



An Australian Government Initiative



# **Benchmarking Report**

## **Printing Industry in Australia**

**July 2011**

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# OVERVIEW

## TYPE OF FIRMS

The printing industry firms included in this report are located nationally and have completed a business review with Enterprise Connect. They each have an annual turnover between \$1.5 million and \$95 million and have been in operation for a period of at least three years.

37 printing industry companies were included in the benchmark ratio analysis and a series of business reviews will be conducted over the next few months in Queensland with further participants.

# INDUSTRY ANALYSIS

Information sourced from: *IBISWorld Industry Report - C2412 Printing in Australia May 2011*

## INDUSTRY OVERVIEW

The Printing industry consists of commercial or job printing establishments and includes commission printing of paper stationery and printing onto textiles or other surfaces.

Consumers are increasingly choosing to receive information via alternative mediums, such as the internet, rather than via printed materials, leading to a decline in the preference for printed materials. New media is encroaching, as the printed word proves slow to produce and costly to distribute.

The Printing industry is expected to generate revenue of \$8.64 billion and employ 40,199 people in 2010-11, making it one of the largest manufacturing industries in Australia. However, the industry is stagnating and revenue is expected to decrease by 1.1% in 2010-11.

Industry revenue is expected to decrease at an average annualised real rate of 3.0% in the five years through 2010-11. Sluggish growth in the Australian economy and in advertising spending affected print volumes in 2008-09 and 2009-10. The internet is becoming a more important platform in communications and advertising. Competitive price pressures, exacerbated by excess capacity, will also affect the performance of the industry.

While the Australian economy is expected to be strong in the five years through 2015-16, the Printing industry's revenue is expected to increase at a rate of only 1.2% annually, with revenue reaching \$9.15 billion in 2015-16. Relatively strong economic conditions will promote industry activity in 2011-12 and revenue will increase about 1.4%. However, excess capacity and competition from substitutes such as online information and advertising will continue to affect industry activity over the five years through 2015-16.

## THE INDUSTRY'S FUTURE

Print21, an industry consortium, saw an opportunity for printers to position themselves as enablers of knowledge, advising customers on effective and efficient approaches for presenting, organising and deriving value from creative content, information and data. Print21 saw a need for printers to add services such as direct mail, customised printing, electronic ordering, customers' systems compatibility, convenient quick print and printing using specialised substrates. Changing conditions have meant that printers need to become a one-stop shop, developing closer relationships with customers, taking on customers' in-house printing activities, managing customer stock, providing warehousing of stock and managing image and information databases. Print21 believes printers will need to improve their productivity continually as profit margins may continue to decline.

The price of high-powered laser colour printers with built-in collating and binding functions is rapidly falling. This will promote growth in small print-run book segment and, in future, may represent a new distribution platform for mass-appeal books and magazines. The ability to access books and book catalogues on the internet has attracted internet search engines. This development threatens book publishers and their printers, particularly for books that are out of copyright. Authors and publishers in the United States have sued Google on the basis that its plans to digitise books will violate their copyrights. Book publishers are capitalising on the internet and on surging demand for e-books, and this will adversely influence demand for printed books.

## **MAJOR MARKETS**

Retailers, the largest users of printed products, spend 50% to 65% of their total marketing budgets on printed catalogues. Retailers also spend significant amounts on signs. Banking and finance industries also spend a significant portion of their marketing budgets on printed products and spend significant amounts on printed cheques, business forms and documents.

Magazine, book and directory publishers are also major customers of the printing industry. Magazine printing is dominated by a few large operators, including PMP and IPMG. Griffin Press (owned by PMP) and McPherson's service the overwhelming majority of the domestic print requirements of medium and large trade book publishers in Australia. In 2007, the ACCC stated that these two companies are the only two printers in the Australian market capable of competing across the full range of services required by book. PMP dominates the printed telephone directory market.

Manufacturers and wholesalers are major users of screen printing, labels, packaging and point-of-sale sign printing services. In addition, stationery wholesalers purchase printed business forms and other printed stationery to on sell to retailers and end consumers.

The other market segment includes business services industries and household services industries, which utilise printing services for brochures, catalogues, business forms, documents and signs.

Growth markets for printing include catalogue, brochure and sign printing (used by retailers and, to a lesser extent, by most other industries) and packaging, labels and wrappings (predominantly used by manufacturers and wholesalers). In October 2010, Telstra stated the group was printing more telephone directories, despite growth in internet and mobile alternatives. Declining markets include magazines, periodicals, business forms, documents, cheques and books. Magazine circulation is in long-term decline, mainly due to competition from TV and the internet. The demand for commercially printed business forms and documents is being adversely affected by growth in e-commerce and by an increase in end-users printing themselves on a local printer (i.e. not using a commercial printer). Electronic commerce and transactions are adversely affecting the demand for cheques. The printed book market is influenced by sluggish book sales, book imports, the availability of information on the internet and recent growth in the e-book market.

## **KEY DRIVERS FOR GROWTH**

### **Real GDP growth**

Economic growth influences the level of business formation, growth and advertising, which affect demand for printing services.

### **Demand from finance**

Finance industries are major users of stationery, brochures and other printed materials. Declining demand from the finance market would result in decreased revenue for the Printing industry.

### **Demand from book and telephone directory publishing**

Activity in the magazine and book publishing industries affects demand for printing from these industries

### **Demand from retail trade**

Retail trade activity affects demand for printed material used in products, in point-of-sale and direct mail advertising. Strong levels of retail trade can boost other advertising, which may use printed matter. Retail trade in Australia is being hurt by purchases of goods on overseas websites.

### **IT and telecommunications technology adoption**

Technology adoption by the Printing industry and the industry's customer base can drive demand for some services. For example, new printing equipment can reduce printing costs and improve print quality. Online printing services can generate productivity gains for customers. Yet, the increasing

availability of information on electronic formats (such as e-readers) can soften demand for printed matter.

## **PRODUCTS AND SERVICES**

The printing materials produced by industry operators can be divided into two areas: publications and non-publications.

Publications include magazines (4.0% of industry revenue), books (3.0%), directories (3.0%) and other publications such as periodicals, sheet music and posters. Australian book printers are more competitive in time-sensitive markets, with book printing in Australia being fairly small-scale. The principal directory product is the telephone directory, however printed directories are threatened by the internet (e.g. yellowpages.com.au and Google Maps) and smartphones.

The non-publications segment is the largest in the industry, producing 85% of industry revenue. The segment produces report printing, binding and business stationery, which are supplied to the business, educational and government sectors. Non-publications printers also produce chequebooks and postage stamps, which are supplied to the finance and postal services sectors. It also produces tickets and pamphlets, which are supplied to the retailing, sport and recreation industries, plan and map printing, which are supplied to the educational and tourism sectors and catalogues, brochures and poster printing for the advertising, retail and wholesale sectors. Some firms in the industry are also involved in packaging printing.

## **BARRIERS TO ENTRY**

Barriers to entry are moderate overall, albeit varying by product segment.

A drop in the cost of printing equipment and technology over the past decade has reduced barriers. Large established companies can benefit from economies of scale and scope. Although it is possible for new players to enter and compete with relatively low costs, for example AIW Printing has stated that it is Australia's lowest-cost producer of retail catalogues. Promentum Ltd, Australia's largest sheet-fed printer, stated in 2006 that the Australian printing industry was rationalising, and thus scale and investment in new technology is required to stay competitive.

In the commercial contract printing segment, barriers to entry can be relatively high, as large investments are required in the set-up of printing facilities and a critical mass of contracts is required. For example, PMP has a contract to exclusively print Sensis telephone directories, and has signed long-term contracts with key catalogue customers (such as Woolworths, Coles Group and Myer).

However, according to Print21, the new paradigm in printing is shifting from low prices and high volumes to one where customers expect to pay more for higher quality. Thus, while some markets are moving away from economies of scale, they are generally important for work involving long print-runs.

The cost of technologically efficient equipment (most of which is imported) can represent a barrier, although equipment costs have fallen. In the heat-set web-offset market, a printing press costs \$15million to \$20 million and a print bindery costs about \$5.0 million.

There can also be shortages of skilled labour, which can make it difficult for new players.

## **INDUSTRY LIFE CYCLE**

The industry is in the decline phase of its life cycle. Industry value added is expected to increase at an average annualised rate of 0.9% in the five years through 2015-16, while the Australia's GDP will grow at an average annualised real rate of 3.8%. This means that the Printing industry will account for a decreasing share of the Australian economy. While there is growth expected in print volumes during the next five years, a real fall in unit selling prices will keep down growth in industry revenue, profits and value added.

Technology in the industry tends to be influenced by suppliers such as printing equipment manufacturers. As new innovations continue, growth is expected in online and digital printing segments, which offer customers convenience and potentially lower prices.

Some major print market segments appear saturated, such as the catalogue, book and magazine industries.

Growth in the use of the internet and CDs will adversely affect demand for printed directories, books and some other types of print.

## **KEY SUCCESS FACTORS**

### **Having marketing expertise**

Aggressive marketing is important given the high level of competition in the industry.

### **Access to niche markets**

Firms that specialise in narrow product lines using advanced production techniques and adopt a more concise approach to marketing improve the likelihood of establishing a market niche.

### **Production of goods currently favoured by the market**

Firms should focus on markets of high demand and profitability.

### **Access to highly skilled workforce**

Given the serious shortage of skilled tradespeople in the Printing industry, firms that can ensure an adequate supply of labour have a distinct market advantage.

### **Attractive product presentation**

Increased design orientation and the ability to use colour more effectively is important for operators in the industry.

### **Access to the latest available and most efficient technology and techniques**

New technology developments yield time efficiency, reductions in labour costs and improvements in product quality. Firms maximising their use of state-of-the-art technologies enhance their competitiveness.

### **Prompt delivery to market**

Prompt delivery through reliable and efficient transfers of digital data is important.

### **Optimum capacity utilisation**

Firms should maintain optimum capacity utilisation. The size of print runs can affect capacity utilisation.

# BUSINESS REVIEW DATA



































