

A Re-Birth for a Hard Hit Wallpaper Industry?

Introduction

Wallpaper is included as a sub-segment within the broader wallcoverings term. The wallcoverings industry usually includes other applications that “cover the walls” in its definition, like interior paint, decorative wall tiles, and sometimes wall panels and fabrics for commercial and residential use. I.T. Strategies is not including these applications in our definition; we are focused strictly on wallpaper regardless of whether it is printed on paper, vinyl, or other substrates that are intended to cover a wall for decorative or protective purposes. We do include other segments produced by wallpaper manufacturers including murals, sidewalls, borders, and “peel and stick” appliques that are printed by wallpaper manufacturers. Applications like wall murals that are produced by print service providers/wide format print shops are not reported/counted under “wallpaper.”

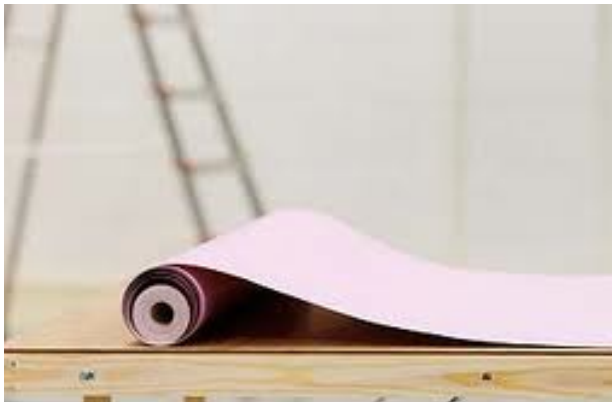


Figure 1 Roll of Wallpaper

Source: Google Images, 2013

The wallpaper industry, like many other housing-related markets, has been a casualty of the recent recession. But even before the recession, wallpaper became less appealing to consumers. Wallpaper was a popular choice in the 1980's, but demand in volume has slid down ever since. Ten years ago, when the wallpaper industry first became aware of digital printing, I.T. Strategies surveyed the core companies and individuals involved in the design and/or printing of wallcoverings. At that time there was little interest among wallcovering manufacturers as the cost of digital printing per square foot, limited print volume capability, and performance challenges (metamerism problems) did not seem sufficiently attractive enough to the traditional wallpaper manufacturers to make the investment into digital printing.

Fast-forward to 2012, and the wallcoverings market in the US that shrunk nearly 40% in revenues during the last decade is starting to reverse course. Retail wallcovering revenues are up 8% during the last 12 months. This re-birth is not the result of a surge in demand for more output volume, but rather a shift in demand to even lower volume

fast-forward to 2012, and the wallcoverings market in the US that shrunk nearly 70% in revenues during the last decade is starting to reverse course. Retail wallcovering revenues are up 8% during the last 12 months. This re-birth is not the result of a surge in demand for more output volume, but rather a shift in demand to even lower-volume, higher-value specialty wallcoverings. Wallpaper has become a specialty, a luxury item. Just like the general commercial print industry, the print manufacturing business models are shifting in favor of the small and nimble, the specialized and often digital printing wallcovering providers.

Market Sizing Overview

I.T. Strategies estimates the total 2012 US wallcoverings market to be valued at \$1.7B with a projected growth rate of up to 4% annually for each of the next 4 years. It is difficult to determine just how much of this amount is considered wallpaper only, but based upon our research the industry estimates that only 20% of the total US wallcoverings market is wallpaper that is printed on paper or vinyl for both consumer and residential applications. (Note the other 80% is estimated to include decorative tile, wall panels, and specialty woven wall fabrics/textiles/grasses). Using the assumption that indeed only 20% of the wallcoverings industry is wallpaper, this creates a US market generating about \$300-\$400M in printed wallpaper revenue.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | CAGR 2011-2016 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|
| Total US Wallcovering Market Value at Retail | \$1,620,000,000 | \$1,701,000,000 | \$1,769,040,000 | \$1,839,801,600 | \$1,913,393,664 | \$1,989,929,411 | 4% |
| US Wallpaper-only substrate volume (sq/ft) | 348,913,043 | 362,869,565 | 373,755,652 | 384,968,322 | 396,517,371 | 408,412,893 | 3% |
| Average US retail price/Square feet | \$0.92 | \$0.95 | \$0.98 | \$1.01 | \$1.04 | \$1.07 | |
| Total US Retail Revenue | \$321,000,000 | \$343,855,200 | \$364,795,982 | \$387,012,057 | \$410,581,091 | \$435,585,480 | 6% |

Figure 2 US Wallpaper Forecast, 2011-2016
Source: I.T. Strategies, Inc 2013

When looking at industry statistics, it is noteworthy that many organizations show the total cost of installing wallpaper. The cost of installed wallpaper varies wildly depending on location and type of wallpaper, but as a general rule of thumb the cost of wallpaper materials represents typically between 17-19% of the cost of professionally hung wallpaper. The cost of labor usually accounts for around 70% of the total cost of installed wallpaper, and supplies (including wall primer and paste) to hang the wallpaper accounts for another 8-12%. These industry figures often show the total size of the retail value of installed wallpaper, bringing the US market over \$1.6B in revenue for wallpaper alone and over \$9 billion for all wallcoverings including tile, wall panels, wovens, etc.

In context of other analog print markets the print volume opportunity is rather small for wallpaper. However, as it becomes more and more of a luxury good it is pushing into new markets that fit well with digital printing. The volume opportunity for digitally printed wallpaper may not be very high, but the margin is often better than posters and banners. In other words a print service provider can charge more for custom printed wallpaper than they can for a banner. Of course wallpaper needs to last longer (average industry life span of wallpaper is 15 years) than a banner and must be higher value—but these are both requirements digital hardware can handle.

Drivers: Specialty Markets/Designer Driven

The good news is the “DIY” (Do it Yourself) home design explosion driven by television shows and the publishing industry has helped to regain interest in wallpaper and market share among wallcovering options. The financials of the wallpaper industry seem to be steadily improving and experts expect to see significant annual growth for the next 5 years. Today the designs are driven by interior design icons (instead of wallpaper manufacturers/brands). Wallpaper can be an affordable means to impact the décor in ones home and the second most popular wallcovering, after paint. Today, television shows, magazines, and heavily trafficked blogs dedicated to interior design include specialty wallpapers and offer/promote affordable recommendations and how-to instructions making access to design easier than ever.

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In addition to external drivers, wallpaper manufacturers did not stand still—they set a crusade to change the consumers’ perceptions of wallpaper. Efforts included working internally with coatings and ink chemistries to make several industry innovations like making installation and removal easier and to allow the use of wallpaper in new markets. New primers have made removal of wallpaper “easy.” Originally wallpaper was extremely time consuming to remove. Many consumers thought the look of wallpaper was not worth the hours of scrapping, soaking and more scrapping. Wallpaper manufacturers listened to consumers and were successful in alleviating the pain of removal—even claiming full removal of an average size room in 15 minutes.

Wallpaper manufacturers have also focused on developing new markets—like the use of peel-and-stick removable wallpaper in dorm rooms or rental properties and decals for a child’s room. This is a low commitment, relatively low cost way to customize living spaces that would otherwise not allow a semi-permanent choice like wallpaper.

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