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Moving Closer to the Customers

Effects of Vertical Integration in the Swedish Commercial Printing Industry

Presentation at the AM2009 Conference, Leeds, UK



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AM09

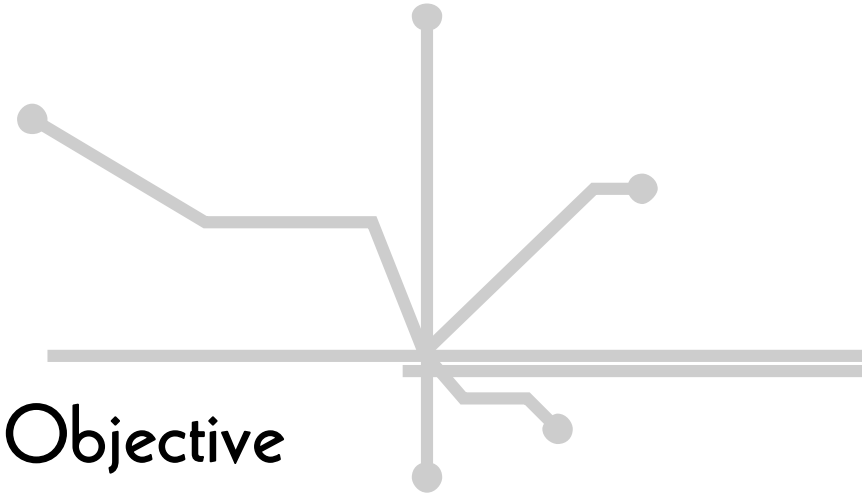
Background

- Theoretical Framework

- » Working close to customers is important
(e.g. Buttle, 2009; Gummesson, 2002)

- » Vertical integration is a “*common route over which the customer-competitor transition takes place*”
(e.g. Sawyer, 1996, p. 91)





Research Objective

The objective of this study is to investigate how vertical integration is used, by printing firms, to get close customers contact and increase customer relations. Furthermore, the study aims to explore and illustrate the competitive consequences with vertical integration towards the customers.



The Printing Industry

- A fragmented industry with many privately owned small and medium sized companies (e.g. Gilboa, 2002; Intergraf, 2007; Kipphan, 2001)
- Technological development is rapid
- Printing capacity has been overbuilt (e.g. Birkenshaw, 2004; Smyth, 2006)
- Competition is strong and mostly based on price (e.g. Birkenshaw, 2004; Smyth, 2006)
- Print is regarded as a commodity product



Methodology

- Initial quantitative survey study
 - » Cooperation with the Swedish Graphic Companies' Federation (GFF)
 - » Random selection of respondents
 - » Response by postal mail or web interface
 - » 136 responding companies (response rate: 54%)
- Multiple case study
 - » Interviews with 5 Swedish commercial printing firms
 - » Managing director of equivalent as respondent



Results

Integration to Capture Profits

- Content is important in the print media value chain
(e.g. Gilboa, 2002; Intergraf, 2007; Kipphan, 2001)
- The main reason for integrating content creation is to capture the profits from this activity
- Controlling input makes it possible to create jobs suitable for the firm's production equipment



Loyalty and Customer Relations

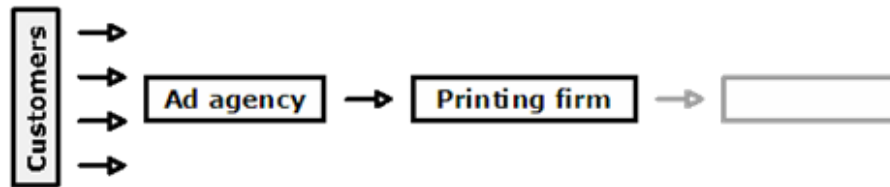
- Difference in the perceived loyalty
 - » Direct customers are more loyal
 - » Print brokers and ad agencies “shop around” more
- Price more important when working with print brokers and ad agencies
- Better profitability when working with direct customers



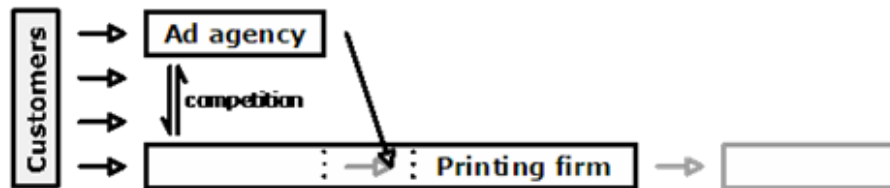
Competition with Advertising Agencies

- The specialized printing firm receives jobs from the ad agency
- The Integrated firm perform part of the content creation internally

(a) Non-integrated printing firm

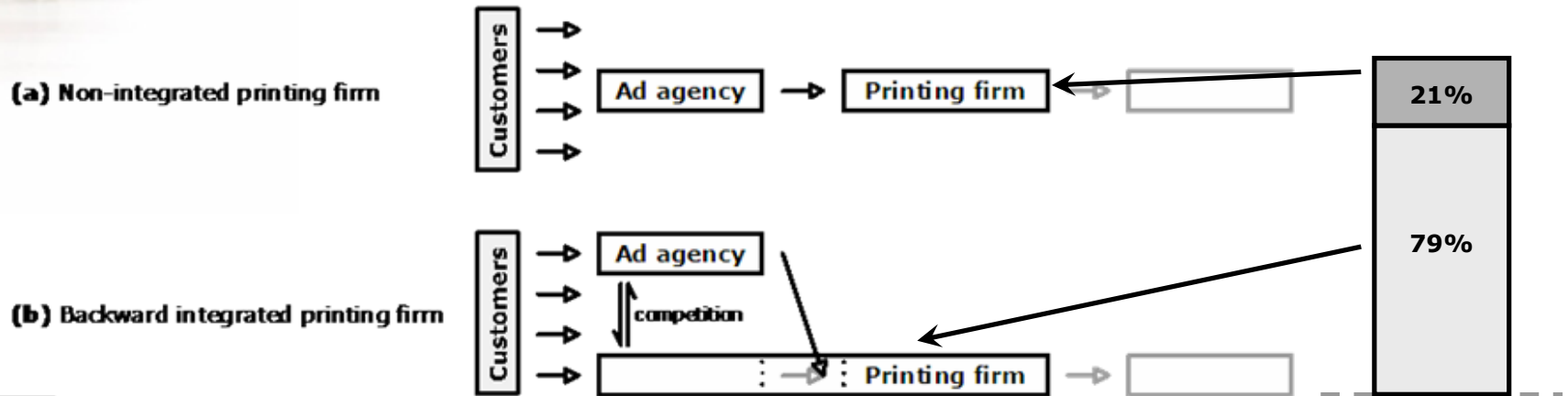


(b) Backward integrated printing firm



Competition with Advertising Agencies

- Integration of content creation
 - » 79% of printing firms offer some kind of content creation
- Project management
 - » 18% of printing firms offer project management



Competition with Advertising Agencies

- Small part of jobs from direct customers (~2-15%), main part from ad agencies
- Competitive situation over customers may arise between printing firms and ad agencies



Competition with Advertising Agencies

- Direct conflict is avoided by printing firms
 - » Loyal to “their” ad agencies and do not approach or work with the ad agencies’ customers
 - » All content creation is done by a separate firm (within the same group)

“We say ‘no thanks’ if their customers come to us directly”

Respondent at Company 1

“We should print and nothing else”

Respondent at Company 2



Reflections

Concluding Reflections

- It is common in the Swedish commercial printing industry to integrate content creation
 - » Increase relations with direct customers
 - » Bypass advertising agencies in the value chain
- Ad agencies are still a very important customer segment



Concluding Reflections

- Integration of content creation gives rise to a potentially competitive situation
- The results illustrate two potential ways of dealing with the situation
 - » Printing firms perform only simpler jobs
 - » Printing firms isolate content creation in a separate firm



Acknowledgement

This research has been supported by

The Kempe Foundations

*The Swedish Graphic Companies' Federation's
Scholarship Foundations*





Thank You for Your Attention!

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