Pricing The Print: Did We Go Wrong?

Let me take you back in time to 1992. I had just gone to the bank to sign the papers for a large-format printing system. I borrowed $42,000, and purchased a 36-inch Encad printer, a Seal 36-inch Laminator, a Fletcher Wall Cutter, a Mac computer, an HP Scanner, and a few other items needed to make large-format graphics. I was so excited to start my own business, and WOW, was I in for the run of my life.

My printer made prints at one inch per minute — yes, it took 30 minutes to print a 30-inch graphic! My cost on PVC for a three-millimeter sheet of white was $18; Gator was $24; paper was 35 cents per square foot; ink was 40 cents per square foot; adhesive was 30 cents per square foot; and laminate was a quarter per square foot. In an attempt to follow the very few other companies around me that offered large-format graphics, I set my sell prices at $20 per square foot for PVC, $25 for Gator, and eight dollars for banners.

Now, today, let's look and see where we are in terms of costs and sell prices. The following example uses an inkjet printer so all shops can see the differences. Prices listed are per square foot, and the first set of 1992 data references paper prints with adhesive on the back and laminate on the front. The 2014 numbers reference ink on vinyl with laminate (except banner). The flatbed references ink on substrate.

So what does this all mean? The hardware and materials needed to start a large-format business today would cost about $60,000. That's $1,130 per month on a loan at five percent. It cost around $800 per month to start the same business back in 1992. Labor in 1992 was $6.20 per hour; today it is nine dollars an hour.

All that has really changed over the last 22 years is the speed of the printers. People did not get faster, nor do laminators move faster; the computers are faster, but humans still need to run them! Okay, one other thing has changed: The price at which we sell the output. We have essentially cut the retail price of most large-format graphics to 40 percent of what we sold them for back in 1992. Labor costs went up by 50 percent, and materials cost went up by 40 percent. Rent, heat,

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David King, Commander of Results, MarketKing

Item	1992 Cost	2014 Cost	1992 Sell	2014 Sell	2014 Flatbed Sell
Banner	$.08	$.13	$8	$4	NA
Wall Wrap	$1	$1	$12	$4	NA
Floor Graphics	NA	$1	NA	$8	NA
Print on Foamcore	$1.20	$1.23	$14	$6	$4
Print on 3/16" Gator	$1.80	$2	$20	$9	$7
Print on PVC	$1.60	$1.90	$20	$8	$6
Print on Dibond	$3	$2.50	$30	$20	$12

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electricity, shipping — it's all gone up by 40 percent of more.

Owners of flatbed prints with cutters are now lowering the sale price of the graphics to almost 30 percent of what they sold for in 1992. This is a surprise; the average flatbed printer and cutter cost around $200,000, or $3800 per month plus $1600 per month for a service contract. Now you're left to wonder how you compete.

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Costs

If you organize your general ledger properly, and have a solid understanding of the concept, your cost of goods sold (COGS) should not exceed 25 percent. If it does exceed that threshold, this must be fixed. Your gross sales divided by $110,000 should equal your employee count. Start looking at your numbers, and if they are not adding up, fix them.

Selling

Maybe you think you need to sell EVERYTHING to make money. No. Only sell what you are good at, and what you are comfortable offering and supporting. You must sell enough to cover your costs or you are out of business. So how then do you know what this number must be? Follow these rules:

1. Add up your total expenses; this is EVERY expense paid to keep your company open and operating, but does not include materials. Total expenses include rent, loans, equipment contracts, labor (not commissions nor overtime), electricity, gas, etc
2. Now add your COGS from the past 12 months, and divide by 12 to get your monthly cost of goods sold.
3. Take your COGS for the last year, and divide this by your gross sales for the last year. The resulting number is your cost of goods sold percentage; it should be less than 25 percent, but whatever it is, you need to know it.
4. Divide your COGS percentage by your expenses. If your expenses are $10,000 per month, your COGS percentage is 30 percent. Divide $10,000 by 0.7, and you get $14,285. You must sell $14,285 to cover your monthly expenses. If you offer your sales people a commission, this must be add to the number to get an accurate figure.
5. Understand: If your expenses are $10,000 per month, you must sell $14,285 just to break even. And you didn't get into business to break even; if your expenses are $10,000 per month, you should really sell more like $20,000 to turn a profit.

Once you understand the numbers, and know what you need to sell, the next step is to put a sales plan together. After nine months and proper training, a salesperson should sell no less than $20,000 per month. For this, the salesperson should be compensated. Remember, a good salesperson should work for their sales; a higher commission with a lower base is always the best way to keep a salesperson on his toes.

Good selling!