

Canon

CANON SOLUTIONS AMERICA



CANON SEE IMPOSSIBLE



ELEVEN LESSONS **LEARNED ABOUT INSOURCING**

by Howie Fenton

The traditional distinction between an in-plant printer and a commercial printer is that commercial printers sell their products to external companies while in-plant printers only sell within their parent organization to internal customers. However, that distinction is changing. For a host of different reasons, in-plants are now offering their products and services to external customers. Within the in-plant community this is referred to as “insourcing.” This article is an overview of the pros and cons, market research, as well as lessons learned from in-plant managers that offer insourcing.

There are pros and cons for in-plants offering insourcing services. The underlying theory for insourcing is simple in theory. Sell the time on machines that are sitting idle and turn that idle time into a revenue stream. Furthermore, this increases the utilization rate which may reduce the cost per page, because moving from lower page volumes to higher volumes often reduces the click rate.

The challenges in offering services to outside companies include:

- Philosophical differences: the mission for some in-plants is to only support internal customers.
- Regulations: many are limited to the type of companies they can offer services to (non-profits).
- Priorities: the question is, will working for external customers result in late delivery for internal customers?
- Cash flow problems: within the parent company financial transfers are fast; external customers may not pay for months.
- Sales and marketing issues: who will find opportunities, and how.

HISTORY

One thing that became very clear in our interviews is that insourcing is not a new idea. A few of the companies we interviewed have offered it for two decades. However, it was not discussed much, presumably because it could be interpreted as a contradiction of the mission statement for the in-plants that were originally created before offering printing services to their internal customers. We believe insourcing became more important during the Great Recession when printing volumes nationwide fell by 20% or more¹. In-plants

struggling to meet their financial objectives became more open to selling services externally.

One of the earliest articles in In-Plant Graphics (IPG) Magazine was published in March 2008 titled “The Insourcing Opportunity.”² According to the author and editor of IPG, Bob Neubauer, in 2008 in-plants reported insourcing as approximately 5%-10% of their work.

While some in-plants are prohibited to sell any work externally, today over 50% are insourcing. If you have never sold to external companies it’s important to understand that there may be restrictions on the types of companies you can sell to.

The percentage of in-plants offering insourcing and the amount of insourcing revenue per in-plant has grown since that first article in 2008. The most recent survey by In-Plant Graphics Magazine³ shows that 63% of in-plants insource, the average revenue is 13% of sales, and 59% say they are providing revenue back to the parent organization.

To learn more about in-plants successfully providing insourcing services, we interviewed six in-plant managers with varying years of experience, in different size in-plants, and different types of in-plants.



KNOW THE RULES AND REGS

Leslie Blagg is the Central Service Manager for the County of Placer located in Auburn, California. After the Great Recession, volumes for the county declined from about 800,000 impressions/month when demand was highest to about 300,000 impressions. This prompted Blagg to seriously considering selling to other agencies.

“We have been approached many times by other local agencies such as school districts, fire districts, and non-profit groups, but I was not sure about the rules and regulations. After the volume decline, I contacted the County Auditor’s office and learned that we could only offer services to other state agencies and other organizations categorized as 501-3C.

“In our first year the revenue from insourcing was about 1% of the total printing. Our success in the first year came from the agencies that approached us. Word of mouth recommendations helped us grow that first year. Since then we’ve taken a more proactive approach printing flyers and making phone calls.

¹Paparozzi, A. (n.d.). Chief Economist. NAPL State of the Industry Report 2014 .

²Neubauer, B. (2008, March). The Insourcing Opportunity. In-Plant Graphics

³Neubauer, B. (2016, June). In-Plant Insights. In-Plant Graphics

When we talk to people, we stress the advantages of doing business with us which include: the quality of our work, our ability to access digital files, billing directly, and a free delivery service. In the near future, we are planning to set up a digital storefront to allow these other organizations a streamlined method for placing orders. I am happy to say that our insourcing has grown to 6% of our total printing.”

2 GET MANAGEMENT’S BUY-IN

Modern Woodmen of America is the third-largest fraternal benefit society, with more than 770,000 members. It is a membership organization that sells life insurance, annuity and investment products. The in-plant has 30 staff members that perform printing and mailing functions. After a brief hiatus, John Olinger returned to Modern Woodman as the Manager of Print Services. In between, he worked as the CFO of a company offering print brokering services and had approached Modern Woodman about selling services to outside companies. At the time, the management did not appreciate the benefits.

After returning in 2013, Olinger started to talk about the benefits of insourcing to anyone that would listen. During a tour of the facility by a new member of the board of directors, the topic of insourcing was brought up with genuine interest. The next year Olinger made a presentation to the board that included

insourcing, which was well received. After a management change, the company agreed to try insourcing. For the first year, approximately 3% of the work came from insourcing.

3 START CAUTIOUSLY AND REMAIN A GOOD PARTNER WITH LOCAL PRINTERS

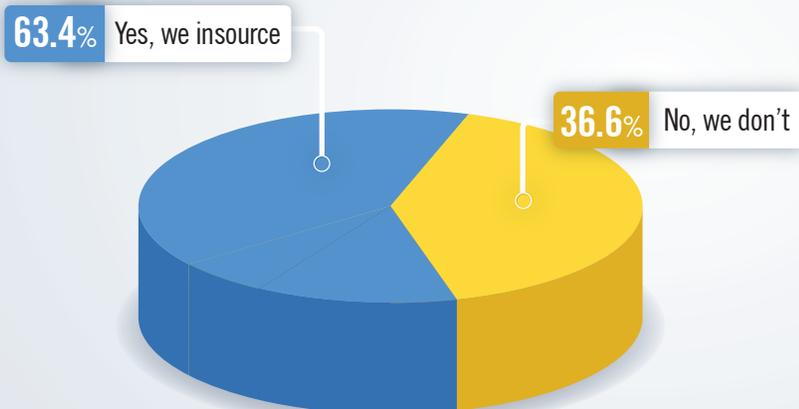
“Our goal,” says Olinger, “is to bring on one new client a year. We want to start slowly to ensure that we meet the obligations for our parent organization. I have a list of companies in the area that I know need printing. Something that’s important to us however, is not taking business away from the local printing community. We have to be a good partner with the local printers because we depend on them to do work we cannot.”

4 USE A PRINT PORTAL

Richard Beto is the Director of Document Solutions at The University of Texas at Austin (UT Austin), and before that was the Director of Printing Services at West Virginia University. Unlike Leslie Blagg, Beto had permission to accept outside work. According to Beto, “I had permission at West Virginia University to sell to state agencies and when I joined UT Austin it was set up here too. We have always been successful insourcing offset

Insourcing Boosts Revenue

Taking in work from outside their organization has helped in-plants fill up idle equipment time, recover costs and pay for shop improvements.



- Those that insource say it accounts for an average of **12.8%** of their revenue.
- **72.2%** say insourcing has strengthened their in-plant.
- **59.5%** are providing revenue back to their parent organizations.
- **38.9%** say insourcing has allowed their in-plant to add new equipment.
- **19.1%** say insourcing has allowed them to add employees.
- Just **7.9%** say insourcing has created conflicts between their organization and outside entities.

work, but we did not insource much digital at first, but over time we learned about new opportunities such as independent school districts (ISD). Now we sell to three ISDs.”

Beto believes that the early success in selling digital printing was attributed to an online print portal. “In September 2010, the Council on Competitive Government in Texas created a print portal and allowed six state entities to bid on work,” said Beto. “Other agencies included: Health and Human Services, Department of Highways and Department of Transportation, State Police, the prison, and the Workforce Commission. We have done pretty well on the portal. We don’t bid on everything, but with the work we bid on, we get about 55%.”

5 TAKE A MULTIFACETED SALES APPROACH

After the initial success with the print portal, Beto took a shotgun approach to marketing and sales. “The print portal helped us develop relationships and today our customer service reps have relationships with the print buyers and they make sales calls. In addition, we have the email addresses of everyone that requests bids on the portal and I have sent emails to them describing our other services.”

“But perhaps the most effective new tool we use is the demonstration showcases we offer on campus. Every other month we go to a building on campus and set up different tables that we call stations. Each is staffed by an expert who talks about each service. We talk about print, mail, pop-ups, wide format, and promotional products. In our last class, we had 50 customers—which we consider a huge success.”

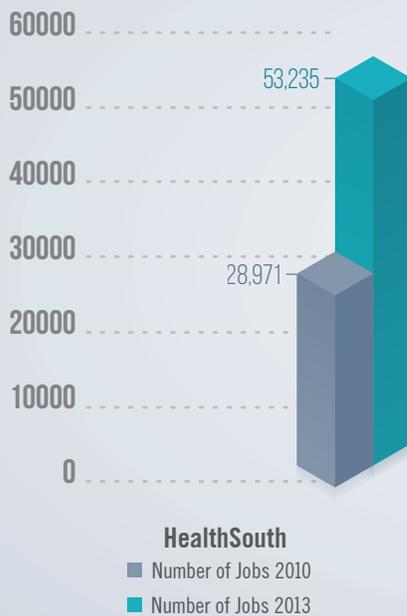
Beto could not share specifics about the revenue from insourcing, but said it was in the multimillion dollar range. He discussed two main advantages of insourcing. Most importantly, it helped the department achieve their financial goals. The second advantage was that it allowed UT Austin to invest in new equipment that could help better serve the university. “I’m not sure if I would’ve been able to cost justify some of our latest equipment purchases if we did not have the revenue from insourcing,” said Beto.

6 MANAGE LIKE A COMMERCIAL BUSINESS WITH SALES

HealthSouth is located in Birmingham, Alabama and is the largest owner and operator of inpatient rehabilitative hospitals in the United States. Danny Kirkland is the director of the



VOLUME: 2010 vs. 2013
 Increase of 83.75%
 Total number of Projects



REVENUE: 2010 vs. 2013
 Increase of 105.63%



Source: In-Plant Graphics Magazine, Webinar⁴, May 7, 2015

⁴Neubauer, B. (n.d.). Get the Maximum Advantage from Web-to-print. Retrieved from In-Plant Graphics: <http://www.inplantgraphics.com/webinar/get-maximum-advantage-web-to-print>.

in-plant, which sold \$8.4M last year with a staff of 31 which includes a full time salesperson. Similar to the decline in the volume of forms described earlier by Leslie Blagg at the County of Placer, HealthSouth also struggled with declining forms. According to Kirkland, “Five years ago, forms were 60% of the printing business and 15% of the fulfillment of business. Today it is 7% of the printing business and 9% of the fulfillment business.”

After HealthSouth performed an internal audit of the in-plant management, they began talking about closing down the in-plant because there were no metrics demonstrating the effectiveness of the in-plant. “We were unaware,” Kirkland admits. “When you’re immersed in day-to-day activities, you don’t realize you have a problem, and if you do, you rationalize it to justify. It got to the point where [the option of closing the in-plant] was on someone’s desk. That was a real wake-up call.”

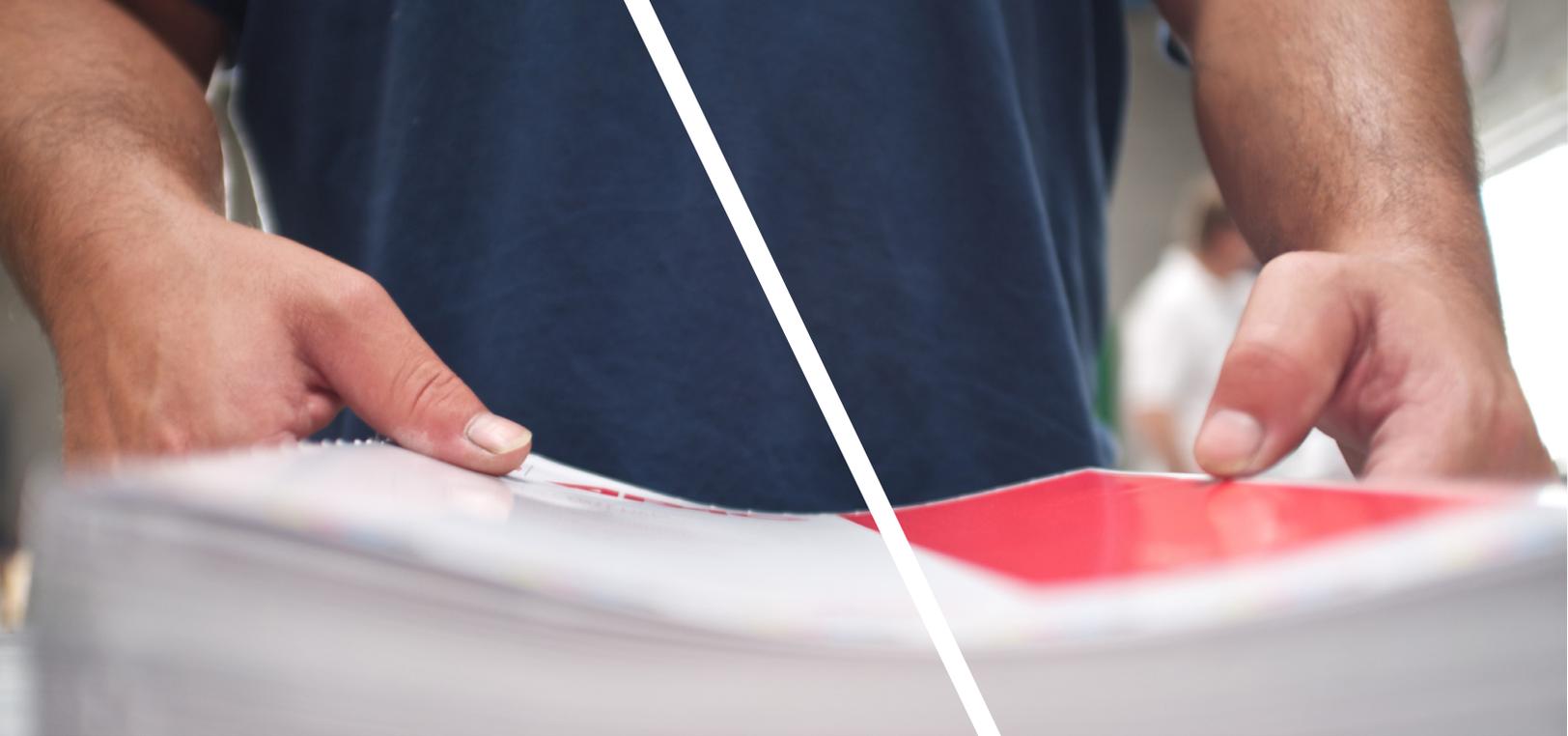
Kirkland decided he had to run the in-plant like a commercial business, and measure and report the results if he wanted to prove the value of the in-plant. In an effort to avoid any potential conflicts, HealthSouth created an LLC called the Print Promotions Group for the external

work. Investments were made in hardware and software automation (web to print, Print MIS) and new products introduced such as wide format printing and promotional products. Finally, Kirkland hired a salesperson and a Customer Service Representative (CSR) that is dedicated to outside sales.

7 MEASURE YOUR PERFORMANCE

Unfortunately, HealthSouth did not have a system in place to measure performance. Therefore, Kirkland worked with the internal staff to build a Print MIS system. Working with FileMaker Pro, the staff built a system called Elements. The system measures and tracks sales, turnaround time, and the cost to manufacture.

Similar to the success at the University of Texas, HealthSouth also needed a print portal. Two years after the implementation of their web-to-print software, the total number of jobs increased 84% (29K to 53K) and revenue more than doubled (\$3.6M to \$7.5M). The increase in productivity helped HealthSouth grow 80%, and today they fulfill 95% of the parent organization’s printing needs. In the first two years, insourcing grew from \$500,000 and is expected to hit \$750,000 by the end of this year.



8 TO IN-SOURCE WELL, INCREASE PRODUCTIVITY

John Sarantakos is the Director of Printing, Mail and Document Services at the University of Oklahoma (OU). According to the In-Plant Graphics Magazine 2015 list of largest university in-plants, the University of Oklahoma was ranked number one based on the highest sales—\$16.5M. John attributes some of that success to insourcing.

Sarantakos explained that when he started with OU 19 years ago they were already insourcing. When he asked his boss about increasing the amount of insourcing he was told, “Any new money coming into the university is good money.” In addition Sarantakos said, “The additional revenue helped us buy better equipment and provide better service to the university.” When asked how the decline in printing affected the volume of his work, Sarantakos replied, “Ironically, the decline in the printing business creates more opportunities for in-plants offering insourcing. We have gotten more work over the years, as local commercial printers and in-plants have closed their doors.”

When he created the infrastructure for insourcing, he involved staff in the process. Sarantakos said, “It is my staff that makes everything work. If you don’t involve your staff, you end up with a disinterested workforce which makes it really hard to keep the doors open.”

Involving staff helped create additional capacity by running with multiple shifts. “One decision that made insourcing more feasible

was increasing the number of shifts,” reported Sarantakos. In 1997 when he joined the university, they were using several offset presses but only printing one shift. “Once I saw the increase in productivity after moving from one shift to two, I knew we would most likely be shifting into three shifts soon. It wasn’t long after offering services to state agencies, nonprofits, and other universities that we had to add a third shift.”

9 DEDICATE STAFF TO SALES, GROW SLOWLY, AND KEEP INTERNAL CUSTOMERS

As discussed with the University Texas and HealthSouth, to achieve significant benefits from insourcing requires dedicated sales efforts. According to Sarantakos, “I have two of my most experienced people responsible for insourcing. The commercial work is handled by Sherri Isbell who is my Assistant Director and CSR manager. State agency work is handled by Bob Goodwin who is another Assistant Director and Production Manager. I have to credit my staff with the growth of insourcing. The first year I was here, the department billed about \$5M with about 20% of that work for in-sourcing; today our sales are \$16M with about 30% in-sourced.

“My advice to anyone embarking on insourcing,” offered Sarantakos, “start slowly and involve your staff. Staff need to know why outside sales are important but also have to remain dedicated to satisfying internal customers. Nothing will



jeopardize the in-plant faster than not fulfilling your obligations to your internal customers.”

10 ALWAYS BE CLOSING

Messiah College is a private Christian college of the liberal arts and applied arts and sciences located in Mechanicsburg, Pennsylvania. Dwayne Magee is director of Messiah College Press & Postal Services, as well as the president elect of the In-Plant Printing and Mailing Association (IPMA).

According to Magee, the evolution of insourcing was very organic. Magee explained, “We often have constituents that are donors, or friends of the president, who ask us to print an invitation, poster or a thank you card. At first, the president or some other senior level executive pays for it out of their budget, and over time this became a service we offer. Through word-of-mouth, more people started asking us to do more work.”

With 13 people working in print, mail, design, and the post office, Magee has to assume responsibility for sales, but says it’s not difficult. According to Magee, “It’s not really that hard for me to find new opportunities; I just keep my eyes open. For example if I’m walking in town and I see a sign hand written with a magic marker, I make a mental note of it, go back to campus, talk to one of the designers, and create a small poster that I give to that business owner. I tell them I won’t charge them for this one but if they’re interested in more to contact me.” It must be working because the revenue from insourcing in 2006 was \$40,000 and at the end of 2016 it increased to \$142,000.

11 INCREASE YOUR ALIGNMENT

Increasing strategic alignment is often considered one of the most difficult tasks for in-plant printers. The first step in this process is to think of the mission of the parent organization and then think of specific tactics the in-plant can provide that are consistent with those goals. For many colleges and universities, the mission is to support education, increase student enrollment, and help fundraising efforts. In-plants that print course packs and use variable data printing to increase enrollment and fundraising would be considered strategically aligned.

One challenge remaining is that the mission of the parent organization can change. Monitoring that change is the first step in figuring out how to better align. Fortunately Magee is involved at the director level and learned that the latest strategic plan at his college was to find alternative revenue streams. The first attempt is the catering office offering catering services to the community. Understanding this, Magee can make the business case that insourcing is strategically aligned with the mission of the college.

SUMMARY

According to In-Plant Graphics Magazine (Neubauer, 2016), 63% of in-plants insource and the average revenue is 13% of sales. At the University of Texas and University of Oklahoma, the idea of selling to others was not a new idea. However, at Modern Woodman and the County of Placer, it was a new idea.

If this is a new idea or something you want to pursue, remember the first three lessons learned: get management's buy-in, learn the rules and regulations governing the in-plant, and try to retain good relationships with local printers who you need to work with.

The importance of building the infrastructure was evident at University of Texas, HealthSouth, and University of Oklahoma. Each talked about web-to-print software that made it easier for customers to order work. At The University of Texas, the print portal helped them identify new customers and offered a tool to bid on work. At HealthSouth, customers could order or reorder work, which increased jobs submitted by 83% and revenue doubled.

A Print MIS system was another part the infrastructure required at HealthSouth, because it helped Danny Kirkland measure and report value that the in-plants provided. When John Sarantakos at OU created the infrastructure for insourcing, he involved staff in the process which helped create additional capacity by running with multiple shifts.

Almost everyone interviewed discussed the importance of sales. Three different strategies were discussed: using the internal staff such as customer service reps, dedicating sales staff for outside work, and managers accepting the responsibilities themselves. John Oliger and Dwayne Magee both assume responsibility and both considered the strategic implications of insourcing. John Oliger talked about being a good corporate citizen and not competing with local printers. Dwayne Magee discovered that insourcing helped him better strategically align with the mission of the college.

ABOUT THE AUTHOR

Howie Fenton is the Vice President of Consulting Services for Integrated Methods Group (IMG). He helps in-plants measure, identify, and overcome operational issues. To learn more about measuring performance, benchmarking to leaders, increasing productivity, and improving your value you can email hfenton@imgresults.com.

The Canon logo is displayed in a bold, red, sans-serif font.

CANON SOLUTIONS AMERICA