

# SGIA Critical Trends Report: Commercial Printing Winter 2019 | Executive Summary



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## Introduction

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A lot is happening in commercial printing. There's the overall business climate and its effect on sales, profitability and confidence; the changing composition of revenue between print and non-print services and within print between offset, toner-based digital, inkjet and wide-format; how client needs are changing and how those changes are being addressed; and a host of issues related to personalization, integration and interactive/mobile.

The "SGIA Critical Trends Report: Commercial Printing" covers those topics and others of equal importance. The report complements the "2018 SGIA Industry Benchmarking Report, Commercial Printing Community" conducted last year. Together they provide a comprehensive evaluation of the trends that define the commercial printing segment's performance and prospects and how to make those trends an opportunity rather than a threat — because they can be either.

## Commercial Printing's Changing Profile

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- **It's increasingly about more than printing.** Members of the SGIA Commercial Printing Panel expect, on average, something other than printing to provide 25.6% of their revenue by 2020, up from 20.2% today and 16.2% two years ago. Representative explanations why:
  - o "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!"
  - o "Our customers' needs continue to change, and we need to change with them. It is not just about how well we can print but how well we can help them communicate their message — in a variety of ways."
- **Boundaries between who does what are breaking down.** More than 47.0% of the panel define themselves as a combination of company types, with 42.9% of that group including provider of mailing services, 28.6% provider of fulfillment services, and 21.2% provider of marketing services in their definition.

## Current Conditions

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- **Modest growth continues. Results vary widely from company to company.** Commercial printing segment sales (all sources) increased 1.8% during 2018, according to SGIA estimates. Sales now total \$85.4 billion, 11.0% greater than the 2011 low but still 13.2% less than the 2007 pre-Great Recession levels. On average, sales were up 16.7% for the top fifth of companies surveyed and down 15.2% for the bottom fifth, confirming that segment-wide results say nothing about an individual company's performance and prospects.
- **Prices are firming. Overall mood is positive. But cost inflation, driven by tight labor and paper markets, is pressuring profitability.** Among the specifics for the Commercial Printing Panel:
  - o Prices are above year-ago levels for 66.7%, unchanged for 29.3%, and lower for just 4.0%.
  - o Nearly 36.0% expect business conditions to improve during six months ahead, four times the 9.2% who expect conditions to deteriorate.
  - o Pre-tax profitability is up from a year ago for 36.0%, but down for 42.7%.
  - o Rising paper prices, cited by 61.8%, tops the list of obstacles to greater profitability. A lack of sales/excess capacity (53.9%), rising healthcare benefits (52.6%), rising wages (46.1%), and labor shortages that force the hiring of less skilled personnel (35.5%) follow. Higher tariffs are dampening profitability for 17.1%.

## The Forecast

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- **Continued growth likely, with help from the economy.** In 2019 the forces pulling the American economy up, such as robust business investment in equipment and software, are again likely to be stronger than the forces pulling it down, such as rising interest rates and energy prices. That will help commercial printing segment sales (all sources) grow 1.5% – 2.5% this year.
- **Still not enough work to go around.** Between 2006 and 2016 revenue from lithographic printing declined by triple the increase in digital printing, according to the U.S. Department of Commerce, as the internet

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and digitization redefined communication. Even a healthy economy and a more than 20% reduction in the number of commercial printing establishments can't easily compensate for that kind of hit. The result: Growth and profitability continue to be limited and competition intense across commercial printing.

## How Client Needs Are Changing and What It Means

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- **Clients increasingly require:**
  - Faster turn times and shorter, more targeted runs
  - Broader range of services
  - Special finishing and creative design to create print that stands out
  - Help maximizing the return on their communications dollar
- **That means:**
  - Quickly pulling more together, from databases to support personalization to standout direct mail to multimedia communications programs, while minimizing the friction all those moving parts create. Increasing the challenge: shortages of paper and skilled, productive personnel.
  - Maximizing 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.
  - Showing clients exactly how much value we have created for them because they want more and faster but aren't always willing to pay for it.
  - Profitably pricing services added, whether individually or as part of a marketing/communications package.
  - Deciding how much to do inside and how much to outsource.
- **Representative comments:**
  - "Turn time is getting shorter. We are seeing one or two days and, several times a week, same-day ... Automation is key. We have just put in a workflow for the prepress to press. This is helping fix files and cue them up for the press. We need to find a way to marry our MIS with

the workflow to help offload the paperwork and find a way to gang bill one month of projects for a client. Maybe we need to get out of our own way — to just change our systems. It is hard to let go of the things we know."

- "Print continues to be refocused more to campaigns, meetings and special occasions that require print only being part of the overall process. Shorter and shorter runs and the runs are more specific to events. We went total digital."
- "More customers want print on demand. They want branded storefronts and for us to inventory their print and sometimes other stuff. 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."
- "Print is commanding less of the spending pie throughout market segments. Adding more non-print services and emphasizing direct mail. Offering marketing methodologies versus selling print — e.g., lost client reactivation, client retention strategies."
- "Less expertise on print in general 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

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- "Sticky" relationships that make it painful for clients to leave by delivering value they can't easily get elsewhere are essential in the increasingly competitive, complex commercial printing segment.
- Ask commercial printers how they create value and their responses will include fundamentals such as fast turn times, responsiveness to client requests, product quality, and customer service; customized portals; being a one-stop resource; anchor services (something other than one-off, transaction-based,

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commodity printing); and becoming part of the client's marketing/communications department.

- Among the guides to building and maintaining competitive advantage: "Creating Competitive Advantage," Jaynie Smith; "Why Satisfied Customers Defect," Thomas O. Jones and W. Earl Sasser; and "Outside In, The Power of Putting Customers at the Center of Your Business," Harley Manning and Kerry Bodine.

## Thinking Big

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- **The future is about thinking big**, or beyond how print is manufactured to how print powers communication. Among the ways SGIA Commercial Printing Panel members are thinking about the future:
  - **Personalization.** Defined as targeting the message and content to specific groups or individuals, not simply mail merging names and addresses on form letters. More than 49.0% are all in, and another 24.3% have gotten started but aren't sure how far they will take it. The difficulty of managing and securing advanced databases and ensuring accurate personalization are obstacles for many.
  - **Integration of print and electronic media.** Defined as combining print and electronic media to create most effective communications programs for clients, or a multimedia/cross-media approach. More than 50.0% are either all in (25.2%) or have gotten started (26.2%). Despite the hoopla, not everyone is rushing in: 24.3% are thinking about it, and 17.8% plan to stay focused on printing.
  - **Interactive/mobile.** Defined as embedding augmented reality markers in print that, when read by a smartphone or other detection device, link to related online videos, content, graphics, offers and other resources. Only 17.1% have gotten started, little more than half the 32.4% who do not include interactive/mobile in their plans, and 40.0% are thinking about it.

## Best in Business Intelligence

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- Evaluating what's happening and what's ahead isn't enough. We also have to evaluate how to make what's happening and what's ahead an opportunity rather than a threat.
- The "SGIA Critical Trends Report: Commercial Printing" draws on sources such as Harvard Business Review, Bain and Forbes for "best in business intelligence" answers to "What do I do? And how do I do it?"
- Actions covered:
  - Get Make-or-Break Change Right
  - Freedom Within a Framework
  - Make Strategic Planning Simple and Effective
  - Build Employee Engagement
  - Calculate Your eNPS®

## Next Steps

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The complete "SGIA Critical Trends Report: Commercial Printing" will be available next month at [sgia.org](http://sgia.org). Questions or comments? Please contact Andy Paparozzi, Chief Economist, SGIA, [apaparozzi@sgia.org](mailto:apaparozzi@sgia.org), 347.991.3391.