BRANCHING OUT: ADDING A NEW SERVICE LINE

BY HEIDI TOLLIVER-WALKER

You've made significant investments in new printing technologies and automated workflow. Your salespeople are doing an outstanding job of selling the services you've cultivated. But you want to keep growing. Since you're already maximizing your existing investments, where else can you find additional profitability? In adding a new line of service.

Adding a new service line is a big deal because it can impact every aspect of your business, both positively and negatively. Effects can ripple across your organization, touching everything from technology to staffing to plant infrastructure. Get it right and your business can soar; get it wrong and you could drag the whole business down. There's a lot on the line, it's important to get it right.

This white paper will discuss 10 factors you need to consider when launching a new line of service.

1. WHAT NEED ARE YOU TRYING TO SOLVE?

Adding a new service line is designed to solve a problem, even if that problem is "we need it and we don't have it."

Before you can be sure you have the right solution, however, you must accurately define the problem. "We are branching into wide format because the experts say we need it" isn't accurately defining the problem. "We have noticed that a lot of our clients are starting to use wide-format graphics. We don't offer wide-format graphics, so they are purchasing those products elsewhere. We are losing revenue." That is accurately defining the problem.

Ron Davis, senior vice president and chief economist, Center for Print Economics and Management, Printing Industries of America (PIA), emphasizes that no service should be added until the need is accurately defined. "The inclination is to get into something 'hot' without asking, 'Who are my customers? What are they doing right now? Is this something they need and that will benefit them?'" says Davis. "Printers need to define the need they are trying to solve before making any new investment."

One company that did this well is The Standard Group (TSG). "We knew that most of our customers were buying promotional products, and they were buying them from other companies because they couldn't get them from us," notes Thanh Nguyen, chief marketing officer for TSG. "We heard this time after time, and we knew we were leaving money on the table."

TSG brought promotional products into its mix, and within a short time, it won back a former customer . . . and a large annual contract.

2. HOW DOES THE SERVICE LINE IMPACT YOUR BUSINESS PLAN?

How does the new service impact your business plan? Will it support your core competencies? Or will it get you off-track?

The Standard Group is a good example of a new service line supporting a company's business model. One of TSG's core competencies is lead generation. Promotional products are a key element of lead generation but, until recently, this was not a service that TSG offered. "Lead generation is something our company does really well," Nguyen says. "Promotional products are a way to create incentives for lead generation, but it was missing from our mix. It was a great fit."

Unfortunately, this level of fit assessment doesn't always happen. In part, this is because many printers don't have a formal business plan in the first place. "Understanding how a new service line impacts your business plan begs the question of whether you have a business plan in the first place," notes PIA's Davis. "If you do have a business plan, what is it? What is your mission statement? What are your core competencies? Do you have analytics on what percent of your sales are coming from each product or service? Do you know what works and what doesn't based on data? These questions need to be asked."

If you don't have a business plan, there are many sources of basic business plan templates, including trade associations like the PIA.

3. WHAT'S THE CUSTOMER DEMAND?

Just because a new line of service is consistent with your business plan doesn't mean customers will automatically buy into it. For this, you must assess the demand for the service you're adding. Are customers asking for the service? Are they already buying it somewhere else? Or is the demand projected? If so, how is that demand determined?

Cheryl Kahanec, chief executive officer at Quantum Group, recalls her first investment in digital printing back in the early 1990s. She recognized the value of ultra-short-run and personalized printing in its earliest days and jumped in with both feet. She assumed that the marketplace would recognize its value the way she did. The reality was very different. "I discovered very quickly that the industry doesn't move at the same speed that my mind does," Kahanec recalls.

Ultimately, her start-up digital printing business, PrintSense, closed its doors, and Kahanec took with her one of the most important business lessons of her career.

Today, she approaches adding a new service line very differently. "The first questions I ask are, 'Do our customers want it? Is this something that will positively affect their business?'" Kahanec says. "If the answer is yes to both questions, then the next question is, 'Will they pay for it?' If the answer to all three questions is yes, then I figure out how to do it."

To determine her customers' readiness for any new service, Kahanec picks up the phone and calls her 10 best customers. Many of her "lunch and learns" become primary research, too. "Customers learn from us and we learn from them," she says.

Kahanec emphasizes, however, that printers should be careful not to fall into the trap of thinking that what works for one market will automatically work for another. "Every vertical is different. Every market is, too," she cautions. "We do our due diligence for each vertical we enter."

This due diligence is necessary even when a business line is already thriving. The Standard Group, for example, launched a solution for automating and streamlining the workflow of groups managing clinical trials. The service, called ClinicalStream, has its own website, ClinicalStream.com. Based on the success of this niche, TSG decided to explore whether the solution could be further monetized beyond its current client base.

"We looked into industry size, industry growth predictions, account profitability, and which industries depend on—and are buying—print," says Nguyen. "We also looked into which industries are healthy, which are likely to continue to grow, and which are likely to have print remain an integral part of their business and product offerings."

This is still a new venture, but Nguyen describes it as hitting its stride. "We are having lots of sale discussions and job success this year," he says. "It's super promising."

4. WHAT ARE YOUR SPECIFIC GOALS FOR THIS NEW SERVICE LINE AND HOW WILL YOU DETERMINE WHETHER YOU'VE MET THEM?

While the term ROI comes to mind, new service lines aren't like pieces of equipment. There are costs and impacts on your organization that don't fall within a traditional ROI calculation. Many companies think of ROI in a general way—increased profit vs. quantifiable costs. But true ROI requires more than a "back of the envelope" analysis.

If buying a piece of equipment, ROI is more straightforward to calculate. If you're adding a new service line, it becomes more difficult because a full reckoning of hard and soft costs is more challenging to determine. As such, you might set your measurement goals using more general identifiers, such as "I want to increase sales 10%" or "I want to add two new customers a month."

"'Success can be quantified both by sales to current customers and bringing in new customers, such as what percentage of current customers you are able to convert to the new service," says Davis.

When setting up your measurement goals, be specific. "To make more money" isn't sufficient. Better would be, "We would like the new venture to break even within six months or help us achieve five percent revenue increase within the first 18 months." Or "We want the new line to help us bring 10 additional clients on board within the next year." Make the goals measurable and achievable.

Even if, after doing your due diligence, the line doesn't meet your goals, don't automatically assume that it's a failure. In fact, Kahanec says that, earlier in her career, she recalls developing a web-to-print solution for a small, mid-sized market that was a bust in the intended space but ended up being a hit in a different market.

"It was a web portal designed to give small and mid-sized businesses easy-to-use tools to create and submit files," she recalls. "It was a full-service solution that took it all the way through mailing. In the end, we didn't get new customers in the market we were targeting, but once word got around to our larger customers, they loved the idea. We ended up seeing significant sales growth among those larger customers, who switched over a lot of their smaller jobs. It was very successful. Just not in the way we thought."

Success is not just about measuring the success of your efforts, Kahanec concludes. "It's understanding when it happens, then refocusing."

5. WHAT'S THE DOWNSIDE?

There are always downsides to even the greatest idea or best-laid plans. What happens if the costs are higher than anticipated? What if the launch takes longer than you thought, or doesn't generate the revenue you anticipated? Can your business absorb the impact? What's your "disaster plan" if the launch is a bust? Or if it has a profoundly negative impact on another area of your business that you didn't expect?

6. IS NOW THE RIGHT TIME?

Is now the best time to add the service? Or are there things that need to be put into place first? Are the market conditions ideal?

When high-speed inkjet was first introduced, many printing locations knew that this was a service they needed to add. They had the staffing, the financing, and the workflow to support it, but they waited until market awareness grew and barriers to adoption dropped.

7. HOW WILL INTEGRATION OF THE NEW SERVICE IMPACT OTHER AREAS OF YOUR BUSINESS?

Any new service line will create ripple effects across your business that are important to anticipate. Even if the line is providing a new source of revenue, if that line is draining away resources and negatively impacting another area of your business, then the net value may be lost.

One of the first places to watch is the ramp-up. You can be so focused on the integration and rollout that you take your eye off the ball and neglect your current customers. You can also spend too many resources trying to bring in new customers that may or might not be there. While the ramp-up for the new service line may be short-term, the damage from taking your eye off the ball in those other areas can be long-term.

Another overlooked ripple effect is in staffing. Especially if you're adding a new competency, you need to get the right person (or people) with the right skill set(s) to make it happen. "It's tough out there right now finding people," says PIA's Davis. "If you get the wrong person and aren't able to service your customers properly, you risk that those customers or potential customers will write you off—not just for this service, but for all business in the future."

Even when launches are successful, there can still be long-term effects to your large business model. Take the addition of high-speed inkjet. Once your press is up and running, your volume capabilities soar. To fill that equipment, you may need to reach outside of your own typical customer. This can require changes in business and sales models you didn't anticipate. "When we first added inkjet, we didn't fully appreciate the change in business model that comes with it," notes Kahanec. "Inkjet jobs are more transactional, and from a sales, workflow, and IT perspective, transactional work isn't something that most commercial printers are set up to handle."

The Standard Group ran into one of these ripple effects, too. It didn't fully anticipate the amount of research required to match the right promotional products to each campaign. This required changes in its project management.

"This is a research-heavy market," says Nguyen. "A customer may say, we want to create engaging incentives for employees. What are the trends? What are the hot products (which are always changing)? How do you leverage them? Answering those questions requires a lot of research, then coming back to that customer with specific examples of which products have proven themselves in that market, for that demographic, and the pricing associated with them." In the end, TSG ended up assigning someone as the point person (and research person) on each and every project.

Because of the nature of ordering high volumes of small products, adding promotional products has required TSG to shift to account-based selling, too. "It's an entirely different sales model," Nguyen explains. "But it became necessary to service this market."

8. WILL THERE BE ADDITIONAL CAPITAL OR STAFFING INVESTMENTS REQUIRED?

Along with evaluating any impact on your business model, you also need to consider any requirements for additional capital investments and staffing beyond the service itself. You need to consider physical plant requirements, too, such as the need for additional space or a re-evaluation of traffic flow.

For example, when The Quantum Group moved into high-speed inkjet, it discovered that not only did it change how its jobs were sold, but that it also needed more IT infrastructure than it originally thought.

Many other printers find that high-speed inkjet requires entirely new digital finishing lines as well. Specialty Print Communications, for example, recently invested in a new MBO finishing line to support its new Océ ProStream from Canon. "Before adding inkjet, we had six-color hybrid offset presses and sheetfed digital presses, but our finishing equipment wasn't designed to match the capabilities of a high-speed inkjet press," says Ryan LeFebvre, executive vice president of sales for Specialty Print Communications. "That meant adding a whole new finishing line to support that investment."

9. HOW WILL YOU HANDLE THE FINANCING?

Will you use cash on hand? Buy? Lease? Will the equipment be new or used? While it might be tempting to avoid financing altogether, that's not always the best option. "Debt" isn't always a bad thing. Financers will often refer to "good debt" and "bad debt." Good debt refers to financing that allows you to drive revenue without sacrificing the value of having cash on hand.

Leasing is another option. It frees up working capital and improves cash flow, provides many tax advantages, and preserves existing credit lines for other business needs. Leasing also enables you to stay flexible and upgrade or tweak your capital assets as you grow in your new business line.

Also consider the long-term implications of financing, especially if you plan to sell your business at some point. Decisions about financing can impact how successfully a business can be sold even years later.

Notes Mark Abell, senior vice president and SBA division director at NBH Bank:

> Companies should have good, permanent financing in place for at least three years to create the most efficient, cash-flow positive organization. That planning starts with a review of the financing for fixed assets. For example, printing and construction companies are known for buying high-end equipment that is often underutilized. If that equipment is only used 20 percent of the time, it creates a fixed debt cost associated with variable revenues that does the business a disservice by creating a balance sheet where cash flow doesn't justify debts. Since buyers only care about repeatable cash flow, the end result will be a lower purchase price.[1]

Don't make assumptions about how you'll finance any new service line before doing your due diligence. Ensure that you've gotten input from a variety of sources, including vendors, peers, and outside professionals.

10. WHAT IS YOUR MARKETING PLAN?

For any launch to be successful, you have to get the message out. How will you announce the new service line? Will you develop a specific marketing plan? If so, what is it?

"Too often, printers will launch the new line and immediately sell themselves as an expert while they're still learning," notes Kahanec. "It's important to be honest with your customers and price it right. Let them know that you're on a learning curve, and they will work with you. In this industry, we tend to try to jump in too fast and too hard, thinking we have all the answers."

When you have a complementary service, such as high-speed inkjet, wide-format, or even digital channels like social media and mobile, you may need to set up a formal program for cross-training and cross-selling, a concept that may be new to many sales teams.

[1] *https://www.entrepreneur.com/article/296216*

TAPPING THE OPPORTUNITY

Today's economy is strong. There's still opportunity in the print market, but you have to plan carefully and be strategic about in which opportunities you should invest. Not every opportunity will be a good fit. Even when it is, it can be lost through over-confidence and lack of planning.

So before you launch into a new area, do your research. Even the most savvy business owner cannot think of everything.

Take a team approach. Get a lot of people involved. Gather a variety of opinions to ensure that you've covered all your bases and aren't missing critical pieces of information.

When you've done your homework and are sure the fit is right, launch your new service with confidence. You and your team have done the hard work. Now reap the benefits!

QUESTIONS YOU NEED TO ASK YOURSELF

At the Inkjet Summit 2018, Mark Michelson, editor of Printing Impressions, gave a presentation titled, "The Migration From Digital Toner and Offset to Inkjet." In it, he listed some key questions printers need to ask themselves before launching into this new area of business. Many of these questions apply to other new service lines, too. For this white paper, these questions, designed for inkjet, have been genericized to apply to multiple types of service lines.

- As a commercial printing customer, what will you expect from your equipment vendors before you commit?
- What are your ROI expectations? What will be your TCO analysis?
- Are there market concerns that would affect adoption?
- Will your current product mix migrate (or integrate) easily?
- How will the new service impact your overall workflow?
- Will it require any modifications to your other equipment? Workflow? IT infrastructure? Staffing?
- Will your new service line require you to make additional capital investments in other areas (for example, high-speed inkjet requiring investment in new high-speed digital finishing lines)?
- How will it impact your staffing requirements? (Both directly and indirectly.)

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