PROACTIVELY planning for the future and seeking opportunities for growth has rarely been so important. The print and packaging industry is evolving at a rapid pace and it is only the most forward-thinking firms that will be positioned to adapt to the changing environment.

2014 ended on a positive note for print and packaging firms, as both output and orders continued to grow in Q4*, marking a strong improvement in performance.

Confidence amongst SMEs is growing, which is demonstrated by the fact that print firms are beginning to make serious capital investment plans.

However, even the most optimistic business will face challenges as they strive to invest in the skills and equipment they need to remain relevant.

The Print division at Close Brothers Asset Finance brings together some of the most experienced and knowledgeable people in the industry, offering a range of asset finance solutions that allow a business to make the most of the assets on their balance sheet.

We’ve been working alongside print firms for 30 years and have an enviable record for customer loyalty, with exceptional levels of repeat business.

Our aim is for our customers to feel that we are a trusted business partner from whom they can seek support and advice as well as appropriate asset finance throughout the lifecycle of their business.

This white paper will address the obstacles facing the industry, putting them in context and crucially, presenting some solutions.

It was Benjamin Franklin who said that an investment in knowledge pays the best interest and his words are as apt today as they were back in the 1700s.

My advice is to spend a little time to research and understand your financial options; there is a product out there to suit every business and remember, the best solution is often an alternative to mainstream banking.

If you want to find out more, please get in touch. We’re here to help.

Basil Bannayi
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Economic importance

As the fifth largest global producer of printed products**, the UK print and packaging industry’s importance mustn’t be underestimated.

Worth more than £40 billion a year, the industry is an economic contributor and employer in every UK region. Even in a digital age it represents a vital medium for communication in every sphere, from government to education, financial services to retail, and from travel and tourism to manufacturing.

The print industry is in the midst of a transformational period as it adapts to remain not only a relevant part of the economy, but an essential part that can deliver information in increasingly novel and personalised ways as demanded by its clients through the use of the latest technologies.

The challenges

**Accelerated innovation**

One of the most important issues impacting on the print industry is the pace at which new technology is being developed, particularly when it comes to digital presses.

These developments are undoubtedly improving efficiency and productivity, and for those who are managing to stay up to date with the latest technology, it’s enabling them to forge ahead of their competitors.

The digital revolution has inevitably had a massive impact on litho market businesses, who, to remain viable, have to purchase increasingly expensive technology to create efficiency that can compete with the digital market.

This means that only the most robust companies have the ability to save money. This could have a polarising effect on the market, with smaller businesses that have underinvested becoming increasingly uncompetitive.

This has been happening in the industry as a whole with consolidation and economies of scale leading to a significant reduction in printing enterprises over the last decade.

**Lack of reinvestment**

Since the downturn began in 2008 we’ve seen a severe drop in reinvestment across the board. The reality now is that many businesses are operating with kit that is not up to the task, and in addition to that, it’s often costing a fortune in remedial maintenance.

The older equipment is also reducing in value, and with the increasing costs of the latest technologies, there is a significant value gap that needs to be closed when a business decides to purchase a new machine.

**Cash flow squeeze**

The overall improvement in the economy has led to an increase in orders, which in turn means that printers require increased quantities of paper and board; both of which require funding.

As credit terms among the merchants remain tight, this can cause a squeeze on cash flow that could potentially lead to overtrading. The result is a lack of liquidity that creates a challenge when a business comes to raise a deposit for new machinery purchases.

We must also consider the impact that the 20% VAT rate has on increasingly expensive equipment. For many it is a huge drain on cash flow and this is unlikely to change as the government remains under pressure to reduce the economic deficit.

Other issues such as the cost of consumables and energy in addition to competitors pricing below cost are also creating cash flow concerns.
We know that one print firm isn’t the same as the next and we don’t cherry pick the ones we’ll work with. We have customers right across the spectrum of the print sector and we are noted for supporting smaller businesses as well as household names.

Our USP is our ability to be creative and flexible in our attitude to lending, together with our unrivalled knowledge of the print industry and speed of service.

**Hire Purchase**

Hire purchase gives companies eventual ownership of an asset at the end of the repayment term allowing them to spread the cost of their equipment, plant or machinery through manageable installments, ensuring healthy cash flow is maintained.

**Key benefits:**
- Fixed monthly payments
- Ability to claim capital allowances on the asset
- Minimum capital outlay
- No VAT on monthly payments
- Eventual ownership
- Interest charges can be offset against profits

**Finance Leasing**

Finance Leasing allows a business to spread the VAT payment over the term of the agreement with rentals attracting VAT as they fall due. After the primary lease period firms either arrange for the sale of the asset receiving a refund against rentals paid for an agreed percentage of the sales proceeds, or enter into a new term paying secondary period annual rentals.

**Key benefits:**
- Flexible rental patterns and lease periods
- Ability to offset 100% of rentals against profits hence reducing tax
- Minimum initial outlay as only the VAT applicable to the initial payment is payable at the outset.
- VAT registered companies can claim VAT on rentals

**Sale and HP Back**

Sale and HP Back, or asset refinance, releases the value in existing unencumbered assets. In essence the lender buys the asset from the business at a percentage of its value and re-finances it back over an agreed period. So the company still uses the asset only now it is able to inject part of its value as cash directly into its business.
Key benefits:
- Injects capital into the business
- Can reduce monthly payments
- Capital raised can be used to purchase new assets
- Funds business growth
- Increase working capital available to the business

The Regional Growth Fund

In 2013 we were awarded a significant allocation from the government’s Regional Growth Fund (RGF) and to date, we have made awards to over 87 print firms in the UK. The stipulation of accessing the RGF is that the business must commit to safeguarding or creating employment, and this figure stands at 381 safeguarded or created jobs.

The size of the grant available is based on the level of proposed investment, the size and location of the business, and finally the number of sustainable full time posts being created or retained. For every one job created or retained, a grant of up to £10,000 is awarded - up to a maximum of 20% of the proposed investment.

Businesses that are interested in discussing RGF funding to generate a deposit for asset purchase should speak to us to find out more. We will explain the criteria for qualification and manage the process from beginning to end.

Summary

Whilst many print and packaging firms are actively planning to invest in the future, certain challenges remain.

Issues such as keeping up with the latest technology, high energy costs, cash flow problems and availability of suitable funding are all creating some uncertainties but the thing to remember is that none of these things are insurmountable and many problems can be counteracted with a sound financial strategy.

Our message is that printers must think differently about how they raise money to close the asset gap created by a prolonged period of underinvestment.

“A bank overdraft is certainly not the only way to fund a business and for many, it’s not the best route.”

Alternative lenders can offer a more sustainable and flexible approach to borrowing money. Asset finance is one such option, and one that deserves serious consideration as the print industry continues to move towards the future at speed.

References:
* BPIF Printing Outlook, February 2015
** BPIF Facts & Figures Flyer
***The Close Brothers Business Barometer, March 2015

To find out more about how Close Brothers Asset Finance can help you, please contact us:

020 3393 6423  www.closeasset.co.uk

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