V2_N18

Salary or Draw?

Isn't a sales rep's salary of $24,000 the same as a draw of $2,000 per month? They do add up to the same number at the end of the year, but they produce very different outcomes, the salary, because it's independent of sales, necessarily reduces the amount of commission that can be paid.

If our economics permit 8% to be spent on sales compensation and we assume sales of $500,000, there is $40,000 available. If there is a salary of $24,000, commission can't be more than $16,000 or 3.2% of sales.

If it is a commission, we can pay 8% commission with a $2,000 monthly draw against it. Which do you think will produce more sales?

Sales or Profits?

While we're discussing sales compensation, let's explore the concept of compensating sales reps on profitability. Although this is not a new argument, it's a methodology used in many other industries – and some print and marketing providers.

It's logical that we consider this approach given the diversity of the products/services we produce -- print of varying technologies, mail, fulfilment, data management, shipping, marketing services, etc. The first question to be answered would be how do we define profitability? By gross profit (contribution) on each job? Or is it by mark-up over costs? Should we measure "cost" by using BHRs? Should we base "costs" on estimated cost or actual? What happens when a mistake occurs?

Then comes the $64,000 question. Since we are a custom manufacturing industry, we'll quickly discover that every job has a unique profitability; thus, requiring us to track every single job and have a system which is transparent. How do we do that – and have our sales team trust that there's not a gnome in the back room throwing darts at a target to calculate costs?

Thus, it's no surprise that firms continue to base their commissions on sales. It's easy to calculate and its gnome-free. Although there is an argument that value-added (Sales less material costs and outside purchases) might be a methodology which is "fair" to the company and the rep. Since that argument is probably in its sixth decade, we'll leave it for another newsletter.

PIA
Printing Industries Alliance

Your Estimating System Doesn't Know . . .

The situations which should be mark-ups:

- The buyer trusts you to get the job right and on-time.
- The job is key to the launch of their new campaign and the files are late.
- The job is a mess and you're the only one that can make it right.

The situations which should be discounts:

- It's a simple job with no problems and the buyer knows other printers whom they trust.
- The job is for a government agency who is required to get multiple quotes and then give it to the low bidder.
- The job is for a prospect who has meaningful work but who has no experience with us.

The fundamental business opportunity is that if we can maximize contribution dollars by matching quotations to these realities, contribution dollars are maximized, and so are profits. Getting the order in both situations explodes the contribution dollars and profit.

Saving Into Success

We read an article by a well-known industry consultant who analyzed the financial statements of a money losing firm and prescribed a series of cost reductions—a save yourself into wealth approach.

What was missing was any analysis of the possibility of increasing sales. It's very likely that the hit ratio (% of quotes turning into orders) was lower than 50%, so a modest adjustment in pricing would have produced a significant increase in volume by capturing orders that would have been lost.

Since it is unlikely that the firm's out of pocket cost of production is more than 60% of sales. The previously lost orders would have produced a meaningful contribution to overhead and profit.

Customer's Property

Many firms are discovering that providing warehousing distribution services for customers--a step beyond just mailing their promotional printing, can be an important revenue source. And better still, a great way to lock in that customer.

Of course, you must have the space to do this, but it's not high tech and some simple inventory management software is useful. However, there is a liability issue as you are now holding their property. While you can require them to insure their own material, it's really essential for you to have adequate insurance coverage for customer's good. If an error does occur, there is always the possibility their carrier would look to you for reimbursement.

You should also consider that if the goods are interesting enough for someone to steal, they probably will, so a properly secured area is necessary.

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.