# InfoTrends BTA East Event

**Jon Reardon**
**Randy Dazo**
September, 2011
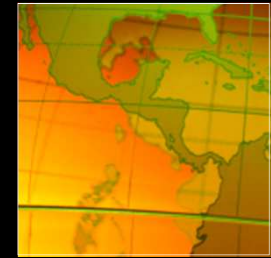
InfoTrends
A Questex Company

# Agenda

State and Future of the Industry

| **1** | Broad Market/Industry Trends |
|---|---|

| **2** | Opportunities by Customer Segment |
|---|---|

| **3** | Conclusions |
|---|---|

# Factors Influencing Digital Imaging Market

**Technology Trends**
- "Cloud-based services is the biggest development in the IT industry since the shift to client-server architecture over 20 years ago" (HP, CEO Leo Apotheker)
- **Consumerisation of IT driving mobile working** is immensely disruptive
- **Tablets impacting the PC market** and printing follows computing

**Customer Trends**
- **Focus on the bottom line**, controlling costs
- **Right sizing** and optimisation of the print environment
- **Increasing productivity and efficiency**, getting more done with fewer people
- **Restricting print volumes**, controlling colour usage, overall print reduction

**Vendor Trends**
- **Extended product life cycles**
- **Managed print services** (selling cost savings and taking ownership of pages)
- **Cost-per-page is declining** (shrinking revenue streams)
- **Services is the new growth engine** and next battleground

**Market Conditions**
- **Developed markets have peaked** (hardware and pages)
- **Increased competition in managed print** creating a volitale office market
- **Shift to colour has slowed** but long-term opportunities exist

**Market Impact**
- **Fewer customers with smaller budgets** to spend
- **Continued consolidation** in number of vendors and channel players
- **No product differentiation,** customers have fewer reasons not to buy on price
- **Managed print is now price competitive** – impossible for every vendor to win

# US Job Growth Stuck on Slow

- U.S. adds zero new jobs in August as jobless rate remains stuck at 9.1 percent

- Critical to any pickup in job growth is an improvement in overall economic demand, especially from the consumer sector.

- The key is the slow pace of hiring in "core" services (which excludes health and education).

- There is no help on the way from monetary or fiscal policy, at the federal, state, or local level.

- Businesses, however, appear to believe they can maintain profits while adding cautiously to payrolls.

K. Bostjancic , The Conference Board; August 2011

## U.S. Indicators

▼ Consumer Confidence
14.7 pts

▼ Employment Trends Index
0.2%

▼ Help Wanted Online
163,900

▲ Leading Economic Index
0.5%

▼ Measure of CEO Confidence
12.0 pts

# Print Hardware OEM Strategic Paths to ITO/BPO

# U.S. Office Placements Forecast: 2010-2015

**■ Mono Laser**    **■ Color Laser**    **■ Business Inkjet**



| Year | Mono Laser | Color Laser | Business Inkjet |
|------|-----------|-------------|-----------------|
| 2010 | 4.3 | 1.5 | 5.9 |
| 2011 | 4.3 | 1.5 | 6.5 |
| 2012 | 4.2 | 1.7 | 6.9 |
| 2013 | 4.1 | 1.9 | 7.2 |
| 2014 | 4.0 | 2.1 | 7.4 |
| 2015 | 3.8 | 2.2 | 7.6 |

Unit Placements Forecast (in Millions)
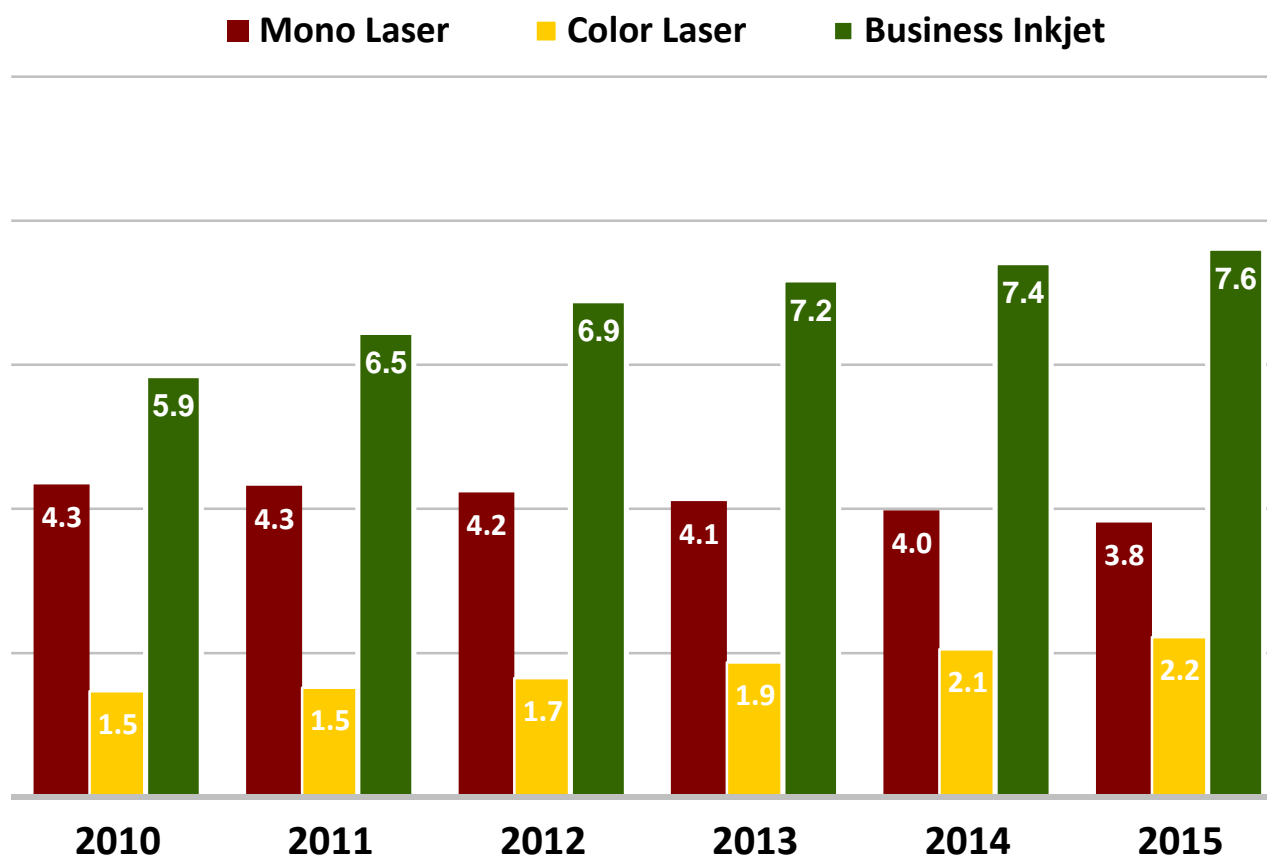
### Forecast Trends

- Mono laser declining steadily (-2.42% CAGR)
- Color laser growth hurt by economy but will rebound by 2011 (8.49% CAGR)
- Majority of business inkjet comprised of low-end serial devices aimed at SOHO and small business
- SMB Business Inkjet growing quickly and will be fueled by new market entrants

# Total U.S. Hardware Revenue Forecast: 2010-2015

By Technology



Legend: Mono Laser | Color Laser | Consumer Inkjet | Business Inkjet

-$.9B

-1.04% CAGR

| | 2010 ($17.5B) | 2011 ($17.3B) | 2012 ($16.9B) | 2013 ($16.72B) | 2014 ($16.7B) | 2015 ($16.6B) |
|---|---|---|---|---|---|---|
| Mono Laser | 6.5 | 6.0 | 5.4 | 4.8 | 4.3 | 4.0 |
| Color Laser | 4.8 | 5.0 | 5.1 | 5.4 | 5.7 | 6.0 |
| Consumer Inkjet | 2.6 | 2.5 | 2.4 | 2.4 | 2.4 | 2.3 |
| Business Inkjet | 1.0 | 1.1 | 1.1 | 1.2 | 1.3 | 1.4 |
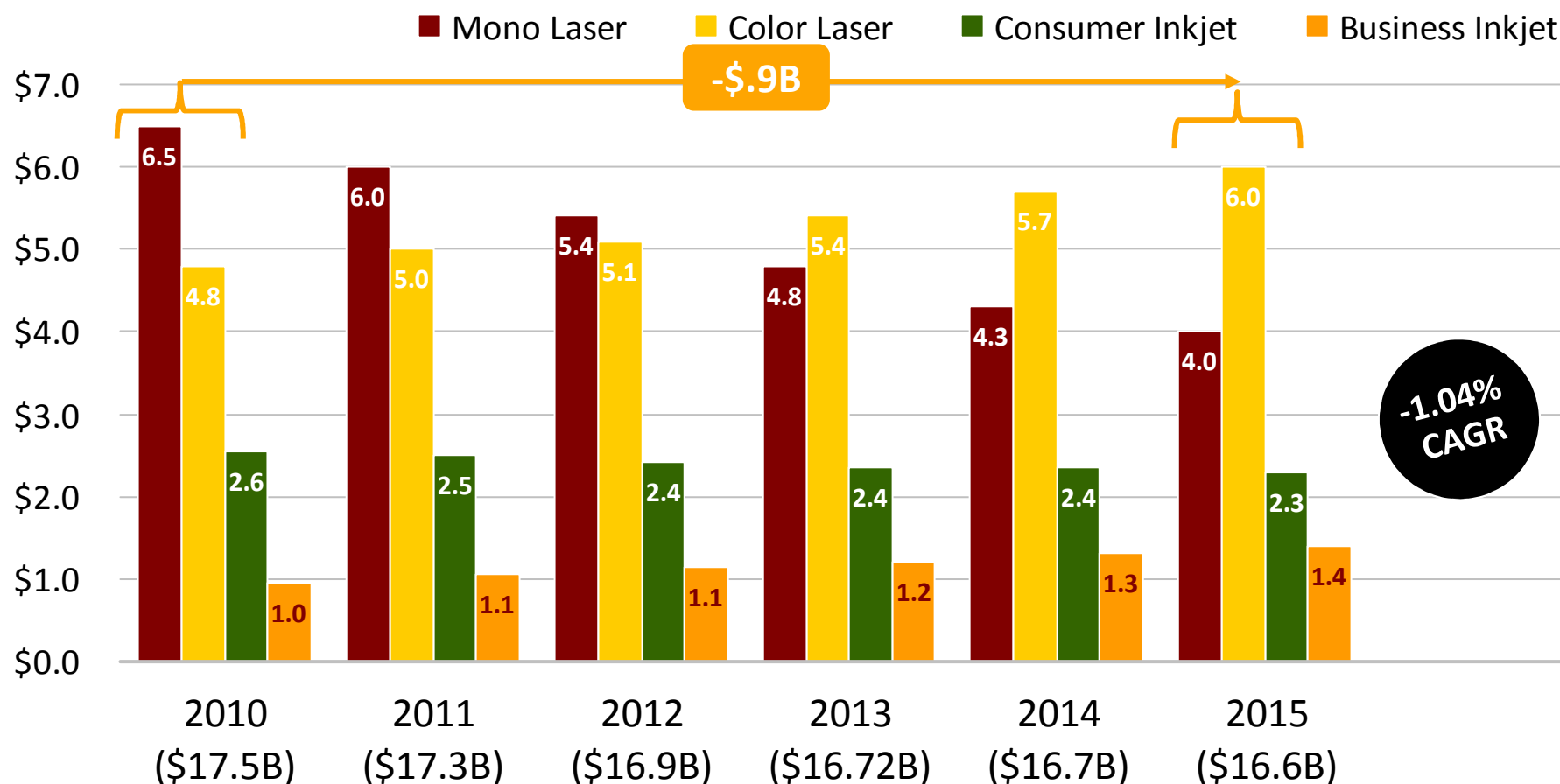
Hardware Revenue (in billions of U.S. dollars)

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| | |
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# InfoTrends Customer Segmentation

**Consumer/SOHO**
- Commodity market
- Price sensitive
- Low touch

**SMBs 1-999 Employees**
- New technology adopters
- Price conscious
- Value oriented

**Large Business 999-9,999 Employees**

**Enterprise 10,000+ Employees**
- Technology savvy
- Right-sizing
- Improved productivity
- Device consolidation
- Reducing costs
- Infrastructure and workflow
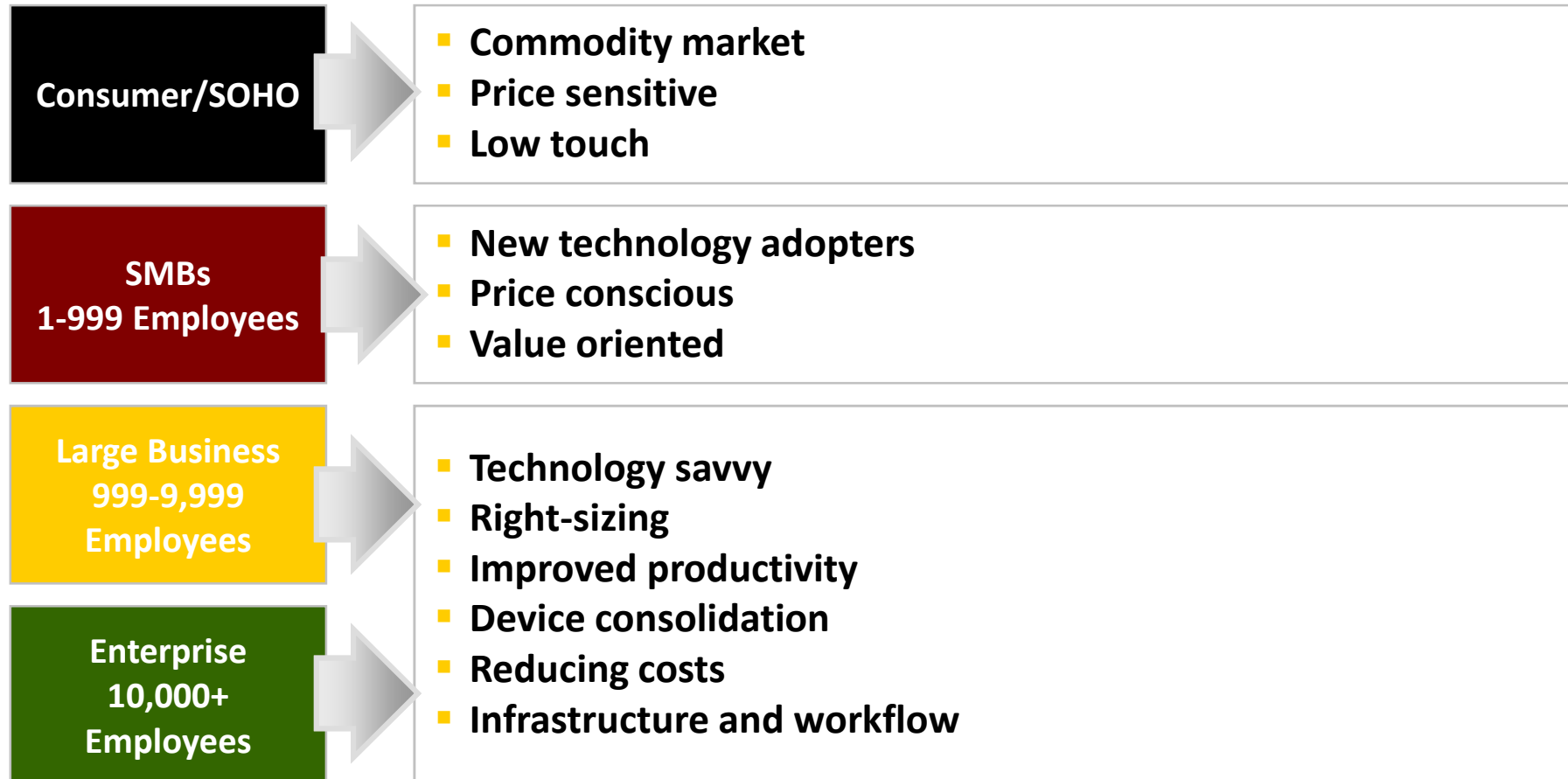
# Defining Needs by Customer Segment

## SMB Market

- Total U.S. SMB market opportunity expected to grow to $34.6B by 2015
  - ✓ Includes hardware, supplies, and service revenue

- Revenue shrinking due to decline in hardware pricing
  - ✓ Shift to color and MFP along with monochrome speed creep is helping to sustain revenues

- SMBs understand the value of color
  - ✓ Bringing color in-house has value in SMB
  - ✓ Saves time, improves customer retention, lowers costs compared with outsourcing

- Price is important but customers are looking to solve problems

## Large Business/Enterprise

- Job loss in the U.S. has created a much smaller workforce
  - ✓ Paper usage is peaking
  - ✓ Fundamental changes in worker dynamics

- Software and solutions will drive most hardware purchase decisions

- Managed print services have short-term benefit but should not be the end game
  - ✓ Every vendor has a strategy, and every vendor can't steal pages from the other

- Become your customer's service provider
  - ✓ Moving beyond managed print

- Can future technology drive hardware sales?

# Market Pulse - NA

## IT Decision Makers

When asked how they expected their reliance on various products to change, the greatest percentage of respondents from all North American countries expect their products to remain the same in terms of importance over the coming year.

Encouragingly, the share of respondents who expect an increase in reliance is almost always higher than the share of respondents who expect a decrease in reliance.

**Table 1: How do you expect your organization's reliance on the following products to change over the next 12 months?**

| | Increase | Remain the Same | Decrease |
|---|---|---|---|
| **A3-Size Color** | | | |
| Canada | 25.8% | 70.9% | 3.3% |
| Mexico | 26.0% | 57.3% | 16.7% |
| U.S. | 22.7% | 69.3% | 8.0% |
| **A3-Size Black & White** | | | |
| Canada | 22.5% | 73.5% | 4.0% |
| Mexico | 34.0% | 52.0% | 14.0% |
| U.S. | 27.3% | 66.0% | 6.7% |
| **A4-Size Color** | | | |
| Canada | 33.1% | 62.9% | 4.0% |
| Mexico | 29.3% | 53.3% | 17.3% |
| U.S. | 21.3% | 66.7% | 12.0% |
| **A4-Size Black & White** | | | |
| Canada | 29.8% | 63.6% | 6.6% |
| Mexico | 41.3% | 48.0% | 10.7% |
| U.S. | 20.0% | 68.7% | 11.3% |
| **Personal Devices** | | | |
| Canada | 18.5% | 70.9% | 10.6% |
| Mexico | 28.7% | 54.7% | 16.7% |
| U.S. | 14.7% | 69.3% | 16.0% |
| **Liquid Inkjet Devices** | | | |
| Canada | 23.8% | 60.9% | 15.2% |
| Mexico | 22.0% | 48.7% | 29.3% |
| U.S. | 16.0% | 66.0% | 18.0% |

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# The World (And Business) Changed In 2008

- **Expenditure remains under scrutiny**

- **Investments needing to demonstrate short-term savings and/or impact business growth**

- **Challenges continue in securing funding and financing**
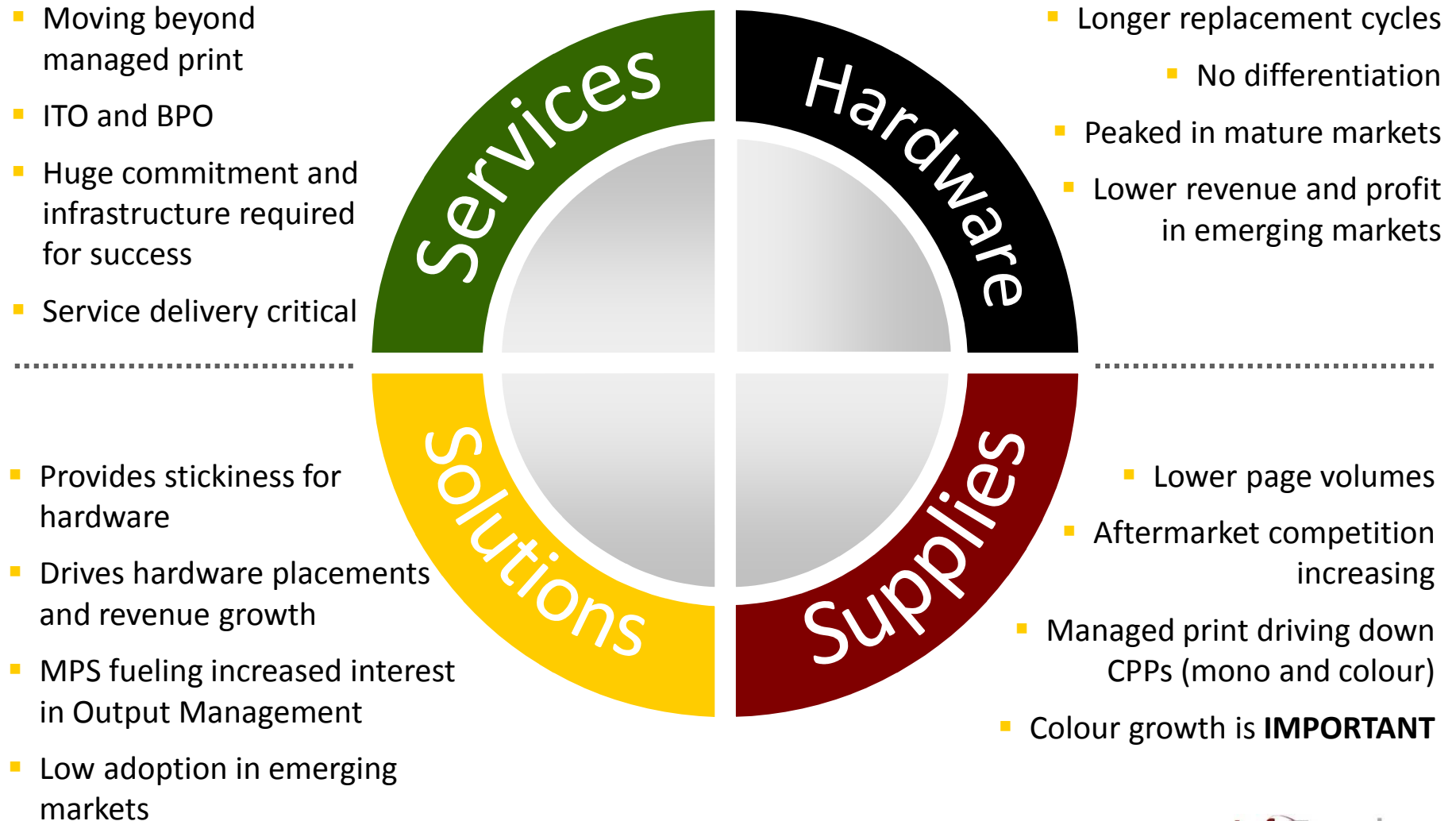
- **Public sector lag**

- **Increased desire to embrace 'Green IT'**

- **Legislation compelling 'Green' compliance**

- **Green is increasingly recognised as good business practice**

- **Security concerns, issues and awareness rapidly advancing**

- **Industry compliance levels increasing**

- **Role of IT changing**

- **Growth of the Mobile Knowledge Worker and the Consumerization of IT**

## The 'new normal' - no going back to pre-recession trends

# The Four Elements of the Office Document Market

**Services**

- Moving beyond managed print
- ITO and BPO
- Huge commitment and infrastructure required for success
- Service delivery critical

**Hardware**

- Longer replacement cycles
- No differentiation
- Peaked in mature markets
- Lower revenue and profit in emerging markets

**Solutions**

- Provides stickiness for hardware
- Drives hardware placements and revenue growth
- MPS fueling increased interest in Output Management
- Low adoption in emerging markets

**Supplies**

- Lower page volumes
- Aftermarket competition increasing
- Managed print driving down CPPs (mono and colour)
- Colour growth is **IMPORTANT**

# Agenda

State and Future of the Industry

| 1 | MPS Expansion Today |
|---|---|

| 2 | Shifts Affecting the Imaging Market |
|---|---|

| 3 | Moving Beyond MPS |
|---|---|

# Evolution of the NEW Managed Services – the Battle to Own the MIF – Now to Own the Pages

**Copier Vendors**

- Copier vendors say "We can save you money because printers are more expensive to operate"
- A4 supplies are more costly; around 2 cents per B&W page
- Sharing A3 devices can cost you less than 2 cents per page

## MPS IS IN A LAND-GRAB STAGE

**Printer Vendors**

- Printer vendors say "We can save you money because copiers are more expensive to operate"
- Essentially you are not printing your at your minimum levels – most organizations only print ¼ of their minimum volume and you are really spending between 5 or 6 cents per B&W page

# MPS Reality

- **MPS is NOT growing the Hardware and Supplies markets – according to our Hardware and Supplies forecasts, MPS is NOT driving additional sales**

- **MPS IS a cannibalization strategy – for any vendor it is about taking over infrastructures (A4 or A3 hardware and supplies) that were someone else's**

- **Most MPS engagements are positioned around Reducing Costs, Reducing Prints, Spending Less on printing and copying – this can include the reduction of devices, lower cost/contracted supplies, reduction of waste**

- **MPS is eroding Hardware and Supplies revenues faster – worse than a Zero Sum Gain**
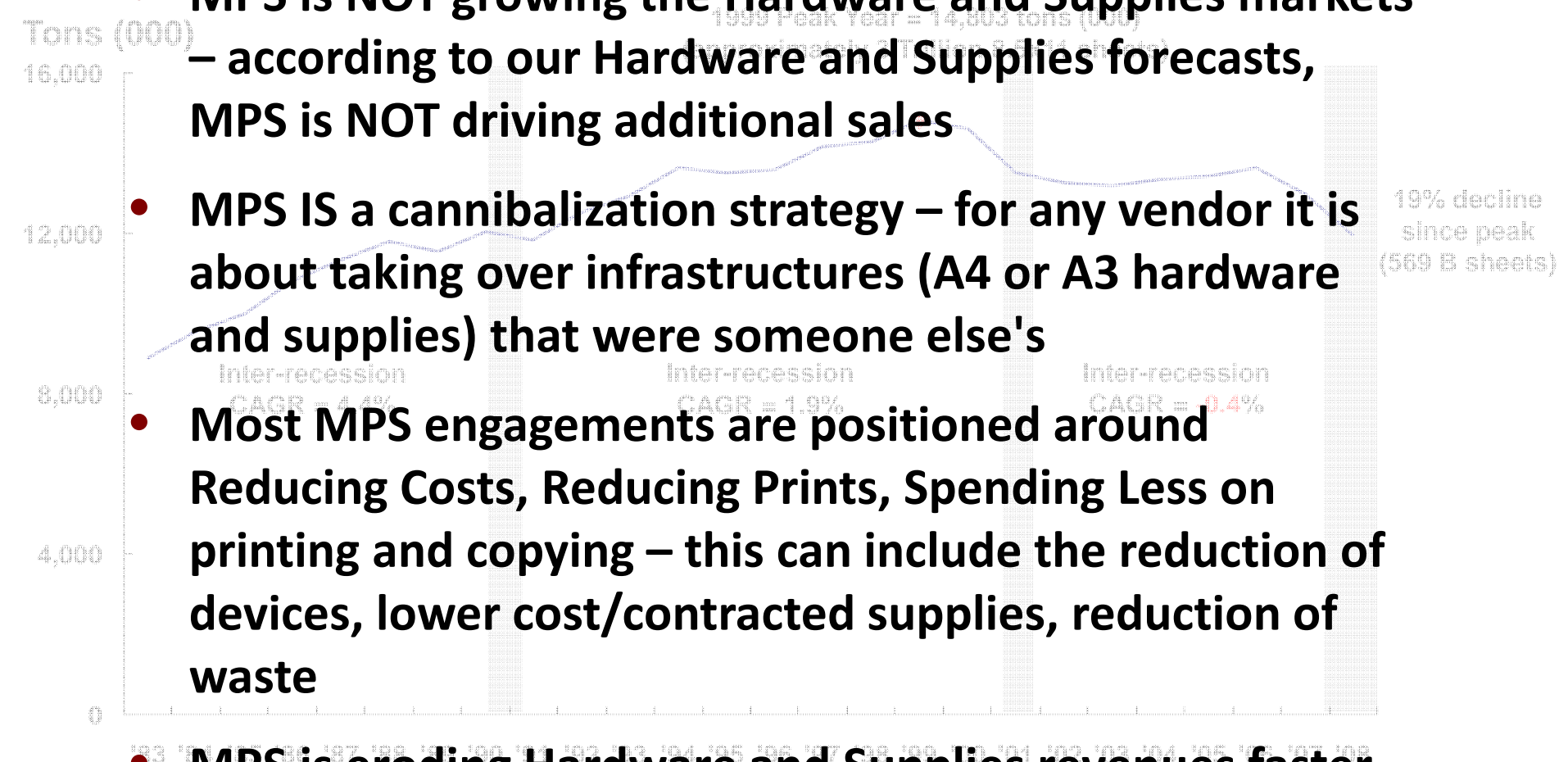
**So why is there so much interest in MPS?**

# US Addressable MPS Supplies Market
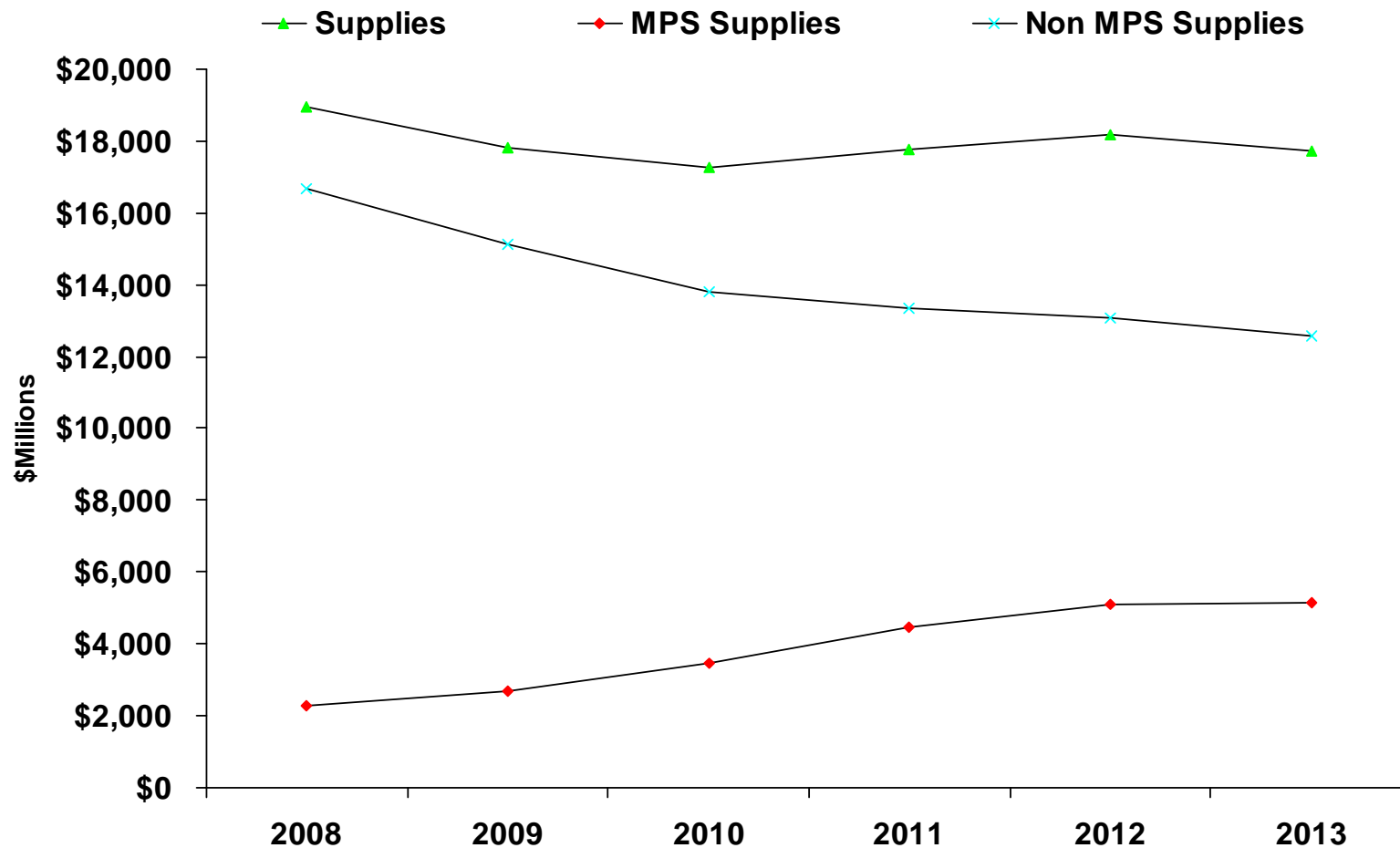
# How Customers Save Money – Approximately 20% – 30%

**Try to save customers money – Print Centric Approach**

- **Provide lower cost supplies**

  – OEM, OSS packaged contracts or aftermarket

- **Consolidation of current equipment,**

  – Switch products – A3 to A4, A4 to A3

- **Switch product/page usage habits**

  – Create policies around print, automate with Rules Based Printing

- **Lower page consumption**

  – Use authentication to reduce waste, force with policies

# US Addressable MPS Supplies Market



Legend: MPS Supplies | Total Supplies New | Non MPS New
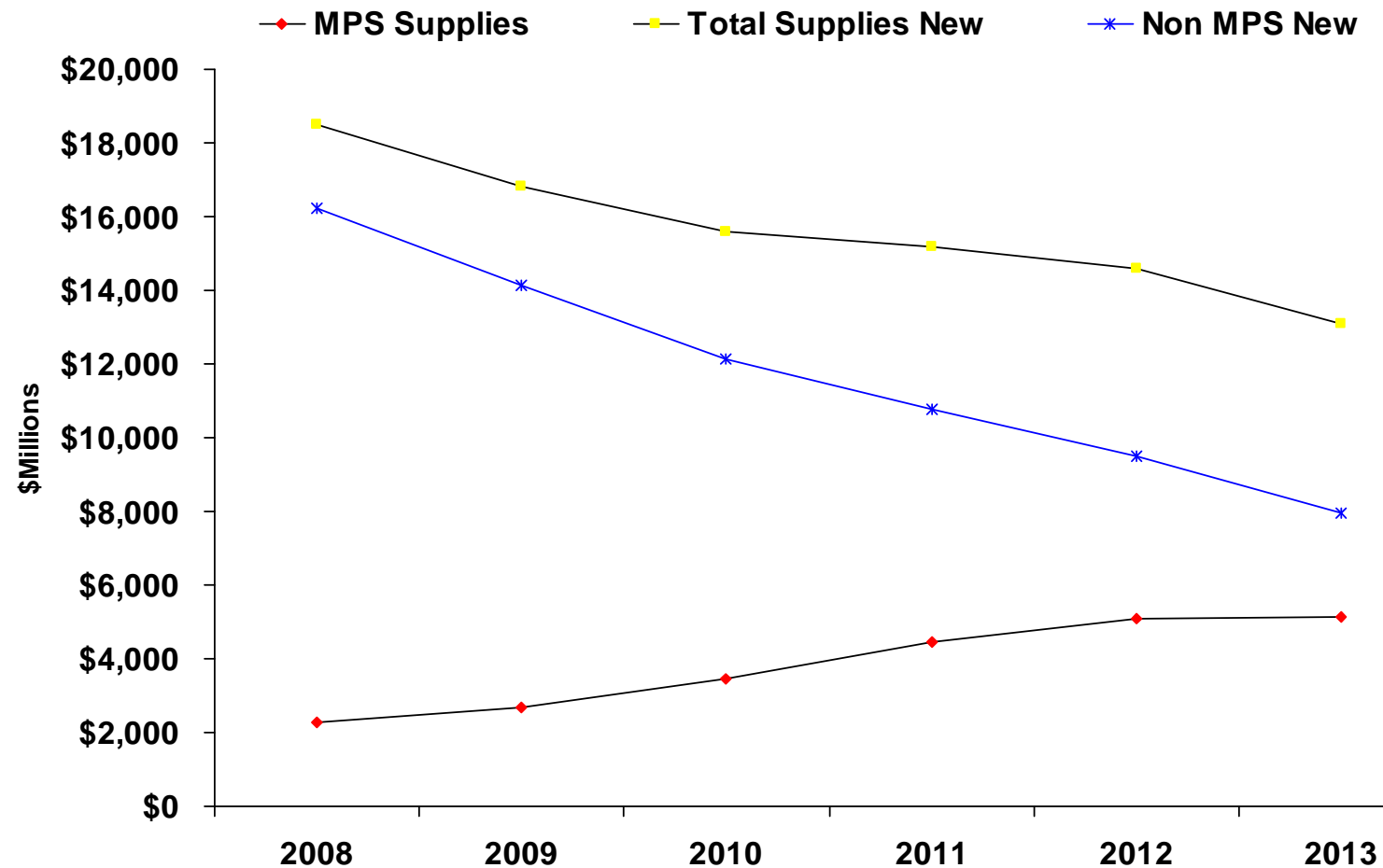
# MPS Segments

## Supplies-Break Fix Engagements

**Supplies Break Fix Services** – Managed Print Services that are mostly driven with a Supplies contract. These services may include break fix services as an option or include them as part of the contract.

**Concept** - Move customers away from transactional purchase to a Managed Contract Purchase.

## HW Print Management Engagements

**Print Management Services** – Managed Print Services that are driven with a total print management approach. This includes Supplies, Hardware, Break fix Services. These services include continuous optimization of the output environment.

**Concept** – Manage and optimize the entire fleet of output devices under contract.

## Enhanced Engagements

**Workflow/Managed Document/Security Services** – Managed Print Services that are driven with a Managed Services approach and also includes advanced solutions such as workflow , document management or security services as part of the MPS engagement. This includes Supplies, Hardware, Break fix Services and Solutions.

**Concept** – Manage and optimize the entire fleet of output devices and improve business processes under contract.
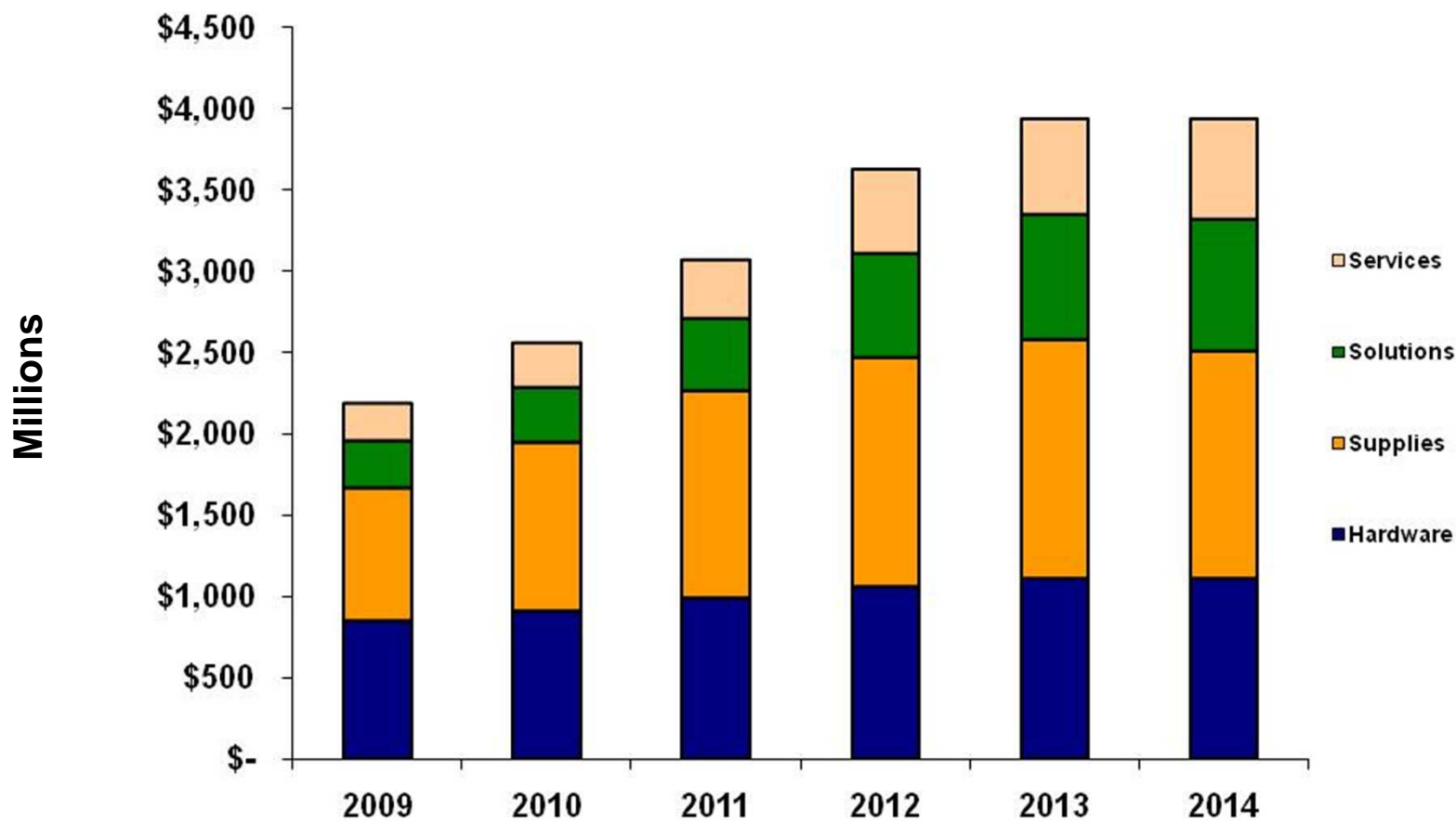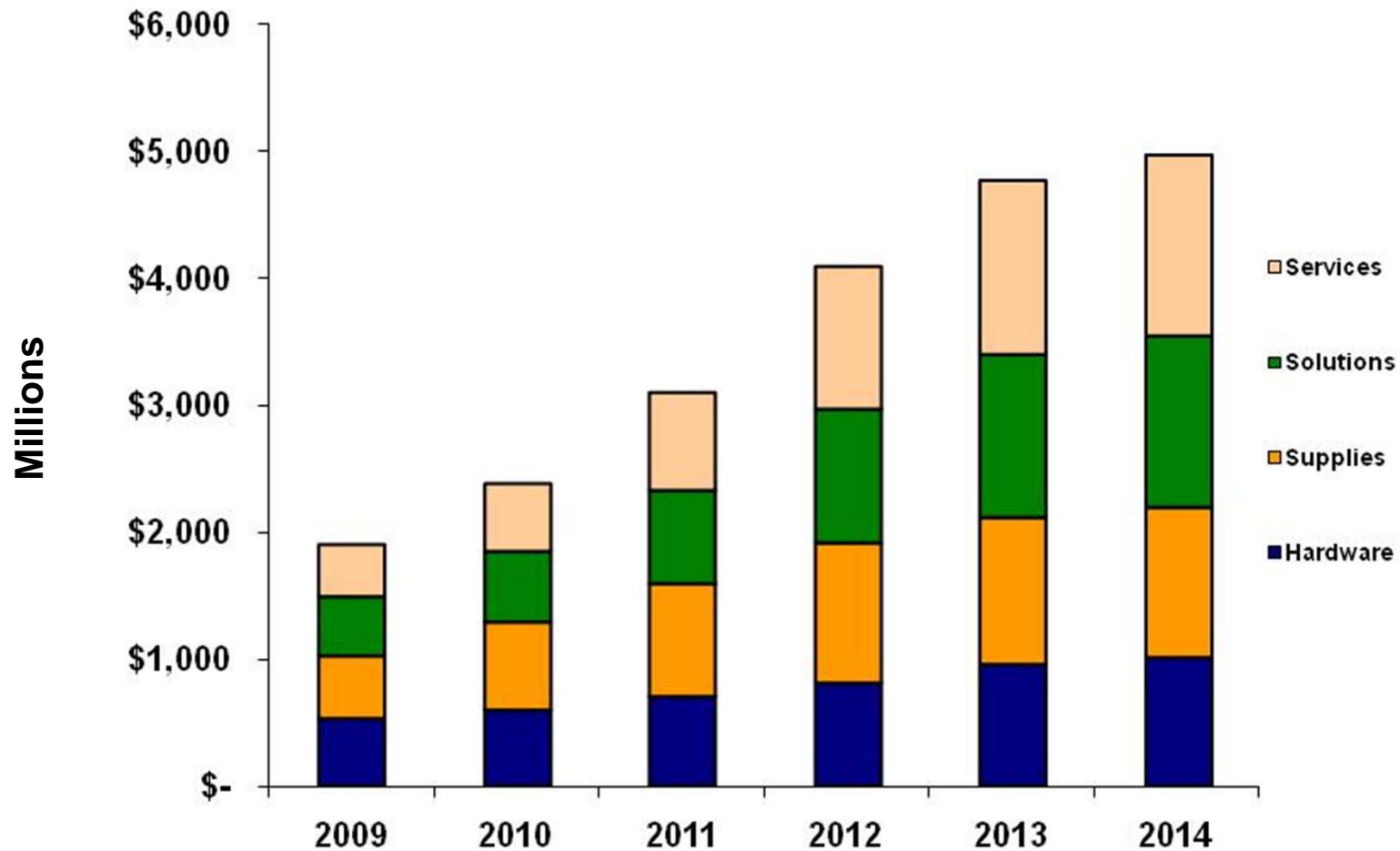
# U.S. MPS 2009-2014 Forecast by MPS Segment



■ Enhanced   ■ HW Optimization   ■ Supplies Only

CAGR

21%

12%
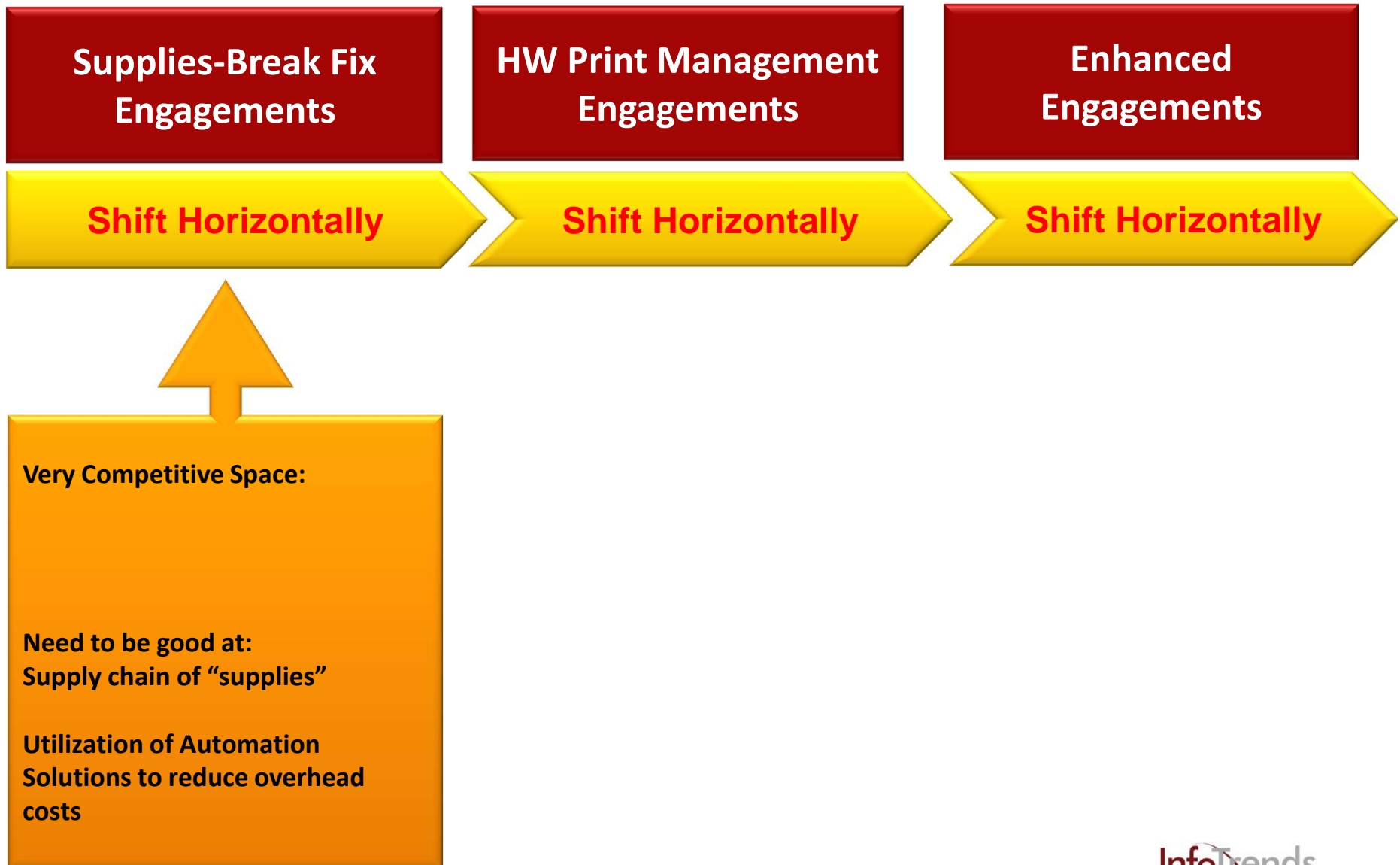
10%
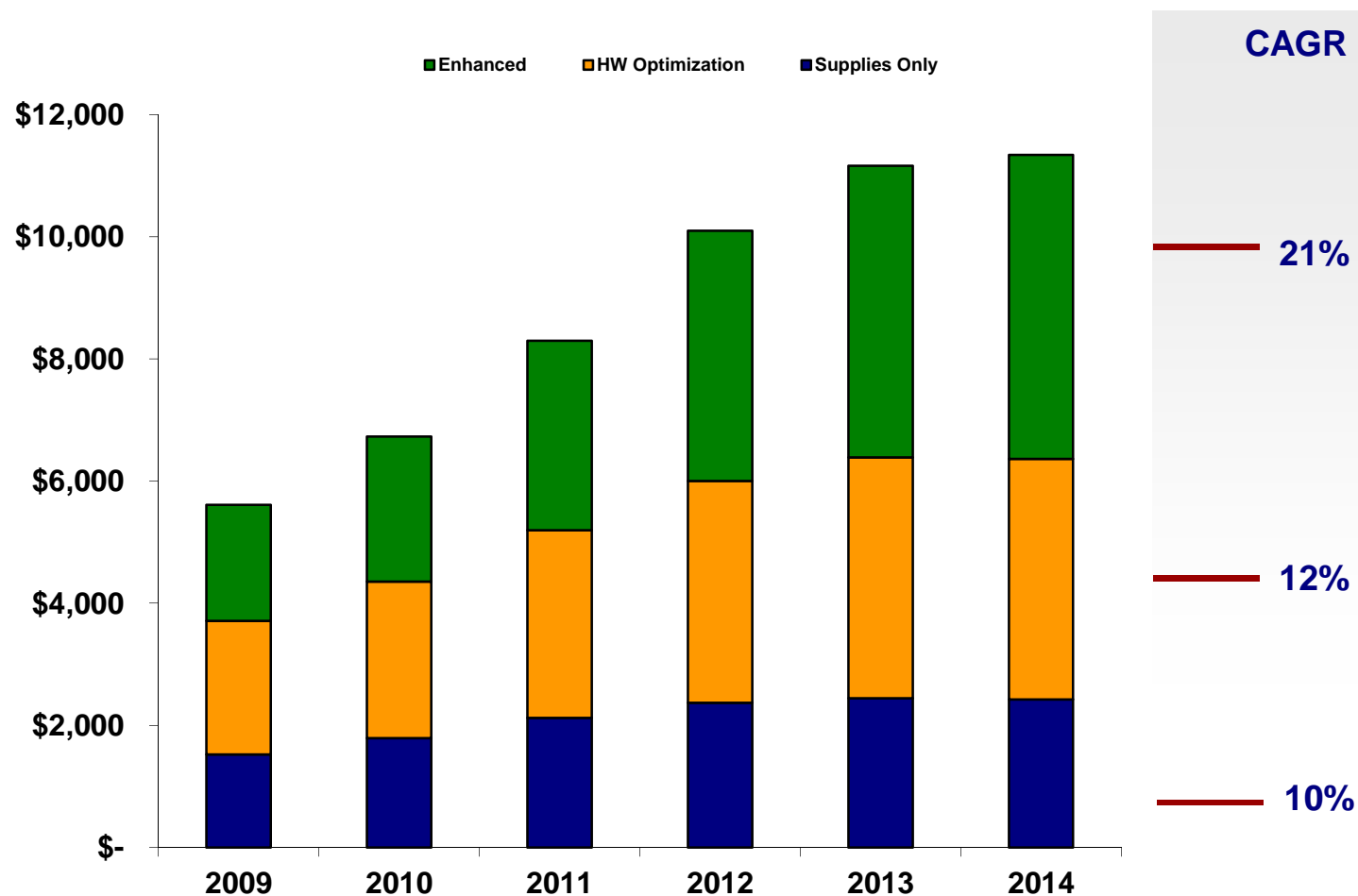
# MPS Forecast 2009 – 2014 by Category – Supplies Only
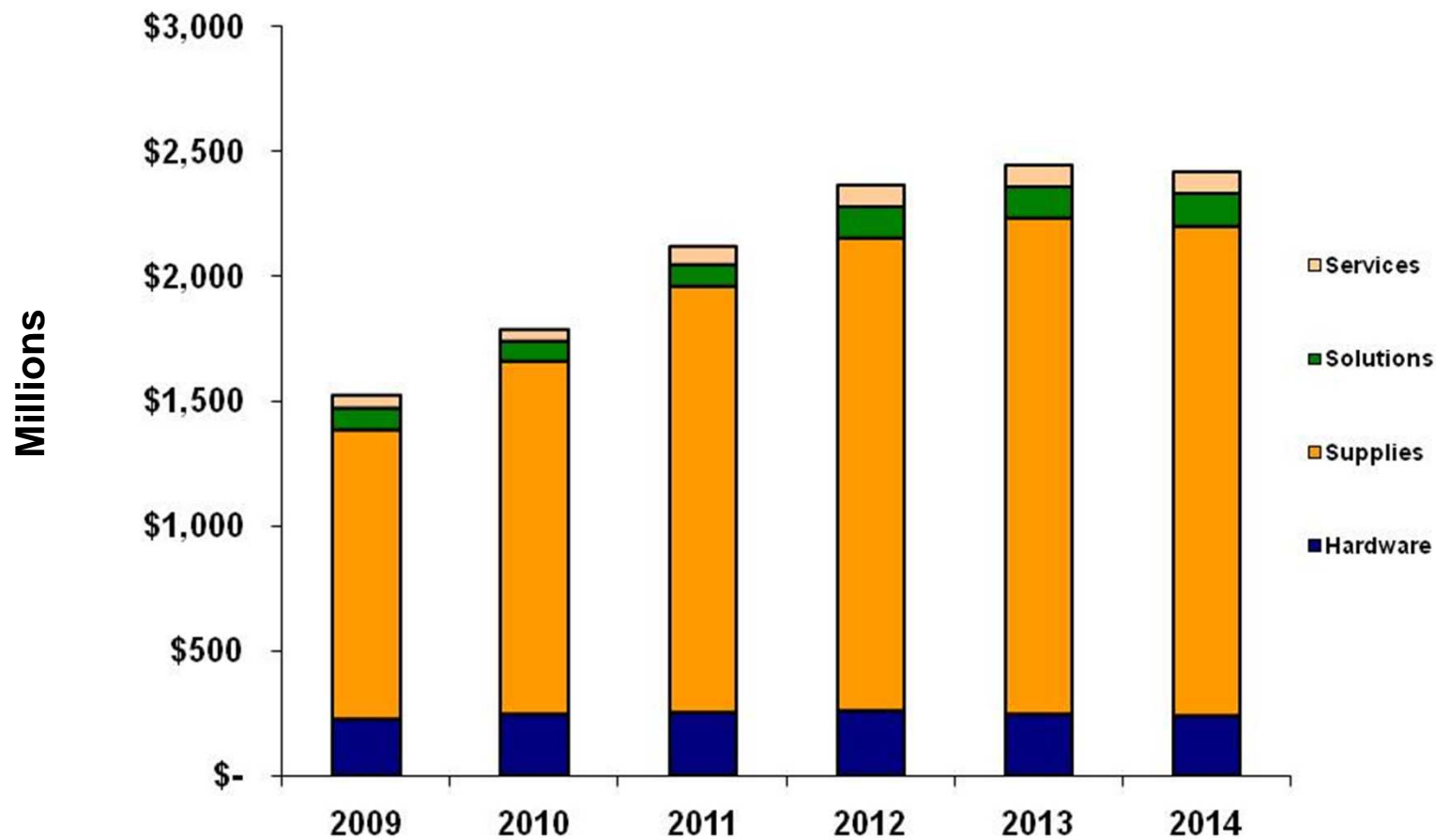
# MPS Forecast 2009 – 2014 by Category – Hardware Print Management

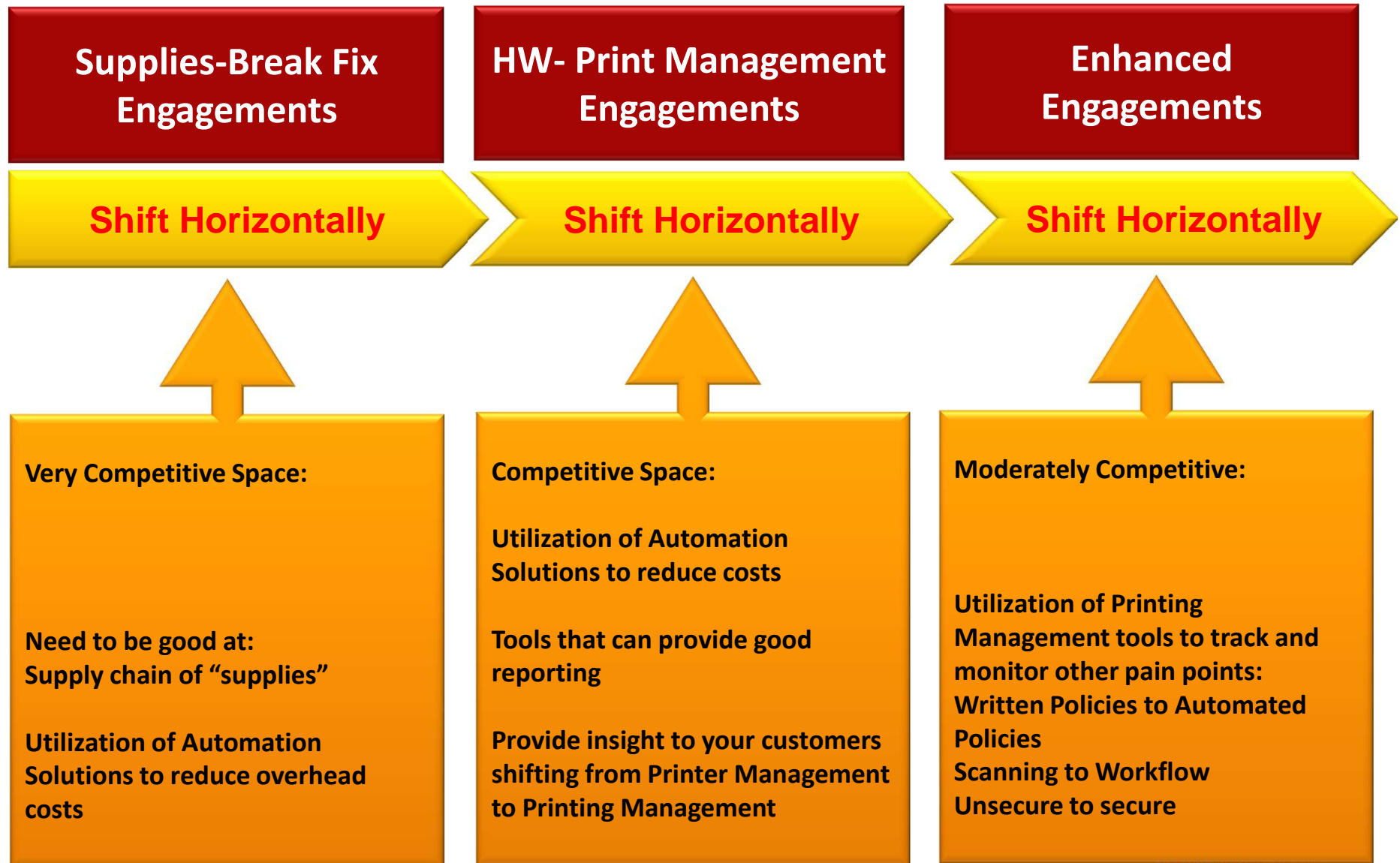# MPS Forecast 2009 – 2014 by Category – Enhanced

# MPS Types for Channel

| Supplies-Break Fix Engagements | HW Print Management Engagements | Enhanced Engagements |
|---|---|---|
| **Shift Horizontally** | **Shift Horizontally** | **Shift Horizontally** |

**Very Competitive Space:**

**Need to be good at:**
**Supply chain of "supplies"**

**Utilization of Automation Solutions to reduce overhead costs**

# MPS Types for Channel

| Supplies-Break Fix Engagements | HW- Print Management Engagements | Enhanced Engagements |
|---|---|---|
| **Shift Horizontally** | **Shift Horizontally** | **Shift Horizontally** |

**Very Competitive Space:**

**Need to be good at:**
**Supply chain of "supplies"**

**Utilization of Automation Solutions to reduce overhead costs**

**Competitive Space:**

**Utilization of Automation Solutions to reduce costs**

**Tools that can provide good reporting**

**Provide insight to your customers shifting from Printer Management to Printing Management**

**Moderately Competitive:**

**Utilization of Printing Management tools to track and monitor other pain points:**
**Written Policies to Automated Policies**
**Scanning to Workflow**
**Unsecure to secure**

# The Shift from Cost to Value

- **Need to change the Equation from COST to VALUE**
  - Cost discussions are commodity discussions – easy to replace

- **Supplies only engagements only encourage cost discussions**

- Printing Management begins to provide better insight to what Users are doing, more value in the engagement, a little harder to replace (until all vendors provide) – augment with better customer management of information (information is great, what to do with "it" is consultative value that is HARD to replace)

- Enhanced Engagements with solutions provide unprecedented value, hard to replace

# MEGA Disruptive Forces

**ECONOMY**

**EVOLUTION OF TECHNOLOGY**

# Rapid Development/Usage/Evolution of Technology

- **Rapid development of technology vs. the rapid reduction of prices vs. the adoption rate**

- **3 Things Spur or Hinder Technology Growth & Adoption**

- **Processing Power – Moore's Law**

- **Storage and Media**

- **Bandwidth - Broad- band and Mobile Network expansion**
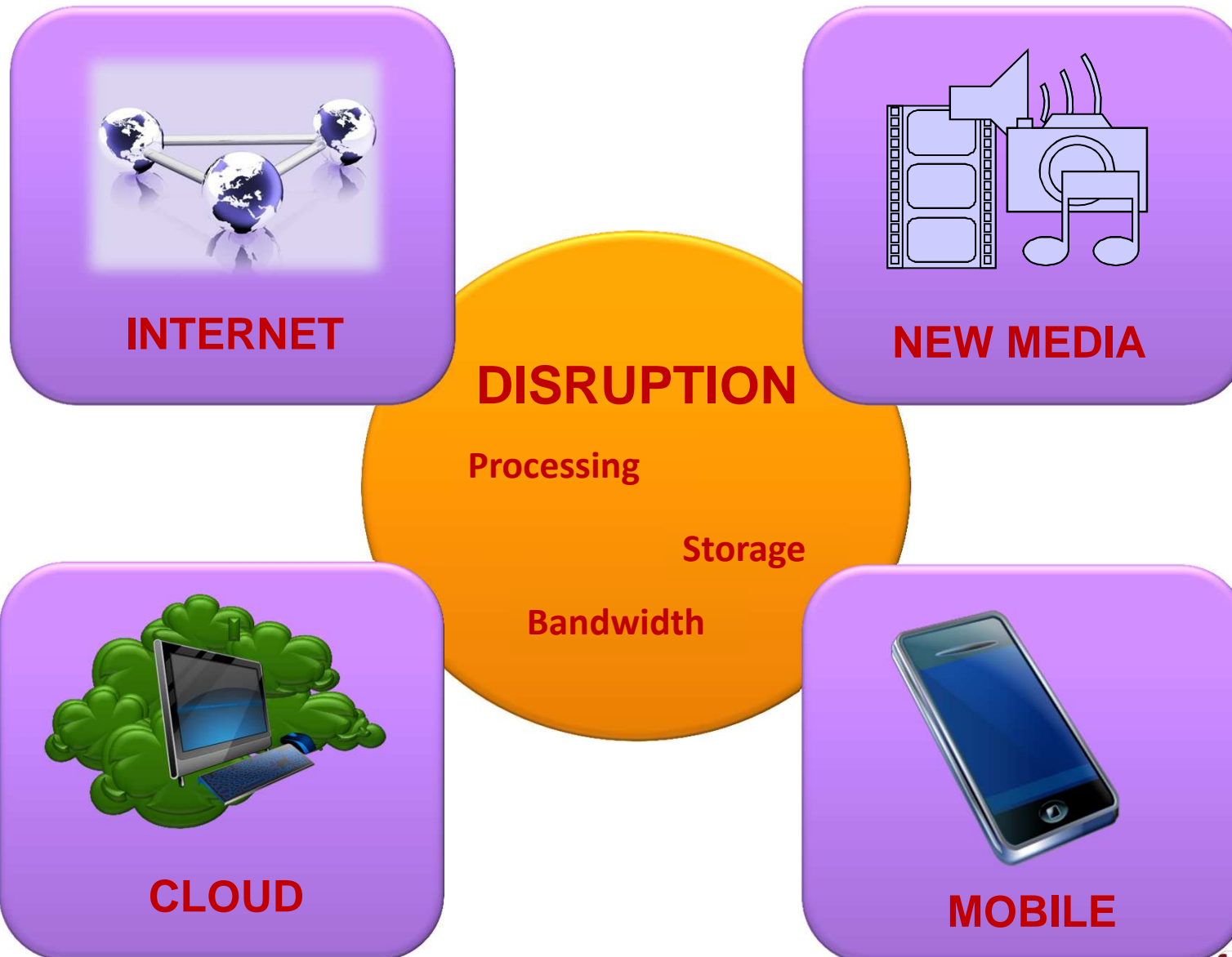
# Storage Prices

THE PRICE OF 1GB HAS DECREASED

**Historical Cost of 1GB** of hard drive space

March 1998 — **$228**

March 2003 — **$3.88**

March 2007 — **$0.88**

March **2011** — **$0.04**
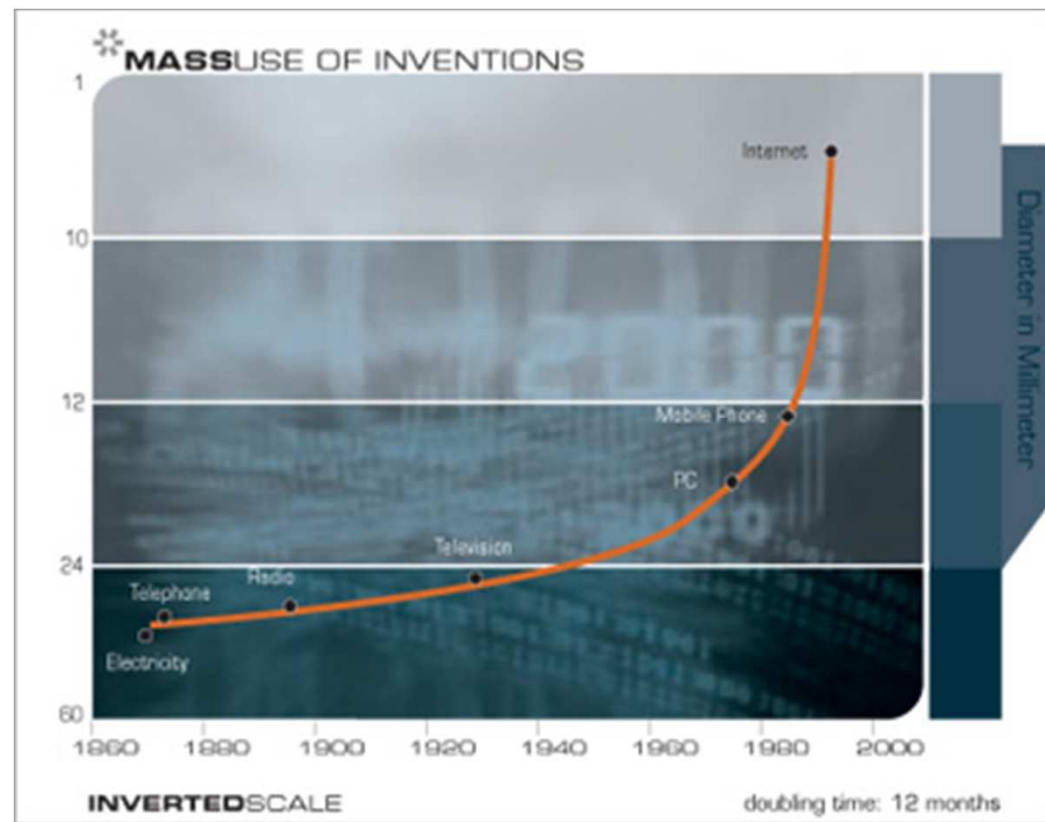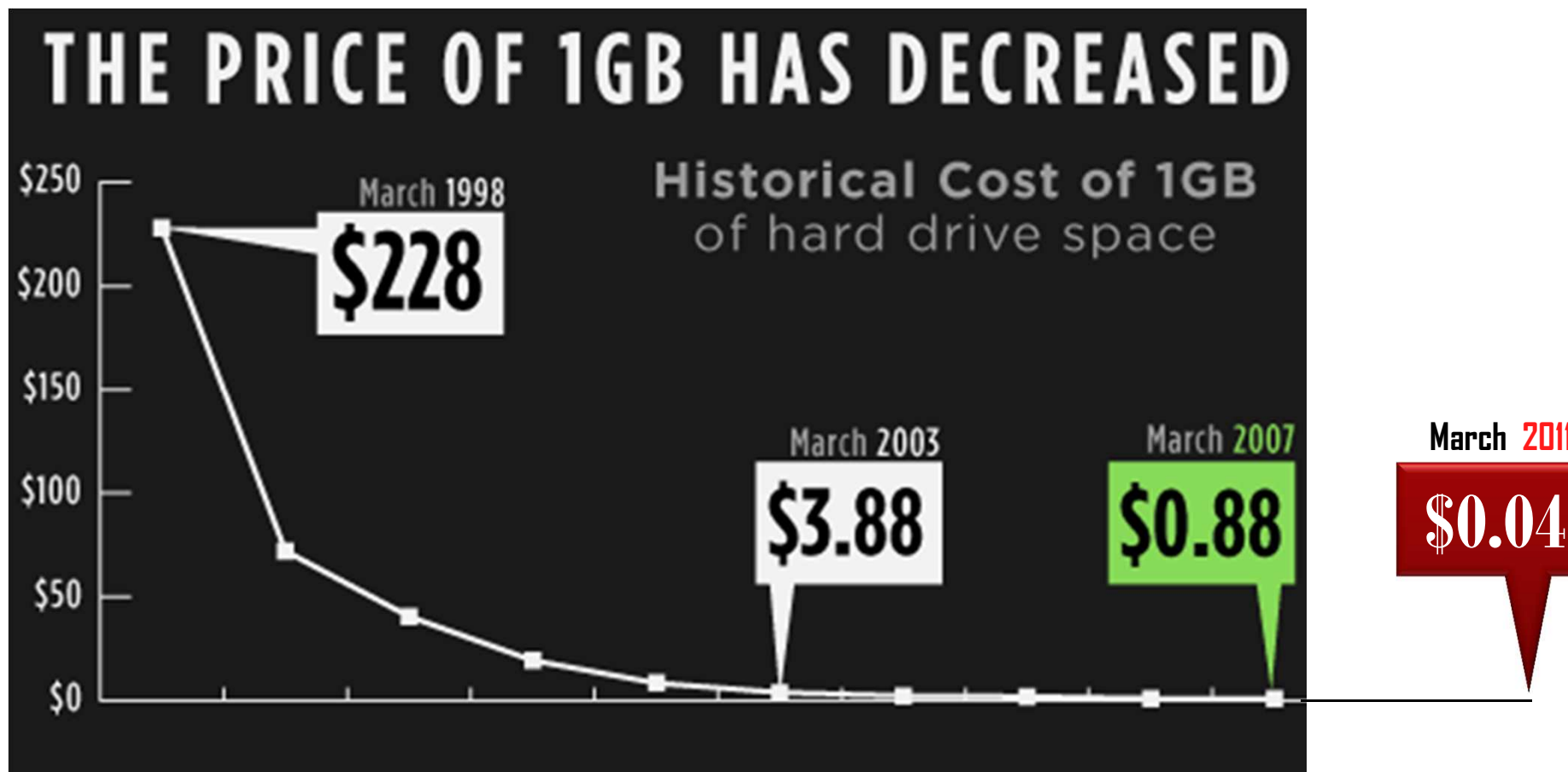
# Perspectives

- **1 Megabyte: <span style="color:red">One small novel</span> OR one 3.5 inch floppy disk**

- **5 Megabytes: <span style="color:red">The complete works of Shakespeare</span> OR 30 seconds of TV-quality video**

- **1 Gigabyte: <span style="color:red">A pickup truck filled with paper</span> OR A symphony in high-fidelity sound OR A movie at TV quality**

- **2 Gigabytes: <span style="color:red">20 meters of shelved books</span> OR A stack of 9-track tapes**

- **20 Gigabytes: A good collection of the works of Beethoven**

- **1 Terabyte: All the X-ray films in a large technological hospital OR <span style="color:red">50,000 trees made into paper and printed</span>**

# Perspectives

- **2 Terabytes: <span style="color:red">An academic research library</span>**

- **10 Terabytes: <span style="color:red">The printed collection of the US Library of Congress</span>**

- **1 Petabyte: 3 years of Earth Observing System satellite data (2001)**

- **2 Petabytes: <span style="color:red">All US academic research libraries</span>**

- **20 Petabytes: The amount of data processed by Google…per day**

- **200 Petabytes: <span style="color:red">All printed material!!!!!</span>**

- **5 Exabytes: All words ever spoken by human beings**

- **…and then there are the Zettabyte and the Yottabyte….???**

# Allowed for the Adoption of These…..



**INTERNET**

**NEW MEDIA**

**DISRUPTION**

**Processing**

**Storage**

**Bandwidth**
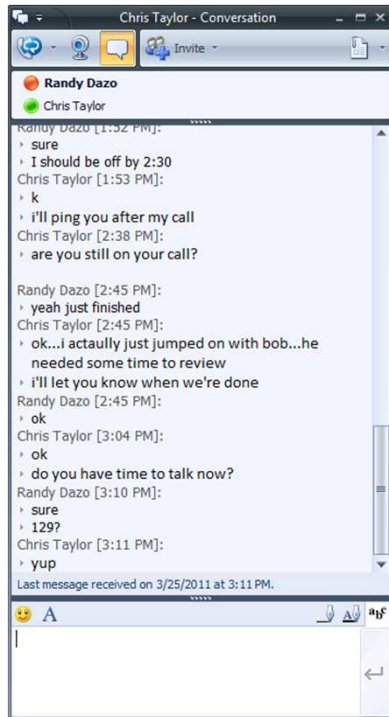
**CLOUD**

**MOBILE**

# MEGA Disruptive Forces

**ECONOMY**

**EVOLUTION OF TECHNOLOGY**

**ME**

# Moving At The Speed of ME - It is ALL about ME

# Me Generation (Gap???)

**Mark Zuckerberg**
**Facebook**

**Jeff Weiner**
**Linkedin**

**Andrew Mason**
**Groupon**

**Steven Chen, Chad Harley**
**and Jawed Karim**
**YouTube**

**Aaron Levi**
**box.net**

**Drew Houston**
**Dropbox**

**Jorn Barger**
**Web Log**

**Jason Fried/Hanson**
**Basecamp**

# The ME Generation is Changing How We Communicate

- Internet usage surpassed 2 billion in 2010

- More than 500 million Facebook users; if Facebook were a country, it would be the world's third largest

- More than 100 million LinkedIn members; someone joins every second

- More than 106 million Twitter users; Twitter users are generating an average of 55 million tweets a day—an average of more than 600 tweets per second

- YouTube exceeds 2 billion views a day; nearly double the prime-time audience of all 3 major U.S. broadcast networks combined

- SMS jumped from an estimated 1.8 trillion in 2007 to 6.1 trillion in 2010

# MEGA Disruptive Forces



ECO...

...N OF
...OGY

**NEW ERA OF COMMUNICATIONS AND COMPUTING**

ME
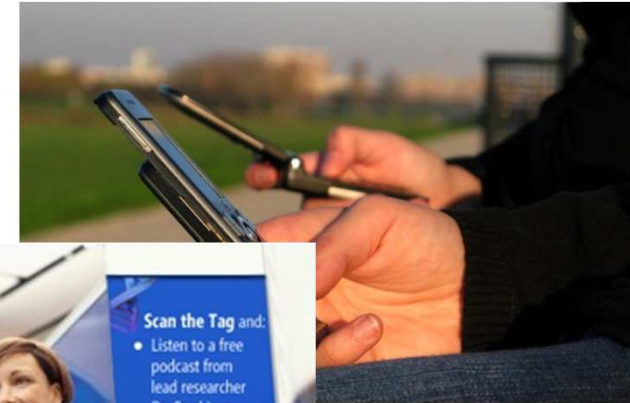
# Transformation Affecting Our Industries

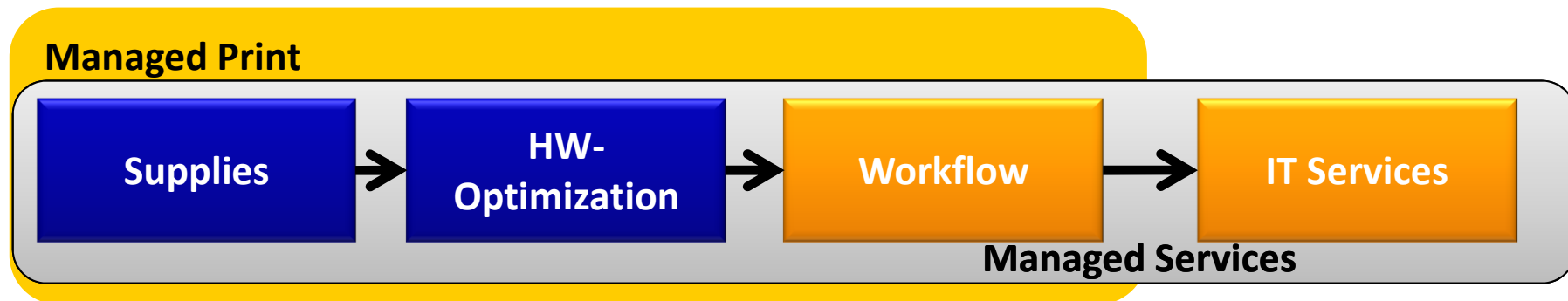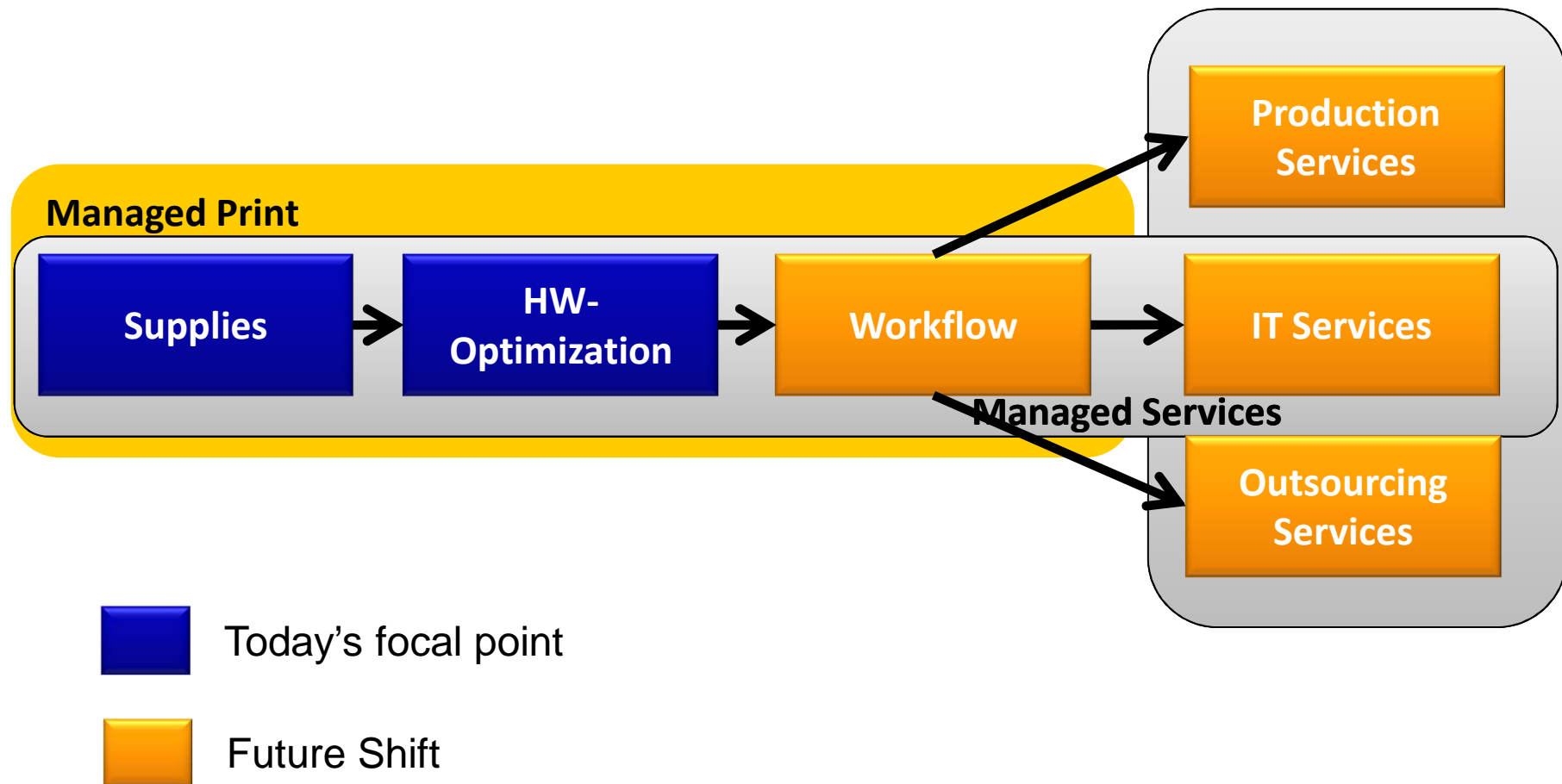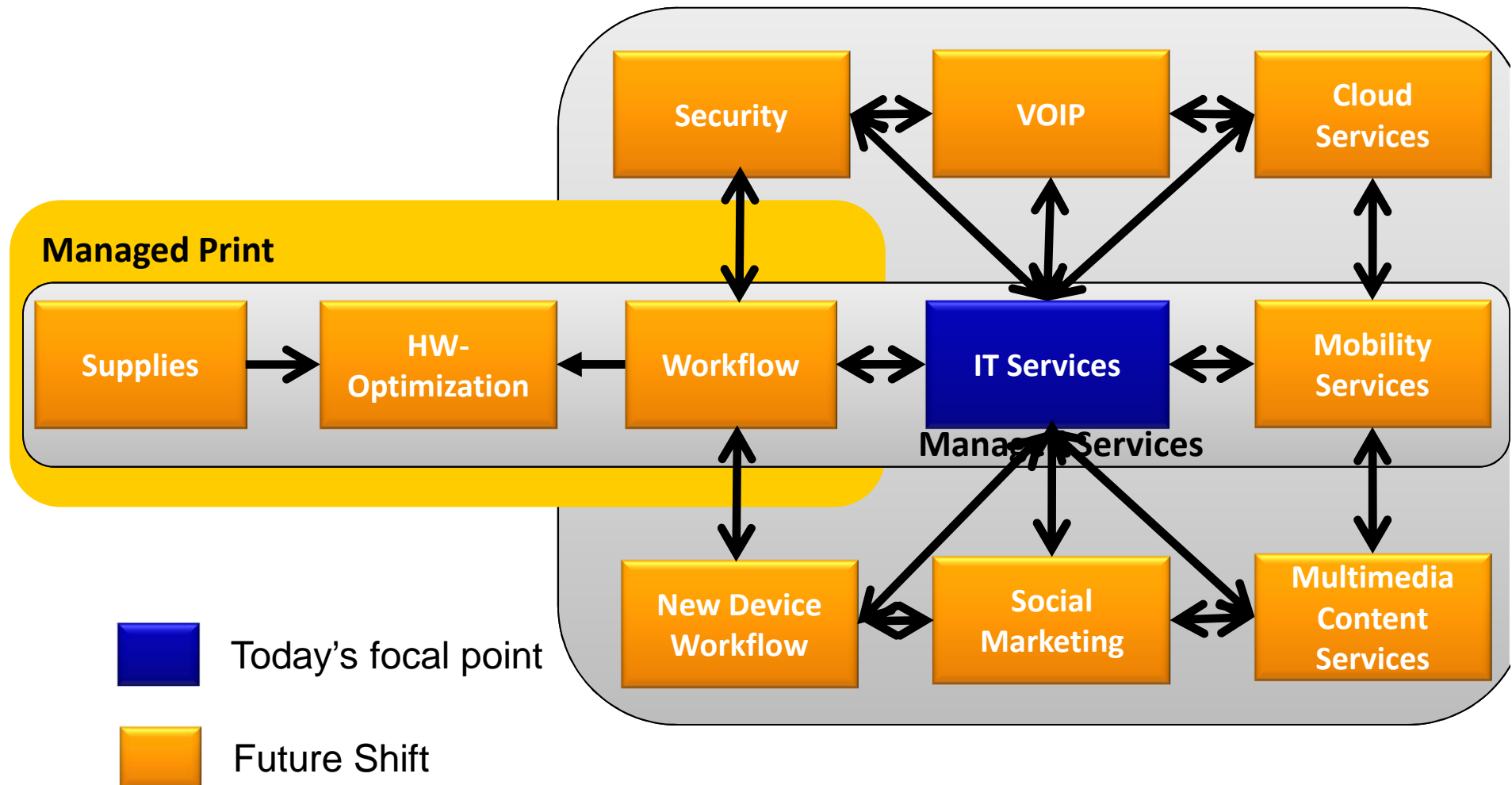| | |
|---|---|
| Baby Boomer | Gen X, Y, Z |
| Document Management | Multi-media Management |
| PC/MFP On/Off Ramp | Mobile On/Off Ramp |
| PC Software | Apps |
| Server Based Solutions | to the Cloud |
| Personal Computer | Post PC Revolution |
| External Security Threats | Internal Threats |
| Transactional | Outsourced/Managed Services |

# The Office Equipment Reseller Future Shift

**Managed Print**

| Supplies | → | HW-Optimization | → | Workflow | → | IT Services |

**Managed Services**

■ Today's focal point

■ Future Shift

# The OEM Future Shift

**Managed Print**

| Supplies | → | HW-Optimization | → | Workflow | → | IT Services |

**Production Services**

**Managed Services**

**Outsourcing Services**

**Today's focal point**

**Future Shift**

# The IT Reseller Future Shift

**Any Questions?**

**jon_reardon@infotrends.com**

**randy_dazo@infotrends.com**