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SERVICE AREA:

Business Development Strategies

ANALYSIS

THE PRINTING MARKET AND THE PANDEMIC

2020 AND BEYOND

DECEMBER 2020





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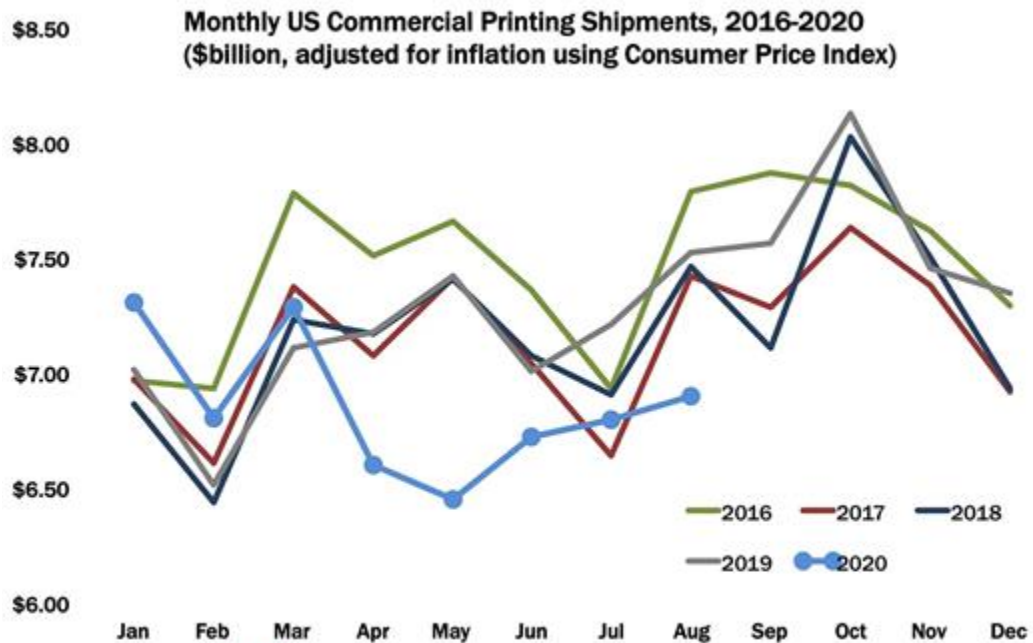
Introduction

2020 has been a bizarre year for the printing industry. Out of the gates in January, the market was looking strong with printing industry revenues that were the best in a decade. Then came COVID-19 and the varying levels of shutdown. Everyday life changed and, while the end may be in sight, there is no returning to a pre-pandemic normal. To make the best decisions moving forward, companies must examine what has happened, what has changed, and what trends will still impact the future. In this document, Keypoint Intelligence will cite industry statistics, examine factors that have impacted the economy in 2020, and make some strategic recommendations for 2021.

The Pandemic’s Impact on U.S. Commercial Printing Shipments and Profits

The year started out extremely well; commercial printing shipments enjoyed a recent high in January. February was also stronger than recent comparative data, easily exceeding figures posted in the prior year. Then the pandemic arrived and the bottom dropped out of the market, hitting a low point in May. Since then, shipments have struggled back as companies moved to react and re-align their product offerings with consumer needs.

Figure 1: U.S. Commercial Printing Shipments by month (2016-2020)



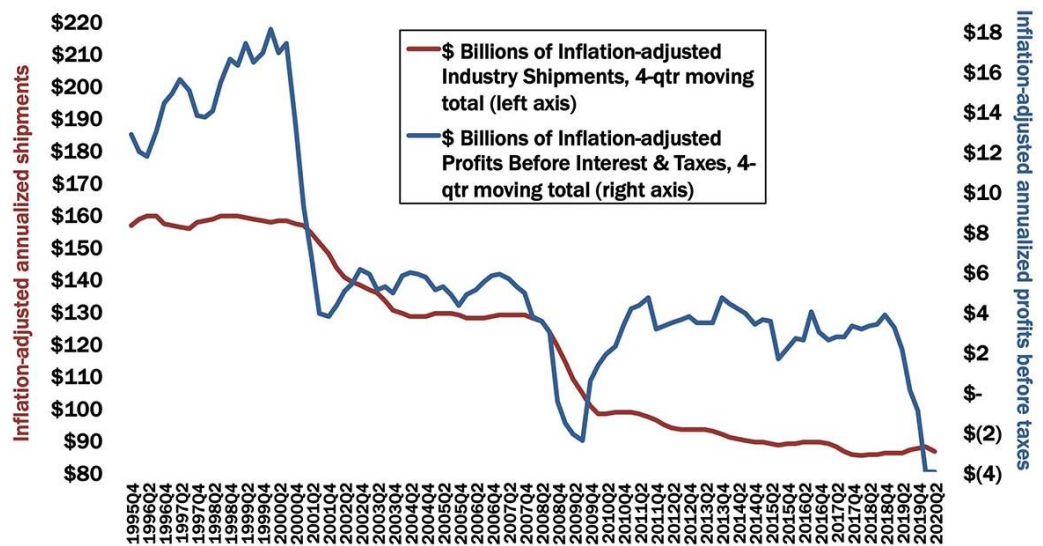
Source: WhatTheyThink.com, October 2020



The latest figures are from August 2020 when printing shipments reached \$6.90 billion. It was the third straight month of increases, which is good news for sure—but it still lagged behind the previous four years. As expected, printing industry profit levels also suffered greatly. The Figure below shows the downward trend of US commercial printing shipments and profits. The blue profit line (associated with the axis on the right) shows the huge impact that occurs during down economic times (note particularly the recessionary drops in 2001, 2009, and now in 2020). These leave industry profit figures in negative numbers.

Figure 2: U.S. Printing Industry Shipments and Profits

Based on US Commerce Department Quarterly Financial Report, M3 Shipments, BLS CPI



WhatTheyThink

Source: WhatTheyThink.com, October 2020

US Printing Industry Employment

The US printing industry employment data reflects a year impacted by recession and contraction. Between September 2019 and September 2020, the industry dropped from nearly 425,000 employees to around 365,000 employees, just over a 14.1% decline. The most recent monthly employment figures are somewhat brighter. Overall printing employment in October 2020 was up 0.8% from September. This improvement is tenuous, however, as the pandemic is not over and a spike in cases could trigger more lockdowns and societal damage. Where we are today regarding industry staffing levels is what some are calling “inadvertent lean operations.”



Mergers, Acquisitions, and Bankruptcies

In its October 2020 report on merger and acquisition activity, [the Target Report](#) noted that it had not seen an increase in mergers and acquisitions as a result of the pandemic but believed that the impact is being felt among the weakest players in the market, who are simply going out of business and auctioning off their assets. They also noted that government loans and other programs had helped to limit the financial hardship caused so far by COVID-19.

That being said, they reported that many commercial printing companies were experiencing declines of 20% or even higher. Some of these printers have had to close. Part of this relates to which industries a printer relied on most for its revenue. If a printer's business was dependent on promotions for live in-person events, that work has almost completely dried up. The same holds true for markets like travel, tourism, and hospitality. Segments like package printing and signage, however, have gained new forms of business.

The Impact of the Pandemic on the USPS

Given how central the United States Postal Service (USPS) is to the health of direct mail and other aspects of the printing industry, it is worth taking a quick look at the impact of the pandemic on the USPS. The fiscal year for the USPS runs from October to September, which means that a full view of the pandemic's impact is now available [via the USPS's 2020 annual report](#).

The USPS reported that mail volume declined. It is important to note that some decline was always anticipated, but it was accelerated by the pandemic. The total decline was 13.8 billion pieces. First Class Mail declined by 2.3 billion pieces (4.2% over the previous year). Marketing Mail declined by 11.5 billion pieces (15.2% over the previous year). The USPS reported that its mail volume began to improve in the last few weeks of its fiscal year (leading up to September 30, 2020) but attributed this to a temporary surge in political and election mail.

Package volume, on the other hand, grew by nearly 1.2 billion pieces (18.8% over the previous year) due to a surge in e-commerce that the USPS believes will continue post-pandemic due to the safety and convenience of ordering online versus in-store shopping. USPS operating revenue was \$73.1 billion, almost \$2 billion higher than the prior year due to the increase in package shipping, whose revenue was up 25%. USPS's operating expenses also increased. Overall they stood at \$82.2 billion (an increase of \$2.3 billion or 2.9% compared to the previous year.) Building in other factors, the USPS had a net loss of \$9.2 billion, which was \$363 million higher than the decline the prior year.



The USPS employs approximately 644,000 people. Given the nature of their work, they faced special challenges because of the pandemic. While obligated to deliver mail six days a week, they suffered particularly from employee worker shortages because of illness, caring for family, quarantine, childcare, or other personal issues. In other industries, employees in other functions might be able to step in to help with delivery, but the USPS's labor force cannot redefine itself like this due to union regulations and legal concerns. This is a major reason why the Postmaster General's mandate to eliminate overtime, as well as remove numerous sorting machines, was so counterproductive and resulted in significant mail delivery delays.

In short, mail volume was down (as expected), package volume was up (accelerated by the pandemic), and operating losses increased. The USPS does not expect mail volume to recover to pre-pandemic levels. It also does not believe that increased package volumes will make up for the revenue loss associated with the mail volume decline. The USPS also faced some politically-charged challenges, particularly related to overtime. It will be important to see how the next administration deals with the USPS and the problems it faces. It is quite likely that the next administration will be more friendly to the USPS.

Lessons from the Pandemic

Like many other difficult situations, there are lessons we can take out of this pandemic. Here are just some of them:

- ◆ Physical communications have value: When people cannot be together in groups, the value of communication increases. The most immediate impact of this has been on pandemic signage, but the potential of direct mail letters, postcards, and catalogs to reach into every home has a value that cannot be overlooked. Though direct mail has suffered along with other print applications during the pandemic, positive intervention from an incoming Presidential Administration and new levels of Federal support may have a positive impact on mail volumes and other initiatives. That said, some things are not coming back. Whether this is First Class mail volume or business deal handshakes, some traditions that we took for granted will be hard pressed to make a return to prior levels. While it may be strange to think about, this change is very normal and it is easy to find similar examples throughout the evolution of civilization.
- ◆ Recovery will take time, and it will not be uniform. In-person events like traditional conferences and trade shows - as well as concerts, plays, and sporting events - all benefit from live audiences. The void in the marketing due to the cancellation of these types of events has been a heavy drag on the printing industry. People want to return to normal here, but will be cautious about returning, even after a vaccine, particularly those with additional risk factors. Masks and distancing will not go away entirely for some time, even after successful vaccines. This underscores the importance of reassuring marketing, including print options like brochures, postcards, posters, and informational signage.



- ◆ Some things will persist, but in a different way: One example of this is Black Friday, the traditional huge in-person shopping day that occurs the day after Thanksgiving. This year, retailers still pushed Black Friday sales even though they knew that there would be many fewer shoppers than in previous years. They used the event—perhaps as a precursor to Cyber Monday—to promote their brands and to drive shoppers to their websites. Black Thursday is typically a huge day for newspaper inserts. That trend held true this year despite the pandemic.
- ◆ E-commerce has become even more important: The COVID-19 pandemic accelerated a trend that had already been developing for some time. That is that the Internet and e-commerce provide solutions that are fast and convenient. Consumers scared to go to the store could order online and pick up at location or have their purchases delivered. Other people hoping to but unable to physically visit relatives could chat with them in real-time through apps like Skype and Zoom. e-Banking has also risen in popularity. The e-commerce opportunity also presents a risk for those print service providers who have not fully embraced electronic job submission tools. Internet-based printers are poised now to take away business more than ever before.
- ◆ Signage matters: We all have seen signage that clarifies public health information in an easy to understand fashion. Signage is important in bringing a sense of normality to changes in our lives in public spaces. It matters even as it guides us to stay six feet apart and use a mask. The term “divisional graphics” has become part of the lexicon. This refers to structural or decorative graphics that are used to separate people in places like bars, restaurants, and stores (think ‘sneeze guards’ but with branding or information graphics printed on them). Other examples of divisional graphics are the arrows in supermarket aisles or the “distancing dots” that keep people in lines six feet apart. Another important category of signage that has risen in recent months is “celebration signage.” An example of this is lawn signs for recent graduates.

Moving Forward

With all of this in mind, here are some go-forward recommendations for print service providers:

- ◆ Improve the workflow: Slow times provide an opportunity to examine where production bottlenecks occur and to test possible solutions. These types of efforts will pay off when the economy rebounds and job volumes increase. Consider doing a full workflow assessment.
- ◆ Communicate via print to clients and prospects: Regular mailings to existing boost presence and brand recognition. It can also serve as an opportunity to show off the role that print plays in connecting users to the Internet through personalized URLs (PURLs), quick response (QR) codes, bar codes, personalized videos, augmented reality (AR), virtual reality (VR), and near-field communication (NFC) tags. Using tools like these in print communications to customers and prospects shows them that print can be an effective gateway to the e-world and an important part of a cross-media campaign.
- ◆ Differentiate services: Now is also a good time to assess services in terms of their effectiveness for clients and their profit margin. There is no reason to continue to do



something just because it has always been done. From a competitive perspective companies must find ways to differentiate themselves from competitors.

- ◆ Take a close look at a web-to-print solution: Customers and prospects will be more amenable to electronic job submission. The pandemic has forced the market in this direction. Web-to-print solutions take on much greater importance now. If it is not functional or, more importantly, worse than a competitor's, it must be improved.
- ◆ Empathize with clients and prospects: This has been a hard year for most businesses. A tone of empathy is appropriate when working through late payments or voided contracts. There may also be situations where pilot programs involving joint risk will set the stage for close customer relationships as we emerge from the pandemic.

Opinion

The pandemic has had a devastating impact on the printing industry, but its role should be considered as an unusual factor on top of the ongoing market trends that have been driving print volumes down over the past two decades. The pandemic has accelerated factors like the importance of e-commerce, the willingness of many employers to let their workers work from home, and the acceptance of teleconferencing tools like Zoom. Moving forward, savvy print service providers will adapt and expand their service offerings, automate and simplify their workflows, and make it easier for their customers and prospects to use e-commerce tools to submit and track their jobs. In that sense, it is not a new day, but it is a day that we have been expecting for quite some time. It is just that the pandemic has pushed us faster in that direction.

opinion



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