

MFSA-NAPL Fulfillment Conference 2006:

Integrating Into Your Client's Overall Marketing Strategy

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The NAPL's 2006 Fulfillment Survey, presented in conjunction with the joint MFSA-NAPL fulfillment conference, illustrates the marked differences between mailing and fulfillment specialists and general commercial printers.

The second joint conference by the Mailing and Fulfillment Service Association and the National Association for Printing Leadership, held in Dallas March 22-25, enjoyed a little of its own March Madness with some new blood: almost half of the nearly 150 attendees were first-timers. Many of the newcomers arrived early for a pre-conference workshop on "How to Sell & Market Fulfillment Services" conducted by MFSA's director of fulfillment and the total conference program organizer, Tom Quinn.

Keynoter Andrew Paparozzi, NAPL's VP and chief economist, delivered his third annual profile of the fulfillment industry based upon an extensive surveys. The "2006 Survey of Fulfillment Practices" was the second involving both MFSA and NAPL members. The full report can be purchased from NAPL by late spring (napl.org). This format was similar to past survey, with the addition of queries on sales and marketing practices. This report demonstrates the dynamic nature of the variety of fulfillment services, as well as the interesting relative differences between the mailing and fulfillment specialists and general commercial printers. The following table (page 17) highlights some of the marked differences between these two groups. The 52 respondents were nearly equally divided between the two groups.

A few preliminary conclusions can be derived from these responses:

- While total revenues would suggest that printers are more than four times the size of the M&F Specialists (item 1), their fulfillment businesses are comparable (item 2: \$1.3 vs. \$1.1 million).
- Although both groups have about the same number of clients and revenue concentration among the largest clients (items 5 & 6), the M&F specialists offer a broader assortment of fulfillment services (item 4).
- Printers are a little more optimistic about future growth, but fulfillment is clearly expected to continue to grow universally (item 8).

- Sales organization and compensation are markedly different, with the M&F folks relying upon a higher salary component to total compensation (item 10). This might suggest that M&F companies grasp the longer-term relationship being created with these clients and that the nature of the business is less transaction-driven. Absolute numbers and ranges for sales compensation would be helpful, but unfortunately are not available. The bonus or profit-sharing component of compensation for the fulfillment general manager would also be useful in future surveys.
- It's also interesting to note that print salesmen are notorious for not being well-equipped to sell fulfillment effectively and profitably, yet 30% of printers rely upon the print salesman to sell the fulfillment service offering (item 9).
- Item 13 shows that the M&F firms in toto utilize a broader spectrum of the marketing mix to promote and sell their fulfillment services.
- Without knowing the absolute profitability (as a percentage of revenues) of the fulfillment division of the two groups being compared, it's difficult to draw any meaningful conclusions from item 15. However, not to know profitability relative to other divisions suggests an immature MIS capability, which could be disastrous. Both groups show at least a fifth of their firms without this vital data.
- The favorable impact of increased overall revenues from fulfillment clients and markedly improved loyalty of these same clients is highlighted in items 16-18, as has been reconfirmed in every single NAPL survey.

Beyond the Numbers

As with most of Paparozzi's NAPL surveys, extensive phone conversations were held with the respondents to ascertain "the rest of the story." Some of the key values shared by the more successful practitioners regardless of which group they came from include:

- "In terms of management and structure, hire the

2006 Fulfillment Survey Showing Statistical Differences between Mailing & Fulfillment Specialists and Printers

	M&F Firms		Printers	
1. Average total revenues (in MM)	\$4.7	\$20.3		
Range: <\$10 million	95%			
\$10MM-50MM		58%		
2. Revenue distribution (in \$MM):				
Fulfillment:	1.3	1.1		
Mailing	2.9	1.5		
Printing	0.3	16.6		
3. Years offering fulfillment:	13.0	8.1		
4. Proportion offering these specific fulfillment services:				
Literature & Hand Assembly/Kitting:	96%	76%		
Premium, database management:	60%	<40%		
Variable data printing, contract packaging:	33%	10%		
Product fulfillment:	46%	13%		
Point of Purchase:	42%	46%		
5. Number of fulfillment clients:	19	21		
Range: less than 10 clients:	48%	56%		
6. Revenue from largest 5 clients:	76.5%	75%		
7. Proportion of SKUs printed in house:	7.5%	78.5%		
8. Revenue growth expectation:				
'05 actual:	+8.5%	+13.9%		
Actual vs. expected:	-0.2%	+2.9%		
2006 forecast:	12.5%	14.4%		
9. Sales Organization Structure:				
Combination manager + sales person	61%	52%		
Sales person alone	17%	30%		
Manager/owner alone:	17%	0%		
Combination sales + fulfillment specialist:	4%	17%		
10. Fulfillment Sales Compensation System:				
Salary + Commission:	67%	13%		
Straight commission:	9.5%	52.2%		
Salary component:	76%	30%		
10. Fulfillment Sales Compensation System: (continued)				
Straight salary:	9.5%	17%		
Draw + commission:	9.5%	17%		
Fulfillment commission rate average:	6.3%	7.9%		
Range:	2-10%	4-18%		
Proportion >7%:	50%	78%		
11. Other sales issues: new business from RFPs:	16%	21%		
12. Key time cycles (in months):				
(a) sales close	5.4	5.4		
(b) Product arrival from sales close:	3.5	3.0		
(c) Installation to satisfied client:	2.4	2.9		
13. How fulfillment marketed:				
Web site:	71%	44%		
Direct mail:	52%	39%		
Trade Show:	33%	17%		
Print advertising:	23.8%	21.7%		
E-mail:	23.8%	4.3%		
14. Fulfillment profitability relative to other divisions:				
Higher	33%	37.5%		
Lower	12.5%	33%		
About same:	29.2%	8.3%		
Not sure:	25%	20.9%		
15. How has Fulfillment profitability changed?				
Increased:	40.9%	43.5%		
Decreased:	0.0%	8.7%		
Holding steady:	59.1%	47.8%		
16. Fulfillment impact on printer's print volume:				
Increasing from fulfillment clients:		85.7%		
Not increasing from fulfillment clients:		14.3%		
17. Client turnover buying both print and fulfillment:		3.1%		
18. Client turnover buying only print:		15.4%		

right person to run the division, invest in a general manager or COO type (don't expect your bindery manager to lead the team), and set up fulfillment as a division, with its own profit and loss statement."

- "Communicate the fulfillment vision to every company employee, not just those in fulfillment."
- "Don't compromise fulfillment to the print division." Clients want their fulfillment vendors to control and ultimately reduce their investment in inventories, which means shorter print run lengths. This paradox opposes the print division.
- Corporate IT commitment to professional staff and fully integrated fulfillment MIS resources is a

strategic reality.

- "Seasonality forces strong labor cost control and, typically, reliance on a part-time labor force." One company reported developing a relationship with a church or cultural group for conscientious and reliable part-timers in exchange for funding courses in English as a second language for the host organization.
- "Develop strategic alliances and encourage peer firm visits." This might seem strange to printers, but it's a commonplace practice among most M&F specialists.

Operational Secrets

Jack Alexander, president of Stark Brothers Fulfillment Services, discussed product-fulfillment operational secrets. Although few printers are likely to be interested in product fulfillment per se, since it rarely drives print volume, the principles shared by Alexander were entirely appropriate for literature fulfillment enterprises. Utilizing classic industrial engineering principles of measuring both absolute and relative processes, Alexander suggested that 80% storage capacity utilization “is nearly full,” creating unnecessary and excess product movement.

To free more space, he advised profiling the SKUs in terms of order frequency. Slower movers, such as those out of season, should be moved to the back. Free up space by working with vendors to stage inventory. Corrugated suppliers, for instance, could provide just-in-time inventory when they know they are under a beneficial annual contract.

The SKU profile also includes a slot analysis report, which shows the number of stock turns in a week. If it's over “1,” this is too frequent and the SKU should have a larger bin for less-frequent replenishment. All SKUs should be sorted by frequency of orders, from most to least. The top 50% of cumulative orders, or A items — often less than 20% of total SKUs — should have monthly cycle counts to ensure inventory accuracy. The next 35% of cumulative orders comprise the B items and should incur cycle counts quarterly. The last 15%, or C items, should be divided by 12 for cycle counting once a year during slow periods each month.

Receiving procedures should have all literature items weight-sampled to check claimed count with a plus/minus 3-4% tolerance, while premium items should be counted. Alexander offered a series of prod-

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uct fulfillment industry benchmarks. Many of these vary substantially from the literature fulfillment benchmarks compiled by MFSA. Since good contracts include performance criteria, he advised keeping MFSA's operations benchmark study (mfsanet.org) handy to include in negotiations with a new client.

Variable Data Printing

Variable data digital printing (VDP) is being increasingly adopted for literature fulfillment operations. Thomas Curtin, president of tca Creative Services, presented a variety of industry-specific variable data digital print applications. For example, Huntington College in Huntington, Ind., encourages its Web site visitors to build a brochure containing pictures and

information of the academic department and extracurricula activity of interest, along with a DVD. Inquiries are reportedly up 28%.

Healthcare offers VDP opportunities, such as customized brochures for doctors affiliated with a hospital and pre- and post-enrollment kits to provider directories for health insurance. Customized catalogs require fewer pages to be printed to be more appropriately targeted to the recipient, even including a selected language. The retail industry needs loyalty program literature and targeted communications, including statements and invoices. Quite often, variable maps are linked to the recipient's ZIP code to indicate the closest store outlet. Casino marketing was described as one of the most mature and proven database marketing efforts.

John Rafner, founder and president of Nice Lines Direct Mail of Norristown, Pa., and vice chairman of MFSA, presented a realistic perspective from having been involved in high-end VDP for several years. He has two commercial staff designers specifically skilled at designing for his NexPress. Nice Lines has won a number of advertising design awards in and around the Philadelphia region for this expertise.

These digital printing devices are used 90% of the time for static as opposed to variable printing because of the lack of adequate corporate databases, according to consultant Frank Romano. Even gender-sensitive software is suspect in preparing variable salutations when ethnic names are included. Data development is a top priority for many companies, but it simply does not exist for most companies today. According to Rafner, most Web-to-print applications are “static applications and actually more appropriately produced on a direct imaging-type press.”

Equipment vendors have not been altogether truthful regarding the total costs to run their equipment or to be in this business. For example, they claim toner cost per page based upon coverage of 20%. In reality, most advertising agencies, whose designers do not understand VDP, consistently design for 100% coverage with full bleeds “simply because they can,” said Rafner. This significantly increases toner consumption costs. Toner coverage in excess of 25% will not fold without cracking and therefore requires scoring systems to fold the document. Nice Lines' electrical expenses have surged \$800 a month for its NexPress in producing its 66,000 average clicks, which was 20% above normal.

Rafner was quick to point out that he is not singling out the NexPress, as his peer relationships throughout the country indicate comparably frustrating business models with all equipment. He also acknowledged that several firms, such as W.A. Wilde Co. from Holliston, Mass., report profitable results from their VDP efforts.

While the market has not matured in terms of realistic database applications, digital press overcapacity already exists. For example, “in the suburban Philly

area there are 25 iGen3s, Indigos, Xeikons and Nex-Presses. And this does not include the quantity of mid-size machines,” said Rafner. If he had it to do over again, he said, “I would have started with a midrange color unit” to give him time to test the sales waters and to build the volume before stepping up to a big unit.

He also suggested negotiating an equipment contract with click charges that include all consumables and maintenance fees. NAPL’s third-party lease expert can suggest lease provisions that more equitably represent the user’s position vs. the one-sided manufacturer leases that most users don’t understand until it is too late.

Mergers and Acquisitions

To expand effectively and efficiently into fulfillment, printers with more than \$5 million in revenues ought to consider acquiring an existing fulfillment company. With that possibility in mind, Peter Schaefer, president and chief operating officer of Compass Capital Partners Ltd. of Radner, Pa., discussed the merger and acquisition trends in the graphic communications industry. His company is among the largest investment bankers specializing in this segment of the M&A market, having closed 125 transactions since 1989. His presentation was based upon transactions with companies with annual revenues exceeding \$5 million that have been detailed in its periodic book, “Compass Report.”

Valuations of transactions expressed in multiples of EBITDA (earnings before interest, taxes, depreciation and amortization) have recovered somewhat from the lowest level of 2001-2002 to the current four to six times EBITDA and are expected to remain in that range for the foreseeable future. Public companies, because of their larger size, will typically buy and sell for a little higher multiple.

There currently is pent-up demand among sellers motivated to sell at even lower multiples while a growing group of buyers is looking for specialty firms, such

as mailing and/or fulfillment companies. “It is quite unusual for there to exist both a buyer’s and a seller’s market at the same time,” said Schaefer.

Schaefer concluded by listing the attributes of a selling company that buyers desire: non-union workforce, up-to-date technology (advanced Web site and integrated fulfillment MIS), three to five years of revenue growth and sustained EBITDA of 10%, audited financial statements, excess capacity in a plant that is not landlocked and is in the early stages of a market-based long term lease, a good and energetic management team that is willing to stay, No. 1 or 2 in its chosen market, no account concentration beyond 20%, no sales person concentration over 20%, strong corporate ethics and evidence of a tenured, happy workforce.

NAPL’s annual fulfillment survey continues to attract responses from larger, mature practitioners and therefore does not accurately reflect fulfillment prac-

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tices throughout the industry. We hope attendees from this conference and readers of this article will contact NAPL and Paparozzi to be included in next year’s survey to broaden the statistical significance. In the meantime, the message from the more successful fulfillment vendors is clear: Learn your client’s marketing objectives, integrate your services into your client’s marketing programs and price your services consistent with your client’s perceived value. **TSR**