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February 2010
eReview

Center Spotlight



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A Distribution Center for Print Service Providers

The concept of print service providers offering services beyond print is not a new one. An increasing number of these companies have remodeled their business strategies and have adopted value added services to enhance growth and profitability. The need to differentiate one print service provider from another is not only based on products or technology, but also on the unique value of the provider as perceived by the customer (Gorelick, 2004). Further, many value added services (VAS) are a natural extension to the company's distribution function, making it easy to integrate them in a single organizational structure. Examples of these services include fulfillment, warehouse management, and facilities management (Cummings & LeMaire, 2008).

The primary goal of this month's research study, *Evaluating the Viability and Usefulness of a Distribution Center for Print Service Providers (PICRM-2010-01)*, by Twyla J. Cummings, Ph.D., was to understand the perceived value of distribution services within a print service organization. Thus, the study focused on the following objectives:

1. Introduction of the distribution center concept as a way to promote a company's VAS.
2. To determine if print service providers are offering any, all, or different services than those outlined in the proposed distribution center model.
3. To find out how these services are structured within a specific organization.
4. To assess the viability of the model in today's printing



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industry.

Overview

The current decline in print sales highlights the urgency for printers to make drastic changes in their business model and to realize that they can no longer rely solely on printing to achieve revenue goals. Additionally, they must re-evaluate the profitability of their core businesses. To quote Niels Winther, Chairman of the Board for Think Patented, "printing is not going away, but printing-only companies are" (personal communication, June 22, 2009).

An increasing number of companies have remodeled their strategies and adopted value added services to address the growth and profitability crisis in the industry. The focus on this type of service diversification increased significantly while the U.S. endured its worst recession in over two decades (Cummings & LeMaire, 2008). As the industry consolidates further and continues to shrink, only those companies that are able to distinguish themselves and satisfy unique customer needs will be able to succeed.

Research Findings

The following sections present data from the research interviews as it relates to the study objectives. (The complete data set from the interviews can be found in Appendix C [in the full monograph.](#))

Five companies were interviewed for this research study: Complemar Packaging & Fulfillment (Rochester, NY), Hammer Packaging (Rochester, NY), Merlin International (Rochester, NY), "The Newspaper Company" (location undisclosed) and Think Patented (Dayton, OH).

Value Added Service Offerings

Table 1 shows the percentage of sales and profits for the VAS offered by each company.

Table 1. Sales and profitability of VAS

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Name	% Sales VAS	% Profits VAS
Complemar Packaging & Fulfillment	100	100
Hammer Packaging	Part of overall sales	Part of overall profits
Merlin International	20	12-15
The Newspaper Company	< 3	< 3
Think Patented	65-70	50-60

The participants were given a list of services to review and asked to indicate if these were value added services that their company offered. Companies were asked to include any additional services that were not listed. (For the purposes of this research, "packaging" refers to the preparation of the product for shipping unless otherwise specified.)



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About the eReview

The *eReview* is a monthly publication of the Printing Industry Center at RIT for registered Affiliate companies. Articles are also published in the quarterly printed publication *PrintReview*.

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Table 2 presents a listing of all VAS identified by the research participants. Storage and shipping are the only services offered by all of the participating companies. Eleven of the remaining services are offered by at least 4 of the companies.

Table 2. VAS service offerings

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VAS	CP&F	HP	MI	TNC	TP
Fulfillment	✓	✓	✓		✓
Kitting	✓	✓	✓		✓
Mailing	✓		✓	✓	✓
Product Returns	✓		✓		✓
Storage	✓	✓	✓	✓	✓
Inventory Management	✓	✓	✓		✓
IT Management	✓	✓	✓		✓
Database/Asset Management	✓		✓	✓	✓
Shipping	✓	✓	✓	✓	✓
Packaging	✓		✓		✓
QA and Inspection	✓	✓	✓		✓
Document Destruction/Recycling	✓	✓	✓		✓
Lean Manufacturing	✓	✓			✓
Sustainability	✓	✓		✓	✓
Consulting Services	✓	✓			✓
Digital Printing/POD	✓		Core business		✓
Web Development			✓		✓
JIT Manufacturing		✓			
Paper Sheeting		✓			
Design Services				✓	✓
Promotional Products					✓
Call Center					✓
Cross Media Services					✓
Commercial Printing		Core business		✓	Core business

The participants were asked if their company charged for the VAS offered (Table 3). In some cases, the VAS are considered complimentary or a routine part of doing business. In most cases, however, the company does charge for their VAS offerings.

Table 3. Charges Assessed for VAS

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VAS	CP&F	HP	MI	TNC	TP
Fulfillment	Y	Y	Y		Y

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About the Center

Dedicated to the study of major business environment influences in the printing industry precipitated by new technologies and societal changes, the Printing Industry Center at RIT addresses the concerns of the printing industry through educational outreach and

VAS	CP&F	HP	MI	TNC	TP
Fulfillment	Y	Y	Y		Y
Kitting	Y	Y	Y		Y
Mailing	Y		Y	Y	Y
Product Returns	Y		N		Y
Storage	Y	Y	Y	N	N
Inventory Management	Y	N	Y		Y
IT Management	Y	Y	Y		Y
Database/Asset Management	Y		Y	N	Y
Shipping	Y	Sometimes	Y	Y	Y
Packaging	Y		Y		Y
QA and Inspection	Y	N	N		N
Document Destruction/Recycling	Y	Y	N		Y
Lean Manufacturing	N	N			N
Sustainability	N	N		Y	N
Consulting Services	N	N	Y		N
Digital Printing/POD	Y				Y
Web Development			Y		Y
JIT Manufacturing		N			
Paper Sheeting		Y			
Design Services				Sometimes	Y
Promotional Products					Y
Call Center					Y
Cross Media Services					Y
Commercial Printing				Y	

Table 4 summarizes the total VAS that each company offers, the number of VAS that the company charges for, and which services are handled in-house or outsourced. In all cases the majority of the services are offered at a charge and performed in-house. In-house means that the company provides the service and it is performed at one of their facilities. Outsourced means that the company arranges the service, but does not perform the associated tasks. In-house/outsourced means that sometimes the service is done by the company and other times it is outsourced.

Table 4. Location of VAS Offerings

[click to view image full size](#)

Category	CP&F	HP	MI	TNC	TP
Total # VAS	16	13	14	7	21
# of Chargeable VAS	13	7	11	5	16
# In-house VAS	15	10	12	7	19
#Outsourced VAS	1	5	3	0	6
# In-House/Outsourced VAS	0	3	1	0	5

Organizational Structures

The following organizational structures (Figures 1-5) illustrate the area in the participant's organization where the value added services offered by their company are located and the reporting structure. These structures were developed based on the information provided during the interviews. None of the participating companies had any pre-existing structures for their value added services. It is important to note that these structures may not necessarily reflect the companies' overall organizational chart.

research initiatives.

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Figure 1. Comlepar Packaging & Fulfillment VAS Organizational Structure

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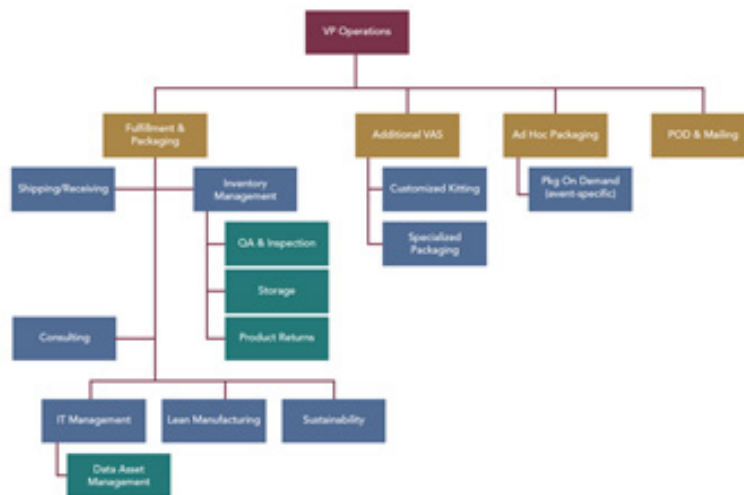


Figure 2. Hammer Packaging VAS Organizational Structure

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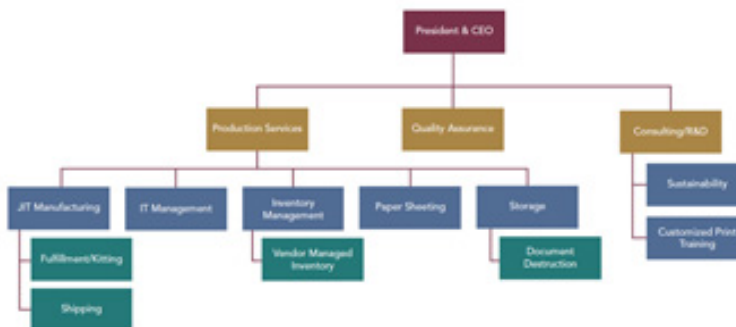


Figure 3. Merlin International VAS Organizational Structure

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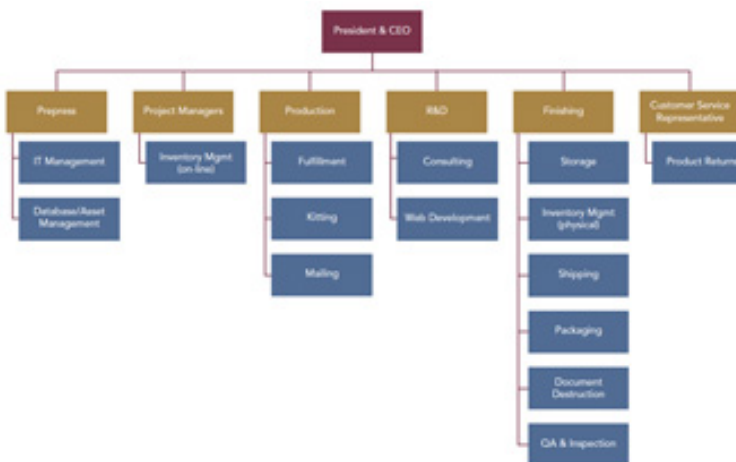


Figure 4. The Newspaper Company VAS Organizational Structure

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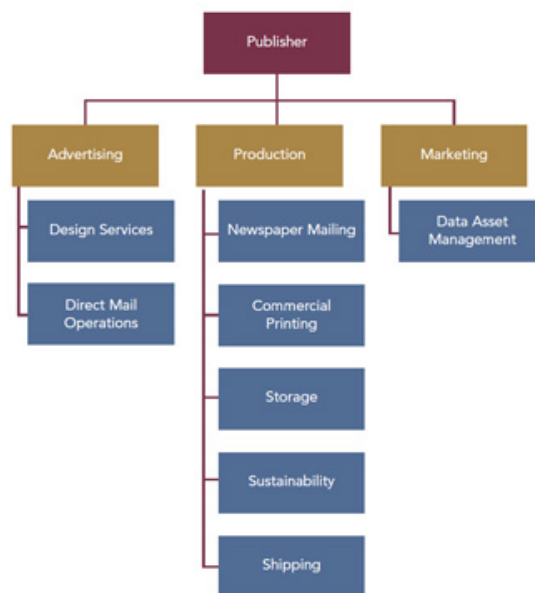


Figure 5. Think Patented VAS Organizational Structure
[click to view image full size](#)



Benefits of a Distribution Center Structure

Figure 6 represents a proposed distribution center model. The participants were shown a similar model prior to being asked the questions in this section. The focus of the questions was to get their perception on the viability and value of a model like this one.

Figure 6. Proposed Structure for a Distribution Center Organizational Model

[click to view image full size](#)



The next questions for the participants related to whether they perceived any value in structuring distribution related VAS under a single organization (Table 5) and what type of company was best suited for this model (Table 6).

Table 5. Value of a Distribution Center Model

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Complumar Packaging & Fulfillment	"A structure such as this gives a positive perception, lowers cost (e.g. freight), and saves time."
Hammer Packaging	"Yes, but it could be the cost of doing business. Many services are given away due to the competitive nature of the business."
Merlin International	"This model presents the product, not the solution. It represents the back end and the focus should be on the front end."
The Newspaper Company	"Not for newspapers."
Think Patented	"The team sell and brand management approach we use would not fit under one center."

Table 6. Best Company for Distribution Center Model

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Complumar Packaging & Fulfillment	Large company – smaller companies need more infrastructure.
Hammer Packaging	Large company – substantial size of at least 40-50 million in sales. "Larger companies are positioned for a competitive advantage."
Merlin International	Large company – more flexibility; finishing or distribution company.
The Newspaper Company	Large company – larger commercial printers with resources available to execute a VAS strategy.
Think Patented	Small company – that only offers one service (e.g. small printers and mailers). "It would give them a competitive edge and allow them to stay in business."

Participants were asked if they would consider this type of distribution center structure for their company. Four of the five participants indicated "no" and the fifth company (CP&F) noted that they already use a similar structure.

The last question in this section focused on the challenges associated with structuring these types of value added services into one organization. Participants were asked to note the challenges that they envisioned. A selection of their responses is listed in Table 7.

Table 7. Challenges with Establishing a Distribution Center Model

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Complumar Packaging & Fulfillment	"Challenges for small companies due to inability to offer services to a larger customer base (profitability) and the need for more cash outlay."
Hammer Packaging	"Finding the right people to manage and work in this type of environment."
Merlin International	Flexibility, company size, physical location of VAS.
The Newspaper Company	"Coordination with sales staff of core products and ability to independently cash flow VAS."
Think Patented	"By doing the necessary research and hiring the right people with the right expertise."

Discussion of Findings

Of the five companies interviewed, only Complumar Packaging & Fulfillment saw the potential benefit of a distribution center model in their company, mainly because they have an organizational structure that is similar to the one proposed. With the exception of Think Patented, all of the participants felt that this model would be best utilized by a large company that had the infrastructure to support the number of services that could be offered under the umbrella of a distribution center. Their rationale was that being able to advertise and offer this model might give a smaller

"printer-only" company a competitive advantage and/or help to revive a failing business.

A couple of the participants suggested a different name would be more appropriate. For example "job integration center" or "value added services center" were noted. However, Stan Olevnik, Vice President of Complemar, commented, "...[T]he name 'distribution center' works because it [distribution] is not just connected to print, but adds value at all levels" (personal communication, June 16, 2009).

The overriding theme that came out of the interviews regarding the distribution center model is that it would be difficult to have a standardized organization for all VAS. However, having a model for VAS that was closely tied to the distribution function may be appropriate. Ultimately, from these discussions there does not appear to be a high level of interest and there was minimal perceived value associated with advertising this type of model to current and prospective customers.

Structure of Value Added Services

Due to the structure of the each company's VAS organization, it was difficult to identify any common themes or make any generalizations among these five companies. However, all of the companies interviewed offer multiple (9-21) value added services. The input for the development of these structures was provided by senior management personnel, which suggests a high level of visibility for these services within each company.

Although not an objective of the research, it appears that all of the VAS indicated by the participants fall into three distinct categories as identified from the data by the researcher. These categories are listed below.

1. **Traditional Value Added Services:** Long standing services such as shipping, packaging and storage; these services may be difficult to charge for because they are viewed as part of the production process.
2. **First-Generation Value Added Services:** Services that were initially recognized as "other" services beyond print that printing companies began offering in order to capitalize on a customer's business needs and to establish a competitive advantage. These include services such as mailing, digital printing, fulfillment, kitting and inventory management.
3. **Second-Generation Value Added Services:** These are more technology driven services that give companies an

even stronger competitive advantage and includes services such as IT management, website development, graphic design, call center support, and promotional and integrated services.

All of the participating companies market these services in some way.

Implications

Although traditional print distribution is a critical part of the print production process, it is not generally recognized for its value and marketability. As the printing industry continues to change structurally, it is imperative for print service providers to realize that distribution is a major facet in the print production cycle. Distribution needs to be viewed in a different light due to the:

- Continued use of alternative (non-print) means of communicating some types of information, previously communicated by traditional print methods.
- Continued cost increases associated with the physical transport of printed media.
- Need for more service diversification and profitability in order to compete in the marketplace.

All of these issues can lead to a reduction in the amount of print generated and distributed, in turn resulting in a negative impact to the printer's bottom line. Therefore, as printers consider their strategic direction, value added services such as distribution and related services need to be evaluated and assessed for the financial benefits it can offer (Cummings & LeMaire, 2008).

Conclusion

More and more printers are diversifying by incorporating value added services into their business model. Unfortunately, as has happened with printing services, it is anticipated that traditional and first-generation value added offerings will soon be a commodity, making it once again difficult for companies to differentiate themselves. In the future these service offerings will be the norm for most printers – not unique, but rather a normal part of a printing company's business operation (Cummings & LeMaire, 2008). Thus, it is imperative for these companies to incorporate more second-generation value added services and to look for third generation opportunities to stay ahead of the competition in order to continue to offer value to their customers.

Finally, while the participants in this study did not find the

