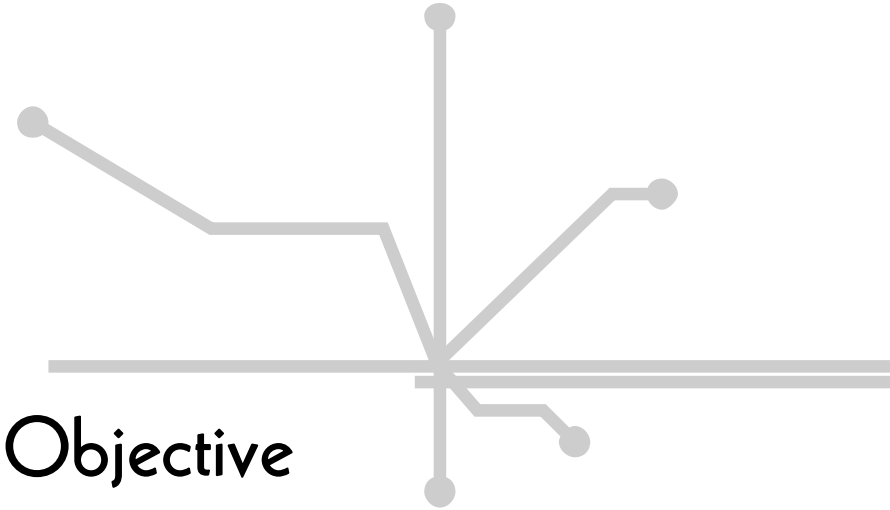


Thomas Mejtoft

Competitive and Flexible Company Structures using Vertical Integration and Cooperation: - Empirical studies of the Commercial Printing Industry

Presentation at the ANZAM 2009 Conference, Melbourne, Australia





Research Objective

The objective of this paper is to investigate how company structures, with respect to vertical integration and cooperation, affect competitive advantages and resource flexibility within a fragmented and highly competitive industry.

This study has been carried out by examining the commercial printing industry in Sweden.



The Printing Industry

- Printing technology
 - » *Digital printing technology* (introduced in early 1990's) does not use a static master (e.g. electrophotographic/laser and inkjet/photo printing), a digital printing press can make every copy in a print run unique
 - » *Conventional printing technology* (can be traced back to 6th - 9th century) uses a static master and each print in a print run is therefore identical (e.g. offset and gravure)
- Competition and structure of the printing industry
 - » A fragmented industry with many privately owned small and medium sized companies and overbuilt printing capacity
(e.g. Birkenshaw, 2004; Gilboa, 2002; Intergraf, 2007; Kipphan, 2001; Smyth, 2006)
 - » Rapid technological development and strong price based competition (i.e. a commodity product)
(e.g. Birkenshaw, 2004; Smyth, 2006)

Methodology

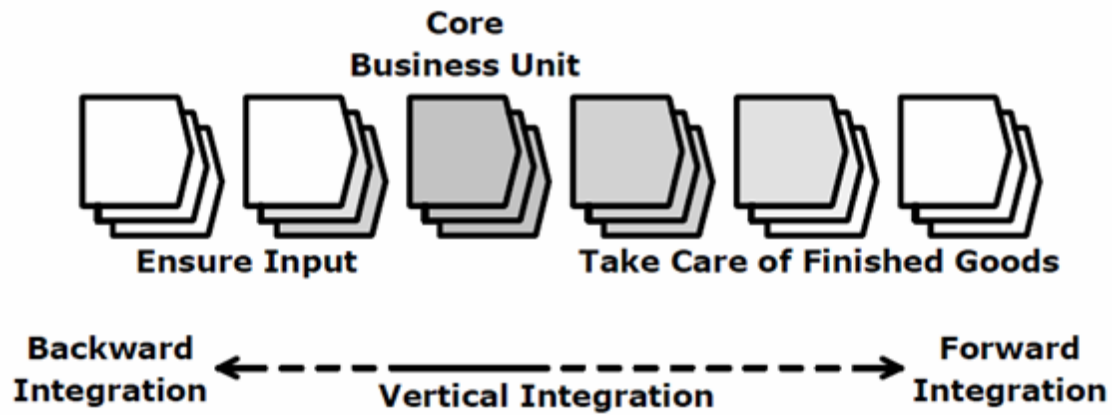
- Hybrid research methodology
 - » Based on 5 qualitative research studies
 - » Interviews with printing firms [Q1; Q3; Q4; Q5] and customers to printing firms [Q2]
 - » Based on a quantitative research study [S1]
 - » Cooperation with the trade organization of the industry
 - » Random selection of respondents
 - » 136 responding companies (RR: 54%)

	Primary topic	Case firms
Qualitative study 1 [Q1]	Vertical integration	6 printing firms
Qualitative study 2 [Q2]	Vertical integration	8 customers to printing firms
Qualitative study 3 [Q3]	Cooperation	2 printing firms
Qualitative study 4 [Q4]	Cooperation	13 printing firms
Qualitative study 5 [Q5]	Vertical integration/Cooperation	5 printing firms
Quantitative study 1 [S1]	Vertical integration	136 printing firms

Results & Discussion

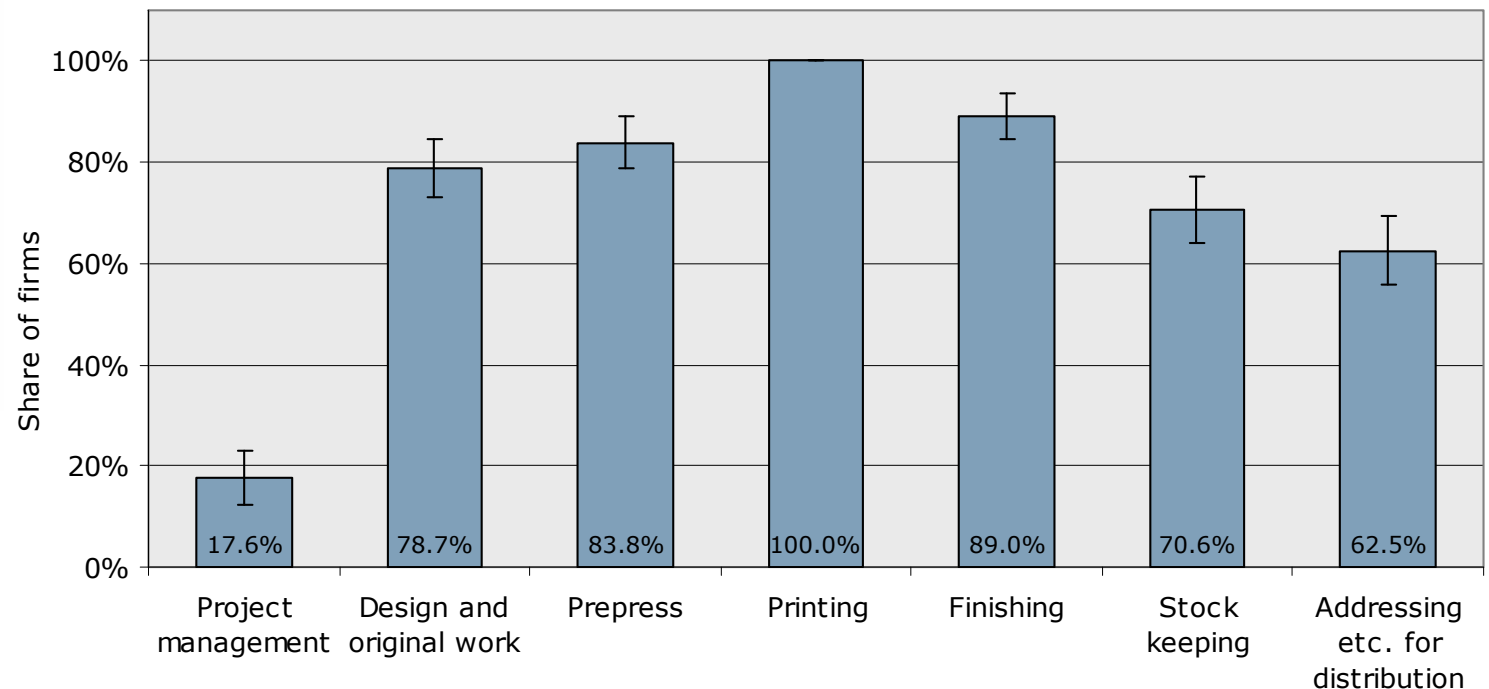
Vertical Integration and Competitive Advantages

- Vertical integration
 - » Vertical integration is an important and widely used strategy in the commercial printing industry
 - » Vertical integration became a way of overcoming the initial problems with the introduction of new production technology (i.e. digital printing technology)



Vertical Integration and Competitive Advantages

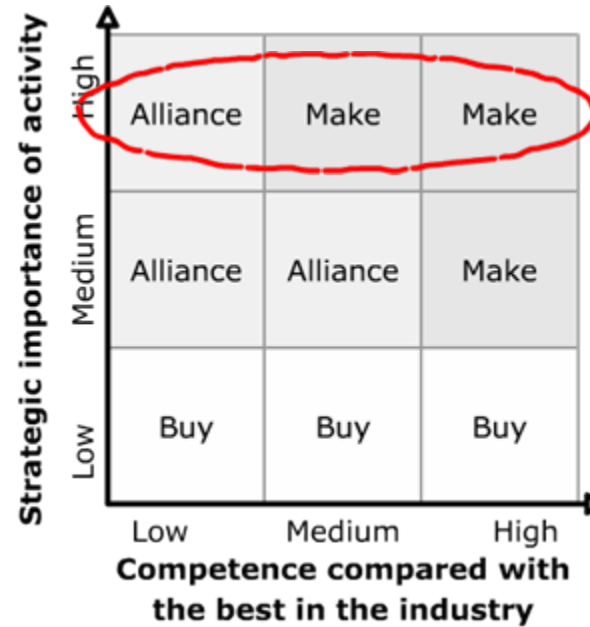
- We expected digital printers to be more vertically integrated than conventional printers...
...however, there were no significant differences



Vertical Integration and Competitive Advantages

- The competitive situation should discourage vertical integration, however...
 - » ...commoditization of printed products has made the bargaining power of the printing industry low which makes the industry vulnerable
 - » ...vertical integration made it possible for the industry to regain some of this lost power and increase the probability of making profits
- The firms expressed a problem with flexibility when focusing on vertical integration

Vertical Integration and Competitive Advantages



Cooperation and Resource Flexibility

- Two different ways printing firms can cooperate to increase their resource flexibility:
 - » To complement their line of production and services with complementary resources in order to offer full service solutions to customers
 - » To add resources that extended capacity and rendered possible temporarily increases in production
- Cooperation increased flexibility in resource deployment, which was considered important to increase a firm's strategic flexibility
- There were two main reasons to cooperate:
 - » The possibility of large scale production
 - » Reducing investment needs

Cooperation and Resource Flexibility

- The case firms believed that they could perform better on the market by utilizing alliances
- With respect to how the case firms structure their businesses, they are combining vertical integration with various kinds of partnerships

Reflections

Company Structures for High Flexibility and Competitive Advantages

- The strategic importance of vertical integration to achieve competitive advantages was indicated in the studies
- There was also an awareness of the high cost and potential lock-in problems with vertical integration
- The firms manufacturing flexibility benefits from cooperating with external partners and this flexibility makes it easier to face fluctuations in customers' taste and demand

Company Structures for High Flexibility and Competitive Advantages

- The results make clear that cooperation or vertical integration alone are not successful competitive strategies for the case firms
- The combination between vertical integration and cooperation, so-called taper integration, is the preferred company structure to level competitive, flexibility and cost advantages



Thank You for Your Attention!

Thomas Mejtoft.

thomas@mejtoft.se | +46 70 3037039

www.mejtoft.se/research/



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