

Outsourcing Print Management

Is it appropriate for your organisation?

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Introduction

Almost by stealth, print purchasing is moving up the agenda in many organisations. The rapid rise of print management companies in the last few years is proof that many organisations are changing the way they buy print. Executives and senior managers are under more pressure than ever before to reduce costs, but are often unable to even quantify their annual print bill, let alone decide whether there is an opportunity to make savings. One reason is that the print buying process can be so widely dispersed within many organisations that it is practically impossible to manage it in any meaningful way. Hence the promise from print management companies to aggregate the process through one buying point, and simultaneously reduce print and overhead costs, can be a seductive offer.

But is it as simple as that? Are all the different kinds of print products – brochures, catalogues, packaging, direct mail, point-of-sale materials, stationery – a single commodity that can be sensibly lumped together?

There is also a bewildering array of alternative options to using a print management company. Take the production of direct marketing print: creative agencies continue to offer a production resource, of varying quality. There are 'one-stop shops' offering most facilities under one roof, plus a glut of recently formed print conglomerates which recommend co-ordinating the production process amongst individual companies within their group. There are mailing houses who will buy in print, printers who will sub-contract the mailing and fulfilment, and legions of individual specialist suppliers. Is outsourcing print management always the right option in every circumstance?

Part of the problem is that print procurement is not a glamorous topic for most managers, particularly in Marketing departments, which are responsible for the lion's share of most organisations' print bills. There are no sessions on the topic at conferences, few articles in the marketing trade press for example, and print purchasing is not top of the priority list for most Marketing Directors – or other Board directors for that matter.

It's true that in most organisations print procurement will never be a strategic issue. But if print items are a central element of marketing activity and print budgets are significant, senior managers should regularly review their arrangements. At one level the issues are simple – pay too much and the organisation could be haemorrhaging large amounts of cash that could be better spent elsewhere. Less easy to quantify are the benefits of freeing up precious management time, reducing staff overheads, and getting staff to focus more on core activities.

So, should you outsource your print purchasing? As ever, the answer is "it depends". This briefing paper aims to give managers a framework to analyse their organisation's print purchasing needs, and to decide when outsourcing to a print management company is the right solution – and equally important, when it's not.

Not all print is the same

Many advocates of print outsourcing start from the premise that 'print' is a uniform commodity. In the words of one prominent print management company "all print projects comprise the same basic components". The argument then follows that an organisation should centralise all its print needs and place them with a single print management company, whose strict disciplines and technical knowledge will deliver cost savings.

This approach is fundamentally flawed: most organisations require a highly diverse range of print products and services, which simply cannot be grouped as a single homogenous 'supply category'. And they may or may not be a 'commodity' purchase: some projects will be of critical strategic significance, others purely routine purchases. Some may be highly complex projects, others extremely simple. The 'one size fits all' print procurement strategy will only ever be appropriate for a small minority of organisations.

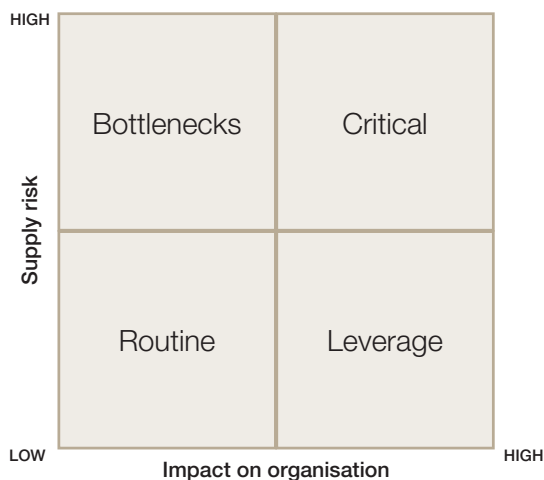
A purchasing portfolio matrix

A more sophisticated approach was developed by influential consultant, Peter Kraljic, in the 1980s. In essence, an organisation first classifies the products and services it purchases in terms of two key dimensions:

- their impact on the business (whether in terms of costs, profit, or long term viability)
- the complexity of the product or service and the level of technical or supply risk

The organisation then analyses the supply market in terms of bargaining power, and levels of dependency and trust in its relationship with suppliers.

Using the two dimensions of business impact and supply risk enables an organisation to classify its purchasing into one of 4 categories, each of which may benefit from a distinctive purchasing approach.

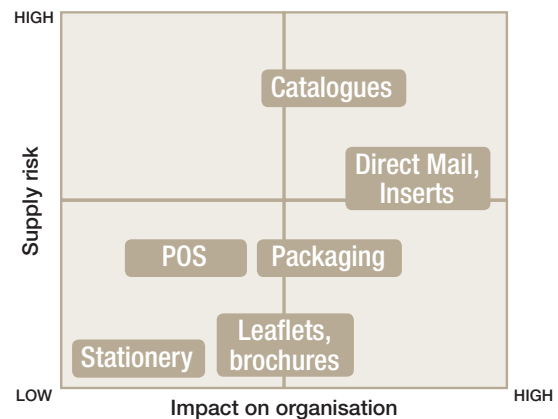


Products or services that fall into the *'routine'* category should be multi-sourced, focusing on price. Decisions can be taken at a junior level, and because the organisation has a low dependency on the supplier, there is no need to invest time and effort in close relationships.

In the *'leverage'* category, the objective should be to exploit the organisation's purchasing power and its low dependency on suppliers. A *'tactical collaboration'* approach may be used to deliver cost management through negotiations, targeted pricing strategies, and a mix of contract and spot purchasing.

'Critical' or strategic items should be delivered through genuine collaboration and co-operation with suppliers, based on long-term relationships, whilst *'bottleneck'* items require an organisation to consider ways of maintaining supply continuity.

So where does print fit into this matrix? Different areas of print will be in different categories, and their exact positioning will depend on the organisation. (For instance, direct marketing print will be of major significance to financial services companies and charities, but not used at all by some manufacturing companies with a limited number of potential customers.) But the layout below is a useful generalization:



The positioning of commodity print items such as stationery and leaflets is straightforward. There is huge overcapacity in this sector of the print market, and the simplicity and low value of these products make them the archetypal *'routine'* purchase.

By contrast, direct mail is frequently a *'critical'* purchase: budgets are often large, the production process involves a complex supply chain of different specialists and choices between a variety of alternative production and personalisation technologies. The risks are very high as well: mistakes can seriously endanger customer relationships and the organisation's reputation.

But most other print products are positioned somewhere between these two opposites, and the appropriate purchasing strategy may not be so clear-cut.

Strength in relationship to supply market

The second stage of the Kraljic approach is to consider the supply market in terms of one's bargaining power and relationships with suppliers.

The European print supply market is highly fragmented and specialised, and most segments are comparatively small in relation to the overall size of the industry. Although the print industry is worth between £15 and £17 billion, (depending on how you define 'print'), it is actually an umbrella term for 13 or so distinct and broadly non-overlapping sectors. These include book printing, direct marketing, packaging, P.O.S. and display, posters, business forms, magazines and catalogues, newspapers, labels, jobbing general print, print-on-demand, and security printing.

Any one of these sectors contains its own network of sub-sectors. Within the direct marketing sector for example, are envelope manufacturers, continuous stationery printers, insert specialists, laser and mailing houses, bulk enclosers, data processing specialists, producers of 'inline' products... you get the idea!

This means that the average manufacturing unit in the print or mailing industry is relatively small. Breaking down the conglomerates and holding groups into their manufacturing units, there are very few UK print or mailing companies larger than £30 to £40 million. A turnover of only £15m would get you into the top 5 mailing houses in the UK.

The threshold at which a buyer becomes a 'major player' may therefore be lower

than might be expected, depending on how much of the spend is concentrated into a particular sub-sector.

When print management companies are appropriate

Using the purchasing portfolio matrix to classify the print products you buy, and analysing the organisation's strength in relation to the supply market, gives valuable insights into the decision about whether to outsource print management. The chart below shows the purchasing strategies that emerge from this approach.

- With '*routine*', commodity print such as stationery, where your spend is low, the solution is straightforward: let your admin or purchasing department continue to buy it. It won't take much of their time, and a print management company won't save any money or add value.
- The issue is equally clear cut when your print spend on either '*leverage*' or '*critical*' items is insufficient to give you influence in the supply market. The key issue here is often variability: for many organisations, print is a major item of expenditure, but the spend is spread widely across different print sub-sectors. The organisation has little buying power, and is not in the separate 'sub-sector' markets frequently enough to develop technical expertise or supplier relationships. In these circumstances, a print management company will easily outperform in-house buyers – through its superior buying power, technical expertise and supplier relationships.

Print item category	Organisation's strength in relation to relevant sub-sector of supply market	
	Weak, low spend	Strong, high spend
Routine	Buy direct	Outsource to print management or Buy direct
Leverage	Outsource to print management	Outsource to print management or Buy direct
Critical	Outsource to print management	Buy direct

In this situation, it makes sense for an organisation to leverage its spend by combining it with that of a print management company.

- With either *'routine'* or *'leverage'* items, *where your volume gives you significant purchasing power in a particular sub-sector*, the choice is finely balanced between buying direct and using a print management company.

The decision will generally *not* be driven by savings on print costs – beyond a certain point, more spend will not necessarily result in lower prices. The relatively small size of specialist supplier companies means that increased buying power has rapidly diminishing returns after a certain level has been reached. That threshold obviously varies depending on the particular print sub-sector. But in direct marketing, for example, an organisation spending over £3 or £4 million will probably get the same prices as a print management company that can muster a spend of £20 million in the same area. (Beware of print management companies quoting headline figures of their total spend – the issue is how much they spend in the sub-sectors that are relevant to your organisation.)

Indeed, buying direct – in these circumstances – may show a slight saving when the salary and overhead costs of in-house production specialists are balanced against the margin charged by the print management company. Weighed against this are the more intangible benefits of the organisation being able to focus on core activities, having access to a broader range of skills and advice, the transference of some of the risks (and costs) of errors and quality problems, and the savings in management time.

- With *'critical'* print *where the organisation is also powerful in the market*, the decision should be to buy direct. Examples of these circumstances would be catalogue production by large mail order companies, or holiday brochure production by major travel companies. These items are at the heart of these companies' operations, and maintaining tight control of the process, integration with other internal functions, and maximising flexibility are generally considered critically important.

What kind of print management company?

In the same way that 'not all print is the same', neither are print management companies. Most companies can be separated into one of two different camps: those whose approach and service is based upon standardization, and those who aim to deliver a flexible, bespoke service.

The 'standardization' or 'machine' camp believe that cost savings are best achieved through accumulating massive buying power and using this to ruthlessly beat prices down – at the same time producing the maximum profit margin opportunity. In the interests of efficiency and cost reduction, clients must adapt to the print management company's 'system'. The company will invest in IT systems rather than expensive, experienced staff. The benefits of web based job bag and tracking systems will be heavily promoted, (but these benefits are not always appreciated by the client staff who have to actually use the systems). Relationships between this type of print management company and its suppliers are fundamentally adversarial. The combination of reliance on IT and disaffected suppliers means that the service delivered is rarely flexible or responsive – indeed the ultimate objective is the delivery of a standard service to all clients, though the Internet.

This approach has proved popular with corporates who have a large but diverse spend across *'routine'* commodity print – stationery, leaflets, brochures, and simple marketing and promotional print. Many print management companies have very successfully exploited the huge over capacity in this supply market, sharing the cost savings achieved with their clients.

However, the 'bespoke' approach believes that lower costs can be achieved by being smart rather than just being powerful – and that adding value through a customized service is just as important as cost reduction.

These print management companies will invest in people, their core asset will be the expertise of their staff, and they will have close partner relationships with a range

of specialist suppliers. Not surprisingly, companies choosing this strategy will tend to specialise in the more '*critical*' print areas such as complex direct marketing campaigns or the web offset market for example.

The 'bespoke' companies will excel at adaptable and personal service, bringing the talents of highly skilled staff to bear on a diverse range of projects with fast turnarounds.

The trick for clients, therefore, is to understand their print requirements and the kind of service they want, and then select the appropriate kind of print management company. Problems may arise when a client chooses a 'machine' print management company for '*critical*' print purchases, – particularly when flexibility and speed are also required. For example, 'time to market' is crucial for many direct marketers – the ability to change data selections at a late stage can be important in order to maximise the learning from previous campaigns. This often results in last minute changes to print quantities and mailing matrices. The more important these factors are, the more a client should incline towards an agile, bespoke service driven by experienced staff.

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