



**Diversification
Patterns in Print:**

OPPORTUNITY IN ADJACENT MARKETS



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The process by which print segments come together, through print service providers (PSPs) expanding into segments beyond their primary segment, is a phenomenon that has been occurring for many years. Historically, however, this phenomenon of convergence has remained largely anecdotal. This can be viewed both from a macro and micro level. At the macro level, the various printing segments are moving together to form a more harmonious printing industry. At the micro level, we see the individual PSPs adopting various new solutions to diversify their portfolio of applications in order to serve a wider variety of needs for their clients.

In 2018, NAPCO Research and PRINTING United Alliance conducted the first print industry convergence study. The analysis of commercial, in-plant, packaging, wide-format, garment, and industrial PSPs validated the convergence phenomenon, assessed the degree to which it is occurring, measured attitudinal beliefs as to diversification trends, and defined a print industry migration pattern.

The research confirmed the anecdotal migration evidence: 81% of PSPs are entering or considering entering a print segment other than their own.

Three years later, with industry forces such as digital adoption, service provider contraction, increased e-commerce demand, and external factors such as a global pandemic impacting the industry, NAPCO Research and PRINTING United Alliance have reassessed the degree to which convergence is occurring across print segments and have redrawn migration patterns across segments.

The data is clear: diversification in the print industry is growing. Printers in every industry segment are considering entering areas beyond their primary focus, and many already have done so. Not only has the percentage of service providers considering segment expansion increased since 2018, the number of different segments that printers are considering entering has increased substantially as well, with more than half of printers surveyed considering entering three or more print segments beyond their primary focus.

As we emerge from an unprecedented global pandemic, we are seeing changes in global economics, consumer behavior, and print buyer behavior. This research provides a critical input for both PSPs and manufacturing and technology vendors in understanding how their industry is changing and how they can adapt with it.

RESEARCH METHODOLOGY

NAPCO Research and PRINTING United Alliance conducted an online survey of printers between mid-March and mid-April 2021. Five hundred seventeen printers completed the survey. The respondent base comprises a mix of primary print segments (Figure 1) and company sizes (Figure 2).

Respondents by Primary Print Segment

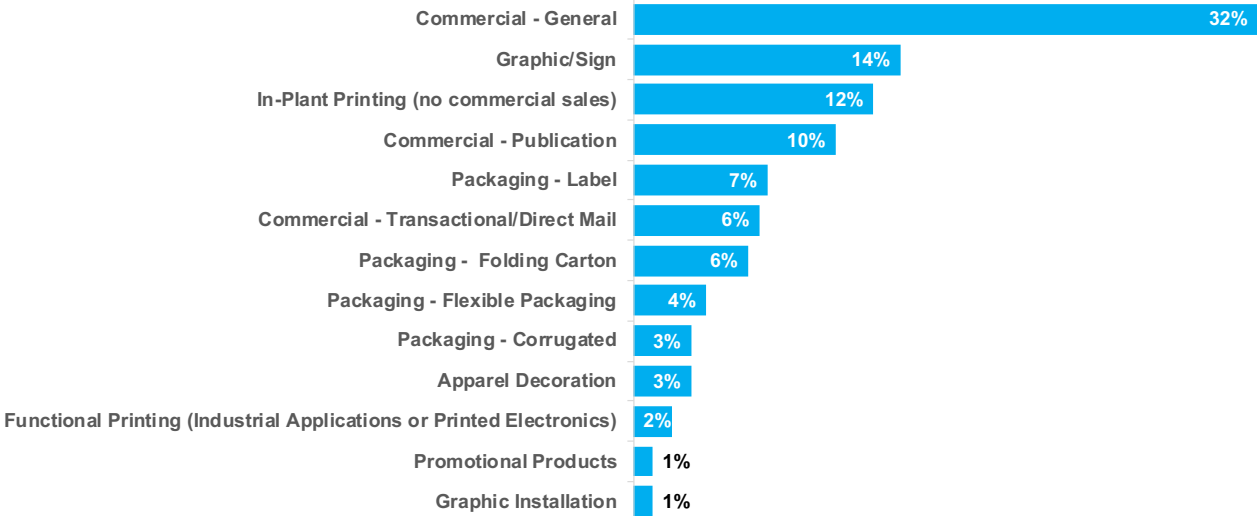


Figure 1
Q. What market segment most closely describes your PRIMARY business?
n=517



Respondents by Company Size

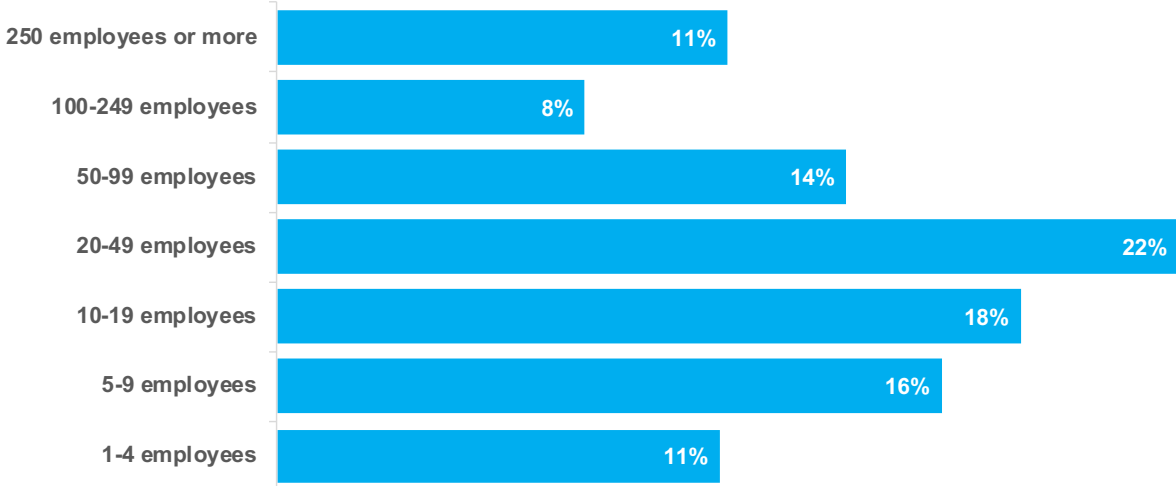


Figure 2
Q. How many employees are in your organization?
n=516



DIVERSIFICATION IN THE PRINT INDUSTRY GROWING

This new research shows the diversification trend is growing. Eighty percent of service providers report evaluating expanding into at least one print segment, compared to 77% in 2018, a 3.9% increase (Figure 3).

Respondents are also casting a wider net when evaluating expansion: 51% are evaluating three or more segments compared to 27% in 2018. This may be in part because the research was completed towards the end of the COVID-19 pandemic, an uncertain time during which many PSPs were likely evaluating all possible options. Whatever the motivator, service providers are taking a hard look at all their options in expanding into additional segments.

Number of Segments Being Considered

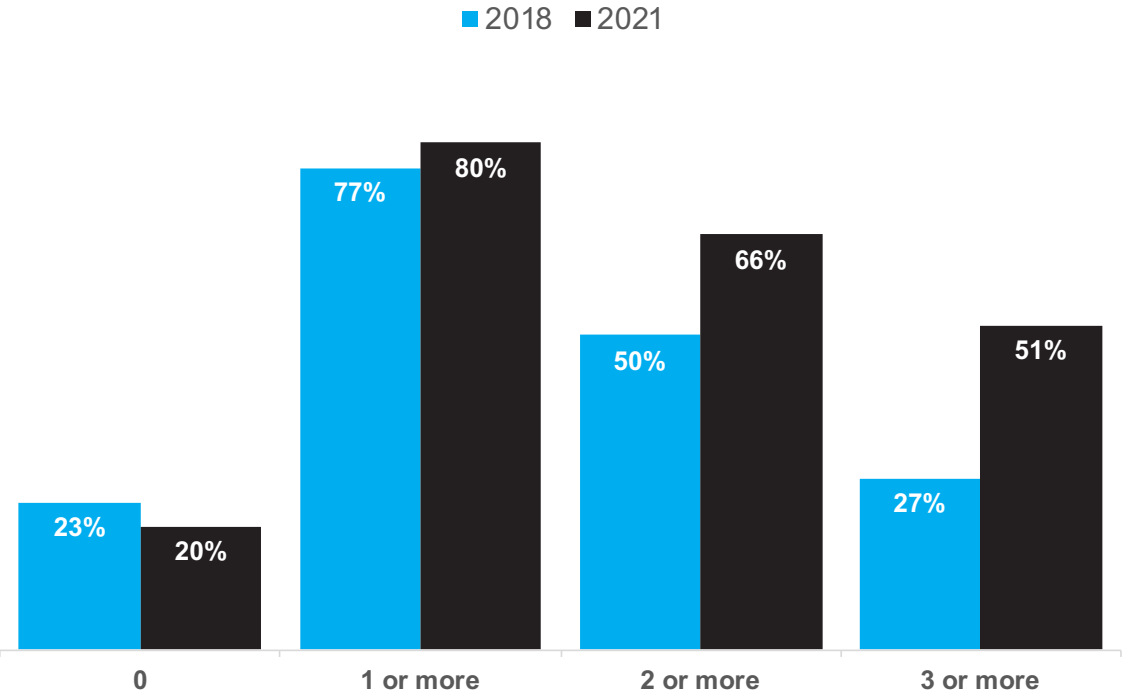


Figure 3
Q. What market segment(s) beyond your primary segment has your organization entered or are considering entering?
n=517



PACKAGING SEGMENT IS THE MOST ACTIVE

Figure 4, below, depicts segment migration patterns with “Current Primary Segments” in the four columns and “Target Segment Application” in the ten rows. Some “Current Primary Segments” are not shown due to a low number of survey respondents in those segments. Package printing is broken out in the “Target” rows by its four primary applications (label, folding carton, flexible, and corrugated) and is reported as a single “Current Primary Segment” column.

The most popular segment service providers are migrating to is the Label (Packaging) segment, with 38% of all service providers evaluating the segment.

The label segment is likely the most popular target for those outside of the packaging space due to its lower barriers to entry compared to other packaging applications. Unlike folding cartons or flexible packaging, which require extensive finishing and converting processes to achieve their final form, labels are two-dimensional and can often be produced on existing equipment.

Package printers overall are highly interested in evaluating expansion—most actively in adjacent packaging segments. Seventy-seven percent of packaging converters report evaluating expansion into at least one of the four packaging segments beyond their primary focus (label, folding carton, flexible, and corrugated).

For package printers, expansion into adjacent packaging segments is highly attractive as they already have an existing customer base. Brand owners, for example, rarely rely on a single packaging format for their product lines, and a package printer that can consolidate their customers' need for multiple print vendors by providing several packaging solutions will be appreciated for this value-add. Additionally, with the meteoric rise of e-commerce as a result of the COVID-19 pandemic, brands are rethinking traditional retail models, and are adapting their packaging strategies and formats to accommodate the durability required for the increased touchpoints in the e-commerce supply chain.

Commercial printers are also highly active in exploring expansion opportunities. Each segment beyond their primary segment is being evaluated by no less than 24% of commercial printers, with the most significant amount exploring the Label (Packaging) segment (40%).

Segments Considering and/or Researching

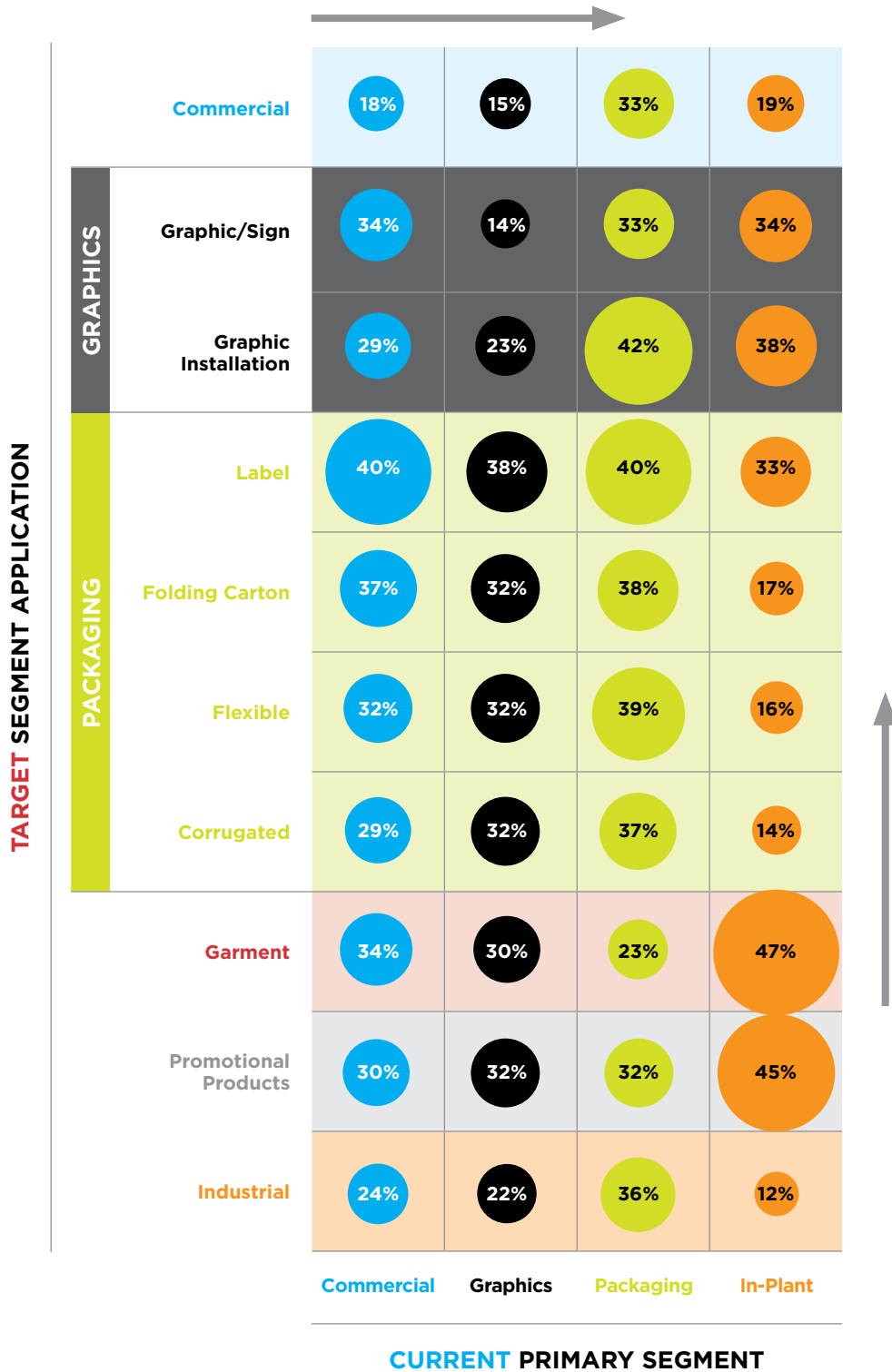


Figure 4
 Q. What market segment(s) beyond your primary segment has your organization entered or are considering entering?
 n=467

CONVERGENCE GROWING

A comparison of migration patterns from 2018 to now provides an even clearer view of the growing convergence trend. Figure 5, below, shows the difference between the 2021 and 2018 percentages of printers from each primary segment considering each target segment, with positive numbers indicating that the percentage has grown over the last three years.

Of the 32 permutations of primary and target segments shown, service providers are considering/researching expansion in 26 of them at a greater rate than was seen in 2018.

The most significant growth is occurring among packaging printers and in-plant printers considering entering the graphics segments (31% and 29% growth, respectively). The most significant decline was among graphics printers and in-plant printers considering the commercial segment (25% and 13% decline, respectively).

Segments Considering and/or Researching – Difference 2021 vs 2018

| TARGET SEGMENT APPLICATION | | CURRENT PRIMARY SEGMENT | | | |
|----------------------------|----------------|-------------------------|----------|-----------|----------|
| | | Commercial | Graphics | Packaging | In-Plant |
| PACKAGING | Commercial | -2% | -25% | 12% | -13% |
| | Graphics | 12% | 9% | 31% | 29% |
| | Label | -3% | 4% | 24% | 11% |
| | Folding Carton | 5% | 8% | 16% | 4% |
| | Flexible | 1% | 7% | 15% | 1% |
| | Corrugated | 18% | 17% | 27% | 10% |
| | Garment | 17% | 0% | 16% | 25% |
| | Industrial | 5% | 2% | 14% | -7% |
| | | Commercial | Graphics | Packaging | In-Plant |

Figure 5
Q. What market segment(s) beyond your primary segment has your organization entered or are considering entering?
n=467

 NAPCO RESEARCH

When it comes to perception of growth opportunity across segments, respondents see the most substantial opportunity in the graphic and sign segment. Among service providers that believe there is opportunity in segments beyond their own, 85% see opportunity in the graphic and sign segment, with 33% describing it as a “strong opportunity” (Figure 6). This is followed by the commercial-general and promotional products segments, which were cited as a “strong opportunity” by 25% and 22% of respondents, respectively.

Perceived Growth Opportunity

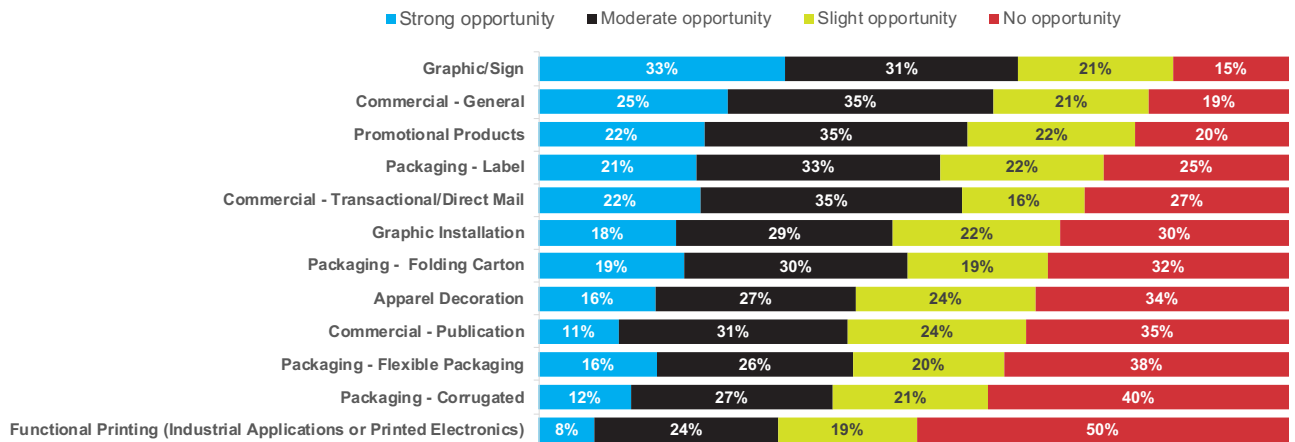


Figure 6
 Q. Rank the growth opportunity the following print segments offer your organization.
 n=480 Respondents that believe there is opportunity in other segments



NINETY-THREE PERCENT OF PSP BELIEVE THERE IS OPPORTUNITY IN SEGMENTS OTHER THAN THEIR OWN

PSPs emphatically believe that new opportunity awaits them via expansion into new segments, and many have already taken action to expand. Ninety-three percent of respondents stated there is opportunity in additional segments, with nearly a third (32%) actively taking steps to expand and another 39% actively researching the opportunity (Figure 7).

This aligns closely with convergence perceptions and actions taken in the 2018 research: it suggests that, consistently, more than nine out of 10 service providers believe there is opportunity in adjacent segments and a third are taking action to expand.

Perception of Opportunity in Other Segments

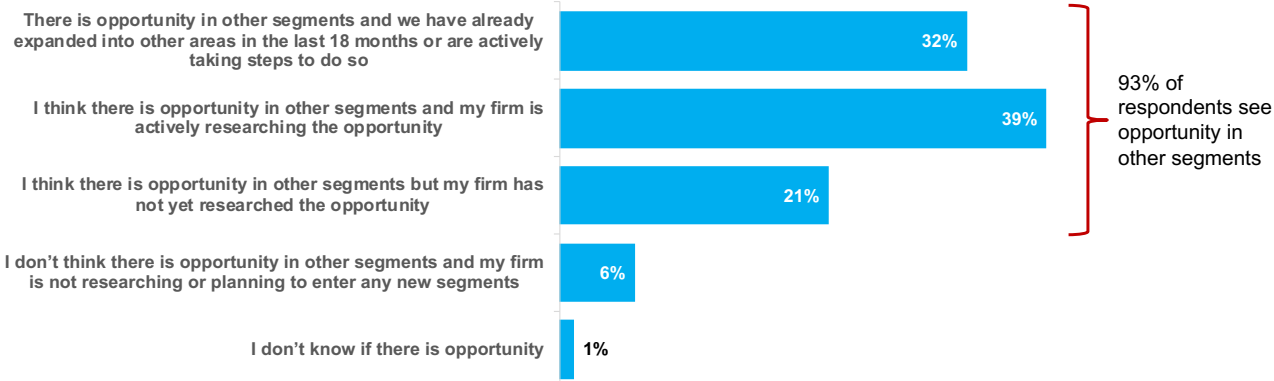


Figure 7
Q. Choose the statement below that best describes your thinking about the opportunity to better serve your customer base with services and applications other than the ones you currently provide.
n=517



MORE THAN A QUARTER OF SERVICE PROVIDERS EVALUATING EXPANSION HAVE ALLOCATED FUNDS FOR CAPITAL EQUIPMENT INVESTMENT

Organizations entering a new segment can be anywhere along the spectrum from the beginning of a research process to being ready to make an investment in equipment. Of respondents that are currently somewhere along this process of entering a new segment, more than a quarter (28%) have already allocated funds to capital investments, while another half are considering allocating (Figure 8).

This data suggests that diversification in the print industry is not just an industry shift that is strictly theoretical. More than a quarter of organizations evaluating expansion have already taken the concrete step of allocating funds to invest in new equipment.

Allocation of Funds for Expansion into Adjacent Segments

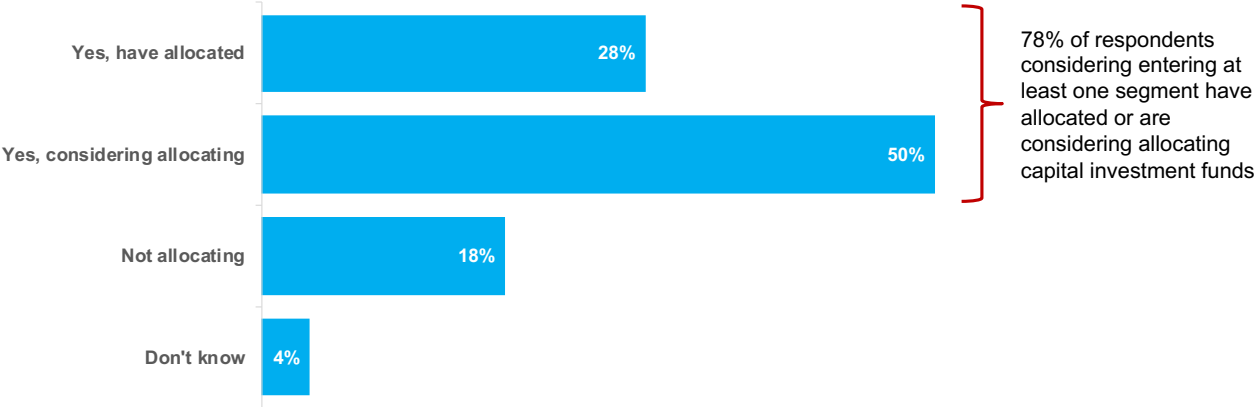


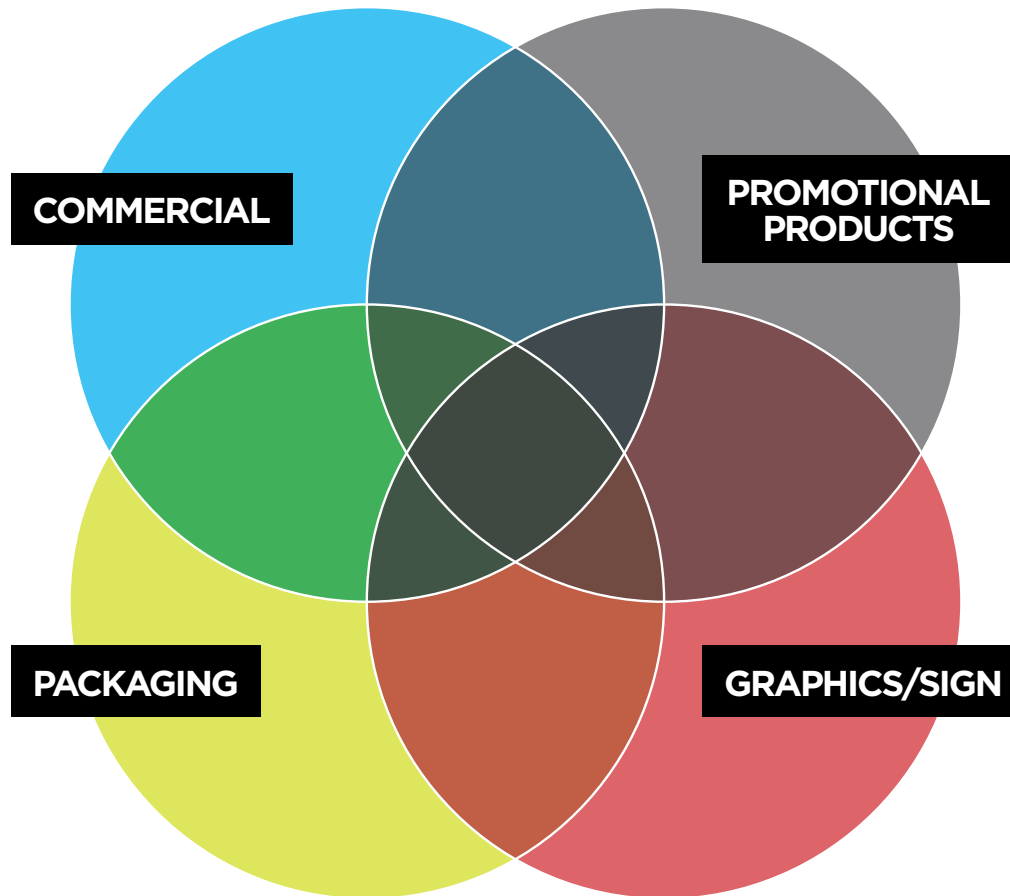
Figure 8
Q. Have you allocated, or are you considering allocating funds for equipment investment to expand into adjacent print segments (e.g commercial printers adding wide format, packaging adding commercial...)?
n=443 Respondents that have entered or are considering entering at least one market segment



THE FUTURE: CONTINUED CONVERGENCE OF PRINT SEGMENTS TO BETTER SERVE PRINT BUYERS

The big question for print industry service providers, manufacturers, and vendors is “what does all this mean for the future of the industry?”

NAPCO Research and PRINTING United Alliance’s view is that **convergence will continue to occur across print segments until such time that there is a blurring of the lines between different types of service providers.**



This will occur because:

- A model in which a print buyer’s service provider can meet more of their print buying needs is ultimately more convenient and efficient for the buyer.
- Contraction in the print industry and a push by service providers to find ways to grow their businesses will continue to drive expansion in additional segments and, by extension, convergence.
- Technology continues to evolve such that it continues to become easier for service providers to spin up new businesses than ever before.

WHAT IT MEANS FOR PSPS:

- **Pursue the Opportunity**

A major shift is occurring in which service providers are expanding their role beyond single segment providers to multi-segment service providers. It is no longer theoretical or anecdotal, the data shows this trend is already occurring and is actively growing. This strongly suggests that there is opportunity there for the taking for service providers bold enough to step out into the unknown.

- **Adapt to Shifting Customer Expectations**

There are many examples of businesses that began with a single offering and, over time, expand to adjacent offerings. Amazon, for example, started as a bookseller. Left to its own devices, an industry will inevitably tack to the more convenient option, and multiple service offerings from one provider is more convenient than a single service from a single provider.

This means service providers will have to adapt to changing expectations. The time is now for service providers that have not researched segment expansion to begin doing so, or risk being left behind by competitors that can more effectively meet their clients' full range of print needs.

- **Identify Technology Partners that Can Support Diversification**

As Print Service Providers look to diversify revenue, technology providers will need to adapt to support the transition. Service Providers must identify technology providers that understand the convergence trend and are able to support service providers as they expand into additional markets. They will also need to identify new technologies that may be required to support their transition into new segments. For example, if transitioning into folding carton, understanding die cutting and folding/gluing, and the technology needed to support the transition.

WHAT IT MEANS FOR TECHNOLOGY PROVIDERS

- **Adapt to Support Convergence**

Manufacturers and technology providers must adjust their single segment approach to accommodate for service providers who are operating in multiple segments. In addition to providing better service to PSPs, this will create new revenue opportunities as service providers begin to view manufacturers as capable of supporting their multi-segment needs.

- **Break Down Internal Silos Between Print Segments**

In addition to changing the way they interact with their customers, manufacturers and vendors must break down internal silos that may be structured to support customers on a segment-by-segment basis. Communications and educational material must address multi-segment needs and wants, support must be ready for service providers across multiple segments, and internal teams must be set up to accommodate the new normal.

- **Adjust R&D to Accommodate Convergence**

Manufacturers must adjust R&D efforts from single-segment focused to considering multi-segment service providers. While a single piece of equipment will never print on all substrates and materials, there are likely efficiencies that can be realized when technology vendors consider providers' multi-segment needs.

WHO WE ARE



Whether you're a print service provider, marketing or creative professional, HP Indigo's LEP (Liquid Electrophotography) digital print technology provides an unprecedented opportunity to satisfy a full range of customer requirements for labels, folding cartons, flexible packaging and shrink sleeves. HP Indigo digital presses combine high productivity, superior color capabilities and the widest media gamut in digital production to make your packaging stand out and grow your business.



WHO WE ARE



PRINTING United Alliance is the new entity borne of the merger between Specialty Graphic Imaging Association (SGIA) and Printing Industries of America (PIA). In a milestone in the printing industry, SGIA and PIA officially combined in 2020 to create the largest, most comprehensive member-based printing and graphic arts association in the United States.

Members will soon have unparalleled access to preeminent education, training, workshops, events, research, government and legislative representation, safety and environmental sustainability guidance, as well as resources from the leading media company in the industry – NAPCO Media. For PRINTING United Alliance membership inquiries, visit sgia.org.



WHO WE ARE

NAPCORESEARCH

a service of **NAPCOMEDIA**

NAPCO Research crafts custom data-centric solutions that leverage our highly engaged audiences across the markets in which we operate, our industry subject matter experts and in-house research expertise. We partner with our clients to identify their unique business problem and create solutions that enable deeply informed decision-making.

NAPCO Research can help with:

- Business goal prioritization
- Opportunity discovery
- Market segmentation
- Landscape insight
- User needs and wants
- Product features and functionality
- Content marketing strategy
- Sales strategy and tactics
- Market conditions
- Benchmarking
- Industry trends
- Brand awareness

Contact research@napco.com to talk with our analysts to find out how we can help you with your research needs.