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THE FUTURE
THE TIME IS NOW

HP INDIGO



DISCOVER THE FUTURE
OF LABEL PRINTING



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INTRODUCTION

THE FUTURE OF LABEL PRINTING

The year 2020 has brought with it significant changes. While every point in time offers new ways of doing things, and every year brings about new trends, right now we find ourselves at a turning point. There have been many such junctures in history, from the industrial revolution to the age of science, generations coming and going. But today, it's all about digital.

It's true that digital isn't a new trend. In the last decade, we've seen digital disruption across industries. Think of Airbnb, Uber, Netflix and Spotify and how these startups have challenged well-established companies to change the way they all do business.

In its current model, the label industry is still accelerating, but if we step up in terms of AI, cloud-based tech, sustainable and digital strategies, we'll do more than catch up with the digital future — we'll outrun it.



CHAPTER 01

AN OPPORTUNITY FOR GROWTH

If you're in the label industry, hold on to your seats. The business has been in flux for years and has the potential to fly into the future at a rapid pace.

Digital natives are shaping industry trends and creating growth opportunities that cannot be ignored.



A CATALYST FOR CHANGE

Recent events in 2020 have only pushed digital trends to develop faster. Covid-19 has been a catalyst for change proving that agility and faster time to market are key elements of a successful business.

Businesses that once designed their digital strategy in one-to three-year phases are now needing to fast-track their initiatives 'in a matter of days or weeks'.¹

As essential businesses, label and packaging converters were faced with dramatic spikes in demand and, with no ability to forecast, converters often didn't know what they were printing from one day to the next. Digital printing enabled label and packaging converters to pivot—switching to products with high demand due to much simpler workflow combined with high levels of automation.

Over the past 6 months some label converters in North America have reported year-over-year growth rates of over 20%, nearly all of that being run digitally.² This shift and growth is making digital production a key area of investment and interest in 2020. In an industry that was already transforming, the crisis offers a clear opportunity for traditional companies in the label industry to rethink legacy models and reboot their business approach.

In a world of digital disruptors and digital natives, it's imperative to be prepared for new and changing demands from the market. As consumer preferences and channels shift, new megatrends emerge such as sustainability, automation, security and e-commerce. And with them, exciting opportunities emerge for businesses that are embracing agile digital solutions alongside their traditional printing methods.

Not all companies were born digital and that's OK, as long as they're planning for a digital future today.

DIGITAL DISRUPTION

Digital transformation is not only about tech, it's about 'reimagining your company'.³

Technological innovation, market-proven profitability and upgradable systems are crucial to future-proofing your label factory. For most converters the digital journey starts with switching short runs from analog to digital, but very soon they discover a whole new world of digital opportunities for growth.

Going digital doesn't begin and end at the addition of a digital press. The label industry (no different from other industries) needs an entire digital transformation and as business goes digital, so must employees. Converters must ensure they train and hire digitally native employees who are familiar with industry software and who have the expertise to work with it, to help shift a company into a digital future.

In the following chapters we look at how to attract, hire and retain digitally native employees. We'll discuss the real costs of going digital, real opportunities for growth and challenges for many label converters, including finding and retaining talent. We'll look at how brands are making their supply chains leaner and more agile, and how to outrun the future (without running out of cash).





CHAPTER 02

THE SEARCH FOR FRESH TALENT



In chapter one, we established how digital can enable label converters to stay ahead in a changing industry. By appealing to digital native consumers and staying on top of trends, businesses can increase their share of the market.

But as well as appealing to digital natives as consumers, companies should appeal as a workplace too.



— Deanne Sinclair, Entrepreneur and Family Business Owner at Cambridge Label Inc.

WORDS FROM A LABEL CONVERTER

According to Deanne Sinclair, entrepreneur and family business owner, the industry of labels and packaging is frequently overlooked by the Millennial generation and often viewed as a less-than-dynamic career path.

“Upon graduating from my MBA program in 2015, many of my fellow classmates couldn’t believe I was going to work in manufacturing in the printing and packaging space. Fast forward to the pandemic of 2020, where labels and packaging are in high demand as an essential service and many other industries are suffering, especially those that used to seem cool and hip. I chose the right path.”

—Deanne Sinclair, Entrepreneur and Family Business Owner at Cambridge Label Inc.

Deanne Sinclair admits that to the Millennial generation, complicated hierarchical organizations are less than appealing. ‘Give us a dynamic and fast-paced work environment. Spend time teaching and mentoring us. Embrace new technology and software to drive the company forward in new directions. Be flexible.’ This is what Millennials need in order to be retained and intellectually stimulated, otherwise they’ll take their mental horsepower and great ideas to another industry that will benefit from what they have to offer.



WHY DIGITAL NATIVES?

In 2019, industry expert Marco Boer discussed that the average age of workers across all industries is 42, while in the print industry it is 48.⁴ Why does that matter? More and more, the people running brands and product design teams are 'digital natives'.

By 2025, 75% of the workforce will be made up of digital natives.⁵

Increasingly, it's digital natives who make up the overall workforce, and the print industry is lagging behind with few younger employees. Family-owned businesses are already seeing the benefits of digital as they're handing down leadership to their younger generation. But for many converters, if the current generation is nearing retirement, who will replace them?

Naturally, an aging workforce and a shortage of young talent creates career advancement opportunities. With an increasing number of digital natives entering the field, and with more people looking for work in a post Covid-19 environment, a window of opportunity opens.

Let's start with why converters even need digital natives to begin with. Besides the important point that they pose the most plentiful source of employees to replenish an ageing workforce, digital natives also have an important role in the changing landscape of the print label industry.

"Breathing new life into an existing label company has been a challenge. As a Millennial, I was able to offer insight into the emerging demands for innovative product development strategies." — Nina Grande, Partner, Houston Label

As label converters look to the future, not just the equipment but the entire workflow is transitioning to digital. Each stage of this digital process requires certain software and expertise, from analyzing and tracking color performance to facilitating communication with print buyers.

Additionally, digital tools are being introduced to manage the workflow as the speed and demand of jobs are increasing. Whereas in the past a company may have had three jobs a day (which were easily managed by an admin employee) converters may now need to process up to hundreds. Digital tools are therefore needed to help process and streamline jobs into the production facility.

Job roles in the label industry are also shifting as a result of digital. For example, now colors are made digitally, so there's no need for an 'ink kitchen' where an ink-mixing specialist mixes colors by eye. Nowadays, printed colors are created using state of the art technology. Consequently, the skills and expertise required from the press operator differs, meaning it's crucial to hire and train employees who can work comfortably with a digital set up.

As the industry shifts to selling digital print capabilities, converters need to put forward a different kind of sales approach. Sales representatives now face digitally-native brand managers who will expect them to speak the same (digital) language.



GETTING DIGITAL NATIVES ON BOARD

Every converter facing life in today's industry must tackle relevance from two directions: companies must stake their claim as sellers of valuable products and services, and as interesting places to work.

The challenge lies in finding how to secure top young employees. The first step for converters is to shake a perception that the print and label industry is old fashioned. By employing new tech and innovative solutions, converters have a greater chance at employing top recruits and refreshing their workforces.

However, one of the industry's challenges is also a selling point; young candidates are interested in taking roles where their careers won't stagnate and where they'll have opportunities to advance. The aging of the current print workforce and subsequent high-level openings in the industry can serve as beacons to ambitious applicants. Millennials who show great talent aren't likely to stall at entry-level roles, and converters can use this to win over potential candidates.

Another important consideration is that digital natives entering the workforce are the best-educated generation so far.⁶ Accustomed to receiving new assignments regularly, it's important for companies to create dynamic projects that move employees throughout the organization. To do so, businesses should shift their structure from the traditional, corporate ladder to operating as a corporate lattice, embodying the multidirectional, flexible and expansive nature needed for a successful organization today.⁷

It's also important to remember that digital natives are social media savvy and move fast across technologies and platforms.⁸ This generation of workers want to be provided a whole range of technological opportunities and innovative ways of approaching business.

54% of digital natives claim technology is a key consideration for whether they'll accept a job offer.⁹

In fact, a 2019 report found that more than half of digital natives surveyed reported they would prefer to work for a CEO that uses digital and social media as part of their work as opposed to one that does not.¹⁰ Due to these changing employee behaviors and expectations, technology and the physical work environment need to be considered collectively in the hopes of hiring and retaining digitally native talent.

Knowing the behavior of digital natives can help converters meet their expectations, and perhaps even exceed them (resulting in more loyal and long-lasting employees). Undoubtedly, what digital natives care about is digital. That means being forward-thinking and digitally-led is a key determiner in whether a company will be an attractive workplace or not. While this is often perceived as a costly and ambitious change from a traditional and analog structure, the following chapter will explore the cost benefits of such a transformation and how to evaluate the price.



CHAPTER 03

GOING DIGITAL: COST VS. VALUE



Companies competing in traditional ways, without applying digital technology and strategies, have seen lower rates of revenue and earnings growth than companies competing in digital.¹¹ For converters, it's imperative to realize that driven by consumer trends, the demands from brands have changed, and businesses need to act accordingly.¹²

Companies with 'lower rates of revenue' are 'tightly correlated' with the level of 'digitalization in their respective sectors'.¹³

Between 2018 and 2023, digital label printers and flexible packaging are expected to thrive. Brands and converters both need more operational efficiency and with today's tech, there's plenty of room for growth.

From 2016 to 2020, digitally printed labels had a CAGR (compound annual growth rate) of 18%, creating a \$3.31B opportunity.¹⁵

But while the need for digital is on the rise, analog presses are still a vital part of the factory floor, particularly when it comes to long runs. Label converters should aim to create an ecosystem where digital and analog combine to optimize every step of the label printing process.

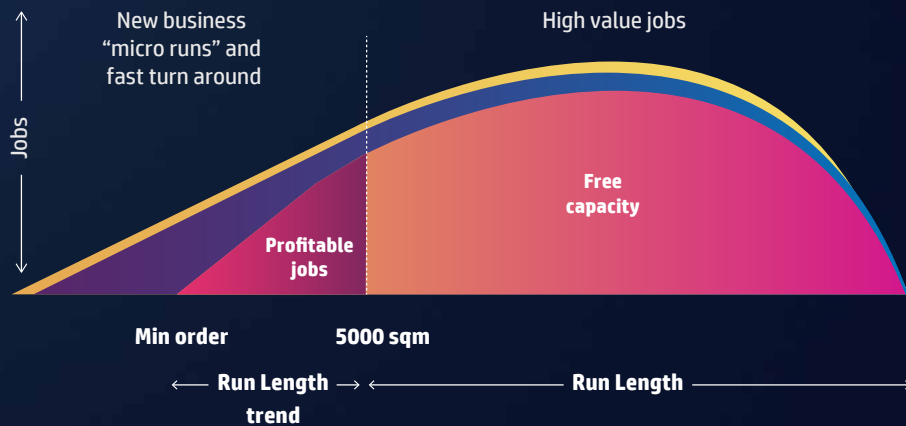
For this reason, not every converter may deem the benefits of digital immediately necessary. For those whose bulk of business is in long runs, it will prove an important consideration in terms of growing revenue streams in the near future.

According to a recent McKinsey digital study,

**DIGITIZED INCUMBENTS TRANSFORMING
AND 'LAUNCHING DIGITAL BUSINESSES'
ARE TWICE AS LIKELY AS TRADITIONAL
INCUMBENTS TO HAVE 'ORGANIC-
REVENUE GROWTH OF 25% OR MORE'.¹⁴**

IMPROVE YOUR **PRODUCTION EFFICIENCY**

Turn your 'pain point' to profitable jobs and free your conventional press capacity to efficiently address 'conventional' jobs



Graph source: HP Internal Data

COST PERCEPTION, EFFICIENCIES AND PROFIT

Many converters in business today are hesitant to make the leap to digital because of the perceived cost. Research shows that converters in management find the business case for a new digital press may not always be evident, because 'new technology outside of an organization's core competency may present a risk that seems too great to consider the investment required.'¹⁶

However according to industry experts, while digital may initially be seen as expensive, in reality the profit per employee can be up to two times higher than analog.¹⁷ Unfortunately, it's common for converters to not have a clear understanding of their "actual" production cost, resulting in estimates not reflecting true production costs.

Conventional converters may have an 'all or nothing' mentality around production; it's more common when an entire production needs to be run on a single asset. Meanwhile, many converters see significant production efficiency and cost savings by using digital assets for a portion of the jobs.

Being too fearful to take a risk or justify the cost of digitization may leave many traditional incumbents left behind, as the rest of the industry moves forward. When it comes to going digital, saying yes may appear to be expensive—but it's certainly more valuable in the long run—especially as trends are pointing to or demanding digital. So the real discussion is, can converters afford *not* to go digital?

IT'S ABOUT THE OPPORTUNITY COSTS

Many in the branding and label industry subscribe to a traditional way of thinking, namely an attitude of, 'Good, fast, cheap: you can only choose two.' However, with the introduction of digital, quality and quantity are no longer mutually exclusive.

When weighing up the cost versus benefits, it's often not as surface-level as comparing two numbers. While the less-expensive option in terms of hard costs may at first appear to be more attractive and offer the highest return on investment, further exploration often reveals that the added value created by another option, such as digital, offers a higher return rate.

For labels, digital can be viewed in a similar way. Compared with traditional flexo technology, digital has four differentiating assets—no plates, faster press setup, the virtual elimination of makeready and running waste, and easy customization—allowing for:

- *More cost-effective printing of short to mid runs and high SKU production*
- *Increased readiness and agility of the supply chain*
- *Incredible customization with versioning and serialization, in which every label can be a "one-off"*

Each of these qualities can provide value to a brand owner, both internally within the supply chain, and externally, for customer engagement. In some cases, digital print may cost more per unit

than traditional printing, so converters must take all factors into account. The ability to transfer short runs (not profitable on an analog press) to a digital press means avoiding outsourcing work to a partner—or running it in a flexo press and losing margin.

MAKING AN INVESTMENT ANALYSIS

For many converters, making the digital investment is a significantly different strategy. Historically, companies invest in conventional equipment, based on paying for the asset over three to four years and running it for another ten.

Decisions regarding digital should be made looking at the total cost of ownership over time (TCO) combined with the future opportunities the asset can bring, either in the form of new business, or increased capacity.

The TCO combines fixed and variable costs and looks beyond the initial price of the press, to the labor costs (press operators), consumables (ink), facility costs (energy, HVAC, square footage, etc.) and SG&A of the business. This analysis can include an impact to current assets through released capacity and growth, plus retiring older assets and their ancillary equipment.

There are many financial metrics that can be used to evaluate the viability and impact of a digital investment including ROI, payback period, IRR, and cash flow. It's important to understand which of these metrics is the best financial indicator for a converter's business needs. Choosing a partner that can help navigate this is key.





Once the financial metric(s) are identified, performing the calculations can be a daunting task for those not familiar with all facets of the analysis. These generally include understanding the following:

- **Current conventional market and relevant segments**
- **Current conventional production metrics, market pricing and expectations from customers**
- **Digital marketplace (both today and over the next 3-5 years)**
- **Digital production metrics, consumables models and production capabilities**
- **Quantifying the 'digital opportunity' for new business and applications.**

Most converters have the ability to answer two to three of the above items, but making a full and valid analysis is time consuming and often results in errors. Comparing digital consumables models can require inputs from multiple parties and even file analysis for à la carte models. Therefore, HP has invested in a team of industry expert financial consultants to work with customers and prospects on a one-on-one basis to help perform analyses ranging from crossovers to full business pro formas, to ensure any financial impact is fully understood and achievable.

EVALUATING DIGITAL SOLUTIONS AND SERVICES

When purchasing the first digital press, it's important for converters to consider how they envision their digital business. The more advanced the digital solution, the more opportunities may be within reach. A digital press should be versatile, not a one-trick-pony—especially in times of uncertainty.

One thing Covid-19 has shown the print industry is that applications that were once niche, can suddenly become blockbusters. A digital press should enable businesses to pivot and deliver different products, fast.

Transitioning to digital will involve some degree of a learning curve. Making sure a chosen vendor can talk through learnings and provide training is crucial—not only to operate the press and integrate the workflow—but also to build business insights to succeed in terms of a variety of applications, materials, and meeting rapid time to market.

The ramp up is important, but so is post-sales support. Service experts within driving distance and a modern service ecosystem are essential to keep businesses up and running. The coronavirus crisis has revealed the fragility of the modern supply chain and many are realizing that having a vendor with a local service organization is necessary. Is the service organization available no matter where in the world you're doing business?

With the many global travel restrictions, a vendor who has both local and global capabilities is key—especially in unpredictable times. When buying a new press, it's important to consider:

- **How fast can the vendor bring an expert to site?**
- **Do they have all the spare parts available locally?**
- **Does their modern service involve more than break-fix?**

In this demanding market, heavy investments are required to ensure converters can run operations day in and day out. Look for a vendor offering a full ecosystem for self-diagnostics, predictive press care, remote support and one that encourages self-reliance, but is also on call whenever they're needed.



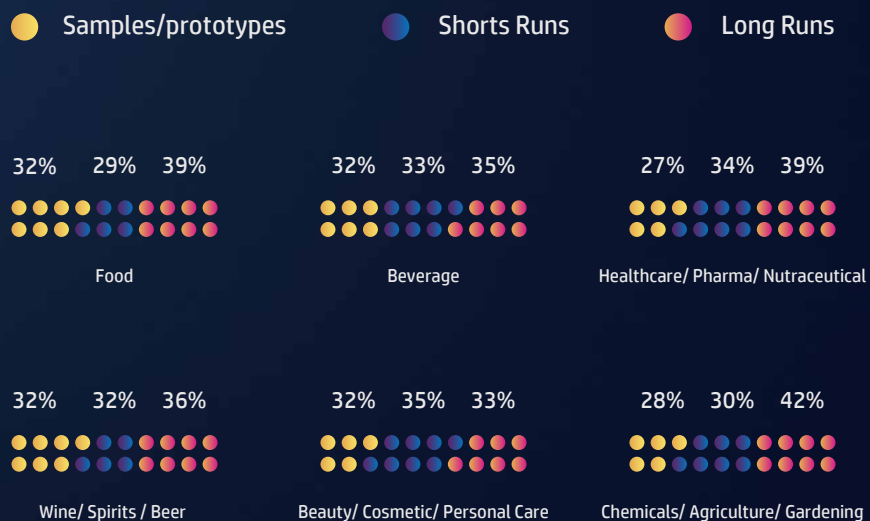
CHAPTER 04

REORIENT YOUR BUSINESS FOR GROWTH

We've established that as markets change, consumers' and clients' needs do as well. The label print industry is clearly shifting in notable ways, and as such, label converters must have an agile business approach to adapt their manufacturing methods to stay relevant, keep up, get ahead and grow.

RUN LENGTH MIX²²

What percent of the package printing your company does is for samples/prototypes, short runs or long runs?



N=304; Base=All respondents

Note: Managed by IDC's Quantitative Research Group; Data Not Weighted; Use caution when interpreting small sample sizes.

Graph Source: MCS DIGITAL PRINTING FOR PACKAGING Survey, April, 2018, IDC ²²

Due to the fast-paced demands of consumers and the 'Amazon Effect' (meaning the expectation of same-day delivery) turnaround times for labels are being reduced to next-day or the same week delivery. Multiple SKU jobs are increasing, with a predicted 40% of jobs needing multiple versions, while run lengths are decreasing.¹⁸

In the past, mass production was prioritized. Today, changing regulations, expectations and consumer desires have greatly shifted the focus from longer run lengths to shorter ones.¹⁹ This positions digital label printing at an advantage, because it's better suited to shorter run lengths²⁰ and ever-changing content.

New digital technology gives converters flexibility to produce a variety of applications on the same platform. In many ways this future-proofs business and enables agility, in order to print what's demanded at the time—such as food safe labels, security labels, flexible packaging or shrink sleeves.

'Changes in consumer demand patterns' due to the growing number of smaller households boosts the number of products needing labels.²¹ At the same time, rising regulatory pressures have led to growth in some areas, speeding up the move to shorter production runs. Such trends mean more emphasis on the flexibility of converter operations, and on the presses themselves.

More emphasis on flexibility is exactly why label printers are adopting new digital production technology, allowing for more labels to be printed efficiently and cost-effectively in extremely competitive markets. It's not just about shorter run lengths either, as mid-length runs can also be covered cost-efficiently with a digital press. When brands are looking for shorter lead times and better customer service, adding a digital press to the factory floor provides tailored options, creating an agile, adaptable business model.

The quick rise of digital print technology means the label market is now more sophisticated, to better fit and serve the needs of brands and businesses. The versatility and flexibility, combined with the high graphics standards are the major growth features.²³



BUILDING A ROADMAP TO THE LABEL FACTORY OF THE FUTURE

The label and packaging industry has accelerated in the year 2020. Still, it's predicted to grow even faster in the coming years.

No one knows what the new norm will look like following the global pandemic, but the one thing converters of all sizes agree with is that the best approach for a healthy future is agility and versatility.

Those who are ready to adapt, need to consider each step that's required to pave their way to a successful digital future and educate their customers about the value and capabilities associated with digital print—including the new options they support.

1

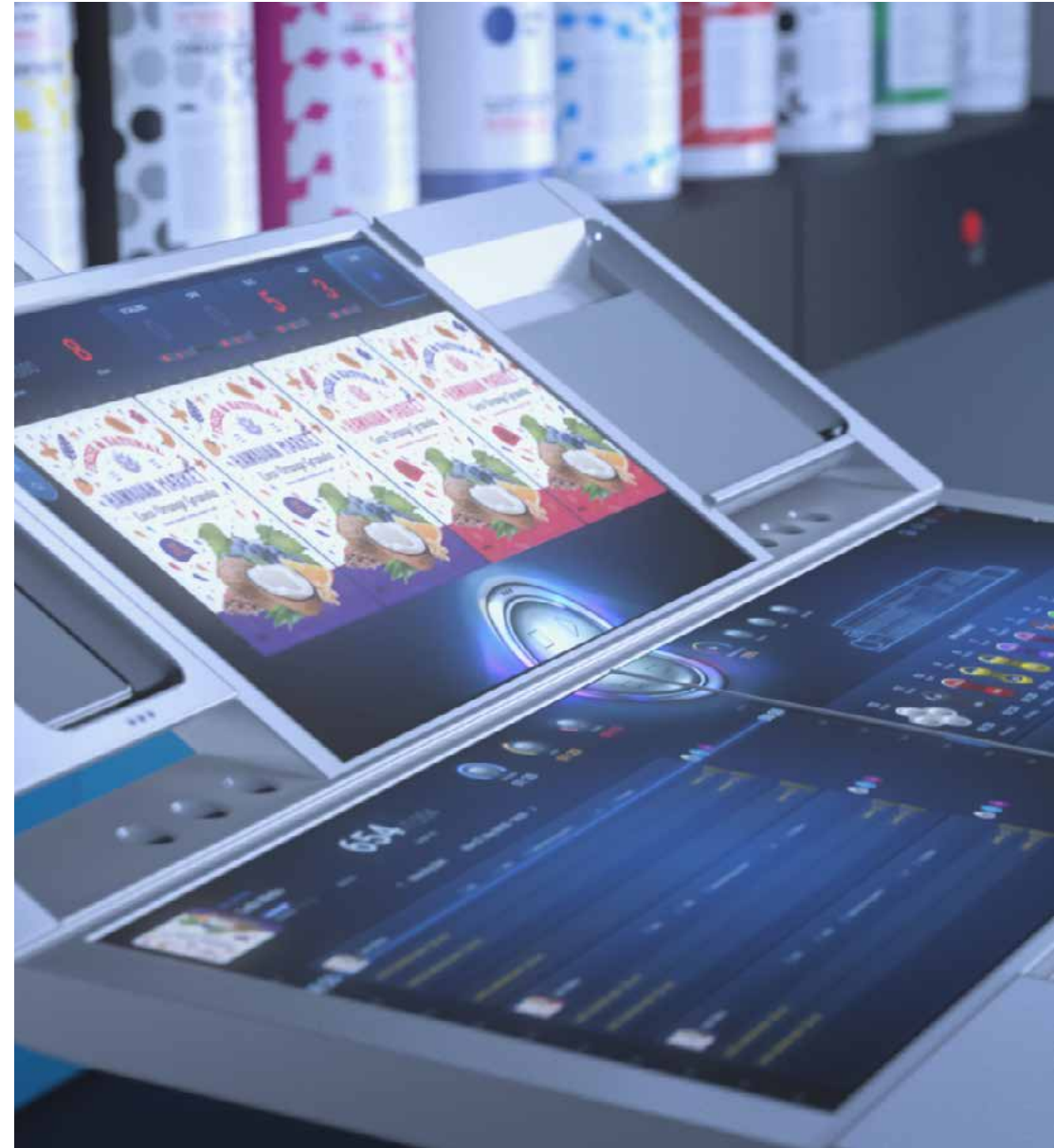
RETHINK THE BUSINESS MODEL

As technology and industries change, so must businesses. A flexible and agile label converter can quickly respond to consumer needs and be unshaken in times of uncertainty. When purchasing a digital press, the most pressing decision is to migrate all the short runs away from analog presses. While the journey starts with switching short runs from analog to digital, this is just the tip of the iceberg. Converters soon discover that with more advanced digital solutions, they'll see a surge in opportunities to grow business.

*"As the industry becomes more competitive, going digital can diversify a companies' client offerings and create business in new segments."
— Brandon Betts, HP Financial Consultant, Labels and Packaging*

In the wake of COVID-19, it is clear that converters need to be able to print anything and be ready to switch quickly. Savvy players within the label and flexible packaging industries who focus on tangential opportunities in a crisis will benefit.

Unexpected changes have proved that being able to adapt is key, and that having the versatility to turn around jobs at pace is essential.





— STEP

2

SELECT A STABLE AND TRUSTED PARTNER

The crucial factor of doing business in today's digital world is not just about having the technology, it's about how a vendor collaborates with converters, and how converters work together with clients.

Going digital doesn't need to be a painful transition. As converters evaluate business in general or look at going digital, they should make sure they've got a partner to help with business growth today and in the future. There's help available in terms of building a business model that will quantify the economic impact of new equipment.

Jumping into new applications often demands plenty of resources both in terms of the press and hours of research and development. That's why it's critical to select a partner with substantial experience in numerous applications; one that can provide you with answers and solutions.

Training is an important part of the process, not only to operate the press and integrate a new workflow, but also to build the business insights needed to succeed with a variety of applications, materials, and rapid time to market. A partner committed to investing heavily in R&D with an upgrade path that protects the initial investment is key.

From business analysts to help with almost any financial or business metric, to technical expertise ensuring customers are successful in their short, mid or long term goals, training and support is essential. There are several companies with digital offerings, however HP Indigo offers proven depth of analysis in terms of a cost-value evaluation.

For both current and prospective customers, an analysis quantifies and ranks the impacts of end-to-end solutions, improving workflow, adding the ability to print new applications, enter new markets like security printing or flexible packaging, providing new production opportunities to a label factory.

3

LEANER OPERATIONS

How companies act and do business have never been under so much scrutiny and pressure. It's important for converters to listen to brands and change the focus of their operations to what customers value. Speed? Quality? Sustainability?

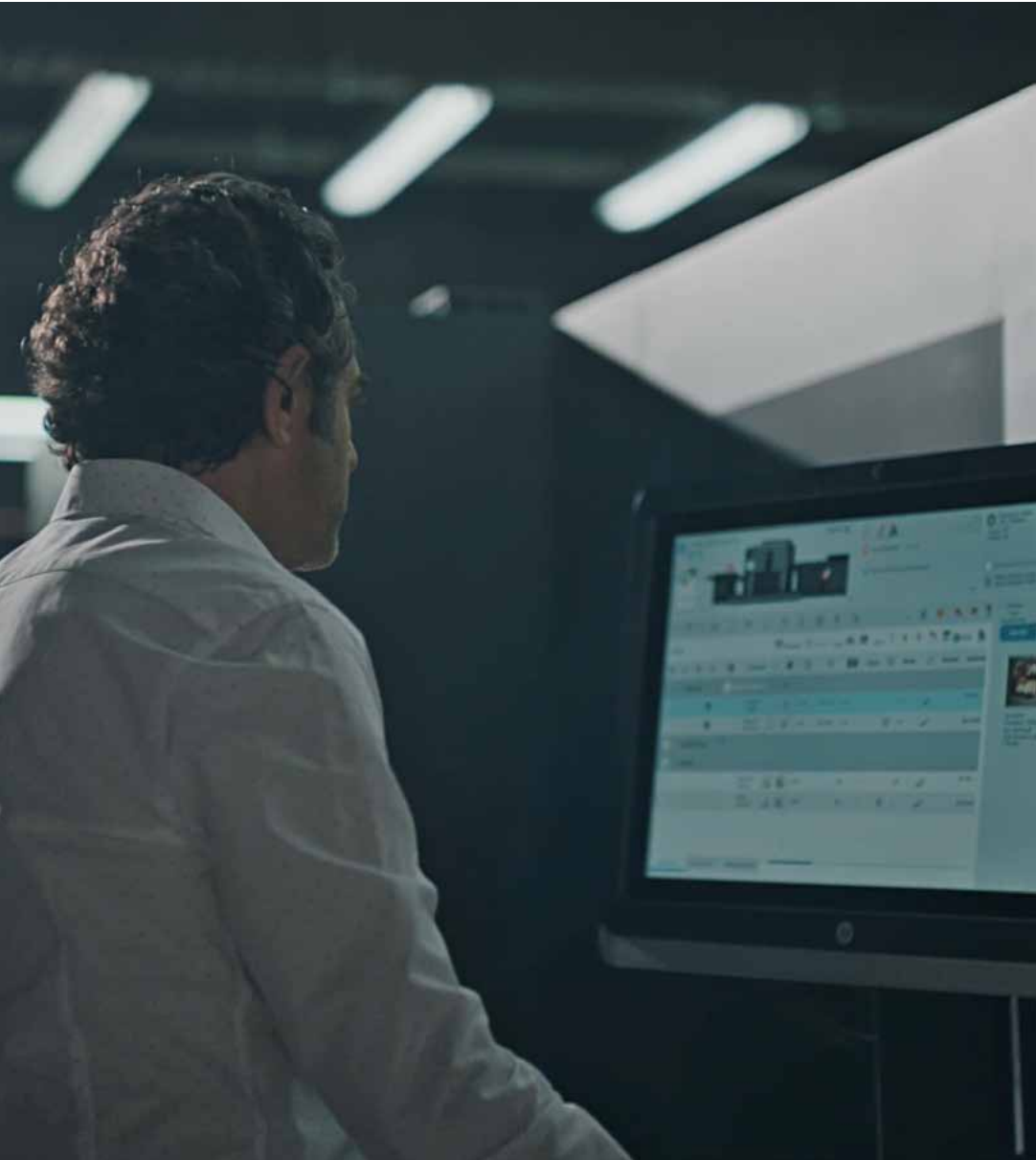
Product life cycles are becoming shorter, consumer preferences are changing faster, and there is more pressure than ever for brands to get their products on the shelves quicker and for converters to speed up the order-to-cash timeframe. In particular, the need to optimize print operations, automate production and expand their offering is unquestionable.

Frequent changes in regulations pose huge challenges for brands, forcing content on packaging and labelling to change with them. Companies operating locally and globally will need to contend with local regulations too. For traditional printing systems, these complex and evolving regulations are costly since each change requires the creation of a new plate. This incurs further waste and set-up, and also slows down time-to-market.

As demands for a more efficient supply chain increase, AI will play a crucial role in the future of the printing industry. This has become even more urgent in the wake of COVID-19, as businesses seek to reduce supply-chain and production risk. The ability to control operations remotely will become an industry standard.

Converters should think about all the areas of business that they can adapt to a balanced analog and digital ecosystem to put a future-forward operations strategy in place.





— STEP

4

RECONSIDER & REDESIGN TECH ECOSYSTEMS

Those equipped with both analog and digital technology will be in a better position to meet customized requests, any sized job, and serve clients' changing requirements. Diverse converters with a stake in digital are also much more appealing to investment firms for acquisition, potential mergers and sales.

To grow profitably in digital spaces requires a shift from the typical bid-based sales process to value-based discussions around design, marketing, and supply chain management.

There's an entire process to going digital, from evaluating, assessing, implementing and becoming successful with a digitally-led business model. Converters can appeal to evolving brands through digital capabilities fused with multi-decade analog expertise, re-designing their factory as a future-facing ecosystem.

FINANCING YOUR FUTURE-FACING FACTORY

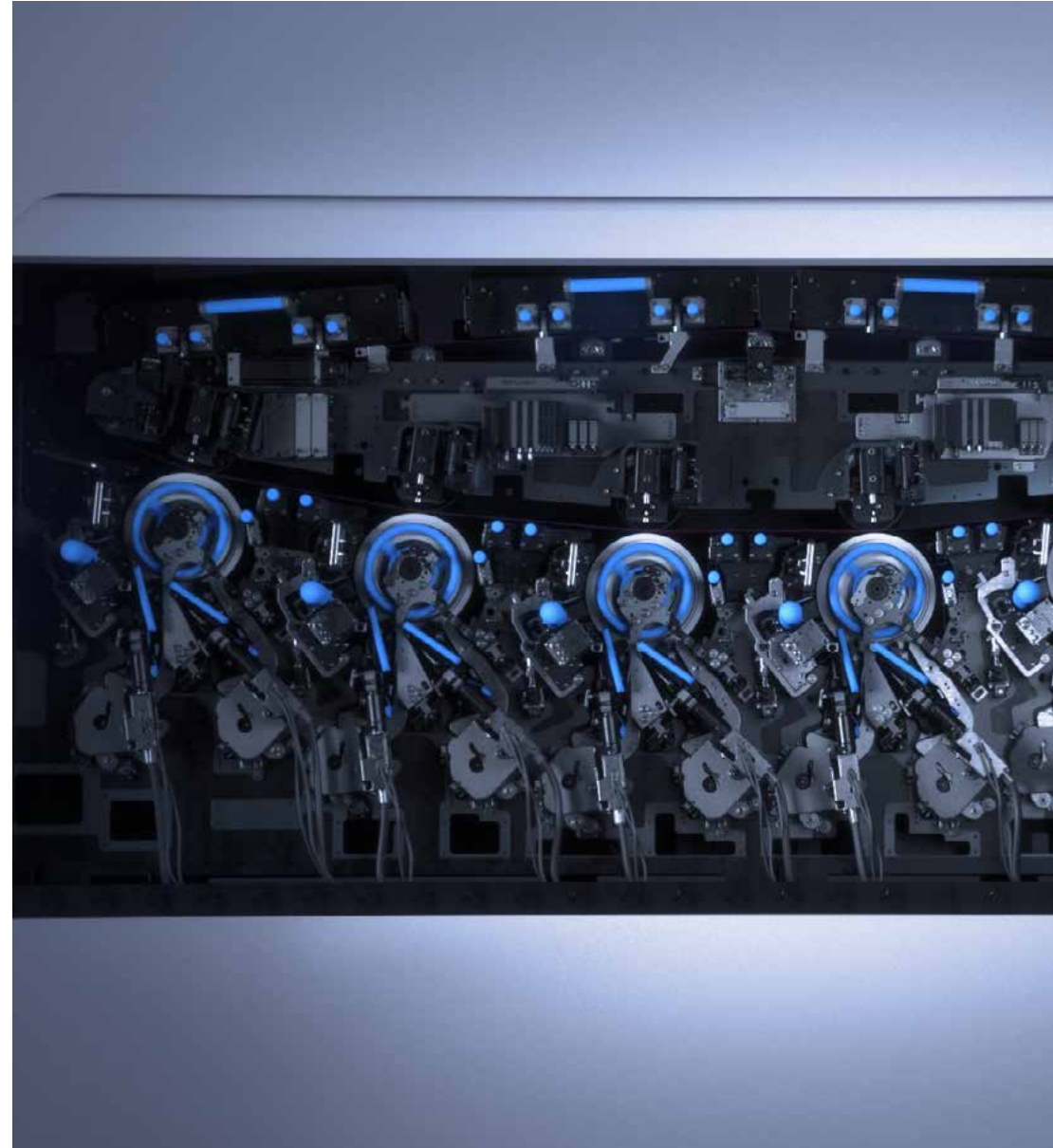
As discussed in chapter three, financing a digital press needs to be approached holistically. Other than taking into account the added opportunity and value digital provides when considering the cost, converters should also explore the different pricing models available.

Some industry pricing models require converters to pay for all the inks and consumables up front, meaning heavy color prints or full coverage sheets (labels) cost more to print. However, when going digital, another option to consider is a pay-per-click pricing model created by HP Indigo.

Rather than paying for the ink and consumables of each print job, with the pay-per-click pricing model, employed by HP Indigo, it doesn't matter how many colors or inks you use—you only pay for each impression (click).

The click model allows converters to accurately price jobs, so they don't lose money. Unlike other technologies, where there may be hidden costs, there are no surprises or variable costs to add. Keeping control and knowing your costs (regardless of ink coverage) gives converters an edge and more freedom. Some partners also offer stable finance options, like HP's Financial Services, to help converters execute their digital transformation; this enables converters to acquire their first digital press and progressively build up a digital label factory to full operations.

Any business decision is always a balance of potential value versus risk. When it comes to the possibilities of digital and HP Indigo, there's very limited risk to be taken for the investment and usage. The investment in a machine is not carved in stone either, as it can evolve with trade up plans as converters grow their capacity or adapt their services.





CONCLUSION

THE STARTING LINE IS HERE

The most influential supporters of adopting a digital press are brands themselves. Research has also suggested that those holding a reserved view about digital printing are the owners or shareholders, those at the “back” of the business.²⁴ That’s often because they ‘control the budgets’ while being ‘held responsible for ensuring business growth strategies are met’.

However, consumer trends are leaning towards more limited editions, variable content, short runs, and high agile requests. With cost-effective, seamless customization afforded by digital, brand marketing managers can launch more product versions or create localized promotions easily as part of their marketing strategy.

“Recognizing digital trends was pivotal to targeting new opportunities. With our HP Indigo digital press, we’ve been able to meet and exceed challenges as they arise.”—Nina Grande, Partner, Houston Label

The time is now for converters to reposition themselves to appeal to evolving brands through digital capabilities fused with multi-decade analog expertise.

COVID-19 has only served to accelerate the need for digital. By taking onboard digital investments and making strategic decisions to answer the needs of the market, converters in the label industry will do more than catch up with the digital future—they’ll outrun it.

Get ready to outrun the future. The time is now.

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