

LARRY HUNT'S COLOR COPY NEWS

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Enclosed, with this newsletter... is a Special Report entitled “**Little Things Can Make A Big Difference**”. In this report, I cover some “**Little Things**” that every company can do to improve their profitability. Whether you are a Profit Leader or a company that is struggling to improve, I believe that these ideas can help you to increase your bottom line.

As I mention in this report, there are probably 20 or 30 “**Little Things**” that can positively affect the profitability of a company. I’ve listed four in this report and know of a few others that I’ll cover in a future issue.

While alone, each of these “**Little Things**” will not turn a company around, the combined effect can really add up. For example, using a firm with sales of \$1,000,000, I believe that implementing these four ideas could produce over \$100,000 in additional profits. For most firms, that would be the difference between being a loser and a winner.

I’d sure love to hear from readers about the “**Little Things**” that they do to improve the profitability of their company. Please e-mail or call with your ideas. I’ll include them in my future reports on this topic.

Following are some price quotes ...
received this past month:

1. Demo Xerox DocuColor250 w/EXP250 Fiery RIP

(Includes: Professional finisher)

Net Price (No trade-in) \$26,000

Color service & supplies: \$100 base plus \$.059

B & W Copies \$.0129 ea.

11” x 17” copies billed as one click.

Editor comments: This is one of three quotes I received this past month on Xerox Doc250 demo units, all similarly priced. It appears that Xerox is offering very good prices on these units, in order to make room for their new 242, 252 and 260 models.

2. New Konica Minolta bizhub PRO C6500 with Fiery embedded RIP

(Includes: ADF, large capacity tray, dehumidifier, booklet finisher, hard drive, hole punch, color profiler and EFI impose)

Net Price (No trade-in) \$33,500

Color service & supplies: (no minimum) \$.045 ea.

B & W Copies \$.01 ea.

11” x 17” copies billed as one click.

Editor comments: The equipment price shown above, on this 65 cpm model, is based on the NAQP national contract.

The service and supplies rate is a different story. As you know, I reported last month that Konica Minolta (KM) increased their service rates on the NAQP contract, from the rates shown above, to \$.059 per color copy (and \$.014 for B&W copies) when there is no monthly minimum.

This printer was able to get the lower rate because of a competitive situation between a KM direct office and a KM dealer. In this case, the dealer offered the \$.045 rate and KM direct matched the price. However, KM direct did not freeze the service rate for five years, as they had done previously. Instead, they agreed to a maximum increase of 5% per year.

In addition to the above price, I received a copy of an interesting quote on the C6500 from a KM dealer. While the equipment price was about 3% higher (\$1,500), the service pricing was the lowest to date on this model. It was based on a minimum of 25,000 copies per month. The color copy rate was \$.04 per copy with the B&W at \$.011 each. The 11” x 17” copies were billed as one click.

I also received some quotes that did have the new higher service rates. While it’s a little early to tell how this will all shake out, it appears that the equipment pricing on this model is somewhat set, but the service pricing is very dependent on the competitive situation. Please send any quotes you get and I’ll be happy to review them with you.

Upgrading from a Xerox Doc12 ... was the subject of the following letter: "We've been running a Xerox Doc12 for five years and have built our monthly copy volume to about 17,000 clicks per month. It has been a very reliable machine, but because many of these clicks are 11" x 17" in size and on card stock, we are having a very difficult time getting our work out on time.

We've paid off the Doc12 lease and we're currently paying Xerox about \$1,750 per month for service and supplies. Our color copy growth has slowed in the past year and we feel it's because of the slowness of the Doc12. Xerox wants us to upgrade to a Doc240 or 250 and we're also looking at the new Konica Minolta C6500. What are your thoughts regarding our situation?"

Editor comments: The scenario described by this printer is very common. The color copiers, from four or five years ago, are much slower and more costly to operate than those available today. So, even when the lease has been completed, it still is often not wise to continue to run an older model

Let's look at the example shown. This printer is spending \$1,750 or a little over \$.10 per copy for service and supplies. If he were to purchase a new Xerox Doc240, a 48-month lease might run about \$850. Service and supplies, under the new high volume plan, would run \$993 (at 17,000 copies). This would bring the total monthly cost to \$1,843 or just \$93 more than the current costs.

But, with the new Doc240 (28 copies per minute faster), there should be significant labor savings and a great opportunity for copy volume growth. Both of these factors should lead to greater profitability.

If the new C6500 is chosen, a comparably equipped package will probably also cost about \$1,800 to \$1,900 per month for machine, service and supplies.

In summary, I believe the time is right for this company to upgrade. Whether they choose a color copier from Xerox, Konica Minolta or some other manufacturer, that will have to be a personal choice based on their needs and the vendor support available in their marketplace.

The Konica Minolta C6500 ... has been in the field about six months now and I've been receiving a lot of requests for information about performance on this model. Based on these requests, I called four users to get their feedback. Here's what they had to say:

- A Maryland printer has had his C6500 for about 2½ months and is averaging 30,000 copies per month, with no service calls yet. He got the high capacity stacker and the two extra drawers, which are air fed, and highly recommends these features.

He is pleased with the copy quality, when run in the print mode, although not as happy when run off the glass. About 50% of his work is run on heavy glossy stock. At this point, he doesn't have any significant problems and would give it a 9 rating.

- A New Jersey printer installed his C6500 in early February and is averaging about 30,000 copies per month. Virtually all of these copies are run in the 11" x 17" or 12" x 18" sizes. Because of many minor problems, he is only averaging about 8,000 copies between service calls. He is seeing a service man almost once per week.

Some of the problems involve: inconsistent quality across the copy and difficulty in running coated cover stock.

Even though he has been frustrated by the many service calls, he says he is still pleased with his purchase and would buy another C6500 tomorrow. The speed and other capabilities have allowed him to double his monthly copy volume from 15,000 on his previous color copier.

- A Massachusetts printer has had his C6500 for 5 months and is running 40,000 copies per month. He has only had 3 service calls to date, for an average of 67,000 copies between calls. Most work is run in the 11" X 17" size and larger, and most is on glossy cover stock.

He is very pleased with the speed and the quality of this model and said that his employees and customers love the output. He gave it a 9+ rating.

- A Maryland printer installed his C6500 in February and is averaging 35,000 copies per month, mostly 11" x 17" size. Most of this work is on heavy glossy stock. He is only getting about 7,000 to 8,000 copies between service calls and blames most of the problems on RIP issues. He felt that the 6500 and the RIP may have been released before they were ready. Because of this, he is dealing with many software and hardware issues that should have been resolved before introduction.

He likes the quality, but indicated that the machine has to be calibrated each day in order to maintain good quality. Overall, he is satisfied with his purchase but somewhat frustrated with all of the service calls. He gave this model a rating of 8.

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SPECIAL REPORT

Larry Hunt's Color Copy News —JUNE 2007

LITTLE THINGS CAN MAKE A BIG DIFFERENCE

By Larry Hunt

It is definitely not an understatement to say that profitability in the Quick Printing industry varies tremendously. The Profit Leaders make Owner's Compensation levels that are nearly 25% of sales while the Profit Laggards often end up making less than 5%. The gap seems so wide that the laggards often see no hope of ever getting into a Profit Leader position. They rationalize that the leaders must have some magic formula **OR** some special customers **OR** a better marketplace **OR** special employees **OR** etc., etc.

Well, from years of running print shops and consulting with many print shop owners, I can tell you that there is no magic bullet. And, I can also tell you that just about any shop can be a Profit Leader if they decide they want to be one. But, in order to be that Profit Leader, they need to concentrate on all (or most) of the **"LITTLE THINGS THAT CAN MAKE A BIG DIFFERENCE"**. What are these things? There are probably 20 or 30 little things that can positively affect the profits of a company. In this report, I'm going to discuss a few of them. Some will improve sales volume while others will improve profitability. Some will do both.

CUSTOMER RETENTION

Customer attrition is a part of any business. While I'm not aware of an industry wide study to document the exact level of attrition in the printing industry, my guess is that an average attrition rate for a printing customer is about 15%. This means that, for a company doing \$1,000,000 of sales in 2006, they can expect those same customers to provide \$850,000 of sales in 2007. The attrition will come from customers who: go out of business, no longer require the printing item they had ordered before, switch printers because of dissatisfaction, etc.

Fortunately, some of these lost sales will be replaced by new customers who: open businesses in your market area, try your print shop to get away from the one they were dissatisfied with, etc. But, this probably won't make up for the 15% attrition rate and almost surely won't provide any growth. In order to replace the remainder of the lost sales and provide some sales growth, the average company will be forced to spend money on advertising and may need to employ sales personnel to go after new business. Depending on the amount of sales that needs to be replaced, these marketing costs can be substantial.

A well-managed company will typically do a better job of satisfying the needs of their current customers and will probably retain a higher percentage of last year's customers. Because of this, it should be easier for them to maintain and grow sales volume. To give you an idea of the value of a higher retention rate, consider the following example of two companies, each doing \$1,000,000 in sales, but with different customer retention rates.

	Customer Retention Rate Comparison	
	<u>Company A</u>	<u>Company B</u>
Customer Retention Rate	90%	80%
Total 2006 Sales	\$1,000,000	\$1,000,000
2007 Retained Sales	900,000	800,000
2007 New Sales	200,000	200,000
Total 2007 Sales	\$1,100,000	\$1,000,000
2008 Retained Sales	990,000	800,000
2008 New Sales	200,000	200,000
Total 2008 Sales	\$1,190,000	\$1,000,000

As you can see, by maintaining a 90% vs. 80% retention rate, Company A is growing much faster than Company B even though both companies have been shown to have the same amount of "New Sales". In just two years, Company A has \$190,000 more in annual sales. At a reasonable Net Owner's compensation level of 15%, this will mean \$28,500 in additional annual profits.

KEEPING SELLING PRICES IN LINE WITH COSTS

Quite often, Profit Laggards get caught up in the day to day rat race of the business and are afraid to raise prices for fear that they might chase away a customer. They don't have time to compare their prices to the industry norms or prices in their own town. Instead, they tend to panic when a customer says that their prices are too high. When I've consulted with print shop owners and found that their profitability was declining, it was common to find that selling prices had not been increased for 18 months or more. Even if prices had been in line with the market 18 months before, they could now be 6% or so below the market. Without shocking the customers with a big single increase, I would suggest increasing prices by 2% per quarter for the next 6 quarters. This would provide 6% to catch up for the earlier shortfall and 6% for the most recent 18 months. Looking at a company with \$1,000,000 in annual sales, this 6% shortfall covering should provide at least \$30,000 to \$40,000 to the bottom line (I didn't use \$60,000, or 6%, because the price increase will probably not apply to some special accounts). The second 6% should cover inflation and avoid a reduction in profitability.

REDUCING PAPER COSTS

While paper costs tend to run about 12% of sales for a typical quick print shop, I have consulted with some companies where this percentage has been over 15%. In these situations, it is an immediate red flag and a great opportunity for profit improvement. Typically, there are two common reasons for paper costs being significantly higher than the industry norm. First, it could be that the company's selling prices are much lower than the industry average. To illustrate this, consider a job that should sell for \$100 and has \$12 worth of paper cost. This job would have an industry average paper cost of 12%. But, if this printer were to consistently sell this work for \$90, then his paper cost would be 13.3% (\$12 divided by \$90).

The other common issue involves what this printer is being charged for his paper. While most print shops buy from two or more suppliers, some tend to rely primarily on one paper house. And, because of this, they don't always get competitive pricing on many of the volume paper items they buy. If your paper costs are higher than the industry average, I would suggest that you ask your suppliers to bid on your major paper purchase items to make sure you are getting a good price. This effort could easily result in a savings of 1% of sales. On our typical company, with \$1,000,000 in annual sales, this effort could provide \$10,000 or more in additional annual profits.

LOWERING PAYROLL COSTS

The area of payroll costs can provide the biggest opportunity for savings. Profit Leaders often have payroll costs that are 25% of sales while Profit Laggards can come in at 35% or more. While there are many reasons for this variance, I'd like to cover one small point that I consider a **"Little thing that can make a big difference"**.

In most every printing company, sales volume tends to be erratic and somewhat seasonal. Because of this, there is an uneven need for labor. In some months, for example, the sales volume could be handled with six employees and in other months; it might require nine people to get the job done. What's a company to do? This situation tends to be addressed differently by the Profit Leaders and the Profit Laggards.

The Profit Laggard Company tends to carry a staff of nine workers so that they can get the jobs out in the busy months. When the shop is not busy, these companies just let Parkinson's Law take over. Simply stated, Parkinson's Law says that: "work expands to fill the time available". Put another way, if these nine employees are not busy, they will find unproductive work to do to keep busy or to look busy. They will use nine people to get the work done that could have been done by six people. If this wasn't bad enough, when the shop gets busy again, these nine people will have forgotten how to be productive and now won't be able to get the normal volume out. The company will be forced to go to overtime or hire a tenth person to help get this work done. It is a vicious and very costly cycle.

On the other hand, the Profit Leader might carry a staff of eight people. In the busy periods, he will probably pay some overtime to get the work done. He might also farm out some projects if practical. During periods when the sales volume is slow and the work can be done by six or seven people, the owner will have projects lined up for some of the staff. These might involve new company marketing programs, revamping company record keeping systems, etc. Someone could be put on the phone to call past customers to try to get them back. There are many projects that get put off when a shop is busy. When things slow down, these projects are an ideal way to keep employees busy and productive. This accomplishes two things. These projects get done and the employees remain productive and are ready for action when the shop gets busy again.

In a \$1,000,000 sales volume shop, the above technique can easily translate to one less employee in the Profit Leader Company. This would amount to a savings of approximately \$40,000 per year.