Printing Offshoring
Views of US Printers

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Printing Industry

- Global Print Production ~$600bn
  - US ~$166bn
  - North America, W. Europe, Asia ~30% each
  - Imports $4.7bn
  - Exports $5.2bn
  - Trade Surplus $500mn
    - Down from $1bn in 2000

Source: Printing Industry Association
Printing Industry

- US-China Print Trade
  - US Exports to China ~$82mn
  - US Imports from China ~$1.2bn
  - Growing 26% per year

Source: Printing Industry Association
Larger Context of Printing Industry

• Tough Times
  – Many going out of business
    • Surplus equipment on secondary market
• Low Barriers to Entry
  – Margins thin
• Enterprise to Establishment Ratio Almost 1
• Technological Transformation
  – Digitization of production process
  – Internet - disruptive of markets
Project Methods

1. Survey design
   – Interviews with experts
   – 10 page survey with 50 questions

2. Web-based surveys sent to 3,228 PIA/GATF Members
   – 242 valid responses (8.8%)

3. Follow-up Interviews with 15 Printers
   – Validate and “thicker” description
Two Interests: Opportunities & Challenges

• Are Printers Taking Advantage of Opportunities?
  – Global reach
    • Customers – increase market
    • Suppliers – lower costs
      – Outsourcing or Offshoring

• Which Printers Face the Biggest Challenges?
  – Characteristics that make a printer more or less vulnerable to foreign competition
Hypotheses & Findings: “Vulnerability” to Offshore Sourcing

- **Product Types**
  - ↑ Vulnerability
    - Books** ↑
    - Packaging* ↑
  - ↓ Vulnerability
    - Quick Printing* ↓
    - Advertising Materials – ↑ but not significant
Hypotheses & Findings: “Vulnerability” to Offshore Sourcing

- Complementary Services
  - ↑ Vulnerability
    - Digital Services ↓ not significant
      - CD ROM; web dev’t & hosting
    - Digital Proofing** ↑
  - ↓ Vulnerability
    - Data Services* ↑
      - Mailing & fulfillment; variable data printing
    - Laminating & Mounting** ↑
Hypotheses: “Vulnerability” to Offshoring

- **Firm Characteristics**
  - ↓ Vulnerability
    - “Innovative”
    - Large Share of Repeat Customers

- **Localization**
  - ↓ Vulnerability
    - Value in Geographic Proximity
    - Value in US Cultural Knowledge
Descriptive Stats – Foreign Competition

• How Will Foreign Competition Change?
  – Increase: 77%
  – Stay Same: 22%

• 49% Lost A Job to Foreign Competition
  – Seems higher than trade data from PIA
  – Location of Competitor
    • China: 57%
    • Canada: 16%
    • Mexico: 16%
    • Europe: 10%
    • India: 5%
Foreign Competition

- 49% Lost A Job to Foreign Competition
  - Competitive Causes Cited by Printers
    - Lower costs: 34%
    - Customer’s work moved overseas: 7.7%
  - Print Job Characteristics Cited by Printers
    - Long print runs: 14%
    - Labor intensive finishing: 11%
Global Reach - Sales

• Only 17% Performed a Job for Customer Outside US
  – Avg share of sales: 6%

• 44% Sell Through Print Brokers
  – Avg share of sales: 21%  std dev: 23%  
  – Will brokers reach global customers?
Global Reach - Sourcing

• Offshore Outsourcing of Printing Processes
  Very Small
  – Savings for those who did
    • 43% no savings
    • 40% saved <40%
    • 16% saved >40%
  – 18% of printers had definite plans to offshore
    outsource some of their printing processes in
    near future
Observations from Interviews

- Quality Differentials Not Big
  - Most agreed with this

- Equipment Offshore >= US
  - Sometimes at lower costs because of secondary market

- Value per Weight is Important But...
  - Transport/logistics costs changing

- Most Printers Are Concerned About Foreign Competition
  - Not universal (e.g., niche vendor)

- Some See Actual Threat is From Domestic Printers That Have Lost to Foreign Competition
  - Start to crowd into non-tradable markets like quick turn
Observations from Interviews

• Pricing Pressure High, Costs Going Up
  – Costs Rising: Paper & Medical
• Many Customers within 60-100 Miles
• Niche Markets
  – Religious, maps, educational
• Catalogues
  – Lengthen lead time to accommodate offshore printing
  – Customer adapts its business processes
Observations from Interviews

• Equivalent or Better Technology
  – Sometimes at lower costs – secondary market

• Paper
  – Indonesia - eucalyptus trees – fast growing – cheaper
  – India – sugar cane base – cheaper

• Die Costs $50 in China vs. $600-$900 in US

• US Poor Cost Accounting
Observations from Interviews

• How Do You Feel About Offshore Outsourcing
  – Printer A won’t allow his workers to drive foreign cars
  – Printer B went to China as part of MBA program, made contacts and was able to successfully source complex product from China
    • Advocates that PIA or another organization help to make these connections
  – US is too provincial and parochial
• One Claimed Equipment is Dumped in Southeast Asia
• Investing in Tech to Compete
Geographic Dispersion of Industry

• Printing Industry Structure
  – Large number of small firms with geographic dispersion
  – Large fan-out
  – Logistics costs
  – Not a single industry – lots of sub-markets

• Kletzer/Jensen Analysis of Services Occupations Vulnerability
  – Does geographic structure of printing make it less vulnerable?
Conclusions

• Printers View Foreign Competition as a Threat
  – Is it real?
  – Other factors are greater threat
    • Should responses to foreign competition be different?

• Most Have Little Global Reach
  – Non-US Customers
  – Non-US Suppliers

• Surprises
  – Little is being done in Mexico