



**Web Consulting Inc**

Americas Office  
398 Columbus Ave. #331  
Boston, MA 02116  
UNITED STATES

Tel: +1 617 536 5925  
Fax: +1 617 536 5926  
Email: [info@web-na.com](mailto:info@web-na.com)  
Web: [www.web-na.com](http://www.web-na.com)

## THE FLIP SIDE

### *The Dragon Effect*

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Written by: Michael Flippin, Web Consulting

One of the more frequently discussed topics in the wide- and grand-format graphics industries in recent years has been the influence of and the potential impact by Chinese manufacturers. Of course there are other countries offering lower manufacturing costs, but this article will deal only with Chinese suppliers — a fascinating and complex enough topic in itself. It should be noted that my comments really only apply to the products and markets for solvent-based, oil-based and UV-curable printers and not to aqueous inkjet printers. Because of the relatively high costs, aqueous inkjet printing can not compete with solvent output in China. In addition, Chinese manufacturers find it very difficult to meet global export standards for aqueous inkjet printers.

China not only has the world's largest population — approximately 1.31 billion — but also boasts the fastest-growing economy in the world. And the sustained growth by China's economy has been staggering. According to recent estimates, China's GDP grew at an astonishing 11.3% in the second quarter of 2006, and has been charting double-digit growth rates in seven of the last 14 years.

How does China's economic boom affect the U.S. market for wide-format graphics? While China is predicted to surpass the U.S. as the world's number one economy by 2040, it is already the world's largest volume market for graphics printing. At last count there are 25 suppliers each serving China's domestic graphics needs for wide- and grand-format inkjet printers, inkjet media and inkjet ink. This stiff competition has forced domestic Chinese manufacturers to drive down prices at an alarming rate and to quickly seek new export markets. This has been going on for years, but it is the more recent wave of activity and affiliation that is interesting.

Web Consulting reported back in 2002 that China already had the world's largest installed base of grand-format inkjet printers. Many of those machines were Chinese-made, employing printhead technology similar to Western-made printers. And quality standards, though lower than Western expectations, were quickly improving.

The Chinese market also claims the lowest prices for printed output aided by the lowest ink and media costs in the world. The volume share of graphics printed by inkjet in China will easily become the highest in the world (compared to offset, screen, etc). We will follow the reactions of this market and its suppliers.

Trade shows are a great way to try and capture a quick snapshot about the health and the buzz of an industry. The potential impact of these low-cost suppliers is often linked to the number of Chinese companies exhibiting at these shows. I contend that the first real presence by Chinese suppliers on U.S. trade show turf occurred in 2002.

Web Consulting Asia Pacific  
Room 322, Apollo Building  
1440 Yan'an Road Central  
Shanghai 200040 CHINA

Tel: +86 216 249 8378  
Fax: +86 216 249 8078

Web Consulting (EMEA)  
EMEA Representative Office  
Oxfordshire  
United Kingdom

Tel: +44 1993 898 609

Following a year-long lull in Chinese participation, the 2004 tradeshow season brought some interesting changes. Leading Chinese manufacturers, failing to gain an immediate foothold in the U.S. market, were changing their business strategies. Not only did we notice and increase in attendance at 2004 trade shows but we could also see that many companies were establishing relationships with established Western companies. These Western companies had started partnering with well-known Chinese firms by either offering re-branded Chinese products or by developing strategic contract manufacturing agreements with these Chinese companies.

So the presence of some Chinese companies was felt both at their own branded booths and through the partnered products of their Western associates. And yes, there have been some issues and growing pains, but the net effect is interesting indeed.

These U.S.-China relationships will ultimately create several effects in the market. By partnering with Western companies, many of the Chinese manufactures are being held to much higher quality and consistency standards. In addition — and perhaps more importantly — these manufacturers will need to provide a higher level of service and support to their customers.

The net result should cause an important and, I believe, much-needed consolidation within the global supplier community. There is a core group of established Chinese suppliers that will continue to exhibit year after year at bigger trade shows. The fluctuation in the number of Chinese companies at U.S. shows comes from newer companies (or companies new to export) that feel they offer some advantage. So, while the number of Chinese companies on exhibition floors may fluctuate (it appears on the rise again this year), the real presence and importance may lie with that handful of suppliers that have shown steady growth.

So the potential influence of Chinese suppliers should not be measured by the number of Chinese companies exhibiting at international trade shows. Instead the thing to watch is how – and it may not be obvious - the leading global companies in the wide format graphics market have strategically partnered with Chinese manufacturers to offer high-quality, low-cost printers, media, ink and software. The results of that dynamic will be quite interesting. Stay tuned.

*Michael Flippin is the president of Web Consulting, Inc a consultancy to the digital printing, screen printing and industrial decoration industries. Founded in 1993, Web Consulting ([www.web-na.com](http://www.web-na.com)) is based in Boston, and operates a regional office in Shanghai, China. The firm provides a range of services including primary market research, an annual series of industry reports, market modeling and forecasting as well as strategic analysis and supporting services. Contact Michael Flippin at (617 536 5925) or email [michael.flippin@web-na.com](mailto:michael.flippin@web-na.com)*

# 2006 SCHEDULE OF REPORTS

## U.S. SIGN & SCREEN PRINT MARKET REPORT

\$2,795 April 2006 publication

Provides historical and forecasted U.S. retail sales, segmented by market and application with analysis of supply market including PSA vinyl, banner material, application tape and screen print ink.

## U.S. WIDE FORMAT INKJET MARKET FORECAST

\$3,995 June 2006 publication

Details aqueous, oil, eco-solvent, solvent and UV-curable annual inkjet printer shipments, inkjet media purchases, inkjet ink sales, RIP platform sales, and inkjet graphics retail sales.

## U.S. WIDE FORMAT INKJET PRINTER & RIP TRENDS

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Provides an overview of the applications and opportunities for inkjet printing on fabrics. Described as "soft signage," Web Consulting defines these applications as textile graphics or promotional textiles.

## 2006 U.S. PSA VINYL TRENDS

\$4,695 October 2006 publication

Provides a comprehensive analysis of PSA vinyl (sign, screen and inkjet) usage, purchasing trends, brand market share, supplier performance ratings and distribution channels.

## 2006 U.S. WIDE FORMAT INKJET MEDIA TRENDS

\$3,895 October 2006 publication

Analyzes purchasing and usage trends segmented by aqueous, solvent and eco-solvent media. Includes brand market share, types of media purchased, performance ratings and distribution.

## 2006 U.S. INTERNET TRENDS

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Analyzes Internet-utilization trends for shops, including common online activities, online purchasing habits, and email and website ownership; also provides trends in end-user online behavior.

## 2006 U.S. SIGN & GRAPHICS TRENDS (Quarterly; Four Reports)

\$1,995 published quarterly

Updates economic and sales trends, sales growth, sales predictions, proposal activity, capacity utilization and pricing. Compares industry to GDP, U.S. ad spending and other economic data.

## FLATBED INKJET PRINTING 2006 (First published in 2004)

\$3,295 updated annually

Provides a detailed overview of the emerging market for Flatbed Inkjet Printers including main applications, profiles of leading flatbed manufacturers, a review of relevant ink technologies, market sizing and forecasts.

## INKJET PRINTING OF TEXTILES 2006 (First published in 2003)

\$2,795 updated bi-annually from 2006

Provides a strategic overview of the textile printing industry and markets to assess the market forecast opportunities for digital printing while considering competition, roadblocks, market/application needs.

## CHINESE WIDE & GRAND FORMAT MARKET 2006

\$4,695 updated annually

Analyzes the Chinese outdoor and indoor graphics market: macroeconomic factors, manufacturer profiles, results of local market research, threats and opportunities, market sizing, trends and forecasts.

Publication dates subject to change.



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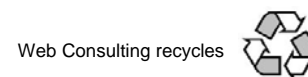
Americas Office  
398 Columbus Ave. #331  
Boston, MA 02116  
UNITED STATES

Tel: +1 617 536 5925  
Fax: +1 617 536 5926  
Email: reports@web-na.com  
Web: www.web-na.com

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Room 322, Apollo Building  
1440 Yan'an Road Central  
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