

drupa

Global Trends



Executive Summary

Welcome to the Executive Summary of the drupa Global Trends report, the first of a series of reports that will track key economic and market developments in the global print industry over the period leading to drupa 2016. The 35 page report with full figures and graphs is available separately, from www.drupa.de/2131.

This first report sets the scene and will be followed by "drupa Global Insights," that will study for the first time the trends and major changes in the international print and media sector at both global and regional levels.

Messe Düsseldorf, in its role as drupa organiser, has appointed two independent consulting and market research companies Printfuture (UK) and Wissler & Partner (Switzerland) to conduct these two report series.

In the last three months of 2013 we asked printing and print-related companies worldwide about their current activities and feelings about the future. A total of 2425 senior decision makers in print and related industries took part and answered the extensive questionnaire - specifically 1419 printers, 498 suppliers and 508 print purchasers.

There was a good global coverage with all regions well represented. The majority (58%) came from print services providers, followed by suppliers (21%) and print purchasers (21%).

In the economic part of the survey we tracked a cross section of printers, suppliers and print purchasers to see how their businesses were standing up to the current economic turbulence and uncertainty. Then in the markets part of the survey we asked the printer participants to comment on how the radical changes in these markets were impacting on them.

Our grateful thanks go to the respondents for taking the time to participate in this survey.

The drupa team

drupa Global Trends February 2014



Revenues are up, profits are down and cost increases are hurting

During 2013, 45% of the insight respondents grew their revenues, but 21% experienced revenue declines.

Across the printer, supplier and purchaser communities achieving any price increases for their products remains a major challenge. Only 19% of respondents managed to increase their prices, while 35% saw a decline in pricing. In the developed regions companies are largely absorbing raw material price increases and rising overhead costs. This combination of negative factors along with a stagnant economy has damaged growth prospects and bottom line results of the majority of companies. Hence although 45% of companies had grown their revenue, 42% had seen a decline in margins and only 19% had managed to grow profitability.

Financial impacts are a mixed bag

The global trends survey measured the impact of a range of financial measures on the global print community. For 60% of companies in the print supply chain, availability of credit remained unchanged in the last 12 months, but 17% feel that access to credit has tightened.

The level of bank lending remained unchanged for 61% of the print industry. Suppliers have been worst hit by the squeeze on lending, a reflection of the tough trading conditions and economic challenges facing the printers. So 27% of suppliers themselves have seen the cost of lending increase against an industry average of 20%.

Cash flow is a major issue for all companies, so keeping debtor days to an absolute minimum is a critical task. For 58% of the market, debtor days remained unchanged and 11% thought payments had improved against 26% who thought that debt recovery had got worse. Once again the suppliers were hit the hardest with 32% declaring that debtor days had increased.

Yet print in the trenches is coping

Given the demanding economic conditions and rapidly changing market dynamics facing global print in 2013, the overall picture of operational issues is surprisingly upbeat. Most companies have experienced growth of conventional print volumes in the last year (eg 29% reported more sheetfed offset volume whilst only 16% reported a decline), as well as a strengthening of demand for digital print production (eg 33% reported more digital cutsheet volume whilst only 3% reported a decline).

Printers in every global region are experiencing radical changes in the mix of digital and conventional print as the combination of economic conditions and changing patterns of demand take effect. 45% reported reducing run lengths and shorter lead times, whilst just 16% stated that run lengths were increasing and only 10% that lead times were increasing. At the same time the number of print jobs is climbing (52% reported an increase and just 17% a decline). However the results vary significantly region by region.

Somewhat surprisingly, there were very few respondents in any region reporting major declines in print volume. What appears to be happening is that as print volumes decrease, prices drop, followed by the consolidation of printing companies by merger. The remaining printers have to work even harder to print more and more in an attempt to keep revenues in line with overheads.

The print technology mix is changing

The survey shows the growing importance of digital print; 65% of all printer respondents globally have digital print production and 5% are digital only printers. 85% of all commercial printers worldwide have digital print and 31% of those state that 25% or more of their turnover is digital print. In comparison 38% of publishing printers (i.e. printers who work for publishers) and 57% of packaging printers have no digital print capability; a reflection of more conventional business models that demand more traditional print formats and longer print runs. Digital print has yet to have a significant impact on primary packaging, with the exception of label production where its use is much more widespread.

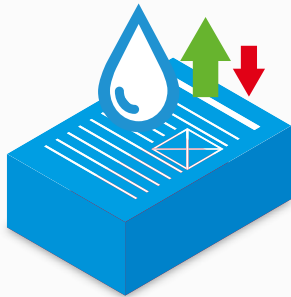
Despite the decisive impact of digital print in the commercial market, it may be reassuring for most printers to know that much of that growth is not at the cost of conventional print production, as 57% of commercial printers worldwide reported that digital production had taken away either nothing or less than 10% of their conventional print turnover.

Globally there are three added value services that have seen widespread adoption by commercial printers: variable data print, creative design and stock, storage and fulfilment. Wide format print is also commonplace and nearly one third have installed web to print services. However, regional variations are striking, as evidenced by the wide adoption of a variety of different services by North American commercial printers compared with the much more patchy adoption in the majority of other regions.

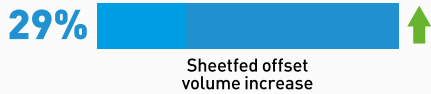
Operational Trends February 2014

Given poor economic conditions and major market changes driven by digital communications, remarkably strong operational performance was reported by printers for the last year, though prices and margins remain under severe attack.

Print Volumes



Conventional



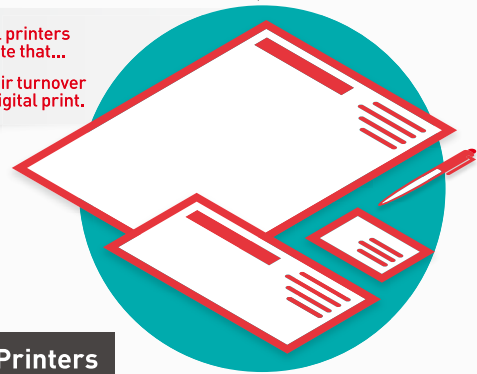
Digital



Digital Print

Commercial Printers
85% have digital print

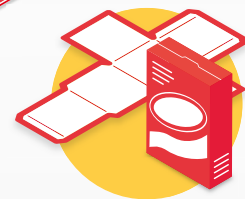
31% of commercial printers worldwide state that...
25% or more of their turnover comes from digital print.



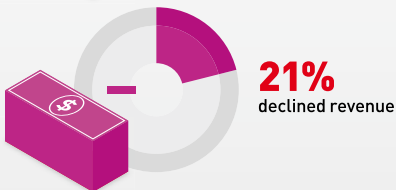
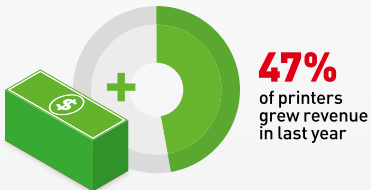
Publishing Printers
62% have digital print



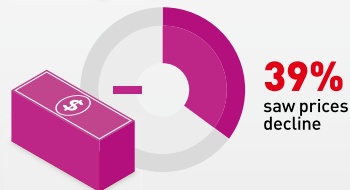
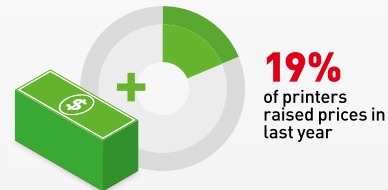
Packaging Printers
43% have digital print



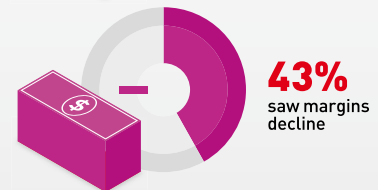
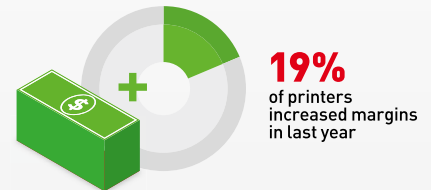
Revenue



Prices



Margins



Business growth is a major challenge

Achieving business growth in a declining and rapidly changing market is a significant challenge, especially against a background of strong competition and economic constraints. Couple this with the printer's traditional blind spot for sales and marketing and there are major challenges establishing a platform for growth.

When printers were asked about the top two constraints to growing their business in 2013, the overall results indicated very clearly that strong competition at 57% and lack of sales at 39% were the major problems. Even though we have seen a significant decline in the number of print companies over the last five years, it appears that there is still strong downward price pressure and either overcapacity or the wrong capacity in the industry to meet current demand.

Perhaps surprisingly print company employment continues to climb; 34% reporting an increase versus just 24% a decline whilst 21% of printers reported that an inability to recruit the new skills they require as a key constraint on growing their business. With most print companies containing an ageing staff profile and the industry widely being perceived as a traditional sunset industry (in decline faced with online and other digital media), recruiting a new breed of digital natives that can bring new energy in general and IT skills in particular, is likely to remain a significant challenge.

Finding new customers is the number one sales problem

60% of all the respondents across almost all regions thought that finding new customers was the biggest challenge. For 38% the second biggest constraint to growing sales is finding good sales staff. In developed markets like North America and Australasia where the transition to digital print and media services is far more advanced, finding a new breed of sales person who can sell these services effectively is a major challenge.

Investment drivers are about efficiency and new services

When we asked the principal reasons for capital investment across commercial print, packaging and publishing companies, raising efficiency comes out top in every category, particularly in developed regions. In general terms, print companies appear to be choosing between consolidation and growth of offset capacity dependent on their regional market conditions; whilst there is widespread expansion of digital print capability supported by more automated workflows. However there are some striking differences between the three primary print market sectors.

The next most important reason to invest for commercial and publishing printers is to offer a range of new services to their clients. This is given a much higher priority in the developing regions. In the packaging sector, which still enjoys consistent global growth, the opportunity is to invest in additional production capacity and less about adding additional services.

In what are printers investing?

The print industry has always had primary concern with products and equipment over customer focus and commercial outcomes. So it is not surprising that across all print companies in every region and market sector the number one investment priority is print technology at 52%, followed by finishing equipment at 49% and prepress/workflow/MIS at 41%.

Respondents were asked which print technologies did they plan to invest in over the next twelve months? For the commercial printers across every region, digital cutsheet colour was the number one choice with an average response of 38%. For publishing printers digital cutsheet colour was at 32% globally. Packaging was different and flexo was the first choice at 34%.

A clear second choice for investment across all three primary print markets was sheetfed offset with an average of 29%, although there were some regional variations. The third most popular choice of print investment for commercial and publishing print was digital rollfed inkjet and gravure for packaging.

A focus on workflow and MIS is an indication of the high priority given to cost reduction and efficiency improvement in all sectors. Web to print software is a consistent area for investment across all regions, demonstrating the importance of e-commerce capability and the necessity to attract new customers online. IT infrastructure is also attracting considerable investment as print businesses around the globe become driven by IT.

Indications are that overall global investment in the print industry during 2014 will be strong as economic conditions are picking up and confidence is slowly returning. North America is leading the way, gearing up for major transformation with high levels of investment in printing technology, IT and new services. It is clear that other regions like Australia/Oceania are ready for structural change and print companies are looking to differentiate themselves and reinvent their business models. In the developing economies there is still opportunity to increase capacity, but also a growing realisation that printers must invest for the future, add new services and avoid the commoditisation trap.

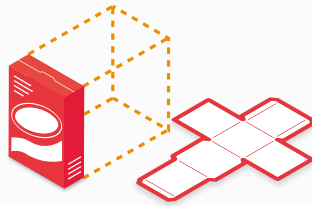
Investment Trends February 2014

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The top 3 Investment Drivers



Production Efficiency

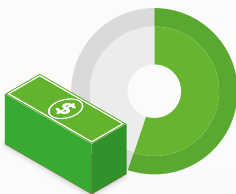


Additional Capacity
for packaging printers

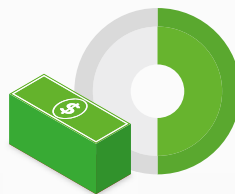


New Added Value Services
for commercial & publishing printers

Investment Plans



55%
Print technology



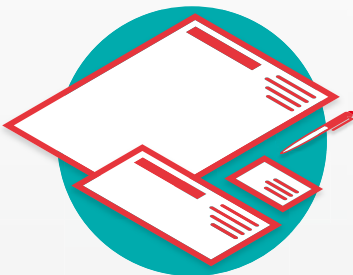
50%
Finishing Equipment



41%
Prepress/
workflow/MIS

Print Technology Investments

Commercial Printers



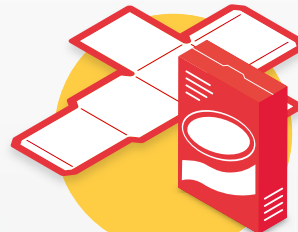
38%
Digital cutsheet colour
(First choice)

Publishing Printers



32%
Digital cutsheet colour
(First choice)

Packaging Printers



34%
Flexo
(First choice)

All Printers



29%
Sheetfed offset
(Second choice)

The Global Economy

It is important that we do not assess the print industry and its current performance in isolation to the wider global economic conditions which impact raw material prices, fixed costs, export opportunities as well as influencing corporate and consumer demand.

The global macroeconomic trends

Despite improved global financial conditions and reduced short-term risks, the world economy continues to develop at a subdued pace. After a marked downturn in 2011 and 2012, global economic activity is expected to slowly gain momentum in the second half of 2013. Most world regions are likely to see a moderate strengthening, but growth will still remain below potential.

According to the IMF's world economic outlook, global growth forecast is an average 2.9% in 2013, below the 3.2% recorded in 2012, rising to 3.6% in 2014. Much of the growth acceleration is likely to be driven by advanced economies. Growth in major emerging markets, although still strong, is expected to be weaker than predicted, partly due to a natural cooling in growth and bottlenecks in infrastructure, labour markets, and investment.

Developed economies stabilise

During 2013, new policy initiatives in major developed economies have reduced systemic risks and helped stabilise consumer, business and investor confidence, but with very limited impacts on growth. In the Euro zone some economies are being held back by austerity programs, weak bank lending and continued uncertainty, and only a very gradual recovery is expected as these factors diminish.

In the USA, growth is expected to rise from 1.5% in 2013 to 2.5% in 2014. While private sector demand is projected to gradually strengthen,

the automatic spending cuts and uncertainties associated with budget issues will continue to have an effect on consumer confidence. In Japan, the bold expansionary policy actions are expected to provide some support for economic activity in the short run but growth will lower from 2% in 2013 to 1.25% in 2014.

Economies in transition register growth

Developing countries and economies in transition continue to register much stronger growth than developed economies. Overall, growth in emerging markets and developing economies is expected to remain strong at 4.5%-5% in 2013-14, supported by solid domestic demand, recovering exports, and supportive fiscal, monetary and financial conditions. Potential growth in many developing countries is likely lower than before the global financial crisis; China, for example, is expected to have shifted to a lower but more sustainable and balanced growth trajectory.

Labour markets: more pain in store

The employment situation remains a key challenge in a large number of economies, as the world economy continues to expand well below its potential. Among developed countries, unemployment is most severe in parts of the Euro area, which continue to see economic activity decline and austerity programs. In early 2013, the unemployment rate increased to 26.7% in Spain and 27.2% in Greece, with youth unemployment rates exceeding 59%. Average unemployment in the Euro area reached a new all-time high of 12.1% in March 2013, and is forecast to average 12.8% in 2014.

The unemployment rate in the USA has fallen, but is still high by historical standards with unemployment forecast to average 7% in 2014. In most developing regions, labour markets have not suffered as extensively from weak demand as in developed economies.

In some emerging economies, unemployment rates have dropped below the levels seen before the financial crisis, particularly in South America and East Asia. By contrast, employment continues to be a key problem in many African countries, despite relatively high growth rates over the past few years.

Global inflation slowing

Despite the massive monetary easing by major central banks, inflation remains low worldwide; partly reflecting large output gaps and high unemployment. Global inflation is projected to moderate further to 2.6% in 2013, down from 2.9% in 2012. This decline mainly results from somewhat lower inflation in the USA and Europe in the face of subdued demand, continued high unemployment and contained energy and food prices. In the economies in transition, by contrast, inflation is expected to accelerate from 6% in 2012 to 7.3% in 2013 as utility prices, nominal wages and public spending put upward pressure on prices. Average inflation in the developing economies will increase slightly from 5.4% in 2012 to 5.6% in 2013. In 2014, global inflationary pressures are expected to remain mild even as economic activity, particularly in developed countries, strengthens.

Capital flow risks to emerging economies

Global financial conditions have stabilised in recent months as new policy initiatives in developed economies reduced the risk of asset valuations falling in the short term for the world economy. Increased global liquidity i.e. easier access to funding and higher risk appetite among investors have led to rising asset prices in developed countries, while also pushing

up capital flows to emerging economies.

The current environment of low global interest rates, moderate volatility and rising risk appetite among investors poses considerable risks for emerging economies. A further surge in capital inflows could lead to an appreciation of domestic currencies, excessive credit growth, and to a build-up of significant leverage (borrowing to invest) and asset price bubbles. Corporate leverage and foreign exchange denominated debt have indeed been on the rise in parts of East Asia and Latin America - a trend, which, if continued, could lead to an increase in balance sheet risks and heightened vulnerability.

Sources of economic data: IMF and United Nations