Here's My Two Cents Worth

I've been following the ongoing debate on the subject of brokering between John Stewart and Cy Stapleton. I've been following it with some amusement, but also with real interest, because I sincerely believe that brokering is one of the most important topics being placed before you these days.

Because I believe that it's so important to you—and since I've had the chance to actually talk about this subject with each of these guys—I'd like to comment on some of what they had to say to you in the Point/Counterpoint articles in the June issue of *QP*, and then stick in my own two cents worth on the broad topic of brokering.

Cy Says

I think the most important thing for you to understand about Cy's operation is that he's actually running two businesses. He runs a printshop that has to be self-supporting on the volume of work that it actually produces. And, he runs a separate business in which he's engaged in the brokered sale of a variety of printed products. As it happens, he runs both businesses out of the same building, and using the same "salesforce." But because of the way he allocates overhead, they really are separate businesses.

What I'd like you to understand is that Cy could combine his businesses and end up with exactly the same amount of money in his pocket. If the printing business and the brokering business shared the overhead evenly, the printing business would be more profitable and the brokering business would be less profitable, but the combined bottom line would be exactly the same.

No matter how you allocate overhead, the bottom line will always be the difference between the amount of revenue coming in and the total cost of providing the product, which includes the total cost of making or buying the product and running the business—or in Cy's case, the businesses.

The way Cy does it allows him the luxury of thinking in terms of *dollars* of gross profit instead of *percentage*. A more traditional quick printer would look at a job where only a 15% markup would be price competitive and say "no way...that won't cover my overhead." Cy, because he has no overhead in his brokering business, can say "hey...the markup percentage is ugly, but this job will bring an attractive number of *dollars* into the business, so I want it!"

If you think a franchised quick printer paying royalties can't afford that kind of thinking, I say you're wrong. That printer would obviously have to consider the royalty percentage in making the pricing decision. In such a case, the royalty would be the only element of "overhead" attached to the job. But that just means that a franchised quick printer would have to get more for any particular job than an independent would. It doesn't mean that the job couldn't be sold at a price that would be acceptable to the customer, and put enough *dollars* into the printer's business to make it a good business decision.

Is there any particular danger lurking in the weeds in the way Cy runs his businesses? Sure there is...one big one. In order to let the brokering business operate without overhead the way he does, Cy's printing business has to stay over break-even while absorbing all of those costs. If it ever dips below break-even, his pricing and business decisions on the brokering side are based on an erroneous foundation, and he's asking for trouble. But as long as the printing business is even marginally profitable, Cy really is brokering for profit.

John Says

I never fully understood why John was so negative toward brokering until a conversation we had a couple of months ago in Philadelphia. The real bottom line—and he pointed it out in the June *QP* article—is that it's not so much a *brokering* issue to him as it is a *management* issue.

And it's really a pretty simple issue. If you broker more of your total volume than an "average" quick printer, some of your overhead costs—especially labor—should be lower than that "average" quick printer. And John sees all too often in his consulting and his analysis of the *QP*/NAQP Operating Ratios that this isn't the case.

Brokering does two things for a quick printer. It increases *capability*. That's pretty obvious...brokering gives you the ability to sell things that you can't—or shouldn't—produce on the equipment in your shop.

Brokering also increases *capacity*, and I think that's the key issue here. Because whenever you broker a job out, what you're doing is trading on another printer's capacity. That in itself is very positive, I think. But if you don't compensate for it in your own operation, it will be a profit killer.

Whenever you have excess capacity, you're running at least somewhat behind the productivity/profit curve. There are only two ways to get closer to the top of that curve. One is to increase sales, to bring in more orders and put more of your internal capacity to work. The other is simply to reduce capacity. You probably aren't going to throw a press away if it's not being utilized, but you certainly shouldn't be paying someone to stand in front of it!

Fellman Says

I said earlier that I think brokering is one of the most important issues being placed before you these days. In fact, I think brokering is one of the absolute cornerstones of success for the modern quick printer. Why? Because brokering will allow you to meet more of the *business communication needs* of both your current and future customers.

As I've said so many times before, there are only two ways to make your business grow. One is to gain more customers. The other is to *sell more stuff* to the customers you already have. The combination of both of those things offers you exponential growth!

The positives of brokering are obvious, reflected in increased capability *and* capacity. What are the negatives, beyond the management issues we've just discussed? I usually hear them reflected in terms of profit margins—which we've also discussed—and in term of risk.

So let's talk about risk. Is there more risk inherent in a job that you send out of the shop than there is in a job that you produce in your shop?

I can't say categorically that the answer is *no*. There are an awful lot of variables involved, both in your shop and in vendor shops. I know plenty of printers for whom the simplest jobs sent back into their own shop turn into dangerous adventures. But I can say categorically that *there does not have to be* more risk in brokering. As with so many other things, there are basic rules which, when followed, eliminate most of the risk.

Rule #1: Learn something about the products you're brokering. How they function. How they're used. What the options are.

Rule #2: Learn something about the vendors you're dealing with. How they do business. How you enter an order. What kind of information they need from you. Who you talk to if there's a problem.

Rule #3: Look to your vendors for all of the above. The ones worth dealing with recognize their responsibility to help you manage risk and to *help you sell their products!*

Rule #4: Communicate with customers *and* vendors. Clearly. Patiently. Honestly!

How complicated are these things you have to learn? It varies from product to product and company to company. Some products are certainly more involved and complicated than others. Maybe it takes one level of knowledge and experience to sell a business card or a rubber stamp and order it from your local BCT. Maybe it takes a slightly higher level of knowledge and experience to sell and order one of those gorgeous (I think) full-color business cards from Brilliant Color Cards. Maybe it takes a still higher level of knowledge and experience to handle the sale of a continuous business form, and order that form from someone like Microforms.

The key words here are knowledge and experience. You *can* gain both. And your vendors *will* help you. I do a fair amount of consulting with manufacturers who want you to sell more of their products. (Pop quiz...can you name three?) What strikes me about *a lot* of the manufacturers I talk with is their commitment to educating you, and to developing systems that make it easy for you to handle both parts of the sales/order process...first making the sale and then handling and processing the order that goes into the manufacturer.

Future Vision

I want to touch on one more of the arguments that has been presented against brokering before I close. That's the contention that the *QP*/NAQP Operating Ratio Studies prove that brokering is a losing proposition. It's hard to argue against the raw numbers, because they clearly do indicate that the poorer performers in the industry spend more on brokered products and services than the profit leaders.

Here's my contention. I think the profit leaders spend less because they're only brokering finished products...business cards, business forms, rubber stamps, etc. They spend less and they get more out of it because they apply a full mark-up to these orders.

I think the poorer performers spend more because they're also brokering services like typesetting, folding, and binding. John points out that these poorer performers very often don't have the right equipment to produce these services in-house, and I'm sure he's right. But that's only the kick that starts this ball rolling. The real culprit in terms of profitability is that these brokered services are often not given a full mark-up. I think it's common practice to mark-up that brokered component of the total cost of a job by only 10% or so, especially if it's a job that's perceived as highly price-competitive. That will put a real dent in the appearance of brokering profitability.

I've always had one other problem with Operating Ratio Studies, in this industry and in other industries in which the same sort of figures are collected. At best, what you see is a comparison of your company to where the industry was when the figures were collected. And while that does have value, it's not necessarily helping you to get to where the industry *can be*!

My vision of the optimum percentage of brokered sales for the quick printer of the 90’s would be up there around 33%. To me, that would indicate a printer who’s providing a broad range of those *business communication needs*. That would indicate a printer who’s making the most of a wide range of sales opportunities, and strengthening his or her position with individual customers by becoming—or at least coming closer to being—a single- source supplier. That would also indicate to me a printer who’s making wise use of capital, using his or her own money to buy production equipment if it’s warranted, but using other people’s equipment and capacity too.

I don’t care if you make a separate business out of your brokered sales like Cy Stapleton does. That may not conform to standardized traditional accounting practices, but it seems to work pretty well for Cy. I do care that you make sure that your brokered sales are profitable, and that includes brokered services as well as finished products. As John says, it all ultimately comes down to *management*, and with proper management, brokering *will* give you more to sell and add considerably to your net worth!