

# Listening to customers' packaging needs pays off

David Dering listened to his customers' needs for an alternative CD package to the jewel case, and developed a solution. Nearly 10 years later, approximately 750 million CShells have been produced worldwide. Tom O'Reilly reports

One of the unwritten rules of owning or running a successful company is listening to your customers. If enough customers are unhappy about a product or service, and you can offer a better solution, odds are, your company will flourish.

Dering is an example of a company that has succeeded in large part due to solving a problem for some of its customers. David Dering was already a successful executive in the media manufacturing industry in 1997. Dering got into the CD replication industry relatively early, founding American Helix in 1987. American Helix was the 15th CD replication facility in the US, and the first to automate the disc manufacturing process by developing the technology itself.

Dering eventually sold American Helix to the now-defunct Kao Infosystems in 1993, but Dering and many of his staff stayed on, helping Kao build replication facilities around the world.

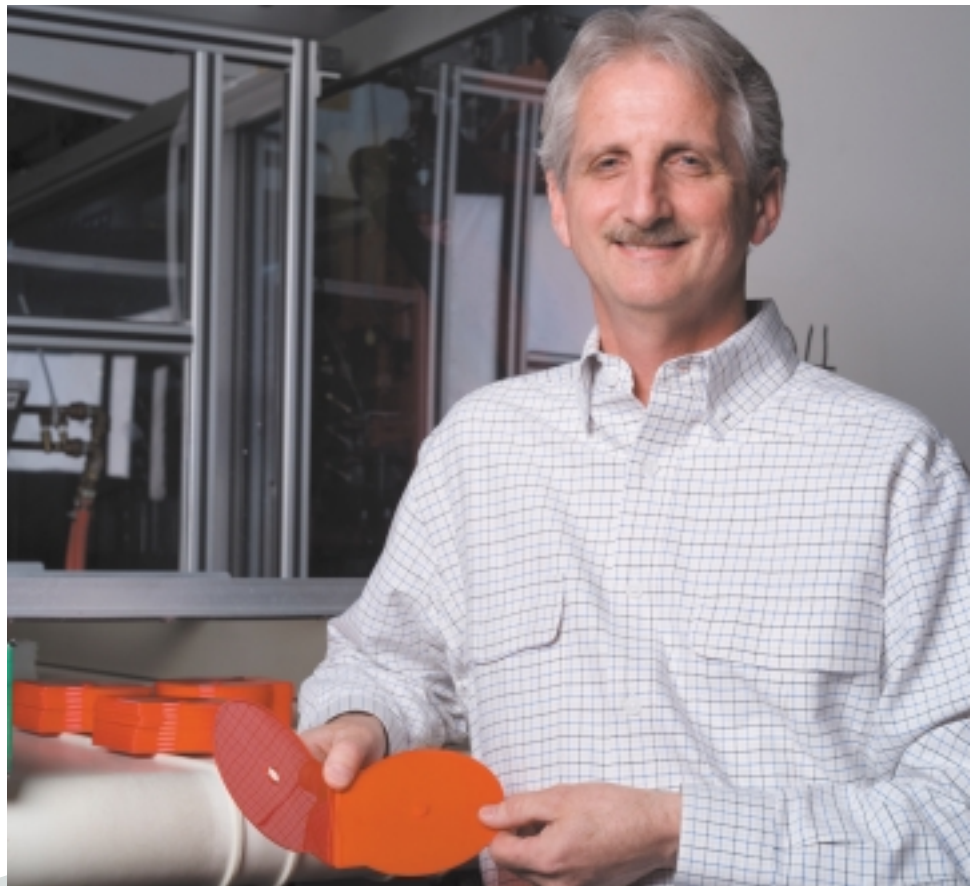
"We trained [Kao] how to make CDs," said Dering. Dering ended up buying back the Lancaster facility from Kao in 1997, and named it Dering Corporation. "The staff that started with me in 1987 is still pretty much with me."

Later that year, Dering set out to tackle a problem some of his customers had communicated to him about jewel boxes. In short, they had various concerns with jewel boxes, and were looking for an alternative disc packaging solution.

"One night, with a friend of mine, we started playing around," recalled Dering of how the CShell was born. Using a napkin, Dering came up with a rough prototype of what would eventually become the CShell. The keys to the CShell design were the living hinge, as well as using polypropylene rather than polystyrene. Polypropylene is softer than polystyrene, and much less likely to crack as so many jewel boxes are prone to do. "There was really only one material we could use," said Dering, adding that while polypropylene is not as transparent as styrene, it allows users to see through it well enough to read the artwork on the face of the disc.

"We did not take it seriously at first," continued Dering, of the new disc packaging concept. "We did not realise what we were making was a new type of packaging. We called it a 'CShell' because it kind of looked like a clam shell."

But content publishers started to take the CShell seriously. Dering initially marketed the



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CShell to Dering's customers. The breakthrough was the decision by one of Dering's replication customers – a major computer company – who chose to package all CDs going into its computer boxes in CShells in 1998. That was a key milestone in getting the CShell off the ground.

Dering then began to market the CShell to other potential customers in industry magazines and at trade shows. "It got legs," said Dering. "The first year, we sold maybe 100,000 units. Then it just started to take off. The biggest challenge was to keep up with the growth."

But Dering has managed to do just that. Nearly ten years later, approximately 750 million CShells have been sold worldwide.

Today, the CShell product line represents about half of Dering's revenue.

Dering continues to offer replication services, just as it did when it launched the CShell.

## Conveniently located

Dering is located in Lancaster, in southeast Pennsylvania. The region, also known as "Pennsylvania Dutch country", is a great place to distribute product from, as it is within 24 hours of 50% of the US population, according to Dering. It is also 30 minutes to Harrisburg airport, 90 minutes from Philadelphia and Baltimore airports, and 150 minutes from New York City and Washington DC. "It is really a great place to be," said Dering, adding that some notable corporations have distribution facilities in the Lancaster area. "It is a great place to raise a family. There is a very religious orientation."

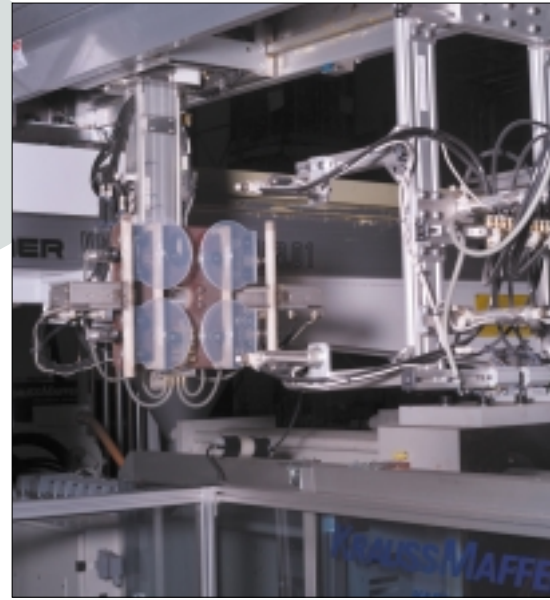
Dering is perhaps the only significant packaging company in the world to both manufacture its own packaging and replicate discs. The company has three CD lines, as well as related silk-screening and packaging equipment. And yes, Dering will insert discs into non-CShell packages for its customers, too.

But there is a significant difference in the way the two parts of Dering do business. Dering sells CShells to customers around the world, while the replication division focuses on a much more local, niche market of clients.

"Today, by design, we stay in the niche business," said Dering of the replication arm of the company. The company emphasises quality and service in its treatment of its small-to-mid-size business-to-business and audio customers. "A big run for us is 100,000 [units], and our average run is less than 10,000," said Dering. The majority of Dering's replication customers are located in the eastern United States.

Interestingly, Dering believes CShells drive their own demand at this stage. "Most replicators will not drive the sale because there is no automation," said Dering, noting that a replicator would prefer to sell whatever packaging product the company has automation equipment for. "CShell sales are driven by content publishers." Dering went down the road of automating CShells, but ultimately chose not to use the equipment because CShells are so easy to assemble manually.

Offering both packaging and replication puts the company in an interesting situation. On any given day, Dering may be competing against another replicator for a replication project, as well as selling that same replicator CShells. Dering believes the way his company does business is what allows it to play in both fields. While Dering's employees are taught to cross-sell – if a replication customer orders discs, they will certainly be asked if they want a



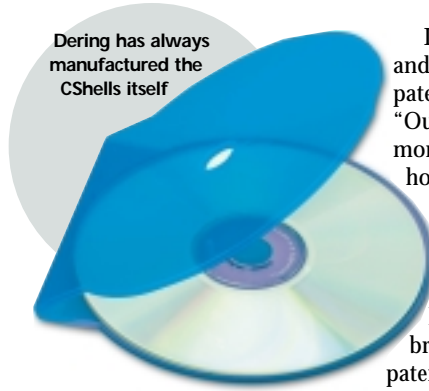
Dering's CShell line

CShell package to go with it – they are respectful of their replicator customers. "We would never knowingly try to take a customer away," Dering said. "We do not tie the two [CShell and CD] together. We are very, very careful not to do something like that."

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Dering has always manufactured the CShells itself



It is also both very expensive and time consuming to enforce patents, according to Dering. "Our CFO spends more and more of his time [on this], hours on the phone with the law firm," he said, adding that he relies on tips from industry friends as to companies selling CShell knockoffs. Dering has brought three or four major patent infringement cases to court – winning them all – as well as many smaller cases. But it is still "distracting and expensive," said Dering.

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Dering has always manufactured the CShells itself. An injection moulding expert from his days before the CD replication industry, Dering was comfortable making the CShells. The company also licences Michelex in the US and Golding Products in the UK to make CShells, and uses agents to sell CShells around the world as well. Dering also licenses a few companies in non-disc packaging related industries to use CShell patents, too.

Dering had grown the CShell umbrella along the way, with related products such as the BC (business card), MD (mini disc), SQ (binder) and DB (two discs). Two more CShell variations are currently in the prototype stage, including CScape, which Dering plans to launch in January. CScape offers full-color 2,500 dpi decoration on the outside of a classic CShell, and a black-and-white image on the inside. CScape is most cost effective for runs of 50,000 units or more, said Dering.

At the end of the day though, it is the original CShell that is still far and away the best seller. "The others are niche-oriented," said Dering. "None are as huge as the classic [CShell]."

### Patently speaking

One of the frustrations of creating an innovative new disc packaging product is trying to protect that product from being illegally "knocked off," or copied. "Patents are expensive to get," said Dering.

"It is very frustrating when people do not respect it. It is similar to anti-piracy. I have no right to infringe on someone else's content." Not surprisingly, Dering is certified in the International Recording Media Association's anti-piracy program.

### Will lightning strike twice?

While the disc replication market slowly declines, Dering believes that drop-off is only negatively affecting the standard jewel box and Amaray disc packages. "We are seeing everything else taking away from them," said Dering of the long-established CD and DVD packaging solutions. "They are being cut into smaller slices." Meanwhile, Dering sees the demand for unique disc packaging solutions on the rise, as customers look to different disc package offerings. "What is happened is custom styles are growing by leaps and bounds," explained Dering. "There are so many alternatives to the jewel box. People are looking for a way to differentiate their product. "They are looking for creative but inexpensive solutions. It is open game for those who can be creative."

Dering continues to push the envelope on potential new disc packaging concepts. "Can lightning strike twice?" he rhetorically asks with a laugh. "I spend nights trying to come up with something else."

Whether or not he finds another hit like the CShell, Dering says the industry has been good to him, particularly the packaging side. "I never thought I would be on the packaging side of the business," said Dering. "It is a tough industry, but it is a huge industry. You have to find ways to offer value." And Dering feels good about the balance of Dering in a fluctuating market. Selling both replication services as well as media packaging offers more stability than most other industry companies. ●