

quoins2pixels

An exclusive publication for members

by Bob Lindgren & Joe Polanco

Make or Buy

The vast expansion of web-based resources for production makes it increasingly likely that all or part of a customer's order turns into a buyout rather than being internally produced. In some cases, this is an excellent solution since what is needed cannot be produced in house because we don't have the capability or the available production time.

However, when we have a choice, it's tempting to compare the internal estimate with the external buyout price. It's frequently the case that we may be led to conclude that the buyout saves us money. That's almost always a mistake. The estimate overstates the amount we will spend to do the work, as it uses BHR's that include overhead as well as markups on materials. When the work is produced in house, the only money that will be spent is the cost of the paper, other supplies, and factory wages (although one could argue that labor costs are fixed).

When we buy it out, the supplier will want a check for the full cost.

Thoughts About The Print Economy

This past week the industry came from all over North America to attend an industry trade show. From this author's perspective, it was energetic and very representative of the industry. Why is this important? The event reflected the industry's attitude about growth and market conditions, and in conversation after conversation with show attendees, the mood was positive. Companies are busy. They have a handle on paper issues and are looking forward to a busy year end.

The print industry is a capital intense industry – and that was reflected on the show floor. Yet, the question remains, “where should print providers spend their money?” We no longer live in the era of “build it and they'll come.” It's about niche markets; intense customer focus and automation. Automation continues to be a bigger and bigger component of today's equipment, and this type of solution is not cheap – in the short run. Investment in automation argues for a strong balance sheet and a thorough analysis of workflow, but the right investment can provide a better customer experience and potentially deal with the long-term workforce issues facing manufacturers across the United States.



The Real Path To Profit

We watched a recent webinar about calculating BHRs and their use in finding the “margin” on jobs as well as the importance of avoiding “low margin” work. On its face, this sounds reasonable, but it isn’t the path to really high profits. It’s the path followed by printers satisfied with single shift operations (multiple shifts seem too hard to manage and staff) and profits in the 3% to 5% range.

Printers who break out of the herd into double digit profit land have realized that the real number is “contribution,” not “margin.” Profits come from the dollars flowing from the difference between the invoice and the amount actually spent to produce the work (factory labor, materials, outside services, and sales commission). When these dollars are enough to pay for the overhead in any period (month, quarter, year), the business has broken even. Beyond that, those contribution dollars take it into profit land.

Given this reality, the more hours in every 168 hour week that the presses are running, the more profit dollars there are to go into the owner’s pocket. Getting there means that pricing has to be driven by the maxim “get as much as the customer will pay but also get the order.”

Putting this into practice means multiple pricing levels that are sensitive to the value of the job to the customer, their relationship to us, and their buying practices. It’s not unreasonable to start with a simplified conventional estimate as that’s likely to mirror the pricing of your competitors, but that’s just the start, not the finish of the pricing decision.

Estimators – Where do you find them?

Finding an estimator is one of the most challenging tasks any print provider will undertake. The ideal individual is knowledgeable of the print process and understands the printer’s existing estimating software. This candidate also understands the nuances of BHRs and is an excellent job planner as well as understanding the dynamics of pricing. The great estimators will be excellent communicators and work well with the sales team.

Searching for an estimator in this day of digital media and use of recruiting firms is not difficult. It’s the interview process that’s difficult. Estimators are normally very structured individuals and today’s world of print requires nimble-footed individuals who can be creative and structured. Two traits which don’t necessarily go together. Thus, before you start looking, draw up a chart of the important traits of the ideal candidate. Knowledge of software; ability to be precise and creative; someone willing to ask questions and draw out the nuances of a project; a good job planner; and a person who understands the dynamics of pricing, after all BHRs are not the end all!

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.