

# quoins2pixels

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## **New Equipment = More Profit**

We read a press release from a press manufacturer describing how a printer who just made a multi-million dollar investment on a new press would increase their profits by the press making ready and running faster. There's no doubt that that was the printer's plan, but would it work?

Since it is also unlikely that the existing equipment was fully utilized (24/5 at minimum). It's unclear whether the printer evaluated the possibility of building additional volume by adjusting pricing without making the large capital investment.

Since the printer's estimating software was focused internally and ignored the value of the project to the customer, it's likely that it would incorporate the reduction in makeready and running times into its calculations; thus, giving them away to the customers and sharply diminishing any return from the new press.

The bottom line is that unless the existing equipment is fully utilized—approaching 24/5, or the proposed equipment purchase opens the door to an entirely new business which is not physically doable with the existing equipment and then only if the volume of new business will support it, this type of purchase is a bad idea.

## **The Captive Customer**

It seems odd to consider a customer to be "captive" but it happens when a publisher or other creator of material that will be distributed through print concludes that they want to have their own print facility, usually with a view to doing it more cheaply "in house." In reality, the result is usually just the reverse.

As the publisher customer's print needs grow, so does the pressure to buy more expensive equipment and a larger plant to house it. Since it naturally focuses on its own needs, the equipment and facility tend to be underutilized as any outside work is a secondary consideration. This underutilization causes the output to be significantly more expensive. The challenge is magnified by a pricing policy driven by the "cost" of the plant's production which tends to be over market because of its underutilization.

The best solution is the realization that the publishing and printing businesses are separate, and both would prosper by focusing on the goal of maximizing their individual returns. The publisher could lower its costs by opening itself to the power of the competitive print market to lower its costs. Similarly, the printer could concentrate on the power of market-based pricing to expand its equipment and plant utilization.

While this discussion centers around publishers who print for their own needs, the phenomenon is readily seen in any "in-plant" printing operation.



## Give Consideration to PTO

The concept of Personal Time Off (PTO) is not a new one in our industry. In the 2021 Wage & Benefit Survey conducted by the industry's regional trade associations, approximately 1 in 3 companies provide a PTO structure. So, why should a company consider this option?

The PTO model does away with the traditional vacation and sick days and provides an employee a "bank" of days/hours which they can use as they wish. One of the biggest benefits for smaller companies is that the individual tracking vacation and sick days has a much simpler job. That individual no longer needs to track the "borrowing" from vacation days to cover sick days.

As Peter Gudmunsson wrote in an article for U.S. World & News, "The Dickensian image of miserly employers denying personal, sick or vacation days out of greed or spite, is outdated. Modern PTO policies are designed to put power and flexibility back in the hands of team members."

As with any policies regarding individuals there are upsides and downsides. Some employers may feel uncomfortable with the idea of individuals taking time off at their discretion -- especially in an industry like ours with extremely sensitive deadlines. Thus, some structure has to be built into the policy to protect a company's interests yet provide latitude for the employee. Another area of debate is how much time should be provided and can employees bank those hours from year to year. This decision belongs to each company, but at a minimum the PTO should reflect the existing model of vacation and sick day allocations and consideration should be given for employees to bank X number of hours from year to year. In the above-mentioned survey, 2/3 of the companies offering PTO allowed accumulation of PTO hours year to year. The median number of hours was 120 (about three weeks).

## Paper

As the reader is aware, a combination of the post-Covid recovery of the economy and supply chain issues centering around port congestion have created a paper shortage. As paper is our principal raw material, this is a challenge for our industry and particularly so in an election year.

While generally we advise against tying up scarce working capital in inventory, it is probably wise to expand our paper inventory if we can. We, and our customers, also need to be flexible in our choice of paper as any paper that may be available is better than none.

Since the price for the paper which is available is rapidly increasing, our prices need to reflect that reality. A by-product of this is that customer acceptance of higher prices presents an opportunity to increase margins which should be acted upon.

Fortunately, the current paper shortage will sort itself out as its cause is primarily transportation difficulties. There is also the likelihood of future domestic production increases driven by shifts away from plastic packaging.

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