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PRINTING IS JUST PART OF WHAT WE DO

A Conversation with Susan Kelly, President and CEO of K/P Corporation

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by Jean-Marie Hershey

H EADQUARTERED IN San Ramon, California, K/P Corporation wears a lot of different hats. The company's ten locations provide complementary direct mail and fulfillment services, business process consulting, web-based applications and custom marketing program solutions designed to help its Fortune 1000 customers implement complex marketing and communication programs. It's the "...and printing" that is the operative phrase here. K/P's portfolio of integrated services reflects a business model that seeks to create value for its customers at every link of the supply chain, including the press, but is not exclusively print-related. Not surprisingly, Susan Kelly, K/P's President and CEO since 2005, is a critic of the dominant (and potentially crippling) capacity utilization model, as well as an evangelist for the adoption of a more streamlined, cost-effective, speed-to-value proposition. When *WhatTheyThink* spoke with Kelly recently, we asked her to elaborate, starting with K/P's evolution from printing company to provider of strategic marketing solutions.



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WTT: How is K/P Corp. structured, and what is the relationship between K/P and Raine Media?

SK: Raine Media is a wholly owned subsidiary and totally independent division of K/P Corp. It's our consulting and advisory arm that handles technology services centered around marketing: marketing campaigns, marketing infrastructures, web portals – anything to do with helping customers understand the ROI of their marketing campaigns.

WTT: Over the years, K/P has moved decisively away from a print-centric business model. How and why did this happen?

SK: The customers you have tend to pull you into what you need to do next. K/P Corp. is around 76 years old. In the sixties the company was part of a rollout. At some point, the focus shifted from growth through acquisition to getting the synergies out of these companies and pulling together. It took quite a while to meld all of that into a one-company solution. The luxury of this company is that it was already West Coast-centric, so our center of gravity and our momentum was in San Ramon and the Silicon Valley area of California. When you have customers in the technology field, they pull you through the cycle faster to say, "you know what? What we really need you to do is this, this, and this." It makes you pay attention to getting into the variable world, into data marketing tools. As a result, we tend to bring technology to our customers earlier in the cycle than most companies.

WTT: Where does print "fit" in this business model?

SK: We manage complex value chains for our customers. From professional and consulting services to designing and building marketing infrastructures, we're heavily front-end oriented. We also have a creative services group, which handles projects from inception through to the final response management, analytical and database side of the business. In between all of that there's variable data printing, fulfillment, and some mailing. We even have litho assets in some of our facilities and we run those assets not on the basis of capacity utilization, but with an eye toward speed-to-value. We have those assets available to our customers that need them, but we don't fill them up with just anything.

WTT: There aren't a lot of printers around that can afford to run their presses selectively.

SK: It depends what our customers want. We don't try to

maintain a big stable of 40-inch presses in a given location. We certainly can back it up in other locations where we have several litho presses, but we probably have more digital than litho equipment at the present time. We also have full bindery capabilities and very large fulfillment facilities. We're into document management on the marketing side. We do a little bit of commercial printing but not much because it's very competitive, very commodity, very transactional, programmatic, and job shop-oriented.

WTT: I notice you use the term, "one-company solution" rather than "one-stop solution." What's the difference?

SK: We stopped referring to ourselves as a one-stop shop a long time ago because we realized that customers don't buy that

way. There isn't one buyer who buys everything. As a result, we have various divisions that are autonomous, supplier- and technology-neutral, and will do what's best for the customer. If they happen to use all the offerings in our portfolio, that's great, but it isn't always the case. Our Raine group, for example, actually helps certain customers with other suppliers, supplier integration, other printers, that sort of thing.

Our customers want someone to help them manage the value chain. They tend to have a lot of analog systems in-house, and they may or may not have a database they understand. Some don't know their print spend or the classifications around their marketing program. Many marketing

people want to take advantage of ROI, but they don't know how to do it. For us, part of the solution is starting early enough in the cycle to be an advisor that can help them decide what to do and then lay it out in phases so that they can test the water and see some results before scaling out. We're lucky to be of sufficient size to take on the bigger customers.

WTT: How large is the company?

SK: We have 550 on-site and virtual employees. We also out-source quite a bit, and we do a lot offshore with Indian development groups. It helps to have people who really understand how to offshore and onshore and use the right models to get the appropriate cost-effectiveness out of it. But with all the consulting and technology work we do, the biggest advantage is that it enables us to manage a 24-hour clock. They develop while we sleep, then we take over and develop while they sleep.

WTT: How many facilities do you have, and how much of your workforce is "virtual"?

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SK: Our corporate headquarters is in San Ramon. We also have nine manufacturing facilities, including three super centers in the San Francisco Bay Area, Seattle and Salt Lake City that do everything – digital, sheetfed, fulfillment, mailing, lettershop, the whole enchilada -, and a number of satellite or “feeder” plants that do specific things well, such as one- or two-color digital, and basic commodity stuff, like envelopes. Most of our facilities, however, are fairly customer-centric and are designed to manage the complete value chain for our customers. We tend to take our biggest customers into the super centers and smaller customers into our other facilities to make the experience as customer service-friendly as possible. Beyond that, we have several sales offices.

We also have a tremendous number of virtual employees across the country. Around 25 percent of our workforce is remote; that’s significant, given our size. We want to have the best talent available to us, even if they want to live somewhere else, and if they can get the work done without being located physically at a particular plant, there’s no reason not to do it. It’s very productive, and since the younger folks already know how to work that way, it’s not a problem. The youngest members of the workforce are very accustomed to networking through the keyboard. As a result, part of my job is to pull back a bit and make sure we retain a human culture and keep that touch as high as possible, even with a virtual workforce.

WTT: In addition to managing a large-ly virtual workforce and managing a 24-hour clock, what are some of the other challenges about running a huge technology organization?

SK: Between the technology and the infrastructure needed to support it, the price of entry is huge. That includes software, hardware, and the cost of managing a huge technology organization. Because our database management work involves banks, insurance companies, Social Security numbers and other sensitive information, we also spend a great deal of time and money on security and privacy. The amount of legislation, of rules and regulations and compliance involved in becoming certified in the security arena for customers—it’s not for the faint of heart. When you factor in the insurance liability you have to sign up for, and the need to understand contract management and other legal issues, you begin to understand the burden it puts on companies to look and act differently in these areas.

WTT: You certainly look and act differently than a printing company.

SK: Our customers look at it this way: “Oh, good, you can print it, too, but if we’re going to turn over our databases to you we want to know that they’re going to be secure,” which is much more important to them than just getting it printed. Printing is just part of what we do. It’s not even broken out that way in our financial statements. We have manufacturing services and nonmanufacturing services. Our income statement doesn’t look like a printing company’s. The company isn’t depreciation heavy anymore because it’s not sitting with a lot of iron assets. We do a lot of technology services for our clients. We have a large product development group. We create tools for our customers that are easy for them to install and use. When you’re very fast on technology, as we are, your costs are going to be higher, but that’s to be expected. We’re not trying to be a low-cost provider. We’re trying to solve some pretty hard

problems that are value-added for the customer.

WTT: Even though K/P isn’t trying to be a low-cost provider, customers tend to push prices in only one direction: down. How do you contend with pricing pressure?

SK: In a couple of ways. From time to time we simply have to sharpen our pencil. Every year, we also consider what we have to do to ratchet down our costs and keep pace with the market. The third thing we do is more proactive and involves working with clients on detailed quarterly business reviews to show them how we save them money.

WTT: Are there industry trends that give you pause for one reason or another?

SK: The capacity utilization model, for example, drives printers to do things that will take them back, take them out of their own markets, and that will cause them to cannibalize their markets more quickly than they need to. For example, a lot of printers know they need some integration on the front end to some kind of web portal or order management tool, and they basically give that away to fill their cylinders. When you do that for a lot of customers, you bring down the value-add in that market so quickly that it leaves very little for anybody and takes you out of business very quickly. It erodes the market. It’s frustrating that so few printers seem to grasp the bigger picture. On the other hand, you have to feed the beast. I understand that.

WTT: What’s the way out of that vicious cycle?

SK: Part of the answer is not going it alone. Too many printers are doing it alone, not realizing that they have to do better

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channel partnering by connecting up with other companies and working with one another's customers without cannibalizing the marketplace. When I see competitors going at it I think, "Why are we doing that? Why are we both giving cheaper prices and letting the customers have the benefit? Why aren't we working together?" Say you're really good at sheetfed but you don't have a fulfillment system on the back end like I do. You want all my sheetfed business, while I want the fulfillment orders you can't handle. Let's work together instead of giving the customer our cheapest prices on this stuff. That makes no sense at all.

WTT: Are you familiar with the phrase, "herding cats"?

SK: Maybe the associations aren't strong enough, or maybe there isn't one loud, clear voice out there, but I don't know why printers will never standardize on one thing, a standard print system, for example. Everybody wants to do it their own way. There are just so many software and even printing equipment companies that have had a heck of a time achieving any kind of global scale because nobody will standardize on one system, whether it's ERP, prepress, proofing, etc. There are always a myriad of systems out there, and nobody is saying, "Why do we have so many choices? It just fragments us further." It's amazing how fast systems standardize in other industries to get global scale, to get some momentum behind what they are able to do as markets shift. That's never really happened in the printing industry. As a result, people come in and take advantage, and it's divide-and-conquer, and pretty soon it's really hard for printers to make money and stay in business.

WTT: Let's say the industry attracts an unusually high concentration of rugged individualists.

SK: Many of these rugged individualists are actually very talented cash managers who know how to take risk. Think about the assets they're buying that have 15-year returns. There aren't many industries that have people who can manage at that level. It's a shame not to take advantage of that to go the

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next step and create bigger scale. To stay so small and siloed is to realize, "Wow, we haven't done much to transfer these skills to a broader canvas." Instead, we have convergence with agencies, publishing houses, and even distribution houses like FedEx Kinkos coming in and taking away market share. If the printing industry got itself together it could fight all of those business models and take back market share.

WTT: Are there any epiphanies or predictions you would like to share with our readers?

SK: I sit in war rooms all the time with process engineers and

systems architects doing process performance analyses, and I can't help but stare at all those flow charts and white boards and fantasize about the "killer app" that will do away with all of it. And then I realize that it's going to get more complex, not less, and that being able to research, identify and resolve problems from the systems and technology level to the workflow level will remain a critical competency for anyone who wants to be in this business. With so many things connecting and so many things that can break or go wrong, you need to be able to spot and fix them instantaneously to keep your customer happy.

WTT: What does that mean for printing manufacturing?

SK: We need to think less about the linear process of getting things to the press (the job shop mindset) and develop more of a supply chain mentality, together with the systems to support it. The printing business today is about efficiency, workflow applications that work together, about the number of touches, automation, and where the ROI is. It's about understanding how to process-map, as well as constantly and continuously removing costs. Get in there and understand what's happening on the production floor. Find out how your people and machine assets can work together better, and improve the flow in terms of layout, loading, work transfer—all the things that go into managing a supply chain.



12647 Alcosta Blvd., Suite 425 | San Ramon, CA 94583-9026
Phone: 877-957-2677 | Fax: 925-543-5252 | www.kpcorp.com

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