

# DIGITAL



# OR NOT: THAT IS THE QUESTION

**DANIELLE JERSCHEFSKE** reports exclusively on Karstedt Partners' digital print Commercialization Assessment Report (CAR) for the Narrow Web Label sector

Karstedt Partners LLC is a consultancy and research firm specializing in helping consumer product companies, packaging converters, equipment and consumable suppliers to understand the value and challenges of digital printing for packaging. The company's digital print Commercialization Assessment Report (CAR) was completed in cooperation with Michael Ferrari, president of Ferrari Innovation Solutions, who brings over 30 years of product packaging experience at The Procter & Gamble Company and a genuine passion for innovation.

Over the last five years digital printing has made a noticeable impact in the global label converting industry. An estimated five percent of the world's label jobs are already printed digitally, and according to Mike Fairley's Digital Label Printing: A 'How to' guide, digital print is growing at a rate of 36 percent a year.

### ACTIONABLE INTELLIGENCE

The CAR of digital print for the Narrow Web Label Sector comes with a proprietary spreadsheet called the Investment Value Assessment Tool (iVAT) which provides interactive calculation of a particular digital technology when evaluated with and against conventional operating parameters such as cost, price sensitivity, product mix, equipment and more. This tool allows the converter to formulate multiple 'what if' scenarios with their own operating values and volumes to see what impact a digital asset plugged into their business would have. The iVAT comes preloaded with industry averages of the various processes – flexo, offset, gravure – and has the ability to compare across multiple digital technologies. It also has a forecasting tool to allow plug and play adjustment of sales revenues and an ROI action model.

But there remains confusion amongst converters and the supply chain as to the real value of digital print. 'Actionable information' is required if label converters are to make a sensible interpretation of the digital value proposition, according to Kevin Karstedt, CEO of Karstedt Partners.

The CARS report provides descriptions of the many digital technologies available, applies real brand owner input to the value equation and includes calculation tools for converters to make a personalized assessment of how digital could affect current and future business. The report is unbiased to any printing technology – digital or analog.

### DISRUPTIVE TECHNOLOGY

Michael Ferrari describes digital print as a 'disruptive technology' because it has the potential to completely change the way brands interact with consumers.

'Digital printing allows a brand owner to communicate with today's consumer by maintaining relevancy with the latest trends or current events. The ability to change graphics and to print variable data text means that different codes can be placed on packages to create new mobile shopping interactions. These codes can connect to online websites that create different consumer experiences.'

Digital printing fits well into the modern supply chain and the need to simplify complexity, improve speed-to-market, limit tied-up assets, be more sustainable

and reduce cost. Front-end technology from software suppliers like Tailored Solutions, Radius and Cerm allow converters to streamline their internal processes with the potential to increase margins.

'I far too often hear converters hesitate about getting into digital printing,' says Ferrari. As the conversion continues, digital printers grow stronger and establish relationships and it will be very difficult to regain lost contracts.'

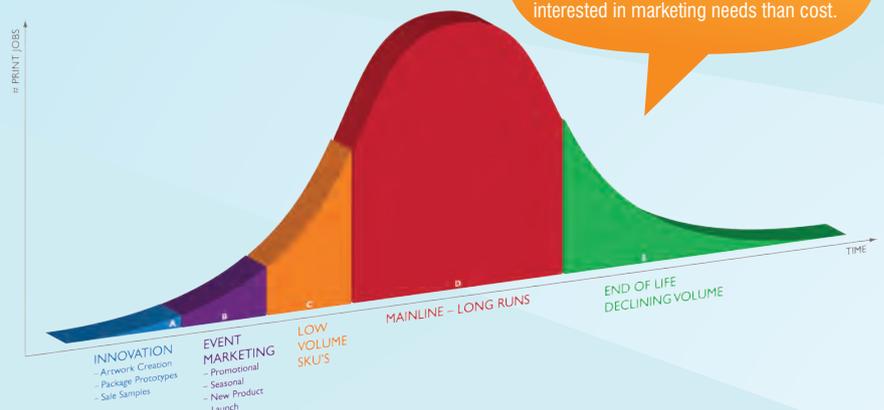
Ferrari says digital printing will make its way to market even if it means going around current print solution providers.

The report does not predict the demise of analog printing. The widespread use of digitally controlled servo drives in modern presses and the introduction of HD digital printing plates have increased the flexibility of conventional presses and allowed flexography to challenge offset and gravure. All of this points towards a combination analog-digital printing platform offering a high degree of flexibility.

This is the first CAR for digital print to be released by Karstedt Partners. The firm will roll out a suite of similar reports for flexible packaging, folding cartons and corrugated over the course of 2011. It will also produce a report geared towards educating brand owners on the status of digital print in the wider packaging world.

**CURRENT** digital print is targeted at sections ABC&E, all of which are controlled by the brand manager. Segment D shows long-run SKU work over 250,000 labels, an area controlled by procurement. Digital print succeeds where brand owners are more interested in marketing needs than cost.

### PACKAGE LIFE CYCLE





## DIGITAL PRINT FOR LABELS: A BRAND OWNER PERSPECTIVE

MIKE FERRARI OF FERRARI INNOVATION SOLUTIONS speaks to Danielle Jerschefske about digital printing and the release of Karstedt Partners' report on the technology in the narrow web label sector

THE Commercialization Assessment Report of digital print for the Narrow Web Label sector found that digital printing currently accounts for five percent of all label jobs globally, with the possibility of gaining as much as 40 percent of jobs in the near future.

**L&L:** What problems does a CPC have that can be solved by digital printing?

**MF:** Real world connection with the virtual world; the ability to conduct ecommerce; limited edition offerings; mass customization (seasonal, regional, cause and promotional) and personalization.

**L&L:** Looking to the future, what do you believe digital printing will mean to label converters and CPCs – both small and large?

**MF:** 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'.

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

**MF:** 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 double digits during the worst recession in the last three years, while analog printing has contracted.

**LABELS&LABELING**

**L&L:** Disruptive technology means change, which is scary for most. What do you foresee happening to label converters who fail to properly evaluate the various digital technology options?

**MF:** 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 RFP's. 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.

**L&L:** Why is it so important that the label and packaging market remembers that digital printing is more about value than volume?

**MF:** It is important for two reasons:

1. Digital printing can do a lot (better, faster, cheaper and more sustainable) and grow revenue
2. It's important to take hold of this so to change the game and rise above commodity status.

**L&L:** What could happen to digital printing if CPCs do not value its capabilities?

**MF:** 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 – companies like L'Oreal, Coca Cola, Heineken, Wrigley, Bath & Body Works and Estee Lauder. Digital printing is getting more attention now.

**L&L:** The report finds that CPCs view digital print as much more than a technical process, but rather a more encompassing tool to achieve a multitude of goals. Can you expand on this?

**MF:** 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 purchases they will have the emphasis on only one of these four categories. I do not want to make purchases 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 those given to CPCs by Walmart, Target, Tesco and others two – three 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 saving depending on the SKU mix. That is a powerful improvement across different category levels.

**L&L:** 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?

**MF:** We are beginning to see very different supply chain models starting to emerge in this new age. A long tradition has been that CPCs owned their packaging assets and purchased printed package materials to run on their lines. Recently we have seen some CPCs 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 CPCs to produce many more SKU's without complicating their world or making a large capital investment. Some have purchased digital print presses and others 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 SKU's and they are able to provide these offerings all through contract manufacturing. I expect to see more of this external supply chain in the future.

**L&L:** Can you talk about the digital front-end and how this makes differentiation possible?

**MF:** 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. This is a true digital workflow. Post press varnish and decorating techniques are all that remain in analog.

**L&L:** Do you see digital accounting for bigger scale work and longer run lengths?

**MF:** 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, for example over 250,000 digitally printed impressions. But for some consumer product companies that have made this journey are finding revenue growth of three 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.

**L&L:** What are the implications of more digital print providers entering the market place?

**MF:** 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.

# Minimum Waste

## Maximum Efficiency

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"CPCs are identifying brands and sometimes SKUs to convert to digital printing to produce more customization and even personalization"

**L&L:** The label industry has experienced a rising tide of global consolidation in the last seven months. How does digital printing and its potential relate to this industry development?

**MF:** CPCs with global brands will really benefit from digital package printing. Compare what happens today. A CPC produces artwork and needs to fingerprint 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.

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

**MF:** 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.

**L&L:** 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?

**MF:** In the last 10 years, CPCs have scrambled to compete effectively at The First Moment of Truth. However, shoppers have changed the way they are influenced. It used to be that 70 percent were influenced by television and brought into stores. Since the emergence of social media, this has changed significantly. Consumers are on the go in the virtual world: two thirds of the world is online; there are 5 billion handheld phones in the world. People get their information from blogs, tweets, their Facebook 'friends' and YouTube. The term 'Zero Moment of Truth' reflects the change in influence of a consumer from the TV 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 understand that people live in a virtual world as much as they do in the real world. This is an opportunity for CPCs to bring the level of their packaging to the level of the internet. The winners in this battle will leverage the power of working between the 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.