

October 2010

## Limited edition? The future of Australian printing



Throughout the mid-2000s, many printing companies were reaping the benefits of the boom in colour catalogues that retailers were using to swamp suburban Australia. Printers were pumping out everything from magazines and brochures to annual reports, prospectuses and stationery. It was the golden age of printing in this country as the industry rode a lucrative wave of glossy, high-quality documents.

But something went drastically wrong. From 2004, the sector was engulfed in what may be the perfect storm: a combination of rapid technological change; industry consolidation; changes in consumer attitudes to paper-based products and a slowdown in economic growth. Over the last six years, industry revenue has fallen from \$10.1 billion to \$8.8 billion, and 500 printing businesses have closed their doors. That's a decrease of nearly 8% in the number of businesses in a sector long regarded as a stable SME employer.

The Australian printing industry may have entered the final phase of its life-cycle: decline. In this edition of Ferriers Focus we examine the domestic printing industry, the issues facing the local market and the warning signs that lenders and operators need to remain aware of.

### The industry

The major products created by the printing industry are brochures, catalogues, books, directories, magazines and non-publications such as the printing and binding of reports, business stationery, posters, banners, outdoor advertising, stamps, package labelling, tickets and pamphlets. The sector is dominated by small to medium businesses, with 80% employing less than 20 people. By revenue, the printing industry represents 8% of the SME manufacturing sector.

Printed advertising is a key driver of revenue in this sector and because consumer confidence is linked to advertising spend, the printing industry is highly sensitive to economic conditions. Approximately 40% of the Australian print industry revenue is derived from advertising. Retailers are the largest users of printing products with 21% of total industry revenues attributable to the retail sector. The other 60% of

revenue comes from the printing of books, directories, magazines and non-publication products.

### The decline

Over the last few years, businesses have recognised that advances in technology mean they are capable of using off-the-shelf printers in-house to produce printed documents that in the past would have been the exclusive domain of the printing professionals.

Professional printing has declined as more businesses adopted the trend of providing newsletters, client accounts and lengthy reports in electronic format. New technologies allow multiple parties to access, review and search huge amounts of electronic data without the need to print millions of pages in hardcopy. Good news for the environment – bad news for printers!

Environmental trends are also creating pressure on the industry. Businesses are increasingly favouring

## Key industry statistics

### Number of businesses

■ 2000/01 – 6,353 **down 7.8%**  
 ■ 2009/10 – 5,854

### Total revenue

■ 2004 – \$10.1b **down 12.9%**  
 ■ 2010 – \$8.8b

### Major products

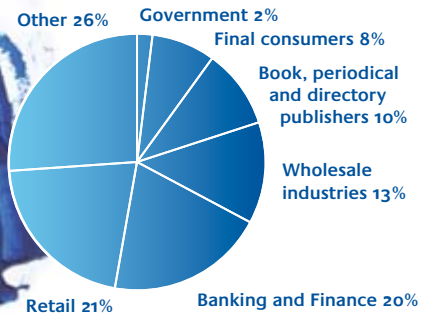
- Catalogues
- Directories
- Posters
- Outdoor advertising

### Top five players

Company	Market share	ASX listed, revenue and profit falling over last two years
PMP Limited	7.5%	ASX listed, revenue and profit falling over last two years
IPMG (Holdings) Pty Limited	5.3%	Privately held – Hannan family
Geon Group Australia Pty Limited	3.0%	Privately held, backed by Gresham Private Equity Limited
J S McMillan Printing Group	1.1%	Privately held
McPherson's Limited	0.8%	ASX listed, revenue and profit falling over last two years

Source: IBISWorld

### Industry segments by revenue – 2010



electronic over paper-based communication – not just to reduce operating costs, but also to address their perceived negative impact on the environment. Environmental responsibility is driving more businesses to online printers, in-house printing and electronic publishing.

The switch to electronic bills and newsletters is also having a significant impact on printing volumes. A 2008 Consumer Banking and Bill Payment survey by CheckFree showed that the majority of households in the USA are now paying their bills online. According to the survey, 42% of bills are now paid online and 51% of respondents quoted the environment as being a key reason for the switch. Australia will inevitably trend the same way.

Another challenge to the local printing industry is coming from international online competitors. Basically anything you want printed – from business cards and brochures to magazines and cookbooks – can allegedly be printed cheaper overseas. While the official total of imported printing currently represents only 1.3% of domestic printing turnover, the real level of import competition is likely to be much higher and there is clear evidence online printers have their eyes on our domestic market.

The emergence of the online marketplace has provided a foothold for the likes of Vistaprint, a Canadian online printing specialist that promises to deliver within as little as three days. The Vistaprint group has significant scale which gives them a huge cost advantage. This scale enables them to offer some products free – you only pay for shipping. Vistaprint opened its first Australian outlet in Melbourne in mid-2010. This may signal that others are on the way.

Technology is a key driver of change in the printing sector and the future looks digital. While large-scale print jobs remain outside the capability for most digital printers today, the technology provides greater flexibility, has low set-up costs, produces cheaper low-volume printing, is fast and the quality is high. Over time digital is likely to offer everything that traditional printing technologies offer.

At the moment, most of the investment in this sector is in new digital printing machines. For the year to March 2010, the printing industry invested \$497 million in new capital expenditure – an increase of 39% on the previous period. Many printing companies finance the purchase of this new digital technology through leasing or hire-purchase facilities. With a competitive digital printing machine costing between \$1 million and \$2 million, many printers have become highly geared entities requiring steady and significant turnover to service their debt.

The bad news for lenders with printing industry exposure is that the rapid evolution of printing technology means the resale value of digital printing equipment can be extremely low. In addition, given the nature of printing equipment, dismantling and moving heavy items can result in make-good costs significantly higher than the resale value of the “asset.”

## The opportunities

### Consolidation

With the prevailing conditions there are always opportunities. Larger entities may seek to consolidate by acquisitions and in doing so increase capacity, clientele and market share. This consolidation aims to create larger, more robust entities with more flexible cost structures better able to take advantage



## Conclusion

The traditional printing industry in Australia is in decline and the outlook for many printing companies may be bleak – businesses that remain stagnant do so at their own peril. Not all traditional printing will disappear – hardcopy printing remains an essential service and there will be significant rewards for those that can modify and survive. Indeed, survivors may find themselves faced with a unique opportunity to reposition their business, take advantage of technological change and prosper.

The printers of the future are likely to be less focussed on manufacturing and more driven to a service-based enterprise, providing customers with more than a bundle of printed paper. They will become advisers on concepts, presentation and creative content – adding expert knowledge to data and offering a wider value proposition for their customers.

## Ferrier Hodgson

When you are exposed to an industry in decline, it is critical to understand the options available to achieve optimal outcomes for all stakeholders. Professional advice can often mean the difference between success and failure and early intervention is always better.

Ferrier Hodgson can assist industry players by:

- Providing expert restructuring advice
- Answering queries about solvency and what to do next
- [Click here for the FH VA Guide](#)
- Reviewing business strategies and providing advice on appropriateness
- Assisting banks and financiers:
  - To evaluate their customers' ability to meet ongoing finance commitments
  - Undertaking an informal monitoring role
  - Performing an analysis of the security position
  - Advising the most suitable ways to recover the outstanding debt in specific circumstances
  - Acting in a formal insolvency context



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