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Current state of Chinese direct mail industry

Jinkai Qian

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Current State of Chinese Direct Mail Industry

By Jinkai Qian

A thesis submitted in partial fulfillment of the requirements
for the degree of Master of Science
in the School of Media Science
in the College of Imaging Arts and Sciences
of the Rochester Institute of Technology

Rochester Institute of Technology
Rochester, NY
August 6, 2013
Committee of Approval:

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Abstract

Indicated by the Direct Marketing Association (DMA), direct mail marketing expenditures in the USA were nearly $61.3 billion USD in 2008, which was much higher than that of China’s $1.57 billion USD in the same time period (Chinese Graphic Arts Net).

Direct mail products---as defined by DMA---include catalogs, letters, brochures, pamphlets, circulars and preprinted inserts, video and audiotapes, diskettes, promotional items and communications sent through the mail or other delivery services. In order to better understand the state of direct mail in China, the researcher conducted six detailed interviews with five Chinese printers and one advertising agency.

The result showed that with the purchase of digital presses, four of the five printing companies are capable of producing all levels of customized direct mail from versioning to highly personalized print. But all of them indicated that digital printing only occupies very limited portion of their annual production output. However, some printing companies interviewed regarded direct mail as one of their major products, which
generate most of their revenue. Moreover, their direct mail job volumes are quite stable mostly due to long-term cooperation with same group of customers, such as banks and publishers. But according to the ad agency interviewed, the usage of direct mail decreased noticeably in recent times due to the emerging and growing E-marketing channels like social media. In addition, most clients of that ads agency have specific marketing plans, which are based on marketing budget, return on investment (ROI) and creativity, therefore its challenging to persuade clients to utilize direct mail because of its high production cost.

The researcher concluded that the three most challenging obstacles that Chinese direct mail industry is facing are:

- **Obtaining quality customer data**
- **Competition with other advertising media**
- **Cost of digital printing and postage**
Chapter 1

Introduction and Statement of the Problem

After its heyday in 1995, the U.S. printing industry met its Waterloo. As indicated in research conducted by Frank and David Broudy (2009), the quantity of US printing companies has been decreasing since 1995. Romano and Broudy projected that the industry will be drop to half of its size in 2015 as compared with 1995 (see Table 1).

Table 1. Size of U.S. printing industry from 1995-2015 (Broudy, D., & Romano, F.)

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1995</td>
</tr>
<tr>
<td>Commercial Printing</td>
<td>45,763</td>
</tr>
<tr>
<td>Form, Label &amp; Tag Printing</td>
<td>2,278</td>
</tr>
<tr>
<td>Other Printing (Greeting Cards, Packaging, etc.)</td>
<td>3,170</td>
</tr>
<tr>
<td>Trade Service</td>
<td>9,600</td>
</tr>
<tr>
<td>U.S. Printing Industry</td>
<td>60,811</td>
</tr>
<tr>
<td>Other Services (Direct Mail, Copies, etc.)</td>
<td>30,511</td>
</tr>
<tr>
<td>Print Universe</td>
<td>91,322</td>
</tr>
</tbody>
</table>
Moreover, the U.S. printing industrial output has fallen in recent years (see Figure 1). Output dropped 21% in 2011 when compared to output in 2008, from $1,248.6 million USD to $985.7 US million USD (Euromonitor, 2012). However, direct mail seems to be one of the industry’s bright spots. According to the DMA (2009), U.S. direct mail spending was approximately $61.3 billion USD in 2008. Additionally, direct mail advertising represented 52% of total U.S. mail volume (DMA & USPS, 2010). It is obvious that the direct mail industry has a significant effect on the U.S. printing industry.

Figure 1. U.S. Printing Industry Output in US Dollar millions (Euromonitor, 2012)

Compared to the U.S., the printing industrial output of China has enjoyed a consecutive increase from $14,604.5 million USD in 2006 to $18,976.3 million USD in 2011 (see
Figure 2; Euromonitor, 2012). In 2007, Wei claimed that the printing industry was emerging to be one of the most significant industries in China, as it represented 2% of China’s Gross Domestic Product (GDP). Within the growing digital printing industry, how is the Chinese direct mail industry operating? Does it positively or negatively contribute to the Chinese printing industry? Much research has been conducted on direct mail printing in United States, but in China---one of the largest printing markets in the world---very little research has been conducted on this topic.
**Reason for Interest in the Study**

China encompasses the largest population around the globe, with approximately 1.3 billion people. Does its large population result in an exceptional marketing opportunity for printers? As an initial investigation into the state of the Chinese direct mail market, the researcher compared the value of direct mail expenditure per capital in the United States and in China for 2008. According to the Direct Marketing Association (DMA, 2009), U.S. direct mail spending was approximately $61.3 billion dollars in 2008 for a population of 305 million. This represents $201 spent on direct mail advertising per person. In comparison, the Chinese Graphic Arts Net (2010) states that approximately CHN ¥10 billion RMB (USD $1.57 billion; US $1 ≈ CHN ¥6.38) was spent on direct mail in 2008 for a population of 1.33 billion. Thus, Chinese direct mail spending per person was only about $1.20, which represents a difference of almost $219 per person. If spending on direct mail in China were to increase to the same level per person as in the U.S., the potential market would be $267.33 billion USD. This incredible result is a primary reason for the researcher’s interest in gaining a thorough understanding of the direct mail opportunity in China.
Chapter 2

Literature Review

From a marketer’s perspective, to maximize ROI (Return On Investment) one must evaluate and choose the best marketing mix for different products or services. By comparing the advantages and disadvantages of mass marketing with that of niche marketing, marketers are able to decide which tactic will be the most effective for a specific endeavor.

Direct mail is a type of direct marketing strategy categorized under niche marketing, in which personalized printed materials are delivered directly to a potential customer’s mailbox (see Table 2). Due to the ability to directly reach a target audience, direct mail is often utilized as a component for multi-channel marketing campaigns, such as political campaigns. ExactTarget’s 2009 Channel Preference Study indicated that direct mail directly influences customer’s purchasing behavior, no matter young and old, exceeding any other marketing channel (p.7). Semba (2008) also indicates that the response rate of direct mail lifted about 500% after displaying visuals based on behavioral information
gathered about individual customers (p.26-27), which indicates that higher levels of personalization for direct mail will likely result in increased response rates.

Table 2. Advantages and disadvantages of mass marketing and niche marketing (WJEC, 2007)

<table>
<thead>
<tr>
<th></th>
<th>Mass Marketing</th>
<th>Niche Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advantages</strong></td>
<td>• Maximizes potential income: if one sector declines, this is likely to be</td>
<td>• Lower initial costs, especially for advertising.</td>
</tr>
<tr>
<td></td>
<td>compensated for by growth in other sectors.</td>
<td>• Able to concentrate on corporate strengths: products can be developed based</td>
</tr>
<tr>
<td></td>
<td>• Allows reduction in average costs through economics of scale.</td>
<td>on what the business is good at, and then a niche can be targeted.</td>
</tr>
<tr>
<td></td>
<td>• Allows brands to be used to their full value.</td>
<td>• Competition may ignore the niche, either because of lack of awareness or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>because it is too small for large firms to focus on.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Firms can gain expert knowledge of the niche, thereby giving them a real</td>
</tr>
<tr>
<td></td>
<td></td>
<td>advantage over potential competitors.</td>
</tr>
<tr>
<td><strong>Disadvantages</strong></td>
<td>• Heavy advertising costs to establish brands and keep them in the public eye.</td>
<td>• Market niches can disappear as a result of changes in economic conditions,</td>
</tr>
<tr>
<td></td>
<td>• High development costs of products.</td>
<td>fashions or tastes.</td>
</tr>
<tr>
<td></td>
<td>• Competition is often fierce.</td>
<td>• Mass market firms can target the niche if it grows in value or size – small</td>
</tr>
<tr>
<td></td>
<td>• Companies must be market-oriented, which brings high innovation and market</td>
<td>firms may find this competition impossible to deal with.</td>
</tr>
<tr>
<td></td>
<td>research costs.</td>
<td>• Niches are not always neat little market sectors. They may be spread out</td>
</tr>
<tr>
<td></td>
<td></td>
<td>geographically or in other ways, making targeting and promotion difficult</td>
</tr>
<tr>
<td></td>
<td></td>
<td>or expensive.</td>
</tr>
</tbody>
</table>
Current State of U.S. Direct Mail Industry

Spending on direct marketing in the U.S. grew 5.6% to $163 billion in 2011, and accounted for 52.1% of total advertising spending. This trend was expected to continue through 2016 (DMA, 2011). Also, as stated in The Power of Direct Marketing report (DMA, 2010), in 2010, each dollar spent on direct mail brought $12.57 in revenue. Thus, direct mail is a profitable and efficient strategy for marketing. In addition, there are many U.S. print service providers who offer static or personalized direct mail solutions. Therefore, direct mail marketing has a strong influence on the success of the U.S. printing industry.

In 2010, the United States Postal Service projected a volume of 166 billion mailed pieces. At that time, the average consumer received 24.7 pieces of mail per week, and direct-mail advertising represented 52% of total mail volume in the United States (DMA & USPS, 2010). However, Figure 3 shows that U.S. marketers began to tighten their marketing budget in direct mail since 2008.
A 2013 marketing trend report from StrongMail indicated that among 1,002 business leaders in the U.S., e-mail marketing, social media and mobile continue to be the top areas of advertising investment. Additionally, 37.4% of the respondents claimed that they will decrease spending on direct mail in the coming year (see Figure 4). Alternatively, a study, conducted by Epsilon Targeting in December 2012 entitled Channel Preference for Both the Mobile and Non-Mobile Consumer, found that direct mail was consumers’ preferred means for receiving certain kinds of marketing messages (see Figure 5).
Figure 4. Planned decreases in spending for 2013 by media type (StrongMail, 2013)
Therefore, judging from previous figures, it is quite obvious that U.S. direct mail industry was fully developed and is expected to decrease slightly in the next few years.

### Overview of Chinese Economy and Printing Industry

China’s economy is one of the fastest-growing economies in the world. As seen in Table 3, China’s GDP growth in 2008 was 29.4% ($4,521.8 billions) from 2007. The GDP value in 2009 was almost two times higher than the value in 2006 (Euromonitor International, 2010). The population of China in 2010 was about 1.33 billion, and has been growing at a rate of 0.5% per year.
Economic growth and poverty alleviation are the top priorities of the Chinese government, while the one child policy continues to significantly influence the population structure of China. In 2009, GNI per capita was USD $3,744 at purchasing power parity, which represents a steady increase over the few years prior. Additionally, consumer expenditures between 2006 and 2010 increased from $821.0 to $1372.1 billion USD (World Bank Group, 2012).

Table 2. Chinese market size measures (Euromonitor International, 2010; World Bank Group, 2010b)

<table>
<thead>
<tr>
<th>Measure</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (millions) as of January 1st</td>
<td>1,307.6</td>
<td>1,314.5</td>
<td>1,321.3</td>
<td>1,328.0</td>
<td>1,334.4</td>
</tr>
<tr>
<td>Population growth rate</td>
<td>0.56%</td>
<td>0.52%</td>
<td>0.51%</td>
<td>0.50%</td>
<td>0.46%</td>
</tr>
<tr>
<td>Urban population</td>
<td>562.1</td>
<td>577.1</td>
<td>593.8</td>
<td>606.7</td>
<td>621.7</td>
</tr>
<tr>
<td>GDP (USD billions)</td>
<td>2,713.0</td>
<td>3,494.1</td>
<td>4,521.8</td>
<td>4,985.5</td>
<td>N/A</td>
</tr>
</tbody>
</table>

In 2010, the total manufacturing production of China was $10,159,469.5 million USD. Printing represented 0.17% of this total ($16,723 million USD). When compared to 2005 numbers, Chinese printing production increased 49.6% (see Figure 6).
Geographically, China’s printing industry is seated in three distinct clusters, with the Pearl River Delta, Yangtze River Delta, and Bohai Sea as the regional centers. Each region has its own advantages, and each is expected to continue to grow in its respective circle of influence. Printing companies in other regions of the country—particularly West China, Central China, and Northeast China—still lag far behind. (Stanley & Frank, 2007)

In 2007, Wei indicated that “…through years of progressing, the printing industry is evolving to be one of the most important industries in China,” which represented 2% of Chinese GDP. With the utilization and perfection of information technologies, digital
printing is now the latest trend in the Chinese printing industry, with a 66% increase in production since 2007. Today Shanghai is home to some of the most prosperous digital printing companies in China. These companies began to emerge in 1998, resulting firms such as Tongking Digital, Guangyi Graphic Arts, Daqi Graphic Arts, and FedEx Kinko's.

As mentioned previously, most Chinese printing companies are located in three distinct regions. These regions are near to the three most prosperous cities in China, which also represent half of the country’s total population: Guangdong, Shanghai, and Hong Kong. Taking the comparatively low cost of labor in China into consider, most small-and mid-sized printing service providers prefer labor intensive production instead of purchasing advanced presses with increased automation to replace the human force. Some large printing companies have recognized that advanced printing presses can attract more types of print jobs and profits, thereby increasing potential profits. JieLong Group and Shanghai Colorful Digital Press Co., Ltd. are among these early adopters of the latest technologies.

**Chinese Advertising Industry**

Nielsen Advertising Information (2009) revealed that the three most influential mainstream medias in China are television (representing 85% of annual advertisement expenditure), newspapers (13%), and magazines (2%). In 2009, more than 597 billion RMB (approximately $87 billion USD) were spent for advertising on/in television,
printed materials (newspapers and magazines), and the Internet. When considering the huge population and different economic conditions throughout China, it is no surprise that marketers currently prefer to use mass marketing strategies to reach as many consumer as possible, thereby maximizing brand exposure and awareness, namely, niche marketing strategies as discussed in Table 2 are not fully utilized compared to mass marketing ones.

Initially, direct mail products in China could only be produced using traditional printing methods. With the birth and market adoption of digital printing equipment, personalization can now be accomplished by latest technologies, such as variable data and print on demand, to market based on the customer’s preferences. With these new technologies, the direct mail market can provide Chinese print service providers with increased opportunities for business growth. In this case, the printing industry could influence the development of the direct mail market in China.

According to the latest resource the researcher could found that Chinese Graphic Arts Net revealed, in 2008, direct mail in China had an annual expenditure of approximately 10 billion RMB (approximately $1.59 billion USD). When compared to the $61.3 billion in U.S. direct mail spending in 2008, the Chinese direct mail market is obviously undeveloped. Also in 2008, the average amount of direct mail received by Chinese residents equated to less than eight pieces per year, compared to the 700 pieces of direct mail a U.S. resident receives every year (Zhao, 2009).
In 2010, Huicong, a website focus on Chinese printing industry, claimed that direct mail strategies are currently only used in a few modern cities, for example Shanghai, Shenzhen, and Hong Kong, where the infrastructure is comparatively well-developed. For example, many printing plants in Shanghai provide fully developed direct mail services, ranging from supermarket coupons and monthly billing statement inserts to personalized promotional materials. Some companies even provide highly personalized direct mail solutions. In effect, direct mail exists in every corner of this city.

In 1998, McDonald indicated that the most usage of direct mail is for gathering information on a defined locale. In 2009, Zhao stated that the China Post Office, hand delivery, newspaper and magazine inserts, and monthly billing statements are the most common ways direct mail is distributed. Until recently, very limited Chinese firms owned comprehensive customer databases and mailing lists. Systematic collaboration does not exist among direct mail related entities, and the quantity of data mining companies in China is minimal. With the exception of the China Post Office, there are no large companies that provide data-mining services (Zhao, 2009). Until now, in 2013, the researcher could only find a handful of companies that provided those services to public in China. Also, as reported by Hong and Zhiqiang (2007), the Chinese direct mail industry was and perhaps is still facing several challenges, such as:
• **Cultural acceptance of direct mail marketing:** Different cultures and economic backgrounds have different understandings of direct mail. Also, due to the considerably high production cost of direct mail, not only clients but also business agencies find it difficult to choose as a media channel.

• **Competition with the Internet:** Because of the Internet’s easy access to information, faster and more distribution channels, and lower advertising costs, people increasingly rely on the Internet to search for products instead of using traditional printed advertisements.

• **Compliance with government regulations:** Customers’ personal information is the premise of personalized direct mail. However, current government regulations restrict the gathering of this data. Therefore, without a precise database, accurate distribution cannot be achieved, which has restricted the progress of Chinese direct mail industry.

**Summary**

The direct mail industry in China has much room for improvement when compared to the U.S. This is due to restrictions in business strategy, differences in culture, minimal awareness, strict government regulations, and technical issues. With the expansion of China’s economy and new developments in digital printing technologies, will the Chinese
direct mail industry have as prosperous of a future as the industry does in the USA? This is the key question behind this research project.
Chapter 3

Research Questions

This study is designed to observe the opportunities for direct mail in China. This is an exploratory research project, and therefore there is no hypothesis to be accepted or rejected using any statistical data analysis. The researcher conducted several detailed interviews with Chinese print service providers and one established advertising agency to gain an understanding of the state of the Chinese direct mail industry and what this means to Chinese printers.

Key research questions included:

• What types of direct mail do Chinese printing companies print?
• How is digital printing used in personalized direct mail production? And to what level?
• What is the percentage of total revenue generated from direct mail services?
• Is the demand for direct mail expected to increase or decrease in coming years?
• When does an advertising agency suggest direct mail marketing to their clients, and what influences this decision?
• What challenges is Chinese direct mail industry facing?
Chapter 4

Methodology

A qualitative analysis on the current state of the Chinese direct mail industry was done by conducting a total of six personal interviews.

Respondents (Sample)

The target respondents for this survey were managers or supervisors from five different Chinese printing companies and a well-known international advertising agency office all located in or near to Shanghai. With personal relationships in related industries, the researcher invited five printing companies and three advertising agencies to gain the data needed for this research. And all of the five printing companies accepted researcher’s invitation and only one ad agency was able to join the research. The interviewees are as follows:
**Shengyuan Printing:** A printing company located in Hangzhou that specializes in newspaper printing. Shengyuan is a government-owned, versatile printing company that provides both digital and traditional printing solutions to satisfy customer’s demand.

**Qingfeng Printing Co., Ltd.:** Qingfeng is located in KunShan, a city close to Shanghai. As one of the largest privately owned printing companies in east China, Qingfeng is capable of all kinds of printing, such as direct mail pieces, paper cups and packaging.

**C&C Joint Printing Co., (H.K.) Ltd. (C&C):** C&C is one of the outstanding international printers located in Hong Kong, China. Started in Shanghai, C&C now owns seven production sites in China and several global offices, including New York, Chicago, France, Japan, U.K. and Australia.

**Shanghai Printing Group Co., Ltd. (SPGC):** SPGC is the largest printing company of the five companies interviewed in terms of number of employees and square footage. As a government-owned company, SPGC owns the most cutting-edge presses and has significant expertise within the Chinese printing industry.

**Shanghai Hengchen Printing Factory:** Hengchen is a collective enterprise printing company that dedicates itself to serving the Industrial and Commercial Bank of China Limited (ICBC). Therefore, the major products of Hengchen are pre-printed materials such as statements and bills.
**Ogilvy & Mather (Shanghai Site):** Ogilvy & Mather is a global advertising, marketing and public relations agency headquartered in Manhattan, New York. In 1984, David Ogilvy found the agency “Hewitt, Ogilvy, Benson, & Mather”---which become Ogilvy & Mather nowadays---with only two employees and no client. Today, Ogilvy & Mather has more than 450 offices in 169 cities worldwide.

**Interview Questions**

See Appendix A & B for two customized questionnaires about company size, revenue, product and other services for printing companies and ad agency separately for obtaining their perspectives on direct mail as manufacturer and buyer.

**Procedure**

The data were collected by in-person interviews with follow-up via e-mail for further inquiries. During the interviews, photos and videos were taken by the researcher.
Chapter 5

Results

The researcher interviewed the five print service providers and the advertising agency in 2011 and 2012, respectively. Detailed overviews of each respondent company are provided in the following paragraphs, and in the end of this chapter, the researcher included a synthesis of the responses of the five printing companies, such as their commonality and difference, as well as the ad agency.

Shengyuan Printing

Shengyuan Printing is located in Hangzhou, a famous tourism city in China, which is near Shanghai (Figure 7). The gross floor area of Shengyuan’s footprint is 24,000 square meters, due to a corporate reorganization of two individual printing companies, previously known as Hangzhou Daily Press Group and Zhejiang Shengyuan printing. The Hangzhou Daily Press Group spent $15,674,000 USD on the reorganization to build a modern printing company. Shengyuan’s major activity is newspaper printing, with direct mail, annual reports and magazine printings also included as a part of their daily jobs.
This interview was conducted with Miss Zhang, the director of sales and procurement department.

Shengyuan Printing owns three production sites and one digital image-processing site, which represents the largest professional printing service department in Hangzhou. In addition, Shengyuan recently partnered with other companies to establish three additional branches in Nanjing, Shanghai and Ningbo. Furthermore, the company maintains several business offices in Beijing, Shanghai, Ningbo, Fujian and Nanjing.
In 2004, Zhejiang Shengyuan started its commercial printing business. To satisfy the growing need for commercial printing, Shengyuan has continued to purchase high-quality printing presses over the years. In 2009, Shengyuan’s digital image processing site was launched to serve advertising companies, design universities, design companies and households in need of personalized printing in Hangzhou.

Zhang indicated that the major customers of Shengyuan are newspaper publishers, such as the Guangming Daily, China Economic Times, Wuxi Daily and Da Zhong Health (see Figure 8). Additionally, Shengyuan serves magazine publishers, supermarket and B2C companies. In summary, the major printing products Shengyuan provides are all kinds of newspapers, magazines, and direct mail pieces (see Figures 9 and 10).
Figure 8. Newspapers printed by Shengyuan (2012)

Figure 9. Magazines printed by Shengyuan (2012)
Moreover, the products Shengyuan provides can be divided into two categories: conventional printing and digital printing. The digital printing products include variable data direct mail, portfolios, photo books, internal corporate reports and calendars. The conventional printing products include newspapers, internal corporate newspapers, direct mail and magazines.

To date, Shengyuan has more than 600 employees with construction area of 24,000 square meters. The total annual revenue of Shengyuan in 2010 was approximately USD $84,639,000, with a 5%-10% net profit. The percentage of annual revenue generated by providing direct mail printing services depended on the company’s annual production plan. Because of this, it was hard to determine the exact percentage of revenue from direct mail printing. But Zhang indicated that regardless of different production plan,
direct mail only represents a small percentage of total output and overall short run products are not in their priority list.

*Presses owned by Shengyuan*

- KBA Koenig & Bauer Comet 2/2 (web-fed)
- Man-Roland 5C sheet-fed R705
- Rapida R105-4 (4 units, sheet-fed)
- Two Man-Roland Uniset 60 (4 units)
- Two Man-Roland ROTOMAN (4 units, web-fed/sheet-fed)
- KBA Koenig & Bauer Colora 4/2 (rotary)
- Three Goss Universal 70 (4 units, rotary)
- Three Shanghai Goss M40 (rotary)
- HP Indigo 5500

Shengyuan can produce all levels of direct mail, from versioning to highly personalized print. As mentioned previously, Shengyuan owns an image processing site, which is dedicated to design and digital printing. Personalized direct mail printing for Shengyuan is still a niche market. Personalized direct mail customers include small companies, students, real estate agencies, design institutes and photographic studios. Although Shengyuan has purchased digital presses, they barely use them, except for some company reports, portfolios, and newspaper subscription cards (cards that are used as gift cards to
receive newspapers), due to a lack of demand and a lack of skillful operators (see Figure 11).

Figure 11. Variable data printing (newspaper cards) produced by Shengyuan (2012)

Hence, the “short run” market is in its infancy for them, and Shengyuan has yet to deem it as a top priority. The interviewee believed that the digital market would become a new trend for the Chinese printing market, but that the company would need to create a thorough business plan for this market before taking any business activity.

In addition to printing services, Shengyuan also provides value-added services, such as pre-press and design, data asset management, inventory, digital proofing, finishing, assembly and distribution.
Kunshan Qingfeng Printing Co., Ltd was established in 1990 as a privately owned printing company, and is located in Kunshan, China (Figure 13). The size of Shengyuan’s footprint is 25,000 square meters. The company has one production site in Kunshan, and a design office in Shanghai. Judging from the information provided by Mr. Wang, the owner of Qingfeng, the researcher generated a chart to illustrate Qingfeng’s business structure (see Figure 12).

The annual revenue of Qingfeng is approximately $23,511,000 USD, and its profit margin varies between 5-10%. Qingfeng specializes in design, plate making, printing, packaging, assembly and distribution. Its products include books, magazines, packaging, paper bags, catalogues, ad sheets, POS consumables, receipts, bank statements, posters, stand banners, invitations, business cards, product manuals, shopping bags, notebooks, paper folders, product brochures and ATM paper rolls (see Figure 14).
Figure 12. Business structure of Qingfeng

Figure 13. Exterior of Qingfeng main building and location on map (Quingfeng, 2012)
Regarded as one of the largest printers in east China, Qingfeng has more than 600 skilled employees, including 200 directors with sophisticated production experience and knowledge. Over the years, using the principles of “advanced technology, top quality, efficient management, and reliable reputation,” Qingfeng has been deemed as an AAA Credit Enterprise by the Suzhou Press and Publication Bureau and the Suzhou printing association.

*Presses owned by Qingfeng*

- Heidelberg Speedmaster XL 105 6+L
- Heidelberg Speedmaster CD 102-5
- Heidelberg Speedmaster SM 74-7
- Miyakoshi MVF-18D Rotary 10 Color Press
According to the CEO of Qingfeng, direct mail printing services has generated 30% of Qingfeng’s annual revenue over the last few years. After the purchase of several digital presses, Qingfeng is now capable of producing all kinds of variable data pieces, such as greeting cards, company financial reports, and all levels of personalized direct mail (see Figures 15 and 16). Qingfeng’s largest customers are various banks. Due to its high-quality, efficient service and excellent products, it established trade relations with The People's Bank of China, CBRC, Industrial and Commercial Bank of China, Agricultural Bank of China, China Construction Bank, Bank of China, Bank of Communications,
China Merchants Bank, China Everbright Bank, Standard Chartered, HSBC, Citi Bank, Deutsche Bank, Metlife, and the China Union Pay.

Although personalized direct mail printing has occupied a minor position in its manufacturing plan, Qingfeng has already realized that the personalized direct mail and digital printing market will increase in the near future.

Figure 15. Personalized booklet (cover) produced by Qingfeng (2012)

Figure 16. Personalized postcard produced by Qingfeng (2012)
In addition to printing services, Qingfeng also offers several value-added services, such as prepress and design, data asset management, inventory, digital proofing, finishing, assembly and distribution.

**C&C Joint Printing Co., (Shanghai) Ltd.**

C&C is one of the leading international printers headquartered in Hong Kong. The company enjoys a long history and a good reputation in the Chinese printing industry. C&C is a government-owned facility, with a special combination of practical experience and expertise since it was created from a merger of two famous printing companies in mainland China in 2008: the Zhonghua Book Company, with 95 years of history, and The Commercial Press, established 110 years prior. To date, C&C manages seven production branches in several cities, including Hong Kong, Guangdong, Shenzhen, and Shanghai. Additionally, C&C has numerous sales offices all over the world, including New York, Chicago, the U.K., France, Japan and Australia. The respondent of this interview was Mr. Cai, department manager of C&C.

**Presses owned by C&C**

- Heidelberg M-600 sheet-fed (4 units)
- Goss Sunday 2000 web-fed (2 x 4)
- Lithrone S40 sheet-fed (4 units)
- Komori LS-440 sheet-fed (4 unit)
- Man-Roland Rotoman web-fed (2 x 4)
- Goss M-600C web-fed (2 x 4)
- Komori LR-435 sheet-fed (4 unit)
- Roland R704-3B sheet-fed (4 units)

Figure 17. View of C&C main waiting area and map of location
The size of C&C’s Shanghai branch is 87,000 square meters, with more than 200 employees in this single branch (Figure 17). According to the manager of C&C Shanghai, its average annual revenue is $470,220,000 USD, and its profit margin is consistently above 5%.

Through its long history of printing, C&C has developed the capabilities to perform a wide variety of print jobs, including book printing, commercial printing, security printing, packaging printing, web printing, variable data printing and card printing. Moreover, C&C uses an integrated production workflow, from prepress to post-press. To improve quality and productivity, C&C constantly updates its printing presses and applies modern management strategies.

Main Products

Publication and Commercial Printing

The publication and commercial printing section is one of the two main production modules and is composed of several companies. C&C Offset Printing Co., Ltd, located in Tai Po, Hong Kong, is the sales headquarters for Hong Kong and overseas business. This division takes care of the marketing and sales responsibilities, providing support to both local and international customers. C &C Offset also has established several offices in other countries to extend their service and business opportunities.
C&C Joint Printing Co., Ltd., located in Shenzhen, is the flagship production site of the group. The 40,000 square meters work floor area was built in two parts: Phase I in 1997 and Phase II in 1999. The addition of a web-fed printing center (which also has an area of 40,000 square meters) has helped C&C to reach new markets and provide new product lines.

C&C Beijing was established to fulfill the printing demands of a different region of China. To date, C&C Beijing has won awards in different printing contests, and applause from customers and the printing industry.

Moreover, in 2006, to extend its market and customer base, C&C set up a new production base in Shanghai, which is the economic center of China. C&C Joint Printing Co., Ltd. covers an area of 150,000 square meters, dedicated to production with networks covering three major economic regions of China.

As one of the largest publication and commercial printers, C&C specializes in printing books with all kinds of binding techniques, calendars, postcards, periodicals, magazines, packaging paper, catalogues and directories (see Figure 18). To meet the needs of personalized printing, C&C integrated a data asset management (DAM) system with advanced digital presses in order to produce all kinds of customized print, such as stock warrants, interest statements, annual/ financial reports, and certifications (see Figure 19).
Figure 18. Commercial printing products produced by C&C (2012)

Figure 19. Personalized products produced by C&C
Security Printing

Security printing is the other main business division of C&C. C&C was the first security printer in China to qualify for Certified Security Printer (CSP), which aims to provide security printers and their suppliers with well-established criteria to signify their compliance to a standard through a precise auditing process (INTERGRAF, 2011).

C&C’s security product line is very mature, and includes the printing of financial documents and confidential material, such as passports, checkbooks, passbooks, gift vouchers, cashier’s orders, lottery tickets, travel documents, annual reports, letters of credit, computer forms and promotion material. They also offer value-added services such as logistics services, data management, digital printing and direct mail.

In addition, C&C set up a card center in 1994 and purchased several advanced presses to print bank cards, telephone cards, medical cards and security labels. C&C is a certified supplier for credit card embossing, personalization and direct mail services for Visa and MasterCard. With the popularization of multi-purpose electronic money in China in 1999, C&C announced a chip-card production line with laser-engraving capability, which enabled the production of smart cards such as parking cards, prepaid telephone cards and Integrated Circuit (IC) cards.

In 2008, C&C won 830 awards worldwide, and almost reached the same mark in 2009 with 738 awards. The incorporation of high-quality special handicraft and fine finishing
effects has brought C&C many of these awards. It is worth mentioning that C&C is the first Asian printer to win Benny Awards from the Printing Industries of America for ten consecutive years.

Customers of C&C include publishers and businesses from all over the world. Customer products include all kinds of high-quality books, magazines, dictionaries and direct mail pieces. Since annual production plan varies from year to year, it was difficult to calculate the percentage of annual revenue generated from direct mail printing.

The presses C&C uses for direct mail printing are 2, 4, 5 and 6 color sheet-fed offset presses, and 8C web-fed offset presses. Currently, C&C only provides versioning for direct mail printing. C&C Shanghai’s manager stated “…digital printing is a new future trend of the Chinese printing industry. We at C&C will not heavily invest in this area in the next five years because it is still a niche market and conventional printing will still play a huge role for C&C.”

Value-added services are integrated into C&C’s entire workflow, with offerings such as pre-press, outsourced design, data asset management, inventory, digital proofing, finishing, assembly and outsourced distribution.
Although the company appears to be doing well financially, C&C is facing many challenges. The most disturbing challenge to C&C’s manager is the high cost of labor and consumables, due to enrollment in the Forest Stewardship Council (FSC).

**Shanghai Printing Group Co., Ltd**

Mr. Zhou, the assistant manager of Shanghai Printing Group Co., Ltd (SPGC), is the respondent of this interview. According to Zhou, SPGC is a government-owned company, which owns three brands:

- Zhonghua
- Commerce
- Xinhua

And nine production-oriented enterprises:

- Shanghai Xinhua Printing Co., Ltd
- Commercial Press Shanghai Screen Printing Factory
- Shanghai Commercial Bill Printing Co., Ltd
- Shanghai Zhonghua Printing Co., Ltd
- Shanghai Wenxin Media Printing Co., Ltd
- Shanghai No. 3 Printing Press (Card-making Center)
- Shanghai No.4 Printing Press (Security Printing)
- Shanghai Art Printing Press (Artwork High Simulation Production)
Shanghai Commercial Digital Printing Co., Ltd

Printing Presses owned by SPGC

- Heidelberg 4-color sheet-fed offset press
- Man-Roland 8-color commercial rotary offset press
- KODAK Nexpress S3000 color digital printer
- HP INDIGO 5500 color digital printer
- Spica 6-color offset press
- Double set 8-color offset press
- Spica 8-color commercial rotary offset press
- Goss 8-color commercial rotary offset press
- OCE VarioPrint 6250 digital printer
- Lithrone 6-color sheet-fed offset press
Shanghai used to be the biggest publication center and the birthland of the modern Chinese printing industry. Regardless of the prosperity of block printing during the Song and Yuan dynasties, large and modern local printing enterprises did not emerge in Shanghai until the launch of The Commercial Press in 1897 and Zhong Hua Books Co. Ltd in 1912 (Figure 20).

Through the ups and downs over the years, printing companies, which located in Shanghai, have obtained a large percentage of China’s total printing market. Since the establishment of the People’s Republic of China in 1949, people, especially Chinese citizens have witnessed magnificent changes for Shanghai’s printing industry by
adjustments and transformation, and thanks to the market reforms and opening up of China to the world economically starting from 1979.

The Shanghai Printing Group Co., Ltd was established in January 1995. Since 2005, the controlling shares of the group were transferred to Wenhui-Xinmin United Press Group and Shanghai Jin-win Investment Co., Ltd. Currently, SPGC owns fifteen holding companies as well as nine share-holding companies. SPGC headquartered in Shanghai, with a footprint of 200,000 square meters and a total of 1,591 employees.

SPGC is regarded as one of the most developed printing entities, which possesses the most sophisticated printing equipment and workflow in China, and is also one of the largest production and fulfillment oriented printer in east China.

The major products SPGC provides are books, periodicals, magazines, smart cards, bills, tickets, high-quality reproductions of artwork and commercial direct mail pieces (see Figure 21). SPGC’s largest customers are publishers, supermarkets and various companies. As Mr. Zhou indicated, about 50% of the annual revenue was generated from direct mail printing in recent years, although he refused to provide the average annual revenue of SPGC.
The Print-On-Demand (POD) business of SPGC includes business documents, family documents, scanning/printing/binding, variable data printing, innovation design, artwork copies and personal image services. Zhou stated that they do offer POD printing for various companies and organizations, but digital printing service offerings are still in the beginning state when compared to conventional printing services. SPGC hired a digital printing expert from India last year to head up future development in this area.

In addition to printing services, SPGC also provides value-added services, such as prepress, design, data asset management, digital proofing, finishing, assembly and outsourced distribution.
While browsing SPGC’s website, the researcher noted that SPGC has an online B2C store that provides personalized product printing services, including photo galleries, calendars, brochures, posters, stickers, photos, mugs, T-shirts, cards and badges. Figure 22 shows a visual representation of the workflow of SPGC’s online B2C store.

Figure 22. Web-to-Print workflow of SPGC’s online store
Shanghai Hengchen Printing Factory

According to Mr. Li, the factory directory of Shanghai Hengchen Printing Factory, Hengchen was launched in 1995, is located in Shanghai, and currently has a total of 82 employees (Figure 23). Hengchen is a collective enterprise printing company that serves the Industrial and Commercial Bank of China Limited (ICBC). Hengchen is dedicated to direct mail printing, and especially to transaction printing. The average annual revenue of Hengchen is $4,700,000 USD and its profit margin is about 10%. Direct mail printing provides 85% to 90% of annual revenue. As a transactional direct mail printer, Hengchen only provides preprint services: Hengchen prints the static part of the transaction material, and then sends the preprinted material back to ICBC for personalized information printing.

Presses owned by Hengchen

- Miyakoshi MSP-18 web-fed rotary (6 offset towers)
- TAIYO KIKAI TOF 8-color commercial rotary
- BEIREN J2108B Monochrome Sheet-fed
- BEIREN J2205 2-color sheet-fed
- Sakurai Oliver 2102EPII 2-color sheet-fed
According to Li, the company was able to increase production value without hiring new labor by updating their presses. Therefore, Hengchen decided to re-invest about $1,900,000 USD into new equipment such as advanced conventional presses and CTP machines. The company was able to complete this capital project while also increasing the average income of their employees by about 27% over the past five years.

As a transactional printer, Hengchen’s largest customer is ICBC, and its major products include preprinted bills, preprinted statements, credit card application forms, bank account application forms, and account instruction brochures (see Figure 24). Insurance agencies are Hengchen’s second largest customer, with products including company brochures, inserts and color documents.
In regards to personalized direct mail printing, Mr. Li stated that Hengchen only provided versioning services, such as different advertisements or information on the back page of transaction mail pieces dependent on demographics or locations (see Figure 25). In the coming years, Hengchen will most likely purchase new digital printing presses in order to provide more enhanced services and attract new business.
Figure 25. Versioning printing samples produced by Hengchen

Hengchen also offers value-added services, such as basic graphic design, data asset management (strictly monitored and required by ICBC) and finishing. Distribution is handled by ICBC.
Ogilvy & Mather (Shanghai Site)

David Ogilvy, who established the agency in 1984 that would become Ogilvy & Mather, started his business with only two staff members and no clients. Today, Ogilvy is one of the eight biggest advertising firms worldwide with more than 450 offices in 169 cities. Ogilvy set up offices in Hong Kong and Taipei in 1972 and 1985 and finally arrived on Mainland China in 1991. Today, Ogilvy is one of the most well known advertising agencies in China, with over 2,400 employees across 29 offices in 18 markets, covering from first- to third-tier cities in China. The interview was conducted with Mr. Ennis, the Associate Account Director of Ogilvy Shanghai.

Figure 26. Photographs of Ogilvy & Mather Shanghai office

Ogilvy Shanghai has more than 600 employees and provides various services, including ATL (AboveTheLine, TV commercials to print), PR (Public Relations), digital (customer relationship management, social media), activation, branding and research. Its clients are
from many different industries, and include IBM, Volkswagen, Motorola, IHG, UPS, Amex and Dupont.

Clients in the hospitality industry, B2B and banking are common users of direct mail marketing. The total usage of direct mail by those companies decreased for most companies in the last few years, with some increases for elite clientele. According to Ennis, most of Ogilvy Shanghai’s clients have specific plans for different media channels. Their decisions usually depend on three factors: advertising budget, ROI, and creativity. Ennis refused to reveal the annual media spend of Ogilvy Shanghai, but disclosed that direct mail represented less than 1% of the total media spend in the past few years. In addition, only 10% to 20% of their CRM (Customer Relationship Management) services were fulfilled by direct mail. Furthermore, Ogilvy only suggests that clients use direct mail for loyalty programs or creative purposes.

Ennis stated, “…it’s difficult to tell whether direct mail will become one of the most competitive advertising media, or even a commonly used medium in China in the coming five or ten years, but, judging from past experiences with direct mail, it’s really frustrating and demanding.” The researcher summarized several obstacles Ennis mentioned during the interview, which interfere with the growth and usage of direct mail:
• Design of direct mail

There are numerous excellent and dedicated designers who are capable of doing great website or graphic design. However it’s hard to find enough talent who could create interactive designs for direct mail pieces. Moreover, Chinese designers are increasingly familiar with digital media, which is a good thing since the entire design industry is going this way. However, it’s a fatal trend for traditional print media. According to Ennis, some great designers in Ogilvy Shanghai have a hard time when dealing with issues related to printing, such as bleeds or substrates.

• ROI of direct mail

Ennis believes that it is more difficult to track the ROI for direct mail than it is for digital media. Therefore, customers rarely request Ogilvy Shanghai to utilize direct mail in their advertising campaigns, and Ogilvy Shanghai rarely suggests the use of direct mail for this reason as well.

• Cost of direct mail

Judging from past experience with direct mail, Ennis concluded that the cost of producing direct mail pieces is extremely high in China. “Take my last experience with direct mail, for example,” said Ennis. “The whole advertising budget was seven million Chinese Yuan, and we decided to produce 30,000 unique paper boxes with personalized information. Since every paper box was different from
the others, we had to use digital printing. After negotiation with the print house, the unit cost of each box was thirty Chinese Yuan. This was the first time that I had this kind of opportunity in my career to use direct mail with a sufficient advertising budget.” In this example, the cost of direct mail printing nearly accounted for 1/7 of the total budget, which did not include the distribution and related expenses.

Synthesis

Five printing companies

The five Chinese printing companies were all located either in or close to Shanghai, which is an international metropolis and the economical capital of China. The companies ranged from small print houses to large enterprises. During the interviewing process, the researcher noticed that all five Chinese printing companies have very strong ties with their regular customers, such as advertisement agencies, banks, publishers or supermarkets. Some companies indicated that they realized that direct mail printing is being challenged by multimedia platforms, and some of their clients are lowering their budgets for printed direct mail in order to use these funds for e-marketing. The direct mail market essentially only exists in developed cities in China, and, therefore, the researcher believes that these five printing companies are able to provide a basic representation of the Chinese direct mail market.
Commonalities

Profit Margins

Profits ranged between 5 to 10% of total revenue.

Table 3. Profit margins of printing companies surveyed

<table>
<thead>
<tr>
<th>Category</th>
<th>Qingfeng</th>
<th>C &amp; C</th>
<th>SPGC</th>
<th>Shengyuan</th>
<th>Hengchen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual revenue (USD)</td>
<td>$23,511,000</td>
<td>$470,220,000</td>
<td>N/A</td>
<td>$84,639,000</td>
<td>$4,700,000</td>
</tr>
<tr>
<td>Profit margin</td>
<td>5-10%</td>
<td>5%</td>
<td>N/A</td>
<td>5-10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Production of Direct Mail

All kinds of imported offset printing presses were used in direct mail production (especially Heidelberg).

Table 4. Printing equipment used in direct mail production by company

<table>
<thead>
<tr>
<th>Question</th>
<th>Qingfeng</th>
<th>C&amp;C</th>
<th>SPGC</th>
<th>Shengyuan</th>
<th>Hengchen</th>
</tr>
</thead>
<tbody>
<tr>
<td>What type of equipment does your company utilize for direct mail printing?</td>
<td>Heidelberg speedmaster 6+1, B&amp;W digital press</td>
<td>2C, 4C, 5C and 6C sheet-fed offset presses, 8C web offset presses</td>
<td>Almost all presses</td>
<td>Man-Roland 5C Sheet-fed R705, RAPIDA R105-4, Man-Roland 5C Sheet-fed R705, RAPIDA R105-4, Man-Roland UNISET 60</td>
<td>All rotary presses</td>
</tr>
</tbody>
</table>
Four of the five companies own digital presses, and plan to put more investment into this area in the near future, since they all realized the attractiveness of digital printing.

**Value-added Service Offerings**

All of the companies offered value-added services (Table 6), including prepress and design, data asset management, digital proofs, finishing and assembly.

<table>
<thead>
<tr>
<th>Value added service</th>
<th>Qingfeng</th>
<th>C&amp;C</th>
<th>SPGC</th>
<th>Shengyuan</th>
<th>Hengchen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepress and design</td>
<td>Yes</td>
<td>Yes (Design outsourced)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Data asset management</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Inventory</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Digital Proofing</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Finishing and assembly</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes (majority)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Distribution</td>
<td>Yes; China Post (EMS)</td>
<td>Yes (Outsourced)</td>
<td>Yes (Outsourced)</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

**Challenges**

The challenges some companies were facing were the high cost of consumables and rising labor costs (Table 7).
Table 6. Challenges by company

<table>
<thead>
<tr>
<th></th>
<th>Qingfeng</th>
<th>C&amp;C</th>
<th>SPGC</th>
<th>Shengyuan</th>
<th>Hengchen</th>
</tr>
</thead>
<tbody>
<tr>
<td>High costs of</td>
<td>High labor and</td>
<td>N/A</td>
<td>N/A</td>
<td>Rising</td>
<td>Rising labor and</td>
</tr>
<tr>
<td>digital printing</td>
<td>digital printing costs</td>
<td></td>
<td></td>
<td>labor and</td>
<td>consumable costs</td>
</tr>
<tr>
<td>consumables</td>
<td></td>
<td></td>
<td></td>
<td>consumable</td>
<td>costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>costs</td>
<td></td>
</tr>
</tbody>
</table>

Differences

Current state of digital printing

Due to sufficient revenue from other areas of business, larger companies tended to have more advanced digital printing presses than smaller companies. Larger companies had separate digital departments and dedicated professional technicians, while small companies tried to train their staff to be versatile on all kinds of jobs and presses.

Companies like SPGC and C&C are large, government-owned entities with larger levels of capital investment. Therefore, they use advanced conventional presses and digital presses with skilled technicians, which has led to their specializing in high-quality and large quantity printing jobs. They are also able to obtain higher profits from international jobs that other smaller printers may not be asked to quote.
Proportion of direct mail jobs in annual production schedule

Some companies regarded direct mail pieces as their main products, while other companies regarded them as inconsequential products. This is reflected in the range of annual revenues from direct mail printing shown in Table 8.

Table 7. Percentage of annual revenue generated from direct mail printing by company

<table>
<thead>
<tr>
<th>Question</th>
<th>Qingfeng</th>
<th>C &amp; C</th>
<th>SPGC</th>
<th>Shengyuan</th>
<th>Hengchen</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the percentage of annual revenue generated by direct mail printing?</td>
<td>30%</td>
<td>Depends</td>
<td>50%</td>
<td>Depends</td>
<td>85%-90%</td>
</tr>
</tbody>
</table>

Development strategies for personalized direct mail printing

All of the companies interviewed indicated that they were considering an increased emphasis on digital printing through capital investment so that they could provide more personalized services to help satisfy the growing market. None of them could provide or was willing to provide the researcher with their detailed development strategies.

Ogilvy & Mather (Shanghai)

Ogilvy Shanghai is one of the most noted advertising agencies in China, which has established customers like IBM, UPS, Motorola and Intel. Ogilvy provides a wide range of services including advertising, public relations, digital/traditional marketing, branding and research. Through the interview, the researcher noticed that even though Ogilvy
Shanghai has enough resources in terms of talent, budget and social networking, direct mail is still not a major or even commonly used media in their advertising portfolio. This is due to the reasons discussed previously.
Chapter 6

Discussion

Summary

Through the interviews conducted with five printing companies and one advertising agency, the researcher concluded that banks, publishers, supermarkets, and advertising agencies are the major buyers of printed direct mail materials in China. Following are the key findings of this research:

- What types of direct mail do Chinese printing companies print?
  Among those five printing companies interviewed, they offer all kinds of direct mail printing services, such as newspaper inserts, calendars, transpromo, supermarket coupons, catalogues, etc.

- How is digital printing used in personalized direct mail production? And to what level?
  With the purchase of digital presses, four of the five companies are capable of producing all levels of customized direct mail prints from versioning to highly
personalized print, but all of them indicated that digital printing only occupies very limited portion of their annual production output.

• What is the percentage of total revenue generated from direct mail services? The percentage depends on companies different annual production plan. Some companies regarded direct mail as one of their major products, while others regarded it as inconsequential business activities.

• Is the demand for direct mail expected to increase or decrease in coming years? According to the printing companies, the production volume of direct mail remain about the same in the past few years since their customers are mostly very stable business entities, such as banks, newspaper and magazine publishers and government departments. In the advertising agency’s perspectives, the usage of direct mail decreased noticeably in recent years due to the emerging and growing of E-marketing channels, such as email and social media.

• When does an advertising agency suggest direct mail marketing to their clients, and what influences this decision? According to Ennis, most of their clients have specific marketing plan and media channel selection, their decisions based on three factors: marketing budget, return on investment (ROI) and creativity. And Ogilvy & Mather (Shanghai) only
suggests its customer to use direct mail for creativity purposes, since its high production cost and difficult track-of-effectiveness.

- What challenges is Chinese direct mail industry facing?

Through interviews with six companies, the researcher concluded three challenges Chinese direct mail industry is facing:

1. Obtaining quality customer data
2. Competition with other advertising media
3. Cost and development of digital printing

Discussion

Due to certain barriers—including the development of digital media, e-commerce and cash-oriented payments (no digital transaction record)—the growth of direct mail is not as rapid in China as it has been in the US. Certain advertising media, such as e-mail, online advertising or elevator advertising, have been more in vogue. Even with the introduction of digital printing into the Chinese printing industry, a minimal awareness of digital printing, a lack of skilled technicians and quality control, and the huge initial investment required to provide digital printing services are the major barriers to entry into this market for many Chinese printing service providers. Although some visionary Chinese printing enterprises have purchased digital presses, these devices are mostly used for proofing, with low commercial volumes (with the exception of some digital
transactional direct mail printing companies). From a direct mail buyer’s perspective, a lack of good database information, the high production costs of digital printing, a lack of dedicated talent at the ad agency level are issues that must be addressed in order to achieve success with direct mail marketing in China.

Taking into consideration the challenges discussed previously, the researcher believes that the low value of direct mail spending per person in China as compared to that in the US is not so unexpected.

**Challenges Facing the Chinese Direct Mail Industry**

There are several obstacles that the Chinese direct mail market must conquer to ensure a prosperous future.

*Obtaining quality customer data*

Due to cash-oriented payment preferences and very limited data mining companies in China, customer data is mostly collected by banks, the China Post Office and other government departments. This information is proprietary and not made available to the public in most cases. Therefore, reliable, detailed customer information is difficult to obtain in order to produce higher levels of personalized direct mail.
Competition with other advertising media

According to the advertising company interviewed, many Chinese marketers now prefer e-marketing strategies—such as direct e-mail and Internet marketing—due to its low cost, high response rate and ease of effective tracking. Although some methods—such as QR (Quick Response) code or PURL (Personal URL)—can be embedded to help to track the effectiveness of direct mail, competition between e-marketing and direct mail is severe around the globe.

Cost and development of digital printing

The key characteristics of direct mail are customized, short life span, and limited quantity, which makes it a great application for digital printing. However, digital printing is new to the Chinese printing industry, and the large initial investment, implementation of new workflows, hiring of experienced technicians and raising public awareness are challenges for many printing companies. These factors have hindered further investment in digital printing.

Limitations of the Study

Due to the small sample size and possible misrepresentation of company data during interviews, the researcher is not wholly confident that the results fully represent the
current state of the Chinese direct mail market and its relationship with the Chinese printing industry.

**Agenda for Further Research**

Suggestions for further studies on Chinese direct mail and its relationship to local printing service providers include the following:

- More surveys about Chinese printing companies located in different districts,
- Research on different Chinese advertising agencies to learn how they choose channels for marketing, and
- Interviews with dedicated Chinese digital printing companies.
Chapter 7

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Appendices

Appendix A: Question Sheet for Five Printing Companies

1. When was your company started? _________

2. What is the size of your company?
   Company location: _________
   Number of employees: _________
   Annual revenue: _________

3. What kind of printing machines does your company use for daily jobs?
   _____________________________________________________________

4. What are your printing activities?
   Major:
   Minor:
   [Postcard, textbook, package printing, envelop, photo Album, calendar, direct mail piece,
   special Printing (gilding, embossing, etc.), others]

5. Who are your customers? What kind of products do they want?
   _____________________________________________________________

6. What is the percentage of annual revenue generated by direct mail printing services?
7. Do you provide personalized direct mail printing service? If so, what kind?

- Versioning (Not personalized for each individual, but variations for groups, i.e. different version of cover for each town)
- Mail merge (Only name and/or address is variable)
- Transaction printing (business letters, such as for example a bank statement of financial report, created for each individual)
- Moderate personalized print (variable text and images based on consumer info)
- Highly personalized print [variable text, images, color and data based on consumer information (e.g. data based previous purchases, likelihood of point of purchase, demographics and consumer preferences)]

If not, why?

8. Which equipment does your company utilize for direct mail printing?

9. What kind of services do you provide? ____________________________

10. Is your company facing challenges with direct mail printing? If yes, what kind of challenges are your company facing? How will you solve these issues?
Appendix B: Question Sheet for Ogilvy & Mather

1. When did your agency start in the advertising business?

2. How many employees does your company have?

3. Does your company have offices other than this one? If yes, how many and where?

4. What is your company’s service portfolio?

5. Who are your customers that typically use direct mail?

6. Has their use of direct mail increased or decreased compared to the last few years?

7. How do your customers decide which platform to use for different campaigns?

8. When does your company suggest direct mail marketing for your customers?

9. What is the proportion of direct mail in your total media platform? What is the total media spend for the year for your customers?

10. What do you think of direct mail marketing and its usage in the future?