

Editorial/Production Office

795 Folsom Street, 6th Floor
San Francisco, California 94107-1243, USA
phone: (415) 905-2300
fax: (415) 905-2612
web: www.Seybold365.com

Managing Editor: **Chuck Lenatti**
e-mail: chuck.lenatti@mlii.com

Contributing Editor: **Steve Edwards**

Correspondent: **Kurt Wolf**
e-mail: kwolf@uitikon.ch

Contributors: **Stephen Beals, C. Clint Bolte, Joel Breckenridge, Claus Christiansen, L. Carol Christopher, James Felici, Mark Fleming, Molly Joss, Chris Lynn, Anita Malnig, Michael Mittelhaus, Bill Rosenblatt, Ron Roszkiewicz, Bill Trippe, Bernd Zipper**

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phone: (800) 368-7601 or
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795 Folsom Street, 6th Floor
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phone: (415) 905-2300
fax: (415) 905-2FAX

The Seybold Consulting Group

The Seybold Consulting Group advises both users and vendors on an individual project basis. Please direct inquiries to Andrew Miller at (415) 905-2598, or andrew.miller@mlii.com.

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The Latest Word

NPES' Print Outlook 2006 Conference

Federal Data Legislation Could Limit Variable Digital Print

BY C. CLINT BOLTE

The 25th annual Print Outlook Conference drew 88 attendees to the Hilton Arlington on Dec. 1-2 to address the key marketing and economic issues for the printing and converting industries.

Economists discussed the near and midterm direction of various economic indices. Consultants debated the print industry impact of tradeoffs of the various advertising media. Government affairs specialists described the status of legislation important to the industry. And printer panelists discussed their transition from printers to marketing services support facilitators.

Postal Reform

The industry has followed with interest and no small frustration the federal legislative logjam on postal reform. And yet few attendees were aware of the 65 different bills being debated that address data. The printing, mailing and fulfillment industries and their associated political action committees have not really taken defined positions concerning these bills. Bruce Biegel, managing director of strategic consultancy direct mail experts Winterbury Group LLC, suggested that considering the importance the printing industry has placed upon digital printing, printers should get up to speed quickly on these potential laws. This "data legislation" could hold hidden surprises concerning the use of personal data due to "security provisions" and therefore vendor liability. The use of personal information is essential to the rollout of digital variable printing.

While most people expect that personal databases will ultimately be owned by a corporate publisher, digital printers could

encounter unexpected liabilities, as they currently do when copyright clearance comes into play. For example, college professors select articles and book chapters, many of which are copyrighted, to make up the course materials sold to students enrolled in their courses. The laws have focused the copyright clearance liability on the printer if clearance has not been properly sought. Copyright clearance obligation might not be analogous for data legislation, but then again it might be dead on. Stay tuned for discussions on this topic at future NPES Print Outlook and possibly Executive Outlook Conferences.

Manufacturing Outlook

Keynote speaker John Engler, president of the nation's largest trade group, the National Association of Manufacturers (NAM), and a former three-term Michigan governor, presented the "Outlook for Manufacturing." While the U.S. manufacturing sector is the "eighth-largest economy in the world" and for the first time in five years its growth exceeded that of the United States in 2004, it nonetheless faces three substantial challenges preventing it from competing globally on an even playing field. The first is the rising cost of health care. According to a NAM study, \$300 billion is spent each year on redundant paper work in the health care information national structure. "Only public education is worse," said Engler.

The second challenge is the widening gap in new employee skills. "Eighty percent of manufacturers are experiencing skill shortages," said Engler. "Manufacturers use more metrics (to measure progress) every week than any school uses in a year." With \$500 billion spent on education each

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year, Engler concluded, “This is not a funding but a leadership issue.”

The escalating cost of energy is the third manufacturing challenge. There’s no realistic national strategy to boost energy supply. By 2025, we will need 55% more energy than is consumed today. Bringing back nuclear power, drilling on the continental outer shelf and bringing a pipeline down to the lower 48 states are options that must be realistically addressed. The federal regulatory infrastructure and approval process must be corrected. The federal government keeps changing the rules after construction is approved but before the project is completed, which adds to costs and financial risks. China is spending \$50 billion to build 30 nuclear power plants, while in the United States it takes more than 10 years to approve one nuclear power plant.

The Political Outlook

Norman Ornstein, a political election analyst for CBS and a resident scholar at the American Enterprise Institute for Public Policy Research, discussed the political outlook. Throughout the nation — not just in Washington — “there is virtual parity between the two parties. Consequently, everything is up for grabs at every election. The 99 state Legislatures have 7,500 elected legislators: 3,658 Republicans and 3,656 Democrats.” The impact of a shift in control is immense at both the state and federal levels.

When the Democrats held the majority from 1954-1994, “the political philosophical differences between both parties were like a bell curve of distribution around the 50 yard line.” With today’s Congress, the dispersion of ideology of the two parties looks like a double-humped or bimodal distribution at either end of a football field. Compromises appear extremely difficult to reach. Both parties need to “reach out across the divide,” but no one seems to be stepping up to be first, said Ornstein.

History has shown that second-term presidencies lack new ideas and are often characterized by scandals, according to Ornstein. When the vice president is not an heir apparent, potential presidential candidates become more aggressive, resulting in more alienation within the current president’s own party. And the implosion continues as “the riverboat gamble of Iraq plays itself out.”

‘Changed Mindset’

Frank Cost, RIT Professor of Digital Publishing and Printing, offered a personal case study based on the publishing and production of his current book. It involves a “changed mindset” and was “centered around Web-based business processes.” He said most university publishing ventures, as well as the private sector for that matter, are “money pits” because of the unpredictability of demand and unsold inventories. His own book was produced both by offset and in digital print mode using Lulu.com, an Internet company similar to Amazon.com, but that offers a larger margin to the publisher. With unit production costs at \$1.40 for offset and \$10 for digital and the selling price the same for both, the net publishing margin is comparable. However, the digital print model eliminates the cost of carrying inventory and the risk of the offset version. Internet print developer Lulu.com has a strategic partnership with the digital book manufacturer, in this case Rochester’s Color Centric Corp.

Economic Outlook

NPES Consulting Economist Michael Evans, who has spoken at every Print Outlook, said he expects the Fed to increase interest rates from the current 4% to 5% by mid-2006. If inflation stays in check at around the 2.5-3% range, the Fed will be expected to decrease interest rates for the rest of the year to about 4% by this time next year.

The exception to the flat inflation will be in construction, which will spike by 25% in 2006. Initially driven by the hurricane rebuilds and resulting material shortages, construction has no real economy of scale and foreign competition is not an issue. This one-time bump will have little impact on the consumer price index. Energy prices have peaked but will remain high.

The growth in housing prices will recede to the inflationary pace in 2006. Prices at some “hot spots” will decline 10-15% and housing starts will decrease as the investment motive disappears.

GDP growth will slow to 2.5% in ’06 due to rising interest rates and a stagnant stock market and then rebound slightly to 3.5% growth in ’07. This relatively sluggish performance is due to an overall low manufacturing capacity utilization, low corporate profit margins and more expansion overseas.

tion overseas.

Long-term U.S. inflation will stay in check despite “indefinite trade deficits” as very little of the higher energy costs will be passed onto consumers, high productivity gains will continue, foreign competition (except in construction) will remain vigorous, wages will increase modestly in most sectors, and China and OPEC will continue to buy U.S. Treasuries because of their “investment safety.”

Ronnie Davis, PIA/GATF’s chief economist, said the Gulf Coast segment of the printing industry took a \$200 million revenue hit from the hurricanes this year. He said he expects a 2-3% increase in the printing industry next year despite the 5.4% postal rate hike. While printers should expect their overall costs to climb 5% in 2006, this will be offset by slight price increases and robust productivity gains. “Printers’ productivity in 2004 as measured by value-added per employee increased by 7.2%,” concluded Davis.

New Technology in Old Companies

The printer panel, moderated by Davis, consisted of four firms that clearly understand the need to transform themselves. Or as Al Kennickell, president of Savannah’s 111-year-old Kennickell Print & Communications, put it, “We are continuing to morph.” His company has added fulfillment and mailing services and has moved gingerly into digital print and database management. Each of these expansions have occurred by “incremental growth and investment” as “we’re learning every day.” He concluded, “I’m studying more now than since I was in college.” His database management activity has been slow and steady, partly as a result of being able to outsource select tasks to an IT service bureau in the Ukraine.

Ken Chaletzky, president of Copy General in Sterling, Va., transformed his company into a 100% digital enterprise that is aggressively growing its variable data services. The success of his marketing strategy is simply described: “We’ve got ‘em by the data.”

Eric Webber, president of Rochester’s Cohber Press, is enjoying high-profile growth in digital printing, but warned that printers need to be careful about how they describe the importance of these new ancillary services to their employees. The lion’s share of employees and revenue continue to

be lithography — a late-model 10-unit press in this case — and the emphasis upon offset efficiency and productivity is essential.

Kennickell agreed, adding that he has given up trying to train his print salesmen to be anything except excellent print salesmen. He realizes that his firm needs to offer more marketing support services, but he hopes to get his new sales representatives from advertising agencies for which his firm does no work.

Common Terminology

Kip Smythe, vice president of NPES and president of Printing Industries Marketing Information Research Organization (PRIMIR), gave a presentation about an initiative to arrive at common definition of terms describing the industry. This will ensure that studies and projections can be logically compared. Currently, estimates of the number of printing companies and their total revenues vary depending on which consultant or expert you talk to. The credibility of everyone's research is diminished when different segments, products and processes overlap. PRIMIR will continue to work with all interested parties to iron out differences in these definitions.

Trends in Advertising

Bruce Biegel and Bill Lamparter, president of PrintCom Consulting, discussed advertising trends in direct mail and catalogs. Direct mail is not as popular for marketing in other countries as it is in the U.S. Biegel showed a chart indicating that direct mail

revenues in the U.S. are 2.5 times as great as the second-largest nation's direct mail spending. Direct mail had the largest share of the \$887 billion total advertising spent in the United States for 2004 and it's growing consistently at the expense of broadcast television. Insurance, hospitality and not-for-profit are the three leading industry-specific direct mail applications.

Continued market consolidation, especially among the retail, financial services, health care and telecom sectors, is creating realignment among buyers. Spending is shifting toward accountable media and away from branding-oriented vehicles such as TV, and integrated multimedia campaigns are expanding. Clearly, complexity and sophistication is following these distribution elements, echoing the experience of printing projects.

Advertising agencies continue to suffer from severe competition and margin erosion, resulting in accounts turning over every 18 months on average. Biegel senses "a lack of differentiation between the large advertising holding companies." When a general advertising agency was terminated by General Motors recently, it was learned that GM was allowing this agency only a 1% markup on media procured. This markup was as high as 15% a couple of decades ago.

Biegel predicted that statement or transactional printing will climb at a compound annual growth rate of 1% through 2009. While this activity is relatively stable, these vendors must now provide e-

statements and spot color in addition to the standard high-speed single color variable print. The use of statement inserts is a long-proved marketing ploy that clients are expected to continue to incorporate.

Lamparter indicated that his firm's research on catalogs shows that "some catalogs no longer list prices." This extends the usable life of the catalogs and results in directing the buyer to a Web site for current sales or promotional programs. The use of post cards is growing as teasers to drive prospects to the catalog and Web site.

Similarly, Lamparter added, "Direct mail programs are universally including a postcard as one of the three elements of a fully integrated multimedia program." It is interesting that the catalog specialty printers have been the leaders at incorporating the large-format Sunday presses to increase process color page count in the same signature at increasing speeds. Yet few of these specialty printers have sheetfed presses in those same plants to print the postcards.

While few printers attend the Print Outlook Conference, the information is vital to executive management planning and quite often complementary to the benchmark best practices covered by other national and international conclaves. **TSR**

About the Author

Printing consultant Clint Bolte (clint@clintbolte.com) is the author of "How Fulfillment Services Drive Print Volume," published by the National Association for Printing Leadership (NAPL). He may be contacted at (717) 263-5768.