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## On Demand Printing & Publishing Consulting Service

July 23, 2004

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## NexPress Digital Production Color Printing Study

### Introduction

This document covers the findings from a research project that CAP Ventures conducted for NexPress in early 2004. The project is based on surveys conducted among 114 companies with digital production color printing equipment. The survey focused on satisfaction with the investment in digital production color printing equipment and the attributes of printers who had made an investment in this equipment.

The survey found that owners of digital production color printing equipment are overwhelmingly satisfied with their equipment. The respondents reported that they obtain significantly higher margins on digital printing and that having this capability has enabled their business to grow.

Owners of digital production color printing equipment “get it” and are clearly ahead of the game. According to an NAPL study conducted in January 2003, many of these companies currently have the type of revenue mix that other printers are hoping to have by 2007. This revenue model is less reliant upon offset lithography and has a higher percentage of revenue and profit from digital printing and value-added services.

This survey found that owners of NexPress 2100 digital production color printing equipment had higher monthly print volumes than owners of HP Indigo devices or comparable Xerox devices (the DocuColor 2060, 6060, and iGen3). In addition, satisfaction rates for NexPress 2100 owners were either equal to or above average in all nine of the satisfaction categories established. Quality and consistency of print output was the top ranked feature of the NexPress 2100.

### The Companies Surveyed

These surveys were completed in February 2004. Almost all of the companies surveyed were located in North America. The respondents were split fairly evenly in size, with nearly equal amounts divided between small (1 to 19 employees), medium-sized (20 to 99 employees), and large (100+ employees) companies. Self-described general commercial printers (39%) outnumbered all other categories and were followed by digital printing specialists (27%), quick printers (11%), direct mail (5%), in-plants (4%), and other (14%). Most respondents (79%) indicated owning an offset press.

All of the respondents owned digital production color equipment. NexPress 2100s were owned by 29% of respondents. The next closest individual model was the Xerox DocuColor 2060, which was owned by a little more than 14% of participants. Xerox DocuColor 2045s and 6060s accounted for nearly 14% each. No individual HP Indigo model accounted for more than 9%, but the total of all HP Indigo models was nearly 20%. About 6% of respondents reported having a Scitex Digital Printing device. Another 27% specified "Other." Very few survey participants indicated owning Xerox DocuColor iGen3 devices or Xeikon-based devices.

In terms of monthly volume, respondents reported that their primary digital production color device was producing an average of 116,000 process color, letter-sized impressions per month. Respondents expect their average monthly volume to grow to nearly 211,000 impressions by January 2005.

## Summary of Findings

From a top-level perspective, several things are clear:

- Respondents reported high levels of satisfaction with digital production color printing equipment. Nearly 90% said that they were either highly satisfied (27%) or satisfied (61%).
- Respondents report that average margins on digital printing are higher than margins on traditional printing. Digital printing margins came in at close to 46%, while traditional printing was about 29%.
- Owners of digital production color printing equipment are not relying solely on traditional or digital print, but are splitting revenue between traditional print (43%), digital print (37%), and value-added services (20%). In addition, print providers who have digital production color printing equipment are more likely to offer other value-added services.
- Respondents believe that having digital production color printing equipment helps businesses grow through new customer acquisition (66% in agreement) and gain a greater share of existing customers' business (63% in agreement).
- Most digital production color printing is for short run jobs (59%).
- NexPress 2100 respondents had high levels of satisfaction in all categories tested.

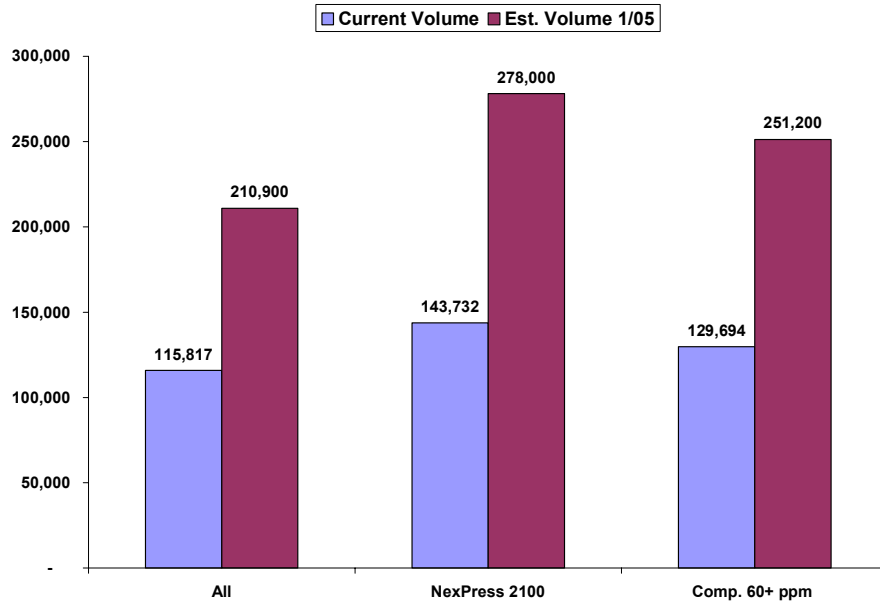
## Survey Results

The results of key survey questions are detailed below. This survey was primarily conducted via the Web, and some interviews were conducted over the phone.

## Average Monthly Print Volume

When asked about their current and anticipated average monthly print volume for their primary digital color device, respondents reported that they were producing an average of about 116,000 process color, letter-sized impressions per month. Our survey participants expect monthly volume to increase to nearly 211,000 impressions by January 2005. As shown in Figure 1, those respondents whose primary device was a NexPress 2100 reported higher current and anticipated monthly print volumes. Their monthly volume was also higher than competitive 60+ ppm production color devices.

**Figure 1: Current and Anticipated Average Monthly Print Volume for Primary Digital Color Device**



N = 107 (All), 31 (NexPress 2100), 30 (Comp. 60+ ppm)

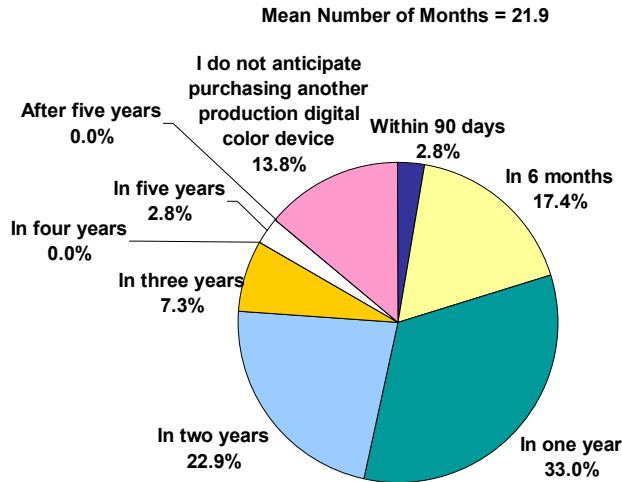
*Note: The competitive 60+-ppm category includes HP Indigo and the Xerox DocuColor 2060, 6060, and iGen3.*

## Purchase Plans

One major indicator of satisfaction is whether an owner of a digital production color device plans to purchase another device. Over half of the respondents are planning to purchase another digital production color device within the next year. Only about 14% have no intentions to purchase another digital production color device. The average number of months for the next planned purchase was 21.9.

**Figure 2: Purchasing Plans for Digital Production Color Devices**

When do you anticipate purchasing your next production digital color device?



N = 109

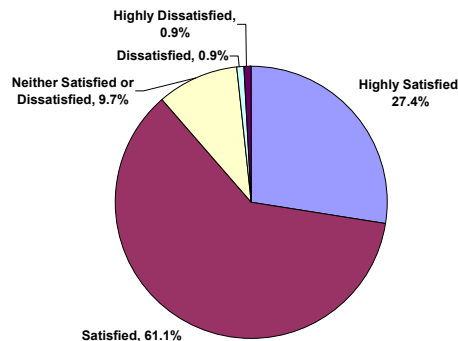
The most popular reason for purchasing another digital production color device was to provide additional capacity. This factor was cited by over 60% of our respondents. Replacement of another device accounted for the remainder of the responses.

## Satisfaction and Benefits

Our survey respondents were very satisfied with their digital production color devices. Nearly 90% reported being satisfied or highly satisfied. Only about 2% expressed any level of dissatisfaction.

**Figure 3: Level of Satisfaction with Primary Digital Production Color Device**

Please indicate your overall level of satisfaction with your current primary digital color device.

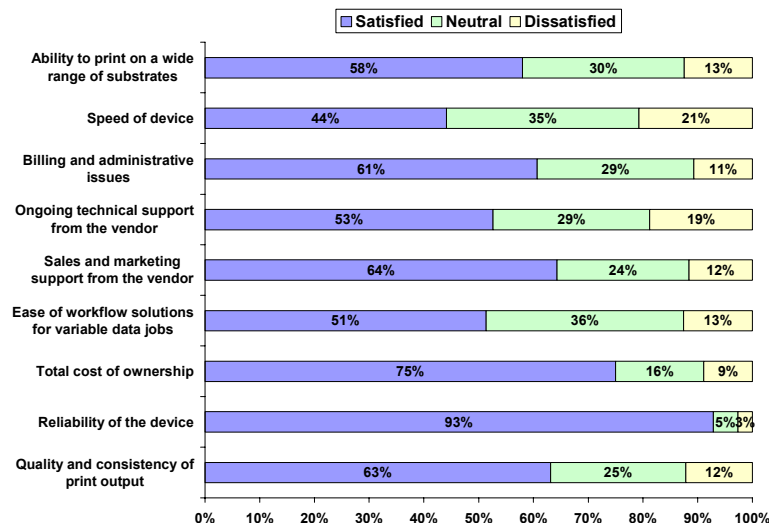


N = 113

When asked about the specific aspects of their digital production color devices, reliability came out on top with a satisfaction rating of 93%. The next highest rated aspect was total cost of ownership, which received a 75% satisfaction rating. Speed was rated the lowest of all the attributes, with only 44% of respondents indicating satisfaction.

**Figure 4: Satisfaction with Specific Features**

For each of the following features of your current primary device, please indicate your level of satisfaction with it.

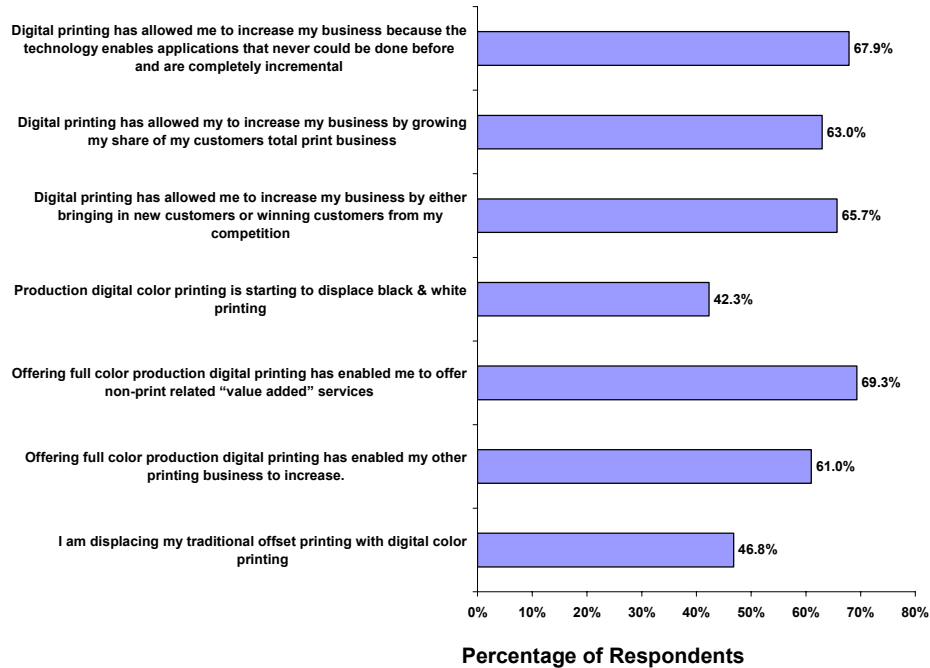


Overall, when comparing NexPress 2100 respondents to the survey average, NexPress 2100 satisfaction rates ranked equal to or higher in all nine of the satisfaction categories established. Reported satisfaction ratings among NexPress 2100 owners were better than the overall average in seven of the nine categories. Quality and consistency of print output was the top ranked feature of the NexPress 2100.

When asked about the benefits of digital production color printing equipment, nearly 70% of respondents agreed with the statement, “Offering full color digital production printing has enabled me to offer non-print related value-added services.” Several other benefits were not ranked far behind, and all of these related to increasing business through new applications, new customers, or increased customer share. At the other end of the scale, only about 40% of respondents agreed with the statement, “Production digital color printing is starting to displace black & white printing.”

**Figure 5: Benefits of Digital Production Color Printing Equipment**

Based on your experience please indicate your level of agreement with each of the following statements.



N = 111

Percentage Somewhat or Strongly Agreeing

## Types of Jobs

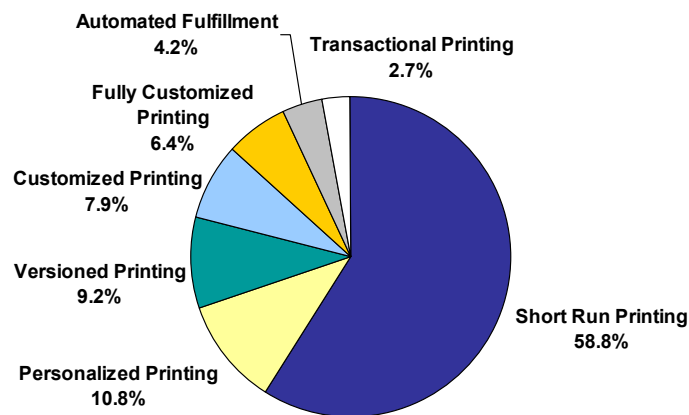
Our survey respondents were asked to classify their digital color printing work in terms of seven categories. The following definitions were provided for those categories:

- Short Run Printing: Static data
- Versioned Printing: Versions of a document
- Personalized Printing: Recipient's name and/or address into the copy
- Customized Printing: Personalized applications that also incorporate text and images relevant to the specific audiences
- Transactional Printing: Financial and other applications that incorporate personalized and customized content plus “data-driven” graphs and charts
- Fully Customized Printing: Complex personalized/customized applications designed to incorporate unique text, images, & graphics
- Automated Fulfillment: Personalized/customized applications whose entire production is triggered and controlled automatically (e.g. Web request/fulfillment)

Respondents to this survey are still printing a lot of short-run color. Nearly 60% of their work fell into this category. The remainder was split between a variety of more or less sophisticated variable data categories, which means that about 40% of their work falls into some type of variable data category.

**Figure 6: Percentage of Digital Print Color Jobs by Category**

What percentage of your digital color print volume, measured in 8.5x11 full color images, falls into each of the following categories?



N = 130 Total Responses

## Obstacles to Variable Data Printing

Two factors stood out as obstacles to variable data printing among our survey participants, and both were customer-oriented. On a scale of 1 (not an obstacle) to 7 (a major obstacle), too little customer database information to drive a variable data program (“My customers don’t have enough information about their customers to generate variable data work”) garnered the highest number of “major obstacle” responses. Lack of demand for variable data (“My customers are not asking for variable data color printing work”) came in second. Lack of sales force knowledge (“My sales force isn’t knowledgeable about digital printing/VDP or has trouble selling digital printing”) and expense (“Personalized color printing is too expensive”) also ranked high as obstacles.

## Recurring Jobs

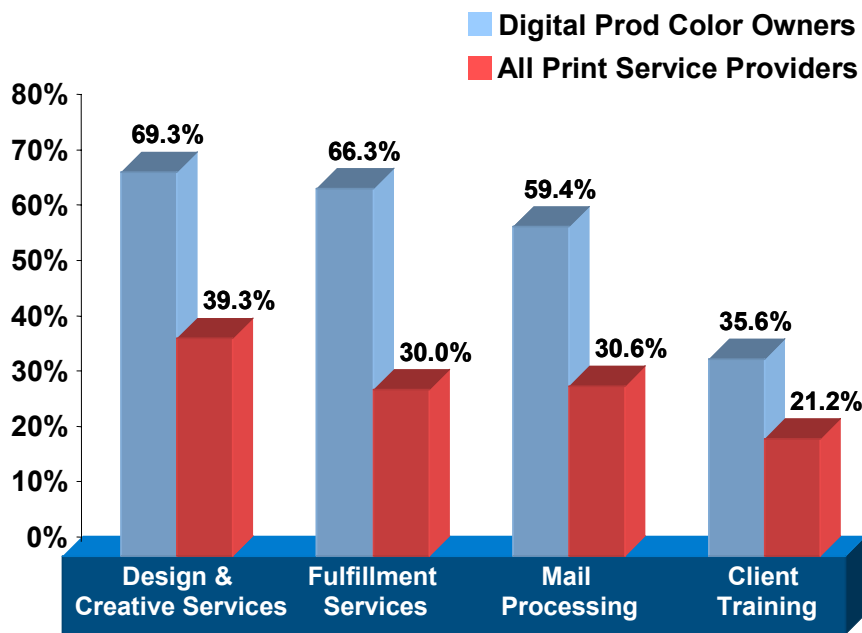
When asked about the percentage of jobs that represented recurring work (i.e. jobs that repeat on a regular schedule), respondents reported that about 30% of jobs recurred. On average, the NexPress 2100 respondents reported that more than 40% of their work was recurring. This higher percentage of recurring work is a good sign because recurring work indicates that these service providers maintain a good relationship with their customers, and it also shows that these service providers are selling program-oriented work rather than commodity-oriented one-off jobs.

## Value-Added Services

Figure 7 compares data from two sources: CAP Ventures’ NexPress Production Digital Color Printing Study (for digital production color owners) and ongoing research with CAP Ventures partners WhatTheyThink and OutputLinks (for all print service providers).

This comparison reveals that digital production color owners are generally more advanced than most print service providers. Note how digital production color owners are more likely to offer design & creative services, fulfillment services, mail processing, and client training. Offering these value-added services leaves digital production color owners less dependent on print revenue alone.

**Figure 7: Value-Added Services Offered – Digital Production Color Owners vs. All Print Service Providers**



Sources: CAP Ventures’ NexPress Digital Production Color Printing Study and CAP Ventures’ Research with WhatTheyThink and OutputLinks

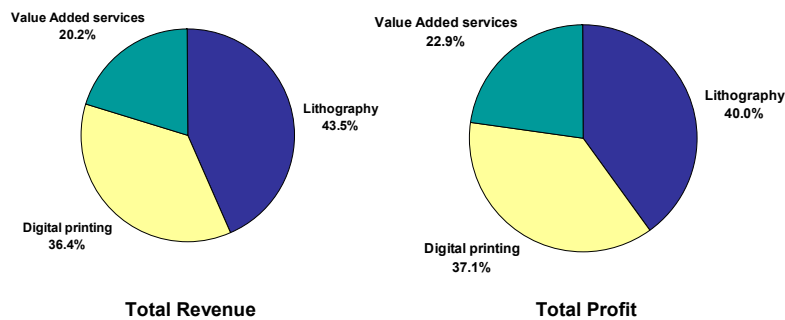
## Revenue and Profit

Although lithography accounts for almost 44% of total revenue, it generates only about 40% of total profit. Value-added services and digital printing contribute smaller amounts of revenue, but account for higher percentages of profit.

The digital production color printing equipment owners in this study exhibit a business model that many printers have yet to achieve. A study conducted by NAPL found that print service providers' revenues are weighted heavily toward print & related services today, and although they will become less so in the future, there is still a strong imbalance. The print service providers that participated in the NAPL study were expecting to have a revenue contribution of 69% from offset lithography and associated preparation, bindery, and finishing services by 2007. Only 13% of revenue was expected from digital printing, and the balance (about 18%) was expected to come from other sources, primarily value-added services such as fulfillment and mailing.

**Figure 8: Percentage of Total Revenue and Profit by Category**

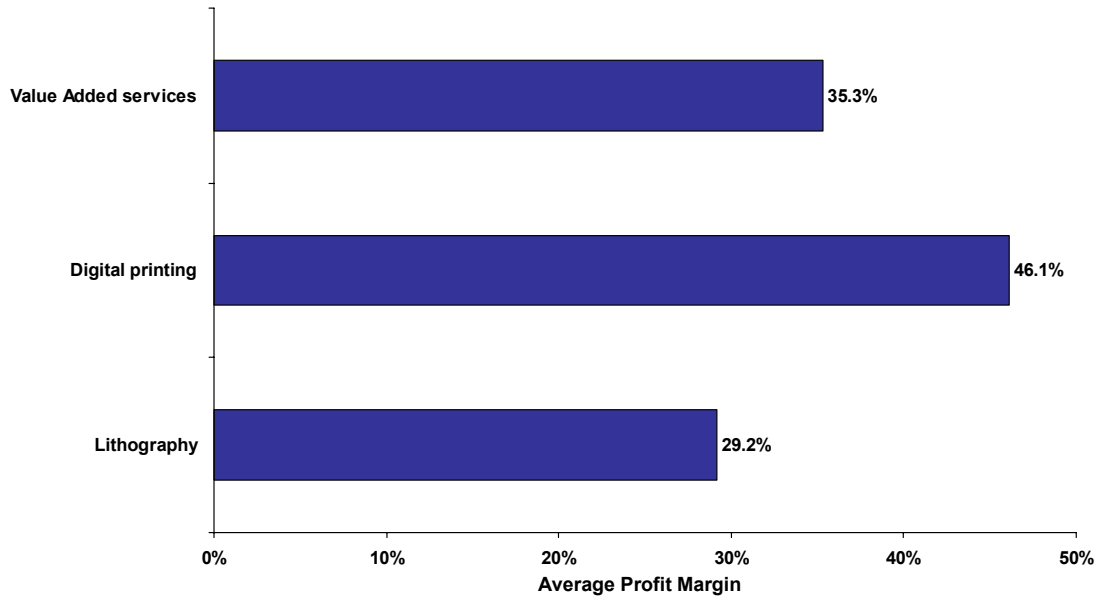
Please indicate what percent of your current TOTAL REVENUE & TOTAL PROFIT currently comes from the following categories.



The trend shown in the previous figure is confirmed below, where profit margins for digital printing and value-added services are higher than lithography. Digital printing leads all three with an average profit margin of 46.1%.

**Figure 9: Average Profit Margin by Category**

Please indicate your AVERAGE PROFIT MARGIN from each of the following categories. Average margin is the difference between the sale price and all direct costs of producing the product exclusive of sales, general administrative costs and overall company profits. For example, if the job sold for \$1 and all your production costs equaled 60 cents, your margin would be 40% and the number you would enter in the box would be 40.

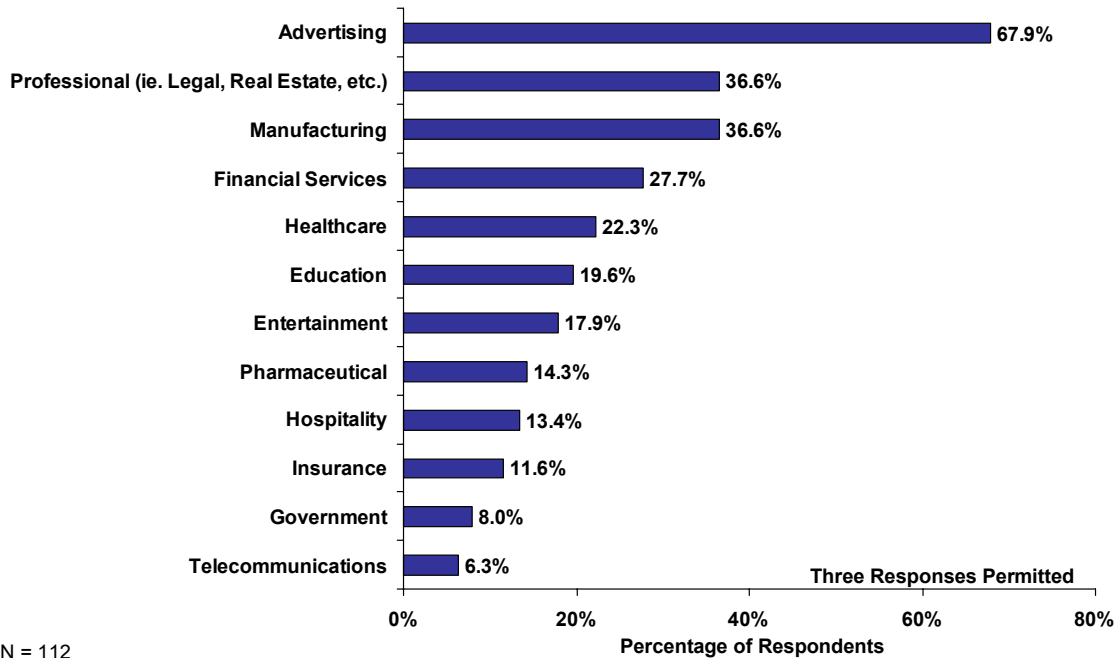


## Vertical Markets

When asked which vertical markets they served with digital color printing services, advertising was the most popular response by far, with close to 70% of respondents ranking it in the top three. Professional services and manufacturing also ranked high.

**Figure 10: Top Vertical Markets Served with Digital Color Printing Services**

What are the top 3 vertical markets you are presently serving with Digital Color Printing Services? Please do not select more than 3.



## Conclusion

This group of respondents provides a unique look at today's digital production color market. Our survey participants are satisfied users who are projecting dramatic growth in their average monthly volumes. They report higher profit margins for digital color and are positioning themselves to offer other services, which gives them an advantage over service providers who focus primarily on printing. In summary, these printers understand what it takes to succeed and are ahead of the curve when it comes to their peers. Those with a single-minded focus on traditional printing revenue may find such an approach to be a recipe for disaster.

*Charlie Corr, Jim Hamilton*