

# CHINA targets PRINT

## The threat is real. Imports are growing. What are you doing to get ready?

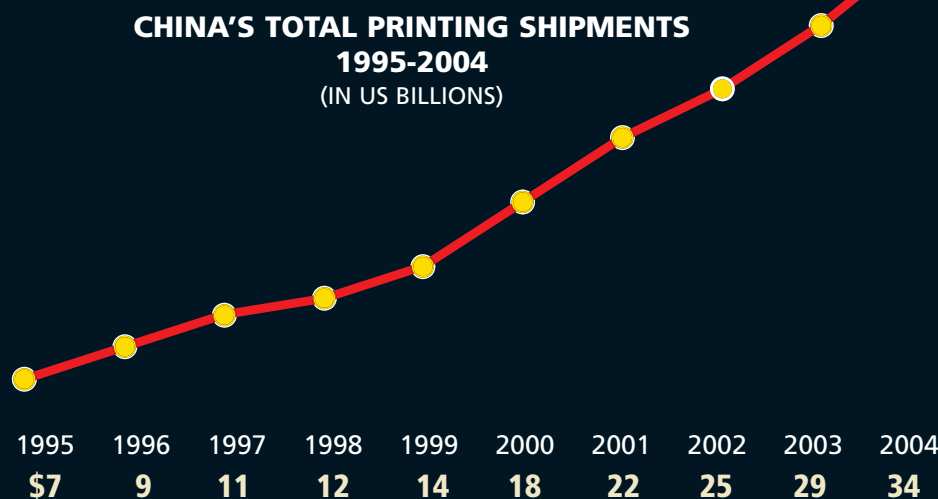
Last fall, a printer in Toronto lost a lucrative contract—a glossy, oversized, colour, high-end fashion and lifestyle quarterly appropriately titled *Lush*—to a Chinese competitor. Publisher Mark Keast says he was getting top-drawer service, but as a new publishing venture with limited cash he had little choice but to look for cheaper printing. By chance, one of his partners had done some catalogue work with a firm in Hong Kong. Keast made contact, exchanged e-mails, examined print samples, poured over the Chinese printer's website and decided to

take the plunge. Sure he had reservations: he hadn't met the printer and he knew that anything could happen if he shipped his files halfway around the world. But, he says, "We could not get the numbers to where we wanted them, at 20,000 circulation, without going to Hong Kong."

So the third issue of *Lush* became an offshore statistic. The staff burned files on

DVDs and couriered them to Hong Kong. Proofing was done via UPS and FTP sites. Six to seven weeks later, 20,000 lushly printed magazines arrived back, after sailing on the high seas for 20 days and sitting in customs for four or five days. Delivery promises were met to the day. Quality was bang-on. The Chinese printer handled all the aspects of getting the magazines to Keast's front door, including trucking the books from the Vancouver port to Toronto. How much did Keast save on his gamble? A shocking 40% off his bill. He does caution that venturing offshore isn't for everyone,

By Filomena Tamburri



	2010	2020
Low	\$58.0	\$115.2
High	69.6	144.0

Source: Presentation at Print 05 by Charles Lo, Managing Director of Chinese printer C&C Group

but if you have the time to wait for the printed pieces, as a quarterly does, then it makes all the sense in the world.

Stories like Keast's are still relatively rare in Canada, especially in magazine printing, but there's every chance they will become more common. The pace of economic growth in China is unparalleled in recent history. It's been said that the national bird of China is the crane—the building crane that is. The country has a rapacious appetite for natural resources that's creating a manufacturing tsunami, smashing to smithereens industrial sectors in countries that can't compete with Chinese wages. Printing will not escape unscathed, though how big the wave will be when it crashes on our shores is still up for debate.

What's generally not disputed is the intent of the Chinese printers. Their government has said it wants to be the print shop of the world and in China printing has been described as a sunrise industry. Annual output has grown about 10% a year since 1999. Just under 1,990 new shops opened their doors in 2004 (a 2.05% increase over 2003), and investment in printing equipment amounted to US\$1.74 billion in 2004 up from US\$1.1 billion in 2001. (See charts for more information.) The print output breaks down as follows: packaging 36%, books and magazines 25%, newspapers 16% and other 9%. Printing zones are sprouting in three major areas: the Pearl River Delta with Guangdong as its centre; the Yangtze River Delta with Shanghai, Jiangsu and Zhejiang as the centres; and the Bohai Sea Rim anchored by Beijing

and Tianjin. The Pearl River Delta is booming the fastest, due in part to its proximity to Hong Kong and the northward exodus by enterprises there looking for cheaper labour. Nearly 30% of the output from this region is exported.

Other trends are facilitating the Chinese growth spurt. Sure, wages are cheaper there, but advances in shipping and efficiencies at courier companies such as FedEx and UPS, mean goods are easier and cheaper to transport than ever before. It's possible to receive printed matter within 24 to 48 hours from around the globe. This has led to a restructuring of the global economy where developed economies create intellectual property and developing nations do the less profitable job of actually making things. In graphic arts, sophisticated printing technology is eradicating quality advantages so that the perception at least is that every shop can pretty much do the same thing as another. And digital advances like PDFs, FTP sites, e-mail, and the Internet, make it ridiculously easy to transport intellectual property—files—to where it will be converted into books, cards or labels. Geography, proximity and craftsmanship really have ceased to matter.

That means North American printers have to start worrying about—or at least being aware of—print shops on the other side of the world as well as those around the block. In Canada, printing imports from China rose to \$148 million in 2004 from \$30.6 million in 1995. In the U.S., imports from China have more than tripled since 1996 (see chart), and according to

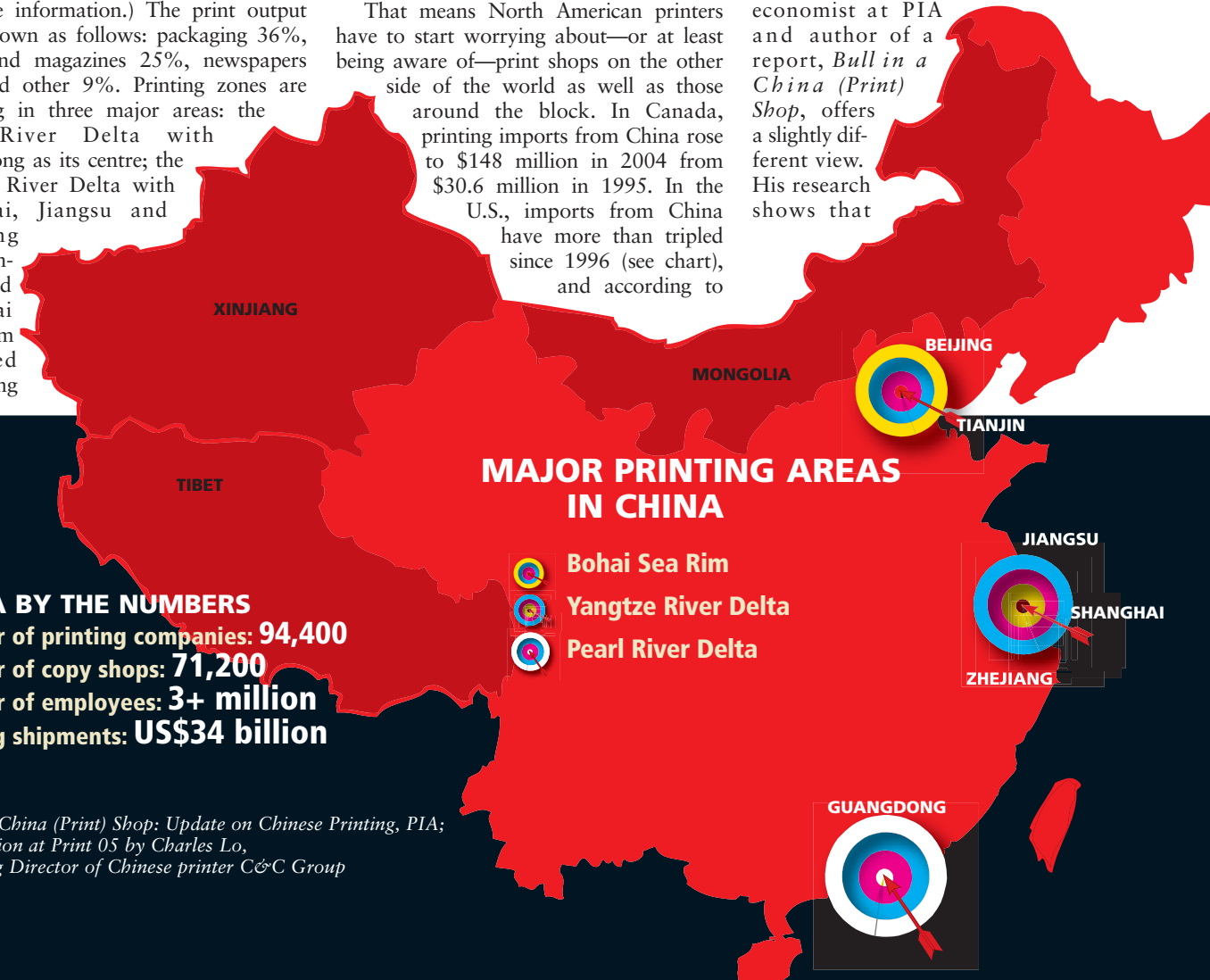
Joe Webb, president of U.S.-based Strategies for Management, actually surpassed imports from Canada by November of last year. Webb took an in-depth look at China in his 2004 report *A Critical Look at Offshore Printing*. Year-over-year imports to the U.S. more than doubled to US\$1.72 billion in 2005 from US\$676 million in 2004—that's a US\$1 billion leap. Further, he contends that imports from China are replacing falling imports from Canada. And it's what he calls the little stuff like brochures and fliers—sheetfed work—that's coming to our shores.

And yet, says Webb, a self-described contrarian in the printing industry, the average printer doesn't have any idea this is happening. A big problem, he says, is that printers often don't know who they lose a job to. "There is no sense that there is a global print market among printers." A lot happens behind their backs that they don't know about, says Webb. "The big thing in business is to know what business you're not getting. It's easy to say 'business is slow.'" Mark Keast of *Lush*, for example, reports he didn't tell his printer exactly where the job was being moved to.

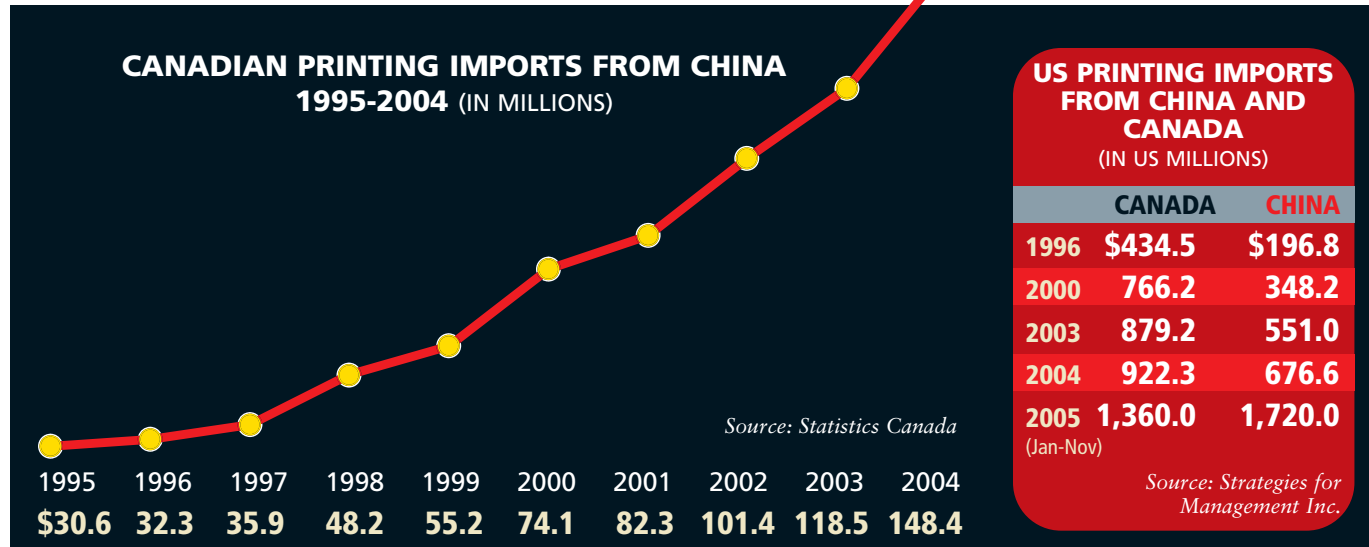
Ronnie Davis, chief economist at PIA and author of a report, *Bull in a China (Print) Shop*, offers a slightly different view. His research shows that

**CHINA BY THE NUMBERS**  
 Number of printing companies: **94,400**  
 Number of copy shops: **71,200**  
 Number of employees: **3+ million**  
 Printing shipments: **US\$34 billion**

Sources: Bull in a China (Print) Shop: Update on Chinese Printing, PIA; Presentation at Print 05 by Charles Lo, Managing Director of Chinese printer C&C Group



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almost four in 10 printers say their customers are looking at global sourcing for printing. Almost one in three printers say they lost a job to a foreign competitor during the first nine months of 2004, and almost half of those lost the job to China. In general Davis says that it's most likely the larger printers who deal with clients who shop globally that should worry about offshoring. Webb, on the other hand, says all printers, including small shops, need to be concerned.

Both economists offer cautions, though. Webb, in his report, asserts that despite the rising Chinese imports, electronic communication is a bigger threat than offshore printing because the Internet is affecting how information is distributed in ways we do not yet understand. Davis adds: "I do not think print will cease to be a mostly domestic industry. Right now about 95% of print consumed in the U.S. is produced in the U.S. The typical printer spends about 16% of total sales on direct labour. The usual rule of thumb is that any industry with less than 10% to 15% will find that it does not pay its customers to outsource because of additional transportation costs. Print's weight-to-value ratio is such that it makes a lot of imports too expensive. However, the percentage of imports will continue to increase."

What will those imports be? Davis says that the most at-risk print is that which has a longer shelf life and is less time-sensitive, such as books, some labels and

wrappers. Packaging, of course, moves with manufacturing. Boxes and instruction manuals for iPods will be created wherever the ubiquitous devices are made. Webb says that anything of extremely short runs or extremely long runs faces a lesser threat. Books, greeting cards, technical literature are all high risk. But financial printing, direct mail and black-and-white digital printing are likely safe

Of course, it's not just in direct print sales that the Chinese muscle will flex but also in supplies. China is producing more paper than ever, says Paul LeClair, chief economist at the Montreal-based Pulp and Paper Products Council. Hard numbers are hard to get, but production capacity—excluding packaging—has been growing at the galloping pace of 16% to 17% a year since at least the mid- to late-'90s.

This surge is most significant in coated woodfree production. The big question is whether domestic demand will take up all that supply or whether Chinese mills are gearing up for major exporting initiatives.

North America is already experiencing a significant rise in imports of coated woodfree sheets from China. According to U.S. statistics, imports totaled 150,000 tonnes for the first 11 months of 2005, a 30% hike over 2004, and a number equal to 2.5% of North American demand. It's not a lot, but expectations are that it will continue to rise, says LeClair.

On the ink side, the story is related to oil. About 90% of ink comes from petroleum derivatives and China is a veritable oil guzzler. Raw material costs are increasing, with no signs of easing, and ink prices have gone up over the past year, says Rita Conrad, vice president of public relations at Flint Ink. Ink manufacturers can maneuver to some extent with price guarantees and such, but ink prices will likely keep rising. As far as ink imports from China, she does not believe that Chinese ink companies will become players here, at least in the near future, simply because a company needs to set up a good local support system in the markets it serves to be successful.

Then there's the question of Chinese manufacturers offering cheaper knock-off equipment in North America. Certainly the number of manufacturers from China sending out feelers is increasing. Chinese exhibitors at trade shows, for example, are

INDUSTRY SECTORS MOST LIKELY TO BE IMPACTED

PROCESS	LOW	MEDIUM	HIGH
digital printing	★		
b&w sheetfed			★★★
process colour sheetfed			★★★
nonheatset web	★		
heatset web	★		
gravure	★		
RUN LENGTH			
<1,000	★		
1,000 - 2,500	★	★	
2,501 - 5,000			★★★
5,001 - 10,000			★★★
10,001 - 25,000			★★★
25,001 - 50,000		★	★★★
50,001 - 100,000	★		
> 100,000	★		

Source: Strategies for Management Inc.

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proliferating. Ipex representatives say they expect the Chinese presence to grow 620% over the last show in 2002. But here, too, the feeling seems to be that, while not to be dismissed out of hand, Chinese equipment imports likely won't materialize for a long time. What Webb foresees is replacement parts for established manufacturers being manufactured in Asia and shipped here.

What you can do

So what is a printer to do? First ask what you should not do. Don't assume that you're safe from international competition because you're a small shop or you operate far from China. You may well be, but rely on information and market knowledge, not gut feel, to arrive at that conclusion. With Internet shopping on the rise, it matters less and less where a file goes after a print buyer hits the send button. To someone in Edmonton, Beijing is really no different from Toronto.

Don't look for complacency in cultural barriers. There is none. Yes, Chinese printers may not know our culture or speak our language, but they can easily hire North American representatives, or brokers, who do. European and Japanese

companies have been operating here for years. The extra time necessary to accommodate shipping print jobs, will help printers, but remember that the international delivery system has come far and is going to go even farther. If you doubt it, look at the ability of Wal-Mart to manage its supply chain so minutely. Also, initial evidence indicates that print buyers will put up with longer delivery times if the savings are worth it.

As for what you can actually do, recommendations vary, but all have the ring of advice you've heard before.

■ **Know your customers** and their business. You may think you're in tight with a client, but if his business turns sour because of global forces, you have as good as lost the account and need to go to plan B. Know what you stand to lose.

■ **Deliver services** and products that you think are safe from offshoring. Short-run digital printing is usually touted as a safe bet, as is variable printing and large web jobs.

■ **Bring added value** to customers and expand your service repertoire to include things such as database management, e-book preparation, and fulfillment.

Determine what your customers need before they know they need it. Remember the worth of intellectual property. The more communications problems you can solve for your client, they more valuable you will be.

■ **Run an efficient print shop.** Toss out unused equipment and build up information infrastructures that drive costs out of the manufacturing process.

■ **And, if you can't beat them, join them.** Form strategic partnerships with Chinese printers. So far, R.R. Donnelley is the most high-profile North American printer with facilities in China, but there's no reason why Canadian printers can't follow suit. Large firms can open operations there, smaller printers could benefit from strategic partnerships. Printers here have been offshoring for years and know how to deal with international borders. In the U.S., says Webb, there is a "We have to stop this" attitude. In Canada, exporting is more a natural part of being in business and more ingrained in the corporate culture. In 20 years, China will have the largest economy on earth, and it will need infrastructure as the print industry continues to grow. Getting in early could pay off handsomely. ■