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An exclusive publication for members

by Bob Lindgren & Joe Polanco

That Can't Be Right?

An alert reader saw the article which said, "if we got 50% of the jobs we quote but don't get, we could more than double our sales by getting them all, even if their average cost sheet margin was 15% less".

Our reader's natural response was "that can't be right as you can't increase profits by cutting prices by 15% since that's more than our total profit margin for the month". To see the reality of this situation, you must think about what the printer will spend to produce the work. Generally, a commercial printer will spend about 60% of the invoice dollars on paper, buyouts, factory wages and commissions, leaving 40% to pay for the overhead, the front office, the rent of the building, the depreciation of the equipment, etc. Thus, if the printer is now selling about $100,000 a month, they are generating $40,000 (40% of $100,000) contribution to overhead every month. Which, if it is large enough to cover the overhead, produces profit.

If we assume a doubling of sales but at a 15% discount on these additional sales, the additional sales and generate $85,000 in revenue (85% of $100,000) and cause the spending of $60,000 for paper, buyouts, factory wages, commissions, etc. (60% of $100,000), leaving $25,000 to pay for the overhead. Since the overhead doesn't increase as the front office, rent and depreciation are unchanged, the $25,000 is pure profit.

Pricing must be as high as possible, but we must also get the order. We must focus on the client relationship and the value of the project to them to avoid leaving money on the table. We must also focus on the orders we didn't get as lost opportunities. If we got the jobs we quoted on but didn't get, we could probably double our sales by getting them all, even if the average cost sheet margin was 15% less. Just think of the increase in net income coming from better plant utilization. As a star sales manager once said, "if it's worth quoting, it's worth selling".

Who's Leading Your Sales Effort?

Ask any owner who leads their company's sales effort and more than likely the answer will be "me." Yet, in many instances the owner as sales manager may not be the best solution. The owner's role (CEO) should be providing strategy and focusing the entire company's structure to support that effort. In our industry, the individual leading the sales team should be spending 100% of their

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time on developing marketing efforts; developing sales strategy and tactics which support the CEO's direction; supporting their sales team through joint calls, training, and creative pricing strategy; recruiting new sales and support talent; and in their spare time, selling.

So when should a company contemplate adding a sales manager? If one speaks to most successful CEOs, they'll suggest that tipping point is about five sales representatives. Since filling this position is expensive, it's at this time the CEO should consider off-loading some of their responsibilities prior to adding a full-time sales manager. One solution could be hiring a part-time sales manager (yes, they exist) or off-loading pricing and customer service decisions to a senior member of the management team. As important as the role of leading sales may be, as the company grows larger and larger, the company's CEO/Owner cannot afford to be solely focused on sales.   Thus, at some point in time, the decision will have to be made to hire a sales manager, and we'll discuss that process in one of our upcoming newsletters.

Knowing Your Costs

"Those guys don't know their costs, and that's why they won the bid," is a common lament which has been heard in our industry for decades (if not hundreds of years). As the authors have suggested aggressive pricing can be an effective tool – if one truly knows their costs of operation.

But, what are your costs? They clearly include the amount that must be paid to buy the materials and buy-outs, the amounts that will be paid to the folks who do the work, and the commissions paid to the sales rep. But what about the overhead—the cost of the building, the machinery used or the front office—don't they cost money too?

For more than a hundred years our industry has struggled to answer this last question by constructing a system that attaches a portion of the overhead to each hour of production—the budget hour costs (BHRs). The problem with BHRs is that they're trying to do the impossible by assigning a fixed number to a moving target. The BHR is dramatically different between a single shift, two shifts with overtime, or 24/6 or 24/7 and thus changes from day to day or month to month. It also changes if we add a new machine to our floor which reduces the rest of the BHRs as the overhead allocation is now divided differently.

So, what do we do? Accept the reality that what a job costs is what we actually spend to produce it, that the difference between the price of the job and the amount spent is a contribution to the overhead. When the overhead is covered we're in profit land.

The BHRs that we have in our estimating system are simply the starting point to guessing what the competition would charge and the customer will pay.

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 Graphic Media 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.