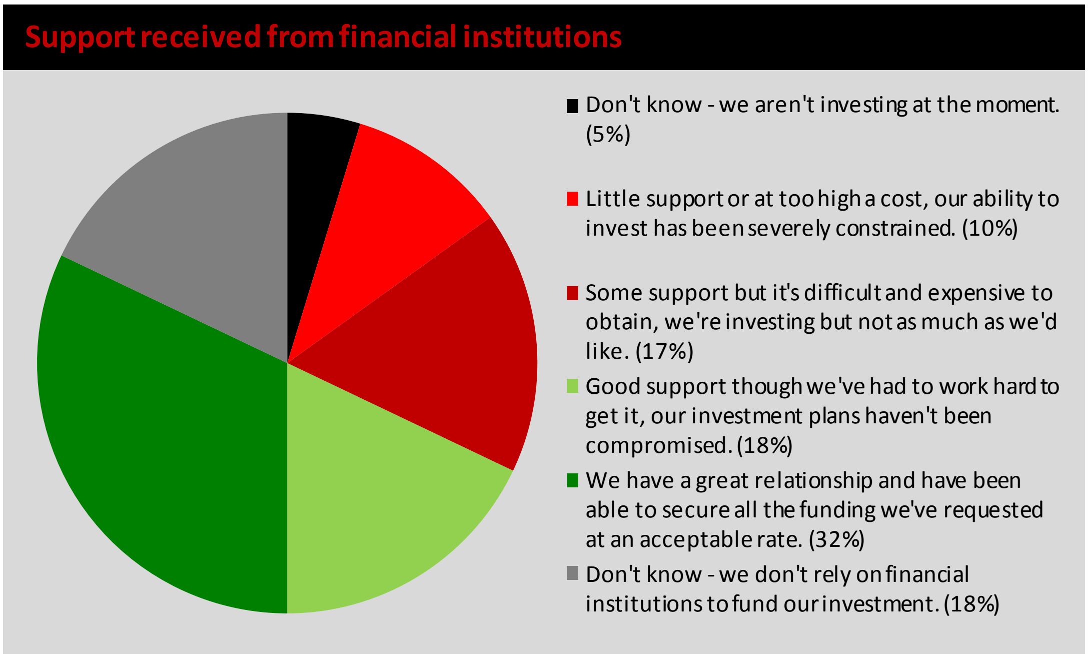
More assistance in "making the case" e.g. help from the supplier with capex justifications and ROI projections.

More help from the banks. In common with so many SMEs that we talk with, we have hesitated to approach the bank for extra capital for investment. Especially because of the several known instances where not only has extra finance been refused, but the opportunity taken by the banks to reduce existing facilities.

5 Financing investment

5.1 Support from financial institutions

Clearly the availability of funding is crucial to any investment, and in the new business climate external finance has been notoriously difficult to access. Even when facilities are made available, the terms are reportedly often expensive and beset with pre-conditions and requests for guarantees. We therefore asked respondents to tell us which of the statements on the right of the chart below was most appropriate in relation to support from financial institutions for their investment plans:



The red zone in the chart above reflects those respondents that indicated little or insufficient support from financial institutions for their investment plans. Taken together, the 'little support' or 'some support' categories total to 27% of all respondents. Fortunately the red zone has been outweighed by the green zone, where 50% of respondents indicated either 'good support' or a 'great relationship' with their relevant financial institutions.

Further comments:

As part of a large group we have not had any issues with funding. However this may change with current economic conditions.

We have worked around it using our own resources.

Our strong balance sheet makes us an attractive prospect.

So far what we have asked for has been approved although these have been smaller investments.

Very, very difficult to get commercial mortgage for new premises.

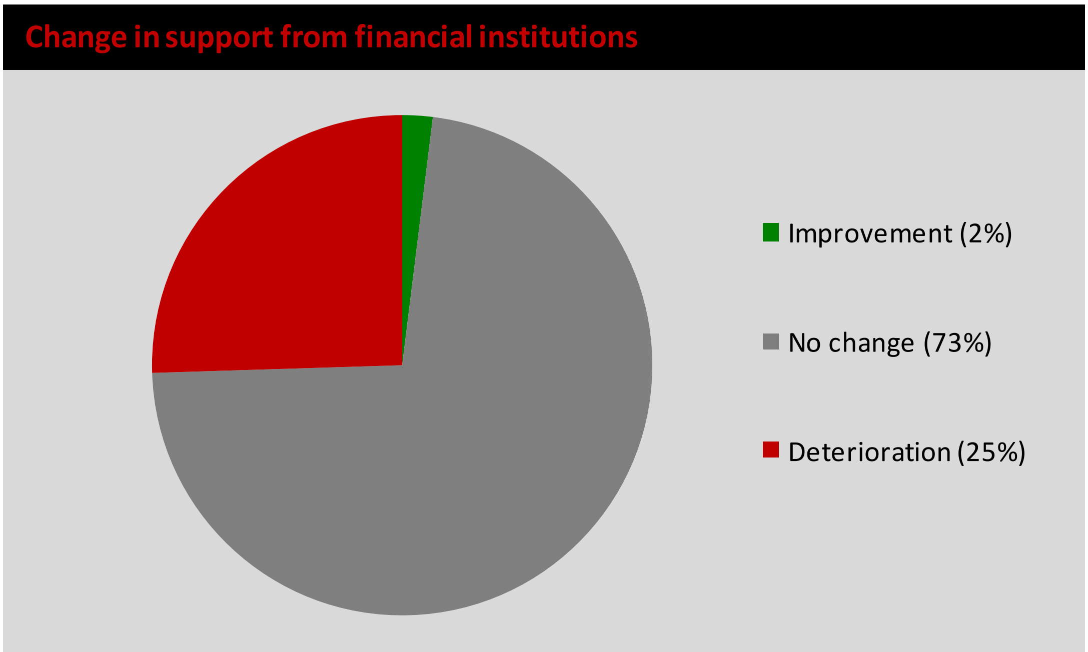
We are now privately owned by a US parent, prior experience very poor support.

We are part of a group which controls capex.

We can have the funds but the rate is too high.

5.2 Changes in support provided post-election

We asked respondents whether they had noticed any change in the support the financial institutions (that their companies were in contact with) are willing to provide since the new Government came into power:



The vast majority (73%) of responding companies have reported 'no change' in the provision of support from financial institutions since the coalition government came into power. However, whilst only 2% of respondents have reported an improvement, 25% have experienced a deterioration in support.

It should be pointed out that this reported negative balance of 23% is not necessarily linked to direct actions of the new government; as it will be partly governed by a wider realisation of the current economic situation and continued prudence from financial institutions towards risk with SMEs and possibly with the printing industry in particular.

Comments:

Bank are closed to SMEs and are now demanding further price increases. Thank heavens for Finance Yorkshire despite their need for personal guarantees.

Increased information regarding higher deposits etc.

Lots of rhetoric but finance institutions are looking much closer at deals/risk. In many cases money is not lent because the business case is poor or there is too much risk - what you expect in a recession. Owner/managers need to think much harder about the investment to make it work. As an example, would I buy a new litho press? - more likely to upgrade it to maintain what we do - would I buy a new digital press? - yes, because that is where I see our market moving to.

Not to our company but our bank are reluctant to lend (generally) to the print industry.

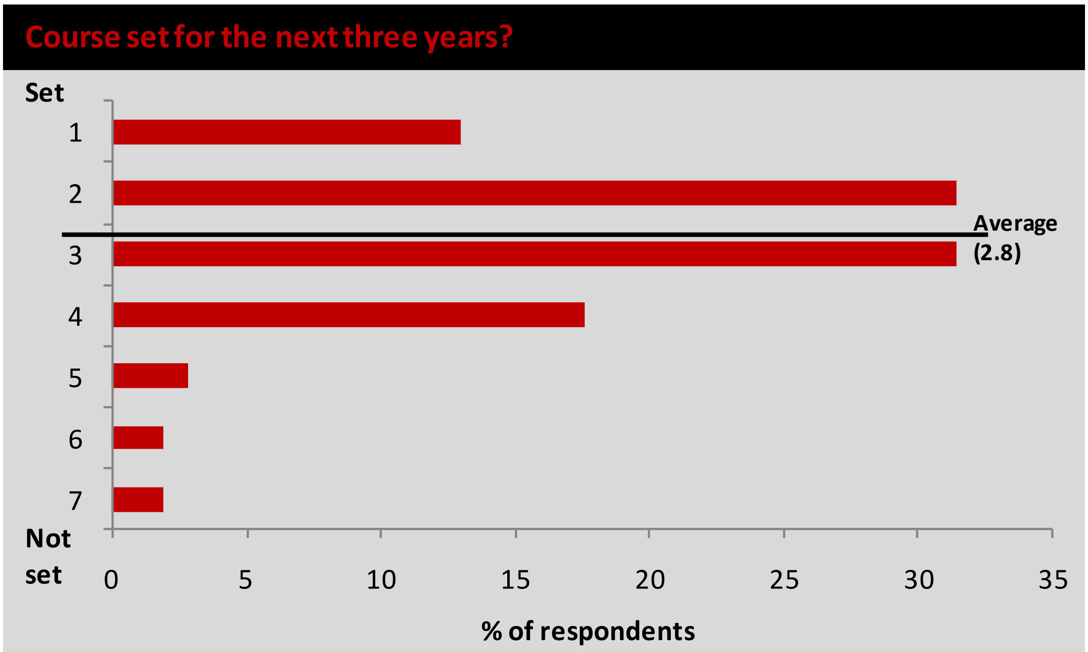
Our contact at the bank retired early and no one 'bothered' to tell us who the new contact was for 9 months. A customer of ours uses the same bank and at his year end, his appointed chartered accountant had to phone and ask the bank just who now had responsibility for their account. We only found out about the retirement when a 3 month report was returned with the comment '...has retired' NO MENTION OF WHO WAS THE SUCCESSOR. Eventually on Friday last a phone call from another branch, asking were we willing to let them review our figures for the year ending 31/10/2010 since the previous branch could not cope with their work load.

The bank has reduced are overdraft facility; halved for no reason. Reason - banks new policy.

We changed partners after a deterioration in our previous relationship.

6 Setting a future course

Respondents were asked how well their company's course was set for the next three years:



The reason for including this question was to depict how much attention companies are paying to business planning and the setting of objectives. In the chart above the scale ranges from '1' represent companies with clear and defined business plans, with the company's course being extremely well set, to '7' where there is no business plan and no set course for the company to run.

It is welcome that only 6.6% of respondents placed themselves in 5-7 on the scale and only 43.5% in categories 1 and 2. However the relatively high number of respondents (49.1%) placing themselves in categories 3 and 4 on the scale creates an overall average at 2.8 on the 1-7 scale. It is evident that a number of respondents have concerns over the economic and industry climate, which affect how well set they see their business course.

Comments:

At our size of business we believe we cannot afford to be completely set as there is always the need to respond to and grasp opportunities if and when they arise.

Business plan amounts to continuing to do what we are good at in a niche market, investing currently in new digital press to service the demand for ever more personalisation whilst bearing mind, that just like the diminishing numbers in our printing trade, we have lost 2 clients over the winter period. Other trades are experiencing decline in numbers similar to our printing industry.

Difficult to have a very clear plan currently. Survival is the order of the day, similar to may others.

Difficult to predict whether we will be able to carry out all we want to do given current economic situation and threat of double dip recession. Tension between present needs of staying afloat in shrinking market and investing in new kit to stay on top of market.

I do not tend to produce business plans although I do have a fairly clear vision of where I want to go and I tend to discuss this regularly with key staff and get their opinions, I realise it is most probably best to produce a business plan and get it down on paper but do not seem to be able to create the time.

Like all companies there must be an adaptive approach to business planning reacting to external influences in particular.

Local Government produce business plans in a clear and precise manner based upon information from central government but central government can move the goal posts so you have to make allowances in your business plan for any changes made by central government!

Our aims are clear and supported by projections, finance for capital equipment no problem. Commercial mortgage difficult and need to find 35% deposit which may prevent our growth.

The company is in the process of re-evaluating its business plan.

The phrase 'well set' is difficult, the industry appears to be undergoing major change in demand profile, and it is unclear where the situation will stabilise, hence our plans are hardly 'well set', but flexible and able to recognise change and adapt to it.

We are still in the hands of customers forcing lower pricing. Three-year commitments are hard to come by.

We have fairly clear ideas of where we wish to be but the ever-changing business environment means we have left some flexibility available to respond to opportunities that may arise.

We will be reviewing the 2011 business plan quarterly, as we need to be agile in the current market.

Banks definitely have not helped.

I have tried to respond as accurately as I can as things are at this point in time as business is still erratic. Questions as in Section 3 are difficult to quantify and prioritise since there are items not ticked that we regard as essential and do as a matter of course. We endeavour to keep an open mind and try and look at all opportunities whenever they arise.

In the sector in which we operate price-cutting, in order to provide turnover, has become increasingly fierce. It is now impossible to produce an acceptable margin, which in turn makes it difficult to present an investment case to any financial institution.

It is almost impossible to predict sales for 2011 in our customer base, which is predominantly concerned with the British holiday trade. Apart from the ever present vagaries of our weather, [who knows what kind of a summer we will have], this year will find so many out of work with no spare cash for holidays/leisure, Easter is the start of the holiday season but is at its latest possible date and is further complicated with the addition of an extra bank holiday for the royal wedding. Basically it looks like sitting tight and not entering any financial commitments other than those that are absolutely essential. An indication of hard times are; in the first 2 working days of 2011, two trade suppliers who we use principally to help out with overloads at our very busiest times, phone to ask if we had any jobs that we could send over to them. We have dealt with them throughout my time here, but have never had telephone requests of this nature in my 44 years in harness.

We have been trying to grow our business for the last 3 years but have found the issue of finance prohibitive.

Conclusions and recommendations

Be inclusive and engage your talent

Engage a wider range of staff and teamwork in the identification of opportunities and decision-making process. There is a great amount of enterprise and energy across most teams and harnessing untapped entrepreneurial spirit within your organisation can open up new opportunities and ideas. Around 31% of respondents believed suggested 'hearing all relevant views' would improve the capital investment process. Make sure you can verbalise your vision for the future to your workforce but also make it clear that you are open to other ideas. Focus on opportunities rather than problems. Use data from the BPIF and other expert organisations to inform and educate.

Use financially defined investment analysis techniques

Appraise ROI and investment criteria ruthlessly and anticipate a range of different future scenarios as part of your business planning process. Gather marketing intelligence. Seek modelling and investment financial input from outside your organisation if you don't feel you have the full skills available.

Make sure you are getting the best out of what you have got

Technology advances can provide leaps in productivity of 30% or more but it's important to ensuring Overall Equipment Effectiveness (OEE) on existing equipment prior to deciding whether you need to commit to any new investment. And you also need to ensure that you have personnel with the skills to achieve the optimum performances required on existing machinery. Vision in Print's team of process improvement engineers can help with the former, while BPIF Training can enhance the skills of your operatives.

Cash generation is the most important issue

In today's environment of rapid change and variability, cash creation and cash management is critical to capital investment decisions. A careful assessment should be made as to the amount of cash in compared to the amount of cash that will be returned. And you should review the both the period and pattern of the expected payback. Internal rate of return (IRR) and discounted cash flow techniques take into account the time value of money and both should form part of the decision making process.

Consider alternatives to investment

There are many other options and these should be compared and contrasted in relation to investment in achieving your overall strategy. Review outsourcing, joint ventures and collaborative agreements, mergers or acquisitions, or indeed a trade sale.

Seek help from vendors

Ask vendors for information on market trends and prospects. Can they provide a more flexible financing package? Do they run user groups where operating experience can be shared? What training packages are available to operatives? What technical support is available to help you optimise the OEE of the new kit?

Improving the capital investment process

The survey results show that internal experience and expertise is still the most trusted source of information used in making capital investment decisions. This needs to be tested by using a robust verification process and external challenges to the thinking to ensure a really robust plan is being embarked upon which takes onboard all potential scenarios. Lack of dissent and disagreement among colleagues during the planning process usually means insufficient analysis. Everything has a downside when viewed from certain angles and a broad perspective is needed.

Undertake post-match analysis

Better post investment analysis is the second biggest want from respondents when reviewing improvements to the investment decision-making process. Put post investment evaluation into your management feedback process and ensure ownership across your team for achieving the best outcomes and OEE. Make sure your expectations are being met across a wide range of criteria, including customer satisfaction and customer value, as well as the financial investment criteria. Monitor the capital investment process you embarked upon and use it as a learning process for the whole business for the future.

Post investment questions might cover:

- What are we achieving to what we expected/planned?
- Has it achieved our goals, can we further improve?
- What would we do differently next time?
- What corrective action if any is required?
- Has real competitive advantage been gained?

Improving capital investment decision-making

Engaging the wider management team in decisions on capital investment, rather than relying exclusively on your own judgement and experience, can help you discover a broader range of options than those that might have originally been envisaged. It will also provide clarity across all team members, better understanding of the expected return on investment, and greater buy-in to ensure success - with a corresponding reduction in risk.

The survey results reveal that the most trusted source of information used in making capital investment decisions is internal experience and expertise. But what may be missing is the strength of the verification process and external challenges needed to ensure a really robust plan is being embarked upon: one that takes on board a range of different possible future scenarios. Moreover one's own judgement is always to an extent clouded by bias and it is important to have a self-correction mechanism in place. Reducing the likelihood of possible *cul de sac* decisions and blind spots is a worthy outcome in itself. Making the right decision at the right time is now business-critical. Getting it wrong can compromise the whole business. Changing demands to the supply chain, strategic and structural pressures and accelerating industry consolidation pressures bring both threats and uncertainties. And how your team responds to these can either provide you with energy and vision or can drain you of inspiration and confidence.

Reaching a team consensus can prove difficult though. Being in a position to do so invariably demands access to high quality information on alternative options that can be compared and contrasted. This may be best achieved by empowering an investment team within your organisation, so that bite-size and relevant pieces of information can be built up.

Many business writers argue that effective decision-making involves 'full-on' challenges to assumptions and input from what is termed 'enthusiastic listening'. Silence is not golden when it comes to getting investment decision-making right. Indeed lack of dissent and disagreement usually means lack of analysis. Everything has a downside when viewed from certain angles and a broad perspective is needed. Alfred Sloan (CEO of General Motors from 1923 to 1956) once said in a Directors' meeting, **'***Gentlemen, I take it that we are all in complete agreement on the decision here. Then, I propose that we postpone further discussion to give ourselves time to develop disagreement and perhaps gain some understanding of what the decision is all about.*'

Disagreements can often prevent you from rushing into bad decisions and choices. They prompt healthy debate and give you time for further reflection. You may have done extensive homework on one option, but still may have overlooked a simple yet important point that the dissenting person can see when looked from a different angle. Use disagreements to your advantage: you need people who can point out problems and roadblocks openly, not people who will gleefully say everything can be done and pat your back in sound agreement on each and every occasion. A checklist identified by two Harvard colleagues, John Hammond and Howard Raiffa (co-writers of a *Smart Choices: A Practical Guide to Making Better Decisions* (Harvard Business Press, 1998) highlighted the following questions that should be asked before you make a decision:

- Identify your real decision problem.
- Specify your objectives.
- Create a full range of alternatives.
- Understand the consequences of the alternatives.
- Make explicit the inherent value tradeoffs.
- Clarify the relevant uncertainties.
- Account for your risk tolerance.
- Consider implications for interrelated decisions.

Other methods that can be adopted include asking open-ended questions in meetings; avoid leading questions that have set agenda. Provide for open, creative and expansive feedback.

Decision-making must take account of future uncertainties in the marketplace. It is unlikely that pressure on supply chains will improve. On the other hand it *is* likely that fluctuating volumes and revenue cycles will continue. Flexible and lower-cost efficient manufacturing models stand a better chance of thriving, and customers still need suppliers who offer them competitive advantage and can deliver added value services. But those who do not adapt will not survive: too many print businesses have been lost that could have survived had they adapted in sufficient time. Alongside this there is an ongoing need to evolve within in a cross media/customer centric environment that puts pressure to install adaptation and change management within our businesses and business models.

Structural change in the media marketplace raises some fundamental questions that all print businesses need to address:

What do we want to be? Stay as a printer? Become a production agency? Develop into a marketing solutions provider? How do we offer integrated solutions if we want to compete in cross media?

What disruptive technologies will come along to knock us? An excellent book to help answer these questions is *Disrupting the Future* by Frank Romano and Joseph Webb. (Romano spoke at the BPIF's *Fast Forward to the Future* cross- media conference in 2010). Our sector has always been fiercely competitive but anticipating the next wave needs to be part of your planning process. It is more difficult than ever to map your competition, as print is now an extended part of the communications and media supply chain and an integral part of cross media channel options. Niche strategies can now often end up as a graveyard.

What do our clients really need (as opposed to What do we think they need)? The survey asked businesses 'what percentage of your clients would discuss their business plan with you? And have you ever discussed your company's business plan with any of your clients? 61% of respondents reported having less than 20% of their clients discussing their business plans with them. Clearly it's not possible to have in depth conversations with all your clients, but those that are strategically important right now (as well as those identified as growing sources of custom) need to be engaged with on a more fulsome and methodical basis.

Planning in an environment of uncertainty is a not an entirely new business skill for our sector, but it needs to be honed by all as a matter of survival. Taking high-impact decisions such as capital investment today requires greater analysis of risk, greater financial modelling, and extensive market analysis.

Financial services from the BPIF

The BPIF provides a wide range of services to assist member companies to take greater financial control of their businesses.

The BPIF Financial Alliance enables members to protect the financial health and wealth of their business by offering advice in the following areas:

- Finance
- Mergers & Acquisitions
- Credit Insurance
- Credit Control
- Risk & Tax Issues

For information regarding BPIF Financial Alliance visit the website at www.bpif-financialalliance.com

The BPIF can also help you improve the operating efficiency of your plant and process and secure cost savings through performance improvement and lean manufacturing. From an initial diagnostic, to a host of cost-effective, industry-relevant programmes, engineers from the BPIF's Vision in Print team can coach your business to improved productivity and profit. With simple-to-use tools, ViP's 'hands-on' approach has inspired printing companies of all types and sizes to progress quickly to sustainable process and bottom-line improvements. For more information call 020 7915 8379 or visit www.visioninprint.co.uk

The BPIF also offers discounted commercial products covering business insurance, private medical cover, pensions, and telecoms, enabling you to take advantage of BPIF buying power to get more for less. Contact your regional business centre for more details.

Appendix - Methodology and respondents' profile

The capital investment survey was conducted online by BPIF Research between 8 February and 3 March. The analysis is based on the responses from 121 participants from companies with annual turnovers ranging from £120,000 to £145 million. The combined turnover of all participants was £916 million; representing around 6.5% of the UK printing industry.

Number of responding companies
121

Turnover categories	
Less than £1 million	12%
£1 million to £2 million	24%
£2 million to £3 million	13%
£3 million to £5 million	16%
£5 million to £10 million	18%
£10 million to £20 million	9%
£20 million to £50 million	4%
£50 million +	3%

BPIF Region	
North Eastern	21%
North Western	22%
Midland	18%
Eastern	20%
South Western	13%
South Eastern	27%

Sector	
General commercial print	70%
Packaging	12%
Business forms and stationery	4%
Finishing	3%
Other*	11%
** includes: books, copy shops, direct mail, periodicals, point of sale, prepress, screen printing and other niche sectors.*	

About us

The BPIF is the principal business support organisation for the UK print, printed packaging and graphic communication industry and is one of this country's leading trade associations. We are a not-for-profit-distribution organisation.

BPIF Membership

BPIF membership now offers better value than ever before. With over 100 member benefits that will help your business save time, save money and stay safe.

Membership benefits include the following areas:

- Human resource and legal benefits
- Health, safety and quality benefits
- Environmental and energy buying benefits
- Business improvement and training benefits
- Specialist print training benefits
- Specialist technical support and special interest group benefits
- Commercial information services and product benefits
- Public representation benefits
- Mergers and acquisitions

Membership of the BPIF gives your company access to the premier business support organisation for employers in the printing industry. Our three-tiered subscription offer allows companies to take advantage of the services most relevant to them and the opportunity to access further services as required.

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Published by the British Printing Industries Federation.