



The Intersection of Volume and Profit

Would you rather be bigger — in terms of sales volume — or more profitable? Your answer is most likely “both,” but that’s not the normal state of affairs in the printing industry. Yes, there are large and highly profitable companies in every segment, from those who print on paper to those who print on fabric, board or any other substrate. But there are also less/not profitable companies in every industry segment, all of which either want or need to be moving in a more positive direction.

There are many things to be considered on the cost side of the business: payroll, cost of goods sold, technology, etc., but all of that is a topic for another day. Today is about volume, profit and the sales side of your business.

Playing by the Rules

I’ve observed that all printing companies fit into one of four categories regarding the “intersection” of volume and profit:

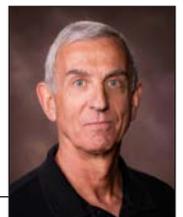
- High Volume, High Profit
- High Volume, Low Profit
- Low Volume, High Profit
- Low Volume, Low Profit

I can’t tell you exactly where the border between “high” and “low” lies but this is certain: If your company needs greater sales volume, the rules for low volume apply. Similarly, to improve profitability, the rules for low profit apply. If neither situation applies to your company, you can safely play by the high volume, high profit rules — at least for now.

High Volume, High Profit

If you really are in the high volume, high profit category, you obviously want to stay there. That means maintaining “happy customer” relationships, which in turn requires a combination of customer service and contact. To put it simply, you can’t let your customers down in terms of quality or service, and if you do, you

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By David M. Fellman, David Fellman & Associates



better identity and rectify any problems before they start seriously talking with your competitors.

Customer contact is an important element in this equation. There's a tendency to think that your customers will let you know if there is a problem. That theory has been disproven many times in the marketplace. The fact is, good customers aren't usually lost over one huge failure — more often, it's the cumulative effect of two factors. The most obvious is a series of minor quality or service failures. The more dangerous is when a customer starts questioning whether you truly value their business.

Give some thought to the nature of the contact between your company and your customers. How much of it is your salesperson looking for orders? How much of it is the back-and-forth of processing those orders, involving your customer, your salesperson and possibly your customer service/project management employees? How much of that contact involves some stress on one or both sides?

Now, how much of it is senior-level contacts reaching out to your customers to assure the health of the relationship and reinforce the value you place on their business? I don't know about you, but I like when someone in a senior position reaches out to me, especially when there's been some stress in my day-to-day interaction with lower-level employees. And, as a senior manager, I like knowing — not just thinking or hoping — that my company is doing everything necessary to maintain those happy customer relationships. The best way to know is to be an active participant!

When evaluating your customer service and contact, it's important to understand your customers are in fact talking to your competitors. At the very least, they are hearing from them, and your most visible customers (i.e., big, well-known companies) are getting plenty of attention. As you know from your own prospecting, there can be a significant gap between "talking to" and "buying from," but that gap diminishes if the level of satisfaction with the current supplier does the same.

The Power of Prospecting

Regardless of profits or sales volume, printing companies should continually prospect for new business. While you can play safely by the rules, I emphasize "for now" because you always want to have people in the pipeline in case something does damage a current customer relationship. And, there's nothing wrong with higher volume, high profit, is there?

If you're in the high volume, low profit category, you should also be prospecting. The biggest reason high volume printing companies fail is because they have bad customers and don't work hard enough to find better ones. They take all the business they can get from people/companies who won't pay for value and who further drain profit by obstructing production schedules and impeding cash flow.

An example is my area's current largest printing company, which gained its status after acquiring three large customers from a company that closed two to three years ago. While its sales have grown dramatically in that time, its profits have suffered, and I'm not sure the company

really understands why. To me, those “new” customers are like serial killers — they’ve killed at least one company in my area and now this one may not survive them. But even if that happens, someone else is almost certain to welcome their business.

If I were in the printing company’s shoes, I would take their business, but only on my terms. In other words, they would have to change their behavior. This is the cardinal rule of high volume, low profit situations: When you have bad customers, do something about it!

Bad Customers

It’s worth asking how you define a bad customer. As I’ve noted, they tend to be price buyers rather than value buyers, obstruct production schedules with unreasonable expectations and can seriously impact your cash flow with slow pay. They’re simply more trouble than they’re worth.

The good news is there’s usually a chance to change bad customer behavior before it “kills” your company. In my experience, changing bad behavior begins with talking it out with customers. Give

some thought to exactly why they’re more trouble than they’re worth, and then reach out to set up a meeting. It’s not something you should approach with just a vague feeling.

Based on my experience, your success with this approach may hinge on the two main reasons people can fall into that “more trouble than they’re worth” category. They could either be jerks — which there’s not much you can do about — or they’re civilians, meaning those who don’t have professional knowledge of our industry. They simply don’t know how best to work with us to reach their own goals. Civilians can’t always be trained, but it’s always worth a try.

When it comes to customers, there are three rules for high volume, low profit:

- Improve the trouble-to-worth ratio with the customers you already have.
- Find new customers to replace any that you have to lose.
- Don’t replace bad customers with new bad customers!

Low Volume, High Profit

One of my clients, who describes his

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business as a “nice little company,” has been quite satisfied earning slightly under \$100,000 on a little over \$400,000 in sales. He is, however, in the process of selling the company to his son-in-law, who has greater aspirations.

This is a perfect example of a low volume, high profit situation. My advice to the son-in-law has been pretty direct: Don’t take on any bad customers in order to inflate your top line. The perfect strategy is to scale the business up using his father-in-law’s model. Seek out a few new value-oriented customers. Give them — and charge them for — a premium level of service. Along those lines, we’ve set this year’s goal at \$600,000 in sales and \$150,000 in owner’s compensation. With the right focus, both of those are doable.

For what it’s worth, I also think \$800,000 in sales and \$150,000 in owner’s compensation is doable, but what’s the value of an additional \$200,000 in sales that doesn’t produce any more profit? From my perspective, it’s just 33.3% more work!

The Coffin Corner

What if you’re in the low volume, low profit category? My best advice is simply to do something. This could mean prospecting for new customers or addressing the bad customers you already have. It probably means doing both of those things and starting immediately.

Albert Einstein is credited with defining insanity as “doing the same thing over and over again and expecting different results.” Every printer who has failed probably passed by a point where changes could have been made, and a different result gained.

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Dave Fellman is the president of David Fellman & Associates, Raleigh, North Carolina, a sales and marketing consulting firm serving numerous segments of the graphic arts industry. Visit his website at davefellman.com, and contact him by email at dmf@davefellman.com.