Q&A: Todd Johnson

A look at ProFinance 3.0, peer groups & the industry

Compiled by: Brent Hoskins, Office Technology Magazine

Strategic Business Associates (SBA) has worked with leading entrepreneurs in the office technology industry for more than 20 years. The consultancy helps its clients drive their dealerships to the next level. In addition, SBA plays an important role in all of the industry's top dealer peer groups — Business Products Council Association (BPCA), Copier Dealers Association (CDA), PRO Dealer Group (PDG) and Select Dealer Group (SDG) — administering the industry's largest and most comprehensive financial survey. In addition, SBA has led BTA's ProFinance workshop for more than 20 years. John Hey, Todd Johnson and Paul Mosley are partners in SBA. Hey co-founded the consultancy along with the late John Hanson.

Recently, Office Technology magazine interviewed Johnson about ProFinance, the peer groups and the industry itself. He addressed the questions on behalf of the team at SBA. All three partners reviewed and discussed the questions and SBA's responses in advance of the interview.

Johnson joined SBA in February 2010. For 13 years, he held various positions with Global Imaging Systems Inc., ending as senior vice president of acquisitions before and after it was acquired by Xerox. He was involved in all 80-plus acquisitions made during his tenure there. Prior to Global, Johnson worked as an industry consultant. Before that, he was a U.S. Marine Corps officer.

Following are the questions Office Technology asked of Johnson and his responses.

OT: To date, around 1,000 people have attended ProFinance. How did the workshop come about? How has it remained relevant through the years?

Johnson: At the time, there was an outgoing ProFinance workshop taught by an accounting person; he was no longer going to lead the workshop for whatever reason. It was strictly an accounting procedures workshop. It wasn't an operational workshop connected to the industry. So, when the Business Technology Association (BTA) asked John Hey and John Hanson to support the workshop going forward, they looked at the content of the old program and said: "We won't do that, but we've got a great idea for what we could do." So, basically, they implemented their version. Today, SBA's version of ProFinance is based around the industry model.

They had some ideas about what they wanted to teach and how that would play out over time. However, at the beginning they called a meeting in Kansas City, Missouri, at BTA's headquarters with industry CFOs. I was there as a representative of Global Imaging; we were the main users of the model at that time. The group spent all day hammering out what the messages would be in the workshop. The result was much more operational and much less bookkeeping. It was operational financials — how you take that information and put it to work in your business.

That format has been relevant since SBA began leading ProFinance, the same way the model has been relevant since it was developed. It's probably more relevant today, as it's such a difficult time in the industry. We're such a mature business with price compression and all those types of things that are going on. It's really more necessary today for companies to work for their survival than it's ever been. While we spend a lot of time on it with clients and everything else that we do, teaching ProFinance is a great way to evangelize the model to everyone.

OT: How does attending ProFinance 3.0 prepare dealers to better understand the financial health of their dealerships?

Johnson: The number-one thing that I would boil it down to is data-based decisions. Owners often run by the seats of their pants and their gut feelings of what they need to do for cash flow and things that they can see easily, but they don't really have a sophisticated database to analyze. We used to be able to stumble into pretty good results with those gut feelings. Today, it takes the knowledge, the data and the information to drive the right decisions.

So, we break it down in ProFinance — here's what you want to know, here's why and, oh, by the way, here's what good looks like. Instead of guessing, ProFinance attendees can go back and apply that very specifically to their situations and identify "Here is where we're weak; we should spend time here." ProFinance targets what they should spend time on, and it gives them the ability to understand the levers and how to go pull the ones that are important in their businesses.

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OT: What do you see as some key areas where dealers most often need to improve in terms of meeting the benchmarks taught/discussed in ProFinance 3.0?

Johnson: There are two big areas that we see. The first one is sales compensation strategy and alignment. The industry has changed. The levers are a little different. However, we [dealers] are still using a sales team compensation strategy that is very similar to what was used in 1980. It has not changed enough. So, we have this alignment problem and a conflict in the business. We spend a lot of time on sales compensation and strategy in ProFinance.

The other area is service productivity. Clearly, the model says that service is our cash cow; it's what keeps the lights on. It's the strength of our business, and if that is not running well, the financial outcome is pretty drastic. In ProFinance, we spend time on such questions as: "Do you understand what the service drivers are? Do you understand how these are tied to financial outcomes?" There is a lot of surface-level understanding and misconceptions around what's done, what's possible and what good looks like.

OT: ProFinance has been revised/updated through the years. You are now leading ProFinance 3.0. How has the workshop evolved in order to keep it relevant with the changing nature of the office technology industry?

Johnson: For the first probably 12 to 13 years, ProFinance was the same workshop each year. It was relevant, but was pretty much identical material each year. As John Hanson backed away from the business and I started teaching with John Hey, I said: "Let's relook at all this content. Let's decide if things are more or less valuable today. What else should we be talking about?"

So, one thing we did is we added print as a new model. We had enough print going on to manage it, measure it and model it. We were skipping that conversation in the training and it's such a big factor. So, we went to ProFinance 2.0 with a major update in the material.

Since then, our cadence is to tweak the information a little every year. When we came out with an updated model in 2020, right before the COVID-19 pandemic, we felt like it was a material enough change to the information to call it ProFinance 3.0.

OT: Several years ago, you began hosting the ProFinance 3.0 workshop in BTA member dealerships rather than in hotel meeting rooms. Please speak to that dynamic in terms of how it has benefited attendees.

Johnson: A lot of people who attend ProFinance have never been to another dealership. So, they've never seen another warehouse or a building setup, etc. When we're at a dealership leading ProFinance, the dealership owner or a leader takes the attendees around the facility, talking about things that they're doing, showing their IT services room, their warehouse or whatever. They basically showcase their company.

Attendees react with: "Wow, this is interesting. I'm seeing all kind of things that I didn't really come here to learn, but I'm going to take back with me." So, that's really a great opportunity.

One question we get is: "If I'm attending and I'm at a competitor's building, how is that handled?" Or, from the hosting dealer: "Do you let my competitors across town attend?" That has happened with almost every workshop and it's never been a problem. The hosting dealer is not talking about key customers. The dealer is talking about how the business runs and what makes it work.

OT: SBA is widely known as a key participant in the industry's leading dealer peer groups — BPCA, CDA, PDG and SDG. Through your affiliation, you collect financial information by way of annual surveys of the member dealers in the groups, with the goal of identifying strengths and weaknesses, in order to assist them in improving the overall strength/success of their dealerships. What is the primary — perhaps concerning — trend you are seeing among your financial survey respondents?

Johnson: First of all, we have the largest, most detailed financial survey in the industry. There are others with macro surveys, but they are not as detailed and in the weeds. We include, for example, the number of clicks per month you bill and the expenses in every category all the way down. So, we've got very detailed financial and operational information.

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For the last couple of years, we have been north of $3 billion in total revenue among the respondents to the annual survey. It is very telling in terms of what's going on in the industry — small and large dealerships, every manufacturer, etc.

Of course, three of the last four years have been very interesting with COVID and the supply chain issues. We've given the survey participants some good feedback on things they need to be thinking about or how this is being tackled in other places. The other thing that we've been watching with a lot of interest is how IT services have been growing and changing.

Probably the biggest trend that we've seen that has really been noticeable and interesting, is the separation in performance [of dealerships], even with imaging, our core business, still at about 80% of all revenues in our industry. That is, we have dealerships that are growing and very profitable, and we have dealerships that are not doing well at all and have very low — or even negative — profit in imaging.

We've seen this in the last several years. We call it "the winners and the losers." It's amazing that a company can grow and be better than our benchmark profit — and we have 20% of dealerships doing that — while at the same time we have 10% of companies at 3% or right below 3%, and some of them losing money. What's the difference? It comes down to the operations and the nuts and bolts of how they're doing things and adapting to the changing situation. That's probably the biggest — and most unusual — thing that we see.

OT: You mentioned that SBA has a lot of interest in "how IT services have been growing and changing." Generally speaking, what is your view of managed IT as a diversification opportunity for dealers?

Johnson: Over time, of course, the numbers have shifted a lot more in IT than they have in imaging. We have been adopting it along the way. So, today, two-thirds of the dealers we survey have IT as a part of their businesses and one-third do not. When we aggregate that information, we [the universe of dealers surveyed] lose money every single year, except in 2022, which is our most recent data. In 2022, collectively the dealers made 1% profit with IT. So, there's light at the end of the tunnel, but it's not nearly the opportunity we have with imaging. In imaging, we have averaged around 10% operating profit every year for the last 20 years.

So, we've averaged a negative number in the IT portion of our business every year except in 2022. When you peel that apart, what you have is a few dealerships doing well — and by "well" I would characterize that as better than 7% operating profit. We still have probably two-thirds of the companies out there losing money. So, the reason that averages to a positive number is because the ones doing well are much bigger than the ones that are losing money.

We think that IT is an opportunity, but it's so unique from imaging. You've got to think about it completely differently and when we talk about how it is different, size matters. You can be a profitable small imaging dealership, but it's very difficult, if not impossible, to be small and profitable with IT — as an imaging dealership offering IT services.

OT: Beyond participating in the financial survey, what have you seen as the most compelling benefits to the dealers who are members of the peer groups with which SBA is affiliated?

Johnson: As a dealership owner, you are on this island and so you just don't know if you are doing well. When you sit with a group of peers and talk through things, you're like: "Wow, they're all having problems with this, too. This is how they've already tackled this; we should do that." So, number one, the sharing of best practices that are going on is worth every moment in a peer group.

I don't know how many conversations I've had with dealers who have said: "I joined this peer group six months ago and have been to a couple of meetings and I wish I would've done this years ago. I've learned so much." I've heard that so many times. My question for those dealers who are not in a peer group: "What are you waiting for?"

OT: There is a lot of emphasis in the industry today on product and services diversification. What are your thoughts in terms of the importance of diversification?

Johnson: First, let's be good at our core business. If we're struggling in our core business and we think we're going to diversify, what we're probably going to do is go backward. So, be good at what you do first. Keep in mind, too, that there is a lot of room for diversification inside of imaging, such as production print. There are many different aspects of our imaging model that we probably don't do. Why would

I step past that into something I know nothing about? So, let's make sure our core is good and then diversify inside our core business to the different things that are available to us.

Next, let's think about diversifying our territory and our customers, asking: "Are we heavy in one segment or another?" Maybe diversify into major accounts, government or whatever. So, again, we're doing what we know how to do. Once we're growing and profitable doing what we know, only then do we talk about diversifying into something we don't know anything about, such as audiovisual, water, etc.

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OT: You have had many years of experience in the industry and have seen it evolve considerably over time. What current trend in the industry concerns you? What keeps you optimistic about the future of the independent dealer channel despite that trend?

Johnson: When looking at our core imaging business, the thing that concerns me most — and we've been talking about it for years, watching it play out and I think it's going to be particularly noticeable in 2024 and going forward — is the price compression we've been experiencing in our aftermarket, which comes from lower click rates. That price compression has largely been offset with the bleed over from monochrome to color, and so we've been dropping penny clicks and picking up 5-cent clicks. Even though it's not as many clicks, our dollars have been protected because of that. There is a whole exercise we go through in ProFinance around that concept.

Based on the data we're looking at, the trade-off into color has mostly played out. Is it going to continue to migrate a little? Sure, but by and large, where we used to have 20-plus mono clicks for every color click in our base, today it's about three to one. We feel like that's tapering off. So, that's going to stop supporting our aftermarket price compression problem, which means a big portion of our business. That dollar pressure is getting ready to be a lot more noticeable unless something comes along like color did — which saved us — that I'm not aware of today. So, that's concerning.

In terms of being optimistic about the future and the dealer channel, we've adapted and we've overcome. The reality is that dealerships are as strong as ever. As a matter of fact, our data reveals that the average dealership today is healthier and more profitable than it has ever been. So, I think there's always going to be a place for dealerships to service the clients that we have today. It is going to keep changing. Maybe the volumes are down or whatever. By the way, the manufacturers, VARs and everybody else that might be a threat, they are not a threat. They're not as good as the dealer channel.

There's going to be a place for dealerships as far [into the future] as I can see. It's going to continue to change, but we have plenty of examples of dealerships today that are growing. They have profits that are just astounding and they're doing a great job of taking care of their customers. There's no reason that's going to change. I feel like it's as good a time to be an imaging dealer as it's ever been. But as I said, there are winners and losers, so that doesn't apply to everyone. For the winners, it's going to be great.

Our high-performing dealerships group is as big of a group as it ever has been. That gives me confidence that there's plenty of runway for the high performers. That comes right back to the model, ProFinance and the dealer peer groups. How do you become a high-performing company? You embrace all three of those things. You don't just stumble into it.

OT: What are your expectations in terms of the common characteristics of a successful office technology dealership 10 years from now?

Johnson: Typically, when dealers ask me that, I tell them that my magic eight ball says: "Ask again later," "Answer unclear" or something like that. I do think that our uncertainty as an industry is as high as it's ever been in terms of what's next and what it looks like, but I think that it's not a totally different look than it is today. We are going to have commoditized products that are technology based that we are going to have to represent, sell, configure and consult with clients about in order to help them maximize their productivity.

This is what we've always done and I think that we'll continue to do. The devices are already a commodity. They're going to continue to be a commodity. What's going to separate us and make us valuable is the fact that we have great service, we have consultative selling and we don't come in and say: "Hey, I've got this great big box with a green button on it. It's awesome." Instead, it's: "Let's talk about how you do business and how I can enable you to do it more efficiently. That's our job; to help you be more efficient." I think that's still going to be our role 10 years, even 20 years from now. ■

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