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R·I·T Printing Industry Center

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this month in Center research:

Strategic Alliances in the Printing Industry

U.S. printing companies are increasingly forming inter-firm relationships in order to survive or strengthen their positions. This month's eReview synopsis is on ***Strategic Alliances in the Printing Industry***, a master's degree thesis prepared by RIT's School of Print Media graduate student Nattawan Techavichien.

Defining Terms

Authors Michael Yoshino and SrinivasaRangan define *strategic alliance* in a 1995 book of the same title published by Harvard Business School Press as "a joint effort by two or more companies linked together in the supply chain to reduce the total cost of acquisition, possession, and disposal of goods and services for the benefit of all parties."

Strategic alliances can take many forms—they can be outsourcing relationships, contractual arrangements, minority equity investments, or joint ventures, or they can grow into mergers and acquisitions. Firms enter into strategic alliances for a variety of reasons: for facilitating a temporary, one-time project; for enhancing one specific aspect of the business; or to jointly develop new products. A simple alliance can be carried out with a written contract plus an agreed upon termination period. Bringing two totally separate organizations together for a joint venture is usually more complicated because of differences in company values and cultures, business goals, and management structures.

Reasons for the Recent Growth in Strategic Alliances

Certain environmental conditions have been driving the formation of alliances and explain the increased cooperation among companies during the last decade. Among these drivers of strategic alliances are the following:

- The once-obvious boundaries between industries are now unclear, due to advances in technology that have created crossover opportunities.
- Advances in communications (the Internet, etc.) have begun to link formerly distinct products, markets, and geographic regions.
- The rising demands of customers require improved and increased capabilities.
- The increasingly global marketplace calls for standards and compatibility.

Overall View of the Research

This study used qualitative techniques to describe and interpret

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the current practice (from the years 2004 and 2005) of established strategic alliances in the U.S. printing industry. The author refers to the major players and their roles in the industry, and describes the nature of the relationships among partners in the printing industry. To enhance this understanding, a case study of an existing partnership is included.

Data sources were press releases, search engines, online data bases (particularly ABI Inform, Whattheythink.com and the Selectory Business Database), company Web sites, scholarly journals, and trade articles. Among the 116 observed alliances established by more than 200 companies, the author found four basic types:

- outsourcing,
- contractual agreements,
- joint ventures, and
- mergers and acquisitions.

The most common type of alliance was merger and acquisition, constituting 48% of the observed alliances. (See Figure 1.) Apparently equity investments and partial acquisition relationships rarely exist in the printing industry because, over a brief period of time, one of the companies usually acquires all the assets of the other.

Figure 1. Alliance types in the printing industry
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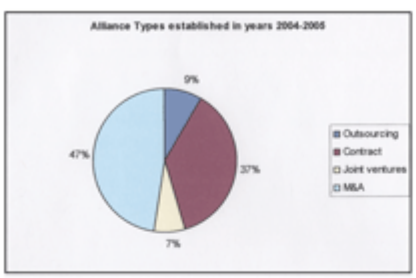

Alliance Types	Outsourcing	Contractual Agreements	Joint Ventures	M&A	Total
Number	10	42	8	56	116

Based on the data gathered, a variety of print-related companies entered into alliances, including equipment manufacturers, print services providers, and publishers. While generally there were only two parties in an alliance, there were some exceptions. For example, Xerox International Partners (a subsidiary of Xerox Corporation), FujiXerox Co. Ltd., and Dell Inc. aligned to expand their joint imaging and printing marketplaces.

Alliances Observed

Ten *outsourcing* alliances were observed, 50% of which were initiated by print services providers. (See Table 1.)

Table 1. Companies with outsourcing
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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 research initiatives.

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Adobe
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Heidelberg
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NPES
Standard Register
U.S. Government Printing Office
Vertis
VIGC
Xerox Corporation

ServiceBuyer	NAICS code	Employees	Sales ($mil)	Outsourcing Provider	NAICS code	Employees	Sales ($mil)
Transcontinental Media	511	53	4.1	New York Times Co.	323	12,300	3,303.64
MAGNET	561	N/A	5.13	FedEx-Kinko's	323	20,000	2,000.00
Bowne Global Solutions LLC	541	4,900	899.01	BAeHAL Software Ltd.	334	N/A	N/A
Northwestern University	611	5,954	1,115.61	FedEx-Kinko's	323	20,000	2,000.00
R. R. Donnelley & Sons	323	43,000	8,000.00	IntraLinks	541	214	37.22
CIGNA	524	28,600	18,176.00	R. R. Donnelley & Sons	323	43,000	8,000.00
MCI Inc.	517	40000	20,690.00	Danka Holding Co.	423	10,870	786.79
Hewlett-Packard Co.	423	151,000	79,905.00	Heidelberg	423	24,649	3,360.27
IBM Global Services	423	319,876	96,293.00	Danka Holding Co.	423	10,870	786.79
Barclays Bank	551	N/A	N/A	Xerox Corporation	333	58,100	15,722.00

While the types of firms that entered into the 42 *contractual agreements* observed in the study were much more diverse (almost all NAICS classifications were represented), print services providers again played a big role, being involved in over 40% of the agreements. These 17 print services providers' contractual agreements are illustrated in Figure 2.

Figure 2. The nature of print service providers in contractual agreeements
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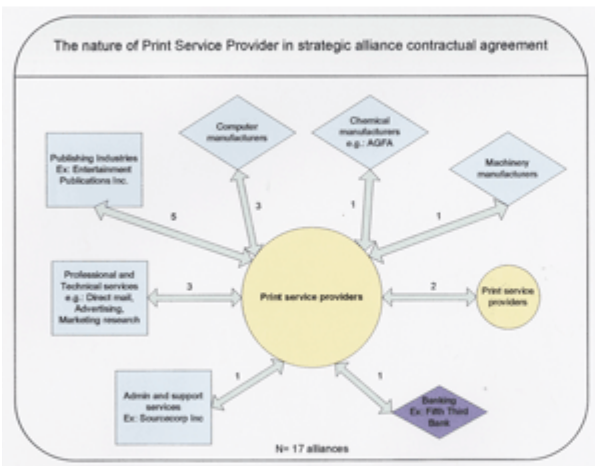

Of the eight *joint ventures* that were observed in the study, 80% of them were established with partners overseas. (See Table 2.) Joint ventures are formed to facilitate one specific project, rather than for long-term business relationships. Again, half of the joint ventures observed were initiated by print services providers.

Table 2. Company with contractual agreements
click to view larger

Company A	NAICS code	Employees	Sales ($mil)	Company B	NAICS code	Employees	Sales ($mil)
Starr Toof Printing	323	125	10.9	Flexoprint, Ltd.	454	N/A	N/A
Sonopress LLC	334	75,537	90.7	Coral Graphic Services	323	75,537	21.70
Cadmus Communications Corporation	323	3,000	436.44	Datamatics Technologies Limited	518	N/A	13.00
Pitney Bowes Inc.	333	27,152	4,957.44	Semco	334	N/A	N/A
Sappi Fine Paper North America	322	N/A	5,482.66	Jiangxi Chenming	322	N/A	N/A
Xerox Corporation	333	58,100	15,722.00	Pantone	323	140	14.800
Stora Enso	322	43,779	16,100.90	Xeikon	423	400	7.400
Stora Enso	322	43,779	16,100.90	Shandong Huatai Paper	322	N/A	N/A

In 27 of the 56 observed *mergers and acquisitions*, large print services providers acquired smaller print services providers. Most of these mergers and acquisitions (36 cases) involved print services providers.

Establishing Multiple Alliances

Some printing companies established more than one alliance in the years 2004–2005, apparently a good idea, since the four companies that established the most observed alliances during this period were also in the top ten for revenues for commercial printing businesses in 2005. (See Figure 3.) These four companies focused on a growth strategy through acquisitions. RR Donnelley also engaged in contractual agreements with small print services providers. Business forms provider Ennis, Inc. was ranked first in revenue growth 2005 because of its acquisitions throughout the year.

Figure 3. Companies with the most alliances
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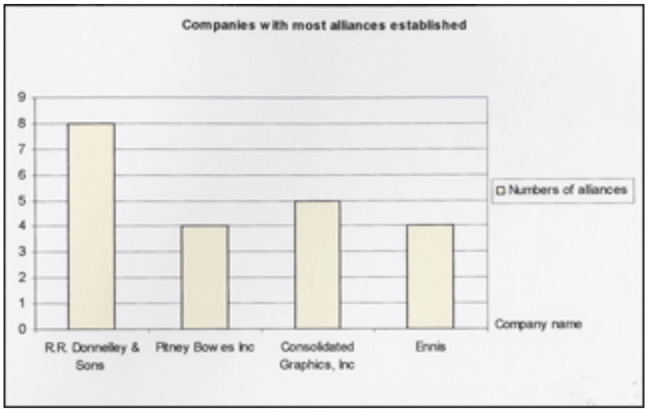

Case Study

The partnership of ColorCentric Corporation and Lulu.com, first announced in September 2004, represents a major breakthrough for the printing and publishing industry. Their joint web-to-print service gives the end-user an unprecedented amount of freedom and cost savings.

Lulu.com is the web-based publishing marketplace established in 2002 by Bob Young, a co-founder of the open source software company Red Hat. Lulu.com allows users to publish, sell, and buy books, music, comics, photographs and movies, with no set-up fee and no minimum order required. Users can earn royalties for their own work.

ColorCentric Corporation was established in November 2002 by John Lacagnina, who developed it around Xerox's iGEN3 digital printing press. The company's mission is to change the way the world views digital color printing by bringing customers closer to the manufacturing process and incorporating the most up-to-date technology to reduce cost, time to market, and workload for clients. ColorCentric's cash flow turned positive after its first year of business, and the company continues to grow.

ColorCentric makes Lulu.com's business model possible by providing printing and shipping services. Digital files are transferred from Lulu.com to ColorCentric, which then delivers the finished products directly to end-users. By working together, ColorCentric Corporation gains access to a larger customer base, and Lulu.com need not invest in printing equipment and factories. Their relationship is maintained by mutual trust and a strategic alliance contract.

Conclusions

Many inter-firm relationships can be found in the printing industry today. Shifting technologies are fostering the formation of these strategic alliances, which often lead to mergers and acquisitions. For companies that remain separate entities, partnering can significantly increase revenues.

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