

OLAF PLÖTNER | ROBERT E. SPEKMAN (EDS.)

# BRINGING TECHNOLOGY TO MARKET

TRENDS

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CASES

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SOLUTIONS



European school  
of management  
and technology



## 1807 – 2007 Knowledge for Generations

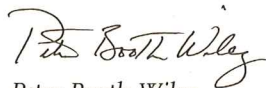
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## Bringing Technology to Market

*Trends, Cases, Solutions*

Edited by  
Olaf Plötner and Robert E. Spekman



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## Creating New Business by Redefining the Value Chain

### Case: MAN Roland Druckmaschinen AG

Bülent Gögdün  
Olaf Plötner

When speaking about the newspaper *El Diario*,<sup>169</sup> satisfaction at MAN Roland Druckmaschinen AG could not have been more profound. At a ceremony on May 2, 2006, Gerd Finkbeiner, chairman of the executive board of MAN Roland Druckmaschinen AG, and Peter Kuisle, executive vice president of sales, had signed a very important contract with the management of the newspaper. The contract was both for the delivery of four new systems amounting in value to 54 million euros and for after-sales service amounting to 15 million euros. During the reception, the customer had also made a presentation in which he referred to the “dawn of a new relationship” and emphasized the significance of the partnership between *El Diario* and MAN Roland.

### MAN Roland

MAN Roland Druckmaschinen AG, a company founded in 1845, develops and manufactures web offset systems<sup>170</sup> for printing newspapers and advertising material as well as sheet-fed offset systems<sup>171</sup> for printing published material, advertising, and packaging. The company also offers extensive services and software solutions for the printing industry: activities including the planning, construction, and commissioning of complete printing plants and after-sales services such as the delivery of spare parts, inspections, and overhauls of printing presses.

The printing press industry was long dominated by German manufacturers. With a turnover of 3,360 million euros in 2004-2005, Heidelberger Druckmaschinen was the largest supplier on the market, followed by MAN Roland (1,783 million euros in 2005) and KBA, Koenig & Bauer (1,621 million euros in 2005). In 2005, a number of other suppliers from various countries such as the United States, Switzerland, and Japan accounted for the remaining 35 to 40 percent of the market. MAN Roland was the world's leading supplier of web offset systems and the second largest manufacturer of sheet-fed offset systems. In 2005 the company had some 8,800 employees. The main facilities were located in Offenbach and Augsburg as well as in Plauen, where both the systems themselves and the spare parts not provided by suppliers were manufactured. The sales network included some 120 branches and sales partners worldwide. A service network was being developed, making growing use of

tele-support centers, providing immediate support by on-site technicians in the checking and if necessary repair of the systems.

With an export share of 83 percent in 2005, MAN Roland achieved an operating result of 65 million euros. This reflected considerable improvements in both web-fed and sheet-fed offset systems. The sheet-fed offset systems division, which had been running a loss for three years, managed to achieve a turnaround and post a positive result (+6 million euros as opposed to -41 million euros in 2004). The web offset systems division reached a new high in terms of order intake with 1,183 million euros and increased its result to 59 million euros (44 million euros in the previous year).

## The Printing Industry

Even though 2005 was a successful year for MAN Roland and a further increase in the operating result is expected for 2006, the annual report for 2005 contained the following statement: "The situation in the printing industry remains tense worldwide. The sector has been characterized by continuing concentration, plus globally fierce competition between printing press manufacturers." The crisis of recent years had not yet been forgotten. The seriousness of the situation for printing press manufacturers became clear in a remark by Bernhard Schreier, CEO of Heidelberger Druckmaschinen, in July 2003: "I can choose between discounts for the customer and a redundancy plan for the workforce."<sup>172</sup> In 2005 things gradually started to turn around for the printing industry. Experts expected the global printing markets to grow by 2 to 5 percent per year. This growth was to be generated by replacement investments in industrialized countries and in particular by additional volumes in the populous emerging regions such as Eastern Europe, South America, China, and India. Strong economic growth, growing populations, increasing prosperity, and improving educational standards were making them all attractive future markets. In spite of the fact that the advertising and printing industry was recovering, the competition remained fierce. The prices in the web offset systems business were up to 20 percent lower than they were a decade ago.

## El Diario

*El Diario* was considered the flagship of the media corporation Victor Venegas S.A. Victor Venegas was one of the largest media corporations in Latin and Central America, with an estimated 220 million dollars turnover in 2005. The majority of the company was family owned. The company owned newspapers, magazines, TV and radio programs, Internet portals, and book and music publishers. Founded in 1912, *El Diario* was the second-largest Spanish-language daily paper in the world in terms of circulation in 2005. It had a print run of

over 1.9 million copies per day, was published in seven editions and several countries, and had set itself ambitious growth targets.

*El Diario* and MAN Roland have had a good business relationship existing on several levels for many years. Over the previous ten years, the paper had ordered an average of one system per year from MAN Roland. In spite of this, MAN Roland still had to compete fiercely for orders with competitors such as König & Bauer, Goss, WIFAG, TKS, and Mitsubishi.

## The Project

At the beginning of 2004, *El Diario* asked several manufacturers of web offset systems to submit quotations for three different packages: the first package for one printing press, the second for four, and the third for six. In doing this, the new purchasing manager, who came from a renowned international consumer goods company, was breaking new ground. A decision pyramid was to be used to find the best bid. The manager laid down five criteria: basic requirements, quality, service and support, costs, and innovation. In evaluating the quality of suppliers, *El Diario* not only gathered detailed information about the quality characteristics of the products but also about the quality management carried out at the manufacturers. The prices for the new systems were submitted at a transparent price event. This meant that the suppliers had to submit their prices anonymously but visibly for all parties per Internet and had the opportunity to optimize their bid by a certain deadline.

It was assumed that the paper did not wish to purchase all of the packages simultaneously; however, it was not clear to the bidders to what extent it was interested in purchasing which package. MAN Roland was, as usual, not the lowest bidder for any of the packages. In addition, the purchasing department informed MAN Roland that the proprietor family wished to avoid any dependency on one supplier, and that this was particularly true in the case of MAN Roland, since they had already supplied most of the existing system fleet.

Despite this situation, MAN Roland was able to win the order. The main reason for this was that in a difference with normal business procedure, the company offered extensive services based on a fixed price for a period of twelve years. This had not been stipulated in the invitation to bid, but it was a convincing argument for the customer, since it would make it possible to budget for the life-cycle costs of the printing systems.

For this reason, the bid also included an offer of services for three further MAN systems already operating at *El Diario*. On July 27, 2004, the letter of intent was signed for four new systems and the new service package. However, almost two years of negotiations would follow before the contract could be completed. The service agreement needed to include a definition of what service was to be provided when and at what price. In this framework, Eduard Hoffmann, the new head of the service division at MAN Roland, observed that

“even when it is possible to cover many eventualities, in the end it always remains a matter of trust.”<sup>173</sup> After several days of negotiations with lawyers and administrators shortly before the contract was to be closed, a number of issues were still open. It was only after a one-to-one talk between a MAN Roland manager and the technical manager of *El Diario* – the two men knew each other well – that an agreement could be reached.

The contract included the delivery and commissioning of the four new systems, valued, as mentioned, at 54 million euros. In addition, extensive services for these systems as well as the three already operational MAN printing presses were purchased for 15 million euros. The service package included the following: delivery of all spare parts on a just-in-time basis; part types to be defined exactly; replacement parts due to accidents, errors of use, and wear and tear not included; inspections once a year; check of bearer rings every two years;<sup>174</sup> overhauls, including a check of the folding unit, every six years (including replacement of parts).<sup>175</sup>

In contrast to larger repairs, both smaller repairs and the cleaning of the systems were to be carried out by the customer. As indicated, the period of the service contract for the four new printing systems was twelve years from the date of commissioning. The three MAN Roland printing systems already in operation would likewise be serviced for twelve years from the date of their commissioning (in 2012 and 2015). In the past, the customer’s own service team had carried out a large part of the maintenance and repair work together with inspections. Here, after the two-year guarantee period, the necessary spare parts would often be purchased by *El Diario* at very reasonable prices from smaller Central American suppliers able to construct them to the same design. The only services the customer would purchase from the systems manufacturer were those necessitating a high level of expertise or spare-part complexity. Peter Kuisle estimated that without the new agreement, MAN Roland would only have been able to generate one-third of the service business with the customer. On the other hand, this entailed considerable compromises on price, reducing the normally high profit margins in the service business. However, two important suppliers, the drive-train manufacturer and the bearings producer, have plants in the region, which reduces logistics costs, at least for some parts.

This kind of long-term, fixed-price service agreement is unusual in MAN Roland’s particular industry. It has thus represented a new business model for both the customer and the company.

## Interview with Peter Kuisle<sup>176</sup>

Bülent Gögdün  
Olaf Plötner

**Mr. Kuisle, in signing a contract with the company we’re referring to as *El Diario*, both your company and the entire industry were stepping onto new terrain with regard to service arrangements. Why were you willing to take this step?**

In the first place we’re convinced that with this agreement we’ll earn money. Beyond that, we’ve entered a new, highly promising dimension when it comes to working together with customers. And finally, it represents an important initiative for the company’s strategic development.

**What do you find strategically attractive in taking over value creation processes that until now were generated by the customer?**

In our main business, the manufacture of printing machines for newspaper presses, we’re active in a branch with low growth rates. We more or less compensate for increased circulation through increased productivity by our machines. For this reason we can only sell machines as a replacement investment or as what is conveyed to us as a technically new request from the customers of our customers, for example an increase in color content or a trend towards qualitatively higher print products. In this way we can achieve yearly worldwide growth rates of no more than 3 to 5 percent. But in upgrading our service business we see a chance to create significantly more sales. At present this sector comprises around 14 percent of our business; but we hope to soon generate 30 percent of our sales here. This of course with a strengthening of our machine business and an upgrading of its market share.

**Why are customers interested in your service?**

We have learned that on average customers only use around 70 to 80 percent of our machines’ potential. The machines could be run at higher net speeds, the setting-up time shortened, and the production possibilities multiplied. We know how to manage this best. We like to speak here of the “three S’s,” namely service, spares, and supplies. If using our services means optimizing customer processes, sensibly maintaining the machines, and making use of proper replacement parts, then customers can use the machines more efficiently—and that is surely worth the money we’re paid.

**Then couldn’t you actually operate your own machines?**

We discussed this once already around a decade ago, but at the time the market wasn’t yet ready for such changes. Now we’ll carefully examine if an exten-

sive reorganization of value-added chains is underway in the various branches. Maybe we and our customer were the first to move significantly in this direction.

**Why did you take the new direction with precisely this customer?**

A new business is always tied to risks. While it's the case that *El Diario* isn't really located on our doorstep, we've known this customer for years and have a trusting working relationship. We know that the company operates its business very professionally and handles the machines properly. That has great importance with regard to the agreement we've made here. At the same time the company represents an important benchmark for the entire newspaper industry. Against the backdrop of our strategic planning, we thus consider it especially valuable to gain a more detailed view of the firm through the closer collaboration.

**When it comes to your relationship with the customer, what has changed since taking on your new responsibilities?**

The relationship has become more intensive. We're no longer sporadically with the customer for one or another maintenance or repair task, but constantly present for the entire life cycle of the machines. In that situation you not only become better acquainted on a human level, but employees also gain a better understanding of how the other company functions. I should also mention that we've introduced a steering board so that management regularly exchanges information about business developments in general and our collaboration in particular. In this way we've gained a better sense of where things stand with the customer and are more quickly informed about the company's present and future needs. An additional side effect is that we've gained a better view of the performance of our machines over their entire life cycle, and this has given us a decisive push in developing our new technologies. Naturally we've also become more transparent for the customer. For example, the company has a better understanding of our price structure now and certainly does its best to use this knowledge to its own advantage. But altogether both sides profit from the close collaboration. One fact makes this especially clear: earlier, the negotiation process for new machines from the bid to contract signing lasted half a year; with the last contract, everything was already taken care of within four to six weeks.

**What effect has the new quality of customer relations had on the sales sector?**

Sales managers already need to know a great deal. They have to know a lot about the customer's business – about machine building and the retail market for machines, about working out contracts and different financing models. In long-term service contracts with many unknown factors, above all risk assessment and controlling take on an increasingly important role. Finally, when the twelve years are over we'd like to look back at a generally profitable business –

this means calculating and negotiating differently. Realizing such a goal involves a far better understanding of the customer's business than was previously the case. You have to be able to analyze and evaluate customer processes and especially know the behavioral mechanisms in each of the sales markets.

**How do you learn more about the customer's business?**

Beyond our everyday customer contact, we systematically try at MAN Roland to better understand our customers' strategic challenges, the trends manifest in their markets. We're thus for instance one of the five strategic partners in the International Association of Newspapers and support the project "Shaping the Future of the Newspaper" – not only financially but above all with substantive contributions. Another example is that together with the "European Web Offset Association" we've carried out a study of the desires and needs of buyers of printing articles. I should also mention that for years Gerd Finkbeiner, the chairman of the board at MAN Roland, has given a lecture series on the printing and media industry at a well-known university, thus already developing contacts with managers before they've begun their careers with potential clients.

**Doesn't that simply amount to sales networking?**

Naturally, contacts are used in this branch for sales activities. It's nevertheless important for us to be a competent interlocutor for our customers with regard to their own business. Allow me to offer an example: together with a German newspaper publisher we managed to print advertisements on transparent paper with standard newspaper-printing machines. No one had thought this was possible. Under the rubric "applied innovations," this new possibility was presented to various publishers and advertisers, which led to a large American newspaper group becoming interested in the innovation, then profitably selling and producing it to their advertising customers.

**What have been the lessons learned following initial experiences with service activities that have been new for your company?**

While the contractual arrangements were being made we were sometimes on completely new territory. Although I'm satisfied with the results I still think we might have gathered more input from other industries.

It certainly also makes sense to arrange as soon as possible for support in your own house: when something new is initiated, there are always skeptics in your own ranks. It's then a good idea to obtain a timely commitment from just those employees who will be affected by the innovations.

What's proved its worth was the agreement to keep everything relatively simple, despite its complexity: a variety of machine types with various operating times and service needs – and many unknown factors. Things which are too complicated won't be understood; things no one understands won't be accepted.



**But can't conflicts quickly emerge from points that aren't agreed on?**

When there's a bad relationship with the customer, conflicts develop even with the most detailed contract. When the relationship is marked by trust, these points can be solved between partners.

OLAF PLÖTNER | ROBERT E. SPEKMAN (EDS.)

# BRINGING TECHNOLOGY TO MARKET

“The book by Plötner and Spekman not only bridges the gap between technology and marketing, but also that between theory and practice. It is a must-read for B2B marketing scholars and practitioners.”

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