



Before You Make a Capital Investment

When Charles Payne opened his Image360 Signs & Graphics franchise in 2012, the company was located in a 1,600-square-foot office space on Main Street in Kansas City, Kansas. He quickly realized it “wasn’t the ideal space for the type of business I wanted to grow into.”

“There was just no room to add any type of equipment or production space,” he continued. “There was not any manufacturing space that would allow us to do digital printing or cut vinyl. It did not have a vehicle bay so we could put graphic lettering on vehicles, so we had to do it in the parking lot. It was very limited.”

Payne knew expanding his physical space was key to building the business. He also knew he did not want to be in a high traffic retail area, because that resulted in walk-in clientele with small jobs that were “not high dollar transactions.”

“So, we decided to bite the bullet and move into a bigger space,” he said. “It’s

been a good move.”

More and more small and midsize companies are following Payne’s lead and expanding, thanks to new, business-favorable tax laws and a steady economy. A spring 2018 survey conducted by CIT Direct Capital and The Harris Poll showed almost three out of four small businesses planned to invest in technology, equipment upgrades and hiring staff this year.

“There are so many opportunities within the industry it’s hard to focus on only one,” said Greg Bourdon, Vice President of Relationship Development, CIT, which is based in Portsmouth, New Hampshire. “What excites us the most is when a customer has identified a new sales channel within their existing business model, or a way to significantly reduce costs so they can put their money to work on other projects. These are the actions that ultimately feed success and growth.”

For Kyle Jack, purchasing a \$1 million flatbed press was key to increasing the

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By Glenn Cook, Industry Author



Charles Payne knew the key to building Image360's business was to have a larger location in a light industrial space. (Images courtesy of Image360 Signs & Graphics.)

expand around that piece of equipment by adding more people, two more digital cutting tables and more square footage to our building. It's what we needed to do."

Taking the Risk

Deciding when and whether to invest in an expansion — whether it is through purchasing equipment or adding more physical space — comes with risk for any business.

"Expansion can build brand recognition, enable a wider offering of products, extend services to larger geographic markets and of course, create better value for your customers and employees," said George Bednar, Director of Sales, Beneficial Equipment Finance Corp., based in Chester Springs, Pennsylvania. "But hand in hand with this is a careful assessment of the risks."

Payne knew that he wanted to move into a light industrial space, in part because the rental cost per square foot would be lower. Moving away from a retail focus, where "the cheapest way is the only way to get business," also was desirable.

"I made a conscious choice — that was not going to be my business model," he said. "That's not the type of customer I want to go after. Where you find true profitability is with a client who values quality work, doesn't wait until the last minute and doesn't want the cheapest price. It's not a retail transaction; it's a consultative transaction."

In August 2017, Payne moved his business into a business park near Interstate 35. The 4,000-square-foot location has a warehouse that can house up to four vans, a workshop and a 96-inch-wide UV printer.

"It's really helped us bring more production in-house, allowed us to invest in equipment and increased our margins," he said, noting that business has improved by 22% over the past year. "There are not many things related to the move that have kept me up at night, and the benefits certainly have outweighed the downsides."

Jack had moved Rapid Prototypes, which supports retailer suppliers, corrugate display and packaging manufacturers, into a new facility in 2013. When it became obvious that a new press was necessary to further build his business, he flew to Durst's corporate headquarters in Austria to do an on-site review of the equipment to make sure it would meet his needs.

"We had used a Durst press previously, and we knew that we needed to have a machine that was durable and reliable," he

volume at his family-owned company, Rapid Prototypes. Located in Bentonville, Arkansas, Jack had seen his digital printing business grow from three employees to 16 since he had bought out his partners in 2007. Upgrading the company's Durst press was seen as critical to future growth.

"It was the largest single purchase we've done," said Jack. "But we knew it would allow us to increase our capacity for larger jobs, and we've continued to

said. “The new one has not failed us yet, and we utilize it pretty heavily.”

Given technology’s rapid evolution, Jack’s plan is to use the press for five years and then look at expanding further, but for now, he’s pleased with the decision.

“It will eventually become a secondary machine or a backup machine,” he said of the press. “As the market shifts and expands and customers’ needs change, we’ll have to look at expanding further. You can’t grow if you don’t look at ways to build on what you’ve got.”

The Distributor’s View

As the Senior Director of Hardware at Grimco Inc., a wholesale sign supply company, John Schmuecker works with vendors and customers across multiple markets. He said the company’s sales team works “hard to have our customers consider us a trusted advisor.”

“Our goal is to help them grow their business. If they’re not growing, we’re not growing,” he said. “It’s either growth or you’re dying. There’s no choice in between.”

For example, when a customer wants to add a flatbed printer, Schmuecker said his team performs a return-on-investment analysis of the company’s printed graphic volume. Sales staff are trained to ask “core questions” about the expansion, and Grimco is “constantly testing markets to know what questions we should be asking our customers.”

“Say a flatbed printer will have a short payback due to the material and labor savings,” he said. “Should they take a bank loan or lease? Will the new flatbed allow them to enter and compete effectively in new markets where they currently were not competitive? These are the types of questions we ask.”

Helping companies that want to expand into new markets means Grimco has to be one step ahead of its competition, Schmuecker said. “In our business, we say, ‘It’s same day, next day or never.’ The customer can’t wait, in most cases, more than one day to get the supplies they need to get the job out the door.”

Schmuecker said the fastest growing area of the print industry is in window, wall, floor and other types of temporary interior and exterior graphics. The company is providing training to customers at trade shows and through Webex events on how they can expand into these markets.

“If it’s temporary, it’s en vogue right now,” he said. “New specialty graphics allow quick and easy application to

sidewalks, brick and concrete. These are perfect for outdoor events, trade shows and sporting events, and you see them everywhere.”

Advice from Lenders

One factor largely fueling the expansion push is the implementation of Section 179 of the federal tax law, which allows you to deduct up to \$1 million in equipment loan or lease payments you make in a single year, as long as it does not take your business into the red. But lenders say you should talk to your accountant/tax advisor and possibly an attorney about your plans before seeking financing.

Ultimately, deciding when and how much to bite off in an expansion must make financial sense, lenders say.

Geneva Capital, based in Alexandria, Minnesota, provides commercial lending for equipment acquisitions and purchases. Sales Director Andrew Cavers said his company has purposely worked to stay within a certain niche of industries so “we can understand the equipment and what it can do for our clients’ business.”

“When we meet with a client, we ask a series of questions: What are you looking at purchasing? What will the equipment do for you? Will it help you decrease labor costs? Print more efficiently? Add more clients? What are your tax needs?” Cavers said. “We try to dig in and understand what the client does in terms of the ins and outs of their business, and then we cater our products to fit within the needs of their budgets and where they need to be.”

CIT’s Bourdon said his company has a similar approach, noting that every transaction “is treated with integrity and respect regardless of its size.”

“Often our business associates are pleasantly surprised to learn that we are so much more than just a bank,” Bourdon said. “We work with our clients to understand their short-term and long-term goals. We align our products and lending services with their growth projections [to provide] the capital they need to meet their objectives.”

Craig Colling, Senior Vice President of Sales, Ascentium Capital, said a lender who understands the customer’s finances has to be willing to “turn away business” in the interest of a long-term relationship.

“Sometimes I will advise a customer to pay cash for something because they’re better suited for that than to leverage a line of credit,” said Colling, whose division is based in Scottsdale, Arizona. “I see that as developing a relationship and earning the

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trust of both the equipment supplier and the customers. In my experience, having that trust leads to repeat customers and repeat business. It comes back tenfold, if not 100-fold, over time."

Research Your Options

Once you've made the decision to expand, take your time and research your options. In some cases, that courting phase between lender and borrower can end up

saving you money and headaches.

"Oftentimes, a business may take months to pick out a piece of equipment for their business, but once they decide, will utilize the partner associated with the equipment manufacturer and sign immediately, often without knowing the lender or the terms of the agreement," Bednar said.

Here are some questions you can ask:

- Do you need a Small Business

Association loan?

- Do you have a trusted relationship with a local bank, or should you look at one of the variety of lenders who specializes in equipment financing?
- Should you use the financing options available from the equipment owner/distributor?
- Are you planning to lease or purchase the equipment outright?

As an equipment distributor, Grimco partners with large financial companies that serve as direct lenders to its customers. "We look for the lowest price financing we can get with the most amount of options, and we go and ask our customers, 'How do you want to do this?'" Schmuecker said. "We are very transparent, and we let you know exactly how much things will cost up front."

Once you make the final decision on whether to loan or lease a product, lenders say processing is quick. Bednar, for example, said his company's application takes 10 minutes to complete, and approval, if granted, is done in less than two hours. Once the contract is executed, a purchase order is sent out right away.

Ascentium can approve transactions up to \$250,000 "within minutes," Colling said, allowing customers to authorize a finance agreement through DocuSign if necessary. "Because of the technology we have in place, SGIA members can potentially get approved, sign our agreement electronically on their smart phone and pay their equipment provider the same day at the SGIA Expo," he said.

When it came down to the money decisions, Payne opted to owner finance his move and Jack went with a local bank. Both had looked at all the options and decided to take their own path.

"I don't think there's one answer for everyone. We have a good reputation and a strong profit and loss and balance sheet," said Jack. "We have a really good relationship with our local bank, and they were eager to jump on board with us. We looked at the other options, but ultimately went with what was best for us. And it's worked out pretty well."

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