Print on Demand
Current and Future Trends

Is POD really expensive when compared to Web Offset print? Steve Waldron, VP Business Development Klopotek North America, invites you to take a deeper look at what might seem obvious at first glance. Steve also explains which POD model looks most promising to publishers and may present significant cost savings for the future.

Print On Demand (POD) vendor capabilities have improved over the past few years, with the introduction of new print equipment and the range of services that vendors seek to offer. They can now offer a range of color and black and white print capabilities and can even produce 4 color hardback variants in a cost effective way.

They have also made it easier to do business with them by providing EDI order integration and the ability to provide an invoice, in your corporate format and logo, in the box for delivery to the end consumer.

The current economic climate and technology changes affecting the publishing industry have also accelerated the adoption of print on demand business models. There has been a trend towards smaller print runs and also a need to invest money in new media and digital methods for distributing content.

Most POD vendors provide services based on several business models. Typically there are three major ones. These are:
- Print to Order (PTO)
- Drop Ship Short Run. (PDS)
- Short Run (PSR)

At initial look these models appear expensive, certainly when compared to Web Offset print costs, however, a deeper look can bring some very interesting benefits. The important thing to take into consideration is how you compare the true cost and value of each service.

In order to provide clarity, it’s worth looking into each business model. The most powerful and flexible model is the Print to Order Model.

Summary of Business Models

With all of the following business models, the customer has to supply digital files to a certified standard to achieve the lowest setup costs per title. These setup costs may be fully absorbed by the POD vendor depending on the model. Typically the PDS and PSR models do, the PTO model may, depending on breakeven being reached.

Print to Order (PTO)

This is the most powerful and flexible model available today, and not all POD vendors can do this. In this model the POD vendor will print and supply any number of copies, from one to several hundred and ship them direct to the end consumer on your behalf. The order can be placed via EDI automatically as an adjunct to your normal order to cash operations and the product is set to never go out of stock.

Drop Ship Short Run (PDS)

In this model, the POD vendor will print a short run, typically around 1,500 titles and will ship them to a distributor or wholesaler on your behalf.

Short Run (PSR)

In this model the POD vendor will print a short run, typically around 1000 to 1,500 titles and will ship them to your own warehouses.

Current and Future Trends within these models

There have been several interesting trends over recent years surrounding the business models and services becoming available. Several traditional distribution houses have moved to place POD equipment into their warehouse operations and have started offering POD services direct to new and existing customers, this can be seen at Ingram, Books International and others. Typically these are aimed at the PDS model, but as these options are both strategic and to some extent customer driven they are extending into the PTO model.

Print to Order

This model is the one that has the most to offer and is the one of most interest to publishing operations.
The current economic situation and the move toward more electronic product and less print product makes the concepts here increasingly more attractive.

In this model the POD vendor will supply any number of copies direct to the end consumer on your behalf. The order can be placed via EDI automatically as an adjunct to your normal order to cash operations and the product is set to never go out of stock from an inventory perspective.

The POD vendor can even invoice in your standard invoice format on your behalf. The orders are usually shipped for free.

So, you have no inventory worries, need not concern yourself with reprint forecasting and planning, can always guarantee supply and, therefore, never lose an order. These factors, alone, provide a substantial value. However, let’s drill into the factors involved. To do so we’ll take an example. Let’s suppose we have a small hardcover title. It has 500 pages and the cover is 3 colors with white paper interior that is one color. Typically this will cost approximately $15 per unit to print using the PTO model.

Compare this to the average web offset cost for a similar product of around $2 per unit. This seems irreconcilable, at face value; however, what is the true cost to compare? In order to get the low unit cost on the web offset side, you have to be prepared to print around 10,000 copies. Running less pushes the price up, a short print run of 1500 via web offset or so would push the unit cost to $12. Still less then PTO but not by much.

Printing 10,000 copies the requires that the product is shipped to your warehouse, handled, stored, moved around and then re-shipped and with an average return rate of 30-40% eventually reshipped and the remainder probably pulped. Therefore, a true cost comparison needs to take into account the cost savings that can be achieved by not having the costs of freight, warehousing, stock handling, shipping to the consumer, shipping of returns, returns handling and so on.

The title profitability calculation for estimating the breakeven needs to include these costs so that the revenue and sales units can be correctly calculated to help to guide the decision making process for offset versus PTO.

Here are a list of factors to take into account:
- Receiving and stocking (per unit received)
- Picking, packing and shipping (per unit shipped)
- Returns processing (per unit returned)
- Other (per unit shipped, these could be interest and infrastructure charges for buildings and operations)

With these factors mapped into the technical calculation we can see and compare the breakeven calculation between large run offset and digital PTO. Due to the lower risk and lower returns rates it may well prove to be advantageous to go the pure PTO route.

If all of these factors are correctly applied to the profitability estimate it will become evident that the breakeven calculation in units and dollars may not be significantly different between the web offset and the POD PTO model.

It may also be beneficial to review large print run titles regarding reprint planning, avoiding the small print run in favor of Print to Order may also reduce costs and improve the overall profitability of these titles.

Since print runs are reducing in size generally, as the forecast sell through drops on most titles, we can see that the movement to PTO can be attractive.

Océ presented POD options and printers as a sponsor at Klopotek’s Publishers Forum 2011 in Berlin.
It is worth noting that it’s also more attractive to print vendors, since the average profit margin on large impression web offset runs is typically between 1% and 2%, whereas the average profit margin for small run digital printing is 30% to 40%.

Like all POD models, the formats supported are limited, and so this may not suit specialist publishers who require a large range of sizes, colors and materials.

**Drop Ship Short Run**

Publishers who are international in nature, but who do not have a global infrastructure are looking at PDS. These are publishing operations like the World Bank, for instance, who publish worldwide but use distributors and other agents. If you publish in Sub Saharan Africa and can print on demand in a locale close to the consumer you can make large savings. There are many others who would achieve similar benefits using this model.

This is a model being pushed by existing print binderies but also by new offshore POD specialist shops in Asia, Africa and other countries.

As we have discussed, these short run prices are such that print operations stand to make higher profits over the large print web offset vendors.

Publishers are increasingly using this model. It’s an easier to understand and quantify model rather than the PTO, as it fits current short run models where reprint demands are led by critical stock levels. It compares favorably with web offset costs for short runs but does have less flexibility than web offset regarding formats. Therefore, a trade publisher, printing standard formats can utilize this cost model effectively. A specialist publisher with more diverse and varied formats might not be able to match quality standards so easily.

Like the PDS model, the print vendors profits are larger than larger impression print runs and so this is an attractive offering for them.

One potential reason for increase in this area is the difficulty of accurate forecasting in a fast changing environment thereby causing more inventory shortfalls then may have been prevalent in the past.

**Short Run**

This model is very similar to the Drop Ship variant, however, here, the product is shipped to the publishers own warehouse and is stocked and shipped as any other product. The business gains are the least effective as this is traditionally used to fulfill inventory shortages and the larger unit cost pushes the cost margins without presenting other major benefits. The advantages are generally speed related, as long as the process and procedures are in place and certified digital files are available well ahead of their need this can result in stock being available faster than traditional print models may have supported provided that the print bindery has adopted a streamlined digital workflow.

Print on Demand - Future Trends summary

We have seen publishing houses embracing all the models described above. Some publishers have embarked on a pure POD model and are divesting themselves of the traditional warehouse operations. Some are considering the viability of reducing the variety of print formats that are produced in order to reduce costs, reduce risk, increase quality and speed to market. Some are also considering the potential of operating their own digital printing equipment, after all, if print operations can garner 30% to 40% profit margins utilizing digital print machines then ownership of digital print equipment and printing your own product may present significant cost savings for the future.

The PTO model, in particular, reduces investment risk, it takes away the guess work and complex forecasting of print run and reprint planning and ultimately means that you only pay for the inventory that you actually sell, this also takes away the risk of losing a sale due to unavailability of the product, today’s consumers often choose a similar product if the one they initially select is not available. The value of not losing those sales should not be underestimated.

With the trend toward content matching the consumer, this is becoming increasingly important. The whole publishing industry is experiencing the consumer’s desires to be able to consume the content publishers offer in a variety of new mediums which is reducing print demand but not the value of the content. It’s therefore extremely wise to look at ways of taking cost out of the traditional publishing models so as to be able to invest in ways of maximizing the value of the content and assets publishers possess.

For any additional information please contact Steve Waldron or George Logan.

Steve Waldron, VP Business Development
Klopotek North America

s.waldron@klopotek.com

George Logan, Vice President
Sales & Marketing,
Klopotek North America Inc.

g.logan@klopotek.com

© Klopotek 2012