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PROPELLING YOUR BUSINESS
FORWARD IN AN EVER-CHANGING
COMPETITIVE ENVIRONMENT
PRINT 2022 AND BEYOND



A NAPCO Research Study and White Paper
Sponsored by Canon U. S. A., Inc.

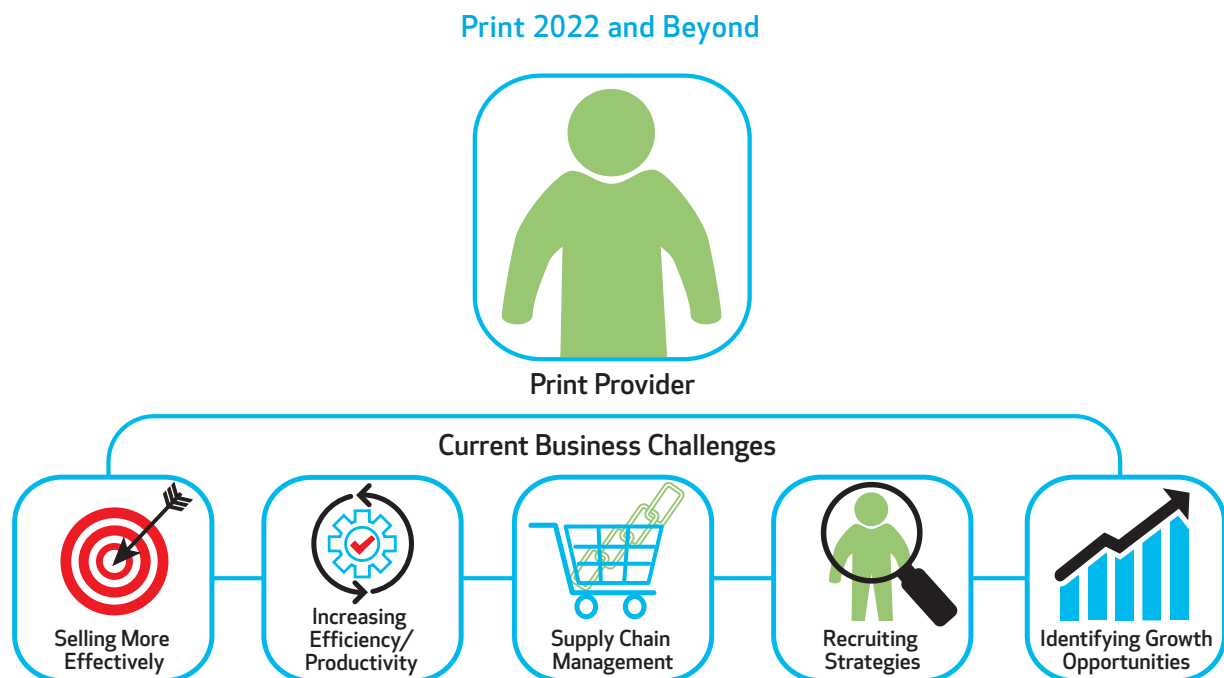
Print 2022 and Beyond

This year offers great growth potential for print providers; however, even as the effects of the COVID-19 pandemic wane, there are still obstacles to overcome. As commercial printers and in-plants are getting back to business, they're re-evaluating all and doing what's needed to invest in operations, develop staff, and support sustained growth and long-term success.

Canon has been sponsoring annual market research studies by NAPCO Research to help print providers better understand customers' needs and the operational investments and capabilities necessary for supporting them.

To help print providers navigate and grow their print services, a 2022 NAPCO Research¹ research study and white paper series, sponsored by Canon U.S.A. Inc., offers insights on the strategies and actions yielding the best results in an everchanging and competitive environment.

The current series, *Propelling Your Business Forward in an Everchanging Competitive Environment*, is based on surveys of commercial printers, in-plants, and communication buyers or influencers conducted in 2022. This white paper is the first in the series and includes research from the PRINTING United Alliance,² while the three subsequent reports will take a deeper dive into the most recent survey data.



¹ A unit of NAPCO Media, the parent company of Printing Impressions and In-Plant Impressions.

² NAPCO Research is part of the PRINTING United Alliance.

Defining the Competitive Environment: Sales Returns Put Pressure on Profitability

PRINTING United Alliance, a trade association representing nearly all segments of the printing industry, expects print providers' sales to grow in the year ahead. Nearly 65% of participants in the Alliance's Q1 State of the Industry survey anticipate sales to grow by 12.1%, on average, during the first half of 2022, but just 36.6% expect pre-tax profitability to increase.

Factors pressuring profitability include supply and labor shortages, cost inflation, and production disruptions. Figure 1 shows the significance of these factors as reported by the survey respondents.

Figure 1

Operating Costs
and Labor Shortages
Pose Significant
Challenges

Q. How much of a concern do you expect the factors below to be for your company this year?

Factor	Significant	Moderate	Little/None
Material Shortages/Inability to Acquire Materials Needed	92.2%	5.4%	2.4%
Rising Substrate Costs	84.8%	10.3%	4.9%
Rising Labor Costs	72.3%	19.3%	8.4%
Rising Transportation Costs	71.9%	17.2%	10.9%
Labor Shortages	66.3%	14.4%	19.3%
Rising Ink/Toner Costs	59.8%	20.6%	19.6%
Maintaining Profitability	55.1%	28.8%	16.1%
Increasing Sales	53.7%	28.9%	17.4%
Rising Energy Costs	49.5%	31.9%	18.6%
Losing Clients to Print Alternatives	40.5%	23.4%	36.1%
Maintaining Productivity	38.7%	29.4%	31.9%
Maintaining Healthy Cash/Working Capital Balances	35.6%	30.7%	33.7%

N = 206 Print Providers

Source: PRINTING United Alliance State of the Industry Update, Q1 2022

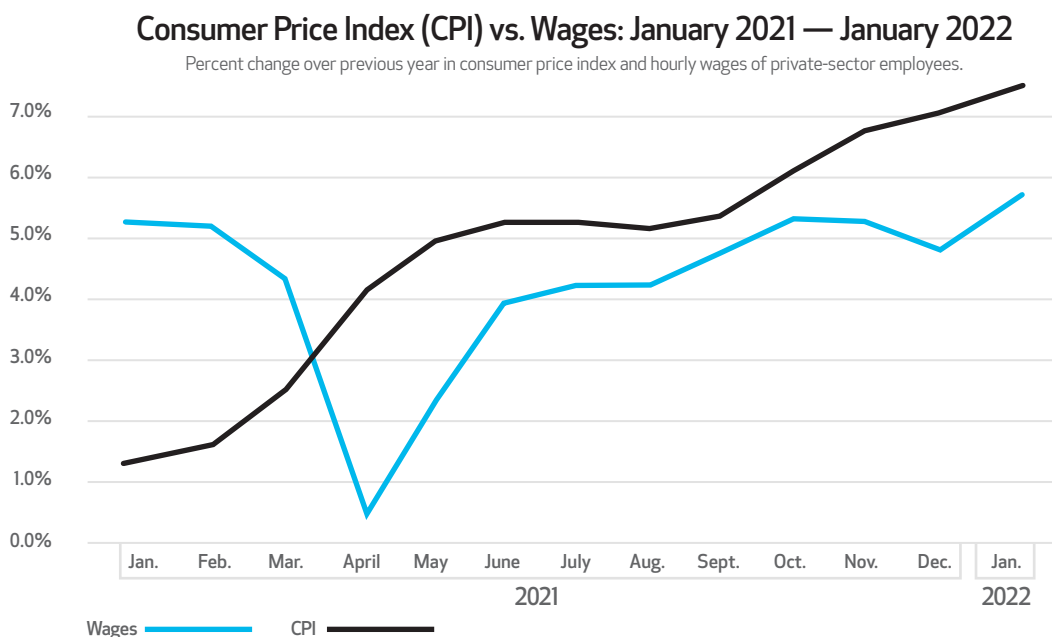
Things to Watch

Given the challenges and profitability pressures facing the industry, PRINTING United Alliance's Chief Economist Andrew Paparozzi advises print providers to pay close attention to the following three areas:

- 1. Inflation vs. Wages.** During the three months ending in January 2022, wages of private-sector personnel rose 5.3%, but the consumer price index rose 7.2%. The longer prices outpace wage gains, the less promising the economy's prospects.

Figure 2

Consumer
Price Index
vs.
Wages



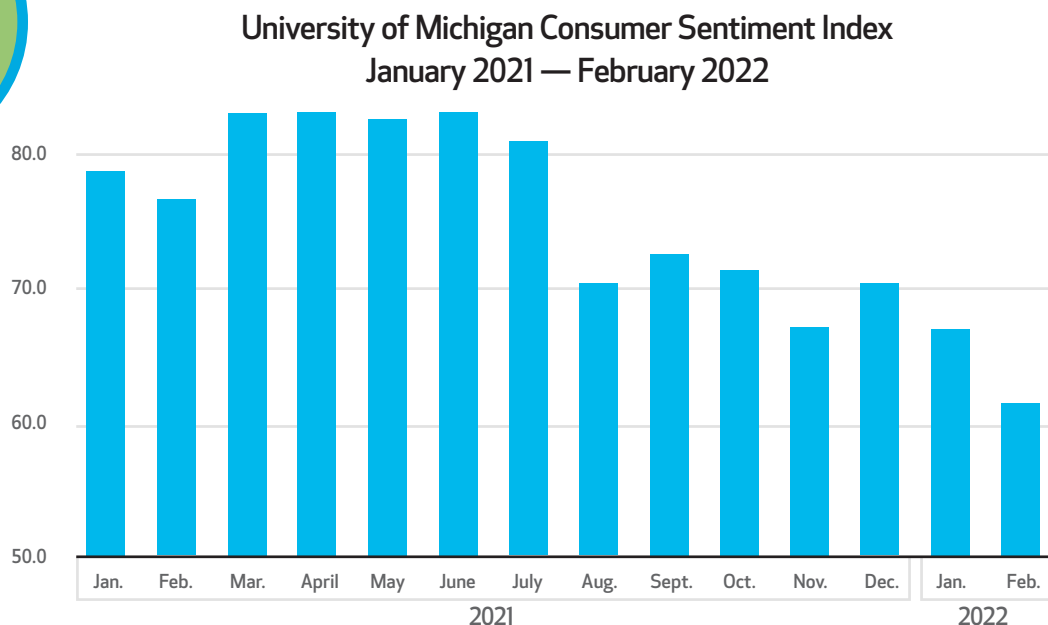
Source: U. S. Bureau of Labor Statistics, [bls.gov](https://www.bls.gov)

Paparozzi explains that COVID-19 caused unprecedented damage to supply chains and labor markets; had supply quickly caught up with demand, inflation would have been transitory, but since it didn't, inflation embedded itself in the economy. Last year, when many thought inflation would be transitory, print providers were able to pass cost increases along as higher prices. But this year, expect stiffer resistance to price increases as clients try to protect their margins from what is now embedded, persistent inflation. That means the key to protecting your margins this year will be consistent productivity gains rather than passing costs along.

- 2. Productivity vs. Unit Labor Costs.** The relationship between productivity, or output per hour worked, and employee compensation per hour worked is a major determinant of an economy's long-term growth potential. When productivity and employee compensation experience an upward parallel shift, it boosts profits and consumer purchasing power, creating the non-inflationary economic growth that raises living standards; on the other hand, compensation rising significantly faster than productivity does the opposite.
- 3. Consumer Confidence.** The University of Michigan Consumer Sentiment Index fell to 61.7 in February 2022, down 19.7% from a year earlier and the lowest reading since 2011 (Figure 3).

Figure 3

Declines in
Consumer
Confidence



Source: University of Michigan. Data downloaded from FRED, Federal Reserve Bank of St. Louis.

According to Richard Curtin, director of the Survey Research Center at the Institute for Social Research, University of Michigan, "The recent declines have been driven by weakening personal financial prospects, largely due to rising inflation, less confidence in the government's economic policies, and the least favorable long-term economic outlook in a decade."

Actions to Consider

Survey research across PRINTING United Alliance and NAPCO Research identifies the following recommendations for commercial printers and in-plants to consider pursuing in the year ahead.

Recommendation #1

Take action to increase efficiency/productivity.

Operational efficiency is an essential component of profitability. Workflow is at the heart of productivity and profitability, and more tools are available to increase automation, reduce costs, and improve productivity. Workflow automation is critical to helping optimize equipment investments and enabling more profitable revenue streams. The goals of increasing customer demands for shorter run lengths, just-in-time ordering, and online ordering are pushing printers to focus their attention on improving operational efficiency, automating workflows, and reducing human touch-points.

Steps that can help strengthen print providers against competitive threats include capital investment, process automation, streamlining workflow, removing steps and touch-points from processes and procedures, better use of MIS, implementing continuous improvement, and lean manufacturing programs.

Improving efficiency and throughput enables producing more jobs and decreasing costs by reducing waste. To protect margins, count more on productivity gains and less on cost pass-through.

Over three-quarters of commercial printer (79%) and in-plant (85%) survey respondents participating in the 2022 *Propelling Your Business Forward in an Everchanging Competitive Environment* survey report retooling operations to increase automation and productivity.

One investment that respondents reported considering to help improve productivity is adding high-speed production inkjet printing. Per the survey, over half of commercial printers (61%) and 38% of in-plants intend to add inkjet production presses.

Recommendation #2

Elevate the role of supply chain management.

Prior to the COVID-19 pandemic, print providers assumed they'd have access to raw materials when desired and in the quantities needed; however, today paper supply is tight and prices are increasing.

Paparozzi expects supply chain disruptions to continue deep into 2022. He says this current reality has been so difficult because the damage caused by COVID-19 was so severe. He explains that while past natural disasters, for instance, provided localized disruptions, the current challenges are occurring on a global scale.

A Q1 2022 Printing UNITED Alliance survey of print providers asked what actions they were taking to protect their companies from current supply chain disruptions. While there's no silver bullet solution to supply chain pressures, the actions reported, via a fill-in question, are reducing, not eliminating, the effects of the disruptions.

Here's a summary of key actions print providers are taking to combat supply chain disruptions.

- ✓ **Building Inventories and Diversifying Suppliers.** Participants report buying anything and everything they can. Still, diversifying suppliers is a challenge, as options may now be limited because many suppliers aren't accepting new customers.
- ✓ **Working with Clients and Suppliers.** Print providers are encouraging clients to plan jobs well in advance and explore production and substrate alternatives. They're keeping clients informed of supply chain realities. In addition, they report communicating material requirements to suppliers as soon as possible, discussing alternatives, understanding how allocations are set and how they may be changing, overall supply chain conditions, etc.
- ✓ **Building Purchasing and Inventory-Management Teams.** Print providers are making a long-term commitment to elevate purchasing and inventory management to a mission-critical function. They're forming specialized teams that meet weekly with purchasing, estimating, scheduling, production, sales, and customer service personnel to discuss material availability and prices, substitution options, how the supply crisis is affecting customers, and how to lessen the effects.
- ✓ **Leveraging Industry Networking.** Members of printing industry associations, peer groups, and even competitors are exchanging materials and supplies, and sharing not only storage space, but also intelligence about current and expected supply chain conditions.

Recommendation #3

Rethinking recruiting strategies.

Finding workers is a challenge facing employers across all industries. While attracting workers is not a new challenge to the printing industry, it's been magnified by the strong need for labor in the current economy.

Paparozzi asserts a key influencer in recruitment is that printing has “an old-economy image,” and that it's incumbent on the industry to change perceptions. He says that while printing companies have offered higher wages and better benefits to attract and incentivize new workers, “people still are not that interested.”

Companies on the leading edge of this challenge are focused on positioning and advancing their employee brand and value proposition (EVP).³ This activity creates a compelling case for why prospective employees should choose the printing industry in general as well as a company, in particular.

An EVP concisely states what a company expects of employees and job candidates, and what they can expect from their employer. An EVP isn't a tag line or job description; rather, it's how a company wants to be defined as an employer — for example, opportunity for professional development, work/life balance, a safe work environment, respect for the individual, etc. — and what it expects of every employee, regardless of position, such as create customer value, support colleagues, aim for continuous improvement, etc.

A well-crafted EVP will help an organization articulate what they offer employees beyond the usual salary and benefits. A key reason companies create an EVP is because current employees, former employees, job applicants, and the competition are talking about its HR practices on job search and networking sites. The choice is between letting others create an organization's EVP or creating one itself by carefully matching company goals with what appeals most to employees who can help achieve those goals.

³ 2021-22 PRINTING United Alliance State of the Industry Report

Recommendation #4

Pursue ways to sell more effectively.

One permanent shift as a result of the COVID-19 pandemic is virtual selling. The efficiency, success, and widespread use of virtual meetings are cementing their continued popularity, even as businesses and organizations begin returning staff to offices.

Videoconferencing platforms became entrenched tools in organizations during the pandemic; when in-person interactions came to a halt, their benefits became apparent. Because these tools were also used for all kinds of social interaction, the masses have become comfortable with virtual meetings.

Virtual sales calls offer many benefits, including savings in time, costs, and travel expenses. They can take less time as compared to face-to-face meetings, which is attractive to customers and prospects. Also, assembling essential customer decision-makers and stakeholders for a virtual call is usually easier than organizing an in-person event.

Given the opportunity that virtual selling presents, invest in digital sales skills. Those commercial printers (49%) and in-plants (50%) that participated in the *Propelling Your Business Forward in an Everchanging Competitive Environment* study report training staff in best practices for virtual presentations.

Recommendation #5

Target high-opportunity industries.

Targeting the right markets can be essential. A primary benefit of targeting vertical markets is maximizing resources and capabilities to better, and more profitably, serve customers. While target marketing is widely practiced by print service providers, a key question is what markets offer the most opportunity.

According to the Top 25 Hot Print Markets, a report produced by Vincent Mallardi in partnership with NAPCO Media's Printing Impressions, the top five vertical industries offering the most opportunity for print providers are as follows:

1. Packaging Foods

Revenue Forecast: \$1.836T; Print Potential: \$31.7B; Print Change: 18%

2. Medical/Pharmaceuticals

Revenue Forecast: \$971B; Print Potential: \$22.5B; Print Change: 6%

3. Health Providers

Revenue Forecast: \$4.887T; Print Potential: \$20.6B; Print Change: 8%

4. Real Estate

Revenue Forecast: \$2.950T; Print Potential: \$11.8B; Print Change: 9%

5. Beverages

Revenue Forecast: \$548B; Print Potential: \$11.8B; Print Change: 6%

Solid Opportunities Lie Ahead

As the economy continues to reopen, print sales are returning. Commercial printers participating in PRINTING United Alliance/NAPCO Research State of the Industry research surveys report increases in print sales, quote activity, and work on hand. This year, 2022, is when print providers return to focusing on sustained growth, investment, staff development, and long-term success. Overall, the outlook for print demand looks strong. While many organizations initially reduced their use of print in the early days of the COVID-19 pandemic, usage has returned.

About The Research and Report Series

Propelling Your Business Forward in an Everchanging Competitive Environment is a

series of thought-leadership content
pieces based on a NAPCO Research
survey of communication buyers,
commercial printers, and
in-plants, sponsored by
Canon U.S.A., Inc.

Reports in the series include:

1. Print 2022 and Beyond
2. Enhancing the In-plant
Product and Service Offering
3. Pinpointing and Pursuing
High-Growth Print Applications
4. Positioning Your Commercial
Printing Business for Success

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