



FESTIVE 2008

TALK

## CEO Corner

### Printers can ride out the storm

**I WRITE this at a time of great turmoil in the world's economies. Despite the euphoria following the election of Senator Barack Obama as the next US president, economic and financial uncertainty prevails.**

Since September, confidence in the banking systems of many major countries has declined, and stock markets have crashed to lows not seen in our lifetime.

Currencies have also been negatively affected, and governments have had to rescue some large financial institutions and allow others to fail. As at October 24, 2008, the Dow Jones was down 40.9% from its October 9, 2007, record high while the S&P 500 is off 44% from its peak of a year ago. The NASDAQ index of technology-based stocks was down 45.7%. These are huge reductions in value.

In the west, it's inevitable that comparisons will be drawn between the current situation and the great depression. As none of us was around in 1929 – not as adults, anyway! – here's a reminder of the situation then.

Real GDP in the US dropped by -29%. Personal consumption expenditure dropped by -41%. Industrial production fell by -54%. Price levels dropped by -47%. The stock market fell by -89%, and the unemployment rate in the US was 26% (normal for South Africa, but a crisis in the US).

We have to hope that history doesn't repeat itself. As Dr Ron Davis, chief economist of Printing Industries of America, wrote recently: 'The economy and print markets are deteriorating. The financial gridlock is spreading ... The economy is at a tipping point and in serious risk of falling into a recession in the fourth quarter with a spillover into 2009. Where the economy and print markets go from here is very much dependent on the success (or failure) of the financial rescue legislation passed on October 3, and other actions from the treasury, Federal Reserve and Federal Deposit Insurance Corporation.'

Unfortunately, the global printing and packaging industry will not escape the consequences of this crisis, even if it does not reach the level of the great depression, and it will affect different countries and regions in different ways.

The general economy affects the printing and packaging industry in a number of ways: economic conditions have a significant impact on investment. This affects printers' investments in equipment as well as their customers' investments in expanding their businesses.

The economy affects not only expenditure on assets, but also advertising and all printed material. Levels of disposable



**Chris Sykes**  
Chief Executive  
Officer of PIFSA



income have a direct impact on commercial printing, such as magazines, and rising costs obviously erode profit margins.

On the issue of rising costs, we are seeing:

- **Rising raw material costs** – for example the recently announced NCR increase of 34%. European and North American paper mills are reducing capacity to increase prices. In addition, because the price of paper is based on pulp price, pulp as a commodity is priced in US dollars and any exchange rate movement has an effect on prices.

- **Increased customer demands for lower prices and more added value.** As an industry, we've become victims of our own success. As a result of major advances in technology, we're able to give customers vastly improved print and finishing quality without recovering the capital costs of such technology in selling prices. There's a commonly quoted statistic that for every dollar, rand or pound a customer spends on print, he spends another six on additional services. The problem is that some customers succeed in obtaining these services from printers without paying extra for them. Another problem is that many printers are not estimating their selling prices correctly and not costing jobs correctly to check whether they've made a profit.

- **Rapid rises in energy costs** – although the lower oil price may slow these increases down. The oil price has dropped as demand has slowed, but coal production is continuing at the same pace. In many parts of the world, including the UK, the US, South Africa and China, electrical generation plants are over 40 years old and rapid economic and population growth has placed a huge burden on this aging infrastructure. This has led to power shortages and, while this country is working to increase generating capacity, there are long lead times.

In addition to rising costs, as inflation increases there are also higher wage demands, although a counter to this will be the likelihood of increased unemployment levels.

So how is this likely to affect our industry?

Declining retail sales and high food inflation are likely to affect packaging and label printing, but will also slow down imports. Depending on the severity and length of the reduction in retail sales, this may affect the 'mix' of packaging as customers try to reduce printing costs. In the US and Europe consumers have moved from high-end retail and food shops to cheaper supermarkets.

Declining household disposable-income levels will negatively affect sales volumes of magazines, books and even newspapers as 'discretionary spending' is directed elsewhere.

In addition, as consumers have to spend more on interest repayments on mortgages, and motor vehicle payments, they are compelled to spend less in other areas – even food.

Advertising expenditure is likely to decline as our customers, or even their customers' markets stagnate or shrink, and this will have a direct impact on print and packaging volumes. As we know, advertising is the biggest single driver of print volumes in many instances.

My advice to our industry is to 'ride out the storm' by:

1. Containing costs
2. Not spending money unnecessarily
3. Maintaining a positive cash flow
4. Not extending unrealistic credit, controlling debtors, and
5. Staying as 'close' to customers as possible.

If we assist customers through difficult times, we will all benefit when the global economy stabilises and starts to improve.

We will survive this! Remember, print is the original and most cost-effective information technology. To read a book, a newspaper or a magazine, you don't need a broadband connection! We are one of the oldest industries in the world, and have been through many economic and technological changes – and not merely survived, but prospered.

I would like to wish all PIFSA members a prosperous new year and a positive cash flow.

## The training revolution – where are the revolutionaries?



**CROSS Media Training Centre (CMTC) has reached a significant point in its 16-year existence. It's rationalising and simplifying the business of training, writes Nick Delpont, CMTC's MD.**

This 'training revolution' – ie basic apprenticeship mentoring from within companies with training support provided by CMTC – is an attempt to increase the number of apprentices in our industry.

Here's a Chappies moment for you. Did you know that we have fewer than 200 registered apprentices in the system at present? Did you know that our industry has a R43-billion turnover? These two statements should make you sit up, pay attention and ask the question: Where have all the skills gone?

And a few more questions need answering:

Why do skilled personnel leave the country? Why do we choose not to train new entrants into our industry? Why do we insist on poaching competitors' staff, thus creating an increase in the total industry wage bill beyond affordable levels?

To join the revolution to stop the madness, you must be committed to training. You need to commit motivated staff to a mentoring programme at Cross Media Training Centre, and you need to be serious about a better future for your staff and your business.

In times of recession, training should be a critical activity. While you are in the valley you need to prepare for the peaks. Now is the time to prepare.

A parting thought: The man who stops training to save money is like a man who stops the clock to save time.



# KZN Chamber News

## Work hard, play hard

**THIS headline is particularly apt for KwaZulu-Natal rugby. The Sharks worked and played hard to win the Currie Cup after a long drought. Even though the team and supporters knew they had what it takes to clinch the competition it was the effort on the day that bore testimony to the hard work of the players.**

While the professional sportsmen have been proving their mettle so too has the KZN printing and packaging industry.

Those involved in the industry know the pressures of deadlines, so it's no wonder they enjoy a short break when the opportunity presents itself. This was the case when PIFSA KZN hosted its annual golf day!

In mid October, a large field of 134 players took over the Kloof Country Club. This event is often dogged by inclement weather but this year the golfers managed to dodge the rain, well almost, until at the end of the day a typical 'Kloof' mist and drizzle moved in.



**Making it all happen are the organising committee for the KZN Chamber golf day – Barry Lynch, Paul Knock, Peter Tubb, Martin Conway and Geoff Warren.**

**Pete Oliever, Alan Cretten, Warren Smith, Daryl Scott and sponsor/caddy Jero Anderson of Agfa.**



**Paul Knock receives the Bill Kewley 'Spirit' floating trophy from Keith Kewley.**

Weather aside, this hugely successful event ended with the usual prize giving – where every player wins a prize.

Nearest the pin on hole four was Wayne Stevens and on the 11th hole Luke Pienaar again took the honours. The straightest drive went to Dean Slaughter, while the best-dressed four-ball was won by Knoxprint – closely contested by Nuprint.

For the first time this year, a special award – the Bill Kewley 'Spirit' Floating Trophy – was presented in honour of the late Bill Kewley, a great supporter of the industry, and a previous KZN Chamber president. The trophy, donated by Keith and Alan Kewley, intended to memorialise the spirit instilled by Bill into all with whom he came into contact, was presented to Paul Knock of Knoxprint for the true spirit, grit and determination he showed during this event.

## Manufacture and care of printing blankets

**DURING October, the SA Institute of Printing organised a technical seminar. The topic was the manufacture and care of printing blankets; and it was presented by Stuart Priest of Day International and Jim Nicol of Eco Pressroom Products.**

Stuart Priest, visiting South Africa from Manchester, UK, provided an enlightening presentation on the manufacture of Day International printing blankets and problem solving print matters. He dedicated some time to dealing with problems and remedies related to blankets, as well as providing advice on the transfer of the printed image with ink to paper.

Jim Nicol provided a fascinating presentation by discussing how critical chemistry is to the

litho printing process. His talk highlighted problems caused by calcium build-up on blankets and rollers on presses, resulting in ink transfer and retention problems. To avoid such problems he recommends the regular use of a calcium fountain solution to deglaze rollers and blankets.

Jim also highlighted the fact that critical chemical aspects are often neglected in various parts of Africa. His experience shows that

some companies carry out no preventative maintenance, resulting in many print-related problems.

As with all good, interactive seminars a lively question and answer session ended the evening.

The KZN Chamber wishes to thank Eco Pressroom Products and Day International for sharing their knowledge with the local industry.

## PIFSA and the environment

PIFSA will assist members to become more environmentally conscious as retailers look to procure from 'responsible' printers.

**PROTECTING the environment is becoming a major marketing issue for many companies. Retailers have started questioning the environmental impact of their packaging designs and the materials they use. They are looking at reducing over-packaging without losing shelf appeal. Some print buyers have already asked PIFSA to recommend environmentally friendly and eco-compliant printers in order to reduce their carbon footprints.**

A SGIA article entitled: 'For Your Earthly Consideration' informs readers that stricter government regulations in the US, as well as consumer pressure to act more eco-consciously, have increased overall recycling efforts from 34-million tons in 1990, to 82-million tons in 2006. As reported in the previous issue of PrinTalk, our own country has a minimal amount of legislation in place and we're still attempting to get to grips with pollution and waste control.

The EU and US have made significant progress in providing guidelines to the printing industry and we're currently adapting these guidelines to suit South Africa's particular circumstances. PIFSA will provide best practice guidelines to members for all printing processes – covering the entire chain from procurement, prepress and production to finishing and logistics – taking present health and safety and environmental legislation into account.

These guidelines will form the basis of a submission to government that will ensure PIFSA's members' needs are considered in future environmental legislation. PIFSA is already represented on the Department of Environmental Affairs & Tourism (DEAT)'s National Committee for Chemical Management, which in turn forms part of the Vienna Convention and Montreal Protocol on waste management and substances that deplete the ozone layer.

After one PIFSA member encountered difficulties with the Directorate of Air Quality,

Standards and Norms, being informed that the printing sector, or certain processes thereof, may be considered as a scheduled process under the National Environmental Management, PIFSA initiated contact with this organisation and believes that interaction with such Departments will ensure a better understanding of the printing industry's needs and initiatives to improve its environmental profile.

The new Waste Management Bill also includes extended producer responsibility measures which can include sustainable use of resources, production process control, productivity and efficiency, air and effluent quality. It even makes provision for incentives and disincentives for responsible behaviour, as well as record keeping. Less obvious issues such as responsible procurement, energy management, reducing the overall carbon footprint of an operation, workplace health, safety and comfort as well as the ethics and aesthetics of an operation are also to be considered.

In future, recyclers and reprocessors will have to be registered and audited in line with international standards.

The DTI recently held a recycling workshop to develop a plan to help government address constraints and challenges in the industry. A company was also appointed to study recycling, identify challenges and propose solutions for an infrastructure to control this. Government has commented that South Africa's recycling industry could employ up to 350 000 unskilled people and that the sector had already proven its potential in recycling initiatives such as paper, plastics and glass.

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## FINANCIAL FITNESS

# Entertainment and VAT claims

**IF you enjoy it, you cannot claim it! Judging by SARS rulings, this appears to be the case. However, there is hope . . .**

**Q: When can you claim input VAT on business travel?**

A: Claims are applicable when an employee is required to spend at least one night away from his/her normal place of residence, provided travel is for company business. However, if the employee's spouse or partner accompanies him/her on a business trip, then the expenses pertaining to the partner/spouse may not be claimed for. Another important point to remember is that VAT on airline tickets can be claimed (provided you are in possession of a valid tax invoice) but VAT on car rental may not be claimed.

**Q: What about input VAT on meals?**

A: Where a meal forms part of the accommodation bill, the VAT on those meals may be claimed. The Act has been amended

to state that input VAT may be claimed on any meals and drinks than an employee purchases while away on business provided he/she has spent at least one night away from his/her usual place of residence. However, this doesn't open the door to abuse. The date of the slips (even for pies, chips and cool drinks) must fall within the period the employee was away on business travel. Also you may only claim VAT on the employee's meals – not on the meals of customers entertained by the employee while away on business.

An interesting point, according to the VAT Act, is that you are entitled to claim the employee's input tax for personal subsistence paid to the employee for the period he/she was away.

In the next issue we continue with the diverse topic of VAT on entertainment.

[Extracts from the Practical VAT Handbook]

## New labelling regulations for alcoholic beverages

**PIFSA's Lousie Moralee provides information on the new regulations affecting the labelling of alcoholic beverages.**

IN February 2009, new labelling regulations for alcohol beverages come into effect. Here are some of the requirements.

Alcoholic beverage containers must reflect at least one of the following health warnings:

- Alcohol reduces driving ability, don't drink and drive
- Don't drink and walk on the road, you may be killed
- Alcohol increases your risk to personal injuries
- Alcohol is a major cause of violence and crime
- Alcohol abuse is dangerous to your health
- Alcohol is addictive
- Drinking during pregnancy can be harmful to your unborn baby

The health warning must be visible, legible and indelible, and not affected by any other matter, printed or otherwise; it must be on specifically devoted space, which must be at least one eighth of the total size of the container label; and must be printed in black on a white background.

The warning can be displayed in any official South African language but must be written in the same language as that of the container's label.

Nothing on the label, either words or images, may give the impression that the beverage has been manufactured in accordance with recommendations by a registered health professional, health organisation, association or foundation.

In addition, the words 'health', 'healthy', 'heal', 'cure', 'restorative' or any other words or symbols claiming that the alcoholic beverage has health giving, medicinal, therapeutic or prophylactic properties may be used as part of the name or description of the beverage. Neither can the words 'subject to the provisions of the Medicines and Related Substances Act, 1965 (Act No. 101 of 1965)' or similar wording be used that make reference to the said Act.

Contraventions to these regulations carry a fine, imprisonment up to five years, or both.

The regulations were published in Government Gazette 30184, on August 24, 2007, and come into force 18 months after the date of publication. Copies of the Gazette can be ordered from the Government Printer.

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