Business white paper

Cost vs. Value

How to monetize digitally printed packaging

By Jan Van Daele, Brand Innovation team, Graphics Solution Business, HP Inc.

Executive Summary

Over the past few years, awareness among brand owners and packaging converters of the added value of digitally printed packaging has been growing fast. In particular, the value for niche and short-run applications is well understood. However, when it comes to mainstream applications, enthusiasm about digitally printed packaging often declines once the subject of unit cost is raised. As a result, much of the potential value is left untapped simply because of the sheer difficulty in translating the added-value of digitally printed packaging into more profit for their company.

This white paper is designed to address this difficulty, by providing a clear explanation of the added value offered by digitally printed packaging. It also describes the HP Return On Packaging Decoration Investment (ROPDI) Calculator tool, which functionally demonstrates with case-specific numbers how brands and converters can monetize the value of digitally printed packaging. The calculator addresses the main considerations of multiple departments within a brand company, including marketing, business development, supply chain, and finance. The tool is segment-neutral, so it works equally well for labels, flexible packaging, folded carton and corrugated packaging.

Table of contents

2 Executive Summary
2 Three key values of digital print packaging
3 Four sources for funding a digital print campaign
- Supply chain – Efficiency gains
- Marketing – Extended consumer engagement
- Business development – Opportunities for new and stronger channels
- Finance – Incremental sales and margins
6 HP ROPDI Calculator
6 Conclusion

Three key values of digital print packaging

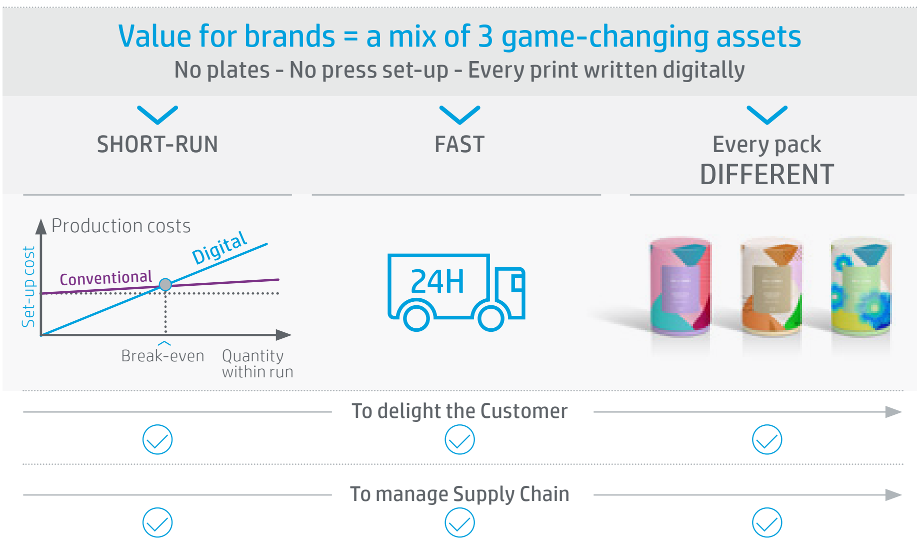
In every field of business, there are initiatives that can be implemented in a variety of ways. While the less-expensive option in terms of hard costs may at first seem to offer the highest return on investment, further investigation often reveals that the higher added value created by another option ultimately offers a higher return rate.

For packaging, digital print can be viewed in a similar way.

Compared with traditional print, digital has three differentiating assets – no plates, no press-setup, and easy customization – allowing for:

- More cost-effective printing of smaller batches
- Increased agility, by reducing time to market for products and eliminating the need for plates and press setup
- Incredible variation and personalization, in which every package can be a "one-off"

Each of these qualities can generate added value for the brand owner, both internally (within the supply chain) and externally (for customer engagement). But there is a cost attached. Outside of printing short-runs or batched jobs, digital print may cost more per-unit than traditional printing. Yet, despite this additional cost, countless global brands are implementing, and in many cases repeating, digitally printed campaigns on a very large scale. At first glance, these jobs appear to be far beyond the breakeven point, so what's the magic ingredient?



4 SOURCES of $ to finance a digital print project

1	2	3	4
Supply chain efficiency	Marketing budget	Business development	Finance
Cost per SOLD unit	Marketing spend per SOLD unit	Upsell price per unit	More sales & higher margins

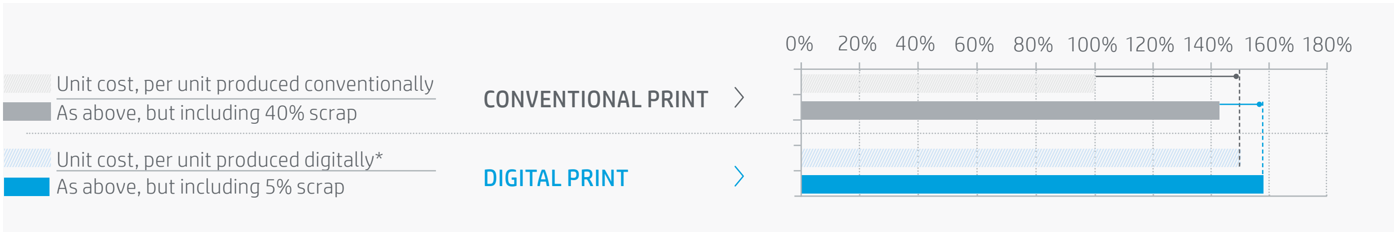
FOUR SIMPLE METRICS IN ONE SIMPLE TOOL

Four sources for funding a digital print campaign

One of the principal difficulties for brands in adopting digital print is related to their multi-department organizational structure. In most cases, more than one department is required to fund a campaign – typically a combination of the supply chain, marketing, business development, and/or finance departments. Each department has its own needs and goals, with its own specific "metrics" that describe the financial impact of the digital print campaign in terms of both cost and returns. Using the HP ROPDI Calculator, the relevant metrics can be successfully developed in advance, enabling analysis of the total impact of the campaign, and an estimation of return on investment (ROI)

Supply chain – Efficiency gains

The supply chain department is constantly looking to reduce waste, be it in terms of materials, time, or labor. As such, the supply chain team may see digital as a way to reduce cost by reducing waste and obsolescence.



* Price is indicative for a specific example case.

Digital allows for printing of shorter runs or smaller batches in a shorter turnaround time. This leads to several advantages, including reduced warehousing, less capital trapped inside work in progress, fewer materials on order, and reduced obsolescence due to artwork changes.

Accordingly, the supply chain manager should reevaluate the way in which production costs are calculated. Instead of cost per unit *produced,* the emphasis should be on cost per unit *sold*. With this approach, digital stands out as an advantageous option due to the freeing up of capital that would, with traditional packaging, be frozen in the supply chain.

Marketing – Extended consumer engagement

Packaging is a keystone of the marketing mix, and the Marketing Manager may thus justifiably see a digital campaign as an extension of the product's media portfolio.

In-store, on the shelf, a brand has a final opportunity to convince customers to purchase its product. A very engaging package not only results in incremental sales, it is also strengthens brand identity in a manner similar to advertising.

This makes digital print an excellent opportunity to extend customer engagement. With cost-effective customization afforded by digital, the Marketing Manager can launch more product versions or create localized promotions. Unique packaging can be designed using tools such as the HP SmartStream Mosaic decoration application, or with tools that offer the added-value of security, tracking and interactivity features, such as those created with *HP LinkReader*.

Despite the marketing advantages, resistance may be felt from the accounting department, which tends to view the cost of packaging as part of the cost of goods. Any increase in cost will be perceived as less-efficient operations. Shareholders are watching gross profit trends, and obviously don't like to see any decrease.

To counteract these reservations, it's important to note that many brands are investing heavily, often as much as 3% to 7% of their revenue, in advertising and media for brand and product promotion. When comparing the relative cost of advertising per product sold with the additional cost of printing the package digitally, it shows that in most cases the cost increase for digital print is significantly smaller than the advertising spend.

As such, allocating a portion of the marketing budget to support digital print projects is a recommended first step in the digital adoption process.

Business development – Opportunities for new and stronger channels

Many companies are looking to strengthen and expand their business with new consumer categories, new channels, and new territories. Digital print offers very distinct opportunities on all fronts, enabling test marketing of projects, special activation programs, regional customization, and tactical e-commerce activities, among other advantages.

For example, some brands are reluctant to invest heavily in e-commerce, as they need to maintain a good relationship with their retail channels. However, by utilizing digital print, brands can now approach the consumer directly, opening up new channels, while minimizing disruption to their existing retailers. One such popular implementation is the creation of customized product packaging based on individual consumer's pictures, personal artwork, or texts. By combining an online campaign with physical packaging, brands can create direct engagement with consumers, while driving them to their retail channels. A win-win for brand and retailer alike.

This upgrades the value of a product from a mass consumption item to a personalized, one-off gift. Not only does it have tremendous value for engagement and differentiation, it also makes good business sense. It has been proven that consumers are prepared to pay more for a product that is personalized and home-delivered.

Finance – Incremental sales and margins

Arguably, the most important source of funding of a digital print campaign is derived from the potential of incremental sales and incremental margins. The financial manager's focus is on improving overall profitability, especially by investigating the leveraging effect on existing business.

In the HP ROPDI Calculator, a "leverage factor" is defined for a consumer product as the ratio of the gross dollar margin of that product, divided by the current cost of the package decoration. That leverage factor identifies how easy it will be to recuperate the extra cost of digital printing with incremental sales. Dividing the percentage increase in packaging cost by the leverage factor provides the percentage increase in incremental sales needed to recover the additional cost.

In many cases, the incremental sales required are lower than 1% of annual sales. The higher the leverage factor, the higher the profit gain and ROI when sales exceed the breakeven point. In other words, it's quite simple to make a good business case for the financial impact of digital print.

$$\text{Leverage factor} = \frac{\text{Gross margin of product}}{\text{Cost of print (average per year)}}$$

$$\text{ROI} = \frac{\text{\% cost increase of print}}{\text{Leverage factor}} = \frac{\text{INCREMENTAL}}{\text{volume to obtain break-even}}$$

HP ROPDI Calculator

HP provides brands and packaging converters with a simple Excel tool to assess the ROI of a specific digitally printed packaging campaign. The Return On Packaging Decoration Investment (ROPDI) Calculator, and its generated outcome, is perfect for creating a discussion within various departments of the brand organization on the impact of the campaign. It also provides a simple, yet powerful tool for helping packaging converters explain the value of digital print to their customers. The tool is segment-neutral, so it works equally well for labels, flexible packaging, folded carton, and corrugated packaging.

By entering basic elements of the company strategy (such as ad spend, capital cost, and supply chain stock turns) and the product context (such as revenues, margins, packaging costs, and quantities), the tool provides insight into the leverage impact of the chosen campaign, the percentage of incremental sales required to balance the extra cost, and the anticipated profitability of the campaign in the event that sales exceed the breakeven point.

This helps comprehensively quantify cost versus value for digitally printed packaging.

To request access to the HP ROPDI Calculator, or hear more about how it can be of value to your business, please contact
theartofpossibilities@hp.com

Conclusion

While advancing to digital printing is an attractive proposition, with proven effectiveness at driving consumer engagement and on-the-shelf differentiation, it is not always simple for brands and packaging converters to assess the bottom line benefits. The HP ROPDI Calculator offers a practical tool for overcoming this challenge. By presenting a quantitative explanation of the business value of a digitally printed packaging campaign, the HP ROPDI Calculator can help varied stakeholders evaluate the added value and make better-informed decisions about packaging strategies.

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