

Competitiveness of the European Graphic Industry

Prospects for the EU printing sector to respond to its structural and technological challenges

EXECUTIVE SUMMARY

This report has been produced by Ernst & Young as part of the project financed by the European Commission (Enterprise and Industry Directorate-General). Its content therefore represents Ernst & Young's own views on the subject matter.

The views expressed in this report, as well as the information included in it, do not necessarily reflect the opinion or position of the European Commission and in no way commit the institution.

The European printing industry is facing both structural challenges and emerging challenges resulting from new competition factors.

The printing market should be considered to be a European market. Most of the major printers have, depending on their size, an export activity. Small enterprises are also concerned, as they are confronted with foreign competitors who are active in their markets. Globally the printing market is steady and not really dynamic. Is there enough room for expansion for all the players? What kind of future could there be for small companies without significant structural improvements? Are printing companies too numerous and bound to strive for survival? The industry appears to be too fragile and too fragmented, to prevent the intensification of a restructuring process in most of the European countries. Bearing in mind that a strong concentration process has already affected large companies in the past, the future restructuring would have an impact mainly on SMEs.

Newcomers in the market have increased the competition:

Brokers do not yet have a large market share but they influence market orientations and impose new distribution margins and offer major clients new alternatives for sourcing.

New significant providers from emerging countries (Eastern and Central Europe, China) force printers to redefine their market position by integrating more services and building a closer relationship with their clients: data base management, on-demand printing, personalisation

of products and services, etc., could contribute to consolidating customer links and giving access to attractive markets (protected in that way from foreign competition).

Entrepreneurs and managers in medium-sized companies are still much involved in the rationalisation of internal resources, resource-sharing and networking with other players or trade activities in order to find new revenue sources.

Such organisational innovations could generate financial resources allowing the financing of development projects and acquisitions.

Most printers have the feeling that their business is structurally changing under the influence of powerful drivers : printed documents vs. internet and new media, economy of scale and global supply to satisfy some markets, industrial organisation and investment strategy, etc.

The crucial restructuring necessary to reshape the industry and be able to face new competition could require profound transformation and potentially significant cutbacks in terms of the number of companies and employment. To be efficient and fair, this restructuring should be accompanied at minimum by the harmonisation of the social, tax and regulatory framework.

Turnover	~100Md€
Split by products	
Advertising matter	25%
Newspapers	20%
Periodicals	20%
General printing	20%
Books	10%
Others	5%

EU 25 - Source Eurostat – 2005 NACE de 22.2



Fact and figures of the European printing industry

- 123 483 printing firms, employing approximately 820 000 people in the 25 EU countries. (Source : Eurostat publication).
- The UK, Germany, France, Italy Belgium, the Netherlands and Spain account for more than 80% of the overall Union turnover.
- These leading countries employ about 80% of the Union labour force. They are the main players in the European Market in terms of market share and labour force
- They also represent more than 72% of the overall number of companies in EU-25
- Some new member states (Poland, Czech Republic, etc.) are growing fast in the European zone and gaining new market positions

**growth by country, Nace
222, 2002 – 2004**

Turnover

For the majority of the major printing countries, activity is decreasing. At the same time it appears that, for most of the Eastern countries, turnover is slowly and continuously rising due to the transfer of the production of certain kinds of products in these countries.

Italian turnover is still growing because of the positioning of the Italian printing industry in value markets, i.e. luxury books and brochures.

Belgium	-3%
Germany	-5%
Spain	4%
France	-6%
Italy	7%*
Netherlands	-8%
United Kingdom	-17%**

Number of employees

The printing industry has historically been a labour-intensive industry, with a strong relation between the trend in turnover and employment. Machinery design, digitalisation and computerisation, etc. have contributed to improving productivity very significantly and transforming this industry so that growth capacity is no longer linked to direct employment. Technical competencies are still a key issue for competitiveness but increasingly based on new know-how not directly connected to the printing process.

Belgium	-8%
Germany	-13%
Spain	-1%
France	-10%
Italy	-1%
Netherlands	-8%
United Kingdom	-9%

Number of enterprises

Small companies are still very numerous in all the countries but they are most often the most vulnerable and contribute to reducing the number of active players. The structural trend is less sensitive than the decline of employment and could be considered as an opportunity to reduce internal competition in local markets.

Belgium	nd
Germany	-13%
Spain	4%
France	6%
Italy	-0%
Netherlands	-7%
United Kingdom	-3%**

Source Intergraf – The evolution of the graphic industry – Publication year 2005

*according to the Assografici data the turnover's growth 2004 vs 2002 is 2,2% ** growth 2002-2003 (2004 nd)

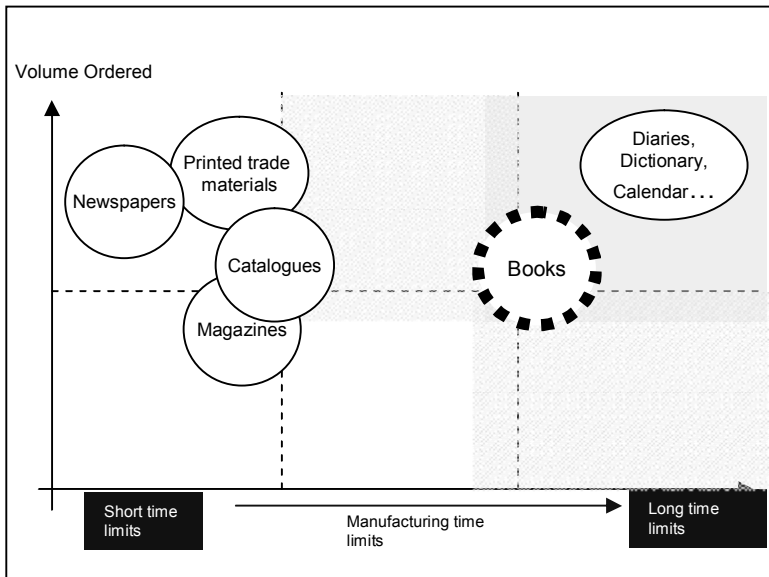
Strengths

- All the value chain actors (raw materials, machines, training and research organizations, etc.) are represented at a significant level
- A complete range of services covering all requirements thanks to the European market, due to the presence of all the technologies and processes
- A globally modern and efficient production tool
- Most leaders are committed to environmental and sustainable policies, which may in turn be deployed at the whole industrial level

Weaknesses

- Average size still too small and divided. Most businesses are family-owned, have a weak financial structure, little structured strategic vision and a reluctance to invest in innovation
- Overcapacity and low use of equipment
- Most of the companies have moderate international experience, except for some leaders: this varied industry structure does not facilitate potential collective action plans
- Weak position of power, confronted with strategic large international suppliers
- Weak negotiation power with customers (pressure on prices, margin crunch, unstable relationships)

Products affected by relocation



The transfer of production to the East has several reasons and consequences that oblige clients to balance their choice. First, as regards costs, the further East production is located, the lower the wage costs but the higher the transport costs. Second, as regards delivery times, the further East production is located, the longer the delivery times because of the transport delay. Thus the most threatened products are those with a long time to market, large runs and a sufficiently high proportion of manual work in the cost structure to ensure that low wage cost countries have a real competitive advantage over the European printing industry.

The booming of Chinese printing Industry

In 2003 the number of printing houses in China was estimated at 92,400 among which 40% were privately owned, 26% belonged to collective enterprises and 18% were joint-stock enterprises. With an average of 18 employees per company, the number of small companies exceeded that of larger companies. With more than 140,000 book titles, 8,000 news magazines and 2,000 newspaper titles, publication printing with 24% and package printing with 34% have the biggest market share in value of the Chinese printing market. The country shows two digit growth rates per capita in paper consumption and strong perspectives for the development of print over the next years.

The gross product value of the Chinese print industry comes primarily from prepress, book publishing, newspaper publishing, packaging, and foreign-trade printing. The total usually excludes print equipment and paper products. Packaging printing ranks first, constituting about 35% of China's total print gross product value; with book publishing second, adding up to one-fourth of the total; third is newspaper printing, accounting for 16%. These three sectors account for over 75% of the total.

In 2004, there were 94,300 various printing enterprises in China, an increase of 1,900 compared to 2003, and a growth rate of more than 2%. Those newly established enterprises were, for the most part, private and foreign invested companies and the enterprise ownership mix did not change appreciably, with state-owned printing enterprises comprising 7.63% of the total.

Opportunities

- Several differentiation strategies are possible according to size or activity of companies : proximity or niche-markets for medium-sized companies, international development (through acquisitions or relocations) and integration along the value chain for the others
- Regulations could contribute to slow down imports of products even if they could not be considered as entry barriers.
- "Service-orientation" is a growing trend, allowing printers and their partners to respond to new expectations from customers
- Development of multimedia technologies could generate new answer to the customers communication issues by building a multi media communication solution.

Threats

- Growing presence of third country suppliers in the European markets
- Relocation of customers' activities in emerging countries
- An ongoing, intense price war within the EU and the difficulty of building sustainable and qualitative differentiation
- The printing industry is relatively disconnected from R&D which could jeopardize structural innovation
- Deployment of new technologies coming from the major suppliers could accelerate the transformation of the printing business

The main structural challenges of the European Printing Industry

1. Strategic challenges

Because all the industrial sectors and particularly the manufacturing one are facing a strong competition from third countries, improving the strategic vision of SMEs' leaders seems to be a priority. This improvement has different stages : The first one is to consider a mutation from a commodity business into a added value one, better monitor investments in order to prevent the acceleration of an over investment vicious cycle. Then to improve the management of human resources and third to foster the industry restructuring by supporting the essential concentrations and clustering initiatives. Overall a very important issue remains the increase of profitability through better overview and control of all financial issues.

2. Technological challenges

Technology in printing is not driven by printers but by suppliers, printers have to get involved in these developments to actively influence future R&D. A European network dealing with technological aspects (and standards) integrating the entire value chain should be set up. It remains important to reduce production costs through automation or standardization of existing processes in order to increase flexibility and enable specialization. Customers need to obtain a global multi-channel solution from their printer.

3. International and European Challenges

The printing industry is a global industry and challenges result from an enlarged European Union with now 27 countries as well as Asian low costs countries (in term of market opportunity or competition threat). The competitive advantage of the printing industry is new competing countries needs to be assessed while developing defensive and proactive responses.

4. Market Challenges

The key point is to integrate a more customer-oriented way of thinking, i.e. to propose a global added value offer, integrating design, communication, prepress, shipping, and to develop customized solutions (formats, size, colors...)

5. Communication challenges

Promote the assets of the European printing industry and thus demonstrate its international leadership in sustainable production.

Proposal for an action plan dedicated to the Printing Industry

1. Managing production costs

→Promote best practices in management and operational performance

2. Find new growth basis

→Develop value-added services for customers

3. Support European printers and develop EU Printing Industry

→Intensification of the actions directed towards the better harmonisation of regulations within Europe

4. Invest in human resources for the future

→Invest in human resources and develop new skills

→Ensure a culture of partnering within the industry

5. Make printing industry a reference in term of HSE performances

→Improve health, safety and environmental performances

6. Improve the image of the printing industry with all its bests practices

→Define a European printing industry quality charter for printed products

→Enlighten public decision-makers on the impacts of their actions for the printing industry

For further information, contact
European Commission
Enterprise and Industry Directorate-General
Unit G4
B-1049 Brussels
Fax: (32-2) 29 69 638
E-mail: entr-textiles-fashion-forest-ind@ec.europa.eu