# Where Transaction Printers Can Find Growth

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## Introduction

Any business that wants to grow and thrive must be able to sell more to the customers they have, sell to more customers, or ideally, both. The first can be quite challenging if you are in a market where customer demand is declining. That is the spot where printing companies supporting the customer communications and statement printing segment find themselves today.

Industry research firm Smithers reports negative growth rates for the volume of printed pages in the U.S. transaction printing segment[1] with a CAGR of -9.0 between 2016 and 2021 and a projection of -5.8 from 2021 to 2026. The good news in these numbers is that the rate of decline appears to be slowing, and the worldwide numbers show a lower rate of decline (-5.1 and -2.17 for the same periods) [1]. Volumes did not drop off a cliff with the introduction of e-billing as many predicted. In fact, annual volumes of 40 billion pages are anticipated through 2026[1]. However, there are still many factors dragging volumes down.

Some factors are industry specific, while others impact all mail. In some industries, regulatory changes have made it easier for companies to shift communications online, sometimes forcing customers to opt out of electronic communications rather than opt in. At the same time, rising postal and paper costs have increased the incentives for companies to reduce, redesign, or streamline, their mailings to reduce mailing weights or page counts. During the pandemic, business-to-consumer transactional mailings continued to be delivered but business-to-business and business-to-employee mailings dropped precipitously because recipients could not be reached at their office address. One printing company interviewed by Inkjet Insight reported that their production of employee retirement enrollment kits dropped by 90 percent in 2020 and only bounced back to around 20 percent in 2021. Since many employers were forced to develop online enrollment to support remote workers, the company does not expect these print volumes to ever return to more than 25 percent of pre-pandemic levels. COVID caused some trends that were already underway to accelerate and magnify.

With that background, it should be evident that printing companies in this segment can't simply keep selling what they sell now and hope to survive. Changes need to happen, but transformation may look distinctly different, and take a different pace for every company.

## Different Paths to Profit

When talking about reduced print volumes, the first reaction tends to be that everything is going to move online and therefore digital delivery is the business to pursue. For some companies with robust e-delivery, payment and archiving platforms that may make sense. However, there are several points to consider.

- For most aspects of customer communications (particularly B-to-C), we are looking at a slow decline over the next five to ten years. Corporations have been pushing their customers to turn off the snail mail for nearly three decades and most mailers have not topped 50% for their paper suppression or electronic adoption rate. Research from Keypoint Intelligence in 2021 reported that, of 364 companies surveyed, 63% provide printed bills and statements to their customers, and 31% of those provide only print[2].
- Even companies who are aggressively moving customers to online options struggle to maintain paperless rates as customers change their email addresses, mailboxes become full, or customers opt-out due to dissatisfaction with the platform. With five states passing independent privacy legislation in the past two years, changes will be required to systems used for managing customer consent and preference data.

***It is most common, for companies who outsource, to source both print and e-delivery from the same supplier.[2]***

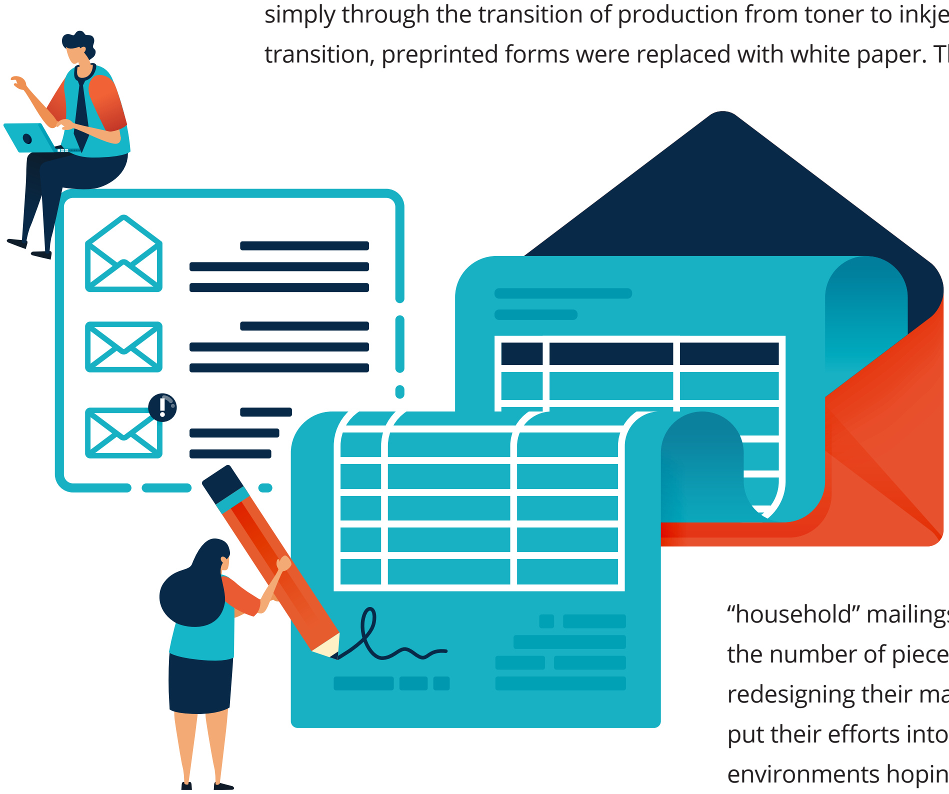
- Securing new digital delivery business can be challenging. One of the most common reasons that a provider currently secures an e-presentment contract is that they also provide the print formatting for that client. The provider composes the print file and identifies the mailed and e-presented communications and then either archives both or returns files to the client for archiving. While this is not a hard and fast rule, it is the most common scenario with 67 percent of companies who outsource communications production reporting that they outsource both print and e-delivery to the same supplier.[2]
- When print is not part of the picture, corporations have many options to bring online services onto their own internal customer service platforms, or host with established third-party cloud platforms or consolidators. Currently, the majority of companies, even those who outsource printing of customer communications, do not outsource their electronic delivery solutions. Keypoint Intelligence reported that 71 percent manage all (34 percent) or the majority of (37 percent) electronic delivery for transaction communications in-house[2]. An additional 21 percent have a balance of in-house and outsourced solutions. In total, 92 percent have the capability to manage electronic delivery in house[2]. This suggests that ditching the printing gear and investing in servers may not be the path to greater volume for small and even most mid-tier companies.

If you already offer online services to your customers, that is a positive. You have more to offer your customers and your investment in that platform should continue to pay off in the near term. Just don't expect your current solutions alone to provide a path to long-term growth without print in the mix.

The realities of the print-to-online transition open other opportunities for companies who offer both types of services. The key is to understand that, without additional regulatory changes, it will be almost impossible for most companies to get all of their customers to go completely paperless in the next five years, and possibly ten. However, there are opportunities to get them to take *less paper* – and that is an opportunity for printing companies as well as their customers.

## Less Paper Is Not Paperless

A significant number of pages have already been taken out of the transaction printing segment simply through the transition of production from toner to inkjet printing technology. As part of that transition, preprinted forms were replaced with white paper. That enabled flexibility in document designs and allowed static content to be made variable. This flexibility and variability resulted in fewer overall pieces of paper and some reduction in "clicks" on the press. This reduction was independent of paper suppression initiatives and, in most cases, did not result in fewer envelopes mailed. However, the flexibility and redesign process sometimes made it easier to "household" mailings which did have some impact on the number of pieces mailed. Some companies resisted redesigning their mailed communications and instead put their efforts into development of robust online environments hoping that customers would dislike the paper experience enough to drive them online. Given the opportunity, many customers prefer to take advantage of the online environment and also continue to receive their printed statements. Customers are not necessarily motivated in the ways that businesses expect. More importantly, customers can just as easily be driven away by poor design as driven online.



It's common for companies to say that the driving force behind pushing their customers to "go paperless" is sustainability, but the most compelling reason is reducing costs, particularly postage costs. However, the cost of printing customer communications is a small fraction of what it costs to mail them. That means that there are a lot of ways for printing companies to save their customers money without negatively impacting their profit. However, success means thinking more like a consultant than a manufacturer. That shift in approach will be easier for some than for others. Ultimately the timeline for transformation and the mix of services offered in the future may vary widely, resulting in a far less homogeneous transaction printing segment than we see today. Some key services areas that can diversify a transaction printing business include:

- Embracing the transition to less paper
- Making Information Technology (IT) a profit center
- Expanding the range of print services

This white paper focuses on these **three paths to profit** and the related investments in strategy, technology and people to enable success.

## The Path to Profit with "Less Paper"

Helping customers to use less paper can be a very profitable business. It may reduce mailings from individual customers, but it may also bring more of their business to you, raise margins on remaining mail and embed the customer in your workflow thereby improving client retention. How can less paper be a good thing? Let's look at some of the proven strategies that help your customers (mailers) to use mailing dollars wisely and increase engagement with their customers (consumers).

> *Timing is everything. Reducing the frequency of mailings can drive more savings than reducing the number of printed pages.[2]*

**Expand consumer options for frequency of mailings.** Re-designing communications on flexible frameworks can allow mailers to provide more options to consumers than "paper on" and "paper off." For consumers who want to continue to receive paper, bundling documents into a quarterly mailing can deliver big savings for mailers. Consider a mailer with an average of 500,000 monthly statements weighing an ounce or less. At a mailing rate of $0.455 for up to a 3.5 oz. mailing, if just 10 percent of the mailer's customers elect to receive their printed statements quarterly instead of monthly, the mailer saves $45,500 in postage each quarter[3]. That's $182,000 per year in annual savings before any reduction in the number of pages printed. As long as the documents are also available online, consumers could be given the option to elect to change their monthly mailing frequency to anything from annually to bi-monthly.

**Expand consumer options on what is mailed.** In addition to reducing frequency, there is the option to provide more options on what is mailed, and the form of that mailing. Many customers with long account documents might elect to receive a summary statement for an investment account or credit card bill while accessing the rest of the data online. Often customers objection to going 100 percent online is that they want a reminder to take an action, like paying a bill. For customers who only need a reminder, a self-mailer reminder of online document availability can reduce postage by more than 25% while helping to prevent consumers from reverting to print communications when email notifications fail. Page counts can also be reduced by shifting long disclosure pages online for "double dippers" who access the website and also receive printed documents. Many mailers, and their providers, do not yet take full advantage of the opportunity to combine mailings into a single envelope. Guiding mailers to the right mailing mix is a valuable service.

**Provide Preference Management Support.** Preference management is often confused with consent management, but they are discrete parts of an overall Customer Data System (CDS). Consent management systems collect and manage permissions data from customers and prospects and help companies avoid contacting people who have opted-out from receiving communications. Consent management is primarily a marketing function that has grown in importance with the need to comply with expanding data privacy regulations. However, companies in many industries, such as financial services and healthcare, do not require consent to contact customers about their accounts. In fact, they are required to send periodic communications such as account statements, invoices and privacy notices, as well as notification of transactions made or changes in account status. Preference management systems provide the ability for customers to make choices about the frequency of communication (within regulatory guidelines), which channels they'd like to receive communications on, and may include the ability to opt-in for additional educational or marketing information from the firm.

*Companies are already facing skill gaps related to data analytics and IT[5] while demand for developers and testers continues to grow[4].*

Preference management goes hand-in-hand with providing a path to "less paper" for mailers and their customers. Like e-delivery systems, most companies manage their preference data in house (or in the cloud). However, companies need support in designing preference management strategies, creating an appropriate suite of printed and e-delivered communications and integrating preference management with communication production platforms. The ability to work with mailers to analyze their client base, recommend suitable default settings for categories of customers, and integrate with their systems will become increasingly valuable. These services are similar to, and an extension of, electronic adoption strategy services that some printers providing e-delivery solutions already offer. But rather than simply a strategy for getting more consumers to turn off paper, preference management strategy provides a holistic approach to reducing costs while improving consumer engagement through the appropriate mix of print and non-print channels.

In delivering the right mix of communications through the right channel, your book of services may include strategic consulting, graphic design as well as technical services.

## Finding Profit in Data and Technical Services

Transaction printing companies are often more data and computer savvy than their peers in direct mail, commercial or book printing. They have a leg up with regard to managing data and data privacy. While direct mailers have increased their level of data sophistication, the typical location, purchase and demographic data used to drive marketing communications pales in comparison to the complex, multi-file data used to drive bank, brokerage, credit card and health care communications. This technical expertise is extremely valuable. The US Bureau of Labor Statistics reports that the number of new jobs for software developers, quality assurance analysts and testers is expected to grow by 22 percent between 2020 and 2030 which is much higher than average[4]. Prior to the pandemic, a 2019 McKinsey survey on future workforce needs reported that 43 percent of respondents reported potential skill gaps in data analytics and 26 percent with IT, mobile, and/or web design and management[5]. These were the top two skill gaps cited.

Managing customer communications requires a wide range of software and services including document composition, data transformation (extract/transform/load), data analytics, and electronic delivery. Many companies who manage some of these systems in-house are running outdated software, in addition to facing a shortage of IT support. Keypoint intelligence reports that 26 percent of surveyed customers are using software running on legacy operating systems for greater than 50 percent of their transaction communications[2]. An additional 26 percent are running over 20 percent of their transaction communications on legacy OS[2]. Companies with outdated software and facing a skills shortage need new ways to get help. Transaction printers with a robust IT staff can:

*Toner-based transaction print volumes are projected to fall > 9x faster than inkjet volumes between 2022 and 2026.[1]*

- Provide development services using the customer's software licenses, or help the client outsource production to your servers or to the cloud. These services can be independent of print, or can be a transitional step to securing the customer's print business.
- Help customers upgrade their legacy systems with software evaluation and system architecture expertise.
- Allow customers to manage ongoing programming in-house with less skilled developers by providing technical architecture and developer support to in-house teams.

There are several requirements for transaction printers to be able to provide these services with credibility and confidence. First, your own internal systems must not be in the same sorry state as the customers you wish to transition. Review your internal software environment to make sure all components are running on operating systems and software versions that are currently supported by their publishers. Second, put programs in place to attract and maintain experienced developers and systems architects, including developing relationships with domestic and overseas contractors to support surges in demand. Third, invest in ongoing development programs for your staff to support new technical skills as well as project management and client services skills.

*Consider print companies that are new to data-driven print as potential customers for technical services or partners for diversifying print services.*

Your mailing clients are not the only prospects for your technical services. Other print companies focused on direct mail, and commercial printing that are new to data-driven print are potential customers, as well as potential partners for those seeking to expand into new print markets.

## Selling More Types of Print Services


In a market with consistently declining volumes, the only way for a company to grow their business without diversifying is to take business away from someone else. This can happen through merger and acquisition activity or through winning business from competitors. In the absence of the value-added services described earlier, winning business in the market usually involves driving down costs. In that case, volumes may increase but marginal profit may actually fall. The exception to that rule relates to production inkjet. Companies with production inkjet presses, who take business from competitors using toner equipment, can usually compete on price and maintain their profit margins due to the increased efficiency of inkjet. Data provided by Smithers shows that the rate of decline for toner-based revenues in the North American transaction print industry fell at a compound annual rate of -21.9 percent as compared to rate of just -0.6 percent for inkjet between 2016 and 2021[1]. Looking forward, Smithers projects those rates as -22.8 percent for toner and -2.4 percent for inkjet between 2022 and 2026. Due to this rapid decline in toner volumes, Smithers projects that by 2026, only four percent of transaction printing volumes will be produced on toner equipment. With fewer and fewer transaction pages to transition from toner devices, profitable sources of direct volume conversion are being exhausted.

Printing companies who want to focus their efforts on growing print volumes rather than adding other types of services, or in addition to adding other services, must look to new print markets such as direct mail, books, commercial print and others to diversify the range of print services available to clients. As transaction printing companies have invested in production inkjet equipment, which is now producing over 85 percent of transaction print volumes[1], many have enabled a level of print and color quality that suits more markets than traditional transaction communications. In addition, these presses become increasingly efficient when run near their capacity, and ideally for multiple shifts.

Transaction printers seeking to maximize efficiency and profit should develop the capability to produce all, or nearly all, of the printed material that their mailing clients need. This includes the full range of touchpoints in the customer lifecycle from acquisition through retention, as well as sales enablement, point-of-sale and potentially some level of packaging and fulfillment. Some companies may choose to expand their in-house capabilities while others may choose a mix of internal production with strategic partnerships. Strategic partnerships can also be a stepping stone to future M&A opportunities.

## Preparing to Sell More and Sell to More People

The bottom line is that transaction printing providers need to find ways to diversify their business. The level and type of diversification may vary, but your sales people need to be able to say "yes" to more types of opportunities in order to be successful.

As your service offerings evolve and you move into new markets, your sales people will require clear guidance, training and other resources to be successful. Expect that some will not be able or willing to make the transition and plan ahead to add or replace staff where needed.

Your operations experts must also get creative in order to squeeze the most profit out of every printed piece. Simply reducing prices to gain volume without the ability to maintain, or grow, profit margins is a race towards red ink on your bottom line.

The level of investment in personnel, equipment and IT infrastructure will vary based on your current level of capability as well as the path you choose to pursue. The table below shows the relative importance of investments in different capabilities to each prospective service area, assuming a company is starting with an existing base of transaction printing development and production services.

**Table 1. Relative Level of New Expertise Required to Expand Services into Segment**

| Capabilities | Less paper services | Technical services | Diversified Print |
|---|---|---|---|
| Strategy | ★★★★★ | ★★ | ★ |
| Design | ★★★★★ | ★ | ★★ |
| System Architecture | ★★★ | ★★★★★ | ★ |
| Programming | ★★ | ★★★★★ | ★★ |
| Data Management | ★★ | ★★★★★ | ★★ |
| IT Infrastructure | ★★★ | ★★★★★ | ★ |
| High(er) Quality Print | | | ★★★★★ |
| Expanded Finishing | | | ★★★★★ |
| Sales Training | ★★★★ | ★★★★ | ★★★★ |

*Source: Inkjet Insight*

The best path for your company will depend on where you are starting from and your appetite for change. Happily, there are many paths to long-term profit for transaction printing companies. This whitepaper focuses on three main areas, but each may open up opportunities to provide additional, strategic services to clients that can out-last declining mailing volumes.

Your clients, and your prospective clients, are struggling to navigate an environment of rising mailing costs, changing consumer preferences, regulatory constraints and outdated technology. Your approach to helping them can also help you find your way to a profitable mix of services. Standing still is not an option. While customer communications will continue to be produced, the transaction printing segment as we know it may virtually disappear over the next five years as providers diversify and adapt their offerings to a changing market.

## This whitepaper was sponsored by Canon Solutions America

Canon Solutions America (CSA) built its digital print foundation with high-speed toner in the transactional market and continues to provide innovations to help customers in this segment be competitive. Canon inkjet customers have been able to replace older, less efficient systems resulting in positive ROI, reduced downtime, increased flexibility, and an overall lower cost per print. CSA Production Print Solutions offers complete, end-to-end printing and print workflow solutions customized for your customer communications printing needs.

Built on a decade of continuous, customer-inspired innovation, the ColorStream 8000 series has been designed to meet the current and future production challenges of a wide array of printing organizations. Corporate and public sector in-plants, print and communication service providers and specialized commercial printers will find that the ColorStream 8000 series can transform challenges into opportunities. Like previous ColorStream models, the new platform exceeds expectations in the transaction and direct mail segments in terms of speed and print quality, while offering the quality necessary for many commercial and book applications. Featuring advanced technology that takes the ColorStream to a new level of quality, efficiency and productivity, the ColorStream 8000 series gives companies producing customer communications the ability to produce more in less time, broaden their application reach, explore new markets and grow their revenue streams.

## End Notes & Sources

[1] The Future of Global Print to 2026. Smithers 2021

[2] Annual State of Transactional Communications Business Survey. Keypoint Intelligence 2021

[3] Calculations: 10 percent of 500k statements (50k) times .455 ( $22,750 ) times 2 months of suppressed mailings equals $45,500. Annualized for 4 quarters equals $182,000.

[4] Bureau of Labor Statistics, U.S. Department of Labor, Occupational Outlook Handbook, Software Developers, Quality Assurance Analysts, and Testers, at https://www.bls.gov/ooh/computer-and-information-technology/software-developers.htm

[5] McKinsey Global Survey on future workforce needs. The online survey was in the field from May 14 to May 24, 2019, and garnered responses from 1,216 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures.

## About Inkjet Insight

Inkjet Insight tracks the capabilities of production inkjet solutions for commercial printing, books, customer communications, packaging and industrial print applications. We provide unbiased data and requirements gathering tools for companies evaluating inkjet plus downloadable tools and guidance to help companies assess print quality and educate customers and sales teams. Print buyers who want to understand print supplier capabilities and market trends will also benefit. We conduct ongoing research with inkjet users and their customers to educate and inform the industry.

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