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Reduce Pricing and Improve Profits

by Deborah Snider, Senior Vice President, e-LYNXX Corporation

No work versus reduced pricing to get work. That conundrum faces printers as no brighter days appear to be on the horizon for the economy, at least not in the foreseeable future.

A printer, however, can price a job at a discount and still increase profitability. That may sound too good to be true, but it actually is achievable when a concept called contribution pricing is applied. The name contribution pricing is derived from the fact that any income -- above out-of-pocket costs -- *contributes* to overhead and the excess *contributes* to the bottom line.

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 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 past break-even becomes bottom-line profit. This means 30% of a printer's production can be made profitable with discount pricing, provided, of course, that the discounted work does not replace higher priced work.

Short-turnaround projects are perfect candidates for filling production gaps and for offering deep discount pricing. With about a third of an average printer's schedule being uncommitted at any given time, contribution pricing is a strategy worth pursuing, because even a handful of hours sold at lower prices can contribute and thus change a breakeven month to a profitable one.

The value of tier pricing used to fill production capacity is effectively applied in the print industry when a dependable secondary market is developed. The United States Government Printing Office (GPO) is such a market -- one that awards private sector printers with jobs averaging from \$3,000 to \$5,000 and large programs that can be worth hundreds of thousands of dollars. In 2010, more than 1,700 printers of all sizes, nationwide, won GPO work valued at \$358 million.

Printers that succeed with the GPO do so by applying strategically contribution pricing. As a secondary market, the GPO can be turned on and off to accommodate immediate production needs, fill otherwise unused production capacity and generate revenue.

This is very different from primary markets where 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 at a level that the customer expects.

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. Primary and secondary markets are served differently with higher prices for primary market printing and lower discounted pricing for secondary market work. When the work is produced is one important factor that can drive pricing. Of course, quality and on-time delivery must not be compromised regardless of the price charged for each project.

When contribution pricing is applied consistently and strategically, a printer can improve its bottom line profitability from an industry average of about 2% to an impressive 17% or more by filling otherwise unused capacity, even when these additional fill projects are sold at prices reduced by 25% to 50% or more.

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 additional usage of utilities are all negligible. The universal formula is still true: No work equals no income. Printers that can serve the immediate needs of their customers while filling otherwise unused downtime with lower priced work will prosper.

About Deborah Snider

Deborah Snider is senior vice president of Government Print Management, a division of e-LYNXX Corporation - the leading print management firm in North America. Mrs. Snider is a graduate of Central Penn Business College and has headed Government Print Management and its predecessor since 1984. Government Print Management represents the majority of successful printers that work with GPO. The firm specializes in helping printers to smooth their way to GPO related profitability. Government Print Management is exclusively endorsed by Printing Industries of America (PIA). She can be reached at 888-876-5432, through the web site at www.GovernmentPrintManagement.com or at Deborah.Snider@GovernmentPrintManagement.com.

**About e-LYNXX Corporation**

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