

Bloomberg TV - "Business Outlook"

Ikon Chairman & CEO, Matthew J. Espe on Business Outlook (Transcript)
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May 26, 2004 (Bloomberg) - Matthew Espe, chief executive of Ikon Office Solutions Inc., talks with Bloomberg's Monica Bertran in New York about the performance of the company's businesses, revenue growth outlook and customer spending trends. Valley Forge, Pennsylvania-based IKON is the largest U.S. distributor of Canon Inc. and Ricoh Co. copiers.

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Guest: Matthew Espe, Chairman and CEO, IKON Office Solutions
Interviewer: Monica Bertran

BERTRAN: Well, Ikon Office Solutions held an analyst meeting and investor conference this week to discuss its business strategy and profit outlook. Some analysts say that Ikon's long-term outlook is a little bit disappointing.

The chief executive, Matt Espe, joins us now to discuss that and what's going on in his business ...

ESPE: Thank you very much. Good to be with you.

BERTRAN: Let's talk a little bit about IKON first, because if people don't know, it is a distributor of Canon and Ricoh products, so you really have your pulse on what's happening in terms of office solutions.

ESPE: Right.

BERTRAN: Can you describe business now? Have you seen a pickup in orders? And what are clients telling you?

ESPE: Well, it's a mixed bag. I mean, we have a big business with respect to equipment - you know, hardware. We're also involved in document management-related solutions.

If you look at the equipment part of the industry, we're still seeing some softness. Placements, you know, boxes going into installations are up. We're seeing some price pressure. We're seeing strength in color. So office color remains extremely strong. As a matter of fact, as color technology becomes more affordable, we've seen placements increased 100 percent. So, you know, there is some long-term optimism on the equipment side, but you know, it's still flattish.

If you look at the solutions side of the industry, we're seeing some real robustness. So if you look at professional services, you know, the market's expected to grow above (ph) 10 percent. We're growing at a multiple of that, two to three times that. Document outsourcing, both onsite and offsite, market's strong, about four percent, five percent. We're sort of pacing that as well.

So when you look at our business, you really have to think about, you know, the equipment dimension of the industry as well as the services there.

BERTRAN: What about the pricing pressure? You mentioned that in your comments.

ESPE: Right. Well, the pricing we're experiencing tends to be less peer price, meaning competitive price pressure, and really more price associated with the introduction of new technologies. So, when you think about affordable color, again, color in the office environment, you know, we're seeing new products coming out from Canon and Ricoh that are really just placing black and white in the office.

So, you know, we're making color more affordable. We're seeing the attendant, you know, mix effect of the price in that respect. But it's driving more placements, and as we place more products, we get a stronger after-market revenue stream. So, net-net for us, it's a positive thing.

BERTRAN: What are clients telling you, though? Are they being more selective? I mean, when we talk to many technology - and you're somewhat in the technology field, they're saying, "You know what? We're being really selective about what technology we pick next." So are they telling you the same thing?

ESPE: Right. Yes. I mean, for our client base, our customers, it's really about productivity. I mean, a well-run company today can spend between five percent and 10 percent of their revenues on document management-related costs. So, as we look at our customers, and we're dealing with facilities management folks or the IT organizations, it's really about productivity. And it's the productivity and the solutions to the business problems that drive their buying habits.

We're seeing longer sales cycles, you know, as the IT organizations get more involved, but we are seeing - again, we're seeing some optimism. I mean, our customers are, you know, devoting more investment into the IT world, so we're seeing some benefit of that.

BERTRAN: Now, you mentioned that you spoke to analysts this week. They say the long-term targets for the company, especially those around the core business, were a bit disappointing to them. How do you respond?

ESPE: Well, we're being cautious. I mean, I think it reflects a balanced view of a tough operating environment in a mature industry. I mean, the document management industry is, I'd say, experiencing early signs of maturity. You know, that's characterized by slower growth and price pressure.

We're uniquely positioned because we're a channel. You know, we're the largest independent channel in the world and so we're, you know, in a position because of our relationship with Canon and Ricoh to really bring best in class technologies to bear on our customers' needs. But I think, when we looked at driving revenues from a base line of \$4.5 billion - \$4.5 billion to \$5 billion, represents a three percent cumulative growth rate, it's cautiously optimistic.

BERTRAN: OK, and we will leave it there. Appreciate your time today.

ESPE: Thank you very much.

BERTRAN: Matt Espe, chief executive of Ikon Office Solutions.

END OF TRANSCRIPT