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Need For Fewer Printers Colors Vendors' Outlooks

Next Gear Consolidation Trend

Developing glut has Xerox, HP, Canon, IKON stressing services and not hardware

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For the last five years, businesses have cut down on the number of computers in their data centers and the amount they spend on them.

They've gotten bigger systems that can handle the work of several smaller machines. They've also centralized their workload and installed more efficient software.

Now they're looking to do the same thing with their printers.

Industry watchers say the hugely profitable printer business is due for some big changes as customers shed excess hardware and tighten the supply spigot to save money. The trend has printer hardware makers betting on services and software — not equipment and supplies — for the next wave of growth.

"Everyone's looking for cost savings," said NPD Group analyst Steve Baker. "Once you've consolidated your PCs, your real estate, your employees and your servers, printers seem like the next logical step."

Call it a printing glut.

According to copier giant Xerox^{XRX}, companies now use one printing output device for every 2.2 workers.

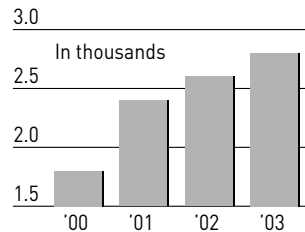


HP and rivals make a ton of devices that, like this one, print, scan and copy. But printer makers are being forced to shift their focus to services. AP

Hardware Slowdown?

Unit sales of high-end printer hardware have begun to level off in recent years

U.S. high-end monochrome laser printer sales



And IKON Office Solutions^{IKN} executives say the cost of printing and managing documents can reach 15% of companies' total sales.

That's why many are trying to print fewer things. A survey of more than 2,000 executives published in November found that two-

thirds of big companies use less paper than they used to.

But changing human behavior can be tough, especially in an era of e-mail, Web sites and fast printers. Though the Web was once expected to help cut down on paper use, workers constantly print documents they find online.

And paper and ink are just part of the issue. Hardware, power, equipment maintenance and support can cost a bundle.

So even those who have given up on the Holy Grail of a paperless office are looking for ways to use less equipment. That means a slowdown in sales for office equipment makers, say some in the industry.

Corporate cutbacks could force more workers to share a high-capacity print-

er rather than use lots of little machines. Some companies could completely overhaul their work flow.

That doesn't necessarily spell doom for the likes of Hewlett-Packard^{HPQ}, Xerox and IKON. They're betting on making even more with higher-margin services.

"We're on the cusp of a shift," said Michael Kohlsdorf, who heads IKON's services unit. "You're going to see a greater mix of services revenue and a progressively smaller mix of revenue from hardware."

That change appears to be showing up in equipment sales.

According to International Data Corp., sales of high-end single-function digital copiers fell 13% to 14.8 million units in 2003 after falling 10% the year before. Analog copiers fared worse, falling 42% in 2003.

IKON launched its services unit three years ago. Kohlsdorf says the firm has kept quiet about it until now because it was building up its staff and experience in the computers systems arena.

That know-how is key in today's office, where photocopying and faxing merge with computer tasks such as scanning and printing, he says.

Everyone from printer makers to copier dealers is beefing up service offerings, a shift that could pit hardware makers against some of their biggest distribution partners.

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“Does it create some friction? No question,” said Cathy Lewis, IKON’s senior vice president of marketing and strategy. The office equipment chain often finds itself competing with partners, such as HP, for services business.

Likewise, HP’s enterprise solutions team is betting big on the notion that firms will look for help to manage their documents, including scanning, printing and storage.

Office gear makers insist they aren’t just shifting customers’ printing costs from hardware to services. Customers are getting more for their money, says Thomas

Dolan, president of Xerox’s global services unit.

“I don’t think there’s an executive I call on who would enter into this offering if we weren’t able to show some significant productivity and cost savings,” he said. “That is the No. 1 objective out there.”

For equipment makers, especially those with little computer experience, the shift will demand a broader range of skills and savvier marketing.

While Canon^{CAJ} offers a range of high-tech printing devices, officials at the company concede that the firm is still known better for its copiers and digital cameras.

To change that, the company has invested in software, including a platform that acts as a type of operating system for printers. Think of it as Windows for copy machines.

Michael Duffett, who heads Canon’s field sales support team, says the firm’s software sales are below plan, but growing quickly.

Because the newest devices are tied closely with customers’ computer systems, purchase decisions are becoming the techie’s job rather than the office manager’s.

Equipment makers aren’t giving up on hardware sales. Sales in some categories, such as color and multifunction printers, are on the rise. Multifunction devices — which combine printing, scanning, copying and faxing — will play a central role as businesses move to do more with less equipment.

And weak sales in recent years has an upside: Firms’ printers are getting old; they’ll have to buy replacements soon. The buying process could lead to more service sales.

“We have an opportunity,” said IKON’s Lewis.