

COST REDUCTION

A BRAND POINT MANAGEMENT PERSPECTIVE

EXECUTIVE SUMMARY

Companies that sell branded products and services often pay lip service to cost-reduction measures but implement them only when pushed, when difficult circumstances arise and mandate decisive action. Even in good circumstances, cost reduction is done hesitantly, with misgivings or in a reactionary way.

But today's extremely difficult economy makes cost reduction initiatives imperative and provides all the justification a company needs to undertake them. And fortunately, it creates an opportunity to implement measures that take workflow costs out of the budget permanently – measurements that are as beneficial in a good economy as they are today.

This paper outlines views and solutions for cost reduction and the potential for added benefits. Traditional cost reduction initiatives have focused on reducing cost of materials and cost of manpower. But many companies have exhausted these methods, already having put as much pressure on vendors as possible and having reduced the cost of materials to the point of potentially affecting the quality of the products and brands.

This calls for initiatives that may not be as intuitive and obvious, or may seem complicated or difficult to implement quickly or economically. The fact is, the initiatives Schawk promotes are logical and practicable, and their cost-reduction benefits are long-term – not stopgap. These include reducing time and effort in creating and

delivering branded materials – what we call **process-based improvements** – and the development of more sophisticated, productive, integrated relationships with best-of-breed service providers – what we call **vendor-based improvements**.

A crucial point is that these measures are not merely – or even primarily – cost reduction measures. They are ways to improve the concepting, creation and maintenance of brand materials while enhancing the delivery of compelling and consistent brand experiences for consumers. And since these measures are built on efficiency, simplicity and focus, they are powerful cost-reduction initiatives, as well.

Schawk is a global company specializing in the creation, execution and maintenance of brand materials and assets. Our expertise in cost reduction is a natural part of our delivery of brand point management, a category of service that enables our clients to create compelling and consistent brand experiences for their customers wherever they touch the brand. In this paper, we will describe key opportunities for cost reduction, and we will suggest how an organization can quickly capture significant cost reduction through process-based and vendor-based measures. And we will show that while many of these concepts and ideas are strongly interrelated, cost reduction is maximized when they are truly integrated. Top-line revenues grow, too – which is the best argument of all for cost-reduction initiatives done right.

WHAT BENEFITS CAN BE REALIZED?

For brands and branded materials, cost reduction can be realized through:

Process-based improvements:

- By reducing **complexity** throughout the brand lifecycle
- By removing **redundancies** in processes and people
- By improving **visibility** all along the process

Vendor-based improvements:

- By **leveraging** best-of-breed vendor capabilities
- By **expanding** agency responsibilities across brand touchpoints

The potential for cost reduction is considerable based on actual Schawk client work:

- Reduction of production cycle times by 25 percent and revision cycles by 50 percent
- Reduction of creative-to-print costs by as much as 35 percent
- Decrease of catastrophic errors by 95 percent
- Dramatic reduction in costs relating to shipping of proofs and transportation of finished materials
- Shortened production cycles and quicker time to market

And importantly, there are significant benefits that improve the quality and consistency of branded materials. These include:

- Improved communication and predictability of production processes
- Improvements in project reporting and ROI analysis

WHERE ARE THE OPPORTUNITIES FOR COST REDUCTION?

Cost reduction opportunities can be found at every stage of the brand lifecycle, from the earliest strategy to final printing and fulfillment. This is because upstream decisions affect execution downstream, and when strategists and designers and premedia and printing agents have collaborated in planning – and when they share technologies designed to streamline and strengthen the process – there is a cumulative **permanent** effect of cost reduction. This integration is integral to brand point management. Let's consider the many opportunities for cost reduction along the brand lifecycle.

PROCESS-BASED OPPORTUNITIES: REDUCE COMPLEXITY, REMOVE REDUNDANCY, IMPROVE VISIBILITY

As brand assets travel through the complex process from ideation to design to production, many people – potentially across many agencies – will work on them. And as brands push to expand globally, more facilities must coordinate efforts and resources. Over time, bottlenecks develop and create lengthy development schedules that make it difficult to see where there is waste and misappropriation of resources. The demand to get new products to market drives further inefficient use of resources on tasks that are redundant but are easily forgiven in the name of speed to market. When brands, such as consumer products, execute SKUs across a wide geography, the potential for pitfalls increases – but so do opportunities for workflow improvements that save money and make money simultaneously.

Process-based cost reduction opportunities include:

- **Streamlining the communication flow and workflow**
Managing the communication flow in-house – among brand managers, procurement, legal and other departments – and with vendor partners, across strategy, design and execution (such as premedia and printing) – requires stringent workflow processes to save time, avoid expenses and eliminate costly errors.



Workflow Cost Reductions: Schawk Examples

Cost reduction through better workflows is a Schawk expertise. For an iconic consumer soup brand, we developed workflow processes that spanned design, production art and premedia, and we fully trained its four strategic design partners to work within the process.

The results were:

- More brand consistency worldwide through best-practices standards
- Measurable milestones that ensured the brand was in control of its packaging spend and getting optimum results from each design partner at every stage
- Decreased time to market
- Cost reductions resulting from efficiencies and the elimination of a substantial amount of re-work

For a major pharmaceutical company, we achieved 70 to 80 percent reductions in production time of printed packaging materials between design and printing. Four-week processes became four-day processes.

And for a major toothpaste brand we executed a redesign and reproducible product standards across 20 markets worldwide, saving substantial time and money by creating a hierarchy for differences in inks, substrates and cultural color nuances.

- Faster access to definitive brand assets**
 In the course of a brand's lifecycle, its assets – graphics, creative copy, boilerplate, etc. – will be used and re-used by countless people in-house and with partner agencies. Considerable time and money can be saved when definitive assets are logically stored and easily accessible and don't need to be re-created again and again. This eliminates costly errors, as well.
- Reducing design/revision cycles and costs**
 Superior workflow processes ensure that designers correctly execute on strategy, saving time and cost, especially since upstream errors are especially costly when discovered downstream. Similarly, when strategy and creative work with an awareness of downstream executional requirements, resources are saved and errors are avoided. This is especially true where regionalized materials have distinct creative and production demands. Graphics technologies, such as online proofing and 3D imaging, also dramatically save time and cost.
- Reducing production cycles and costs**
 Fortunes are lost each year on printed materials that are substandard or contain branding violations and must be redone. Also, even perfect materials are costly when bad processes force overtime printing charges. Processes that deliver artwork on time and ensure that inks, substrates and printer capabilities have been taken into account, save time and money.
- Increasing ability to measure process and results**
 Workflow analysis, campaign analysis and retail-performance analysis – these track the efficacy of production processes and the ROI of branded materials in the marketplace, leading to cost reduction, efficiency and more confident decision-making.

PROCESS-BASED OPPORTUNITIES. Reducing time and effort in creating and delivering branded materials

COST-REDUCTION OPPORTUNITIES



VENDOR-BASED OPPORTUNITIES. Developing more sophisticated, productive, integrated relationships with best-of-breed service providers

VENDOR-BASED OPPORTUNITIES: LEVERAGING BEST-OF-BREED CAPABILITIES, EXPANDING RESPONSIBILITIES

Large consumer-facing brands never “go it alone” where the creation of the brand and its materials is concerned, but the drive for cost-reduction in the current economic climate encourages rethinking of traditional choices for vendor partnerships. Schawk's conviction is that a more strategic use of vendors not only reduces costs, it can significantly improve the quality and consistency of branded materials and ensure that they are deployed with agility and timeliness worldwide. And this conviction is based on proof that in the creation of branded materials, the consolidation of vendors does work where it matters most: in making the brand experience for the consumer more compelling and consistent, while driving cost reductions.

Vendor-based cost reduction opportunities include:

- Aggregating broad segments of the brand process**
 Not simply “outsourcing” but the purposeful aggregation of tasks within a vendor that can streamline the process without sacrificing quality; in fact, quality is improved along with cost reduction when the vendor is both broad-based in capabilities and expert in those tasks.
- Leveraging geographical advantages**
 No one doubts that it's preferable to source necessary goods and services more cheaply. But this in itself is a daunting task. It requires the understanding and balancing of several factors including, currency fluctuations, labor rates, material costs, and freight/shipping costs. And it requires a vendor with a large geographical footprint.
- “Around-the-clock” processes executed globally**
 The production of brand assets such as packaging involves hundreds of small steps that must be executed in order; smart use of vendors allows these processes to go on almost non-stop thanks to time-zone advantages. And the more geographically diverse a single vendor is, the more these processes are kept “in-house” within that vendor. This also minimizes the number of “handoffs” of materials among different entities, eliminating chances for slowdowns, redundancies and errors.

The process-based and vendor-based cost reduction opportunities described are proven to produce the cost reductions that deliver immediate benefits today and permanently. And while these opportunities may initially seem obscure or daunting, further details – and examples from Schawk's own portfolio – will offer more proof.

PROCESS-BASED COST REDUCTION: HOW IT'S DONE

Technology is a crucial component in permanent cost reduction. The broader marketplace context is key here. As Deloitte noted in its report “2008 Industry Outlook: A Look Around The Corner”:

Many companies stand at technology crossroads: they have depreciated their existing IT investments and now must invest for the future. However, many industries lack the necessary funds to do this.

And with so many IT challenges, some companies may balk at investing in technology that appears focused on relatively esoteric needs, such as graphics workflows or digital asset management. Enterprise technology is available that manages all types of graphics-related needs; clients can purchase this technology outright or contract for it. Either way, the technology proves essential – not esoteric – for brands that truly want superior quality and consistency in their branded materials and are committed to efficiency, agility and cost reduction in the process. And it typically pays for itself in one to two years.

Compelling and consistent brand experiences can't happen – especially on a global scale – without technology that links people, processes and regions. Brand point management (especially as Schawk delivers it), leverages a wide range of technologies, including **graphics lifecycle management**, (workflow management, digital asset management, online proofing), **retail-performance** and **campaign-performance management software, printer-characteristic research** and more.

Workflow management

Workflow management technology is crucial to effective global branding and the key for significant cost reduction. As digital files progress through the complex process from design to printing, many people will work on them. Workflow management software monitors that process, identifying bottlenecks and slowdowns and encouraging the efficient execution of repeatable tasks.

An additional benefit of computer networking technology is online proofing, which allows all contributors in the production of brand materials to proof definitive versions of those materials online and for careful oversight of the revision and approval process. The benefits include the elimination of errors, accidents and lost files, as well as time-savings and improved final products through more focused attention to definitive versions. Clearly there are savings of resources such as paper, ink and electricity, as well as fuel in the delivery of proofs – and time.

Digital asset management

Digital asset management systems (such as Schawk's BLUE™), are especially valuable. They have been proven to shave millions of dollars off annual marketing and

production fees by giving all vendors and in-house marketers and designers access to the same approved brand assets, including logos, color and print specifications, packaging requirements, creative and boilerplate copy and more. In the past, these highly standardizable assets have had to be reproduced over and over again – at great expense – as brands expanded in products and geographical scope and as they came under the care of new agencies.

Today, digital asset management systems confer huge benefits with respect to brand consistency, manpower, sustainability, brand-theft deterrence, marketplace agility and more. And performance software gives instant feedback on the efficacy of marketing programs, which operationally efficient companies can then act upon quickly and decisively.

When the brand controls its assets this way and makes them available in an efficient manner, it saves considerable time and money over inferior “systems,” in which each stage of the process (and each vendor) has its own non-definitive set of brand elements and typically charges for the work of finding and reproducing them each time they are needed. Such reproductions can cost hundreds of dollars each time, hundreds of times a year. But accessing a definitive image on a brand-owned, networked system can cost as little as a few minutes of employee time. Played out over the globe – encompassing product launches and revamps, advertising and promotional materials, multiple regions, languages and agencies – the benefits are enormous. And compelling and consistent brand messages are much easier to produce.

The global perspective

The efficient repurposing of brand assets, described above, is vital. But there are additional global considerations. The difficult economy has made improving global workflow and communication a top priority. As companies downsize, individuals or single offices are tasked with oversight of wider geographical regions, and companies are finding it necessary to remove traditional barriers between offices on different continents. This requires improvements in the communication and monitoring of workflow elements and the integration of people, processes and technology. Brands – or a vendor with a wide footprint and expertise – can facilitate global efficiency by articulating expectations and providing “watchouts” for process flow and for technical matters like substrates, inks, print specifications. No less important are regional cultural sensitivities and regulatory issues like taxes. These can be enormous stumbling blocks if a company doesn't have the processes to account for differences while driving efficiencies simultaneously.

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VENDOR-BASED COST REDUCTION: HOW IT'S DONE

In this process of “smart globalization,” companies are integrating their previously separate sourcing, market and talent strategies to globalize more intelligently to optimize costs and manage risks.

Consolidation of vendors and outsourcing

Frequently there is resistance within a brand to consolidating vendors, as it typically means a temporary loss of “comfort” and, for some managers, a loss of “ownership” of their segment of the brand lifecycle. There is also a widespread perception that each of the many lifecycle stages should be handled by a different, dedicated agency. And efforts toward all-in-one agencies in the past two decades have sometimes had mixed results. But the current economy calls for a reconsideration of consolidation, especially since more recent trends have shown that some kinds of agency consolidation bear fruit.

For instance, there are significant benefits in aggregating post-design operations under one roof globally. European brands have embraced this fact, and the result has been a “decoupling” of these services from ad agencies, where they were traditionally rendered, and aggregation of them within stand-alone production agencies. The resulting cost reduction is clear: Schawk shaved between 20 and 30 percent off a major cosmetics brand’s production budget in Europe this way.

If the cost reductions outweigh the various “political” discomforts of consolidation of vendors, the same is true for **outsourcing**, another potentially sensitive subject. Schawk is a leader in a sophisticated kind of outsourcing that puts Schawk employees **on-site** at client locations. “On-site” relationships are much more common in some countries than others. And they can take many forms, ranging from pure consulting on workflow processes or brand management, to oversight of employees, to the physical production of artwork. Schawk does all of these for dozens of clients worldwide.

The takeaway: In an economy that has endured tremendous shockwaves already, the discomforts of vendor consolidation and outsourcing now seem minor, especially compared to the potential for cost reduction, efficiency, brand quality and profits.

“Smart” globalization

The consolidation described above is taking place on a global scale. In its “2008 Industry Outlook: A Look Around The Corner,” Deloitte stated:

Today, U.S. companies are going to foreign countries such as China and India to access new markets and harness local talents to support worldwide innovation. In this process of “smart globalization,” companies are integrating their previously separate sourcing, market and talent strategies to globalize more intelligently to optimize costs and manage risks.”

A key element of smart globalization is to avoid over-reaching. Deloitte adds:

Companies may need to rationalize their expanded global footprints. Many firms initially located operations in emerging markets because the governments there offered numerous incentives. In some cases, however, market entry was premature – the necessary infrastructure was not in place and the promised cost reduction was not being realized.

These suggestions justify and encourage a strategy of smart, strategic outsourcing according to a desired global footprint. For branded materials, a globally integrated supplier of graphics services can work for its client literally around the clock, eliminating downtime between stages. It can source printing services close to materials and close to the target consumer, eliminating time and costs – what Schawk terms “strategic insourcing.”



Schawk delivers cost reductions for a major pharma

A major international pharmaceutical company needed to improve workflows for point-of-sale and packaging for thousands of consumer-health SKUs, save cost and improve time to market. Leveraging brand point management, Schawk replaced more than two-dozen premedia suppliers and printers/converters by consolidating work at Schawk facilities on three continents, under Schawk managers. Schawk drastically streamlined and improved workflow and graphics-management processes as well as the printing/converting process, improved time-to-market and packaging quality and accuracy, and consolidated its client’s administrative tasks by unifying billing under one monthly invoice.

For example, pharmaceutical branded materials can be extremely complex today, with seven-color printing on complex substrates such as blister-packs, all needing to be compelling and consistent worldwide thanks to the increased branding that supports prescription and over-the-counter drugs. Furthermore, pharma packaging must route through numerous closely audited steps at accredited facilities. Responding to these requirements, strategic insourcing minimizes costs and enables agility by leveraging geographical advantages in currency exchange rates, labor costs and production costs.

Smart globalization and the related process of strategic insourcing boil down to these aims: utilizing talent pools including low-cost labor when wise; driving best practices across time zones, languages and cultural variations; and “load-leveling” – efficiently matching resources with needs – for clients.

Closed-loop fulfillment and custom pack-out

“Closed-loop” services can consolidate such elements as premedia, printing and fulfillment of retailer promotional materials under one roof, creating time and cost reduction and allowing transportation resources to be focused on the final delivery of products, not on intermediate stages. Currently this process is benefiting retailers who operate over huge geographical areas. “Custom pack-out” is one important example of a closed-loop service, in which promotional materials can be customized on a regional, local or even store-by-store basis using precise data on store sales performance. Both of these call for a high degree of process and technology sophistication.

SUMMARY

Cost reduction is crucial to businesses today, worldwide. It's not merely a good idea, but potentially a matter of life or death for some brands. Cost reduction takes many forms, but they fall under the basic categories of process-based and vendor-based. The more all of these are integrated, the more effective the measures are.

It is also true that while cost-reduction measures often focus their efforts closer to the execution and maintenance stages of a brand and its assets, these measures are most effective when they're planned early in the brand lifecycle, during strategy and design. This kind of integration of effort, across strategy, creative and execution, is at the heart of Schawk's delivery of brand point management.

And in the case of Schawk, these measures all contribute directly and purposefully to another crucial facet of brand success: compelling and consistent brand experiences, wherever a consumer touches a brand. Cost reduction is a powerful feature of brand point management, and Schawk's specialty is the delivery of brand point management.



Schawk saves retailer thousands a day

For a very large retail clothing chain, Schawk analyzes data coming directly from the retailer's cash registers through its online inventory management and tracking system. When integrated with Schawk's digital printing capabilities, this enables each store to order and obtain the right products at the right time. As few as one or two pieces of targeted collateral can be printed efficiently for a single store through variable-data technology. Overall, the client can:

- Enter media schedules, then monitor budgets and up-to-date fulfillment costs
- Manage active and upcoming workloads for scheduling and tracking features
- Minimize duplication of data entry
- Manage approvals effectively, giving up-to-the-minute job status and financial outlay

This custom pack-out system replaced one in which cash-register data was reported via phone and manually collated and transmitted to previous fulfillment vendors. The cost reduction – not to mention advantages in agility, efficiency and promotional effectiveness, are obvious. This client reported that it lost up to \$3,300 a day in potential revenues under the old system, due to incorrect or late promotional materials. In fact, Schawk solved another nagging problem for the client, designing special box labels that alerted store staff to the arrival of time-sensitive promotional materials and the date they were to be deployed.

SCHAWK!™

Schawk, Inc., (NYSE:SGK), is a leading provider of brand point management services, enabling companies of all sizes to connect their brands with consumers to create deeper brand affinity. With a global footprint of more than 48 offices, Schawk helps companies create compelling and consistent brand experiences by providing integrated strategic, creative and executional services across brand touchpoints. Founded in 1953, Schawk is trusted by many of the world's leading organizations to help them achieve global brand consistency. For more information about Schawk, visit <http://www.schawk.com>.

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