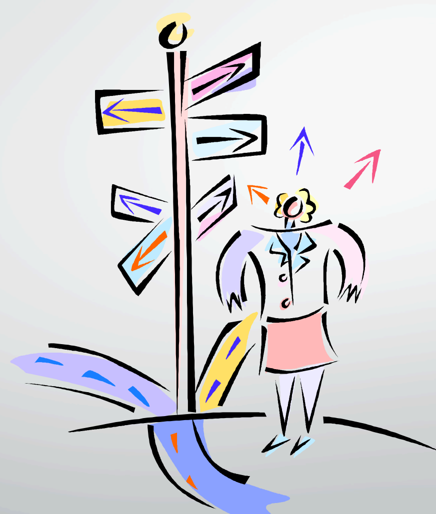
Strategic Business Associates

BEST PRACTICES & THE INDUSTRY BENCHMARK MODEL

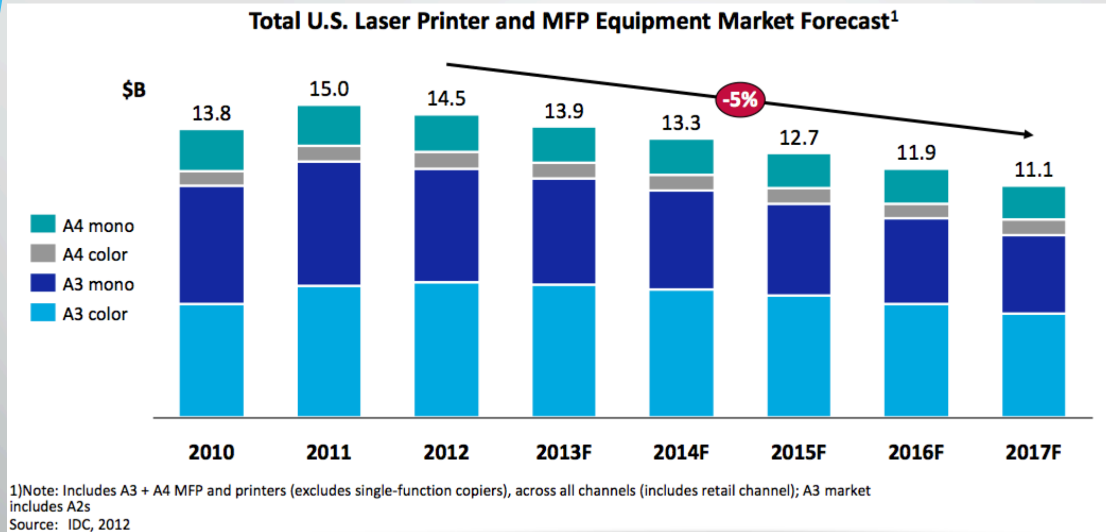
by TODD JOHNSON

Business Technology Association®

DEALERS AT THE CROSSROADS



What To Do?



CHALLENGING ENVIRONMENT

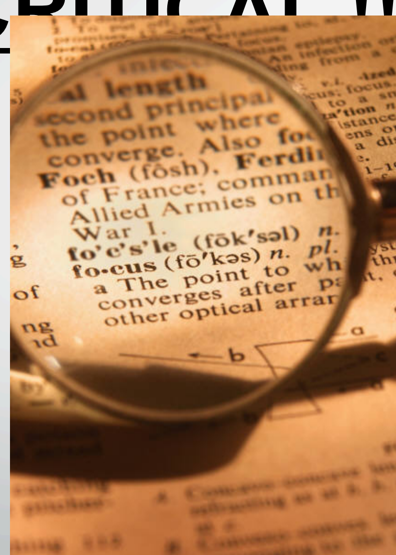
- **Competition**
  - **Increasing and Borderless**
- **Technology**
  - **Everyone has Access**
- **Exceptional Client Service**
  - **A Given**
- **Distribution**
  - **Consolidating**
- **Manufacturers**
  - **Expanding Direct Operation**

How Does an Imaging Company Thrive?

TODAY'S SUCCESSFUL IMAGING DEALERS:

- Preparing for change
- Know the numbers / Know what good looks like
- Protect and leverage the profit engine
- Continue to develop/improve the MPS strategy
- Prepare for the MNS/MSP environment

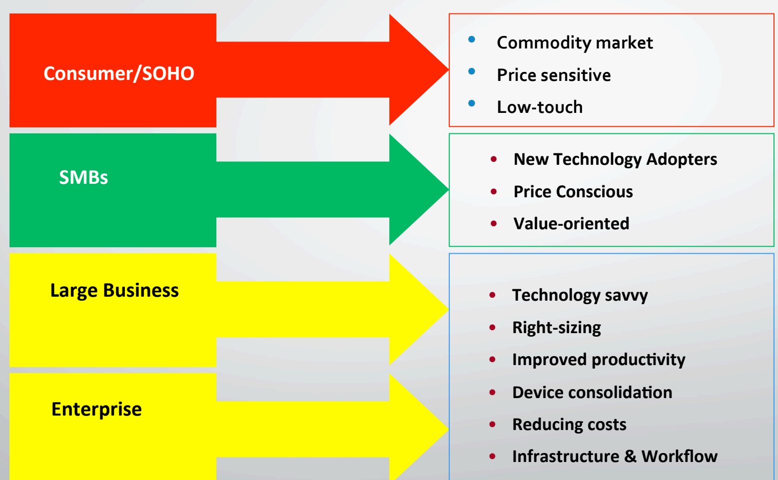
FOCUS IS CRITICAL !!



3 KEY FOCUS AREAS

1. Market Segment
2. Growth
3. Profitability / What good looks like

CUSTOMER SEGMENTATION FOCUS



GROWTH FOCUS

- Grow or Die!
- Avenues of Growth:
  - Retain current clients; Take clients from competitors; Invade adjacent markets; Invest in new businesses
- Haves and Have nots out there, and the Haves are buying up the Have nots
- MPS – Still largely untapped
- MNS?

PROFIT FOCUS

- What is the profit engine of the Imaging business?
- "Profits are the purchase of future employment."
- How profitable can we be, should we be, and still serve the customer well?
- What does good look like today?

WHAT IS "GOOD" ANYWAY?

- **Higher Profits?**
- **More Cash in the Bank?**
- **Growing Sales?**
- **Expanding Products?**
- **Happy Customers?**
- **Happy Employees?**
- **More time on the Golf Course?**

- ***How about YES!***

INDUSTRY DATA ORGANIZATION

- Imaging – **91.3%**
  - Traditional MFP business – 89.5%
  - Managed Print Services – 9.4%
  - Doc Solutions – Imaging Related – 1.0%
- Managed Network Services – 5.5%
  - Hardware as a Service (HaaS)
  - Insourced / Outsourced Managed Services
  - Traditional IT Service & Support
- Other – Furniture, Water, Office Supplies, Internal Leasing, etc. – 3.2%

Benchmark Model Focuses Here

INDUSTRY BENCHMARK MODEL

- The Industry Benchmark Model has been used by the "copier" industry to communicate the standards of good performance:
  - For over 20 years
  - By BTA, IKON, Danka, Global, CDA, BPCA, SDG, PDG, and many others
  - In the US as well as Europe, South America and Australia
  - For large and small dealers, as well as mega-dealers
  - For dealers with rural or metropolitan markets
- The Industry Benchmark Model is periodically updated and refreshed to reflect changes in the industry standards, and trends in performance
  - # 1 Change over last 20 years = Higher Productivity Standards

DEFINITION OF A BENCHMARK

- Standard of excellence or achievement against which things can be measured or judged.
- The 80th percentile of the industry's Best Sustainable Practice
- MINIMUM ACCEPTABLE PERFORMANCE
- *Benchmarks can be over-achieved!*

MFP PROFITABILITY MODEL

MIX of Sales	48%	18%	32%	2%	
Category	**Hardware**	**Supplies**	**Service**	**Rental**	**TOTAL**
Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
- Cost of Goods	**(60.0%)**	**(56.0%)**	**(48.0%)**	**(55.0%)**	**(55.3%)**
= Gross Profit	**40.0%**	**44.0%**	**52.0%**	**45.0%**	**44.7%**
- Sales Exps	**(28.5%)**	**(0.0%)**	**(0.0%)**	**(0.0%)**	**(13.7%)**
= Contribution	**11.5%**	**44.0%**	**52.0%**	**45.0%**	**31.0%**
- Admin / Overhead	**(17.0%)**	**(17.0%)**	**(17.0%)**	**(17.0%)**	**(17.0%)**
= Operating Profit	**(5.5%)**	**27.0%**	**35.0%**	**28.0%**	**14.0%**
Weighted Profit	(2.6%)	4.9%	11.2%	0.6%	

MFP PROFITABILITY MODEL

MIX of Sales	48%	18%	32%	2%	
Category	**Hardware**	**Supplies**	**Service**	**Rental**	**TOTAL**
Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
- Cost of Goods	**(60.0%)**	**(56.0%)**	**(48.0%)**	**(55.0%)**	**(55.3%)**
= Gross Profit	**40.0%**	**44.0%**	**52.0%**	**45.0%**	**44.7%**
- Sales Exps	**(28.5%)**	**(0.0%)**	**(0.0%)**	**(0.0%)**	**(13.7%)**
= Contribution	**11.5%**	**44.0%**	**52.0%**	**45.0%**	**31.0%**
- Admin / Overhead	**(17.0%)**	**(17.0%)**	**(17.0%)**	**(17.0%)**	**(17.0%)**
= Operating Profit	**(5.5%)**	**27.0%**	**35.0%**	**28.0%**	**14.0%**
Weighted Profit	(2.6%)	4.9%	11.2%	0.6%	

MFP PROFITABILITY MODEL

Service Costs of Goods Sold Breakout

- Service Compensation 25.5%
- Parts Expense 17.0%
- Auto 3.5%
- Training, etc. 2.0%
- Total Service COGS 48.0%

MFP PROFITABILITY MODEL

Sales Expenses Breakout

- Manager Compensation 5.5%
- Rep Compensation 16.0%
- Other 7.0%
- Total Sales Expense 28.5%

MFP PROFITABILITY MODEL

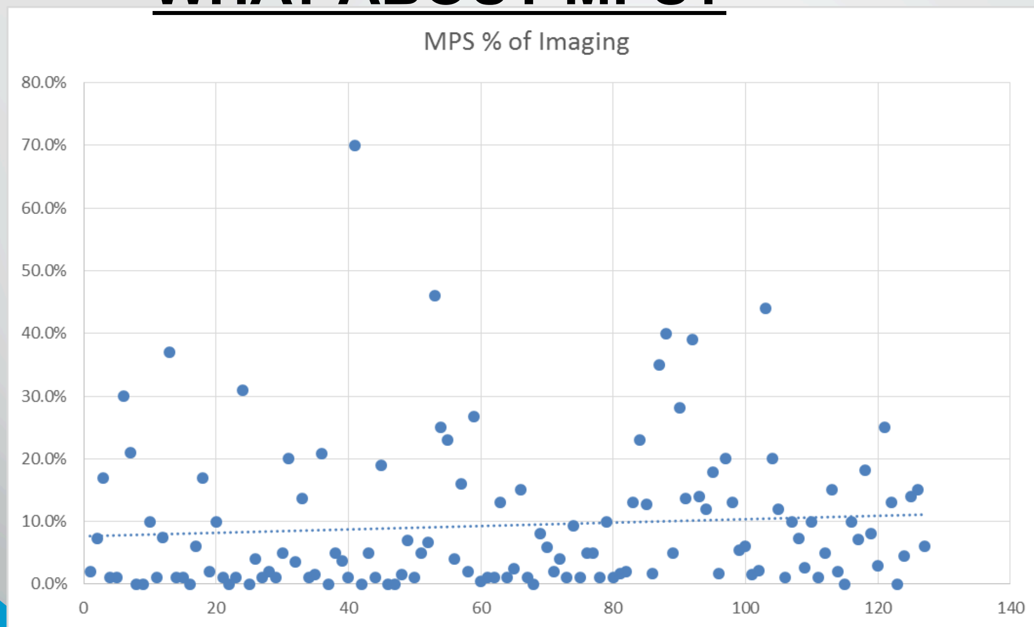
Administrative / Overhead Expenses Breakout

Compensation	6.5%
Payroll Taxes	2.2%
Facilities	2.8%
Employee Benefits	2.4%
Other	3.1%
Total Admin Expense	17.0%

MFP EMPLOYEE PRODUCTIVITY

Sales per Employee per year	$230K
Eq Sales per Sales Emp. per year	$350K
Equip Rev / Sales Rep (FTE) per year	$450K
Sales per Adm Employee per year	$950K
Serv Rev per Serv Employee per year	$185K
Serv Rev per Field Tech per year	$194K
Total Rev per Serv Employee per year	$570K

WHAT ABOUT MPS?



MPS PROFITABILITY MODEL

Category	Hardware	Supplies	Service	Rental	TOTAL
MIX of Sales	4%	63%	33%	0%	
Sales	100.0%	100.0%	100.0%		100.0%
- Cost of Goods	(80.0%)	(55.0%)	(40.0%)		(51.0%)
= Gross Profit	20.0%	45.0%	60.0%		49.0%
- Sales Exps	(16.0%)	(16.0%)	(16.0%)		(16.0%)
= Contribution	4.0%	29.0%	44.0%		33.0%
- Admin / Overhead	(17.0%)	(17.0%)	(17.0%)		(17.0%)
= Operating Profit	(13.0%)	12.0%	27.0%		16.0%
Weighted Profit	(0.5%)	7.6%	8.9%	0.0%	

MPS PROFITABILITY MODEL

Service Costs of Goods Sold Breakout

Service Compensation	25.0%
Parts Expense	10.0%
Auto	3.0%
Training, etc.	2.0%
Total Service COGS	40.0%

MPS PROFITABILITY MODEL

Sales Expenses Breakout

Manager Compensation	3.0%
Rep Compensation	11.0%
Other	2.0%
Total Sales Expense	16.0%

* % of Total Sales

MPS PROFITABILITY MODEL

Administrative / Overhead Expenses Breakout

Compensation	6.5%
Payroll Taxes	2.2%
Facilities	2.8%
Employee Benefits	2.4%
Other	3.1%
Total Admin Expense	17.0%

MPS EMPLOYEE PRODUCTIVITY

MPS Sales per Employee per year	$250K
MPS Sales per MPS Sales Rep per year	$600K
MPS Sales per Adm Employee per year	$1,000K
MPS Service Rev per MPS Tech per year	$700K

SO HOW DO INDEPENDENT DEALERS PERFORM TODAY??

2015 UNIVERSE DATA

127 Dealers - $2.1B

2015 Size Groups:

- 27 - Group A Dealers (Rev below $5 Million)
- 42 - Group B Dealers (Rev $5–$12 Million)
- 38 - Group C Dealers (Rev $12–$25 Million)
- 20 - Group D Dealers (Rev over $25 Million)

- 27 - High Profit Dealers (21%)

  Imaging Operating Income over 14%

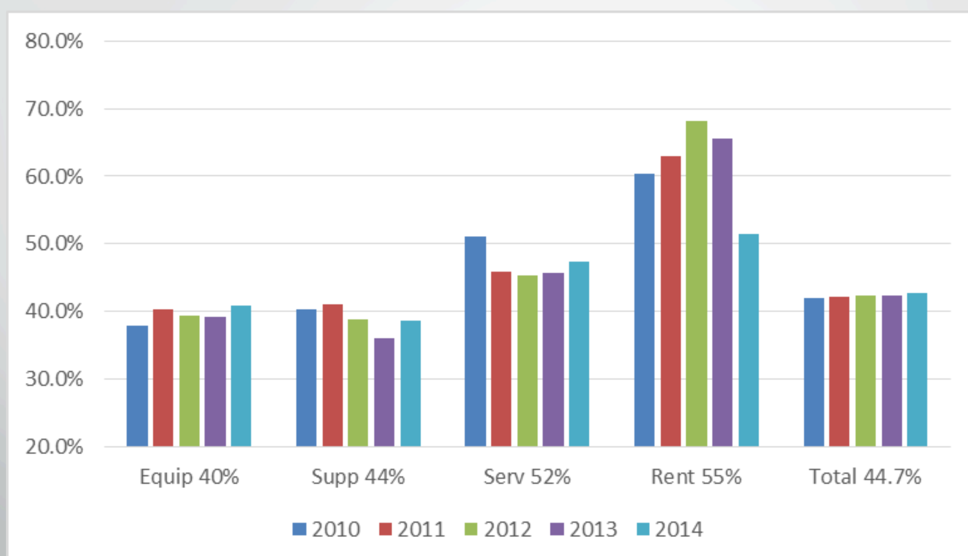
REVENUE GROWTH

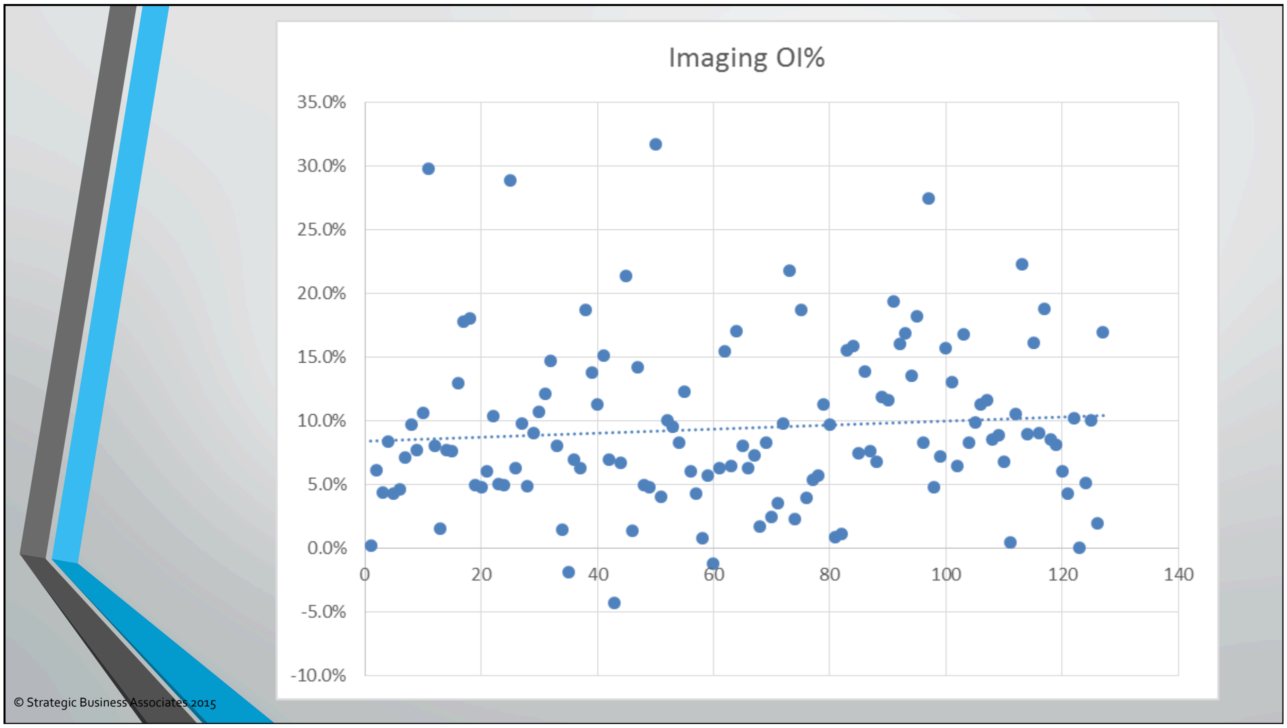
Business	2015	2014	$Change	%Change
Imaging	$1,970M	$1,840M	$130M	7.1%
MNS / IT	$116M	$88M	$28M	32%
Misc	$68M	$30M	$38M	127%
Total	$2.15B	$1.96B	$196M	10%

19 acquisitions reported in 2014

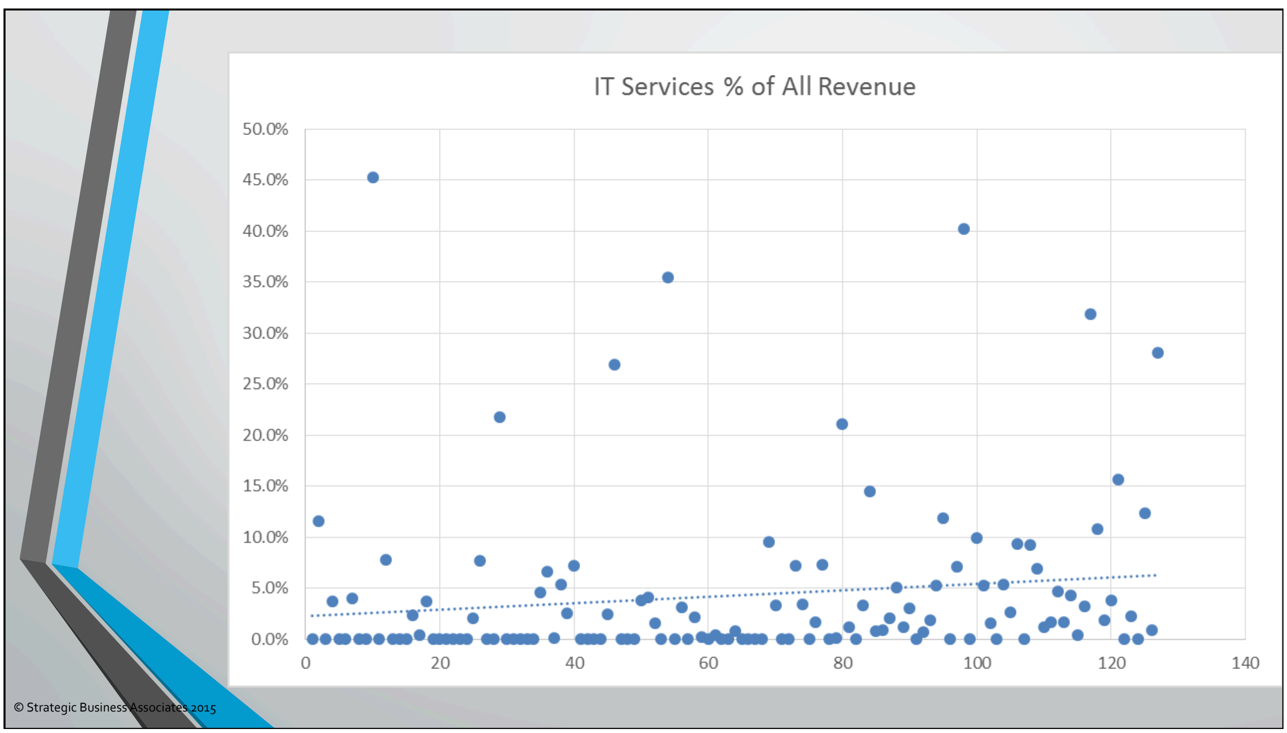
-Total $21M of the growth (1.1%)

IMAGING GROSS PROFITS

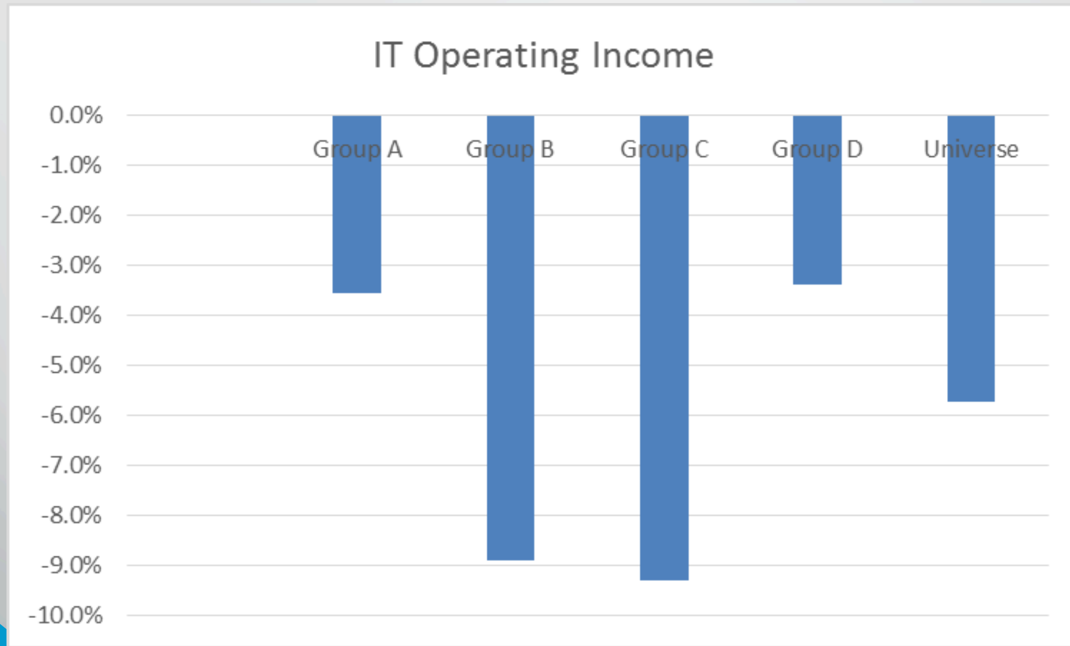




Imaging OI%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
0
20
40
60
80
100
120
140
© Strategic Business Associates 2015



IT Services % of All Revenue
50.0%
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
0
20
40
60
80
100
120
140
© Strategic Business Associates 2015



GOOD PERFORMANCE:

- Not Based on:
  - Size
  - Product line
  - Geography
  - Location

- IS Based on:
  - Management skill
  - Exceptional leadership
  - High capacity teams and people

WHERE DO WE GO FROM HERE?

- ➢ Focus on the ideal customer segment
- ➢ Protect the profit engine of the core business
- ➢ Use the model to drive profitable growth.
- ➢ Proceed carefully into new business segments –
    - ➢ IF the core business is performing.

All of Business is about making changes -
before they are shoved down your throat.

FINANCIAL SKILLS, KNOWLEDGE AND LEADERSHIP

PROFINANCE 2.0

Upcoming Workshop Date and Location:
•Oct. 8-9, 2015 - ProCopy Office Solutions Inc., Tempe, Ariz.

BTA Business Technology Association®

SBA
Strategic Business Associates

THANK YOU!!

BTA Business Technology Association®

TODD JOHNSON