

Do The Math!



Unveiling the Mystery of Pricing: Contract vs. Custom

By Jay Goltz

Production framing. The term means different things to different people. For this article, let's assume production means framing the same-sized piece in the same materials numerous times. Let's say a minimum of 50 pieces. The cost per piece of framing the same picture 50 times is very different than framing it one time. To really understand this difference, you have to understand the overhead costs.

Let's look at two businesses. One is a custom frame shop, the other is a production frame shop. They are both asked to frame the exact same picture with the exact same materials. The one at the custom shop will retail for \$180. The production facility, which will frame 1,000 of these pieces, is going to charge \$75 each. That's about the actual cost for the custom frame shop, leaving the owner to wonder, "How do they do that?"

I'm going to show you how. Keep in mind that the following numbers work only for a healthy custom shop that shows a profit beyond what the owner should be paying him/herself for running the store.

Custom Frame Shop

custom frame price		\$180
materials	\$50	
labor	\$27	
cost of goods sold (includes direct labor, <i>as it should</i>)	\$77	
gross profit, which equals 57%		\$103

47% to be used for overhead: rent, insurance, phone, management, sales expense, etc. leaving 10 % net profit

The income is a combination of what an owner is paid to run the store and the profit, which for this example is 10 percent. Many frame shops do not have that kind of profit. But that's another story.

While a custom shop and production facility may be using the same materials, they buy at very different prices. The custom framer has \$50 of materials in the job. He buys the frame chopped, took the glass out of a box, and buys mat board in small quantities. The production framer buys moulding directly from the vendor and buys pallets of glass and mat board. There is also less scrap because the facility is able to cut materials to maximize yield, and there is less damage because the material is being used all at once instead of taking it in and out of a bin. In addition, a moulding defect that a custom framer would cut around might be good enough for the production framer.

All this means a production company's costs are \$25—half what a custom frame shop pays. That's the difference between buying 8,000 feet of moulding and making just one

frame. A production framer also frames a piece twice as fast. A custom framer spends time measuring, cutting, and getting the art, while production workers do the same task all day at set standards, getting more adept at framing quickly while usually making less money. They become factory workers.

Production Frame Shop

production frame price		\$75
materials	\$25	
labor	\$13.50	
cost of goods sold (includes direct labor, <i>as it should</i>)	\$38.50	
gross profit, which equals 49%		\$36.50

39% to be used for overhead: rent, insurance, phone, management, sales expense, etc. leaving 10 % net profit

The production framer's gross profit is less: 49 versus 57 percent, mostly due to selling for a much lower price so the cost of goods is higher as a percentage. By the same token, overhead costs are less per unit. In a production framing environment the expenses are less for rent, advertising, phone, and management and there isn't a 2-plus percent credit card fee. Think how much time it takes to order 8,000 frames individually versus one phone call. Even depreciation expense is less because equipment costs are spread over larger sales numbers. These are rough estimates, but at least you get the idea.

There's an important lesson in this. Custom framers should think twice before dabbling in production framing. Unless you have the same buying economies, efficiencies, and expertise, you'll have a hard time competing with someone who produces large numbers of framed art for a living. I've seen too many framers, including myself, confuse wholesale framing (when it's a quantity like 15 that are being resold) with production framing. The economies of scale are smaller than for production framing—and so should the discount. There are actually very few economies of scale for this kind of wholesale framing. Many people have gone broke chasing that pot of gold.

For this reason, it's very difficult to be both a successful production framer and a successful retailer. It requires a different sales force, showroom, suppliers, employees, and location. In my experience, the people who are successful in this industry do one or the other very well. If you do both well, then you should be writing your own column! ■

Jay Goltz owns Artists' Frame Service in Chicago, which employs over 80 people at its main framing operation. He has received many business honors and is known for his straight talk on succeeding in business.