

SGIA Critical Trends Report: Commercial Printing

PIA Affiliates Luncheon

SGIA Expo 2018

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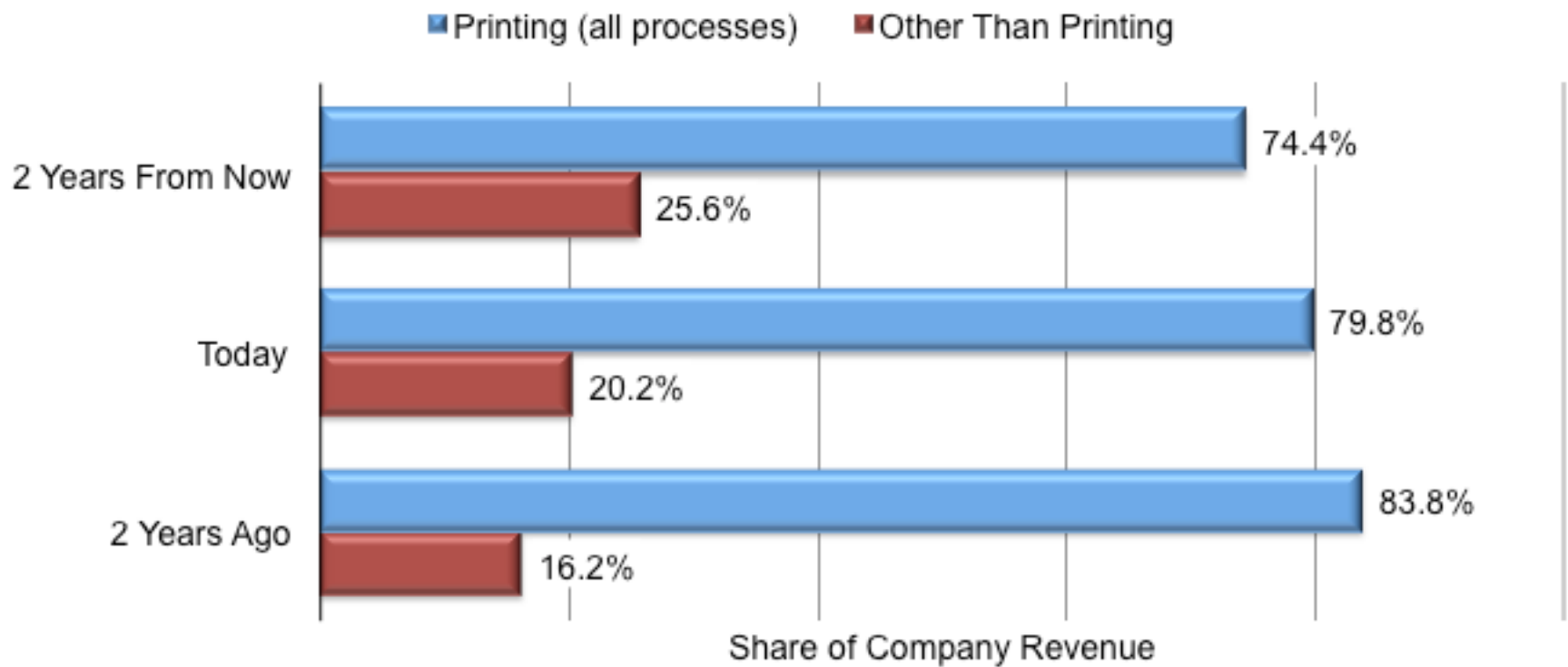
- **Section 1—Commercial Printing’s Changing Profile.** Topics such as “It’s About More Than Print,” and “Boundaries Breaking Down.”
- **Section 2—The Environment.** Trends in sales, profitability, expectations, and other key business indicators. What we can expect from the economy and what it will mean for commercial printing.
- **Section 3—How Client Needs are Changing and What the Changes Mean.**
- **Section 4—Creating and Maintaining Competitive Advantage.** Because that’s what we have to do in the increasingly competitive, complex commercial printing industry.

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- **Section 5—Thinking Big.** Thinking beyond how print is manufactured to how print powers communication, particularly personalized, integrated, interactive/mobile communication.
- **Section 6—Best in Business Intelligence: The How-To**
 - Drawn from sources such as *Harvard Business Review*, *Bain*, and *Forbes*.
 - Evaluating what's happening and what's ahead isn't enough. Must also evaluate how to make what's happening and what's ahead an **opportunity rather than a threat**.
 - SGIA's goal: Create actionable research that goes beyond what to do to how to do it.

It's Increasingly About More Than Printing

SGIA Commercial Printing Panel members expect something other than printing to provide, on average, 25.6% of their revenue by 2020.



It's About More Than Printing

- The degree of diversification beyond print varies widely from company to company. **One-fifth of the companies we survey still get at least 90.0% of revenue from print and don't expect that to change. More than a few are making it work.**
- But the trend toward **print-and** is clear. As is the reason for the trend:

“Our industry continues to evolve and it is not just a print business anymore. It is about communications and how we can best help clients communicate their message. If we help them get noticed we help them get business—that is what they are really paying us for!”

SGIA Commercial Printing Panel member

Boundaries Breaking Down

Conventional definitions of what a commercial printing company is and does are increasingly irrelevant.

How SGIA Commercial Printing Panel members define themselves.

Single Company Type: 52.6% Combination of Types: 47.4%

Company Type	Included in Definition	Strictly
General Commercial Printer	72.7%	34.0%
Niche/Specialty Printer	20.6%	5.3%
Quick Printer	21.1%	6.7%
Marketing Services Provider	20.1%	2.4%
Mailing Services Provider	42.6%	3.3%
Fulfillment Services Provider	28.2%	0.0%
Other	9.1%	1.0%

The Environment

“The commercial printing segment is getting a boost from the economy. But cost inflation, driven by tight labor and paper markets, is pressuring margins even as sales grow and prices firm. Expect both trends to continue over the next 12 months. And to everyone participating in the upturn, remember this: **Let cost control and productivity slip even a little as you get busier and growth will never make it from the top line to the bottom line.**”

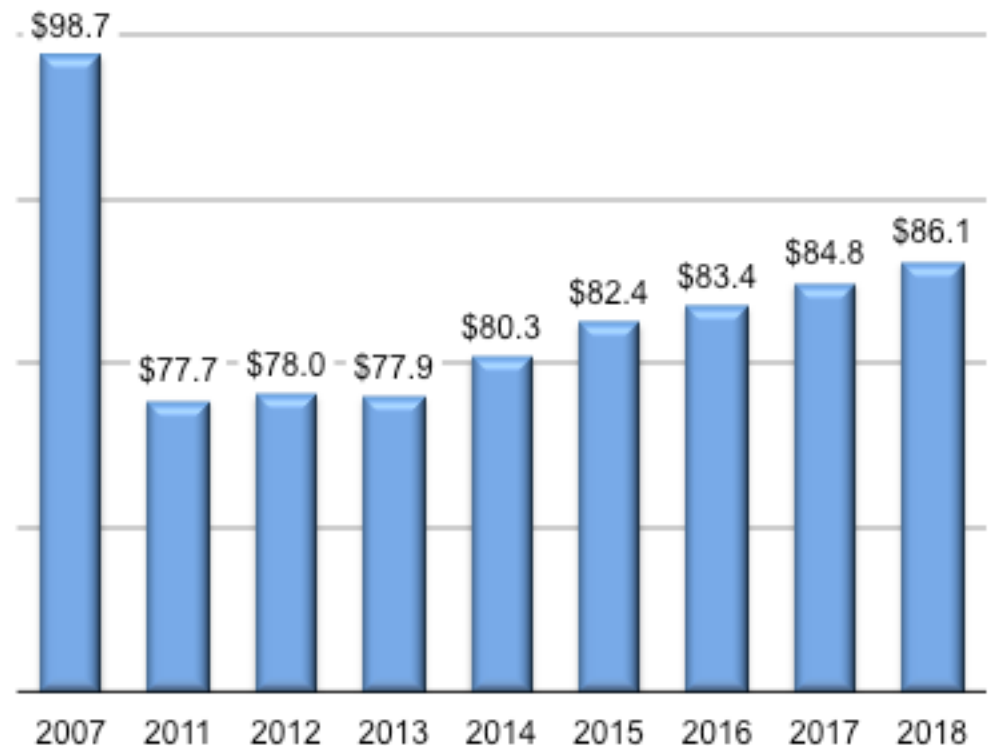
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Modest Growth Continues

- **Commercial printing segment sales (all sources) increased 1.5%** during the first half of 2018, after growing 1.7% during same period a year ago, according to SGIA estimates.
- **Lifts sales to \$86.1 billion, 10.4% greater than the 2011 low** but still 13.6% less than the 2007 pre-Great Recession levels.

Commercial Printing Sales

All sources, in billions, for first half of year indicated.
SGIA estimates.

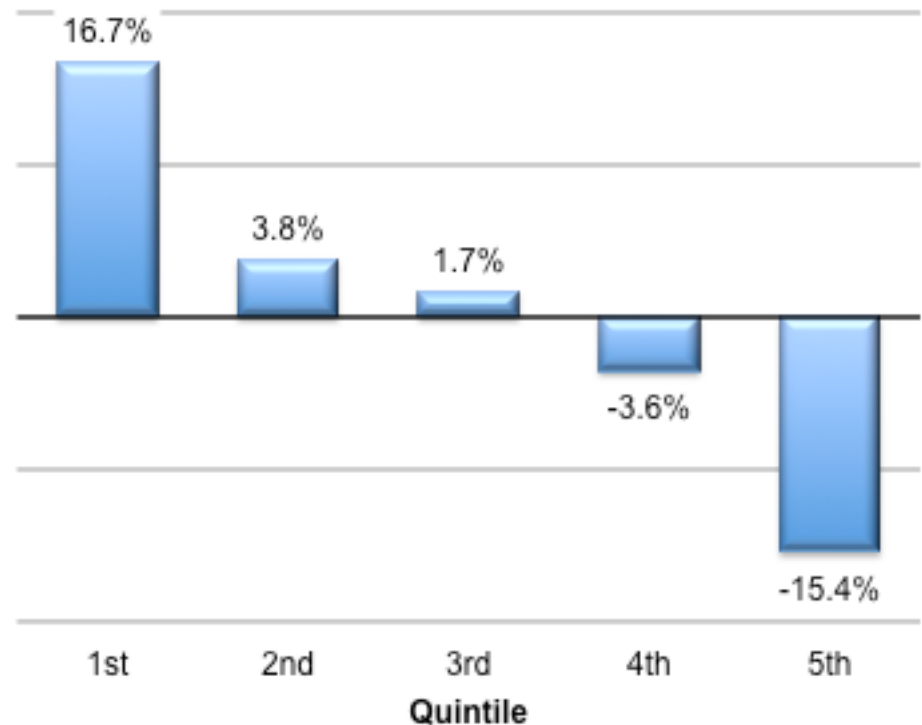


Results Vary Widely

- Sales up an average of 16.7% for the top fifth of panel and down an average of 15.4% for the bottom fifth.
- Segment results say nothing about an individual company's performance.
- Difference is not company size or equipment configuration but who adapts best to the forces redefining communication and print's role in supporting communication.

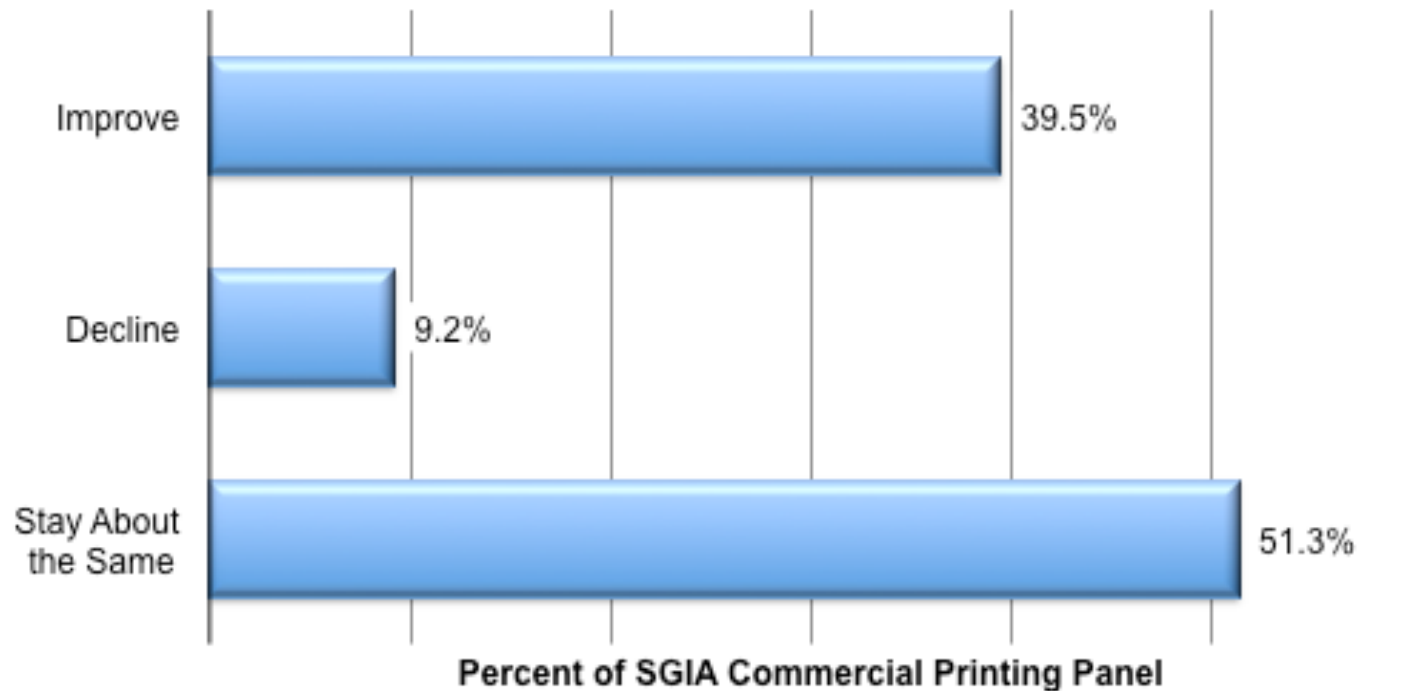
Sales by Quintile: 1st Half 2018

Figures are for SGIA Commercial Printing Panel.



Mood Positive, Overall

Nearly 40.0% of the SGIA Commercial Printing Panel expect overall business conditions to improve in the coming 6 months while 9.2% expect the opposite.



Profitability Under Pressure

- 36.0% of the SGIA Commercial Printing Panel are more profitable than a year ago **but 42.7% are less profitable.**
- Rising paper prices/supply shortages most frequently cited obstacle to greater profitability.
- 92.1% list at least two obstacles to being more profitable and 69.7% at least three.

Biggest Obstacles to Profitability

Figures are for SGIA Commercial Printing Panel.

Obstacle	Citing
Rising paper prices/supply shortages	61.8%
Lack of sales/excess capacity	53.9%
Rising healthcare benefits	52.6%
Rising wages	46.1%
Labor shortages forcing us to hire less skilled, less productive personnel	35.5%
Workflow inefficiencies	30.3%
Increased tariffs	17.1%
Slow delivery of key materials/supplies	11.8%
Older, slower, less productive equipment	10.5%

The Economy

- As always, there are forces pulling the economy up and forces pulling it down. The relative strength of the two is what matters.
- **Forces pulling economy up**, such as robust capital investment, labor markets, consumer confidence, and corporate profits, **are likely to remain stronger than forces pulling economy down**, such as accelerating inflation and rising interest rates, again in 2019.

Modest Growth Expected to Continue in 2019

- SGIA expects a robust economy to help commercial printing segment sales (all sources) grow another 2.0%–2.5% next year, after growing 1.5%–2.0% this year.
- **Not everyone agrees.** Among the warnings from the SGIA Commercial Printing Panel:
 - “Massive paper increases are going to slam on the brakes industry-wide in 2019.”
 - “Fasten your seat belts. Recession and flat economic conditions are likely.”
 - “Interest rates are rising and we are likely to have some form of recession by late 2019.”

How Client Needs Are Changing

Clients increasingly require:

- Faster turn times and shorter, more targeted runs.
- Broader range of services, **which equals more moving parts and more complexity.**
- Special finishing and creative design to create print that stands out.
- Help maximizing the ROI of their communications dollar.

What the Changes Mean

Must be able to:

- **Pull more together**—from databases to support personalization to distinctive direct mail to multimedia communications programs—**quickly and while minimizing the friction all those moving parts create**. Increasing the challenge: shortages of paper and skilled, productive personnel.
- **Maximize efficiency** by automating, smoothing workflow, minimizing steps and touches, eliminating processes and procedures that do not add value, and more efficient purchase and inventory of essential materials and supplies.
- **Show clients exactly how much value we create for them** because they want more and faster but aren't always willing to pay for it.

Representative Comments

- “Print is commanding less of the spending pie. Adding more non-print services and emphasizing direct mail. **Offering marketing methodologies versus selling print — e.g., lost client reactivation, client retention strategies.**”
- “More customers want print on demand. They want branded storefronts and for us to inventory their print. **Also the demand for high-end print is increasing. Special coatings such as soft touch and reticulated are very easy to sell.** We’ve added two new presses in the last three years which are printing far superior work in much less time than the older presses we took out. **The ‘wow’ factor is really high.**”
- “Less expertise in print creates opportunity for us to be the guide as we work with clients on print-based marketing campaigns. Faster turn times are the norm. **Dedicated support teams for each value stream allow us to improve overall customer experience — i.e., deeper expertise and fewer handoffs equals greater efficiency and more ownership of projects.**”

Creating and Maintaining Competitive Advantage: Necessary, Not Just Nice

“We have to distinguish ourselves from the competition. Not only long-standing competitors but also the new breed who will be coming at us as boundaries continue to break down. That means establishing and maintaining a competitive advantage or, equivalently, the ‘sticky’ relationships that keep clients in/make it painful for them to leave by delivering value they can’t easily get elsewhere.”

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Creating and Maintaining Competitive Advantage: Expert How-To Advice

Guidance on creating competitive advantage/sticky client relationships from:

- *Creating Competitive Advantage*, Jaynie Smith.
- “Why Satisfied Customers Defect,” Thomas O. Jones and W. Earl Sasser, Jr., hbr.org.
- *Outside In, The Power of Putting Customers at the Center of Your Business*, Harley Manning and Kerry Bodine.

Thinking Big

“The future is about thinking big. That is, thinking beyond how print is manufactured to how print powers communication—particularly personalized, integrated, interactive/mobile communication.”

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Thinking Big: What We Asked

- Which revenue sources do you expect to grow fastest over the next 2-3 years?
- Are clients moving back to print?
- Are non-print services helping you capture more printing? If they are, which services?
- What's your take on personalization, integration, and interactive/mobile? Where, if at all, do they fit in your plans?

Thinking Big: Personalization

Defined as: Targeting the message and content to specific groups or individuals, not simply mail merging names and addresses on form letters.

Response	Citing
Already an important part of our business and expect it to increase in importance. "We're all in."	49.5%
We've gotten started. Not yet sure how far we'll take it. "Jury still out."	24.3%
Not in yet. But were thinking about it/researching it.	13.1%
Not currently a part of our business and do not expect it to be. Does not appear to be a fit for us.	7.5%
Uncertain	5.6%

Thinking Big: Integration

Defined as: Combining print and electronic media to create the most effective communications programs for clients, a multimedia/cross-media approach.

Response	Citing
Already an important part of our business and expect it to increase in importance. "We're all in."	25.2%
We've gotten started. Not yet sure how far we'll take it. "Jury still out."	26.2%
Not in yet. But were thinking about it/researching it.	24.3%
Not currently a part of our business and do not expect it to be. Does not appear to be a fit for us.	17.8%
Uncertain	6.5%

Thinking Big: Interactive/Mobile

Defined as: Embedding augmented reality markers in print that, when read by a smartphone or other detection device, link to related on-line videos, content, graphics, offers, and other resources.

Response	Citing
Already an important part of our business and expect it to increase in importance. "We're all in."	2.9%
We've gotten started. Not yet sure how far we'll take it. "Jury still out."	17.1%
Not in yet. But were thinking about it/researching it.	40.0%
Not currently a part of our business and do not expect it to be. Does not appear to be a fit for us.	32.4%
Uncertain	7.6%

Thinking Big: The Bottom Line

- **Should be thinking carefully about all three.**
- **Should not dismiss them** because they are affecting communication and everything that affects communication eventually affects print.
- **Should not jump right in**—no matter how much buzz they are creating or how well others are doing with them—because of the challenges and complexities they carry.

Thinking Big Means Thinking Carefully

Should be asking questions such as:

- How important is the service to our clients and prospects? Is it a must-have or nice but not essential? Can we prove it is a must-have?
- What's really necessary to offer it profitably?
- How will we price the service? Even if clients are interested, will they pay for it?
- How will we market and sell the service?
- Do we have the personnel to offer it profitably? If not, where do we get them?
- Do we try it on our own? Or do we partner with an expert until we get to critical mass and high enough on the learning curve?

Thinking Big: The Bottom Line

When we base our decision on honest, thorough answers to those questions:

- **We can be confident that we are neither missing an opportunity nor chasing something that, given our resources, capabilities, and goals, will never be one.**
- We avoid the trap described so well by one member of the SGIA Commercial Printing Panel:

“There’s too much emphasis on selling non-print products. Why not hot-dogs? This will cause many firms to unravel.”

The Best in Business Intelligence: The How-To

- *SGIA Critical Trends Report: Commercial Printing* draws on sources such as *Harvard Business Review*, *Bain* and *Forbes* for “**best in business intelligence**” guidance in making what’s happening and what’s ahead an **opportunity rather than a threat**.
- Our goal: **Create actionable research that goes beyond what to do and why to how to do it.**

In the Current Report

- **Getting Make-or-Break Change Right.** Source: *Leading Change*, John Kotter, Professor Emeritus, Harvard Business School.
- **Freedom Within a Framework.** Creating engaged employees who are eager to find a better way for our clients, our company, and their co-workers. Source: “Structure That’s Not Stifling,” Ranjay Gulati, hbr.org.
- **Make Strategic Planning Simple and Effective.** Source: “The Big Lie of Strategic Planning,” Roger L. Martin, hbr.org.
- **Building Employee Engagement.** Sources: “5 Powerful Steps To Improve Employee Engagement,” Brent Gleeson, www.forbes.com, and “Coach to Your Team’s Strengths to Improve Employee Engagement,” Mark Tarallo, www.shrm.com.
- **Calculate Your eNPS® (Employee Net Promoter Score).** Sources: “The Employee Net Promoter System,” www.netpromotrsystem.com, and “Employee Net Promoter Score, The Complete Guide,” www.officevibe.com.

Thanks!

- For attending Expo and for supporting PRINTING United 2019.
- For a copy of presentation contact me at apaparozzi@sgia.org, 347-991-3391.
- Access these valuable SGIA research reports, produced by **Olga Dorokhina**, SGIA Research Coordinator, [**olga@sgia.org**](mailto:olga@sgia.org).
 - 2018 SGIA Industry Benchmarking Report, Commercial Printing Community
 - 2018 SGIA Industry Benchmarking Report, Graphics & Sign Community
 - 2018 SGIA Industry Benchmarking Report, Garment Decoration Community
 - SGIA Wage, Salary, and Sales Compensation Report