

EGYPTIAN PRINTING INDUSTRY STUDY

Prepared by: ProGress Business Consultants

Overview

This study assesses the performance of the printing industry of Egypt both in domestic context and in terms of its positioning and performance against competitors in the global market. The study comprises a number of phases: global review, industry survey of 80 printing industry experts, market analysis, SWOT analysis, value chain, benchmarking, and pricing study. As a final deliverable this study puts forward a vision of the printing industry, and a strategy and action plan for all stakeholders to achieve the vision.

Background

This study is part of the Industrial Modernisation Centre's mandate to develop international competitiveness of the private sector of Egypt following the signing of the Barcelona Declaration in 2001 which initiated the implementation of a free trade area (FTA) between Egypt and EU member states.

The accompanying liberalisation of trade and exposure to global markets will represent both a challenge and an opportunity for the printing industry of Egypt. This study looks at how these challenges can be met and the opportunities captured to dramatically increase the national competitiveness of the Egyptian printing industry.

Present State of Egyptian Printing Industry

The current study has determined the printing market of Egypt to be valued at USD 1.5 billion in 2003, with average growth of 0.5% per annum since 1998. The Egyptian printing market can be broken down into four major product groups: print media (newspapers and magazines), USD 193 million; books (including schoolbooks), USD 204 million; commercial (including copybooks and notebooks), USD 248 million; and packaging (corrugated, folding boxes and flexible film), USD 759 million. Other printed products account for USD 81 million. In total, the industry consumed 915 thousand tonnes of paper-based raw material in 2003.

The key issues affecting the performance of the Egyptian printing industry:

Government level issues

- Recent currency devaluations have dramatically increased operating and capital costs for print houses as the industry is heavily reliant on imports for the majority of raw material inputs (paper, ink, plates & chemicals) and printing machinery.
- Despite the recent welcome reduction in import duty tariffs, further reductions are required to make the industry competitive.
- Untenable 36% advertising tax continues to limit the development of the local advertising industry and results in offshore & free zone printing of magazines.

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- The indistinct boundary between private and state/public sector print houses often raises questions associated with the transparency of business practices and has led to an uneven playing field and anticompetitive practices.
- Export volumes of printed goods, at less than 1% of production, are very low and as a consequence little benefit is being realised from the weakened currency.
- The government controls a large educational book tendering budget. It was reported that payment is often delayed (frequently over 1 year late) and the tendering procedure is unusual and opaque for pricing and awarding contracts.
- The current 15% borrowing interest rate charged by Egyptian banks makes borrowing for capital expenditure on machinery expensive

Printing house issues

- Quality of product is generally poor for a number of key reasons:
 - Little or incorrect use is made of modern technologies (e.g. densitometers)
 - Lack of investment in staff training and a misguided focus on quantity rather than quality of employees results in performance below potential
 - Few have adopted standards, especially of International Standards such as ISO9001 and ISO14001
- Productivity levels and sales performance are weak for reasons including:
 - Most businesses are owner-managed and lack professional management, vision, skills and techniques
 - Lack of management training
 - Lack of resources allocated to marketing
 - Investment is focused on machinery in place of management and staff training.
 - Productivity levels are very low, and the critical importance of productivity is poorly understood
 - There is a culture of employing people for social rather than business needs resulting in ‘hidden unemployment’
 - There is low use of new communication channels such as internet and email

Value Chain Analysis

Analysis of the value chain showed how current market conditions, competition and fiscal measures affect the economics of printing houses in Egypt across the four product groups of Print Media, Books, Commercial and Packaging.

- The **Commercial** product group is affected by import tariffs, intense competition amongst the many small, private firms, and by state/public sector printing houses’ participation in commercial printing.
- The **Packaging** product group is affected by the large orders, demands for standards, and strong negotiating skills of the typically large and often multinational package printing clients.
- Profitability in the **Book** product group is heavily skewed by the educational textbook tendering process where the appointed price does not necessarily

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reflect the cost or quality of the end product. The process lacks the clarity that ought to characterize government tenders.

- Magazines in **Print Media** are affected by Egypt's unusual advertising tax. Newspapers are printed by public sector print houses lacking the financial accountability and performance demands of the private sector.

Customer demand, in terms of buyer sophistication, average order size, and quality requirements is a key driver that has influenced the development of printing houses in each product group. Overall packaging printing houses are the most developed and productive in Egypt. On the other hand those catering to school tenders and protected from market forces (e.g. by government control) tend to be characterised by a lack of standards and low productivity.

Benchmarking: Egypt vs. Seven Competitor Markets

The benchmarking study compared thirty key indicators of the printing industry in Egypt against those of seven competitor markets – Lebanon, the UAE (Dubai), Jordan, Turkey, Germany, Italy and the United Kingdom – to determine the international competitiveness of Egypt's printing industry. While Egypt shows modest performance in terms of quality and access to markets, it has the potential to adopt a cost leadership position within the industry.

With an average productivity of USD 10,000 sales per employee, the Egyptian printing industry has the lowest productivity of the benchmark markets. Productivity is at the heart of the problem for Egypt's printing industry. Low productivity in businesses leads to low GDP per capita, by definition. Increasing productivity is fundamental to the industry's development. This is achieved through increasing the sales per employee. In order for the staff to deal with the increased volume / product improvement they will probably need to be better trained and their roles made more specialised. This may well require further investment in staff training and correspondingly higher remuneration per employee.

Pricing Study: Egypt vs. Dubai vs. UK

Egypt's printed products are currently cost competitive for some printed products but not across the board. Notably, the magazine sector appears uncompetitive which may in part be due to the 36% advertising tax which has resulted in a lot of offshore magazine printing and advertising industry development. The UAE is a keen competitor in terms of both responsiveness and price, proving to be consistently good value across product groups. In terms of responsiveness Egypt performed poorly with no responses to requests for quotes for specified printed products.

Strategy Development

The printing industry of Egypt has a market size of USD1.5bn and, with only 0.5% growth per annum, is shrinking relative to the economy. Average productivity is USD 10,000 per employee and exports represent around 1% of sales. By a number of measures the local printing industry is underperforming against its potential:

Measure	Current Level	Rightful Level
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<i>Industry Size</i>	USD1.5Bn	USD3.5Bn
<i>Growth</i>	0.5% p.a.	5% p.a.
<i>Productivity</i>	USD10,000 per employee	USD50,000 per employee
<i>Percentage Exports Relative to Industry Size</i>	1%	10%

- ⇒ *The printing industry of Egypt should rightfully have a level of USD 3.5bn and be growing at 5% per annum.*
- ⇒ *Productivity should be USD50,000 per employee.*
- ⇒ *Exports should represent at least 7.5% of sales, and 10%+ to compete with markets such as UAE.*

In order for the Egyptian printing industry to fulfil its potential it needs to overcome the issues identified in the current state assessment by urgent and radical action by the stakeholders in the printing industry, namely printing houses, Printing Chamber and PIDA and the Government of Egypt.

Benchmarking Egypt against seven competitor markets has shown that whilst Egyptian printing quality and market access need improvement, there is an opportunity to capitalise and build on Egypt's cost leadership. This leads logically to a three point vision for the Egyptian printing industry:

Vision

- ***Focus on developing the competitiveness drivers***
- ***Double the local market in twelve years***
- ***Develop a worldwide recognition for value printing¹ and be on the suppliers list of all print buyers.***

Objectives

To achieve this vision the stakeholders need commit themselves to implementing the twelve programmes detailed in the action plan that fulfil the following three strategic objectives:

I: Put the house in order

Achieve a fair and transparent business environment and European-level industry practices and standards.

II: Improve competitiveness

Improve industry performance in terms of productivity and quality. Raise and meet client expectations.

III: Drive growth

¹ "Value printing" means printed output of the expected international standard and quality for the best price.

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Increase local industry demand through marketing. Grow exports through aggressive industry promotion & export incentives.

Action Plan

To achieve the vision and meet the objectives a set of twelve programmes is proposed, and assigned to the lead stakeholders as summarised below:

Key Components of the Twelve Programmes

<i>Lead</i>	<i>Programme</i>	<i>Key Components</i>
Printing House	P1. <i>Management Training</i>	<ul style="list-style-type: none"> Management to attend training & better judge return on investment on machinery vs. personnel development
	P2. <i>Worker Development</i>	<ul style="list-style-type: none"> Invest in staff training and role specialisation
	P3. <i>Investment Attraction</i>	<ul style="list-style-type: none"> Investigate benefits of mergers & acquisitions, partnerships, and stock market listing
	P4. <i>Marketing</i>	<ul style="list-style-type: none"> Dedicated marketing budget Performance-based marketing manager
Printing Chamber & PIDA	C1. <i>Printing Chamber Restructuring</i>	<ul style="list-style-type: none"> Mission, roles & responsibilities redefined Improved service to its members
	C2. <i>Training Promotion</i>	<ul style="list-style-type: none"> Series of industry seminars by international speakers
	C3. <i>Printing House Rating & Standards</i>	<ul style="list-style-type: none"> Introduction of ISO standards Consultants develop and implement industry rating system
	C4. <i>Promote Egyptian Printing</i>	<ul style="list-style-type: none"> Export focused website to market Egyptian printing Publication of export guide for printing industry
	C5. <i>Package & Graphic Design Award</i>	<ul style="list-style-type: none"> Public relations consultancy to gain sponsorship, promote and launch design awards
Government	G1. <i>Level Playing Field</i>	<ul style="list-style-type: none"> Government-owned businesses publish accounts Privatisation of government-owned printing houses
	G2. <i>Tax & Trade Tariffs</i>	<ul style="list-style-type: none"> Remove advertising tax Further reduction of import tariffs Tax incentives for export
	G3. <i>Educational Book Tender</i>	<ul style="list-style-type: none"> Transparent tender process Raised quality standards Open-up to foreign competition

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Full cooperation and buy-in from all stakeholders will result in improved competitiveness and consequent growth of the local market together with a dramatic improvement in export performance, thereby driving the Egyptian printing industry to obtain its rightful share of the market.

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