quoins2pixels

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In-Plants = Opportunity

In-plant printing operations came into being as their parent firms saw them as a convenience and also a way to save money by doing it themselves. At their inception, this was probably not true and certainly isn't true today. They take up square footage, which isn't free, and require expensive equipment which is seldom used even for a single shift. This reality is obscured by their economics being buried inside their parent.

These facts present an opportunity for a printer with the necessary capabilities to build significant volume. The first step in realizing this opportunity is to get to know the in-plants in your area. If they seem to be a fit, call on the parent's senior management proposing that you'd like to explore the possibility of meeting their needs at a significant cost saving. Chances are that the possibility will be interesting to them.

Going forward, identify the print volumes in various categories that the in-plant produces. At the same time, put together a summary of the cost eliminations that are possible: released rent of space, salaries and benefits of personnel, maintenance and rental cost of equipment including click charges, materials (principally paper) and supplies.

Next, construct a price list to cover their work. This not an exercise of BHR estimating, but one which is sufficiently lower than their current expenditure to motivate them to make a change. The difference between that and your out-of-pocket cost (mostly production labor and materials) is your contribution to overhead and since your overhead is unchanged, to profit. This is likely to be large as the in-plant's overhead is quite underutilized, while their work in your plant doesn't increase overhead at all. Obviously, this is not a simple sales call, but rather the careful development of a partnership that's a win for both sides.

Measuring Production

There are a lot of systems on the market to help firms collect production data, and presumably to use the information to improve production. In reality, there is typically little use for the data on a day-to-day basis. Occasionally, it may be possible to identify opportunities for improvements. For example, we have a kink in our workflow. These sorts of things can be identified by careful and systematic thought without any data at all.

Most firms who do measure production data find that the most significant variable is plant loading. If it's busy, production rises. If it's slow, it falls. This is the Parkinson's law affect—the number of hours needed to do anything rises to meet the available hours. The takeaway from this reality reinforces the power of full utilization of the plant. Downtime is the enemy.

Another takeaway is the importance of lean staffing. In a variable demand business, like printing, the only way to operate is with overtime, which can vary from day-to-day to match need. Plants that never have overtime, have too many people on the payroll.

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The Exit Strategy

Everyone who has worked hard to build a business assumes that it will go on forever. The reality is that neither businesses nor their owners are immortal. There comes a point when it's time to get off the train.

This can be done thoughtfully with careful planning, producing an outcome which is sensitive to longtime employees, customers, and the owner's family. Or it can be ignored while the business loses competitive position, dissipates assets and drifts to a painful end.

Occasionally, the exit strategy may center around family members who will carry on in the future. This will work if they have the necessary drive and skills and can work together. However, it's important to realize that entrepreneurship is not an inherited trait, and that sibling rivalry is real.

In most cases, the most likely path forward is the sale of the business to a larger, parallel firm who can bring the sales and the key people into their organization, making better use of the buyer's infrastructure and thus producing a win for both sides.

Also, it is not uncommon for the owners of businesses in our industry to have acquired the real estate that the firm occupies. When planning an exit, it's important to realize that the printing business and the real estate must be dealt with separately. Solutions that tie these together are almost always self-limiting.

Rethinking Your Business Model

If you have printing equipment (regardless of technology), there is no argument you are a manufacturer. Sales organizations are print brokers or print management firms, e.g. InnerWorkings who have no capital investment in equipment and provide a broad range of services which may or may not be print based.

As print providers (manufacturers) have expanded their offerings to remain relevant, selling services (fulfillment; mailing; marketing, etc.) have become a critical part of a company's success. Yet, the question remains for many print providers, should we build it or buy it (purchase from a third party)? Should we be a sales organization? Or possibly a hybrid?

For many firms in the industry, investing capital in new technology has become more and more challenging; thus, a strategy to consider is outsourcing work which can be done more cost effectively by someone else. Rather than thinking in margins, management needs to think in terms of the cost of capital and reinvestment of capital to compete in a world which continues to have shrinking margins and amount of work available.

Successful print providers have developed relationships with clients which in many cases are based on how well an account is serviced and products delivered which meet the client's expectations and not necessarily produced by the printer. When management begins to look at their business model as a hybrid, doors which may have been closed in the past can open. Just as important is the fact that we no longer limit our growth and success potential.

quoins2pixels is written by Bob Lindgren and Joe Polanco. Bob and Joe have spent decades in the printing industry, and throughout their careers, they have counseled hundreds of company owners on a variety of management topics. As a value-added service of The Printing Industries Alliance, they are available to expand on these articles, or aid with projects. Bob can be reached at (818) 219-3855 and Joe at jspolanco49@gmail.com.