Continued from Page One

What Do Brand Owners Really Want?

TLMI Editor Jennifer Dochstader recently spoke with Michael Ferrari, President of Ferrari Innovation Solutions, about the decline in vendor loyalty and ways label converters can position themselves to create more loyal customers in today's marketplace. In 2010 Ferrari completed a successful career as R&D Associate Director with 32 years at the Procter & Gamble Company. Through his leadership, Ferrari delivered initiatives to the marketplace for some of the world's leading billion dollar brands. He has a distinguished career of being committed to collaboration with packaging vendors, innovation and challenging the status quo.

Mike Ferrari

Ferrari is also a featured speaker at a master class for brand owners that will be held at Labelexpo in Chicago next month. Brand owners, retailers, label and packaging designers and buyers attending the inaugural printing technology master class, *Brand Engagement through Packaging*, **will have the opportunity to hear leading industry experts discuss subjects that will include material utilization, design techniques to grow a brand, and ways companies can increase sales and stay ahead of their competitors.**

TLMI Editor: To begin, can you tell us about the new brand owner master class that we'll see for the first time at Labelexpo next month?

Ferrari: There will be four key speakers and will take up most of the final day of the show. The event includes a knowledge session, that's a big part of the day, and after lunch we will take brand owners through a tour of selected booths on the show floor that reinforces what we will be speaking about during the knowledge session. This session isn't about technology, it's about packaging business strategies and methodologies that are occurring and are relevant right now.

TLMI Editor: Why do you feel it's important to hold an event like this at this particular time?

Ferrari: The shopper is changing. The brands are trying to figure out how they engage shoppers in a world where connectivity, mobility and social media are the governing forces. I'll be addressing these three channels in my presentation, trying to give attendees an understanding of ways the consumer is changing and presenting some strategies that enables them to do things more effectively.

TLMI Editor: How to you think the label vendor-brand owner relationship has changed?

Ferrari: If we look at this industry 15-20 years ago, there weren't any RFPs. Brand owners and their label vendors were bonded because of a relationship, not because a specific label company was necessarily the best fit for the work. You couldn't break that bond. Maybe the father of the label printing company's owner did business with that brand owner, or there was just a long history of doing business together. The relationship wasn't necessarily based on creativity, innovation or even pricing. The relationship was built on a history of doing business together and that was enough to create customer loyalty.

This started to break down about 5-10 years ago. We started to see more RFPs and brand owners began to treat printing as a commodity. They honed in on price which became even more of a driver during the economic downturns. RFPs became the norm and there were even attempts at reverse auction style bidding programs.

Interestingly, what has happened recently and this is a growing trend, is that a relationship shift has occurred spurred by the economic crisis of 2008 and 2009. Brand owners want inventory management and this is becoming more and more important to the brand owner-label vendor relationship.

TLMI Editor: Can you elaborate on the forces that are driving inventory management, and why you think this is such an important trend?

Ferrari: The average consumer products company will ship to market about 70% of the total printed packaging materials they purchase. That means that around 30% of what has been purchased goes unused. This is due to these long supply chains and when marketing pushes a new program down the pipeline a portion of what has been printed and is being inventoried becomes obsolete.Some material is simply misplaced in vast package material warehouses and goes unaccounted.

In the average SKU bushel at a large consumer products company there are 2-4 items that are the ‘classics.’ These are the big runs and the brand’s signature, largest selling product SKUs. When you get to the tail end of that SKU bushel, you have smaller run sizes that you need to keep producing because you want to appeal to the broader market. That 30% waste primarily comes from the tail ends of the SKU bushel if you look at the product line like a bell curve.

The brand owner-label vendor relationship is changing because brand owners want their packaging vendors to manage inventory. These companies need to get a better handle on their inventory and they are increasingly looking to their label suppliers to help them do this.

TLMI Editor: Why can’t CPGs (consumer products companies) do a better job at forecasting, is the market changing more quickly now than it used to?

Ferrari: It is. Companies need to forecast 13-14 weeks out in analog supply chains and they have to do that for their entire portfolio. It’s difficult because it is very hard to predict where the movement is going to happen. Marketing and promotional campaigns are constant and often employed to try and move the SKUs at the tail ends of that bell curve. This is what’s driving the inventory management trend. A growing number of brands are moving toward the adoption of inventory management programs, ordering what they need and when they need it. If a label printer is good at doing this, it really leverages their position as a supplier. Suddenly the product is ‘de-commoditized’ because the label vendor is helping their customers solve a major problem.

When we talk about a consumer product company, a brand, I think it’s important to make a distinction between who is really the ‘brand owner.’ I do not consider R&D or purchasing the brand’s owner, the true brand owner is the marketer. However, R&D is a great place to bring new innovation because this position is the conduit between purchasing and the marketers. R&D can discover ways to save money by employing new or different kinds of technology. I think R&D is a very good place that forward thinking label printers should be approaching.

TLMI Editor: So if I am a label converter an effective strategy to gain new business might be to develop a customized marketing program targeting my prospects’ R&D departments?

Ferrari: My advice would be to have a marketing strategy that targets all three departments: the marketers, R&D and sourcing/purchasing. Have a three-tiered strategy because each of these units speaks a different language and they each have their own interests. They don’t have a common goal and they each have their own budgets in place.

Take Procter & Gamble for example. For the everyday brand of Head & Shoulders, and other classics like that, the labels for these types of products may change once a year. Purchasing is going to use their allocated budgets to source those labels. However, the marketing budget is put in place to support promotional labels for Head & Shoulders. This is where there might be a co-marketing event with a celebrity and this campaign might run 12 months. These are going to be smaller run sizes and that spend is totally different than the everyday spend of the regular Head & Shoulders that sourcing has control over. Label printers need to understand this.

TLMI Editor: Can you talk more about promotions, how is the promotional landscape changing and how does this impact label converters?

Ferrari: We spoke about the classic, larger run size brands like Head & Shoulders but for some brands growing the brand is all about promotions. You have a very different SKU bell curve, as soon as one promotion ends for these brands another one begins. There is a constant stream of engagement with the label converter and this is where digital printing is a tremendous advantage.

L'Oreal is a good example. The company wanted to increase their sales of products targeting children and marketing decided to do that via Pixar and Disney movies and shrink labels for shampoo bottles. A new Pixar or Disney movie comes out several times a year. L'Oreal chose electrophotography for these shrink labels because the quality had to be extremely high and digital allowed them to place an order on Monday and to be applying the labels by Wednesday. Suddenly forecasting can be much shorter and L'Oreal can closely manage which movie characters are selling and which characters aren't and when a new movie comes out they are not going to be stuck with high volumes of obsolete labels.

TLMI Editor: In closing, what is your advice for label converters today?

Ferrari: Have a mix of technologies on your production floor in order to manage the complete portfolio of your customers. When there are longer run requirements, you can handle it. When there are highest quality, promotional run requirements you can handle it. The smart label converters today are able to redefine themselves as true solution providers and back up that claim by being able to meet the capabilities of a brand's entire portfolio.

I have frequently heard printing companies say things like, "We don't want to get into consumer test packaging projects because there isn't any money in it for us." However by saying this you are creating an opportunity for your customer or prospect to go elsewhere. Label printers need to be able to meet the full range of their customers' requirements including concept development, sales samples, inventory management and both long and short runs. These are the companies that are going to keep growing and to maximize the loyalty of their customer base.