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Contribution Pricing. What It Is and How It Can Improve Your Bottom Line.

On average, print suppliers have 30% idle production capacity and are constantly seeking short-turnaround projects to fill schedule gaps. Since print companies operate on thin margins, even a handful of unsold hours cause their profitability to erode or evaporate.

"To obtain projects that fill idle production capacity, suppliers can offer extremely low pricing, provided they can do so without establishing precedent that affects future price expectations or their ability to bid on future projects," said William Gindlesperger, founder, chairman and chief executive officer of e-LYNXX Corporation. "This strategy is called 'contribution pricing', because any income for suppliers above out-of-pocket costs 'contributes' 100% to the bottom line."

When contribution pricing is applied consistently and strategically, Gindlesperger said a print supplier can improve its bottom line profitability from an industry average of 3% to an impressive 17% or more by filling its otherwise unused capacity, even when these additional fill projects are sold at prices reduced by 25% to 50% or more.

To better illustrate the positive margin impact of contribution pricing, Gindlesperger, an authority on the subject, provided an example where a print company earns a 3% operating profit during a week when it sells 70% of its production capacity at “normal rates”. The assumptions below are used:

- Work week: 40 Hours
- Capacity utilization: 70% (or 28 hours)
- Hours reserved for maintenance: 5% (or 2 hours)
- Bonus hours available: 25% (or 10 hours)
- Normal selling rate: $2,000/hour (includes all equipment)
- Low contribution selling rate: $1,000/hour (includes all equipment)
- Out-of-pocket materials are charged extra at cost

Profitability without contribution pricing would be:
- Normal weekly revenue: $56,000 (28 hours x $2,000)
- Industry average profit: 3% or $1,680 (3% x $56,000)

Add contribution pricing, and profitability would be:
- Additional weekly revenue: $10,000 (10 hours x $1,000)
- Exceptional profitability: $11,680 ($1,680 + $10,000)
- Profit leader status: 17% ($11,680/total of $56,000+$10,000)

By selling its unused production capacity (in this case 10 additional hours, allowing 2 hours for maintenance) at a 50% discount from a normal selling rate, the printer contributes $10,000 directly to its bottom line. This improves operating profit for the week from $1,680 to $11,680 or from 3% to 17%.

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"Of course, the 50% reduced pricing only applies to the bonus hours, those hours which are normally not sold as they are reserved for those good customers that pay top dollar (in this case $2,000/hour). Yet, by locating work that can be turned on when needed and made to fit the time when equipment is idle waiting on the good customers to call, the additional revenues above the cost of out-of-pocket materials contribute 100% to the bottom line. This contribution to the bottom line occurs whether the selling price is discounted by 25%, 50%, 75% or any other number," Gindlesperger explained. "It just makes good business sense to do work for a lower fee than to do no work at all. Wear and tear on equipment and is additional usage of utilities is all negligible. The age old formula is still true: no work equals no income. Printers that can serve the immediate needs of their customers while filling their downtime with lower priced work prosper."

The concept of contribution pricing was introduced in "Profitable Applications of the Break-Even System" by college professor and accountant Carl L. Moore. That was back in the 1970's when Professor Moore realized that costly downtime could be greatly lessened, even eliminated, if a source of work could be found that would minimize these sporadic periods of equipment and personnel inactivity. In the print industry, this break-even point is normally reached when around 70% of equipment capacity is sold at normal prices. Then, every dollar generated by every press impression past break-even becomes bottom line profit.

This means 30% of equipment capacity remains unsold. Moore's text on the value of break-even work to fill unsold capacity is effectively applied in the print industry through the use of the GPO market as well as through a patented procurement methodology being offered by e-LYNXX and utilized by substantial print buyers. Unsold capacity utilization helps printers profit and buyers save.

A key point to remember is that overall profitability is obtained not by charging one stagnant rate on every project. Instead, profitability is a blending of rates charged to different customers in order to obtain as many orders as possible. It is important to be steady with pricing for one customer or even within one market, as it can be dangerous to the customer relationship to offer a print project for 50% less than that charged for a similar job. Customers expect printers to charge consistently.

However, printers can move outside of their primary markets, effectively charging a different rate to other customers in other markets. This can be accomplished by printers by their locating a secondary market that they can turn-on and turn-off to accommodate their immediate production needs, fill otherwise unused production capacity and contribute to their revenues. One such secondary market is the U.S. Government Printing Office (GPO) -- the federal government's centralized print resource for supporting the work of the executive, legislative and judicial branches.

"With jobs valued at more than $420 million annually, the GPO is a wonderful market for printers." Gindlesperger said. "GPO work is invisible to commercial customers, thus allowing printers to bid low, high, or not at all without upsetting other customers. GPO work can be turned on or off at will, and has but one credo – if a printer bids and wins, then the printer needs to do the job as specified and on-time."

Some printers turn to contribution pricing during tough economic times. Yet, filling downtime is essential to optimizing profitability, according to Gindlesperger who believes that contribution pricing should be an on-going ingredient in every print supplier's long-term strategy to win business and sustain profitability.

About William Gindlesperger

William Gindlesperger, founder, chairman and chief executive officer of e-LYNXX Corporation (www.e-LYNXX.com) (888-876-5432), is a nationally recognized entrepreneur, inventor, author and consultant in print and procurement. He founded ABC Advisors and its successor, e-LYNXX Corporation, in 1975. Under Mr. Gindlesperger's leadership the firm has grown into the recognized profit enhancement leader. Print buyers and suppliers alike have benefited from his insight and innovation.

Mr. Gindlesperger has directed major in-plant studies in both the private and public sectors and he is highly regarded for his knowledge, advice and work on behalf of firms in matters pertaining to the U.S. Government Printing Office (GPO). He has testified before the U.S. Senate Committee on Rules and Administration regarding government print and procurement policy. He also has worked directly with numerous Congressional and Senatorial members and staff and has advised Congress on the development, operations and future of GPO print procurement and the federal print program in general.

Mr. Gindlesperger invented the methodology that optimizes cost reduction in the procurement of specification-defined goods and services. He has been granted two separate business method patents by the U.S. Patent Office, first for the competitive procurement of print and then for the competitive procurement of *all* specification-defined goods and services.

A native of Chambersburg, Pa., Mr. Gindlesperger is a graduate of Dickinson College.

About e-LYNXX Corporation

e-LYNXX Corporation, the North American procurement authority, is exclusively endorsed by *Printing Industries of America (PIA)* and *Educational and Institutional Cooperative Purchasing (E&I)* and recognized as a top 100 procurement firm by *Supply & Demand Chain Executive*. Founded in 1975, e-LYNXX has three divisions. ● American Print Management provides enterprise print procurement solutions and patented competitive methods to reduce costs for direct mail, marketing materials, packaging and other procured print. Results include enhanced quality and service levels, efficiencies, process control, transparency and procured print cost reduction of 25% to 50%. ● Patented Procurement Method grants patent licenses for supply chain optimization. Results include substantial reduction in existing costs of competitively procured goods and services. ● Government Print Management offers U.S. GPO bid services, access and assistance. Results include filled downtime, operational stability, improved cash flows and increased profitability. www.e-LYNXX.com **–** 888-876-5432

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