



A CASE STUDY ON BUSINESS MANAGEMENT OF PRINTING SOLUTIONS COMPANY

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KEYWORDS

Business, Management, Printing Solutions

INTRODUCTION

It is the 1st week of April 2016. Magic Designs & Printing Solutions Ltd. faced with a decision about whether to make a big investment in purchasing Offset printing machine, which is useful for printing bulk quantities at lower costs or to opt for Digital printing machine, where setup cost is comparatively low and suitable for printing small quantities.

The Business Head of the company, Mr. Ajay knows that mid-May onwards, fresh printing orders will be placed by the prospective clients and they all will be looking for the best quality prints at minimum rates. Thus, the company has hardly two weeks to decide whether to go for Offset or Digital printing machine, considering it will take around 15-20 days for order placement, loan procedure, arrival and setup of machine at company's workshop.

OVERVIEW

Mr. Ajay, a Graphic Designer by profession, started his career in 2007 as a freelancer after completing a professional designing course from a renowned designing institute. Initially he used to receive designing works from small organizations through some reference contacts. Since, his designing sense was good, he started receiving orders from few medium enterprises too. Many of his clients were impressed with the designs and one such organization offered him a full time job in the year 2008 with an average salary. To gain the professional experience, Mr. Ajay accepted the offer and continued to work as a freelancer on weekends for other designing projects. During this full time job, apart from the designing task, he was made responsible for the printing of the marketing and branding materials, such as brochures, leaflets, visiting cards, banners, indoor displays, packaging boxes and so on. This multitasking profile, enabled Mr. Ajay to develop good relationships with various printing vendors.

After gaining the experience of around 6 years, in 2013 he decided to start his own business - Magic Designs & Printing Solutions Ltd. The plan was simple - to make the design of brochure, product catalogue, pamphlets, leaflets, visiting cards, indoor displays etc. on his own and then get it printed from the printing vendors, with whom he developed relationship in the last 6 years. However, starting a business was not so simple, as it required lots of investments for office space, furniture, interiors, computers, stationeries and few staff members to look after the accounts, administration, sales and designing work.

Initially his business was dependent on the companies, which used to give freelancing designing work to him, but as the sales team started performing, the company started getting orders from the new clients. The client portfolio included some real estate players, educational institutes, health care services, restaurants and few other private companies. The size of orders varied from 10 nos. to as high as 20,000 nos., as per the need and capabilities of the clients.

With increasing competition levels, the margins started to decline with the reduction in market prices. In order to be competitive, price reduction was necessary, which affected the profit margins badly.

As the local competition grew, prices slashed further and it became very difficult for Mr. Ajay to match the competitive price, considering the monthly fixed cost of his office and staff expenses. The prices of the new local competitors were unbelievably lower, and therefore Mr. Ajay decided to purchase a printing machine, so that his company's printing cost can come down.

He thought to consult with his printing vendors about the same. He came to know that, the new local competitors were using reconditioned/ used printing machines. These reconditioned/ used printing machines are the ones, which are very old and its manufacturing company do not recommend using it further, as its printing quality is not up to the mark. Therefore, such machines were priced at around Rs. 45,000/- to Rs. 50,000/- only, compared to the new Digital printing machines of Rs. 15 Lakhs, where its manufacturing company gives assurance of good quality printing for long term. However, both these machines can be useful to fulfill the needs of small order quantity i.e. 1/ 5/ 10/ 20/ 50/ 100. In case of bulk quantity, i.e. 1000 nos. and above, Offset printing machine will be suitable because of lower cost per unit and higher margins, but it required comparatively bigger investment i.e. Rs. 3 Crores.

Mr. Ajay does not want to compromise on the print quality and therefore he ruled out the option of reconditioned/ used printing machines. Regarding the other two options of Digital or Offset printing machine he decided to get the in-depth details regarding the printing machines, its print quality, cost per print, durability, printing time etc.

STATUS REPORT

After surfing on the net, meetings with the different print machine companies and consultation with vendors, Mr. Ajay gathered following details and understanding regarding Offset and Digital printing machines.

TABLE – 1 Comparison of Digital & Offset Printing Machine

	Digital Printing Machine	Offset Printing Machine
Price	Starting from Rs. 15,00,000/-	Starting from Rs. 3,00,00,000/-
Suitable for (Qty)	Small qty i.e. 1/5/10/20/50/100.	1000 nos. and above
Variety of Paper to be used	Limited variety of papers can be used for printing	Large variety of papers and other surfaces like wood, cloth, metal, leather & plastic
Sheet Size	Upto 19 inches	Upto 40 inches
Print finish	Standard	Custom (metallic & pantone colours) and high quality
Print Quality	Standard	Highest possible printing quality, with greater detail and color fidelity

Cost Per Print	Rs.6/- per print (approx.) for A4 size colour print	Rs. 2/- per print (approx.) for A4 size colour print (considering 1000 prints) and will reduce further as quantity increases.
Profit Margin	65% (approx.) on cost price	150% (approx.) on cost price
Time required for print	3 to 4 seconds per print	Around 10,000 prints per hour

[1] Primary:

- Ten printing vendors in Navi Mumbai and Thane were approached through personal meeting to collect the factual data about the printing machines.

[2] Secondary:

- www.printingforless.com/Digital-Printing-Explained.html
- www.ldogpro.com/articles/digital_vs_offset.htm

Mr. Ajay also analysed the type of orders his company used to get from the clients in the last one year and he came to know the following facts:

- Total number of printing orders received in the last year was 6720, out of which 5285 (78.65%) orders were of small quantity ranging from 10 to 150 nos. and remaining 1435 (21.35%) orders were of bulk quantity ranging from 1000 to 20,000 nos.
- Total sales revenues in the last year was Rs. 5,22,62,000, out of which 5285 small quantity orders accounted for Rs.63,42,000/- (12.14%), whereas Rs. 4,59,20,000/- (87.86%) came from 1435 bulk quantity orders.

From the above analysis, it seems that the majority of sales revenues came from the bulk quantity orders, but after detailed discussions with sales team, Mr. Ajay realized that many of the bulk quantity orders were coming from the satisfied small quantity clients or through their references.

Another important parameter to consider before taking decision on any of the printing machines, is regarding the interest amount (17% p.a.) for the loan Magic Designs & Printing Solutions Ltd. would be taking to purchase the machine, as it will add up to the monthly expenses of the company.

CASE PROBLEM

Mr. Ajay is aware of the fact that, to remain competitive in the market and providing quality print solutions, his company has to purchase one the printing machines, but he is in a real dilemma on whether to go for:

a) Digital printing machine, where investment is comparatively low, number of orders is high, but overall revenue is comparatively low because of small quantity and outsource the bulk quantity printing orders which will give small margins. **OR**

b) Should go for Offset printing machine, where his company can earn comparatively big revenues with less number of orders, but it includes a huge investment and therefore will attract big EMI to be paid for the loan company would be taking, to purchase the machine. Additionally for the small quantity orders company will be dependent on printing vendors.

QUESTIONS

Q.1 You as a management consultant are required to advise Mr. Ajay on whether to go for option (a) i.e. purchasing Digital printing machine or should opt for option (b) i.e. purchasing Offset printing machine? You are required to explain the rationale behind your advice.

Q.2 If Mr. Ajay and Magic Designs & Printing Solutions Ltd. team decides to go for option (b) i.e. purchasing Offset printing machine, in how much time, the company would be able to break-even its investment?

(Note: assume 20% annual growth in the sales revenues, 60% profit margin (on sales revenue) in bulk printing orders, 15% profit margin (on sales revenue) in small qty orders (outsourced) and 17% p.a. interest on loan amount of Rs. 3,00,00,000/-)

SOURCES OF DATA: