

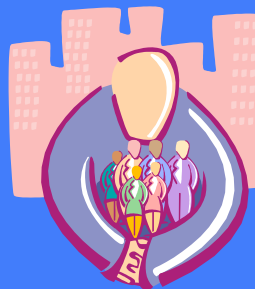
THE CASE FOR PAGE-BASED COMPENSATION

Lou Slawetsky
CEO
Industry Analysts, Inc.

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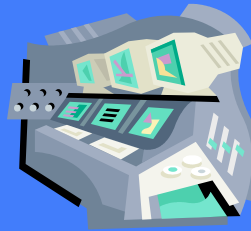
- Incorporated - 1973
- Locations
 - Rochester, New York
 - Fairfield, New Jersey
- Sales Training
- Market Research
- Product Testing



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INDUSTRY ANALYSTS, INC. Technical Services Division

- Confidential Product Testing
- Competitive Benchmarking
- Supplies and Parts Certification
- Network Compatibility Testing
- Productivity Analysis



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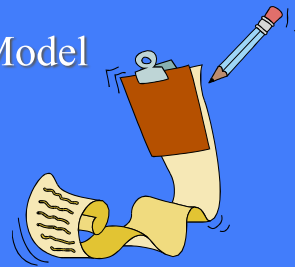
- *The Office Products Analyst*
- *The Used Copier Report*
- *Imaging Systems Dealer Strategies*
- www.IndustryAnalysts.com



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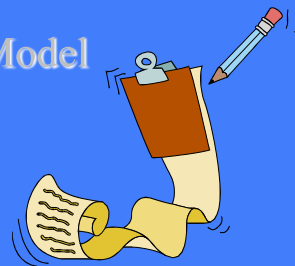
- A Look at Your Business Model
- Analysis of the Business Model
- Compensation Strategies
- Benefits/Challenges



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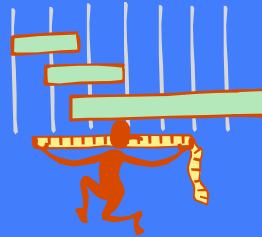
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COPIER-RELATED REVENUE

Hardware 45.7%

Service 33.0%

Supplies 19.5%



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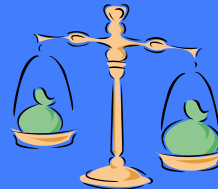
WEIGHTED MARGINS

Hardware 29.4%

Service 42.0%

Supplies 37.4%

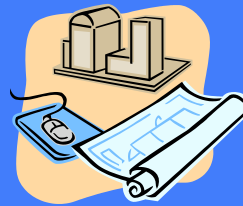
Weighted 35.2%



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CURRENT BUSINESS MODEL

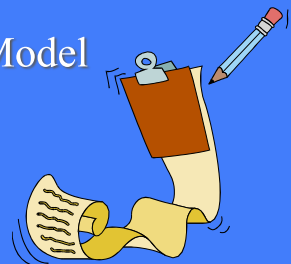
- SAG = 32%
 - Sell hardware at or near cost
- 29.4% GM
- Earn higher margins on residual (aftermarket)
 - Service = 42.0% GM
 - Supplies = 37.4% GM



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THE MODEL IS BROKEN

- Sell hardware at or near cost to recoup aftermarket
 - Higher margins
- Pure copy volume is decreasing
 - Estimates at 5% - 10% per year
- Print volume not increasing fast enough
 - HP share is up



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HP IMPACT

- Controls >60%+ of the printer market
- Convince your customers to transfer 100 pages from copier to printer...
 - HP gains >60%
 - You split balance with traditional competitors
- HP's new entries will accelerate trend



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HP IN THE IMAGING MARKET

Monochrome

4345mfp Series:

- Copy/print/scan/fax
- Color scan
- 45 PPM
- Auto duplex
- Embedded print server
- \$1,995 street price



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HP IN THE IMAGING MARKET

Color

Edgeline CM8060:

- 71 ppm (max) color/mono
- Color scan – 600 dpi
- Fax – 50,000 page memory
- Ink jet technology – disruptive pricing
- Full page print head
- <\$20,000 street price



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DIGITAL REPLACEMENT ACTIVITY

Copier	77.6%
Printer	25.6%
Fax	19.6%
Scanner	6.5%

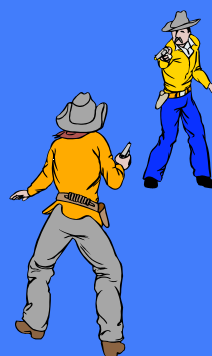


Multiple Responses

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VOLUME DIFFERENCE Standalone vs. Connected

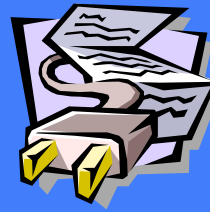
<15 CPM /PPM	30.4%
15 - 24 CPM/PPM.	25.7%
25 - 44 CPM/PPM.	27.1%
45 - 59 CPM/PPM.	25.6%
60 - 69 CPM/PPM.	23.3%
70-84 CPM/PPM.	23.7%
85+ CPM/PPM.	21.9%



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CONNECT RATES

<15 CPM	58.9%
15 - 24 CPM	69.7%
25 - 44 CPM	78.5%
45 - 59 CPM	81.0%
60 - 69 CPM	86.5%
70 - 84 CPM	80.2%
85+ CPM	85.6%
Average	77.2%



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DIGITAL VOLUME

Copy	52.3%
Print	39.0%
Fax	8.8%



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CURRENT PROFIT MODEL

SAG 32.0%

Weighted Margin 35.2%

Net Profit 3.2%



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10% VOLUME REDUCTION

SAG 32.0%

Weighted Margin 30.7%

Net Profit 2.5%

Decrease 21.8%



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ADD PRINT VOLUME @ 30.5%

SAG 32.0%

Weighted Margin 36.8%

Net Profit 4.8%

Increase 50.0%



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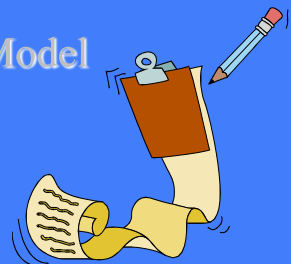
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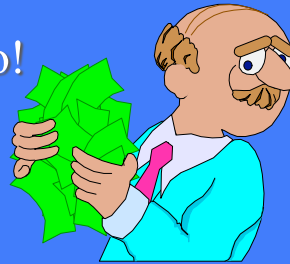
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COMPENSATION STRATEGY

Sales reps will do
EXACTLY
what you pay them to do!



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THE PROBLEM

- Sales reps are paid to place “boxes”
- Page volume will continue to drop unless someone focuses on page strategies
- Sales reps not motivated in this direction
 - Service contract and supply revenues too remote



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THE NEED

- Increase connectivity rate
 - Can't print to a standalone device
- Download drivers
- Train users
- Set your device as default
- Remove workstation printers



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THE SOLUTION

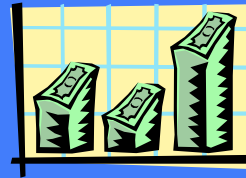
- Direct sales reps to pages through compensation
- Deemphasize compensation for hardware
 - Reduced margins result in reduced commissions
 - Eroding prices result in reduced commissions
 - Printers do not carry high enough price point or margin



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PAGE-BASED COMPENSATION

- Transition from hardware compensation
- Page volume drives income
- Compensate on volume *increase*
- Include all output devices
 - Copiers
 - Printers
 - Facsimile



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FRAMEWORK

- Exclude base volume
- Pay on increment only
- Adjust quarterly
- Include all pages
 - Copier
 - Printer
 - Fax
 - Scan



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FRAMEWORK

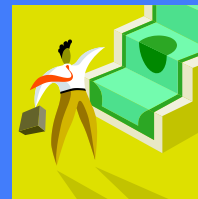
- Transition from existing commission plan
 - Possible bonus for *new* installation
- Increase commission as increment increases



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BEHAVIOR CHANGE

- Provides incentive for sales rep to identify applications to build volume
- Sales rep maintains account presence
- Sales rep provides training
 - Users won't print to system they don't understand



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EXAMPLE

- Exclude first 80% of page volume
 - Would have had that without trying
- Commission begins at 80%
- Commission increases at 100%
- Target 110%
 - Compensation equals original plan at quota



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SETTING TARGETS

- Revenue/Month \$32,311
- GM @ 29.4% \$ 9,499
- Comp/Month (40%) \$ 3,800
- Comp/Year \$45,597
- 110% of page volume should equal monthly compensation under current plan



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ALTERNATIVE

- Higher page-based commission for 90 days
 - Target 20%
 - Reduce/eliminate hardware commissions
- Promotes training and workflow integration
- Easier to administer
- No incentive to revisit account



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ANOTHER ALTERNATIVE

- “Page specialist”
- .0015 - .0020 per incremental page
- Compensate on pages only
- Career path leads to account rep jobs



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MANAGED PRINT SERVICES STRATEGY

- Provide service to existing printer base
- Service and supplies bundled into single cost per page
- Focus on HP
 - Majority of installed base
 - Achieve critical mass quickly



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WHY?

- May be the *only* growth area left
 - Color margins not materializing
 - Revenue per unit dropping
 - Margins declining
 - Sales reps must sell 4X to stay even
- Dealers report gross margins of 60% - 70%
- Offers the *only* chance to begin page-based compensation without interrupting existing plan



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HOW?

- Contract length 3 - 5 years
- Service/supplies combined into single CPP
- Measure unit volumes
 - Third party thumb devices
- Price at 15% less than current costs
- Pay sales rep \$0.002 per page



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HOW?

- Target minimums
 - 15 units
 - 50,000 pages/month
- Dealers report 50+ units as typical
 - 150,000 – 200,000 pages/month
- In five year contract...
 - Refresh fleet after four years
 - Customer extends for additional five years



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HOW?

- If sales rep consolidates equipment using primary brand MFP:

- Pay “box” commission
- Deduct pages from comp



- Goal – replace HP with HP

- Minimal service
- Good third party supplies available

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WHO LIKES IT?

- NOT your primary vendor
 - Blocks account penetration for 9 years

- NOT HP

- Third part supplies

- BUT

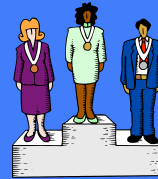
- Your account
- Your sales rep
- You

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PLAN PARAMETERS

Any plan must be ...

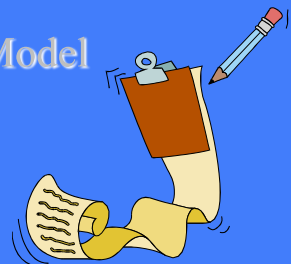
- Tied to measurable performance
- Reward performance immediately
 - Quarterly or annual bonus less effective
- Direct behavior toward generation of *incremental* page volume
- Promote account liaison



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BENEFITS

- Sales rep diverts print volume from workstation systems
- Constant account presence
- Sales rep becomes strategic partner
- Insulate yourself from competition
- Reduce turnover as “annuity” builds



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BENEFITS

- Increased account exposure
 - IT
 - Financial
 - Departmental solution specialist
- Become vendor of choice
 - All imaging equipment
 - All volume ranges
 - Increased credibility



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CHALLENGES

- Measuring existing volume in territory
- Buy-in from sales force
- Accounting
- Accurate payment of commissions
- Impact of territory changes
- Existing supply sales group
- Service profit center



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*“If you don’t like
change you’re going
to like irrelevance
even less.”*

General Eric Shinseki
Chief of Staff
US Army



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