

Karstedt Report Review part 2: Q&A with Mike Ferrari

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This second piece in a three-part review of the Karstedt Partners digital print Commercialization Assessment Report for the Narrow Web Label sector discusses industry trends with Mike Ferrari of Ferrari Innovation Solutions (retired Procter & Gamble executive) and shows how CPCs are the driver for change in packaging labels. The purpose of the report is to assist label converters in answering the following questions:

1. Is digital printing right for my business?
2. If so, what technology platforms should I look at?
3. How do I build an effective business model around digital printing?

In the first part of the review, L&L looked at the [Packaging Life Cycle](#), which showed the typical percentage of a CPC's volume that applies to each segment of a brand's campaign. In Issue 3, published in June, L&L will analyze the broader potential for digital printing and its ability to manage effectively the various facets of the Packaging Life Cycle, its implications and the opportunities it creates for the label converter.

(Labels & Labeling's Danielle Jerschefske:) What problems does a CPC have that can be solved by digital printing?

Mike Ferrari: There are three: real world connection with the virtual world; ability to conduct ecommerce more effectively; and limited edition offerings, mass customization (seasonal, regional, cause & promotional) and personalization.

What do you believe digital printing should mean to a label converter right now? Looking towards the future, what do you believe digital printing will mean to label converters and CPCs – both small and large?

Digital printing for the label converter can allow rising above being a commodity printer, which is the case with analog today. Purchasing organizations differentiate printers through cost as the key metric. Printers that have moved into digital printing can offer the marketing and design organizations a value added proposition. Digital printing is changing the game for printers to provide a revenue growth solution.

In the future digital printing will no doubt continue to improve in capability, as all disruptive technology journeys do. I do believe digital will eventually take over the marketplace. I say this with some confidence as the trend of 'mass production' is changing and giving way to 'mass customization'.

What is the best way for label converters to educate brand owners on ways to use digital printing to engage consumers?

I have seen [successful converters educate the marketing and design organizations within CPCs](#) sharing with them 'what's possible'. I have seen several approaches that reach beyond the purchasing departments: converters hosting events with an agenda

appealing to marketers; converters attending conferences where marketers/designers go; converters having marketing departments so to speak the language of the CPCs. I do know that many digital printers have grown by double digits during the worst recession in the last three years, while analog printing has contracted.

What do you foresee happening to label converters that do not properly evaluate the various digital technologies to gain a greater understanding of how it fits, or doesn't, into their business?

I hear all too often, 'I know I need to get into digital printing the question is when?' Such hesitation at the converter level will mean they remain longer in the analog printing world that purchasing departments reign through RFPs (request for proposals). Competing on price is a downward slope that shrinks margins and leaves converters weak. Contracts can be lost as the conversion to digital speeds up meaning that digital converters will get stronger and create new relationships with CPCs. It will be very tough to gain accounts back if a converter moves into digital printing late. It is far easier to keep clients than to win them back. We will see the laggards of the converting industry lose and close their doors. The CARS report can help converters analyze how to best think through all the facets of investing in digital printing.

Why is it so important that the label and packaging market remember that digital printing is more about value than volume?

It is important because of two reasons: digital printing can do a lot (better, faster, cheaper and more sustainable) by aiding analog printers in this time of transition to better manage their current job orders. Secondly, it's important to take hold of this so to change the game by growing revenue and rise above commodity status.

What could happen to digital printing in the market if the industry does not value its capabilities?

In the last 12 months I have observed small CPCs adopting digital and 'leaning forward', practicing new business models. Several large global CPCs too are using digital printing to engage consumers and grow revenue. For example: L'Oreal, Coca Cola, Heineken, Wrigley, Bath & Body Works, Estee Lauder, etc. Digital printing is getting more attention now.

The report finds that CPCs view digital print as more than a process; rather a far more encompassing tool to achieve a multitude of goals: waste reduction, streamlined manufacturing, cost savings, etc. Why is it so important that converters understand this in a fast-paced digital, social, and globalized world?

During my career at Procter & Gamble we focused on consumer needs and revolved all else around this central interest. We used metrics against the following categories: better, faster, cheaper and more sustainable. These are important parameters not only to P&G but all CPCs. If converters are only speaking to the purchasing department they will have the emphasis on only one of these four categories. I do not want to make the purchasing department a villain, but cost is what they are responsible for and rewarded against. Therefore, label and packaging converters do not often see the whole picture of what is important to CPCs because of the one sided conversation they are having.

Sustainability is only now coming into the fold as CPCs are starting to give their suppliers sustainability scorecards that are in line with what the trade (e.g.: Walmart, Target, Tesco, others) have given CPC's 2-3 years ago. The fact is that a digital package print supply chain can deliver on three of the four categories against every job vs analog; better, faster and more sustainable. Digital printing can in many cases deliver a cost

savings depending on the SKU mix. That is a powerful improvement across different category levels.

When it comes to fulfillment, brand owners are increasingly looking to speed a product's time to market. Can you talk about this with regard to conventional versus digital production?

We are beginning to see very different supply chain models starting to emerge in this new age. A long tradition has been that CPC's owned their packaging assets and purchased printed package materials to run on their lines. Recently we have seen some CPC's move to contract packing models where they do not have assets tied up. As such they are agile and can produce more offerings more quickly. Digital printing fits very well into this new trend.

Contract manufacturers have become the way for CPC's to produce many more SKUs without complicating their world or large capital investment. Some have purchased digital print presses other have partnered with digital printers. Method is competing with Procter & Gamble and gaining access to the critical middle shelf and Bath & Body Works produces numerous SKUs and able to provide these offerings all through contract manufacturing. I expect to see more of this external supply chain in the future.

Can you expand on the digital front-end and the differentiation it allows?

With digital printing comes a digital front end. This means that software allows for a more seamless web to print arrangement. Print orders can be placed either from a storefront in an ecommerce situation directly to the digital press. Or in the traditional model CPCs can order digital printed packaging materials online and orders are passed along to converters and to the press. A true digital workflow (post press varnish and decorating techniques are all that remain in analog).

What differences do you see as far as adoption when looking at scale and size?

Digital printing has already proven feasibility and value creation at long runs. This requires a mindset of investing in packaging, it may cost more for a very long run (e.g.: >250,000) digitally printed impressions. But for some consumer product companies that have made this journey they are finding revenue growth of 3 percent. Such revenue growth is very worthwhile when comparing the relatively small upcharge digital printing might add. Consumer product companies examining the best in class case studies and willing to leave behind their legacy approach to engaging consumers will be the early adopters.

CPCs are identifying brands and sometimes SKUs to convert to digital printing to produce more customization and even personalization. This trend is global. CPCs are constantly asking who are the best in class digital printers and this means a shift to fulfillment houses and new digital converters creating new relationships.

The label industry has experienced some cross border consolidation in recent months. How does digital printing and its potential relate to this industry evolution?

CPCs with global brands will really benefit from digital package printing. Compare what happens today, a CPC produces artwork and needs to finger print presses in all four regions, conducts color separations in all four regions, makes print tools in all four regions and purchases ink that does not have a global standard and uses print presses of different vintages and dependent on press operator skill. It requires much effort to achieve a consistent look and equity colors that match with such a process including

paying four times for the preparation services. All that goes away with a digital global supply chain. The digital presses are computerized and not skill based. Electronic files are sent around the world and inks for digital presses are consistent as they come from single sources. Global launch of upgraded graphics or new products is greatly simplified with high probability for consistency and repeatability. Global brands will benefit greatly when they realize this potential.

How can digital printing help brand owners communicate better with the modern consumer, and how does this relate to the opportunity for interactive packaging and mobile shopping?

A digital printing supply chain allows brand owners to maintain relevancy with the latest trends or current events. The ability to change graphics, much like sending a file to a desktop printer can make seasonal promotions seamless. The ability to print variable data text means that different codes can be placed on packages to create new mobile shopping interactions into different online websites that create different consumer experiences.

Most of the industry is familiar with the term 'First Moment of Truth' accredited to P&G. You've been using the term 'Zero Moment of Truth'. What does this mean?

In the last ten years, CPCs have scrambled to compete effectively at The First Moment of Truth by making purchase decisions in-store. Shopper behavior is changing as the result of influence from the internet. As the result of social media shopper behavior is once again changing and changing fast. Consumers are on the go in the virtual world – a third of the world is online; there are five billion handheld phones in the world. People get their information from blogs, tweets, their Facebook 'friends', mobile media and YouTube. This is often the first product interaction shoppers have.

The term 'Zero Moment of Truth' reflects the change in influence of a consumer from store shelves to all of these other media resources before they even enter the store. The First Moment of Truth is still relevant; it's just that navigating social media is a new step. Successful CPCs will embrace this new 'touchpoint' and embrace the fact that people live in a virtual world as much as they do in the real world, and move back and forth between the two. This is an opportunity for CPCs to bring the level of its packaging to the level of the internet. The winners in this battle will leverage the power of working seamlessly between these two worlds. They will continue changing labels and packaging to maintain relevancy, and will continue the virtual conversation in the real world on the package. We are in the midst of a transformation from mass production to mass customization. Digital printing technology for the label and shrink sleeve market is mature. The CAR report can help the narrow web label printer sort out a plan forward.

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