
China & India

Threat or Opportunity ?

Why this topic?

- Everybody talks about how China has become the **“factory of the world”**
- Or how India has become the **“outsourcing service centre of the world”**
- Why is this happening ?
- Is this an opportunity and how can you capture it?

Understanding the market

- **Focus on China and India from here**
 - Any questions related to South East Asian countries, like Indonesia, Vietnam, Thailand etc... can be answered during the Q&A
- **In order to understand the trends we must look at**
 - The social, political, cultural and economic background
 - The market itself & its drivers and limitations

Size matters ...

Country	# People	Rank
China	1,313,973,713	1
India	1,095,351,995	2
United States	298,444,215	3
Indonesia	245,452,739	4
Japan	127,463,611	10
Canada	33,098,932	36

- China is the **most populous** country in the world
- India is a **very close second**, Indonesia is nr **4**
- The 18 main countries in Asia (not incl. Japan & ANZ) host **53%** of the world's population
- In other words a huge potential market, especially for consumer goods companies

▪ Note: the UN estimates that by the year 2030 India will surpass China as the world's most populous country

Size matters ...

Country	GDP USD	Rank
United States	12,980,000,000,000	1
China	10,000,000,000,000	2
Japan	4,220,000,000,000	3
India	4,042,000,000,000	4
Canada	1,165,000,000,000	12
Indonesia	935,000,000,000	15

- China has **2nd** largest GDP in the world
- India is number **4**, but very close behind Japan
- Indonesia is in **15th** spot, only 3 place after Canada
- The 18 main countries in Asia (not incl. Japan & ANZ) represent **31%** of the world's GDP
- And the GDP's grow at double digit %

But size is not everything ...

Country	GDP Per Capita USD	Rank
United States	43,500	10
Canada	35,200	17
Japan	33,100	21
China	7,600	107
Indonesia	3,800	151
India	3,700	152

- In terms of GDP per capita, China & India are really 3rd world countries
- China: **107th** of 220 countries, up from 117th in 2005 (still substantially below world average*)
- India: **152th** of 220 countries, up from 160th in 2005 (still substantially below world average*)

* World average income per capita is 10,000 USD

Size matters ...

- **Printing and packaging industry in China and India are huge:**
 - In China, numbers vary between 98,000 and 160,000 printers depending on the source and the way of counting, 36,000 packaging printers, 6,000 newspaper printers
 - In India there are 220,000 registered printers, 2,500 newspaper printers (packaging is not registered as separate category)
 - In Japan there are 25,000 printers

But size is not everything...

- Per-capita consumption of packaging in \$
 - ❖ Japan 500\$
 - ❖ North America 350\$
 - ❖ Europe 176\$
 - ❖ Asia 19\$ (India 8\$)
- Only 7% of all packaging in China is printed flexo
- In India there are only about 40 large packaging converters
- The corrugated market in India is very far behind world standards

But of course ...

- **Everything is growing rapidly**
 - Tetrapak's sales in China alone - is 8% of its global turnover
 - Pressure-sensitive labels are growing in China at 20% PA
 - China packaging market is growing @ 15% PA
 - IT related services (BPO) grow @ 70% PA in India
- **In other words there are huge opportunities**

Why has China become the
factory of the world ?

Why has India become the
outsourcing service centre of the world ?

How do they progress ?

“The Chinese and Indians are learning not just from Japan and the Asian Tigers, but from the advanced countries. They are **selectively adopting** and **adapting** different models and principles of governance to propel them into the front ranks. In some industries, they have already leapfrogged the rest of Asia. The outcome will be a major rebalancing of the world.”

Lee Kuan Yew, Minister Mentor, Singapore

Social Economic & Political Cultural

India

- Largest democracy in the world



China

- Centrally planned and controlled non-democratic government



India

- English is the business language
- Juridical system is based on the British system
- World class technical (IITs) and management schools (IIMs)
- Printing institutes of decent level, but flexo is missing in the curriculum

China

- Mandarin is the business language
- Juridical system is underdeveloped (government discourages legal action)
- Good education system but flexo training is completely missing

India

- No consistency in public policies
- VAT introduction only in 2005

- Near world-class companies

China

- Good governance of public policies
- Efficient and effective tax collection

- Has yet to create great companies
- Needs to restructure state-owned enterprises

India

- Infrastructure leaps behind
- No decent airports, shortage of hotels, ...

- Huge & rapidly growing INTERNAL market

China

- High investment in infrastructure
- Rapidly growing pollution problems

- Huge & rapidly growing INTERNAL market

What does this tell you about the people ?

India

- Used to find a solution for every problem
- Red tape is a burden but people know how to bypass the rules
- Very creative but not much self-discipline
- Very IT savvy
- Very vocal, by many considered “rude”
- English commonly used among educated people

China

- Highly disciplined, very hard working, used to hardship
- Less inventive, creative
- Lack of management skill
- Working hard i.s.o. working smart
- English less used but catching up fast
- The importance of “having and giving face”
- Difficult to read with western eyes

India

- Business is based on the opportunity of the moment
- Large group of well-educated inexpensive technicians

China

- Business is based on relationship built over time
- Large group of very disciplined inexpensive workers

Why are all toys, electronics...made in China ?

- **PRIME REASON**

- BENEFIT FROM INEXPENSIVE LABOR AVAILABLE IN LARGE QUANTITIES
- The labor-cost benefit is simply too big

The labor cost advantage

- China : Non-skilled factory worker between 50 and 100USD per month (depends on the region)
- India : IT worker between 80 and 150USD (this would be more then double in China)
- Expressed differently:
 - For the difference in price between an fully automated cutting table and a manual one (difference 150kUSD), China can have a worker loading the sheets manually for 115 years
 - One gravure cylinder maker in Indonesia produces every job twice by two different operators to make sure it is correct before engraving
 - One computer – Two operators as opposed to One operator – Two computers

Issues related to inexpensive labor

- **Labor cost is rising in both countries at rates of 10 to 20% a year**
 - Wipro (India) reports 23% average increase for 2005
 - There is still a huge untapped potential in China e.g. away from the coastal belt – “Go West Program”
 - Increases very steep for skilled labour (in India)
- **Staff rotation**
 - It is almost impossible to keep low-cost staff
 - In South China, the staff rotation rate is ... 70% per year !
- **How to keep quality / consistency at these kind of rotation rates ?**
 - Rigorous procedures, no room for improvisation or flexibility
 - Training staff despite risk of wasted training
 - Excess capacity to overcome delivery problems

So why do the investments still move there ?

PRIME REASON

BENEFIT FROM INEXPENSIVE LABOR AVAILABLE IN LARGE QUANTITIES

The labor-cost benefit is simply too big

Why do Wal-Mart & Co move to China & India ?

PRIME REASON

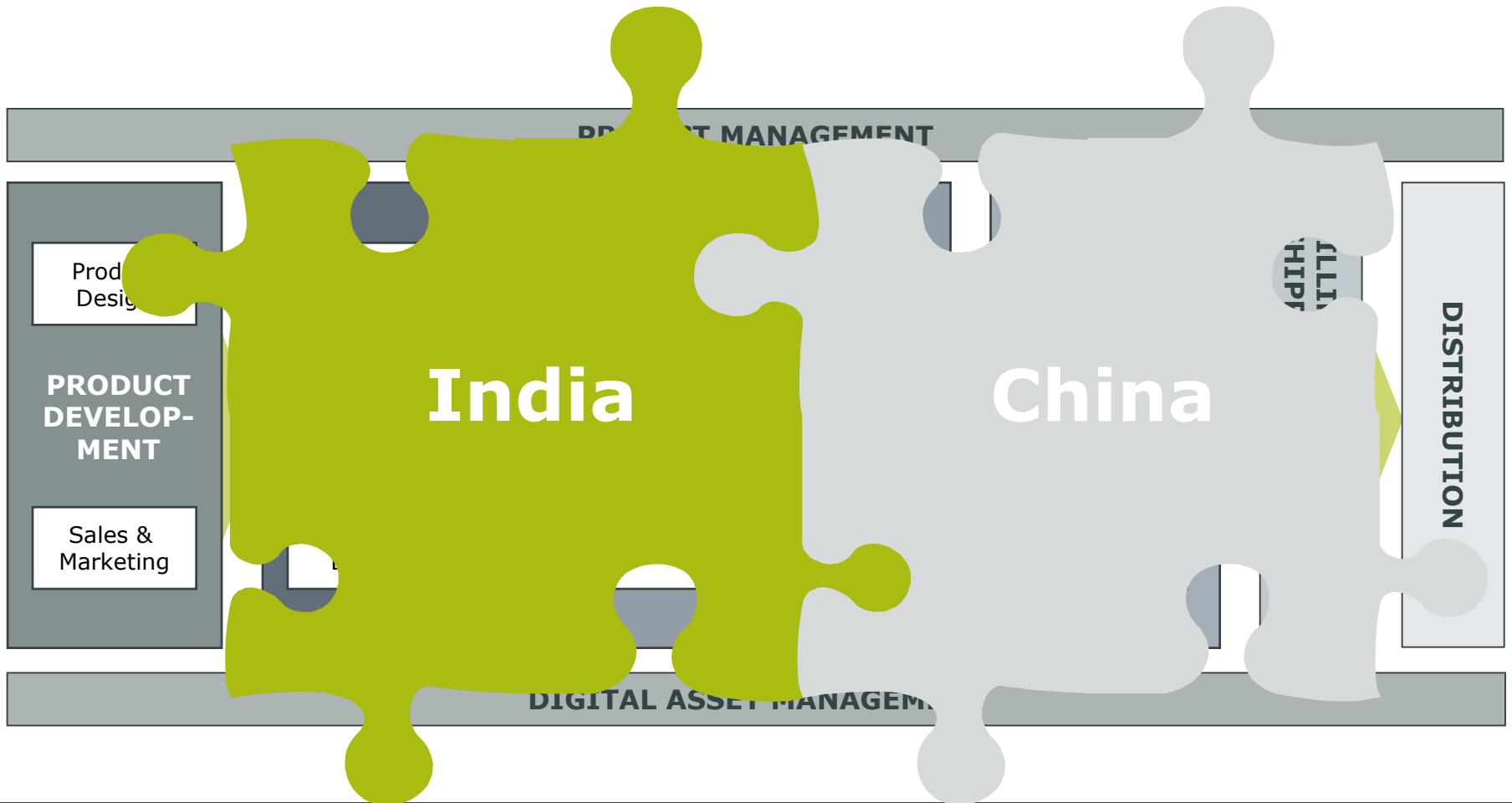
BENEFIT FROM INEXPENSIVE LABOR AVAILABLE IN LARGE QUANTITIES

SECOND REASON

TAP THE HUGE LOCAL MARKET OF NEW CONSUMERS

What is the result ?

Packaging supply chain moves to China & India

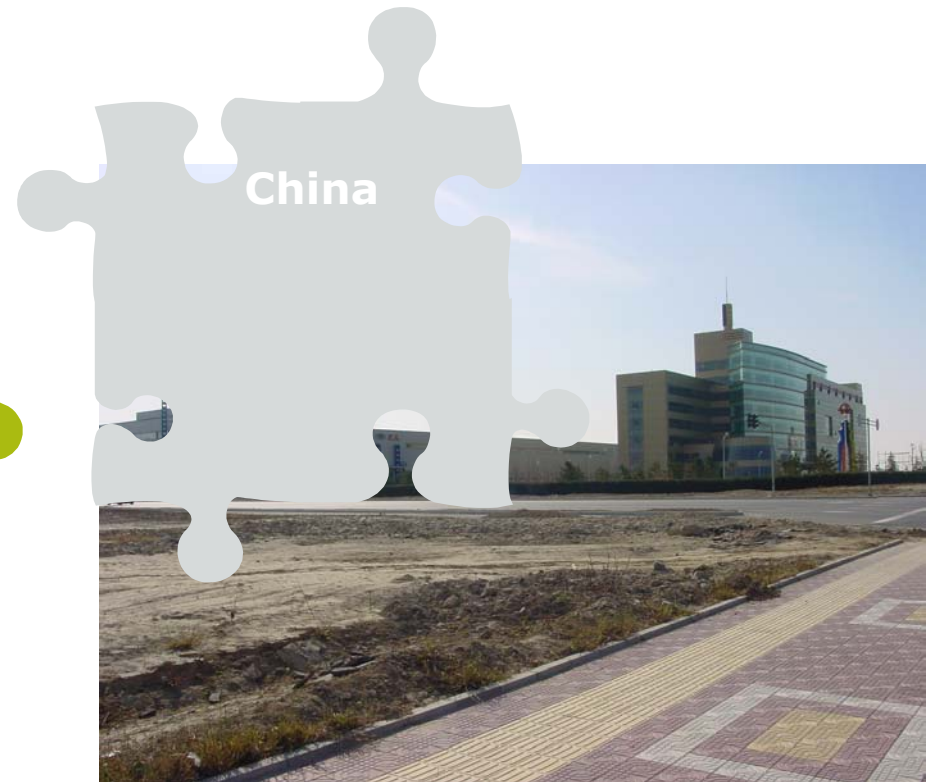


The emergence of ...

Business Process Outsourcing



Manufacturing Plants





Different phases in China's development

- **Phase 1:** Attract foreign investment where foreign investor brings in know-how; products mainly for export
- **Phase 2:** Chinese brands produced for the local market, equal quality (same know how), less expensive
- **Phase 3:** Chinese brands flood the world market
 - This has really started now (Lenovo as a first example)
 - If this is not realised there will be overcapacity and slowdown in growth

What are BPOs in India ?

- The philosophy behind **Business Process Outsourcing** (BPO) is specific: do what you do best and leave everything else to Business Process Outsourcers
- Benefit from the large amount of English-versed, technically trained inexpensive resources in India
- Some of the BPO's are offering Publishing – Prepress related services
Mostly design work is outsourced (no proofing, no plate making, etc.)
- They are called Pre-flight centers
- Completed PDF files are sent back

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What is Business Process Outsourcing ? (BPO)

- **Packaging related examples**
 - Schawk Chennai (Schawk)
 - Printcare-Jennings, Colombo (Jennings)
 - Express KCS, Delhi (Polestar)
 - Acura repro tech, Mumbai (TCPL)
 - Comart graphics, Mumbai (Comart)
 - Print Systems, Bangalore (UPSL)
 - ...

example

Express KCS are the leading provider of offshore design, prepress, document creation and other premedia services

EXPRESS KCS
Media Backoffice

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Latest News

Express KCS appointed offshore prepress partner by Polestar Group

Polestar, Group, Europe's largest independent printer has today announced...

See [New.sroom](#) for more info



Offshore Services

Our main business is that of providing high quality premedia services to corporation and the graphic arts industry. [Learn More](#)

Custom Software

Express KCS employ teams of experienced programming professionals all of whom are familiar with the needs, technology and conventions of the graphic arts. [Learn More](#)

Products

Express KCS are India's principle developer of software for the printing industry. With a full MIS system (ERP) and an integrated digital asset management system with workflow (MediaFlow). [Learn More](#)

Express KCS are the leading outsourcing provider of quality prepress services and graphic arts-related software development in India. Our prices generally undercut those in the US or Europe by up to 50%, while quality of services is often higher

Express KCS LLC 2003-2005

About Express KCS

Express KCS brings high end premedia offshoring to the USA
Pittsburgh PA,
February 24th 2005

Express KCS brings offshore prepress and programming services to the US, European graphic arts industry
New Delhi January 31st 2004

Our Clients



example

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We are assuming there's some risk and will make adjustments

A currency revaluation could mean price rises for clients of the Chinese printing industry, including Penguin's Liz Allen

News

NEWS

Polestar signs up for offshore repro

April 27 2005



Polestar has added another string to its pre-press bow signing a deal with offshore repro supplier Express KCS.

It is targeting the Indian firm's services at the monthly magazine and catalogue market, and expects to announce the first customers soon. "We are talking to a number of publishers at an advanced level," said Polestar Applied Solutions category director Tim Smith (pictured right with Express KCS managing director Robert Berkeley). "Some people have been out there to see it and given it the green light."

After extensive testing of the firm's services, which are offshored to its facility outside New Delhi, Polestar technical director Jack Bisset approved the quality and the service levels.

"We have established that the company can produce work of a quality that is appropriate," said Bisset.

"If you look at people's objections [to offshoring] quality is the big one," said Express KCS managing director Robert Berkeley. "That Jack says what he's saying pokes that in the eye."

Berkeley added that other objections such as bandwidth and customer communication had been addressed. Bandwidth had been solved with the deregulation of the Indian telecoms market, while communication was addressed by Express KCS' own UK-based account manager, and in this instance by Polestar's own team.

The deal follows Polestar's Applied Solutions division's [launch of its internet-based publishing workflow Isis](#) earlier this year.

It is the firm's response to the need to provide added value solutions alongside print and move towards a commodity market for pre-press in the UK. "It will become a commodity and a UK cost base will become unviable," said Smith.

A further development will include a catalogue production partner, to be announced in the next few weeks.

Polestar is the first major customer of Express KCS to go public. Berkeley believes that following the firm's revelation others will become more comfortable about the prospect of outsourcing and those already doing it may go public.

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Market characteristics China & SEA

- **Weak corporate governance of companies (except foreign-owned)**
 - Large printing company in the Philippines with over 1000 staff did not have a financial director till 3 years ago
 - Local companies are family businesses
 - No idea of real profitability, waste, etc...
- **No sense of Return on Investment**
 - Investment is a purchase decision based on cash position
 - Short term potential, not long term gains
 - I have never seen a ROI been calculated in 7 years
 - Systematic underestimation of running costs
 - Labor cost is considered 0

Market characteristics China & SEA

- **Respect for intellectual property is very low**
 - Attitude to software: software you copy
 - Adobe did not bring out Illustrator 10 as they did not see a business case
- **High need for training & support**
 - Professional education in packaging is picking up
- **In China most of the successful development is due to foreign investment**
 - Hong Kong and Taiwanese companies
 - Western companies
- **Chinese printing equipment appears in the world market**

Market characteristics China & SEA

- **High increase in packaging production**
 - Packaging follows the product manufacturing
 - Strength in disciplined repetitive execution of the same manufacturing process, with large numbers of inexpensive workers
- **Excellent quality packaging**
 - Demand for quality graphics is growing

Market characteristics China & SEA

- **Flexo market is growing but is very small**

- Flexo = **corrugated** (high-end is printed offset)
- Flexo = low quality
- Gravure is dominant for **flexible packaging**
 - Largest engraving company in the world, Yuncheng-group owns ... > **400 engravers in China alone**
- Flexo makes inroads in narrow **web (labels)**, but still primarily letterpress
 - For every 1 new imported flexo press, there are still 3 imported new letterpress presses, not counting local brands
- Offset is dominant for **folding carton and paper labels**

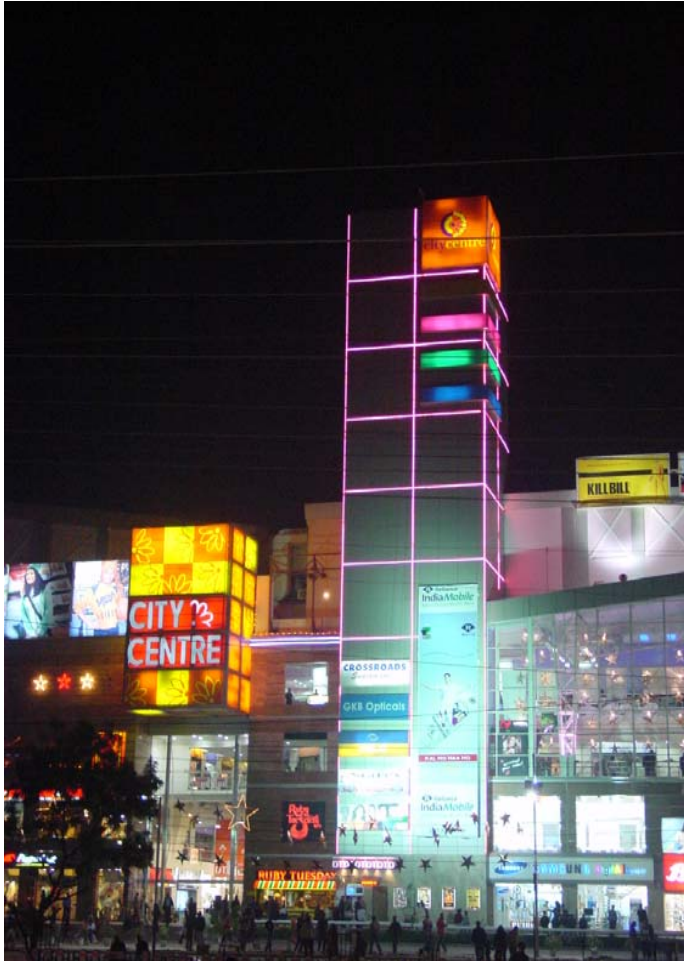
Market characteristics India

- **Still very high import duties**
 - Burden for companies to develop
 - Except software industry (used to be 0%, now 5%)
- **Better respect for intellectual property**
 - Software is a business – better respect for legality (illegal copies also exist !)
 - Indian companies make a lot of money from software
 - Legal system in place to protect
- **Good corporate governance of companies**
 - VAT introduced 1 April 2006 (not all states)
 - Depreciation rules adapted to international standards

Market characteristics – India

- **Local packaging manufacturing is far behind**
 - Corrugated packaging is medieval
- **Supermarkets are very recent but growing rapidly**
 - Early 2004 only 4 in whole Bombay

Shopping centre in Bombay in 2004 – only 4 open then



Market characteristics India

- **Only a few quality flexo printers**
 - Flexible packaging is gravure
- **Flexo market is now growing due to local market growth**
 - 8 digital flexo units have gone in in last 15 months
 - Several wide-web presses are going in
 - Narrow-web market expansion, several high-end flexo presses have gone in

Market characteristics India

- **Indian companies are acquiring packaging producers in the west**
 - Essel Propack has a number of companies in US, UK, China and Egypt and is now the biggest tube producer in the world
- **The countries (Sri Lanka, Pakistan, Bangladesh) around India represent another 300 million people and consumers and a another potential for the future**

Flexo market situation

- Flexo = low quality
- Lack of know how and skilled staff is the most important limitation for the growth of flexo
- Competitive technologies are well established & competitive
- Environmental considerations are not yet considered

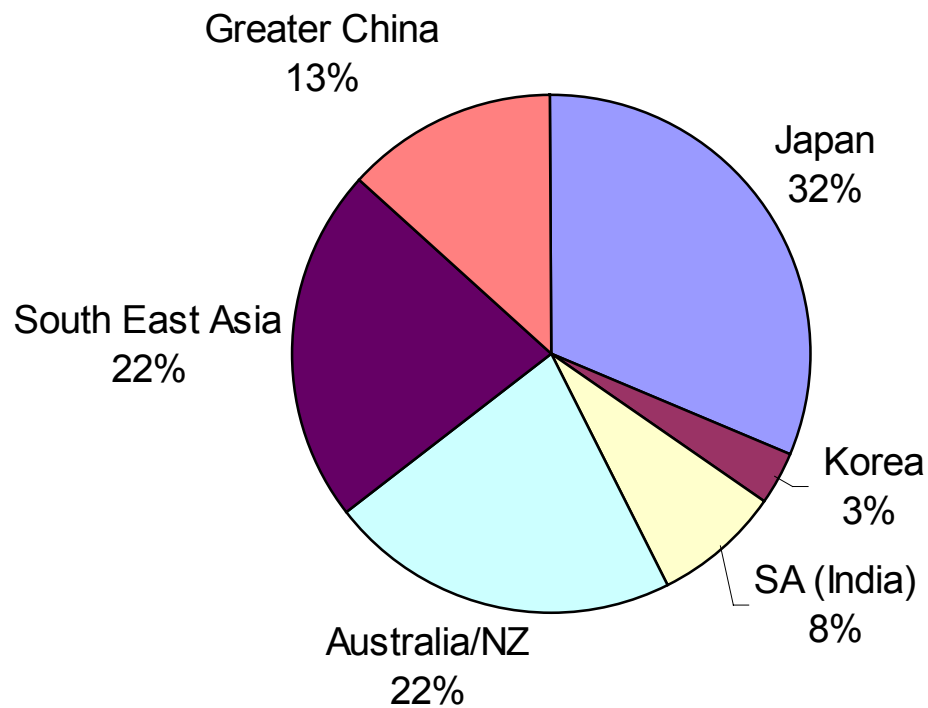
Flexo market situation

- Corrugated = flexo (liquid plates have recently gained market share)
- Flexible packaging = gravure
- Folding carton = offset
- Labels = letterpress

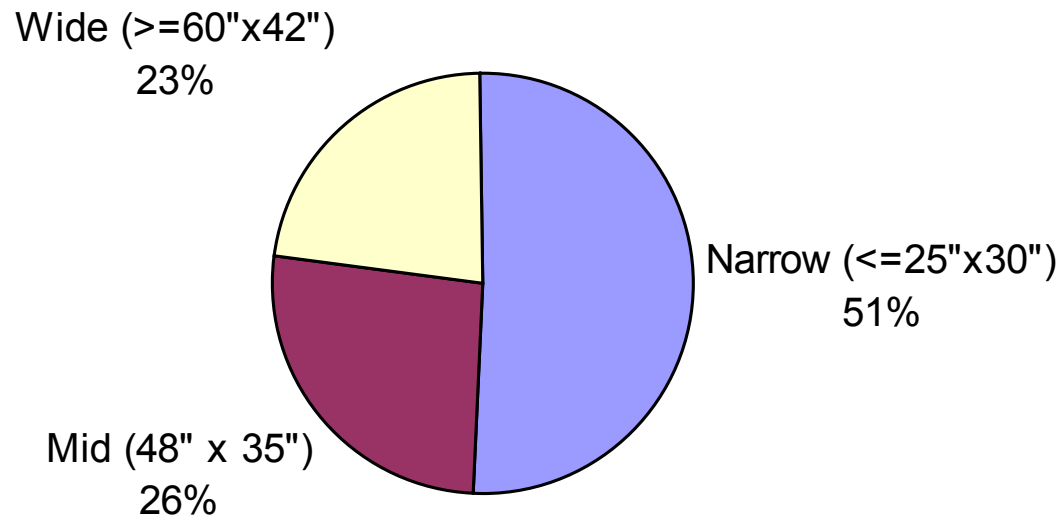
Flexo market situation

- Around 125 CtP units installed in ASP (incl. Japan & Australia / New Zealand)
- South East Asia has mainly in-house CtP (Philippines 9 units!)
- China, India, Japan & other countries: tradeshop mainly (except label and narrow web market)

Digital Flexo in Asia



Digital Flexo in Asia



Where are the opportunities ?

- **Keep an open mind to this trend, look at it as an opportunity**
 - “If you cannot beat them, join them”
 - Instead of letting your customer take away your business to someone else there, take your customer’s business there
- **If you need to follow your customer to China**
 - Look at local partners that can manufacture for you
 - Take proper advise, go slow
 - Based on your specs and requirements
 - Keep your faith in your own hands
 - ❖ Own the company, no JV (China)
 - ❖ Qualify the partners properly

Where are the opportunities ?

- **If you are looking to outsource some of your repetitive pre-press or design work**
 - Look for BPO company in India
 - Make sure you have the right infrastructure
 - Study carefully, go slow
 - Less pitfalls then in China

Conclusion

- **China = Manufacturing / India = Design and Service**
- **Look at the market there to expand your business**
 - What your customer buys from you in North America will interest him in China and India
 - There is also a huge emerging local market to capture
- **Flexo is under-developed; there is an opportunity to develop it**