



THE UK PRINTING INDUSTRY

FUTURE FOCUS



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FOREWORD

In these challenging times the creation of the right portfolio of products and services is essential in creating a sustainable business strategy. Gaining insight into and delivering the right investment decisions can be challenging, but it is a process and the more input and information, the better.

Ensuring you have the right business model that delivers profitability and sustainability is something that needs to be looked at again as the economy recovers and the technology that is available and the options for process improvements and throughput opens up new opportunities.

Additional challenges that call for a revised review of your business model include:

- **Business environment:**
It is profoundly more complex and industry conventional boundaries are fading. Technology is bringing competition into your backyard and you have the opportunity to similarly follow.
- **Competition:**
Today the basis of competition is increasingly based on capabilities and knowledge.
- **Value Creation:**
The value-added potential of many businesses is shifting toward knowledge, systemic innovation, and service-based activities.
- **Extended Enterprise:**
Virtual integration, partnerships, strategic alliances and joint ventures, part of the extended enterprise, are becoming common parts of competitive strategies.

Companies that get investment right will inevitably capture the most profitable opportunities, clients and markets. Companies that don't will be left to compete on unfavourable terms and smaller returns.

With this study we hope to provide you with a better understanding of cumulative trends impacting the Industry. If you already have a feeling where it is going, this will confirm your thoughts, and provide you and your team with information to make appropriate capital investment decisions.

If you don't have such a clear idea, then hopefully this will give you some clarity into the uncertainty that seems to be prevalent. There are many common issues faced by organisations across the industry, clearly some organisations are dealing with these challenges better than others. In using this report to understand the industry's environment, we hope to assist in making accurate decisions and taking affirmative action. Whatever your active decision-making process, it must be proactive and based on accurate and relevant insight. Good decision making will invariably be able to withstand challenges.

The nature of today's pattern of risk necessitates that decision making is a more structured process and so reasonably significant capital investment decisions need to follow a more effective and robust process.





INTRODUCTION

Whilst everyone knows the output and service offering provided by print service providers (PSPs) is changing, it's interesting to review the pressures and combined issues that are driving these changes. Such factors have a profound effect on which business model is best to thrive and survive. The combination and management of external market drivers, customer needs and internal issues can create great dysfunction when seeking to make clear decisions on which direction to take.

Debating the effect of these factors need to be combined with self business analysis, covering relevant questions. It can be a difficult task, but one that needs to be done in order to reduce missed opportunities and increase profitability and sustainability. This research and associated commentary, commissioned by Neopost, will hopefully give a platform for making better decisions on which business model is best suited for your organisation and the markets and sectors you operate across.

SOME KEY QUESTIONS

- What are our critical capabilities?
- What are our critical vulnerabilities?
- What are our critical requirements?
- What's working and what's not?
- Where can we create competitive advantage?
- Is outsourcing a better option?
- What partnerships are available to us?
- What intelligence and resources outside my industry will help enhance my offer?
- What are my short, medium and long term gains?
- What skills do I need to invest in to transform my service proposition?

SOME OF THE BIGGEST CHALLENGES EXIST INTERNALLY WITHIN AN ORGANISATION

Greater reliance on technology requires greater flexibility to manage both internal and external relationships as well as a more educated and skilled workforce which needs managing in a different way from what has become the norm. The challenges faced cover:

- Gaining broader and fundamental understanding of your customers strategic needs.
- The team really now do need the right skills and best training. Look at gap analysis.
- Ensuring staff retention. Upturn means greater mobility.
- How to manage the next step of change in a recovering economy.

HR has a big role to play in these issues and this needs careful planning.

WHY IS FOCUS ON A NEW BUSINESS MODEL IMPORTANT?

The internal focus is shifting away from cost structure, maximising operational effectiveness, and business process re-engineering towards building capabilities for faster growth, acquisition and retention of the best people; talent development.

Understanding these factors contributes to developing the most appropriate and effective business model.

The more successful companies are harnessing the full potential of the entire organisation in the rapidly changing business environment. Winners will be the firms that are responsive to challenges and adroit in both creating and capturing opportunities.

The new business model has much stronger focus on the basics of what ultimately creates value today – people, knowledge, and coherence.



EXECUTIVE SUMMARY



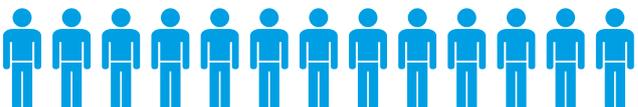
THE UK PRINTING INDUSTRY - CURRENT STATE

- The UK is the fifth largest producer of printed products in the world and printed matter contributes almost £700 million to the UK's balance of trade.
- Printing is obviously the dominant activity, accounting for the majority of company turnover (56% on average). Finishing and binding was the secondary activity (19%); followed by pre-press (8%).
- Outside the traditional 'step-before' and 'step-after' activities to printing, mailing and fulfilment provided the next largest contribution to turnover, closely followed print management, web design and database handling.
- Web to print has been a much talked about feature of the industry for a number of years; however two-thirds of respondents to Printing Outlook (January 2014) did not yet derive any turnover through a web to print system.

THE UK PRINTING SECTOR IS AN IMPORTANT ECONOMIC CONTRIBUTOR AND EMPLOYER IN ALL UK REGIONS

£14.1 BILLION
TURNOVER

GROSS VALUE ADDED OF
£6.6 BILLION


EMPLOYS **130,000** PEOPLE

10,000 COMPANIES

PRINTING OUTLOOK

Confidence is clearly returning within the UK printing sector, according to the latest BPIF Printing Outlook survey.

55%

BELIEVED THAT
THE MARKET IMPROVED
AT THE END OF 2013

8%

FELT THAT
THE SITUATION HAD
WORSENERD

BEST RESULTS FOR
5 AND 7
YEARS
RESPECTIVELY

CHALLENGES

PREDICTING INDUSTRY TURNOVER FOR NEXT 3 YEARS

44% **12%** **44%**

PREDICT GROWTH NOT COMMITTING PREDICT DECLINE

THE
3 STAND OUT
CHALLENGES

54%

OVERCAPACITY

53%

OTHER
MEDIA

41%

TECHNOLOGICAL
CHANGES

CHALLENGES FOR WINNING NEW CUSTOMERS

79%

OTHER
SUPPLIERS

66%

PRICING

41%

OTHER
MEDIA

39%

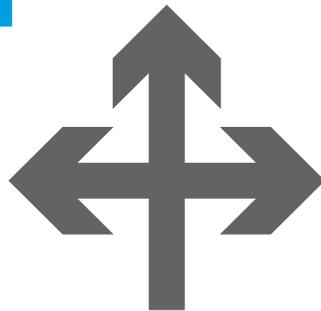
CREATING AND
COMMUNICATING
VALUE

EXECUTIVE SUMMARY

DIVERSIFICATION

2/3 respondents are having discussions with clients about widening their product/service offering to them.

68%



RESPONDENTS ARE ACTIVELY RESEARCHING NEW DIVERSIFICATION OPPORTUNITIES

- Almost three-quarters of respondents indicated that they had recently diversified, or are in the process of diversifying, their business.
- The most popular area for diversification was multi-channel production (i.e. alternative communication methods), 51% of respondents identified this.

MAILING AND FULFILMENT

51%

REPORTED THAT THEY ARE NOT CURRENTLY INVOLVED IN MAILING OR FULFILMENT.

1%

ARE INVOLVED IN MAILING ONLY

39%
ARE ALREADY INVOLVED IN BOTH FULFILMENT AND MAILING

15%

ARE ACTIVELY INVESTIGATING OFFERING MAILING SERVICES TO THEIR CLIENTS

9%

ARE INVOLVED IN FULFILMENT ONLY

CHANGE

The rise of **digital media** as a marketing channel has altered the landscape for the printing industry. Clients now need to communicate and reinforce their messages across multi-channels and to the same, and variable, audiences.



MOST DOMINANT EFFECTS OF MULTI-CHANNEL MARKETING

58%

REDUCED PRINT RUNS

54%

CHANGING CUSTOMER DEMANDS

Not considered to be negative effects by all printers.

NOTABLE POSITIVE EFFECTS

27%

STIMULATION OF INNOVATION

24%

ENCOURAGEMENT OF CUSTOMER ENGAGEMENT

16%

EFFICIENCY GAINS

12%

REVENUE GROWTH

EXPECTATIONS FOR PERSONALISATION AND VARIABLE DATA

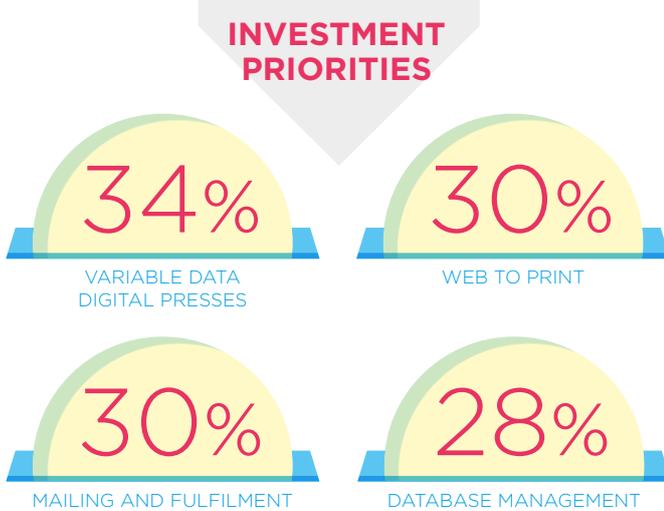
71%

PREDICTING GROWTH IN PERSONALISATION AND VARIABLE DATA IN THE NEXT THREE YEARS

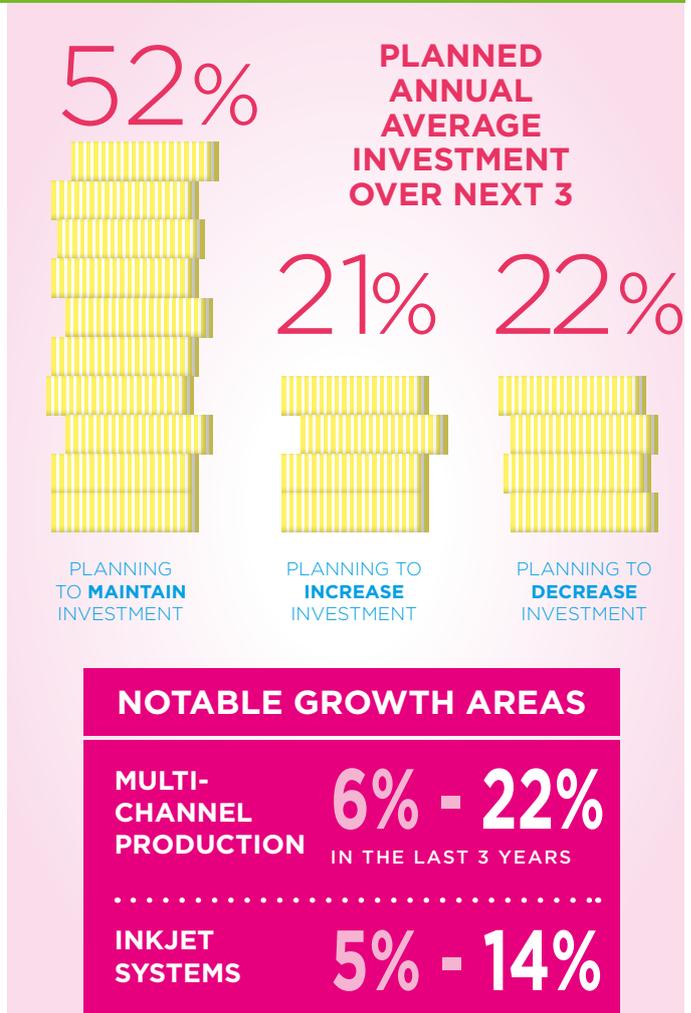


CAPITAL INVESTMENT

Annual average investment in capital as a % of annual sales - the majority of respondents were in the 0.0-5.9% range. 15% reported annual average capital expenditure to be equal or greater than 15% of annual average sales over the period from 2011 to 2013.



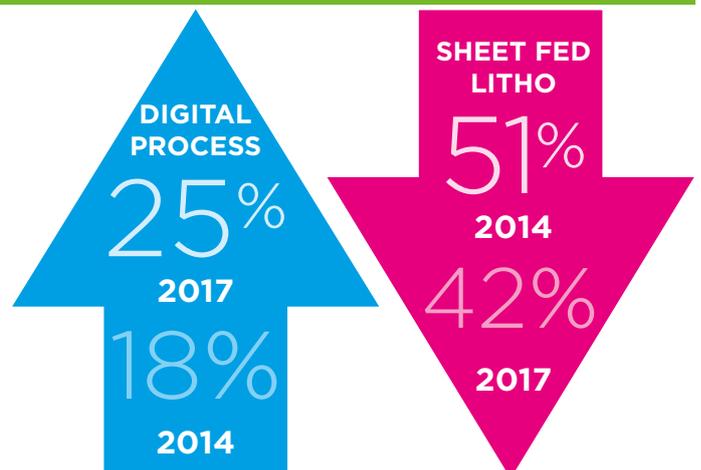
- Comparisons between the time periods suggest that many companies have recently invested in MIS and on bringing binding and finishing services in-house.
- It is early days to expect much involvement in some of the new/emerging technologies - nonetheless printed electronics and 3D printing did register interest.



93% DID NOT CONSIDER ACCESS TO FINANCE TO BE RESTRICTIVE

CURRENT STATE v FUTURE STATE

- Many companies are relatively optimistic about their own performance. The BPIF's Printing Outlook report (January 2014) noted that 55% considered their companies to be expanding.
- This Future Focus study asked respondents for their turnover predictions for three years time. As one might expect, there were increases and decreases forecasted, however the overall average predicted change in company turnover during the three year period was in excess of 20%.
- Three years ahead is a short time-frame in which to see much shift in areas of activity. Some growth is expected in pre-press and design for printing, mailing and fulfilment and database handling.



MARKET SHARE OF **DIGITAL** AND **PRINTING** PROCESSES



THE CURRENT STATE OF THE UK PRINTING INDUSTRY

With a turnover of £14.1 billion, gross value added of £6.6 billion and employing nearly 130,000 people in around 10,000 companies the UK printing sector is an important economic contributor and employer in all UK regions.

The UK is the fifth largest producer of printed products in the world and printed matter contributes almost £700 million to the UK's balance of trade.

Further facts and figures for the UK Printing Industry are available on the BPIF website:

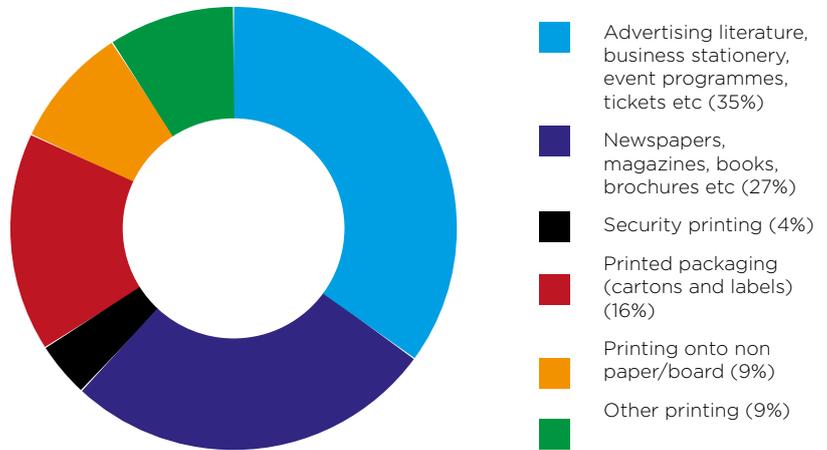
www.britishprint.com/factsandfigures/

This Future Focus study is based upon in-depth research from companies comprising a combined turnover of £616 million, across 83 companies and covering 4,737 employees. The fact that this research is drawn from the industry itself, gives it a unique perspective on UK printing. However, the report also pulls in other relevant information from available sources, in order to provide a more holistic view.

The chart above shows the latest available comprehensive market share by product sector available for the UK printing industry - compiled, by BPIF Research, from 'official' data from the Office for National Statistics.

It is important to point out that the vast majority of printed products have an impact upon marketing. The relationship is vital, not just for the directly related point-of-sale, direct mail and poster advertising material but also in the channels provided through newspapers, magazines and brochures; brand identity on printed packaging and labels; and, even the additional programme and ticket marketing collateral surrounding events.

PRINTING MARKET SHARE BY PRODUCT SECTOR - 2012



Source: BPIF Research analysis of ON data

Of course, the printing industry is more than just the traditional marketing related collateral; printed packaging (cartons and labels) is a significant share - not to mention printing on to material other than paper or board (which will include the 'flexibles' aspect of printed packaging).

Furthermore, the ability of the industry to adapt to changing customer demands and emerging technologies means that there is innovation in new product areas and applications for print - printed electronics and 3D printing being prime examples to keep an eye on.

Further detail on the UK Printing Industry by product sector is available on the BPIF website:

www.britishprint.com/researchdownloads/



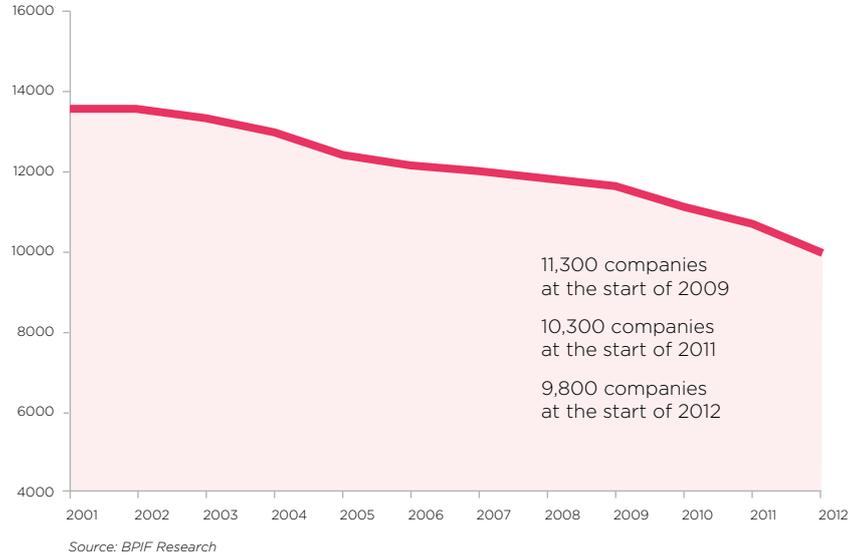
COMPANIES, EMPLOYEES AND TURNOVER

Anyone that pays remote attention to the trade press will be well aware that the number of companies involved in the printing industry will have been declining since the new millennium. The chart (right top) depicts that rate of decline - we see that there is a relatively consistent downward slope to the latest available data of 9,800 companies at the start of 2012. In reality now the figure for 2014 is likely to be closer to 9,000 companies.

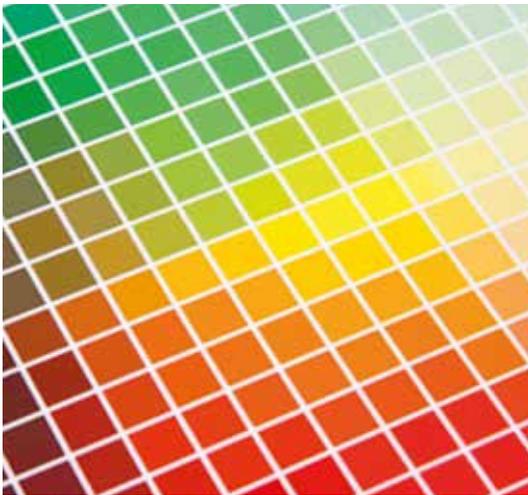
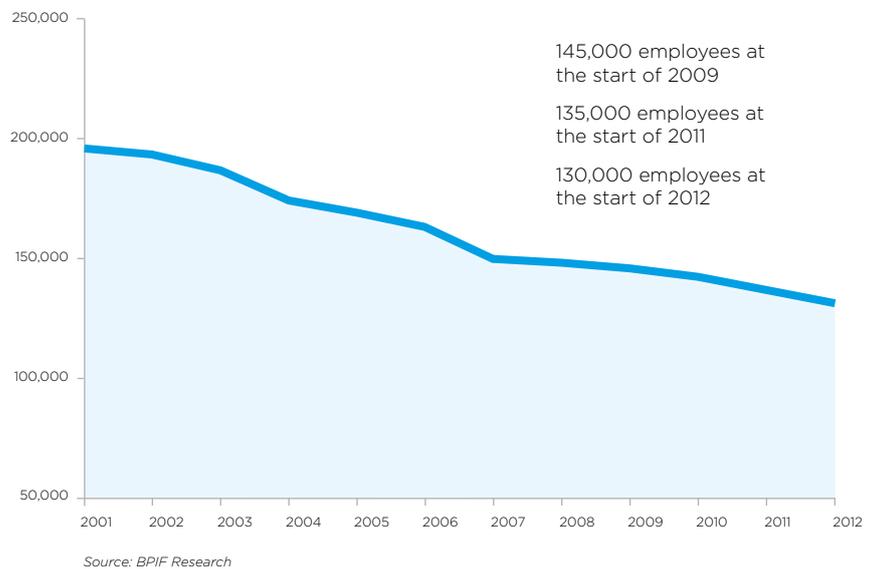
The number of employees has also been under downward pressure. The chart (right bottom) shows that the decline in the number of companies, combined with technological changes and efficiency improvements, has reduced the number of employees in the printing industry steadily over the last 10-15 years.

Available data suggests 130,000 employees at the start of 2012 - it is likely to be closer to 125,000 in 2014.

UK PRINTING INDUSTRY - NUMBER OF COMPANIES 2001-2012



UK PRINTING INDUSTRY - NUMBER OF EMPLOYEES 2001-2012





THE CURRENT STATE OF THE UK PRINTING INDUSTRY

COMPANIES, EMPLOYEES AND TURNOVER (CONTINUED)

Industry turnover has been relatively stable in comparison to the number of companies and employees. However, there have been fluctuations. Notably an effective ‘step-down’ occurred between 2009 and 2010, following the financial crisis at the end of 2008. The latest available information pointed to some growth through to 2012. Preliminary analysis suggests that turnover growth may not have continued into 2012 - though indications from the BPIF’s Printing Outlook would suggest that 2013 has generated more income than 2012 for the UK Printing Industry.

The *Future Focus* study asked respondents to classify their turnover into the component activities from which it was derived. The chart (right middle) depicts the average turnover proportions by activity.

Printing is obviously the dominant activity, accounting for the majority of company turnover (56% on average). Finishing and binding was the secondary activity, with almost one-fifth of turnover (19%); followed by pre-press with less than one-tenth (8%).

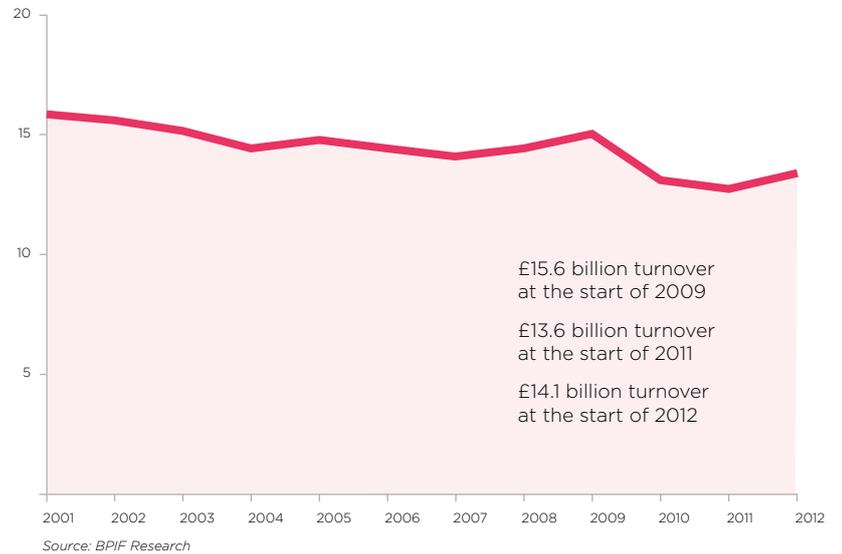
Outside the traditional ‘step-before’ and ‘step-after’ activities to printing, mailing and fulfilment provided the next largest contribution to turnover - with 3%, closely followed print management, web design and database handling.

With printing being the largest contributor, respondents were then asked to declare how the various available printing processes contributed to the ‘printing’ component of turnover. The chart (right bottom) provides the breakdown for respondents to the survey.

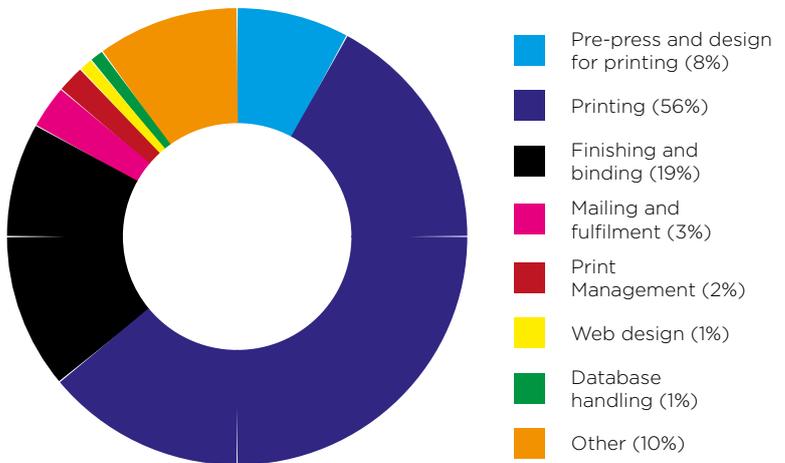
Unsurprisingly sheetfed litho had a majority stake of the printing revenues with a 51% share, digital was the next significant contributor (18%), closely followed by web offset and then flexographic (11%). Coldset rather than heatset shaded the majority of the web offset contribution whilst cut sheet (as opposed to wide format and high speed continuous inkjet) accounted for the vast proportion of the digital share.

Gravure, screen, letterpress and ‘other’ had only a very small representation amongst the survey respondents.

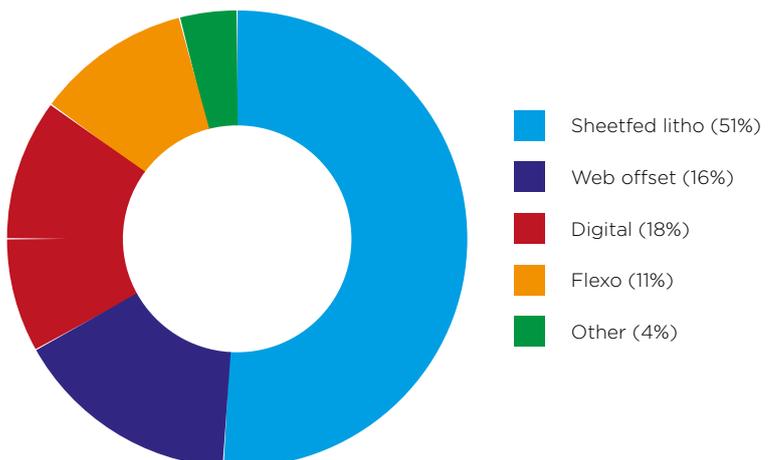
UK PRINTING INDUSTRY - TURNOVER (£BN) 2001-2012



COMPANY TURNOVER BY ACTIVITY 2014



PRINTING TURNOVER BY PROCESS 2014





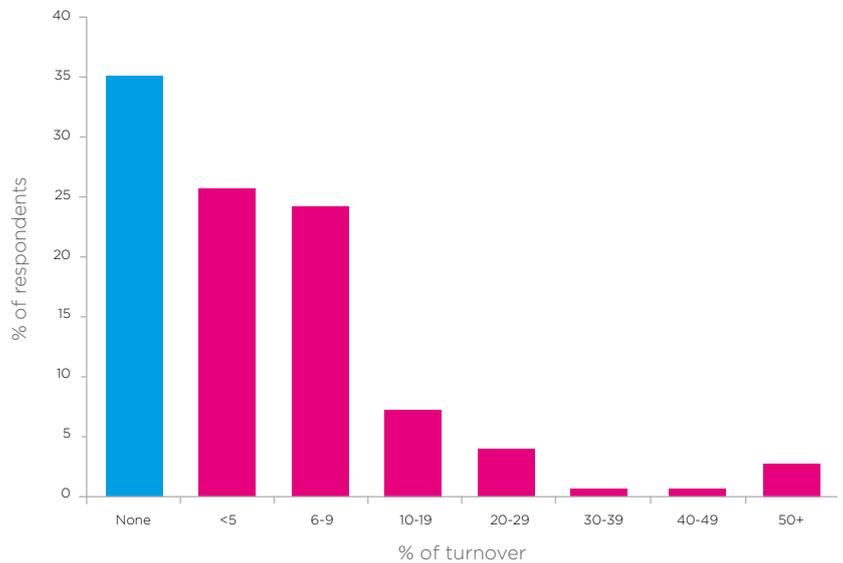
A majority of printers obtained some work from print managers, though significantly over one-third (35%) did not earn any income by that route - as the chart (right top) shows.

Of those that did work with print managers, most (50% of all respondents) earned less than 10% of their income from them. However, there were some instances where companies earned more than 50% of their income through print managers.

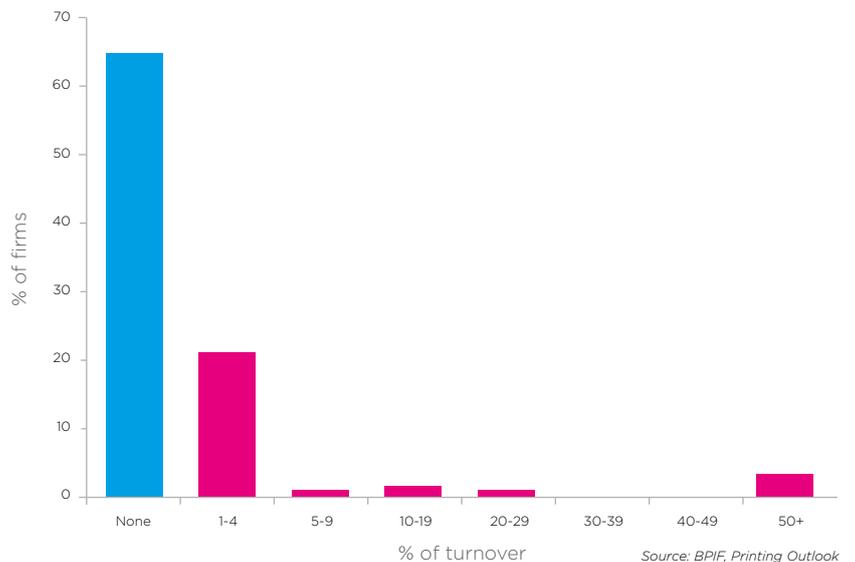
Whilst the Future Focus study did not ask specifically about turnover derived through Web to print - this topic was recently introduced in to the BPIF's Printing Outlook research.

The chart (right bottom) shows that whilst web to print has been a much talked about feature of the industry for a number of years; two-thirds of respondents to Printing Outlook (January 2014) did not yet derive any turnover through a web to print system. However - reflective of the print manager derived turnover above - a small proportion was generating at least half of their turnover through a web to print installation.

TURNOVER DERIVED THROUGH PRINT MANAGERS

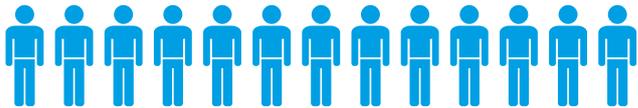


TURNOVER DERIVED THROUGH WEB TO PRINT



THE UK PRINTING SECTOR IS AN IMPORTANT ECONOMIC CONTRIBUTOR AND EMPLOYER IN ALL UK REGIONS

£14.1 BILLION
TURNOVER


EMPLOYS 130,000 PEOPLE

GROSS VALUE ADDED OF
£6.6 BILLION


10,000 COMPANIES

PRINTING OUTLOOK

Confidence is clearly returning within the UK printing sector, according to the latest BPIF Printing Outlook survey. When questioned regarding the general state of trade during the final quarter of 2013, more than half (55%) believed that the market improved with just 8% reckoning the situation had worsened. The results are the best for five and seven years respectively.

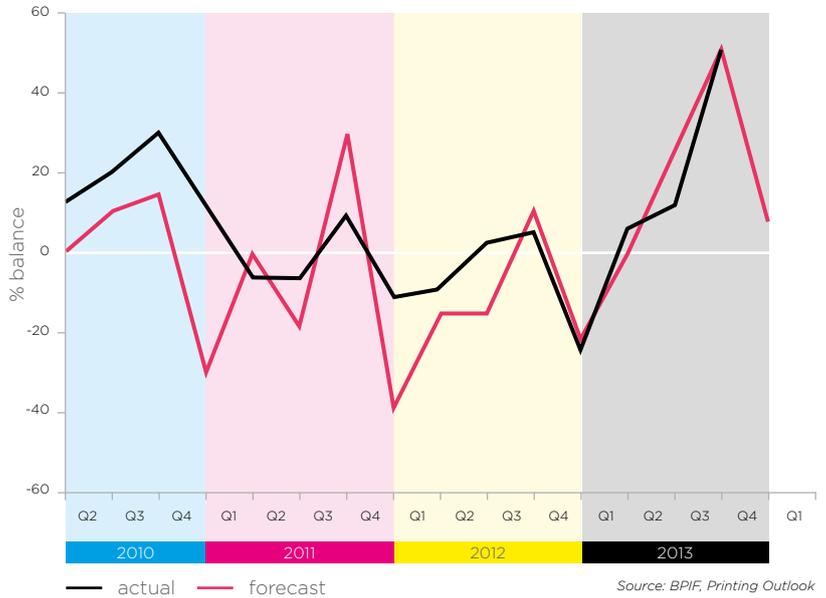
As shown graphically, sentiment has continued to improve from the most recent nadir in Q1 2013. While confidence is lower in respect of expectations for the current quarter, the fact that there is a positive balance between ups and downs is notable for a period that normally sees a less optimistic forecast. In terms of trading prospects compared with a year earlier, 38% believe that the first quarter of 2014 will be better compared with 12% that is fearful of a weakening.

For the second quarter running, demand for print matched the forecast; this meant that the final quarter of 2013 was a busier time for many. The level of new business increased for more than half of survey respondents (52%). This was the highest figure for three years and comfortably outweighed the 9% that suffered a drop in orders. Activity traditionally rises during the final three months of a year (a fall in demand during 2012 being the exception rather than the rule) but this time around the sector also appears to be benefiting from the pick up in the general economy and rising business confidence.

As expected, output levels rose in tandem with the increase in demand. In fact, the number of printers that saw a rise in production (58%) was the highest for six years.

The main business concern among printers remains the issue of competitors pricing below cost to attract custom. Almost three quarters highlight this process as being detrimental to growth. Replacing the worry that profit levels are not sufficient to allow for investment as the second key concern is the impact of expected paper and board prices on profitability. Also rising into third place and very much linked to the chief concern among firms is the financial effect of poor output prices. Late payments by customers, under-utilisation of capital equipment, survival of major customers and pre-pack administrations also feature highly among the main anxieties.

GENERAL STATE OF THE TRADE - OUTLOOK REMAINS POSITIVE



Source: BPIF, Printing Outlook
The balance of +47 almost matched the prediction of +48. A balance of +13 forecast for the coming three months.

Confidence is clearly returning within the UK printing sector, according to the latest BPIF Printing Outlook survey.

55%

BELIEVED THAT
THE MARKET IMPROVED
AT THE END OF 2013

8%

FELT THAT
THE SITUATION HAD
WORSENERD



“It is heartening to see the optimism created by the stronger trading at the end of 2013 continuing into the current year. Whilst there are still significant challenges to face the industry is looking at across the board investment to increase productivity and maintain and improve operating margins. 2014 promises to be an exciting year.”

Kathy Woodward
BPIF CEO

BEST RESULTS FOR
5 AND 7
YEARS
RESPECTIVELY



SUMMARY OF KEY FINDINGS FROM PRINTING OUTLOOK, JANUARY 2014

- More than a half of UK printers reported rising demand with output levels at a six-year high. A traditionally quieter Q1 is forecast.
- Confidence levels are the highest for a number of years; vast majority of firms report that they are expanding or stabilising.
- Little overall change in capacity utilisation levels or lead times despite a busier period for many.
- Changes in employment levels at the most positive since Q2 2005.
- Downward pressure on output prices remains a constant for a quarter of print firms and continues to be a key concern.
- Input costs generally remained stable in Q4 with the prime exception of further rises in energy charges. Energy and paper price inflation is predicted by some during Q1.
- Downward pressure on margins but situation is less marked than in previous quarters.
- Overall levels of profitability still give cause for concern.
- Export market remains stable, prospects for growth improve.
- Improvement in the availability of bank lending noted by some. The cost of bank lending and the level of bad debt has also been a concern but less so at the end of 2013.
- Investment intentions are positive for 2014; in particular for product and process innovation and training and retraining - but also for plant and machinery.

CHALLENGES

The UK Printing Industry, and many companies in it, have been under pressure for a number of years - however the outlook and business confidence does appear to have improved in the last year or so. When companies involved in the Future Focus study were asked of their turnover expectations for the UK Printing Industry over the next three years - as we can see in the chart alongside - the response was varied.

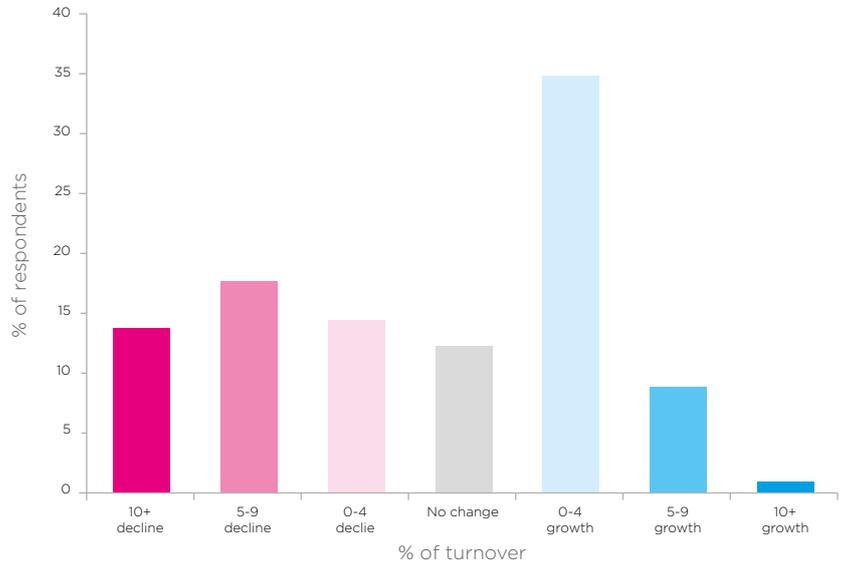
Taking a broad analysis of this we see that 44% of respondents are predicting a decline in industry turnover; 12% are not committing to decline or growth and therefore an exact balancing 44% are expecting growth in printing industry turnover over the next three years.

However, the columns on the charts (opposite page) clearly indicate that the strength of decline (the red columns are fairly evenly spread across the percentage options) may outweigh the strength of the growth predictions (growth predictions are heavily concentrated in the 0-4% range).

Respondents were asked what they considered to be the top three challenges facing the UK Printing Industry over the next three years. The chart below shows that the three stand-out challenges ahead are expected to be overcapacity (selected by 54% of respondents), competition from other media channels (53%) and technological changes (41%).

Competition from other suppliers (33%) and creating and communication value (28%) are also concerns – as of course are material costs (24%) and energy costs (22%). ‘Other’ concerns that featured included a reliance on selling on price (as opposed to value and return on investment) and continued public sector cutbacks.

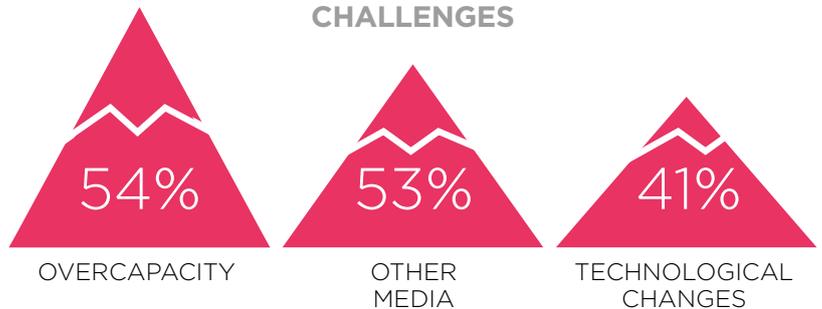
EXPECTATIONS FOR INDUSTRY TURNOVER OVER THE NEXT THREE YEARS



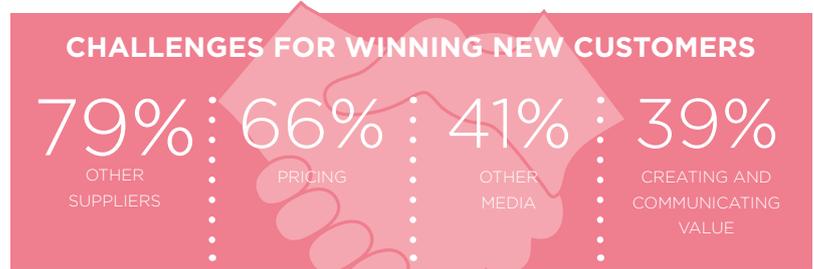
PREDICTING INDUSTRY TURNOVER FOR NEXT 3 YEARS



THE 3 STAND OUT CHALLENGES



CHALLENGES FOR WINNING NEW CUSTOMERS





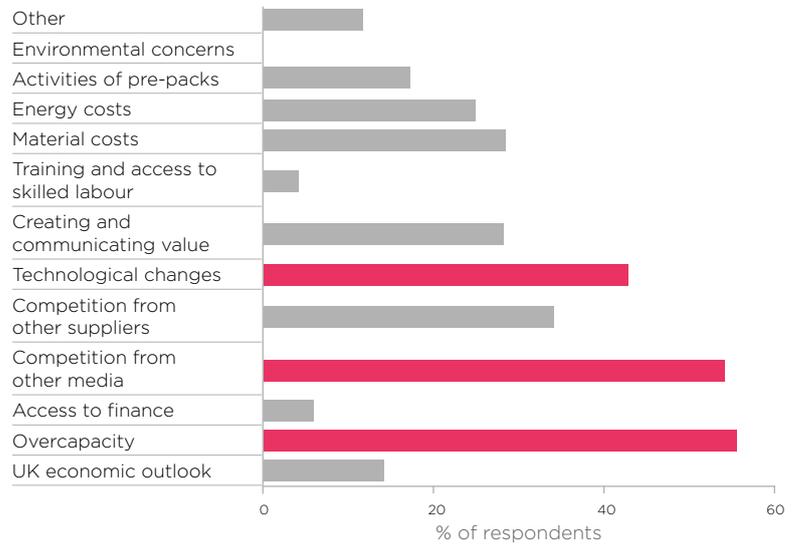
When asked to then think about the challenges that they would directly face in winning new customers, the most dominant challenge was competition from other suppliers (selected in the top three challenges by 79% of respondents). Pricing (66%) wasn't too far behind and then competition from other media channels (41%) and creating and communicating value (39%) were the next recognised challenges.

One of the recurring 'other' specified challenges concerned the issue of clients taking production/services in-house rather than using an external supplier.

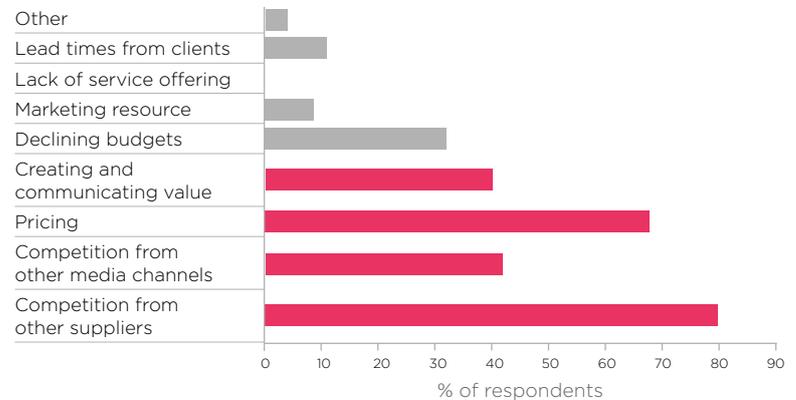
Similarly when asked to consider the challenges with regard to retaining existing customers, competition from other suppliers (83%) and pricing (72%) remained the top two indicated challenges. The chart (bottom right) shows that, once again, competition from other media channels (45%) featured next. However, for retaining existing clients, declining budgets (36%) was selected ahead of creating and communicating value (20%).

'Other' specified challenges included inexperienced clients making purchase decisions and issues surrounding late payment and concerns that has upon cashflow.

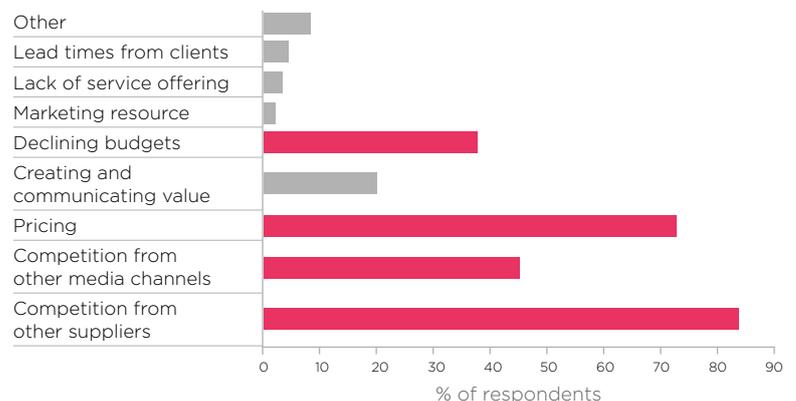
MAJOR CHALLENGES FOR THE INDUSTRY TO FACE IN THE NEXT THREE YEARS



MAJOR CHALLENGES IN WINNING NEW CUSTOMERS



MAJOR CHALLENGES IN RETAINING EXISTING CUSTOMERS





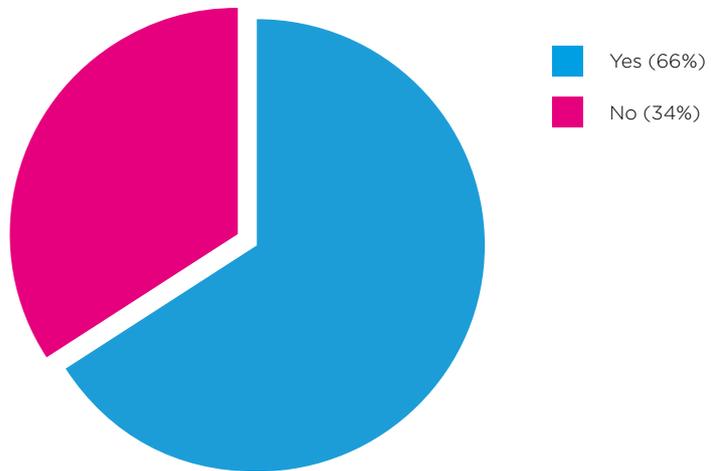
DIVERSIFICATION

Communication channels and relationships with clients seem positive according to the revelation that two-thirds of respondents (as shown in the chart top right) are having discussions with clients about widening their product/service offering to them. Clearly it's vital to have real interest from current and potential clients when it comes to diversifying from a core or traditional product/service offering.

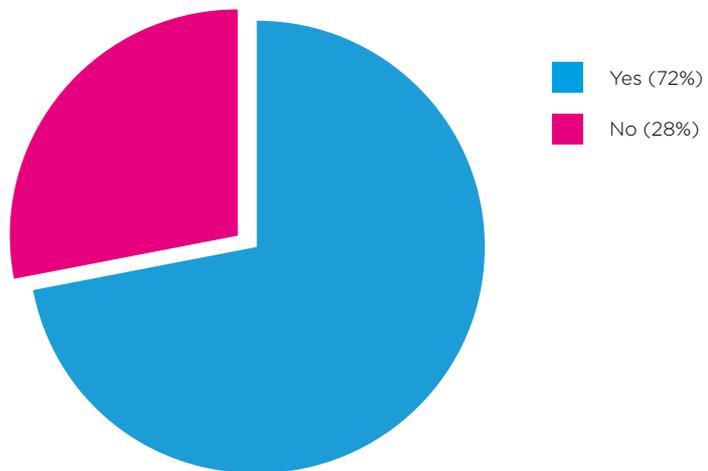
Furthermore, printers are no strangers to diversification, the chart (bottom right) shows that almost three-quarters of respondents indicated that they had recently diversified, or are in the process of diversifying, their business.

Of course there are different extremes (and associated risks and opportunities) of diversification. When asked to indicate areas that they have diversified into (or are diversifying into) - the most popular area was multi-channel production (i.e. alternative communication methods), 51% of respondents identified this.

CUSTOMERS TALKING TO YOU ABOUT THE PROVISION OF WIDER SERVICES



RECENTLY DIVERSIFIED OR IN THE PROCESS OF DIVERSIFYING

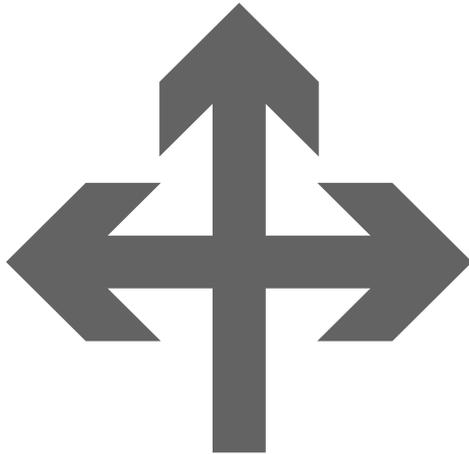


2/3 respondents are having discussions with clients about widening their product/service offering to them.

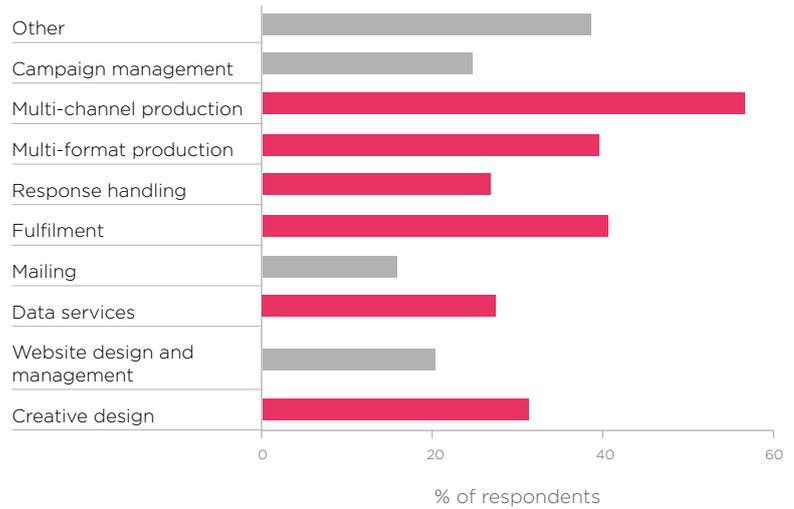




68%



RESPONDENTS ARE ACTIVELY RESEARCHING NEW DIVERSIFICATION OPPORTUNITIES



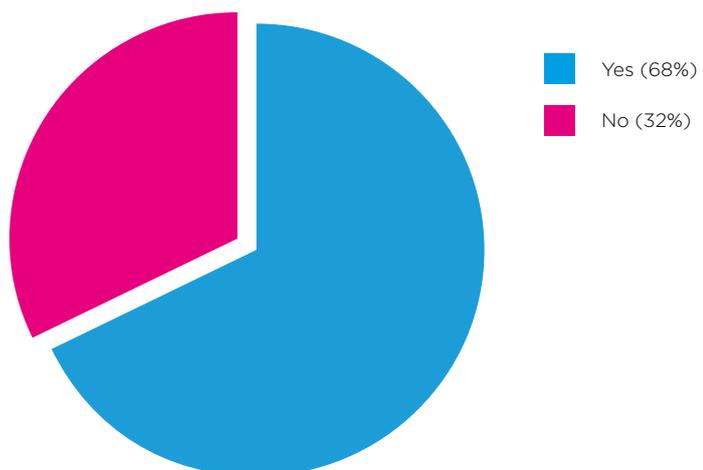
The most popular areas of diversification are shown red in the chart above; next up was fulfilment (40%), closely followed by multi-format production (i.e. further print processes) with 37% of respondents. 30% of respondents have moved into creative design, 27% into data services and 22% into response handling.

The other identified areas were also important diversification areas for a significant proportion of respondents. In particular website design and management (19%), campaign management (18%) and mailing (15%).

Comments picked up in the 'other' category referred to movements into new products and services. There were a number of references to printing companies moving into packaging products and packaging printers moving into extending their packaging range and digital processes.

The current climate of business increases the importance for printers to continually look towards new revenue streams and opportunities for diversification. The chart alongside shows that 68% of respondents are actively researching new diversification opportunities.

LOOKING AT NEW REVENUE STREAMS BEYOND CURRENT DIVERSIFICATION





MAILING AND FULFILMENT

When asked specifically about mailing and fulfilment – a very slight majority of respondents (51%) reported that they are not currently involved in either. However the earlier diversification section did reveal that mailing and fulfilment is an important diversification area for many printers.

The chart (top right) indicates that almost two-fifths (39%) of respondents are already currently involved in both fulfilment and mailing; a further 9% in fulfilment only and 1% in mailing only.

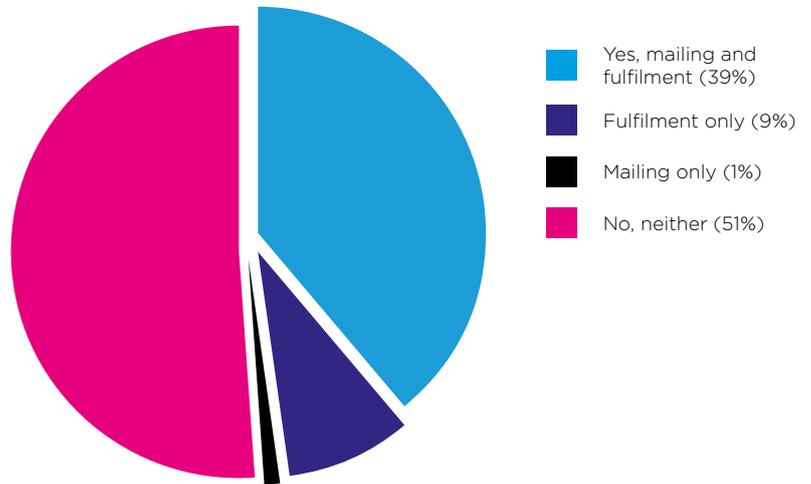
When it comes to knowledge of the mailing market respondents were split straight down the middle (as the coloured sections show in the chart middle right) – with 50% having little or no knowledge and 50% having enough or more than enough knowledge.

If more printers are to be encouraged to get involved in mailing then there is work to be done to provide more information on the mailing market to assist printers.

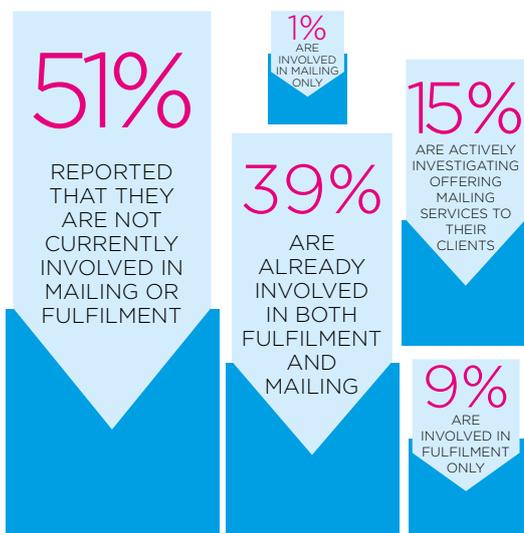
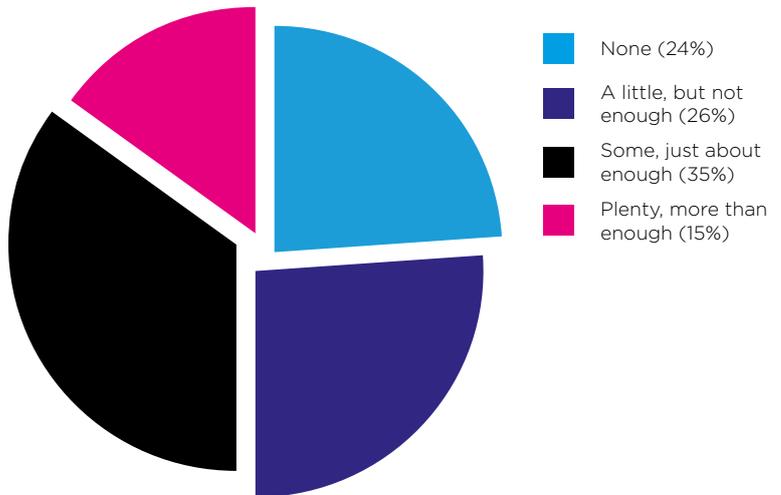
The Future Focus study (and the chart below right) shows that 15% of respondents are indeed actively investigating offering mailing services to their clients.

However, some concerns were raised regarding the cost of entry to the sector and the level of competition that was already present in the mailing market.

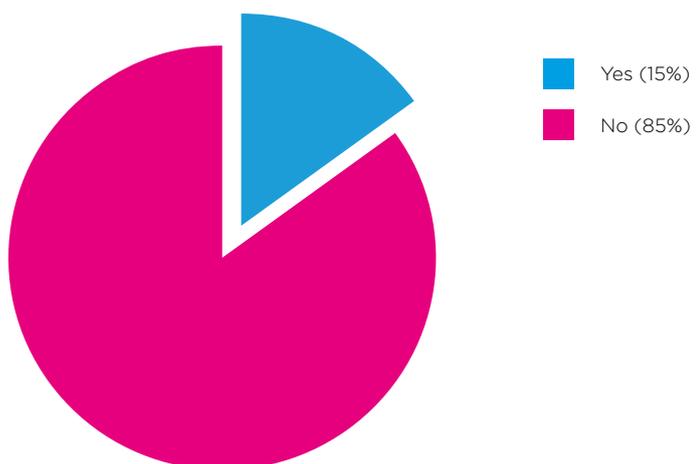
MAILING AND FULFILMENT CAPABILITY



KNOWLEDGE OF THE MAILING MARKET



INVESTIGATING OFFERING MAILING SERVICES







CHANGE

The rise of digital media as a marketing channel has undeniably altered the landscape for the printing industry. Clients now often need to communicate and reinforce their messages across multi-channels and to the same, and variable, audiences. Multi-channel marketing refers to the use of a combination of communication techniques such as websites, social media, direct mail, email, text message etc.

Respondents were asked to identify the most dominant effects multi-channel marketing has had upon their business. The chart (top right) shows which effects are considered to be most dominant. Not all effects are negative - the largely negative effects are shown in red and the more positive effects in grey.

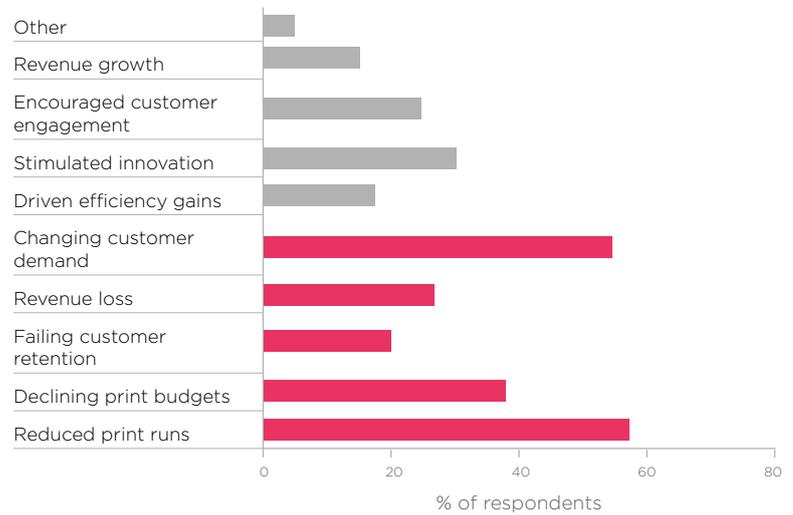
Reduced print runs (58%) and changing customer demand (54%) were selected as the most dominant effects of multi-channel marketing - they are both shown in red, however (as previous research by the BPIF has shown - see the chart alongside) they are not considered to be negative effects by all printers.

By way of explanation, some digital printers have thrived on the changing nature of client demand and the desire for shorter print runs as it has increased the target in terms of appropriate work for digital printing equipment.

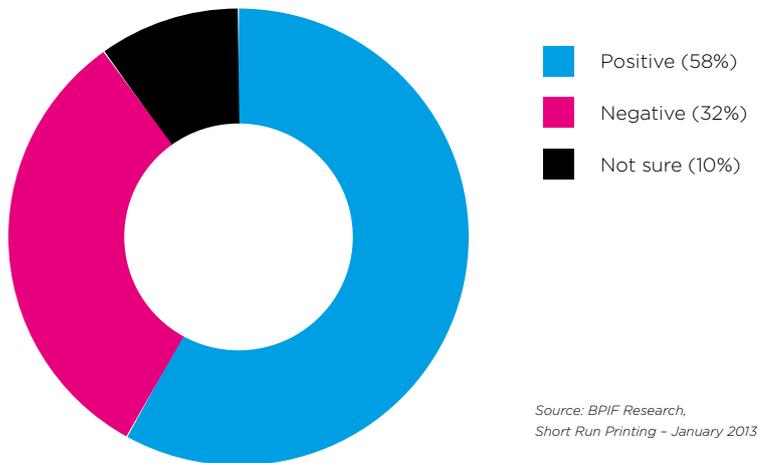
The notable positive effects are the stimulation of innovation (27%) and the encouragement of customer engagement (24%). Efficiency gains (16%) and revenue growth (12%) were also other positive effects noted by a significant share of printers.

The most common identified challenges specific to multi-channel production were surrounding the knowledge and skill sets required to understand and implement multi-channel production and to be able to communicate and sell this to clients. Other issues encountered included managing the workflow and ensuring the security of data.

EFFECTS OF MULTI-CHANNEL MARKETING ON BUSINESS



REDUCED RUN LENGTHS - POSITIVE OR NEGATIVE?



Source: BPIF Research, Short Run Printing - January 2013

The rise of **digital media** as a marketing channel has altered the landscape for the printing industry. Clients now need to communicate and reinforce their messages across multi-channels and to the same, and variable, audiences.



In the 'Challenges' section of this report we



EXPECTATIONS FOR PERSONALISATION AND VARIABLE DATA

71%

PREDICTING GROWTH IN PERSONALISATION AND VARIABLE DATA IN THE NEXT THREE YEARS

examined respondents' expectations for the entire printing industry's turnover the next three years. As part of the 'Change' aspect of our research we asked specifically about expectations for personalisation and variable data. The results are depicted in the chart alongside.

If you recall - the overall positive and negative expectations (ignoring the relative strength of the expectations) cancelled each other out with regard to turnover for the industry. Expectations for personalisation and variable data are clearly more positive.

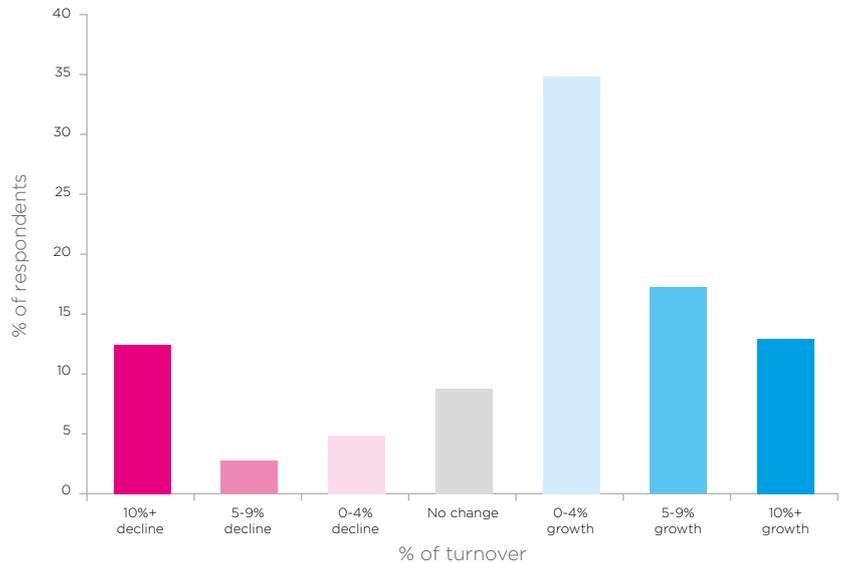
71% of respondents are predicting growth in this area over the next three year, whilst 20% are expecting a decline; 9% were non-committal.

Furthermore, on this occasion, the strength of the positive expectations also clearly overpower the negative expectations (yes, growth predictions are concentrated in the 0-4% range but both of the higher ranges are also greater than their negative counterparts).

The pace of change in the printing industry can seem dramatic; when respondents were asked if they anticipated having to make a change to their long-term business model in the next three years - 41% responded yes.

The anticipated challenges surrounding this mostly relate to broadening skill sets, acquiring new knowledge and anticipating (and responding to) the ever-changing marketplace and generating the funds and finance required to make it all happen.

TURNOVER EXPECTATIONS FOR PERSONALISATION AND VARIABLE DATA

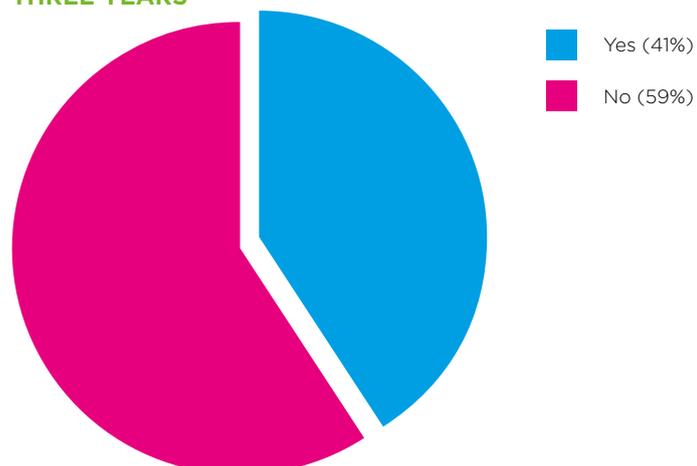


MOST DOMINANT EFFECTS OF MULTI-CHANNEL MARKETING



Not considered to be negative effects by all printers.

CHANGES TO LONG-TERM BUSINESS MODEL IN NEXT THREE YEARS





CAPITAL INVESTMENT

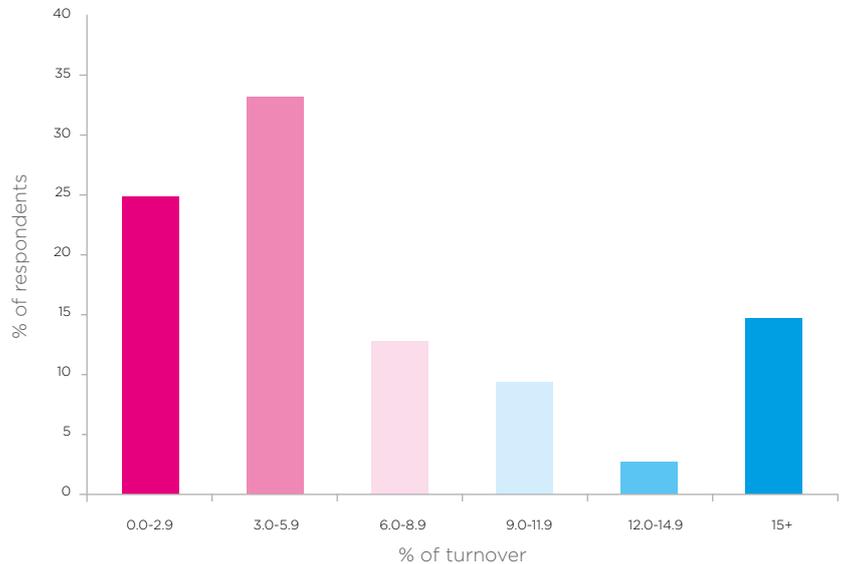
We asked respondents to tell us what their company's annual average investment in capital equipment, hardware and software as a percentage of average annual sales has been over the past three years (2011 to 2013) - the chart (top right) shows the responses.

The majority of respondents were in the 0.0-5.9% range - 59% combined from the 0.0-2.9% and 3.0-5.9% ranges. However, significantly 15% reported annual average capital expenditure to be equal or greater than 15% of annual average sales over the period from 2011 to 2013. The proportion of respondents in the top range is greater than when the same question (covering the period from 2008 to 2010) was asked in the BPIF Capital Investment Survey in 2011.

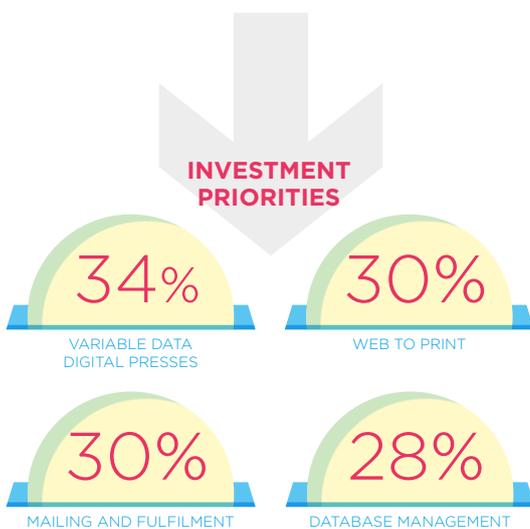
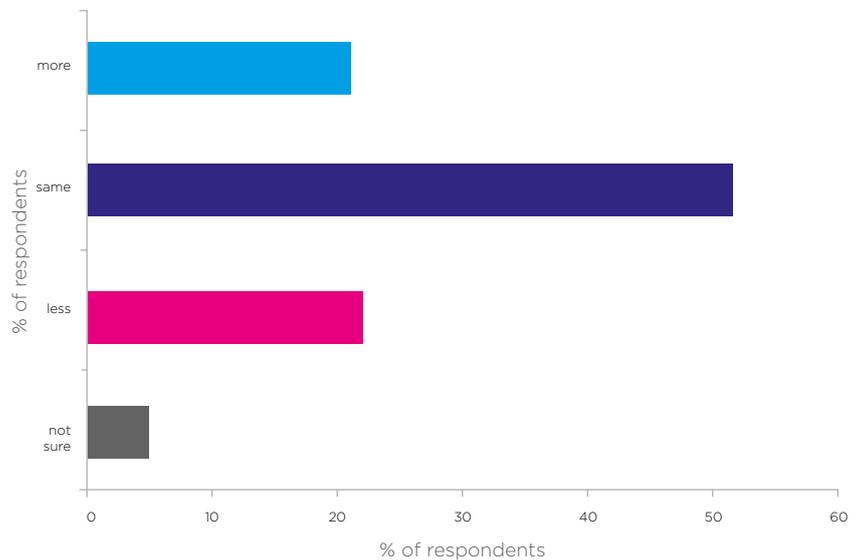
Respondents were also asked how their capital investment expenditure would compare in the next three years (2014 to 2016). As the chart (bottom right) shows the majority (52%) planned to hold investment at their current levels; 21% expected to increase their levels of investment and 22% intended to invest less over the coming three years than in the past three years.

Explanations for increased investment mostly referred to catching-up following an investment hold and funding diversification. Reasons for investing less were all related to the need for a lull after recent high levels of investments.

ANNUAL AVERAGE CAPITAL INVESTMENT 2011-2013



INVESTMENT INTENTIONS 2014-2016





Investment priorities over the last three years and for the next three years are compared in the table below. Comparative data from the 2011 BPIF Capital Investment Survey have been added to the table.

CAPITAL INVESTMENT PRIORITIES	% OF RESPONDENTS			
	2014-2016*	2011-2013	2011-2013^	2008-2010
Digital presses (variable data)	34	36	32	21
Web to print, e-commerce	30	20	31	16
Mailing and fulfilment capabilities	30	15	22	8
Database management capabilities	28	23	17	12
MIS	26	62	28	36
Workflow solutions	25	39	33	34
Litho presses: 4 colour or more	25	30	27	25
Bindery/finishing equipment and systems	25	43	44	48
Multi-channel production	22	6	-	-
Wide format (any process)	15	18	13	17
Ink-jet systems (except wide format)	14	5	4	8
Digital infrastructure: workstations, servers etc.	13	28	18	24
Digital asset/content management	11	14	14	9
Digital presses (static)	10	16	20	25
Computer-to-plate	8	14	14	32
Printed electronics	5	2	-	-
3D printing	5	0	-	-
High speed copiers (b&w or colour)	3	15	7	8
Flexographic presses	2	10	5	3
Litho presses: b&w or 2 colour	1	4	4	3
Screen printing	1	0	0	0
Litho presses: direct imaging	0	4	5	2
Gravure presses	0	0	0	0
Nanography	0	0	-	-
Other	6	7	4	6

*forecasted by respondents in 2014 ^forecasted by respondents in 2011

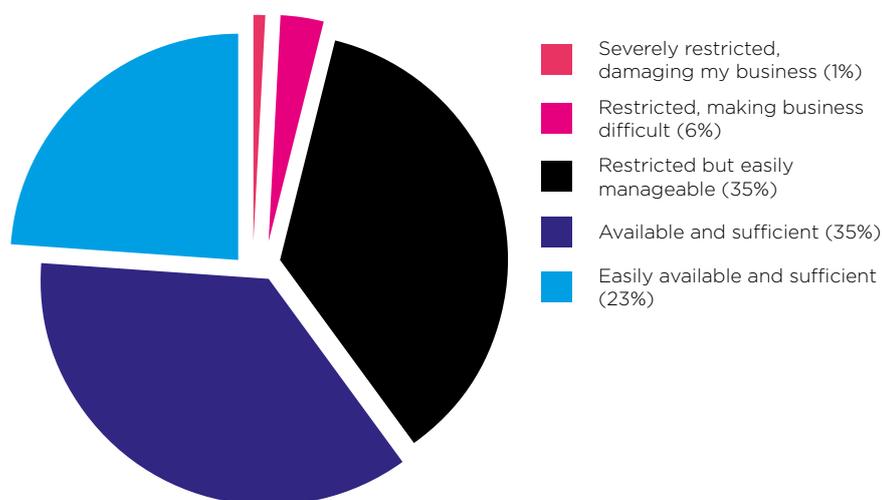
The clear investment priority for most companies looking into the next three years is variable data digital presses (selected by 34% of respondents). Web to print (30%), mailing and fulfilment (30%) and database management (28%) are other priority areas for many companies.

Comparisons between the time periods suggest that many companies have recently invested in MIS and on bringing binding and finishing services in-house. Other notable growth areas are multi-channel production (from 6% in the last three years to 22% in the next three years) and ink-jet systems (5% to 14%).

It is perhaps still early days to expect much involvement in some of the new/emerging technologies - nonetheless printed electronics and 3D printing did register some interest.

Of course the majority of investment plans will be heavily dependent upon access to finance. The chart alongside shows that fortunately the vast majority of respondents (93% in the three combined larger sectors) do not consider access to finance to be restrictive.

ACCESS TO FINANCE





CURRENT STATE V FUTURE STATE

We have so far attempted to provide an accurate picture of the current state of the UK Printing Industry. We've looked at some of the challenges it faces; the diversification plans companies are looking at; some of the changes that are likely to occur and the capital investment plans that companies are instigating.

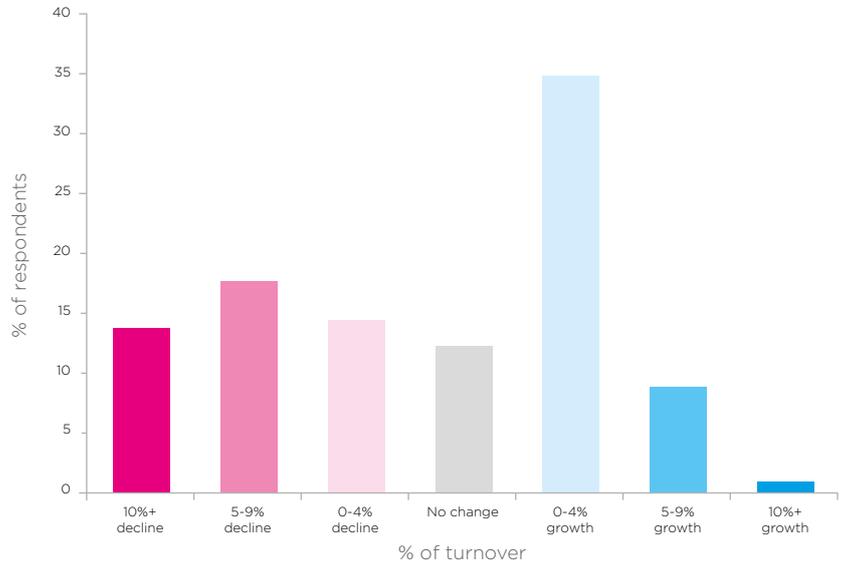
In the 'Challenges' section we showed that expectations for the future path of industry turnover are varied (chart repeated right).

However, many companies are relatively optimistic about their own projected performance. The BPIF's Printing Outlook report (January 2014) noted that 55% considered their companies to be expanding.

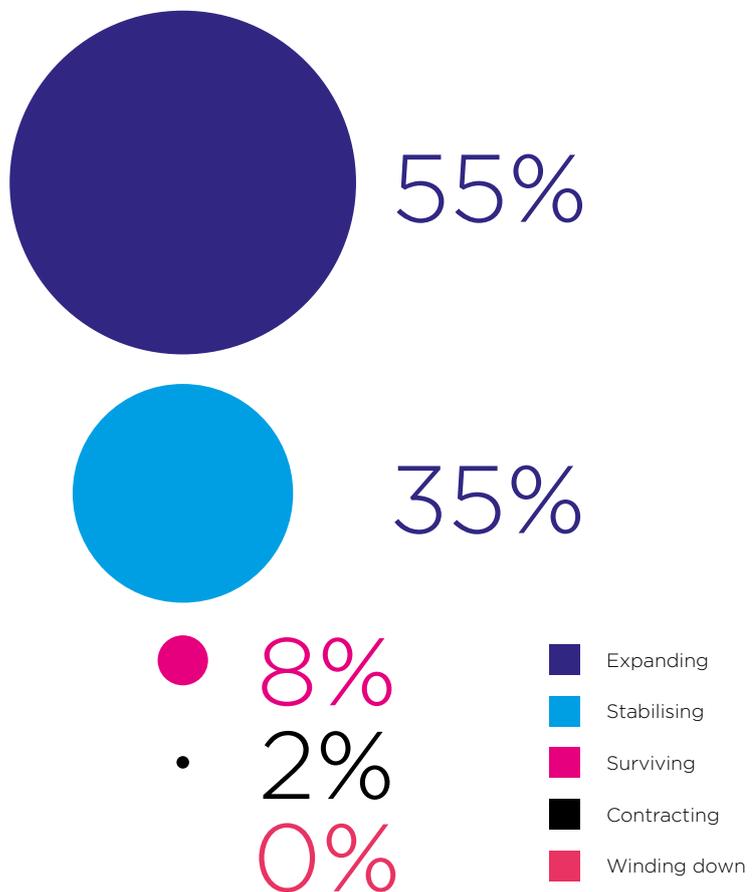
Furthermore, this Future Focus study asked respondents for their own company turnover projections for three years time. As one might expect, there were increases and decreases forecasted - however the overall average predicted change for the individual company turnovers during the three year period was an increase in excess of 20%.

The wildest expectations for the industry wouldn't come close to this but clearly there are companies out there making big plans.

EXPECTATIONS FOR INDUSTRY TURNOVER OVER THE NEXT THREE YEARS



CURRENT POSITION OF BUSINESS - MAJORITY ARE EXPANDING



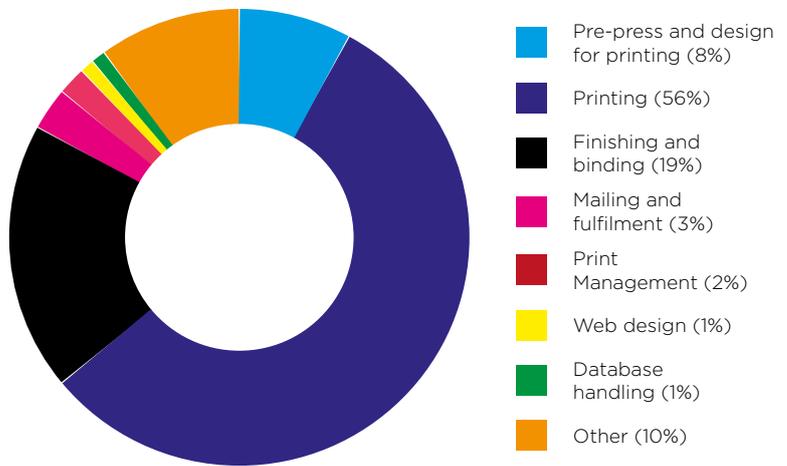
Source: BPIF, Printing Outlook



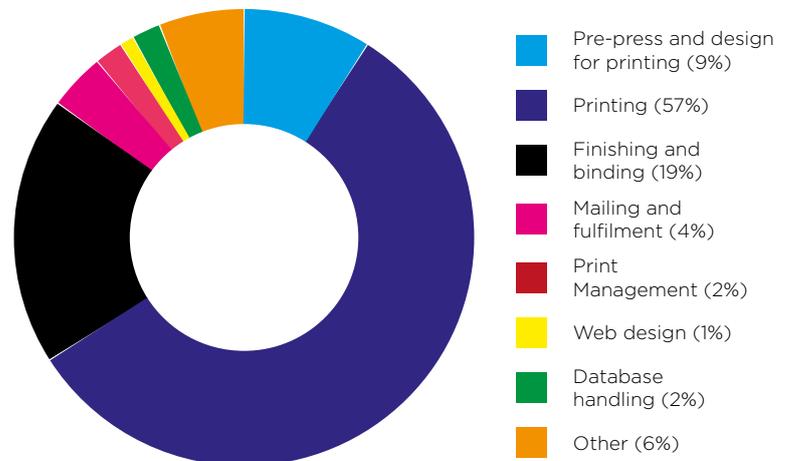
We've already featured the company turnover by activity and printing turnover by process charts for 2014. However, we also asked respondents for their expectations of these in three years time. The comparisons are shown alongside.

Obviously three years is an extremely short period of time in which to work through new investments, diversifications and their return on investment. There is very little difference between the activity shares in this time period.

COMPANY TURNOVER BY ACTIVITY, 2014



COMPANY TURNOVER BY ACTIVITY, 2017 (FORECASTED)



MARKET SHARE OF DIGITAL AND PRINTING PROCESSES



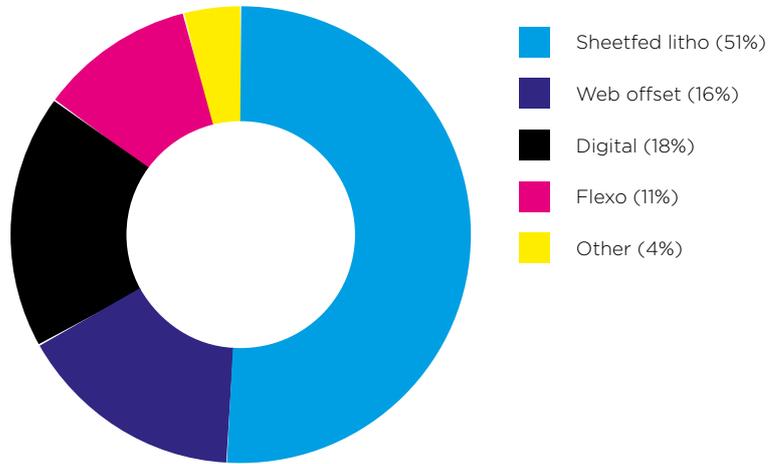


CURRENT STATE V FUTURE STATE

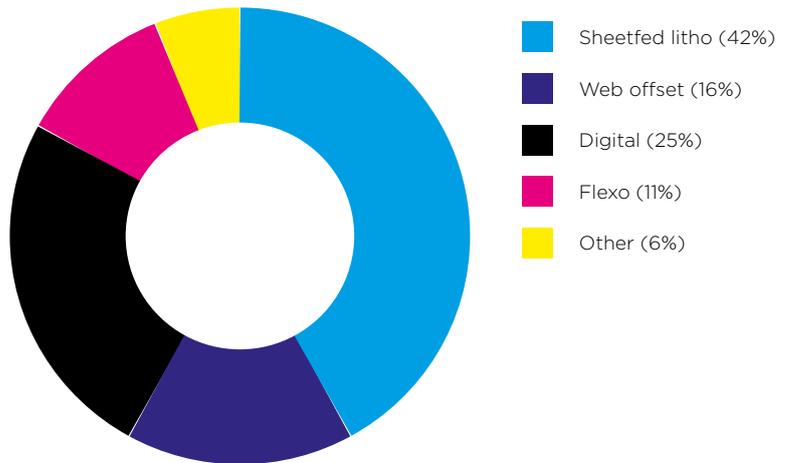
However, the changes forecasted for the printing processes are more pronounced - as the charts alongside show.

There is a fairly significant decline in the sheetfed litho share - from 51% in 2014 to 42% in 2017. The primary benefactor of this is digital printing. The digital process share is predicted to increase from 18% of all printing process related turnover to 25% in 2017 - that's almost 13% growth per annum over the three-year period. Digital - cut sheet retains the majority share, however both wide format and high speed continuous are also expected to grow.

PRINTING TURNOVER BY PROCESS, 2014



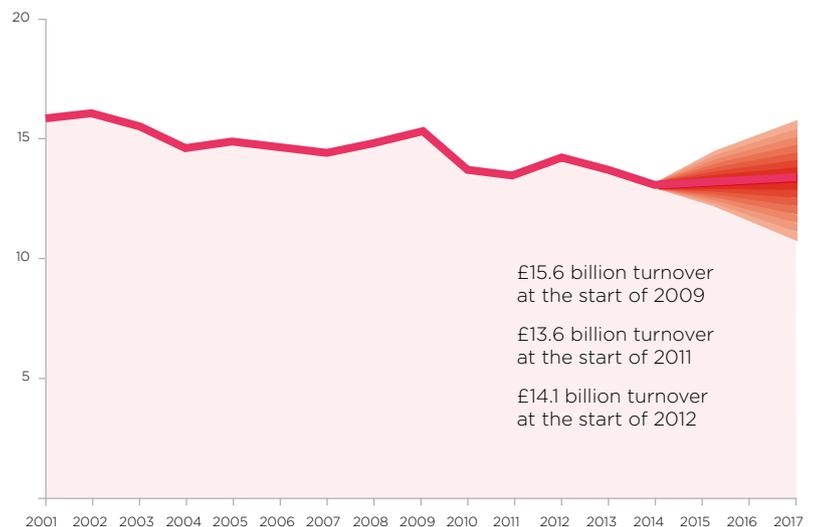
PRINTING TURNOVER BY PROCESS, 2017 (FORECASTED)



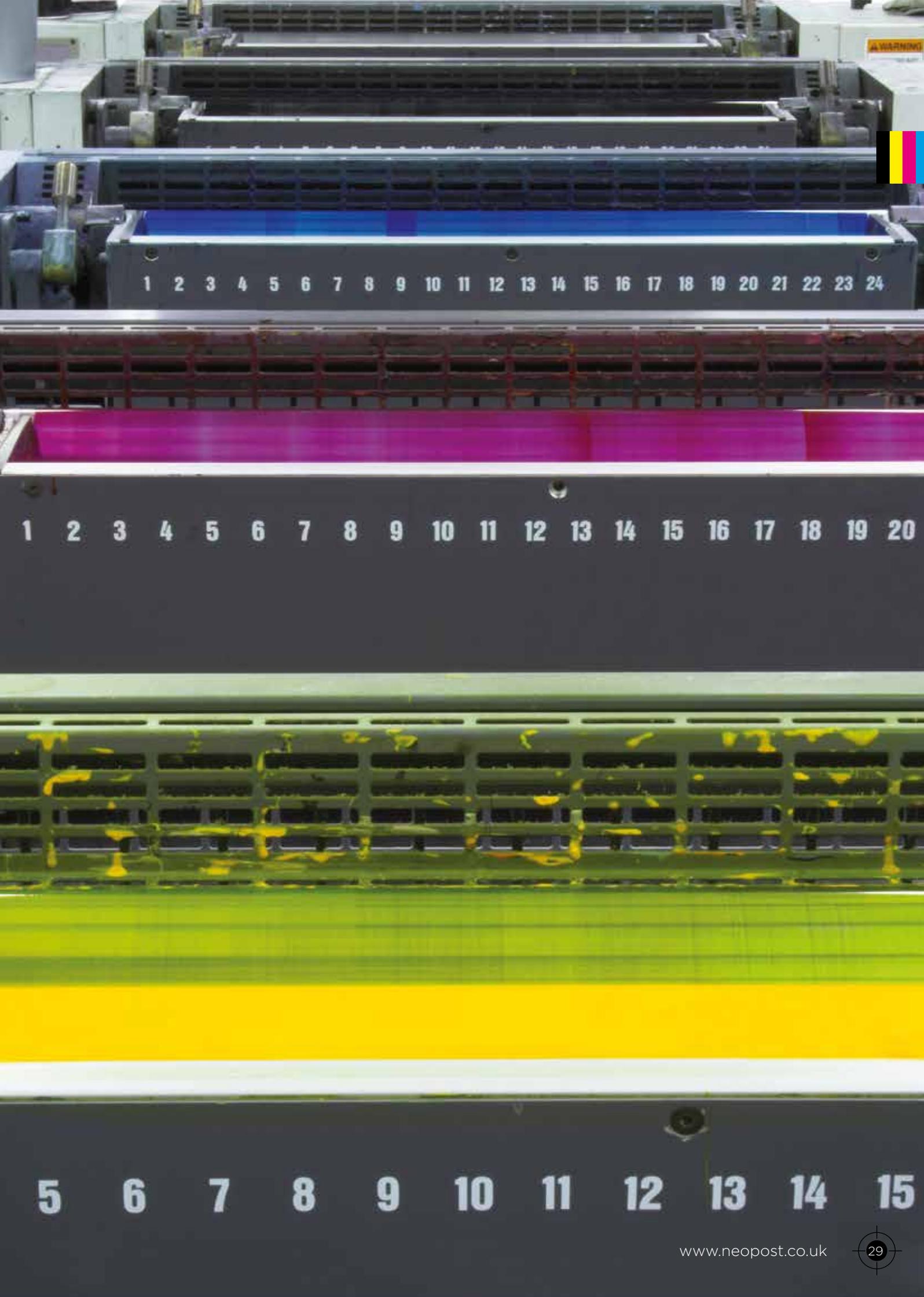
It can be difficult enough to calculate historical figures for the UK Printing Industry; never mind forecasting. However the fan-chart to the right depicts a likely path for the industry turnover over the next few years.

The stronger the colour the increased likelihood that turnover will remain on that path. Of course if companies are able to adapt, change and react to their clients' demands, the changing world around us - and take advantage of technological advancements then the chances of the positive forecasts being realised may well increase.

UK PRINTING INDUSTRY - TURNOVER (£BN) 2001-2017



Source: BPIF Research; 2013 - 2017 forecast estimates



1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20

5 6 7 8 9 10 11 12 13 14 15

OBSERVATIONS

Every business has its own unique pattern of issues blended with the common constraints and predicaments affecting all businesses but generically businesses are in business to stay in business and create a prosperous future. There is great opportunity for those developing their business models as knowledge and understanding of data and graphics through the many channels available afforded by technology is a core skill our sector has.

The availability of lower cost hardware and software technology solutions can give you the opportunity to change your business model with lower risk and less high intensity capital investment, but knowledge and people skills to fully optimise the opportunities that are now open are in shorter supply. Training and development of your existing teams needs to become a bigger part of business planning than ever before.

We are seeing a revolution in the convergence and integration of data and technology and there are some great examples of companies across our sector capitalising on this change.

APPENDIX - METHODOLOGY AND RESPONSE

Neopost commissioned research into the current challenges and future direction of the UK Printing Industry. Instigated by Neopost, in order to understand key issues for printers today, the research was conducted independently by the BPIF.

The UK Printing Industry – Future Focus research was conducted online by BPIF Research between 13 February and 12 March 2014. The analysis is based on the responses of 83 participants from companies a combined turnover of £616 million and covering 4,737 employees.

SOME POINTS TO CONSIDER

Whilst this list of points is not definitive it might provide a useful template to build into your own decision-making processes for change:

- **Be Inclusive and engage your talent.**
Engage a wider range of staff and teamwork in the identification of opportunities and decision making process. There is a great amount of enterprise and energy across most teams and catching there entrepreneurial spirit can open up new opportunities and ideas. At the end of the day most people's futures are bound up more in the future of your business.
- **Use financially defined investment analysis techniques.**
Appraise ROI and investment criteria mercilessly with different 'blue', 'gray' and 'black' scenario planning and match this with the best available better marketing intelligence. A great deal of information can be gained from many sources for free as well as independent and objective support from a trained marketer.
- **Make sure you are getting the best out of what you have already got.**
Technology leaps are providing great uplifts in productivity and allied to workflow and system integration great productivity leaps can be made, but ensuring Overall Equipment Effectiveness 'OEE' on existing equipment is achieved prior to any investment and you have personnel who can achieve the optimum performances required on existing machinery should be a prerequisite.
- **Cash generation is still the most important issue.**
In today's environment of rapid change and variability, cash creation and cash management is the most critical issue relating to capital investment decisions. The amount of cash in needs to be carefully compared to the amount of cash that will be returned - and when it will be returned, and in what pattern of payback.
- **Consider alternatives to Investment.**
There are many other options and they should be compared and contrasted in relation to investment in achieving you overall strategy. Review outsourcing, Joint ventures and collaborative agreements, merger or acquisition or indeed a trade sale. It's a time to evaluate risk and reward in a more creative way?
- **Monitor Post-Investment information fully.**
Put post investment evaluation into your management feedback process and ensure ownership across your team for achieving the best outcomes and 'OEE'. Make sure your expectations are being met across a wide range of criteria such as customer satisfaction and customer value as well as the financial investment criteria. Also monitor the capital investment process you embarked upon and use it as a learning process for the whole business for future actions.

ABOUT NEOPOST



The Neopost Group offers solutions facilitating incoming and outgoing mail bringing strong added value to its customers. The Group offers solutions for, franking, folding and inserting, addressing, address cleansing and tracking and tracing of letters, parcels and of the supply chain. Neopost also offers a large range of services including consulting, maintenance, financial services and online services. In a postal sector which has entered a major period of change, Neopost anticipates the needs of the post offices and its customers by bringing new services and technological innovation to the market.

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The BPIF is the principal business support organisation for the UK print, printed packaging and graphic communication industry and is one of this country's leading trade associations. We are a not-for-profit-distribution organisation.

BPIF Membership

BPIF membership now offers better value than ever before. With over 100 member benefits that will help your business save time, save money and stay safe. Membership of the BPIF gives your company access to the premier business support organisation for employers in the printing industry. Our three-tiered subscription offer allows companies to take advantage of the services most relevant to them and the opportunity to access further services as required.

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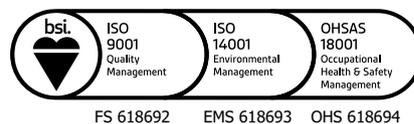
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