Minimising Risk

By Richard Fergusson
The Printsum Partnership
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The risk problem

In view of the risks that businessmen, especially printers, routinely face, it's getting increasingly important to minimise them. It must be at the back of every printer's mind.

Let's face it - they say that 80% of all businesses fail in the first year, and in the printing industry failures of even long-established companies are depressingly frequent.

So are printers good at avoiding risk? On the whole, possibly not.

I appreciate that the following paragraphs may not apply to you, in which case you are entitled to be smug, but they sum up a lot of what I have seen and continue to see in twenty years in the trade. The standard reaction to the ideas I am propounding here is 'Yeah, yeah, yeah! I know all that', but that usually begs a further question 'so why aren't you doing something about it?'

Traditional pricing

There are two traditional ways to price a job in the industry. The offset litho printers tend to assign hourly rates to each machine and operator, estimate the time for each task, add in the paper costs etc and then mark up the total by 30 percent. When you ask them what the mark-up is for they usually will say 'profit'. So then they feel empowered to negotiate away that mark-up to get the job, driven on by a gut feel for 'what the market will bear'. In actuality the 30% should be seen as an allowance for covering the indirect costs of the business. You could call it gross profit, but you need to know what proportion of it is true net profit, or when you start negotiating it away, the results can be dire.

The traditional digital printers, on the other hand, do it differently. They tend to rely more on price matrices – again based on 'what the market will bear'. They are aware that unit prices have to come down for longer runs, which is why you need different prices for different run lengths. On analysis the true cost of the shorter job is usually heavily subsidized by longer jobs, as the market seems to expect very low prices for short jobs.

In both cases there needs to be a clear understanding of true costs, which is often not present.

Telling lies

In practice both types of printer are good at telling lies to themselves to justify price reductions. The offset printer regularly thinks in terms of reducing the run-up sheets, or running the press faster to reduce the estimated cost – when in

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practice he _knows_ he won't. The digital printer pretends that the shorter run customers are just as important as the longer run customers, who are in reality subsidizing them.

Perception of job value

Generally, many people think that any added value left after paying the external costs (paper, ink/toner, click charges, etc.) must be all profit. What they never remember is that any job can go wrong, and (increasingly) any customer can go bankrupt.

Bookies odds

Let's say you have to lay out 40% of a job to buy the stock and artwork. So you are risking that 40% on the chance of gaining the remaining 60%. It's tempting to say that in horseracing terms that's odds of 3 to 2 on, for a horse that's, say, 98% sure to win (i.e. not go bankrupt). It's a no-brainer – take the bet! But it's more complicated than that.

When you include the internal costs (including indirect costs), if 10% of the total is net profit, that gives you 10% return for 90% layout, which is precious little, especially if the job is a difficult and has a possibility of needing to be re-run.

Discounting

Yet some printers will even discount jobs 'just to keep the presses rolling'... and then other printers try to compete with them (instead of waiting for them to go bankrupt).

But the really nasty part is that if you accept a job at a 10% discount you have to do another job of similar size at 10% profit just to break even.

When to walk away

One of the great advantages in costing a job properly, with all the costs taken into account, is that you really can identify which jobs to walk away from. And some printers have found to their surprise that simply by avoiding those worthless jobs

they get a higher net return while doing less work!

The need for costing

So the first thing to do is to cost your jobs accurately. Not 'what the market will bear' or 'I suppose we could run the press faster which would reduce the price', but 'how much would really it cost to produce'. And then use that as the starting position.

Conclusion

Even in these uncertain times we keep finding that printers, and indeed many other tradesmen, don't really know what any individual job really costs them. The tools needed to rectify the situation are all there, but there is a marked reluctance to start using them.

And that's sad.

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