Thoughts on the Current Status of Canadian Printing Industries
by
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Good morning!

Many of you will be familiar with the old rule of thumb that Canada is 1/10th of the US marketplace - well that certainly continues to hold true for most things. If you can imagine the states of Michigan, Ohio, and Illinois somehow joining to form a separate country - that would essentially equal Canada.

The unique challenge has always been to service an advanced economy in a big country with a relatively small population. Imagine taking the equivalent population and commerce of those three states and spreading it across five time zones! Since the days of British rule, geography has posed a huge challenge to infrastructure. However as you'd expect with modern logistics, the movement of goods and services is mostly transparent to the consumer today. Despite strong planning efforts, paper merchants and graphic dealers often must find ways to move quantities of product quickly over great distances. Furthermore, it is sometimes practical for those same suppliers to fly a technician for most of a day to reach a customer in some remote area. A mitigating factor in all this is that the fact that most Canadians live within just 100 miles of the US border. So even with the distinction of being the world's second largest country, the market dynamic is essentially a 100-mile strip times 3500 miles. Furthermore, about 75% of the economy is concentrated in southern Ontario and Quebec. The balance of the market is well spread out over the western and Maritime Provinces.

With some notable distinction, the consumption of print in Canada is comparable in nature to the US, as consumer buying behavior, quality of life, and society at large is quite aligned with what you would see here in the US. American studies of commercial printing trends and technology adoption generally hold true in Canada as well. We typically use American studies to corroborate with our understanding of Canada.

The commercial printing industry peaked in Canada in 2001 at over $13 billion. Since that time the graphic communications industries have shown the strain of a huge sector in transition, the forces of a market that reached maturity all too quickly as electronic communications displaced much of the informational side of print. That event as well as changing patterns of print consumption has been well documented and I won't dwell on that. There is nothing materially different in the Canadian model that wasn't seen in other western economies as a result of electronic media. Currently the value of print shipments is declining but with stronger performance expected in the second half of 2007.

Canada and the US transact about $540 B in annual trade, which is more than 3 times the magnitude of US – Japan trade. We are the largest trade partners in the world - for now anyway. With respect to printed products, the value of trade between Canada and the US is now around $1.3 Billion. When the Canadian dollar was cheap in the 62 to 75 cent range, there was a distinct advantage for Canadian printers shipping to the US. Now that the US and Canadian dollars are essentially at par, the shipments have become quite balanced. Canadian printers have lost about $300 million in business sold into the US since 2004 or about 3% of all print. The decline in the industry as I just reported is in large part due to that.

To give you a quick profile of what is happening in the Canadian print industry I'll share several observations:

- The number of printers continues to decline. The dramatic decreases seen in the US over the past several years were mirrored in Canada.
- The supply industry in Canada has changed tremendously over he past 20 years. Many large and successful graphic dealers are now gone. Remaining graphic dealers are mostly aligned with a major manufacturer. The built-in and desirable redundancy of the original supply channels has yielded to leaner coordinated distribution methods. More change is to be expected as the demands of modern printers is addressed. Xpedx recently announced its entry into the Canadian marketplace.
- 80% or more of all lithography shipments use CtP in the manufacturing process. The balance is no longer considered an untapped frontier for CtP growth. Analogue smaller lithographers may be more apt to invest in a mid-level digital printing capability than to sustain aging litho presses for mostly short run work. Or else they will just go out of business. Then there are the specialty applications; most notably UV ink printers who must still use bulletproof conventional plates in long runs with brutal substrates. CtP is a replacement market now – still very important.
- Shops have put a huge emphasis on improving their workflows. Last year was noted as a very strong year for new and upgraded workflow. However, there are signs that the big expenditures on workflow have slowed.
- Implementations of remote proofing and CIP3 have been spotty. Some industry observers wonder why this is the case. There are respected forward-thinking printers now holding an attitude where capital expenditure may better be applied to production-level digital printing and allied processes rather than to continue upgrading litho processes, including CtP.
- Preflight is a ubiquitous process today.
- Color management has been a recognized core competency of printers and is the premise for those now diversifying their business into signage and display.
- As we have seen at various times in the past, commercial printers have gone through major transition periods. In my moderate career it was the movement from typesetters to imagesetters and then from imagesetters to CtP and advanced workflows. And now we see printers often diversifying into allied activities. Fulfillment has its challenges, and creative is a natural progression for those not doing it, but this movement to digital printing deserves some comment. A show like this may mislead those not grounded in this industry. Today, something like 10% of commercial print value is done n a digital press of some description. I suspect a similar penetration will be found in other economies. Filling a digital press with shorter-run jobs is almost taking the technology to a commodity level right off the bat. It's also difficult for community-based printers to seek out and service an adequate volume of this work. Printers know this. Some

digital printers complain about losing jobs to low-cost digital printers running moderate-speed desktop printers often in parallel. Vendors at the show rightfully advise printers about the value-added advantages of variable content. Many printers have made the IT investments to pull this off, most printers wonder if they could ever make that transition. And if they made the data-handling leap, would they have enough customers advanced enough in their own marketing plans to take advantage of it. The sophisticated print buyers and sophisticated printers know each other. For the rest, we must be patient. A respected customer of ours recently suggested that we are in a time where the market now must catch up with technology.

- Young Canadians and children openly discuss the graphic quality of posters, books and vehicles. I think this is a rather new phenomenon and exciting for anyone in the production of graphics.
- The Canadian federal government has recently recognized the need to support the graphic communications industries with training programs. Both business and labor have joined to design programs to help printers upgrade employees as well as boost the number of young people choosing the graphic industry as their vocation. Suppliers have been formally recognized for their past contributions in training our industry and that they will have a voice in future training programs.
- As for large format printing, society is going wild for it. For the outside observer, one may think that commercial printers should gravitate easily to signage and display. Many have and many more will. However, we need to understand some of the roadblocks. - Printers may rather prioritize digitization of their core business, which is printing, even though many are tentative to actually make the investment. Finishing and application of large format graphics requires investments in shop space, finishing equipment like laminators, cutters, stitchers, and applications personnel.

So you will see hundreds of Canadians here at this show. All of them survivors, all looking to improve their operations. The transition period that I speak of is uncomfortable for printers and suppliers. Everyone wants to move to the next level if possible. Canadians have always been conservative so patience is important as they chart their course. Graphics remain essential to our economy and society; Canada is doing quite well economically and politically in the private and public sectors. It is our challenge to introduce suitable technologies so that print providers can adapt to new and exciting demands for graphic communications.