Death of a Business Model

How to overcome changing business economics

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Looking back at recent history, we can pinpoint those times where we began to see changes in the traditional business model that has dominated our industry. While the traditional business model is certainly still breathing, recent experience would seem to indicate that it more closely resembles a chunky friend, hunched over with hands on his knees after tackling a few flights of stairs.

If we think back to the late 1980s and early 1990s, the business model associated with the office technology industry was the envy of many. It was a model built on good margins associated with the sale of hardware along with a recurring revenue and profit stream for service. What was not to like? This model has served the industry — including OEMs and dealerships — extremely well and, although a little tired, it continues to be attractive, as indicated by the recent influx of private equity witnessed in the last several years.

So, what has led to the changes we are experiencing with our traditional business model, and how can OEMs and dealerships pivot and continue to thrive amidst this change?

Our first major model shift came with the introduction of digital MFP technology in the early and mid-1990s. While the basic business model remained fairly static, the introduction of these products opened avenues for OEMs and dealerships to capture added revenue and profit by charging for network connections, configurations and integration of these offerings and, in many ways, it paved the way for many dealerships to begin their initial journeys toward the provisioning of managed network services (MNS).

Our second major model shift came with the introduction of software technology in the mid- to late 1990s. While the majority of this technology was tightly tied to hardware, it, too, offered a new avenue for OEMs and dealerships to build additive revenue and profit streams both in terms of initial software sales and also in connection with fees for professional services and software maintenance. Like the digital MFPs that came prior, the introduction of software within the business model also aided dealerships in establishing the personnel and skills that would eventually lead to software and managed services practice areas that scale well beyond the device.

Fast forward to the early 2000s and we see managed print services (MPS) enter the landscape. Undoubtedly, many OEMs and dealerships have benefited from MPS business, however, this is a business model that was flawed from its inception. What successful business model is structured based on a

promise to help customers lessen or eliminate the very activities that feed revenue and profit into the model? The promise of MPS has been and, to a large degree, continues to be to lessen device placements (in essence, “rightsizing” a customer’s fleet) and reduce printing on a consistent basis throughout the contract term. Why our industry would want to reduce device placements or page volume is anyone’s guess, however, so many OEMs and dealerships happily went down the MPS path only to find some initial success followed by questions about how to continually meet customer expectations for cost savings while still remaining economically viable.

This brings us to today. As mentioned, our traditional business model is still alive but seemingly headed for life support. During my time in the industry, I have been involved in many conversations about our traditional business model and whether it is possible for the model to survive and continue to deliver what it has in the past. Personally, I think not.

If we look at the dynamics of today’s business, it becomes quite clear that pricing pressures continue to increase, thereby reducing equipment sales margin. Customers are shifting more of their purchasing to A4 devices, further eroding revenue and margin dollars. Traditional service contracts, the lifeblood of our industry, are under the same pressures, and with products becoming more reliable, customers are expecting either lower service pricing or no service contract at all. Finally, printing continues to decline. Even with an exponential increase in content and one of the best economies we have seen in decades, businesses are still printing less.

The OEMs' financial results bear this out. We see a dynamic today where many OEMs are experiencing high single-digit or double-digit growth in engine sales, but are still struggling to achieve the prior year's revenue and, in many cases, are fighting to break even given the added costs associated with capturing business.

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Of course, the macroeconomic and microeconomic environments are often different, and the experience of an OEM is not necessarily the same as that of a dealership given cost structures, geographic coverage and many other factors. A broken business model is, however, a broken business model, and I would make the argument that the model we have all come to know and love is broken.

So, what do we do? Maybe the answer is more market share. Surely capturing more market share will solve all our problems, right? While there is nothing wrong with capturing more market share, even with more, the business model dynamics are the same and, on a long-term basis, are unsustainable.

Should dealers sell and exit their businesses? For dealerships that have been slow to transition to networking, software and business process automation, this may be a very viable option, as these capabilities will be essential for any dealership that desires long-term viability. Leaving the business certainly eliminates the headache of figuring out how to build a new, viable model.

How about throwing the current business model on its head and transitioning to something different? Why not a model that views the total package of hardware and software as a dealership-owned service to be delivered to customers via a recurring subscription-based model — a model that is not dependent on the attributes that are causing the current model to weaken like an old man who repeats the same story time and time again?

Regardless of the model chosen, the evidence is a clear indicator that our traditional business model is in decline. As an industry, we must not only charge customers for activities that all too often have been delivered gratis, but we must also seriously consider the type of economic model most conducive for the delivery of value to customers and financial viability to our organizations. The first movers in this arena will no doubt possess an advantage compared to their competition. If coupled with strong expertise in networking, software and business process automation delivery, these businesses will establish a competitive advantage that will be difficult to overcome.

Our traditional business model has served us well. As we relegate this model to pasture, we in the industry owe it a great deal of reverence and respect. We can learn from its many lessons and, through this knowledge, create a new model capable of carrying our collective businesses to a new and sustainable future. ■

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