



A Critical Look at “Offshore” Printing

A Special Report that...
Dispels the Myths
Reports the Facts and Trends
Identifies Strategies to Compete with Offshore Printing
Identifies Opportunities for U.S. Printers to Export and Invest

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Prepublication discount deadline: September 24, 2004
Research begins: September 27, 2004
Target publication date: November 17, 2004

Is the printing surplus disappearing?

Is there a looming trade deficit in print? The trade surplus in print materials appears to be disappearing. For the first half of 2004, the surplus in printed materials trade declined by \$75 million. That's a 37% decrease compared to 2003. The table below shows some critical trends in the direction of print:

| First Half Surpluses and Deficits in Printed Matter Trade, 2004 (in \$ thousands) | | | |
|--|------------|-----------------------------|--------------|
| SURPLUS | | DEFICIT | |
| Canada | \$ 455,201 | China | \$ (555,383) |
| Australia | \$ 85,041 | Hong Kong | \$ (72,253) |
| United Kingdom | \$ 73,597 | Italy | \$ (58,666) |
| Mexico | \$ 67,020 | South Korea | \$ (19,992) |
| Japan | \$ 51,901 | Federal Republic of Germany | \$ (19,893) |
| <i>BOTTOM LINE: US Surplus = \$125 million</i> | | | |
| First Half Surpluses and Deficits in Printed Matter Trade, 2004 vs. 2003 (in \$ thousands) | | | |
| CHANGE IN SURPLUS | | CHANGE IN DEFICIT | |
| Canada | \$ 47,217 | China | \$ (135,958) |
| United Kingdom | \$ 47,070 | Mexico | \$ (47,586) |
| Hong Kong | \$ 16,750 | Federal Republic of Germany | \$ (10,595) |
| Netherlands | \$ 13,703 | South Korea | \$ (7,194) |
| Egypt | \$ 7,636 | Japan | \$ (5,808) |
| <i>BOTTOM LINE: US surplus decreased by \$75 million in the first half of 2004, from \$200 million in 2003 to \$125 million in 2004</i> | | | |

While the U.S. will always export some print, current wisdom is that these exports themselves are not likely to continue, or they will be overwhelmed by growing imports. In some cases, new capabilities in growing economies will mean that they will not have to import U.S. printed matter, but will print documents out an on-demand basis, reducing the need for U.S. printed goods.

This project will investigate what the likely outcomes of the current trends will be, how they will interact and counteract, and what the nature of the print marketplace will be.

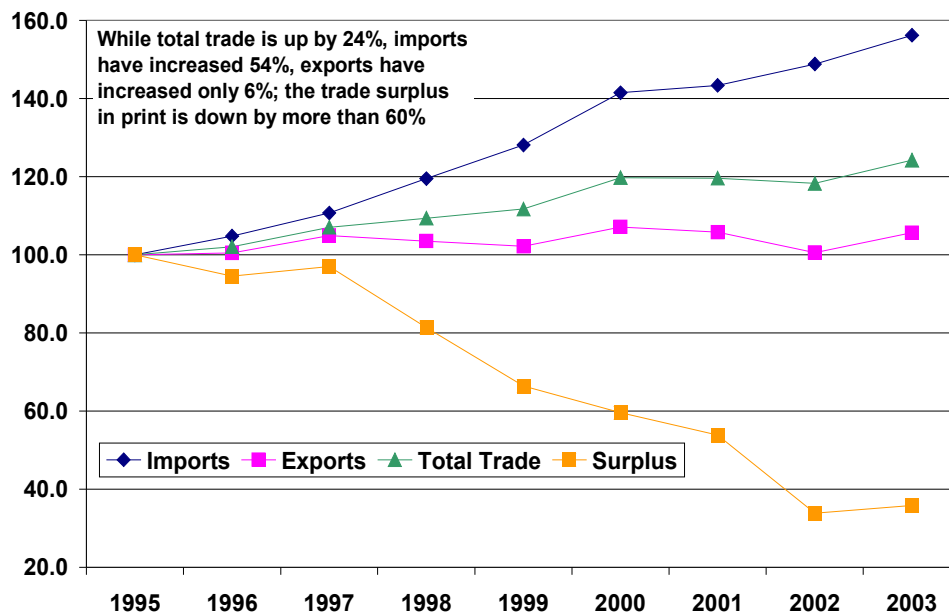
Will commercial printing go the way of other U.S. manufacturing industries?

For decades, many manufacturing industries have transitioned to “leave the U.S.” to take advantage of reduced costs and become *globally* competitive. The erosion of manufacturing jobs is often exaggerated by simplistic news reporting that ignores technology advances, the benefits of productivity improvement, and the emergence of a new, highly paid service sector that has historically replaced these “lost” jobs.

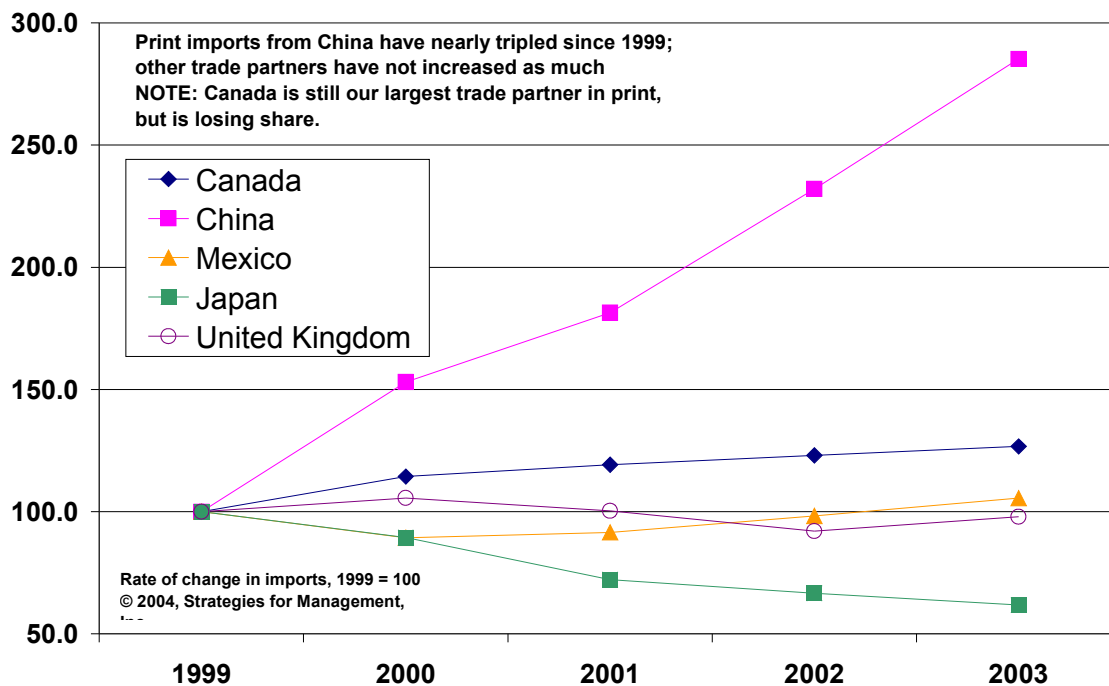
This does not mean that a restructuring industry does not put harsh demands on its members. In fact, that is likely to happen to the printing industry, and it may not be pretty.

Imports and exports each comprise roughly 3% of total U.S. print shipments. This may not seem like much, but things are changing.

Ten years ago, the U.S. had a 72% surplus in books and printed matter; today it is barely more than 16%. The chart below shows how the growth rates have changed since 1995 (base year = 100), and how the surplus has shrunk.



Canada has been the U.S.'s largest trading partner for printed materials. The chart below shows the rate of change since 1999 for the countries that send the U.S. the greatest dollar value of books and printed matter.



Is a rational discussion about international trade and the printing industry really possible?

This can be a “charged” topic, often considered too “hot” to discuss because many of the industry’s major technologies and suppliers are overseas companies. The subject is often taboo (or at best “uncomfortable”) in many circles because these firms are selling equipment and supplies to offshore competitors of their own U.S. customers (and vice versa; after all, they are global companies). Many of these suppliers have been loyal supporters of the industry trade associations, have aided entrepreneurs in building successful businesses, trained employees, generously supported industry

educational institutions and initiatives, and performed many other proactive functions promoting the industry's well being.

Moreover, many major U.S. printers, as well as many of their large clients, are themselves multinational firms with headquarters in the U.S. and operations dotting the globe, so any discussion of how global trade may have a negative impact on business is often off limits.

For that reason, most executives prefer not to discuss this “politically incorrect” topic in “polite company.” Making matter worse, any discussion of trade and its effects can also be subject to distortions and oversimplifications in an election year.

This topic is too important to ignore. Freer trade can't be stopped; it provides too much good in terms of raising the wealth of both sides of trade transactions to want to stop it. In the printing industry's case, any effort to improve its competitive capabilities on a worldwide basis is essential to the industry's survival. The right information is critical to that process.

Strategies for Management is willing to tackle this “third-rail” topic with data, common sense, and clear thinking in a carefully documented and well-referenced special report. SFM will examine how domestic printers that export, as well as printers in other parts of the industry, can best position themselves to succeed in this changing environment.

Why should you care?

It is essential for industry suppliers and printers, even those not based in the U.S., to understand the nature of this transitory period. Good business research is essential for the proper planning of production, staffing, marketing initiatives, sales deployment, and technology investments.

The competitive impact of these changes that emerge from growing pressures from trade will play a crucial role in the demand and marketability all suppliers' products to current printer clients and new prospects.

The Current Situation

Print has enjoyed “natural” protections

Historically, print has been insulated from the impact of worldwide competition because of some of the following factors:

- The weight of printed goods made shipping from offshore plants expensive
- Long lead and shipping times of offshore-printed materials
- Many countries have regulations and tariffs that add administrative and logistical burdens to cross-border transactions
- Language barriers and time-zone differences impede proper and timely proofing corrections, as well as the entire job-approval process
- Costly “in-person” plant visits to offshore printers to ensure quality control
- U.S. printers' close proximity to the U.S. Postal Service, as well as greater knowledge of postal procedures and regulation compliance

Blaming exchange rates ignores stronger, more revolutionary changes

There are many technological, economic, and demographic issues that cause the change. It is vitally important to know the difference between a temporary condition that is primarily affected by short-term moves in exchange rates and a permanent change in the composition of a changing print market. Such knowledge provides powerful tools in successfully navigating future market conditions.

Digital technology and other factors are rapidly eroding the barriers protecting print

- Digital proofing now allows quick review of materials by print buyers and managers who are becoming more accustomed to remote workflows
- The use of “industry standard” design and production software and hardware, as well as uniform procedures for handling projects, reduce mistakes and allows production problems that may arise to be “caught” early in the job cycles
- Color management advances foster greater production consistencies, allowing the creation of final, proofed files designed for output anywhere, on a wide array of devices
- Broadband telecommunications allows the transmission of large graphics files, which shortens proofing cycles and enables “time-shifting,” where production work occurs overseas while print buyers and production managers sleep on the other side of the world
- Quality concerns have largely been trumped by fast job turnarounds, cost-effective pricing, and “good-enough” color compromises (sometimes)
- More overseas countries have freed economies and are looking to develop industries that can increase their populations’ living standards and well-being by actively and aggressively pursuing manufacturing opportunities that are viewed as “high-cost” in countries with more mature economies.
- Trade agreements such as NAFTA, the European Union, the World Trade Organization, and other initiatives reduce the barriers to trade

The “fear” of China, India and other fast-growth economies

Much of the preoccupation of international trade has been related to China. Though its full economic liberation is proceeding slowly, its rapid growth has affected the prices of commodities such as oil and steel, and has spurred growth in all of Southeast Asia. Some analysts have forecast that in 25 to 30 years, China’s economy will surpass that of the United States because of its population, which is more than four times that of the U.S.

Are fast growing economies something to fear, or something to invest in?

For many companies, the growth in demand in those countries has occupied use of their offshore facilities and has not allowed production time for exports back to the U.S. For example, Dell Computer’s China operation supports its sales in Japan and China, leaving no capacity to ship to the U.S. Will new printing operations be in the same situation as these economies grow?

As free trade becomes more prevalent, the “invisible hand” of economics shifts resources to individual countries that produce those particular products best. These changes take years and decades to fully unfold. In the meantime, technologies, demographics, and other factors may counterbalance and counteract these economic changes as industries adapt, resist, or counter changes through technology investment, product diversification or other market actions.

In this case...

- *Is the U.S. printing industry a victim of free trade?*
- *...or is it an active participant in trade, supplying communications materials and logistics capabilities, and investing worldwide?*

And most importantly...

- *Is this a real or imagined danger to the industry?*

Deliverables

This report will examine the issues identified below. Topics will include how the demand for printed materials both in the U.S. and overseas may be affected. Recommendations for dealing with these issues, how to minimize the negative impacts, and how to maximize emerging opportunities, will be part of the final report.

The basic issues are:

- ✓ *Identifying the dynamics of "offshore" printing*
- ✓ *Understanding the economic issues affecting print volumes*
- ✓ *Questions related to production*
- ✓ *Enablers of non-US printing*
- ✓ *Profiles of selected non-US printers*
- ✓ *What print buyers say about their use of "offshore" printing*
- ✓ *What US printers need to do to compete/sell against non-US printers*
- ✓ *Estimation of "offshore" printing's ultimate impact*
- ✓ *Trends and flow of business*
- ✓ *Nature of "offshore" printing*

An historical synopsis and product listing of print imports and exports will be outlined, supported by available economic data, as well as a discussion about data reporting problems that cloud the print trade issue.

Among the topics:

- *print products most affected: it's not just coffee table books any more*
- *"stealth" package printing: non-U.S. manufactured goods have packaging and support materials produced in their originating countries; interestingly, the value of this printing is not tracked. This study will include much sought-after estimates of this print volume and scope of the challenge.*
- *countries with the greatest volume of U.S. imports of printed materials*

Economic issues that affect the volume of non-U.S. printing

- *exchange rates*
- *paper costs*
- *shipping costs*
- *shipping time*
- *production costs*
- *technology issues*
- *capital costs*
- *labor issues (availability/skills)*
- *financial intermediaries*
- *regulatory/legal issues*

Barriers to non-U.S. printing

- *time/turnaround delays*
- *technology incompatibility*
- *time-intensive nature of remote collaboration*
- *language barriers/miscommunications*
- *time-zone differences*
- *production/proofing cycles*
- *local language/culture/idioms*
- *print-on-demand (conducive to local output)*
- *quality of materials/end products*
- *availability of print alternatives*

Enablers of non-U.S. printing

- *Internet and satellite communications*
- *digital (remote) proofing/soft proofing*
- *digital workflow/front-end standards*
- *color management advances*
- *“time-shifting” production overseas while buyers/managers sleep*
- *government sponsorship through subsidy, export programs*
- *lower labor rates*
- *reduced exchange rates*
- *lower job costs*

Profiles of non-U.S. printers

Offshore printing firms have been active in the U.S. for decades. This report will profile some of the companies who sell print in the U.S., explain how they sell and the services they offer. We will explore what makes them successful and carefully examine characteristics beyond “low prices.”

How do non-U.S. printers market themselves?

The marketing channels of “offshore” printers is an important issue. Some have direct representation; others use contacts with print brokers and independent sales representatives to capture work. What are the methods they employ to funnel projects abroad? What do print buyers say about their use of “offshore” printing?

Offshore printers are not successful unless they have buyers. What these customers say about their experiences is important to understanding the future of non-U.S. printing. We will review how they deal with turnaround, quality management, logistics issues, and where they see the direction of their purchases heading in the future.

What should U.S. printers do to compete with non-U.S. printers?

The U.S. printing market is a very dynamic marketplace, and purchase decisions are very complex. A low price quote never tells the entire story-- there are administrative and management issues that are part of the total cost of working with any supplier. There are unique implementations of technology that can affect all aspects of total production costs for printers, as well as administrative costs for buyers. What innovative things can printers do to make themselves more effective competitors?

Further, what are the weak points in the U.S. printing industry that may provide competitive advantages to overseas printers? Dealing with these shortcomings will be a significant factor in determining the future size and scope of the offshore print market.

The greatest issue is whether or not U.S. printers can leapfrog their offshore competitors through new technologies, better implementations, superior management, and other initiatives.

Methodology

This project will offer a thorough approach to this topic via the following:

- *Interviews with U.S. and non-U.S. printers*
- *Discussions with print buyers who use non-U.S. printers*
- *Conversations with print brokers and other print distribution representatives*
- *Quantitative economic analysis and forecasts*
- *The latest government data, enhanced by SFM analysis and forecasting*
- *Secondary research, including the Internet and many other sources*

See the project in action, before, during, and after the field work

Report sponsors will have unique access to this project:

- **during the field research:** *report sponsors will have special password access to our data and links to secondary research on a private website*
- **upon publication:** *each report sponsor will receive a printed copy of the final report*
- **after publication:** *for 60 days after publication, sponsors will have access to the researchers for additional questions and discussions about the report, its conduct, and its findings*

Planned publication schedule

The research for the project begins on September 27, 2004.

The report will be released November 17, 2004.

Report cost

This report is priced at \$2,875.

Special pre-publication price

There is a special pre-publication price of \$1,975, a savings of approximately 30% (\$900).

***Full payment must be received by
September 24, 2004.***

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Questions?

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Consultants and Researchers

Dr. Joseph Webb

Dr. Webb is one of the industry's best-known consultants, speakers, and forecasters. His commentary, speeches, and lively Q&A sessions have been featured at many industry trade events. A 26+year veteran of the graphic arts industries, he was the developer of the influential TrendWatch information service, sold to Reed Business in 2000. Outside the graphic arts, Dr. Webb and business partner Jim Whittington have brought TrendWatch methodologies to the broadcast and entertainment/visual effects imaging markets. Since January 2003, his "Fridays with Dr. Joe" column has become a popular feature on WhatTheyThink.com, as have his quarterly economic forecast Webinars, where he analyzes trends in the economy, technology, and the industry, and interprets them so that executives can make well-informed strategic decisions.

He is a Ph.D. graduate of the NYU Center for Graphic Communications Management and Technology (1987) and serves on the Center's Board of Advisors. He holds an MBA in Management Information Systems from Iona College (1981) and was a *magna cum laude* graduate in Managerial Sciences and Marketing from Manhattan College (1978), and was a member of the economics honor society. He has taught graduate and undergraduate courses in marketing, market research, quantitative analysis, business policy, and organizational behavior.

He started in the industry with Agfa's Graphic Systems Division (1978 – 1980) and was a marketing executive with Chemco Photoproducts (1981 – 1987). He also served the industry as chairman of the NPES Statistics Committee (NPES, formerly the National Printing Equipment & Supply Association, is now also known as The Association for Suppliers of Printing, Publishing and Converting Technologies) and was an active member of the GAMIS, the Graphic Arts Marketing Information Service, a special industry group of Printing Industries of America. Among his publications is "Dr. Joe's Almanac," a resource of more than 500 industry publications, Websites, associations, and others. He has also written "Renewing the Print Industry: A Contrarian's Constructive Perspective."

Mr. Vince Naselli

Vince Naselli has more than 20 years of professional experience in the graphic arts marketing industry. Mr. Naselli is the former Director of TrendWatch Graphic Arts.

He is a frequent contributor to WhatTheyThink.com and other leading industry publications. He has served as a past committee chairman of the Imaging & Prepress and Market Research subcommittees for the NPES market research program, one of the leading research trade associations in the graphic communications industries. He has also served as president and on the board of directors of GAMIS, the research trade association of the Printing Industries of America.

Mr. Naselli speaks at numerous industry events about the trends in technology, business conditions, and the future of the imaging business. Some of the events he has participated in are Graph Expo, Executive Outlook, MacWorld CreativePro, and Connect, among others. In previous professional roles, he served as Dealer Relations and Regional Sales Manager for Screen USA and was the Senior US Marketing Manager for Agfa of market research and competitive analysis and concurrently was the Senior U. S. Marketing Manager for Apogee responsible for PDF Workflow software and systems. Mr. Naselli holds a Bachelor of Science degree in marketing and management from Kean University, New Jersey.

Mr. Joe Lipetri

Mr. LiPetri has been a writer and reporter for the graphic communications industry for more than 15 years, and has contributed articles and reports to such industry publications as *The Seybold Report on Publishing Systems*, *Electronic Publishing*, *American Printer*, and *Printing News*. He served as a full-time editor for MacWEEK.com, covering Macintosh-compatible digital imaging and printing technology such as digital cameras, scanners, desktop printers, and prepress software/hardware. From 1995 to 2000, Mr. LiPetri served as East Coast editor for *Micro Publishing News*, covering industry news, attending and reporting on major industry trade shows and press events, and assisting with the creation of editorial calendars, as well as writing feature articles, product reviews, and vendor/printer profiles. He also wrote for MPN 's then-sister publications *Digital Imaging*, *Print On Demand Business*, and *Digital Printer*. Following MPN 's acquisition by Cygnus Business Media, Mr. LiPetri wrote "network " feature articles on a monthly basis for the Cygnus Graphics Network, a group of publications which includes *Printing News*, *Print-On-Demand*, *Print & Graphics*, *Modern Reprographics*, and *Quick Printing*.

From 1996 to 2001, Mr. LiPetri was also a technology writer for the National Association for Printing Leadership (NAPL), and periodically wrote technology-oriented and business articles, as well as a regular "Digital Directions" column for *Printing Manager* magazine. He also wrote NAPL Special Reports covering various digital technologies such as digital asset management and digital photography. From 1993 to 1995, Mr. LiPetri served as associate editor for *Printing News*, a weekly trade magazine serving the commercial printing industry in the New York metropolitan area, included writing feature articles, company profiles, industry trend pieces, short news items, and regional economic overviews.