Strategic Business Associates

John Hey

-Extraordinary Tool
-Improves Financial Performance

- Proven Management Tool

- Increases Operating Income

- Fuels Future Success

Profitable Growth

Two Business Imperatives

- Profits

- Growth

Increase Operating Income by 3%

$10 million Company

From 5% to 8%

$300,000+

Invest in the Future

Areas of Opportunity

1. Change_____

2. New Model_____

3. MPS_____

4. What's Next?___

5. What To Do?___

Change

The One Constant

Changing Industry

- Change
  - Pace has increased

- Differentiation
  - From manufacturers and other competition
  - Now's the time

- Failure to differentiate =

    Increased pressure on the core business

- Failure to Act Increases Risk

Changing Industry

- "Sweet Spot"
  - Clients with 100 employees (SMB)
  - 4 – 6 copiers
  - 25 – 30 printers.

- A total solution approach (including IT?)

- HansonHey Model -
  Industry **Model for Success**
  - Substantial changes made
  - Helps dealers identify the new opportunities

MFP

The Changing Model

HansonHey Model

- **HansonHey Model** tracks
    - *Imaging*
    - *Solutions/Managed Services*
    - *IT Infrastructure*.

- Categories combined to form the

    Copier/Imaging Dealer Model

- Information tracked
    - Data from the leading dealers in the industry
    - Represents over **$1.6 Billion of revenue**.

- Updates and changes made to better analyze and prepare for the changes in the industry today

Model for Success

- **Model for Success** automatically computes
  - Gross profit
  - Sales/Service benchmarks
  - Admin benchmarks
  - Operating income.

- Results compared to industry standards
  - Over Achieving or Under-Achieving
  - MFP model based on a 14% operating income
  - Average operating income 8–9 %

Model for Success

- User friendly / <u>It's a management tool</u>

- Easy to complete

- **Model for Success** on a monthly basis

- Respond to
  - Changes
  - Shifts

- Key tool for Management Teams
  - *"see a picture"* of the business

- Develop and Implement
  - <u>Strategies</u>
  - <u>Action plans</u>

Why Change the Model?

- Traditional Copier business is changing.

- Increased printers sales

- Development of MPS

- Printers and MPS
  - Key opportunities for growth

- Track and understand the business

- The New Model addresses the need

Two Models – MFP & MPS

- Two separate models
  - One for MFP (copiers)
  - One for MPS (printers)
  - Accurately reflects the current environment

- Dealers Enter
  - <u>MFP</u> data in the MFP model
  - <u>MPS</u> data in the MPS model
  - **Simple**!

- Dealers see what the MFP and the MPS businesses looked like

- Incredible tool

The Problem

- Dealers sell MFP and MPS on *combined contracts*

- Difficulty? - Determining the split between MFP and MPS

- What about combined expenses?

- Few dealers are 100% MPS

- What good is the New Model if MPS revenue cannot be separated from MFP revenue?

Consolidated Model for Success

- **New Model for Success**
  - Customizes the industry benchmarks
  - Reflects each individual companies data
  - Based on the percent of sales MFP vs. MPS

- Dealer's enter a revenue split (MFP/MPS)

- Split can be adjusted

- See how performance changes if <u>more MFP</u> or <u>more MPS</u> is sold

New MFP - Industry Model

- Previously <u>Twenty-four benchmarks</u>

- Now **Thirty-four benchmarks**

  - Employee Productivity Benchmarks

  - Profitability Benchmarks

  - Expense Controls

  - Asset Management

New MFP - Model for Success

% Of Sales	Sales Category	Gross Profit %	Sales Exp%	Admin Exp %	Profit (Loss) %	Weighted Profit %
48.0	Equipment	35.0	(25.0)	(16.5)	(6.5)	(3.1)
18.0	Supplies	45.0	-	(16.5)	28.5	5.1
32.0	Service	52.0	-	(16.5)	35.5	11.4
2.0	Rental	80.0	-	(16.5)	33.5	.7
100		42.5	(12.0)	(16.5)	14.0	14.0

MFP - Employee Productivity Benchmarks

	Old	New
Sales/Employee per year	$225K	$220K
Eq Sales/Sales Emp. per year	$500K	$325K
Equip Rev/Sales Rep(FTE)/year	$635K	$420K
Sales/Adm Employee/year	$1,150K	$1,000K
Serv Rev/Serv Employee/year	$175K	$175K
Serv Rev/Field Tech/year	$200K	$190K
Total Rev/Serv Employee/year	$600K	$550K

MFP - Profitability Benchmarks

- Service Sales per Units in Base per month

  Old - $100 per month

  New - $75 per month

- Supply Sales per Units in Base per month

  Old - $55 per month

  New - $45 per month

MFP - Profitability Benchmarks

	Old	New
• Equipment Gross Profit	35%	35%
• Supply Gross Profit	45%	45%
• Service Gross Profit	50%	52%
• Parts Expense / Serv. Rev.	17.0%	17.0%
• Labor Expense / Serv. Rev.	27.5%	25.5%
• Travel Expense / Serv. Rev.	4.0%	3.5%
• Training Expense / Serv. Rev.	1.5%	2.0%
• Rental Gross Profit	50%	50%

MFP - Expense Benchmarks

	Old	New
● Sales Expense / Equip Sales	25%	25%
● Manager Comp	5%	5%
● Rep Comp	14%	14%
● Other	6%	6%
● Admin Expense / Total Sales	15.5%	16.5%

New MFP - Model for Success

% Of Sales	Sales Category	Gross Profit %	Sales Exp%	Admin Exp %	Profit (Loss) %	Weighted Profit %
48.0	Equipment	35.0	(25.0)	(16.5)	(6.5)	(3.1)
18.0	Supplies	45.0	-	(16.5)	28.5	5.1
32.0	Service	52.0	-	(16.5)	35.5	11.4
2.0	Rental	80.0	-	(16.5)	33.5	.7
100		42.5	(12.0)	(16.5)	14.0	14.0

MPS

The New Model

Creation of the MPS Model

- Track MPS

- What's the effect on the traditional business?

- Collaboration with **Pros Elite**

- Designed for Printer and MPS data only

- Format same as the MFP

- Dealers input revenue, cost of sales, and sales expense

New MPS - Industry Model

- **Thirty-four benchmarks**

  - Employee Productivity Benchmarks

  - Profitability Benchmarks

  - Expense Controls

  - Asset Management

New MPS - Model for Success

% Of Sales	Sales Category	Gross Profit %	Sales Exp%	Admin Exp %	Profit (Loss) %	Weighted Profit %
18.0	Equipment	28.0	15.0	(16.5)	(3.5)	(0.6)
56.0	Supplies	41.0	15.0	(16.5)	9.5	5.3
26.0	Service	52.0	15.0	(16.5)	20.5	5.3
0.0	Rental	0.0	0.0	0.0	0.0	0.0
100		41.5	15.0	(16.5)	10.0	10.0

MPS - Employee Productivity Benchmarks

- Sales/Employee/year $250K
- Eq Sales/Sales Emp. per year $500K
- Sales/Adm Employee/year $1,500K
- Serv Rev/Serv Employee/year $500K
- Serv Rev/Field Tech/year $500K
- Total Rev/Serv Employee/year $1,333K

MPS - Profitability Benchmarks

- Service Sales / Units in Base / Month

    $15 per month

- Supply Sales / Units in Base / Month

    $35 per month

MPS - Profitability Benchmarks

- Equipment Gross Profit   17.0%

- Supply Gross Profit   45.0%

- Service Gross Profit   69.5%

  - Parts Expense / Serv. Rev.   7.5%
  - Labor Expense / Serv. Rev.   20.0%
  - Travel Expense / Serv. Rev.   2.0%
  - Training Expense / Serv. Rev.   1.0%

- Rental Gross Profit   100%

MPS - Expense Benchmarks

- MPS Sales Expense is divided by total sales.

- Sales Expense / Total Sales   15.0%

    - Manager Comp   3.0%
    - Rep Comp   10.0%
    - Other   2.0%

- Admin Expense / Total Sales   20.0%

CPC Allocations

Rules for CPC allocations - MFP and MPS

- MFP - **65% Service / 35% Supplies allocation.**

- MPS - **35% Service / 65% Supplies allocation**

Microsoft Office
cel 97-2003 Worksh

Profit Challenge

Aftermarket

Profit Engine Under Pressure

- Cost per page revenue declining

- MFP volume flat or declining

- Print volume increasing

- Printer volume exceeding copier volume

Aftermarket Revenue Template

- Current year's aftermarket revenue _____
- Typical machine:
  - Average clicks per month _____
  - Average cost of aftermarket / click _____
- % of base you will upgrade _____
- % of base competition will upgrade _____
- % increase to remaining base _____
- Revenue from net new placements _____
- Next year's aftermarket revenue _____

Aftermarket Revenue - 5 yr Leases

- Current year's revenue (1604 units)   **$3,250,000**
- % of Base that you will upgrade   (170,922)
    (20% @ 8000 CPM x .0211 - .0100)
- % of Base you will lose to competitor   (162,500)
    (5% @ 8000 CPM x .0211)
- Increase remaining base (10%)   243,750
- Net new placements   <u>76,800</u>
  (160 @ 8000 CPM x .0100) X 6

- Next year's aftermarket revenue   **$3,237,128**

Revenue/Profit Problem

Changing Industry

Face the Facts

Print/Copy/Fax/Scan

- 100+ million HP laser printers (50% +5 years old)
- 8+ million Copiers/MFPs/Faxes
- Massive investment in document technology
- Continued dependence on hard copy
- Organizational Fragmentation
- Uncontrolled and unmanaged output devices
- Consumes as much or more than 6% of sales

Trends

- Paper output volume continues
- Print volume climbing
- Print Volumes have overtaken Copy Volumes
- Hard copy document devices are converging
- Color is becoming mainstream

Trends

- The focus for dealers will shift from "*hardware placed*" to "*pages captured*"

- Customers will be looking for
  - Tighter control over document output
  - Balanced deployment
  - Effective device utilization
  - Reduced costs
  - Single-source supplier for their needs

Trends

- Converged printer/MFP market provides revenue and profit opportunity

- This will include
  - **Document Assessment**
  - **Print Management**
  - **Managed Print Service**
- Dealers
  - **Expected** to introduce a wealth of solutions
  - Help customers solve document management problems

Document Assessment Opportunity

- 39.2% - Clients never performed
- 10.4% - Clients considering
- 21.9% - Clients 3rd party
- 28.4% - Clients self assessments

Nearly 50% Have not conducted an assessment of their print costs/strategy

Customer Segmentation

Consumer/SOHO

- Commodity market
- Price sensitive
- Low-touch

SMBs

- New Technology Adopters
- Price Conscious
- Value-oriented

Large Business

Enterprise

- Technology savvy
- Right-sizing
- Improved productivity
- Device consolidation
- Reducing costs
- Infrastructure & Workflow
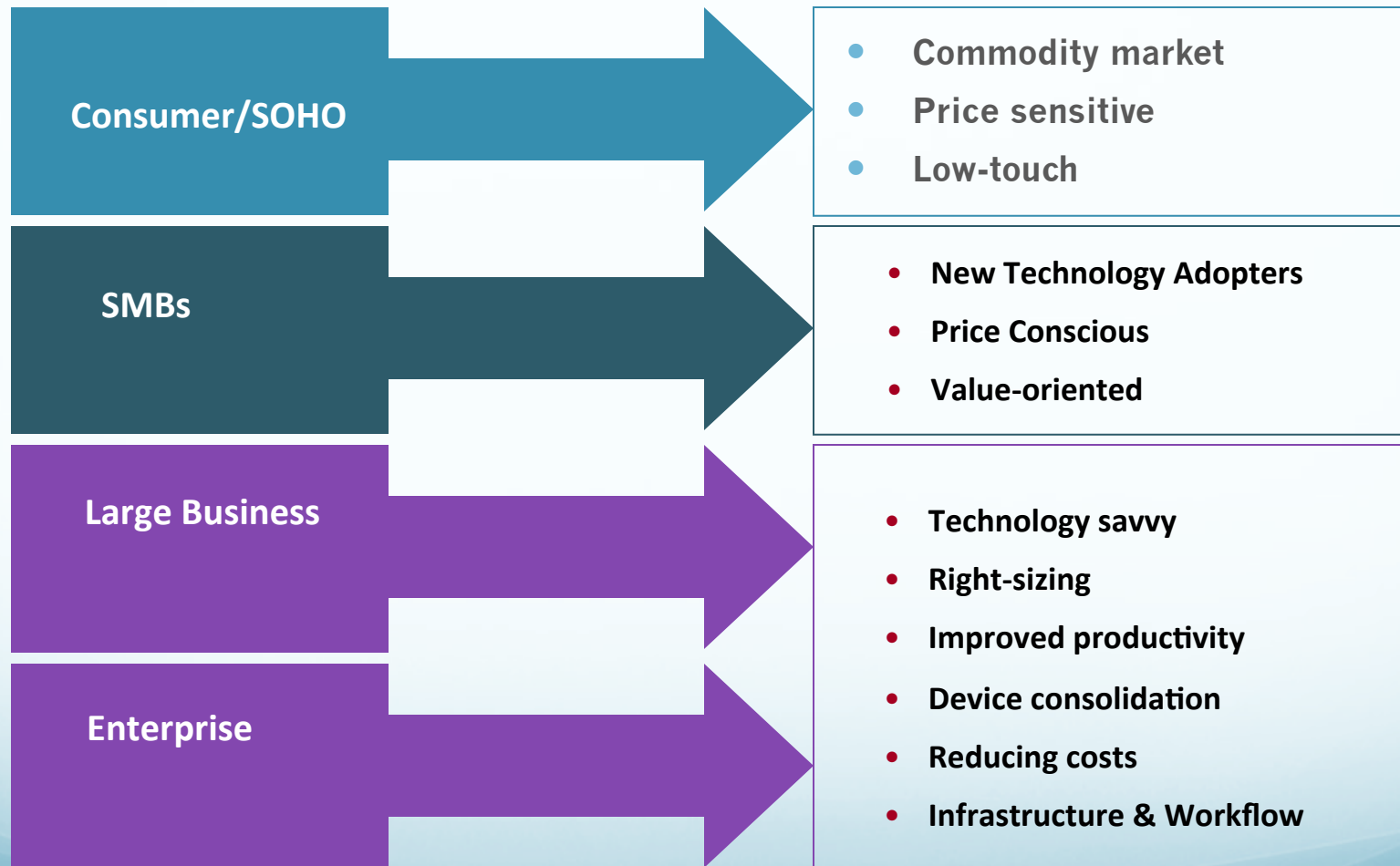
Fragmented Purchasing and Deployment of Office Equipment

- Traditionally done by Purchasing

- IT involved or **assuming primary responsibilities** when devices are connected

- Individual workgroups

  - using their department budgets

  - making "silo" purchasing decisions

US Product Distribution Issues

- Competition increasing from the VAR's and printer resellers

- Manufactures increased distribution

- Bid pricing highly competitive

- Independent dealer distribution consolidating

- Print vs. MFP – **The MFP Advantage**

MFP Dealer vs. Printer Reseller

MFP	Printer
• Longer selling cycle	• Shorter selling cycle
• Technical service	• Cartridges
• Leasing vs. sell	• Sell vs. lease
• Adm. Support	• Lean administration
• Computers systems	• Lower margin
• Relationships w/clients	• Relationship with IT
• Client service	• HP relationship

Going Forward

- Conduct assessments
- Deploy output management strategies
- Provide managed print (MPS/MDS)
- Forms, Security, Solutions
- Help manage color
- Right-size printer fleets
- Leasing partner
  - MFP's, printers, supplies, service, software
  - Single invoice / cost per click
- Work with IT

Print Management Engagement Process

LEARNING OUTSOURCE GROUP
Our Business Is Supporting Yours

| Gain "C" Level Access | Secure Commitment To The Process | Perform Snapshots | Design and Present Solution | Close & Implement Solution |

Methodology Framework

Value

YOU

Close & Implement

Design Proposed Solution

Present Proposed Solution

Perform Snapshots

Validate/ Analyze Findings

Set technical & process expectations

Gain C-Level Access

Competitive Edge

Revenue

Margin

Relationships

COMPETITORS

Initiate

Time & Touches

Product

- Need access to HP products/service

- Re-man cartridges

- OEM cartridges

- Printer product line

Survey Tools

- Excellent assessment software available

- Commit to a tool

- Many options

    - Compass
    - Print Fleet
    - Print Audit
    - FM Audit
    - American PrintWare

Assessments

- Train Equipment Sales Professionals on the basics.

  - Call on the "sweet spot" (SMB)
  - Develop C level contacts
  - Involve IT
  - Sell the engagement
  - Gain a commitment for document assessments
  - Engage print specialist and other organizational resources
  - **Work collaboratively**

Information Technology
IT

Geeks Will Rule the World

Speak IT

- Terms

- Acronyms

- Lingo

- Personalities

- Motivation

Fed-Up Techies

- Survey by Sunrise Software of IT managers

- Findings

  - **Printer issues are the most common reason for a help desk call**

Working with IT

Q: How many Geeks does it take to screw in a
   light bulb?

A: None

   It's a hardware problem!

Working with IT

- IT Does and Don'ts

  - **Do** try to gain a basic understanding of technology
  - **Do** provide context
  - **Don't** make last minute requests
  - **Don't** wait to befriend techies

IT Psychology

- Perfectionism

- Lust for gadgets

- Curiosity

- Systematic thinking

   (View the world in black and white terms)

- Wrong? Never!

- Competitive (Constantly honing their skills)

IT Motivation

- Geeks like to make money

- Recognition is equally important

- Relationship and trust

- Time to play

Glossary

- **Catching Errors** –
  - Tech problem with no obvious cause

- **Subject Matter Expert** –
  - A tech with expertise in a particular area or discipline

- **HKI Error** –
  - Human-keyboard interface error (it's your fault stupid!)

Glossary (con't)

- **ID-10-T** –
  - The user is an idiot (ID10T)

- **Known Issue** –
  - As in "That's a known issue." In other words, you're the 200th person who's called about this in the past week – and no it's not fixed!

- **Nerd** –
  - Use Geek instead

Glossary (con't)

- **PEBCAK** –
  - Problem exists between chair and keyboard (it's your fault stupid)

- **PICNIC** –
  - Problem in chair, not in computer

- **RTFM** –
  - Read the fricking manual

Strategies

- Print Specialists (*Subject Matter Experts*)

  - Works with the sales professional
  - Conduct surveys
  - Utilize survey software and tools
  - Analyze print/copy volume and patterns
  - Builds relationship with IT (speaks IT)

Subject Matter Expert *(Print Specialist)*

- Who are these guys and gals?

  - Behavior Characteristics
    - Analytical
    - Sociability
    - Process oriented
    - Some level of technological expertise (can speak IT)

  - Where do you find them? (Recruiting)
    - IT savvy techs
    - Retail sales geeks
    - Cellular technology
    - Current staff referrals

MPS Strategy

- Commitment by the dealer principle

- Survey software/tools

- Specialist

- Parts and service

- Leasing partner

- Compensation

- Administration

Get your numbers in the **Model for Success**

Three Big Issues for Dealers

1. Revenue Growth

2. Differentiation

3. Evolving the Organization

1. Revenue Growth

- Upgrades
  - Reduce Service Revenue
- Aftermarket
  - Price Declines
- Profits
  - Yes – Even on lower revenue

- Keep current clients
- Prospect for new business
- MPS
- Protect the aftermarket
- Sell value
- Continued training and development

2. Differentiation

- Need to look different than competitors

- No longer survive just selling boxes

- Disruptive strategies

  - HP, Lexmark, Samsung, OKI and others

  - Providing "new competitive" products (A4)

  - Compete against MFPs at significantly lower prices

- The China factor

3. Evolve the Organization

- Service Revenue Flat or Declining
  - Electronic meter reads for copiers / printers
  - Balance resources with revenues
  - New Benchmark
    - ❑ *Total Revenue per Service Employee*
  - Success with MPS and Solutions
    - ❑ Dealers will significantly exceed the benchmarks

- Admin Expense
  - Technology
  - Staffing

Opportunity

- The future is Amazing
  - For dealers who transition their businesses

- Revenue growth and diversification
  - Results in much stronger dealerships

- The new **Model for Success**
  - Strengthens the dealership

Strategies

- Sell hardware/protect the aftermarket

- Provide exceptional client service

- Increase productivity/ reduce admin expense

- Drive color revenue

- Develop/expand MPS strategy

- Earn while you learn

- Make some mistakes

Managed Services Providers(MSP)

What's Next?

Executive Summary

- IT is moving to service delivery model

- Imaging dealers well positioned

- Most imaging dealers not playing

- Competitors circling

- 3 – 5 year window to act

IT Service Delivery Model

- Perfect Storm
  - Clients comfortable outsourcing IT and IT management
  - Cloud computing and Software/IT as a Service is here

- Major players expect IT to move to a service centric model

- IT is now considered a business utility

- Recurring revenue is the "prize" in the IT channel

Critical Issues

- **Lines blurring**
  - Between printers, copiers, multi-function, workstations, and print services

- **Act**
  - Potentially run the risk of being displaced

- **New Competitors**
  - Targeting imaging dealer traditional client base

- **Imaging dealers**
  - **Not recognize** as players in the MSP space

Imaging Dealer Well Positioned

- Trusted client relationships
- Service mentality
- People and systems in place
  - Field technicians
  - Service desk/call center
  - Back office systems
  - 4 Hour Response time
- Products in the clients IT environment
  (hard to put an MFP in a cloud)

Competitors

- VAR's first MSP's
  - continue to expand and grow

- Large IT vendors (IBM, HP, Microsoft, Google)
  - moving into the cloud game

- Microsoft
  - Enabling thousands of Microsoft partners to enter the MSP market

- Xerox, Ricoh, KonicaMinolta

Imaging Dealer Options

- **Do It Yourself** – Leverage tools and enablers

- **Acquire** – Many small MSP's struggling to get to scale

- **Partner** -
  - Established MSP's looking for leverage
  - Great America Leasing
  - KM, Ricoh, other vendors?

What's Required

- **Tools**
  - Monitoring
  - Ticketing
  - Configure/Change

- **Processes**

- **Technical Staffing**

- **Sales**
  - Training
  - Compensation

- **Marketing**
  - Data sheets
  - Presentations
  - Pricing
  - Website

- **Contracts**
  - Master Service Agreement
  - Service Schedules
  - Service Exhibits
  - Policies

MFP / MPS / MSP
What's the difference?

- **MFP**
  - Traditional dispatch function
  - Call avoidance

- **MPS**
  - Server access
  - Device monitoring
  - Supplies monitoring/ fulfillment

- **MSP**
  - Level I
    - A+ certified techs
    - Server knowledge
    - General IT expertise
  - Level II
    - IT experience
    - Certifications
  - Level III
    - Onsite IT help
    - Software
    - Work with client IT

Dealers at the Crossroads

What To Do?

Challenging Environment

- Competition
  - Increasing and Borderless

- Technology
  - Everyone has Access

- Exceptional Client Service
  - A Given

- Distribution
  - Consolidating

- Manufacturers
  - Expanding Direct Operation

How Does an Imaging Company Thrive?

Successful Imaging Dealers

- Preparing for change

- Knows the numbers/What good looks like

- Protects and leverages the profit engine

- Continues to develop/improves the MPS strategy

- Prepare for MSP

- Invest in the business (Money and <u>Talent</u>)

The Right People (Talent)
The Differentiator

- They make technology work

- They provide exceptional service

- They create stability

- They are the competitive advantage

They make the difference

Leadership/Management

- Fully engaged team
  - The right message
  - A clear and simple message
  - Repeated over and over

- Right Person/Right Job/Right Relationship

- Processes to effectively
  - Recruit
  - Hire
  - Train
  - Manage
  - Motivate

Evolve the Organization

Transition is difficult and can make some people very uncomfortable.

"People who got us here today may struggle taking us where we need to go in the future"

If you can't change the people

Change the people

Leadership

You Make the Difference

Situational Awareness

Leadership

- Scanning the periphery

- Look for opportunities/Anticipate problems

- Vision

- Mission

- Relationships

- Trust

Eat An Elephant One Bite At A Time

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Embrace   **Change**

Use   **New Model**

Execute   **MPS**

Look for What's Next

Understand What To Do

Strategic Business Associates

John Hey