

A large iceberg floats in a calm blue sea under a sky with scattered white clouds. The visible tip of the iceberg is relatively small and jagged, while the much larger, submerged portion is visible below the water line, illustrating the concept of hidden costs.

Understanding the Total Applied Cost of Label Procurement

A White Paper Published by



LABELS & PACKAGING

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Abstract

The traditional approach to purchasing product labels is to obtain price quotations from an approved vendor list, and then select the supplier with the lowest cost per thousand. Other factors such as timing and experience with the vendor might come into play, but generally the key determining factor is price per thousand. It's simple, straightforward and easily justified. On the surface, cost-per-thousand label procurement appears to be fair to both the brand owner and its vendors. The brand owner gets the lowest price, and the process encourages vendors to continually focus on reducing costs while maintaining quality standards.

But the operative words are “on the surface.” In truth the cost of a label goes well beyond cost per thousand to include many related factors from order processing and inventory control to logistics and everything in between. The dollar savings from value-added services like package engineering consultation and specific industry experience are difficult to capture on a spreadsheet. The objective of this white paper is to examine those factors to help companies achieve the lowest total applied cost of label procurement.

Business Challenges

Maintaining and growing market share is increasingly difficult in the face of intense global competition that compels companies to continually drive down costs while speeding high quality, customized products to market. Regulatory requirements, market specifications, new substrates, digital printing, sustainability, security, anti-tampering and different languages that require varying amounts of space are just some of the labeling challenges faced by many product manufacturers.

In short, labeling is becoming more complicated on a number of fronts. The associated costs go well beyond cost-per-thousand. As a result, the most progressive companies are adopting a total applied cost approach that includes re-engineering their current processes.



Key Steps in a Total Applied Cost Approach

There are several program characteristics and action steps that brand owners generally take in adopting a total cost approach. These include:

- **Adopting a Holistic View.** Brand owners need to pay more than lip service to the total applied cost concept. Gaining the benefits requires digging into costs ranging from order entry through distribution to determine real costs. It also requires knowing the associated costs of using a specific type of label for an application.

The key is to not look at any single cost element in isolation, but to look at all the associated costs and how one element impacts the next in the label procurement supply chain. Market realities are driving brand owners toward taking a more holistic view of applied label costs and punishing those that cling to outdated approaches. Simply put, losing track of the bigger cost picture is a penny-wise and pound-foolish scenario that can negatively impact a brand owner's profitability.

For example, does a less expensive label construction increase the amount of storage, inventory and obsolescence, slow down line speed or have a greater rejected label percentage versus a more expensive yet more flexible and efficient label construction? Other factors such as necessary staffing levels, application equipment and labeling efficiencies also require consideration.

In some cases, having the correct label format is far more valuable than saving a few cents on the label itself. For example, a label set, even if it is more costly than the sum of the individual labels used on a package, has hidden value because it is impossible to shut down a line due to one missing label. It also acts as a quality check; if there are no labels left on the sheet, the package is labeled correctly. The additional savings of one purchase order, one invoice, one packing list, one quality check, and one incoming inspection process are common sense but difficult to capture on a spreadsheet in a traditional "bid and choose the low cost" purchasing format.



- **Becoming Demand-driven.** Label supply chains were traditionally transaction based and focused on custom runs balanced with print-to-stock. Until recently, true demand-based systems weren't a priority. But all that is changing rapidly as brand owners increasingly require just-in-time delivery to avoid incurring inventory charges and obsolescence costs.

If the new first rule of supply-chain management is to focus on total costs, the second rule is to postpone label manufacturing until the last possible moment. In other words, demand-based systems promote “never purchase today what you can purchase tomorrow.” Delaying production enables the customer to better anticipate real demand, which minimizes both inventory and obsolescence costs.

Demand-driven production also better addresses fast-changing markets and reduces costs over the entire lifecycle of the consumer product. Here are some questions to help evaluate whether your label program has the right supply-chain footprint and whether it is functioning at a high level:

- Are you constantly challenged by too much inventory of some labels and not enough of others?
- Do you wish you had better supply chain visibility of your orders, fulfillment status and inventory levels?
- Would shorter lead times and reduced forecast variability improve your customer service?
- Would demand-based label production move your products to market faster and less expensively?
- Is it possible to “squeeze” more savings from your supply-chain costs with better management?

But is it really worth the effort to become more demand driven? You bet. Keep in mind that just one additional demand-based inventory turn per year of a stocked item can save 12.5 percent in the total costs of that label.



The good news is that today's digital print technology, particularly when combined strategically with other print platforms and automated ordering and fulfillment systems, can effectively deliver demand-based label production to meet virtually any market requirements.

- **Forming Vendor Partnerships.** The case for vendor consolidation and its potential benefits is nothing new. Still, many companies struggle to limit the number of suppliers. According to a Forrester study, *Consolidating Vendors Brings Operational Benefits as Well as Dollar Savings*, this has two primary causes:
 - Most sourcing decisions are still made on a decentralized level
 - No process exists to aggregate demand properly

But global competition and the need to be ultra competitive is causing rapid change. As Forrester points out, operational efficiency is the main reason for consolidating your supply base. It lowers costs in areas such as relationship management and administration while lessening risks to the business. Vendor consolidation also increases quality and improves delivery speed.

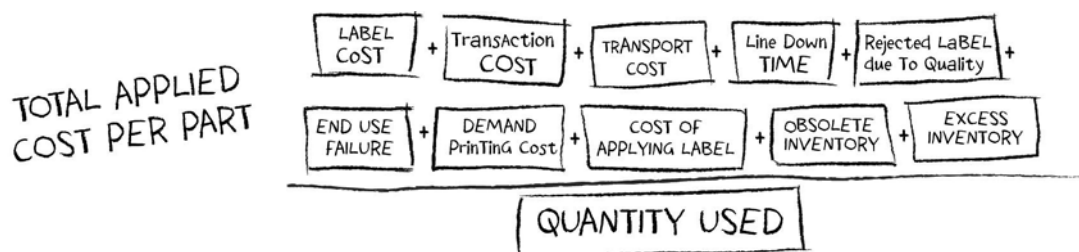
In the area of label procurement, this means finding partners with analytical capabilities that offer solutions beyond print production. Your goal is to simplify the supply chain while gaining comprehensive, best-in-class resources from a vendor fully committed to continuous improvement.

Forrester also recommends considering your organization's level of maturity before beginning a radical rationalization process. You need to consider factors such as internal preferences and the reality of company politics, in addition to the power balance between you and your supplier.

Key Components of a Total Applied Cost Approach

Examining the full cost of different labeling approaches often demonstrates that there is more “below the surface” contributing to total cost than many brand owners realize. Total Applied Cost includes the full cost to get a label from the conceptual stage to the brand owner's customer and everything in-between.

What You Need to Consider for Total Applied Cost



Here is a brief explanation of the factors that affect total cost—some obvious and many others that are less visible:

- **Label Cost.** The base cost of the label itself.
- **Transaction Cost.** The cost of preparing the purchase order, process invoices and other related transactional tasks.
- **Transportation Cost.** The cost of transporting the label to the designated packaging facility, as well as the additional time involved that could shorten production cycles and make the brand owner more market responsive.
- **Line Down-time Cost.** The hourly downtime cost of label-related failure that causes the packaging production line to shut down.
- **Rejected Label Cost.** The cost incurred during the inspection process for substandard quality labels.
- **End-use Failure Cost.** The cost of labels that fail before consumption of the product and could potentially lead to regulatory compliance failure that results in costs associated with returns, inspections, etc.
- **Demand Printing Cost.** The cost of a label printer, ribbon or toner, operator and blank label inventory for emergency needs.
- **Label Application Cost.** The cost of applying the label to the container/package or directly to the product either by hand or by machine.
- **Obsolete Inventory Cost.** The cost of inventory not consumed due to content changes or shelf life.
- **Excess Inventory Cost.** The cost of finished but unused inventory not considered obsolete.

Additional Considerations

- The production line is where the rubber meets the road on quality. There is no truer statement than "you can't 'inspect in' quality." Line speed and throughput require labels that:
 - Meet requirements
 - Run well on your equipment
 - Perform to your expectations

Label failure at this critical point in production is one of the most costly spots and can greatly hinder production goals. A qualified dock-to-stock label supplier can take this cost out of the equation.

- When engineering the label construction, Goldilocks is a good role model. Like the porridge or the beds, your label material needs to be just right. The temperature range your product will encounter and the environmental conditions need to be carefully considered and the appropriate material and coatings must to be selected. Choosing a label construction that works for the tough automotive "under the hood" requirements would be overkill and a costly waste of money for a health and beauty label. Conversely, if the situation were reversed, the label cost would be reduced but the end use failures would more than offset the perceived initial savings. Your label shouldn't be over engineered or under engineered. It needs to be just right.



Now that the Total Applied Cost concept
has been explained and defined,
the following case study fleshes out the
conceptual model with a real world
example of Total Applied Cost at a
consumer goods manufacturer.

The dollar impact and true savings using
the Total Applied Cost model is much
more significant than looking at
the stand alone piece price
of the printed labels.

Large Consumer Goods Company Migrates Supplier Managed Inventory (SMI) to Reduce Total Applied Cost

THE SITUATION: A large consumer goods company wanted to consistently meet the market demand and cut down label obsolescence on several long running projects without having to continually place orders in response to stockout situations.

- Orders were triggered by retail demand requiring quick lead times (in as few as 3 days).
- Labels were being ordered (based on brand production orders) every 2 weeks.
- Lead time for a re-ordered series (multiple designs and/or sizes) of labels was running 5-7 days.
- Retail demand was difficult to forecast.
- The previous ordering model was not providing adequate lead times.
- Obsolete label parts were accumulating in the consumer goods company warehouse.

THE SOLUTION: AWT Labels & Packaging implemented a Supplier-Managed Inventory (SMI) program in order to efficiently print, store and deliver the customer's labels on a just-in-time (JIT) basis.

- This program allowed AWT Labels & Packaging to store necessary label inventory for next day shipments.
- A rapid response notification system was developed to include a reorder trigger that was set to alert the customer of a low label inventory level.
- The minimum finished goods inventory helped reduce waste from obsolescence – thus adhering to the customer's Lean Manufacturing initiatives.

THE RESULT: The customer has enjoyed the ease and cost reduction of using AWT Labels & Packaging's Supplier Managed Inventory (SMI) program while reducing label obsolescence.

THE BOTTOM LINE:

- By applying Lean initiatives, the customer has reduced their total applied cost by more than 25%.
- Re-engineering label constructions helped reduce production line downtime by more than 80%.
- Transactional accounting costs were reduced by more than 25%.
- Low inventory triggers helped to reduce over-ordering.
- The customer has reduced their label obsolescence more than 50%.
- Labels can be released from inventory one day prior to need date, responding to the JIT production model.
- The lead time for re-orders was reduced by more than 80%.
- AWT Labels & Packaging provided a permission-based online inventory management system enabling the customer to review usage and ordering patterns.
24 hours a day, 7 days a week.
- Transferring inventory management responsibility to AWT Labels & Packaging allowed the consumer goods company to focus on managing other commodities.

More Than Meets the Eye

The total applied cost of a product label is the sum of all the costs associated with every activity of the supply stream. The value that this “total cost” insight brings to brand owners is the understanding that the acquisition cost is often a very small portion of the total applied costs. That’s why informed industry leaders design and fine-tune their systems and processes from end-to-end, while weaker competitors accept the status quo without question. AWT Labels & Packaging can help your company better understand the total applied cost of your label procurement and develop an effective program that lowers costs, ensures quality and speeds products to market.

About AWT Labels & Packaging

AWT Labels & Packaging will reduce the total applied cost of your labeling process through a variety of proven techniques and innovative methods. Throughout this process we promise that we will be easy to do business with, and we will also listen carefully to the specific needs of your particular market and business model. Our aim is to blend good ideas with great customer service.

AWT Labels & Packaging provides the creativity necessary to streamline and add flexibility to any labeling system. We produce products that stand up against the toughest conditions, and our proven knowledge and experience promotes and protects brands. At AWT Labels & Packaging, innovative solutions and commitment to quality help ensure accuracy, creativity and performance while helping our customers stay on time, on target and on budget.

We are leaders in five unique markets including:

- Medical
- Food & Beverage
- OEM / Industrial
- Household
- Personal Care

AWT Labels & Packaging believes that your label is more than just ink on paper. It is a potential problem solver and a solution to lower total applied costs. We take pride in not only providing top-quality printing, but also in the number of solutions or services we can offer. These encompass:

- Inventory management programs
- In-house R & D design, development and testing
- In-house prep and design
- In-house digital plate making
- Onsite service teams
- Technical assistance in application
- Technical expertise in specific markets and raw materials
- EDI ordering
- Customer Portal Access for job tracking, inventory counts and other reporting needs
- UL/CSA & CE portfolio of certified materials

What's more, we perform at our very best in developing customized, integrated service programs that achieve the lowest total applied label costs. Contact us today for a free consultation.

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