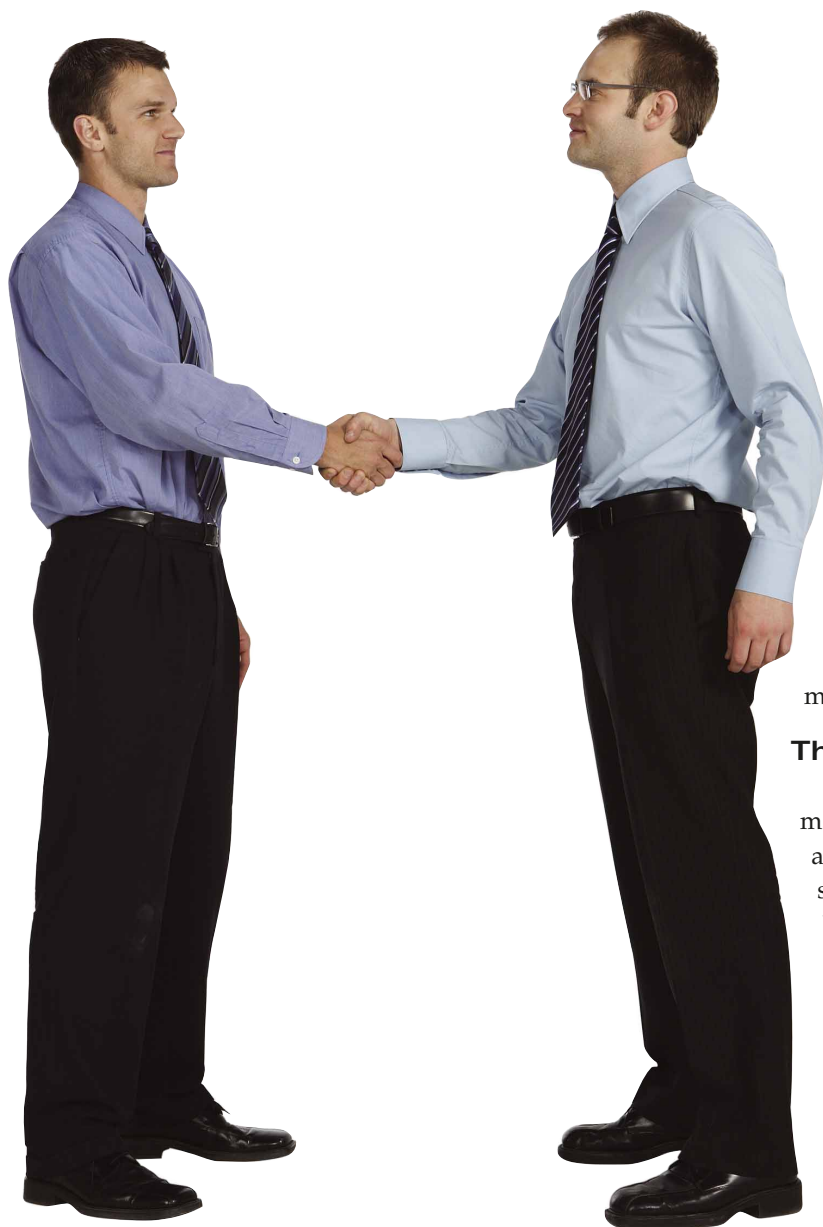


# Partner or Perish: The Impetus for Growth

by Dan Brinker • American TonerServ



**I**n the highly fragmented and fiercely competitive market of toner suppliers, a test of wills is underway. Will the small to midsize suppliers resist market consolidation, hold tight to their autonomy and risk perishing? Or, will they strategically choose to partner and push beyond their individual capabilities? If the organization's goal is to remain current with fast changing technology and grow their business, partnering may provide an attractive option.

## The toner industry

The domestic toner market has matured to an estimated \$22 to \$30 billion per year industry. OEMs account for approximately 75 percent of the market share, leaving an estimated 15,000 to 20,000 smaller businesses competing for the remaining 25 percent of the market. In recent years, the quality of OEM-compatible and remanufactured cartridges has risen to the standards set by the OEMs, earning them a rightful place in the toner industry. Compatible cartridges offer both quality and value as the cost of compatibles remains significantly less than those sold by OEMs. Equivalent quality and lower cost have permitted even the smallest toner

suppliers to challenge industry giants like HP, Canon, Epson and Brother for a share of this growing market.

An October 2006 survey by Recharger Magazine (Want to Win New Customers? Survey Shows Reputation is Key) confirmed that more customers are, in fact, switching from OEM cartridges to compatibles than in the past. This switch from OEM cartridges to compatibles is due to customers becoming more knowledgeable about alternatives and more comfortable experimenting with compatible products. The survey also revealed that office customers are seeking a greater variety of products and services from their toner suppliers. For example, the percentage of new customers purchasing printer service contracts from their toner source has more than doubled from four percent to nine percent. It's only a matter of time before more customers are in search of complete print management services.

Complete print management services employ the concept of bundling the charges for cartridges, service, parts, supplies and equipment into one all-inclusive contractual arrangement with a charge per printed page. Sophisticated customers who appreciate the value of full service welcome the opportunity to outsource the management of their in-house printers and are looking to their toner suppliers for such a service. Toner suppliers capable of developing the technology required to offer complete print management services will reap the benefits of contractually guaranteed income and a lock-in of their customer base.

### Challenges for toner suppliers

In stark contrast to the vision of a paperless working environment, home and office printers are generating more

printed pages than ever before. The printing frenzy is fueled by a multitude of new desktop publishing opportunities, thanks to advancing digital technology and our fascination with the printed page. Advancing technology has placed an unprecedented quantity of useful, accessible and, most importantly, printable information right at our fingertips. As a result, the toner market is expected to continue its upward trend over the next several years and reach an estimated \$50 billion by 2009.

## In stark contrast to the vision of a paperless working environment, home and office printers are generating more printed pages than ever before.

Is this good news for small to mid-size suppliers of toner cartridges? For toner dealers willing to embrace change and adapt their operations to shifting market conditions, absolutely. However, there are several significant challenges ahead that require careful consideration and planning in order to remain a successful player in this fast changing industry.

**1. Working Capital.** The leading threat to most small businesses is the lack of working capital, and toner suppliers are no exception. Many small to mid-range toner suppliers are already undercapitalized with no access to the type of working capital needed to break into the next level of business. Working capital is a must for financing new receivables and purchasing additional inventory associated with a growing customer base. In a fast changing industry,

additional working capital is required to develop and offer value-added services that customers demand and competitors are already providing.

**2. Time Allocation and Focus.** The quantity of time and attention consumed by the ongoing daily activities of operating a toner supply business such as inventory management, vendor relationships, order fulfillment, accounting and information technology leave little time for the one revenue-producing activity: SALES.

Outsourcing non-core functions and placing the focus back on sales and marketing is a workable solution for those suppliers with the required upfront working capital needed to initiate the outsourcing process.

**3. Products and Services.** Today's office customers expect more from their toner suppliers than cartridges on demand. In addition to the baseline services of cartridge delivery and empty cartridge pick-up, customers want value-added services such as printer maintenance, operator training, technical support and possibly complete print management services. As more customers streamline their own operations to focus on core business functions, they become increasingly persuaded by the advantages of complete print management solutions. Offering this service allows toner suppliers to develop and

strengthen customer relationships while improving profitability.

**4. Geography.** Increasing sales is a good indication of a business's strength. One way to achieve this goal is to gain access to the broadest geographical territory possible. However, as more office customers demand printer service along with their toner supply, more toner suppliers are finding themselves limited by the reach of their service provider network. Expanding an existing service provider network or developing one for the first time is an option that must be considered for continued growth.

## Overcoming the challenges

The challenges facing the average small to midsize toner dealer are daunting, especially for a sole proprietor who wants to go it alone and struggles to keep juggling so many balls in the air. Walgreen's and the big box office supply stores have rolled out inkjet refilling machines that cost approximately 60 percent of a typical compatible cartridge. Coupled with the plethora of Internet suppliers and the introduction of new technologies by OEMs in an attempt to dominate the industry, small to midsize toner suppliers are feeling the squeeze.

The time has come for toner suppliers to step back and develop a strategy built upon their largest asset — existing customers — while taking full advantage of changing market conditions. The first undertaking is to develop a business plan that will enable them to attract the working capital needed to expand their businesses and stay competitive. As is often the case, the early adapters will reap the biggest rewards. If suppliers lack the skills needed to adapt independently, another alternative worth investigating is partnering with an existing national toner supplier.

## The national partner value proposition

Partnering with the right national provider can offer a tremendous advantage to toner suppliers that face so many challenges. Ideally, they'll gain access to a centralized Web-based processing system that handles the day-to-day activities such as order taking, order fulfillment, billing, collections, payments and service calls, resulting in more available time to focus on revenue-producing activities like selling, marketing and business planning.

When toner suppliers join forces with a larger organization, sales opportunities improve as well. The supplier gains access to a wider range of products, increased marketing capability, a larger territory and improved buying power that can lead to better margins. Teaming up with a national organization that employs a service provider network further expands the pool of potential customers.

"It was partner or perish for me — physically, mentally and spiritually," said Jon Myers, who built a toner supply business, Computech Printer Solutions Inc., over a 15-year period. "I found myself working until 10:00 at night knowing I would be stuck working these 80-hour weeks and earning the same amount of money for the rest of my life if something didn't change." That's when Myers started talking to a national organization about partnering. "Now I have peace of mind, more time for other personal pursuits and the opportunity to earn more money all while retaining my valued customer base."

Partnering also provides an opportunity to equip an existing operation with best practices. Every small to midsize toner supplier has a certain flare or niche they've developed to succeed in the business. As individual suppliers join

forces and share what they've learned in the industry, the result will become a new standard for the industry's future.

"Most importantly, you need to look at the organization's top leadership and what they've accomplished in their careers," Myers said. "You also need to look closely at their business model and examine how well it fits in with what's happening in the industry."

Another important consideration is the organization's board of directors; it should demonstrate depth in every position and possess extensive knowledge of the industry.

## Change is inevitable

Industry experts agree, the retail toner market is ripe for consolidation and complete print management services will play a role in the future of the industry. The high number of small to mid-range toner suppliers, locked in fierce competition for market share and besieged by the daily demands of running their businesses, must lay the groundwork now in order to remain competitive in the future and retain their valued customers. For those suppliers unable to step back and focus on adapting their businesses, they risk a diminishing customer base and an uncertain future. **R**

Dan Brinker has been a director of American TonerServ since 1995 and president/CEO since November 2005. American TonerServ (ASVP), headquartered in Santa Rosa, Calif., has been in the print imaging industry for 10 years. Under the leadership of Brinker, the company recently developed an innovative business model and the technology needed to revolutionize toner distribution. Contact Brinker at 800-736-3515 or visit [www.AmericanTonerServ.com](http://www.AmericanTonerServ.com).