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Evaluating the Viability and Usefulness of a Distribution Center for Print Service Providers

By
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A Research Monograph of the
Printing Industry Center at RIT

No. PICRM-2010-01

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Abstract

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 purpose of this research 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 industry.

A summary of the key findings include:

- The study participants felt that it would be difficult to have a standardized organization for all VAS.
- It appears from this research that there are three primary types of value added services that are offered by the research participants' companies: traditional, first generation and second-generation value added services.
- None of the participating companies provided any pre-existing structures that focused exclusively on VAS. 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 level of profitability from the companies' value added services is varied among the research sample and appears to have some correlation to the company size and type of business.

Executive Summary

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. The benefit to the customer is in having one supplier responsible for managing both print and distribution, while the value to the print service provider is a continuous and steady flow of work (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).

Although many print service providers offer VAS it is not clear if these services are actively marketed, how they are structured in the company, or if some are even recognized as VAS. In particular, distribution, which is more likely to be looked at as part of the process, is not generally recognized for its value and marketability (Cummings & LeMaire, 2008). One way to change the perception regarding the value of distribution services could be to establish and market a formal distribution center that encompasses distribution related VAS.

This study focused on the following objectives:

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

To achieve these objectives, in-depth interviews were conducted with five different printing and distribution organizations. The five companies included a commercial/digital printer, a digital printer, a packaging printer, a newspaper and a fulfillment/packaging company.

Research Highlights

The following is a summary of the key findings of this study. It is hoped that the outcomes of this research will provide a foundation for further investigation into the structure of value added services within print oriented firms.

- In general, the study participants felt 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.

- It appears from this research that there are three primary types of value added services that are offered by the research participants' companies. The researcher has classified these as: traditional, first-generation, and second-generation value added services. These descriptors are reflective of the innovations in computer technology that allow for more sophisticated service offerings.
- None of the participating companies provided any pre-existing structures that focused exclusively on VAS. 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 level of profitability from the companies' value added services is varied among the research sample and appears to have some correlation to the company size and type of business.

Overview

According to the *NAPL State of the Industry Report* (Paparozzi, Vincenzino, & Wang, 2008), total commercial printing industry sales fell 1.3% during the first half of 2008. Also, in 2008 the number of commercial printing companies dropped to 21,369 from 22,970 in 2006 (Paparozzi et al., 2008). The printing industry is being restricted in ways similar to that of the automotive industry. The decline in sales and the number of printing companies impacts not only the print service providers, but suppliers, industry associations and even universities that offer print and graphic communication degree programs.

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. Printers embracing this concept are now more commonly referred to as marketing solution or communication solution providers. As a matter of fact the words “printer” and “printing” have been dropped from the names of many of the top 400 printers in the U.S. (Printing Impressions 400 Ranking, 2007).

According to Andrew Paparozzi in the *NAPL 2003 State of the Industry Survey* (2003), companies that want to be successful with the service diversification process must consider several issues including:

- Establishing/ensuring continued profitability from any diversified services that are offered.
- Marketing the company and its respective services more effectively to ensure achievement of strategic and business goals.

Paparozzi has also suggested that when a customer finds a single vendor that he or she can trust, the printer becomes an integral part of the client’s business. This creates a barrier to exit even if there is another printer closer in proximity to the customer (Paparozzi, 2007).

Value Added Services

Graphic communication is no longer a print-centric field; print has become a commodity, which has increased the intensity of the competition between printing companies. For years industry experts have been advising printers of the need to diversify and offer value added services (Smith, 2004). Industry observers and printers offer interesting insights into the types of value added services that can be included in a print provider’s product mix. Value added services can be defined as those services that offer customers a “one-stop shop” solution that increases the value of the product offered, by promoting efficiency and reducing customer costs (Cummings & Chhita, 2004). This type of service diversification can occur before the print run, after the print run, as a part of overall product enhancement, or as a communications-related service (Dodd & Lavelle, 2004; Alexander, 2004). Value added opportunities can also be found in services such as training, delivery, and distribution. The combination of services at various workflow points can offer tremendous value to the customer (Davis & Meyer, 1998). Table 1 shows a listing of value added services that are structured in this manner.

Table 1. Structure of value added services offerings (Cummings & LeMaire, 2008)

Before Print Run	After Print Run	Overall Enhancements	Other Communications Related Services
Design	Fulfillment	Variable Data	Marketing Campaign Design
Photography	Mailing Services	Internet/Web Services (page design, hosting)	Implementation Services
Consulting	Document Management	Client Training	
	CD Services	Consulting	
		Database Management Services	

Service Diversification through Distribution

Distribution as a Value Added Service

In the 2005 Printing Industry Center study entitled *Media Distribution in the Printing Industry* (Cummings & LeMaire, 2005), the 16 companies that were interviewed defined distribution in the following manner:

Distribution is a customer service offering that starts when the print job is scheduled. It is the movement of finished printed materials from a printing plant to 1) an internal storage location, 2) the customer, 3) a distribution center, or 4) the end user. Further, efficient distribution involves the use of market expertise to negotiate freight rates and logistics services, routing, and overall compilation or management and organization of products and distribution. Other aspects of distribution include warehousing, shipping, inventory control, and fulfillment.

These same companies indicated that distribution was viewed as a value added service in their company for three primary reasons (Cummings & LeMaire, 2005):

- The customer was charged for distribution.
- Distribution was seen as a service differentiator.
- Distribution was part of the total customer solution.

Given this input the following questions remain: does the customer perceive value in distribution services? And do companies promote distribution and related services in a manner that reflects the true value of the service?

One approach to promote the true value of distribution that printers could consider is the establishment of a formal distribution center that encompasses many functional departments. There are a wide range of value added services that could be offered in a distribution center including:

- Fulfillment – kitting, pick and pack, just-in-time (JIT) printing.
- Mailing operations – addressing and bar-coding; this department should utilize a mailing specialist to provide an interface to the local postal facility.
- Product returns – receiving, inspecting, restocking, reshipping and security.
- Storage – warehousing of customers' raw materials, finished goods, work-in-process (to be completed on demand), and other items. Each item should carry an in and out charge as well as a monthly charge.
- Inventory management – list maintenance, IT management, report generation and billing.
- Shipping – a logistics function involving rate negotiation, product tracking, and filing claims.
- Packaging – involving the preparation of product for shipment, and in some cases working with design and structural engineers before the product is manufactured to ensure appropriate packaging options.
- QA and inspection – monitoring checklists and auditing shipments.
- Document destruction and recycling – involves the disposal of classified and expired documents.

Many of the functions listed above already exist in most printing operations as chargeable services. A dedicated distribution center could be customized according to the size of a printing company and the services offered. Companies that do not have a formal distribution center or logistics department could establish one after evaluating how their logistics and shipping functions are structured. Having a distribution center is yet another way in which a printing company can differentiate its business model.

Research Objectives

The purpose of this study was to understand the perceived value of distribution services by print service providers. Thus, the primary objectives of this qualitative research project were:

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

Study Limitations

Some limitations in the research were identified prior to the start of research, while others were encountered during the data collection phase. The limitations identified were:

- Sample size – only five interviews were conducted. However, the sample size for in-depth interviews is generally small.
- Company size – no consideration was given to the size of the companies interviewed; the companies were selected based on geographical convenience and the established associations/connections of the researcher.
- Company type – input from the participants of the research highlighted that a mailing company and a “printer only” company should have been interviewed in order to gain a perspective from companies that may not consider themselves value added service providers.
- Research questions – it was difficult to determine if the participants interpreted the questions as intended by the researcher.
- One of the interviews (“The Newspaper Company”) was conducted through e-mail, which changed the communication dynamics.

Methodology

This qualitative research study utilized the interview process for the data collection method. As this study was based on the principles of basic research—which are designed to increase understanding of a situation without any particular goal (Graziano & Raulin, 2007)—it was determined that this method was most appropriate. The study findings do not include any statistical context. In-depth interviews were conducted with five different printing and distribution organizations. The five companies included: a commercial/digital printer, a digital printer, a packaging printer, a newspaper and a fulfillment/packaging company.

The following methods were used to achieve the defined research objectives:

1. A secondary research study with a focus on the current status of service diversification in the printing industry was completed before the start of the research.
2. A group of five distribution/print service providers were identified from the commercial, digital, packaging and newspaper publishing sectors. The sample population is intended to be representative of companies that currently provide multiple distribution related services, those that offer very few, and those that outsource other services.
3. Some initial research interview questions were developed for review by a group of four industry trend experts and researchers. Modifications/revisions were made to the questions based on the input from the reviewers.
4. Since this research involves human subjects an application for approval was submitted to RIT's Human Subject Review Board (HSRB) and was subsequently approved.
5. After the HSRB approval all interviews were conducted. Four of the interviews were done face to face and one was conducted through e-mail.
6. Once the raw data was collected, summarized, and approved by the research participants it was organized, analyzed, and interpreted for comparison to the research objectives.
7. A research monograph and presentation were completed for the October 2009 Printing Industry Center webinar and the November 2009 Printing Industry Center symposium.

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. The structure is as follows: demographic information, value added service offerings, benefits of a distribution center, and other comments. An overview of each company is also included in Appendix C.

Demographic Information

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). The following legend will be used to identify these companies in several of the tables and the discussion section of this research report:

- CP&F – Complemar Packaging & Fulfillment
- HP – Hammer Packaging
- MI – Merlin International
- TNC – “The Newspaper Company”
- TP – Think Patented

The general demographic information for the five participating companies is outlined in Table 2.

Table 2. Demographic information for research participants

Name	Company Type	Years in Business	Annual Sales (in millions)	% Sales Print Services	% Sales VAS	No. of Locations	No. of Employees*
Complemar Packaging & Fulfillment	Fulfillment & Packaging	60	5	0	100	3	85
Hammer Packaging	Packaging Printer	97	100	100	Part of overall sales	3	450
Merlin International	Digital Printer	14	2	80	20	1	12
The Newspaper Company	Newspaper	164	Did not disclose	Did not disclose	< 3	2	360
Think Patented	Commercial/Digital Printer	30	18	30-35	65-70	2	100

* No. of employees includes all locations.

Value Added Service Offerings and Organizational Structure

The following sections provide an overview of the VAS offered by each company and the organizational structure of these services. Table 3 shows the percentage of sales and profits for the VAS offered by each company.

Table 3. Sales and profitability of VAS

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

Value Added Service Offerings

The participants were given a list of services to review and asked to indicate if these were value added services that their company offered. The full list for each company can be found in Appendix C. 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.

Table 4 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. TNC offers the fewest VAS. Merlin International’s digital printing and printing-on-demand (POD) services are core to their business and not considered VAS. Commercial printing is a core service for HP & TP, but is a value added service for TNC.

Table 4. VAS service offerings

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

VAS have been offered by these companies between 1 and 97 years (Table 5). This does not take into account how long each service has been described/identified as a VAS. For example, the shipping function was probably not considered a VAS by Hammer Packaging when the company was established in 1912.

Table 5. Number of years VAS offered

VAS	CP&F	HP	MI	TNC	TP
Fulfillment	9	10	11		6
Kitting	9	10	11		20
Mailing	9		5	10	6
Product Returns	9		3		6
Storage	9	10	1	20	6
Inventory Management	9	10	1		2
IT Management	9	6	6		2
Database/Asset Management	3		6	20	1
Shipping	15	97	14	20	30
Packaging	15		14		4
QA and Inspection	15	97	14		2
Document Destruction/Recycling	5	12	6		2
Lean Manufacturing	2	1			n/d
Sustainability	2	< 1		20	3
Consulting Services	2	10	14		n/d
Digital Printing/POD	< 1				1+
Web Development			2		1
JIT Manufacturing		13			
Paper Sheeting		15			
Design Services				20+	1
Promotional Products					1
Call Center					1
Cross Media Services					1
Commercial Printing				19	

The participants were asked if their company charged for the VAS offered (Table 6). In some cases the VAS are considered complimentary or a routine part of doing business, therefore, the customer is not billed. In the majority of cases the company does charge for their VAS offerings.

Table 6. Charges assessed for VAS

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 7 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 depending on the situation. The majority of the VAS are performed on-site at one of the company locations.

Table 7. Location of VAS offerings

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.

Complemar Packaging & Fulfillment

All of the departments where Complemar’s VAS are housed report to the Vice President of Rochester Operations, Stan Olevnik. According to Mr. Olevnik, all of these services fall under one of four departments as indicated in Figure 1 (S. Olevnik, personal communication, June 16, 2009). Additionally, Product Solutions Managers contract the POD (Print-on-Demand) & Mailing business and the Additional VAS department is custom project driven for contract customers.

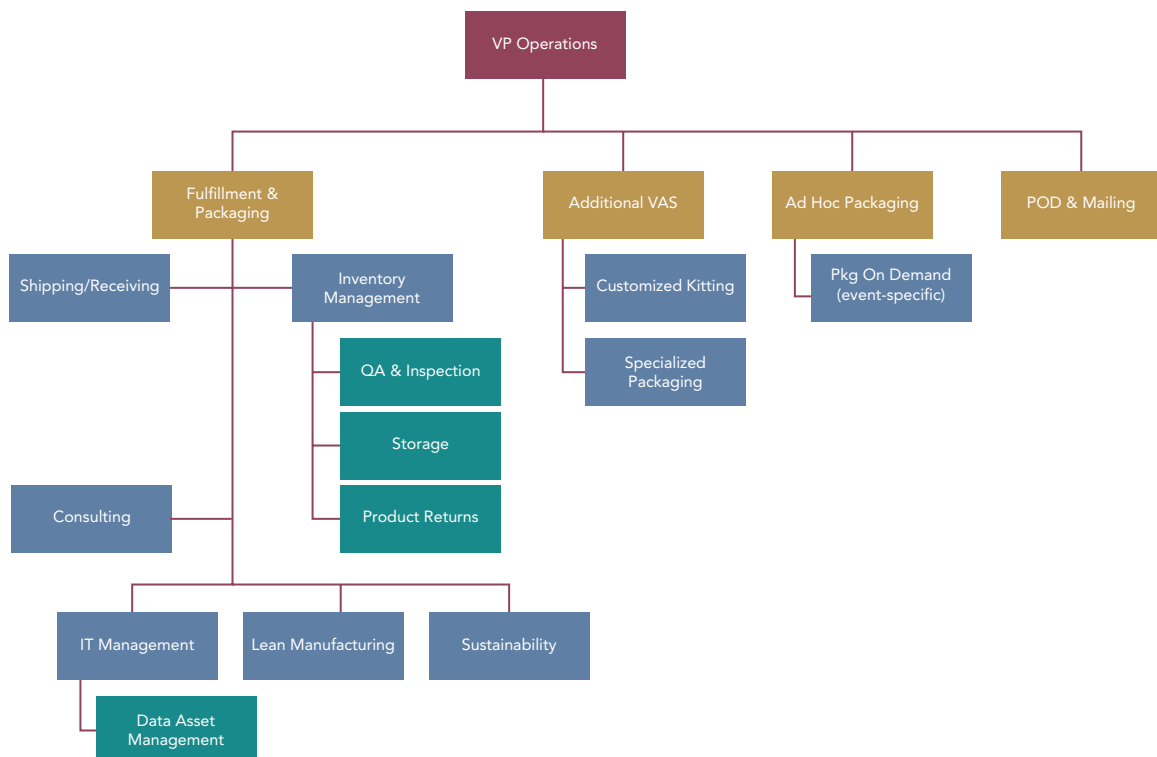


Figure 1. Complemar Packaging & Fulfillment VAS organizational structure

Hammer Packaging

The majority of the value added services that Hammer Packaging offers are part of the Production Services department (see Figure 2), which reports to the company's President and CEO, James E. Hammer. The paper sheeting function is handled by J. Mackenzie, which is a separate company that is owned by James Hammer. Although lean manufacturing is listed as one of the company's VAS in Table 4, it is not included in Figure 2 because it is considered an internal value added service/opportunity for employees.

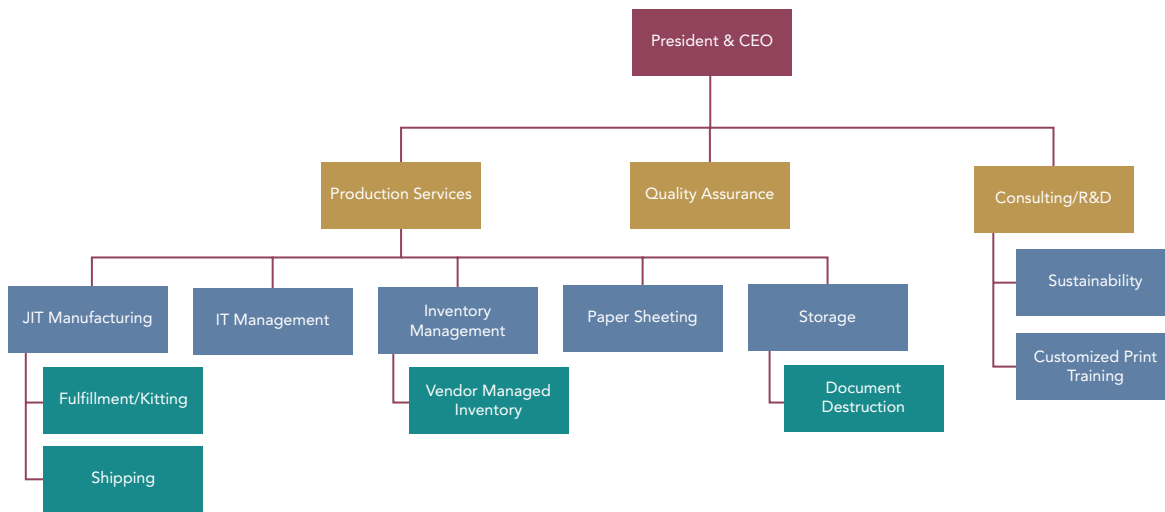


Figure 2. Hammer Packaging VAS organizational structure

Merlin International

As shown in Figure 3, the majority of the VAS that Merlin International offers are incorporated into the company's Finishing Department. Although Fulfillment, Kitting and Mailing operations are listed under the Production Department, these functions are integrated throughout the entire organizational structure. The Inventory Management function is divided into two components: on-line, which is the responsibility of the project managers, and physical, which is one of the functions of the Finishing Department.

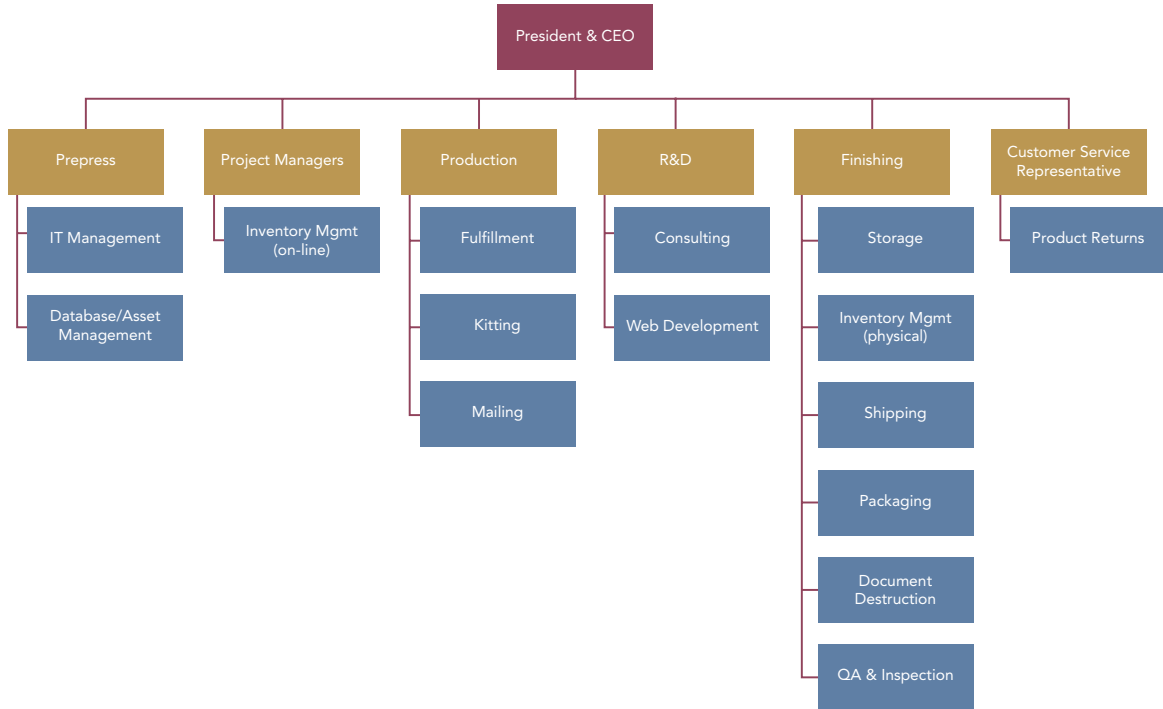


Figure 3. Merlin International VAS organizational structure

The Newspaper Company

All of the value added services (see Figure 4) that are offered by TNC are structured under three specific departments: Advertising, Production and Marketing. TNC does not see itself as a value added service provider, but they do realize the need to diversify beyond the printed newspaper given the current state of the newspaper publishing industry. As a newspaper publisher, commercial printing is a value added service. All of the commercial printing is done at the company’s secondary location.

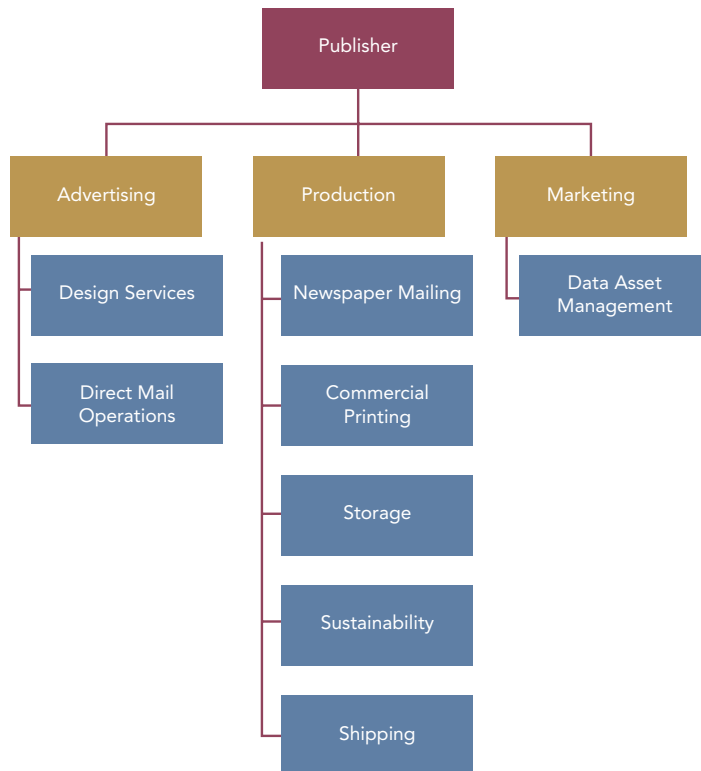


Figure 4. The Newspaper Company VAS organizational structure

Think Patented

As shown in Figure 5, Think Patented offers a number of VAS that are structured under seven departments which report to the President & CEO, Ken McNerney. Each department listed functions under a brand management model. The majority of these services fall under the Fulfillment Department. Although lean manufacturing, sustainability, and consulting were listed in Table 4 as VAS that Think Patented offers they are not listed in Figure 5 because they are considered to be part of the day to day operations and other internal practices that allow for more efficient manufacturing processes.

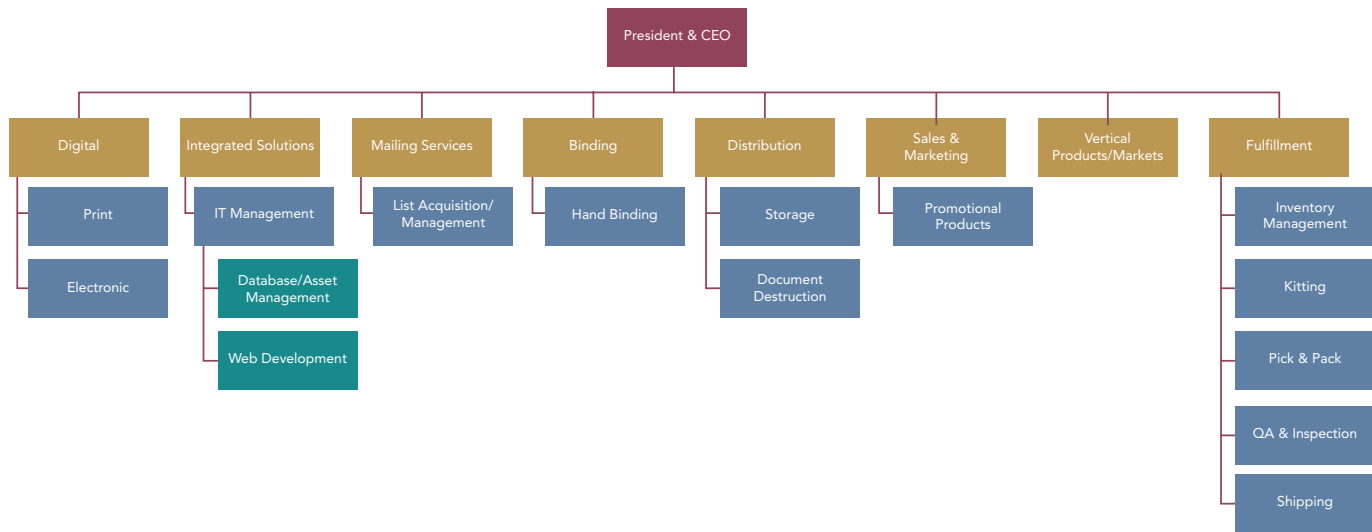


Figure 5. Think Patented VAS organizational structure

Profit and Loss Centers

Participants were asked if each of the company’s VAS departments/organizations had its own profit and loss (P&L) center as opposed to being included as part of the company’s overall profitability. This information is detailed in Table 8. Of the five companies, Complerar and Think Patented have a P&L for the VAS that they offer.

Table 8. Profit and loss structure for VAS

Complerar Packaging & Fulfillment	“Yes. P&Ls in 3 main organizations – Fulfillment, additional VAS & Ad Hoc Pkg”
Hammer Packaging	“Part of overall company profits”
Merlin International	“No - P&L for the company as a whole”
The Newspaper Company	“Not for the newspaper itself. Direct Mail dept has its own P&L and Newsprint commercial printing operations has their own P&L”
Think Patented	“Yes. All VAS products and services P&Ls fall under one of the following: general commercial printing, mailing services, digital services, promotional products or fulfillment”

Marketing Strategies for VAS

The next question in this section was focused on how value added services were marketed/advertised to current and prospective customers (e.g. word of mouth, direct mail – print, direct mail – electronic, company website, trade show, etc). All of the companies that were interviewed indicated that their VAS are actively marketed/advertised (Table 9).

Table 9. Marketing strategies for VAS

Complumar Packaging & Fulfillment	<ul style="list-style-type: none"> • Direct mail campaigns • Exhibiting and attending trade shows • Social networking – Facebook & Twitter
Hammer Packaging	<ul style="list-style-type: none"> • Direct marketing (print & e-mail) • Sales contracts • Exhibiting and attending trade shows • Attendance at high level industry meetings
Merlin International	<ul style="list-style-type: none"> • Word of mouth • Some direct mail • Conference presentations • Trade show attendance
The Newspaper Company	Typically via the: <ul style="list-style-type: none"> • Advertising package program • Sales rep – which is communicated as part of the ad buy process
Think Patented	VAS are marketed more actively than the core products via: <ul style="list-style-type: none"> • E-mail blasts • Attendance at trade shows

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. The complete model can be found in Appendix D.

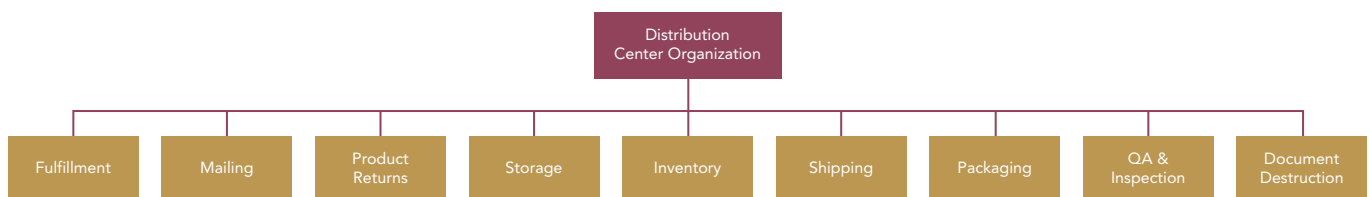


Figure 6. Proposed structure for a distribution center organizational model

Research participants were asked about the types of VAS that are directly related to product/content distribution. The responses are summarized below in Table 10. A full listing of the responses to this question can be found in Appendix C.

Research Findings

Table 10. Relationship of VAS to product/content distribution

Complemar Packaging & Fulfillment	"All services offered at Complemar are related to distribution."
Hammer Packaging	"The organizational chart you have developed looks good; I don't see any gaps."
Merlin International	"Definitely directly related and important."
The Newspaper Company	Database information, ad design and multiple product offerings are most closely related to distribution.
Think Patented	"Everything we offer is related to distribution."

The next questions for the participants related to whether they perceived any value in structuring distribution related VAS under a single organization (Table 11) and what type of company was best suited for this model (Table 12). Only Complemar Packaging & Fulfillment indicated that this type of structure would provide a positive perception for customers. Four of the companies felt that a large company was best suited for this type of structure. Think Patented thought it was best suited for a small company setting, citing that it could provide a competitive advantage and allow a potentially struggling company to revive their business.

Table 11. Value of a distribution center model

Complemar 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 12. Best company for distribution center model

Complemar 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."

When asked how such a concept should be marketed, responses ranged from targeting existing customers to using creative strategies and "thinking outside of the box." Table 13 lists some of the comments given. A complete listing can be found in Appendix C.

Table 13. Distribution center marketing strategy

Complemar Packaging & Fulfillment	To existing accounts and to new businesses. Need to use a creative approach that includes a timed follow-up.
Hammer Packaging	"Via sales or sales team." "Direct marketing/bid/follow-up."
Merlin International	Focus on solving the customers' problem.
The Newspaper Company	"One stop shop" idea marketed to potential customers in print publications (preferably B-to-B) and online.
Think Patented	"By thinking outside the box about how revenues will be generated in the future."

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 (see Table 14).

Table 14. Would you consider this model?

Complemar Packaging & Fulfillment	Complemar already has a similar structure.
Hammer Packaging	"This does not apply to Hammer Packaging."
Merlin International	"No, does not fit our model because of our size."
The Newspaper Company	"Not likely at a newspaper."
Think Patented	"No."

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 15. A complete listing can be found in Appendix C.

Table 15. Challenges with establishing a distribution center model

Complemar 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."

Other Comments

At the conclusion of the interview the participants were given an opportunity to share any other comments that would assist the researcher in understanding the structure,

benefits and viability of a distribution center as well as any other thoughts they wanted to share. The Director of Operations from TNC had no additional comments. A selection of the comments is listed below. A complete listing can be found in Appendix C.

- The name “Distribution Center” works because it is not just connected to print; a company must add value at all levels (S. Olevnik, personal communication, June 16, 2009).
- VAS are a key building block to establishing a competitive culture. “Printers who are just putting ink on paper are out of business or soon will be” (J.E. Hammer, personal communication, July 1, 2009).
- “The name should be something like “Job Integration Center”, which would best represent a digital printing company. “Distribution Center” is lacking a front end focus; back end must be united with the front end” (D. Smith, personal communication, June 30, 2009).
- “Get away from the ‘if you build it, they will come’ attitude” (N. Winther, personal communication, June 22, 2009).

Discussion of Findings

Key to the objectives of this study was to determine if an organizational model depicting distribution and related services would provide a marketing tool and a competitive advantage for print service providers. A distribution center model (see Figure 6) was shown to five companies to gain their perspective on the value to customers. Additionally, they were asked which services their company offered in addition to those related to the core business and how those services were structured within the organization.

Introduction and Viability of a Distribution Center

Of the five companies interviewed, only Complemar 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. The other four companies did not see this as a fit for their company. 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.

Value Added Services Offered by Today's Print Service Provider

Of the VAS listed in Table 4, only two are offered by all of the companies interviewed in this research study: storage and shipping. It is probable that these services have not always been considered as VAS, since Think Patented, Merlin International and Hammer Packaging have always offered shipping services. The companies interviewed do charge their customers for the majority of the value added services that are offered (see Table 6). The primary reason given for not charging for some services was that "this is the cost of doing business." Additionally, it might be considered a negative from a customer perspective to pay for something that had been a free service in the past.

Structure of Value Added Services

As previously stated, the organizational structures (see Figures 1-5) developed for each company are based on the information provided during the interviews, and may not necessarily reflect the company's overall organizational chart. None of the participating companies provided any pre-existing structures that focused exclusively on VAS.

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: traditional, first generation, second generation.

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. The only company that highlights VAS on their website is Think Patented. However, Hammer Packaging uses the words "value added services" in some of their print literature.

Sales and Profitability of Value Added Services

Given the small sample size and the diverse types of businesses represented by the research participants, it is difficult to make any generalizations about the overall profitability of VAS in print service firms. However, it does appear that the larger firms showed a higher percentage of sales and profits from VAS. Table 3 lists the percentage of sales and profitability realized from VAS for each firm.

Complemar was the only company that indicated 100% of their company's sales and profits come from VAS. This is to be expected since their business model is based on providing a myriad of value added related services. Conversely, Hammer Packaging, with \$100 million in sales, does not track the level of profitability for each of their chargeable VAS. However, Think Patented has established multiple P&L centers and is a model company for showcasing service diversification with 65-70% of sales and 50-60% of profits coming from these non-core services. Merlin International continues to add to their VAS offerings, and it is estimated by their President & CEO, Doug Smith, that the 20% of sales and 12-15% of the company's profits come from VAS which seems to indicate a positive trend for their future (personal communication, June 30, 2009). Of all the companies interviewed, TNC reports the lowest percentages of sales and profits from VAS at less than 3% each. This seems to be consistent with the company's perception of itself as not being a true value added services provider.

Conclusions and Implications

The concept of incorporating value added services into the print service provider model has been around for many years. In its infancy, few companies appeared to be willing to get on board. However, over the past several years, most large print companies have started to offer many of the traditional and first generation value added services previously mentioned.

Implications of this Research Study

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).

Implications for Printers

Overall the participants in this research did not see the competitive or marketing value in organizing distribution related value added services into a single organization. However, it is clear that they recognize the need for offering a variety of services and feel strongly that printing companies who are not doing this will not survive.

If the printers in this research are representative of the approximately 21,000 printing companies in the U.S. (Paparozzi, Vincenzino & Wang, 2008), then in addition to offering VAS it is imperative to move beyond the cost of doing business and realize profits from these services comparable to companies like Think Patented. Failure to do so will most certainly impact smaller firms by making them targets for acquisitions, mergers or closure.

Implications for Non-Printers

Printing companies are not the only firms that need to offer services beyond their core business to stay competitive and viable. Non-print companies can incorporate print services as a way to diversify their product line. A perfect example is Complemar Packaging & Fulfillment, which is not a print service provider but offers digital printing and mailing services that go beyond their core business of packaging and fulfillment.

Printing companies have always been encouraged to consider adding mailing to their business models. If printers can get into mailing would it not be advantageous for mailing companies to offer some level of printing and other related services?

Conclusions

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 distribution center model to be of significant value, they agree that distribution as a service is extremely valuable. Thus, distribution should be understood and highlighted for its importance to the print production process.

Agenda for Further Research

The outcomes derived from this research study suggest opportunities for research in additional focus areas. Some of the key areas identified were:

- A focused study on newspapers and value added services, as it is clear that newspaper publishers need to offer other print and non-print services to maintain a viable business model.
- A study of “print only” service providers to find out if they plan to offer or identify existing services as value added. If not, why not?
- Further research on the profitability of VAS offerings to determine if printers are establishing profit and loss centers to show the percentage of sales and profits from these services.

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Appendix A: Research Interview Questions

Rochester Institute of Technology 2009 Printing Industry Center Study

Distribution Center Concept: Is distribution a value added service in today's printing industry?

Value added services can be defined as those services that offer customers a “one-stop shop” solution that increases the value of the product offered, by promoting efficiency and reducing customer costs. In a print centric environment this type of service diversification can occur before the print run, after the print run, as a part of overall product enhancement, or as a communications-related service. Value added opportunities can also be found in services such as training, delivery, and distribution. As a print and/or distribution service professional you are being asked to provide information which will assist researchers in RIT's Printing Industry Center in gathering data related to the structure of value added service offerings in printing and distribution companies.

Demographic Information

Your name and the name of the company will not be published without permission (see informed consent letter).

Company name: _____

Years in business: _____

Company type: _____

Number of locations: _____

Number of Employees at this location: _____

Total # of employees: _____

Annual sales (\$ millions): _____

Percentage of sales from print services: _____

Interviewee: _____

Department: _____

Title: _____

Value Added Service Offerings

1. What types of value added services does your company offer?

Appendix A: Research Interview Questions

Indicate the types, if any, of value added services that your company actively provides:

VAS	In-House Service?	Outsourced Service?	Charge Assessed?	How long has this service been offered?
Fulfillment				
Kitting				
Mailing operations				
Product returns				
Storage				
Inventory management				
IT management				
Database/Asset management				
Shipping				
Packaging				
QA and inspection				
Document destruction/recycling				
Lean manufacturing				
Sustainability (e.g. green printing)				
Consulting services				

2. Percentage of sales from value added services: _____
3. Percentage of profits from value added services: _____

Organizational Structure of Value Added Services

1. How are value added services (VAS) structured/organized in your company?
2. Does this VAS department/organization have its own P&L where someone is directly responsible for its performance (financial, quality, etc)?
3. Are value added services actively marketed/advertised to current and prospective customers? If yes, by what method (e.g. word of mouth, direct mail – print, direct mail – electronic, company website, trade show, etc)? If not, why?

Benefits of a Distribution Center Structure

- What types of VAS, offered in your company, are directly related to product/content distribution?
- In your opinion is there value (e.g. competitive advantage) in a structuring distribution VAS in a single organization?
- What size/type of company is best suited for this type of organizational structure?
- How should this concept (single organization) be marketed?

- If you do not currently have an organizational structure such as this would you consider it? If so, in what area of your company would a structure like this be located?
- What are the challenges with structuring these types of value added services into one organization?

Other Comments

1. Do you have any other comments that would assist the researchers in understanding the structure, benefits and viability of a distribution center?

Appendix B: Informed Consent Letter

Dear Research Participant:

Thank you for your willingness to participate in this Printing Industry Center (PIC) research study.

The data for the research study is being collected through in-depth personal interviews. During the interview you will be asked a variety of questions regarding the types of and organizational structure of the value added services (VAS) your company offers. The information collected during the interview is for research purposes, and will be used to develop a comparative case study, which will be made available to the PIC partners. It is anticipated that the interview will take between 60-90 minutes. Additionally, a brief e-mail follow-up may be required for any clarifications that are needed.

Access to the raw data is restricted to the primary researchers. No personal or identifiable information will be included in the case study without your permission. Additionally, there are no foreseeable risks or discomfort that will be experienced as a result of your participation in this research. Participation is entirely voluntary.

Please read the following statements and check the appropriate box on informed consent:

- I have read the information above and attest that I am willing and able to participate in the interview, and give permission to have the company name published in a case study analysis.
- I have read the information above and attest that I am willing and able to participate in the interview, but request that any information that would identify the company not be published.

If you have any questions or concerns about the research study, you may contact Twyla Cummings, principal investigator at (585) 475-5567. If you have any questions about your rights as a research subject, please contact the RIT Human Subject Research Office at (585) 475-7673.

Name _____
Company _____
Signature _____
Date _____

Appendix C: Interview Data

Complemar Packaging and Fulfillment

Demographic Information

Years in business: 60+

Company type: Fulfillment & Packaging

Number of locations: 3

Number of Employees at this location: 55

Total # of employees: 85

Annual sales (\$ millions): 5 (at this location)

Percentage of sales from print services: N/A

Interviewee: Stan Olevnik

Department: Operations

Title: VP of Operations

Complemar Packaging & Fulfillment is a leading supplier of outsourced business services providing fulfillment, packaging, inventory management, product assembly, marketing, customer support and administrative services. The company, located in Rochester, NY, was established in 2004 and is the result of a formation of two long-standing companies - Chili Plastics and DeRidder. Chili Plastics was founded in 1952 and provided injection molding, contract packaging and assembly services. DeRidder was founded in the 1930s as a die cutting company, but over time expanded its business model to include services such as silk screening, manufacturing of specialty packaging, sales kits, POP displays and folding cartons. As a result of this collaboration between Chili Plastics and DeRidder, Complemar's employees have over 60 years of service and experience (Complemar, 2007c).

The core business for Complemar is packaging and fulfillment where they offer a complete range of standard and custom services. In addition to its core focus on packaging and fulfillment, Complemar has further diversified their business to include mailing and digital printing capability. In December of 2008 the company expanded to the west coast with its acquisition of JLH, a mailing house located in Sparks, NV. In April of 2009 Complemar acquired Merrill Print, LLC, formerly Merrill Press, a Buffalo-based Print On-Demand company. These companies now reside as divisions of Complemar and allow for expanded distribution, addressing, mailing, and on demand variable digital printing services for their customers.

Appendix C: Interview Data

Christine Whitman, President & CEO of Complemar, Inc notes: “At Complemar, we strive to exceed your expectations. We take pride in being partners with our clients. We measure our success by our clients’ success. We uphold a set of values that empowers us to serve you better every day.” (Complemar, 2007b) Further, Tom Quinn, Director of Fulfillment Services for the Mailing and Fulfillment Service Association says of Complemar, “Their Ownership has great vision and is very experienced and involved in the daily operation of the business. Their Management is experienced and tested in the fulfillment industry and highly focused on customer satisfaction. Their Workforce is potentially the most experienced fulfillment workforce in the country and their facility is well organized and designed for efficient service” (Complemar, 2007a).

Value Added Service Offerings

1. What types of value added services does your company offer?

VAS	In-House Service?	Outsourced Service?	Charge Assessed?	How long has this service been offered? (Years)
Fulfillment	Yes		Yes	8-9 - Core business of the company
Kitting	Yes		Yes	8-9 - Core business of the company
Mailing operations	Yes		Yes	8-9 - Mailing is now done off-site by a company owned by Complemar
Product returns	Yes		Yes	8-9
Storage	Yes		Yes	8-9 - Includes secured storage
Inventory management	Yes		Yes	8-9 - Warehouse management system w/ barcode scanning system
IT management	Yes		Yes	3 - Software (SW) staff on-site; uses proprietary SW for on-line order management
Database/Asset management (customized)	Yes		Yes	3
Shipping		Yes	Yes	10-20
Packaging	Yes		Yes	10-20
QA and inspection	Yes		Yes	10-20 - Done at varying levels; quality audits & returns (sometimes this is part of the process)
Document destruction/recycling	Yes		Yes	4-5
Lean manufacturing	Yes		No	2 - Some employees are green belts and 5S has been implemented
Sustainability	Yes		No	2 - Recycling service
Consulting services	Yes		No	2
Digital Printing/POD	Yes		Yes	< 1 - Printing is done off-site at a company owned by Complemar

Charging for Services – this is done via transaction on an hourly rate basis. Software (SW) charges for application development (e.g. mailing, e-mail blasts, data management).

Recycling program with corrugated packaging is a “value add” to the customer in that it reduces packaging needs and costs. Complemar is in the process of purchasing a new piece of equipment to reduce amounts of packaging materials contained in the shipping packaging (a “recyclable air pillow”).

Secured storage – For storage of premium items; Complemar has a bonded liquor warehouse and a pharmaceutical license.

Divisions of Complemar

- Mailing Company – JLH located in Sparks, NV; prior to this acquisition mailing was 100% outsourced. There are still times when Complemar will outsource mailing. For example, if final product destination is closer to the western NY region.
- Digital Printing Company – Merrill Press located in Buffalo, NY.

“We don’t make anything, but we can add value to existing products and distribute, pack and ship it.” (S. Olevnik, personal communication, June 16, 2009)

2. Percentage of sales from value added services: 100%
3. Percentage of profits from value added services: 100%

Organizational Structure of Value Added Services

1. How are value added services (VAS) structured/organized in your company?

See organizational structure in Research Findings section of monograph.

2. Does this VAS department/organization have its own P&L where someone is directly responsible for its performance (financial, quality, etc)?

Yes, in three main organizations under the operations umbrella. They are: Fulfillment, Additional VAS and Ad Hoc Packaging.

3. Are value added services actively marketed/advertised to current and prospective customers? If yes, by what method (e.g. word of mouth, direct mail – print, direct mail – electronic, company website, trade show, etc)? If not, why?

Yes. Advertising/marketing by direct mail campaigns to customers and targeted companies.

Complemar exhibits and attends trade shows; specifically those that feature women owned businesses partially because the company is woman owned. Employees from the company will attend Print '09 trade exhibition in Chicago.

Also social networking is used as a strategy. This is handled by the VP of Marketing and includes a presence on Twitter and Facebook. There is a focus on getting onto the customers’ sites and proactively registering with companies at trade shows to get on the RFQ or bid list.

Benefits of a Distribution Center Structure

1. What types of VAS are directly related to product/content distribution?

All of the services offered at Complemar are related to distribution. Client solution managers help manage this through the utilization of fulfillment workflow. This allows them to see the process from start to finish.

2. In your opinion is there value (e.g. competitive advantage) in a structuring distribution VAS in a single organization?

- *Yes. It is good not to be too fractured and trying to keep business units separate is not an advantage.*
- *A structure such as this gives a positive perception, lowers cost (e.g. freight) and saves time (e.g. cycle time reduced).*
- *“We tell our customer we can handle your job from start to finish.”*
- *This provides a visibility of the product through the entire cycle. Being able to show this capability and to deliver is critical to business success. Our print and mailing is off-site, but is within our ownership, under one umbrella.*

3. What size/type of company is best suited for this type of organizational structure?

Large companies because smaller companies need more infrastructure to do this. Larger companies that already have the bandwidth (e.g. space) have a competitive advantage. Any company offering VAS with this structure must be able to manage functions and data.

Limitations for small companies include lack of space, knowledge base, contacts, capital, and data management capability.

Additionally, small companies tend to have a “homegrown” mentality with little effort focused on IT and data management. If smaller companies don’t offer VAS and are not digital printers how will they survive?

4. How should this concept (single organization) be marketed?

- *Existing accounts – allow for enhancing current services.*
- *New business – need to be creative and use a two pronged approach to include delivery and a timed follow-up. Find out what gets their attention; Complemar has a person on staff here that has this responsibility.*

5. If you do not currently have an organizational structure such as this would you consider it? If so, in what area of your company would a structure like this be located?

N/A. Complemar has a similar structure.

6. What are the challenges with structuring these types of value added services into one organization?

Not for Complemar, but could be challenging for other companies due to:

- *The requirement to step outside of one's comfort zone*
- *Offering products to a larger customer base*
- *Need for more cash outlay*

Some printers offering VAS may not generate enough of a critical mass to justify a separate P&L.

Other Comments

1. Do you have any other comments that would assist the researchers in understanding the structure, benefits and viability of a distribution center?
 - *The name "distribution center" works because it is not just connected to print; a company must add value at all levels. All industries (e.g. retail, Auto, etc) require product handling.*
 - *Complemar does not have their own trucks, but they arrange and broker shipping for the customer. "Shipping is the biggest headache in the supply chain."*

Hammer Packaging

Demographic Information

Years in business: 97

Company type: Packaging Printer

Number of locations: 3

Number of Employees at this location: 150

Total # of employees: 450

Annual sales (\$ millions): 100 Total

Percentage of sales from print services: 100

Interviewee: James E. Hammer

Department: N/A

Title: President/CEO

Established in 1912 as Genesee Valley Litho, Hammer Packaging is a fourth-generation, family-owned business. As one of the top 400 printers in the U.S., Hammer Packaging, located in Rochester, NY has received recognition from the Graphic Arts Technical foundation as one of the Best Workplaces in America four times since 2001. Additionally, in 2007 their company was one of the recipients of the Rochester Business Ethics Award (Hammer Packaging, n.d.).

Hammer's tagline "Communicating your image" is strongly championed by their President & CEO, James E. Hammer, who likes to say "We lead. We don't follow." Since the company was founded they have been at the forefront of high-quality packaging printing and they offer a wide variety of print and non-print services to support their customers' communication needs. Their mission is to continually look for ways to enhance their technology and to offer more value added benefits to their customers (Hammer Packaging, n.d.).

Hammer Packaging has more than 400 employees in five facilities that span 375,000 square feet and houses ten presses, a digital prepress department and multiple finishing operations. They focus their products and services in several markets including beverage, wine and spirits, household chemicals, horticultural, and health and beauty (Polischuk, 2007).

Value Added Service Offerings

1. What types of value added services does your company offer?

VAS	In-House Service?	Outsourced Service?	Charge Assessed?	How long has this service been offered? (Years)
Fulfillment	N/A		Yes	10
Kitting	N/A		Yes	10
Storage (90 Days Max.)	Yes (short term)	Yes (consignment)	No	10 – In-house service, but stored off-site.
Inventory Management	Yes	Yes	No	10
IT Management	Yes		Yes	6 – Vendor managed inventory control. Forecasting, monitoring usage rates, order fulfillment.
Shipping	Yes	Yes	Sometimes	Since 1912 – Packaging is part of shipping.
QA and Inspection	Yes		No	Since 1912 - ISO certified in the 1990s
Document Destruction/ Recycling	Yes		No	12
Lean Manufacturing	Yes		No	1
Sustainability	Yes		No	In start-up phase.
Consulting Services	Yes		No	10
JIT Manufacturing	Yes		No	12-13 - Hammer is a large POD printer.
Paper Sheeting (via J Mackenzie)		Yes	Yes	J Mackenzie is a separate company, owned by James E. Hammer – separate P&L. Sheet converter for internal and external use.

Vendor Managed Inventory Control & Ordering

- Very strong VAS
- IT manages this service/function
- Establishes long term contracts with customer and set pricing
- SAP software
- 40% of volume is managed this way

Database Management

- Hammer Packaging does not manage all of their customer's digital images; customers utilize large Pre-press (e.g Schawk & Southern) houses for this service.

Document Destruction

- Waste is recycled.

- *Joint venture in process with company that will take paper waste and recycle it into a product for use within Hammer Packaging.*

Lean Manufacturing – personnel training done at RIT; not really a customer VAS.

Consulting Services – innovation groups were formed that generate two new products or ideas per year. These products/ideas are presented to customers to illustrate the capability and how it might benefit their business.

2. *Percentage of sales from value added services: Rolled into the overall profitability of the company*
3. *Percentage of profits from value added services: N/A*

Organizational Structure of Value Added Services

1. *How are value added services (VAS) structured/organized in your company?*

See organizational structure in Research Findings section of monograph.

2. *Does this VAS department/organization have its own P&L where someone is directly responsible for its performance (financial, quality, etc)?*

No. VAS is included in the company's overall profitability. The only exception is the sheeting/converting VAS, which is done by a Hammer Packaging subsidiary, J Mackenzie.

3. *Are value added services actively marketed/advertised to current and prospective customers? If yes, by what method (e.g. word of mouth, direct mail – print, direct mail – electronic, company website, trade show, etc)? If not, why?*

Yes. By:

- *Direct marketing (print and e-mail) and sales contacts.*
- *Exhibiting and attending trade shows; specifically beverage shows such as the International Bottled Water Association show. "Hammer only supports a trade show if value can be derived." (Hammer, 2009)*
- *The company also sends key people to high level executive meetings hosted by and focused on specific industries.*

Benefits of a Distribution Center Structure

1. *What types of VAS are directly related to product/content distribution?*

This organizational chart looks OK. "Don't see any gaps."

2. *In your opinion is there value (e.g. competitive advantage) in a structuring distribution VAS in a single organization?*

Yes, but it could be the cost of doing business. Many services are given away due to the competitive nature of the business. Having VAS offerings helps with request for bids; without some of these things in the bid, a company would not get the business in many cases.

3. What size/type of company is best suited for this type of organizational structure?

Would best be suited for a substantial size company of at least \$40-50 million in sales. The ability to be competitive is important and larger companies are positioned for a competitive advantage.

4. How should this concept (single organization) be marketed?
 - *Via sales or sales team – the whole company needs to be involved*
 - *VAS should be incorporated with bids*
 - *Direct marketing → bid → follow-up*

“The days of a salesperson being the only contact are gone. The whole company gets involved by visiting the facility and learning as much as possible about the customer.” (J.E. Hammer, personal communication, July 1, 2009)

5. If you do not currently have an organizational structure such as this would you consider it? If so, in what area of your company would a structure like this be located?

N/A

6. What are the challenges with structuring these types of value added services into one organization?

ROI – cost justification is critical; especially when a company is adding services. “If it is not cost justified, don’t do it.” “Economics drives the whole thing.” (J.E. Hammer, personal communication, July 1, 2009)

Also finding the right people to manage and work in this type of environment is a challenge. “The “right” people are the most important asset and are needed along with the right technology.”(J.E. Hammer, personal communication, July 1, 2009)

Other Comments

1. Do you have any other comments that would assist the researchers in understanding the structure, benefits and viability of a distribution center?
 - *VAS is a key building block to establishing a competitive culture.*
 - *Innovation capability is needed.*

- *Customers try to commoditize print and VAS for bid purposes.*
- *Quality and consistency must always be there. These are the things that set a company apart so it must be a part of a business' best practices.*
- *"Printers who are just putting ink on paper are out of business or soon will be."
(J.E. Hammer, personal communication, July 1, 2009)*

Off-shoring

The competitive landscape continues to change. There was a company in China that offered "floating binding" services where they would print the product on land in China and do the finishing on a ship en route to the U.S. This was a way to address the time-to-deliver issue.

Offering JIT manufacturing procedures makes it highly difficult for the Asian market to respond. Other things that take the Asian market out of the equation are printing requirements for time sensitive materials and SKUs. SKUs are an issue because they have so many versions and offshore printers may not have the IT systems to support this.

Merlin International

Demographic Information

Years in business: 15

Company type: Digital Printer

Number of locations: 1

Number of Employees at this location: 14

Total # of employees: 14

Annual sales (\$ millions): 2

Percentage of sales from print services: 80

Interviewee: Doug Smith – President & CEO

Merlin International was founded in 1994 in Rochester, New York. The company's core technology is digital printing and they currently house five digital presses from the Xeikon, Ikon and Canon product lines. Merlin's staff has the technology bandwidth to not only operate these digital presses, but also to service them which allows them to obtain and maintain the highest possible quality and service standards for their customer base. According to Merlin's website (Merlin International, 2008a), their mission is to be a world leader in delivering high quality, on-demand four color printing and related services that meet client expectations.

Merlin's President and CEO, Doug Smith, was one of the founders of the company and has over forty years of experience in high tech industries. His breadth of experience has been instrumental in expanding the company's product and service offerings from a basic digital printing operation to that of a full digital print service provider (Merlin International, 2008b). The company offers a wide range of print services and augments them with a number of value added support services such as kitting, inventory management and web development. Additionally, Merlin International has established a research and development division for the purpose of developing and implementing digital printing solutions to assist clients with their graphic arts communication requirements (Merlin International, 2008a).

Value Added Service Offerings

1. What types of value added services does your company offer?

VAS	In-House Service?	Outsourced Service?	Charge Assessed?	How long has this service been offered? (Years)
Fulfillment	Yes		Yes	11
Kitting	Yes		Yes	11
Mailing operations	Yes		Yes	5
Product returns	Yes		No	3 – CSR receives file from data processing center & generates order (from customer) to determine what happens to the returned product.
Storage	Yes		Yes	1
Inventory Management	Yes		Yes	1 - Generated internally or received externally for storage at Merlin
IT management	Yes		Yes	6 - Set-up logic & web hosting & storefronts
Database/Asset Management	Yes		Yes	6
Shipping		Yes	Yes	14
Packaging (in preparation for shipping)	Yes		Yes	14
QA and inspection	Yes		No	14 – Not a line item
Document destruction/ recycling		Yes	All part of mfg; not a separate line item	6
Lean manufacturing	N/A	N/A	N/A	N/A
Sustainability (e.g. green printing)	N/A	N/A	N/A	N/A
Consulting services	Yes		Yes	14
Web development	Yes	Yes	Yes	2

Charging for Services – customers are charged on either a contract or non-contract basis. Customers under contract are not charged separately for VAS; customers not under contract are charged per line item.

2. Percentage of sales from value added services: 20%

“This (and the profit percentage) is an estimate and is very skewed because we don’t charge for things like postage so there is no margin.” (D. Smith, personal communication, June 30, 2009)

3. Percentage of profits from value added services: 12-15%

Organizational Structure of Value Added Services

1. How are value added services (VAS) structured/organized in your company?

See organizational structure in Research Findings section of monograph.

2. Does this VAS department/organization have its own P&L where someone is directly responsible for its performance (financial, quality, etc)?

No, the P&L is for the company as a whole.

3. Are value added services actively marketed/advertised to current and prospective customers? If yes, by what method (e.g. word of mouth, direct mail – print, direct mail – electronic, company website, trade show, etc)? If not, why?

Yes. Mostly by:

- *Word of mouth and recommendations (by far the most predominant methods used)*
- *Direct mail used, but very little*
- *Speaking at conferences – not on a wide basis*
- *Attendance at trade shows; do not exhibit at any trade shows*

Benefits of a Distribution Center Structure

The value of a distribution center model is organizing all facets of the product so it can be processed and delivered. “There are a lot of situations where this model makes sense.” (D. Smith, personal communication, June 30, 2009)

1. What types of VAS are directly related to product/content distribution?

“Definitely directly related and important because a customer generally doesn’t have the facilities to get the product delivered. They know how to define the concept, but not necessarily the product workflow. Concept to delivery is key.” (D. Smith, personal communication, June 30, 2009)

Some services are better suited for finishing and others more in prepress or on the front end of the process where all of the organizing occurs. The front end takes complicated jobs and makes them so that it is reasonable to expect a resulting product.

VAS need to be optimized for particular product/services (i.e. project application).

2. In your opinion is there value (e.g. competitive advantage) in a structuring distribution VAS in a single organization?

“We don’t do this, but we are putting a knowledge base on a front end that takes customer issues into account.” “We reconfigure the technology boxes to solve the problem (modular impact). This works better than saying “here’s a solution now give me your problem” (D. Smith, personal communication, June 30, 2009).

3. What size/type of company is best suited for this type of organizational structure?

This would work best for large companies or a captured organization (e.g. Kodak, GM, etc.) because of volumes and the fact that the company is doing the same thing all the time. The question is “is this organization flexible?” “We are small so we have to be flexible.”(D. Smith, personal communication, June 30, 2009) Also finishing (e.g. Rochester Binding and Finishing) or distribution companies are a good model for this type of structure.

4. How should this concept (single organization) be marketed?

Companies need to be able to show the flexibility. “Also need to show the customer that you want to solve their problem.” (D. Smith, personal communication, June 30, 2009)

5. If you do not currently have an organizational structure such as this would you consider it? If so, in what area of your company would a structure like this be located?

“This does not fit our model because of our size.” “We are still very traditional in how we charge in that we don’t charge for the intangibles.” (D. Smith, personal communication, June 30, 2009)

6. What are the challenges with structuring these types of value added services into one organization?

- *Being flexible – a challenge for both small and large printing companies*
- *Size of company*
- *Physical location of VAS function*

“This is a tough question.” “In a company like ours people are utilized all over the organizational structure and as a digital printer we have an integrated workflow.” (D. Smith, personal communication, June 30, 2009)

Other Comments

1. Do you have any other comments that would assist the researchers in understanding the structure, benefits and viability of a distribution center?
 - *The name should be something like “Job Integration Center” which would best represent a digital printing company. “Distribution center” is lacking a front end focus; back end must be united with the front end.*
 - *Distribution is a VAS. One of the biggest reasons is that many jobs today are digital and not offset. Digital redistributes print starting with prepress; it complicates distribution, but the solution is 1) digital printing and 2) advancement of IT tools.*

It allows for the automation of digital distribution via variable data printing (VDP) and IT management.

- *Viability of a distribution center is interesting – distribution is no longer at the end of the workflow stream.*

“The Newspaper Company”

Demographic Information

Company name: “The Newspaper Company”

(Note: This company did not give permission for their name to be disclosed. Therefore, for the purposes of this research they will be referred to as “The Newspaper Company.”)

Years in business: 164

Company type: Newspaper

Number of locations: 2

Number of Employees at this location: 300

Total # of employees: 360

Annual sales (\$ millions): Cannot disclose

Percentage of sales from print services: Cannot disclose

Interviewee: Director of Operations

The newspaper company that participated did not consent to having their identity disclosed and therefore are referred to as the “The Newspaper Company” throughout this research document. The interview was conducted with the Director of Operations. Although there was an on-site meeting at the “The Newspaper Company” it was not possible for the face-to-face interview to be conducted due to time constraints. Therefore the questions for the research were done via e-mail with the Director of Operations completing the questions and then providing clarification based on the researcher’s review.

Founded in 1845, this local newspaper located in the Midwestern region of the United States has a daily circulation of approximately 70,000 and a Sunday circulation of approximately 90,000. “The Newspaper Company” is one of several newspapers owned by one of the larger U.S. holding companies and is known for its dedication to community service and commitment to education in the city where it resides.

The paper provides both a printed and online edition. Additionally, the company prints other small newspapers and other commercial publications. Other online products include advertisements and classifieds as well as targeted e-publications for varying demographic groups. “The Newspaper Company” does not really see itself as a value added service provider, but realizes the need to diversify beyond the printed newspaper

Appendix C: Interview Data

given the current state of the newspaper industry. Over the past several years, circulation has declined and a major focus has been on cost cutting. Like so many other daily newspapers the width of the paper has been decreased along with the number of pages.

The Director of Operations indicated that the biggest challenge going forward is to avoid giving away the product that the company is trying to sell. Additionally, the impact of competition from other free media continues to be a major issue, which highlights the need to monetize internet/digital news.

Value Added Service Offerings

1. What types of value added services does your company offer?

VAS	In-House Service?	Outsourced Service?	Charge Assessed?	How long has this service been offered? (Years)
Mailing operations	Yes		Yes	10 years – Offer direct mail service in our advertising department. We charge for postage, design and labor. We also mail some small amounts of newsprint commercial print products as well as small amounts of the daily newspaper.
Storage	Yes		No	20 years. Only prior to publication in newspaper or direct mail date.
Database/Asset Management	Yes		No – unless sold as part of a direct mail program.	20 years. We offer our database information for the benefit of advertisers.
Shipping	Yes		Yes – usually at cost.	20 years on newsprint commercial print jobs.
Sustainability (e.g. green printing)	Yes		Std rate; no premium for “green materials.”	20 years. We offer water based ink and recycled newsprint.
Design services	Yes		Yes, at times. Often this charge is dropped if an advertising contract is signed by the customer.	20 + years
Commercial printing	Yes		Yes	10 +

2. Percentage of sales from value added services: < 3%

3. Percentage of profits from value added services: < 3%

Organizational Structure of Value Added Services

1. How are value added services (VAS) structured/organized in your company?

See organizational structure in Research Findings section of monograph.

Most VAS are built into advertising charge as a package. The advertiser has tradi-

tionally carried the brunt of the required revenue for newspapers. Classified revenue, which was traditionally about 20-30% of newspapers' revenue, has been drastically reduced due mostly to the internet (free classified websites and companies' own websites). Typically, newspapers have used VAS as an enticement to generate interest in dollar volume contracts that are supposed to lock a customer into a particular spend for the year in exchange for an agreed upon favorable rate per inch. VAS has also been employed to obtain one-time ad sales. The difference for newspapers is that our primary business is not selling printing but rather selling advertising in the printed product.

The one exception is newsprint commercial printing, in which we do sell the printed product. However, we typically have not had the resources to employ VAS beyond shipping, temporary storage, and some prepress work. Margins on newsprint commercial work are tight and the business is very competitive. This creates a situation where we have been more or less forced to give some of these services away to compete with others who were offering VAS for free.

2. Does this VAS department/organization have its own P&L where someone is directly responsible for its performance (financial, quality, etc)?

Not for the newspaper itself. Our Direct Mail department has its own P&L. Our newsprint commercial printing operations have their own P&L as well.

3. Are value added services actively marketed/advertised to current and prospective customers? If yes, by what method (e.g. word of mouth, direct mail – print, direct mail – electronic, company website, trade show, etc)? If not, why?

Yes. They are typically part of the advertising program package. Most of the VAS offered are communicated by the sales rep as part of the ad buy process. The same is true for most newspaper commercial printing operations for the reasons mentioned above in Question 1.

Benefits of a Distribution Center Structure

1. What types of VAS are directly related to product/content distribution?

Database information, ad design, multiple product offerings.

2. In your opinion is there value (e.g. competitive advantage) in a structuring distribution VAS in a single organization?

Not for newspapers.

3. What size/type of company is best suited for this type of organizational structure?

Larger commercial printing companies with resources (labor, equipment, space) to execute a VAS strategy.

4. How should this concept (single organization) be marketed?

“One stop shop” idea marketed to potential customers in print publications (preferably B-to-B) and online.

5. If you do not currently have an organizational structure such as this would you consider it? If so, in what area of your company would a structure like this be located?

Not likely at a newspaper.

6. What are the challenges with structuring these types of value added services into one organization?

Coordination with sales staff of core products and ability to independently cash flow VAS.

Other Comments

1. Do you have any other comments that would assist the researchers in understanding the structure, benefits and viability of a distribution center?

No additional comments given.

Think Patented

Demographic Information

Company name: Think Patented

Years in business: 30

Company type: Commercial and Digital Printer (Formal Descriptor: Marketing Services Provider)

Number of locations: 2 - (this location and fulfillment center)

Number of Employees at this location: 97

Total # of employees: 100

Annual sales (\$ millions): 18

Percentage of sales from print services: 65-70

Interviewees: Niels Winther – Chairman of the Board; Ken McNerney – President & CEO

Think Patented is a commercial and digital printing company, headquartered in Dayton, OH. The company was established in 1979 as Patented Printing and is one of the largest graphic communication companies in the Midwest. In 2007 under new ownership the company became Think Patented and projected their focus on not being a traditional printer, but rather a communication solutions provider. Strategically located, they are within easy reach of major markets, leading business centers, and the majority of homes in America (Think Patented, 2008c).

As indicated by the company's President & CEO, Ken McNerney, and the Chairman of the Board, Niels Winther, Think Patented's mission is to be "the preferred cross-media provider, solving challenges and exceeding expectations through motivated people, expertise, flexibility and trust. We have a passion for doing more for our customers to secure their profitability. We are people-oriented, encouraging and empowering all employees to actively participate in the successes of the organization" (K. McNerney & N. Winther, personal communication, June 22, 2009).

The company has received numerous awards and recognitions from a wide array of printing and graphic communications associations and is ranked as the largest printing company in their region as noted in the 2007 Book of Lists published by the Dayton Business Journal (Think Patented, 2008a).

Think Patented also leads the way with a continuum of graphic communication capabilities—including asset management, database management, mailing and fulfillment—which are services that not typically available from traditional "ink on paper" printers. They are active participants in several major industry organizations, includ-

Appendix C: Interview Data

ing serving at the board level with MFSA (Mailing & Fulfillment Service Association), NAPL (National Association for Printing Leadership), and PIA (Printing Industries of America) (Think Patented, 2008b).

Value Added Service Offerings

1. What types of value added services does your company offer?

VAS	In-House Service?	Outsourced Service?	Charge Assessed?	How long has this service been offered? (Years)
Fulfillment	Yes		Yes	6
Kitting	Yes		Yes	15-20
Mailing operations	Yes		Yes	6 (also includes list mgmt services, analysis, demographic profiling & modeling)
Product returns	Yes (limited)		Yes	6
Storage (short & long term)	Yes - 30 days on-site; long term storage at fulfillment center		No	6
Inventory Management (Promail Software)	Yes		Yes	6
IT management	Yes		Yes	2 (staff of 4 provides development and hosting services; storefronts hosted on TP's website)
Database/Asset Mgmt (off-shoot of IT Mgmt)	Yes		Yes	1 – backend dashboards; ROI tracking
Shipping	Yes (locally-TP owned vans)	Yes (regionally)	Yes	30
Packaging (Design and production)		Yes (design)	Yes	4
QA and inspection	Yes		No	2 – involves corrective action reporting (CAR) which is initiated by the Customer Service Mgr
Document destruction/recycling (for internal & external documents)	Yes (limited)	Yes – some	Yes	2
Lean manufacturing*	Yes		No	Internal practices allow for more efficient mfg processing
Sustainability (e.g. green printing)*	Yes		No	FSC certified; helps customer, but there is no charge
Consulting services	Yes		No	Part of the day to day operations; ROI tracking to help customers justify programs/campaigns
Web development	Yes		Yes	1
Design services	Yes	Yes	Yes	1

VAS	In-House Service?	Outsourced Service?	Charge Assessed?	How long has this service been offered? (Years)
Promotional products	Yes	Yes	Yes	1 Promotional campaigns developed for customers
Call center		Yes	Yes	1
Digital - Personalized URLs (print & electronic)	Yes		Yes	12-18 months variable data; 1-to1 marketing (content & graphics)
Cross media services	Yes		Yes	1 Focus on campaign management

**Lean Manufacturing and Sustainability are part of everyday business practices.*

2. Percentage of sales from value added services: 30-35%
3. Percentage of profits from value added services: 50-60%

Organizational Structure of Value Added Services

1. How are value added services (VAS) structured/organized in your company?

See organizational structure in Research Findings section of monograph.

2. Does this VAS department/organization have its own P&L where someone is directly responsible for its performance (financial, quality, etc)?

Yes. All VAS (products & services) fall under one of the following profit centers:

- *General Commercial Printing*
- *Mailing Services*
- *Digital Services*
- *Promotional Products*
- *Fulfillment*

In the future “integrated solutions” could be a separate P&L.

3. Are value added services actively marketed/advertised to current and prospective customers? If yes, by what method (e.g. word of mouth, direct mail – print, direct mail – electronic, company website, trade show, etc)? If not, why?

Yes. VAS are marketed more actively than the core products. Marketing/advertising includes all of the examples given plus:

- *E-mail blasts*
- *Attendance at trade shows that are industry or vertical market specific (e.g. retail, food & beverage, college and universities) [Note: Think Patented does not exhibit at trade shows]*

Benefits of a Distribution Center Structure

1. What types of VAS are directly related to product/content distribution?

“Everything we offer relates to distribution. Print is a part of the overall campaign and is still the largest portion of sales. Offering print as part of the overall campaign and not as a commodity is key.” (K. McNerney & N. Winther, personal communication, June 22, 2009)

2. In your opinion is there value (e.g. competitive advantage) in a structuring distribution VAS in a single organization?

“Don’t see the value in that the team sell and brand management approach we use would not fit under one center. At Think Patented, the corporation is the single organization for all VAS services.”

3. What size/type of company is best suited for this type of organizational structure?

This is a good model for small companies that only offer one service. It would give them a competitive edge and would allow them to stay in business. For example, small printers and mailers.

4. How should this concept (single organization) be marketed?

Companies must first stop giving away the VAS which is very common for small printers. That mentality has to change. This is a difficult mind set change for smaller companies. They need to think outside the box about how \$\$ will be made in the future. “Printing isn’t going away, but ink on paper (only) companies are.” (N. Winther, personal communication, June 22, 2009)

5. If you do not currently have an organizational structure such as this would you consider it? If so, in what area of your company would a structure like this be located?

No.

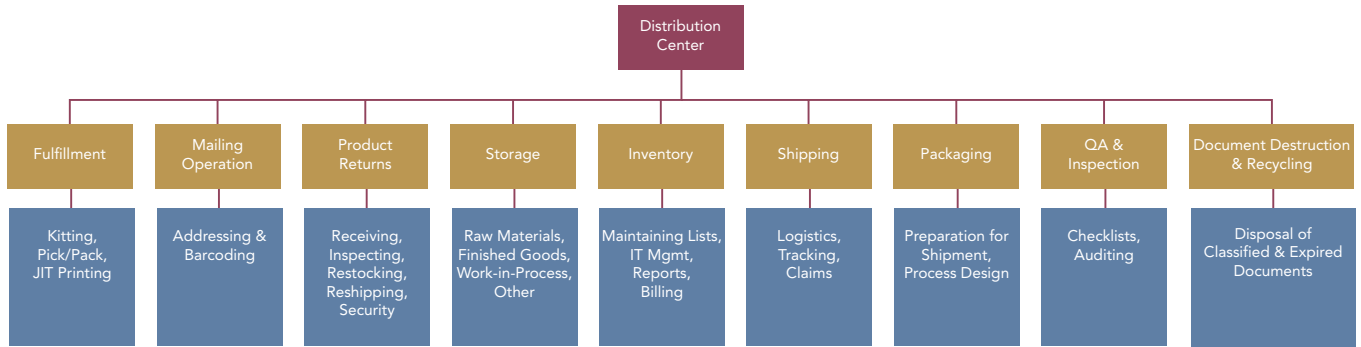
6. What are the challenges with structuring these types of value added services into one organization?

Companies need to do their research and find out what the customer wants. This happens by talking to the customer. It is also important to invest in the right skill sets to offer a variety of VAS. “Hire the people with the right expertise. Without this you will fail.” (K. McNerney, personal communication, June 22, 2009)

Other Comments

1. Do you have any other comments that would assist the researchers in understanding the structure, benefits and viability of a distribution center?
 - *Focus on program management*
 - *Get away from the “if you build it, they will come” attitude (N. Winther, personal communication, June 22, 2009). One reason this attitude is present is because “commercial printers tend to fall in love with equipment” (K. McNerney, personal communication, June 22, 2009).*
 - *Develop a detailed strategic plan (3-5 yr) and update it each year. “You need a roadmap to the future; you can always turn right if you hit a dead end” (K. McNerney, personal communication, June 22, 2009)*
 - *Hire the right people to help grow the services; Think Patented may consider buying an advertising agency in the future to enhance their in-house offerings.*

Appendix D: Distribution Center Model





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