

# Strategic Alliances in the Digital Printing Industry

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## [Slide 1 - Introduction]

My name is Thomas Mejtoft and I am a Senior Research Associate at the Swedish research institute STFI-Packforsk. I am also currently a postgraduate student at the Royal Institute of Technology.

Today I'm going to present a paper written together with a colleague of mine, Åsa Nordin from the Mid Sweden University. The paper is entitled "*Strategic Alliances in the Digital Printing Industry*".

## [Slide 2 - Background]

First of all I am going to describe the competitive situation of the printing industry and the strategic situation printing houses are experiencing.

According to Pira International, there were around 80,000 printing companies across Europe last year and 90% of these were estimated to employ less than 15 people and operated on a very local market.

As you all know, the technological development has been rapid lately and the general printing capacity has been expanded and overbuilt, this as a result of competition being done mostly based on price and not value. It is not exactly controversial to say that printed products are commodities today.

## [Slide 3 - Background]

All this has led to a need to add value to the printed product to try to escape the fierce price competition. Something that has been discussed a lot is that this may be done through offering full service solutions to the customers of the printing houses.

Being able to do this can be costly, though it demands a wide spectrum of resources. However, control over these resources can be achieved not only directly by ownership but also indirectly by cooperation.

This leads us to the objective of this paper...

#### [Slide 4 - Research Objective]

The objective of this paper is to investigate how alliances are used in the dynamic business environment of the printing industry, with a focus on cooperations in connection with digital printing.

#### [Slide 5 - Theoretical Framework]

To do this we have used a theoretical framework, which is described more thorough in the full version of the paper. But I will show you a definition of what a strategic alliance is.

*"Strategic alliances can be described as a long-term, purposeful work between legally independent players to create and/or preserve competitive advantages against the surrounding world."*

(after Gulati et al., 2000; Jarillo, 1988; Todeva & Knocke, 2005)

#### [Slide 6 - Methodology]

The conducted study is a comparative case study where we have investigated two larger Swedish printing houses. They are comparable in terms of size and company structure.

The respondents interviewed were CEOs at the printing houses and the interviews were carried out during 2005 and 2006.

#### [Slide 7 - Results (Company A)]

Company A is a printing house that has developed into becoming a full service company with a wide range of complementary services to their printing. The focus on services has become stronger during the last couple of years.

They have a large capacity of offset printing in-house, but in the case of digital printing, Company A took the strategic decision to start a collaboration with a digital printing house instead of purchasing their own digital printing equipment. Furthermore they have started to develop several services where digital printing is the output method.

They use alliances to gain access to resources and knowledge as a part of their strategy to get and maintain a high degree of customer satisfaction.

Since the alliance is the only way to ensure delivery of digitally printed products, the alliance becomes very strategic. To be able to cooperate about resources that are of strategic importance for the company, Company A focuses on creating long-term trust and commitment by dedicating human resources to the alliance and distributing almost all internal information to their partners. Or in the respondent's words:

*"For a cooperation to last, you have to sit together and breathe the same air."*

(The CEO of Company A)

To further ensure stability they use agreements to clarify the cooperation to all involved partners.

## [Slide 8 - Results (Company B)]

In their strategic approach Company B is quite similar to Company A as they are trying to create strong ties to their customers and retain the customer contact. When they decided to offer digital printing to their customers, they chose to purchase the printing technology to one of their subsidiaries. To be able to ensure delivery Company B believes it to be important to have direct control, by ownership, over the resources used in the company's production.

Or in the respondents' words:

*"As long as real people are our customers, they will be rather unstructured and this means that there will be no time to use partners."*

(The CEO of Company B)

However, this does not mean that Company B do not need alliances. They have created alliances with other companies in the same situation with the purpose to utilize the partners' capacity when needed. This, however, can cause problems since lack of capacity often occurs in many companies at the same time.

Even though they have limited their use of alliances to expanding capacity of resources already present at the company, and stress the importance of ownership, Company B is open to a wider use of alliances in the future, depending on how the market develops.

## [Slide 9 - Discussion]

The results make clear that the companies have a similar vision and strategic position for the future with a focus on providing full service solution and creating strong ties to their customers.

However, they have different tactics and structure to meet these demands. While company B deems the ownership of digital printing technology to be of strategic importance and collaboration should only be made to ensure additional capacity, Company A believes the printing technology to be subordinate to the services that surround them.

No matter around what the cooperation is, the personal contact and the people involved in the alliances are important.

## [Slide 10 - Discussion]

Company A is more dependent on their alliance, since they cannot provide their services at all without their partners. This is why Company A works very hard to maintain the long-term trust and commitment to the alliance by dedicating human resources and having an open partnership in their alliance. This is also a way for them to decrease the risk in the alliance, that is for the alliance to fail. Company B, on the other hand, had decreased their risk in ownership by avoiding to have overcapacity. These are two different ways of handling their different risks.

### **[Slide 11 - Discussion]**

But, as the background and objective stated, the printing industry is a changing and dynamic industry, which can be noticed in how the alliances are used by Company A. They use alliances to increase flexibility in their resources and increase time-to-market for new services. Their use of alliances can be regarded as another way of trying to escape the fierce price competition by focusing more on timing and how-how then cost/price and quality.

### **[Slide 12 - The Shift of Status Quo]**

But what happens if the status quo in the alliances changes?

### **[Slide 13 - The Shift of Status Quo]**

At the end of this case study, quite an ironic situation occurred. As I previously told you, Company A focused hard on trust in the alliance. But the situation for them changed as the cost of digital printing declined by a new deal from a manufacturer and the demand from their customers increased, since they had market their digital printing services intensively. Even though the capacity of digital printing is constantly increasing, their possibility to profit from digital printing got better. This led Company A to purchase digital printing equipment.

Even though their intention was to still cooperate with their alliance partner, their partner considered them to be competitors. This led the trust and commitment to fail and so did the alliance.

### **[Slide 14 - Conclusions]**

To conclude this presentation, alliances and cooperation are important in the printing industry to be a full service provider. This can be done in different ways and the result can still be regarded as successful. In an industry still largely focused on production, alliances are important to ensure additional capacity whenever needed. But alliances can also be a fast and cost-effective way of offering both digital and conventional printing without the need for costly purchases and development of internal knowledge.

Nevertheless, it is possible to use alliances to enable a more dynamic competitive strategy. However, using the alliance to take opportunities can have drastic negative effects, as shown in the last example.

### **[Slide 15 - Acknowledgement]**

I would also like to acknowledge all the funding organizations of the STFI-Packforsk DigiPrint project and the respondents and their companies for participating in the study.

### **[Slide 15 - Thanks]**

...and last but not least, I would like to thank you all for listening.