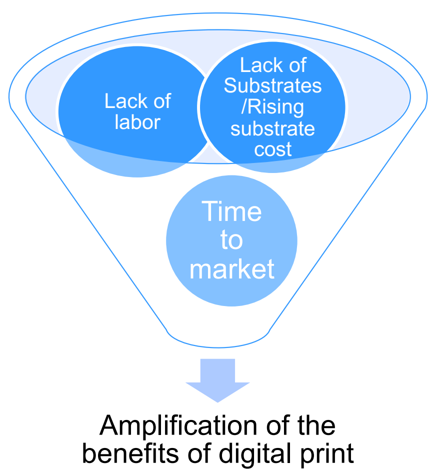
Wide Format Graphic Inkjet Printing Trends 2022

From a business standpoint, COVID caused a particularly bad influence on the demand of signage during 2020. Retailers and large public events (sports, concerts, amusement parks, etc.) both shut down for a large part of 2020. Demand for signage fell in high-volume sectors as much as 44% as measured by volume. There was some uptick in demand towards the end of 2020, as retailers re-opened. The slower re-opening of events, sports, concerts, trade shows, etc. weighed heavily upon larger volume signage providers. IT Strategies projected in early 2021 that the slower than desired return to large events would delay a return to 2019 volumes until 2024 at earliest. We were wrong, as more variables entered the mix in 2021.

The largest variable entering the mix in 2021 was the instability of the supply chain of just about everything. During the COVID shut-down, containers that move the world's goods got misaligned, like someone threw up a handful of various coins in the air that then all had to be re-sorted. We are still re-sorting containers two years later…and as a result, shipping delays have made important contributors to signage – substrates in particular – difficult to procure. Paper substrates, in particular, have been difficult to find, as a significant amount of paper mills have exited the paper commercial and writing paper print business, either through mill closure or conversion of mills to tissue and packaging papers. Even when logistics are back to normal, there still won't be enough capacity to meet the demand for paper substrates. This in turn has caused paper prices to rise on average 25%+ since the beginning of COVID.



I. T. Strategies, Inc.
51 North Street
Hingham, MA 02043
PH: 781 826 0200
www.it-strategies.com

The other large challenge in the US is a lack of labor. The "great resignation" has caused a wage war, the likes of which are re-orienting what blue collar workers are willing to do to make a living. Major retailers like Amazon, Target, Wal-Mart, and others are now paying $20-30 hour, with predictable work hours and benefits. This has made it difficult to re-hire print production workers who were previously making under $15/hour on the night shift. Print providers have resorted to hiring temporary workers, paying $17/hour for unskilled labor. This has caused the remaining print provider workers who were making $15/hour to demand $22/hour, for example, since they have more skills than temporary workers, and have the option to work in retail environments for higher compensation.

The combination of a lack of substrates and rising prices (for both substrates and labor) have made brands more intolerant of waste than ever. They can't afford to over-order signage for a lower cost per piece since there isn't enough substrate, and it's gotten too expensive to accept waste as part of the "cost of doing business."

These factors are driving brands to place ever smaller orders, for just the amount of signage they will need, within days of needing it. With higher job order frequencies, and less labor, it is getting more and more desirable for jobs that have a high number of colors (meaning screens or plates) to be printed digitally, even at larger volumes. It also highlights the need for more automation for print providers, a need that isn't just driven by lack of labor.

In addition to supply chain instabilities and lack of labor, there is a third factor at play: the consolidation and concentration of print providers. Small print providers are particularly at risk as they can't generate revenue unless they have allocation for substrates. The substrate providers are naturally favoring those clients who pay promptly. Any small hick-up in cashflow could further delay payment by smaller printers to their substrate suppliers, moving them down the allocation list and causing a spiral of more problems since they can't generate revenue without substrates. Larger print providers are not immune to consolidation either, as private equity has "discovered" the print industry. Looking for ever greater returns, private equity has discovered that print providers are highly regional and relatively inefficient. By buying up 10 print providers, they can reduce costs by getting rid of nine accounting departments, nine IT departments, etc., and gain some economies of scale for better raw material purchasing leverage.

At the same time, these private equity driven companies are recognizing the need to reduce labor, shrewdly calculating the benefits of replacing older printing equipment with new, more productive, less labor-intensive equipment. This makes them more efficient and competitive, not necessarily on price but rather the ability to deliver quickly in just the right quantity so there is no waste.

I. T. Strategies, Inc.
51 North Street
Hingham, MA 02043
PH: 781 826 0200
www.it-strategies.com

The combination of all of these factors is amplifying the benefits of digital printing across all print markets, including signage. These are the daily challenges, but it hasn't answered where to grow one's business in 2022.

To grow, one needs "net new" business. IT Strategies sees three strong areas of application expansion and growth for signage print providers:

1. Corrugated printing
2. Décor and installation service
3. Dye sublimation signage

The corrugated printing business isn't just about printing boxes. A large part of the high-color corrugated print business is display stands (e.g., endcaps in supermarkets). Traditionally the domain of corrugated converters, many of those converters are outsourcing to print providers who can provide litho-like output quality with faster turnaround than provided by offset printers. Additionally, e-commerce retailers, among the fastest growing distribution channels in the US and Europe, are looking for a greater level of customer experience when opening their boxes. Print on the inside of the boxes has proven to be a strong differentiator, in many cases driving up response rates in double-digits. The growth of digital inkjet corrugated printing is projected to run in excess of 50% annually through 2026, lifting all boats in a rising tide.

Décor is another extension of wide format signage. With office workers slowly returning to corporate offices, companies are looking to refresh their office spaces. Digitally printed décor signage –from decorated windows and glass walls to re-upholstered office cubicles to bold wall murals—can give an office a new look for a fraction of the cost of alternatives. One of the keys to this opportunity is more than printing, it is also the installation of these applications. With labor hard to find everywhere, particularly skilled labor that won't misapply the printed products, many print providers are finding themselves becoming installers during their off time. The value of installation in some cases can even be greater than the print itself, and the margins on installation are likely to be even greater than the margins on the print.

Lastly, dye sublimation signage is poised for a strong return after being hit among the hardest among all signage applications. While tradeshows have yet to comeback in a big way, sporting events, concerts, and other entertainment businesses, such as amusement parks, are making a strong comeback right now as consumers are looking to enjoy experiences upon the back of strong discretionary consumer budgets.

I. T. Strategies, Inc.
51 North Street
Hingham, MA 02043
PH: 781 826 0200
www.it-strategies.com

While moving into adjacencies and net new businesses isn't always easy, those barriers to entry are also the same barriers that keep margins attractive. COVID was an abrupt reset for many businesses, but like Winston Churchill noted, "never waste a good crisis."

As the economies re-open worldwide, there will be strong interest in attracting consumers back to retail business through point-of-purchase signage. At the same time, pressures for print providers to become more automated and efficient will prevail as the number of print providers becomes more concentrated. Re-investment in new capital equipment is a must to stay ahead of the automation and efficiency curve.

Now is the time to take advantage of the benefits of digital printing, such as the ability to reduce waste, produce the right quantity of signage at the right time, and allow expansion into adjacencies where margins remain strong due to barriers of entry to most other print providers.

I. T. Strategies, Inc.
51 North Street
Hingham, MA 02043
PH: 781 826 0200
www.it-strategies.com