# Profitability Navigating
## the Commercial Printer Diversification Opportunity

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# Profitability Navigating the Commercial Printer Diversification Opportunity

## AS COMMERCIAL PRINTERS ARE DIVERSIFYING THEIR PRODUCTS AND SERVICES, THE KEY QUESTION IS: HOW TO DO SO PROFITABILITY?

Diversification is a competitive business strategy focused on adding new products and services to an organization's product and service offerings to help grow profits and limit risk exposure to drops in customer demand. It can involve pursuing business opportunities outside of a company's core markets or adding services aligned with current offerings.

Looking to expand services, better serve customers, and help protect profits from unexpected drops in print application demand, commercial printing companies are actively diversifying product offerings.

Commercial printers are expanding into adjacent printing segments as 78% of commercial printers participating in the PRINTING United Alliance Second Quarter State of the Industry Survey', sponsored by Canon U.S.A., report diversifying beyond commercial printing. Nearly three-fifths (58.7%) have added graphic and sign (wide-format) production, 34.6% package printing/ converting, 18.3% promotional product imprinting, and 15.4% apparel decoration.

When asked in an open-ended question in the same survey to comment on the benefits sought or gained through diversification, commercial printer respondents offered the following

- "Broadening our customer base, markets served."

- "Expanding our solutions/products offered strengthens our ability to flex with the market shifts."

- "Because of diversification we are less reliant on advertising budgets. Also, our ad specialty business will increase more than 20% vs. 2022."

## WHY DIVERSIFY?

Commercial printers are diversifying their operations and moving into new print applications and services to combat decreasing print volumes and ongoing price competition. The 2023 edition of NAPCO Research's annual commercial print survey2 identified the following as critical/moderate challenges that diversification addresses:

- 67% price competition

- 63% customers decreasing use of print

- 58% competing against low-cost providers

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[1] The PRINTING United Alliance surveys a panel of commercial printers quarterly as part of its State of the Industry Research, sponsored by Canon U.S.A.

[2] NAPCO Research conducts an annual survey of commercial printers and their customers to track key industry trends, challenges, and opportunities as part of its Commercial Print Industry Trends and Strategy Service.
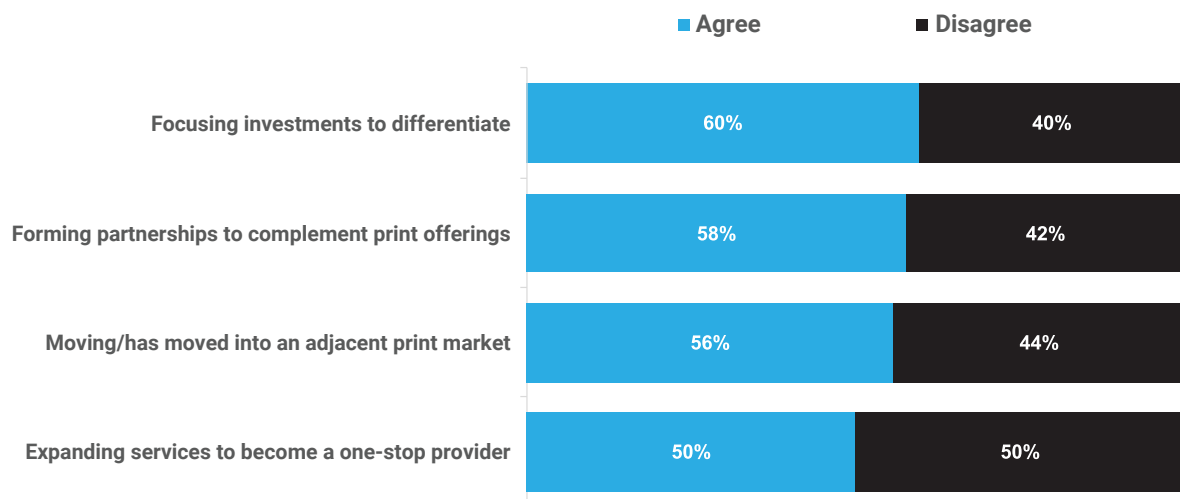
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Diversification offers commercials printers the ability to reduce the impacts of these challenges. Offering more products and services can insulate a printing company from drops in customers' use of print, while building stronger client relationships that are not easily threatened by lower price competitors.

Diversification of products and services offers commercial printers additional revenue streams so that they are not tied to a single product or service. If a commercial printing company experiences a decline in sales in one application area, other applications can offset or buffer against decreases.

## WAYS TO DIVERSIFY

According to NAPCO Research's Commercial Print Trends and Strategy Service, commercial printers are taking various actions to diversify. As shown in Figure 1, commercial printers participating in NAPCO Research's annual commercial print survey in 2023 report making investments to differentiate from competition, forming partnerships to complement print offerings, moving into adjacent print markets, and expanding services to become a one-stop provider.

### Figure 1: Commercial Print Actions Aligned with Diversification

| | Agree | Disagree |
|---|---|---|
| Focusing investments to differentiate | 60% | 40% |
| Forming partnerships to complement print offerings | 58% | 42% |
| Moving/has moved into an adjacent print market | 56% | 44% |
| Expanding services to become a one-stop provider | 50% | 50% |

n=104 North American commercial printers
Source:  *NAPCO Research Annual Commercial Print Industry Trends and Strategies Service*, 2023

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Over half of commercial printer respondents report forming partnerships with other organizations to complement print offerings. Outsourcing is a common way that commercial printers are expanding into new products and services, while learning more about what it takes to produce a product or service in-house.

Another way commercial printers are adding services is through a merger or acquisition. According to commercial printers participating in the 2023 NAPCO Research survey 62% are looking to acquire another firm and 45% are looking for merger partners.

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# DIVERSIFICATION CHALLENGES

Diversification can offer commercial printers benefits but there are risks. Because adding a new product or service can require significant investments of time, money, and other resources, which can strain an operation, it is essential to carefully evaluate options beforehand. Taking the time to consider the potential costs and benefits of a new product or service before making any significant investments is essential. Carefully evaluating business goals, resources, and capabilities are all success factors in profitable diversification.

There are opportunities for commercial printers, the challenge is deciding on what option to pursue as there is little margin for error. The right choice contributes sustainable competitive advantage. Choosing incorrectly depletes resources, fragments operations, and undermines core capabilities.

An article in Printing Impressions titled, Four Tactics to Achieve Operational Excellence for Your Printing Company, suggest the following three tactics for getting started with diversifying operations

- Review your current product and service offering and decide if adding new printing niches or services, such as large-format printing, data driven direct mail, promotional products, apparel, or other services are right for your business.

- Invest resources in market research and product development.

- Collaborate and form partnerships with organizations that can support in expanding your offering.

# THREE METHODS OF OPPORTUNITY EVALUATION

There are several methods for evaluating diversification opportunities. These tools offer ways to frame and analyze opportunities to help guide the decision to add a new product or service. Here are three methods commercial printers can choose to assess the viability of adding a new product or service.

## 1. Cagan Opportunity Assessment: Answer 10 Questions

The Cagan Opportunity Assessment, created by Marty Cagan, Silicon Valley Product Group, is based on 10 questions. The first nine questions focus on defining an opportunity, its potential, and actions necessary to realize that potential, while the 10th requires deciding based on the answers to the first nine questions. The questions are:

1. Exactly what problem will this solve? (value proposition)

2. For whom do we solve that problem? (target market)

3. How big is the opportunity? (market size)

4. What alternatives are out there? (competitive landscape)

5. Why are we best suited to pursue this? (our differentiator)

6. Why now? (market window)

**7.** How will we get this product to market? (go-to-market strategy)

**8.** How will we measure success/make money from this product? (metrics/revenue strategy)

**9.** What factors are critical to success? (solution requirements)

**10.** Given the answers to questions 1-9, what is the recommendation? (go or no go?)

Any question may uncover an obstacle that stops the effort in its tracks. Moving forward requires overcoming identified obstacles.

## 2. Lean Canvas: One-Page View

Lean Canvas, created by Ash Maurya, founder and CEO of LEANSTACK, is a one-page business plan template segmented into blocks that captures the positives and negatives of an opportunity. It helps to deconstruct an idea into its key and most risky assumptions. Maurya adapted it from Alex Osterwalder's Business Model Canvas.

The page is divided into nine blocks (Figure 2). Each block pertains to an issue that must be evaluated to determine if an opportunity is worth pursuing.

Figure 2: **Lean Canvas Template**

| Problem | Solution | Unique Value Proposition | Unfair Advantage | Customers |
|---|---|---|---|---|
| | Key Metrics | | Channels | |
| Cost Structure | | Revenue Streams | | |

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Here is an explanation for each of the nine blocks:

1. **Problem.** What customer problem will the product/service address?

2. **Customer segments.** Who will use the product or service?

3. **Unique value proposition.** Why will the customers/target markets buy this from our company rather than others?

4. **Solution.** How will the product or service make potential customers' lives easier or create value for them?

5. **Channels.** What are the best communication methods to reach the target market for the product or service?

6. **Revenue streams.** Identify all potential revenue sources the opportunity will generate.

7. **Cost structure.** Detail all operational and capital costs, including the monthly burn rate, to develop the opportunity. Combine estimates of revenue stream and cost structure to calculate a break-even point

8. **Key metrics**. How will performance be monitored?

9. **Unfair advantage.** Identify the specific attributes and capabilities (not generics such as quality and timely delivery) that support our unique value proposition.

The Lean Canvas method is most effective when a project team rigorously debates each block, challenges assumptions, and digs deep for factors that are often overlooked.

## 3. POEM: Report Card for Options

The Product Opportunity Evaluation Matrix (POEM) creates a report card for evaluating options. The matrix is made up of the following five forces that drive market opportunity:

1. Customers

2. Products/services

3. Timing

4. Finance

5. Competition/team fitness

Each product/service option is assessed and graded on those five forces (also referred to as filters). A company that is well positioned on an aspect gets an A or B, while if poorly positioned a D or F, and somewhere in the middle, a C. An overall grade for an option is calculated by averaging grades across all five filters. The go/no-go decision is based on the overall grade.

Here is a closer look at the five forces/filters and key considers when grading product/service opportunities. Figure 3 offers a visual representation of the matrix.

■ **Customer filters:**

- Identify the customer base. Don't count on the "if we build it, they will come" strat

- Is the customer base substantial and big enough to justify development costs?

- Does our organization have access to the market and understand which communication methods will be most effective?

■ **Product/service filters:**

- Does the product/service address an essential customer need? Is it necessary or nice to have?

- How will clients benefit from this product/service and what is the clear value proposition?

- Does the product/service integrate well with core offerings? Will the new product or service enhance what the company does or be a distraction that undermines core capabilities?

■ **Timing filters:**

- Are business conditions favorable and clients confident and expanding?

- Is the time now? Can we get the jump on the competition? Do we risk falling too far behind if we delay?

- Has the market been commoditized or is there is opportunity for differentiation?

■ **Financial filters:**

- Do we have an accurate calculation of the up-front costs and how much needs to be invested to offer the product or service?

- What is the expected cash flow and working capital required each month; when can we expect to hit breakeven?

■ **Competition/team fitness filters:**

- Do we know with whom we will be competing? Will we compete whether companies like ours or a new breed with whom we have little experience?

- What are our points of differentiation: value created, range of solutions offered, production efficiency, etc.?

- Do we have the necessary expertise—technical, sales, marketing, leadership, etc.— necessary to make the option work? If not, do we know how and where to acquire the necessary skills?

## Figure 3: **Example of POEM Matrix**

| Option: [INSERT DESCRIPTION] | Overall Grade_____ |
|---|---|
| **Customer Filter** | **Grade: _____** |
| Customer base identified. | |
| Substantial enough customer base to justify development costs. | |
| Can access market and understand best ways to communicate with it. | |
| **Product/Service Filter** | **Grade: _____** |
| Product/service is essential to customer, NOT just nice to have. | |
| Value and benefits that product/service will provide customers are clearly defined. | |
| The product/service integrates well with core offerings and will enhance what our company does and not distract of undermine it. | |
| **Timing Filter** | **Grade: _____** |
| Client business conditions are favorable . | |
| Now is the time and we will have a competitive edge. If we wait, risk falling behind competitors | |
| The market for the product/service is not commoditized. | |
| **Financial Filter** | **Grade: _____** |
| Have an accurate calculation of the up-front costs and how much we need to invest to offer the product/service. | |
| Determined the expected cash flow and working capital required each month, and when we expect to breakeven. | |
| **Competition/Team Filter** | **Grade: _____** |
| Understand the competitive landscape. | |
| We understand the value we deliver and our position in the market. | |
| We have the necessary expertise — technical, sales, marketing, leadership, etc.— required to make the option work--or we know how to get the necessary skills. | |

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## Three Cautions When Using POEM

When using the POEM framework, here are three caveats to keep in mind:

1. The POEM is only effective if grades are accurately assigned, and organizations abide by the results. Inflating grades to justify an opportunity is pointless. Having the discipline to pass on opportunities with low grades, no matter how much buzz they are creating or how well others are doing with them, is paramount to successfully using this model.

2. Watch out for opportunities with low grades in even one filter, because weakness in one can overwhelm strength in the others. A poor grade in a filter does not necessarily mean abandoning the opportunity; it means do not pursue it until raising the grade.

3. Regularly refine evaluation criteria - there is no best set or ideal number — learn and adopt by applying POEM methodology.

## FINAL THOUGHTS

Diversification is a strategy that supports commercial printers in reducing exposure to market fluctuations, demand shifts, and competitive pressures. But diversification can also increase exposure to operational, financial, and strategic risks. As commercial printers evaluate offering new products and services it is important to carefully evaluate potential benefits, risks, challenges, strategies, and costs. There is no one-size-fits-all approach to successfully and profitability diversifying a commercial print business, but careful evaluation of the opportunity is a must. Each of the tools presented in this report takes a little different approach to opportunity evaluation. Any of them can make the difference between diversifying and diversifying profitability.

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### NAPCO RESEARCH

NAPCO Research crafts custom data-centric solutions that leverage our highly engaged audiences across the markets in which we operate, our industry subject matter experts and in-house research expertise. We partner with our clients to identify their unique business problem and create solutions that enable deeply informed decision-making.

NAPCO Research can help with:

- Business goal prioritization
- Opportunity discovery
- Market segmentation
- Landscape insight
- User needs and wants
- Product features and functionality
- Content marketing strategy
- Sales strategy and tactics
- Market conditions
- Benchmarking
- Industry trends
- Brand awareness

Contact research@napco.com to talk with our analysts to find out how we can help you with your research needs.

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Canon U.S.A., Inc. provides industry leading enterprise, production, and large format printing solutions, supported by exceptional professional service offerings. Canon U.S.A., Inc. helps companies of all sizes discover ways to improve sustainability, increase efficiency, and control costs in conjunction with high volume, continuous feed, digital and traditional printing, and document management solutions.

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