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Print Shops/Commercial Printers

SIC: 2752**NAICS:** 323114**Number of Businesses / Units:** 47,500

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- ▶ [Allegra Printing](#)
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This U.S. industry comprises establishments primarily engaged in traditional printing activities, such as short-run offset printing or prepress services, in combination with providing document photocopying service. Prepress services include receiving documents in electronic format and directly duplicating from the electronic file and formatting, colorizing, and otherwise modifying the original document to improve presentation. These establishments, known as quick printers, generally provide short-run printing and copying with fast turnaround times.

Rules of Thumb

- 40 to 45 percent of annual sales plus inventory
- 2.5 to 3 times SDE includes inventory
- 2.5 to 3 times recast EBITDA if sales under \$2 million
- 2.5 to 3.5 times recast EBITDA if sales \$2 to \$5 million
- 3.5 times recast EBITDA if sales \$5 to \$25 million
- 1 to 1.5 SDE plus fair market value of assets (for smaller companies)
- 5 times EBITDA for Commercial Flexographic Printing

General Information

"You are better to be in digital printing rather than general sheet feed. Web printing is getting harder as companies are using database marketing and printing fewer long runs."

"Need to really look at sales team"

"If you are not familiar with the industry and have no exposure to it, you probably shouldn't be buying one."

"Following are nine areas that should be looked at in pricing or valuing a printing business.

- ▶ financial performance

Pricing Tips

"Having current technology in computer to plate is a big plus."

"The bigger the printer, the higher the multiple."

"What investment has been made in digital equipment for short-run jobs? Has the company moved forward technologically to at least match the competition?"

"Generally printing companies are sold as a multiple of EBITDA (less capx) ranging from 2 times to 6 times. The multiple will depend on size, profitability, segment of the industry, growth factors, number and percentage of clients to total sales. For companies with few earnings you can use fair market value of assets plus 1 times seller's discretionary income."

"There are two common ways to value printing companies: a multiple of EBITDA and fair market of assets plus 1 times EBITDA. In a perfect world they will come pretty close."

"Age of equipment is big issue and customer base"

"Should use adjusted EBITDA, with normalized owner compensation included, non-recurring add-backs and a 5-year weighted average for cap x deducted from the total."

"The higher the gross sales and/or SDE, the higher the multiple. If sales are over \$3 million or SDE over \$500,000, look for a 3 multiple of SDE."

"Multiples depend on size, profitability, trend, customer base and percentage. Flexo companies can range from 3 to 6.5 EBITDA with higher multiple applied to larger companies with great potential, which are very profitable."

- ▶ internal control systems
- ▶ marketing/sales plan
- ▶ vendor relations
- ▶ business planning
- ▶ human resources
- ▶ environmental/safety concerns
- ▶ quality control
- ▶ community/industry relations"

Source: www.NAPL.org

"Find a niche to operate from for higher profit margins."

"You can't compete on price; you must be a solutions provider."

"Look at cleanliness of shop and equipment. A messy shop with dirty presses indicates a lack of maintenance."

"Study the customer base and equipment."

Expert Ratings

▶ Competition	2.8	(1=Lot of : 4= Not Much)
▶ Amount of Risk	2.6	(1=Very : 4= Not Much)
▶ Historical Profit Trend	2	(1=Down : 4= Up)
▶ Location & Facilities	2	(1=Poor : 4= Excellent)
▶ Marketability	2	(1=Low : 4= High)
▶ Industry Trend	2	(1=Declining : 4= Growing)
▶ Ease of Replication	2.4	(1=Easy : 4= Difficult)

Expert Comments

"Competition is there but those focused on being solutions providers are doing well. Marketability is high and these businesses are difficult to replicate as capitalization is high and leasehold improvements can be expensive."

"Printing is a mature industry that is growing at barely the growth in population."

"Price competition from on-line providers. Short-run color work is being done on in-house printers and copiers. 'Pleasing quality' has become acceptable for the small-business owner."

"4-color is where most of the growth is. Market has become very price competitive. On-line services offer cheap printing for customers proficient in PageMaker or Quark."

"There is a lot of over-capacity in this industry that is only growing by 2 to 3 percent. For some segments the barrier to entry is low. A person can buy a small press and equipment for a few thousand dollars and he is in business on the lower end of the industry."

Seller Financing

- ▶ " 5 years"

Questions

"Look for any niche they serve; client concentration is a risk; client contracts are rare and would be a premium multiple."

"How has the business been trending over the past five years?"

"Who does the selling?"

"How tied to the customers is the owner, why do customers use this printer over others, does any customer account for more than 10% of revenue."

"Equipment value plays a big part in total valuation."

Benchmarks

Product/Services	Share
Commercial lithographic printing	55.6%
Commercial screen printing	8.2%
Commercial flexographic printing	6.8%
Manifold business form printing	6.3%
Book printing	5.7%
Digital printing	4.3%
Commercial gravure printing	4.3%
Quick printing	4.2%
Other commercial printing	2.8%
Blankbook, loose-leaf binder & device mfg	1.8%

Source: IBISWorld, August, 2007

Market Segment	Share
Other advertising (e.g., direct mail, advertising signs)	31.0%
Labels and wrappings for manufacturers	17.5%
Magazine and periodical publishers	14.5%
Retailers and telecommunications (catalogs and directories)	11.0%
Book publishers	9.0%

Source: IBISWorld, August, 2007

"Sales per employee is \$100K to \$150K to \$3 million gross."

"Revenue per employee should be at least \$175,000."

"Sales per employee approx. \$150,000"

"Payroll less than 30% of sales"

"Sales for employee averages about \$200,000. It is on the higher side for Web printers and a little lower for sheet-fed printers."

"Sales per employee should be in the \$150,000 range."

"No customer big than 10%, and direct-to-plate image making"

"Profit (estimated) 0 to 17 percent depending on segment. Digital printing will be on high side, commercial printing will be much less."

2007 PIA/GATF Ratios Show Printing Industry Profits Increasing

"The average printer's before-tax profit on sales was 3.4% for the typical Ratios participant over this past year. This was an increase compared to 2.7% for 2006; it also is within the 3.0-3.4% range experienced from 1995 - 2001."

Profit leaders, printers in the top 25% of profitability, saw profits decrease slightly to 10.1% as compared to 10.3% in 2006. Despite the small decrease, profit as a percentage of sales for profit leaders remained at the same level it was at in the mid to late 1990s.

"In 2007 materials accounted for the largest single cost category for the typical U.S. printer, approximately 35.4% of sales. Paper alone consumed more than one-in-five sales dollars last year. Other major costs incurred by printers last year included factory payroll (24.95% of sales), factory expenses (16.77% of sales), administrative expenses (9.57% of sales), and selling expenses (8.77% of sales).

"Total materials expenses increased from 35.12% of sales in 2006 to 35.44% of sales in the 2007 survey. Printers also spent slightly less on factory expenses in 2007) constituting most of the decline. Selling expenses in 2007 decreased from 9.09% in 2006 compared to 8.77% in 2007, while administrative

"Why would a customer do business with you, other than quality, price and turnaround time?"

expenses crept up slightly from 9.46% of sales in 2006 to 9.57% of sales in 2007."
Source: "2007 PIA/GATF Ratios Show Printing Industry Profits Increasing," www.gain.net

Expenses as a Percentage of Sales

▶ Cost Of Goods	35% to 40%
▶ Payroll/Labor Costs	30% to 40%
▶ Occupancy Costs	5% to 10%
▶ Profit (pretax)	5% to 10%

Industry Trend

"Continued absorption of the digital workflow processes for integrating the larger hardware. Refinement of short-run, full-color digital output machines will continue to encroach on the traditional litho output and their price points."

"Digital printing will grow; traditional printing will decrease."

"Consolidation as the owners are getting older."

"Continued price competition. Staying efficient is key factor. Many jobs are going to China if it is not time-critical."

"The industry is changing from long runs to shorter runs and an increase in digital printing. The industry as a whole will continue to grow at low single digits."

"The well-run shops with state-of-the-art equipment will do well."

"Facing pressure from Asia"

Advantages

- ▶ "These businesses are custom manufacturing firms with the satisfaction of having a beginning and end to each product produced. With the exception of the larger firms, most of these businesses are producing work that can not "go off to Asia."
- ▶ "Businesses will always need printing."
- ▶ "Printing is NOT going away but it is a mature industry that is changing."
- ▶ "Great family business; can be fun and creative for the owners; we will always need printing, but you need to find the right company in the right segment."
- ▶ "A well run company can have EBITDA margins of 15%-20%."
- ▶ "Tangible product that people understand"
- ▶ "Huge number of prospects—every business needs printing. There is a fallout for the technology laggards."
- ▶ "Equipment value provides a bottom."
- ▶ "Flexo printing—growing, and much less capital expenditures than commercial printing."

Disadvantages

- ▶ "An intense business with deadlines and unforgiving clients. Deadlines are compressing too with the new technologies."
- ▶ "Buying the wrong equipment can kill you."
- ▶ "High capital expense requirements"
- ▶ "Over-capacity, owners selling on price, an increasing number of printers are going out of business or being acquired."
- ▶ "Competition, competitors competing on price"
- ▶ "Highly competitive. Customers look at printing as a commodity, not as customized manufacturing."

- ▶ "Equipment costs are hard to control."
- ▶ "Growth is difficult."
- ▶ "Competition, being in the wrong segment"
- ▶ "Heavy capital expenditures and industry fluctuations"
- ▶ "High cost of making technology purchase mistakes; it can be fatal."

Additional Resources

Related Websites

- ▶ [PrintImage-Site offers studies and operating ratios for a fee. Much of it used to be free; now available only to members or non-members for a very high fee.](#)
- ▶ [An IRS Audit Technique Guide \(Market Segment Specialization Program—MSSAP\) on Commercial Printing is a good resource. They are an excellent source of information and are available at \(search under IRS—IRS Audit Technique Guides\).](#)
- ▶ [Parker-Nelson publishes a valuation software program especially for the printing industry called Valuware](#)
- ▶ "Valuing Printing Businesses," Handbook of Business Valuation, West & Jones, 2nd Edition, published by John Wiley & Sons
- ▶ [Graphic Arts Information Network](#)

Trade Publications

- ▶ [American Printer](#)
- ▶ [Printing Impressions, an online publication](#)

Associations

- ▶ [National Association for Printing Leadership](#)

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