

More Formulas For Success

“What’s with you lately?” one of my clients asked. “Your columns in *Quick Printing* are starting to read like my kids’ math and science books.”

I guess I’m guilty as charged. As you may remember, a few months ago I quoted the equation that defines Newton’s Second Law of Motion: $F = M \times A$, or Force equals Mass times Acceleration. That was in relation to the challenges of printing sales management, and meant to illustrate the principle that the farther behind your expectations a salesperson is, the harder you have to push just get him/her into motion!

The month after that, I introduced the equation that defines Fellman’s First Law of Good Behavior In The Printing Industry: $GB = T > (D)$, or Good Behavior comes from Training reinforced by Discipline whenever necessary. That equation was meant to illustrate the principle that training is the foundation of most good behavior. In other words, you have to teach your employees—and your customers!—how you want them to behave, just like you have (or had) to teach your children. If you don’t provide that understanding of what you consider to be correct behavior, you’re really leaving it up to them to guess at what you want. The equation for that situation is $E - T = C + UP$, or Expectations without Training equals Confusion among your employees and Unsatisfactory Performance.

On A Roll

OK folks, I’m on a roll now! It strikes me that quite a few of the elements of success in a quick/digital/small commercial printing business can be expressed as formulas or equations. Let’s start with the most obvious: $S - C = P$, or Sales volume minus all of the Cost of doing business equals Profit.

The key to understanding the real power of this equation is to remember that you can increase profit in two ways—by increasing sales and/or by reducing cost. The profit leaders in the industry typically achieve that status by succeeding at both. Unfortunately, the majority of quick/digital/small commercial printers end up with a much smaller fraction of their potential profit opportunity.

That leads us to an age-old question: Do you get more of a profitability payback from your efforts by increasing sales or by reducing cost? According to the argument I hear the most, it’s cost-cutting that gives you the greatest reward. A profit leader, who according to the 2000 PrintImage International Operating Ratio Study would be earning owners compensation in the 25% range, would seem to have to add four dollars of sales to earn an additional dollar of profit, while reducing a single dollar of cost would drop the same amount to the bottom line. If you extend the same arithmetic to a printer in the 26th - 50th percentile—who according to the same study would be earning owners compensation in the 10% range—that printer might seem to have to add ten dollars in sales to earn an additional dollar of profit! With the same \$10.00 sales increase, the profit leader would earn an additional \$2.50.

That’s not the way the arithmetic really works, though. The real truth of this situation is that either of these printers would earn something more like \$7.00 in profit from each additional \$10.00 of sales. With the average cost of sales of the profit leaders at 27.59%, the actual profit contribution of an incremental \$10.00 would be \$7.24. With the average cost of sales for the 26th - 50th percentile at 31.34%, the actual profit contribution would be \$6.87.

The key here is that this arithmetic only works when you have open capacity, so that handling additional business doesn’t require you to take on any additional cost. If you needed more people or more equipment to process the additional sales volume, the whole situation changes.

But how many of you are really that close to capacity? Here’s the formula to keep in mind: $>>PC = >CC; <<PC = >SV$, or the Closer you are to Production Capacity, the more benefit you’re likely to gain through Cost-Cutting measures. The Farther you are from Production Capacity, the more profit you’re likely to generate by increasing Sales Volume.

Premium Pricing

PrintImage International’s Pricing Studies confirm something that most of you know from your own experience—that different printers place different value on their products and services. In every market I’ve ever been in, there are printers who charge premium prices, and also printers whose only semblance of a marketing plan seems to be offering low pricing. All of those printers get orders, but there’s a very direct correlation between premium pricing and profit leadership.

The profit leaders tend to ask “*why* do *they* charge such low prices?” The low-price sellers tend to ask “*how* can *they* charge such high prices?” The answer to that question can be expressed by another formula: $V_i = P_p - BD$. The left side of this equation (pronounced point-vee-sub-eye) refers to the Initial Point of Value, which defines the price that the buyer would most like to pay—typically the lowest price being offered on that product or service in the marketplace. According to the formula, the Initial Point of Value is equal to a Premium Price minus any Benefit Differential.

It might be better to express that a little differently. We could also say that the Benefit Differential—the “more for your money” factor that is usually connected to quality, service and/or relationship—added to the Initial Point of Value equals the Premium Price that can be charged for any particular product or service. In other words, when you give them more, you can charge them more!

Their key, of course, is to communicate that Benefit Differential. The printers who do that tend to be both the sales and profit leaders.

FAB For...

The printers who do that also tend to understand the relationship between Features, Advantages and Benefits, which can be expressed by the formula $F + A = B$. This equation states that the Features of your business provide you with a competitive Advantage, which in turn provides a Benefit to the customer.

Let's use computer-to-plate capability as an example. The capability itself would be a Feature of your business. The chief Advantage it provides you with is faster processing, and of course a lower cost base because time is money. The Benefit to the customer is often twofold as well: faster turnaround on their projects and some cost savings too.

I know quite a few quick/digital/small commercial printers who have added computer-to-plate capability, and I've read about the experiences of many others in PrintImage's CTP Study. I think it's fair to say that a significant number of the printers who've moved into CTP are still waiting for it to do something positive for their sales figures.

Why is that? I suspect it's because those printers haven't gotten beyond the Features stage in communicating their new capability to their customers and prospects. “We have computer-to-plate!” they say. And many of the customers and prospects think, “Cool, but I have a computer too, and I have no idea what a plate has to do with anything I might want a printer to do for me.” Remember, the vast majority of your customers and prospects are “civilians”—my term for anyone who doesn't actually work in the printing industry! They usually don't understand either the printing process or printing jargon, and if you want to be sure to communicate with them, you better do it in their language, or at least teach them enough of your language to allow them to understand!

“We've just installed a computer-to-plate system,” you might say, “which lets us actually remove a couple of steps from the ‘traditional’ process of preparing your job for the printing press. The benefit to you will be faster turnaround, and very likely some cost savings as well since our pricing will reflect the efficiencies we've gained through this investment in technology.”

(By the way, if you thought of The Beatles when you first read the sub-heading to this section of today's column, you can award yourself 50 Baby Boomer Bonus Points, redeemable at some later time for unspecified prizes!)

One More Formula

I hope you've noticed that I referred to three different PrintImage International research studies in today's column. That leads me to another formula I would like very much for you to consider: $(PI \times M) + (PI \times P) > GP$, or PrintImage International Membership plus PrintImage International Participation positions you for much Greater Profitability. The information provided to you in the research studies can be priceless, and those studies are only part of PrintImage's value/benefit proposition.

I have quick/digital/small commercial printers telling me that PrintImage doesn't have much to offer them. “Maybe they're important to the smaller shops,” say some of the higher volume printers I speak to. “Maybe what they offer is important to the bigger shops,” say some of the smaller ones. In either case: “They don't have anything to offer me!”

Come on, people, get your heads out of the sand. The fact of the matter is that PrintImage International has a great deal to offer you, whether you're franchised or independent, digital or traditional, or large or small or in-between. But you have to act, first to join if you're not already a member, and then to participate if you're not already an *active* member.

How much will it cost? You can join PrintImage for as little as \$397, and get free copies of each of the research studies by simply participating and providing input to them. But don't stop there! I'd like to see you budget \$2000-\$3000 for your membership over the next 12 months, which ought to easily cover your attendance at either the PrintImage 2002 Conference and Expo (which will be held in Orlando from February 24-27) or the 2002 Owners Conference (and as you read this, it may not be too late for you to attend the 2001 Owners Conference, being held

in San Antonio from October 11-13.) Remember, Membership plus Participation is the key to gaining a significant return on your investment.

Here's something else to think about. With more members, PrintImage International can even do more for everyone concerned. Back in those dark days before the daylight camera ushered in the quick printing era, John F. Kennedy told us to "ask not what your country can do for you; ask what you can do for your country." I think now might be an appropriate time for us to "ask not what the quick printing trade association can do for you; ask what you can do for that association!"

When you join PrintImage International, you will strengthen your company, strengthen your association and strengthen your industry. That sounds to me like a formula for success!