2017-18 HOT MARKETS

Forecast of Print Demand

By Vincent Mallardi, CMC

2017 will be a slightly-down year with nominal print revenues at US$193.5B (-2%). Troublesome will be the return of inflation with price hikes in indirect labor, materials and transportation, and interest rate and tax increases. Productivity will minimally contribute to nominal U.S. GDP growth. Urgent to print must be focused-choice vertical concentration and horizontal channel expansion. Fuzzy generalities are not helpful in selling print.

At No. 1 in print buys will again be **PACKAGED FOODS** ($1.309T, +3%; with $17.9B to print, -3%). De-packaging will slim down litho label and carton production as the *fresh-prepared* (+13%) category dominates over *canned, jarred and dried foods* (-4%). The upside will be adjustable, mostly screen or digitally produced store signage, and free-standing inserts (FSIs), where farm-to-shelf and prepared-here "specials" will be promoted.

Regional farm, bakery and seafood suppliers to supermarkets are the new print demanders as they feed into this trend toward locality, and set up and brand their own year-round road stands and gourmet shops. Mini-fresh stores like Little Waitrose, REWE-To-Go, and food-as-theater "grocerants" on the model of Eataly, should cook up print buys in point-of-sale (POS) and direct mail by double portions.

Top-line "organic" growth leaders will be Kraft Heinz (+28%), the largest print buyer with its tuck-ins, and JBS USA (+12%). No longer the green giant is General Mills (-69%), which will shed more brands. Thankfully, Betty Crocker will continue to produce real print-fresh cookbooks!

Label providers be reminded: Genetically modified organism (GMO), or non-GMO, labeling on all foods, on-pack or on-product, is fully implemented in 2017, and every type of package will be overprinted or stickered either to verify honest compliance or to fake with look-alike claims.

Crossing over to No. 11 is **FOOD SERVICE** ($1.015T; +5%; with $7.9B to print, +10%). Most appetizing will be *delivered/prepared meals* (+20%) powered by smart-device orders to the first movers NetGrocer.com, Blue Apron and Instacart. A food fight is forthcoming against grocery retailers that will feed print out-of-home (OOH) push advertising, especially in transit and outdoor. *Full-service restaurants* (+6%) will be realigning space, locations and offerings at twice the previous rate. Entrees will include signage, décor, presentation, repeat loyalty programs and, perhaps, personalized menus rich in VDP. Food runner/food truck vehicle wraps and cross-media smart alerts based on previous-visit ordering will be the new norm.

Jersey Mike's Subs (+33%), and nearly 200 new franchise brands in *fast foods/casual dining* (+11%), will take big bites of slowing Subway (+2%), Chipotle (+8%) and the other traditional chains. Our industry must develop a taste for big data, in this sector hungry for anticipative, personalized possibilities.

Popping up to No. 6 are **BEVERAGES** ($506B, +5%; with $10.8B to print, -5%). *Beer, wine and spirits* (+7%) will pour substantially more into print labels, cartons, POP and ROP after cutbacks in the past two years. All alcohol categories are up; the most in wine, tequila, whisky and vodka. Constellation Brands (+11%) and Diageo (+5%) will add brands and extensions even with, and because of, consumers' concerns over import restrictions. Anheuser Busch Inbev (+5%) is "premium-izing and globalizing" its three top brands, while reducing production; something our industry should be doing!

Oppositely, *soft drinks* (-5%) will fizzle for the 12th straight year, forcing withdrawal of diet and other brand extensions in favor of *juices, waters* (+7%) and *coffees, teas* (+4%). Herbal, infused, energy and juice drink categories will continue moderate growth. *Dairy* (-9%), with the exception of Shake Shack (+13%), which will add 380 stores, will need to churn its image to reverse a five-year decline.

The No. 2 print buyer, but failing, is **MEDICAL/PHARMA** ($560B, -2%; with $15.0B to print, -7%) as will be No. 7-ranked **HEALTH PROVIDERS** ($3.715T, +2%; with $10.0B to print, -7%). Pfizer (-3%), Eli Lilly (-5%) and all demanders in *pharmaceuticals* (-4%) will be post-merger and slowing.

The repeal of at least part of the misnamed Affordable Care Act will negatively impact *health insurance* (-5%) premiums and coverage until something different can be agreed upon. Health Savings Accounts and high-deductible health insurance plans will proliferate in 2018 onward. State-specific plans will give way to sales of identical policies throughout the country and so decrease the cost of compliance. Ramp-ups in out-of-home and direct mail will wait for Q3 2017.

Meanwhile, the "window" of 3D healthcare is closing to our indolent industry, which it seems more likely will relinquish this transformational opportunity to smarter, non-industry upstarts. Imagine organ transplantation surgeries with us managing complex process controls in electron beam melting (EBM), laser beam melting (LBM), photo-polymerization, droplet deposition (DD) and adhesion bonding. We know this stuff, but by different names — a shame if we can't embrace dimensionality and partner with Stratasys (+107%) and other first-movers.

At No. 16 will be **PERSONAL CARE** ($482B, +6%; with $5.9B to print, 0%). Newly developed biologics, many harvested or replicated from marine life, will make over *color cosmetics, hair and skin/sun care* (+9%) to be over 1/3 of all personal care categories in '17 and beyond. New trade names will launch with novel packaging, displayers, demonstration materials and bound inserts.

Best positioned are upstarts with names like Replenix (+34%) and Rodan + Fields (+21%). L'Oreal (+6%), Estée Lauder (+5%) and other established names will be late in reaction, but not out. Interestingly, some entrants will be touting "coordinated color communications and control" across brands.

Hygiene and sanitary products (+3%) will dramatically slow in value as name brands give up share to private and no-brand alternatives — especially into the discount retail channel. Bulk packaging will flood wide-format flexo sleeve demand but flush down litho folding cartons, gravure towel and tissue enhancements, and flexo soft-packs. Commoditization in most cleaning products continue to wipe out revenues at P&G (-5%), Colgate (-6%), Kimberly-Clark (-7%) and others with iconic names. Maintaining demand for co-op POS/POP and FSIs will be drug superstores and all manner of convenience and discount retailers.

No. 5 **PUBLISHING, NON-NEWS** ($75B, 0%; with $>11.0B to print, -5%) will account for only 1/18 of total print, about level to 2016. One fascinating shift is the reemergence of coldest web as a preferred print method. While our industry strives for elegance, the marketplace seeks the cheapest form of tangible information transfer.

One example is the explosion in *alternative media* (+11%), thanks in part to the Presidential election. Another growth anomaly is *photobooks/photo-media* (+10%). Though this category is dominated by Shutterfly (+12%) and HP's Snapfish (+10%), the share availability at the projected compound annual growth rate (CAGR) is northward of 3/5. Maintaining revenues if not volumes will be *popular/trades* (+2%), which are celebrity-generated and time-sensitive to the extent that domestic book manufacturing is replacing some imports.

If our industry convinces the Trump administration to renegotiate, or withdraw from, the Berne Convention, Congress can reinstate the manufacturing clause to the U.S. Copyright Law – 45 years and thousands of jobs behind! In the meantime, *professional/educational* (-8%) and *periodicals* (-7%) are flipping back and forth with virtual media. Condé Nast's *SELF* magazine will publish its last print issue in February; however, Hearst reintroduced *Metropolitan Living* in print after a seven-year hiatus. Time Inc. (-12%) is the worst impacted after a spinoff intended to kill it and, now, buyout offers to save its brands without a company attached to them.

Retail bookstores (-5%) will continue in decline as the largest — Barnes & Noble (-8%) — is in free fall, and most others are closing. *Social expressions/cards* (-7%) are swinging opposite to *gift/party-ware* (+7%), but the latter will continue to be offshore manufactured.

In technology, at No. 4, is **TELECOMMUNICATIONS** ($1.509T, +2%; with $>11.0B to print, -4%). The AT&T (+22%) merger with Time Warner (-33%) will place its DirecTV unit in direct competition with its enlarged "pipes and content" parent. Assuming regulatory approval by mid-year, a spate of convergent, net "non-net-neutral" agglomerations will muddle the media landscape between telecom and entertainment. Comcast (+15%), with content and distribution but with no phones, and T-Mobile (+11%), Verizon (+8%) and Sprint (-8%), with phones and no content, will be calling on each other and the likes of CBS (+4%), Walt Disney (+2%) and Netflix (+23%). Many smaller entertainment providers will be absorbed — and their print disappeared.

In the short-term only, direct mail, out-of-home and in-store graphic demand will benefit VDP digital, web offset and wide-format screen printers. *Telecom equipment* (-6%) will continue depressed until the next-gen comes along in two years.

Also in tech "no" are No. 19 **COMPUTERWARE** ($866B, +>3%; with $4.2B to print, -13%) and No. 24 **ELECTRONICS, NON-TELECOM** ($345B, -7%; with $1.8B to print, -5%). Most brands are in revenue declines, as in Best Buy (-3%) to HHGregg (-7%), and all are awash in unsold and obsoleting inventories of big screens and the rest; at a factor of 2.8:1.0 (2017-2015). Print FSIs and ROP

DEMAND SECTOR/ CATEGORY RANKINGS BY PRINT POTENTIAL 2017

Rank	Sectors/ Categories	Revenue Forecast in US$B	Growth Rate %	Printing Trend 2016-2017	Share to-Print %	Print Potential in US$B	Print Change %
1	PACKAGED FOODS	$1,309	3	▶▶	1.4	$17.9	-3
2	MEDICAL/PHARMA	560	-2	▶▼	<0.3	15.0	-7
3	BANKING/INSURANCE	5,140	5	▶▲	0.2	11.1	<4
4	TELECOMMUNICATIONS	1,509	2	▶▶	0.8	>11.0	-4
5	PUBLISHING, NON-NEWS	75	0	▶▼	14.7	>11.0	-5
6	BEVERAGES	506	5	▼▼	0.2	10.8	-5
7	HEALTH PROVIDERS	3,715	2	▲▼	<0.3	10.0	-7
8	REAL ESTATE	2,215	-2	▶▼	>0.4	10.0	-22
9	AUTOMOTIVE	2,289	1	▲▶	<0.4	>9.1	2
10	TRAVEL/HOSPITALITY	970	<5	▲▶	0.9	8.9	1
11	FOOD SERVICE	1,015	5	▲▲	<0.8	7.9	10
12	ENTERTAINMENT	970	3	▲▲	>0.7	7.3	5
13	HOME IMPROVEMENTS	895	5	▲▲	<0.8	6.9	10
14	FASHION	613	<3	▼▶	<1.1	<6.7	0
15	DISCOUNT RETAIL	1,700	4	▲▼	<0.4	6.0	0
16	PERSONAL CARE	482	6	▲▶	1.3	5.9	0
17	INVESTMENT/BROKERAGE	1,362	3	▼▶	>0.3	4.5	2
18	SECURITY/PROTECTION	298	0	▶▶	>0.1	4.3	-4
19	COMPUTERWARE	866	>3	▼▼	<0.1	4.2	-13
20	GAMING/WAGERING	409	-16	▼▶	<0.8	3.8	-9
21	LOGISTICS/FREIGHT	881	2	▼▶	0.4	3.8	0
22	LEISURE ACTIVITY	202	3	▲▼	2.0	3.4	-12
23	SOCIETAL ACTIVITY	215	3	▲▶	0.8	1.9	0
24	ELECTRONICS, NON-TELECOM	345	-7	▲▼	0.5	1.8	-5
25	GOVERNMENT, FEDERAL/STATE	7,236	4	▼▼	<0.1	1.3	-27
	TOTALS/AVERAGES – HM	$35,777	<1	▼▶	>0.5	$184.5	-4
	OTHER DEMANDERS	$14,924	-20	—	<0.1	9.0	13
	LESS: NET OVERLAP/OTHER	-32,050	—	—	—	—	—
	TOTALS/AVERAGES - ALL	$18,651	>2	▶▶	<1.1	$193.5	1

All data are rounded.
Green = 5% of more gain in print.
Red = 5% or more loss to print.

RESIDENTIAL MULTI-DWELLING RENTALS WILL CONTINUE TO OUTPACE THE INDUSTRY AND DEMAND OPEN WEB, SHEETFED AND DIGITAL WORK IN EVERY METRO AREA .

are muted, and a dearth of new products ensures no domestic print recovery in any production category.

Depositing back to print at No. 3 is **BANKING/INSURANCE** ($5.140T, +5%; with $11.1B to print, <+4%). Increased overnight interest rates will trigger disproportionately larger hikes across consumer lending, from mortgage to credit card rates. A widened "spread" will bring increased demand for variable data (VDP) direct mail with transpromo features, FSIs, POS/POP and so-called "street marketing" and "mall-intercepts." Vehicle wraps, tents, handouts, t-shirts and other ad specialties will cash-in for our medium.

Capital One (+12%) will lead in the sub-prime segment, inspiring "new bank" competition. Many offshore banks will commence card offers to ethnically relevant consumers. This year will be the first for multi-brand retail banking where one branch will house two or more brands, as is already occurring in other retail categories. Also, bank on an easing, or repeal, of Dodd-Frank banking regulations, which have discouraged bank formations.

Insurance (-2%) will continue flat until investment income returns and there's an incentive to sell policies. Advertising in *life* and *property/casualty* is cut substantially. Only *automotive*, calculated separately in No. 9, is increasing print spend in '17. The third "leg" of the financial stool is No. 17 **INVESTMENT/BROKERAGE** ($1.362T, +3%; with $4.5B to print, +2%). The print "hot tip" is mergers and name changes, as with the US$1T Scottrade and TD Ameritrade (-13%) deal. Look for an uptick of US$0.5B in retail signage, brochures, forms and other near-term print.

Two in the durables sector will disappoint, as both No. 8 **REAL ESTATE** ($2.215T, -2%; with $10.0B to print, -22%) and No. 9 **AUTOMOTIVE** ($2.289T, +1%; with $>9.1B to print, +2%) go negative and neutral. Fed-induced rising interest rates and, sad to note, increased foreclosures and repossessions, will reverse *new/resale residential housing* values (-5%) and crowd car lots with *new/used vehicles* (-3%) offered at liquidation prices. *Residential multi-dwelling rentals* (+13%) will continue to outpace the industry and demand open web, sheetfed and digital work in every metro area, many with double-digit growth. *Mortgages* (+13%) will be pricier and less available — hurting print demand.

Worse will be *commercial real estate* (-5%) as office and retail occupancy rates decline. *New cars and trucks* (-7%) will stall after the best year in history, and the number of dealerships will continue to decline. ROP and FSI newspaper and buyer guides, signage, OEM decals and bound print will be slightly down while *auto insurance and finance* (+9%) will drive VDP direct mail, vehicle wraps, events and other out-of-home print.

Building up to No. 12 will be **HOME IMPROVEMENTS** ($895B, +5%; with $6.9B to print, +10%). Homeowners are staying put and remodeling as the pace of new home building and existing home sales slow. *Repairs/remodeling* (+11%) will go through the roof with regional and local lumber yards, home contractors and paint/wallpaper retailers taking shares back from the big-box do-it-yourself (DIY) leaders, such as Lowe's (+7%), compared with 84 Lumber (+12%). FSIs, outdoor, in-store, even door hangers and windshield flyers, will nail down more than 1/3 of the print sales in these categories.

Home appliances (+7%), *lawn and garden* (+5%) and *remodeling* (+4%) will double overall economic growth in 2017-18. The top performer looks to be Newell Brands (+158%), which has expanded rapidly through M&A, including that of Jostens, a yearbook printing company!

TRAVEL/HOSPITALITY ($970B, +<5%; with $8.9B to print, +1%) checks in at No. 10, though with no overall upgrade in print demand. The best opportunities are *hotels/resorts* (+5%), where occupancy, availability, room rates and property renovations will contribute to print room amenities, directional signage and every form of litho, flexo, screen and digital VDP output. *Air, train, intercity bus and mass-transit* (+3%) are, overall, reducing or eliminating print, especially in ticketing, reservations and travel agency support. *Cruiselines* (+9%) will continue as the most disproportionately heavy demander of color work; as *destination parks* (-8%) slide.

Sized at No. 14 is **FASHION** ($613B, +<3%; with $<6.7B to print, +0%) as *apparel* (-4%) shrinks into a commodity and away from once-prestigious department stores. Macy's (+<3%) and Nordstrom (+3%) won't wear as well in print as the differentiated luxury, designer and fitness segments. Within *eyewear, sports/footwear* and *jewelry*, the likes of Under Armour (+20%), Adidas USA (+18%), Luxottica (+15%), Signet (+14%) and Nike (+11%) are outperforming VF (0%), The Gap (-2%) and JCPenney (-6%). Catalog litho, outdoor/transit screen and digital demand will iron out level to last year. Redesign of in-store graphics will rise as many mall and anchor locations commit to makeovers.

Entertain the Live Events Segment

ENTERTAINMENT ($970B, +3%; with $7.3B to print, +5%) is a big hit for print at No. 12. *Motion pictures/live events* (+12%) will surpass 2/3 of this sector by 2020, with tickets, posters, signs, souvenirs, collectibles, displays, programs and props. Disney (+10%) dominates, though growth bravos go to Madison Square Garden (+38%), Netflix (+23%) and Live Nation (+22%). Stadium theaters are becoming entertainment centers with dining, bars, virtual reality golf, sports and, yes, dancing. AMC and Regal (each at +11%) will substantially improve indoor décor and outdoor signage and spectaculars.

With no organic growth on the horizon, expect a large number of mergers in *TV, cable, radio and satellite* (-6%). CBS (-5%) and Discovery (0%) are already in-play. In spectator sports (-6%), NASCAR (+33%) and its teams are the clear winners and a negative to NFL (-10%) and most all traditional "ball and puck" games, except for soccer and emerging women's professional sports.

Related as consumer discretionary pursuits are No. 20 **GAMING/WAGERING** ($409B, -16%; with $3.8B to print, -9%) and No. 22 **LEISURE ACTIVITY** ($202B, +3%; with $3.4B to print, -12%). Scratch off *state/province lotteries* (-19%) print, as game cards, POS and other out-of-home promotions are in free fall. Concurrently, *casinos/on- and off-track betting* (-12%) is leveling after huge losses in recent years. Caesars, the second biggest operator after Sands (both at -8%), is wagering on interactive mobile games and family "mixed-use" hospitality. These innovations could turn onsite graphics and direct mail loyalty programs upward by 2018 and beyond.

Toys/games (+2%) — the non-betting kind — is market-reduced to Hasbro (+24%), thanks to *Star Wars*, and Mattel (-23%) oppositely for the same reason. All bets are that the companies will merge by 2018, and that consolidation among lesser, idea-stagnant players like Nintendo of America (+3%), Jakks Pacific (0%), Kid Brands (-22%), etc., will ensue. Recovery could come quickly if toy drones take off and new VR games go viral.

Recreation vehicles (+5%), related outdoor goods and their retailers are turning ahead of print, which will lag by 12-15 months. Vista (+23%), Polaris (+19%), Dick's (+12%), Cabela's (+9%), Artic Cat (+8%) and most others will be terrifically positioned. As boomers age, there should be more time for adventure and demand for our medium.

At No. 15 is **DISCOUNT RETAIL** ($1.700T, +4%; with $6.0B to print, 0%). Costco and Walmart (both at less than +2%) will surpass 1/4 of sector market share — without inclusion of membership fees, which are pure bottom-line profits net of supporting "member" catalogs, magazines, direct mail and onsite services. The dilemma of all big, mid-sized and small "box" chains is organic expansion. As every geography is saturated, there are only two options: change the product mix or make acquisitions.

Open web FSI and ROP print is benefitting from fresh and packaged foods; signage-segmented co-brands should be next, as with the entry of Amazon (+28%) into a novel discount category: pop-up, touchpoint-of-sale mini-stores in hundreds of malls by 2020.

Stepping up by two alert levels to No. 18 will be **SECURITY/PROTECTION** ($298B, 0%; with $4.3B to print, -4%). Yard signs, IDs and warning stickers may be the print of the present, but sophisticated anti-counterfeiting techniques, tamper-proof packaging, disinfecting centrimides, hazard-detection PCI and multispectral imaging are the near-future opportunities. As an industry, we must embrace chemistry, coatings, nanotechnology and adhesion far beyond visual ink sets and substrate absorptions. Doing so could bring this sector to a major demander of print, as we will come to know it!

FedEx, UPS, USPS Dominate Deliveries

Docked at No. 21 is **LOGISTICS/FREIGHT** ($881B, +2%; with $3.8B to print, 0%). The big three of USPS (+5%), UPS (+2%) and FedEx (+7%) move 1/5 of tonnage, receive 1/5 of revenues and determine what the remaining 3/5 "ripplers" will carry and at what price. Dispersed, mostly state-based regulating authorities assume there are thousands of carriers and customers. Not so, as fewer than 50 organizations account for 3/5 of total shipments.

Printing demand, by derating, will concentrate at 45 demanders, not thousands of small participants. Anticipate shared services where the leading providers will jointly issue adhesive stamps, virtual mail, roll labels, money orders, signage, preprinted package components and package ad inserts. *Air, sea, rail, pipeline and overland road* (+1%) will be slowed until regulations are harmonized. However, there are immediate sales for fleet graphics, wraps and rewraps.

No. 23 will be **SOCIETAL ACTIVITY** ($215B, +3%; with $1.9B to print, 0%). Twenty of the top 50 nonprofits are faith-based, or *religions* (-2%), with a 1/3 share to print net of their presence in other sectors, principally *health providers* and *higher education*. Support in *arts/culture/charities* (+4%) will be increasingly reliant on small donors as public funding dries up.

This will bring a substantially increased demand for subscription periodicals programs, event-related print, membership solicitations and directional media to raise awareness, attendance and volunteerism at institutions from a-to-z: art museums to zoos. The increase in Secular *advocacy* (-10%), which in the election dominated direct mail, signage and promotional products in this sector, will not go away given the ongoing division in the country.

GOVERNMENT, FEDERAL/STATE ($7.236T, +4%; with $1.3B to print, -27%) is No. 25. What remains of print in the "public space" of the public sector will be slashed, more for political effect than practical cause. Phaseouts and eliminations of high-fixed-cost in-plants are inevitable in the executive branch, where most tangible output is executed.

The new President and his Cabinet appointees are not of any pro-printing persuasion. Privatization will be touted inside the Beltway and at the larger state capitals, likely encouraging contracts through non-government organizations (NGOs). For those "not in-the-know," NGOs are instruments of non-transparency. Print, among other "commodities," is hidden as components within larger projects and programs. Bids and other procurement protocols are avoided.

Exceptions will be where there are obvious security concerns — principally at *Treasury*, *Defense*, *State* and *Homeland Security*.

At the state authority level, expect more sole-sourced, multi-year contracts pre-empting local *ad hoc* competition. The Staples sale of its so-called "print solutions" business to Taylor Corp. last spring should be a warning for small, independent printers throughout the United States.

Among the Hot Markets 25, only four will increase print demand by more than 5%, 11 will be near level at -4% to <+5%, and 10 will decline between -1% to -27%. Off the Top 25 are the seven sub-sectors totaled as **ENERGY** ($3.200T, +3%; with $1.3B to print, +5%) and more than 156 **UNCLASSIFIED RESIDUALS AND OTHER CONSUMER ACTIVITY** ($11.724T, -21%; with $7.7B to print, -4%).

An ~~alarm-bell~~ (strike that), a printed warning sign, is in order. The HM-25 will account for more than 95% of total print but at 4% less than in 2016. New and evolving demand categories, and impending declines in traditional mainstays where we've past been selling, represent the next socio-political and techno-economic realities we must address in this century.

We can lead or lag — and have but one of these two choices. Let's make the one that saves our good fortunes! PI

About the Author

Vincent Mallardi, CMC, heads the Printing Brokerage Buyers Association and is an adjunct professor in international economics, marketing and finance. His complete and regional editions of "HOT MARKETS" are available by contacting him at vince@pbba.org